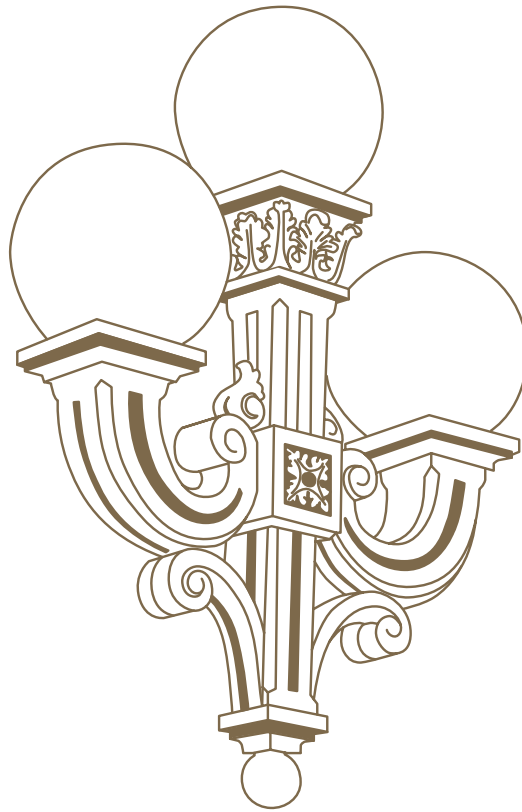




ANNUAL REPORT

2016



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2016

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SENIOR AUTHORITIES OF THE CENTRAL BANK OF CHILE

31 DECEMBER 2016



MARIO MARCEL CULLELL
Governor (*)



SEBASTIÁN CLARO EDWARDS
Deputy Governor

(*) Mario Marcel has served as Governor since 11 December 2016. Rodrigo Vergara was Governor through 10 December 2016.



JOAQUÍN VIAL RUIZ-TAGLE
Board Member



PABLO GARCÍA SILVA
Board Member



AUTHORITIES OF THE CENTRAL BANK OF CHILE

31 DECEMBER 2016



ALEJANDRO ZURBUCHEN SILVA
GENERAL MANAGER



JUAN PABLO ARAYA MARCO
GENERAL COUNSEL



SILVIA QUINTARD FLEHAN
COMPTROLLER AND AUDITOR GENERAL

DIVISION DIRECTORS



BELTRÁN DE RAMÓN ACEVEDO
FINANCIAL MARKETS



LUIS GONZÁLEZ BANNURA
CORPORATE MANAGEMENT AND SERVICES



ALBERTO NAUDON DELL'ORO
RESEARCH



GLORIA PEÑA TAPIA
STATISTICS

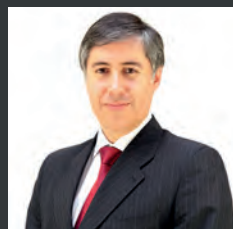


CLAUDIO RADDATZ KIEFER
FINANCIAL POLICY

MANAGERS



ELÍAS ALBAGLI IRURETAGOYENA
ECONOMIC ANALYSIS AND MODELING



MATÍAS BERNIER BÓRQUEZ
DOMESTIC MARKETS



RODRIGO ALFARO ARANCIBIA
FINANCIAL STABILITY



RODRIGO CIFUENTES SANTANDER
FINANCIAL RESEARCH



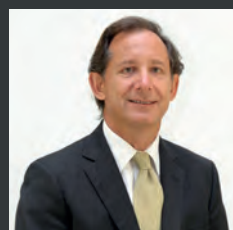
MAURICIO ÁLVAREZ MONTTI
CHIEF COUNSEL OF CORPORATE
LEGAL SERVICES



RICARDO CONSIGLIO FONCK
INTERNATIONAL MARKETS



LUIS ÁLVAREZ VALLEJOS
COMMUNICATIONS



MILCÍADES CONTRERAS GOSIK
FINANCIAL RISK ASSESSMENT AND
MANAGEMENT



GABRIEL APARICI CARDOZO
FINANCIAL INFRASTRUCTURE AND
REGULATION



CARLOS ESCOBAR ALEGRÍA
CASH CENTER PROJECT



M. ANGÉLICA ARTEAGA ARRIAGADA
HUMAN RESOURCES



CARMEN GLORIA ESCOBAR JOFRÉ
STATISTICAL INFORMATION



CECILIA FELIÚ CARRIZO
TREASURY



JOSÉ LUIS PÉREZ ALEGRÍA
SECURITY



MIGUEL FUENTES DÍAZ
MACROECONOMIC ANALYSIS



FRANCISCO RUIZ ABURTO
MACROECONOMIC STATISTICS



MARIELA ITURRIAGA VALENZUELA
PAYMENT SYSTEMS AND OPERATIONS



DIEGO SARAVIA TAMAYO
ECONOMIC RESEARCH



LEONARDO JADUE JADUE
INFORMATION SYSTEMS



MARIO ULLOA LÓPEZ
STRATEGIC AND OPERATIONAL RISK
MANAGEMENT



PABLO MATTAR OYARZÚN
CHIEF COUNSEL OF NORMATIVE
LEGAL SERVICES



MARÍA INÉS URBINA DE LUIGGI
LOGISTICAL SERVICES



ENRIQUE ORELLANA CIFUENTES
MONETARY POLICY STRATEGY AND
COMMUNICATION



CLAUDIA VARELA LERTORA
INSTITUTIONAL AFFAIRS

EMPLOYEE PROFILE

31 DECEMBER 2016

TOTAL STAFF **645^(*)**
(*) INCLUDING BOARD MEMBERS.

MEN **441**

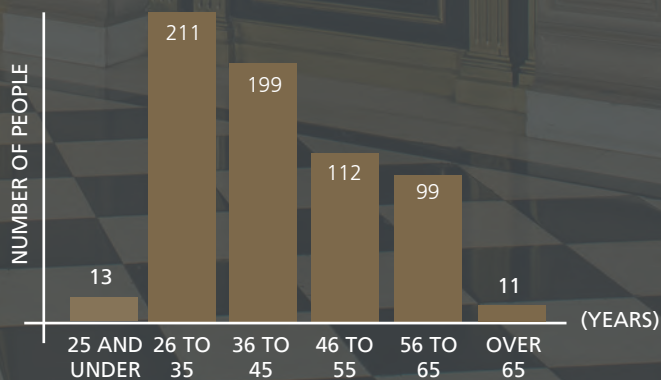
WOMEN **204**

ANNUAL TURNOVER **6.76%**

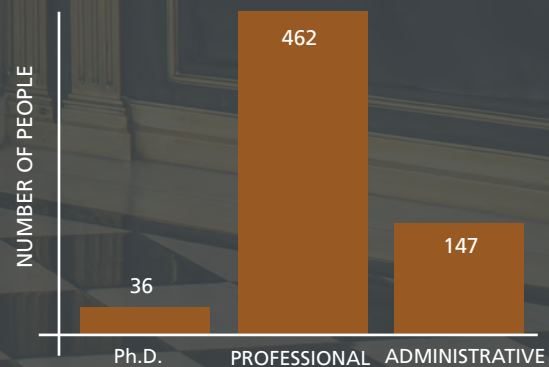
TOTAL VOLUNTARY TURNOVER **4.02%**

AVERAGE YEARS OF SERVICE **11.4**

BY AGE



BY EDUCATION LEVEL





Santiago, 28 April 2017

Mr. Rodrigo Valdés P.
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 2016.

Sincerely,

A handwritten signature in black ink, appearing to read "Mario Marcel C.", written over a light blue circular stamp.

MARIO MARCEL C.
Governor



Santiago, 28 April 2017

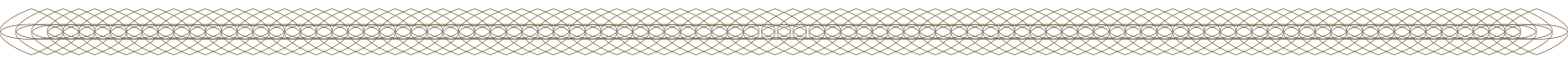
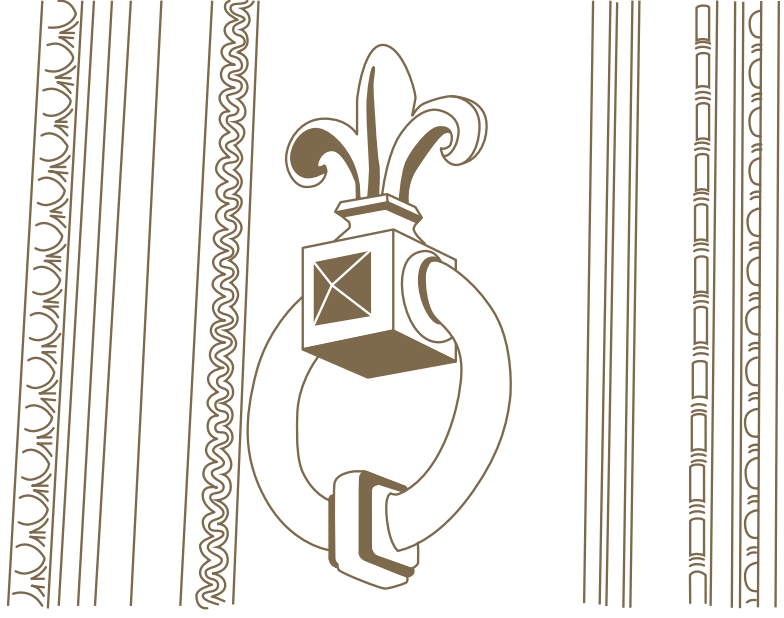
Mr. Andrés Zaldívar L.
President of the Senate
Valparaíso

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 to the Senate this institution's *Annual Report* for 2016.

Sincerely,

A handwritten signature in black ink, appearing to read "Mario Marcel C.", written over a light blue rectangular background.

MARIO MARCEL C.
Governor



1. FINANCIAL MANAGEMENT
AND POLICIES OF THE CENTRAL
BANK OF CHILE IN 2016



1. FINANCIAL MANAGEMENT AND POLICIES OF THE CENTRAL BANK OF CHILE IN 2016

A. Economic overview

Annual inflation fell in 2016, returning to the target range around mid-year and ending the year at around 3%. Thus, annual inflation started the year at 4.8% in January and declined to 2.7% in December. This was mainly due to exchange rate dynamics: the direct and indirect effects of the peso depreciation that had accumulated between 2013 and 2015 were dissipating, and the exchange rate did not depreciate as strongly in 2016 as it did in the earlier period. In fact, the sharper decrease in inflation was related to the behavior of goods prices tied to the exchange rate. Core goods inflation (CPIEFE), in particular, fell from an annual rate of 4.7% in January 2016 to 1.0% in December. The services CPIEFE also fell, albeit at a slower rate, transitioning from values around 5.0% annual in early 2016 to 4.0% in December. This trend is in line with the slight widening of the output gap over the course of the year and the high degree of indexation. As a result, the annual CPIEFE fell from 4.8 to 2.8% between January and December. In the second half of 2016, foods, in particular fresh fruit and vegetables, contributed less to inflation than in recent years, which also helped bring down annual inflation. Fuels had a negative contribution to total CPI inflation, but on a lower magnitude than in 2015 given that the international oil price followed an upward trend over the course of 2016.

Output was sluggish throughout 2016. GDP grew 1.6% in annual terms (versus 2.3% in 2015). As in 2015, the low growth was largely explained by the decline in mining activity. Moreover, some non-natural-resource sectors also slowed, which translated into a lower growth rate in the latter part of the year. Construction contracted, after having grown dynamically in 2015 due to the effects of the tax reform on residential construction. Other sectors, such as trade, performed well throughout the year. This is consistent with the behavior of domestic demand, which grew 2.0% excluding inventories (1.7% in 2015), due to a slight recovery of private consumption. Investment, in turn, remained weak, especially in construction and works, which deteriorated more than in 2015, due not only to the effects of the aforementioned tax boost in the sector, but also to the postponement of mining investment projects. Consumer and business confidence improved, but remained in pessimistic territory. The labor market continued to adjust gradually. Wage employment has recorded zero or very low growth rates for several quarters, but self-employment has acted as a shock absorber, growing at high rates and thus allowing the unemployment rate to remain low in historical terms. Domestic financing costs were stable, but supply and demand conditions weakened relative to 2015.

In the global economy, the year started off on a difficult note, with high volatility in the global financial markets and commodity prices at their lowest levels of the past several years. As the months passed, and especially in the second half of the year, the external scenario improved under a more solid recovery in the developed world, in particular in the United States, and a greater real or expected fiscal stimulus in several economies, which increased the possibility of higher growth. In the emerging world, the outlook for China improved over the course of the year, as the more stable growth statistics helped dissipate the short-term risk of a sharp adjustment. The large Latin American economies underwent significant adjustment processes in the year, resulting in uneven growth rates across the region, although at the close of the year there were some signs of stabilization in the growth outlook. The better world growth outlook also translated into a recovery of commodity prices. Financial conditions



for emerging economies were more favorable in the second half of the year, despite the occurrence of several events that were expected to have a larger, more lasting effect. First, the United Kingdom's surprising exit from the European Union initially generated volatility in the financial markets, but the markets quickly calmed with the assessment that the real effects would be confined mainly to that bloc. Second, after the U.S. elections and the later 25-basis-point increase in the federal funds rate, the dollar remained relatively strong at the international level. In Chile, the peso-dollar exchange rate fluctuated between Ch\$730 and Ch\$645 to the dollar, ending the year at around Ch\$670 to the dollar. In real terms, the exchange rate appreciated over the course of the year, albeit with fluctuations, from around 98 in January to just over 91 in December 2016 (where 1986=100). Inflation increased in the developed world, in part as a result of the increase in energy and oil prices. In the emerging world, inflation decreased or stopped increasing, in response to the lower depreciation of their currencies against the dollar compared with previous years and in several cases due to the drop in food prices.

B. Monetary policy

The monetary policy rate (MPR) was 3.5% throughout 2016, after reaching that level in December 2015 in response to the greater risks for the convergence of inflation to 3% in the latter part of that year. In the first half of 2016, the Board communicated that the future path of the MPR considered gradual adjustments to ensure the convergence of inflation to the target, at a rate that would depend on the new information that became available and its implications for inflation. In July, given that the inflation risks were dissipating and inflation had re-entered the target range, the Board adjusted its bias from tightening to neutral. At the December meeting, the Board moved to an expansionary bias, because inflation had fallen faster than forecast, the economy continued to grow at a low rate, and the growth rate was now expected to return to its potential more slowly than projected. Thus, the Board signaled that if these trends materialized, given their implications for medium-term inflation, it could be necessary to increase the monetary stimulus.

C. Exchange rate 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 2016, and the floating exchange rate regime operated normally, as has been the case for the last five years.

D. Financial regulations

In August 2016, the Board authorized *Corredores de Bolsa SURA S.A.* to participate in the Formal Exchange Market (FEM).

In October a law was passed to boost productivity, which included the following measures related to the Bank:

a. To strengthen the regulatory framework on payment infrastructures and their interconnection with other jurisdictions, paragraph 8 of Article 35 of the Central Bank's Basic Constitutional Act was replaced in order to give the Central Bank the authority to recognize payment systems established in other countries, so as to allow participation therein by banks and other financial institutions supervised by the Superintendence of Banks and Financial institutions (SBIF). In addition, the law explicitly establishes the finality and irrevocability of settlements and the legal protection of collateral rights in the payment systems recognized by the Central Bank. These concepts were previously incorporated only at the regulatory level.

b. The overseas investment limits for insurance companies were changed, such that the previous ceiling is now the floor. Thus, in accordance with the regulations in force at year-end 2016, overseas investments by insurance companies cannot be less than 20% of their technical reserves and risk capital. In addition, in 2017 a public consultation was opened on a regulatory change that would increase these limits to 25% on 1 March and then to 30% on 1 September.

In November, the Board suspended the authorization for *ICB Corredores de Bolsa S.A.* to participate in the FEM for a period of thirty (30) bank business days, for not having renewed or replaced the collateral required under paragraph N°1 of Chapter III del *Compendium of International Exchange Regulations*. The authorization was then revoked in December, as the noncompliance had not been corrected.

In December, the results of the international assessment of financial market infrastructures in Chile was published. In January 2015, the Bank and the Finance Ministry asked the International Monetary Fund (IMF) to evaluate the country's compliance with the international Principles for Financial Markets Infrastructures (PFMI) at the local level.

In general, the assessment identified a high level of compliance with these principles by financial market entities and in terms of the responsibilities of the relevant authorities. The main conclusion was that Chile has solid and robust financial market infrastructures, in line with international standards and best practices on risk management (credit, liquidity, operational, custodial), the finality and irrevocability of transactions, efficiency, and transparency. Furthermore, the regulatory and supervisory frameworks available in Chile allow a clear distinction between the powers and responsibilities of each agency with regard to each infrastructure. These infrastructures have sufficient power to obtain information, generate improvements, or enforce corrective actions, as necessary. At the same time, and as expected, the assessment identified some deficiencies that need to be addressed in the medium and long term.

Also in December, to facilitate the operations of international securities depositories and custodians in the country, and taking into consideration the general orientation of the government's economic policy in this area, the Board opened a public consultation on a proposal to modify Chapter XIV of the *Compendium of International Exchange Regulations* and Chapters I and XIV of its *Procedures Manual*. The proposed modification has to do with the exchange of information required in relation to investments from overseas that are made through the aforementioned custodians.

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 monetary policy rate (MPR).

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

In 2016, the absolute deviation of the interbank rate from the MPR was zero basis points, and there were no adjustments through open market operations.

E.2 International reserve management

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

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

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

In 2016, the Bank held sufficient foreign exchange reserves to meet potential and predictable foreign currency liquidity needs. As of 31 December, the investment portfolio stood at US\$33.5691 billion and the cash portfolio at US\$5.9565 billion. Taking the sum of these two portfolios plus other assets, international reserves ended the year at US\$40.4936 billion. This balance was US\$1.8511 billion higher than at year-end 2015. This was explained by an increase in the investment portfolio of US\$431.8 million and in the cash portfolio of US\$1.9213 billion, which was partially offset by a reduction in the other assets portfolio of US\$502.0 million. The increase in the investment portfolio and the decrease in the other assets portfolio were mainly due to IMF transactions, which had an effect on the composition of international reserves but not on their market value. In the case of the cash portfolio, the increase is explained by higher deposits made by local banks with the Central Bank.

