ANNUAL REPORT

2012

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Senior authorities of the Central Bank of Chile

31 December 2012

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José Luis Pérez Alegría
SECURITY

Employee profile

31 DECEMBER 2012

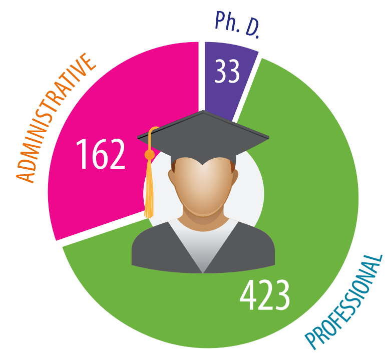
Excluding Board Members

Total staff 618

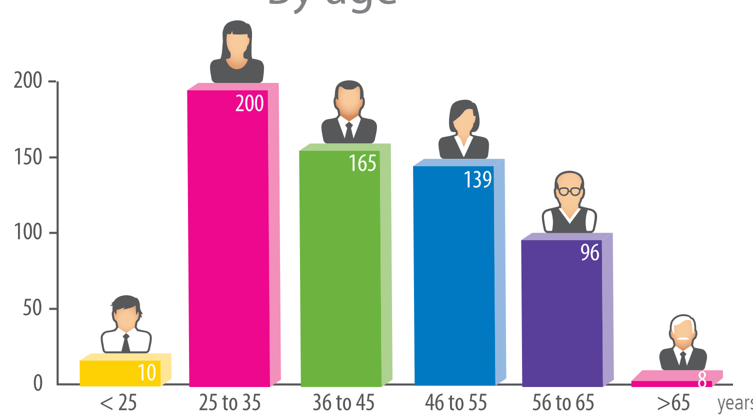
Average years of service 12

Annual turnover 11.2%

By education level



By age



Men 424

Women 194

BANCO CENTRAL
DE CHILE

Santiago, 30 April 2013

Mr. Felipe Larraín B.
Minister of Finance
Santiago

Pursuant to Sections 78 and 79 of the Basic Constitutional Act of the Central Bank of Chile, contained in Article One of Law 18,840, I hereby submit this institution's Annual Report for 2012.

Sincerely,

Rodrigo Vergara M.
Governor

BANCO CENTRAL
DE CHILE

Santiago, 30 April 2013

Mr. Jorge Pizarro S.
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 2012.

Sincerely,

Rodrigo Vergara M.
Governor

Chapter I

Financial management and policies of the Central Bank of Chile in 2012

A. Economic overview

In 2012, the world economic scenario continued to be marked by the complex economic and financial situation in the developed economies, particularly in the euro area. After a sharp increase in financial stress in the final months of 2011, the year started off with a high degree of uncertainty regarding the perpetuation of the crisis in that region and fears that the situation would unravel, with significant consequences for the world economy. As the months passed, the various actions and commitments adopted by the European Central Bank (ECB), the International Monetary Fund (IMF) and the political authorities of the euro area mitigated these concerns. Nevertheless, the economic implications of the crisis remained, with low growth—in fact, the regional economy as a whole contracted in 2012—and high unemployment in several of the peripheral economies. The biggest economies, Germany and France, also started to show signs of weakness.

The situation in Europe coincided with sustained weakness in the U.S. and Japanese economies. In the United States, the debate on the automatic fiscal adjustments that would be triggered in early 2013 kept the markets tense for several weeks; in Japan, indicators of economic activity deteriorated sharply. Given this scenario, the central banks in the developed world continued to increase the monetary policy stimulus, mainly through the implementation of unconventional policies.

In the emerging world, economic performance was mixed. Some large economies, such as Brazil, China and India, showed worrisome signs of a slowdown toward the middle of 2012. In the case of China, the stimulus measures adopted by the authorities contributed to reversing the trend. Some commodity-exporting economies, such as Australia and Colombia, displayed increasing signs of weakness in late 2012. In general, however, the emerging countries continued to perform more favorably than the developed economies. Monetary policies were mostly stable throughout 2012, although in the cases mentioned above the central banks implemented a more expansive policy. The effect of the greater monetary stimulus in the developed world on interest rate differentials and the value of the currencies vis-à-vis the U.S. dollar was another issue of concern for the emerging economies, and the discussion intensified toward the end of 2012.

Locally, the Chilean economy maintained a combination of high growth and low inflation throughout 2012. The European crisis and the generally weak performance of the developed world had only limited effects on domestic demand and output, as consumption and investment remained quite dynamic. Consumption was supported by a tight labor market, characterized by low unemployment and strong wage growth, while financial conditions and the terms of trade remained favorable. Investment, in turn, was driven by a series of projects in the mining sector. The steady growth of spending also reflected a widening of the current account deficit, which was largely financed through foreign direct investment (FDI).

With regard to inflation, core indicators showed a marked difference in the behavior of goods inflation, which is associated with tradable price pressure, and services inflation, which has to do with excess capacity and labor cost pressures. Goods inflation recorded negative annual rates over the course of the year, while services inflation rates were high and then dropped in later months. Both total and core inflation ended 2012 under 2% in annual terms. Inflation expectations in the policy horizon remained around 3% throughout 2012.

B. Monetary policy

In early 2012, the Board reduced the monetary policy rate (MPR) by 25 basis points, to 5%. This move represented a preventive measure in a scenario characterized by less favorable external conditions and an increased risk of more adverse scenarios. As the months passed, the Chilean economy proved quite resilient, despite the external downturn. Based on the evolution of the macroeconomic scenario, the Board opted to hold the MPR unchanged at 5%, a level considered to be within the neutral range.

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 2012, and the floating exchange rate regime operated normally.

D. Financial regulations

In May 2012, the Board authorized *Cruz del Sur Corredora de Bolsa S.A.* to operate in the Formal Exchange Market. That same month, it granted *Corpbanca* the prior authorization stipulated in Article 76 of the General Banking Law, with regard to the acquisition of shares of a banking firm or other affiliated firms established overseas, whose transactions are covered under Articles 70 *et seq.* of that legislation.

In July, the Board modified Chapter III.H.1 on "Clearing House for Checks and Other Instruments in National Currency in the Country" to carry out the "Early Release of Funds" initiative. This initiative was put before the Central Bank and the Superintendence of Banks and Financial Institutions (SBIF) by the Association of Banks and Financial Institutions with the objective of giving the banks' checking account clients access to funds deposited via check or other instrument in national currency, as of 9:00 a.m. on the bank business day following the deposit to the checking account, instead of 1:30 p.m. This provision will be applied through December 2013, at which time the regulation issued by the Bank will be revised to provide for a single phase for the release of funds.

In September, the Central Bank of Chile and the SBIF issued a joint regulation on mortgage bonds. The bonds in question are a new instrument that banks can issue to provide mortgage loans, which are subject to special treatment in case of insolvency or forced liquidation of the issuing bank, as established in the General Banking Law. In the second half of 2013, these instruments will be accepted as eligible collateral for open market operations involving liquidity injection.

Also in September, the Bank published for public commentary its proposal on changes to the regulations governing companies that issue or operate credit cards, established in Chapter III.J.1 of the *Compendium of Financial Regulations*. The main changes introduced by the proposed

Meeting of the Managing Director the IMF, Christine Lagarde, with the Board of the Central Bank of Chile

regulations include the suspension of the differentiated scheme applied to issuers that pay immediately or within three days versus those that pay in longer terms; the definition of the universe of supervised entities as including all entities that regularly assume payment responsibilities with unrelated affiliated businesses; the strengthening of capital, liquidity and reporting requirements for issuers and operators; and the expansion of the corporate governance responsibilities of the supervised entities.

In November, the Board decided to grant preliminary approval to the SBIF and agreed to modify Chapter III.B.5 of the *Compendium of Financial Regulation*s, to include overnight and demand deposits in the limits on overseas financial investments and credit operations for banks. For this purpose, the regulation will apply the definition of a related entity through bank equity or management, as established in Title I of Chapter 12-4 of the *Updated Compilation of Regulations* issued by the SBIF.

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.

To support the implementation of monetary policy, the Bank monitors market liquidity and employs the mechanisms and instruments at its disposal to ensure that the interbank interest rate remains around the MPR. This is achieved through the short- and medium-term liquidity management schedule, which specifies the auction of Central Bank discountable promissory notes (PDBC) and bonds, as well as other open market operations and standing facilities. In addition, market liquidity forecasts are revised daily and, when necessary, monetary adjustment operations are carried out to facilitate the convergence of the interbank rate to the MPR.

In 2012, the absolute deviation of the interbank interest rate from the MPR averaged 2 basis points. This occurred in a context of a stable MPR, the absorption of temporary liquidity offered in the last quarter of the previous year and some episodes of friction in the money market. In November, the Bank announced a liquidity injection program to facilitate financial system management and to mitigate possible tension in the money market toward the end of the year. Thus, through 18 December, the Bank offered weekly floating-rate repos at 60 and 90 days.

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.

In the first quarter of 2012, the investment policy was subject to a review process in response to the increase in the reserves level after the foreign currency purchase program carried out in 2011, the changes in the macroeconomic and financial environment of the international markets and the adaptation of the Bank's policies to reflect international best practices[1]/. Based on this review, a new investment policy was generated for reserve management, which was approved by the Board in February.

[1]/ These best practices were defined based on the conclusions of the Workshop on "Policy Objectives in Reserve Management," held in 2010. The workshop was attended by international professionals from both the public sector (central banks and supranational entities) and the private sector (external managers and investment banks).

Board of the Central Bank of Chile

Under the new policy, the management objectives are consistent with those established by the previous policy: (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; and (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.

At the same time, the new investment policy incorporated the explicit objective of reducing the cost of holding reserves at the margin. This objective was achieved through the addition of a portfolio oriented toward obtaining higher absolute returns in the long term. The introduction of this new objective reflects the higher level of available reserves.

The new benchmark structure defines three investment portfolios: (a) the short-term liquidity portfolio (24% of total reserves); (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 (current account balances held by the General Treasury, public companies and banks) and the other assets portfolio (IMF special drawing rights, or SDRs, certified gold and other assets).

In 2012, the Bank held sufficient foreign exchange reserves to face potential and predictable foreign currency liquidity needs. As of 31 December, the investment portfolio stood at US$35.896 billion and the cash portfolio at US$3.755 billion. Taking the sum of these two portfolios plus other assets, international reserves ended the year at US$41.650 billion. This balance was US$329.8 million lower than year-end 2011. This was explained by a reduction in the cash portfolio of US$1.032 billion, which was partially offset by an increase of US$566.2 million in the investment portfolio and US$135.5 million in the value of other assets.

The liquidity of the reserves was ensured by investing in a portfolio of short-term deposits with international commercial bank and fixed-income instruments traded on highly liquid secondary markets. On 31 December 2012, time deposits and resources held in transaction accounts represented 11.0% of international reserves; short-term papers, 20.5%; bonds, 63.7%; and other assets, 4.8%.

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, 82% of reserves (excluding the share of other assets) were invested in AAA-rated instruments issued by banks, sovereigns, external financial institutions or supranationals. The remaining 18% was invested in instruments with a credit rating between A and AA+, mainly in the banking sector. Market risk is limited by diversifying investment currencies, instruments and maturities. Decisions regarding these parameters always take into account the impact on the Bank's balance sheet.

At year-end, 50.3% of the reserves were held in U.S. dollar instruments, 18.9% in euros[2]/, 7.8% in Canadian dollars, 5.2% in Australian dollars and the remaining 17.8% in other currencies. The average duration of the 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 2012, a portion of the investment portfolio was managed by two external managers, who are authorized to manage a long-term fixed-income general portfolio. Starting in September, the external managers handled a portfolio equivalent to the internally managed diversification portfolio.

The total return obtained from international reserve management during the year was 0.66% measured in currencies (the reference basket of currencies for the investment portfolio) and 1.43% measured in dollars. The differential return relative to the benchmark (the benchmark used

[2]/ In July 2012, the new investment policy was adjusted to reduce the overall exposure to the euro.

to guide and evaluate investment performance) was –35 basis points[3]. The total operating costs of managing the reserves for this accounting period represent 2.6 basis points of the total reserves under management. Income from the securities lending program was on the order of 0.5 basis points of the international reserves.

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

E.3 Debt management

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

In early January, the Bank announced its annual bond auction calendar, which considered the usual debt rollover for the current year as well as the transfer of approximately US$1.0 billion in short-term debt (PDBC) to long-term debt. The debt plan included peso-denominated Central Bank securities (BCP), with maturities of 2 years (for an annual amount of Ch$250 billion), 5 years (Ch$350 billion) and 10 years (Ch$350 billion). The issue schedule also included 5- and 10-year UF-denominated Central Bank securities (BCU) for annual amounts of UF25 million and UF23 million, respectively.

In early February, the Central Bank accepted the role of fiscal agent in the placement of General Treasury bonds to be issued during the year, together with the related bond service at maturity. This involved placing UF-denominated General Treasury bond issues (BTU) with maturity dates of 5, 7, 10, 20 and 30 years and peso-denominated General Treasury bonds (BTP) with 10- and 20-year maturities.

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

E.4 Provision of large-value payment services

The payment system comprises the set of instruments, regulations and procedures through which funds are transferred among economic agents. Its operation under efficient, secure conditions is indispensable for the proper functioning of the economy, for the stability and development of the financial system and for the effectiveness of monetary policy.

The large-value payment system in Chile centers on the real time gross settlement (RTGS) system, which is owned and operated by the Central Bank of Chile. This system is used to clear the Central Bank's operations, as well as a significant share of transactions initiated by participants, which are settled individually, in real time, through settlement accounts maintained in the system. At the close of the business day, the RTGS system also settles the net multilateral positions generated in the check, ATM and large-value clearing houses.

In 2012, the local interbank and money market functioned normally. The RTGS system effectively carried out its role of liquidity distribution, settling payments between participants and completing liquidity management operations without delays. The RTGS system cleared an average of over Ch$8.6 billion a day during the year, an increase of almost 11% over the last accounting period. This was mainly explained by an increase in payments settled by participants (19%), which is related to a significant increase in the average daily amounts originating in the over-the-counter (OTC) securities markets starting in the second quarter. This could have to do with the changes in the investment procedure for cash surpluses in the Treasury Banking Account, which since August 2012 involves auctioning repos using an electronic transaction platform and which was added to the deposit auctions carried out since the previous year.

[3] The published differential return includes the different adjustment periods during the transition to the current investment policy. For the purposes of statistical records and completeness of information, but not for management evaluation, the measure does not consider the special performance measurement permits that were in force during these transition periods.

Payments settled in association with Central Bank operations grew 5% in the year, mainly due to the increase in banks' use of liquidity management tools such as the standing deposit facility. The greater available liquidity caused a strong decline in the use of the intraday liquidity facility by participants (–29%). In terms of volume, the RTGS system cleared 350,185 payments, or 1,418 payments per day, on average; this represents an annual growth rate of 7%.

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

Board of the Central Bank of Chile with the President of the Republic, Sebastián Piñera

E.5 Management of fiscal funds

Since 2007, the Bank has acted as fiscal agent in the management of all or part of the fiscal resources held in the Economic and Social Stabilization Fund (ESSF) and the Pension Reserve Fund (PRF). As of April 2011, the Bank also manages the Strategic Contingency Fund (SCF) in the name of the General Treasury.

The ESSF performance guidelines that were implemented in May 2011 remained in effect throughout the period. For the PRF, new performance guidelines were approved by the Board in December 2011 and entered into force on 2 January 2012. These new guidelines specifiy four asset portfolios, which include corporate stocks and bonds (managed by external portfolio managers) and sovereign bonds and other related assets, plus inflation-indexed sovereign bonds, which are managed directly by the fiscal agent.

In 2012, the Bank managed the fiscal resources with the objective of obtaining monthly yields that are in line with the benchmark, following a passive management strategy, while complying with the risk standards defined by the Ministry of Finance in its performance guidelines and accepted by the Bank. At the same time, the Bank applied the same standards to the management of these resources as to its own reserve management.

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

In 2012, the ESSF received a contribution of US$1.700 billion, and on 31 December 2012 it had a market value of US$14.998 billion. The PRF received additional resources totaling US$1.197 billion[4]/, closing the year with a market value of US$5.883 billion. Since the Bank accepted the fiscal agent assignment through year-end 2012, the Treasury has made total contributions to the two funds of US$26.235 billion and withdrawals of US$9.428 billion.

For the ESSF, market risk was controlled through absolute deviation ranges for duration and currencies, whereas the PRF uses risk budgets associated with a different ex ante tracking error for each of the fund's portfolios. Credit risk was controlled through restrictions on issuers, instruments, intermediaries and custodians, as defined in the performance guidelines.

The ESSF resources entrusted to the Bank for management generated an absolute yield measured in dollars of 1.0% in 2012. The PRF resources generated an absolute yield measured in dollars of 4.9%[5]/.

With regard to agency fees[6]/, the costs of managing the funds were charged to the General Treasury. In 2012 annual charges for the ESSF and PRF were 0.5 and 1.5 basis points, respectively, of the total resources under the direct management of the Bank.

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

F. The balance sheet of the Central Bank of Chile

F.1 Balance sheet levels and structure

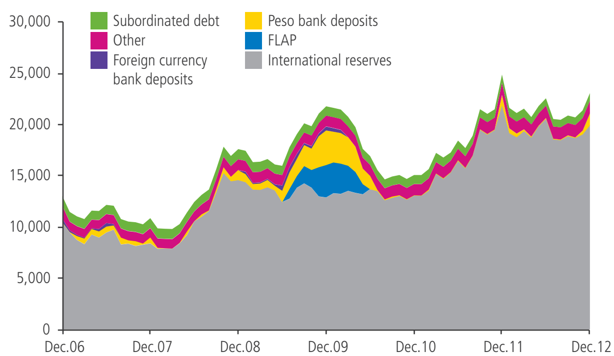
The behavior of the economy and the policies adopted by the Central Bank of Chile affect the size and composition of the Bank's balance sheet, which in turn affects the trend in earnings and losses. Thus, the considerable debt in the form of Central Bank promissory notes on the liability side is largely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

[4]/ The distribution of the annual contribution was made with the objective of converging toward the benchmark composition by asset class established in the PRF performance guidelines.

[5]/ Both figures were obtained using the time-weighted rate of return (TWRR) methodology.

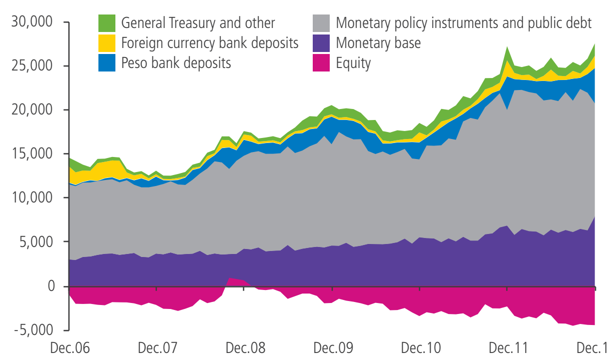
[6]/ For the PRF, the fiscal agency fees are associated with the direct expenses and costs incurred by the Bank in managing the fund. It does not include the charges made by the external portfolio mangers for managing their respective portfolios.

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



Source: Central Bank of Chile.

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



Source: Central Bank of Chile.

In 2012 the balance sheet was relatively stable in terms of the level of assets and liabilities, although the equity deficit expanded (figures I.1 and I.2). Measured relative to GDP, total assets decreased from 20.7 to 18,1% between 2011 and 2012. In the same period, liabilities (excluding equity) contracted from 22.7 to 21.6% of GDP, and equity decreased from –2.0 to –3.5% of GDP.

Measured in pesos, the size of total assets was reduced by Ch$1.812 trillion in 2012 (table I.1). The largest contraction, of Ch$1.957 trillion, was in foreign exchange reserves, which breaks down as follows: loss in value due to the appreciation of the peso of Ch$1.622 trillion; other (negative) adjustments of Ch$79 billion; (positive) earnings from interest of Ch$283 billion; withdrawals by commercial banks and the General Treasury of Ch$516 billion; and other (negative) effects of Ch$23 billion. The balance of monetary policy instruments grew Ch$156 billion, due to the greater us of repos by commercial banks in December.

Liabilities (excluding equity) increased Ch$313 billion in 2012. The largest growth was recorded in the monetary base: Ch$1.039 trillion. Balances fell for the foreign currency accounts held by the commercial banks (Ch$316 billion), deposits from and liabilities to the Treasury General (Ch$161 billion) and Central Bank debt (monetary policy promissory notes) (Ch$281 billion). The latter item reflects the retirement of maturing PDBCs in December, as a measure for supporting liquidity management in the financial market.

As a result, equity contracted Ch$2.125 trillion in 2012, closing the year at –$4,479 trillion[7]/. The biggest contributing factor was exchange rate variation, with accounted for –$1.453 trillion. Another factor was the difference between the return on international reserves and the cost of the liabilities they finance, where the former is tied to the international interest rate and the latter to the domestic interest rate.

F.2 Return on assets, cost of liabilities and changes in equity

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 2012 the differential between the return on total assets (1.6%) and the cost of total liabilities (2.6%) was negative, at –1.0%.

[7]/ In 2012, the General Treasury did not make equity contributions to the Central Bank, in accordance with the stipulations of Law 20,128, on fiscal responsibility, published in the *Official Gazette* on 30 September 2006.

Monetary Policy Meeting

The average interest rate earned on international reserves rose from 1.0% in 2011 to 1.4% in 2012, due to the higher interest rate on the new instruments incorporated into the portfolio (South Korean bonds, renminbi deposits and Australian bonds). Locally, the interest rate on monetary policy promissory notes averaged 4.8% in 2012, down from 5.0% in 2011, given the lower income in pesos of UF-denominated bonds, in a context of lower inflation.

With regard to adjustments, variations in the exchange rate and the UF (*unidad de fomento*, an inflation-indexed unit of account) generated accounting losses in 2012. As usual, the biggest contributing factor was exchange rate fluctuation, given its impact on the value of international reserves in pesos. Between year-end 2011 and year-end 2012, the peso appreciated against the currencies that make up the foreign exchange reserves, causing the value of the reserves to fall by 7.8%. Adjustments to total assets caused a reduction in value of 6.8%. With regard to the UF, the lower inflation rate was transmitted to UF-denominated notes, resulting in a slight adjustment of 0.1% in the value of total liabilities.

Given these movements, the balance sheet recorded negative equity of Ch$4.479 trillion, starting from a negative opening balance of Ch$2.354 trillion less the negative net result of the 2012 accounting period of Ch$2.124 trillion (table I.1). This latter result is explained by a loss of Ch$1.720 trillion due to changes in the value of assets and liabilities; interest expense of Ch$328 billion; and nonfinancial costs of Ch$76 billion, mainly the costs of issuing and distributing currency and personnel and administrative expenses.

Table I.1

Central Bank of Chile balance sheet

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

	2011		2012		Rate of return (2) (%) 2011		Rate of return (2) (%) 2012	
	Balance	%GDP	Balance	%GDP	Interest	Δ value	Interest	Δ value
Assets (1)	24,911.9	20.7	23,099.8	18.1	1.4	10.3	1.6	-6.8
International reserves	21,890.5	18.2	19,933.4	15.6	1.0	11.4	1.4	-7.8
Other public sector assets	1,008.8	0.8	1,072.3	0.8	5.6	2.0	5.0	1.2
Subordinated debt	821.3	0.7	754.3	0.6	5.0	3.7	5.0	2.4
Monetary policy instruments (3)	954.9	0.8	1,110.4	0.9	1.0	0.0	1.0	0.0
Other	236.3	0.2	229.4	0.2	2.3	6.0	1.5	-6.2
Liabilities (1)	27,265.8	22.7	27,579.1	21.6	2.7	2.0	2.6	0.1
Monetary base	6,851.2	5.7	7,890.6	6.2	0.3	0.0	0.3	0.0
Monetary policy promissory notes (4)	13,186.1	11.0	12,905.1	10.1	5.0	2.3	4.8	1.6
Other monetary policy instruments (5)	4,789.7	4.0	4,876.5	3.8	1.5	1.3	1.6	-1.4
Current accounts and bank foreign currency reserves	815.3	0.7	499.2	0.4	0.0	13.5	0.0	-4.4
Treasury and other public sector deposits	865.6	0.7	704.9	0.6	0.7	0.8	0.3	-1.9
Other	757.9	0.6	702.8	0.5	-0.1	10.1	0.2	-7.8
Equity (1)	-2,353.9	-2.0	-4,479.2	-3.5				
Initial capital	-3,449.1		-2,353.9					
Valuation accounts	0.5		-1.9					
Net result	1,091.7		-2,123.5					
Nonfinancial result (6)	-81.7		-75.8					
Net interest (6)	-327.7		-327.6					
Changes in value (7)	1,501.2		-1,720.1					
Capital contributions (8)	3.0		0.0					

(1) Assessed equity is equivalent to the accounting measure; however, total assets and liabilities differ, mainly because of differences in the treatment of provisions, temporary assets, and temporary liabilities.
(2) Implicit rates are calculated based on estimates of average balances and losses/profits due to interest or changes in value. The resulting rates may be distorted if the end-of-month balances used to estimate the average balances are not representative.
(3) Includes credit to banks guaranteed with foreign currency deposits (foreign currency swaps) or risk-free securities (repos) and liquidity lines in domestic and foreign currency.
(4) Includes PDBC, BCP, PRC, CERO UF, BCU and PRD.
(5) Short-term remunerated bank deposits in domestic and foreign currency. Foreign currency deposits, except daily deposits, guarantee credits in domestic currency (note 3).
(6) The foreign currency component of these items is converted to pesos using average exchange rates.
(7) Includes indexation in domestic currency and the effect of foreign exchange rate fluctuations on assets and liabilities in foreign currency.
(8) The General Treasury made available to the Central Bank of Chile the amount of Ch$2.9984 billion in 2011 to pay for liabilities contracted with the IDB. These transfers are recorded in Central Bank of Chile, in its role as fiscal agent, and documented in General Treasury Ordinary Letter 2945 of 28 October 2011. For accounting purposes, this implied that the Central Bank of Chile recognized a capital increase for this amount. In 2012 the General Treasury did not make any capital contributions to the Central Bank of Chile.

