ANNUAL REPORT

CENTRAL BANK OF CHILE

2014

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31 December 2014

RODRIGO VERGARA MONTES
GOVERNOR

ENRIQUE MARSHALL RIVERA
DEPUTY GOVERNOR

SEBASTIÁN CLARO EDWARDS
BOARD MEMBER

JOAQUÍN VIAL RUIZ-TAGLE
BOARD MEMBER

PABLO GARCÍA SILVA
BOARD MEMBER

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OF THE CENTRAL BANK OF CHILE

31 December 2014

ALEJANDRO ZURBUCHEN SILVA
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JUAN PABLO ARAYA MARCO
GENERAL COUNSEL

SILVIA QUINTARD FLEHAN
GENERAL AUDITOR

DIVISION DIRECTORS

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MACROECONOMIC ANALYSIS

Mariela Iturriaga Valenzuela
FINANCIAL SERVICES

Leonardo Jadue Jadue
INFORMATION SYSTEMS

Pablo Mattar Oyarzún
CHIEF COUNSEL OF NORMATIVE LEGAL SERVICES

Enrique Orellana Cifuentes
MONETARY POLICY SRATEGY AND COMMUNICATION

Gloria Peña Tapia
STATISTICAL INFORMATION

José Luis Pérez Alegría
SECURITY

Francisco Ruiz Aburto
MACROECONOMIC STATISTICS

Diego Saravia Tamayo
ECONOMIC RESEARCH

Mario Ulloa López
STRATEGIC AND OPERATIONAL RISK MANAGEMENT

María Inés Urbina De Luiggi
LOGISTICAL SERVICES

Claudia Varela Lertora
INSTITUTIONAL AFFAIRS

EMPLOYEE PROFILE

31 December 2014

TOTAL STAFF	624(*)

BY GENDER

WOMEN	202
MEN	422

BY AGE (YEARS)

UNDER 25	12
25 TO 35	219
36 TO 45	187
46 TO 55	111
56 TO 65	89
OVER 65	6

BY EDUCATION LEVEL

Ph.D.	40
PROFESSIONAL	440
ADMINISTRATIVE	144

(*) Including Board Members.

ANNUAL TURNOVER

9.8%

AVERAGE YEARS OF SERVICE

11.6

BANCO CENTRAL
DE CHILE

Santiago, 30 April 2015

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 2014.

Sincerely,

Rodrigo Vergara M.
Governor

BANCO CENTRAL
DE CHILE

Santiago, 30 April 2015

Mr. Patricio Walker
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 2014.

Sincerely,

Rodrigo Vergara M.
Governor

01

FINANCIAL MANAGEMENT AND POLICIES OF THE CENTRAL BANK OF CHILE IN 2014

01

FINANCIAL MANAGEMENT AND POLICIES OF THE CENTRAL BANK OF CHILE IN 2014

A. Economic overview

In 2014, the international scenario continued to be marked by a divergence in the performance of the different developed economies. A sustained recovery was underway in the United States, while Japan and the Eurozone continued to post meager growth. As the risk of deflation intensified in the Eurozone, the European Central Bank (ECB) increased its conventional monetary stimulus and implemented new unconventional monetary policy measures. The Central Bank of Japan also increased the monetary stimulus in the economy. In contrast, U.S. monetary policy became less expansionary, with the end of the asset purchase program toward the end of 2014 and indications from market expectations and the U.S. Federal Reserve's own communication that the federal funds rate would begin to rise in 2015. The U.S. dollar continued to strengthen during the year, a trend that started in the second quarter of 2013. Nevertheless, external financing conditions for the emerging economies generally remained favorable from a historical perspective, considering the easing of long-term interest rates in the developed world, the limited growth of risk spreads and the low volatility in the world stock markets.

Output was weaker than expected in the emerging economies, including China. In 2014, the growth of this group of economies was the lowest recorded since the global financial crisis of 2008-2009. This was especially visible in the commodity exporters. In Latin America, the weak performance was fairly generalized. The lower growth outlook in the emerging economies was accompanied by a persistent downward trend in some key commodity prices. Oil prices fell sharply starting in mid-2014, largely due to supply factors such as the increased crude oil production in the United States and the limited potential for a response from OPEC. While the lower prices put pressure on the fiscal accounts in oil-exporting countries, they should boost output in the world economy and contribute to lower inflation. The reaction of central banks in emerging economies varied. Some had little room for a monetary policy response due to vulnerabilities built up in the past, while others cut their policy rates to mitigate the inflation effects of the cyclical downturn.

In Chile, the macroeconomic scenario weakened substantially over the course of 2014. Output and domestic demand slowed more than expected, which was especially evident in the first half of the year. Thus, GDP grew 1.9% in 2014, while domestic spending contracted 0.6%. During the year, investment continued the downward trend recorded in 2013, and private consumption declined sharply. This was accompanied by a generalized deterioration of both consumer and business expectations. Thus, in 2014, business investment spending continued to contract, and consumer and capital goods imports were low. This contrasts with the performance of exports, where the depreciation of the peso provided a boost in related sectors.

In contrast with output and demand, the labor market was more resilient. The unemployment rate remained low: after rising somewhat in the first half of 2014, it returned to around the 2013 level by the end of the year. However, the composition of employment showed signs of deterioration, with higher job creation in self-employment than in wage work. Nominal wages remained dynamic, although in real terms the annual growth rate of wages fell due to the higher inflation.

Also in contrast with output and demand, CPI inflation increased over the course of the year, from an annual rate of 3.0% in January 2014 to 4.6% in December, and was above the target range for much of the year. Core inflation (CPIEFE) also increased. The sharp peso depreciation starting in the first half of 2013 was reflected in the evolution of prices, including both the goods and services components. Some isolated factors, such as the Tax Reform and fresh fruit and vegetable prices, also contributed to higher inflation. Toward the end of the year, however, the lower fuel prices in the international market began to have an effect in terms of lowering total inflation. Short-term inflation expectations rose, and there were some surprises in month-on-month inflation, but expectations two years ahead, which is the relevant horizon for monetary policy, remained around 3%.

B. Monetary policy

The change in the macroeconomic scenario created space for reducing the monetary policy rate (MPR), which recorded a total decline of 150 basis points (bp) in 2014. The reasoning behind this decision was that, first, the factors that were driving inflation above the upper limit of the target range would be temporary and reflected an adjustment in relative prices, and, second, the expanding output gap would contribute to the convergence of inflation to the target. Thus, at the February and March meetings, the Board decided to cut the MPR by 25 bp. No changes were implemented in April and June, and the MPR was then cut by 25 bp in July, August, September and October, bringing the rate to 3%.

The increased monetary stimulus was reflected in the term structure of market interest rates, which dropped to the lowest levels of the last several years and in some cases reached historical lows.

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 2014, and the floating exchange rate regime operated normally.

D. Financial regulations

In March 2014, the Board restricted the instruments that are covered under the *Aladi* Reciprocal Payment and Credit Agreement and incorporated commissions for reimbursement requests processed by the Central Bank.

In May, the Board authorized the trading and settlement in pesos of specified foreign securities, subject to certain conditions. This regulatory change was published for public consultation in January.

Also in May, the Board decided to publish for public consultation a new regulation on bank liquidity management, which has the following objectives:

(a) To strengthen liquidity risk management policies in the banking industry, allocating more responsibility to the board and management and establishing minimum criteria for the development of stress tests and contingency plans;

(b) To increase the quantity and quality of the information available to the supervisor and the market, through the inclusion of new monitoring variables, such as the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) from Basel III, and monitoring variables for different-quality liquid assets and concentration of funding sources;

(c) To fine-tune the current regulatory requirements by adding requirements for aggregate maturity mismatches to complement individual requirements and providing guidelines for the treatment of bank affiliates overseas.

In July, the Board agreed to grant its endorsement, as required under the Securities Market Law, of the expansion of the type of foreign securities that can be traded over the counter in foreign currency.

In September, the Board authorized *ICB Corredores de Bolsa S.A.* and *GBM Corredores de Bolsa Limitada* to operate in the Formal Exchange Market.

In December, the Board replaced the regulation on the issue and operation of prepaid debit cards, established in Chapter III.J.3 of the Compendium of Financial Regulations. This regulation, which was submitted for public consultation prior to implementation, adjusts and updates some of the existing requirements and provides consistency with the definitions and requirements established in Chapter III.J.1, which regulates the issue and operation of credit cards.

Also in December, the Board gave the authorization for the automatic teller machine (ATM) clearing house to settle cash withdrawals made at non-ATM terminals. The Board also issued instructions for the restatement of foreign exchange operations in association with the system for declaring foreign assets and income established under the Tax Reform.

E. Financial management

E.1 Monetary management

To support the implementation of monetary policy, the Bank monitors market liquidity and employs the mechanisms and instruments at its disposal to ensure that the interbank interest rate remains around the MPR. This is achieved through the short- and medium-term liquidity management schedule, which specifies the auction of Central Bank discountable promissory notes (PDBC) and bonds (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 2014 the Bank maintained the special program offering 14-day repo operations at the MPR + 25 basis points, with mortgage bonds as the sole collateral, although there was no demand from the banks.

In 2014, the absolute deviation of the interbank interest rate from the MPR was zero basis points, in a context of lower seasonal liquidity pressure in the money market relative to previous years.

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, so as to reduce the negative effects on the Bank's balance sheet; 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 BOARD OF THE CENTRAL BANK OF CHILE

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 2014, 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$34.3972 billion and the cash portfolio at US$4.3508 billion. Taking the sum of these two portfolios plus other assets, international reserves ended the year at US$40.4469 billion. This balance was US$646.7 million lower than at year-end 2013. This was explained by a reduction in the investment portfolio of US$1.0777 billion, an increase in the cash portfolio of US$662.8 million and a reduction in the other assets portfolio of US$231.8 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 2014, time deposits and resources held in transaction accounts represented 14.3% of international reserves; short-term papers, 19.2%; bonds, 62.3%; and other assets, 4.2%.

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, 78.3% of reserves (excluding the cash portfolio and other assets) were invested in AAA-rated instruments issued by banks, sovereigns, external financial institutions or supranationals. The remaining 21.7% was invested in instruments with a credit rating between A and AA+, mainly in the sovereign 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, 53.4% of total reserves was held in U.S. dollar instruments, 19.5% in euros, 7.6% in Canadian dollars, 5.0% in Australian dollars and the remaining 14.5% in other currencies. The average duration of the investment portfolio was around 23 months.

Operational risk was managed through the separation of functions and responsibilities and the application of internal and external controls.

In 2014, 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.

In 2014, the total return obtained from international reserve management during the year was 1.65% measured in currency of origin (not considering changes in the portfolio currencies) and –2.94% measured in dollars. The differential return relative to the benchmark (which is used to guide and evaluate investment performance) was 21 bp. The estimated total operating costs of managing the reserves for this accounting period represent 1.8 bp of the total reserves under management. Income from the securities lending program was on the order of 0.5 bp 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 decision not to issue new bonds in 2014, because the amount of current debt coming due was low and in line with the projected growth of the monetary base.

As in past years, 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 bonds with maturity dates of 10, 20 and 30 years (BTU-10, BTU-20 and BTU-30) and peso-denominated Treasury bonds with maturities of 5, 10, and 20 years (BTP-5, BTP-10 and BTP-20), together with the reopening of a 30-year peso bond (BTP-30) issued in 2013.

E.4 Provision of large-value payment services

In 2014, the RTGS system processed nearly 1,600 payments (including the Central Bank's own transfers), with an average daily value of Ch$10.96 trillion. Relative to the previous year, this represents an increase of 8.9% in the number of transactions and 13.7% in average value. On 30 December, the system cleared transfers totaling Ch$21.29 trillion, the highest value of the year. Clearing operations associated with the over-the-counter (OTC) securities market had the highest growth rate, with an average of 161 payments per day totaling Ch$1.35 trillion.

The intraday liquidity facility provided an average of Ch$671 billion per day (versus Ch$602 billion in 2013). The highest intraday credit value in the year was Ch$1.45 trillion, recorded on 8 October.

In 2014, the availability of the RTGS system was 99.99%. The *SOMA* system, which supplies intraday liquidity, recorded 99.91% availability. There were 21 incidents (versus 32 in 2013).

The number of participants in the RTGS system was stable at 24 in 2014.

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). 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. As of April 2011, the Bank also manages the Strategic Contingency Fund (SCF) in the name of the Treasury, following the same report schedule to the National Defense Ministry and the Finance Ministry.

In January 2014, modifications to the Fiscal Agency Decree governing the ESSF and PRF entered into effect, limiting the Bank's functions and responsibilities with regard to the resources managed by external portfolio managers[1]/. In the period, there were no changes to the ESSF and PRF performance guidelines, approved by the Central Bank Board in June and August 2013, respectively.

[1]/ In 2014, the management of the ESSF and the PRF was carried out by the fiscal agent and external portfolio managers, in line with the current investment guidelines.

In 2014, 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.

For both 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.

At year-end 2014, the ESSF had a market value of US$14.6888 billion, of which US$13.5463 billion was managed directly by the Central Bank[2]/. During the period, withdrawals from the ESSF portfolio managed internally by the Bank totaled US$337.4 million. The PRF had a market value of US$7.9437 billion on 31 December, of which US$5.1228 billion were managed directly by the Bank[3]/. In 2014, the PRF received contributions of US$447.1 million for management by the Central Bank.

In 2014, 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 funds, in accordance with the standards and parameters outlined in the performance guidelines.

In 2014 the absolute yield measured in dollars on the funds managed by the Bank was –2.17% for the ESSF and 0.69% for the PRF[4]/. The negative absolute return on the ESSF is mainly explained by the depreciation of the euro, yen and Swiss franc against the U.S. dollar, which was partially offset by lower interest rates and interest accrual in the period. In the PRF, interest accrual and lower interest rates more than offset the depreciation of the portfolio currencies against the U.S. dollar.

With regard to fiscal agency fees[5]/, the costs of managing the funds were charged to the Treasury. In 2014, the annual charges for the ESSF and PRF were 0.6 and 1.4 bp, 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]/ The remaining ESSF resources are managed by external portfolio managers under an equity mandate.

[3]/ The remaining PRF resources are managed by external portfolio managers under corporate bond and equity mandates.

[4]/ 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.

[5]/ 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.

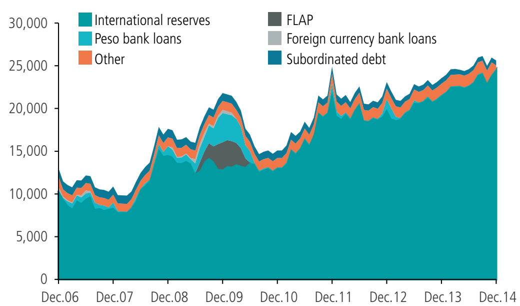
F. The balance sheet of the Central Bank of Chile

F.1 Balance sheet levels and structure/[6]

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 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.

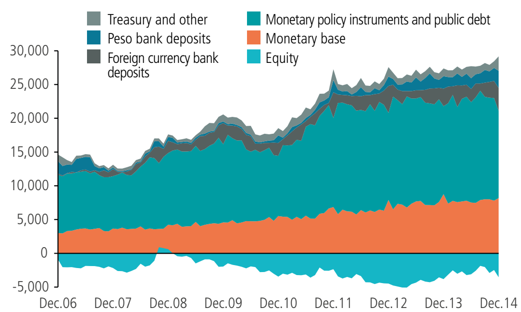
In 2014, the nominal value of assets and liabilities increased, although the equity deficit shrank (figures I.1 and I.2). Measured relative to GDP, total assets grew from 17.2 to 17.4% between 2013 and 2014. In the same period, liabilities (excluding equity) contracted from 20.0 to 19.8% of GDP. Equity thus increased from –2.8 to –2.4% of GDP in the year.

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.

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

Measured in pesos, the size of total assets grew by Ch$2.066 trillion in 2014 (table I.1). The largest increase, of Ch$3.044 trillion, was in foreign reserves, which breaks down as follows: peso depreciation of Ch$2.391 trillion; earnings from interest of Ch$295 billion, which represents income from interest and adjustments on the international reserves; and the effect of deposits from commercial banks and the Treasury of Ch$358 billion.

The balance of other public sector assets contracted Ch$927 billion, mainly from the provision of 100% of the asset "*SINAP* Liquidation, Law 18.900" for Ch$1.036 trillion pesos[7]/.

Liabilities (excluding equity) increased Ch$1.790 trillion in 2014. The largest increase, of Ch$1.500 trillion, was recorded in the balance of other monetary policy liabilities, due to a greater utilization of the standing deposit facility, followed by a growth in Treasury deposits and other public sector deposits of Ch$914 billion. These increases were offset by a reduction in the monetary base ($571 billion) and monetary policy promissory notes ($125 billion). The latter item is explained by the maturing of long-term debt instruments, mainly BCPs, of Ch$605 billion and an increase in the value of UF-denominated indexed bonds of Ch$432 billion.

As a result, the balance sheet carried negative equity of Ch$3.544 trillion, reflecting the initial capital of –$3.820 trillion plus net earnings in 2014 of Ch$270 billion. The latter is explained by gains of Ch$1.661 trillion from the monetary restatement of assets and liabilities, mainly due to the exchange rate; interest expense of Ch$263 billion; and nonfinancial costs of Ch$1.128 trillion, mainly due to the provision of the asset "*SINAP* Liquidation, Law 18.900," the costs of the production and distribution of currency, and personnel and administrative expenses.

[7]/ For accounting purposes, the Central Bank recognizes a provision for impairment of equity for the total value of the credit recorded on the balance sheet stemming from the entities that made up the National Savings and Loan System (*SINAP*), which is in an ongoing settlement process for the indefinite future. For more details, see Note 14 (b), paragraphs (i), (ii) and (iii), in the Financial Statements.

Table 1.1

CENTRAL BANK OF CHILE BALANCE SHEET

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

	2013		2014		Rate of return (1) (%) 2013		2014	
	Balance	% GDP	Balance	% GDP	Interest	∆ value	Interest	∆ value
Assets	**23,561**	**17.2**	**25,626**	**17.4**	**1.8**	**6.6**	**1.6**	**9.9**
International reserves	21,523	15.7	24,567	16.7	1.5	7.1	1.3	10.4
Other public sector assets (7)	1,136	0.8	209	0.1	4.8	1.0	7.2	2.7
Subordinated debt	650	0.5	566	0.4	5.0	1.9	5.1	5.4
Monetary policy instruments (2)	0	0.0	8	0.0	5.3	0.0	5.7	0.0
Other	252	0.2	277	0.2	1.4	5.4	1.2	7.2
Liabilities	**27,381**	**20.0**	**29,171**	**19.8**	**2.6**	**1.4**	**2.4**	**2.9**
Monetary base	8,754	6.4	8,183	5.6	0.3	0.0	0.5	0.0
Monetary policy promissory notes (3)	13,033	9.5	12,908	8.8	4.0	1.2	3.8	3.0
Other monetary policy liabilities (4)	3,560	2.6	5,160	3.5	3.6	1.4	2.0	4.1
Current accounts and bank foreign currency reserves	878	0.6	770	0.5	0.0	10.6	0.0	20.6
Treasury and other public sector deposits	397	0.3	1,311	0.9	1.0	6.2	0.7	6.3
Other	758	0.6	839	0.6	0.5	9.1	0.9	8.8
Equity	**–3,820**	**–2.8**	**–3,544**	**–2.4**				
Initial capital	–4,479		–3,820					
Valuation accounts (8)	0		3					
Other (8)	0		2					
Net result	659		270					
Nonfinancial result (5)	–100		–1,128					
Net interest (5)	–315		–263					
Change in value (6)	1,074		1,661					
Capital contributions	0		0					

(1) Implicit rates are calculated based on average monthly balances and losses/gains due to interest or changes in value.
(2) 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.
(3) Includes PDBC, BCP, PRC, CERO UF and BCU.
(4) Short-term remunerated bank deposits in domestic and foreign currency. Foreign currency deposits, except daily deposits, guarantee credits in domestic currency (nota 2).
(5) The foreign currency component of these items is converted to pesos using average exchange rates.
(6) Includes indexation in domestic currency and the effect of foreign exchange rate fluctuations on assets and liabilities in foreign currency.
(7) In 2014 this item includes a provision for 100% of the "*SINAP* liquidation" asset for Ch$1.036 billion.
(8) See note 4 and the Comprehensive Income Statement in the 2014 Financial Statements.

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 2014, the differential between the interest earned on assets (1.6%) and the cost of total liabilities (2.4%) was negative, at 0.8 percentage points (pp).

The average interest rate earned on international reserves fell 0.2 pp between 2013 and 2014, due to lower coupon rates on the component instruments. Locally, the interest rate on monetary policy promissory notes decreased 0.2 pp, mainly due to the drop in rates on PDBCs as a result of the 150 bp cut in the MPR over the course of 2014.

With regard to adjustments, exchange rate fluctuations generated accounting gains in 2014, while changes in the UF (*unidad de fomento*, an inflation-indexed unit of account) caused accounting losses. As usual, the biggest contributing factor was the exchange rate effect, given its impact on the value of the international reserves in pesos. Between year-end 2013 and year-end 2014, the peso depreciated against the currencies that make up the foreign exchange reserves, causing the value of the reserves to rise by 10.4% and total assets by 9.9%. At the same time, the effects of higher inflation on UF-denominated notes and of exchange rate fluctuations on current and collateral accounts in foreign currency resulted in an adjustment of 2.9% in the value of total liabilities.

F.3 Balance sheet positions[8/]

The reduction in the Bank's position denominated and payable in domestic currency is mainly explained by negative interest flows. The changes in the valuation of the position in domestic currency ($2.009 trillion) were primarily due to the costs of Central Bank promissory notes and the provision for the *SINAP* liquidation. The flow of exchange operations reduced the Bank's position denominated and payable in domestic currency and increased in an equal amount the position denominated and payable in foreign currency (table I.2a).

The position denominated and payable in foreign currency decreased US$1.228 billion, due to interest, adjustments and other restatements mainly associated with the international reserves, and increased US$10 million due to exchange flows. These exchange flows were the result of foreign exchange operations carried out by the Bank solely for operating purposes and do not in any way involve operations in the foreign exchange market deriving from policy decisions (table I.2b).

[8/] 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.

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 2013	2014 flows (4)		Balance 2014
		Exchange (5)	Earnings and Δ capital (6)	
Denominated and payable in pesos (1)	**–22,807**	**–6**	**–2,009**	**–24,822**
Monetary base (2)	–8,754	607	–36	–8,183
Central Bank promissory notes	–13,033	1,126	–1,001	–12,908
Banks	–2,533	–729	–60	–3,322
Other	1,514	–1,011	–912	–409
Denominated in foreign currency and payable in pesos (1)	**0**	**0**	**0**	**0**
Denominated and payable in foreign currency (1)	**18,986**	**6**	**2,285**	**21,278**
Equity (1)	**–3,820**	**0**	**276**	**–3,544**

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 2013	2014 flows (4)		Balance 2014
		Exchange (5)	Earnings and Δ capital (6)	
Denominated and payable in foreign currency	**36,250**	**10**	**–1,228**	**35,032**
International reserves (3)	41,094	554	–1,201	40,447
Central government (net)	–214	35	0	–179
Banks (net)	–3,507	–661	0	–4,168
Central Bank bonds and promissory notes	0	0	0	0
Other (net)	–1,123	81	–27	–1,069
TOTAL	**36,250**	**10**	**–1,228**	**35,032**

(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 exchange or net profits) correspond increases in the position, while positive flows correspond to decreases. Exchange flows of other entries are the balancing entry or its increase or decrease due to exchange.
(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, exchange alone does not change the equity level.
(6) Includes interests, price-level restatements and other changes in value, profits minus nonfinancial losses, and capital contributions.

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 communication among the parties involved and carrying out pertinent notifications.

In 2014, the Commission on Price Distortions met on six occasions, and in the period it settled the application of a special agricultural safeguard measure, contemplated in the Trans-Pacific Strategic Economic Partnership Agreement (TPSEP or P4). 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[9]/, who serve a two-year term[10]/. From 3 July to 24 October 2014, Mr. Ricardo Vicuña Poblete was appointed to replace Luis Óscar Herrera Barriga. On 25 October 2014, the appointments of Mr. Ricardo Vicuña Poblete and Mr. Michael Pedersen were renewed for two years.

G.3 Competition Tribunal (TDLC)

The Competition Tribunal (*Tribunal de Defensa de la Libre Competencia*, or *TDLC*) is made up of five Judges and two Alternates[11]/. 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 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 1819E-01-140428 of 28 April 2014, the Board submitted to the President of the Republic the proposed list of candidates for the positions of Judge / Legal Counsel and Judge / Economist on the *TDLC*. Through Executive Decree 139, issued by the Ministry of Economy, Development and Tourism on 12 May 2014 and published in the *Official Gazette* on 13 June 2014, the President of the Republic appointed Mr. Javier Alonso Tapia Canales as Judge / Legal Counsel and Mr. Eduardo Humberto Saavedra Parra as Judge / Economist, for a period of six years starting on 12 May 2014.

[9]/ Letter (d) of Article 4 of Decree Law 1349 of 1976.
[10]/ The appointment can be renewed, or it can be revoked before the two-year term is completed.
[11]/ Article 6 of Statutory Decree N° 1, of 2005, issued by the Ministry of Economy, Development and Reconstruction (DFL N° 1).