The liquidity of the reserves was ensured by investing in a portfolio of short-term deposits with international commercial banks and fixed-income instruments traded on highly liquid secondary markets. On 31 December 2016, time deposits and resources held in transaction accounts represented 18.4% of international reserves; short-term securities, 18.6%; bonds, 60.6%; and other assets, 2.4%.

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, 72.4% of reserves (excluding other assets) were invested in AAA-rated instruments issued by banks, sovereigns, external financial institutions, or supranationals. The remaining 27.6% was invested in instruments with a credit rating between BBB and AA+, mainly in the sovereign sector. Market risk is limited by diversifying investment currencies, instruments, and maturities. Decisions regarding these parameters always take into account the impact on the Bank's balance sheet.

At year-end, 68.3% of total reserves was held in U.S. dollar instruments, 13.6% in euros, 3.9% in Canadian dollars, 3.7% in Australian dollars, and the remaining 10.6% in other currencies. The average duration of the investment portfolio was around 23 months.

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

At year-end 2016, a portion of the investment portfolio was managed by two external managers, namely, BlackRock Institutional Trust Company N.A. and Amundi Asset Management. These firms came on board in February and October 2016, respectively, with a mandate of US\$500 million each. Both firms manage a long-term global government fixed-income mandate, with a structure equivalent to the internally managed diversification portfolio.

In 2016, the total return obtained from international reserve management was 0.90% measured in currency of origin (not considering changes in the portfolio currencies) and 0.13% measured in U.S. dollars. The positive return of fixed-income instruments in local currency was offset by the negative exchange rate effect of measuring returns using the U.S. dollar as the base currency. This is due to the appreciation of the dollar against the other currencies in which the international reserves are invested.

The differential return relative to the benchmark (which is used to guide and evaluate investment performance) was -4 basis points (bp).

In June 2016, the use of Eurodollar futures and U.S. Treasury bond futures at 2, 5, and 10 years was authorized, with the objective of providing new instruments through which to improve the efficiency of reserve management.

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

E.3 Debt management

The Bank's debt management policy is mainly oriented toward having the instruments available for the correct implementation of monetary policy, as well as to minimize financing costs.

In early January 2016, the Bank announced its annual bond auction calendar, which considered scheduled debt maturities for an amount equivalent to Ch\$2.860 trillion, of which Ch\$1.400 trillion would be absorbed through Central Bank discount promissory notes (PDBC) and Ch\$800 billion would be rolled over as peso-denominated Central Bank bonds (BCP), with a maturity of three years.



As in past years, the Central Bank accepted the role of fiscal agent in the placement of Treasury bonds to be issued during the year, together with the related bond service at maturity. This involved placing UF-denominated Treasury bonds with maturity dates of 5, 10, and 20 years (BTU-5 long, BTU-10 long, and BTU-20), which correspond to the reopening of three series issued in 2015, together with the reopening of a 30-year UF bond (BTU-30) issued in 2014; and peso-denominated Treasury bonds with a five-year maturity (BTP-5), the reopening of 10- and 20-year peso bonds (BTP-10 long and BTP-20) issued in 2015, and the reopening of a 30-year bond (BTP-30) issued in 2013.

At the same time, the fiscal agency agreement included a Treasury bond exchange program. This consisted in the placement of additional quantities of the same series of the aforementioned instruments, which were acquired by investors via auctions and paid for with the remittance of securities previously issued by the Treasury.

The Central Bank and Treasury bonds were all issued in accordance with the provisions of Article 104 of the Income Tax Law.

E.4 Provision of large-value payment services

At year-end 2016, the number of participants in the real-time gross settlements (RTGS) system had fallen to 25, following the startup of operations of China Construction Bank, the exit of Deutsche Bank, and the merger of Itaú-Corpbanca.

In 2016, the RTGS system settled an average daily value of Ch\$11.600 trillion, down slightly from one year previous (-0.7%), mainly due to smaller interbank payments. In contrast, there was a 15% annual increase in payments originating in the OTC securities market. In terms of volume, the daily average was 1,394 transactions (-12% annual). The intraday liquidity facility provided an average of Ch\$471 billion per day.

In 2016, the availability of the RTGS system was 100%, while that of the open market operations system, which provides intraday liquidity, was 99.50%, due to the occurrence of five incidents.

In terms of hardware and software, the most important change was the migration of the technological platform that supports the RTGS system, from version 3.60 to 3.80. This upgrade will ensure operational continuity, while the addition of new features enables better operational control.

In January 2015, the Ministry of Finance and the Central Bank of Chile asked the World Bank and the International Monetary Fund (IMF) to carry out an assessment of local compliance with the international Principles for Financial Markets Infrastructures (PFMI). The PFMI are 24 principles developed by the International Organization of Securities Commissions (IOSCO), an association of the world's security regulators. The principles are aimed at systematizing and diffusing international best practices, legal standards, and regulatory guidelines applicable to financial market infrastructures. One of the infrastructures evaluated in Chile was the RTGS system. The results of the assessment indicated a high level of compliance with the PFMI, together with some deficiencies to be addressed. Several of the recommendations have already been implemented, while work continues on the pending challenges.

Finally, in 2016 the Bank achieved ISO 22301 Certification in Business Continuity Management, including for the payment systems.



E.5 Management of fiscal funds

Since 2007, at the request of the Ministry of Finance, the Bank has acted as Fiscal Agent in the management of all or part of the fiscal resources held in the Economic and Social Stabilization Fund (ESSF) and the Pension Reserve Fund (PRF). As of April 2011, the Bank also manages the Strategic Contingency Fund (SCF) in the name of the General Treasury. The Bank submits daily, monthly, quarterly, and annual reports to the to the corresponding government authorities, in accordance with the stipulations of the respective Fiscal Agency Decrees, with measures of performance, risk, and compliance with the specifications in the current performance guidelines.

In January 2014, modifications to the Fiscal Agency Decree governing the ESSF and PRF entered into effect, limiting the Bank's functions and responsibilities with regard to the resources managed by external portfolio managers^{1/}. In 2015, the new ESSF and PRF performance guidelines entered into effect, after being accepted by the Central Bank Board in June 2015. For the portfolios managed internally by the Central Bank, the new guidelines incorporated limited eligibility of instruments that are not in the respective benchmarks, without modifying the then-current mandates substantially.

In 2016, the objective of fiscal fund management was to obtain monthly returns in line with the benchmarks, following the passive management style and risk standards defined by the Finance Ministry in the performance guidelines accepted by the Bank. At the same time, the Bank's management of the funds considered the same standards applied to its international reserve management.

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

At year-end 2016, the ESSF had a market value of US\$13.7721 billion, of which US\$12.6327 billion was managed directly by the Central Bank^{2/}. During the period, withdrawals from the ESSF portfolio managed internally by the Bank totaled US\$526.3 million^{3/}. The PRF had a market value of US\$8.8621 billion on 31 December, of which US\$5.6292 billion was managed directly by the Bank^{4/}. In 2016, the PRF received contributions of US\$197.3 million for management by the Central Bank^{5/}.

In 2016, the Bank continued to hire the services of a general custodian, which also measured the performance, risk, and benchmark compliance of the management of the funds, in accordance with the standards and parameters outlined in the performance guidelines.

In 2016, the absolute gross yield measured in U.S. dollars on the funds managed by the Bank was 1.15% for the ESSF and 2.38% for the PRF^{6/}. The positive absolute return on the ESSF and the PRF is mainly explained by the interest accrued in the period, which was augmented by the drop in interest rates in Germany, Japan, and the United Kingdom.

^{1/} In 2015, the management of the ESSF and the PRF was carried out by the Fiscal Agent and external portfolio managers, in line with the current investment guidelines.

^{2/} The remaining ESSF resources are managed by external portfolio managers under an equity mandate.

^{3/} Of the total, US\$462.3 million was used to finance the annual capitalization of the PRF, and US\$64.0 million was transferred to the externally managed ESSF stock portfolio.

^{4/} The remaining PRF resources are managed by external portfolio managers under corporate bond and equity mandates.

^{5/} In 2016, the PRF received additional resources of US\$462.3 million, of which US\$197.3 million was allocated to the portfolio that is managed internally by the Bank, US\$92.0 million to the externally managed corporate bond portfolio, and US\$173.0 million to the externally managed stock portfolio.

^{6/} Both figures were obtained using the time-weighted rate of return (TWRR) methodology, which delivers a rate of return adjusted for the impact of possible contributions (of capital or generated by the securities lending program) and withdrawals (of capital or associated with payments to third parties). This methodology thus isolates the management result from the effect of changes that are exogenous to the size of the portfolio, thereby allowing a comparison of the portfolio management and the benchmark performance.

With regard to Fiscal Agency fees^{7/}, the costs of managing the funds were charged to the General Treasury. In 2016, the annual charges for the ESSF and PRF were 0.7 and 1.7 bp, respectively, of the total resources under the direct management of the Bank.

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

F. Macroeconomic statistics

In 2016, the Central Bank completed its regular macroeconomic statistics revision and publication schedule: National Accounts, Balance of Payments and International Investment Position, Monetary and Financial Statistics, and Foreign Exchange Statistics.

The Bank also continued its revision of the compilation methodologies used for macroeconomic statistics, to meet new demands for information. Thus, in March, the Bank began publishing the breakdown of debt securities held by nonresidents by market of issue (local or external) and institutional sector, with data since 2013. In April, the extensions of the national accounts series by institutional sector was published for the period 2003–2007, which will allow the review of the evolution of savings and indebtedness in firms and households, the state of public finances, and net sectoral financial positions, among other variables. This new information enabled quantifying the impact of the 2008 international financial crisis on the different institutional sectors. Starting in June, the Monthly Economic Activity Indicator (Imacec) began to publish the breakdown between the mining and non-mining sectors, with the historical series since January 2008, in both original and seasonally adjusted terms.

As part of the ongoing effort to maintain the high standard of quality of its published statistics, the Bank released the results of the 2013 Benchmark Compilation in December. This new benchmark exercise constitutes the new statistical infrastructure that serves as the basis for elaborating the Chilean national accounts from 2013 onward. The compilation incorporates methodological innovations derived from the most recent international recommendations—such as the incorporation of the classification of the economy's activities and products based on Revision 4 of the International Standard Industrial Classification (ISIC) and Revision 2 of the Central Product Classification (CPC); and the capitalization of research and development expenses—and other specific changes related to new data sources that were not available in the usual compilation and the associated methodological changes, such as the new measure of the construction sector.

To further the objective of maintaining an efficient and centralized management of the different micro-databases available within the Bank, in 2016 progress continued on the project to modernize the management of large volumes of macroeconomic data and facilitate its use, based on software available in the market at the international level. In the framework of this project, the Bank received technical cooperation from Bundesbank in June, with the visit of Mr. Stefan Bender, Head of the Bundesbank Research Data and Service Center. This specialized microdata center promotes improvement in the use of information for policy analysis and access to microdata by both internal and external researchers.

Also in 2016, the new version of the Bank's Weekly Short-Term Economic Indicators was launched, with weekly statistics on the trade balance, international reserves, monetary aggregates, and average interest rates. This page shows the last five weeks and provides access to the historical monthly series of the Statistical Database, thereby facilitating data analysis.

^{7/} The annual Fiscal Agency fees for the ESSF and PRF are associated with direct expenses and costs incurred by the Bank in the management of the funds and does not consider charges by the external portfolio managers for the management of their respective portfolios.

To better understand and satisfy the demands of statistics users, the Bank held focus groups and in-depth interviews of market analysts and academics in the first half of the year. This resulted in a qualitative analysis of the quarterly National Accounts and Balance of Payments reports, which identified areas for improvement to promote better understanding and use of the data.

Finally, the use of statistical applications continued to expand in 2016. Use of the Statistical Database on mobile devices increased from around 100,000 hits in 2015 to almost 400,000 in 2016 (measured via Google Analytics). The Daily Indicators page continued to receive the most traffic, in line with the data frequency, with 6.2 million hits in the year. In second place was the Statistical Database, which received almost 700,000 hits. Finally, the new web service, which was implemented in late 2015 and consists in direct transmission between servers to support large data downloads, solidified its web presence: almost 50 companies are now subscribed to the service.

G. Treasury management

In 2016, the Treasury Management continued to fulfill its mandate to oversee cash cycle management so as to ensure the normal functioning of the payment systems, in particular with regard to cash money in circulation in the country.

As in many countries, cash is still the most commonly used means of payment in Chile in terms of people's preferences, which has systematically been the case over the past several years. Consequently, cash is a critical component in the Central Bank's provision of reliable, secure, and timely payment means, as are commercial banks given their role in the money cycle. Specifically, commercial banks play a key role in cash management, since they are the only intermediaries between the Central Bank and the end users of bills and coins, namely, trade, businesses, and natural persons.

In terms of cash requirements, the Central Bank satisfied the vast majority of the demand from commercial banks in 2016. This provided the supply for a very important channel of cash distribution—namely, automatic teller machines (ATMs), which are one of the main ways that people obtain banknotes.

In 2016, the value of cash in circulation recorded annual growth rates of 2.5% and 9.7% for bills and coins, respectively, which is lower than in previous years. Broken down by denomination, the \$10,000 bill continues to account for the largest share of cash in circulation, at 39.3%. However, the share of the \$20,000 bill has grown around 15.8% annually, mainly due to its use in ATMs. With regard to coins, the \$1 and \$10 together represent about 68.3% of the coins issued by the Central Bank as of December 2016.

In terms of units, the number of banknotes issued in 2016 was practically constant vis-à-vis the previous year. Thus, the number of bills in circulation reached 947.1 million units^{9/}. In the same period, the number of coins in circulation grew 5.4%, with an issue of 14.0582 billion coins as of December 2016^{9/}.

To satisfy the demand for cash, the Bank distributed new banknotes and coins to commercial banks, following deliveries in 2015 and 2016 of production contracted out to suppliers in 2013, which were awarded through international tenders. The banknotes issued in the period were printed in Sweden and Germany; the coins were minted in Holland and Chile.

^{9/} The number of banknotes in circulation does not include the category "Other banknotes," which comprises the Ch\$100 and Ch\$50 peso denominations from the old banknote series.

^{9/} The number of coins in circulation does not include the category "Other coins," which comprises centavos and escudos issued by but not returned to the Central Bank of Chile, or commemorative coins issued by the Central Bank of Chile in Ch\$10,000 and Ch\$2,000 peso denominations.



An important milestone for the Treasury Management occurred on 26 October, when Law 20,956 was published in the *Official Gazette*. The law, which establishes measures to boost productivity, authorizes the Central Bank to cease issuing \$1 and \$5 coins as of 1 November 2017. The rationale for this initiative was based on studies conducted by the Bank demonstrating that these coins are not valued by Chileans (including consumers, businesses, and retailers) and on the high cost of minting them. Central Bank estimates indicate that continuing to mint the two coins for the next 20 years would imply expenditures on the order of US\$60 million in purchase costs alone.

The law also incorporated steel as a possible material for the manufacture of coins and established a rounding rule for sales receipts on transactions carried out in cash. This rule, like the cessation of minting \$1 and \$5 coins, will enter into effect on 1 November 2017.

The rounding rule stipulates that in the case of cash payments, bills or invoices ending in \$5 or less will be rounded downward for the final payment, while bills or invoices ending in \$6 or more will be rounded upward. For example, if the total amount of the sale ends in 1, 2, 3, 4, or 5 pesos, the final payment will be adjusted downward to the nearest tenth, that is, to 0; while prices ending in 6, 7, 8 or 9 pesos will be adjusted upward to the next tenth, that is, to \$10.

A new version of the National Survey on Cash Use and Preferences was carried out in 2016. The results confirm the trend of previous years, where cash continues to be the primary payment means used all across Chile. The survey also finds a positive perception of the banknotes in general, with an increase in the preference for polymer substrate over cotton paper.

With regard to the care and conservation of the banknotes—which is crucial for maintaining their quality and ease of recognition—the survey revealed that the vast majority of people are aware that certain habits can damage the bills. Even so, some practices need to be changed, such as folding the bills for storing, which speeds deterioration and damages some of the security features. Thus, the results point to ways to improve the Bank's community education programs and reinforce its messaging to the public.

Cash center project

For the safe and efficient provision and management of cash in circulation, the Treasury Management has developed a number of projects over the years aimed at improving its processes and products. Currently, these efforts are focused on the Treasury's cash center project, and a key consulting phase was carried out in 2016 to establish functional and security definitions.

After finalizing the purchase of a property in the *El Montijo* industrial park (in the municipality of *Renca*) in late 2015, the cash center project moved forward in 2016 with a series of studies necessary before starting the conceptual engineering phase.

Future phases of the project depend critically on the functional definitions associated with treasury processes and the security definitions for the new facility. Thus, the studies conducted in 2016 include the first phase of the logistics and security studies.

Other consultancies carried out in the year, as part of the background work required to move the project into the conceptual engineering phase, were the soil mechanics study, the land survey, the preliminary environmental impact assessment, and communications consulting services. All the results were satisfactory in terms of continuing to the next phases of the project.