Source: Central Bank of Chile.

Table I.2a

Central Bank of Chile balance sheet positions

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

	Balance 2011	2012 Flows (4) Exchanges (5)	2012 Flows (4) Earnings and Δ capital (6)	Balance 2012
Denominated and payable in pesos (1)	-21,174.8	-6.5	-822.6	-22,003.9
Monetary base (2)	-6,851.2	-1,019.4	-20.0	-7,890.6
Central Bank promissory notes	-13,186.1	1,101.6	-820.5	-12,905.1
Banks	-2,784.4	33.6	-62.9	-2,813.7
Other	1,646.9	-122.3	80.8	1,605.4
Denominated and payable in foreign currency (1)	18,821.0	6.5	-1.302.8	17,524.6
EQUITY (1)	-2,353.9	0.0	-2.125.4	-4,479.2

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 2011	2012 Flows (4) Exchanges (5)	2012 Flows (4) Earnings and Δ capital (6)	Balance 2012
Denominated and payable in foreign currency	36,092.8	11.8	508.9	36,613.6
International reserves (3)	41,979.3	-935.4	605.6	41,649.5
Central government (net)	-1,284.2	306.7	-0.1	-977.6
Banks (net)	-3,468.4	565.4	0.0	-2,903.1
Central Bank bonds and promissory notes	0.0	0.0	0.0	0.0
Other (net)	-1,133.9	75.2	-96.5	-1,155.2
TOTAL	36,092.8	11.8	508.9	36,613.6

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

Source: Central Bank of Chile.

F.3 Balance sheet positions[8]/

The flow of exchange operations reduced the Bank's position denominated and payable in domestic currency by Ch$6 billion. This included an increase in the monetary base of Ch$1.019 trillion, a reduction in net debt with banks of Ch$34 billion, a reduction in promissory note debt of Ch$1.102 trillion and a decrease in the net balance of other assets of Ch$122 billion, mainly due to the subordinated debt service (table I.2a).

As counterpart, the Bank's position denominated and payable in foreign currency increased by Ch$6 billion, equivalent to US$12 million. This was due to lower international reserves by US$935 million, reflecting withdrawals by the government of US$307 million and by banks of US$565 million, as well as other operations totaling US$75 million (table I.2b).

The negative flows in the domestic currency position from interest and valuation changes—Ch$823 billion—were mainly due to the cost of Central Bank promissory notes. The negative flows in the foreign currency position—Ch$1.303 trillion—were mainly explained by the reduction in the international reserve balance, as a result of the exchange rate effect discussed earlier, which was partially offset by interest and other effects.

G. Miscellaneous

G.1 Commission on Price Distortions

The National Commission on Price Distortions is in charge of investigating the existence of price distortions on imported goods. It is a technical body composed of representatives from public institutions in the economic sector. Its task is to advise the President of Chile on the application of antidumping measures, countervailing duties and safeguard measures. The Commission operates independently from the Bank, although by law the Technical Secretariat resides within the Bank. Its functions include gathering background information for investigations, preparing technical reports, channeling communications among the parties involved and carrying out pertinent notifications. In 2012, the Commission on Price Distortions met on nine occasions and opened two investigations.

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]/. Through Resolution 1715-01-121031, dated 31 October 2012 and published in the *Official Gazette* on 6 November 2012, the Board designated Mr. Luis Óscar Herrera Barriga and Mr. Michael Pedersen to represent the Central Bank of Chile on *Cochilco*, replacing Mr. Pablo Pincheira Brown and Mr. Eduardo López Escobedo. They will serve a term of two years starting on 24 October 2012.

G.3 Competition Tribunal

The Competition Tribunal (*Tribunal de Defensa de la Libre Competencia*, or *TDLC*) is made up of five Judges and two Alternates[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 Resolutions 1677E-01 and 1677E-02, both adopted during a special session held on 3 May 2012, the Board appointed Mr. Enrique Vergara Vial to the position of Judge / Legal Counsel, replacing Mr. Juan Velozo Alcaide, and also appointed Ms. María de la Luz Domper Rodríguez to the position of Judge / Economist, replacing Mr. Julio Peña Torres. In both cases, the outgoing judges had completed the legal term of their appointment, which ended on 12 May 2012. The new appointees were both designated for a period of six years, which will end on 12 May 2018.

[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.

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

[10]/ The appointment can be renewed at the end of the term or revoked before the full two years have passed.

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

Through Resolution 1705-01 of 6 September 2012, the Board submitted to the President of the Republic the short list of nominees for the position of Alternate Judge / Economist, to serve the remainder of the term vacated by Ms. María de la Luz Domper Rodríguez when she was named Judge / Economist. Through Executive Decree 113, issued by the Ministry of Economy, Development and Tourism on 28 September 2012, the President of the Republic appointed Mr. Jorge Ernesto Hermann Anguita to the position for the period from 26 September 2012 to 12 May 2014.

The number of Alternate Judges was reduced from four to two by Law 20,361, which introduced modifications to Article 6 of Decree Law 211; the change comes into effect with the appointments made starting in 2014. Consequently, the two Alternate Judges whose terms ended on 12 May 2012 were not replaced.

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 1679E-01-120514, in May the Board appointed Mr. Luis Felipe Céspedes Cifuentes to the position of full member, for a period of four years, replacing Mr. Guillermo Le Fort Varela. At the same time, the appointment Mr. Luis Antonio Ahumada Contreras to the position of alternate was renewed for the same period.

Chapter II

Institutional management and governance

A. Organization and operation

A.1 The Board

The Board has five members, one of whom acts as chair and also serves as the Central Bank's Governor. The Board is responsible for the senior governance and management of the Bank, in its quality as an autonomous, technical public institution with constitutional authority. Board Members are appointed by the President of Chile by means of an Executive Decree issued by the Ministry of Finance, with preliminary approval from the Senate. Members hold office for a renewable period of ten years, and the Board is reconstituted on a partial basis every two years, when one member is changed at a time[1]/.

The Bank's Governor is appointed by the President of Chile from among the Board Members. The Governor holds office for five years or until his appointment as Board Member expires, whichever comes first, and may be reappointed for new periods. Along with chairing the Board, the Governor is responsible for representing the Central Bank on extrajudicial matters and directing institutional relations with public authorities, financial institutions and international organizations. On 10 December 2011, Mr. Rodrigo Vergara Montes was appointed Governor for a term of five years. Mr. Vergara was previously appointed Board Member in December 2009.

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

The remaining Board Members are Mr. Enrique Marshall Rivera (appointed in December 2005), Mr. Sebastián Claro Edwards (December 2007) and Mr. Joaquín Vial Ruiz-Tagle (February 2012).

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.

[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.

Board of the Central Bank of Chile and Finance Minister, Felipe Larraín, at the Monetary Policy Meeting

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.

[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 General Treasury or other governmental bodies; and to waive immunity from the enforcement of international contracts entered into by the Central Bank on economic and financial matters.

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

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

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

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

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

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

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

vi) The Minister of Finance can suspend any Board resolution or agreement 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. In the event of a veto, the resolution in question can only be adopted through a unanimous vote by the Board Members.

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

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

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

A.3 Board regulations

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

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

A.4 Appointment of a new Board Member

As indicated earlier, Mr. Joaquín Vial Ruiz-Tagle was appointed to the position of Board Member, for a ten-year term beginning on 6 February 2012. The appointment was put into effect through Executive Decree 167, of 6 February 2012, which was published in the *Official Gazette* on 6 July 2012.

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, 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.

Audit and Compliance Committee

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

A.6 Audit and Compliance Committee

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

In 2012 the Committee met seven times to execute the provisions in its governing statutes. The issues addressed at these meetings included assessing the services provided by the independent auditing firm; reviewing the annual auditing plan and final report; learning the activities of the internal auditing division; and reviewing the risk management, internal monitoring and information systems.

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

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. The 2012 medium-term strategic plan was initiated in 2009, under Governor José de Gregorio. The strategic focal points for the four-year period were as follows:

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

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

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

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

The main achievements and advances in 2012 were the following:

a. Liquidity management, based on keeping the interbank interest rate very near the MPR and using repo operations for episodes of liquidity stress.

b. Development of transaction platforms, such as the open market operations system (*SOMA*).

c. New international reserve portfolios: a liquidity portfolio, a medium-term portfolio, and an investment portfolio.

d. Fulfillment of the statistical commitments plan for the OECD.

e. Preparation of a trial *Business Earnings Report* by the Monetary Policy Strategy and Communication Management.

f. Strengthening the monitoring of financial stability, in particular with regard to the real estate sector, life insurance companies, non-reporting firms and improvements in stress tests.

g. Active role of the Bank participating on the Financial Stability Council, the Financial Stability Board and the Committee of Superintendents.

h. Development of risk matrices for all Bank processes, including self-assessment.

i. Implementation of the integrated management system (ERP).

j. New fiscal agency decree and work groups.

k. Replacement and modernization of the RTGS system's private network.

l. Consolidation of the alternative operations site (AOS).

m. Inauguration of the new numismatic museum.

n. Implementation of a new office for Treasury processes.

B.2 Internal organization, restructuring and appointment of executives

There were no changes to the Bank's internal organization in 2012. The following executive appointments were made in 2012. In January, Mr. Miguel Fuentes Díaz was named Head of the Economic Environment Analysis Department, in the Macroeconomic Analysis Management. In March, Mr. Simón Guerrero Hurtado was designated Head of the National Accounts Synthesis Department, in the Macroeconomic Statistics Management. That same month, Mr. Josué Pérez Toledo was appointed Head of the Institutional National Accounts Department, in the Macroeconomic Statistics Management. In April, Ms. Alexandra Rado Zwillinger was named Head of the Fiscal Agency Department, in the International Markets Management. In June, Mr. Javier Allard Soto was appointed Chief Counsel of Corporate Legal Services, in the General Counsel's Office. In September, Mr. Ítalo Seccatore Hidalgo was designated Head of the Statistical Information Services Department, in the Statistical information Management. In October, Ms. Cecilia Feliú Carrizo was appointed to the position of Treasury Manager. In November, Mr. José Luis Pérez Alegría was named Security Manager.

B.3 Human resources management

In 2012 the Human Resources Management moved forward on the development and implementation of the integrated management system (ERP), in terms of human capital development and the payment of salaries and benefits. This new module will reinforce personnel management processes, integrate the different systems, strengthen control systems and internal information management and generate reports that support administration management. In this project, the Human Resources Management also provided cross-sectional support to the different areas involved.

After carrying out the work environment study in 2011, in 2012 the Human Resources Management implemented a number of projects in various areas of the Bank with the goal of strengthening areas in need of improvement and that have a strong organizational impact. The projects included improving communications within the different areas, strengthening teamwork and enhancing integration within the units. A new round of the work environment study is planned for 2013.


Alejandro Zurbuchen, General Manager

One of the objectives of modernizing the Central Bank's Human Resources Management was to implement skills-based management in the different levels of the institutions. This included defining skills profiles for the upper levels of the organization, as required and defined by the Bank, in order to carry out the organizational strategy and promote professional development. In 2012, 50% of the professionals at the Bank underwent a skills assessment, and the remaining professionals will be evaluated in 2013. These assessments complement earlier work with upper- and middle-management positions of the Bank.

In terms of career development, efforts this year were focused on the retention of high-potential, high-performing professionals, establishing a medium-term development program model for these employees. At the same time, a working group made up of members of upper management worked on designing a career path for specialists, mainly in the areas of economics and finance. As with the previous initiative, the goal was to define and implement development plans for professionals in areas where the Bank has comparative advantages as a unique institution with a prominent role in society.

Policies for the development and training of high-quality professionals in 2012 included the continuation of long internships with the Organization for Economic Cooperation and Development (OECD). This joint project, involving a professional exchange program, aims to share experiences, knowledge and information, develop specific skills, improve applied policies and develop the network of contacts between the two institutions. There are currently three professionals in economics/finance and statistics working in different areas of the OECD.

The Bank also continued to coordinate its visiting researcher program, which is highly valued by professionals pursuing post-graduate studies in foreign universities. Six students participated in this program in 2012.

B.4 General Auditor's Office

The General Auditor's activities focus on helping the Board and the Administration fulfill their duties, through an independent, objective and systematic evaluation of the design and effectiveness of risk management, internal control and corporate governance.

In 2012, the main challenges were in the following areas: implementing the audit plan based on international practices; supporting and responding to the needs of the Board, Management and the Audit and

Compliance Committee; and maintaining the certification and quality of the audit process (quality assurance) by the Institute of Internal Auditors (IIA), reaffirming that the activities of the Central Bank's General Auditor "comply with international standards for the professional exercise of internal auditing." In addition, the Internal Auditing Service of the Central Bank of Chile maintained its certification under ISO 9001:2008 standards.

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

The Bank is subject to the provisions in its Basic Constitutional Act governing the periodic release of information on the fulfillment of its public duties. In this context, this report discloses the main contracts signed by the Bank for an amount greater than Ch$100 million, which are related to the supply of goods and services that allow the institution to operate normally (table II.1) and annual expenditures on consultant services, surveys, research and seminars (table II.2). With regard to the issue of paper money and coins, section E.3 provides general information on the contracts signed by the Bank in connection with the 2012 issue program.

Table II.1
Contracts signed in 2012
(over Ch$100 million over the life of the contract)

N°	Supplier	Contract purpose	Effective	Ending
2404	Prosegur Chile S.A. (1)	Security services	01-01-2012	01-01-2013
2449	Brink's Chile S.A. (1)	Transport services	23-03-2012	23-03-2013
2453	National Statistics Bureau (2)	Statistical products	02-01-2012	02-01-2013
2456	Construcciones Especializadas Ltda.	Infrastructure maintenance services	13-04-2012	30-01-2013
2483	Equant Chile S.A. (3)	Communications services	01-10-2012	01-10-2017
2512	Reporting Estándar S.L.	Information and technological services	28-06-2012	28-02-2013
2560	Hitachi Data Systems Chile Ltda.	Information and technological services	14-09-2012	14-06-2013
2587	Demarco S.A. (4)	General and administrative services	01-12-2012	01-12-2013

(1) Initial one-year contract, which is automatically renewable for up to two additional one-year periods.
(2) Initial one-year contract, which is automatically renewable for another one-year period.
(3) Initial 60-month contract, which is automatically renewable for additional one-year periods (indefinitely.)
(4) Initial one-year contract, which is automatically renewable for up to four additional one-year periods.
Source: Central Bank of Chile.

Table II.2
Expenditures in consulting, surveys, studies and seminars
(Ch$ million 2012) (*)

	2008	2009	2010	2011	2012
Consulting, surveys, studies and seminars	2,092.2	1,795.4	1,611.9	1,695.8	1,611.0
Consulting	1,415.8	814.4	962.2	966.8	810.5
Surveys and studies	457.7	752.9	435.6	491.3	520.1
Seminars	218.7	228.1	214.1	237.7	280.4

(*)The average CPI was used to update older figures to 2012 pesos.
Source: Central Bank of Chile.

C. Personnel, administrative and other expenses

These management-related expenses include personnel compensation and benefits; the use and consumption of goods and services; and other expenses necessary for carrying out the Bank's activities (table II.3). On the income statement, they are broken down as follows: (i) personnel and administrative expenses; and (ii) other expenses. In 2012, of the total personnel, administrative and other (expenses) and income, personnel costs represent 58%; administrative expenses, 26%; and retirement benefits, 10%; and other (expenses) and income, 6%.

Personnel expenses

Personnel expenditures rose 16% in real terms between 2008 and 2012, from Ch$23.002 billion to Ch$26.784 billion. Salaries represent an important component of personnel expenditures, and the fixed share of salaries has been steadily coming up to market rates over the course of this period, so as to guarantee the incorporation and retention of highly qualified professionals in the Bank. In addition, the evolution of the personnel structure has been characterized by a trend toward the professionalization of the Bank and a decline in administrative, secretarial and service personnel.

From December 2008 to December 2012, the size of the staff contracted 0.6%, from 622 to 618 employees. Professionals, executives and senior managers accounted for 64% of the total in December 2008, versus 75% in December 2012.

Retirement benefit costs[3]/

Between 2008 and 2012, retirement benefit costs fell 37% in real terms. This is essentially explained by the severance package for years of service paid out in 2012 to personnel on the retirement and resignation plan started in 2008. The real net increase in severance payments in 2012 relative to 2011 was Ch$2.079 billion, mainly due to the extension of retirement plan benefits to a new group of workers.

Administrative costs

Administrative costs recorded a real increase of 1% between 2008 and 2012. This expense category mainly includes disbursements for general services, maintenance of fixed assets, consulting, surveys, research, seminars, utilities and computer and technological development expenses.

The 15% reduction in administrative costs between 2011 and 2012 was primarily due to lower disbursements for general services and computer and technological development expenses.

Other (expenses) and income

The decrease in other expenses relative to 2011 is due to a reduction in real estate appraisal values of Ch$12.263 billion, which was charged to earnings.

[3]/ In 2009, with the first application of International Financial Reporting Standards, actuarial criteria were incorporated into these provisions including financial and demographic parameters. For the purposes of comparison, the relative expense is shown for this provision, calculated using the actuarial method since 2008.

Table II.3
Personnel, administrative and other expenses
(2012 Ch$ million) (*)

	2008	2009	2010	2011	2012
Personnel and administrative expenses					
Personnel expenses	23,002.1	24,375.9	25,690.9	26,653.5	26,783.9
Administrative expenses	12,078.5	11,503.3	13,253.4	14,322.2	12,231.6
Provisions for post-employment benefits	7,076.5	2,257.4	1,982.1	2,379.2	4,458.4
Total	42,157.1	38,136.6	40,926.4	43,354.9	43,473.9
Other (expenses) and income					
Depreciation and amortization	2,810.4	2,232.9	1,573.1	1,989.1	2,196.6
Taxes and contributions	477.6	605.6	504.8	630.1	593.6
Other	-	-	-	12,630.4	(23.0)
Total	3,288.0	2,838.5	2,077.9	15,249.6	2,767.2
Total personnel, administrative and other expenses	45,445.1	40,975.1	43,004.3	58,604.5	46,241.1
A. Personnel expenses					
Wages and other employer contributions	19,729.6	20,913.4	22,420.0	23,186.6	22,738.2
Employee well-being	2,648.4	2,743.6	2,730.0	2,763.2	3,280.2
Training	624.1	718.9	540.9	703.7	765.5
Total	23,002.1	24,375.9	25,690.9	26,653.5	26,783.9
B. Administrative expenses					
Utilities	988.0	1,085.3	1,011.5	1,004.5	838.4
General services	3,626.5	4,321.6	4,611.5	5,234.6	4,145.8
Maintenance of fixed assets	1,284.9	681.4	1,572.4	1,356.3	1,765.1
Informatics and technological development expenses	4,086.9	3,619.6	4,446.1	5,031.0	3,871.3
Consulting, surveys, studies, and seminars	2,092.2	1,795.4	1,611.9	1,695.8	1,611.0
Total	12,078.5	11,503.3	13,253.4	14,322.2	12,231.6

(*)The average CPI was used to update older figures to 2012 pesos.
Source: Central Bank of Chile.

D. Communication and diffusion

D.1 Main publications

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

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

With regard to research, the Bank publishes a series of documents. The *Working Paper* series has maintained its position 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 Bank published 28 new working papers in 2012. In April, the Bank also released the first edition of *Investigación al Día* (Current Research), a quarterly report aimed at summarizing the current research underway at the Bank.

The journal *Economía Chilena*, 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 ten papers and six research notes published in 2012 reflect the Bank's work in economic research.

The *Economic Policy Papers* series discloses the opinion of Bank authorities on relevant economic and monetary policy topics. Over the course of 2012, nine new papers were published, exploring the implementation of macroprudential policies in Chile.

The Bank also published four new papers in the *Studies in Economic Statistics* series in 2012. The purpose of this series is mainly to release research papers in economic statistics, with a strong empirical and factual content. The papers published in 2012 addressed methodological changes incorporated in Chile's balance-of-payments statistics in 2012; a new methodology for estimating the real national accounts series based on chained moving price bases; the splicing of the GDP and domestic demand statistical series for 1986–2003 taking into account the 2008 benchmark compilation; and the main concepts related to the lending statistics published by the Bank.

The second edition of *Regional Economic and Social Indicators of Chile* was published in late November, covering the period 1980–2010. This database was the result of rigorous work collecting, consolidating and centralizing myriad regional statistics for the last thirty years. The first edition was published in April 1991, with regional data through 1989.

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

Finally, to lower costs and support ecological initiatives, the Bank adopted measures to reduce the use of paper and to increase the diffusion of documents through digital means and the organization's website.

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

On 3 April, the Board presented the March *Monetary Policy Report* to the Senate Finance Committee, at the Senate Building in Valparaíso. On 18 June, the Board presented the June *Monetary Policy Report* and the *Financial Stability Report* for the first half to the Senate Finance Committee, at the Congressional Offices in Santiago. On 5 September, the September *Monetary Policy Report* was presented to the full Senate at the Senate Building in Valparaíso. On 18 December, the December *Monetary Policy Report* and the *Financial Stability Report* for the second half were presented to the Senate Finance Committee in Valparaíso.

On 31 January, Governor Rodrigo Vergara addressed a special session of the Senate in Valparaíso, providing an analysis of the international economic situation and the measures that Chile could adopted to face an external crisis scenario. On 18 July, the Governor attended a meeting of the Senate Economics Committee to discuss the draft legislation modifying the calculation of the maximum conventional rate.

Visits to the House of Representatives included a presentation on 11 April, when the Bank's Governor addressed a special session of the Finance Committee to open the discussion on the draft legislation authorizing the Bank to increase Chile's quota subscription with the International Monetary Fund. On 9 July, the Board received members of the House Finance Committee for a lunch meeting at the Central Bank, where the Governor spoke on the world financial and macroeconomic scenario.

D.3 Seminars and conferences

On 16 April, Andrew Powell, Principal Advisor in the Research Department of the Inter-American Development Bank (IDB), presented the 2012 Macroeconomic Report on Latin America and the Caribbean, titled *The World of Forking Paths: Latin America and the Caribbean Facing Global Economic Risks*. Representing the Bank, the panel of experts comprised Kevin Cowan, the Financial Policy Division Director, and Alejandro Jara, Senior Economist in the Financial Research Management, who discussed the main scope of the Report.

Governor of the Central Bank with the House of Representatives Finance Committee

Numismatic Museum

In January and June, workshops were organized by the Economic Research Management and the Corporate Affairs Management. The first of these workshops, entitled Commodity Prices and Monetary Policy, featured the participation of leading economists from multilateral institutions, central banks including the U.S. Federal Reserve and the European Central Bank, and academic institutions. The keynote speaker was Eswar Prasad, Senior Professor with Cornell University. At second workshop, on Macroeconomics of Risk and Uncertainty, the keynote speaker was Robert Barro, Professor with Harvard University.

In the framework of the journalist training program, between June and August, the Communications Advisory Management and the Inter-American Association of Economics and Finance Journalists organized workshops that were attended by national and foreign media professionals. The seminars featured talks led by managers Luis Álvarez, Luis Óscar Herrera, Beltrán de Ramón, Francisco Ruiz and Álvaro Rojas, as well as senior Bank economists.

On 27 July, the Financial Research Management organized a seminar on The Role of Default in Macroeconomics, featuring the participation of Charles Goodhart, Professor with the London School of Economics. The speaker discussed the advantages of incorporating a "nonpayment" decision for agents in macroeconomic analysis, at both the theoretical and applied levels.

On 24 September, a seminar was held on the validation and dissemination processes for financial system interest rate data published by the Bank. The objective of this meeting, which was organized by the Monetary and Financial Statistics Department, was to improve the coordination with banks in the compilation of interest rate statistics.

As part of the ongoing training program coordinated by the Human Resources Management, an intensive academic program was organized in the Bank in 2012. This program is offered not only to the Bank's economists, but also to professionals from public institutions and graduate students of economics. On 5–8 November, a course on Topics in Bayesian Econometrics was taught by Fabio Canova, Professor with the Universidad Pompeu Fabra. On 17 December, Jesús Fernández-Villaverde, Professor with the University of Pennsylvania, led a seminar on Macro Models with Financial Frictions.