Through Resolution 1822E-01-140505 of 5 May 2014, Central Bank Board submitted to the President of the Republic the proposed short list of candidates for the position of Alternate Judge / Legal Counsel on the *TDLC*. At the same time, through Resolution 1824-01-140515 of 15 May 2014, the Board appointed the Alternate Judge / Economist on the *TDLC*. Subsequently, through Executive Decree 161, issued by the Ministry of Economy, Development and Tourism on 23 June 2014 and published in the *Official Gazette* on 17 October 2014, the President of the Republic appointed Mr. Jaime Gustavo Arancibia Mattar as Alternate Judge / Legal Counsel, based on the short list provided by the Bank, for a period of six years starting on 13 May 2014, and Mr. Jorge Ernesto Hermann Anguita as Alternate Judge / Economist, for a period of six years starting on 16 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 1816-02-140410, in April the Board appointed Mr. Rodrigo Andrés Cerda Norambuena as a full member of the Technical Investment Council, as authorized under Title XVI of Decree Law 3500 of 1980, to replace Mr. Luis Felipe Céspedes Cifuentes for the period remaining in his appointment, 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 D.L. 600 of 1974, which contains the Foreign Investment Statute, and to establish the terms and conditions 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 2014, Mr. Enrique Marshall acted in this capacity starting on 17 February.

In accordance with Articles 9 and 23 (Transitory) of Law 20,780 on the Tax Reform, Decree Law 600 was repealed as of 1 January 2016, and as of that date the Committee cannot celebrate any new foreign investment contracts subject to the aforementioned legal statute. The signatory parties to existing investment contracts will continue to be governed by the legal norms in force at the time of signature and thus applicable to the contracts, including the dispositions in Title III on the Committee.

The aforementioned transitory regulation establishes that, no later than 31 January 2015, a draft bill will be sent to Congress to create a new institutional structure on foreign investment. If this new law has not entered into force by 1 January 2016, then the repeal of Decree Law 600 will be extended until the fulfillment of this condition.

02

INSTITUTIONAL MANAGEMENT AND GOVERNANCE

02

INSTITUTIONAL MANAGEMENT AND GOVERNANCE

A. Organization and operation

A.1 The Board

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 the Republic 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.

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.

MONETARY POLICY MEETING

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.

Rules governing Board sessions and resolutions

The Central Bank operates essentially through resolutions and agreements 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.

[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.

(iv) It is the Bank's duty to report to the President of the Republic 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. In this line, Section 1, paragraph 3, of Law 20,789 of 2014, which created the Financial Stability Board, stipulates that this entity will continually consult with the Central Bank on all matters associated with its functions. The Central Bank Governor can participate in all Financial Stability Board meetings and is accorded the right to speak, as well as access to all the information and materials that are analyzed at the meetings, in accordance with the provisions of Section 4 of the Banks's Basic Constitutional Charter.

(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 Section 49 of the Basic Constitutional Act, as well as the provision of foreign exchange conventions addressed in Section 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 the Republic, 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.

A.3 Board regulations

The current operating regulations for the Central Bank's Board outline 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 and their modifications, incorporated in Resolution 1851-01 of 11 September 2014, have been 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, in advance of the final processing of the decree.

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 served as General Counsel and Certifying Officer of the Bank through 21 June 2014, on which date Mr. Juan Pablo Araya Marco assumed these responsibilities. 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 2014, the Committee met seven times to execute the provisions contained 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.

As of 16 June 2014, the Committee is chaired by Mr. José Luis Cea Egaña, who was appointed to this position by the Board on 30 April 2014 for a period of three years. Mr. Cea Egaña replaced Mr. Luis Bates Hidalgo, who had served on the Committee since 31 May 2007. In 2014, the other members of the Committee were Mr. Santiago Meershohn Ernst and Mr. Gustavo Favre Domínguez.

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, 2014, was the second year of the Medium-Term Strategic Plan developed under Governor Rodrigo Vergara, which 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 2014 were the following:

Strengthening the financial stability objective

a. New regulations on bank prepayment and liquidity management, released for public consultation and subsequent definitive publication.

b. New regulation to allow the trading and settlement of foreign securities in pesos.

c. Implementation of the 2014 Household Financial Survey.

d. Organization of Financial Education Week and the VI Conference on Financial and Economic Education.

e. New regulatory guidelines on the issue and operation of prepaid debit cards.

Aligning people, services and resources with the Bank's primary focus

a. New training programs for newly hired staff.

b. Technological upgrading and improvement of the systems that support the Bank's financial and management processes.

c. Development of legal advisory services in areas related to the financial stability objective.

d. Coordination of Technological Continuity Tests with critical participants in the large-value payment system.

Renovating and optimizing Treasury processes

a. Launch of the Cash Center Project.

b. Promotion of improved care and conservation of banknotes and efficient cash management through training sessions, workshops and outreach activities for targeted groups, businesses, commercial banks and police units.

Consolidating the Bank's internal governance and institutional structures.

a. Implementation of the Law regulating Lobbying and Special Interest Management in the Bank, for the adoption of the required regulations, procedures and agreements.

b. First Place in the ranking on Access to Information, which is held each year by the National Press Association.

c. International Certification of Internal Audit Performance in the Central Bank of Chile, granted by the Board of Governors of the U.S. Federal Reserve.

d. Adaptation of accounting standards to comply with all aspects of the International Financial Reporting Standards (IFRS).

Other achievements

a. Increase in the publication frequency of the *Business Perceptions Report,* from semi-annually to quarterly.

b. Advances in statistical diffusion: statistical database (SDB) for mobile devices, set of graphics for macroeconomic series and new SDB graphic software.

c. New *Monthly Report on Foreign Exchange Statistics*.

d. Publication of the new *Residential Housing Price Index*, for the country as a whole and all regions.

e. Publication of the *Monthly Inventory Survey* (a joint project between the Central Bank of Chile and the INE).

f. Implementation of the public call for nominees for the partial turnover of the Judges who sit on the Competition Tribunal.

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

In November, through Resolution 1864-03-141106, the Board restructured the Research Division, which reports to the General Manager. The International Analysis Section was eliminated, and the new Economic Analysis and Modeling Section was created, with two departments: Economic Modeling and Economic Analysis. The Macroeconomic Analysis Section was also reorganized, eliminating the Models and Forecasts Department and creating the Medium-Term Forecasts Department and the International Analysis Department. All these changes were accompanied by the elimination and creation of the corresponding positions.

With regard to executive appointments in 2014, in January Mr. Claudio Raddatz Kiefer was named Director of the Financial Policy Division, replacing Mr. Kevin Kowan Logan. In April, Mr. Miguel Fuentes Díaz was appointed Macroeconomic Analysis Manager, following the resignation of Mr. Claudio Soto Gamboa, and Mr. Rodrigo Alfaro Arancibia was named Financial Stability Manager, to replace Mr. Luis Opazo Roco. In June, Mr. Juan Pablo Araya Marco was designated General Counsel, replacing Mr. Miguel Ángel Nacrur Gazali. Also in June, Mr. Alberto Naudon Dell´Oro was appointed Research Division Director, following the resignation of Mr. Luis Óscar Herrera Barriga, and Mr. Diego Saravia Tamayo was named Economic Research Manager, replacing Mr. Claudio Raddatz Kiefer. In December, Mr. Mauricio Álvarez Montti was appointed Chief Counsel of Corporate Legal Services, to replace Mr. Javier Allard Soto. Also in December, Mr. Elías Albagli Iruretagoyena was named Economic Modeling and Analysis Manager.

B.3 Human resources management

In 2014, the Institutional Training Program was redesigned, in order to standardize the process and to facilitate and accelerate the adaptation and harmonious integration of new employees to their specific functions and to the organizational structure of the Bank.

In the first half, the results of the work environment survey were reported to the different organizational units within the Bank. The Human Resources staff then worked with each section to develop improvement initiatives, based on the results for each area. These are being developed individually, with internal or external support, depending on the issues that need to be addressed in each section.

In the second half, the National Graduate Scholarship Policy and Committee were developed, in order to standardize this type of training. The objectives involve improving the skills and knowledge of Bank staff, to contribute to a better performance and achieve increasing levels of responsibility, autonomy, flexibility and mobility of the Bank's employees. Another initiative was the Draft Project on Central Bank Value, which is focused on developing a comprehensive overview of employee remuneration, based on performance excellence and the achievement of the institution's objectives. To this end, an exhaustive assessment was carried out of the different actors within the Bank, together with a review of current policies, market practices and the practices of other central banks. This provided the basis for developing a comprehensive proposal, which will be implemented gradually over the next five years.

Also in the second half, the Career Development Project was developed with the goal of contributing to the growth of the institution and its employees, in line with their skills, motivation and knowledge, which will support continued excellence in the Bank's strategic results. The project involved a comprehensive assessment of the different interest groups, together with a review of current policies, market practices and the practices of other central banks. Based on the findings, a new Personnel Development System was developed, which will be implemented gradually over the next three years.

There were 173 training activities in 2014, equivalent to 12,381 total training hours and an average of 20 hours per person. A total of 353 staff members underwent training. Work was also performed to improve the Bank's Time Control System, aligning it with the current Integrated Management System. This will allow the automation of the system in 2015, via the portal's self-management module.

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 2014, the main challenges were implementing the audit plan based on international practices and supporting and responding to the needs of the Board, Management and the Audit and Compliance Committee.

During the year, a commission from the Board of Governors of the U.S. Federal Reserve System carried out a quality assurance review of the auditing process. Based on the results, the General Auditor's Office was able to maintain its certification by the Institute of Internal Auditors, reaffirming that the Central Bank's auditing activities "comply with international standards for the professional exercise of internal auditing." The Bank also maintained 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 over 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 paper money and coins, section E.3 provides general information on the contracts signed by the Bank in connection with the 2014 issue program.

Table II.1

CONTRACTS SIGNED IN 2014

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

N°	Supplier	Contract purpose	Effective	Ending
2798	Telefónica Móviles Chile S.A.(1)	General and administrative services	01-02-2014	01-02-2017
2807	KPMG Auditores Consultores Ltda.(2)	Consulting services	01-04-2014	01-04-2017
2820	Brink's Chile S.A.(3)	Transport services	10-02-2014	10-02-2015
2823	Casa de Moneda de Chile S.A.(4)	Treasury services	01-06-2014	01-06-2022
2841	Ipsos Chile S.A.(5)	Supply of statistical products	03-04-2014	03-01-2015
2865	National Institute of Statistics(6)	Supply of statistical products	03-01-2014	03-01-2015
2866	Servicios de Respaldo de Energía Teknica Ltda.(5)	Infrastructure maintenance services	06-06-2014	30-12-2014
2875	University of Chile(5)	Supply of statistical products	11-06-2014	11-10-2015
2885	Franz Rudolf Herres(7)	Treasury services	16-07-2014	16-07-2018
2910	National Institute of Statistics (5)	Supply of statistical products	15-04-2014	15-04-2015
2916	Constructora WL Ltda.(5)	Infrastructure maintenance services	06-10-2014	05-03-2015
2956	Constructora Antillanca Ltda.(5)	Infrastructure maintenance services	10-11-2014	08-02-2015

(1) Three-year contract, which is automatically renewable annually indefinitely.
(2) Three-year contract, which is automatically renewable for up to two additional three-year periods.
(3) One-year contract, which is automatically renewable annually indefinitely.
(4) Eight-year contract.
(5) Fixed-term contract.
(6) One-year contract, which is automatically renewable for up to two additional one-year periods.
(7) Four-year contract.

Source: Central Bank of Chile.

Table II.2

EXPENDITURES ON CONSULTING, SURVEYS, RESEARCH AND SEMINARS

(millions of 2014 pesos) (1)

	2010	2011	2012	2013	2014
Consulting, surveys, research and seminars	1,719.5	1,807.8	1,717.4	1,551.7	2,305.9
Consulting	1,026.4	1,030.6	864.0	921.3	916.2
Surveys and research (2)	464.7	523.7	554.4	380.4	1,014.9
Seminars	228.4	253.5	299.0	250.0	374.8

(1) The average CPI was used to update older figures to 2014 pesos (base year 2013).
(2) The increase in 2014 relative to earlier years is largely explained by the household financial survey and the 2013 benchmark compilation. The latter is carried out every five years.

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 2014, of the total personnel, administrative and other expenses, personnel costs represent 59%; administrative expenses, 31%; retirement benefits, 3%; and other expenses, 7%.

Table II.3

PERSONNEL, ADMINISTRATIVE AND OTHER EXPENSES

(millions of 2014 pesos) (1)

	2010	2011	2012	2013	2014
Personnel and administrative expenses					
Personnel expenses	27,405.3	28,413.2	28,551.6	29,202.7	29,797.7
Administrative expenses	14,137.8	15,267.7	13,038.9	15,119.2	15,721.4
Provisions for post-employment benefits (2)	2,114.4	2,536.3	4,207.0	1,496.4	1,282.0
Total	**43,657.5**	**46,217.2**	**45,797.5**	**45,818.3**	**46,801.1**
Other (expenses) and income					
Depreciation and amortization	1,678.1	2,120.5	2,341.6	2,913.2	2,876.9
Taxes and contributions	538.4	671.6	632.8	571.9	588.3
Other (3)	-	13,464.2	(24.5)	89.8	(13.5)
Total	**2,216.5**	**16,256.3**	**2,949.9**	**3,574.9**	**3,451.7**
Subtotal personnel, administrative and other expenses	**45,874.0**	**62,473.5**	**48,747.4**	**49,393.2**	**50,252.8**
SINAP liquidation impairment, Law 18,900 (4)	-	-	-	-	1,036,259.0
Total personnel, administrative and other expenses	**45,874.0**	**62,473.5**	**48,747.4**	**49,393.2**	**1,086,511.8**
A. Personnel expenses					
Wages and other employer contributions	23,916.0	24,717.4	24,238.9	25,077.0	25,553.0
Employee well-being	2,912.2	2,945.6	3,496.7	3,245.0	3,415.0
Training	577.1	750.2	816.0	880.7	829.7
Total	**27,405.3**	**28,413.2**	**28,551.6**	**29,202.7**	**29,797.7**
B. Administrative expenses					
Utilities	1,079.0	1,070.8	893.7	986.1	930.8
General services	4,919.2	5,580.1	4,419.4	4,863.4	5,370.1
Maintenance of fixed assets	1,677.3	1,445.8	1,881.6	2,532.4	2,087.1
Informatics and technological development expenses	4,742.8	5,363.2	4,126.8	5,185.6	5,027.5
Consulting, surveys, research and seminars	1,719.5	1,807.8	1,717.4	1,551.7	2,305.9
Total	**14,137.8**	**15,267.7**	**13,038.9**	**15,119.2**	**15,721.4**

(1) The average CPI was used to update older figures to 2014 pesos (base year 2013).
(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 and 2014 figures includes income from profits recorded by the country club and beach resort.
(4) Due to the recognition of a provision for impairment of the total value of the credit recorded on the balance sheet stemming from the entities that made up the National Savings and Loan System (*SINAP*).

Source: Central Bank of Chile.

Personnel expenses

Personnel expenditures rose 2% in real terms between 2013 and 2014. 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 adjustments for promotions to a higher level in the Bank's organizational structure. In 2014, the Bank staff comprised 624 people (versus 620 in 2013). Both figures include the Board Members in each accounting period. Professionals accounted for 77% of the total staff as of December 2014.

Retirement benefit costs

Between 2013 and 2014, retirement benefit costs fell 14% in real terms. This is primarily explained by the retirement of higher-paid personnel.

Administrative costs

Administrative costs recorded a real increase of 4% between 2013 and 2014. This was mainly due to an increase in general services and in consulting, surveys, research and seminars, together with a reduction in the maintenance of fixed assets.

Other (expenses) and income

The decrease in other expenses relative to 2013 derives from the lower charges for depreciation and amortization and the larger decrease in real estate and equipment values relative to the previous year.

Sinap liquidation impairment (Law 18,900)

As indicated in table II.3, in 2014 the Central Bank recognized a provision for the impairment of the total value of the credit recorded on the balance sheet stemming from the entities that made up the National Savings and Loan System (*Sinap*), with an impact on earnings of Ch$1.036.259 trillion.

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.

The *Business Perceptions Report*, which was started in 2013 as a semi-annual publication, was expanded to a quarterly publication schedule in August 2014 (February, May, August and November). This report summarizes the opinions and perceptions of different executives in around 130 companies from across the country, who are interviewed by economists from the Monetary Policy Strategy and Communication Management of the Bank's Research Division in the month prior to publication.

With regard to economic research, in December the Bank published volumes 18 and 19 of the series *Central Banking, Analysis and Economic Policies,* which contain the final versions of papers presented at the Annual Conference of the Central Bank of Chile in 2011 and 2012, respectively. The first, entitled *Capital Mobility and Monetary Policy*, analyzes the causes, consequences and challenges of policies associated with the boom-and-bust cycles facing modern economies, focusing on the international capital flows that both trigger and are triggered by the cycles. The second, entitled *Macroeconomic and Financial Stability: Challenges for Monetary Policy,* addresses the main lessons left by the financial crisis of 2008-2009 and the future challenges that will have to be faced by central banks. It analyzes which characteristics of financial markets and monetary policy contributed to the crisis and explores the role of monetary and macroprudential policies in addressing them.

The Bank's work in economic research is also reflected in the nine 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 E*conomic Policy Papers* over the course of 2014, with the issue of four 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 2014 were a review of the performance of the inflation-targeting regime fifteen years after its implementation in Chile; an analysis of conceptual and empirical evidence on the relationship between equity and macrofinancial stability; the relation between communication strategies and the effectiveness of monetary policy; and an analysis of the consequences of the monetary measures adopted by the advanced countries in recent years and the associated policy options available for the emerging economies.

The Bank also published 27 *Working papers* in 2014. 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 2014.

Six new papers were published in the *Research in Economic Statistics* series in 2014. The purpose of this series is mainly to release research papers on economic statistics, with a strong empirical content.

Finally, 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: *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); *Informe Mensual de Estadísticas del Mercado Cambiario* (Monthly Foreign Exchange Market Statistics Report); *Serie de Datos Bancarios* (Bank Data Series); *Boletín Mensual* (Monthly Bulletin); *Indicadores de Comercio Exterior* (Foreign Trade Indicators); *Indicadores Macroeconómicos y de Coyuntura* (Macroeconomic and Current Indicators). Quarterly reports were published on *Balanza de Pagos de Chile y Posición de Inversión Internacional* (Chile's Balance of Payments and International Investment Position), *Cuentas Nacionales* (National Accounts) and *Cuentas Nacionales por Sector Institucional* (National Accounts by Institutional Sector). The following digital yearbooks were also published: *Cuentas Nacionales* (National Accounts), *Balanza de Pagos* (Balance of Payments) and *Deuda Externa de Chile* (Chilean External Debt).

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

With regard to regular presentations, the Board presented the *Monetary Policy Report* on 31 March, 16 June, 3 September and 15 December. As usual, the September report was presented to the full Senate and the remaining issues to the Senate Finance Committee. In June and December, both the *Monetary Policy Report* and the *Financial Stability Report* were presented.

On 8 January, the Central Bank Governor, Rodrigo Vergara, discussed the draft bill on the Financial Stability Board in a special session of the Finance Committee. On 21 January, he discussed the draft bill allowing non-bank entities to issue payment means with the prior provision of funds (that is, prepaid debit cards) in an ordinary session of the Finance Committee. On 20 May, Deputy Governor Enrique Marshall gave a presentation on the draft bill to modify Law 18,010, prohibiting the charging of interest on interest, in an ordinary session of the Commission on the Economy, Development; Micro, Small and Medium-sized Enterprises; Consumer Protection; and Tourism, which analyzed this issue. On 4 November, the Governor discussed the competition in the credit and debit card market in an ordinary session of the Commission on the Economy, Development; Micro, Small and Medium-sized Enterprises; Consumer Protection; and Tourism, in the framework of the analysis of the draft bill to modify Statutory Decree 3, of 1997, the General Banking Law and Law 18,840, the Central Bank's Basic Constitutional Act, which aims to increase competition in the credit and debit card market. All of these presentations were given in Valparaíso.

PRESENTATION OF THE MONETARY POLICY REPORT

WORKSHOP ON REAL ESTATE PRICES AND FINANCIAL STABILITY

D.3 Seminars and workshops

A seminar on OTC Derivatives Global Reform was held on 28–30 January, bringing together specialists from the International Monetary Fund (IMF) and the Bank. The meeting, which was inaugurated by Deputy Governor Enrique Marshall, analyzed the main regulatory reforms at the world level in the central banking sector, specifically on derivative transactions. The seminar was attended by experts from Australia, Mexico, Brazil and the Basel Committee. It also included presentations by Ward Griffin of the U.S. Commodity Futures Trading Commission and Nicolás Gauthier of the European Commission.

On 25 April, the Financial Research Management organized the Workshop on Real Estate Prices and Financial Stability, which was opened by Luci Ellis, the Head of the Financial Stability Department of the Reserve Bank of Australia. Participants included Deputy Governor Enrique Marshall; Anthony Murphy, U.S. Federal Reserve Bank of Dallas; Jesús Saurina, Bank of Spain; Alessandro Rebucci, Johns Hopkins University; and Eric Parrado, Superintendent of Banks and Financial Institutions.

An event entitled Analytical Chapters of the Regional Economic Panorama was held on 16 May, organized jointly with the IMF. The event was inaugurated by Luis Óscar Herrera, the then Director of the Research Division, and centered on the analysis of the economic outlook for the Americas. Participants included IMF economists Bertrand Gruss and Alexander Klem.

A workshop on the Micro and the Macro of Price Rigidities was held on 6 August, organized by the Research Division and opened by Board Member Sebastián Claro. The workshop was attended by Professor Peter Klenow, Stanford University; Professor Eduardo Engel, University of Chile; Fernando Álvarez, University of Chicago; David Berger, Northwestern University; Raphael Schoenle, Brandeis University; and Egon Zakrajsek, U.S. Federal Reserve System, among others.

The Economic Research Management organized a course on Quantitative Models of Financial Crisis and Macroprudential Regulation on 7–9 October. The course was taught by Professor Enrique Mendoza of the University of Pennsylvania. Around 65 guests attended the discussion of the financial crisis and macroprudential policies.

On 6–10 October, the Treasury Management organized the XII Meeting of Central Bank Treasurers and the IV Meeting of Experts on the Fight of Money Counterfeiting at the Center for Latin American Monetary Studies (Cemla). The two events were attended by representatives of 27 central banks from the Americas, Europe and Asia, as well as national and foreign police institutions. Key cash-related issues were discussed, including the development of new cash centers, the treatment of banknotes and their residues, cash demand estimation models and counterfeiting.

The Eighteenth Annual Conference of the Central Bank of Chile, entitled Commodity Prices and Macroeconomic Policy, was held on 23 October. Participants included eminent economists Roberto Chang, Rutgers University; Andrés Fernández, Inter-American Development Bank (IDB); Joshua Aizenman, University of Southern California; Martin Bodenstein, National University of Singapore; Juan Pablo Nicolini, Torcuato Di Tella University in Argentina and representative of the U.S. Federal Reserve Bank of Minnesota; César Calderón, World Bank; Jeffrey Frankel, Harvard University; Alfonso Irarrázabal, Bank of Norway; Radoslaw Stefanski, University of St. Andrews; Kim Ruhl, New York University; and Paul Collier, Oxford University.

In the framework of this event, on Friday, 24 October, a ceremony was held to commemorate 25 years of autonomy at the Central Bank of Chile, at a conference entitled The Role of Central Banks in Modern Times: Twenty-Five Years into the Central Bank of Chile's Independence. The event was attended by the former Governors of the Central Bank of Chile—Andrés Bianchi, Roberto Zahler, Carlos Massad, Vittorio Corbo and José De Gregorio—together with current Governor Rodrigo Vergara. Presentations included "Central Bank Independence and Economic Performance: It's Not Only the Law," by Professor John Taylor of Stanford University, and "Dealing with Capital Inflows," by Olivier Blanchard of the IMF.

The VII Cemla Meeting on Open Market Operations was held on 6–7 November, organized by the Domestic Markets Management. The meeting brought together 28 central bank representatives from Bolivia, Chile, Costa Rica, Dominican Republic, Ecuador, Guatemala, Honduras, India, Mexico, the Netherlands, Nicaragua, Paraguay, Peru, Philippines, Spain, the United States and Uruguay. The objective was to analyze economic and financial perspectives on the withdrawal of monetary stimulus measures in the developed economies and the challenges of the current financial situation.

On 19 November, the Financial Research Management held the High-level Workshop on Bank Stress Testing, which featured the participation of renowned economists Virginie Traclet, Bank of Canada; and Heidi Richards, member of the Australian Prudential Regulatory Authority. The meeting was attended by all five Central Bank Governors and the Superintendent of Banks and Financial Institutions. The issues analyzed included the institutional role of central banks and supervisors in the application and communication of bank stress tests.

On 25–28 November, the Bank hosted the XVI Meeting on Central Bank Communication and the VI Cemla Conference on Economic and Financial Education in Latin America and the Caribbean, organized by the Communications Management and the Institutional Affairs Section, respectively. The former focused on the challenges and risks associated with communication in times of crisis, in the context of financial stability as a central bank objective. This meeting was attended by 27 participants from Bolivia, Brazil, Chile, Colombia, Costa Rica, El Salvador, Germany, Guatemala, Haiti, Honduras, Mexico, Peru, Philippines, Spain, Surinam and Uruguay. The objectives of the second conference included analyzing recent experiences on national financial education strategies and evaluating their impact. The Organization for Economic Cooperation and Development (OECD) collaborated as an event organizer, leading to the participation of national and international organizations involved in educational issues, including the Inter-American Development Bank (IDB), the Development Bank of Latin America (CAF), Fundación Capital, Child and Youth Finance International and Aflatoun (Child Savings International). The conference was attended by 70 participants from institutions in North, South, and Central America, the Caribbean, Europe and Asia, together with representatives from the Finance Ministry, the Superintendence of Banks and Financial Institutions, the Superintendence of Securities and Insurance, the National Consumer Service, *Fundación Techo, Fondo Esperanza, Fosis, Banco Estado* micro-enterprises, *Fundación Chile, Universidad de la Frontera* and the Pontifical Catholic University of Chile.