H. The balance sheet of the Central Bank of Chile

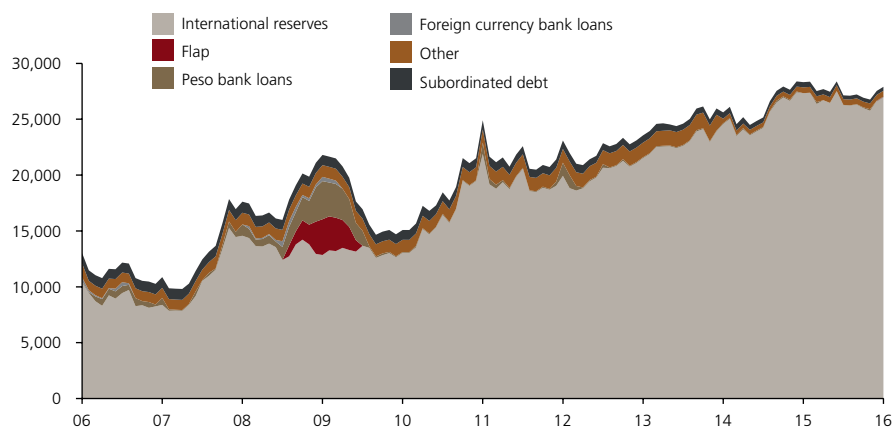
H.1 Balance sheet levels and structure^{19/}

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

Figure 1.1

CENTRAL BANK OF CHILE ASSETS

(balance in Ch\$ billion, at the end of December)

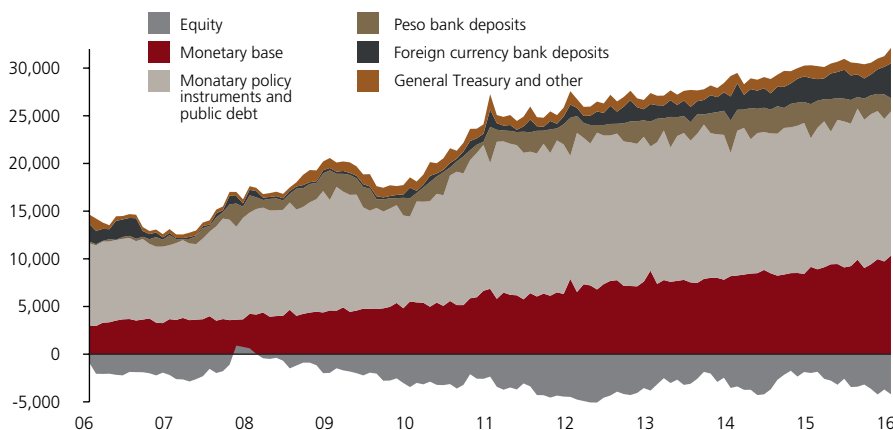


Source: Central Bank of Chile.

Figure 1.2

CENTRAL BANK OF CHILE LIABILITIES

(balance in Ch\$ billion, at the end of December)



Source: Central Bank of Chile.

^{19/} The balance sheet is prepared in accordance with International Financial Reporting Standards (IFRS). See the Financial Statements (note 2 (a)).

Measured in pesos, the size of total assets decreased by Ch\$416 billion in 2016 (table 1.1). Measured relative to GDP, total assets contracted from 17.9 to 16.7% between 2015 and 2016. The largest reduction, of Ch\$312 billion, was in the foreign reserves balance. This was due to the appreciation of the peso (–\$1.910 trillion), which was partially offset by interest earned (\$313 billion from interest and adjustments on the reserves) and net deposits from commercial banks and the General Treasury (\$1.285 trillion).

Liabilities (excluding equity) increased Ch\$1.814 trillion in 2016, expanding from 19.1 to 19.2% of GDP. The largest increase was recorded in the current account balance and banks' foreign currency reserves (Ch\$3.245 trillion), followed by the growth of monetary policy promissory notes (Ch\$1.620 trillion). The latter was explained by an increase in PDBC placements and an expansion of the monetary base (Ch\$1.191 trillion). On the other hand, other monetary policy liabilities decreased by Ch\$4.258 trillion due to a decrease in the use of the standing deposit facility by commercial banks.

As a result, the Bank's equity deficit increased in 2016, with a larger increase in the nominal value of liabilities versus assets (figures 1.1 and 1.2). The balance sheet carried negative equity of Ch\$4.206 trillion reflecting initial capital of –\$1.984 trillion, other reserves of Ch\$11 billion, and net earnings in 2016 of –\$2.233 trillion. The latter is explained by a loss of Ch\$1.801 trillion from the monetary restatement of assets and liabilities, mainly due to the exchange rate; interest expense of Ch\$345 billion; and nonfinancial costs of Ch\$86 billion, mostly deriving from the production and distribution of currency and to personnel and administrative expenses. Thus, equity decreased from –1.2% of GDP in 2015 to –2.5% in 2016.

Table 1.1
CENTRAL BANK OF CHILE BALANCE SHEET

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

	2015		2016		Rate of return (1) (%)			
	Balance	%GDP	Balance	%GDP	2015	2016	2015	2016
Assets	28,324	17,9	27,908	16,7	1,3	9,3	1,2	-7,9
International reserves	27,333	17,2	27,021	16,2	1,2	9,4	1,2	-8,3
Other public sector assets (7)	296	0,2	300	0,2	5,2	13,7	0,0	2,8
Subordinated debt	465	0,3	355	0,2	5,0	2,9	5,0	2,9
Monetary policy instruments (2)	0	0,0	13	0,0	3,4	0,0	0,9	0,0
Other	229	0,1	220	0,1	1,3	5,8	1,0	5,9
Liabilities	30,300	19,1	32,114	19,2	2,1	2,3	2,2	1,6
Monetary base	9,152	5,8	10,342	6,2	0,4	0,0	0,3	0,0
Monetary policy promissory notes(3)	13,494	8,5	15,114	9,0	3,4	2,4	3,9	1,2
Other monetary policy liabilities (4)	5,638	3,6	1,380	0,8	1,5	1,9	2,1	0,7
Current accounts and bank foreign currency reserves	666	0,4	3,911	2,3	0,0	16,0	0,0	8,8
General Treasury and other public sector deposits	420	0,3	780	0,5	0,3	4,4	0,6	3,5
Other	930	0,6	586	0,4	0,7	10,5	0,5	6,7
Equity	-1,976	-1,2	-4,206	-2,5				
Initial capital	-3,549		-1,984					
Valuation accounts (8)	8		11					
Other (8)	0		0					
Net result	1,565		-2,233					
Financial result (5)	-136		-86					
Net interest (5)	-212		-345					
Change in value (6)	1,913		-1,801					
Capital contributions	0		0					

(1) Implicit rates are calculated based on average monthly balances and losses/gains due to interest or changes in value.

(2) Includes credit to banks guaranteed with foreign currency deposits (foreign currency swaps) or risk-free securities (repos) and liquidity lines in domestic and foreign currency.

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

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

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

(6) Includes price-level restatements in domestic currency and the effect of exchange rate fluctuations on assets and liabilities in foreign currency.

(7) Includes a provision for 100% of the "Sinap liquidation" asset for Ch\$1.050 trillion pesos in 2015 and Ch\$1.134 trillion pesos in 2016.

(8) See note 4 and the Comprehensive Income Statement in the 2016 Financial Statements.

Source: Central Bank of Chile.

H.2 Return on assets and cost of liabilities

The average return on assets, mainly reserves, is determined by the level of external interest rates on safe, highly liquid instruments. The cost of liabilities is associated with the MPR and its expected trend, which affects the placement rate for Central Bank promissory notes. In 2016, the differential between the interest earned on assets (1.2%) and the cost of liabilities (2.2%), was negative, at 1.0 percentage point (pp).

The average interest rate earned on international reserves was 1.2% in 2016, due to low coupon rates on the component instruments. Locally, the interest rate on monetary policy promissory notes rose 0.5 pp, primarily due to an increase in the share of debt made up by PDBC's and a corresponding decrease in BCUs and BCPs.

With regard to adjustments, exchange rate fluctuations generated accounting losses in 2016, as did variations in the UF (*unidad de fomento*, an inflation-indexed unit of account). As usual, the biggest contributing factor was the exchange rate effect, given its impact on the value of the international reserves in pesos. Between year-end 2015 and year-end 2016, the peso appreciated against the currencies that make up the foreign exchange reserves, causing the value of the reserves to fall by 8.3% and total assets by 7.9%. At the same time, the effects of lower inflation on UF-denominated notes and of exchange rate fluctuations on current and collateral accounts in foreign currency resulted in an adjustment of 1.6% in the value of total liabilities, which is 0.7 pp less than in 2015.

H.3 Balance sheet positions by currency^{11/}

The reduction in the Bank's position denominated and payable in domestic currency is largely explained by negative interest flows. The changes in the valuation of the position in domestic currency (\$840 billion) were primarily due to the costs of Central Bank promissory notes. The flow of exchange operations reduced the Bank's position denominated and payable in domestic currency by Ch\$39 billion and increased the position denominated and payable in foreign currency by the same amount (table 1.2a).

The position denominated and payable in foreign currency decreased US\$20 million, mainly due to interest, adjustments, and other flows totaling US\$77 million. Exchange flows increased US\$57 million due to an increase in international reserves of US\$1.342 billion, reflecting higher bank deposits of US\$1.620 billion, General Treasury deposits of US\$301 million, and a reduction in other operations of US\$636 million. The net positive balance of exchange flows stems from exchange operations associated with Bank operations, mainly the purchase of banknotes and coins in circulation, and not from exchange market operations based on policy decisions (table 1.2b).

^{11/} The positions or balances of assets less liabilities by currency can be used to evaluate equity exposure to foreign exchange risk. By disaggregating the changes into flows from (a) exchanges between balances and (b) interest and valuation changes, it is possible to more closely monitor the policies adopted by the Bank.

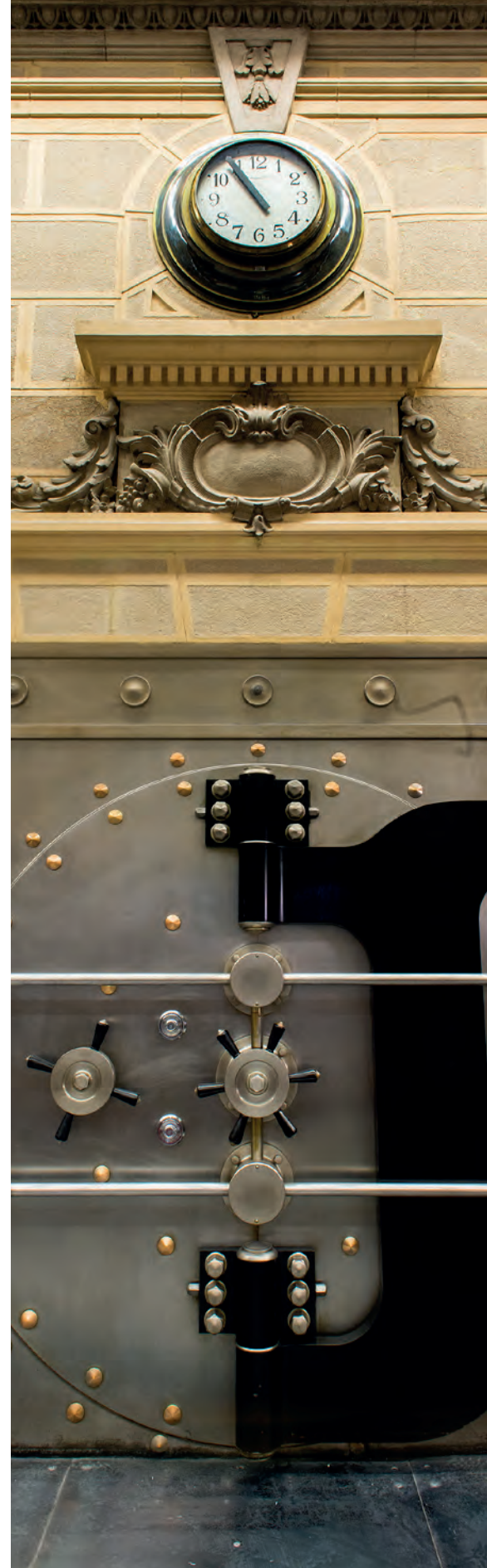


Table 1.2a
CENTRAL BANK OF CHILE BALANCE SHEET POSITIONS
(balance as of 31 December of each year and annual flows in Ch\$ billion)

	2016 flows (4)			
	Balance 2015	Exchanges (5)	Earnings and Δ capital (6)	Balance 2016
Denominated and payable in pesos (1)	-25,731	-39	-840	-26,610
Monetary base (2)	-9,152	-1,169	-22	-10,342
Central Bank promissory notes	-13,494	-894	-726	-15,114
Banks	-3,575	2,292	-71	-1,354
Other	490	-269	-21	201
Denominated in foreign currency and payable in pesos (1)	0	0	0	0
Denominated and payable in pesos (1)	23,755	39	-1,390	22,404
EQUITY (1)	-1,976	0	-2,269	-4,206

Table 1.2b
FOREIGN CURRENCY POSITIONS ON THE CENTRAL BANK BALANCE SHEET
(balance as of 31 December of each year and annual flows in US\$ million)

	2016 flows (4)			
	Balance 2015	Exchanges (5)	Earnings and Δ capital (6)	Balance 2016
Denominated and payable in foreign currency	33,592	57	-77	33,572
International reserves (3)	38,643	1,342	510	40,494
Central government (net)	-174	-301	0	-474
Banks (net)	-3,861	-1,620	0	-5,481
Other (net)	-1,016	636	-586	-966
TOTAL	33,592	57	-77	33,572

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

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

(3) Because international reserves are a positive component of the position denominated and payable in foreign currency, 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.

I. Miscellaneous

I.1 Commission on Price Distortions

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

The Central Bank's representatives on the Commission are Mr. Francisco Ruiz Aburto, with Mr. Gonzalo Jorge Echavarría Martí as alternate, and Mr. Rodrigo Caputo Galarce, with Ms. Beatriz Lorena Velásquez Ahern as alternate.

In 2016, the Technical Secretary provided support services to the Commission on Price Distortions, which met on twelve occasions. In the period, the Commission decided to open one investigation and made the following recommendations: the application of two provisional antidumping measures (steel wire rod from China and steel bars for reinforced concrete from Mexico), one definitive safeguard measure (steel wire rod), and one definitive antidumping measure (steel bars for reinforced concrete from Mexico). At year-end, the provisional antidumping measure on imports of steel wire rod from China and the definitive antidumping measure on imports of steel bars for reinforced concrete from Mexico were in force.

1.2 Chilean Copper Commission (Cochilco)

The Board is responsible for appointing two representatives to the Chilean Copper Commission^{12/}, who serve a two-year term^{13/}. In October 2016, through Resolution 2006-01-161006, Mr. Miguel Fuentes Díaz was appointed to replace Mr. Michael Pedersen as representative, effective 25 October 2016 through 24 October 2018, while Mr. Francisco Ruiz Aburto was reappointed to a new term as representative, from 26 October 2016 through 24 October 2018.

1.3 Competition Tribunal (TDLC)

The Competition Tribunal (*Tribunal de Defensa de la Libre Competencia*, or TDLC) is made up of five Judges and two Alternates^{14/}. 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.

Once chosen by the competent authority, the judges are appointed via Executive Decree, issued by the Ministry of Economy, Development, and Tourism and countersigned by the Finance Minister, for a period of six years, with a staggered replacement of judges every two years.

In August 2016, through Resolution 1995-01-160811, the Central Bank Board appointed Mr. Jaime Arancibia Mattar to the position of Judge / Legal Counsel, replacing Mr. Enrique Vergara Vial for the period legally remaining in his term. Mr. Arancibia was later confirmed to that position through Executive Decree 131 issued by the Ministry of Economy, Development, and Tourism^{15/} on 12 August 2016 and published in the *Official Gazette* on 28 September 2016, to a term starting on 11 August 2016 through 12 May 2018.

By Resolution 2022E-01-161205 of December 2016, the Board submitted to the President of the Republic a short list of candidates to replace Mr. Jaime Arancibia Mattar as Alternate Judge / Legal Counsel for the period legally remaining in his term (through 13 May 2020). The President appointed Mr. Nicolás Rojas Covarrubias, who joined the Tribunal on 9 March of this year.

^{12/} Paragraph (d) of Article 4 of Decree Law 1349 of 1976.

^{13/} The appointment can be renewed, or it can be revoked before the two-year term is completed.

^{14/} Article 6 of Statutory Decree N° 1, of 2005, issued by the Ministry of Economy, Development, and Reconstruction (DFL N° 1).

^{15/} The Decree was also undersigned by the Finance Minister.





The Board's decisions on appointing a replacement to the position of Judge / Legal Counsel and on drawing up a short list of candidates for the Alternate position were made following public calls for nominees held between May and October 2016.

I.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.

In June 2016, through Resolution 1985-02-160609, the Board of the Central Bank renewed the appointments of Mr. Rodrigo Cerda Norambuena as Member of the Technical Investment Council and Ms. Catherine Tornel León as Alternate. In both cases, the term starts on 11 June 2016, for a period of four years.

I.5 Technical Commission created under Section 6 of Law 18,480

This Technical Commission is responsible for reviewing applications for reconsideration of the input tax credit for exporters, as stipulated in Section 6 of Law 18,480, which establishes a system for refunding taxes and duties assessed on the cost of inputs for small nontraditional exports.

The members of this Commission will be proposed by the entities they represent and then appointed through a resolution issued by the Ministry of Economy, Development, and Tourism, which must be published in the *Official Gazette*. The Central Bank Board has the capacity to appoint a representative to this Commission, in accordance with the stipulations of Article 6 of the aforementioned law.

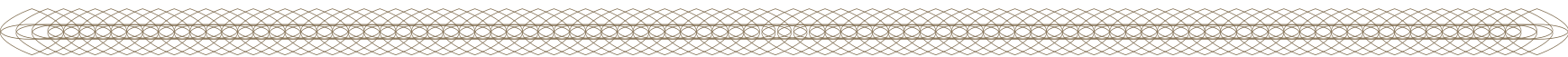
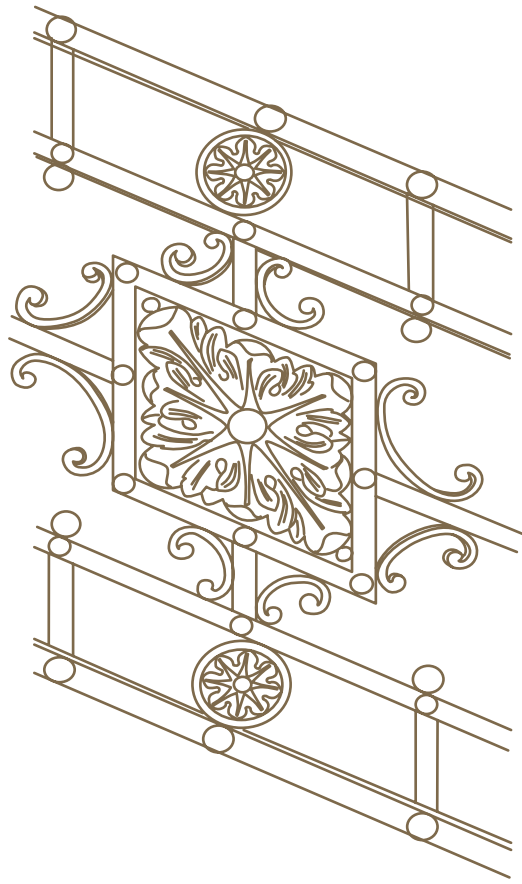
Ms. Ivette Alejandra Fernández Delgado is the Bank's representative on this Commission, with Ms. María Isabel Méndez Ferrada as alternate, in accordance with Resolution 1937-02-151029 and with Exempt Resolution 211 issued by the Ministry of Economy, Development, and Tourism on 30 November 2015 and published in the *Official Gazette* on 9 December 2015.