Numismatic Museum

Winners of the 2012 "Economics up Close" Contest

D.4 "Economics for the Majority" program

In 2012, the Bank's community outreach program coordinated the eighth annual contest "Economics up Close," sponsored by the Ministry of Education. The contest was inaugurated by Board Member Enrique Marshall on 23 May. This year, 260 team projects were submitted by 995 third- and fourth-year high school students from 138 schools around the country. The winning group, which was from the *Colegio Santa Teresa in Illapel*, submitted a project on "St. Isidore the Laborer…. The Central Bank of Farms." The group presented and defended their work before the panel of judges. Second place went to a group of students from the *Liceo Particular Comercial de Temuco*, for their project, "Extra, extra, Olympus in recession," while third place was awarded to a group from the *Instituto Superior de Comercio Eduardo Frei Montalva* for their work on "Our apologies, Mr. President Adriana, pardon, Ms. President."

Over the course of the year, the Bank continued to work to publicize the contest within the school community and to diffuse information on Bank's role and functions. Activities included four seminars, attended by 344 third- and fourth-year high school students and 42 of their teachers. Two were held in Santiago, one in Valparaíso and one in Temuco. In addition, economists from the Bank visited four educational establishments in Santiago. As usual, preparation for the contest included five full-day workshops for high school teachers, covering basic economic concepts and topics related to inflation, the financial system, monetary policy and the role of the Central Bank. The workshops were attended by a total of 91 teachers from different regions of the country.

D.5 Regional visits

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

In April, the March *Monetary Policy Report* was presented in Valdivia, at a meeting organized by the Austral University of Chile. and in Valparaíso, at a meeting organized in conjunction with the University of Federico Santa María. In June, the regional meetings to present the June *Monetary Policy*

Report and the *Financial Stability Report* for the first half of the year were held in Temuco, in conjunction with the University of La Frontera, and in Copiapó, in conjunction with the Corporation for the Development of the Atacama Region (*Coproa*). The September *Monetary Policy Report* was presented in Puerto Montt, in coordination with the Austral University (Puerto Montt campus), and in Concepción, in conjunction with the San Sebastián University. These regional meetings were led by Central Bank Governor Rodrigo Vergara, Deputy Governor Manuel Marfán and Board Members Enrique Marshall, Sebastián Claro and Joaquín Vial.

The Bank organizes these meetings in association with a regional university or business body. This offers a valuable opportunity to get closer to the community, business people and regional authorities, thereby promoting direct dialogue and greater mutual awareness between the Bank and different economic sectors in each region of the country. In 2012, attendance at these events ranged from 80 to 250 people per event.

Board Members also made several presentations outside of Santiago, in response to invitations from academic institutions, union associations and the media. In April and May, Mr. Enrique Marshall had speaking engagements in Chillán, Concepción and Temuco. In October, Mr. Sebastián Claro gave a presentation in Valdivia, and Mr. Marshall also spoke in Temuco, Talca and Curicó. In November and December, Mr. Marshall made presentations in Viña del Mar and Valdivia.

This year also featured two regional presentations to publicize the new edition of *Regional Economic and Social Indicators for 1980–2010*. On 20 November, Mr. Enrique Marshall, Board Member, presented the report at a breakfast meeting in Valdivia, attended by the main authorities of the Los Ríos Region. A similar event was held in Arica on 21 November, led by Board Member Joaquín Vial.

D.6 Cultural outreach

In 2012, the Central Bank participated in Chile's National Heritage Day for the ninth consecutive year, which was held on Sunday, 27 May, and again on 2 September in a special commemoration. The event is organized by the government's Monument Committee, and for the day more than 50 cultural heritage buildings open their doors to the public. This year, the

Awards Ceremony for the 2012 "Economics up Close" Contest

Bank's senior authorities hosted 2,340 people in May and 1,627 people in September, discussing the Central Bank's most important functions and providing details on the building and the cultural heritage objects. The visitors toured the Board Room, the Governor's Office and the new numismatic museum. At the end of the tour, three plays were offered on topics relating to financial and price stability.

The inauguration of the new numismatic museum was an important highlight for the Bank. The opening, held on 18 May, was attended by the Board and other authorities. The museum houses most of the Bank's coin and banknote collection. Over 1,500 valuable heritage pieces are on exhibit, offering a historical review spanning 250 years. The collection includes almost 300 coins, including the first coin minted in Chile in 1749; nearly 150 national banknotes starting with the first to be printed in 1840; over 1,000 banknotes and specimens from 160 countries around the world; and valuable gold ingots. The numismatic museum is open to the general public and has free admission.

The Bank's guided tour program received almost 4,300 people in 2012, including student groups from 7th grade up, foreign MBA students and senior citizens on municipal outings. Starting in April, the tours offered informational packets for teachers and students, with differentiated content for different educational levels, in order to maximize the learning experience of students visiting the Bank.

E. Miscellaneous

E.1 Technological changes

One of the highlights in 2012 was the technological renovation of the communications network that connects the main actors in the Chilean financial system with the Central Bank (the RTGS system). Another key event was the implementation of an integrated management system (ERP) to update the Bank's accounting and administrative systems, eliminating a series of legacy applications. This process required a huge effort in terms of integrating with existing systems. The use of business intelligence tools was initiated in 2011 and consolidated in 2012, allowing the visualization and analysis of large volumes of information and the extraction and processing of information from multiple data sources.

To strengthen the operational continuity of the technological services provided by the Bank, the technical disaster recovery plan (TDRP) was consolidated in 2012, through validation tests and trials of the technological contingency plans for the main services performed by the Informatics Management. This Unit also continued its work to renovate obsolete equipment, including a reduction in the number of servers at the processing centers. The Informatics Management also continued its role in implementing the solution for improving document management and the administration of the Bank's institutional content, as well as the technological renovation of a large set of legacy applications that were in use by the Bank.

E.2 Independent auditors

The second paragraph of Section 76 of the Basic Constitutional Act stipulates that the Central Bank's financial statements must include an independent auditors' opinion and that the Board is to appoint the auditors from among those registered with the Superintendence of Banks and Financial Institutions. After issuing a call for tenders to contract financial statement auditing services for an initial period of three years, with a maximum of two contract renewals, and based on a favorable report by the Audit and Compliance Committee, the Board appointed *KPMG Auditores y Consultore*s Ltda. to provide professional auditing services for the period 2008–10, through Resolution 1406-01-080424. The contract was renewed for 2011 and 2012.

E.3 Banknotes and coins

As of December 2012, there were 751.1 million individual banknotes in circulation, an increase of 12.4% relative to year-end 2011 (668.6 million). The total number of coins grew 7.1% in the year, to 11.12 billion.

To meet public demand for currency, in 2012 the Bank contracted the printing of 106.3 million new banknotes, as follows: 38 million new Ch$5,000 bills; 32.4 million new Ch$2,000 bills; and 35.9 million new Ch$1,000 bills. With regard to coins, the Bank contracted the minting of 23 million Ch$500 coins; 16 million Ch$50 coins; 164 million Ch$10 coins; 100 million Ch$5 coins; and 191 million Ch$1 coins. The banknotes and coins issued by the Bank in 2011 were produced in Germany, Switzerland, Spain and Chile.

The Bank continued its training program to help the community become familiar with the banknotes in circulation and their security recognition features. In 2012 the Bank held 47 training sessions, including 34 in Santiago and the remainder in Castro, Ancud, Iquique, Temuco and Puerto Montt. These workshops trained 2,511 people in commercial banks, retail stores, technical institutes, schools and public institutions. In addition, 24,696 leaflets and 3,582 posters on banknote security recognition were distributed to the general public, cashiers and the police. Educational materials were also given out to currency exchange offices for distribution.

Following a tender process, the Bank acquired four state-of-the-art banknote processing machines. The installation was completed in 2012, allowing the Bank to efficiently and securely count, authenticate and destroy in line practically all the banknotes that return to the Bank after completing their life cycle in the market. However, due to the change in the family of banknotes launched in 2009, there was a large buildup of unfit banknotes that had to be destroyed. This was accomplished through a massive off-line shredding process, which had a heavy manual component. An attempt to breach the security of this process was detected in June 2012, leading to the adoption of new measures in both the systems and the procedures. Improvements were also made to the infrastructure of the work areas to minimize the associated risks. By the end of 2012, banknote destruction was primarily carried out using the in-line processing machines.

The Bank continued working on the creation of a new coin series, which is expected to provide significant economic benefits in terms of production and advances in the use of new technologies, resulting in a modern family of coins. The main phases of this important project are the selection of the new designs, definition of the technical specifications, production, distribution logistics and the withdrawal of the old family of coins.

E.4 International relations activities

In 2012, the Central Bank continued to promote Chile's international integration, through both its regular international activities and a wide range of additional activities. The former included the participation of authorities and executives in the bimonthly and annual meetings of the Bank for International Settlements (BIS) and the International Monetary Fund (IMF); the annual meeting of the Inter-American Development Bank (IDB); the meetings of central bank governors of *Mercosur* and associated countries (held in Santiago on 5 August 2011); the *Cemla* governor meetings; the spring and annual meetings of the Institute of International Finance (IIF); and visits by authorities and senior executives

Sixth High-Level Seminar of Eurosystem and Latin American Central Banks to other central banks. There were also preparatory visits for the IMF Article IV mission in January and June.

The additional activities in which the Bank participated included international seminars, conferences and meetings held in Santiago, visits from high-ranking foreign authorities and visits from technical staff from other central banks and governments. The first group (seminars, conferences and meetings) included the meeting of the Financial Stability Board's Regional Consultative Group for the Americas (May); the conference of central bank risk managers (June); the annual conference of the International Journal of Central Banking, this year entitled New Frameworks for Monetary Policy in an Era of Crises (September); and the sixth High-Level Seminar of Eurosystem and Latin American Central Banks, on Macroeconomic Policies, Global Liquidity and Sovereign Risk (December).

Visits from foreign authorities featured the Deputy Governor of the Bank of Spain, Javier Arízteguí; the Chief Executive of Hong Kong, Donald Tsang; from Bhutan, the Deputy Minister of Economic Affairs, Sonam Tshering, and the Deputy Minister of Finance, Lam Dorji; and the Managing Director of the International Monetary Fund, Christine Lagarde.

Finally, in 2012, representatives of the Central Bank of Chile participated in a broad range of world and regional forums, such as the OECD, the Union of South American Nations (*Unasur*) and the Southern Common Market (*Mercosur*). At the OECD, Bank representatives attended Economic Policy Committee meetings, as well as the Working Party 1 meetings on Structural Analysis and Short-Term Economic Prospects. Work with *Unasur* centered on the working groups on financial integration; international reserve management; and the use of local currencies and payment systems. With regard to *Mercosur*, in addition to the regular meetings of central bank governors, the Bank participated in five teleconferences with member countries and associates. In March, Board Member Enrique Marshall gave a presentation in Uruguay on the implementation of macroprudential policies in Chile, at the conference on Macroprudential Policies to Achieve Financial Stability, organized by the Central Bank of Uruguay and the IMF. In November, Board Member Joaquín Vial gave two presentations in China: The Future of Chile in a Complex Environment; and The Global Economic Outlook and the Copper Market.

E.5 Access to information

In November 2012, the firm Adimark GFK carried out the IX Barometer on Access to Information, under contract from the National Press Association. This survey measures Chilean journalists' perception of information access in public institutions, along three dimensions: the timeliness of the delivery of information; the accuracy and reliability of the information delivered; and willingness to provide information.

The survey results were released in January 2013. Responses were received from 418 journalists across the country. On the average of the three dimensions, the Central Bank took second place out of the 54 public companies and institutions that were included in the sample, thus maintaining its ranking from the previous year.

The dimension with the highest rating was the accuracy and reliability of information, with 75.5% of respondents grading the Bank between 6 and 7 (on a seven-point scale). This was followed by the timeliness of delivery (58.5%) and willingness to provide information (54.7%).

In 2012, the Bank received 57 applications for access to information. All the applications were addressed in less time than required in law (20 business days).

Appendices

Appendix I

Press releases on monetary policy meetings in 2012

12 January

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to reduce the monetary policy interest rate by 25 basis points, to 5.00% in annual terms.

Internationally, the developed economies continue to record a slow growth rate, although some indicators of economic activity for the United States have shown signs of improvement. The emerging economies, in turn, are still showing signs of a slowdown. Uncertainty persists about how the situation in the euro area economies will be resolved, and their fiscal and financial risks continue to be very high. International financing conditions remain tight. Some commodity prices have increased.

Domestically, output and domestic demand have developed in line with forecasts in the last *Monetary Policy Report*. The labor market continues to be aligned. The money market has normalized, while financing conditions for some agents continue to be tighter than a few months ago. Total and core inflation in December were higher than expected due to perishables and other food prices, as well as the lagged contribution of the peso depreciation in the last quarter of 2011. Inflation expectations remain near the target.

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

14 February

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

Internationally, the developed economies continue to record a slow growth rate. Some indicators of economic activity and employment for the United States have shown signs of being more dynamic, while the indicators for Europe have deteriorated. Doubts persist about how the situation in the euro area economies will be resolved, and their fiscal and financial risks continue to be very high. International financing conditions have improved somewhat, the dollar has depreciated in international markets and commodity prices have increased.

Domestically, output and domestic demand have been slightly higher than the forecasts in the last *Monetary Policy Report*. The labor market continues to be aligned. Conditions in the credit market remain stable. Annual CPI inflation is slightly higher than the target range, while core measures have normalized. Inflation expectations remain around the target.

The Board reaffirms its commitment to being flexible in its use of 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.

15 March

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

Internationally, the economic indicators for the United States point to a better performance in recent months, while indicators for the euro area confirm the weak growth in that region. The Asian economies, in particular China, have been less dynamic in recent months. The risks in the euro area remain high, but the stress in the region's financial markets has eased, and Greek sovereign debt was successfully exchanged. At the same time, global financing conditions have further improved. The oil price continues to rise.

Domestically, output and domestic demand have been higher than the forecasts in the last *Monetary Policy Report*. The labor market continues to be aligned, and nominal wages have been more dynamic. Conditions in the credit market remain stable. Annual CPI inflation is above the target range, while core measures are around 3% in annual terms. Inflation expectations have risen in the short term, but they remain around the target in the forecast horizon.

The Board reaffirms its commitment to being flexible in its use of 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.

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 5.0% in annual terms.

Internationally, the risks in the euro area remain high, and the region's financial markets have seen a partial resurgence of financial stress. At the same time, volatility and risk aversion have increased in the global markets. In the last month, the economic indicators for the United States show a mixed performance, while indicators for the euro area confirm the weak growth in that region. China and other emerging economies have been less dynamic in recent months. International commodity prices have declined in the last month, although their level is still high.

Domestically, output and demand have developed in line with forecasts in the last *Monetary Policy Report*, while the labor market continues to be aligned. Annual CPI inflation has fluctuated and now sits in the upper end of the target range, while core measures are around 3% in annual terms. Inflation expectations remain around the target in the forecast horizon.

The Board reaffirms its commitment to being flexible in its use of 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.

17 May

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

Internationally, the fiscal and financial situation in the euro area has deteriorated, leading to heightened uncertainty about how the situation will be resolved. Volatility and risk aversion have increased in the global markets. In recent months, the economic indicators for the United States, China and other emerging economies point to a weaker performance than predicted by consensus expectations. International commodity prices, especially oil and copper, have declined again, although their level is still high.

Domestically, first quarter output grew above the forecast in the last *Monetary Policy Report*, although it did not veer far from trend growth rates. The labor market continues to be aligned. Annual CPI inflation is within the target range, while core measures are around 3%. Nominal wages remain dynamic. Inflation expectations remain around the target in the forecast horizon, although they have fallen in the short term, largely due to the decrease in the international oil price.

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

14 June

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

Internationally, the fiscal and financial problems in the euro area continue to deepen, leading to heightened uncertainty about how the situation will be resolved. In the global markets, volatility and risk aversion increased again. Economic indicators for the United States, China and other emerging economies continue to point to a weaker performance than predicted by consensus expectations. International commodity prices, including copper, oil and food goods, have declined again, although their level is still high in historical terms.

Monetary Policy Meeting / June 2012

Domestically, output and demand evolved around trend rates. The labor market continues to be aligned, although the growth rate of employment has eased. Annual CPI inflation and core measures are around 3%. In recent months, the most volatile components of the basket have made a negative contribution to the CPI, in contrast to the first quarter of the year. Inflation expectations remain around the target in the forecast horizon. The increased international volatility has had a limited effect on the domestic financial markets.

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

12 July

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

Internationally, the recent announcements from the euro area were well received, but the fiscal risks remain high and the financial markets are still highly volatile. Economic indicators for the United States, the euro area, China and other emerging economies again point to a weaker performance than predicted by consensus expectations. The central banks of several developed and emerging economies have adopted more expansive monetary policies. International commodity prices are similar to a month ago, with the exception of an increase in grain prices.

Domestically, output and demand indicators, while slowing less than forecast, are evolving around trend rates. The labor market continues to be aligned, although the growth rate of employment has eased. Annual CPI inflation has fallen and is now under 3%, as are the core measures. In recent months, the most volatile components of the basket, energy and food goods, have made a negative contribution to the CPI, in contrast to the first quarter of the year. Medium-term inflation expectations remain around the target.

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

16 August

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

Internationally, the financial tensions in the euro area have eased slightly, and international financing conditions have improved. Nevertheless, uncertainty continues, risk spreads are very high for some European economies, and a new outbreak of stress cannot be ruled out in the coming months. The advanced economies continue to post weak growth, while the emerging economies have slowed somewhat more than forecast. International food and energy prices have risen in the last month, while metal prices are similar to a month ago.

Domestically, output and demand indicators have evolved somewhat above the forecasts in the June *Monetary Policy Report*, driven mainly by greater inventory accumulation and, to a lesser extent, by consumption. The labor market continues to be aligned, although the growth rate of employment continues to ease and labor costs have not accelerated. The peso has appreciated. Annual CPI inflation and the core measures remain below 3%. In recent months, the most volatile components of the basket, food and energy, have made a negative contribution to the CPI, but that trend could ease or reverse itself in the coming period, given the recent evolution of prices in the external markets. Inflation expectations remain around the target in the policy horizon.

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

13 September

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

Internationally, global financing conditions have improved, and the financial tensions in the euro area have eased following announcements by the Central Bank of Europe. Nevertheless, there is continued uncertainty about the region, and a new outbreak of stress cannot be ruled out in the coming months. Recent data confirm the forecast of slow growth in the developed economies and a slowdown in the main emerging economies. Several central banks have therefore taken additional monetary stimulus measures, most notably the U.S. Federal Reserve. In the international markets, the dollar has depreciated, while commodity prices have risen over the course of the month, especially copper and fuels.

Domestically, output and demand indicators have evolved around trend rates. Although employment growth rates continue to ease and labor costs have not picked up, the labor market continues to be aligned. The peso has appreciated. Annual CPI inflation and the core measures remain below 3%. Inflation expectations remain around the target in the policy horizon.

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

18 October

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

Internationally, global financing conditions have improved, and the financial tensions in the euro area, while still high, have eased in response to the announcements by the authorities. Nevertheless, there is continued uncertainty about the implementation of those measures, and a new outbreak of stress cannot be ruled out in the coming months. The recent data are in line with the forecast of slow growth in the developed economies and a slowdown in the main emerging economies, as described in the last *Monetary Policy Report*. Some central banks have therefore taken additional monetary stimulus measures. The United States began implementing the so-called QE3. the dollar has depreciated in the international markets, and fuel and food prices have decreased.

Domestically, output indicators have evolved around trend rates, and private consumption has been more dynamic. The labor market continues to be aligned. Annual CPI inflation and the core measures remain below 3%, and inflation expectations remain around the target in the policy horizon.

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

13 November

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

Internationally, there are ongoing concerns about the fiscal and financial situation in the euro area and the risk of a sharp fiscal adjustment in the United States. International financing conditions are somewhat tighter than a month ago, and the dollar has appreciated in the international markets. A new outbreak of stress cannot be ruled out in the coming months. Recent data confirm the weak growth in the developed economies, while some emerging economies are displaying more positive signs. Fuel and metal prices have fallen, including copper.

Domestically, output and demand indicators have been higher than expected. The labor market continues to be aligned. The considerable variability of the CPI in October was due to one-off factors. Annual inflation is around 3%, while core inflation measures remain below 3%. Inflation expectations remain in line with the target in the policy horizon.

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

13 December

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

Internationally, the euro area continues to present sharp fiscal and financial risks, and the United States is also still at risk of a sharp fiscal adjustment. International financing conditions are somewhat more favorable than a month ago. The dollar has depreciated in the international markets, and the U.S. Federal Reserve has announced new monetary stimulus measures. Recent data confirm the weak growth in the developed economies, while some emerging economies are displaying more positive signs. The copper price has turned up, and some fuel prices have backed off.

Domestically, output and domestic demand indicators have been higher than expected in the third quarter. The labor market continues to be aligned. The downward movement of the CPI in November was due to one-off factors, while core inflation measures are around 2% in annual terms. Inflation expectations remain in line with the target in the policy horizon. The peso has appreciated against the dollar.

The Board reaffirms its commitment to being flexible in its use of 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.

Appendix II

Press releases on foreign exchange and financial measures in 2012

2 January

In its regular session held on Thursday, 29 December, the Board of the Central Bank of Chile approved the annual auction calendar for 2012. This program considers the usual debt rollover for the current year, for US$3.0 billion, as well as US$1.0 billion in maturing PDBCs that will gradually be transferred to long-term debt.

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

a) Two-year peso-denominated bonds (BCP-2): Ch$250 billion.

b) Five-year peso-denominated bonds (BCP-5): Ch$350 billion.

c) Ten-year peso-denominated bonds (BCP-10): Ch$350 billion.

d) Five-year UF-denominated bonds (BCU-5): UF25 million.

e) Ten-year UF-denominated bonds (BCU-10): UF23 million.

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

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

14 September

Following a period of public consultation held by the Central Bank of Chile and the Superintendence of Banks and Financial Institutions in the second quarter of this year and the subsequent revision of the text based on the comments received, the two institutions are issuing the definitive version of their regulations on mortgage bonds.

These regulations open access to a new source of long-term financing for banks, which has advantages over existing bank bonds.

It also offers a new investment option for the pension fund administrators (AFPs) and other institutional investors.

Bank clients will also have an additional option for financing the purchase, construction, repair or expansion of their homes, potentially at a lower cost.

To standardize these instruments in line with current existing collateral, in 2013 the Central Bank of Chile will add the mortgage bonds to the set of instruments that are eligible to be used as collateral for monetary operations.

Today, the Central Bank of Chile and the Superintendence of Banks and Financial Institutions (SBIF) have issued a new regulatory framework according to which mortgage bonds can be developed in Chile.

Specifically, new chapters of the Central Bank's Compendium of Financial Regulations and the SBIF Updated Compilation of Regulations have been issued in accordance with the authority conferred on these institutions by Law 20,448, known as the Third Capital Market Reform, which modified Article 69 N° 2 of the General Banking Law.

This new framework establishes that banks can issue mortgage bonds with the objective of using the resources obtained from the issue to grant mortgage loans to finance the purchase, construction, repair or expansion of homes. In case of insolvency or forced liquidation of the issuing bank, the loans and the bonds issued to fund them are subject to special treatment as established in the General Banking Law, and they thus represent a relatively low credit risk for investors. Specifically, the legislation allows the failed institution's portfolio of mortgage loan financed through mortgage bonds to be auctioned separately from the banks' other assets. The entity that acquires the auctioned portfolio must also take on the associated liabilities (Article 69 N° 2, in relation to Title XV of the General Banking Law).

This special treatment is equivalent to the General Banking Law's historical treatment of the portfolio of mortgage loans granted through mortgage-backed securities. However, the new mortgage bonds have the advantage of allowing banks to finance a set of loans, which creates an instrument characterized by the same special conditions in the event of insolvency that apply to mortgage mutual funds, but with greater flexibility and operational efficiency.

The Central Bank guidelines regulate aspects of the endorsable mortgage loans funded through the issue of mortgage bonds and the investment in fixed-income transferrable securities in the period between the banks' receiving the resources from the market and allocating them to the corresponding loans. They also establish the transparency requirements for the market and the debtors. The SBIF norms regulate aspects associated with the issue of the mortgage bonds, the required relationship between the bonds and the endorsable mortgage loans, the characteristics of the special registry for these instruments as defined in the General Banking Law, and the application of Title XIII of the General Banking Law.

The regulatory scheme for this type of mortgage operation includes prudential regulations, related with financial stability objectives. The regulatory guidelines thus specify a maximum limit of 80% for loan/collateral and 25% for mortgage payment/income. The guidelines also require the banks to develop a specific credit risk policy for this type of financing. They also define criteria to guarantee transparency, in terms of the quality of information provided to bank clients who use this type of financing and to investors who invest in the corresponding bonds. Finally, consistent with the legal framework, the regulations establish that the funds obtained through the issue of mortgage bonds must be allocated exclusively to new loans; this ensures that the bonds cannot be structured to select the highest-quality assets on the balance sheet, to the detriment of the remaining creditors (for example, deposit holders) of an entity in the process of liquidation.