On 1–4 December, the Bank hosted a Cemla Course-Workshop on Strategic Planning in Central Banking. The seminar, which was organized by the Strategic and Operational Risk Administration Management, used real case studies to explore key issues in the area, with the discussion taking place in work groups. There were 29 participants from Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Germany, Guatemala, Honduras, Mexico, Nicaragua, Paraguay, Philippines, Surinam, Uruguay and Venezuela.

At the Financial Markets and Macroeconomic Fluctuations meeting, held on 12 December and inaugurated by Governor Rodrigo Vergara, international academics and researchers joined Bank economists to debate the latest advances on the interaction between financial markets and economic fluctuations.

In the context of the information diffusion program on the banknotes in circulation and their security features, the Bank continued its training program, Know Your Banknotes. Over the course of the year, there were 44 training workshops, mainly in Santiago and some larger cities, such as Arica, Iquique, Antofagasta, Los Ángeles, Puerto Montt and Punta Arenas. A total of 2,382 people received training, mainly cashiers from retail establishments, small businesses and commercial banks, as well as students at technical institutes. In addition, 21,579 brochures and 11,214 posters were distributed to provide information on the security features that facilitate the recognition of authentic bills.

To reinforce this training program, and in response to interest expressed by companies with training facilities and by cashier training institutes, the Bank signed several agreements with businesses and institutions to disseminate the Training for Trainers Program. This program provided educational tools to 138 instructors who will, in turn, train other employees or students.

25 YEARS OF AUTONOMY FOR THE CENTRAL BANK OF CHILE

D.4 Community outreach program

The community outreach program, Central to Your Life, aims to increase the general public's knowledge of economics and finance using clear, simple language that is easy to understand, in order to provide new tools and resources to help people in their decisionmaking.

In the framework of this program, the sixth training seminar for journalists was held between July and November 2014. The program is organized annually by the Bank in conjunction with the Chilean Chapter of the Inter-American Association of Economic and Financial Journalists (Aipef). The eight workshops in the series are directed toward specialized journalists and led by Board Members, managers and senior economists, who discuss a range of topics related to the role of the Central Bank. The first session was led by the Central Bank Governor, Rodrigo Vergara. The talks were attended by a total of 55 journalists from newspapers, news agencies, journals, digital media and public organizations, with an average of 16 per session.

The Bank also developed some new activities to strengthen the community's understanding of economics and finance. Two new short theatrical works on financial education, entitled Healthy Borrowing and Credit Cards: To Use Them or Not to Use Them?, were presented internally to Bank staff and to attendees at the Regional Meeting on Experiences in Financial Education and Inclusion in Latin America and the Caribbean; they were also performed at the Financial Education Fair. Another new initiative involves the personification of the $1,000 and $10,000 banknotes currently in circulation, which interact with the public to provide information on the components and treatment of the bills.

CENTRAL TO YOUR LIFE PROGRAM

LAUNCH OF “MOBILE SDB” APPLICATION

With regard to social networks, the website www.centralentuvida.cl received 31,017 vistas in 2014 (84 visits per day, on average). The Bank also set up its own YouTube channel (BancoCentralChile), which gives the general public access to all the audiovisual material from the Central to Your Life Program. In October, the Mobile SDB web application was launched at the 2014–2015 Economic and Business Vision Seminar, organized jointly by the Chilean Manufacturers' Association (Sofofa) and the Universidad del Desarrollo. The application, which was specially designed by the Statistical Information Management for mobile devices such as smartphones and tablets, lets users review the main macroeconomic statistics for Chile online, as well as other key global statistics.

In other areas, the Bank was an active participant on the Financial Education Board, which brings together 12 public and private nonprofit agencies such as *Fondo Esperanza, Educar Chile* and *Fundación Techo Chile*. The Board contributed to the drafting of Decree 954, passed in June 2014, which created the Advisory Commission on Financial Inclusion. The Commission's mission is to advise the President of the Republic on the design and formulation of a National Strategy for Financial Inclusion, as well as the design and execution of plans, measures and other activities aimed at increasing the degree of access, improving conditions for financial inclusion and education and strengthening consumer rights protection.

In 2014 the Bank continued its statistical diffusion program. These presentations are intended to promote the use and understanding of the statistics prepared by the Bank. They review the concepts, methodology and results of the Balance of Payments, National and Regional Accounts, and Foreign Exchange, Monetary and Financial Statistics. In addition, practical examples are used to describe the features of the statistical database. In the year, 44 talks were held at universities in Santiago, Concepción, La Serena, Osorno, Puerto Montt, Temuco and Valparaíso, with an attendance of over 1,300 people.

Internationally, in 2014 the Bank joined the International Network on Financial Education (INFE), which was created in 2008 by the OECD to improve and promote awareness on the importance of financial education throughout the world and to provide a platform for discussing analytical work, international principles, good practices and efficient tools in this area, developed in the framework of the OECD. The Bank also participated in other activities related to financial education, including Global Money Week, a worldwide event promoting financial education, organized by the Child & Youth Finance International, a nongovernmental organization. The event was held simultaneously in 80 countries during the week of 17–21 March. In Chile, the activity was carried out jointly with the institutions that sit on the Financial Education Board.

In Chile, the Bank was an active participant in Financial Education Month, held in October 2014. The month was kicked off with the Regional Meeting on Experiences in Financial Education and Inclusion in Latin America and the Caribbean, held from 30 September to 3 October. The Bank gave a presentation on the road to a National Strategy for Financial Education in Chile and the Bank's role therein. The event also included a visit to the Valparaíso Region, so that participants from various countries could learn about the financial education and inclusion initiatives being applied in neighborhoods in Valparaíso and Viña del Mar. On 3 October, the Central Bank Governor was invited by the SBIF to visit the *Bicentenario Italia* School, where he gave a talk to teachers and students. The month-long event ended with the Financial Education Fair on 22 October, held in the *Plaza de la Constitución* in Santiago, where the Bank and nine other exhibitors set up stands to provide public information and activities on their respective educational programs.

Economics Up Close Contest

On 5 May, at an event attended by around 300 students and teachers, Governor Rodrigo Vergara kicked off the Tenth Annual Economics Up Close Contest, 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 program, which has been held annually since 2005, incorporated two important innovations in 2014: the participation of all four grades in high school, including ninth and tenth grades; and a new format for contest entries, using an audiovisual presentation instead of a written report.

For this year's contest, the students were asked to answer the following question: What is inflation, and why is it important to keep it low and stable? The Bank received 323 videos, including 252 prepared by groups in eleventh and twelfth grades and 71 from groups in ninth and tenth grades.

In the younger category (ninth and tenth grades), the winning project, entitled "Why Control Inflation?," was prepared by students from the *San Ignacio El Bosque* school in Santiago. Second place went to the group from the *Jorge Sánchez Ugarte* school in Concepción, for their video "The Economic Train," while third place was awarded to the *San Buenaventura* school in Chillán, for the video "Mr. Luis's Cheese."

GLOBAL MONEY WEEK

"ECONOMICS UP CLOSE" CONTEST

In the older category (eleventh and twelfth grades), the first place project was "What Is Inflation, and How Does the Central Bank Control It?" by the *Atacama* Catholic School in Copiapó. Second place went to the *Anglo Maipú* school in Santiago, for the video "Inflation in Your Life," while third place was awarded to the *San José* school in La Serena, for the project "Pablo's Problem."

As usual, the Bank organized a range of educational activities to support the diffusion of the contest, such as talks held by staff economists at schools in Santiago and in the regions. Around 3,000 packets of materials were sent to high schools across the country, and informational posters were put up in Santiago Metro stations and in 100 schools in Santiago. Economics workshops were held for high school teachers—two in January and two in July. A total of 67 teachers received instruction at het workshops, which included practical exercises on the subject, carried out in a simulated classroom.

Numismatic Museum and guided tours

The Numismatic museum received a total of 13,600 visits in 2014, including 2,100 on National Heritage Day and 6,355 on scheduled tours. The remaining 5,145 just visited the museum.

With regard to guided tours, the Bank received 5,618 students, mostly from high schools and universities. In addition, 737 people toured the Bank through the Central to Your Life program, which organized 21 tour groups, including neighborhood groups, foundation beneficiaries, senior citizens, microbusinesses and students from vulnerable schools.

On National Heritage Day, held on Sunday, 25 May, the Bank received 2,100 visitors, who toured the heritage building and the Numismatic Museum and were shown an institutional video.

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.*

In April, the Regional Central Bank Seminar was held in Copiapó, organized jointly with the Development Corporation of the Atacama Region (Corproa), and in Talca, organized in coordination with the Maule Progress Board. 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 Antofagasta, in association with the Economics Department of the Catholic University of the North, and in Valdivia, in conjunction with the Economics and Business Administration Department of the Austral University of Chile. In September, the *Monetary Policy Report* was presented in Temuco, in coordination with the Production Development Corporation of the Araucanía Region (*CorpAraucanía*), and in Puerto Montt, in conjunction with the Austral University of Chile. The regional meetings were led by Deputy Governor Enrique Marshall and Board Members Sebastián Claro, Joaquín Vial and Pablo García.

These meetings offer a valuable opportunity to get closer to the community, business people and regional authorities, thereby promoting direct dialog and greater mutual awareness between the Bank and different economic sectors in each region of the country. In 2014, attendance at these events ranged from 80 to 150 people per event.

The Board Members also gave presentations on the *Monetary Policy Report* and the *Financial Stability Report* outside of Santiago, at the invitation of different academic institutions, labor associations and communications media. In April, Deputy Governor Enrique Marshall gave presentations in Concepción and Los Ángeles; and Board Member Sebastián Claro gave a talk in Valparaíso, and Board Member Pablo García in Rancagua. In June, Board Member Joaquín Vial presented in Puerto Varas; in September, Deputy Governor Enrique Marshall talked in Copiapó; and in December, Governor Rodrigo Vergara gave a presentation in Concepción.

This year also featured a number of regional presentations on the economic environment. Details on the cities where these events were held can be found online at http://www.bcentral.cl/politicas/presentaciones/consejeros/index.htm.

E. Miscellaneous

E.1 Technological changes

In 2014, the Bank implemented and initiated its services management system (SMS), a tool that supports the centralized Management of the needs of the different units of the Bank, any events and problems that affect the operational continuity of services, and changes that contribute to productive environments. This tool also establishes a knowledge base, which facilitates action by different problem-solvers by taking advantage of accumulated experience.

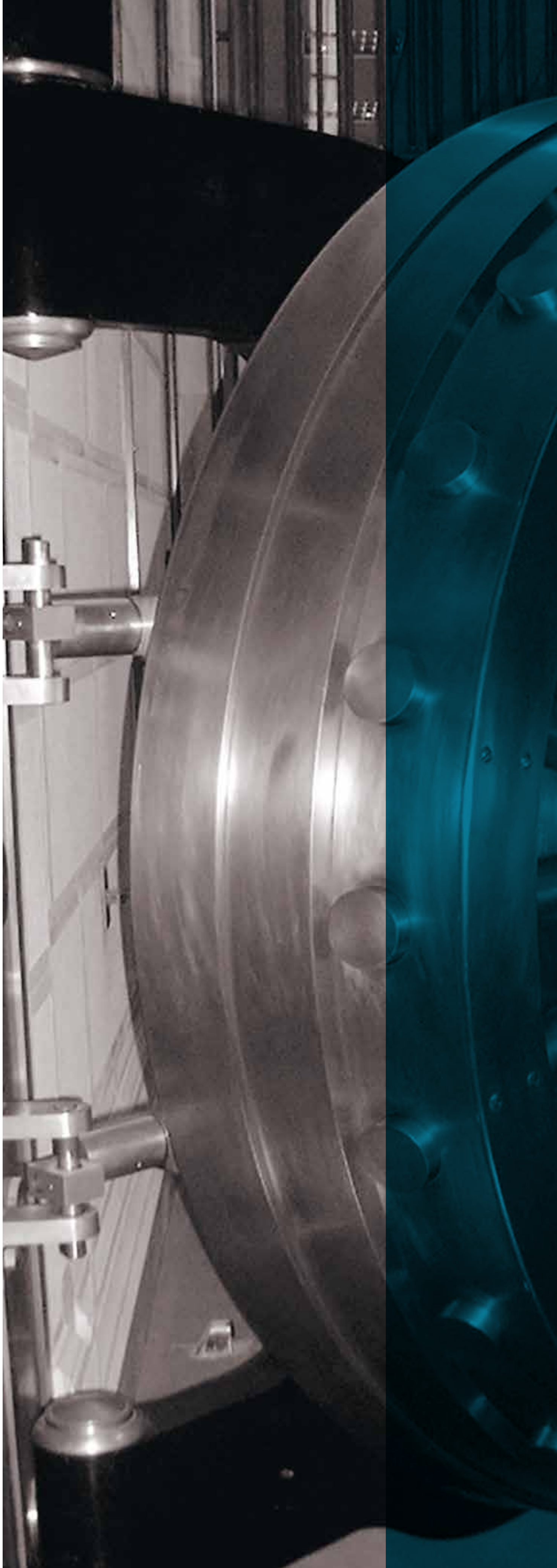
To continue strengthening the operational continuity of the technological services used by the Bank, the Information Systems Management started the implementation of its Continuity Plan in 2014, which defines the actions to take once an incident has been detected that could affect the continuity of services, the allocation of roles among the personnel available to address an emergency, the diagnosis of the causes of the incident, the planning of the necessary actions for mitigating the incident or providing a definitive solution, and the recovery of the services in production. Another highlight was the implementation of a security information and event management (SIEM) solution for analyzing logs and correlating events, which allows the early detection of anomalous patterns or behaviors and thus facilitates the implementation of preventive actions before a possible failure occurs in some services.

In terms of information security, the Bank implemented a solution for centralized mobile device management (MDM) and administration, which increases the security level on smartphones and tablets.

Also in 2014, a technological upgrading process was initiated for a series of internally developed legacy systems, which are gradually being migrated to modern software development platforms. This ensures their operational continuity and takes advantage of the benefits of the new technologies.

As part of the plan to upgrade obsolete equipment, further progress was made on consolidating the server infrastructure and modernizing the server virtualization and information backup solutions. The Bank also initiated a project for the technological modernization of the server network at the processing centers, which will increase communication performance and take better advantage of the available infrastructure.

Finally, the Information Systems Management participated actively in technological projects spearheaded by other areas of the bank, including the implementation of the new flows for the Transparency Law and the Lobbying Law, both built on the Bank’s business process management (BPM) platform.



E.2 External 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 by the Audit and Compliance Committee, the Board awarded the contract for professional auditing services for the period 2014–2016 to KPMG Auditores y Consultores Ltda., via Resolution 1,775 of 5 September 2013.

E.3 Banknotes and coins

As of December 2014, there were 883.4 million banknotes in circulation, an increase of 7.3% over December 2013 (823.7 million). The total number of coins in circulation grew 7.2%, to 12.716 billion in December 2014.

To meet public demand for currency in 2014, the Bank received the new banknotes and coins produced under contracts singed in 2013. The banknotes were printed in Sweden and Germany; the coins were minted in the Netherlands and Chile.

With regard to cash operations, the Bank reviewed and analyzed the forecasts for the coming decades. The study concluded that the Treasury facilities need to be relocated, expanded and modernized in order to implement standards of functionality and security in line with those adopted by the international central banking system, strategically locate operations vis-à-vis suppliers, clients and intermediaries, and house the other administrative and operational facilities of the Bank. The full implementation of this project is expected to take between six and seven years.

For the fifth consecutive year, the Bank carried out the National Survey on Cash Use and Preferences, interviewing over 800 people. As in previous years, the survey shows that cash continues to be the primary means of payment at the national level and tha tthe two smallest coin denominations are not used much as a means of payment by the general public.

As part of its community outreach efforts, on 6 May the Bank launched its new banknote identification device for the visually impaired, which was developed by the Treasury Management. The device has the support of the National Disability Service of the Ministry of Social Development, as well as associations and institutions for the visually impaired. As a result, 9,998 devices were distributed free of charge in 2014.

E.4 International relations activities

In 2014, the Bank maintained an intense international agenda, through both its regular international activities and a wide range of additional activities. The former included 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 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), as well as the IMF Article IV mission (in April–May).

The additional activities in which the Bank participated included international seminars, conferences and meetings held both in and outside, official visits from foreign authorities, missions from international organizations visits from distinguished academics and official visits by the Central Bank Governor to foreign central banks.

In particular, the Central Bank Governor participated in the meeting of the BIS Regional Consultative Group for the Americas , held in São Paulo, Brazil (April); the High-Level Conference on the International Monetary System, organized by the Swiss National Bank and the IMF in Zurich (June); the High-Level Regional Conference on Macroeconomic Strengths and Challenges, organized by the Bank of Mexico in Mexico City (July); Chile Day 2014 in London (October); and official visits to the Bank of Spain and the Bank of Portugal (November).

The official visits from foreign authorities featured the former President of the World Bank, Robert Zoellick (January); a delegation of authorities from Zambia and the World Bank (January); the First Deputy Managing Director of the IMF, David Lipton (March); the Director of the IMF Western Hemisphere Department, Alejandro Werner (March); IMF Chief Economist and Research Director, Olivier Blanchard (October); IMF Financial Counselor and Director of the Monetary and Capital Markets Department, José Viñals (December); and the Managing Director of the IMF, Christine Lagarde (December). With regard to international organizations, the Bank received missions from the Organization for Economic Cooperation and Development (OECD) (May and July); the World Bank (August); the IMF staff visit (November); and the IMF mission on bank and financial market supervision and regulation (December). Academic visits included Professor Jeffrey Sachs from the Earth Institute at Columbia University (December).

Finally, in 2014, 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) meeting in October. With regard to the FSB, Bank representatives attended meetings of the Analytical Group on Vulnerabilities (AGV) in January, May, July and November; meetings of the Regional Consultative Group for the Americas (RCGA) in June and November; and a workshop in November, as member and co-chair of the Working Group on Shadow Banking. Work with *Unasur* centered on the meetings of the financial integration technical group in May and July, while participation in Mercosur included the meeting of the Macroeconomic Monitoring Group in December.

E.5 Access to information

On 5 November 2014, the National Press Association presented the Eleventh 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.

The survey asks journalists to assign a grade to their perception of access to public information along three dimensions: the timeliness of the delivery of information; the accuracy and reliability of the information delivered; and the willingness to provide information.

In this year's survey, responses were received from 505 journalists, who rated 42 public institutions. On the average of the three dimensions and in the general ranking, the Bank was awarded first place, after taking second place in the two previous years. In the general ranking, 70.9% of the journalists who said they had had contact with the Central Bank gave their perception of access a grade of 6 to 7 (on a seven-point scale). On the specific dimensions, 61.8% of the survey respondents gave a grade of 6 to 7 on willingness to provide information; 87.3% on the accuracy and reliability of the information delivered; and 63.6% on the timeliness of the delivery of information.

In 2014, the Bank received a total of 89 applications for access to information, all of which were addressed in less time than required under Law 20,285 (20 business days). To date, no complaints have been filed against the Bank in cases in which the information requested had to be denied for reasons addressed in the law.

Law on Lobbying

Law 20,730, published in the *Official Gazette* on 8, regulates lobbying and the representation of special interests to public authorities and functionaries (Law on Lobbying). The legislation entered into effect on 29 November 2014.

For all intents and purposes, this law is applicable to the Central Bank of Chile, and it establishes that the Governor, the Deputy Governor and the other Board Members are subject to the obligations stipulated therein. The law further establishes the legal obligations can be extended to other functionaries via Board Resolution, if their duties, responsibilities or position within the Bank require that they be subject to the regulatory guidelines, if they possess substantial decisionmaking power or if they are in a position of significant influence over others who do. In this case, the law will enter into force on 29 August 2015.

To comply with the Law on Lobbying, the Bank must maintain, on its active transparency site, a Public Agenda Record for the functionaries subject to the law, together with a registry of lobbyists and special interest representatives.

The Bank's Public Agenda Record lists all meetings, conferences and interviews held by functionaries subject to the law, for the purpose of lobbying or the representation of special interests; all work-related travel; and all formal or official donations received.

The registry of lobbyists and special interest representatives maintained by the Bank contains the personal identification of individuals who have had meetings, conferences or interviews with the functionaries subject to the law; this information is automatically entered into the registry based on the information provided at the time the meeting or interview is requested. Lobbyists and special interest representatives can also voluntarily register in advance.

The rules dictated by the Central Bank in compliance with the Law on Lobbying, approved through Board Resolution 1863-01-141030, specify the information that must be included in the Public Agenda Record, the schedule and procedure for updating the record, and other aspects deemed necessary for the administration and publication of the record.

The implementation of this law was coordinated by a multidisciplinary team led by the General Manager, with participation by staff from the Office of the General Counsel, the Information Systems Management and the Information Access Unit.

03 APPENDICES

03

APPENDICES

I. PRESS RELEASES ON MONETARY POLICY MEETINGS IN 2014

16 January

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, the recent data are consistent with the scenario described in the *Monetary Policy Report.* Our trading partners are expected to see a growth recovery in the coming quarters, underpinned by the upturn of the developed economies, especially the United State, while growth should stabilize in the emerging economies. The U.S. Federal Reserve reduced its monthly asset purchases, which did not have any major consequences on international long-term rates. Inflation remains low in the advanced economies, so monetary policy normalization is expected to be slow in these economies. Financial conditions are still tight for the more vulnerable emerging economies, but they have improved for the peripheral European countries. In the last month, the copper price increased, whereas oil and food prices fell. The dollar appreciated in international markets.

The Chilean economy continues to ease. Output and domestic demand have grown below the forecast in the *Monetary Policy Report,* especially in investment-related sectors. CPI changes in the last two months have brought total inflation to 3% in annual terms. This reflects the behavior of the index's most volatile components (food and energy), as well as the short-term impact of the peso depreciation. Inflation expectations remain around the target in the forecast horizon, and the growth rate of nominal wages has eased in recent months.

The Board considers that in the coming months, it could be necessary to increase the monetary stimulus to ensure that the inflation forecast stays 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 February

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to cut the monetary policy interest rate by 25 basis points, to 4.25% in annual terms.

Internationally, our trading partners are still expected to see a growth recovery in the coming quarters, underpinned by the upturn of the developed economies, especially the United States. Inflation remains low in these economies, so monetary policy normalization is expected to be slow. In the emerging markets, volatility has increased, which is being reflected in their stock markets, spreads and currency depreciation. The oil price has risen in the last month, while the copper price fell slightly.

The Chilean economy continues to ease. Output and domestic demand have grown below the forecast in the *Monetary Policy Report*, especially in investment-related sectors. Inflation is around the target, as are expectations in the forecast horizon. The peso has depreciated, while the growth rate of nominal wages has eased in recent months.

The Board considers that in the coming months, it could be necessary to increase the monetary stimulus to ensure that the inflation forecast stays 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 March

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to cut the monetary policy interest rate by 25 basis points, to 4.0% in annual terms.

Internationally, the recent data confirm the outlook for a gradual recovery in the developed economies, while the forecasts for the emerging economies have fallen, especially in Latin America. The recent news from China has had a negative impact on the price of copper and other metals. Agricultural prices have recovered since the last *Report,* while fuel prices have not changed much in the last month. Inflation remains low in the developed economies, so their monetary policy normalization is expected to be slow, and international financial conditions are stable.

The Chilean economy continues to ease. Output and domestic demand have grown below the forecast in the *Monetary Policy Report*, especially in investment-related sectors. Annual inflation has increased, due to higher food and fuel prices and the peso depreciation. In annual terms, CPI inflation and core inflation excluding food and energy are 3.2% and 2.5%, respectively. Inflation expectations continue to be around 3% in the monetary policy horizon.

The Board will evaluate the possibility of making additional cuts to the MPR depending on the evolution of domestic and international macroeconomic conditions and the implications for the inflation outlook. 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.

17 April

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 4.0% in annual terms.

Internationally, the recent data confirm the outlook for a recovery in the developed economies. The forecasts continue to point to slow growth for the emerging economies, which will affect the price of copper and other metals. Agricultural and fuel prices have recovered since the last *Report*. Inflation remains low in the developed economies, so their monetary policy normalization is expected to be slow. External financial conditions have improved in the last month, and the dollar has depreciated at the international level.

Domestically, the economic data confirm that output and demand have been sluggish, in line with the baseline scenario in the March *Monetary Policy Report*. Annual CPI inflation has increased to 3.5%, due to higher food and fuel prices and the peso depreciation. Inflation expectations remain around 3% in the monetary policy horizon.

The Board will evaluate the possibility of making additional cuts to the MPR depending on the evolution of domestic and international macroeconomic conditions and the implications for the inflation outlook. 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.

15 May

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 4.0% in annual terms.

Internationally, the recent data confirm the outlook for a recovery in the developed economies, while the forecasts continue to point to slow growth for the emerging economies. External financial conditions have improved in the last month, and the dollar has depreciated at the international level. With regard to commodity prices, the copper price has recovered. Inflation remains low in the developed economies, so the markets continue to expect a slow normalization of their monetary policies.

Domestically, the economic data confirm that output and demand have been sluggish, in line with the baseline scenario in the March *Monetary Policy Report.* Although the labor market is showing signs of becoming less dynamic, the unemployment rate remains low. Inflation was higher than forecast in April, reaching 4.3% in annual terms. The core inflation measures and the change in nominal wages also recovered in the last month. Medium-term inflation expectations have stayed around 3% in annual terms. In the most probable scenario, the increase in inflation—which is largely tied to the depreciation of the peso—is expected be transitory, and it will be closely monitored.

The Board will evaluate the possibility of making additional cuts to the MPR depending on the evolution of domestic and international macroeconomic conditions and the implications for the inflation outlook. 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.

12 June

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 4.0% in annual terms.