I.6 Technical Commission created under Article 4 of Law 18,634

This Technical Commission is responsible for reviewing applications for inclusion or exclusion on a list, established by Finance Ministry Decree, of the capital goods covered under Law 18,634 which sets up a scheme for deferred payment of customs duties, tax credits, and other tax benefits.

The Central Bank Board has the capacity to appoint a representative to this Commission, in accordance with the stipulations of Article 4 of the aforementioned law.

Mrs. Ivette Alejandra Fernández Delgado is the Bank's representative on this Commission, with Ms. María Isabel Méndez Ferrada as alternate, in accordance with Resolution 1937-03-151029.



2. INSTITUTIONAL MANAGEMENT AND GOVERNANCE



2. INSTITUTIONAL MANAGEMENT AND GOVERNANCE

A. Organization and operation^{1/}

A.1 The Board

The Board has five members, one of whom acts as chair and also serves as the Central Bank's Governor. The Board is responsible for the senior governance and management of the Bank, in its quality as an autonomous, technical public institution with constitutional authority. Board Members are appointed by the President of Chile by means of an Executive Decree issued by the Ministry of Finance, with 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^{2/}.

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

Mr. Rodrigo Vergara Montes served as Governor of the Central Bank for a term of five years, through 10 December 2016; he resigned as Board Member the next day^{3/}. Mr. Mario Marcel Cullell was appointed Governor as of 11 December 2016 for a term of five years^{4/}. Mr. Marcel had previously been appointed Board Member in October 2015.

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. Sebastián Claro Edwards, who joined the Board in December 2007, was named Acting Deputy Governor as of 21 August 2015. His appointment to the position of Deputy Governor was then renewed in October of that year, effective through the end of his term as Board Member^{5/}.

The remaining Board Members include Mr. Joaquín Vial Ruiz-Tagle (appointed in February 2012) and Mr. Pablo García Silva (appointed in January 2014), both of whom are serving for a period of ten years from the date of their appointment. Finally, subsequent to the 2016 financial statements, Ms. Rosanna

^{1/} Includes relevant organizational information through 14 February 2017.

^{2/} Title II of the Central Bank's Basic Constitutional Act, in accordance with Articles 108 and 109 of the Chilean Constitution, includes the regulations governing the Board and the specific laws applicable to Board Members in terms of their appointment, compensation, incompatibilities, ineligibilities, conflicts of interest, causes for termination of office and other legal obligations inherent to the fulfillment of their duties. The last amendments to that title were Article 7 of Law 20,088 on Equity Affidavit and Law 20,880 on Probity in Public Office and the Prevention of Conflicts of Interest. Additionally, Law 20.730 (on lobbying) entered into force on 29 November 2014 and for all intents and purposes is applicable to the Central Bank of Chile.

^{3/} Accepted via Executive Decree 1611 issued by the Ministry of Finance on 29 November 2016.

^{4/} Executive Decree 1404 issued by the Ministry of Finance on 26 October 2016.

^{5/} Board Resolutions 1923E-01-150821 and 1937-01-151029.

Costa Costa was appointed to replace Mr. Rodrigo Vergara Montes as Board Member, effective 30 January 2017, for the period legally remaining in Mr. Vergara's term, that is, through 28 December 2019^{6/}.

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 payment systems. Therefore, the Board determines the general policies of the Central Bank, issues regulations governing its operation, and supervises the upper levels of the Central Bank. To this end, it also conducts ongoing assessments of compliance with the general rules and policies it has established and the development of institutional activities.

Rules governing Board sessions and resolutions

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

The Board must hold ordinary sessions at least once a week and special meetings when called by the Governor, either of his own volition or in response to a written request by two or more Board Members. Any resolutions adopted at the meeting must be recorded in the minutes. Board resolutions must be adopted by a quorum of three Members and must have the favorable vote of the majority of those present, except in cases in which the law requires a special quorum for specific resolutions, by reason of their importance or relevance^{7/}.

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.

Activities of the Board

In 2016, there were 78 Board sessions and 79 pre-Board sessions. Additionally, during the preparation of each *Monetary Policy Report* and *Financial Stability Report*, the Board held several meetings for coordination, analysis, and discussion.

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.

^{6/} Through Executive Decree 29 issued by the Ministry of Finance on 23 January 2017.

^{7/} 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.



The Board of the Central Bank of Chile.

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

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

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

(vii) The Minister of Finance has the right to veto Board resolutions that impose, terminate, or modify foreign exchange restrictions covered under Article 49 of the Basic Constitutional Act, as well as the provision of foreign exchange conventions addressed in Article 47 of that legislation. In the event of a veto, the resolution in question can only be adopted through a unanimous vote by the Board Members.

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

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

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

A.3 Board regulations

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

In December 2016, the Central Bank Board authorized Board Members to attend Board meetings remotely and stipulated the applicable regulations. The authorization and the corresponding terms of remote participation are contained in Resolution 2026-01-161222.

The aforementioned regulations and later modifications were published in the *Official Gazette* and are also available for review directly on the Central Bank's website (www.bcentral.cl).

A.4 Appointment of a new Governor

As mentioned, Board Member Mario Marcel Cullell was named Chairman of the Board and Governor of the Central Bank of Chile for a period of five years, effective 11 December 2016. His appointment was authorized through Executive Decree 1404, issued by the Ministry of Finance on 26 October 2016 and published in the *Official Gazette* on 03 December 2016.

A.5 Appointment of a new Board Member

As mentioned, Ms. Rosanna Costa Costa was appointed Board Member, effective 30 January 2017. She replaces Mr. Rodrigo Vergara Montes, and her appointment is for the period legally remaining in his term, that is, through 28 December 2019.

A.6 General management, general counsel, and auditing

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

Alejandro Zurbuchen Silva has served as General Manager since 7 August 2006. Mr. Juan Pablo Araya Marco has served as General Counsel and Certifying Officer of the Bank since 21 June 2014. Ms. Silvia Quintard Flehan has served as Comptroller and Auditor General since 1 January 2007.

A.7 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 Comptroller and Auditor General in terms of the responsibilities assigned by the Basic Constitutional Act; and proposes the hiring of independent auditors.

In 2016, the Committee met eight times. The issues addressed at these meetings included assessing the services provided by the independent auditing firm; reviewing the annual auditing plan and final report; being briefed on the annual internal auditing plan and its execution; and reviewing the Bank's risk management, internal monitoring, and information systems.

The Committee is chaired by Mr. José Luis Cea Egaña, who was appointed to this position on 16 June 2014. In 2016, the other members of the Committee were Mr. Gustavo Favre Domínguez and Mr. Santiago Meersshohn Ernst. The latter was replaced on 17 June 2016 by Mr. Jesús Riveros Gutiérrez, as per Board Resolution 1983-01-160602.

B. Internal management

B.1 Strategic planning

The Central Bank of Chile's vision is to be widely recognized as a leading, autonomous, technical institution, known for its institutional values and the effectiveness with which it achieves price stability and the normal functioning of the payment system.

Its mission is to contribute to the smooth functioning of the economy and the well-being of the community, safeguarding the stability of the currency and the normal operation of the internal and external payment systems.

The Bank's strategic planning plays an important role in the achievement of its vision and mission. The planning horizon is medium term and is tied to the term of office of the Bank's Governor, with a one-year lag. This year, 2016, was the fourth year of the Medium-Term Strategic Plan developed under Governor Rodrigo Vergara Montes, which extends through 2017.



Alejandro Zurbuchen, General Manager.

The strategic priorities for this period are as follows:

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

Based on these strategic definitions approved by the Board, the different units worked on their strategic projects and initiatives and submitted a budget request for their implementation, giving emphasis and priority to areas aligned with the focal points mentioned above so as to achieve the Bank's objectives.

Strengthening the financial stability objective

In this area, the main achievements were the following:

- a. Strengthening of the system for monitoring the status of and risks to the financial system and its communication.
- b. Publication of the assessment of financial market infrastructures in Chile (ROSC).
- c. Preparation of the legal text on solvency standards for the banking system, so as to converge with Basel III and provide the Bank with a broader scope for policy action.
- d. Publication for public consultation of improvements to the current regulation on payment means, including the regulatory framework for the operation of prepaid debit cards by nonbank entities.
- e. Inclusion of safeguards and regulatory guidelines in accordance with the Bank's authority and competency, in draft legislation on the operation of prepaid debit cards by nonbank entities (20,950) and measures to boost productivity (20,956).

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

In this area, the main achievements were the following:

- a. Launch of the new performance evaluation tool.
- b. Launch of the new corporate intranet.

Renovating and optimizing treasury processes

In this area, the main achievements were the following:

- a. Continuation of the new cash center project.
- b. Announcement that the Bank will cease to issue \$1 and \$5 peso coins and that steel has been included as a possible material for the manufacture of coins, opening a new opportunity for producing lower cost, yet equally functional coins using new technology, as a result of the publication of the Productivity Law.



New organizational intranet.

Consolidating the Bank's internal governance and institutional structures

In this area, the main achievements were the following:

- a. Realization of integrated technological tests with critical financial system entities, aimed at maintaining the continuity of the large-value payment systems.

- b. ISO 27001 Certification in Information Security Management, including highly sensitive information, and ISO 22301 Certification in Business Continuity Management, including for the payment systems.
- c. Strengthening the use of technological platforms for community outreach as part of the Bank's educational program: numismatic website, inflation in your life application, and educational videos.
- d. First place for the Central Bank in the Barometer of Information Access, which measures journalists' perceptions on ease of access to information among 50 public institutions.
- e. ISO 9001 Certification in accounting procedures and maintenance of certification of its internal auditing processes under international standards and recertification of its quality assurance processes, security, and services under ISO 9001 standards.
- f. Creation of the Ethics Committee and launch of the complaints channel.

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

In May, the Board decided to rename and restructure the three Departments in the Human Resources Division, which reports to General Management, from the Benefits and Quality of Life Department to the Benefits, Quality of Life, and Labor Relations Department; from the Human Resources Services and Labor Relations Department to the Human Resources Services Department; and from the Department of Organization, Culture, Strategy, Planning, Development, and Human Talent to the Talent Management and Organization Department.

In October, the Board renamed the Financial Operations Division as the Financial Markets Division.

At the same time, several of the units within that division were also modified, as follows: from Financial Services Management to Payment Systems and Operations Management; from the Operations Control and Registry Department to the Operations Department; from the Payments Department to the Payment and Settlement Systems Department; and from the National Markets Department to the Current Financial Department.

The Board also created the Investment Strategy Department and the positions therein, which falls under the International Markets Management.

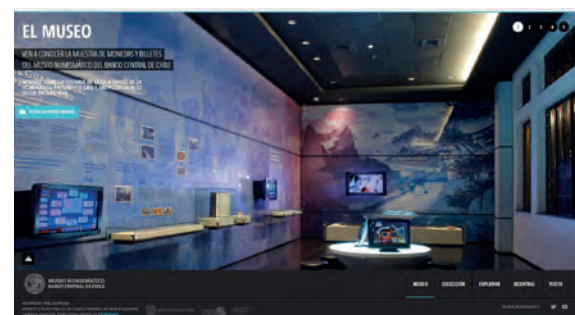
In November, the Board restructured the Statistical Information Management, which is in the Statistics Division. It now has three departments: the Financial and Monetary Statistics Department, the Statistical Information Services Department, and the new Microdata Department.

In the Macroeconomic Statistics Management, the Balance of Payments and External Debt Department is now the Balance of Payments Department.

In 2016 the following executives were appointed:

In March, Mr. Matías Tapia González was hired to head up the Economic Analysis Department.

In December, Mr. Juan Carlos Piantini Cardoso was appointed Manager of the Investment Strategy Department; and Mr. Oscar Giusti Bueno was named Head of the International Desk, replacing Mr. Juan Carlos Piantini Cardoso.



Numismatic website.



Barómetro de acceso a la información.

B.3 Human Resources Achievements

In 2016, the Human Resources Management continued the implementation of projects and initiatives focused on contributing value added to the Bank's management. The Bank's compensation system was consolidated, a project underway since 2014, with the drafting of the policy and the development of communication actions. Compensation workshops were held for managers to provide them with information and effective communication tools to facilitate staff relations.

Improvements were made in the SAP system, simplifying a series of human resource reports, and in the vacation, work hours, and pension payment modules.

Work continued on the career development program, introduced in 2015. This program uses an external tool to identify people with high potential and to provide feedback focused on fostering improvement and development that will prepare them to take on greater responsibility within the organization. In 2015, the project worked with upper-level professionals and managers; in 2016, other professionals; and in 2017, other managers, thereby covering the full professional and managerial staff at the Bank.

The organizational climate survey was conducted in November, and the results were released in December. There was a significant improvement over the previous year, which reflects the work carried out all across the organization in terms of defining priorities and specific actions for improvement. The results of the survey were in line with the bottom-up assessment survey.

A new performance management model was introduced and implemented. The model includes goals associated with projects, initiatives, and tasks and the evaluation of expected job performance. Efforts were made to ensure that this performance tool would meet the needs of users, with a focus on clarifying what is expected of each staff member in terms of performance during the year. To foster an effective implementation, diffusion and training workshops were held for the goal-setting process. The new performance tool includes a midyear evaluation to reflect on performance progress and a peer assessment moderated by representatives of the Human Resources Department, to ensure equity and harmonization among the different areas.

The conduct defined in the new performance evaluation system is in line with the skills and responsibilities defined for the recruitment, hiring, and talent development processes. Thus the labor cycle of the staff can be optimized from hiring through their professional development within the organization.

In 2016, there were 1,064 training activities that reached a total of 604 staff members, equivalent to 27,183 training hours.

B.4 Office of the Comptroller and Auditor General

The Office of the Comptroller and Auditor General is focused on helping the Board, the Audit and Compliance Committee, and Management fulfill their duties, through an independent, objective, and systematic evaluation of the design and effectiveness of risk management, internal control, and management systems. The Office also provides consulting services that add value and support the achievement of institutional objectives. In 2016, the Bank maintained its quality assurance certification by the Institute of Internal Auditors, reaffirming that the Central Bank's auditing activities "comply with international standards for the professional exercise of internal auditing." The Bank also maintained certification of its process, "Internal Auditing Services for the Central Bank of Chile," under ISO 9001:2008 standards.



Auditor General's team

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 in 2016 for an amount over Ch\$100 million, which are related to the supply of goods and services that allow the institution to operate normally (table 2.1) and annual expenditures on consultant services, surveys, research, and seminars (table 2.2).

Section E.3 provides general information on the contracts signed by the Bank in connection with the 2016 issue program.

Table 2.1
CONTRACTS SIGNED IN 2016

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

N°	Supplier	Purpose	Effective	Ending
3221	Central de Restaurantes Aramark Ltda. (1)	Bank staff services	01-Jan-16	01-Jan-21
3328	Moguerza Constructora SpA. (2)	Infrastructure maintenance services	12-Oct-16	08-Oct-17
3293	Constructora Briceño y Cia. Ltda. (2)	Infrastructure maintenance services	15-Jul-16	23-Feb-17
3243	Chilena Consolidada Seguros de Vida S.A. (3)	Bank staff services	01-Mar-16	03-Mar-19
3415	Randstad Est. Ltda. (3)	Human resources management services	01-Dec-16	01-Dec-19
3268	Deloitte Servicios Profesionales Ltda. (3)	Information and technology services	31-May-16	31-May-19
3424	Paisajismo Hermano Arbol S.A. (1)	Country club and beach resort services	30-Nov-16	30-Nov-21
3307	Heavenward Ascensores S.A. (2)	Infrastructure maintenance services	21-Jul-16	25-Jul-17
3248	Black Rock Institutional Trust Company (4)	Financial services	17-Feb-16	Indefinite
3270	Vantaz Chile Consultores S.A. (2)	Consulting services	23-May-16	14-Jul-17
3202	Instituto Nacional de Estadísticas (5)	Supply of statistical products	18-May-16	04-Jan-17
3242	Fraunhofer Gesellschaft zur Förderung der Angewandten Forschung E.V. (5)	Consulting services	16-Feb-16	30-Sept-17
2957	Casa de Moneda De Chile (6)	Treasury services	01-Mar-16	01-Jun-22
3273	Obermeyer Planen Berate (5)	Consulting services	09-May-16	20-Feb-18
3271	Musante Astorga Ltda. (Geofun) (7)	Consulting services	19-Oct-16	31-Aug-19

(1) One-year contract, which is automatically renewable for up to four additional one-year periods.

(2) Estimated ending date. The actual ending date of the contract will depend on the status of the jobs to be performed.

(3) One-year contract, which is automatically renewable for up to two additional one-year periods.

(4) Contract does not specify a period of validity. However, the Bank has the authority to end the contract at any time, providing due notice as stipulated in the contract.

(5) Estimated ending date. The actual ending date of the contract will depend on the status of the jobs to be performed.

(6) Contract valid for six years and three months. At the end of this period, the contract can be automatically renewed for periods of one year or less, unless otherwise determined by either party with advance notification of 365 calendar days.

(7) Contract does not specify a period of validity.

Table 2.2
EXPENDITURES ON CONSULTING, SURVEYS, RESEARCH AND SEMINARS

(millions of 2016 pesos) (1)

	2012	2013	2014	2015	2016
Consulting, surveys, research, and seminars	1,846.2	1,648.0	2,520.3	2,157.0	2,527.1
Consulting (2)	928.8	978.4	1,001.4	1,110.1	1,628.3
Surveys and research (3)	596.0	404.0	1,109.3	607.4	587.9
Seminars	321.4	265.6	409.6	439.5	310.9

(1) The average CPI was used to update older figures to 2016 pesos (base year 2013).