Given that mortgage-backed securities are currently accepted as eligible collateral for monetary operations, the Central Bank of Chile decided to incorporate the new instruments into the set of debt securities that are eligible to be used as such. This will be put into effect in the second half of next year. Specifically, mortgage bonds will be accepted as eligible collateral from banks engaging in open market operations (OMO) involving liquidity injection, such as repurchase agreements (repos), the standing liquidity facility and the intraday liquidity facility.

These regulations will enter into force on 1 October of this year.

The corresponding regulatory guidelines are available online, at www.bcentral.cl and www.sbif.cl.

The corresponding Board Resolution of the Central Bank of Chile will be published in the Official Gazette on 21 September 2012.

8 November

The Board of the Central Bank of Chile reports that it has decided to implement a temporary program to facilitate the financial system's liquidity in pesos, to mitigate stress that could arise toward the end of the year.

The Central Bank will offer floating-rate repos (MPR + 25 basis points) at 60 and 90 days. These operations will be offered on Tuesday of each week, starting next week and continuing through 18 December of this year. The financial conditions of the operations will be communicated in due time.

Appendix III

Main measures taken by the Central Bank of Chile in 2012

January

2 The Central Bank of Chile reported that the Board approved the annual auction calendar for 2012, through Resolution 1651-07 of 29 December 2011. This program considered the usual debt rollover for the current year, for US$3.0 billion, as well as US$1.0 billion in maturing PDBCs that will gradually be transferred to long-term debt over the course of the year.

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

a) Two-year peso-denominated bonds (BCP-2): Ch$250 billion.

b) Five-year peso-denominated bonds (BCP-5): Ch$350 billion.

c) Ten-year peso-denominated bonds (BCP-10): Ch$350 billion.

d) Five-year UF-denominated bonds (BCU-5): UF25 million.

e) Ten-year UF-denominated bonds (BCU-10): UF23 million.

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

This auction program will be subject to modification in the case of significant changes in market conditions.

5 By Resolution 1652-01-120105, published in the *Official Gazette* on 7 January 2012, the Board accepted the compensation to which the Bank is entitled for its services as fiscal agent in the management of resources in the Economic and Social Stabilization Fund (ESSF) for the period from March 2012 to February 2013, in accordance with Official Letter 1880, from the Ministry of Finance, dated 27 December 2011.

12 At its monthly monetary policy meeting, the Board decided to reduce the monetary policy interest rate by 25 basis points, to 5.0% in annual terms.

19 Through Resolution 1654-02-120119, published in the *Official Gazette* on 28 January 2012, the Board, in exercise of the authority conferred by Article 6 of the Competition Law, decided to hold a public call for nominees to the positions of Judge / Legal Counsel and Judge / Economist, to serve on the Competition Tribunal. The appointments respond to the partial replacement of the Tribunal's judges with the departure of Mr. Javier Velozo Alcaide and Mr. Julio Peña Torres, who will complete the legal term of their appointment on 12 May 2012.

February

2 Through Resolution 1656-01-120202, published in the *Official Gazette* on 17 February 2012, the Board accepted the fiscal agent assignment entrusted to the Central Bank through Executive Decree 1839 of 28 December 2011, from the Ministry of Finance, published in the *Official Gazette* on 27 January 2012, to represent and act in the name and on the account of the Treasurer in the placement and administration of General Treasury bonds in the local capital market, in accordance with the terms and conditions established in the Decree.

9 Through Resolution 1657-05-120209, the Board accepted the modifications specified by the Finance Minister in Official Letter 248, dated 7 February 2012, affecting the Custodian Guidelines and other issues related to the management of the Economic and Social Stabilization Fund and the Pension Reserve Fund managed by the fiscal agent, contained in Official Letter 133 from the Ministry of Finance, dated 8 February 2007.

The Resolution further clarifies that the modifications in question do not affect the agreed compensation for services provided in the management of the Economic and Social Stabilization Fund and the Pension Reserve Fund for the period between March 2012 and February 2013.

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

14 Through Resolution 1658E-01-120214 published in the *Official Gazette* on 17 February 2012, the Board unanimously agreed to reelect Mr. José Manuel Marfán Lewis, Board Member, to the position of Deputy Governor of the Board of the Central Bank of Chile, a position he has held since 7 January 2010.

23 Through Resolution 1660-02-120223, published in the Official Gazette on 27 February 2012, the Board accepted the modifications specified by the Finance Minister in Official Letter 192, dated 31 January 2012, with regard to the Performance Guidelines for the Pension Reserve Fund managed by the fiscal agent, contained in Official Letter 1637 from the Ministry of Finance, dated 18 November 2011.

23 Through Resolution 1660-03-120223, the Board approved a new investment policy applicable to the management of foreign exchange reserves, maintaining the investment objectives of liquidity, preservation of principal, balance sheet coverage and profitability at the margin. One of the most important elements of the new policy is the creation of three subportfolios, associated with meeting the above objectives: (i) a short-term liquidity portfolio; (ii) a medium-term liquidity portfolio; and (iii) a diversification portfolio. In contrast to the previous investment policy, a larger number of currencies were included in the benchmark; sovereign risk exposure was increased, while bank risk exposure was lowered; and the credit rating requirement was raised for eligible sovereign risk. In addition, the overall duration of the reserve portfolio was increased from 17 to 25 months, in order to improve balance sheet coverage. The overall currency composition was defined as 39.90% United States dollars, 31,95% euros, 9.15% Canadian dollars, 6.10% Australian dollars, 2.55% yen, 2.10% Swiss francs, 1.95% pounds sterling, 1.95% South Korean won, 1.95% Chinese renminbi, 1.50%

New Zealand dollars and 0.90% Singapore dollars.

March

12 The Central Bank of Chile and the Superintendence of Banks and Financial Institutions submitted the new regulations on mortgage bonds for public consultation. This incorporates the modifications affecting mortgage bonds specified in the Third Capital Market Reform to the General Banking Law. These bonds will be issued by banks to raise funds to finance home mortgage loans. This new instrument will be subject to special treatment in the case of insolvency or forced liquidation o the issuing bank, in which case the loan portfolio associated with the mortgage bond will be auctioned together with the corresponding liabilities, which implies lower risk to investors. The Central Bank regulations specifically address aspects related to mortgage-backed securities, the investment in fixed-rate instruments in the period between issuing the bond and granting the loan, and market information requirements. This measure was approved in Board Meeting 1663-05 on 8 March 2012.

12 Through Resolution 1663-03-120308, published in the *Official Gazette* on 13 March 2012, the Board reported that, solely for the purposes of complying with the statistical function of the Central Bank, it has adopted the definition of foreign direct investment suggested in the technical recommendations contained in the International Monetary Fund's "Balance of Payments Manual" (sixth edition) and in "The OECD Benchmark Definition of Foreign Direct Investment" (fourth edition) published by the Organization for Economic Cooperation and Development.

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

27 Through Resolution 1666E-01-120327, in relation to the decision by the *Banco de Chile's* Board of Shareholders on 22 March 2012 to capitalize the payment of 30% of the company's earnings in the 2011 accounting period through the issue of fully paid-up shares, the Central Bank's Board decided to opt for the payment in full in cash of the earnings or surpluses due it, in its capacity as subordinated debt holder. This decision was adopted in accordance with the provisions of letter (b) of Article 31 of Law 19,396, on subordinated debt.

29 Through Board Resolution 1667-02-120329, the Board authorized the publication for public consultation of the draft edition of the First Part of the new Compendium of Monetary and Financial Regulations (CNMF), in order to receive comments from interested parties and the general public in April.

This initiative to reorganize and systematize the Compendium does not modify the previously adopted policies of the Central Bank reassigned to regulate the supply of money and credit in circulation, without waiving the privilege to revoke provisions and chapters of the Compendium of Financial Regulations that address issues that no longer have an application.

April

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

19 Through Board Resolution 1672-01-120419, *Cruz del Sur Corredora de Bolsa S.A.* was authorized to operate in the Formal Exchange Market, as a nonbank entity participating in the regulated market for foreign exchange purposes, in accordance with the stipulations of Section 41 of the Basic Constitutional Act of the Central Bank of Chile and Chapter III of the Compendium of Foreign Exchange Regulations.

26 Through Resolution 1673-01-120426, the Board accepted the compensation to which the Central Bank will be entitled, for its services as fiscal agent in the management of the resources in the Strategic Contingency Fund, for the period from May 2012 to April 2013, in accordance with Official Letter 859 from the Ministry of Finance, dated 24 April 2012.

May

3 Through Resolution 1677E-01-02-120503, the Board appointed Ms. María de la Luz Domper Rodríguez to the position of Judge / Economist and Mr. Enrique Vergara Vial to the position of Judge / Legal Counsel, to serve on the Competition Tribunal.

The respective appointments were made for a period of six years, starting on 12 May, to replace Mr. Julio Peña Torres and Mr. Javier Velozo Alcaide, who have completed the legal term of their appointment as Judge / Economist and Judge / Legal Counsel, respectively, in accordance with the provisions of Articles 6, 7 and 12 of Decree Law 211 of 1973, which establishes the guidelines for promoting and safeguarding market competition.

9 The Central Bank of Chile the Superintendence of Banks and Financial Institutions published for public consultation a regulatory proposal to modify the rules governing the Clearing House for Checks and Other Instruments in National Currency in the country. This measure was approved in Board Meeting 1676 held on 3 May 2012.

14 Through Resolution 1679E-01-120514, the Board, in exercise of the authority conferred by Article 168 of Title XVI of Decree Law 3500 of 1980, on the reform of the pension system, appointed a member and an alternate to the Technical Investment Board.

Mr. Luis Felipe Céspedes Cifuentes was appointed Member for a period of four years, to replace Mr. Guillermo Le Fort Varela at the end of his term of appointment. Mr. Luis Antonio Ahumada Contreras was appointed Alternate for the same period; this appointment represents a renewal of his previous appointment for a second term, in accordance with the stipulations of Article 168 cited above.

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

17 Through Resolution 1680-03-120517, published in the *Official Gazette* on 19 May 2012, the Board issued its favorable report on the proposal by the Superintendence of

Pensions with regard to foreign currency hedging and the ceilings on unhedged foreign currency investments by the pension funds and unemployment funds, contained in the respective investment regimes which must be approved by the Superintendence. The new regulations identify different ranges of foreign currency hedging for investment-grade debt instruments, below-investment-grade debt instruments and variable-income assets. The first category is subject to a hedging range of 50% to 100% of investments in these instruments; the second, 0% to 70%; the third, 0% to 50%. The favorable report was modified and complemented by Board Resolution 1687-02-120621, published in the *Official Gazette* on 26 June 2012, to take into account the revisions to the regulatory proposal as reported by the Superintendence of Pensions, following the process of public consultation.

In the same Resolution 1680-03 cited above, the Central Bank of Chile modified Chapter III.F.4 on pension fund investment and Chapter III.F.7 containing the financial regulations applicable to the unemployment fund administrator, in the Compendium of Financial Regulations.

Specifically, adjustments were made to the ceilings on unhedged foreign currency investments by the pension fund administrators and the unemployment fund administrator. The definition of foreign currency hedging was also modified. Changes were also introduced to the investment limits on the instruments specified in numbers 1, 2, 3, 4, 5, 6, and 7 of the twenty-first paragraph of Article 45 of Decree Law 3500, of 1980, in the case of the pension funds; and to the investment limits on instruments specified in numbers 1, 2, 3, 4, 5, 6 and 7 of the second paragraph of Article 58C of Law 19,728 for the unemployment fund and the solidarity unemployment fund.

To this end, modifications were introduced through Law 20,552 to Decree Law 3,500 of 1980 and to Law 19,728; as well as the regulatory proposal presented by the Superintendence of Pensions on the new limits on unhedged foreign currency investments and the applicable definition of foreign currency hedging, and the reports issued for the purpose of the modifications made to the Compendium of Financial Regulations.

24 Through Board Resolution 1681-01-120524, published in the *Official Gazette* on 28 May 2012, approval was given to the Frist Part of the new Compendium of Monetary and Financial Regulations of the Central Bank of Chile, addressing the Regulations on Monetary Operations contained in the Compendium of Financial Regulations. The new guidelines will enter into effect on 27 August 2012, at which time the following chapters of the Compendium of Financial Regulations will be revoked:

First Part, on Financial Systems, Letter B, with regard to the following Chapters:

a) II.B.1 on the Liquidity Facility and Revolving Credit Facility to banks;

b) II.B.1.1 on the Standing Liquidity Facility and the Revolving Credit Facility, in national currency, to banks;

c) II.B.1.2 on the Revolving Credit Facility in U.S. dollars, to banks;

d) II.B.2.2 on Short-Term Loans to banks;

e) II.B.2.3 on the Rules Governing the Short-Term Line of Credit to banks;

f) II.B.4 on the Medium-Term Line of Credit;

g) II.B.4.1 on the Rules Governing the Medium-Term Line of Credit; and

h) II.B.5 on the Central Bank's Intraday Liquidity Facility to participants in the RTGS System.

Chapter II.B.3 of Letter B remains unchanged.

Second Part, on Regulations on the Operation, Intermediation and Control of the Financial System and Capital Markets, with regard to the Chapters in Letter A, on Reserve Requirements:

a) III.A.1 on Reserve Requirements for Banks and Savings and Loan Cooperatives;

b) III.A.2 on the Payment of Interest for Reserves on Deposits in National Currency; and

c) III.A.4 on Technical Reserve Requirements.

Third Part, on Central Bank of Chile Operations with Financial Instruments, with regard to all the Chapters in Letters:

a) on Operations with Financial Instruments payable in national currency;

b) on Central Bank Operations with Financial Instruments payable in foreign currency;

c) on Auctions to Purchase Central Bank Promissory Notes;

d) on Swaps; and

e) on Bonds.

The same Resolution updated the reference made in the Compendium of Financial Regulations to Executive Decree 1220 of 2009, issued by the Ministry of Finance, which established the list of debt instruments that are covered by the provisions of Article 104 of the Income Tax Law, which was modified by Executive Decree 414 of 2012, from the Ministry of Finance.

24 Through Resolution 1681-02-120524, the Board granted *Corpbanca* the preliminary authorization stipulated in Article 76 of the General Banking Law, with regard to the acquisition of shares of a banking firm or other affiliated firms established overseas, whose transactions are covered under Articles 70 et seq. of that legislation

June

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

18 Through Resolution 1686E-01-120618, the Board, in exercise of the authority conferred by Articles 6 and 12 of the Competition Law, agreed to issue a Public Call for Nominees in order to draw up a list of three nominees to present to the President of the Republic, to serve as the basis for appointing an Alternate Judge

/ Economist to the Competition Tribunal, to replace Ms. María de la Luz Domper Rodríguez following her voluntary resignation from the position. The new appointee will serve the time remaining in Ms. Domper's term, that is, through 12 May 2014.

21 Through Resolution 1687-03-120621, the Board, in accordance with the provisions of the final paragraph of Article 83 of the General Banking Law, and taking into account the statements of the Superintendence of Banks and Financial Institutions (SBIF) in its Ordinary Official Letter 2200, dated 20 June 2012, granted its preliminary favorable report to the modifications proposed by the Superintendence in that letter, to the general regulations contained in Chapter 12-15 of the Updated Compilation of Regulations issued by the Superintendence. The purpose of the changes is to incorporate demand deposits in the calculation of the individual limits established in those regulations with regard to overseas deposits that banks can hold and to establish an overall limit applicable to the sum total of deposits, including both demand and time deposits, that banks can hold with related financial institutions overseas. With these modifications, the national regulations are in line with international best practices in banking.

The Resolution was reported to the Superintendent of Banks and Financial Institutions so that the Superintendence could diffuse the regulatory proposal for public consultation.

21 Through Resolution 1687-01-120621, the Board granted its prior approval to the modifications to the Operating Rules for settlement and clearing systems for financial instruments, presented to the Superintendence of Securities and Insurance by the clearing house *CCLV Contraparte Central S.A*. The modifications involve the extension of the period for changing and reconciling payment instructions that have already been accepted by *CCLV* in its central counterparty and clearing house systems, as well as the regulation applicable to the calculation of the collateral fund for the systems managed by the company, subject to compliance with the conditions specified in Resolution 1687-01-120621 cited above.

21 By Board Resolution 1687-04, and in accordance with the stipulations of letter (c) of Article 10 of Law 18,634, the interest rate that will be charged on the deferred payment of customs duties in the half ending on 31 December 2012, will be 6% in annual terms, in U.S. dollars.

July

5 Through Resolution 1689-01-120705, the Board approved the reduction of exposure to the euro in the International Reserves investment portfolio from 32% to 22% and the increase in the total margin of deviation for this currency to +/– 10%. The total deviation margin for the U.S. dollar was also increased to +/– 10%. Finally, 8% of the resources were reallocated to investments denominated in U.S. dollars and the remaining 2% to other currencies.

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

13 Through Administrative Directive issued by the Manager of the Domestic Markets of the Central Bank of Chile on 13 July 2012, Banks, pension fund administrators, unemployment fund administrators, insurance companies, mutual fund administrators, stock brokers and securities agents were notified of the Manual of Operating Procedures and Regulations from the First Part of the Central Bank of Chile's Compendium of Monetary and Financial Regulations, which will enter into effect on 27 July.

26 Through Board Resolution 1695-01-120726, published in the *Official Gazette* on 31 July 2012, the Central Bank of Chile modified Chapter III.H.1 of its Compendium of Financial Regulations on "Clearing House for Checks and Other Instruments in National Currency in the Country" so as to implement the initiative on the "Early Release of Funds" proposed by the Association of Banks and Financial Institutions. The purpose of the initiative is to give the banks' checking account clients access to funds deposited via check or other instrument in national currency, as of 9:00 a.m. on the bank business day following the deposit to the checking account, instead of 1:30 p.m.

The proposal put forth by the trade association has to do with the establishment of a procedure for accepting checks and other instruments presented for collection through the clearing house which will allow the reduction of the current period for releasing such funds to clients, in accordance with the corresponding regulation to be issued by the Superintendence of Banks and Financial Institutions for this purpose. The acceptance process for these instruments will be staggered, in accordance with the proposal presented by the Association of Banks and Financial Institutions, and will be applied through December 2013, at which time the Central Bank will review the process with the objective of implementing a single phase for the release of funds.

This modification had the preliminary favorable report from the Superintendence and was open to public consultation in May.

August

16 Through Resolution 1701-01-120816, the Board appointed Mr. Marcus Cobb Craddock to replace Ms. Beatriz Lorena Velásquez Ahern in the position of Substitute Representative for Mr. Roberto Álvarez Espinoza, on the National Commission on Price Distortions on Imported Goods, as stipulated in Article 9 of Law 18,525, whose revised, coordinated and systematized text was established by Ministry of Finance Statutory Decree 31, of 18 October 2004.

16 Through Resolution 1701-03-120816, the Board decided to make modifications to Section VIII: Custody Credit Risk, of the Current Policy Manual for the Management of Foreign Exchange Assets, to alter the selection requirements for institutions entrusted with the custody of foreign exchange reserves. Specifically, the minimum credit rating requirement of AA– was replaced by a number of eligibility criteria

to ensure that the contracted custodians are banks or financial institutions that provide global custody services on a large scale. The criteria consider the assets held in custody, number of clients, number of markets, service quality, technology and, in general, any other attribute required for the adequate functioning of custody services. In order to diversify risks, the resolution established that the Bank must maintain foreign exchange custody services with at least two global custodians.

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

23 Through Resolution 1702-01-120823, the Board approved the introduction of changes to the investment guidelines of the General Bond Program for external portfolio management. The Board granted its approval for going forward with the third phase of foreign exchange investment policy implementation, approved on 23 February 2012, which consist in assigning the management of a share of the Diversification Portfolio to external portfolio managers.

Through Resolution 1702-02-120823, the Board agreed to modify the Current Policy Manual for the Management of Foreign Exchange Assets in order to clarify specific aspects of the aforementioned policy, mainly operational aspects, so as to ensure its correct application. In the same Resolution, the Board decided to contract an external consultant to assess the current custodian program.

September

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

13 Through Resolution 1706-02-120913, the Board approved the definitive text of the new Chapter II.A.2 of the Compendium of Financial Regulations on "Regulations on endorsable home mortgage loans granted with funds from the issue of bonds without specific collateral." As indicated when the regulation was submitted for public consultation, these bonds constitute a new instrument for raising funds to be used for mortgage loans, with the feature that in the event of insolvency or forced liquidation of the issuing bank, they are subject to a special treatment established in the General Banking Law.

In the course of the second half of 2013, these instruments will be considered eligible collateral for open market operations involving liquidity injection, conducted between banks and the Central Bank of Chile.

28 Resolution 1708-01-120927 establishes the submission for public consultation of the proposal to replace the regulations governing companies that issue and operate nonbank credit cards, covered in Chapter III.J.1 of the Compendium of Financial Regulations.

Some of the key elements of the proposal are as follows: to eliminate the differentiated scheme applicable to issuers that pay in full or within three days versus issuers that pay at longer terms; to specify that the regulations apply to all entities that regularly assume payment responsibilities with unrelated businesses; to strengthen the capital, liquidity and reporting requirements for issuers and operators; and to increase the corporate governance responsibilities of the regulated entities.

October

4 Through Resolution 1710-01-121004, the Board authorized the Pacific Investment Management Company (Pimco) to continue serving as an external portfolio manager for a portion of the foreign exchange reserves, through 31 December 2013.

11 Through Resolution 1721-01-121011, the Board granted its preliminary approval of the modifications to the Operating Rules for settlement and clearing systems for financial instruments, presented to the Superintendence of Securities and Insurance by the clearing house *CCLV Contraparte Central S.A.* The proposed modifications address the following: (i) the incorporation into the Central Counterparty System of the settlement and clearing of fund share transactions, including contributions and redemptions and including exchange traded funds (ETF); and (ii) the modification of the procedures for reporting to the *CCLV* Disciplinary Committee on changing and reconciling payment instructions processed through the company's Central Counterparty System, as well as the requirements for stock subscriptions in order for them to be settled and cleared through that system.

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

25 Through Resolution 1714-03-121025, in accordance with the stipulations of the final paragraph of Article 83 of the General Banking Law and following a period of public consultation, the Board granted its preliminary approval of the regulations contained in Chapter 12-15 of the Updated Compilation of Regulations issued by the Superintendence of Banks and Financial Institutions, as requested by the Superintendence via Ordinary Official Letter 4858, dated 19 October 2012.

Given the above, the Board decided to modify Chapter III.B.5 of the Compendium of Financial Regulations, so as to incorporate demand and overnight deposits into the limits on banks' overseas financial investments and credit operations. For this purpose, the regulation will apply the definition of a related entity through bank equity or management, as established in Title I of Chapter 12-4 of the aforementioned compilation.

25 Through Resolution 1714-04-121025, the Board announced that the publication date of the proposed modification to Chapter III.J.1 of the Compendium of Financial Regulations on the Issue and Operation of Credit Cards, established in Resolution 1708-01-120927, would be extended through 19 November 2012, so as to receive comments from interested parties and the general public.

31 Through Resolution 1715-01-121031, the Board appointed Mr. Luis Óscar Herrera Barriga and Mr. Michael Pedersen to represent the Central Bank of Chile on the Board of the Chilean Copper Commission, for a period of two years starting on 24 October 2012. The new appointments are to replace Mr. Eduardo López Escobedo and Mr. Pablo Pincheira Brown.

November

8 The Central Bank decided to establish a special liquidity program to facilitate the financial system's liquidity management in pesos, in order to mitigate situations that could potentially arise toward the end of this year.

This program consisted in floating-rate repos (MPR + 25 basis points) at 60 and 90 days, which were offered on Tuesday of each week through 18 December.

8 Through Resolution 1717-02-121108, the Board approved the modifications to Section IV: Issuer Credit Risk, of the Current Policy Manual for the Management of Foreign Exchange Assets, which addresses the allocation of investment limits on eligible sovereign risk. In the case of the United States of America, the investment limit was set at US$25.0 billion. The Resolution stipulates that with regard to U.S. agencies, eligible institutions must not only meet the minimum equity requirement and have binding clauses that secure the financial backing (sponsorship) of the United States government, but also have the same average credit rating of the United States of America.

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

December

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

25 Through Resolution 1725-04 adopted on 20 December 2012, in compliance with the stipulations of letter (c) of Article 10 of Law 18,634, the Board specified the interest rate that will be charged on the deferred payment of customs duties in the half ending on 30 June 2013 will be 6.1% in annual terms, in U.S. dollars.

27 Through Resolution 1726-04, of 27 December, the Board modified the daily adjustment factor applied to the reference basket of currencies stipulated in letter (a) of the Appendix to Chapter I of the Compendium of Foreign Exchange Regulations of the Central Bank of Chile. The value of the reference basket of currencies will thus be adjusted daily by 0.008099% between 10 January 2013 and 9 January 2014.