Internationally, the recent data confirm the outlook for a recovery in the developed economies, while the forecasts continue to point to slow growth for the emerging economies. External financial conditions have continued to improve in the last month. With regard to commodity prices, fuel prices have increased, while copper and agricultural prices have fallen. Inflation remains low in the developed economies, which has led the Eurozone to introduce additional monetary stimulus measures.

Domestically, the economic data confirm that output and demand have been sluggish. Investment has declined, and private consumption has slowed. Although the labor market is showing signs of becoming less dynamic, the unemployment rate remains low. Inflation in May was 4.7% in annual terms. Annual core inflation and nominal wages continued to recover in the last month. Medium-term inflation expectations have stayed around 3% in annual terms. In the most probable scenario, the increase in inflation—which is largely tied to the depreciation of the peso—is expected be transitory; it will be closely monitored.

The Board will evaluate the possibility of making additional cuts to the MPR depending on the evolution of domestic and international macroeconomic conditions and the implications for the inflation outlook. 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.

15 July

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to cut the monetary policy interest rate by 25 basis points, to 3.75% in annual terms.

Internationally, the recent data confirm the outlook for a recovery in the developed economies, especially in the United States, while the growth forecasts for the emerging economies have worsened. External financial conditions remain favorable. With regard to commodity prices, the copper price has increased, while agricultural prices have fallen. Inflation in Latin America has increased, which contrasts sharply with the low levels that continue to be recorded in the developed economies.

Domestically, the economic data indicate that the growth rate of output and demand has continued to fall. Investment has declined, and private consumption has slowed. Although the labor market is showing signs of becoming less dynamic, the unemployment rate remains low. Inflation in June was 4.3% in annual terms, and the core inflation measures decreased. The annual growth rate of nominal wages increased. Medium-term inflation expectations have stayed around 3% in annual terms. In the most probable scenario, inflation is expected to remain above the target range for several months before returning to the target, and it will continue to be closely monitored.

The Board will evaluate the possibility of making additional cuts to the MPR depending on the evolution of domestic and international macroeconomic conditions and the implications for the inflation outlook. 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.

14 August

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to cut the monetary policy interest rate by 25 basis points, to 3.5% in annual terms.

Internationally, the recent data confirm the outlook for a recovery in the United States, but growth has slowed in the Eurozone. The growth forecast for emerging Asia remains stable, whereas the projections for Latin America have been revised downward. External financial conditions remain favorable, albeit with some deterioration in in recent weeks. Commodity prices have declined, including copper and fuel prices.

Domestically, the economic data indicate that the growth rate of output and demand has fallen faster than expected. Investment has declined, and private consumption has slowed. Although the labor market is showing signs of becoming less dynamic, the unemployment rate remains low. Inflation in July was 4.5% in annual terms. The twelve-month growth of nominal wages increased. Medium-term inflation expectations have stayed around 3% in annual terms. In the most probable scenario, inflation is expected to remain above the target range for several months before returning to the target, and it will continue to be closely monitored.

The Board will evaluate the possibility of making additional cuts to the MPR depending on the evolution of domestic and international macroeconomic conditions and the implications for the inflation outlook. 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.

11 September

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to cut the monetary policy interest rate by 25 basis points, to 3.25% in annual terms.

Internationally, the recent data confirm the outlook for a recovery in the United States and the slower growth in the Eurozone. The growth forecast for emerging Asia remains stable. In Latin America, a large share of the region continues to show signs of weakening. External financial conditions remain favorable. Most commodity prices have declined, although copper has been relatively stable.

Domestically, the data on output, demand and employment continue to reveal a sluggish economy. Even so, the unemployment rate remains low, and the annual growth rate of nominal wages continues to rise. Inflation in August was 4.5% in annual terms. Medium-term inflation expectations remain around 3%, although they have increased for the end of this year. In the most probable scenario, inflation is expected to remain above the target range for several months before returning to the target level, and it will continue to be closely monitored. Local financial conditions continue to be generally favorable, which largely reflects the impact of the monetary stimulus.

The Board will evaluate the possibility of increasing the monetary stimulus in the coming months, depending on the evolution of domestic and international macroeconomic conditions and the implications for the inflation outlook. 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.

16 October

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to cut the monetary policy interest rate by 25 basis points, to 3.0% in annual terms.

Internationally, the recent data suggest that in the coming quarters, world growth and inflation could be somewhat lower than expected. Commodity prices, including copper, have declined, with a steep drop in international fuel prices. Most recently, interest rates have fallen in the developed countries, while volatility has increased in the financial markets. In the majority of the emerging economies, spreads have increased and currencies have depreciated.

Domestically, the data on output, demand and employment continue to point to a sluggish economy, in line with projections. Local financial conditions continue to reflect the impact of the monetary stimulus. There was another upward surprise in inflation in September, reaching 4.9% in annual terms. In the most probable scenario, inflation is expected to remain above the target range for several months before returning to the target level, and it will continue to be closely monitored. Medium-term inflation expectations remain around 3%.

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 November

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 3.0% in annual terms.

Internationally, the recent data confirm the outlook for a strong performance in the United States and weak growth and low inflation in the Eurozone and Japan. This divergence has accentuated the differences in monetary policy being implemented in these countries. External financial conditions have tended to normalize over the course of the month, but the possibility of new outbreaks of volatility cannot be ruled out. The growth forecast for emerging Asia decreased slightly, while in Latin America a large share of the region continues to record signs of weakness. The oil price dropped again, while copper has been relatively stable.

Domestically, the data on output, demand and employment continue to point to a sluggish economy. Local financial conditions reflect the impact of the monetary stimulus. There was an even larger upward surprise in inflation in October, reaching 5.7% in annual terms. In the most probable scenario, inflation is expected to remain above the target range for several months. The inflation surprise could be associated, in large part, to isolated and transitory factors. The evolution of prices will continue to be closely monitored. Medium-term inflation expectations remain around 3%.

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 December

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 3.0% in annual terms.

Internationally, the recent data confirm the outlook for a strong economic performance in the United States and weak growth and low inflation in the Eurozone and Japan. This divergence has accentuated the differences in monetary policy expectations in these countries. The growth forecast for emerging Asia has decreased slightly, while in Latin America a large share of the region continues to record signs of weakness. Commodity prices declined, with a significant drop in the oil price. Copper also fell, but less steeply.

Domestically, the data on output, demand and employment continue to point to a sluggish economy. Local financial conditions reflect the impact of the monetary stimulus. Annual inflation fell in November, although it remains above 5% and the core indicators rose more than 4%. In the most probable scenario, inflation is expected to remain above the target range for several months. The evolution of prices will continue to be closely monitored. Medium-term inflation expectations remain around 3%.

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 2014

7 January

In its regular session held on 28 November 2013, the Board of the Central Bank of Chile approved the annual auction calendar for 2014, which features no new bond issues in 2014.

This decision is based on the fact that the amount of current debt coming due is low and in line with the projected growth of the monetary base in the year. Consequently, no new long-term debt can be issued without sacrificing other debt instruments that are necessary for an adequate liquidity management in the local market.

This auction schedule is subject to modification in the event of significant changes in market conditions. If that occurs, the changes will be announced in due time.

24 March

In its regular session held on 20 March 2014, the Board of the Central Bank of Chile approved modifications to the regulatory guidelines applicable to Chilean banks that are authorized to route payment operations though the *Aladi* Reciprocal Payment and Credit Agreement, signed by central banks in the region. The new regulations will enter into force on 24 April.

The Board resolution, which was published today the *Official Gazette,* modifies Chapter VI of the Compendium of Foreign Exchange Regulations, in accordance with the authority granted in the Central Bank's Basic Constitutional Act and in virtue of the Bank's status as a member of the Agreement. The changes to the chapter include a temporary provision stipulating how the adjustments will be applied.

The changes specify the exclusion of payment orders as an eligible instrument for being routed through the *Aladi* Reciprocal Payment and Credit Agreement by banks (authorized institutions), in relation to payment operations on foreign trade with Chile that are eligible for being settled under the agreement; and the incorporation of a fixed commission of 1% of receipts and/or payments made by the Central Bank of Chile for authorized local institutions for the payment associated with exports from Chile that are processed under this agreement.

The changes adopted by the Central Bank of Chile are aimed at updating the current regulations in line with the international practices of other central banks in this area.

General background

The Central Bank of Chile is a member of the *Aladi* Reciprocal Payment and Credit Agreement between twelve Latin American central banks. The Agreement facilitates the routing of payments between residents of the respective countries through the use of a reciprocal credit line in U.S. dollars agreed between pairs of central banks, where the balance is used for multilateral settlements in four-month periods. In the event of a settlement, in order to reduce the number of fund transfers, the net balances of each central bank with the other parties to the agreement are determined for clearing. The net balance can be a debit or credit, depending on the use of the credit line.

Payments that are eligible for routing under the agreement are those deriving from the trade of goods, including the associated services and expenses, provided that the merchandise originates in a country of one of the member central banks. In the case of operations involving the trade of services not associated with the trade of goods, made by residents of the countries of the different central banks, the payment transactions are eligible to be routed through the agreement as long as the trade operations are covered by agreements signed by pairs or groups of member central banks.

5 May

Today, the Central Bank of Chile published the resolution granting authorization for certain foreign securities to be traded and settled in pesos for the purpose of their public offer in Chile, in accordance with the terms of Article 184 of the Securities Market Law.

The Bank had previously published for public consultation an authorization proposal outlining the terms and conditions of the aforementioned resolution to allow the indicated foreign securities and instruments to be traded in pesos.

The period for public consultation concluded on 2 April. The only comments received were submitted by the Central Securities Depository and the Santiago Stock Exchange.

The Board of the Central Bank of Chile decided to incorporate some of the suggestions submitted by these entities, in particular with regard to clarifying the Bank's reporting requirements, which was the main modification stemming from the public consultation. However, the Board did not incorporate the suggestion to extend the authorization to additional instruments other than those specified in the draft regulation published for public consultation.

Thus, the new regulation authorizes the trading and settling in pesos of shares in foreign investment and mutual funds known as exchange-traded funds (ETF); foreign corporate stocks; and foreign securities certificates for which the underlying assets are any of the above instruments.

This authorization should facilitate the development of a broader spectrum of investment alternatives in the local market, while also allowing the clearing and settlement of transactions involving this type of instrument to be routed through central counterparties. The latter is an important positive development because it channels the transactions through robust infrastructures that have systems for managing operational risk and collateral.

This authorization enters into effect on Monday, 5 May 2014, the date on which the related resolution will be published in the *Official Gazette*.

The Securities Market Law (SML) empowers the Central Bank of Chile to authorize the trading and settling in domestic currency of foreign securities or foreign securities certificates, subject to the terms and conditions stipulated by the Central Bank (Article 184).

The possibility of the Bank extending this authorization was incorporated with the so-called Capital Market Reform III, passed in 2010. Previously, the trading and settling of these instruments, for the purpose of their public offer in Chile, was restricted to authorized foreign currencies.

In recent years, the local securities market has witnessed an increase in the offer of certain foreign instruments, especially ETF shares and foreign stocks. At the same time, various financial sector agents have expressed increased interest in the Central Bank granting the authorization for trading and settling these instruments in pesos, in accordance with the terms of the SML, whether the instruments are issued in an authorized foreign currency for the effects of the legislation or in local currency.

In its analysis to establish the terms and conditions of the legislation, the Bank specifically considered the safeguarding of the foreign exchange attributions, to the extent that these operations, once authorized to be traded and settled in pesos, will no longer have the character of foreign exchange operations.

Therefore, the conditions applicable to the authorization specify that the authorization for trading and settling in national currency is restricted to operations that have a place in the local securities market, for the purpose of allowing their public offer in the country. This does not affect foreign currency operations that people who are resident or domiciled in the country carry out overseas in order to purchase these securities and subsequently offer and place them in Chile, especially with regard to securities brokers that participate in these operations. In addition, the Bank took into account the opinion expressed by market agents, that the authorization in question would promote market development by facilitating trade and reducing the transaction costs of these instruments.

Finally, the authorization proposal considers that allowing these foreign instruments to be traded and settled in pesos would, at the same time, favor the clearing and settling of the transaction in central counterparties, given that the authorization is limited to transactions on the securities exchange. This is not currently the case for operations involving these instruments, which are settled bilaterally in an authorized currency. The central counterparties have systems in place with much greater safeguards in terms of operational and financial risks. Moreover, these infrastructures can clear their operations in pesos in the Central Bank's real time gross settlement (RTGS) system.

The following foreign securities are covered under the authorization for trading and clearing in pesos:

- Shares issued by foreign mutual funds or foreign investment funds known as exchange-traded funds (ETF), denominated in an authorized foreign currency or in pesos for the purposes outlined in Article 184 of the SML, which are eligible to be placed and traded on the local securities exchanges;

- Stocks of foreign corporations, denominated in an authorized foreign currency or in pesos for the purposes outlined in Article 184 of SML; and

• Foreign securities certificates for which the underlying assets are any of the above instruments, where the certificate is denominated in an authorized foreign currency or in pesos.

The main requirements and conditions applicable to the trading and settling in pesos of the abovementioned foreign securities are summarized below:

• The foreign securities must have been placed in a foreign or local securities market and be eligible to be publicly offered on the securities exchange in the issuer's country or in other international securities markets. In the case of foreign securities certificates, this requirement applies to the underlying foreign securities.

• They must be listed with the Foreign Securities Register maintained by the Superintendence of Securities and Insurance.

• The countries in which the issuers of the foreign securities are established must be members of the Financial Action Task Force (FATF) or an equivalent regional intergovernmental organization; they cannot be considered noncooperative countries or territories by these organizations nor figure on the list of "countries or territories considered to be tax havens or harmful preferential tax regimes."

• The foreign securities must be negotiated and purchased on securities exchanges governed by the provisions of the Securities Market Law, which addresses the public offer of foreign securities in the country in Title XXIV, subject to the general regulations and supervision of the Superintendence of Securities and Insurance.

• The foreign securities subject to the authorization in question must be maintained in custody by a private securities custodian or depository pursuant to Law 18,876. The securities custodian or depository can either perform the custody directly or delegate it to the corresponding local securities broker, in accordance with the instructions issued by the Superintendence and the exchange to which it belongs.

• Subject to this authorization, the trading and settlement in pesos of foreign securities that meet the stipulated requirements and conditions will not be considered foreign exchange operations. However, the payments, remittances or dispositions of funds associated with the purchase and sale of foreign securities overseas in order to sell then in the local market, by people who are resident or domiciled in Chile, will be considered foreign exchange operations.

• Similarly, investments in foreign securities that are traded and payable in pesos in the local securities market, by people who are resident or domiciled overseas, will be subject to the foreign exchange regulations in force at the time of the transaction, and the investors must use currency acquired overseas to carry out the aforementioned operations in the local market.

• It is explicitly established that this authorization can be modified or rescinded by the Central Bank of Chile.

• This authorization goes into effect on 5 May 2014. The text of Board Resolution 1820-03140430 is available online at http://www.bcentral.cl/normativa/acuerdos/index.htm

9 December

The Central Bank of Chile published the definitive modification to Chapter III.J.3 of the Compendium of Financial Regulations, which introduces a new regulation on prepaid bank cards. The regulation incorporates some of the comments submitted by the industry and other regulatory agencies on the modification proposal, which was published for public consultation on 6 June of this year.

The objective of the change is to adjust and update regulatory requirements that may be inhibiting the development of this means of payment, as prepaid cards could be a useful tool for financial inclusion. At the same time, the regulations seek to avoid the introduction of additional risks for the retail payments system. They also aim to increase the consistency between some of the definitions and requirements in this chapter and those covered in Chapter III.J.1, which regulates the issue and operation of credit cards; therefore, some requirements were harmonized and standardized. The main modifications are as follows:

i. Clarification that the goods subject to regulation are prepaid systems, whose transactions are carried out using different technologies that do not necessarily require a physical card or other device.

ii. Elimination of the requirement of prior authorization by the Central Bank for issuing and operating of this type of card.

iii. Authorization for nonbank firms that already operate credit or debit cards to also operate prepaid cards, without the imposition of additional requirements, unless they directly assume the issuer's payment responsibility.

iv. An increase in the limit on the issue of anonymous disposable cards, from the current Ch$50,000 to Ch$100,000.

v. Authorization to use personalized prepaid cards overseas.

vi. Elimination of the requirement that the issuer must be the one to enroll commercial establishments in its program, opening the possibility that this proccedure can be performed by authorized operators.

vii. Allowance for this type of card to be purchased from remote platforms that have adequate mechanisms for establishing and verifying the identity of the cardholder, who cannot accumulate a balance of over Ch$500,000.

viii. Allowance for legal persons to purchase personalized cards for a list of appropriately identified natural persons. This could be useful for private firms that want to provide benefits to their employees, and potentially for the delivery of social welfare benefits by the public sector.

ix. Incorporation of various mechanisms to prevent this type of card from being used for money laundering, including the definition of policies by the board of directors of banks that issue the cards.

More details on the regulations can be found online at http://www.bcentral.cl/prensa/otros/pdf/09122014_comentariosIIIJ3a.pdf. A second document containing a summary of the public comments received during the period of public consultation is available at http://www.bcentral.cl/prensa/otros/pdf/09122014_comentariosIIIJ3b.pdf.

29 December

The Central Bank of Chile modified its regulations on operations processed by the automatic teller machine (ATM) clearing house, in order to allow banks to process cash withdrawals made at non-ATM terminals.

The ATM clearing house determines and settles interbank payments originating in user transactions at ATMs.

This clearing house is regulated by Chapter III.H.3 of the Compendium of Financial Regulations (CNF) of the Central Bank of Chile. The amounts that are determined in the clearing house are later cleared through the Central Bank's RTGS system. Settlement involves determining the payments that have to made between banks when a card issued by bank A makes a withdrawal at an ATM operated by bank B, and vice versa. Clearing refers to the cash transfers through which the banks close out their obligations with other banks.

The Board decided to adjust this regulation on 24 December, in order to allow this clearing house to settle cash withdrawals from alternative, non-ATM terminals. This measure will enter into effect immediately following its publication in the *Official Gazette*, scheduled for today 29 December.

Thus, the ATM network will absorb the other terminals or service centers provided by banks or financial services companies in their branches or offices, and the associated transactions can be settled in the clearing house.

This modification takes into account an initiative proposed by the Association of Banks and Financial Institutions.

The Superintendence of Banks and Financial Institutions gave the Central Bank of Chile its endorsement of the regulatory change described above.

30 December

On 24 December 2014, the Board of the Central Bank of Chile, in the exercise of its legal authority, approved the instructions for the rectification of information on the foreign exchange operations associated with the declaration of offshore goods or income by taxpayers domiciled or resident in Chile who opt for the voluntary or extraordinary declaration scheme established in Transitory Article 24 of Law 20,780 on the Tax Reform (also known as repatriation of capital).

In accordance with that legislation, taxpayers who opt for this scheme, in addition to filing the declaration and paying the corresponding tax, must comply with the obligations imposed by the Central Bank on foreign exchange operations, in relation to the goods or income declared to the Chilean Internal Revenue Service. This rectification requirement will apply to the extent that the foreign exchange operations associated with these goods or income, corresponding to foreign investments, deposits or credits, have not been duly reported to the Bank or were only partially or approximately reported.

For this purpose, the taxpayer must file a request for rectification with the Central Bank of Chile. The request must include a sworn statement on the veracity and accuracy of the information reported, using the specified letter format and the provided form, available online at http://www.bcentral.cl/normativa/cambio-internacional/manual-procedimiento/index.htm (in the new annex 6 of Chapter I of the Manual of Reporting Procedures and Forms of the Compendium of Foreign Exchange Regulations, incorporated via Circular 934 of 30 December 2014).

The request for rectification must be filed within the first ten business days of the month after the corresponding declaration was filed with the IRS and the one-time tax was paid as established in Transitory Article 24 of Law 20,780. If the declaration was filed with the IRS for the indicated tax purposes but the tax assessed by that agency was not paid, for whatever reason, then the period for filing the request for rectification of foreign exchange information with the Central Bank will be the first ten business days in the month after the tax should have been paid. The request, with necessary information, must be submitted in a sealed envelope indicating the name of the taxpayer and identifying the contents of the envelope as a report filed in accordance with Transitory Article 24 of Law 20,780.

The Board also issued instructions on the optional entry into the country of the declared goods or income, in foreign currency, which must be carried out using banks established in Chile, either simultaneously or subsequent to the rectification of the aforementioned foreign exchange information. Finally, the Board established additional provisions for the adequate implementation of the special tax regime in the area of foreign exchange operations.

These instructions will be applied in relation to the voluntary declaration scheme effective 1 January 2015 through 31 December 2015.

The resolution was published today in the *Official Gazette*, and is also available online at www.bcentral.cl.

III. MAIN MEASURES TAKEN BY THE CENTRAL BANK OF CHILE IN 2014

January

2

Through Resolution 1796-03-140102, the Board decided to publish for public consultation, by the market and the general public, the proposal for authorizing the trading and settlement in national currency of foreign securities eligible for public offer in the local market, in accordance with the terms of Article 184 of Law 18.045, on the Securities Market.

7

The Central Bank of Chile reported that at its regular session on 28 November 2013, the Board approved the 2014 Debt Plan, as specified in Resolution 1788–02–131128. According to the Debt Plan, in 2014 the Central Bank will not issue debt instruments in the primary market at maturities of two years or longer.

The Debt Plan is subject to change in the event of significant changes in market conditions.

16

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

February

17

Through Resolution 1803E-01-140217, the Board appointed Mr. Enrique Marshall Rivera to the position of Deputy Governor of the Board and of the Central Bank of Chile, effective immediately through 23 December 2015, inclusive, which is the end of his term of appointment as Board Member.

The Board further determined that, for the purposes of the provisions contained in the first paragraph of Section 12 of the Basic Constitutional Act governing the Central Bank, in the event of vacancy, absence or inability of the Governor to exercise his functions, and in the absence of the Deputy Governor, the position of Governor of the Central Bank and its Board will be filled by the Board Member with the longest service on the Board.

18

At its monthly monetary policy meeting, the Board decided to cut the monetary policy interest rate by 25 basis points, to 4.25% in annual terms.

March

13

At its monthly monetary policy meeting, the Board decided to cut the monetary policy interest rate by 25 basis points, to 4.0% in annual terms.

20

Through Resolution 1810-01-140320, the Board modified Chapter VI of the Compendium of Foreign Exchange Regulations to incorporate a commission on reimbursement requests processed by the Central Bank of Chile for authorized local institutions, in association with instruments eligible to be routed through the *Aladi* Reciprocal Payment and Credit Agreement. At the same time, the Board established that new provisions that will enter into effect 30 calendar days after the publication of this resolution in the *Official Gazette* on 24 March 2014.

20

Through Resolution 1810-02-140320, the Board granted the authorization requested of the Central Bank of Chile, in accordance with the provisions of Article 76 of the General Banking Law, for the *Banco de Crédito e Inversiones* (*BCI*) to make an investment overseas consisting in the acquisition of up to 99.99% of the equity of the City National Bank of Florida (CNB), a bank established in the State of Florida in the United States of America, through the purchase of up to 100% of the shares of the foreign corporation CM Florida Holdings, Inc.

The authorization was granted after considering, among other factors identified in the respective resolution, the information provided for this purpose by the Superintendence of Banks and Financial Institutions (SBIF) in Ordinary Official Letter 277, dated 17 February 2014, on the scope of authorizations covered under the aforementioned Article 76, and the financial data and information on the risks involved in the proposed investment by *BCI* in CM Florida Holdings, Inc., and CNB; including data obtained by the supervisor in the framework of the information exchange process with the Office of the Comptroller of the Currency (OCC), with whom the Superintendent maintains a current Cooperation Agreement signed on 19 June 1998 and which is part of the Board of Governors of the U.S. Federal Reserve System (the Fed).

The authorization conferred by the Central Bank of Chile is granted with the understanding that the foreign bank affiliate, which is the object of the investment in question, does not undertake activities that are prohibited of Chilean banking entities under the General Banking Law, taking into account, in particular, the class of affiliates that are eligible for investment authorization, as well as operations involving securities and financial instruments that they themselves develop.

April

10

Through Resolution 1816-01-140410, the Board accepted the fiscal agent assignment entrusted to the Central Bank through Executive Decree 38 of 16 January 2014, from the Ministry of Finance, to represent and act in the name and on the account of the General Treasury in the placement and administration of the Treasury bonds identified in the Decree.

10

Through Resolution 1816-02-140410, the Board of the Central Bank of Chile appointed Mr. Rodrigo Andrés Cerda Norambuena to the position of full member on the Technical Investment Board covered under Title XVI of D.L. 3500 of 1980, to replace Mr. Luis Felipe Céspedes Cifuentes, for the period remaining in the original appointment, ending on 10 June 2016.

17

At its monthly monetary policy meeting, the Board decided to hold the monetary policy interest rate at 4.0% in annual terms.

24

Through Resolution 1818-03-140424, taking into account the provisions of Law 20,712 on the Management of Third-Party Funds and Individual Portfolios, published in the *Official Gazette* on 7 January 2014, whose Article 3 incorporates modifications to the Income Tax Law, contained in Article 1 of Decree Law 824 of 1974, effective 1 May 2014, the Board has put on record the following:

"With regard to bonds issued by the Central Bank of Chile (henceforth "the Bank") in accordance with Chapter 1.1 of Part One of the Compendium of Monetary and Financial Regulations, or pursuant to the former Chapter IV.E.1 of Compendium of Financial Regulations of the Bank, which are covered under the provisions of Article 104 of the Income Tax Law which is to be replaced by Law 20,712, the Board puts on record that with regard to the regulatory provisions in number 6 of the aforementioned Chapter 1.1 and former Chapter IV.E.1, the Bank will comply, when applicable, with the withholding requirements stipulated for bond issuers in Article 74 N° 7 of the current Income Tax Law, legislation that will be replaced by Law 20.712 effective 1 May 2014, taking into account that the annual declaration and payment of the withholding tax must be made by the issuer in accordance with Article 79 of the Income Tax Law, exclusively in relation to the 2014 accounting period during which Article 74 N° 7 is in force, prior to being replaced.