(2) The increase in 2016 relative to earlier years is largely explained by consulting services associated with the cash center project.

(3) The increase in 2014 relative to earlier years is largely explained by the household financial survey and the 2013 benchmark compilation. The latter is carried out every five years.

Source: Central Bank of Chile.

C. Personnel, administrative, and other expenses

These management-related expenses include personnel compensation and benefits; the use and consumption of goods and services; and other expenses necessary for carrying out the Bank's activities (table 2.3). On the income statement, they are broken down as follows: (i) personnel and administrative expenses; and (ii) other expenses and income. In 2016, of the total personnel, administrative, and other expenses, personnel costs represent 63.5%; administrative expenses, 33.2%; and retirement benefits, 3.3%.

Table 2.3
PERSONNEL, ADMINISTRATIVE AND OTHER EXPENSES
(millions of 2016 pesos) (1)

	2012	2013	2014	2015	2016
Personnel and administrative expenses					
Personnel expenses	30,694.3	31,015.7	32,568.9	35,012.3	35,587.9
Administrative expenses	14,017.4	16,057.8	17,183.5	18,794.2	18,619.6
Provision for post-employment benefits (2)	4,522.7	1,589.3	1,401.2	1,472.2	1,858.0
Total	49,234.4	48,662.8	51,153.6	55,278.7	56,065.5
Other expenses and (income)					
Depreciations, amortizations	2,517.3	3,094.0	3,144.5	2,768.7	3,433.4
Taxes and contributions	680.3	607.4	643.0	751.3	623.0
Other	(26.4)	95.4	(14.8)	(61.3)	(1.0)
Total	3,171.2	3,796.8	3,772.7	3,458.7	4,055.4
Subtotal personnel, administrative and other expenses	52,405.6	52,459.6	54,926.3	58,737.4	60,120.9
Sinap liquidation impairment, Law 18,900 (3) and (4)	.	.	1,187,552.8	(86,163.0)	.
Total personnel, administrative and other expenses	52,405.6	52,459.6	1,242,479.1	(27,425.6)	60,120.9
A. Personnel expenses					
Wages and other employer contributions	26,058.0	26,633.8	27,929.4	30,343.9	30,824.0
Employee well-being	3,759.1	3,446.4	3,732.6	3,739.8	3,877.5
Training	877.2	935.5	906.9	928.6	886.4
Total	30,694.3	31,015.7	32,568.9	35,012.3	35,587.9
B. Administrative expenses					
Utilities	960.8	1,047.3	1,017.4	1,241.9	1,203.4
General services	4,751.1	5,165.4	5,869.5	6,703.3	6,282.3
Maintenance of fixed assets	2,022.8	2,689.6	2,281.2	2,243.7	2,067.8
Computer and technological development expenses	4,436.5	5,507.5	5,495.1	6,448.3	6,539.0
Consulting, surveys, research, and seminars	1,846.2	1,648.0	2,520.3	2,157.0	2,527.1
Total	14,017.4	16,057.8	17,183.5	18,794.2	18,619.6

(1) The average CPI was used to update older figures to 2016 pesos (base year 2013).

(2) The 2012 figure has been adjusted due to a change in accounting policy, resulting from the entry into effect in 2013 of changes to IAS 19: Employee benefits, recognizing the accounting results in equity.

(3) Due to the recognition of a provision for impairment of the total value of the credit recorded on the balance sheet stemming from the entities that made up the National Savings and Loan System (Sinap).

(4) The net income in 2015 basically corresponds to the recovery of the impairment of the Sinap liquidation asset (Law 18,900) recorded the previous year, in accordance with IFRS.

Source: Central Bank of Chile.

Personnel expenses

Personnel expenditures rose 1.6% in real terms between 2015 and 2016. This increase is mainly explained by higher salaries deriving from agreements established in the current collective employment contract; from the annual salary review process; from performance raises; and from adjustments for promotions to a higher level in the Bank's organizational structure. Moreover, the total staff increased in 2016, from 642 people in 2015 to 645 in 2016. Professionals accounted for 77.2% of the total staff as of December 2016.

Administrative costs

Administrative costs recorded a real decrease of 0.9% between 2015 and 2016. This was mainly due to a reduction in general services and in maintenance of fixed assets, which was partially offset by an increase in computing and technological development and in consulting, surveys, research, and seminars.

D. Communication and diffusion

D.1 Main publications

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

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

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

In 2016, the Bank continued to publish the *Business Perceptions Report* (BPR). This quarterly report—published in February, May, August, and November—summarizes the opinions and perceptions of corporate executives from approximately 200 firms from across the country. The interviews are carried out by economists from the Monetary Policy Strategy and Communication Management. The perspectives expressed in this report do not necessarily coincide with the Central Bank Board's assessment of current economic conditions.

With regard to economic research, in 2016 the Bank published volumes 23 and 24 of the series *Central Banking, Analysis and Economic Policies*. The first of these volumes contains the papers presented by former Central Bank Governors at the conference *The Role of Central Banks in Modern Times: 25 Years of Autonomy at the Central Bank of Chile* held in October 2014, including a presentation by Rodrigo Vergara, who was Governor of the Bank when the book was launched. The second volume, entitled *Monetary Policy through Asset Markets: Lessons from Unconventional Measures and Implications for*



Monetary Policy and Financial Stability Reports.



Launch of volume 23 of the Central Banking, Analysis and Economic Policies Series.

an Integrated World, was edited by economists Elías Albagli, Diego Saravia, and Michael Woodford. It includes the revised versions of papers presented at the Central Bank's XIX Annual Conference, which focused on the lessons of the 2008 global financial crisis: the need, at least in times of crisis, for a larger set of central banking tools than previously deemed sufficient; the possible effects of the new tools on the conduct of monetary policy; and their potential role in the coming years.

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

The Bank continued to publish its *Economic Policy Papers* over the course of 2016, with the issue of two new papers. This series discloses the thinking of Central Bank authorities on issues relevant to the economy and the conduct of monetary policy. The new topics analyzed this year were Chile's experience with macroprudential policies over the past two decades and the challenges presented by a secular slump in Latin America.

The Bank also published 26 working papers in 2016. This series has been positioned as a leading economics publication at the international level, based on the number of Internet hits. Its purpose is primarily to facilitate the exchange of ideas and to release preliminary economic research results for discussion and commentary.

The publication *Investigación al Día* (Current Research) is another outlet for research papers generated by the Bank. Its main objective is to summarize the current research underway at the Central Bank of Chile. This quarterly series issued four new papers in 2016.

Four new papers were published in the *Research in Economic Statistics* series in 2016. The purpose of this series is mainly to release research papers on economic statistics, with a strong empirical content. The papers addressed the following topics: the evolution of local value added and imported content in Chile's gross exports; a review of the main prudential actions taken between 1990 and 2013 by the monetary and supervisory authority, in order to measure their impact on the credit cycle; an analysis of the Chilean economy in the period 2003–2014, from the perspective of the national accounts by institutional sector; and a study of foreign exchange derivatives by financial sector in Chile.

The *2013 Benchmark Compilation of the National Accounts of Chile* was published in December 2016, within the framework of the Bank's national accounts revision policy. The new results replace those obtained previously based on the 2008 benchmark compilation.

Finally, in accordance with the provisions of Article 53 of its Basic Constitutional Act, the Bank continued its annual program of recurrent publications, aimed at disseminating information on the main national macroeconomic statistics. This year's publications included the following: *Informativo Diario de Operaciones Financieras Nacionales* (Daily Bulletin on National Financial Operations); *Informe Mensual de Estadísticas Monetarias y Financieras* (Monthly Monetary and Financial Statistics Report); *Informe Mensual de Estadísticas del Mercado Cambiario* (Monthly Foreign Exchange Market Statistics Report); *Serie de Datos Bancarios* (Bank Data Series); *Boletín Mensual* (Monthly Bulletin); *Indicadores de Comercio Exterior* (Foreign Trade Indicators); *Indicadores Macroeconómicos y de Coyuntura* (Macroeconomic and Current Indicators). In addition, digital yearbooks and quarterly reports were published on Chile's balance of payments, international investment position, external debt, national accounts, national accounts by institutional sector, and statistical synthesis.

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

The Board presented the *Monetary Policy Report* to the Senate Finance Committee in Santiago on 28 March, 6 June, and 19 December and to the full Senate in Valparaíso on 7 September. The June and December presentations included the *Financial Stability Report*.

The Central Bank Governor, Rodrigo Vergara, gave a presentation to the Senate Finance Committee on 8 March in Valparaíso, on the bill allowing nonbank entities to issue of prepaid debit cards.

On 6 June, Deputy Governor Sebastián Claro went before the Senate Committee on Extreme Regions of the Country in Santiago, to discuss the development of cost-of-living indices and environmental assessment at the regional level, analyzing the technical and budgetary feasibility of constructing a regional index that measures the cost of living in each of the country's regions. He also spoke to the Senate Economic Committee in Valparaíso on 3 August, on the bill establishing a special scheme for savings and loan cooperatives to return capital to members over the age of 60.

In the House of Representatives, Governor Rodrigo Vergara spoke before the Investigating Committee on the Undue Appropriation of Funds Deriving from the Copper Reserve Law from 2011 to date, in Santiago on 30 May. The next day he gave a presentation to the Economic Committee in Valparaíso, on the bill creating a new institutional framework for the national statistics system.

D.3 Seminars, workshops, and conferences

Within the program of seminars, conferences, book launches, and workshops organized by Central Bank in 2016, the XII Meeting on Central Bank Human Resources Administration was held on 20–22 April, organized by the Human Resources Management in conjunction with the Center for Latin American Monetary Studies (Cemla). The meeting brought together 42 representatives of central banks



Presentation of reports, December 2016.

from around the world, who shared experiences on the implementation of compensation systems and their impact on value added, new leadership approaches, competency models, career development, performance management, and organizational climate.

On 9–13 May, the Statistics Division, in conjunction with Cemla, organized an advanced workshop on derivatives and structured products, which was attended by representatives of central banks, banking supervisors, and international organizations from 15 countries. The goal was to transmit an integrated perspective on pricing methodologies and market risk metrics for derivatives and structured products.

On 17 June, the Economic Research Management organized a workshop entitled Exchange Rate Pass-through, with participation by Gita Gopinath, Harvard University; Ida Hjortsoe, Bank of England; Philip Sauré, Swiss National Bank; Javier Cravino, University of Michigan; and David Berger, Northwestern University.

On 30 June and 1 July, the Financial Policy Division, in conjunction with the IDB Financial Stability and Development Group (a cooperation initiative of South American Central Banks), held an advanced course on contingent claim analysis (CCA) and macro-financial risk analysis, led by Dale Gray of the IMF Monetary and Capital Markets Department.

On 19–21 July, the Financial Stability Management hosted the Meeting on Bank Accounting and Financial Stability, in conjunction with Cemla, the Bank of Spain, and the Association of Supervisors of banks of the Americas (ASBA). The meeting was attended by representatives of central banks, banking superintendencies, and international organizations from 12 countries. The objective was to promote an open discussion on relevant issues deriving from the interplay of financial stability and bank accounting and the application of international regulatory standards.

On 25–27 July, the Economic Research Management and the Human Resources Management coordinated a course on Financial Markets and the Macroeconomy, which was taught by Harald Uhlig of the University of Chicago and attended by around 80 guests.

On 26–27 September, the Third Annual Meeting of the CCA Consultative Group of Directors of Financial Stability of the Bank for International Settlements (BIS) was held in Viña del Mar, coordinated by the Financial Policy Division. This high-level meeting was attended by representatives of the central banks of Argentina, Brazil, Canada, Colombia, Mexico, Peru, Switzerland, and the United States, as well as the BIS, who analyzed and compared their different experiences and developments in the assessment and early detection of financial stability risks.

On 5 October, the Statistics Division organized a seminar on “Financial Derivatives, Their Evolution in the International Market, and New Financial Infrastructures”, led by Ángel Vilariño, Complutense University of Madrid. Over 80 people attended the talk on the international derivatives market, its relation to the international financial crisis, and the new infrastructure and financial regulations. The seminar was organized in relation to the integrated derivatives information system, a joint project of the Financial Policy Division, the Office of the General Counsel, and the Statistics Division.

On 21 October, the Financial Research Management organized a workshop on “Macroprudential Policies: Experiences and Challenges”. The keynote speaker was Donald Kohn, former Vice Chairman of the U.S. Federal Reserve and current member of the Bank of England’s Financial Policy Committee. Other speakers included Eugenio Cerutti, IMF; Dimitrios Tsomocos, University of Oxford; Taisuke Nakata, U.S. Federal Reserve; Donato Masciandaro, Bocconi University; Marco Vega, Central Bank de Peru; and Margarita Rubio, University of Nottingham.



Donald Kohn during his presentation.



Video conference with Stanley Fisher.

On 7–9 November, the Economic Research Management and the Human Resources Management jointly organized a course on External Adjustment, Global Imbalances, and Global Safe Assets. The course was taught by Pierre-Olivier Gourinchas of the University of California-Berkeley and attended by around 60 people.

On 10–11 November, the Central Bank held its XX Annual Conference in Santiago, on “Monetary Policy and Global Spillovers: Mechanisms, Effects, and Policy Measures”. The conference was inaugurated by Bank Governor Rodrigo Vergara and included a keynote speech by Stanley Fischer, Vice Chairman of the U.S. Federal Reserve, who spoke via video conference. Other participants included Enrique Mendoza, University of Pennsylvania; Barry Eichengreen, University of California-Berkeley; Poonam Gupta, World Bank; and Francis X. Diebold, University of Pennsylvania. The event featured a Governors’ Panel, with the participation of the governors of the central banks of Argentina, Brazil, Canada, Chile, and Peru.

On 21 November, the Statistics Division held a Macroeconomics Statistics Workshop, aimed at university academics from Santiago and other regions. The event was inaugurated by Board Member Joaquín Vial and Gloria Peña, Statistics Division Director, and featured presentations by various Central Bank specialists. About 25 academics were present, while over 200 participated virtually via streaming.

On 12 December, the Financial Policy Division held a workshop on Financial Cycles: “Conceptual Issues and Policy Implications”. The keynote speaker was Kostas Tsatsaronis of the BIS. Participants included representatives of the IMF and the central banks of Denmark, Mexico, Brazil, and Spain, as well as staff members of the Finance Ministry, the Superintendence of Banks and Financial Institutions, and the Financial Policy Division. In the workshop, the participants discussed issues related to the identification of financial cycles and the international experience on the implementation of countercyclical capital reserves in the banking system.



Guided tours for schools.

On 15 December, the Economic Research Management organized a workshop on The Chinese Economy: Prospects and Challenges, which featured the participation of Fabrizio Zilibotti, University of Zurich and then-President of the European Economic Association; Xiaodong Zhu, University of Toronto; Joseph Gyourko, The Wharton School; Kinda Hachem, University of Chicago Booth School of Business; and Zheng Liu, Federal Reserve Bank of San Francisco. Deputy Governor Sebastián Claro was one of the discussants. The workshop brought together academics and researchers from several central banks around the world, who discussed aspects of the current state of the Chinese economy, its new challenges for sustained growth, and its importance for the rest of the world.

D.4 Community outreach program

The community outreach program, Central to Your Life, comprises all the economic and financial education activities organized by the Bank—aimed at strengthening students’ knowledge of economics and what the Bank does—and community outreach, especially in terms of diffusing information on the Bank’s purpose, heritage, and history. This year’s highlights included opening the bank to visitors on National Heritage Day and the numerous guided tours given to educational establishments.

The numismatic museum has become an important point of interest for the public. Almost 3,000 people visited the museum in 2016, mostly national and foreign tourists. An additional 5,000 people participated in the Bank’s guided tour program, and almost 2,000 visited the museum on National Heritage Day. The museum launched its own website in the year (www.museobancocentral.cl), featuring high-resolution images of the Bank’s collection of coins and banknotes, a 360° virtual tour of the museum, and a web version of the Bank’s interactive application for designing your own banknote.

The eighth training seminar for journalists was held between July and December 2016. The program is organized annually by the Bank in conjunction with the Chilean Chapter of the Inter-American

Association of Economic and Financial Journalists (Aipef). The eight workshops in the series were led by the Central Bank Governor, one of the Board Members, and one of the Bank's senior economist, who discussed a range of topics including monetary policy, the labor market, the local debt market, and financial regulation. The talks were attended by 55 journalists from news media, public organizations, and businesses, as well as private journalists.

This was the tenth year that the Bank presented its training workshops, "Know Your Banknotes", a diffusion program on the banknotes in circulation and their security features. Over the decade, the program has become a key element for maintaining the integrity of this payment means, along with public confidence. In 2016, a total of 2,530 people received training, mainly cashiers from retail establishments, small businesses and commercial banks, as well as student cashiers in training at technical institutes and the general public. Workshops were held in Santiago, Valparaíso, Arica, and Copiapó. In addition, a "Know Your Banknotes" workshop was live-streamed to 670 people from different regions along the country. To support this initiative, 34,500 brochures (pamphlets, posters, and stickers) were distributed to provide information on the security features that facilitate the recognition of authentic bills, as well as banknote identification devices for the visually impaired.

As part of this training initiative, the Bank continued its "Training for Trainers Program", which was launched in 2014. As of December 2016, the program had agreements with 37 businesses, including retail businesses, public institutions, casinos, foundations, and training institutes. This program allows businesses and institutions to train company employees, students, and vulnerable members of the community, using materials provided by the Bank.

The Bank also continued its training program for the national police institutions, which was launched in 2013 with the objective of facilitating police interaction with citizens in relation to the recognition of legal banknotes. In 2016, there were 38 workshops and three seminars for forensic experts, reaching a total of 2,895 officers.

In conjunction with *Carabineros de Chile*, the Treasury Management implemented an informational campaign during the Independence Day holidays, going out to shopping areas around the country to talk with shop owners and customers in order to explain the banknote security features, demonstrate how to authenticate banknotes, and hand out print materials. A similar initiative was organized with the Investigative Police in December.