27 Through Resolution 1726-05, of 27 December 2012, the Board approved the Central Bank's 2013 Debt Plan, which comprises the placement of the following Central Bank bonds in the primary market, starting with the reserve period that opens on 9 January 2013 and continuing through 9 December 2013:

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

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

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

d. Ten-year UF-denominated bonds (BCU-10): up to UF11 million.

The bonds to be issued will be subject to the provisions of Article 104 of the Income Tax Law, under the terms considered in Chapter 1.1 of the First Part of the Compendium of Monetary and Financial Regulations.

27 Through Resolution 1726-06, the Board suspended the authorization to participate in the Formal Exchange Market, granted to the corporation *Inter Corredores de Bolsa S.A.,* which is currently called *ICB Corredores de Bolsa S.A.,* for a period of thirty bank business days. At the end of this period, the suspension will continue to be in force until the Central Bank of Chile determines the application of another measure or until verification is provided of compliance with the regulatory requirement to renew or replace the guarantee stipulated in N° 1 of Chapter III of the Compendium of Foreign Exchange Regulations, in relation to N° 2 of Appendix N° 1 of Chapter III of the Manual of Procedures and Reporting Forms of the Compendium.

Appendix IV

International Reserve Management

A. Introduction

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

The management of these reserves aims to guarantee secure, efficient access to international liquidity and to safeguard the financial equity of the Bank. To achieve this, the Bank acts according to the legal framework stipulated in Section 38 of its Basic Constitutional Act, which specifically grants it the authority to manage, maintain and use its international reserves abroad.

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

B. Investment policy and benchmark structure

In the first quarter of 2012, the investment policy was submitted to a review process in response to the increase in the level of reserves after the foreign currency purchase program carried out in 2011, the changes in the macroeconomic and financial environment of the international markets and the adaptation of the Bank's policies to reflect international best practices[2]/. Based on this review, a new investment policy was generated for reserve management, which was approved by the Board in February.

Under the new policy, the management objectives are consistent with those established in the previous policy: (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; and (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.

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

[2]/ These practices were defined based on the conclusions from the Workshop on "Policy Objectives in Reserve Management," held in 2010. The conference was attended by international professionals from both the public sector (central banks and supranational entities) and the private sector (external managers and investment banks).

At the same time, the new investment policy incorporated the explicit objective of reducing the cost of holding reserves at the margin. This objective was achieved through the addition of a portfolio oriented toward obtaining higher absolute returns in the long term. The introduction of this new objective reflects the higher level of available reserves.

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

B.1 Benchmark structure of the investment portfolio

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

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

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

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

Table 1

Benchmark structure for the internally managed investment portfolio

		Tranche	% over Internally managed	% over subportfolio	Duration	*Benchmark indices*
Short-term liquidity	USD	0-1y	24.7	100.0	3.4	Merrill Lynch US Treasury Bills (unhedged)
	Total		24.7	100.0	3.4	
Medium-term liquidity	USD	1-3y	22.0	35.1	22.5	Barclays Global Aggregate - Treasuy Bond Index (Unhedged) (EUR, Germany only)
		3-5y	2.4	3.9	47.1	
		Total	24.5	39.0	25.0	
	EUR	1-3y	20.3	32.4	21.0	
		3-5y	2.3	3.6	44.0	
		Total	22.6	36.0	23.3	
	CAD	1-3y	8.5	13.5	21.0	
		3-5y	0.9	1.5	43.6	
		Total	9.4	15.0	23.2	
	AUD	1-3y	5.6	9.0	21.5	
		3-5y	0.6	1.0	43.3	
		Total	6.3	10.0	23.7	
	Total		62.7	100.0	24.0	
Diversification (internal)	CHF	7-10y	0.2	1.9	92.2	Barclays Global Aggregate - Treasuy Bond Index (Unhedged)
		Total	2.0	16.0	66.4	
	GBP	5-7y	1.7	13.2	64.6	
		7-10y	0.2	1.8	87.9	
		Total	1.9	15.0	67.3	
	JPY	5-7y	2.2	17.6	67.9	
		7-10y	0.3	2.4	96.8	
		Total	2.5	20.0	71.3	
	KRW	5-7y	1.7	13.2	58.6	
		7-10y	0.2	1.8	83.4	
		Total	1.9	15.0	61.5	
	NZD	5-7y	1.3	10.6	58.2	
		7-10y	0.2	1.4	82.0	
		Total	1.5	12.0	61.0	
	SGD	5-7y	0.8	6.2	66.7	
		7-10y	0.1	0.8	92.0	
		Total	0.9	7.0	69.6	
	CNH	3M	1.9	15.0	1.50	Bloomberg CGDRC Curncy Index
	Total		12.57	100.0	56.6	
Total internally managed portfolios			100.0	100.0	23.0	

Source: Central Bank of Chile.

Mesa de Dinero Internacional

The diversification portfolio represents 15% of the investment portfolio, and its reference structure comprises 20% Japanese yen, 16% Swiss francs, 15% pounds sterling, 15% South Korean won, 15% Chinese renminbi, 12% New Zealand dollars and 7% Singapore dollars. With the exception of the renminbi, this benchmark includes securities issued by Japan, Switzerland, the United Kingdom, South Korea, New Zealand and Singapore, with a residual maturity of five to ten years. In the case of the renminbi, the benchmark is associated with the deposit rate on three-month bank deposits denominated in Chinese renminbi and traded offshore. The target duration of the portfolio is approximately 57 months. Investments can also be made in any and all instruments approved under the most recent Current Policy Manual for the management of foreign exchange reserves, with no restrictions on terms (or residual maturity) or currencies. The diversification portfolio is managed on the basis of a risk budget. Deviations from the benchmark are limited to an ex ante tracking error of 100 basis points per year[3]/. 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

[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.

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 2012

As of 31 December 2012, the investment portfolio stood at US$35.896 billion, while the cash portfolio held US$3.755 billion. Taking the sum of these two portfolios plus other assets, total international reserves closed the year at US$41.649 billion. This balance was US$329.8 million less than at year-end 2011. The decrease is explained by a reduction in the cash portfolio of US$1.032 billion, which was partially offset by an increase of US$ 566 million in the investment portfolio and US$ 136 million in the value of other assets.

With regard to the value of the investment portfolio, US$8.525 billion was in the short-term liquidity portfolio, US$21.990 billion was in medium-term liquidity portfolio, and US$5.381 billion was in diversification portfolio. In addition, a share of the diversification portfolio was managed by two external managers, which are described in section C of this appendix.

Of the US$34.876 billion in the internally managed investment portfolio, 98.1% was invested in sovereign risk and 1.9% in bank deposits. Sovereign risk includes investments in the United States (49.3%), Germany (22.6%), Canada (9.4%), Australia (6.2%), Switzerland (2.0%), the United Kingdom (1.9%), Japan (2.4%), South Korea (1.9%), New Zealand (1.5%) and Singapore (0.9%). The remaining 1.9% is invested in renminbi-denominated bank deposits in banks in Australia, the United Kingdom, Japan and Singapore. Relative to 2011, time deposit investments in the internally managed portfolio decreased US$2.684 billion, given the reduction in the share of bank risk under the new investment policy. At the close of 2012, there were no positions held in supranational or agency risk[4]/.

The cash portfolio stood at US$3.755 billion at year-end 2012.

With regard to the currency composition, as of 31 December 2012, 50.3% of the reserves were invested in U.S. dollars, 18.9% in euros, 7.8% in Canadian dollars, 5.2% in Australian dollars and 17.8% in other currencies. The currency composition has changed since year-end 2011 due to the implementation of the new investment policy. In particular, the position fell in U.S. dollars (from 52.6 to 50.3%) and euros (from 30.1 to 18.9%), while investments denominated in Canadian dollars, Australian dollars, Japanese yen, Swiss francs and other currencies increased (table 2a and 2b).

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

Liabilities	Currency	2011 Dec.	2011 %	2012 Dec.	2012 %
Investment portfolio		35,330.0	84.2	35,896.2	86.2
Currencies and deposits	USD	808.0	1.9	3.1	0.0
	EUR	1,027.0	2.4	0.8	0.0
	Other	1,888.1	4.5	825.3	2.0
Securities	USD	16,457.2	39.2	17,210.8	41.3
	EUR	11,628.6	27.7	7,869.5	18.9
	Other	3,521.0	8.4	9,986.6	24.0
Total	USD	17,265.2	41.1	17,213.9	41.3
	EUR	12,655.7	30.1	7,870.3	18.9
	Other	5,409.1	12.9	10,812.0	26.0
Cash portfolio		4,786.6	11.4	3,755.1	9.0
Currencies and deposits	USD	4,786.6	11.4	3,755.1	9.0
	EUR	0.0	0.0	0.0	0.0
	Other	0.0	0.0	0.0	0.0
Securities	USD	0.0	0.0	0.0	0.0
Total	USD	4,786.6	11.4	3,755.1	9.0
	EUR	0.0	0.0	0.0	0.0
	Other	0.0	0.0	0.0	0.0
Other assets		1,862.7	4.4	1,998.2	4.8
Monetary gold	Other	12.2	0.0	13.1	0.0
IMF SDRs	Other	1,214.4	2.9	1,211.5	2.9
IMF reserve position	Other	601.3	1.4	691.8	1.7
Reciprocal credit agreements	USD	34.9	0.1	81.7	0.2
Total		41,979.3	100.0	41,649.5	100.0
	USD	22,086.6	52.6	20,969.0	50.3
	EUR	12,655.7	30.1	7,870.3	18.9
	Other	7,237.0	17.2	12,810.1	30.8

Source: Central Bank of Chile.

Table 2b

Internally managed portfolio: investments by currency

(percent)

Currency	Share
U.S. dollar	49.3
Euro	22.6
Canadian dollar	9.4
Australian dollar	6.2
Japanese yen	2.4
Swiss franc	2.0
South Korean won	1.9
Chinese renminbi	1.9
Pound sterling	1.9
New Zealand dollar	1.5
Singapore dollar	0.9
Total	100.0

Source: Central Bank of Chile.

C. External management program

C.1 External portfolio managers

In 2012, 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$1.021 billion was managed externally, distributed about equally between the two firms.

In September, the external management mandate was modified to incorporate a benchmark structure equivalent to the diversification portfolio described above. Like the internal management program, Pimco and GSAM manage a share of the diversification portfolio, controlled through a risk budget defined as an ex ante tracking error of 100 basis points per year.

The priority objectives of the external management program are threefold: (i) to add value to the foreign exchange portfolio; (ii) to facilitate knowledge transfers to the Bank's professionals; and (iii) to provide an active benchmark for the internally managed diversification portfolio.

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

D. Risk management and returns from international reserve management

D.1 Risk management in international reserve management

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

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

Within the internally managed investment portfolio, at year-end 2012, the only exposure to bank risk was through renminbi-denominated time deposits invested in banks in Australia, Japan, the United Kingdom and Singapore, with a residual maturity of approximately 1.6 months. At the close of the period, there was no exposure to supranational or agency risk (table 3).

Table 3

Composition of international reserves by credit risk (1) (2) (3)

(percent as of 31 December 2012)

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

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

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 6, 7 and 8).

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[5]/) of the internally managed investment portfolio was 3.71% in 2012 (5.12% in 2011). The average tracking error[6]/ was 31 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 decision making process and performance evaluation within the Bank were well defined.

[5]/ Supranational institutions are official multilateral financial institutions, whose articles of agreement are signed by the governments of two or more countries. Agencies are financial institutions with specific objectives; they are fully or partially backed by the government of the country in which they are established.
[6]/ With the transfer of custody of the U.S. Treasury bills to the Federal Reserve Bank of New York, the securities lending program was suspended for this portion of the portfolio.

To ensure immediate access at all times to the most liquid foreign exchange assets, the custody of the U.S. government bills was transferred to the Federal Reserve Bank of New York in December.

D.2 The return on foreign exchange reserve management

In 2012, the total return on reserve management was 0.66% based on the reference basket of currencies for the investment portfolio. Measured in U.S. dollars, the return was 1.43%. The return differential relative to the benchmark structure was –35 basis points. The measurement of the return differential was not suspended during the transition to the new investment policy[7]/. For the 2002–2012 period, the annual average return, measured in the reference currencies, was 2.96%, with an average return differential of 13.9 basis points over the benchmark (table 4).

Table 4
Absolute returns on international reserves (II.RR.) and the benchmark (BMK)(*)
(percent)

	In foreign currencies		In USD		
Period	II.RR.	BMK	II.RR.	BMK	Differential
2012	0.66	1.01	1.43	1.77	-0.35
2011	2.43	2.41	1.22	1.20	0.02
2010	2.10	2.19	-0.15	-0.06	-0.09
2009	2.15	1.65	3.34	2.85	0.50
2008	5.70	5.37	4.14	3.81	0.33
2007	4.81	4.78	8.86	8.83	0.03
2006	2.45	2.39	6.84	6.78	0.06
2005	2.90	2.85	-1.72	-1.77	0.05
2004	1.84	1.95	4.08	4.20	-0.11
2003	2.31	1.78	6.64	6.12	0.53
2002	5.25	4.69	9.34	8.78	0.57
2001	5.57	5.27	3.90	3.60	0.30
2000	6.88	6.65	4.84	4.61	0.22

(*) Includes corrections to foreign currency returns for 2010 and 2011 (relative to the figures published in the 2011 *Annual Report*)
Source: Central Bank of Chile.

[7]/ With the transfer of custody of the U.S. Treasury bills to the Federal Reserve Bank of New York, the securities lending program was suspended for this portion of the portfolio.

D.3 Operating costs and the securities lending program

In 2012, the total operating costs of reserve management represented around 2.6 basis points of the total portfolio under management.

In the period, a securities lending program was maintained with the Bank's international reserve custodians[8]/. 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 2012, this program generated income for the Bank equivalent to 0.5 basis points of the foreign exchange reserves. The absolute net return measured in dollars was 1.41% in 2012, while the differential net return was –36.9 basis points (table 5).

Table 5
Net management summary, 2012

Period	Returns (%)	Differential return (bp)	Management costs (bp)	Income from securities lending (bp)	Net differential return (bp)	Net return (%)
Total international reserves	1.43	-34.8	2.6	0.5	-36.9	1.41

Source: Central Bank of Chile.

[8]/ With the transfer of custody of the U.S. Treasury bills to the Federal Reserve Bank of New York, the securities lending program was suspended for this portion of the portfolio.

Table 6

Financial institutions with outstanding deposits as of 31 December 2012 (1) (2)

AAA, AA, AA-	Australia & New Zealand Banking Group Limited	
	Bank of Montreal	
	HSBC Bank USA NA	
	Oversea-Chinese Banking Corp Ltd.	
	Rabobank Nederland	
	Royal Bank of Canada	
	Standard Chartered Bank	
	Minimum amount (US$ million)	45
	Maximum amount (US$ million)	800
	Category average (US$ million)	469
A+	Mizuho Corporate Bank Ltd.	
	Sumitomo Mitsui Banking Corporation	
	Sumitomo Mitsui Trust Bank Ltd.	
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	
	Minimum amount (US$ million)	162
	Maximum amount (US$ million)	360
	Category average (US$ million)	310

(1) Includes investments in the cash portfolio.

(2) As of 31 December, exposure to some banks exceeds the permissible limit due to the greater volume of resources in the cash portfolio. The situation was foreseen and duly communicated to the Financial Operations Division of the Central Bank of Chile. Under current procedures, this is classified as an extraordinary situation.

Source: Central Bank of Chile.

Table 7

Eligible banks and permissible limits as of 31 December 2012

(value in US$ million and duration in months)

Country	Bank	Amount	Duration
Germany	Commerzbank AG	180	3
Germany	DekaBank Deutsche Girozentrale	90	3
Germany	Deutsche Bank AG	180	3
Germany	DZ BANK AG Deutsche Zentral-Genossenschaftsbank	180	3
Germany	Landesbank Hessen-Thüringen Girozentrale	180	3
Germany	NRW.BANK	432	12
Germany	Unicredit Bank AG	180	3
Australia	Australia & New Zealand Banking Group Limited	432	9
Australia	Commonwealth Bank of Australia	432	9
Australia	National Australia Bank Ltd	432	9
Australia	Westpac Banking Corporation	432	9
Austria	Erste Group Bank AG	180	3
Austria	Raiffeisen Bank International AG (RBI)	180	3
Belgium	Fortis Bank SA/NV	180	3
Belgium	ING Belgium SA/NV	180	3
Canada	Bank of Montreal	432	9
Canada	Canadian Imperial Bank of Commerce	432	9
Canada	National Bank of Canada	180	3
Canada	Royal Bank of Canada	432	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 Hong Kong and Shanghai Banking Corporation Limited	432	9
Denmark	Nordea Bank Danmark A/S	432	9
Finland	Nordea Bank Finland PLC	432	9
France	BNP Paribas S.A.	180	3
France	Credit Agricole Corporate and Investment Bank	180	3
France	Crédit Agricole S.A.	180	3
France	Crédit Industriel et Commercial (CIC)	180	3
France	HSBC France	432	9
France	Natixis	180	3
France	Société Générale	180	3
Netherlands	ABN AMRO Bank NV	180	3
Netherlands	ING Bank NV	180	3
Netherlands	NV Bank Nederlandse Gemeenten	585	12
Netherlands	Rabobank Nederland	432	12
Netherlands	The Royal Bank of Scotland N.V.	180	3
Japan	Mizuho Corporate Bank Ltd.	180	3
Japan	Sumitomo Mitsui Banking Corporation	180	3
Japan	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	180	3
Japan	The Norinchukin Bank	180	3
Japan	The Shizuoka Bank Ltd	180	3
Japan	Sumitomo Mitsui Trust Bank Ltd.	180	3
Norway	DnB NOR Bank ASA	180	3
Norway	Nordea Bank Norge ASA	432	9
Singapore	Oversea-Chinese Banking Corp Ltd.	432	9
Sweden	Skandinaviska Enskilda Banken AB (Publ) (SEB)	180	3
Sweden	Svenska Handelsbanken AB (publ)	432	9
Switzerland	Credit Suisse	180	3
Switzerland	UBS AG	180	3

Table 7 *(continued)*

Eligible banks and permissible limits as of 31 December 2012

(value in US$ million and duration in months)

Country	Bank	Amount	Duration
Switzerland	Zürcher Kantonalbank	702	12
United Kingdom	Bank of Scotland PLC	180	3
United Kingdom	Barclays Bank PLC	180	3
United Kingdom	HSBC Bank PLC	432	9
United Kingdom	Lloyds TSB Bank PLC	180	3
United Kingdom	National Westminster Bank PLC	180	3
United Kingdom	Standard Chartered Bank	432	9
United Kingdom	The Royal Bank of Scotland PLC	180	3
United States	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 8
Intermediaries used in 2012

Intermediary
ANZ Securities Inc.
Banca Imi Securities Corp
Bank of America Merrill Lynch
Barclays Capital
Barclays Capital Inc.
Barclays Capital Securities Limited
BIS
BNP Paribas Securities Corp.
Cantor Fitzgerald & Co
CIBC World Markets Corp
Citigroup Global Markets Inc.
Citigroup Global Markets Ltd.
Commerzbank AG
Credit Suisse Securities
Credit Suisse Securities (USA) LLC
Daiwa Capital Markets America Inc
Danske Bank Aktieselskab
Deutsche Bank AG
Deutsche Bank Securities Inc.
Goldman Sachs International Bank
Goldman, Sachs & Co.
HSBC Bank PLC
HSBC Securities (USA) Inc.
J.P. Morgan Chase Bank NA
J.P. Morgan Securities LLC
J.P. Morgan Securities PLC.
Jefferies & Company, Inc.
Jefferies International Limited
Merrill Lynch International
Merrill Lynch, Pierce, Fenner & Smith Inc.
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.
Nordea Bank Finland PLC
RBC Capital Markets LLC
RBS Securities Inc.
Royal Bank of Scotland
SG Americas Securities LLC
Skandinaviska Enskilda Banken AB
Standard Chartered Securities Korea Limited
TD Securities (USA) LLC
UBS AG
UBS Limited
UBS Securities LLC
Westpac Banking Corp
Westpac Banking Corp
Zurcher Kantonalbank

Source: Central Bank of Chile.

Appendix V

Real time gross settlement (RTGS/CAS) system

A. Introduction

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

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

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

B. The RTGS system

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

To ensure operational reliability, the Bank has two data processing sites in different locations, which alternate operations. The RTGS system and the communications networks are in an active-passive contingency scheme, while data storage is replicated simultaneously at both sites. The configuration items that make up the systems are monitored 24/7, every day of the year. The system availability indicator (measured as a percentage of operating time over programmed time) was 100 % in 2012.

The system's operating security is based not only on technological measures, but also on organizational factors. The lines of communication are encrypted and have firewalls to protect the system against breaches. For authorization processes for transactions entered by internal users, there is a verification scheme to minimize the possibility of forging a user's identity. User authorizations are based on the "necessary for work" principle, while profile management is handled by personnel that are not in the business line. The physical access to sensitive areas is also controlled with access cards.

The Bank carries out an annual program to test its business contingency plans, with the cooperation of the system participants, in order to ensure that the plans are fully operative and that the staff has ongoing training to prepare them to act in such an event, whether caused by system failures or the absence of personnel. Other tests include operating offsite from the alternate operations site located outside the Bank's offices for a full business day.

Thus, the RTGS system is considered to have a high degree of operational reliability and security, and the necessary contingency procedures are in place to ensure the timely completion of the daily business cycles. The system thus complies with the basic principle for systemically important payment systems.

C. Main initiatives

In 2012, the system migration was concluded for upgrading the LCSS/CAS application (the technical platform for the RTGS system) from version 3.50 to 3.60. This process introduced improvements in internal controls and operational continuity, supported a change in the integration mechanisms between the RTGS system and the Bank's internal systems and ensured compatibility with the new SWIFT standard release 7[1]/. Changes of this nature are initially implemented in a test environment, to verify that they are stable and functioning as designed. Tests are carried out at various levels, involving informatics staff, internal users and, finally, external users.

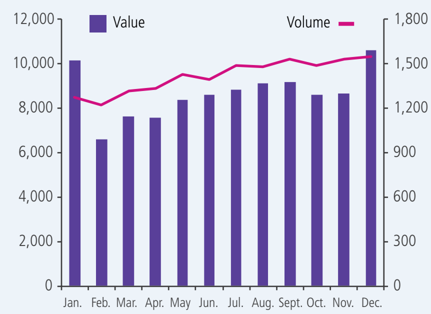
The private communication channel used by financial institutions to access the RTGS system and the *SOMA* electronic platform, among others, also underwent a technological renovation, in order to ensure a strong operational performance overall, heighten security and confidentiality and improve data availability and integrity.

D. Statistical report

In 2012, the average value of payments settled in the RTGS system was Ch$8.67 billion per day,

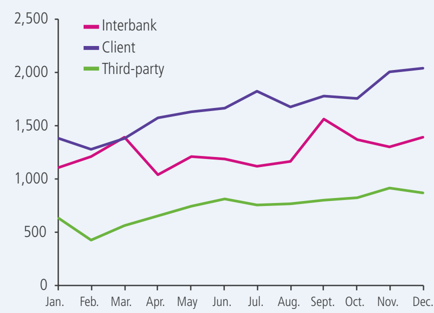
[1]/ Financial messaging standards and connectivity are periodically updated by SWIFT in order to incorporate changes in technology and new management tools.

Figure 1
Payments settled in the RTGS system in 2012 (*)
(Ch$ billion, number of operations)



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

Figure 2
FTIs settled in the RTGS system in 2012 (*)
(Ch$ billion)



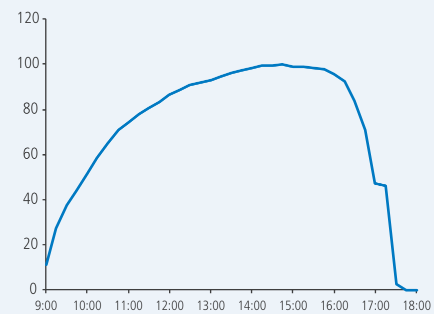
(*)Monthly daily average..
Source: Central Bank of Chile.

with an annual increase of 11% and a maximum value of Ch$16.11 billion (December). In terms of volume, the annual growth rate was 7%, for a daily average of 1,422 payments settled (figure 1). The increase in payments cleared for Central Bank operations reflects banks' increased use of liquidity management tools, in particular the standing deposit facility.

With regard to the types of payments settled by the participants, there was a significant increase in the average daily amount originating in the OTC securities markets, which accounted for 20% of the total amount cleared daily, at Ch$3.66 billion (figure 2). This coincided with changes in the way the cash surpluses in the Treasury Banking Account are invested, which in the second half gave rise to a mechanism for auctioning repos through an electronic platform, in addition to the deposit auctions carried out since last year.