For this purpose, in accordance with the modifications to be incorporated in the aforementioned Article 74 N° 7, and taking into account the relevant issue conditions, with regard to the aforementioned debt instruments, the Bank will deduce, on remitting the payment of the first semi-annual coupon after 30 April 2014, the portion corresponding to 4% of the value of the interest paid by the bonds in the 2014 accounting period, for the time in which Article 74 N° 7 was in effect prior to being replaced, that is, through 30 April 2014 inclusive, with the understanding that the withholding obligation associated with the coupon has been fully and promptly fulfilled, in terms of the Bank's role as the issuer of the bonds. In the case of redemption of the bonds, the collection and payment of the semi-annual coupon will incorporate the deduction of the aforementioned interest.

Notwithstanding the above, in accordance with the aforementioned issue conditions and pursuant to the stipulations of paragraph 3 of Article 20 N° 2 that will enter into effect on 30 April 2014, in relation to Article 79 of the Income Tax Law, during the month of January 2015, the Bank will inform investors who are not taxpayers for the purposes of the withholding tax covered under Article 74 N° 7 of the Income Tax Law, which will be in effect until the entry into force of Law 20,712, of the portion corresponding to 4% of the interest paid by the bonds in the 2014 accounting period, for the time in which the bonds have been the property of the respective investor and in which the aforementioned provisions of the Income Tax Law are effective, that is, through 30 April 2014, inclusive. The foregoing is subject to the condition that the investor has expressly requested this treatment in writing, via a sworn statement as established in the second paragraph of Article 74 N° 7 of the Income Tax Law, submitted in the form and at the time indicated by the Chilean Internal Revenue Service, together with the other documents required by the Bank in order to verify the period in which the instruments in question have been the property of the investor.

For the determination of the amount to be reported, the Bank will use the value of the UF (*unidad de fomento*) or the value of the exchange rate on 31 December 2014, as specified in the second paragraph of Article 44 of the Basic Constitutional Act, as applicable for BCU or BCD bonds, respectively. The Central Bank of Chile will ensure timely compliance with the legal obligations stipulated in Article 74 N° 7 of the Income Tax Law, with regard to its Article 79, as well as other tax-related obligations established for issuers with regard to the debt instruments covered under the provisions of the aforementioned Article 104 prior to 1 May 2014, for which purpose the investors must provide the information required by the IRS with regard to the corresponding tax regime."

24

Through Resolution 1818-04-140424, the Board modified Chapter III.F.4 of Compendium of Financial Regulations in order to incorporate Dominion Bond Rating Services Ltd. (DBRS) among the international rating agencies that the Central Bank of Chile considers for the investment of its own resources, for the purposes of D.L. 3500 of 1980; and updated the appendix to Chapter III.F.5 of the same compendium.

28

Through Resolution 1819E-01-140428, the Board provided the President of the Republic with a short list of candidates for the positions of Judge / Legal Counsel and Judge / Economist on the Competition Tribunal (*Tribunal de Defensa de la Libre Competencia,* or *TDLC*). Based on the short list submitted by the Bank, through Executive Decree 139 from the Ministry of Economy, Development and Tourism, dated 12 May 2014, published in the *Official Gazette* on 13 June 2014, the President of the Republic appointed Mr. Javier Alonso Tapia Canales as Judge / Legal Counsel and Mr. Eduardo Humberto Saavedra Parra as Judge / Economist, for a period of six years starting on 12 May 2014.

The short lists of candidates were drawn up following a public call for nominees under the terms of candidature approved by the Board via Resolution 1798-01-140116 on 16 January 2014, applicable to public calls for nominees coordinated by the Bank in accordance with D.L. 211 of 1973.

30

Through Resolution 1820-03-140430, the Board appointed Mr. José Luis Cea Egaña as full member and President of the Audit and Compliance Committee of the Central Bank of Chile, for a period of three years starting on 16 June 2014.

30

Through Resolution 1820-03-140430, the Board granted authorization, as stipulated in the third paragraph of Article 184 of Law 18,045 on the Securities Market, for the trading and settlement in Chilean currency of foreign securities contained in that authorization, for the purpose of their public offer in Chile, in accordance with the requirements and conditions contained in the appendix of the resolution.

This authorization was granted on the basis that it will facilitate the development of a broader spectrum of investment alternatives and also allow the transactions associated with these instruments to be cleared and settled through central counterparties. The established conditions include the following: (i) that the instruments are eligible for public offer in the securities markets in the issuing country or other countries; (ii) that the issuer is domiciled in a country that is a member of the Financial Action Task Force (FATF) or an equivalent organization dedicated to combatting money laundering and terrorist financing and that is not on the list of noncooperative countries or tax havens; (iii) that the instruments are listed in the Foreign Securities Register maintained by the Superintendence of Securities and Insurance; and (iv) that they are traded on the exchange.

May

5

Through Resolution 1822E-01-140505, the Board provided the President of the Republic with a short list of candidates for the position of Alternate Judge / Legal Counsel on the Competition Tribunal. Through Executive Decree 161 from the Ministry of Economy, Development and Tourism, dated 23 June 2014 and published in the *Official Gazette* on 17 October 2014, the President of the Republic appointed Mr. Jaime Gustavo Arancibia Mattar as Alternate Judge / Legal Counsel for a period of six years effective 13 May 2014, based on the short list submitted by the Bank.

The short list of candidates was drawn up following a public call for nominees under the terms of candidature approved by the Board via Resolution 1798-01-140116, cited earlier.

8

Through Resolution 1823-03-140508, the Board modified the Compendium of Monetary and Financial Regulations with regard to the provisions of Law 20,712, with regard to the tax regime applicable to bonds issued by the Central Bank of Chile, covered under Article 104 of the Income Tax Law.

8

Through Resolution 1823-02-140508, the Board decided to publish for public consultation the proposal to modify Chapter III.B.2 del Compendium of Financial Regulations of the Central Bank of Chile, "Regulations on the Ratio of Asset to Liability Operations for Banks," in order to receive comments on the proposal from interested parties and the general public for a period of 120 calendar days from the date of digital publication on the institutional website.

The objectives of the regulation are as follows: (i) to strengthen liquidity risk management policies in the banking industry, allocating more responsibility to the board and management and establishing minimum criteria for the development of stress tests and contingency plans; (ii) to increase the quantity and quality of the information available to the supervisor and the market, through the inclusion of new monitoring variables, such as the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) from Basel III, and monitoring variables for different-quality liquid assets and concentration of funding sources; and (iii) to fine-tune the current regulatory requirements by adding requirements for aggregate maturity mismatches to complement individual requirements and providing guidelines for the treatment of bank affiliates overseas. Adjustments were also incorporated to standardize the criteria on the use of internal models (adjusted basis), in the spirit that similar flows have a similar treatment across banks.

Over and above these adjustments, for now they will not be incorporated into the current regulatory limits. Once the new regulation has entered into effect, the Superintendence of Banks and Financial Institutions and the Central Bank will be able to more precisely estimate the LCR and the NSFR. In addition to providing better-quality information at a shorter frequency, for example on high-quality liquid assets (HQLA) and funding sources, the information captured in the observation period (around one year) will support making the necessary adjustments and calibrations to enable, for example, the adoption of the LCR as a regulatory requirement, via a new modification of the regulation, and the further fine-tuning of the current limits.

15

At its monthly monetary policy meeting, the Board decided to hold the monetary policy interest rate at 4.0% in annual terms.

15

Through Resolution 1824-01-140515, the Board appointed the Alternate Judge / Economist on the Competition Tribunal. Subsequently, through Executive Decree 161, the President of the Republic named Mr. Jorge Ernesto Hermann Anguita as Alternate Judge / Economist for a period of six years effective 16 May 2014, in confirmation of the appointment made directly by the Central Bank following a public call for nominees under the terms of candidature approved by the Board via Resolution 1798-01-140116, cited earlier.

June

3

Through Resolution 1837-01-140703, the Board appointed Mr. Ricardo Vicuña Poblete to represent the Central Bank of Chile on the Board of the Chilean Copper Commission (*Cochilco*), for the period from 3 July 2014 to 24 October 2014, replacing Mr. Luis Óscar Herrera Barriga, in accordance with Article 4 of D.L. 1349 of 1976.

5

Through Resolution 1830-04-140605, the Board decided to publish for public consultation the proposal on modifications to the regulations contained in Chapter III.J.3 of the Compendium of Financial Regulations, "Issue and Operation of Prepaid Debit Cards." The objective of the changes is to adjust or update regulatory requirements that could be inhibiting the development of this means of payment, without introducing additional risks for the retail payment system.

12

At its monthly monetary policy meeting, the Board decided to hold the monetary policy interest rate at 4.0% in annual terms.

July

3

Through Resolution 1837-02-140703, the Board agreed to grant its endorsement of the SVS proposal to expand the type of foreign securities that can be traded over the counter, in accordance with the provisions of the third paragraph of Article 189 of Law 18,045 on the Securities Market.

15

At its monthly monetary policy meeting, the Board decided to cut the monetary policy interest rate by 25 basis points, to 3.75% in annual terms.

August

14

At its monthly monetary policy meeting, the Board decided to cut the monetary policy interest rate by 25 basis points, to 3.5% in annual terms.

14

Through Resolution 1844-02-140814, the Board appointed Ms. Beatriz Lorena Velásquez Ahern to replace Mr. Marcus Cobb Craddock as alternate representative on the National Commission on Price Distortions on Imported Goods, as stipulated in Article 9 of Law 18,525.

14

Through Board Resolution 1844-02-140814, Mr. Ignacio Casas Raposo was appointed to the position of full member of the Information Technology Advisory Committee of the Central Bank of Chile for a new period of three years, effective 1 August 2014. At the same time, Mr. Casas was also named President of the Committee for a new period of one year, effective on the same date.

September

11

Through Resolution 1851-02-140911, the Board authorized the brokerage firms ICB *Corredores de Bolsa S.A.* and *GBM Corredores de Bolsa Limitada* to operate in the Formal Exchange Market. These authorizations are contingent on the lodging of security by the brokers, as required under Chapter III of the Compendium of Foreign Exchange Regulations.

11

Through Resolution N° 1851-01-140911, the Board decided to modify the regulations governing its own functioning, to update the provisions on the preparation and publication of minutes on the adoption of resolutions by the Board, without affecting the press releases that are disseminated for informational purposes, either independently or jointly with minutes. The guidelines on participants at the monetary policy meetings held by the Board were also updated. The regulation and modifications were published in the *Official Gazette* and are also available on the Central Bank's website.

11

At its monthly monetary policy meeting, the Board decided to cut the monetary policy interest rate by 25 basis points, to 3.25% in annual terms.

October

16

At its monthly monetary policy meeting, the Board decided to cut the monetary policy interest rate by 25 basis points, to 3.0% in annual terms.

23

Through Resolution 1862E-01-141023, the Board renewed the appointments of Mr. Ricardo Vicuña Poblete and Mr. Michael Pedersen, as representatives of the Central Bank of Chile on the Board of *Cochilco*, for a period of two years effective 25 October 2014.

30

Through Resolution 1863-01-141030, the Board approved the rules governing the Public Agenda Records and the Registry of Lobbyists and Special Interest Representatives maintained by the Central Bank of Chile, for compliance with Law 20,730. The General Manager was given the authority to implement the acts, to issue the necessary instructions and recommendations for the application of the aforementioned rules and to sign any necessary agreements with the Transparency Board, as covered under Law 20,730.

November

18

At its monthly monetary policy meeting, the Board decided to hold the monetary policy interest rate at 3.0% in annual terms.

December

4

Through Resolution 1870-05-141204, the Board approved the new Chapter III.J.3 of Compendium of Financial Regulations, on the Issue and Operation of Prepaid Debit Cards.

This new chapter adjusts and updates the regulatory requirements that may have been inhibiting the development of this payment means, as prepaid cards could be a useful tool for financial inclusion. At the same time, the regulations seek to avoid the introduction of additional risks for the retail payments system, in line with the institutional objective of safeguarding the normal operation of internal and external payments in the economy. They also aim to increase the consistency between some of the definitions and requirements in this chapter and those covered in Chapter III.J.1, which regulates the issue and operation of credit cards; therefore, some requirements were harmonized and standardized.

11

At its monthly monetary policy meeting, the Board decided to hold the monetary policy interest rate at 3.0% in annual terms.

24

Through Resolution 1875-01-141224, the Board issued instructions for the rectification of foreign exchange operations and the optional entry of foreign capital associated with the declaration scheme for foreign goods and income held overseas, established in Transitory Article 24 of Law 20,780.

In accordance with this legislation, taxpayers who opt for this scheme, in addition to filing the declaration and paying the corresponding tax, must fully comply with the obligations imposed by the Central Bank on foreign exchange operations, in relation to the goods or income declared to the Chilean Internal Revenue Service. This rectification requirement will apply to the extent that the foreign exchange operations associated with these goods or income, corresponding to foreign investments, deposits or credits, have not been duly reported to the Bank or were only partially or approximately reported.

24

Through Resolution 1875-06-141224, the Board modified Chapter III.H.3 of the Compendium of Financial Regulations, on Clearing House Operations involving automatic teller machines in the country, to allow cash withdrawals from alternative non-ATM terminals to be cleared through this clearing house.

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 the Bank's 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.

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.

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

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 four months. Investments can also be made in bills, bonds, discount notes, floating-rate notes, U.S. commercial papers and STRIPS[2]/, with a residual maturity of up to one year, from eligible issuers that represent sovereign, supranational and agency risk. Investments are also allowed in deposits with a maturity of up to three months proved that they do no exceed 10% more portfolio. 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.

[2]/ Separate Trading of Registered Interest and Principal Securities.

Table 1

BENCHMARK STRUCTURE FOR THE INTERNALLY MANAGED INVESTMENT PORTFOLIO

		Tranche (years)	% over internally managed portfolio	% over subportfolio	Duration (months)	Benchmark indices
Short-term liquidity	USD	0-1	24.7	100.0	4.0	Merrill Lynch U.S. Treasury Bills (unhedged)
	Total		**24.7**	**100.0**	**4.0**	
Medium-term liquidity	USD	1-3	22.0	35.1	22.4	Barclays Global - Aggregate Treasuy Bond Index (Unhedged) (EUR, Germany only)
		3-5	2.5	3.9	46.6	
		Total	24.5	39.0	24.8	
	EUR	1-3	20.3	32.4	20.1	
		3-5	2.3	3.6	44.0	
		Total	22.6	36.0	22.5	
	CAD	1-3	8.5	13.5	20.6	
		3-5	0.9	1.5	45.0	
		Total	9.4	15.0	23.0	
	AUD	1-3	5.7	9.0	22.7	
		3-5	0.6	1.0	41.6	
		Total	6.3	10.0	24.6	
	Total		**62.7**	**100.0**	**23.7**	
Diversification (internal)	CHF	5-7	1.8	14.1	66.9	Barclays Global - Aggregate Treasuy Bond Index (Unhedged)
		7-10	0.2	1.9	90.5	
		Total	2.0	16.0	69.6	
	GBP	5-7	1.7	13.2	63.3	
		7-10	0.2	1.8	88.4	
		Total	1.9	15.0	66.2	
	JPY	5-7	2.2	17.7	67.7	
		7-10	0.3	2.4	97.3	
		Total	2.5	20.0	71.2	
	KRW	5-7	1.7	13.2	63.1	
		7-10	0.2	1.8	87.9	
		Total	1.9	15.0	66.0	
	NZD	5-7	1.3	10.6	62.2	
		7-10	0.2	1.4	80.4	
		Total	1.5	12.0	64.3	
	SGD	5-7	0.8	6.2	66.6	
		7-10	0.1	0.8	91.3	
		Total	0.9	7.0	69.5	
	CNH	3 month	1.9	15.0	1.5	Bloomberg CGDRC Curncy Index
	Total		**12.6**	**100.0**	**58.0**	
Total internally managed portfolios			**100.0**		**23.1**	

Source: Central Bank of Chile.

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 fixed- and floating-rate notes, nominal bonds, inflation-indexed bonds and STRIPS, with not restriction on residual maturity, 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. This portfolio allows investments in currencies that are not included in the benchmark, provided they are hedged against one of the benchmark currencies.

The diversification portfolio represents 15% of the investment portfolio, and its benchmark 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 58 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 average monthly ex ante tracking error of 100 basis points (bp) per year[3]/, which cannot exceed 150 bp at any given time. 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.

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 2014

As of 31 December 2014, the investment portfolio stood at US$34.3972 billion, while the cash portfolio held US$4.3508 billion. Taking the sum of these two portfolios plus other assets[4]/, total international reserves closed the year at US$40.4469 billion. This balance was US$646.7 million less than at year-end 2013. The decrease is explained by a reduction in the investment portfolio of US$1.0777 billion, an increase in the cash portfolio of US$662.8 million and a reduction in the other assets portfolio of US$231.8 million. In the case of the investment portfolio, the drop is mainly explained by the depreciation of all the currencies in which the international reserves are invested against the

[3]/ 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.
[4]/ The other assets portfolio is mainly composed of special drawing rights (SDRs) and the IMF reserve position.

U.S. dollar, where the largest depreciation was recorded by the euro and the yen (12%), followed by the Swiss franc (10%), the Canadian dollar (9%) and the Australian dollar (8%). The negative return deriving from the exchange rate effect when the value of the reserves is measured in U.S. dollars was partially offset by interest earned in the period. For the cash portfolio, the increase is explained by greater 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$8.3884 billion was in the short-term liquidity portfolio, US$20.7058 billion was in the medium-term liquidity portfolio, US$5.1804 billion was in diversification portfolio and US$19.3 million was in current accounts. At year-end, there were also investments in onshore Chinese government bonds, through investments in a BIS Investment Pool denominated in renminbi (BISIP CNY), for a total of US$103.2 million. 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$33.4288 billion in the internally managed portfolio, 89.8% was invested in sovereign risk, 4.8% in supranational risk[5]/, 1.0% in agency risk[6]/, and 4.4% in bank risk. Sovereign risk includes investments in the United States (38.3%), Germany (23.4%), Canada (10.6%), France (7.9%), Australia (6.0%), Belgium (3.0%), the United Kingdom (2.1%), South Korea (2.1%), Japan (1.8%), New Zealand (1.6%), Singapore (1.0%), Finland (1.0%), Austria (0.8%) and China (0.4%). Supranational risk is made up entirely of issues by the International Finance Corporation (IFC), the European Investment Bank (EIB) and the Bank for International Settlements (BIS). Agency risk is concentrated in issues from Freddie Mac (United States) and Landwirtschaftliche Rentenbank (Germany). Finally, bank risk comprises deposits denominated in U.S. dollars and renminbi in banks in Australia, China, Denmark, Germany, Japan, Singapore, Switzerland and the United Kingdom. The share of bank risk has increased since year-end 2013, offset by a reduction in agency risk.

The cash portfolio stood at US$4.3508 billion at year-end 2012.

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

[5]/ Supranational institutions are multilateral financial institutions, whose articles of agreement are signed by the governments of two or more countries.
[6]/ 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	2013		2014	
		Dec.	%	Dec.	%
Investment portfolio		**35,474.8**	**86.3**	**34,397.2**	**85.0**
Currencies and deposits	U.S. dollar	4.5	0.0	712.0	1.8
	Euro	0.8	0.0	1.4	0.0
	Canadian dollar	0.5	0.0	0.1	0.0
	Australian dollar	0.4	0.0	0.2	0.0
	Other	826.2	2.0	733.7	1.8
Securities	U.S. dollar	16,794.3	40.9	16,421.6	40.6
	Euro	7,713.2	18.8	7,886.7	19.5
	Canadian dollar	3,244.7	7.9	3,093.1	7.6
	Australian dollar	2,408.0	5.9	2,014.4	5.0
	Other	4,482.3	10.9	3,534.0	8.7
Total	U.S. dollar	16,798.8	40.9	17,133.6	42.4
	Euro	7,714.0	18.8	7,888.1	19.5
	Canadian dollar	3,245.2	7.9	3,093.2	7.6
	Australian dollar	2,408.4	5.9	2,014.6	5.0
	Other	5,308.5	12.9	4,267.6	10.6
Cash portfolio		**3,688.0**	**9.0**	**4,350.8**	**10.8**
Currencies and deposits	U.S. dollar	3.688.0	9.0	4,350.8	10.8
Other assets		**1,930.8**	**4.7**	**1,698.9**	**4.2**
Monetary gold	Other	9.6	0.0	9.4	0.0
IMF SDRs	Other	1,147.1	2.8	1,079.1	2.7
IMF reserve position	Other	640.7	1.6	489.7	1.2
Reciprocal credit agreements	U.S. dollar	132.5	0.3	119.4	0.3
Currencies and deposits	U.S. dollar	0.8	0.0	1.3	0.0
Total international reserves		**41,093.7**	**100.0**	**40,446.9**	**100.0**
	U.S. dollar	20,620.2	50.2	21,605.2	53.4
	Euro	7,714.0	18.8	7,888.1	19.5
	Canadian dollar	3,245.2	7.9	3,093.2	7.6
	Australian dollar	2,408.4	5.9	2,014.6	5.0
	Other	7,106.0	17.3	5,845.9	14.5

Source: Central Bank of Chile.

Table 2b

INVESTMENT PORTFOLIO: INVESTMENTS BY CURRENCY

(percent as of 31 December 2014)

Currency	Share (*)
U.S. dollar	48.1
Euro	23.6
Canadian dollar	9.0
Australian dollar	6.1
Japanese yen	2.9
Swiss franc	0.4
South Korean won	2.3
Chinese renminbi	2.5
Pound sterling	2.3
New Zealand dollar	1.8
Singapore dollar	1.0
Total	**100.0**

(*) the share includes currency forwards.

Source: Central Bank of Chile.

C. External portfolio management program

In 2014, 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$968.4 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 the same risk budget defined for the internally managed portfolio.

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

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 (primarily overnight deposits) and the short-term liquidity portfolio.

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).

Table 3

COMPOSITION OF INTERNATIONAL RESERVES BY CREDIT RISK (1) (2) (3) (4)

(percent as of 31 December 2014)

Type of credit risk	Credit rating						
	AAA	AA+	AA	AA-	A+	A	Total
Agency	1.0	0.0	0.0	0.0	0.0	0.0	**1.0**
Bank	0.9	0.0	0.0	1.2	1.2	1.1	**4.4**
Sovereign	71.6	9.0	4.3	2.2	2.6	0.0	**89.8**
Supranational	4.8	0.0	0.0	0.0	0.0	0.0	**4.8**
Total	**78.3**	**9.0**	**4.3**	**3.4**	**3.9**	**1.1**	**100.0**

(1) Bank risk is related to investment in banks' financial instruments (deposits).
Sovereign risk is related to investment in instruments from sovereign states (deposits, bills and nominal bonds). Includes investments in a BIS Investment Pool denominated in renminbi, associated with Chinese sovereign risk.
Agency risk is associated with investment in instruments from U.S. and German government agencies (bills and nominal bonds).
Supranational risk is associated with investment in instruments from an official multilateral issuer (deposits, bills and nominal bonds).
(2) For sovereign risk, the credit rating corresponds to the average rating from Fitch, Moody's, Standard and Poor's and Dominion Bond Rating Service.
(3) For agency, bank and supranational risk, the credit rating corresponds to the average rating from Fitch, Moody's and Standard and Poor's.
(4) Excluding the cash and other assets portfolios.

Source: Central Bank of Chile.

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).

Table 4

FINANCIAL INSTITUTIONS WITH OUTSTANDING DEPOSITS AS OF 31 DECEMBER 2014 (*)

(US$ million)

AAA, AA and AA-	Australia & New Zealand Banking Group Ltd.	
	Bank of Montreal	
	HSBC Bank Plc	
	HSBC France	
	Oversea-Chinese Banking Corp Ltd.	
	Rabobank Nederland	
	The Bank of Nova Scotia	
	Wells Fargo Bank, NA	
	Westpac Banking Corporation	
	Zurcher Kantonalbank	
	Minimum	23
	Maximum	697
	Category average	349
A+ and A	Bank of China (Hong Kong) Ltd.	
	BNP Paribas Fortis SA/NV	
	Credit Agricole Corporate and Investment Bank	
	DekaBank Deutsche Girozentrale	
	DnB NOR Bank ASA	
	Lloyds Bank Plc	
	Natixis	
	Nykredit Bank A/S	
	Santander UK PLC	
	Société Générale	
	Standard Chartered Bank	
	Sumitomo Mitsui Banking Corporation	
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	
	The Chiba Bank, Ltd.	
	The Norinchukin Bank	
	Minimum	14
	Maximum	322
	Category average	141

Table 5

ELIGIBLE BANKS AND PERMISSIBLE LIMITS AS OF 31 DECEMBER 2014

(US$ million and months)

Country	Bank	Amount	Duration
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
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 Ltd.	432	9
Denmark	Danske Bank A/S	180	3
Denmark	Nordea Bank Danmark A/S	432	9
Denmark	Nykredit Bank A/S	180	3
Finland	Nordea Bank Finland PLC	432	9
France	BNP Paribas	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
Germany	DekaBank Deutsche Girozentrale	180	3
Germany	Deutsche Bank AG	180	3
Germany	DZ BANK AG Deutsche Zentral-Genossenschaftsbank	180	3
Germany	Landesbank Baden-Württemberg	180	3
Germany	Landesbank Hessen-Thüringen Girozentrale	180	3
Germany	NRW.BANK	432	9
Japan	Mizuho Bank Ltd.	180	3
Japan	Sumitomo Mitsui Banking Corporation	180	3
Japan	Sumitomo Mitsui Trust Bank Ltd.	180	3
Japan	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	180	3
Japan	The Chiba Bank, Ltd	180	3
Japan	The Norinchukin Bank	180	3
Japan	The Shizuoka Bank Ltd	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

Table 5 (*continued*)

ELIGIBLE BANKS AND PERMISSIBLE LIMITS AS OF 31 DECEMBER 2014

(value in US$ millions and months)

Country	Bank	Amount	Duration
Norway	DNB Bank ASA	180	3
Norway	Nordea Bank Norge ASA	432	9
Singapore	DBS Bank Ltd	432	9
Singapore	Oversea-Chinese Banking Corp Ltd.	432	9
South Korea	Standard Chartered Bank Korea Limited	180	3
Sweden	Skandinaviska Enskilda Banken AB (publ) (SEB)	180	3
Sweden	Svenska Handelsbanken AB (publ)	432	9
Sweden	Swedbank AB	180	3
Switzerland	Credit Suisse AG	180	3
Switzerland	UBS AG	180	3
Switzerland	Zurcher Kantonalbank	702	12
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 Bank PLC	180	3
United Kingdom	Santander UK PLC	180	3
United Kingdom	Standard Chartered Bank	180	3
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 2014

Intermediary
ANZ Securities Inc.
Bank of Nova Scotia, New York Agency
Barclays Bank PLC
Barclays Capital Inc.
Barclays Capital Securities Limited
BIS
BMO Capital Markets Corp.
BNP Paribas
BNP Paribas Securities Corp.
Caisse Centrale Desjardins
CIBC World Markets Corp.
Citigroup Global Markets Inc.
Citigroup Global Markets Limited
Commonwealth Bank of Australia
Crédit Agricole Corporate and Investment Bank
Crédit Suisse Securities
Crédit 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 Securities (USA) Inc.
J.P. Morgan Securities LLC.