With regard to the prevention of counterfeiting, the Bank conducted interviews with nine regional prosecution offices, businesses that handle cash, and casinos. Additionally, the Bank signed a collaboration agreement with the Superintendence of Casinos and Gaming on the detection and submission of fake bills.

In 2016 the Bank continued strengthening its statistical diffusion program, with university and business group presentations aimed at promoting the use and understanding of the statistics generated by the Bank. The presentations review the concepts, methodology, and results of the Balance of Payments, National and Regional Accounts, National Accounts by Institutional Sector, and Expectations Surveys. In addition, practical examples are used to describe the features of the statistical database and other applications, such as interactive chart packs or mobile applications. In the year, 20 talks were given at universities in Santiago, Concepción, La Serena, Osorno, and Valparaíso and at business associations in Copiapó, Iquique, and La Serena, with an attendance of about 800 people.

Between 13 April and 15 June, the Statistics Division gave a seminar on macroeconomic statistics for undergraduate students in the Department of Business Administration and Economics of the University of Santiago. The seminar consisted of ten two-hour modules that provided an introduction to macroeconomic statistics and addressed issues related to the application of statistics and future challenges in measurement. Sixty students took the course.



Journalist seminar.



Know Your Banknotes training program.



Financial Education Fair.

As in previous years, teacher training workshops were organized in 2016 to provide instructional tools for teaching students about the Bank's functions. Four workshops were held at the Bank in January and July, with the attendance of 85 teachers from around the country. An additional workshop was held in Valdivia in March, with 30 participants.

Also in 2016, a new mobile application was launched, called *La inflación en tu vida* (Inflation in Your Life). The goal is to teach people about the importance of price stability and how it directly affects their budgets. The app is available free of charge for iOS and Android.

The Bank also participated in events organized by other institutions. For the third consecutive year, the Bank took part in Global Money Week (GMW), an event promoted by the Dutch NGO Child and Youth Finance International. The event included in a Twitter rally on 16 March, in which students throughout Latin America answered questions from twelve participating organizations. In the case of the Central Bank, the question was "What are the three functions of money?" The students then had to go to www.centralentuid.cl to find the answer. A student from the Augusto D'Halmar School in Ñuñoa was the winner from Chile.

The third annual Financial Education Fair was held on 4–5 October at the *Palacio La Moneda* Cultural Center, organized by the SBIF. The Fair was opened by the President of Chile, Michelle Bachelet, who was accompanied by Deputy Governor Sebastián Claro. The Bank had a stand for its program "Central to Your Life," with educational material and information on the Know Your Money workshops. During the fair, the Bank presented two short plays entitled "Healthy Debt" and "Credit Cards: To Use or Not to Use?" and had actors portraying the historical figures featured on some of the banknotes, who took economics questions from the audience.

During the year, the Bank served as a permanent member on the Advisory Commission on Financial Inclusion, which advises the President of Chile on all aspects of the design and formulation of a national strategy on financial inclusion and the implantation of plans, measures, and other initiatives aimed at improving financial inclusion and protecting consumer rights.

The Commission, which is chaired by the Finance Minister and includes members from a range of public sector institutions, met for the first time in May. At the meeting, a decision was made to focus efforts in this initial phase on financial education, setting a goal of developing a national strategy on financial education. To this end, the Bank participated in a series of promotional activities for the Commission, such as monthly working meetings with representatives from the public and private sectors, workshops, and research aimed at meeting the established goal.

Economics Up Close Contest

In 2016, the now-traditional school contest invited groups of students and their teachers to answer the following question: How do changes in the interest rate set by the Central Bank affect daily life? The contest rules specify that the entries be presented in a video format, which should not exceed three minutes and should use simple language. The contest commenced on 15 March at a school in Valparaíso, where Governor Rodrigo Vergara gave an introductory presentation.

To promote participation in the contest, promotional material was sent to educational establishments around the country, and posters were put up in the Santiago and Valparaíso metro stations. In addition, from April to July, 16 Central Bank economists gave 29 talks at schools in Santiago.

This year, the Bank received 230 videos prepared by 770 students from almost 130 schools from Arica to Punta Arenas. The videos were reviewed first by 39 Central Bank economists, who chose 20 semifinalists (ten in each of the two contest categories). The final judging was conducted by a jury made up of Governor Rodrigo Vergara; Board Member Mario Marcel; Finance Minister Rodrigo Valdés; Education Minister Adriana Delpiano; the Superintendent of Banks and Financial Institutions, Eric Parrado; former Bank Governor Carlos Massad; the Director of the Pontifical Catholic University's Economics Institute, Claudio Sapelli; the Director of National Youth Institute (Injuv), Nicolás Farfán; and the winning teachers of the 2015 contest, Nicole Polanco and Rodrigo Sepúlveda.

The winning groups were announced at an awards ceremony held on 4 November. In the ninth and tenth grade category, first prize went to the Swiss School of Santiago, in Ñuñoa. Second place was awarded to the Simón Bolívar School in Hualpén, while third place went to the Camilo Henríquez School in Temuco. In the eleventh and twelfth grade category, first place was awarded to the team from the Buin School; second place to the Carmela Carvajal de Prat school in Providencia; and third place to the José Manuel Pinto Arias Polytechnic School in Pinto.

D.5 Visits to regions

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 *Monetary Policy Report* and the *Financial Stability Report* are presented at the meetings, together with complementary information specific to the region.

In April, Board Member Joaquín Vial presented the *Monetary Policy Report* in Copiapó, at a regional meeting organized in conjunction with the regional office of the Chilean Chamber of Construction. Deputy Governor Sebastián Claro gave the presentation in Valdivia, in conjunction with Sofofa. Board Member Mario Marcel gave two presentations in Talca, one organized with the University of Talca and the other with the Autonomous University.



Mobil app.



Launch of the Economics Up Close contest.



Presentation of the Monetary Policy Report in Valdivia.

In June, Board Member Pablo García presented the June *Monetary Policy Report* and the *Financial Stability Report* for the first half of the year in Antofagasta in a series of regional seminars organized by Sofofa and the Antofagasta Industrial Association (AIA). Board Member Mario Marcel presented the two reports at a business conference in Viña del Mar, organized by the Valparaíso Regional Chamber of Commerce, in association with the Adolfo Ibáñez University. Board Member Joaquín Vial presented the two reports in Puerto Montt, at a conference organized by the Austral University of Chile.

In September, the *Monetary Policy Report* was presented by Board Member Joaquín Vial in Curicó and Chillán, at a conference for local business leaders organized by Sofofa. Board Member Pablo García gave the presentation in Valdivia, at a conference organized in conjunction with the Austral University, while Board Member Mario Marcel gave the presentation at a seminar organized in conjunction with the Araucanía Productive Development Corporation (*CorpAraucanía*) in Temuco.

In December, the *Monetary Policy Report* and the *Financial Stability Report* were presented in Concepción the recently named Governor, Mario Marcel, at a seminar organized by Sofofa.

E. Miscellaneous

E.1 Technological changes

The process of replacing the server storage racks at the main processing site with an earthquake-resistant design, which began in 2015, continued in 2016, thereby improving resilience to seismic events.

With regard to information security, a new tool for analyzing logs and correlating events was installed, which provides behavior anomaly detection and the application of corrective measures. Additionally, work began on the implementation of advanced tools for detecting and containing security threats known as zero-day vulnerabilities, for which detection and mitigation mechanisms have not yet been developed.

In the ongoing project to modernize obsolete technological infrastructure, the virtual server platform was upgraded, and remote access solutions were implemented.

Also in 2016, further progress was made on the use of data mining and report generation tools, which can produce dashboards that support decisionmaking affecting the quality of technological services that are provided to the organization and the information technology budget execution, among others.

The Information Systems Management was also closely involved in coordinating participants of the large-value payment system (LVPS) and carrying out a series of LPVS system-continuity tests in conjunction with other financial sector institutions.

Finally, the Information Systems Management participated actively in a series of technology projects for the user areas of the Bank, including upgrading the organizational content management platform; updating the current account system that makes up part of the Bank's payment system; and improvements in the SWIFT platform of the payments system and the international reserve management system.

E.2 External auditors

The second paragraph of Article 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



Round table of central bank governors.

the auditors from among those registered with the Superintendence of Banks and Financial Institutions (SBIF). After issuing a call for tenders to contract financial statement auditing services for an initial period of three years, with a maximum of three contract renewals, and based on a favorable report by the Audit and Compliance Committee, the Board awarded the contract for professional auditing services for the period 2014–2016 to *KPMG Auditores y Consultores Ltda.*, via Resolution 1775 of 5 September 2013.

E.3 International relations activities

In 2016, the Bank maintained an intense international agenda, through both its regular international activities and a wide range of additional activities. The former included the bimonthly and annual meetings of governors of member banks of the Bank for International Settlements (BIS); the BIS meeting of alternate governors; the spring and annual meetings of the International Monetary Fund (IMF); the annual meeting of the Inter-American Development Bank (IDB); the meetings of central bank governors of South America (formerly Mercosur and associated countries); the Meeting of Central Bank Governors of Cemla and of the Cemla Committee of Alternates; the meetings of the Institute of International Finance (IIF), held in conjunction with the annual IDB meeting and the annual IMF meeting; and the IMF Article IV mission.

Additional activities in which the Bank participated included international seminars, conferences, and meetings held both in and outside Chile, official visits from foreign authorities, missions from international organizations, visits from distinguished academics, and technical visits from delegations from other central banks.

In Chile, a roundtable on Monetary Policy and Spillovers was held in November, in the context of the Twentieth Annual Central Bank Conference. Participants included the governors of the central banks

of Argentina, Brazil, Canada, and Peru. The conference featured the participation of Donald Kohn, former Vice Chairman of the U.S. Federal Reserve and current member of the Bank of England's Financial Policy Committee, who was the keynote speaker for a workshop on Macprudential Policies: A Policymaker Perspective on Experiences and Challenges.

In January, the Governor of the Central Bank was a panelist at a Scotiabank investor conference in Mexico City. In March, he participated in the international conference, New Challenges for Emerging Market Economies in the Aftermath of the Global Financial Crisis, sponsored by the Bank of the City of Buenos Aires, Argentina. In April, he traveled first to New York, where he met with top executives of investment banks and with the Chairman of the U.S. Federal Reserve, and then to Los Angeles, where he gave a presentation at the 2016 MBA Chile Conference held at the UCLA Anderson School of Management. In May, he was in London for Chile Day, before traveling to Lisbon, Portugal, for the Meeting of Central Bank Governors of Cemla, over which he presided as Chairman of the Board of Governors. In October, he attended the OECD high-level seminar on "Open and Orderly Capital Movements: Does International Cooperation Matter?" in Paris, where he gave a presentation at the session on Financial Openness at a Crossroads: The Post-Crisis World.

The official visits from foreign authorities featured a delegation from the State Administration of Foreign Exchange (SAFE) of the People's Republic of China, the administrative agency in charge of writing the rules and regulations governing activities in the foreign exchange market and the management of foreign exchange reserves in China. In addition, the Strategic and Operational Risk Management Department received a technical delegation from the Central Bank de Costa Rica.

E.4 Access to information

In 2016, the Bank received 82 applications for access to information, in accordance with the provisions of Law 20,285 on public access to information, which represents a 15% increase over 2015. These requests were addressed within the time allowed under Article 14 of the law, and there were only two cases in which the period had to be extended as authorized under the law.

In this regard, no complaints have been filed against the Bank to date in the Santiago Court of Appeals, in accordance with the provisions of Sections 65 bis and 69 of the Bank's Basic Constitutional Act.

In other news, in early November 2016, the National Press Association presented the XIII Barometer on Access to Information. This survey, which is carried out by the firm Adimark GfK, measures Chilean journalists' perception of information access in public institutions. The survey asks journalists to assign a grade to their perception of access to public information along three dimensions: the timeliness of the delivery of information; the accuracy and reliability of the information delivered; and the willingness to provide information.

In this year's survey, responses were received from 447 journalists, who rated 50 public institutions. On the average of the three dimensions, the Central Bank was awarded first place, with 59.6% of the journalists giving the organization a grade of 6 to 7 (on a seven-point scale) for ease of access. The Bank also took first place on each of the three specific dimensions, with a grade of 6–7: willingness to provide information, 59.6%; accuracy and reliability of the information delivered, 68.1% and timeliness of the delivery of information, 51.1%.

Over the years since the survey was first conducted in 2007, the Bank has improved its ranking, from sixth to third place between 2008 and 2010 and then second place in subsequent years.

Law on Lobbying

For all intents and purposes, the Law on Lobbying is applicable to the Central Bank of Chile, and it establishes that the Governor, the Deputy Governor, and the other Board Members are subject to the obligations stipulated therein. The law further establishes that the legal obligations can be extended to other functionaries via Board Resolution, if their duties, responsibilities, or position within the Bank require that they be subject to the regulatory guidelines, if they possess substantial decisionmaking power, or if they are in a position of significant influence over others who do. The Board has exercised this authority on two occasions, using Resolutions 1920-02-150813 and 2017-01-161124 to designate Central Bank authorities who are to be considered subject to this law.

The former resolution, effective 29 August 2015, designates anyone who holds the position of General Manager, General Counsel, Comptroller/Auditor General, or Division Director as subject to the law; the latter, effective 1 January 2017, further incorporates a total of 27 additional positions, including anyone who holds specific Area Manager or Department heads positions. Thus, the Law on Lobbying applies to a total of 40 positions within the Bank.

The full list of names and positions that are subject to the law can be found on the Bank's website.

In 2016, as recorded in the Public Agenda Record, the Central Bank Board, General Manager, General Counsel, Comptroller/Auditor General, and Division Directors had a total of 74 meetings with lobbyists and special interest representatives, 71 business trips, and 87 donations or gifts received.

All of this information was published on the Central Bank's website, in the transparency and probity section, as established under the law and the Guidelines on the Public Agenda Record, Lobbyists, and Special Interest Representatives, approved by the Board. The information was also sent to the Transparency Board for inclusion on the Infolobby website, as specified in the Agreement signed on 25 May 2015.

Law on Probity

Law 20,880 on Probity in Public Service and the Prevention of Conflicts of Interest, published in the Official Gazette on 5 January 2016, and its Guidelines^{9/}, entered into effect for the Bank and its authorities in early November 2016.

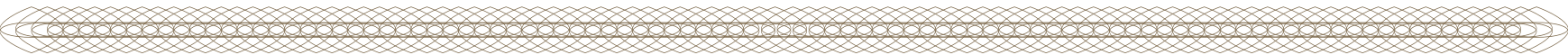
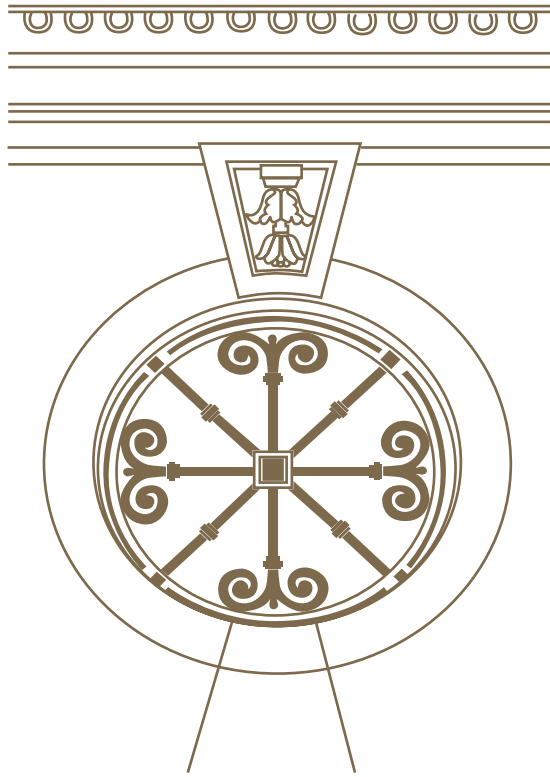
The law modifies the final paragraph of Section 14 of the Bank's Basic Constitutional Act, regulating the obligation of the Bank's Board Members and General Manager to make a sworn public statement attesting to the absence of any conflicts of interest or other concerns affecting the exercise of their responsibilities, under the stipulations of the law. Bank authorities must provide their conflict-of-interest statement prior to assuming their position and are further obligated to renew the statement annually, in March of each year, and within the thirty days of leaving their post.

The conflict-of-interest statements submitted by the Bank's authorities are published on the organization's website, in the transparency and probity section, and on the Transparency Board's website (www.Infoprobidad.cl).



Information on the Central Bank's website.

^{9/} Executive Decree 2 issued by Secretary-General Ministry of the Presidency, published in the *Official Gazette* on 2 July 2016.



APPENDICES



APPENDIX I

PRESS RELEASES ON MONETARY POLICY MEETINGS IN 2016

14 January

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 3.5%.

Internationally, the increase in the U.S. Federal Reserve's interest rate has not caused significant changes in the global financial markets. The biggest news has been the volatility of the financial markets, in relation to events in China. In this context, emerging market currencies have depreciated—including the Chilean peso—while emerging sovereign spreads have increased, stock markets have fallen, and commodity prices dropped, in particular copper and oil. World output data are in line with the scenario observed last month.

Domestically, monthly CPI inflation was somewhat lower than forecast in December, while the annual CPI pushed up over 4% again. Core inflation (CPIEFE) was almost 5% annual. Inflation expectations two years ahead remain anchored at 3%. The evolution of these variables will continue to be closely monitored. The data available for the fourth quarter continue to indicate limited growth of output and domestic demand. Confidence indicators remain pessimistic. The unemployment rate remains low, and the annual growth rate of wages was lower than in previous months.

The future path of the MPR considers gradual adjustments to ensure the convergence of inflation to the target, at a rate that will depend on the new information that became available and its implications for inflation. The Board reaffirms its commitment to being flexible in its use of monetary policy in order to keep forecast inflation at 3% in the policy horizon.

11 February

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 3.5%.

Internationally, sovereign spreads have increased, the majority of the stock markets saw an intensification of the drop, and commodity prices have fallen. Most currencies partially reversed the losses recorded last month vis-à-vis the dollar. The world growth outlook has been revised downward. In this context, some central banks have increased the monetary stimulus or communicated future actions in that direction. Long-term interest rates have fallen in the developed markets.