The Bank provides liquidity to participants through an interest-free intraday liquidity facility. The intraday pattern shows that RTGS participants quickly increase their liquidity

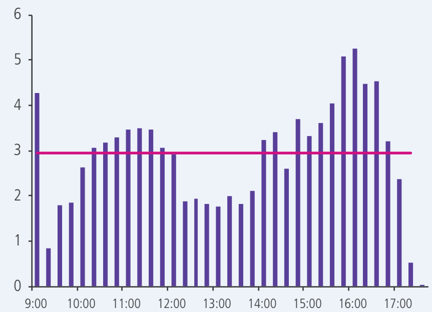
Figure 3
Intraday liquidity pattern of the intraday liquidity facility (*)
(percent, accumulated every 15 minutes)



(*) The percent of the maximum liquidity requested daily on average in 2012.

Source: Central Bank of Chile.

Figure 4
Intraday settlement pattern of FTIs, by value (*)
(percent, every 15 minutes)



(*) Horizontal line represents the daily average in 2012.

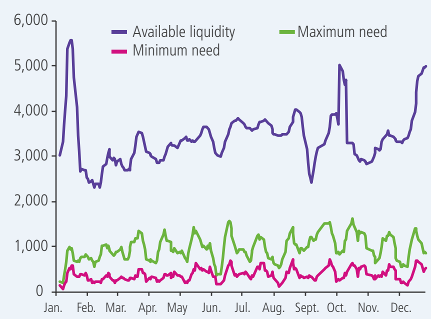
Source: Central Bank of Chile.

after the opening of business, entering about 50% of their applications (by value) by around 10:00 a.m. (figure 3) and peaking between 2:30 and 3:00 p.m. Approximately 98% of the intraday liquidity facility operations are bought back during the day, while the remainder are converted to an overnight facility that charges interest.

In terms of the value of the fund transfer instructions (FTI) settled by RTGS participants, approximately 75% of total payments sent are settled around 3:45 p.m. There are low payment rejection rates after the close of business and few extensions of the system's operating hours (figure 4).

The RTGS system operated with a sufficient liquidity level in 2012. The sources available to participants—namely, funds in transaction account, net overnight maturities and applications to the intraday liquidity facility—exceeded liquidity needs by 3.59 times, on average (figure 5).

Figure 5
Daily liquidity needs and availability in 2012 (*)
(Ch$ billions)



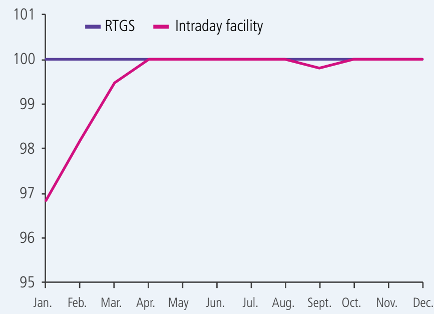
(*) Five-day moving average.

Source: Central Bank of Chile.

Figure 6
Time weighted value of queued transactions in 2012 (*)
(seconds)

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

Figure 7
Availability of RTGS and intraday liquidity facility in 2012 (*)
(percent)



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

Because of the high level of available liquidity, the weighted average time that a payment spent in the queue (excluding payments made by the Bank itself due to unlimited resources) was only six seconds, showing the almost instantaneous settlement process (figure 6).

As mentioned, the RTGS system recorded a technical availability of 100% in 2012. The availability of the *SOMA* system, which is necessary for managing the intraday liquidity facility, was similar in eight months in the period, as it was affected by six incidents. The longest delay was three hours, ending with a rate of 99.53% (figure 7).

Appendix VI

Management of fiscals 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 administration results and the costs of managing the resources.

B. Institutional framework

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

In 2012, there were no changes to the performance guidelines for managing ESSF resources, submitted by the Ministry of Finance through Official Letter 433 dated 12 April 2011 and approved through Board Resolution 1604-02-110421. In the period, all the ESSF resources were managed by the Central Bank, acting as fiscal agent.

Through Board Resolution 1646-02-111201, the Bank accepted new performance guidelines for the management of the PRF, submitted by the Ministry of Finance through Official Letter 1637 dated 18 November 2011. These guidelines entered into effect on 2 January 2012, replacing the guidelines that had been in force since May 2011[1]/.

The new PRF performance guidelines retained the current management objective in place since May 2011: namely, to obtain monthly returns in line with the benchmarks, using a passive management strategy. The primary changes

[1]/ The performance guidelines were submitted by the Ministry of Finance through Official Letter 432 dated 12 April 2011 and accepted by Board Resolution 1604-02-110421.

involved the addition of new asset classes and the incorporation of external portfolio management for a portion of the PRF[2]/.

The aforementioned Board Resolutions authorize the Director of the Financial Operations Division to establish the internal procedures for implementing the guidelines. The operational management of the fiscal agency is carried out by the International Markets Department, which reports to Financial Operations Division.

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 is made up of a short-term portfolio (30%) and a long-term portfolio (70%). The short-term portfolio includes a share of bank risk (15%) and sovereign risk (15%), based on benchmark indices provided by Merrill Lynch. The nominal portion of the long-term portfolio (66.5%) and the portion comprising inflation-indexed U.S. government bonds (3.5%) are compared against total return indices from Barclays Capital.

With regard to the currency composition, the ESSF benchmark specifies a share of 50% in U.S. dollars, 40% in euros and 10% in yen, with a maximum deviation of ±2% around the midpoints for each of these currencies. The ESSF investment guidelines also establish a maximum deviation from the benchmark duration of ±1 month.

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

[2]/ By Board Resolution 1646-02-111201, the Bank accepted the guidelines submitted by the Ministry of Finance through Official Letter 1630, dated 18 November 2011. Accordingly, the Bank, acting as fiscal agent, contracted Black Rock Institutional Trust Company N.A. and Rogge Global Partners Plc to provide external portfolio management services under the fixed-income corporate mandate. The Bank also contracted Black Rock Institutional Trust Company N.A. and Mellon Capital Management Corporation as external portfolio managers under the variable-income mandate.

For the PRF, the investment policy implemented since January 2012[3]/ establishes a portfolio composition made up of the following asset classes and shares: nominal sovereign bonds and other related assets (48%), inflation-indexed sovereign bonds (17%), stocks (15%) and corporate bonds (20%). In accordance with the new guidelines, the asset classes comprising nominal sovereign bonds and other related assets and inflation-indexed sovereign bonds were managed directly by the Bank (65%). The stock and corporate bond portfolios were managed by external portfolio managers (35%).

The benchmarks for the corporate bond portfolio and for the share of assets directly managed by the fiscal agent are global indices provided by Barclays Capital. The stock portfolio is benchmarked against a global index from Morgan Stanley. The PRF guidelines define eligible currencies, issuers and instruments as those included in the respective benchmarks, and they exclude any and all instruments from Chilean issuers or denominated in pesos.

Under the current guidelines, the management mandate controls the main risks through risk budgets. The internally managed portfolio establishes an ex ante tracking error[4]/ of 50 basis points per year. The risk budget for the stock portfolio is ex ante tracking error of 30 basis points per year, and for the corporate bond portfolio, 50 basis points per year.

Finally, the investment guidelines for both funds establish specific rules and limits on exposure, including criteria for eligible issuers, operations, instruments and intermediaries and the treatment of derivatives (tables 4 and 5).

D. Structure of fiscal portfolios

The management mandate began in March 2007. Since that date, the ESSF has received net contributions of US$11.735 billion, as of December 2012. At year-end 2012, the market value of the fund was US$14.998 billion, which is invested in line with the benchmark composition established in the current investment guidelines (table 1).

[3]/ / Through December 2011, the investment policy for the PRF was identical to the investment policy for the ESSF.

[4]/ The tracking error identifies the incremental risk incurred by a portfolio, relative to the benchmark, when it takes positions outside *the benchmark*.

Table 1
ESSF
(as of 31 December 2012; US$ million)

Asset class	Market value				Percent
	USD	EUR	JPY	Total	of total
Bank risk	1,137.7	899.8	214.1	2,251.5	15.0
Bank money market	1,137.7	899.8	214.1	2,251.5	15.0
Sovereign risk	6,388.6	5,107.4	1,250.1	12,746.0	85.0
Sovereign money market	1,122.2	906.3	208.1	2,236.6	14.9
Nominal sovereign bonds	4,744.3	4,201.1	1,041.9	9,987.4	66.6
Inflation-indexed sovereign bonds	522.0	n/a	n/a	522.0	3.5
Total	7,526.2	6,007.2	1,464.1	14,997.5	100.0
Total (percent)	50.2	40.1	9.8	100.0	
Benchmark (percent)	50.0	40.0	10.0	100.0	
Deviation (percent)	0.2	0.1	-0.2	0.0	

Currency	Duration (months)		
	Portfolio	Benchmark	Deviation
USD	30.7	30.4	0.3
EUR	30.1	30.0	0.2
JPY	31.2	31.7	-0.5
Total	30.5	30.3	0.2

Source: J.P. Morgan N.A.

Table 2

PRF

(as of 31 December 2012, US$ million)

Asset class	Market value					Percent	Porcentaje
	USD	EUR	JPY	GBP	Other currencies (*)	Total	of total
Internally managed portfolio	1,189.6	975.7	739.3	465.1	363.3	3,733.0	63.5
Sovereign bonds and other related assets	773.7	730.9	739.3	190.4	269.4	2,703.7	46.0
Inflation-indexed sovereign bonds	416.0	244.8	0.0	274.7	93.8	1,029.3	17.5
Externally managed portfolio	1,164.9	396.6	118.7	172.8	297.3	2,150.3	36.5
Corporate bonds	715.5	293.2	47.0	91.9	51.3	1,199.0	20.4
Stocks	449.3	103.4	71.7	81.0	246.0	951.3	16.2
Total	2,354.5	1,372.3	858.0	637.9	660.6	5,883.3	100.0
Total (percent)	40.0	23.3	14.6	10.8	11.2	100.0	
Benchmark (percent)	38.4	23.6	15.0	10.5	12.5	100.0	
Deviation (percent)	1.6	-0.3	-0.4	0.4	-1.3	0.0	

Portfolio	Ex ante tracking error (basis points)	Budget EUR
Internally managed portfolio	29	50
Corporate bonds	22	50
Stocks	25	30

(*) Includes CAD, AUD and SEK.

Source: J.P. Morgan N.A.

From March 2007 to December 2012, the PRF received contributions of US$5.073 billion, closing the year with a market value of US$5.883 billion (table 2).

E. Reports

Executive Decree 1383 and the performance guidelines define the content and frequency of the reports that the Bank must deliver to the Finance Minister and the General Treasurer of Chile[5]/. 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 General Treasurer on the custodian bank's performance.

F. Management results

In 2012, the ESSF and PRF obtained positive absolute returns. The ESSF resources being managed by the Bank generated an average return of 1.02% measured in dollars[6]/. This implied a differential return of –7.1 basis points below the benchmark, with both being measured by the time-weighted rate of return

Table 3
Time-Weighted rate of return (TWRR) 2012
(percent)

Asset class	Absolute (percent)	Differential (basis points)
ESSF	1.02	-7.1
PRF	4.89	-213.2

Source: J.P. Morgan N.A.

5/ / The guidelines addressing the provision of reports were submitted by the Ministry of Finance through Official Letter 248, dated 7 February 2012, which included changes to the custodian guidelines contained in Official Letter 133, also from the Ministry of Finance.
6/ This return is consistent with an annual internal rate of return (IRR) measured in U.S. dollars of 0.96% (J.P. Morgan N.A.).

(TWRR)[7]. Using the same methodology, the PRF resources managed by the Bank generated an absolute return of 4.89% measured in dollars[8]. This meant a differential return of –213.2 basis point below the benchmark performance (table 3).

The large negative return differential of the PRF in 2012 reflects the adoption of the fund's new investment guidelines, and not necessarily the portfolio management. The differential is mainly explained by the results in the first quarter of 2012, when the resources were transferred to the external managers and the different portfolios were not yet invested according to the benchmarks established in the performance guidelines.

G. Compensation of the fiscal agent

According to the stipulations of Article 9, letter (a), of Executive Decree 1383, the fiscal agent is entitled to charge an annual fee for the direct expenses and costs incurred in carrying out its assigned functions.

For 2012, the Ministry of Finance set the annual fee at US$768,014 for the ESSF and US$520,186 for the PRF[9]. These amounts are consistent with the Central Bank's Basic Constitutional Act, which stipulates that the Bank shall not finance the General Treasury. In annual terms, the fees paid to the fiscal agent represent 0.5 and 1.5 basis points of the total resources managed for the ESSF and the PRF, respectively.

7/ The TWRR methodology calculates the daily returns from portfolio management, keeping the volume of resources constant, that is, excluding the effects of fund contributions and withdrawals.
8/ This return is consistent with an annual IRR measured in U.S. dollars of 5.55% (J.P. Morgan N.A.).
9/ The annual fiscal agency fees do not include payments to external portfolio managers for the management of their respective portfolios.

Table 4

Financial institutions with outstanding deposits

(as of 31 December 2012)

Institution
Australia & New Zealand Banking Group Limited
Bank of Montreal
BNP Paribas S.A.
Commerzbank AG
Deutsche Bank AG
DnB NOR Bank ASA
DZ BANK AG Deutsche Zentral-Genossenschaftsbank
HSBC Bank PLC
HSBC France
ING Bank NV
Mizuho Corporate Bank Ltd.
Rabobank Nederland
Skandinaviska Enskilda Banken AB (publ) (SEB)
Sumitomo Mitsui Banking Corporation
Sumitomo Mitsui Trust Bank Ltd.
Svenska Handelsbanken AB (publ)
The Bank of Tokyo-Mitsubishi UFJ, Ltd.
The Norinchukin Bank
Unicredit Bank AG
Westpac Banking Corporation

Source: N.A.

Table 5

Intermediaries used by the fiscal agent in 2012

Intermediary
ANZ Securities Inc. New York
Australia and New Zealand Banking Group Ltd. New York
Bank Hapoalim BM, New York branch
Barclays Capital
Barclays Capital Inc.
BMO Capital Markets Corp.
BNP Paribas Securities Corp. New York
Bnp Paribas U.S.A, New York branch

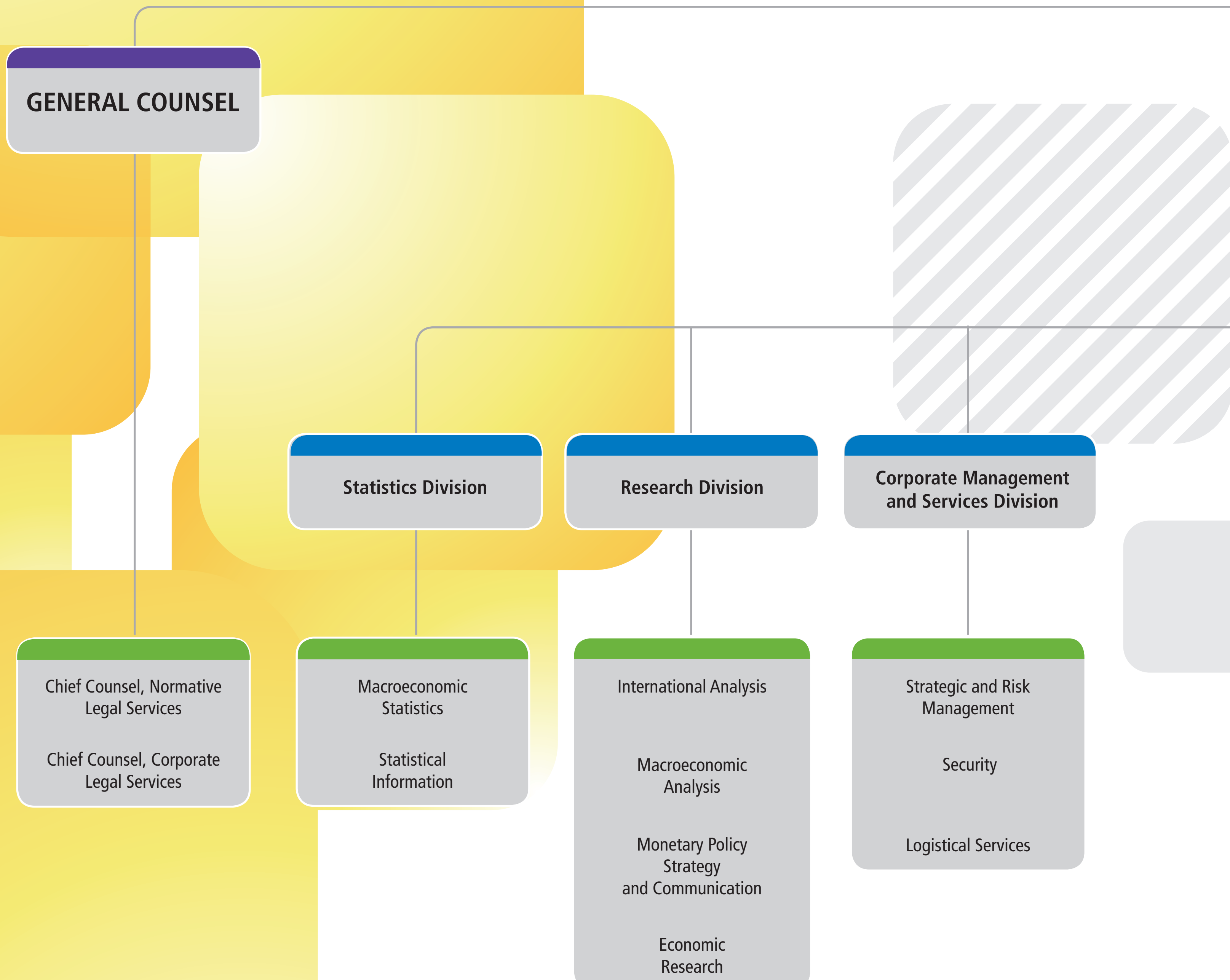
Table 5 *(continued)*

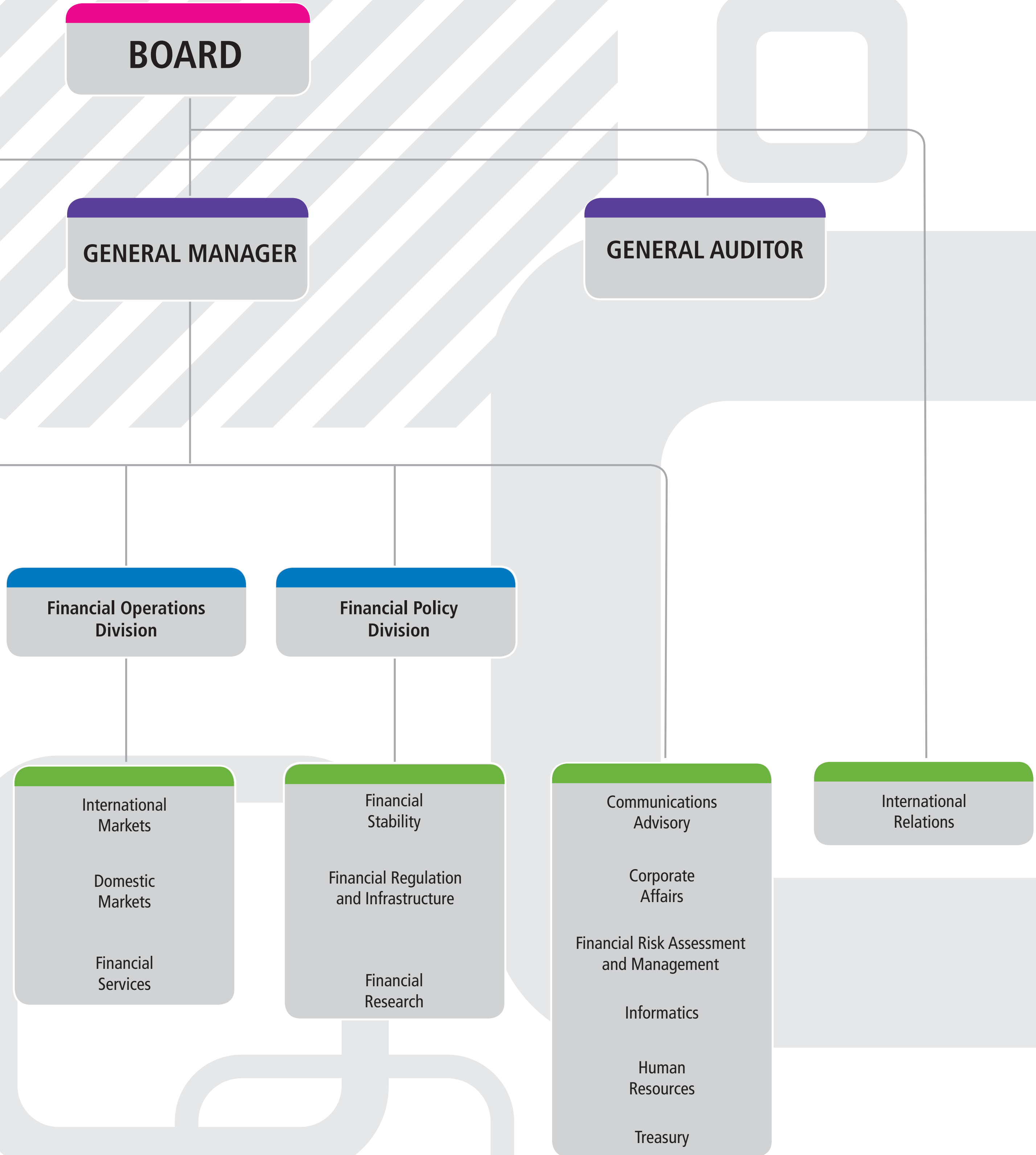
Intermediaries used by the fiscal agent in 2012

Intermediary
Bnp-Paribas SA
Citigroup Global Markets Inc. New York
Citigroup Global Markets Limited London
Commerzbank AG Frankfurt
Commonwealth Bank of Australia Sydney
Credit Suisse Securities (USA) LLC New York
Daiwa Capital Markets America Inc.
Danske Bank Aktieselskab Copenhagen
Dekabank Deutsche Girozentrale Frankfurt
Deutsche Bank AG London
Deutsche Bank Securities Inc.
Dnb Nor Bank Asa Oslo
DZ Bank AG Deutsche Zentral Genossenschaftsbank Frankfurt
Erste Group Bank AG - New York
Erste Group Bank AG - Vienna
HSBC Bank PLC London
HSBC France Paris
HSBC Securities (USA) Inc. New York
ING Bank NV Amsterdam
J.P. Morgan Securities LLC New York
Jefferies & Company, Inc. New York
Jefferies International Ltd, London
J.P. Morgan Securities Limited London
J.P. Morgan Securities PLC
Landesbank Baden Wurttemberg Stuttgart
Lloyds TSB Bank PLC London
Mizuho Corporate Bank Ltd London
Mizuho Corporate Bank Ltd New York
Mizuho Securities USA Inc.
Morgan Stanley & Co. International PLC London
Morgan Stanley & Co. LLC
National Bank of Canada Financial Inc. New York
Nomura International PLC London
Nomura Securities International, Inc. New York
Nordea Bank Finland PLC Helsinki
NV Bank Nederlandse Gemeenten
Rabobank Nederland Utrecht
Raiffeisen Bank International AG (RBI), Vienna
RBC Capital Markets LLC
RBS Securities Inc.
Royal Bank of Scotland PLC
SG Americas Securities LLC
Skandinaviska Enskilda Banken AB (Publ) (SEB) Stockholm
Societe Generale, Paris
Standard Chartered Bank all UK Offices London
Standard Chartered Securities Korea Limited, Seoul
Sumitomo Mitsui Banking Corporation New York
Sumitomo Mitsui Trust Bank Ltd. New York
Svenska Handelsbanken AB (publ) New York
Svenska Handelsbanken AB (publ) Stockholm
The Bank of Tokyo-Mitsubishi UFJ, Ltd., London
The Norinchukin Bank London
UBS Limited, London
UBS Securities LLC, USA New York
UniCredit Bank AG Munich
Westpac Banking Corporation Sydney
Zurcher Kantonalbank Zurich

Source: Central Bank of Chile.