(*continued*)

Intermediary
Jefferies International Limited
Jefferies LLC
JP Morgan Securities PLC
JPMorgan Chase Bank N.A.
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
Standard Chartered Securities Korea Limited
TD Securities (USA) LLC
UBS AG
UBS Limited
UBS Securities LLC
Westpac Banking Corporation

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 1.97% in 2014 (2.79% in 2013). The average tracking error was 10.65 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.

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

D.2 The return on foreign exchange reserve management

In 2014, the total return on reserve management was 1.65% measured in the currency of origin of the investments. Measured in U.S. dollars, the return was –2.94%. The return differential relative to the benchmark structure was 20.6 bp. For the 2005–2014 period, reserve management recorded an average return differential of 8.1 bp (table 7).

Table 7

ABSOLUTE RETURNS ON INTERNATIONAL RESERVES AND THE BENCHMARK (1) (2)

(percent)

Period	In currency of origin			In U.S.dollars		
	Int. Res.	BMK	Differential	Int. Res.	BMK	Differential
2014	1.65	1.52	0.13	-2.94	-3.14	0.21
2013	0.26	0.21	0.06	-0.71	-0.77	0.06
2012	0.66	1.01	-0.35	1.43	1.77	-0.35
2011	2.43	2.41	0.02	1.22	1.20	0.02
2010	2.10	2.19	-0.09	-0.15	-0.06	-0.09
2009	2.15	1.65	0.50	3.34	2.85	0.50
2008	5.70	5.37	0.33	4.14	3.81	0.33
2007	4.81	4.78	0.03	8.86	8.83	0.03
2006	2.45	2.39	0.06	6.84	6.78	0.06
2005	2.90	2.85	0.05	-1.72	-1.77	0.05
Average	**2.51**	**2.44**	**0.07**	**2.03**	**1.95**	**0.08**

(1) Excludes holdings of monetary gold, special drawing rights, IMF reserve position, reciprocal credit agreements and other reserve assets.
(2) Starting in 2014, the return is measured in currency of origin, which does not incorporate appreciations or depreciations of the currencies in the portfolio. In contrast, from 2005 to 2013, the return in currency of origin was approximated using a foreign exchange measure based on the basket of currencies in the benchmark, which is equivalent to the return in currency of origin for investments that replicate the benchmark.
Source: Central Bank of Chile.

D.3 Operating costs and the securities lending program

In 2014, the total operating costs of reserve management represented around 1.8 bp 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 2014, this program generated income for the Bank equivalent to 0.5 bp of total foreign exchange reserves. The absolute net return measured in dollars was –2.95% in 2014, while the differential net return was 19.3 bp (table 8).

Table 8

NET MANAGEMENT SUMMARY, 2014

	Return	Differential return	Management costs	Income from securities lending	Net differen-tial return	Net return
Total international reserves	−2.94	20.60	1.80	0.50	19.30	−2.95

Source: Banco Central de 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 General 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 management 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 (which was modified via Decree 1618), whereby the Central Bank is vested with the representation of the General 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

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 (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.

TABLE 1

BENCHMARK FOR THE ESSF PORTFOLIO MANAGED BY THE CENTRAL BANK

(percent)

Asset class	Share
Bank assets	16.2
Treasury bills and sovereign bonds	80.0
Inflation-indexed sovereign bonds	3.8

Source: Ministry of Finance.

For the PRF portfolio that is directly managed by the fiscal agent, the current investment policy establishes a portfolio composition made up of the following asset classes: nominal sovereign bonds and other related assets; and inflation-indexed sovereign bonds (table 2). The benchmarks for these assets are global indices provided by Barclays Capital.

TABLE 2

BENCHMARK FOR THE PRF PORTFOLIO MANAGED BY THE CENTRAL BANK

(percent)

Asset class	Share
Sovereign bonds and other related assets	73.8
Inflation-indexed sovereign bonds	26.2

Source: Ministry of Finance.

The ESSF and PRF investment 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 portfolio risks through risk budgets. The internally managed ESSF and PRF portfolios establish an ex ante tracking error of 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 4 and 5 at the end of this appendix).

D. Structure of fiscal portfolios

At year-end 2014, the market value of the ESSF and PRF portfolios managed directly by the fiscal agent was US$13.5463 and 5.1228 billion, respectively, which is invested in line with the benchmark composition established in the current investment guidelines (table 3).

TABLE 3

PORTFOLIOS MANAGED BY THE CENTRAL BANK

(as of 31 December 2014; US$ million)

Portfolio / Asset class	Market value (1)						Percent
	USD	EUR	JPY	CHF	Other (2)	Total	of total
ESSF							
Bank assets / Treasury bills and sovereign bonds	5,512.3	3,506.3	2,919.6	1,095.9	n/a	13,034.0	96.2
Inflation-indexed sovereign bonds	368.1	144.2	n/a	n/a	n/a	512.3	3.8
Total	**5,880.4**	**3,650.5**	**2,919.6**	**1,095.9**	**n/a**	**13,546.3**	**100.0**
PRF							
Sovereign bonds and other related assets	1,141.0	1,157.3	848.8	0.0	619.5	3,766.6	73.5
Inflation-indexed sovereign bonds	527.7	311.6	19.6	0.0	497.3	1,356.2	26.5
Total	**1,668.7**	**1,468.9**	**868.5**	**0.0**	**1.116.8**	**5,122.8**	**100.0**

Portfolio	Ex ante tracking error (bp)	Risk budget (bp)
ESSF	6.0	50.0
PRF	15.8	50.0

(1) These positions include currency forwards.
(2) 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. 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 2014, the ESSF resources managed internally by the Bank generated an absolute return measured in dollars of –2.17%, which implies a positive differential return of 1.4 basis points relative to the benchmark performance, where both returns are calculated using 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 0.69%, which implies a positive differential return of 29.0 bp relative to the benchmark performance. The appreciation of the U.S. dollar vis-à-vis the other investment currencies had a negative impact on the absolute return of both funds. In the case of the PRF, however, the greater exposure to interest rate risk and the higher accrued earnings offset the negative effect of the exchange rate movements.

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 1 March to 31 December 2014, The Ministry of Finance set the annual fee at US$802,573 for the ESSF and US$724,115 for the PRF[1]/. These amounts are consistent with the Central Bank's Basic Constitutional Act, which stipulates that the Bank shall not finance the General Treasury. The fees paid to the fiscal agent represent 0.6 and 1.4 bp of the total resources managed for the ESSF and PRF, respectively.

TABLE 4

FINANCIAL INSTITUTIONS WITH OUTSTANDING DEPOSITS

(as of 31 December 2014)

Institution
Australia & New Zealand Banking Group Limited
Bank Hapoalim BM
BNP Paribas
BNP Paribas Fortis SA/NV
Crédit Agricole Corporate and Investment Bank
Danske Bank A/S
DekaBank Deutsche Girozentrale
Deutsche Bank AG
HSBC France
ING Bank NV
KBC Bank NV
Landesbank Hessen-Thüringen Girozentrale
Mizuho Bank Ltd.
Natixis
Norddeutsche Landesbank Girozentrale
Nykredit Bank A/S
Rabobank Nederland
Santander UK PLC
Société Générale
Standard Chartered Bank
Svenska Handelsbanken AB (publ)
The Bank of Tokyo-Mitsubishi UFJ, Ltd.
The Chiba Bank, Ltd.

Source: J.P.Morgan N.A.

[1]/ La retribución anual al Agente Fiscal no considera los cobros realizados por los administradores externos de cartera debido a la gestión de sus respectivos portafolios.

TABLE 5

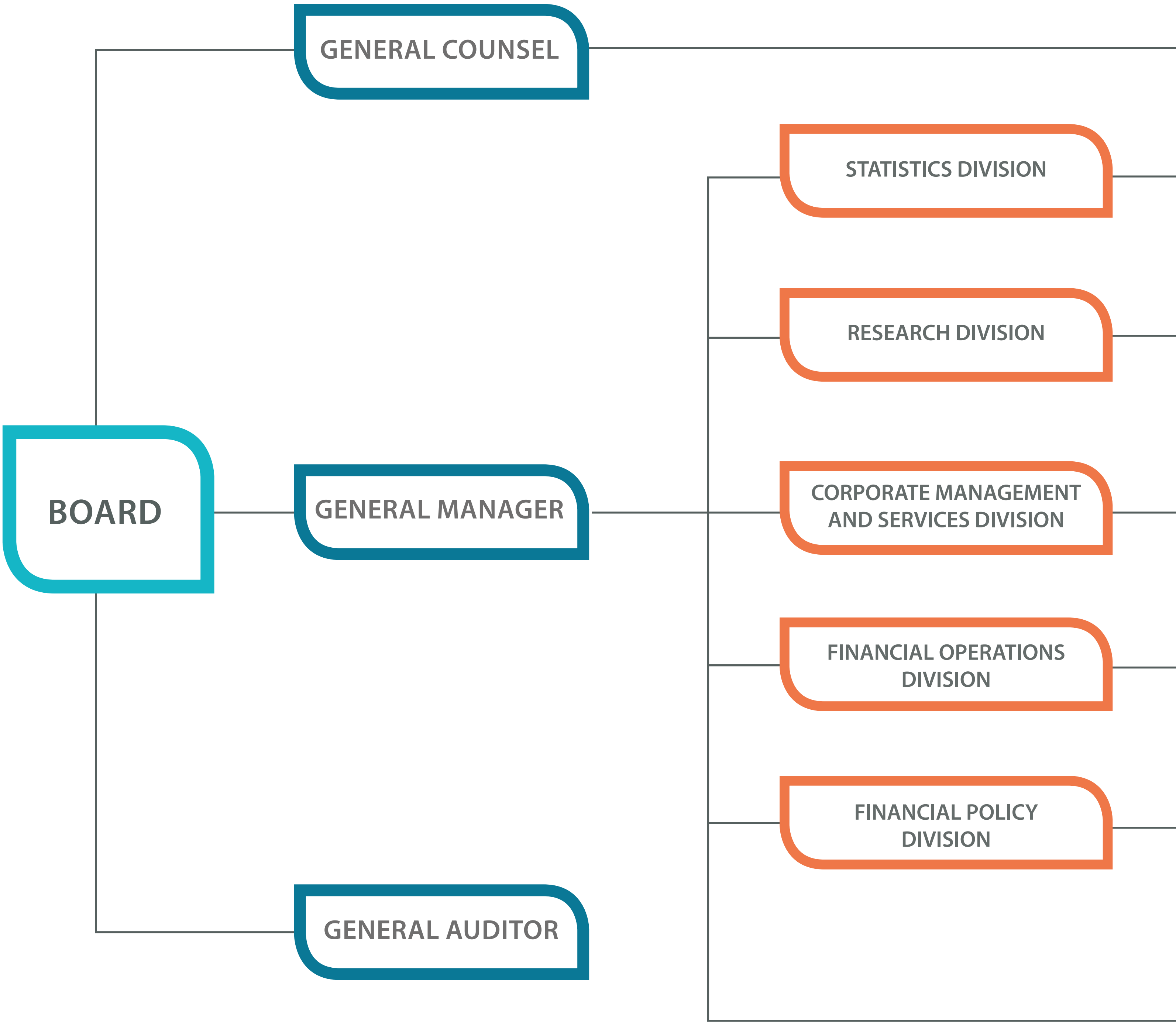
INTERMEDIARIES USED BY THE FISCAL AGENT IN 2014

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 Montreal, Toronto
Bank of Nova Scotia, London
Bank of Nova Scotia, New York
Barclays Bank PLC
Barclays Capital Inc.
BMO Capital Markets Corp.
BNP Paribas
BNP Paribas Fortis SA/NV
BNP Paribas Securities Corp., New York
BNP Paribas USA, New York
Caisse Centrale Desjardins, Montreal
Canadian Imperial Bank of Commerce, London
Canadian Imperial Bank of Commerce, Toronto
CIBC World Markets Corp.
Citibank NA, 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
Crédit Agricole Corporate and Investment Bank, London
Crédit Agricole Corporate and Investment Bank, New York
Crédit Suisse Securities (USA) LLC, New York
Crédit Suisse Securities, London
Daiwa Capital Markets America Inc.
Danske Bank A/S, Copenhagen
Dekabank Deutsche Girozentrale, Frankfurt
Deutsche Bank AG, Frankfurt
Deutsche Bank AG, London
Deutsche Bank AG, New York
Deutsche Bank Securities Inc.
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 NA, New York
HSBC France, Paris
HSBC Securities (USA) Inc., New York
ING Bank NV, Amsterdam
Jefferies International Ltd., London
Jefferies LLC
JP Morgan Chase Bank NA, London
JP Morgan Chase Bank NA, New York
JP Morgan Securities LLC, New York
JP Morgan Securities PLC
KBC Bank NV, Brussels
Landesbank Hessen-Thueringen, London
Merrill Lynch International
Merrill Lynch, Pierce, Fenner & Smith Incorporated
Mizuho Bank Ltd., London
Mizuho Bank Ltd., New York
Mizuho Securities USA Inc.
Morgan Stanley & Co. International PLC, London
Morgan Stanley & Co. LLC
National Australia Bank Ltd., Melbourne
National Bank of Canada Financial Inc., New York
National Bank of Canada, Montreal
Natixis, New York
Natixis, Paris
Nomura International PLC, London
Nomura Securities International Inc., New York
Norddeutsche Landesbank Girozentrale, London
NV Bank Nederlandse Gemeenten
Nykredit Bank A/S Copenhagen
Rabobank International, London
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
Santander UK, PLC
SG Americas Securities LLC
Societe Generale, Paris
Standard Chartered Bank, New York
Standard Chartered Securities Korea Limited, Seoul
Sumitomo Mitsui Banking Corporation, New York
Svenska Handelsbanken AB (publ), New York
TD Securities (USA) LLC
The Bank of New York Mellon, New York
The Bank of Tokyo-Mitsubishi UFJ, Ltd., London
The Chiba Bank, Ltd., London
The Royal Bank of Scotland PLC, London
The Toronto Dominion Bank, Toronto
UBS AG, London
UBS AG, Seoul
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
Westpac Banking Corporation, Wellington
Zurcher Kantonalbank, Zurich

Source: Central Bank of Chile.

ORGANIZATIONAL CHART

31 December 2014



CHIEF COUNSEL, NORMATIVE LEGAL SERVICES
CHIEF COUNSEL, CORPORATE LEGAL SERVICES

MACROECONOMIC STATISTICS
STATISTICAL INFORMATION

MACROECONOMIC ANALYSIS
MONETARY POLICY STRATEGY AND COMMUNICATION
ECONOMIC RESEARCH
ECONOMIC MODELING AND ANALYSIS

STRATEGIC AND OPERATIONAL RISK MANAGEMENT
SECURITY
LOGISTICAL SERVICES

INTERNATIONAL MARKETS
DOMESTIC MARKETS
FINANCIAL SERVICES

FINANCIAL STABILITY
FINANCIAL REGULATION AND INFRASTRUCTURE
FINANCIAL RESEARCH

INSTITUTIONAL AFFAIRS
COMMUNICATIONS
FINANCIAL RISK ASSESSMENT AND MANAGEMENT
INFORMATION SYSTEMS
HUMAN RESOURCES
TREASURY

04 FINANCIAL STATEMENTS

04

FINANCIAL STATEMENTS

STATEMENTS OF FINANCIAL POSITION AS OF 31 DECEMBER 2014 AND 2013

(Ch$ million)

Assets	Note	2014	2013
Foreign assets		24,715,475.6	21,653,565.9
Reserve assets	11	24,566,660.2	21,523,220.5
Monetary gold		5,716.7	5,050.3
Special drawing rights (SDR)		655,457.2	600,805.7
Reserve position in the IMF	12	297,408.7	335,578.0
Correspondent banks abroad	6	102,823.3	10,011.6
Investments in foreign currency:		23,431,932.7	20,501,943.4
Securities recorded at fair value through earnings		17,557,081.0	18,144,375.8
Held-for-sale securities		2,455,969.3	-
Held-to-maturity securities		3,418,882.4	2,357,567.6
Reciprocal loan agreements		72,535.4	69,397.1
Other assets	6	786.2	434.4
Other foreign assets		148,815.4	130,345.4
Shares of and contributions to the Inter American Development Bank (IDB)		111,819.7	96,425.1
Shares of Bank for International Settlements (BIS)		36,995.7	33,920.3
Domestic assets		853,784.4	1,853,189.6
Domestic loans	13	7,877.6	256.9
Loans to banks and financial institutions		7,877.6	256.9
Transactions under specific legal regulations	14	845,906.8	1,852,932.7
General Treasury transfers Law 18.401		280,354.5	265,355.6
Loan for subordinated liabilities of financial institutions (Laws 18.401 and 19.396)		565,552.3	649,521.0
Sinap Liquidation Law 18.900		1,036,259.0	938,056.1
Provision for accumulated impairment, Sinap Liquidation Law 18.900		(1,036,259.0)	-
Sinap Liquidation Law 18.900 (Net)		-	938,056.1
Other assets		57,000.0	53,866.8
Property, equipment and intangible assets	15	35,738.0	36,476.9
Other securities		18,588.5	16,073.9
Transition assets		2,673.5	1,316.0
Total assets		**25,626,260.0**	**23,560,622.3**

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

STATEMENTS OF FINANCIAL POSITION, CONTINUED AS OF 31 DECEMBER 2014 AND 2013

(Ch$ million)

Liabilities	Note	2014	2013
Foreign liabilities	16	777,118.6	710,092.8
Reciprocal loan agreements		8,233.3	4,629.7
Accounts with international organizations		50,189.3	46,455.0
Special drawing rights (SDR) allocations		718,696.0	659,008.1
Domestic liabilities		28,377,259.9	26,651,957.2
Monetary base	17	8,183,119.5	8,754,473.9
Banknotes and coins in circulation		7,578,075.9	6,917,607.4
Deposits from financial institutions (in Chilean pesos)		605,043.6	1,139,731.0
Deposits for technical reserve		-	697,135.5
Deposits and obligations	18	7,285,955.5	4,864,461.1
Deposits and obligations with General Treasury		1,301,785.2	384,665.8
Other deposits and obligations		5,984,170.3	4,479,795.3
Notes issued by Central Bank of Chile	19	12,908,184.9	13,033,022.2
Central Bank of Chile bonds in UF (BCU)		8,204,652.4	7,830,132.7
Central Bank of Chile bonds in Chilean pesos (BCP)		3,538,547.5	4,080,623.4
Central Bank of Chile discountable promissory notes (PDBC)		998,556.7	925,319.1
Optional indexed coupons (CERO) in UF		118,596.9	135,669.2
Indexed promissory notes payable in coupons (PRC)		47,810.3	61,256.7
Other		21.1	21.1
Other liabilities	20	16,356.0	18,880.6
Provisions		15,885.2	18,502.7
Other securities		470.8	377.9
Net equity		(3,544,474.5)	(3,820,308.3)
Capital		(3,819,595.3)	(4,478,737.6)
Other reserves		4,757.7	(713.0)
Profit (loss) for the year		270,363.1	659,142.3
Total liabilities and equity		**25,626,260.0**	**23,560,622.3**

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

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED AS OF 31 DECEMBER 2014 AND 2013

(Ch$ million)

	Note	2014	2013
Net income from international reserves	7	349,119.2	48,246.2
Income		543,973.7	366,332.7
Interest income		293,938.5	302,700.6
Gain on sale of instruments recorded at fair value through earnings		103,248.6	62,330.0
Gain on sale of available-for-sale securities		1,075.9	-
Fair value adjustments		144,358.4	-
Other		1,352.3	1,302.1
Expenses		(194,854.5)	(318,086.5)
Interest expenses		(30.6)	(4.8)
Loss on sale of instruments recorded at fair value through earnings		(187,889.8)	(248,275.9)
Fair value adjustments		-	(66,556.1)
Other		(6,934.1)	(3,249.7)
Net income (loss) from other foreign transactions	7	(954.0)	5,136.9
Income		1,268.1	7,137.1
Other income		1,268.1	7,137.1
Expenses		(2,222.1)	(2,000.2)
Interest expense		(650.9)	(588.1)
Other expenses		(1,571.2)	(1,412.1)
Net loss from domestic transactions	8	(927,754.4)	(755,512.7)
Income		178,468.0	130,002.1
Interest income and adjustments		174,847.8	127,347.9
Other income		3,620.2	2,654.2
Expenses		(1,106,222.4)	(885,514.8)
Interest expense and adjustments		(1,105,052.8)	(884,610.6)
Other expenses		(1,169.6)	(904.2)
Net gain (loss) on foreign exchange transactions	9	1,979,981.7	1,462,900.5
Gain on foreign exchange transactions		4,169,539.8	2,670,308.0
Loss on foreign exchange transactions		(2,189,558.1)	(1,207,407.5)
Issuance and distribution costs	10	(43,517.6)	(54,452.7)
Banknotes		(20,546.9)	(29,882.1)
Coins		(22,033.7)	(24,007.6)
Distribution		(937.0)	(563.0)

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

Continued

	Note	2014	2013
Personnel and administrative expenses		(46,801.1)	(43,761.5)
Personnel expenses		(29,797.7)	(27,891.8)
Administrative expenses		(15,721.4)	(14,440.5)
Provision for post-employment benefits		(1,282.0)	(1,429.2)
Other (expenses) and income		(1,039,710.7)	(3,414.4)
Depreciation and amortization	15	(2,876.9)	(2,782.4)
Taxes and contributions		(588.3)	(546.2)
Provision for accumulated impairment Sinap liquidation Law 18.900	14	(1,036,259.0)	-
Other		13.5	(85.8)
Profit for the period		**270,363.1**	**659,142.3**
Other comprehensive income		5,470.7	(201.1)
Other comprehensive income that will never be reclassified to profit or loss		2,271.5	(201.1)
Actuarial gain (loss) in provision for post-employment benefits		2,271.5	(201.1)
Other comprehensive income that may be reclassified to profit or loss		3,199.2	-
Fair value adjustments of available-for-sale securities		3,199.2	-
Total comprehensive income		**275,833.8**	**658,941.2**

Las notas adjuntas 1 al 28 forman parte integral de estos estados financieros.

STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED AS OF 31 DECEMBER 2014 AND 2013

(Ch$ million)

	Capital	Actuarial gain and loss reserve	Fair value reserve	Other reserves	Retained earnings	Total
Balances as of 1 January 2013	(2,355,778.8)	(511.9)	-	(511.9)	(2,122,958.8)	(4,479,249.5)
Total comprehensive income:						
Profit	-	-	-	-	659,142.3	659,142.3
Other comprehensive income	-	(201.1)	-	(201.1)	-	(201.1)
Total comprehensive income	-	(201.1)	-	(201.1)	659,142.3	658,941.2
Capitalization of 2012 loss	(2,122,958.8)	-	-	-	2,122,958.8	-
Balances as of 31 December 2013	(4,478,737.6)	(713.0)	-	(713.0)	659,142.3	(3,820,308.3)
Balances as of 1 January 2014	**(4,478,737.6)**	**(713.0)**	**-**	**(713.0)**	**659,142.3**	**(3,820,308.3)**
Total comprehensive income:						
Profit	-	-	-	-	270,363.1	270,363.1
Other comprehensive income	-	2,271.5	3,199.2	5,470.7	-	5,470.7
Total comprehensive income	-	2,271.5	3,199.2	5,470.7	270,363.1	275,833.8
Capitalization of 2013 profit	659,142.3	-	-	-	(659,142.3)	-
Balances as of 31 December 2014	**(3,819,595.3)**	**1,558.5**	**3,199.2**	**4,757.7**	**270,363.1**	**(3,544,474.5)**

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

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED AS OF 31 DECEMBER 2014 AND 2013

(Ch$ million)

	Note	2014	2013
Cash flows from operating activities:			
Foreign reserves		(328,067.9)	40,965.2
Sale (acquisition) of securities at fair value		2,346,268.7	(246,168.1)
Acquisition of available-for-sale securities		(2,294,437.8)	-
(Investment) redemption of held-to-maturity securities		(689,453.7)	21,609.3
Interests and commissions received for international reserves		306,304.9	305,058.3
Interests paid in foreign transactions		(30.0)	-
Taxes paid for investments in reserves		(3,658.0)	(3,241.8)
Cash receipts (payments) for reciprocal loan agreements		6,505.9	(36,748.6)
Interests received for reciprocal loan agreements		461.6	540.9
Interests paid for reciprocal loan agreements		(29.5)	(84.8)
Domestic assets		137,723.3	1,262,937.1
(Loans) cash receipts for loans to banks and financial institutions		(7,609.6)	1,097,278.6
Interests and adjustments received for loans to financial institutions		210.3	14,099.0
Cash receipts for subordinated obligation with financial institutions		80,381.3	84,644.1
Interests and adjustments received for subordinated obligations		64,741.3	66,915.4
Domestic liabilities		(340,850.6)	(1,993,022.6)
(Redemption) placement of notes issued		(532,153.8)	199,728.4
Interests and adjustments paid for notes issued		(588,907.3)	(844,546.5)
Increase (decrease) in deposits and obligations in Chilean pesos		482,236.7	(1,201,130.4)
Interests and adjustments paid for deposits and obligations		(96,904.0)	(94,318.5)
Increase (decrease) in deposits and obligations in foreign currency		394,877.8	(52,755.6)
Other cash flows		(105,630.1)	(91,927.6)
Cash payments for goods and services		(93,668.4)	(105,172.0)
Net cash flows for arbitrage of currencies		(12,244.5)	9,009.5
Cash receipts as fiscal agent and other income		3,224.8	3,639.6
Movements in international organizations		(2,942.0)	595.3
Net cash used in operating activities		**(636,825.3)**	**(781,047.9)**

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

STATEMENTS OF CASH FLOWS, CONTINUED FOR THE YEARS ENDED AS OF 31 DECEMBER 2014 AND 2013

(Ch$ million)

	Note	2014	2013
Cash flows from investing activities:			
Movements, IMF		69,542.7	61,151.6
Dividends received, BIS		551.5	716.7
Proceeds from sale of property and equipment		50.8	352.0
Acquisition of property and equipment	15	(2,360.9)	(998.8)
Acquisition of intangible assets	15	(383.3)	(655.0)
Net cash generated from investing activities		67,400.8	60,566.5
Cash flows from financing activities:			
Net increase in banknotes and coins in circulation		660,468.9	722,489.2
Net cash generated from financing activities		660,468.9	722,489.2
Changes in cash and cash equivalents		91,044.4	2,007.8
Effect of exchange rate fluctuations on cash and cash equivalents		2,126.8	(1,796.7)
ash and cash equivalents at the beginning of the reporting period	6	10,459.3	10,248.2
Cash and cash equivalents at 31 December	6	**103,630.5**	**10,459.3**

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

NOTES TO THE FINANCIAL STATEMENTS

As of 31 December 2014 and 2013

1 Incorporation and description of business

Central Bank of Chile was formed 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 monitor the stability of both the Chilean currency and the normal functioning of domestic and foreign payments.

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

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

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

2 Summary of significant accounting policies

(a) Basis of preparation of the financial statements

These financial statements have been prepared in conformity with the "Policies of presentation and preparation of financial reports of Central Bank of Chile" approved by the Central Bank of Chile's Board, pursuant to Resolution 1456-01 dated 15 January 2009 and 1519-01 dated 14 January 2010, and 1867-01 dated 20 November 2014, having a favorable report by the Superintendence of Banks and Financial Institutions, pursuant to Section 75 of Central Bank of Chile's Basic Constitutional Act. The policies approved by the Board (note 4 "Accounting Changes") are consistent with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

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

(b) Basis of measurement

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

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

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

(c) Functional and presentation currency

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

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

(d) Transactions in foreign currency and foreign currency translation

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

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

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

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

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

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

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

	2014 Ch$	2013 Ch$
United States dollar (observed exchange rate)	607.38	523.76
Euro	739.53	721.04
Canadian dollar	521.54	489.63
Australian dollar	494.61	465.36
Special Drawing Rights (SDR)	879.72	806.59

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

The financial statements have been prepared using as a base the recognition of assets, liabilities and income when the flow of future economic benefits is probable from or to Central Bank of Chile and it is possible to reliably measure its costs, considering the following accounting principles:

e.i Accrual basis
The determination of operating results and the financial position takes into account all the resources and obligations for 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 are 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.

e.ii Going concern
The financial statements are normally prepared on the assumption that Central Bank of Chile 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 transactions.

e.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 threshold setting the limits of what is significant or not, and the best considerations should be applied to resolve matters in each instance according to the circumstances, taking into account factors such as the relative effects on assets, liabilities, equity, or on earnings for the year.

e.iv Substance over form
If information is to faithfully represent 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.

(f) Statement of cash flows

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

f.i Cash flows: cash inflows and outflows and cash equivalents, i.e. highly liquid short-term investments and low risk of changes in value, as: deposits in foreign banks and cash balances in foreign currency and deposits in domestic banks.

f.ii Operating activities: corresponds to normal activities carried out by Central Bank of Chile and other activities that cannot be classified as investing or financing activities.

f.iii Investing activities: corresponds to the acquisition, disposal or disposition by other means of long-term assets and other investments not included in cash and cash equivalents.

f.iv Financing activities: these activities generate changes in the size and composition of net equity and liabilities that are not part of operating or investing activities.

(g) 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 since 2010 in order to adopt 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 system governing Central Bank of Chile as a legal public entity, as well as related to the payment of the initial balance of 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 system related to the incorporation of Central Bank of Chile's initial balance of 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 initial balance of capital for 2014, in memorandum accounts, on the basis of the Consumer Price Index variation which occurred between 30 November 2013 and 30 November 2014, which was 5.7%.

(h) Interest income and expenses, adjustments and commissions

Interest income and expenses, adjustments and commissions are recognized in profit or loss for the year when earned. Interest is recognized on the basis of its effective rate.

(i) International reserve measurement criteria

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

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

i.i Investments recorded at fair value through earnings
Includes bonds issued by foreign governments, institutions and banks, mid-term bonds issued by Bank for International Settlements (BIS), treasury bills, discount notes, notes payable in coupons, indexed bonds, secured bonds from public institutions issued by German banks, agency nonprepayable bonds, agency prepayable bonds, agency bills, agency discount notes, and spot rate exchange transactions.

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.

i.ii Available-for-sale securities
Floating rate notes, certificates of deposit, floating rate certificates of deposit, commercial papers, banker's acceptances, discounted time deposits issued by BIS, for trading with BIS, time deposits at interest rate issued by BIS, for trading with BIS, floating rate notes with BIS and BISIP (collective investments through BIS).

These are investments in financial instruments, which provided when certain market conditions are met they may become effective prior to their maturity dates. These are recorded at their fair value, and changes are directly recognized in equity until the investment is disposed of or impaired, which results in accumulated gains or losses previously recorded in equity being recognized in net income. The methods used to measure fair value are described in note 3.

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

i.iv Other financial assets

i.iv.1 Reserve position in the International Monetary Fund (IMF): corresponds to the net difference between the assets (payments made to the IMF for subscription, and loans granted by Central Bank of Chile to the IMF for the participation in the financing program "New Arrangement to Borrow" (NAB) and liabilities (deposits maintained by the IMF in domestic currency) and is classified as a held-to-maturity investment, measured at the cost indexed to Special Drawing Rights (SDR).

i.iv.2 Reciprocal Loan Agreements (debit): represent the amount owed to Central Bank of Chile by the central banks comprising *Aladi's* Agreement on Reciprocal Payments and Credits for the exports made by Chilean entities through such method. Their classification corresponds to non-derivative, held-to-maturity financial instruments, measured at amortized cost using the effective interest method.

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

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

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

Shares and contributions to IDB are shown under "Other foreign assets". Contributions to the IMF are recorded under "Reserve position in the IMF" in "Foreign reserve assets". The "Reserve Position in the IMF" includes the loans granted by Central Bank of Chile to the IMF for involvement in the financing program referred to as "New Arrangements to Borrow" (NAB) and, which at year-end was SDR163.3 million. Such loans are disbursed against the revolving credit facility in favor of the IMF approved by Central Bank of Chile' s Board on 24 September 2009 up to SDR1,360.0 million. While as of 31 December 2014, the remaining balance of the IMF revolving credit facility amounted to SDR1,196.7 million, in practice the mechanism operates by calculating quarterly capitalization periods that include the stakeholders' maximum contribution during that period.

(k) 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 2014, dividends were received in the amount of US$1.0 million (US$1.4 million in 2013).

(l) 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.

(m) Transactions under specific legal regulation

Correspond to non-derivative financial assets subject to specific regulatory and legal restrictions, which are classified as held-to-maturity securities and are measured at amortized cost pursuant to the effective interest rate method, and are not affected by transaction costs.

(n) Property, equipment and intangible assets

Property and equipment are mainly measured at acquisition cost, net of accumulated depreciation and any accumulated impairment losses. The goods that have met their useful life are stated at their residual value considering market reference prices. Depreciation is calculated on a straight-line basis.

Property and equipment are measured at acquisition cost, net of accumulated depreciation and any accumulated impairment losses. Amortization is calculated on a straight-line basis. In 2014 and 2013, the Bank has recognized costs related to the acquisition of licenses and the Open Market Transaction System - *Soma* (currently under implementation).

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

	Years	
	2014	2013
Buildings	80	80
Facilities	10 to 20	10 to 20
Furniture and other equipment	5 to 10	5 to 10
Computer equipment	3 to 5	3 to 5
Vehicles	5	5
Intangible assets	5	5

(o) Monetary base

Mostly include liabilities of Central Bank of Chile that are part of currency, or other financial instruments contribute including freely-circulating banknotes and coins, plus deposits made by the financial system in Central Bank of Chile.

(p) Deposits and obligations

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

(q) Notes issued by the Central Bank of Chile

Notes issued by Central Bank of Chile are financial liabilities issued in order to adopt the decisions of monetary and debt policy, initially measured at fair value, and is not affected by transaction costs. Subsequently, they are measured at amortized cost pursuant to the effective interest rate method through 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.

Notes 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.

(r) Impairment

r.i Financial assets
Impairment standards will be applied on financial assets other than those measured at fair value through earnings. For cases where the current value of estimated cash flows, discounted at the effective interest rate, is lower than the amount recognized in the accounting records, their impairment should be recognized in earnings.

r.ii Non-financial assets
The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

(s) Employee benefits

s.i Long-term benefits

Post-employment benefits: correspond to employee benefits which are payable after the completion of employment in Central Bank of Chile, as stipulated in: 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 provided to retired employees of the Former Association of Retired Employees and Beneficiaries of Pensions of Public Officials of Central Bank of Chile. These benefits include: severance indemnities, special indemnity Resolution 1414-01 dated 5 June 2008, special supplementary severance indemnity under the retirement plan per Resolution 1651-06 dated 29 December 2011, special benefits to retired employees of the Former Association of Retired Employees and Beneficiaries of Pensions of Public Officials of Central Bank of Chile.

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

The actuarial calculation is based on the following assumptions for both years:

- Mortality rate: Central Bank of Chile used the RV-2009 mortality table to determine the expected lives in the calculation of benefits associated with severance indemnity payments, post-employment benefits associated with the retirement plan's health plan and benefits of the Former Association of Retired Employees and Beneficiaries of Pensions of Public Officials of Central Bank of Chile.

- Employee turnover: The probabilities of remaining an employee of Central Bank of Chile were calculated on the basis of the tables prepared by Central Bank of Chile organized in tranches by years of service.

- Salary growth rate: calculated as the annual average composed of the salary growth rate for a five-year period of 4.19%.

- Discount rate: Central Bank of Chile used the annual average of the nominal rate for BCP instruments at 10 years. For 2014, the discount rate was 4.36% (2013: 5.25%).

s.ii Short-term benefits

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

(t) Provisions and contingent liabilities

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

- A present obligation arising from past events and,

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

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

(u) Financial derivative instruments

Financial derivative contracts corresponding to forward exchange contracts that are initially recognized in the statement of financial position at fair value at the date in which the contract is entered into. Derivative contracts are reported as an asset when their fair value is positive and as a liability when is negative and are included in the captions "Other securities" 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.

(v) Use of estimates and judgments

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

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

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

- Note 2(m) Property and equipment, and intangible assets, determination of useful life, depreciation or amortization and residual value.
- Note 3 Methodology applied for the measurement of international reserve fair values.
- Note 14(b) *Caja Central de Ahorros y Préstamos* and *Asociación Nacional de Ahorro y Préstamo*.
- Note 20 Provisions, including severance indemnity and post-employment benefits.
- Note 3(b) Indicates the measurement of fair values.

(w) Issued but not yet effective IFRSs

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015, and have not been applied in preparing these financial statements. Those which may be relevant to the Bank are set out below. The Bank does not plan to adopt these standards early.

IFRS 9 "Financial Instruments" (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces additional changes relating to financial liabilities.

On 24 July 2014, the IASB issued the fourth and latest version of its new standard on financial assets, IFRS 9; which includes guidance on the classification and measurement of financial assets, including impairment, and supplements new hedge accounting principles issued in 2013.

The application date corresponds to Financial Statements issued for period beginning on or after 1 January 2018. Early adoption is permitted.

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

3 Methodology applied for the measurement of fair value

The methodology for the calculation of fair value is applied to financial instruments held as foreign investments, classified as securities at fair value through net income, and available-for-sale securities.

The management of international reserves is performed through a 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 market prices obtained from Bloomberg at the closing of current day transactions. The price corresponds to PX Mid = (PX Bid + PX Last)/2.

- *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 2014 and 2013:

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 happens with the treatment of deposits.

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

- Level 1, fair value measurements using quoted prices (unadjusted) in active markets for identical assets and liabilities, for which the Bank has the ability to access at the measurement date.
- Level 2, fair value measurements using inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3, fair value measurements using unobservable inputs for the asset or liability.

For financial assets and financial liabilities not recognized at fair value, fair value will be disclosed collectively in groups to allow comparison with the related carrying amounts, as shown in note 11.

4 Changes in accounting policies

As stated in 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 Central Bank of Chile shall conform, to be prepared for periods of one year ending on 31 December of each year. During 2014, new accounting criteria were submitted to the Superintendence of Banks and Financial Institution obtaining a favorable report. Such accounting criteria were approved by the Board of Central Bank of Chile through Resolution 1867-01 dated 20 November 2014. Main changes in the accounting criteria comprise the inclusion, beginning in 2014, of the Statements of Comprehensive Income, Cash Flows and Changes in Equity. For comparative purposes, such statements contain information for the year ended 31 December 2013.

5 Financial instrument risks

The assets of Central Bank of Chile are mainly comprised 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 transactions made by Central Bank of Chile with institutions of the local market through the issuance of notes and time deposits received.

(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 monitoring 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 efficiently provide secure access to international liquidity and monitor 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 referential structure, the investment portfolio is made up of three portfolios: (a) Short-term liquidity; (b) Mid-term liquidity, and (c) Diversification. This structure considers the following percentages: 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 24.1 months.

Table 5.1

BENCHMARK APPLICABLE AS OF 31 DECEMBER 2014 AND 2013

Portfolio		Share: % over total investment portfolio	Share: % on internal admin.	Share: % on subportfolio	Length (months): 2014	Length (months): 2013	Benchmark ratios
Short-term liquidity	USD	24.00	24.69	100.00	4.02	3.88	Merrill Lynch 0 - 1 Y
	Total	**24.00**	**24.69**	**100.00**	**4.00**	**3.90**	
Mid-term liquidity	USD	23.79	24.47	39.00	24.82	24.49	Barclays 1 - 3 Y and 3 - 5 Y
	EUR	21.96	22.59	36.00	22.47	22.68	
	CAD	9.15	9.41	15.00	23.03	23.10	
	AUD	6.10	6.27	10.00	24.62	23.60	
	Total	**61.00**	**62.74**	**100.00**	**23.69**	**23.54**	
Diversification	CHF	1.96	2.00	16.00	69.63	68.77	Barclays 5 - 7 Y and 7 - 10 Y Bank deposit CNH
	CNH	1.83	1.89	15.00	1.50	1.50	
	GBP	1.83	1.89	15.00	66.22	66.02	
	JPY	2.44	2.51	20.00	71.21	71.48	
	KRW	1.83	1.89	15.00	65.97	68.44	
	NZD	1.47	1.51	12.00	64.30	60.07	
	SGD	0.86	0.88	7.00	69.48	69.03	
	Total	**12.22**	**12.57**	**100.00**	**58.00**	**57.70**	
Total internal administration		**97.22**	**100.00**	**-**	**23.14**	**22.99**	
External administrators	CHF	0.44	-	16.00	69.63	68.77	Barclays 5 - 7 Y and 7 - 10 Y Bank deposit CNH
	CNH	0.42	-	15.00	1.50	1.50	
	GBP	0.42	-	15.00	66.22	66.02	
	JPY	0.56	-	20.00	71.21	71.48	
	KRW	0.42	-	15.00	65.97	68.44	
	NZD	0.33	-	12.00	64.30	60.07	
	SGD	0.19	-	7.00	69.48	69.03	
	Total	**2.78**		**100.00**	**58.02**	**57.73**	
Total Investment Portfolio		**100.00**	**-**	**-**	**24.12**	**23.95**	

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

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 Departments of International Desk of the Management of International Investments together with the Transaction Register and Control and 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.

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 150 bps and 100 average bps for one month are 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 monthly management report, prepared by the Department of Manager 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.

Table 5.2

MARKET RISK, INTERNAL INVESTMENT PORTFOLIO AS OF 31 DECEMBER 2014 AND 2013

		2014	2013
Amount (US$ million)		33,325.6	34,483.2
Length (months)	Portfolio	23.1	23.4
	departure	0.0	0.4
Breakdown by currency (%)	USD	51.1	49.4
	EUR	23.6	22.3
	JPY	1.6	2.5
	Other	23.7	25.8
VaR	Absolute (%)	2.5	2.4
	Tracking Error (bp)	13.7	3.6

Annualized VaR and TE calculated using the Variance/Covariance method, with a decline ratio of 0.94 and a standard deviation confidence interval.

Source: BCCh.

Table 5.3

MARKET RISK FOR EXTERNAL ADMINISTRATOR INVESTMENT PORTFOLIO AS OF 31 DECEMBER 2014 AND 2013

		2014	2013
Amount (US$ million)		968.6	991.7
Length (months)	Portfolio	51.4	47.9
	departure	(6.6)	(9.0)
Breakdown by currency (%)	USD	4.8	2.0
	EUR	0.0	0.0
	JPY	17.5	17.0
	Other	77.7	81.0
VaR	Absolute (%)	4.5	3.7
	Tracking Error (bp)	52.6	44.4

Annualized VaR and TE calculated with a decline ratio of 0.94 and a standard deviation confidence interval.

Sources: BCCh and JPMorgan.

a.v Management of credit risk

The policies on credit risk refer, on one hand, to the level of diversification allowed among the types of risk, and on the other, to the standards setting the transactions that can be performed by Central Bank of Chile and the method used for performing them. The current policy defines the securities, issuers and counterparties, among others, 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, Standard and Poor's and DBRS 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, mortgage-backed securities. Finally, supranational risk is related to the investment in multilateral official issuer securities; deposits, bills, floating rate notes and nominal bonds.

We note an increase in bank risk involvement related to 2013 figures in the Investment Internal Portfolio. Additionally, and despite the fact that sovereign risk remains constant, the concentration of AA risk related to AAA has increased. For foreign administrators, we note a decrease in bank risk involvement fostering international and agency risks.

Table 5.4

BREAKDOWN OF THE INTERNAL INVESTMENT PORTFOLIO ACCORDING TO CREDIT RISK AS OF 31 DECEMBER 2014

Credit rating	Type of credit risk (%)				
	Agency	Banking	Sovereign	International	Total
AAA	0.7	0.9	73.6	4.8	80.0
AA+	0.0	0.0	1.9	0.0	1.9
AA	0.0	0.0	11.4	0.0	11.4
AA-	0.0	0.8	1.9	0.0	2.7
A+	0.0	1.2	1.7	0.0	2.9
A	0.0	1.1	0.0	0.0	1.1
Total	**0.7**	**4.0**	**90.5**	**4.8**	**100.0**

Source: BCCh.

Table 5.5

BREAKDOWN OF THE INTERNAL INVESTMENT PORTFOLIO ACCORDING TO CREDIT RISK AS OF 31 DECEMBER 2013

Credit rating	Type of credit risk (%)				
	Agency	Banking	Sovereign	International	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**

Source: BCCh.

Table 5.6

BREAKDOWN OF THE EXTERNAL ADMINISTRATOR INVESTMENT PORTFOLIO ACCORDING TO CREDIT RISK AS OF 31 DECEMBER 2014

Credit rating	Type of credit risk (%)				
	Agency	Banking	Sovereign	International	Total
AAA	1.1	0.0	26.3	2.9	30.3
AA+	0.0	0.0	10.4	0.0	10.4
AA	0.0	0.0	11.8	0.0	11.8
AA-	0.0	5.4	15.5	0.0	20.9
A+	0.0	3.5	19.8	0.0	23.3
A	0.0	3.3	0.0	0.0	3.3
Total	**1.1**	**12.2**	**83.8**	**2.9**	**100.0**

Source: BCCh.

Table 5.7

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	International	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**

Source: BCCh.

Credit risk may imply possible losses due to the noncompliance with financial transactions 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 transactions
The Recording and Control of Transactions, and Payments Departments which report to the Financial Service Management are in charge of this process which corresponds to the stage at which the transactions of financial instruments are executed. They also provide instructions for the transfer of funds from and to other checking accounts that Central Bank of Chile holds abroad.

a.vii Compliance control
The compliance control function is carried out by the Manager of Management and Financial Risk Evaluation and consists of verifying compliance with the limits established in the investment policy. The aspects monitored include: composition of currencies, duration and exposure to credit risk, 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 and the Bank for International Settlements (BIS).

a.ix External administrators
Starting from October 2012, the mandate issued to external administrators, contained in 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 Central Bank of Chile's portfolio.

(b) Open-market transactions

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 transactions, 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 transactions are mainly performed through periodical biddings of promissory notes issued by Central Bank of Chile, based on a previously indicated schedule of 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 of promissory notes and bonds 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 Transaction 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 a 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 transactions, respectively and the Management and Financial Risk Evaluation Manager reporting to the General Management is responsible for issuing and evaluating financial risks managed in the administration of open-market and debt transactions.

b.ii Management of credit risk

Credit risk is associated with open-market transactions and facilities that inject liquidity to the financial system (Repo, permanent liquidity facility, collateralized credit lines and term liquidity facilities). 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 transactions prepared by the Management and Financial Risk Evaluation Manager 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 in 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 the end of December 2014, the Bank recorded no liquidity injection Repo transactions. However, FPL transactions recognized amounted to Ch$7.7474 billion guaranteed exclusively with securities issued by the 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 transactions, this risk is mainly associated with changes in the market value of bonds and promissory notes issued by Central Bank of Chile, and the change in value of collaterals received in liquidity injection transactions. For collaterals the risk of value loss is mitigated by using margins and haircuts that write-down their value and allow the effective amount lent to be lower than the collateral received.

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

Monitored market risk indicators include the length and VaR. Tables 5.8 and 5.9 display these indicators and show an increase in the length, and an increase in the proportional share of instruments denominated in UF in the debt structure and VaR between year-end 2014 and 2013.

Table 5.8

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

Instrument	Ch$ billion	% UF	Holding period (months)
Short-term	999	0	0,6
Long-term	11,909	70	62.7
Total	**12,908**	**65**	**58.2**

Source: BCCh.

Table 5.9

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**

Source: BCCh.

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

Tables 5.10 and 5.11 show a summary of the results of the granting of bonds and promissory notes for 2014 and 2013. In those tables it can be noted that prices or interest rates for the award of bonds and promissory notes at bids are similar to market rates and demand has been higher than the scheduled security supply. Compared with 2013, during 2014 the demand for and granting of securities offered was slightly lower with bidding rates marked to market.

Table 5.10

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

Instrument	Amount granted (Ch$ billion)	Demand (%)	Award (%)	Bidding rate (%)	Market rate (%)	Spread (bp)
PDBC	33,778	136	98	3.6	3.6	0.0
BCP	-	0	0	0	0	0.0
BCU	-	0	0	0	0	0.0

Source: BCCh.

Table 5.11

RESULTS OF THE BIDDING OF DEBT INSTRUMENTS OF CENTRAL BANK OF CHILE AS OF 31 DECEMBER 2013

Instrument	Amount granted (Ch$ billion)	Demand (%)	Award (%)	Bidding rate (%)	Market rate (%)	Spread (bp)
PDBC	27,210	145	105	4.9	5.0	(10.0)
BCP	735	323	100	5.2	5.2	0.0
BCU	1,004	260	100	2.4	2.4	0.0

Source: BCCh.