Domestically, monthly CPI inflation was somewhat higher than forecast in January, while the annual CPI was over 4%. Core inflation (CPIEFE) remains near 5% annual. Inflation expectations two years ahead remain anchored at 3%. The evolution of these variables will continue to be closely monitored. The data released in the month are in line with limited growth of output and domestic demand. Confidence indicators remain pessimistic. Annual growth of wage employment was less dynamic, but the unemployment rate fell again. Annual wage growth continued to slow.

The future path of the MPR considers gradual adjustments to ensure the convergence of inflation to the target, at a rate that will depend on the new information that became available and its implications for inflation. The Board reaffirms its commitment to being flexible in its use of monetary policy in order to keep forecast inflation at 3% in the policy horizon.

17 March

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 3.5%.

Internationally, the financial markets have been calmer in the last few weeks, although there is still a risk of new volatility episodes. Thus, spreads have contracted, while stock indices and commodity prices have risen. World growth forecasts have been revised downward somewhat for the advanced economies. In this context, the developed world's central banks have taken actions or made announcements indicating a more expansionary monetary policy stance. After the U.S. Federal Reserve's meeting, the dollar depreciated again, and interest rates decreased.

Domestically, annual CPI and CPlEFE inflation remain above 4%, in line with the forecast. Inflation expectations two years ahead remain anchored at 3%. The evolution of these variables will continue to be closely monitored. Output and demand data point to a weaker performance in late 2015 than expected in the December *Monetary Policy Report*. Confidence indicators remain pessimistic. The annual wage employment growth rate recorded another decrease, but the unemployment level remains low. Annual wage growth increased in January.

The future path of the MPR considers gradual adjustments to ensure the convergence of inflation to the target, at a rate that will depend on the new information that became available and its implications for inflation. The Board reaffirms its commitment to being flexible in its use of monetary policy in order to keep forecast inflation at 3% in the policy horizon.

12 April

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 3.5%.

Internationally, the financial markets have been relatively calm, with mixed movements in the month. Risks remain, however. Long-term interest rates have fallen in the developed economies, the world growth outlook has been stable, and commodity prices recorded opposing movements in the month.

Domestically, inflation was lower than projected in March, with annual inflation at 4.5%. The forecast is for it to stay above 4% for a few months. Inflation expectations two years ahead remain anchored at 3%. The evolution of these variables will continue to be closely monitored. Output data recorded a surprise to the upside, but on the whole are consistent with the baseline scenario in the *Monetary Policy Report*. Confidence indicators remain pessimistic. The annual growth of wage employment and the unemployment rate were stable. Annual wage growth slowed.

In line with forecasts in the March *Monetary Policy Report*, the Board considers that the monetary policy normalization process needs to continue in order to ensure the convergence of inflation to the target, at a rate that will depend on the new information that became available and its implications for inflation. The Board reaffirms its commitment to being flexible in its use of monetary policy in order to keep forecast inflation at 3% in the policy horizon.

17 May

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 3.5%.

Internationally, the financial markets followed a similar trend to recent months. Risks remain, however. Currencies have tended to depreciate against the dollar recently, with differences in magnitude. The world growth outlook has been stable, although the forecast for the United States has been revised downward. Commodity prices are slightly higher than a month ago, with the exception of copper.

Domestically, annual CPI inflation was 4.2% in April. The forecast is for it to stay above 4% for a few months. Inflation expectations two years ahead remain anchored at 3%. The evolution of these variables will continue to be closely monitored. Output grew more in the first quarter than projected in the March *Monetary Policy Report*. Nevertheless, confidence indicators remain pessimistic, and the labor market deteriorated more sharply. Annual wage growth was stable.

The Board considers that the monetary policy normalization process needs to continue in order to ensure the convergence of inflation to the target, at a rate that will depend on the new information that became available and its implications for inflation. The Board reaffirms its commitment to being flexible in its use of monetary policy in order to keep forecast inflation at 3% in the policy horizon.

16 June

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 3.5%.

International financial markets remain volatile, largely due to the upcoming referendum in the United Kingdom and the discussion surrounding the U.S. Federal Reserve's monetary policy decision. Long-term interest rates have fallen in the main economies. Globally, stock markets have fallen, and most commodity prices have increased. Copper has been one of the exceptions. The dollar has fluctuated, but is around the same level of one month ago. The world growth outlook has been stable.

Domestically, May CPI inflation was somewhat lower than forecast, and annual inflation held at 4.2%. Inflation expectations two years ahead remain anchored at 3%. The evolution of these variables will continue to be closely monitored. Partial output and demand data for the second quarter point to limited growth. Confidence indicators remain pessimistic. Wage employment has grown at low rates, the unemployment rate remains low, and nominal wages have slowed.

The Board considers that the monetary policy normalization process needs to continue in order to ensure the convergence of inflation to the target, at the rate implicit in the baseline scenario of the most recent *Monetary Policy Report*. That rate could be altered, however, in the event of significant deviations in inflation convergence. The Board reaffirms its commitment to being flexible in its use of monetary policy in order to keep forecast inflation at 3% in the policy horizon.



14 July

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 3.5%.

Internationally, the main news was that the results of the U.K. referendum had little effect on the markets. The world growth outlook has been stable, market expectations point to a more expansionary monetary policy in the developed economies. Although volatility initially increased after the referendum, risk appetite has since risen, bringing down long-term interest rates and spreads, driving the stock markets, and appreciating emerging currencies. Commodity prices continue to record mixed movements, with an increase in the copper price.

Domestically, June inflation was somewhat higher than expected, but the path is in line with the forecast in the *Monetary Policy Report*. Inflation expectations two years ahead remain anchored at 3%. The evolution of these variables will continue to be closely monitored. Output and demand data for the second quarter confirm low growth. Confidence indicators remain pessimistic. The labor market has continued to deteriorate relative to the start of the year. The peso has appreciated.

The Board considers that the monetary policy normalization process needs to continue in order to ensure the convergence of inflation to the target, at the rate implicit in the baseline scenario of the most recent *Monetary Policy Report*. That rate could be altered, however, in the event of significant deviations in inflation convergence. The Board reaffirms its commitment to being flexible in its use of monetary policy in order to keep forecast inflation at 3% in the policy horizon.

11 August

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 3.5%.

Internationally, monetary and financial conditions remain expansionary, and long-term interest rates remain low. Risk appetite in global financial markets is strong, especially for emerging market assets. This has led to a narrowing of sovereign spreads, an increase in stock market values, and currency appreciation. On aggregate, the world growth outlook has been stable. Most commodity prices have declined slightly.

Domestically, although inflation was somewhat higher than projected in July, annual inflation reentered the target range. Inflation expectations two years ahead remain anchored at 3%. The evolution of these variables will continue to be closely monitored. In the second quarter, output and domestic demand grew slightly. Confidence indicators remain pessimistic. The labor market continues to deteriorate gradually, with a stable unemployment rate. The peso has appreciated.

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

15 September

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 3.5%.

Internationally, financial market movements have been dominated by expectations of what the U.S. Federal Reserve will do at its meeting next week. Nevertheless, monetary and financial conditions remain favorable, with some volatility, and long-term interest rates remain low. In terms of output, recent data from the United States has been weak, whereas China has improved. Despite fluctuations, copper and oil prices are around the same level as a month ago.

Domestically, annual CPI inflation fell to 3.4%, in line with the forecast. Inflation expectations two years ahead remain anchored at 3%. Partial data for the third quarter point to limited growth of output and demand, consistent with the baseline scenario in the *Monetary Policy Report*. Confidence indicators remain pessimistic. The labor market continues to deteriorate gradually, with a slight increase in the unemployment rate.

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

18 October

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 3.5%.

Internationally, monetary and financial conditions remain favorable, and long-term interest rates remain low. In terms of output, recent data do not reveal any significant changes, pointing to a gradual recovery in world growth for the coming year. Commodity prices fluctuated but generally increased in the month, in particular the oil price.

Domestically, the CPI recorded a surprise to the downside in September, with annual inflation approaching 3% sooner than forecast. Several expectations measures put inflation around the target within the policy horizon. Partial data for the third quarter continue to point to limited growth of output and demand, consistent with the baseline scenario in the *Monetary Policy Report*. The labor market continues to show signs of a gradual adjustment.

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

17 November

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 3.5%.

Internationally, financial market volatility increased after the U.S. elections, with an appreciation of the dollar and an increase in long-term rates. Financial conditions for emerging economies have

deteriorated, although they remain better than at the start of the year. Commodity prices have recorded mixed movements, with an increase in metal prices, especially copper, and a decrease in oil and oil derivatives. Output data and the growth outlook have not changed, but they have not yet incorporated the possible effects of the recent events.

In October, monthly CPI inflation again recorded a surprise to the downside, which brought annual inflation down to 2.8%. Inflation expectations have decreased for the short term, but they are around the target toward the end of the forecast horizon. In the third quarter, output and domestic demand were consistent with projections in the September *Monetary Policy Report*. The labor market thus continues to record a gradual adjustment. Long-term interest rates have increased.

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

13 December

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 3.5%.

Internationally, long-term interest rates have continued to rise in the developed world. With regard to commodity prices, oil increased, while copper stayed above its midyear levels. Output data were fairly stable. The growth outlook has also been stable, in part because the effects deriving from possible changes in economic policies in the developed economies are not yet clear.

In November, monthly CPI inflation was in line with the forecast; annual inflation rose slightly to 2.9%. Inflation expectations are around the target toward the end of the forecast horizon, although they are in the lower end of the range for the coming months. Partial data for the fourth quarter indicate a weak output performance, especially in the mining sector and some industrial segments. At the same time, demand-related data point to similar growth rates as in past quarters. The labor market thus continues to record a gradual adjustment. Long-term interest rates have partially reversed the recent increases, and the peso has appreciated.

The Board considers that if recent economic trends continue, together with their implications for medium-term inflation, it could be necessary to increase the monetary stimulus. At the same time, the Board reaffirms its commitment to being flexible in its use of monetary policy in order to keep forecast inflation at 3% in the policy horizon.

APPENDIX II

PRESS RELEASES ON FOREIGN EXCHANGE AND FINANCIAL MEASURES IN 2016

7 January

The Board of the Central Bank of Chile approved the annual auction calendar for 2016. The program considers scheduled debt maturities for an amount equivalent to Ch\$2.860 trillion, of which Ch\$1.400 trillion would be absorbed through Central Bank discount promissory notes (PDBC) and Ch\$800 billion would be rolled over as peso-denominated Central Bank bonds (BCP) maturing in 2019.

The bond will be issued in accordance with the stipulation of Article 104 of the Income Tax Law.

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

4 April

The Central Bank of Chile announces its auction calendar for the issue of peso-denominated bonds (BCP), under the rubric of the bond issue program approved for the year and announced on 7 January, for a total of Ch\$800 billion.

The dates, bond characteristics, and schedule of amounts to be auctioned are as follows:

- Thursday, 14 April 2016: a peso bond issue of up to Ch\$400.000 billion, with an issue rate of 4.0% and maturity date of 1 January 2019.
- Tuesday, 7 June 2016: a peso bond issue of up to Ch\$400.000 billion, with an issue rate of 4,0%, and maturity date of 1 January 2019.

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

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



APPENDIX III

MAIN MEASURES TAKEN BY THE CENTRAL BANK OF CHILE IN 2016

January

7

The Bank reported that the Board, in its regular session on 17 December 2015, approved the annual schedule for the placement of debt instruments in 2016 (the Debt Plan). The program considers scheduled debt maturities for an amount equivalent to Ch\$2.860 trillion, of which Ch\$1.400 trillion would be absorbed through Central Bank discount promissory notes (PDBC) and Ch\$800 billion would be rolled over as peso-denominated Central Bank bonds (BCP) maturing in 2019.

The Bank further clarified that the bonds will be issued in accordance with the stipulations of Article 104 of the Income Tax Law.

This auction schedule is subject to modification in the event of significant changes in market conditions.

14

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 3.5% in annual terms.

28

Through Resolution 1955-08-160128, the Bank updated the list of foreign currencies that are generally accepted in international exchange markets, whose exchange rates and parities are published in the *Official Gazette*, as stipulated in the second paragraph of Section 44 of the Bank's Basic Constitutional Act.

Specifically, the following currencies were incorporated on the list: the Czech koruna, the Israeli new shekel, the Malaysian ringgit, and the Polish zloty. These same currencies were included on the list of eligible foreign currencies for the purposes of investment of the Central Bank's international reserves.

February

11

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 3.5% in annual terms.

March

17

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 3.5% in annual terms.

28

Through Resolution 1967E-01-160328, and taking into account the agreement adopted at the *Banco de Chile* shareholders meeting held on 24 March, with regard to the distribution of dividends and the

capital increase through the issue of bonus shares corresponding to 30% of 2015 profits, the Board dictated that all the earnings or surpluses due to the Central Bank, including the share of earnings earmarked for capitalization under the shareholders' agreement, shall be paid in cash.

This decision was adopted in accordance with the stipulations of paragraph (b) of Article 31 of Law 19,396, on new forms of payment of subordinated debt.

April

4

The Bank reported the auction calendar for the bonds that will be issued in accordance with the 2016 Debt Plan.

7

Through Resolution 1970E-01-160407, the Board accepted the fiscal agency entrusted to the Central Bank through Executive Decree 2047 of 23 December 2015, from the Ministry of Finance, to represent and act in the name and on the account of the General Treasury in the placement and total or partial early payment of bonds representing Direct Public Debt, as specified in the aforementioned decree, together with the related bond service. This assignment will be executed in one or more operations, in accordance with the amounts, mechanisms, rules, and dates to be determined by the Finance Ministry. The applicable rules will be established through Operations Decrees. The aforementioned bond issue is authorized under Ministry of Finance Executive Decrees 214 and 232 of 2016, published in the *Official Gazette* on 26 April 2016.

Following the adoption of resolution 1970E-01, the General Manager of the Bank approved the Operating Rules corresponding to this Fiscal Agency Agreement, which are available on the Central Bank's website.

12

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 3.5% in annual terms.

May

17

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 3.5% in annual terms.

26

Through Resolution 1979-02-160526, the Board approved the announcement and application requirements for the public call for nominees to be held by the Bank, for the appointment of a replacement to fill the vacant position of Judge / Legal Counsel on the Competition Tribunal, following the voluntary resignation of Mr. Enrique Vergara Vial, due to his appointment as President of the Tribunal, effective 13 May.

June

9

Through Resolution 1985-02-160609, the Board appointed Mr. Rodrigo Andrés Cerda Norambuena to the position of full member of the Technical Investment Council, as provided under Title XVI of DL 3500 of 1980, for a period of four years starting on 11 June 2016; and Ms. Catherine Carolina Tornel León to the position of Alternate on the same Technical Council, for the same period. The Resolution further specifies that these appointments represent the renewal of previous appointments of the same individuals, for a consecutive period, in accordance with Article 168 of the aforementioned law.

16

Through Resolution 1985-01-160609, the Board created the Central Bank Ethics Committee, whose composition, functions, and duties will be governed by the statutes contained in the Resolution.

16

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 3.5% in annual terms.

28

Through Resolution 1983-01-160602, the Board appointed Mr. Jesús Caupolicán Riveros Gutiérrez to the position of full member of the Audit and Compliance Committee of the Central Bank of Chile, for a period of three years effective 17 June 2016.

July

14

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 3.5% in annual terms.

14

Through Resolution 1991-01-160714, the Board appointed Mr. Jaime Navón Cohen to the position of full member of the Information Technology Advisory Committee of the Central Bank of Chile for a new period of three years, effective 1 August 2016.

August

11

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 3.5% in annual terms.

11

Through Resolution 1979-02-160526, the Board appointed Mr. Jaime Arancibia Mattar to the position of Judge / Legal Counsel on the Competition Tribunal, replacing Mr. Enrique Vergara Vial, who resigned from the position to assume the presidency of the Tribunal.

The appointment was communicated to the Ministry of Economy, Development, and Tourism, for the purpose of dictating the corresponding decree of appointment, for the period legally remaining in the original appointment of Mr. Enrique Vergara Vial, that is, through 12 May 2018.

September

15

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 3.5% in annual terms.

October

3

Through Resolution 2005-05-160929, the Board modified Chapter VI of the *Compendium of Foreign Exchange Regulations* to raise the commission on reimbursement requests processed by the Central



Bank of Chile for authorized local institutions in association with the Aladi Reciprocal Payment and Credit Agreement. At the same time, the Board established that the new provisions that will enter into effect 30 calendar days after the publication of this resolution in the *Official Gazette* on 3 October 2016.

13

Through Resolution 2008-01-161013, the Board accepted the compensation owed to the Central Bank for its performance of fiscal agent duties in relation to the management of the resources held in the Economic and Social Stabilization Fund and the Pension Reserve Fund, for the period from 1 January to 31 December 2017, in accordance with Official Letter 33 from the ministry of Finance, dated 27 September 2016.

13

Through Resolution 2009E-01-16103, the Board rejected the proposal of early payment or prepayment of the subordinated debt owed by the *Sociedad Administradora de la Obligación Subordinada SAOS S.A.*, in view of the economic damages that acceptance of the proposal would cause the Bank under the conditions offered.

18

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 3.5% in annual terms.

November

11

Through Resolution 2015E-01-161111, the Board suspended the authorization of *ICB Corredores de Bolsa S.A.* to operate in the Formal Exchange Market for a period of thirty business days starting on the date of notification of the Resolution, for not having renewed or replaced the collateral required under paragraph N°1 of Chapter III of the *Compendium of Foreign Exchange Regulations*.

17

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 3.5% in annual terms.

24

Through Resolution 2017-02-161124, the Board voted to open a public consultation on a proposal to modify Chapter XIV of the *Compendium of Foreign Exchange Regulations of the Central Bank of Chile* and Chapters I and XIV of its *Procedures Manual*.

December

13

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 3.5% in annual terms.

28

Through Resolution 2015E-01-161111, the Board revoked the authorization of *ICB Corredores de Bolsa S.A.* to operate in the Formal Exchange Market, for not having corrected the noncompliance that led to the company's suspension in November.

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 the Bank's transparency policies^{1/}, this appendix reports on the annual international reserve management. The next section (B) describes the investment policies and benchmark structure used in managing reserves. The third section (C) reports on external portfolio managers. The fourth section (D) summarizes the risk management policies and the results of the international reserve management.