Organizational chart




BOARD
GENERAL MANAGER
GENERAL AUDITOR
Financial Operations Division
Financial Policy Division
International Markets
Domestic Markets
Financial Services
Financial Stability
Financial Regulation and Infrastructure
Financial Research
Communications Advisory
Corporate Affairs
Financial Risk Assessment and Management
Informatics
Human Resources
Treasury
International Relations

Financial Statements

Financial Statements of the Central Bank of Chile

Statements of Financial Position as of 31 December 2012 and 2011

(Ch$ million)

Assets	Note	2012	2011
Foreign assets		20,052,478.3	22,020,211.5
Reserve assets	11	19,933,433.5	21,890,542.2
Monetary gold		6,290.6	6,338.5
Special drawing rights (SDR)		579,847.7	633,274.7
Reserve position in the IMF	12	331,087.3	313,531.9
Correspondent banks abroad		9,953.3	406,892.5
Investments in foreign currency:		18,967,149.6	20,511,779.2
Instruments at fair value with effect on net income		16,783,042.3	14,366,374.4
Available-for-sale securities		-	2,115,322.8
Held-to-maturity securities		2,184,107.3	4,030,082.0
Reciprocal loan agreements		38,819.6	18,176.6
Other assets		285.4	548.8
Other foreign assets		119,044.8	129,669.3
Shares of and contributions to the Inter American Development Bank (IDB)		88,111.1	96,001.7
Shares of Bank for International Settlements (BIS)		30,933.7	33,667.6
Domestic assets		3,002,363.2	2,848,169.1
Domestic loans	13	1,110,964.2	956,069.0
Loans to banks and financial institutions		1,110,964.2	956,069.0
Operations under specific legal regulation	14	1,891,399.0	1,892,100.1
General Treasury transfers (Laws 18,267 and 18,401)		260,018.7	253,794.9
Loan for subordinated liabilities of financial institutions (Laws 18,401 and 19,396)		754,321.6	821,311.9
Sinap Liquidation Law 18,900		877,058.7	816,993.3
Other assets		45,002.8	43,526.5
Premises, equipment and intangible assets	15	38,386.8	37,149.1
Other securities		6,146.7	6,106.6
Other current assets		469.3	270.8
Total assets		23,099,844.3	24,911,907.1

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

Statements of Financial Position, Continued as of 31 December 2012 and 2011

(Ch$ million)

Liabilities	Note	2012	2011
Foreign liabilities	16	656,457.2	711,843.1
Reciprocal loan agreements		13,253.0	7,097.0
Accounts with international organizations		42,254.1	50,559.6
Special drawings rights (SDR) allocations		600,950.1	654,186.5
Domestic liabilities		26,903,859.3	26,538,327.9
Monetary base	17	7,890,603.7	6,851,171.5
Banknotes and coins in circulation		6,195,118.2	5,265,742.6
Deposits from financial institutions (in Chilean pesos)		965,242.2	676,321.6
Deposits for technical reserve		730,243.3	909,107.3
Deposits and obligations	18	6,108,201.1	6,501,020.3
Deposits and obligations with the General Treasury		694,763.0	861,198.8
Other deposits and obligations		5,413,438.1	5,639,821.5
Documents issued by Central Bank of Chile	19	12,905,054.5	13,186,136.1
Central Bank of Chile bonds in UF (BCU)		8,535,033.3	8,054,639.8
Central Bank of Chile bonds in Chilean pesos (BCP)		3,905,683.5	3,533,333.6
Indexed promissory notes payable in coupons (PRC)		234,221.9	300,176.3
Optional indexed coupons (CERO) in UF		230,094.7	313,339.8
Central Bank of Chile discountable promissory notes (PDBC)		-	984,625.5
Other		21.1	21.1
Other liabilities	20	18,777.3	15,609.2
Provisions		18,365.6	15,247.9
Other securities		411.7	361.3
Net equity	21	(4,479,249.5)	(2,353,873.1)
Capital		(2,355,778.8)	(3,447,503.0)
Valuation accounts		-	1,905.7
(Deficit) surplus for the year		(2,123,470.7)	1,091,724.2
Total liabilities and equity		23,099,844.3	24,911,907.1

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

Statements of Income for the years ended as of 31 December 2012 and 2011
(Ch$ million)

	Note	2012	2011
Net income for international reserves	7	203,540.7	449,792.2
Income		707,477.1	650,423.5
Interest income		282,697.8	184,141.6
Gain on sale of instruments at fair value with effect on net income		416,695.8	236,852.2
Gain on sale of available-for-sale securities		6,847.6	6,687.1
Adjustments at fair value		-	219,290.0
Other		1,235.9	3,452.6
Expenses		(503,936.4)	(200,631.3)
Interest expenses		(12.5)	(23.9)
Loss on sale of instruments at fair value with effect on net income		(247,160.9)	(193,299.8)
Loss on sale of available-for-sale securities		(4.3)	(5.0)
Adjustments at fair value		(255,983.3)	(7,302.6)
Other		(775.4)	-
Net income (loss) for other foreign operations		(8,658.6)	1,072.5
Income		662.9	4,590.5
Other income		662.9	4,590.5
Expenses		(9,321.5)	(3,518.0)
Interest expenses		(724.5)	(2,660.3)
Other expenses		(8,597.0)	(857.7)
Net loss for domestic operations	8	(781,373.1)	(707,883.2)
Income		139,008.6	158,150.1
Interest income and adjustments		134,574.9	155,116.9
Other income		4,433.7	3,033.2
Expenses		(920,381.7)	(866,033.3)
Interest expenses and adjustments		(919,868.6)	(865,594.0)
Other expenses		(513.1)	(439.3)
Net gain (loss) on foreign exchange transactions	9	(1,452,858.9)	1,433,546.6
Gain on foreign exchange transactions		661,232.7	1,530,898.3
Loss on foreign exchange transactions		(2,114,091.6)	(97,351.7)
Issuance and distribution costs	10	(37,879.7)	(27,906.4)
Banknotes		(7,884.3)	(14,028.6)
Coins		(29,304.3)	(12,884.5)
Distribution		(691.1)	(993.3)
Personnel and administrative expenses		(43,473.9)	(42,092.1)
Personnel expenses		(26,783.9)	(25,877.2)
Administrative expenses		(12,231.6)	(13,905.0)
Provision for post-employment benefits		(4,458.4)	(2,309.9)
Other expenses		(2,767.2)	(14,805.4)
Depreciation and amortization	15	(2,196.6)	(1,931.2)
Taxes and contributions		(593.6)	(611.7)
Other		23.0	(12,262.5)
(Deficit) surplus for the year		(2,123,470.7)	1,091,724.2

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

Notes to the Financial Statements

As of 31 December 2012 and 2011
(Ch$ million)

Note 1 Incorporation and description of business

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

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

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

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

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

Note 2 Summary of significant accounting policies

(a) Basis of preparation of the financial statements

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

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

a.ii Provisions, assets and contingent liabilities. The Board decided to adopt the criterion of the international standards, however, it will be able to use the power granted by the Central Bank of Chile' s Basic Constitutional Act to record global or individual provisions based upon the risk that may be estimated for certain investing or credit operations. During 2012 and 2011, no provisions were recorded in this regard.

a.iii The statement of changes in equity is not presented. Instead, note 21 Capital and reserves is included; containing the capital movements during 2012 and 2011.

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

a.v The statements of comprehensive income are not presented, instead, the statements of income for 2012 and 2011 are presented.

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

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

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

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

(b) Functional and presentation currency

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

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

(c) Transactions in foreign currency and foreign currency translation

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

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

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

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

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

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

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

	2012 Ch$	2011 Ch$
United States dollar (observed exchange rate)	478.60	521.46
Pound sterling	769.82	802.86
Euro	632.90	675.20
Special Drawing Rights (SDR)	735.57	800.58

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

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

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

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

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

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

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

(e) Price-level adjustment

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

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

In addition, with the purpose of applying the legal regime related to the incorporation of the Central Bank of Chile' s paid-in capital and distribution of surpluses to Tax Authorities as dealt with in Section 5 of the abovementioned legislation, in relation to Sections 75, 77 and transitory Article 2 of the same legislation, Central Bank of Chile decided to record price-level adjustment on paid-in capital for 2012, in memorandum accounts, on the basis of Consumer Price Index variation occurred between 30 November 2011 and 30 November 2012, which was 2.1%.

(f) Interest income and expenses, adjustments and commissions

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

(g) International reserve measurement criteria

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

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

g.i Investments at fair value with effect on net income
Includes bonds issued by foreign governments, institutions and banks, mid-term bonds issued by Bank for International Settlements (BIS), treasury bills, discount notes, notes payable in coupons, indexed bonds, secured bonds from public institutions issued by German banks, agency prepayable bonds, agency bills, agency discount notes.

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

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

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

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

g.iv Other financial assets

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

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

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

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

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

Shares and contributions to IDB are shown under "Other foreign assets". Contributions to the IMF are recorded under "Reserve position in the IMF" in "Foreign reserve assets". The "Reserve Position in the IMF" includes the loans granted by Central Bank of Chile to the IMF for involvement in the financing program referred to as "New Arrangements to Borrow" (NAB) and which at year-end was SDR160.5 million. Such loans are a part of the revolving credit facility in favor of the IMF approved by the Central Bank of Chile' s Board on 24 September, 2009 up to SDR1,360.0 million. While as of 31 December 2012 the IMF remaining balance of the revolving credit facility amounted to SDR1,199.5 million, in practice the mechanism operates by calculating quarterly capitalization periods that include the stakeholders' maximum contribution during that period.

(i) Bank for International Settlements (BIS) Shares

During 2003, Central Bank of Chile' s Board Resolutions 1073-04 dated July 10 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 2012, dividends were received in the amount of US$1.4 million (US$1.4 million in 2011).

(j) Domestic loans

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

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

(k) Operations under specific legal regulation

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

(l) Premises, equipment and intangible assets

Premises and equipment are measured at acquisition cost, net of accumulated depreciation. The goods that have met their useful life are stated at their residual value considering market reference prices. Depreciation is calculated using the straight-line method.
In 2012, the Bank has recognized costs related to acquisition of licenses and the development of an Integrated Management System (ERP), as well as costs incurred for the SOMA System that is at development stage, as intangible assets. Historical costs are amortized using the straight-line method of accounting over their assigned useful lives.

Depreciation for 2012 and 2011 is recognized as expense and has been calculated considering the following estimated useful lives:

	Years	
	2012	2011
Buildings	80	80
Furniture and office equipment	10	10
Computer equipment	5	5
Vehicles	5	5
Intangible assets	5	-

(m) Monetary base

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

(n) Deposits and obligations

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

(o) Documents issued by Central Bank of Chile

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

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

(p) Impairment of financial assets at amortized costs

Regardless of the classification or reclassification of the instruments, in the event it is determined that the recoverable value (fair value) is lower than the earning value recorded in accounting, their impairment shall be recognized with a debit to earning. Pursuant to this policy, during 2012 and 2011, Central Bank of Chile has not recognized any impairment of these financial assets.

(q) Employee benefits

q.i Post-employment benefits

Post-employment benefits are employee benefits which are payable after the completion of employment in Central Bank of Chile, as stipulated in: collective contract between Central Bank of Chile and the Labor Union of Central Bank of Chile, signed on 1 June 2011 and in force up to 30 June 2015; for special resolutions approved by the Board and for special benefits delivered to retired employees of the Former Association of Retired Employees and Beneficiaries of Pensions of Public Officials of Central Bank of Chile. These benefits include: severance indemnities, special indemnity Resolution 1414-01 dated 5 June 2008, special supplementary severance indemnity under the retirement plan per Resolution 1651-06 dated 29 December 2011, special benefits to retired employees of the Former Association of Retired Employees and Beneficiaries of Pensions of Public Officials of Central Bank of Chile.

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

Actuarial calculation is based on the following assumptions for both years, except for the discount rate which presented a change compared to 2011:

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

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

- Salary growth rate: calculated as the annual average composed of the salary growth rate for a five-year period of 5.10% (2011: 5.24%).

- Discount rate: Central Bank of Chile used the annual average of the nominal rate for BCP instruments at 10 years. For 2012, the discount rate was 5.42% (2011: 5.89%).

On 29 December 2011, through Resolution 1651, the Board approved the extension in the Retirement plan applied at Central Bank of Chile since June 2008. This resolution particularly includes individuals joining Central Bank of Chile subsequent to 26 May, 1982 who comply with certain requirements to be eligible for such a plan. These individuals will be entitled to an additional special voluntary indemnity, which will correspond to a third of the monthly gross salary currently received by the employee for each year of service for Central Bank of Chile, over 11 years, as referred to in the preceding paragraph. The amount of the additional indemnity should not exceed an amount equivalent to 11 monthly gross salaries.

q.ii Accrued vacations

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

(r) Provisions and contingent liabilities

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

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

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

(s) Financial derivative instruments

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

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

(t) Use of estimates and judgments

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

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

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

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

(u) Issued but not yet effective IFRSs

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

On 11 May 2011, the IASB issued IFRS 13 Fair Value Measurement. This standard will be effective for the annual periods beginning on 1 January 2013. IFRS 13 establishes in a single standard a framework for measuring fair value of assets and liabilities and includes new concepts and clarification for its measurement. In addition, it requires disclosures by entities on fair value measurements of the fair value of its assets and liabilities. The application of this standard is mandatory for the annual periods beginning on or after 1 January 2013.

Amendment to IAS 19 Employee Benefits: It amends the recognition and disclosure of changes in the defined benefit obligation and plan assets, removing the corridor method and accelerating the recognition of past service costs. The application of this standard is mandatory for annual periods starting on or after 1 January 2013.

IFRS 9 Financial Instruments: Classification and measurement, will replace sections classification and valuation in IAS 39. This standard will be applicable to financial statements of Central Bank of Chile beginning on 1 January 2015 and it shows significant differences when compared to the current standard, including the adoption of a new classification model based on two single categories: amortized cost and fair value; the elimination of current classifications of "Investments held to maturity" and "Available-for sale financial assets", the impairment analysis only of assets stated at amortized cost and the treatment and classification of financial liabilities.

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

Note 3 Methodology applied for the measurement of fair values

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

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

(a) Priced securities (source: Bloomberg)

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

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

On the other hand, the system calculates the gains and losses from investments on a daily basis using the following formula for 2012 and 2011:

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

Where:

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

(b) Non-priced securities (reference rate)

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

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

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

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

Note 4 Segment reporting

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

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

Note 5 Financial instrument risks

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

(a) International reserves

International reserves are liquid assets in foreign currency held by Central Bank of Chile to support its monetary and exchange policies. They constitute one of the instruments that Central Bank of Chile has in order to be able to meet the permanent objective of looking after the stability of the currency and normal functioning of domestic and foreign payments.

Consistent with the function of international reserves, as well as with its benefits and costs, the objective of its management aims to provide efficiently a secure access to international liquidity and look after the financial equity of Central Bank of Chile. To achieve this, it acts in conformity with the institutional framework set out in Section 38 of its Basic Constitutional Act, where it is explicitly empowered to manage, maintain and dispose of its international reserves. Central Bank of Chile 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 financial balance sheet and on the characteristics of the potential foreign currency liquidity needs searching for the preservation of capital in case of possible market fluctuations. However, the new investment policy approved in 2012 particularly included the objective of reducing the cost of maintaining reserves in the margin.

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

On the basis of the new referential structure, the investment portfolio is made up of three portfolios: (a) Short-term Liquidity; (b) Mid-term Liquidity, and (c) Diversification. This new structure considers lower percentages in U.S. dollars and euros and higher percentages in other currencies; i.e., 47.8% in U.S. dollars, 22.0% in euros, 9.2% in Canadian dollars, 6.1% in Australian dollars, 3.0% in Japanese yen, 2.4% in Swiss francs and 9.5% in other foreign currencies. Additionally, the revised life of the referential portfolio increased from 16.9 to 23.7 months.

Tables 5.1 and 5.2 show a detail of both current and prior benchmarks.

Table 5.1. **Benchmark applicable as of 31 December 2012.**

Portfolio		Share: % over total investment portfolio	Share: % on internal admin	Share: % on sub-portfolio	Length (months)	Benchmark indices
Liquidity	USD	24.0	24.7	100.0	3.7	Merrill Lynch 0 - 1Y
	Total	**24.0**	**24.7**	**100.0**	**3.7**	
Mid-term liquidity	USD	23.8	24.5	39.0	24.5	Barclays 1 - 3Y y 3 - 5Y
	EUR	21.9	22.5	36.0	22.7	
	CAD	9.1	9.4	15.0	22.7	
	AUD	6.1	6.3	10.0	23.2	
	Total	**60.9**	**62.7**	**100.0**	**23.5**	
Diversification	CHF	1.9	2.0	16.0	65.8	Barclays 5 - 7Y y 7 - 10Y Depósito bancario CNH
	CNH	1.9	1.9	15.0	1.5	
	GBP	1.9	1.9	15.0	66.8	
	JPY	2.4	2.5	20.0	70.9	
	KRW	1.9	1.9	15.0	61.1	
	NZD	1.5	1.5	12.0	60.7	
	SGD	0.9	0.9	7.0	69.2	
	Total	**12.4**	**12.6**	**100.0**	**56.3**	
Total internal administration		**97.3**	**100.0**	-	**22.7**	
External administrators	CHF	0.4	16.0	16.0	65.8	Barclays 5 - 7Y y 7 - 10Y Depósito bancario CNH
	CNH	0.4	15.0	15.0	1.5	
	GBP	0.4	15.0	15.0	66.8	
	JPY	0.6	20.0	20.0	70.9	
	KRW	0.4	15.0	15.0	61.1	
	NZD	0.3	12.0	12.0	60.7	
	SGD	0.2	7.0	7.0	69.2	
	Total	**2.7**	**100.0**	**100.0**	**56.3**	
Total investment portfolio		**100.0**	-	-	**23.7**	

Table 5.2. **Benchmark applicable as of 31 December 2011.**

Portfolio		Share: % over total investment portfolio	Share: % on sub-portfolio	Maturity (months)	Benchmark índices
Short-term	USD	30.0	50.0	2.4	Bank risk: Merril Lynch Libid 3 months (USD, EUR, AUD, CAD and GBP) Sovereign risk: Merrill Lynch T. Bills (USD, EUR) and FixBis at 6 months (AUD, CAD and GBP)
	EUR	24.0	40.0	3.9	
	AUD	2.1	3.5	2.8	
	CAD	2.1	3.5	2.8	
	GBP	1.8	3.0	2.8	
	Total	**60.0**	**100.0**	**3.1**	
Long-term	USD	16.7	41.8	38.9	JP Morgan bonds tranches 1 - 3Y, 3 - 5Y, 1 - 10Y
	EUR	13.3	33.3	37.1	
	AUD	1.4	3.5	45.1	
	CAD	1.4	3.5	44.2	
	GBP	1.2	3.0	55.0	
	USD	3.3	8.3	29.5	Barclays Indexed bonds tranche 1 - 10Y
	EUR	2.7	6.8	27.8	
	Total	**40.0**	**100.0**	**37.7**	
Total internal administration		100.0	-	16.9	

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, and Operations Register and Control 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 100 basis points is established (ex - ante tracking error). Market risk is monitored through the daily measurement of the maturity and composition of currencies, and by the follow-up of VaR and Tracking Error. The international reserve management monthly report, prepared by the Manager of Management and Financial Risk Evaluation, includes the measurements of performance and risk in an absolute manner and as compared to a benchmark, and presents an evaluation of the implemented investment strategy.

Tables 5.3 and 5.4 set out the different monitored market risk measurements, where the effect of changing the benchmark can be noted, both in terms of length and currency of the portfolios.

Table 5.3. **Market Risk. Internal Investment Portfolio as of 31 December 2012 and 2011.**

		2012	2011
Amount (US$ million)		34,868.4	34,334.4
Length (months)	Portfolio	23.1	18.2
	Departure	0.4	1.0
Breakdown by currency (%)	USD	49.3	48.6
	EUR	22.5	35.8
	JPY	2.4	-
	Other	25.8	15.6
VaR	Absolute (%)	2.2	6.1
	Tracking Error (bp)	4.4	40.8

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

Table 5.4. **Market Risk for External Administrator Investment Portfolio as of December 31, 2012 and 2011.**

		2012	2011
Amount (US$ million)		1,024.2	994.6
Length (months)	Portfolio	55.0	40.1
	Departure	(0.9)	3.1
Breakdown by currency (%)	USD	0.4	52.5
	EUR	-	37.4
	JPY	17.9	-
	Other	81.7	10.1
VaR	Absolute (%)	2.4	4.2
	Tracking Error (bp)	29.9	74.6

Source: JPMorgan.

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

a.v Management of credit risk

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

Tables 5.5 to 5.8 show the breakdown of reserves by credit rating and type of risk. While the credit rating is an average of the ratings reported by agencies Fitch, Moody's and Standard and Poor's, the types of risks relate to the issuer of the instrument. Banking risk is related to the investment in bank financial instruments; deposits, secured bonds from public institutions issued by German banks. Sovereign risk consists of the investment in securities from sovereign states; deposits, bills, floating rate notes, nominal and indexed bonds. Agency risk is related to the investment in securities from U.S., French and German government agencies; bills, nominal bonds, mortgage-backed securities. Finally, supranational risk is related to the investment in multilateral official issuer securities; deposits, bills, floating rate notes and nominal bonds.

In the Internal Investment Portfolio, and as noted at the end of 2011, sovereign risks concentrate in AAA risk rating, whereas instruments issued by banks concentrate in AA- categories. For external portfolios, sovereign risk decreased its share of AAA risk rating compared to the prior year-end due to the addition of countries with lower risk ratings (China, South Korea and New Zealand) to the benchmark.

Table 5.5. **Breakdown of the Internal Investment Portfolio according to credit risk as of 31 December 2012.**

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

Table 5.6 **Breakdown of the internal investment portfolio according to credit risk as of 31 December 2011.**

Credit rating	Type of credit risk (%)				
	Agency	Banking	Sovereign	Supranational	Total
AAA	8.9	0.3	75.8	4.8	89.8
AA	-	1.1	0.3	-	1.4
AA-	-	3.0	-	-	3.0
A+	-	2.8	-	-	2.8
A	-	2.7	-	-	2.7
BBB+	-	0.3	-	-	0.3 (*)
Total	8.9	10.2	76.1	4.8	100.0

(*) Corresponds to investments in the Bayerische Landesbank whose last maturity date is 31 January 2012.

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

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

Tabla 5.8 **Breakdown of the external administrator investment portfolio according to credit risk as of 31 December 2011.**

Credit rating	Type of credit risk (%) Agency	Banking	Soberano	Sovereign	Total
AAA	17.4	-	76.6	3.4	**97.4**
AA-	-	-	0.7	-	**0.7**
A+	-	0.2	0.5	-	**0.7**
A	-	0.5	0.7	-	**1.2**
Total	17.4	0.7	78.5	3.4	100.0

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

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

a.vi Settlement of operations

The Recording and Control of Operations and 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, and Federal Reserve Bank.

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

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

(b) Open-market operations

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

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

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

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

b.ii Management of credit risk

Credit risk is associated to open-market operations and facilities that inject liquidity to the financial system (Repo, 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 operations prepared by the Manager of Management and Financial Risk Evaluation includes monitoring the exposure to counterparty and collateral risk, as well as measuring debt management and compliance with promissory note and bond bidding programs.

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

As of 31 December 2012, loans amounted to MCh$1,065,470.8 for repo transactions and MCh$31,535.2 for permanent liquidity facility agreements. Hundred percent of credit securities received corresponds to bonds and promissory notes issued by Central Bank of Chile.

As of 31 December 2011, loans amounted to MCh$951,674.5 for repo transactions. A percentage of 99.6% of credit securities received corresponds to bonds and promissory notes issued by Central Bank of Chile and the remainder corresponds to mortgage bills issued by financial institutions.

b.iii Management of market risk

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

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

Monitored market risk indicators include the length and VaR. Tables 5.9 and 5.10 display these indicators and show an increase in the length, the proportional share of instruments denominated in UF in the debt structure and VaR between 2012 and 2011 year-ends. This change is mainly explained by the transitory decision made by Central Bank of Chile of not renewing short-term debt (PDBC) during December 2012

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

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

Annualized VaR calculated with a decline ratio of 0.06 and a standard deviation confidence interval.

Table 5.10 **Structure and risk of the debt portfolio of Central Bank of Chile as of 31 December 2011.**

Instrument	Ch$ billion	% UF	Holding period (months)
Short-term	985	-	1,3
Long-term	12,201	71	60.0
Total	13,186	66	57.0

Annualized VaR calculated with a decline ratio of 0.06 and a standard deviation confidence interval.

b.iv Management of liquidity risk

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

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

Tables 5.11 and 5.12 show a summary of the results of the adjudication of bonds and promissory notes for 2012 and 2011. Note that prices or interest rates for the award of the bidding of bonds and promissory notes are very similar to market rates and demand has been higher than the scheduled securities supply. In comparison to 2011, in 2012 the demand for the securities supplied was higher and spreads in respect to market rates were lower. Another aspect that should be highlighted is that bidding processes for discountable promissory notes issued by Central Bank of Chile PDBCs, were also performed at more convenient rates compared to 2011.

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

Instrument	Amount awarded in (Ch$ billion)	Demand (%)	Award (%)	Bidding rate (%)	Market rate (%)	Spread (bp)
PDBC	30,095	152	106	5.00	5.80	(7.6)
BCP	950	342	100	5.35	5.35	0.2
BCU	1,096	285	100	2.43	2.43	(0.2)

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

Table 5.12 **Results of the bidding of debt instruments of Central Bank of Chile as of 31 December 2011.**

Instrument	Amount awarded in (Ch$ billion)	Demand (%)	Award (%)	Bidding rate (%)	Market rate (%)	Spread (bp)
PDBC	29,107	137	102	4.81	4.75	6.4
BCP	1.400	293	104	5.71	5.71	0.1
BCU	3,946	255	106	2.70	2.69	0.7

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

Note 6 Changes in accounting policies

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

During 2012, there were no changes in accounting policies compared to 2011.