6 Cash and cash equivalents

As of 31 December 2014 and 2013, the detail of cash and cash equivalents, is as follows:

Other foreign transactions	(Ch$ million)	
	2014	2013
Foreign correspondents	102,823.3	10,011.6
Other reserve assets (foreign currency)	786.2	434.4
Domestic correspondents (*)	21.0	13.3
Total cash and cash equivalents	**103,630.5**	**10,459.3**

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

7 Net income from international reserves

International reserves

For the years ended 31 December 2014 and 2013, this caption is composed of the following:

	(Ch$ million)	
	2014	2013
(a) Net interests and commissions on:		
- Securities recorded at fair value through earnings	277,987.1	289,042.1
- Held-to-maturity securities	15,769.1	13,653.6
- Available-for-sale securities	153.8	-
- Foreign correspondents	(2.1)	0.1
Subtotal for net interest and commissions	293,907.9	302,695.8
(b) Sales of securities:		
- Recorded at fair value through earnings	(84,641.2)	(185,945.9)
- Available for sale	1,075.9	-
Subtotal for sales of securities	(83,565.3)	(185,945.9)
(c) (Loss) gain adjustments at fair value	144,358.4	(66,556.1)
(d) On other income	(5,581.8)	(1,947.6)
Total net income from international reserves	**349,119.2**	**48,246.2**

Net gain or loss on foreign transactions comprise the following:

Other foreign transactions	(Ch$ million)	
	2014	2013
- On revaluation of accounts with international agencies	661.5	1.317.3
- On interest	(650.9)	(588.1)
- Other net income and expenses	(964.6)	4,407.7
Total net income from foreign transactions	**(954.0)**	**5,136.9**

8 Net income from domestic transactions

For the years ended 31 December 2014 and 2013, this caption is composed of the following:

	(Ch$ million)	
	2014	2013
a) Income for domestic loans		
Interest	211.9	10,018.2
Adjustments	248.0	64.1
Other	3,620.2	2,654.2
Total income from domestic loans	4,080.1	12,736.5
b) Income from transactions under specific legal regulations		
Interest	109,343.4	86,251.1
Adjustments	61,434.8	23,794.6
Total income from transactions under specific legal regulations	170,778.2	110,045.7
c) Income from deposits and obligations held by Central Bank of Chile		
Interest	(100,005.5)	(92,498.2)
Other	(1,169.6)	(904.2)
Total income from deposits and obligations held by Central Bank of Chile	(101,175.1)	(93,402.4)
d) Income from notes issued by Central Bank of Chile		
Interests	(560,398.8)	(605,586.4)
Adjustments	(441,038.8)	(179,306.1)
Total income from notes issued by Central Bank of Chile	(1,001,437.6)	(784,892.5)
Total net income from domestic transactions	**(927,754.4)**	**(755,512.7)**

9 Net gain (loss) from foreign exchange transactions

For the years ended 31 December 2014 and 2013, this caption is composed of the following:

	(Ch$ million)	
	2014	2013
Gain from foreign exchange transactions	4,169,539.8	2,670,308.0
Loss from foreign exchange transactions	(2,189,558.1)	(1,207,407.5)
Total	**1,979,981.7**	**1,462,900.5**

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

	(Ch$ million)	
	2014	2013
U.S. dollar	1,432,734.0	768,495.0
Euro	97,564.9	508,913.3
Canadian dollar	112,349.1	32,319.1
Australian dollar	86,263.2	(66,875.2)
SDR	28,542.8	24,931.1
Other currency	236,607.5	182,712.6
Subtotal net (loss) gain from foreign exchange transactions	1,994,061.5	1,450,495.9
Arbitrage and other	(14,079.8)	12,404.6
Total net (loss) gain from foreign exchange transactions	**1,979,981.7**	**1,462,900.5**

10 Issuance and distribution costs

For the years ended 31 December 2014 and 2013, this caption is composed of the following:

	(Ch$ million)	
	2014	2013
Banknotes	(20,546.9)	(29,882.1)
Coins	(22,033.7)	(24,007.6)
Distribution	(937.0)	(563.0)
Total	**(43,517.6)**	**(54,452.7)**

The decrease in currency issuance and distribution costs during 2014 compared to 2013 is due to a decrease in costs and in the number of coins and banknotes produced. The detail of banknotes is provided in note 17(a).

11 Reserve assets and fair values

a) Reserve assets

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

	(US$ million)	
	2014	2013
Monetary gold	9.4	9.6
Special drawing rights (SDR)	1,079.2	1,147.1
Reserve position in the IMF	489.7	640.7
Correspondent banks abroad	169.3	19.1
Investments:	38,578.7	39,143.8
Instruments recorded at fair value through earnings:		
Level 1 market value	28,906.3	34,642.6
Available-for-sale securities:		
Level 1 market value	4,043.5	-
Held-to-maturity securities	5,628.9	4,501.2
Reciprocal loan agreements	119.4	132.5
Other assets	1.2	0.9
Total reserve assets	**40,446.9**	**41,093.7**
	(Ch$ million)	
Total reserve assets	**24.566.660,2**	**21.523.220,5**

As of 31 December 2014, monetary gold amounted to US$9.4 million (US$9.6 million in 2013) equivalent to 7,940 fine gold troy ounces valued at US$1,185.5 per ounce (US$1,214.5 in 2013). There was no change in the amount of troy ounces compared to 2013.

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* Agreements on Reciprocal Payments and Credits for the exports conducted by Chilean entities. 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 2014 of US$646.8 million, compared to 2013, is mainly explained by the decrease in securities at fair value through net income of US$5,736.2 million, and in Reserve position in the IMF of US$151.1 million, offset by the increase in available-for-sale securities of US$4,043.5 million and in held-to-maturity securities of US$1,127.7 million.

As of 31 December 2014 and 2013, the distribution of investments in foreign currencies by currency is as follows:

	(US$ million)	
	2014	2013
U.S. dollars	21,789.3	20,620.2
Euro	7,888.1	7,714.0
Other currency	10,769.5	12,759.5
Total	**40,446.9**	**41,093.7**

b) Fair values as of 31 December

Statement of Financial Position BCCh (Ch$ million)		2014			2013		
		Carrying Amount	Fair value	Difference	Carrying Amount	Fair value	Difference
Assets	International reserves	24,566,660.2	24,566,660.2	-	21,523,220.5	21,523,220.5	-
	Other foreign assets	148,815.4	148,815.4	-	130,345.4	130,345.4	-
	Loans to banks and financial institutions	7,877.6	7,877.6	-	256.9	256.9	-
	General Treasury transfers (Laws 18.401 and 18.267)	280,354.5	211,106.4	(69,248.1)	265,355.6	168,813.7	(96,541.9)
	Subordinated liabilities (Laws 18.401 and 19.396)	565,552.3	586,812.6	21,260.3	649,521.0	673,088.3	23,567.3
	Sinap liquidation (Law 18.900)	-	-	-	938,056.1	-	(938,056.1)
	Other assets	57,000.0	57,000.0	-	53,866.8	53,866.8	-
	Total Assets	**25,626,260.0**	**25,578,272.2**	**(47,987.8)**	**23,560,622.3**	**22,549,591.6**	**(1,011,030.7)**
Liabilities	Monetary base	8,183,119.5	8,183,119.5	-	8,754,473.9	8,754,473.9	-
	Bank borrowings	5,984,170.3	5,984,170.3	-	4,479,795.3	4,479,795.3	-
	Obligations with General Treasury	1,301,785.2	1,301,785.2	-	384,665.8	384,665.8	-
	Notes issued by Central Bank of Chile	12,908,184.9	13,818,397.2	910,212.3	13,033,022.2	13,459,080.4	426,058.2
	Foreign liabilities	777,118.6	777,118.6	-	710,092.8	710,092.8	-
	Other liabilities	16,356.0	16,356.0	-	18,880.6	18,880.6	-
	Total liabilities	**29,170,734.5**	**30,080,946.8**	**910,212.3**	**27,380,930.6**	**27,806,988.8**	**426,058.2**
Equity	**Net equity**	**(3,544,474.5)**	**(4,502,674.6)**	**(958,200.1)**	**(3,820,308.3)**	**(5,257,397.2)**	**(1,437,088.9)**

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)	
	2014	2013
Subscription installment, contribution	753,126.0	690,520.6
Loan, account No.1	10.7	27.9
New Arrangement to Borrow (NAB)	143,648.9	142,467.3
Deposits	(599,376.9)	(497,437.8)
Total position in the IMF	**297,408.7**	**335,578.0**

13 Loans to banks and financial institutions

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

	(Ch$ million)	
	2014	2013
Line of credit on debt restructuring	130.2	256.9
Central Bank of Chile repurchase agreements (Repo) (*)	7,747.4	-
Total	**7,877.6**	**256.9**

(*) As of 31 December 2013, the Bank records no reverse repurchase agreements.

14 Transactions under specific legal regulations

This caption mainly includes the following transactions from specific laws that are defined as non-derivative financial instruments held-to-maturity, valued at amortized cost recognized in profit or loss through the effective rate.

a) General Treasury transfers

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

	(Ch$ million)	
	2014	2013
General Treasury transfer Law 18,401	280,354.5	265,355.6

In accordance with Article 13 of Law 18,401, differences produced in the recovery, as a result of discounts granted to shareholders of up to UF15.0 million, will be covered by the General Treasury through future transfers which as of 31 December 2014 amount to Ch$280,354.5 million, equivalent to approximately UF11.4 million (Ch$265,355.6 million in 2013, equivalent to UF11.4 million).

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

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

Through Decree Laws 1381 dated 23 March 1976 and 2824 dated 6 August 1979 the obligation imposed by Central Bank of Chile of granting loans to organizations which were part of the former National Savings and Loan System (*Sinap*) was regulated, because of the financial position affecting organizations in that system.

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

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

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 granting 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 transactions 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.

As of 31 December 2014, the amount payable to Central Bank of Chile from the liquidation of these institutions was Ch$1,036,259.0 million, this amount includes interest accrued for Ch$733,050.5 million (Ch$938,056.1 in 2013).

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.

Accordingly, based on considerations solely for accounting and financial reporting purposes, as provided in Articles 18 No.9 and No. 75 et seq. of the Basic Constitutional Act regulating the Central Bank of Chile, the criteria and standards on International Financial Reporting Standards (IFRS), and considering the recommendations by the Bank's Audit and Compliance Committee, the Bank has determined that starting from the current year-end this Institution's financial statements will:

(i) Recognize in accordance with IFRS, an allowance for according its losses in equity of Central Bank of Chile for the total amount of debt owed to the Bank records by the entities comprising *Sinap* which are indefinitely in the process of liquidation.

(ii) Likewise, the obligation by the Chilean Treasury established in Law 18.900, which guarantees the obligations of the abovementioned entities which could not be covered by the amount resulting from their liquidation, as indicated in several opportunities by the Ministry of Finance, is subject to the legal budget and the publication in the *Official Gazette* of the executive decree approving the liquidation account for such entities, because this has not yet occurred or has a determined verification date; the Central Bank of Chile has opted to reflect this situation in the notes to the financial statements to comply with the requirement of substantiating the rationale behind these decisions.

(iii) Also, expressly indicate that the information contained in the preceding paragraph will only affect the method for recognizing the "*Sinap* liquidation Law 18.900" loan for reporting purposes, in accordance with IFRS standards. Accordingly, this should not and cannot be deemed, in any case, as a waiver by Central Bank of Chile of its right to continue to require the total and full payment of such debt.

Prior to making the decision mentioned above, the Bank informed the Minister of Finance. In response, the Minister responded the Bank that even though the President of Chile will approve such account through an executive decree issued by the Ministry of Finance, such approval has not been formalized because the requirement established by law for such purpose has not been met. In addition, the Minister indicated that because of this situation the Ministry of Finance was unable to express any opinion with respect to the balances in such account but acknowledged the information provided by the Bank.

(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 2014, *Sociedad Administradora de la Obligación Subordinada SAOS S.A.* paid UF6,104,408.2806 to Central Bank of Chile, of which UF1,365,931.6217 were allocated to the payment of interests of the debt and UF4,738,476.6589 to the credit amortization for subordinated liability (during 2013, a payment of UF6,203,926.6500 was made, from which UF1,214,159.3521 was destined to the payment of interest, and UF4,989,767.2979 to the repayment of principal owed. During this year, prepayment of interest were done to the amount of UF404,725.7508).

As of 31 December 2014, the balance amounts to Ch$565,552.3 million, UF22,964,630.4720 (Ch$649,521.0 million in 2013, UF27,865,005.0834).

15 Property, equipment and intangible assets

	(Ch$ million)	
	2014	2013
Property and equipment, net	33,345.3	34,140.2
Intangible assets, net	2,392.7	2,336.7
Total property, equipment and intangible assets	**35,738.0**	**36,476.9**

a) Reconciliation of property, equipment and intangible assets carrying amounts

This caption is mainly composed of the following balances and movements

	(Ch$ million)					
	Balance as 31.Dec.13	Acquisitions	Disposals	Depreciation	Transfers	Balance as 31.Dec.14
Real estate and facilities	21,082.8	-	(7.8)	(279.4)	-	20,795.6
Furniture and equipment	7,838.8	1,736.5	(550.6)	(2,161.6)	297.0	7,160.1
Transport material	257.7	75.8	(34.4)	(107.2)	-	191.9
Collection of banknotes and coins (*)	2,998.6	338.4	-	-	-	3,337.0
Works of art	1,651.9	-	-	-	-	1,651.9
Other	13.4	1.4	(13.4)	(1.4)	-	-
Work in progress	297.0	208.8	-	-	(297.0)	208.8
Net property, equipment and intangible assets	**34,140.2**	**2,360.9**	**(606.2)**	**(2,549.6)**	**-**	**33,345.3**

(*)This figure includes Ch$338.4 million due to variations in foreign currency exchange of gold pesos.

As of 31 December 2014 and 2013, the caption Depreciation and Amortization in the statement of comprehensive income includes Ch$2,549.6 million and Ch$2,455.1 million, respectively.

b) Reconcialiation of Intangible Assets carrying amounts

Composition and movements of intangible assets

	(Ch$ million)				
	Balance as 31.Dec.13	Acquisitions	Disposals	Amortization	Balance as 31.Dec.14
Computer programs	1,282.1	-	-	(327.3)	954.8
Computer programs under development	1,054.6	383.3	-	-	1,437.9
Intangible assets, net	**2,336.7**	**383.3**	**-**	**(327.3)**	**2,392.7**

As of 31 December 2014 and 2013, the amortization of intangible assets of Ch$327.3 million is recorded on a straight-line basis in the caption depreciation and amortization in the statement of income.

16 Foreign liabilities

This caption includes the following transactions

	(Ch$ million)	
	2014	2013
Reciprocal loan agreements	8,233.3	4,629.7
Accounts with international bodies	50,189.3	46,455.0
Special drawing rights (SDR) allocations	718,696.0	659,008.1
Total foreign liabilities	**777,118.6**	**710,092.8**

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

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

This caption is composed of the following:

	(Ch$ million)	
	2014	2013
Promissory note obligations with IDB	48,493.8	41,817.5
Inter-American Development Bank (IDB)	732.8	3,690.3
Agency for International Development (AID)	901.1	901.1
Multilateral Investment Guarantee Agency (MIGA)	32.9	32.9
International Bank for Reconstruction and Development (IBRD)	28.7	13.2
Total accounts with international organizations	**50,189.3**	**46,455.0**

The assignments of Special Drawing Rights (SDRs) correspond to SDR816.959.995 assigned to Chile through Central Bank of Chile, by the International Monetary Fund, which are subject to possible restitution; they accrue interests on the basis of a rate determined by the IMF on a weekly basis.

17 Monetary base

This caption is composed of the following:

	(Ch$ million)	
	2014	2013
Banknotes and coins in circulation	7,578,075.9	6,917,607.4
Deposits from financial institutions	605,043.6	1,139,731.0
Deposits for technical reserve	-	697,135.5
Total monetary base	**8,183,119.5**	**8,754,473.9**

(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:

	(Ch$ million)	
Denomination	2014	2013
$ 20.000	2,414,066.6	2,093,132.6
$ 10.000	4,076,067.4	3,756,732.9
$ 5.000	439,862.7	453,165.3
$ 2.000	95,623.1	117,038.5
$ 1.000	209,836.4	184,682.6
$ 500	4,743.1	4,745.6
Other	61.7	250.1
Coins	337,814.9	307,859.8
Total	**7,578,075.9**	**6,917,607.4**

(b) Deposits from financial institutions

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

(c) Deposits for technical reserve

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

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)	
	2014	**2013**
Deposits and obligations with the General Treasury	1,301,785.2	384,665.8
Other deposits and obligations	5,984,170.3	4,479,795.3
Total	**7,285,955.5**	**4,864,461.1**

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

	(Ch$ million)	
	2014	**2013**
General Treasury current accounts	1,226,599.3	313,057.4
Other	75,185.9	71,608.4
Total	**1,301,785.2**	**384,665.8**

(b) "Other Deposits and Obligations" include:

	(Ch$ million)	
	2014	**2013**
Permanent Deposit Facility in local currency	3,398,719.2	2,601,914.2
Current accounts in foreign currency	769,974.7	878,171.3
Short-term deposits from bank institutions in foreign currency	1,761,402.0	958,480.8
Other	54,074.4	41,229.0
Total	**5,984,170.3**	**4,479,795.3**

19 Notes issued by Central Bank of Chile

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

As of 31 December 2014 and 2013, maturities of these instruments are as follows:

	(Ch$ millon)						
	Up to 90 days	91-180 days	181 days to 1 year	1-3 years	Over 3 years	Total 2014	Total 2013
Central Bank bonds UF (BCU)	-	-	199,034.1	2,470,919.1	5,534,699.2	8,204,652.4	7,830,132.7
Central Bank bonds CLP (BCP)	201,438.5	471,205.3	76,892.3	1,082,963.9	1,706,047.5	3,538,547.5	4,080,623.4
Central Bank discountable promissory notes (PDBC)	998,556.7	-	-	-	-	998,556.7	925,319.1
Adjustable issuance coupons (CERO) UF	104,696.6	1,618.9	2,782.4	7,082.0	2,417.0	118,596.9	135,669.2
Adjustable promissory notes with payments in coupons (PRC)	1,935.6	1,266.7	943.7	13,949.0	29,715.3	47,810.3	61,256.7
Other	21.1	-	-	-	-	21.1	21.1
Total as of 31 December	**1,306,648.5**	**474,090.9**	**279,652.5**	**3,574,914.0**	**7,272,879.0**	**12,908,184.9**	**13,033,022.2**

Balances include interest and adjustments accrued as of 31 December 2014 and 2013.

As of 31 December 2014, the net variation of Ch$124,837.3 million, these liabilities compared to 2013, is explained mainly by no issuance of BCPs, and an increase of domestic currency due to BCUs adjustment.

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$ millon)	
	2014	2013
Provisions	15,885.2	18,502.7
Other securities	470.8	377.9
Total	**16,356.0**	**18,880.6**

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:

Provision for the year:	**(Ch$ million)**	
	2014	**2013**
- Severance indemnity	9,917.7	10,301.2
- Special indemnity Resolution 1414 and agreed deposit for retirement plan	-	1,614.6
- Special indemnity Resolution 1651 and agreed deposit for retirement plan	1,076.0	1,821.5
Subtotal provision for severance indemnity	10,993.7	13,737.3
- Benefits to the former Association of Retired Employees and Beneficiaries of Pensions of Public Officials of Central Bank of Chile	2,576.3	2,571.1
- Healthcare benefits for retirement plans	7.8	18.7
- Pending accrued vacations of personnel	2,037.9	1,966.2
- Special indemnity Resolution 572-05-961226	3.0	3.0
- Incentive allocation	266.5	206.4
Subtotal other provision	4,891.5	4,765.4
Total	**15,885.2**	**18,502.7**

Movements in provisions for severance indemnities (*):	**(Ch$ million)**	
	2014	**2013**
- Current value of liabilities as of 1 January	13,737.3	13,844.7
- Service cost	686.0	652.9
- Interest cost	548.1	726.5
- Benefits paid	(1,305.7)	(1,687.9)
- Actuarial gains (losses)	(2,672.0)	201.1
Total	**10,993.7**	**13,737.3**

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

Post-employment benefit expenses	**(Ch$ million)**	
	2014	**2013**
- Current value of service costs	570.2	652.9
- Interest cost	651.4	726.5
Total	**1,221.6**	**1,379.4**

As of 31 December 2014, the sensitivity of the actuarial liability amount from post-employment benefits considering changes indicated in actuarial assumptions generates the following effects:

Calculation of variable sensitivity analysis impact	Base Scenario	Scenario 1	Scenario 2
- Discount interest rate (%)	4.36	3.36	5.36
Effect on provision for severance indemnity payments (Ch$ million)	10,993.7	12,161.1	10,485.9
Effect on provision for severance indemnity payments (%)	0.00	10.62	-4.62

Calculation of probable payment of the provision for severance indemnity payments	(Ch$ million)
- Short-term provisions for severance indemnity payments (up to one year)	2,058.0
- Long-term provisions for severance indemnity payments (over one year)	8,935.7
Balance as of 31 December	**10,993.7**

21 Capital and reserves

(a) Capital and reserves

Section 5 of the Basic Constitutional Act of Central Bank of Chile established an initial capital for Central Bank of Chile at $500,000 million, which at 31 December 2014 corresponds to $2,278,636.4 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 capital.

As of 31 December 2014, Central Bank Chile has negative equity of Ch$3,544,474.5 million (negative equity of Ch$3,820,308.3 million as of 31 December 2013) arisen mainly from differences between international reserve returns and the cost of liabilities at domestic interest rate due to gains and losses from changes in the exchange rates of assets in foreign currencies, and for the recognition of an allowance for impairment losses of the total debt receivable from the entities which compose the Loans and Saving National System (*Sinap*).

(b) Price-level adjusted capital

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

As of 31 December 2014, the negative capital price-level adjustment recognized in memorandum accounts amounted to Ch$237,789.3 million (Ch$113,235.9 million in 2013), which resulted in adjusted capital of Ch$4,409,531.6 million (Ch$4,831,396.5 million in 2013). 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 31.Dec.14	Price-level adjustment in memorandum accounts	Price-level adjusted total capital as of 31.Dec.14
Balances as of 31 December 2014	(4,171,742.3)	(237,789.3)	(4,409,531.6)

22 Foreign currency balances

The statement of financial position includes assets and liabilities payable in foreign currencies, whose balances as of 31 December 2014 and 2013 are as follows:

	(US$ million)	
	2014	2013
Assets		
Foreign assets	40,691.9	41,342.6
Reserves	40,446.9	41,093.7
Other foreign assets	245.0	248.9
Other asset accounts	22.9	20.9
Total assets	40,714.8	41,363.5
Liabilities		
Foreign liabilities	1,276.7	1,346.9
Other foreign liabilities	93.4	88.7
Special drawing rights (SDR) allocations	1,183.3	1,258.2
Domestic liabilities	4,406.3	3,766.2
Deposits and General Treasury liabilities	178.8	214.0
Other deposits and obligations	4,227.5	3,552.2
Total liabilities	5,683.0	5,113.1
Net assets	**35,031.8**	**36,250.4**

23 Contingencies and commitments

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

24 Income taxes

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

25 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 Agent, 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, the 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, the 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 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 is not 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," noted that the accounting of *FRP* and *FEES* funds should also comply with mandates and instructions issued by Ministry of Finance. Accordingly, during 2013 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 solely for control purposes, it maintains a subsidiary ledger at notional level for the externally managed portfolio of each fund.

Through Resolution 1775 of the Board, dated 25 September 2013, *KPMG Auditores y Consultores Ltda.* was appointed the audit of the financial statements of Central Bank of Chile and Fiscal Agency Fund "Economic and Social Stabilization Fund" (*FEES*) and the "Pension Reserve Fund" (*FRP*), and Strategic Contingency Fund (*FCE*) between 2014 and 2016.

26 Transactions with related parties

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

(b) Compensation of the Board and key executives:

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

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

The total gross compensation paid to the Board and key executives during 2014 amounted to Ch$1,361.1 million (Ch$1,322.4 million in 2013).

27 Relevant events

(a) 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 as the replacement of Mr. Manuel Marfán Lewis who leaved the position on 18 December 2013.

(b) At the Extraordinary Meeting 1803E, held on 17 February 2014, Central Bank of Chile's Board agreed to the appointment of Mr. Enrique Marshall Rivera as Deputy Governor of Central Bank of Chile up to 23 December 2015, inclusive, since this date corresponds to the period-end of his position as Board Member of the Bank.

(c) At the Ordinary Meeting, held on 17 April 2014, the Board accepted the resignation of Mr. Miguel Ángel Nacrur Gazali as General Counsel and Certifying Officer starting from 20 June 2014, appointing as replacement the attorney Mr. Juan Pablo Araya Marco.

(d) Through agreement 1820-01 dated 30 April 2014, Central Bank of Chile's Board agreed to the appointment of Mr. José Luis Cea Egaña as member and Chairman of the Audit & Compliance Committee of Central Bank of Chile for a three years term, as replacement of Mr. Luis Bates Hidalgo who ended his period.

28 Subsequent events

In the opinion of Management, between 31 December 2014 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 US dollar and euro exchange rate

The exchange rate for U.S. dollar as of 27 January 2015 amounted to Ch$625.67 per US$1.00 representing an increase of Ch$18.29 compared with the exchange rate prevailing as of 31 December 2014. This represents an improvement in Central Bank of Chile's equity of Ch$316,564.5 million.

The exchange rate for euro as of 27 January 2015 amounted to Ch$705.30 per €1.00, representing a decrease of Ch$34.23 compared with the exchange rate prevailing as of 31 December 2014. This represents a decrease in Central Bank of Chile's equity of Ch$218,686.0 million.

The total increase in Central Bank of Chile' s equity because of the increase in the exchange rate for United States dollar and a decrease in the exchange rate for euro on 27 January 2015 amounts to Ch$97,878.5 million.

(b) Approval of financial statements

The financial statements for the year ended 31 December 2014 were presented by the General Manager to the Board on 29 January 2015 and approved for issue at the Meeting 1881.

(c) Other

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

ALEJANDRO ZURBUCHEN SILVA
General Manager

JUAN CARLOS SALAZAR TAPIA
General Accountant

SILVIA QUINTARD FLEHAN
General Auditor

Independent Auditors' 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, which comprise the statements of financial position as of 31 December 2014 and 2013, and the related statements of comprehensive income, changes in equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Central Bank of Chile as of 31 December 2014 and 2013 and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

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

Cristián Bastián E. KPMG Ltda.
Santiago, 30 January 2015

BANCO CENTRAL DE CHILE

Agustinas 1180, Santiago, Chile
P. O. Box 967, Santiago, Chile
Zip code 834-0454, Santiago

Phone: 56-22670 2000

www.bcentral.cl • bcch@bcentral.cl

BANCO CENTRAL
DE CHILE