Note 7 Net income for international reserves

International reserves

For the years ended 31 December 2012 and 2011, this caption is composed of the following:

	(Ch$ million) 2012	2011
(a) Net interests and commissions on:		
Securities at fair value with effect on income	265,084.6	154,058.2
Held-to-maturity securities	16,911.6	28,903.5
Available-for-sale securities	25.1	449.5
Foreign correspondents	664.0	706.5
Subtotal for net interests and commissions	282,685.3	184,117.7
(b) Sales of securities:		
At fair value with effect on income	169,534.9	43,552.4
Available-for-sale	6,843.3	6,682.1
Subtotal for sales of securities	176,378.2	50,234.5
(c) (Loss) gain adjustments at fair value	(255,983.3)	211,987.4
(d) On other income	460.5	3,452.6
Total net income for international reserves	203,540.7	449,792.2

Other foreign operations

Net gain or loss on foreign operations comprise the following:

	(Ch$ million) 2012	2011
On revaluation of accounts with international agencies	(7,006.0)	4,590.5
On interest	(724.5)	(2,660.3)
Other net income and expenses	(928.1)	(857.7)
Total net income for foreign operations	(8,658.6)	1,072.5

Note 8

Net income for domestic operations

For the years ended 31 December 2012 and 2011, this caption is composed of the following:

	(Ch$ million)	
	2012	2011
(a) Income for domestic loan		
Interests	10,754.5	4,859.4
Adjustments	129.4	181.6
Other	4,433.7	3,033.2
Total income for domestic loan	15,317.6	8,074.2
(b) Income for operations under specific legal regulations		
Interests	89,563.9	94,845.9
Adjustments	31,074.9	50,140.4
Total income for operations under specific legal regulations	120,638.8	144,986.3
(c) Income for deposits and obligations held by Central Bank of Chile		
Interests	(96,338.5)	(74,399.3)
Other	(513.1)	(439.3)
Total income for deposits and obligations held by Central Bank of Chile	(96,851.6)	(74,838.6)
(d) Income for documents issued by Central Bank of Chile		
Interests	(613,565.0)	(534,644.2)
Adjustments	(206,912.9)	(251,460.9)
Total income for documents issued by Central Bank of Chile	(820,477.9)	(786,105.1)
Total net income for domestic operations	(781,373.1)	(707,883.2)

Note 9

Net gain (loss) on foreign exchange operations

For the years ended 31 December 2012 and 2011, this caption is composed of the following:

	(Ch$ million) 2012	2011
Gain on foreign exchange operations	661,232.7	1,530,898.3
Loss on foreign exchange operations	(2,114,091.6)	(97,351.7)
Total	(1,452,858.9)	1,433,546.6

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

	(Ch$ million) 2012	2011
U.S. dollar	(777,356.0)	843,162.2
Euro	(475,842.3)	397,688.0
SDR	(19,824.5)	21,345.4
Pound sterling	(16,776.9)	40,170.1
Other currency	(159,774.4)	137,068.3
Subtotal net (loss) gain on foreign exchange operations	(1,449,574.1)	1,439,434.0
Arbitrage and other	(3,284.8)	(5,887.4)
Total net (loss) gain on foreign exchange operations	(1,452,858.9)	1,433,546.6

Note 10 Issuance and distribution costs

For the years ended 31 December 2012 and 2011, this caption is composed of the following:

	(Ch$ million) 2012	2011
Banknotes	(7,884.3)	(14,028.6)
Coins	(29,304.3)	(12,884.5)
Distribution	(691.1)	(993,3)
Total	(37,879.7)	(27,906.4)

The increase in currency issuance and distribution costs during 2012 compared to 2011 is due to an increase in the number of coins and banknotes produced and the increase in costs mainly in coins. The detail of banknotes is provided in note 17(a).

Note 11

Reserve assets

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

	(US$ million) 2012	2011
Monetary gold	13.1	12.1
Special drawing rights (SDR)	1,211.5	1,214.4
Reserve position in the IMF	691.8	601.3
Correspondent banks abroad	20.8	780.3
Investments in foreign currency:	39,630.5	39,335.3
Instruments at fair value with effect on net income	35,067.0	27,550.3
Level 1 market value	35,067.0	27,550.3
Available-for-sale securities	-	4,056.5
Level 3 measurement without reference to market price	-	4,056.5
Held-to-maturity securities	4,563.5	7,728.5
Reciprocal loan agreements	81.1	34.9
Other assets	0.7	1.0
Total reserve assets	41,649.5	41,979.3

As of 31 December 2012, monetary gold amounted to US$13.1 million (US$12.1 million in 2011) equivalent to 7,940 fine gold troy ounces valued at US$1,655.5 per ounce (US$1,531 in 2011). There was no change in the amount of troy ounces compared to 2011.

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

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

The decrease observed in reserve assets for the year ended 31 December 2012 of US$329.8 million, compared to 2011, is mainly explained by a decrease in available-for-sale securities of US$4.056.5 million, held-to-maturity securities of US$3,165.0 million and securities at fair value through profit or loss of US$7,516.7 million.

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

	(US$ million) 2012	2011
U.S. dollar	21,050.7	22,086.6
Euro	7,870.3	12,655.6
Other currencies	12,728.5	7,237.1
Total	41,649.5	41,979.3

Note 12 Reserve position in the International Monetary Fund (IMF)

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

	(Ch$ million) 2012	2011
Subscription installment, contribution	629,721.5	685,378.4
Loan, account No.1	21.2	61.4
New Arrangement to Borrow (NAB)	118,072.3	74,873.6
Deposits	(416,727.7)	(446,781.5)
Total position in the IMF	331,087.3	313,531.9

Note 13 Loans to banks and financial institutions

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

	(Ch$ million) 2012	2011
Line of credit on debt restructuring	518.8	1.114.1
Central Bank of Chile repurchase agreements (repo)	1,110.445.4	954,954.9
Total	1,110.964.2	956,069.0

The average purchase rate for Central Bank of Chile repurchase agreements (repo) was 5.07% in 2012 (4.98% in 2011).

Note 14
Operations under specific legal regulations

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

a) General Treasury transfers

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

	(Ch$ million) 2012	2011
General Treasury transfer Law 18,401	260,018.7	253,794.9

In accordance with Article 13 of Law 18,401, differences produced in the recovery, as a result of discounts granted to shareholders of up to UF15 million, will be covered by the General Treasury through future taxes which as of 31 December 2012 amount to Ch$260,018.7 million, equivalent to approximately UF11.4 million (Ch$253,794.9 million in 2011, 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 abovementioned law for UF11,383,983.4695 and equivalent, at least, to one twentieth of the aforementioned total sum, starting on the eleventh year subsequent to the year in which the aforementioned decree was processed, which corresponds to 25 January 2011. However, this decree expressly contemplates that the General Treasury will be able to make prepayments.

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

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

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

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

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

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

As of 31 December 2012, the amount payable to Central Bank of Chile from the liquidation of these institutions, was Ch$877,058.7 million (this amount includes interest accrued for Ch$542,500.8 million to that date), of which Ch$808,497.7 million correspond to direct loans granted by Central Bank of Chile and Ch$68,561.0 million with credit lines for international organization programs (Ch$816,993.3 million in 2011, of which Ch$751,434.3 million relate to direct loans granted by Central Bank of Chile and Ch$65,559.0 million to credit lines for international organizations programs).

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

c) Loan for subordinated liability

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

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

During 2012, *Sociedad Administradora de la Obligación Subordinada SAOS S.A.* paid UF5,503,988.6769 to Central Bank of Chile, of which UF1,548,166.6602 were allocated to the payment of interests of the debt and UF3,955,822.0167 to the credit amortization for subordinated liability (in 2011 UF5,899,788.7374, of which UF2,280,164.9346 were destined to the payment of interest and UF3,619,623.8028 to amortization).

As of 31 December 2012 the balance amounts to Ch$754,321.6 million (Ch$821,311.9 million in 2011).

Note 15

Premises, equipment and intangible assets

	(Ch$ million) 2012	2011
Premises and equipment, net	36,377.8	37,149.1
Intangible assets, net	2,009.0	-
Total premises, equipment and intangible assets	38,386.8	37,149.1

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

	(Ch$ million)				
	Balances as of 31. Dec.11	Acquisitions	Disposals	Depreciation	Balances as of 31.Dec.12
Real estate and facilities	21,553.7	248.9	(212.4)	(231.8)	21,358.4
Furniture and equipment	9,887.5	1,518.2	(149.3)	(1,856.6)	9,399.8
Transport material	390.2	66.8	(49.8)	(80.9)	326.3
Collection of banknotes and coins (*)	3,652.3	-	(24.3)	-	3,628.0
Works of art	1,652.0	-	(0.1)	-	1,651.9
Other	13.4	-	-	-	13.4
Premises and equipment, net	37,149.1	1,833.9	(435.9)	(2,169.3)	36,377.8

(*) This figure includes Ch$24.3 million due to variations in foreign currency exchange of gold pesos.

As of 31 December 2012 and 2011, the caption Depreciation and Amortization of the Statement of Income includes Ch$2,169.3 million and Ch$1,931.2 million, respectively.

Composition and movements of intangible assets:

	(Ch$ million)				
	Balances as of 31. Dec.11	Acquisitions	Disposals	Amortization	Balances as of 31.Dec.12
Computer programs	-	1,636.7	-	(27.3)	1,609.4
Computer programs under development	-	399.6	-	-	399.6
Intangible assets, net	-	2,036.3	-	(27.3)	2,009.0

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

Note 16

Foreign liabilities

This caption includes the following operations:

	(Ch$ million) 2012	2011
Reciprocal loan agreements	13.253,0	7.097,0
Accounts with international bodies	42.254,1	50.559,6
Special drawing rights (SDR) allocations	600.950,1	654.186,5
Total foreign liabilities	656.457,2	711.843,1

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

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

This caption is composed of the following:

	(Ch$ million) 2012	2011
Promissory note obligations with IDB	38,211.9	41,633.9
Inter-American Development Bank (IDB)	3,094.8	7,961.3
Agency for International Development (AID)	901.1	901.1
Multilateral Investment Guarantee Agency (MIGA)	33.0	32.9
International Bank for Reconstruction and Development (IBRD)	13.3	30.4
Total accounts with international organizations	42,254.1	50,559.6

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

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

Note 17

Monetary base

This caption is composed of the following:

	(Ch$ million) 2012	2011
Banknotes and coins in circulation	6,195,118.2	5,265,742.6
Deposits from financial institutions	965,242.2	676,321.6
Deposits for technical reserve	730,243.3	909,107.3
Total monetary base	7,890,603.7	6,851,171.5

(a) Banknotes and coins in circulation

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

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

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

Denomination	(Ch$ million) 2012	2011
$ 20.000	1,808,594.2	1,421,483.1
$ 10.000	3,390,659.5	2,903,835.5
$ 5.000	418,003.6	399,479.9
$ 2.000	134,675.5	131,463.9
$1.000	161,221.8	151,962.0
$ 500	4,746.8	4,752.0
Other	249.9	251.4
Coins	276,966.9	252,514.8
Total	6,195,118.2	5,265,742.6

(b) Deposits from financial institutions

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

(c) Deposits for technical reserve

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

Note 18 Deposits and obligations

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

	(Ch$ million)	
	2012	2011
Deposits and obligations with the General Treasury	694,763.0	861,198.8
Other deposits and obligations	5,413,438.1	5,639,821.5
Total	6,108,201.1	6,501,020.3

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

	(Ch$ million)	
	2012	2011
General Treasury current accounts	626,202.1	795,639.9
Other	68,560.9	65,558.9
Total	694,763.0	861,198.8

(b) "Other Deposits and Obligations" include:

	(Ch$ million) 2012	2011
Permanent Deposit Facility in local currency	3,987,877.9	3,796,300.0
Current accounts in foreign currency	499,231.0	815,359.0
Short-term deposits from bank institutions in foreign currency	890,196.0	993,381.3
Other	36,133.2	34,781.2
Total	5,413,438.1	5,639,821.5

Note 19

Documents issued by Central Bank of Chile

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

As of 31 December 2012 and 2011, maturities of these instruments are as follows:

				(Ch$ million)			
	Up to 90 days	91 to 180 days	181 days to 1 year	Over 1 year to 3 years	Over 3 years	Total 2012	Total 2011
Central Bank of Chile bonds in UF (BCU)	152,767.9	526,141.8	1,168,267.8	226,443.8	6,461,412.0	8,535,033.3	8,054,639.8
Central Bank of Chile bonds in Chilean pesos (BCP)	268,525.7	91,015.4	223,730.4	1,293,525.1	2,028,886.9	3,905,683.5	3,533,333.6
Indexed promissory notes payable in coupons (PRC)	4,493.9	5,509.9	10,447.9	26,096.6	187,673.6	234,221.9	300,176.3
Optional indexed coupons (CERO) in UF	15,797.0	11,468.9	25,433.4	83,119.0	94,276.4	230,094.7	313,339.8
Central Bank of Chile discountable promissory notes (PDBC)	21.1	-	-	-	-	21.1	21.1
Other	-	-	-	-	-	-	984,625.5
Total as of 31 December	441,605.6	634,136.0	1,427,879.5	1,629,184.5	8,772,248.9	12,905,054.5	13,186,136.1

Balances include interest and adjustments accrued as of 31 December 2012 and 2011.

As of 31 December 2012, the net variation of Ch$281,081.6 million in these liabilities compared to 2011, is explained mainly by an increase in the issuance of BCUs, BCPs and a decrease in PDBCs.

In addition, decreases in CEROs in UF and PRCs are due to maturities that have not been renewed during the period and the decrease in PDBCs is attributed to injecting more liquidity into the market.

Note 20

Other liability accounts

This caption is composed of the following:

	(Ch$ million) 2012	2011
Provisions	18,365.6	15,247.9
Other securities	411.7	361.3
Total	18,777.3	15,609.2

Provisions

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

	(Ch$ million) 2012	2011
Balance at the beginning of the year	13,546.1	12,814.1
Provision for the year:		
Severance indemnity	1,147.6	585.8
Special indemnity Resolution 1414-01-080605 and agreed deposit for retirement plan	66.4	90.4
Special indemnity Resolution 1651-06-111229 and agreed deposit for retirement plan	1,752.4	-
Benefits to the former Association of Retired Employees and Beneficiaries of Pensions of Public Officials of Central Bank of Chile	16.6	51.9
Healthcare benefits for retirement plans	(2.7)	3.9
Post-employment benefit provision balance	16,526.4	13,546.1
Pending accrued vacations of personnel	1,836.2	1,698.7
Special indemnity Resolution 572-05-961226	3.0	3.1
Balance at the end of the year	18,365.6	15,247.9

Note 21

Capital and reserves

a) Capital and reserves

Changes in capital and reserves during 2012 and 2011 were as follows:

	(Ch$ million)			
	Capital	Valuation accounts	Net income (loss)	Total
Balances as of 1 January 2011	(1,961,259.2)	1,360.4	(1,489,242.2)	(3,449,141.0)
Deficit distribution as of 2010	(1,489,242.2)	-	1,489,242.2	-
Capital increase (*)	2,998.4	-	-	2,998.4
Valuation accounts	-	545.3	-	545.3
Surplus for the year	-	-	1,091,724.2	1,091,724.2
Balances as of 31 December 2011	(3,447,503.0)	1,905.7	1,091,724.2	(2,353,873.1)
Balances as of 1 January 2012	(3,447,503.0)	1,905.7	1,091,724.2	(2,353,873.1)
Surplus distribution as of 2011	1,091,724.2	-	(1,091,724.2)	-
Valuation accounts	-	(1,905.7)	-	(1,905.7)
(Deficit) for the year	-	-	(2,123,470.7)	(2,123,470.7)
Balances as of 31 December 2012	(2,355,778.8)	-	(2,123,470.7)	(4,479,249.5)

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

Section 5 of the Basic Constitutional Act of Central Bank of Chile established a paid-in capital for Central Bank of Chile at Ch$500,000 million, which at 31 December 2012 corresponds to Ch$2,105,238.3 million adjusted to the Consumer Price Index as of that date, which has to be paid according to transitory Article 2 of the Basic Constitutional Act.

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

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

As of 31 December 2012, Central Bank of Chile presents negative equity of Ch$4,479,249.5 million (negative equity of Ch$2,353,873.1 million as of 31 December 2011), which is mainly originated from the variations in exchange rate variations of assets in foreign currencies.

Article 11 of Law 20,128 published in the *Official Gazette* dated 30 September 2006 stated that the General Treasury may make capital contributions to Central Bank of Chile through the Ministry of Finance, under the conditions established in such a law for up to five years from the aforementioned date and therefore, such a period finished on 30 September 2011.

b) Price-level adjusted capital

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

As of 31 December 2012, the negative capital price-level adjustment recognized in memorandum accounts amounted to Ch$(53,367.8) million (Ch$(136,459.8) million in 2011), which resulted in adjusted capital of Ch$(2,594,689.9) million (Ch$(3,633,046.3) million in 2011). 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.

		(Ch$ million)	
	Capital as of 31.Dec.12	Price-level adjustment in memorandum accounts	Price-level adjusted total capital as of 31.Dec.12
Balances as of 31 December 2012	(2,541,322.1)	(53,367.8)	(2,594,689.9)

Note 22 Variations in the monetary base and international reserves

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

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

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

Variations in the monetary base	(Ch$ million) 2012	2011
Initial balance of monetary base	6,851,171.5	5,525,006.6
Increase		
Foreign exchange operations	2,941.6	5,793,799.9
Interest and indexation paid	947,203.3	731,921.9
Domestic loans	134,712.0	951,159.6
Operating support expenses	35,759.3	37,969.0
Securities issued	256,732.4	-
Operations with international bodies	5,416.8	19,163.8
Other assets	1,342.6	-
Total increase	1,384,108.0	7,534,014.2
Decrease		
Deposits and obligations	(220,498. 0)	(1,945,739.8)
Interest and indexation received for domestic operations	(118,078.2)	(131,023.8)
Securities issued	-	(4,120,399.3)
Other minor foreign exchange changes	(6,091.9)	(1,104.1)
Redemption of IDB promissory notes	-	(2,998.4)
Other assets	-	(6,413.1)
Other liabilities	(7.7)	(170.7)
Total decrease	(344,675.6)	(6,207,849.2)
Variation of monetary base for the year	1,039,432.4	1,326,165.0
Final balance of monetary base	7,890,603.7	6,851,171.5

Variations in international reserve assets	(US$ million) 2012	2011
Initial reserve balance	41,979.3	27,863.7
Increase		
Foreign exchange operations	3.0	11,880.9
Deposits and obligations	-	2,230.8
Interests received for deposits and other investment instruments abroad	589.6	2,644.9
Total increase	592.6	16,756.6
Decrease		
Other liabilities	-	(6.0)
Other assets	(0.1)	(0.5)
Deposits and obligations	(890.6)	
Interest paid for other transactions abroad	(83.8)	(2,702.1)
Total decrease	(974.5)	(2,708.6)
Variation in reserves for the year	(381.9)	14,048.0
Effect of exchange rate	52.1	67.6
Final reserve balance	41,649.5	41,979.3

Note 23 Foreign currency balances

The balance sheets include assets and liabilities payable in foreign currencies, whose balances as of 31 December 2012 and 2011 are as follows:

	(US$ million)	
Assets	**2012**	**2011**
Foreign assets	41,898.3	42,228.0
Reserves	41,649.5	41,979.3
Other foreign assets	248.8	248.7
Other asset accounts	6.3	430.2
Total assets	41,904.6	42,658.2
Liabilities		
Foreign liabilities	1,363.1	1,348.0
Other foreign liabilities	107.5	93.5
Special drawing rights (SDR) allocations	1,255.6	1,254.5
Domestic liabilities	3,921.3	4,777.8
Deposits and General Treasury liabilities	977.6	1,284.2
Other deposits and obligations	2,943.7	3,493.6
Total liabilities	5,284.4	6,125.8
Net assets	36,620.2	36,532.4

Note 24 Contingencies and commitments

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

Note 25

Income taxes

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

Note 26

Fiscal agency

Law 20,128 related to General Treasury Liability published in the *Official Gazette* as of 30 September 2006, created the "Economic and Social Stabilization Fund" (*FEES*) and the "Pension Reserve Fund" (*FRP*)". A portion of *FRP* funds is invested in sovereign bonds and other related assets, inflation-indexed sovereign bonds managed by Central Bank of Chile as Fiscal agency and the other portion is invested in corporate bonds and shares managed by an external administrator. In conformity with the provisions of the aforementioned law, the Minister of Finance through Executive Decree 1383, dated 11 December 2006, appointed Central Bank of Chile as Fiscal Agent for the administration of resources referred to such funds, in conformity with the procedures, conditions, methods and other standards established in the aforementioned executive decree.

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

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

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

Through Resolution 1406 of the Board, dated 24 April 2008, *KPMG Auditores y Consultores Ltda.* was assigned as the auditor of the "Economic and Social Stabilization Fund" (*FEES*) and the "Pension Reserve Fund" (*FRP*) for 2012 and 2011. Through an addendum to the audit contract with the audit firm *KPMG Auditores Consultores Ltda.* on 1 October 2011, the audit services on the Strategic Contingency Fund (*FCE*) were incorporated.

Note 27 Transactions with related parties

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

(b) Compensation of the Board and key executives:

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

Compensation corresponding to the General Manager, the General Counsel and General Auditor of Central Bank of Chile, are at level 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 2012 amounted to Ch$1,275.5 million (Ch$1,228.1 million in 2011).

Note 28 Relevant events

Through Executive Decree 167 issued by the Ministry of Finance dated 6 February 2012, and published in the *Official Gazette* on 6 July 2012, the President Mr. Sebastián Pïñera Echenique appointed Mr. Joaquín Vial Ruiz-Tagle as Central Bank of Chile' s Board Member for a period of 10 years starting from the aforementioned date.

Through Resolution 1658E-01 dated 14 February 2012, the Board of Directors of Central Bank of Chile agreed to appoint Mr. Manuel Marfán Lewis as Deputy Governor of the Board until 18 December 2013, when his period of 10 years as a Board Member elapses.

Through Resolution 1660-01 dated 23 February 2012, the Board of Central Bank of Chile agreed to appoint Mr. Gustavo Favre Domínguez as a member of the Audit and Compliance Committee of Central Bank of Chile for a period of three years.

Note 29 Subsequent events

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

(a) Change in US dollar and euro exchange rate

The value of U.S. dollar as of 22 January 2013 was Ch$472.02 representing a decrease of Ch$6.58compared to the rate prevailing as of 31 December 2012. This represents a decrease in Central Bank of Chile' s equity of Ch$113,144.9 million, considering a value of Ch$472.02 per US$1.00.

The value of euro as of 22 January 2013 was Ch$628.61, representing a decrease of Ch$4.29, compared to the rate prevailing as of 31 December 2012. This represents a decrease in Central Bank of Chile' s equity of Ch$25,168.7million, considering a value of Ch$628.61 per €1.00.

The total decrease in Central Bank of Chile's equity due to the drop in the exchange rate for United States dollars and euro on 22 January 2013 is Ch$138,313.6 million.

(b) Approval of financial statements

The financial statements for the year ended 31 December 2012 were presented by the General Manager to the Board on 31 January 2013 and approved for issue at the Meeting 1733.

(c) Other

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

ALEJANDRO ZURBUCHEN SILVA
General Manager

JUAN CARLOS SALAZAR TAPIA
General Accountant

SILVIA QUINTARD FLEHAN
General Auditor

Independent Auditor's Report

The Governor and Board Members of Central Bank of Chile:

Report on the financial statements

We have audited the accompanying financial statements of Central Bank of Chile (the Bank), which comprise the statement of financial position as of 31 December 2012 and 2011, the statement of income for the years then ended and the related notes to the financial statements.

Management's responsibility for the financial statements

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

Auditor´s responsibility

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of 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 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 2012 and 2011 and the results of its operations for the years then ended, in conformity with the accounting principles described in note 2(a) to the financial statements.

Basis of accounting

Note 2(a) to the financial statements describes the basis of accounting on which the financial statements of Central Bank of Chile are prepared in accordance with standards issued by the Central Bank of Chile's Board, as approved by the Chilean Superintendence of Banks and Financial Institutions, as established in Section 75 of the Central Bank of Chile's Basic Constitutional Act. These standards are consistent with International Financial Reporting Standards (IFRS). Should there be any discrepancy, the standards issued by the Central Bank of Chile' s Board shall prevail, including those discussed in note 2(a) to the financial statements in relation to the following matters: a) Accounting treatment of the *Sinap* Liquidation Account Law 18,900 dated 16 January 1990, which is presented within the caption Operations Under Specific Legal Regulation and explained in note 14(b) to the financial statements; and b) Replacement of the Statements of Changes in Equity, Cash Flows and Comprehensive Income with note 21 on Capital and Reserves, Variations in Monetary Base and International Reserve Assets, and Statements of Income, respectively. Our audit opinion is not modified in regard to these matters.

Emphasis on the equity deficit

As discussed in note 21(a) to the financial statements, as of 31 December 2012, Central Bank of Chile has net equity deficit of Ch$4,479,249.5 million ($2,353,873.1 million in 2011), which is explained mainly by changes resulting from the exchange rates of assets denominated in foreign currency.

Other matter

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

Joaquín Lira H.
Santiago, 31 January 2013

KPMG Ltda.

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