B. Investment policy and benchmark structure

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

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

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

^{1/} Board Resolution 1289-01-060831 of 29 August 2006.

In June 2016, the use of eurodollar futures and U.S. Treasury bond futures at 2, 5, and 10 years was authorized, with the objective of providing new instruments through which improve the efficiency of reserve management.

Table 1
BENCHMARK STRUCTURE FOR THE INTERNALLY MANAGED INVESTMENT PORTFOLIO

		Tranche (years)	% of internally managed portfolio	% of subportfolio	Duration (months)	Benchmark indices
Short-term liquidity	USD	0-1	24.7	100.0	2.6	Merrill Lynch U.S. Treasury Bills (unhedged)
			24.7	100.0	2.6	
Medium-term liquidity	USD	1-3	33.9	54.0	22.5	Barclays Global Aggregate - Treasury Bond Index (unhedged) (EUR, only Germany)
		3-5	3.8	6.0	45.9	
		Total	37.7	60.0	24.9	
	EUR	1-3	14.1	22.5	20.6	
		3-5	1.6	2.5	45.9	
		Total	15.7	25.0	23.1	
	CAD	1-3	4.2	6.8	20.9	
		3-5	0.5	0.8	45.2	
		Total	4.7	7.5	23.4	
	AUD	1-3	4.2	6.8	23.0	
		3-5	0.5	0.8	42.8	
		Total	4.7	7.5	25.0	
Total		62.7	100.0	24.3		
Diversification (internal)	USD	5-7	2.2	17.7	68.2	Barclays Global Aggregate - Treasury Bond Index (unhedged) (EUR, only Germany)
		7-10	0.3	2.4	92.6	
		Total	2.5	20.0	71.1	
	EUR	5-7	1.1	8.8	67.5	
		7-10	0.2	1.2	96.0	
		Total	1.3	10.0	70.9	
	CHF	5-7	0.6	4.4	64.5	
		7-10	0.1	0.6	95.8	
		Total	0.6	5.0	68.2	
	GBP	5-7	1.1	8.8	64.7	
		7-10	0.2	1.2	90.9	
		Total	1.3	10.0	67.8	
	JPY	5-7	0.3	2.7	68.6	
		7-10	0.0	0.4	97.7	
		Total	0.4	3.0	72.0	
	KRW	5-7	2.2	17.7	65.5	
		7-10	0.3	2.4	88.9	
		Total	2.5	20.0	68.2	
	NZD	5-7	1.3	10.6	64.7	
		7-10	0.2	1.4	88.7	
		Total	1.5	12.0	67.5	
CNH	3 months	2.5	20.0	1.5	Bloomberg CGDRC Currency Index	
Total		12.6	100.0	55.7		
Total internally managed	Total		100.0	22.9		

Source: Central Bank of Chile.

B.1 Benchmark structure of the investment portfolio

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

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

The short-term liquidity portfolio represents 24% of the investment portfolio, and its currency structure is 100% U.S. dollars. The benchmark contemplates government bills issued by the United States, with a residual maturity of up to one year. The target duration is approximately three months. Investments can also be made in bills, bonds, discount notes, floating-rate notes, U.S. commercial papers, FIXBIS^{2/}, and STRIPS^{3/}, with a residual maturity of up to one year, from eligible issuers that represent sovereign, supranational, and agency risk. Investments are also allowed in deposits with a maturity of up to three months provided that they do not exceed 10% more portfolio. The short-term liquidity portfolio is designated, first and foremost, to be available for the potential use of foreign exchange reserves. In this portfolio, investments in currencies other than the U.S. dollar are not allowed.

The medium-term liquidity portfolio accounts for 61% of the investment portfolio, and its reference structure comprises 60% U.S. dollars, 25% euros, 7.5% Canadian dollars, and 7.5% Australian dollars. This benchmark includes sovereign securities issued by the United States, Germany, Canada, and Australia, with a residual maturity of one to five years. The target duration is approximately 24 months. Investments can be made in fixed- and floating-rate notes, nominal bonds, inflation-indexed bonds, MTIs^{4/}, and STRIPS, with no restriction on residual maturity, from eligible issuers that represent sovereign, supranational, and agency risk. The main objective of the medium-term liquidity portfolio is to cover the Central Bank's balance sheet. This portfolio allows investments in currencies that are not included in the benchmark, provided they are hedged against one of the benchmark currencies.

The diversification portfolio represents 15% of the investment portfolio, and its benchmark structure comprises 20% U.S. dollars, 20% Chinese renminbi, 20% South Korean won, 12% New Zealand dollars, 10% euros, 10% pounds sterling, 5% Swiss francs, and 3% Japanese yen. With the exception of the renminbi, this benchmark includes sovereign securities issued by the United States, South Korea, New Zealand, Germany, the United Kingdom, Switzerland, and Japan, 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 56 months. Investments can also be made in any and all instruments approved under the most recent *Current Policy Manual for the Management of Foreign Exchange Reserves*, with no restrictions on terms (or residual maturity) or currencies. The diversification portfolio is managed on the basis of a risk budget. Deviations from the benchmark are limited to an average monthly ex ante tracking error of 100 basis points (bp) per year^{5/}, which cannot exceed 150 bp at any given time. The main objective of holding these assets is to increase returns at the margin so as to reduce the existing gap between the cost of the Bank's liabilities and the returns on its investments.

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



^{2/} Fixed-Rate Investment at the BIS: Short-term fixed-income securities issued by the Bank for International Settlements.

^{3/} Separate Trading of Registered Interest and Principal Securities: Cero-coupon securities backed by notes and bonds issued by the U.S. Treasury.

^{4/} Medium-Term Instruments: Medium-term fixed-income securities issued by the Bank for International Settlements (BIS).

^{5/} 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.



B.2 Benchmark structure of the cash portfolio

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

B.3 Evolution of the portfolios in 2016

As of 31 December 2016, the investment portfolio stood at US\$33.5691 billion, while the cash portfolio held US\$5.9565 billion. Taking the sum of these two portfolios plus other assets^{6/}, total international reserves closed the year at US\$40.4936 billion. This balance was US\$1.8511 billion higher than at year-end 2015. The growth is explained by increases of US\$431.8 million in the investment portfolio and US\$1.9213 billion in the cash portfolio, which were partially offset by a decrease of US\$502.0 million in the other assets portfolio. The increase in the investment portfolio and the reduction in the other assets portfolio are mainly explained by transactions with the IMF, which affected the composition of the international reserves but not their market value. In the case of the cash portfolio, the increase is explained by greater deposits held by local banks at the Central Bank.

With regard to the value of the investment portfolio, US\$8.1926 billion was in the short-term liquidity portfolio, US\$20.3490 billion was in the medium-term liquidity portfolio, US\$4.9038 billion was in diversification portfolio, and US\$24.6 million was in current accounts. At year-end, there were also investments in onshore Chinese government bonds, through investments in a BIS Investment Pool denominated in renminbi (BISIP CNY), for a total of US\$99.3 million. In addition, at year-end a share of the diversification portfolio was managed by two external managers, as described in section C of this appendix.

Of the US\$32.5036 billion in the internally managed portfolio^{7/}, 91.0% was invested in sovereign risk, 4.4% in supranational risk^{8/}, 0.1% in agency risk^{9/}, and 4.5% in bank risk. Relative to year-end 2015, there were no significant changes in portfolio risk allocation.

Sovereign risk includes investments in the United States (52.2%), Germany (24.8%), Canada (6.3%), Australia (4.5%), South Korea (2.6%), France and Austria (1.6% each), New Zealand (1.5%), United Kingdom (1.3%), Ireland (0.8%), Switzerland (0.7%), Poland and Spain (0.5% each), Italy and Japan (0.4% each), China (0.2%), and Norway (0.03%). Supranational risk is made up entirely of issues by the Bank for International Settlements (56.2%), the European Company for the Financing of Railroad Rolling Stock (EUROFIMA) (20.8%), the European Investment Bank (15.5%), the International Bank for Reconstruction and Development (3.8%), and the International Finance Corporation (3.6%). Agency risk is concentrated in issues from Landwirtschaftliche Rentenbank (Germany). Finally, bank risk comprises deposits denominated in U.S. dollars, Chinese renminbi, and Canadian dollars in banks in Germany, Canada, Australia, China, France, Switzerland, Japan, United Kingdom, Sweden, Netherlands, and Belgium.

At year-end 2016, the cash portfolio stood US\$5.9565 billion.

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

^{6/} The other assets portfolio is mainly composed of IMF special drawing rights (SDRs).

^{7/} The investment portfolio excluding the BIS investment pool shares and the externally managed resources.

^{8/} Supranational institutions are multilateral financial institutions, whose articles of agreement are signed by the governments of two or more countries.

^{9/} 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 as of 31 December 2016)

Portfolio	Currency	2015		2016	
		Dec	%	Dec	%
Investment portfolio		33,137.4	85.8	33,569.1	82.9
Currencies and deposits	U.S. dollar	704.0	1.8	771.7	1.9
	Euro	0.1	0.0	4.0	0.0
	Canadian dollar	0.1	0.0	26.6	0.1
	Australian dollar	0.0	0.0	1.2	0.0
	Other	836.1	2.2	683.4	1.7
Securities	U.S. dollar	19,829.9	51.3	20,914.1	51.6
	Euro	5,559.5	14.4	5,484.5	13.5
	Canadian dollar	1,871.9	4.8	1,536.3	3.8
	Australian dollar	1,574.3	4.1	1,498.1	3.7
	Other	2,761.6	7.1	2,649.3	6.5
Total	U.S. dollar	20,533.9	53.1	21,685.7	53.6
	Euro	5,559.6	14.4	5,488.5	13.6
	Canadian dollar	1,871.9	4.8	1,562.9	3.9
	Australian dollar	1,574.3	4.1	1,499.3	3.7
	Other	3,597.6	9.3	3,332.6	8.2
Cash portfolio		4,035.1	10.4	5,956.5	14.7
Currencies and deposits	U.S. dollar	4,035.1	10.4	5,956.5	14.7
Other asset portfolio		1,470.1	3.8	968.0	2.4
Monetary gold	Other	8.5	0.0	9.1	0.0
IMF SDRs	Other	1,058.3	2.7	727.2	1.8
IMF reserve position	Other	363.1	0.9	215.3	0.5
Reciprocal credit agreements	U.S. dollar	39.3	0.1	15.0	0.0
Currencies and deposits	U.S. dollar	0.8	0.0	1.4	0.0
Total International reserves		38,642.6	100.0	40,493.6	100.0
	U.S. dollar	24,609.2	63.7	27,658.6	68.3
	Euro	5,559.6	14.4	5,488.5	13.6
	Canadian dollar	1,871.9	4.8	1,562.9	3.9
	Australian dollar	1,574.3	4.1	1,499.3	3.7
	Other	5,027.6	13.0	4,284.3	10.6

Source: Central Bank of Chile.

Table 2b
INVESTMENT PORTFOLIO: INVESTMENTS BY CURRENCY

(percent as of 31 December 2016)

Currency	Share (*)
U.S. dollar	64.7
Euro	16.3
Canadian dollar	4.6
Australian dollar	4.5
South Korean won	2.8
Chinese renminbi	2.8
New Zealand dollar	1.7
Pound sterling	1.5
Swiss franc	0.7
Japanese yen	0.4
Total	100.0

(*) Share includes currency forwards.

Source: Central Bank of Chile.

C. External portfolio management program

At year-end 2016, a portion of the investment portfolio was managed by two external managers: BlackRock Institutional Trust Company N.A. and Amundi Asset Management. The firms were brought on in February and October 2016, respectively, with a mandate of US\$500 million each. Both firms manage a long-term global government fixed-income mandate, with a structure equivalent to the internally managed diversification portfolio.

The external portfolio managers also manage a share of the diversification portfolio, based on the same guidelines and risk budget defined for the internally managed diversification portfolio.

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

D. Risk management and returns from international reserve management

D.1 Risk management in international reserve management

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

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

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

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

Table 3
COMPOSITION OF INTERNATIONAL RESERVES BY CREDIT RISK (1)(2)(3)(4)
(percent as of 31 December 2016)

Type of credit risk	Credit rating									Total
	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	
Agency	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Bank	2.1	0.0	2.3	4.5	2.7	6.1	1.1	0.0	0.0	18.8
Sovereign	67.1	1.2	6.2	0.0	0.9	0.6	0.4	0.4	0.4	77.2
Supranational	3.1	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.9
Total	72.4	2.0	8.5	4.5	3.6	6.7	1.6	0.4	0.4	100.0

(1) Bank risk is related to investment in banks' financial instruments (deposits). Sovereign risk is related to investment in instruments from sovereign states (bills, nominal bonds); it includes investments in a BIS Investment Pool denominated in CNY, associated with Chinese sovereign risk. Agency risk is associated with investment in instruments from U.S. and German government agencies (bills, nominal bonds). Supranational risk is associated with investment in instruments from an official multilateral issuer (deposits, bills, and nominal bonds).

(2) For sovereign risk, the credit rating corresponds to the average rating from Fitch, Moody's, Standard and Poor's, and Dominion Bond Rating Service.

(3) For agency, bank, and supranational risk, the credit rating corresponds to the average rating from Fitch, Moody's and Standard and Poor's.

(4) Including the cash portfolio; excluding the other assets portfolios.

Source: Central Bank of Chile.

Table 4
(US\$ million)

Financial institutions with outstanding deposits as of 31.Dec.2016 (1) (2)		
AAA, AA, AA-	Australia & New Zealand Banking Group Limited	
	Bank of Montreal	
	Coöperatieve Rabobank UA	
	DBS Bank Ltd	
	DZ BANK AG Deutsche Zentral-Genossenschaftsbank	
	J.P. Morgan Chase Bank	
	Svenska Handelsbanken AB (publ)	
	The Bank of Nova Scotia	
	Wells Fargo Bank, NA	
	Zurcher Kantonalbank	
		Mínimo
	Máximo	828
	Promedio categoría	348
A+, A, A-	Banco Bilbao Vizcaya Argentaria SA	
	Banco Santander S.A.	
	Bank of China (Hong Kong) Ltd.	
	Bred Banque Populaire	
	China Construction Bank Corporation	
	Citibank, NA	
	Danske Bank A/S	
	ING Bank NV	
	KBC Bank NV	
	Mizuho Bank Ltd.	
	Norddeutsche Landesbank Girozentrale	
Nykredit Bank A/S		
Société Générale		
Standard Chartered Bank		
The Chiba Bank, Ltd.		
	Minimum	3
	Maximum	499
	Category average	263

(1) Includes the internally managed investment portfolio and the cash portfolio.

(2) Includes balances held in remunerated current accounts.

Source: Central Bank of Chile.

Table 5
ELIGIBLE BANKS AND PERMISSIBLE LIMITS AS OF 31 DECEMBER 2016
(US\$ million and months)

Country	Bank	Amount	Duration
Germany	Bayerische Landesbank	150	1
Germany	DekaBank Deutsche Girozentrale	500	3
Germany	Deutsche Bank AG	150	1
Germany	DZ Bank AG Deutsche Zentral-Genossenschaftsbank	700	9
Germany	Landesbank Baden-Württemberg	150	1
Germany	Landesbank Hessen-Thüringen Girozentrale	500	3
Germany	Norddeutsche Landesbank Girozentrale	150	1
Germany	NRW Bank	700	9
Germany	Unicredit Bank AG	150	1
Australia	Australia & New Zealand Banking Group Ltd.	700	9
Australia	Commonwealth Bank of Australia	700	9
Australia	National Australia Bank Ltd.	700	9
Australia	Westpac Banking Corp.	700	9
Belgium	Belfius Bank SA/NV	150	1
Belgium	BNP Paribas Fortis SA/NV	500	3
Belgium	ING Belgium SA/NV	500	3
Belgium	KBC Bank NV	500	3
Canada	Bank of Montreal	700	9
Canada	Caisse Centrale Desjardins	500	9
Canada	Canadian Imperial Bank of Commerce	700	9
Canada	National Bank of Canada	500	3
Canada	Royal Bank of Canada	700	9
Canada	Bank of Nova Scotia	700	9
Canada	Toronto-Dominion Bank	700	9
China	Bank of China (Hong Kong) Ltd.	500	3
China	China Construction Bank Corp.	500	3
China	Industrial and Commercial Bank of China	500	3
China	Hongkong and Shanghai Banking Corp. Ltd.	700	9
Denmark	Danske Bank A/S	500	3
Denmark	Nordea Bank Danmark A/S	700	9
Denmark	Nykredit Bank A/S	250	3
S. Korea	Standard Chartered Bank Korea Ltd.	500	3
Spain	Banco Bilbao Vizcaya Argentaria SA	150	1
Spain	Banco Santander SA	150	1
Finland	Nordea Bank Finland PLC	700	9
France	BNP Paribas	500	3
France	BRED Banque Populaire SA	250	3
France	Crédit Agricole Corporate and Investment Bank	500	3
France	Crédit Agricole SA	500	3
France	Crédit Industriel et Commercial (CIC)	500	3
France	HSBC France	700	9
France	Natixis	500	3
France	Société Générale	500	3
Netherlands	ABN AMRO Bank NV	500	3
Netherlands	ING Bank NV	500	3
Netherlands	NV Bank Nederlandse Gemeenten	1000	12
Netherlands	Coöperatieve Rabobank UA	700	9
Israel	Bank Hapoalim BM	500	3

continued

Country	Bank	Amount	Duration
Japan	Bank of Tokyo-Mitsubishi UFJ Ltd.		
Japan	Chiba Bank Ltd.	500	3
Japan	Norinchukin Bank	500	3
Japan	Shizuoka Bank Ltd.	500	3
Japan	Mizuho Bank Ltd.	500	3
Japan	Sumitomo Mitsui Banking Corp.	500	3
Japan	Sumitomo Mitsui Trust Bank Ltd.	500	3
Norway	DNB Bank ASA	500	3
Norway	Nordea Bank Norge ASA	500	3
Singapore	DBS Bank Ltd.	700	9
Singapore	Oversea-Chinese Banking Corp. Ltd. (OCBC)	700	9
Singapore	United Overseas Bank Ltd.	700	9
Sweden	Skandinaviska Enskilda Banken AB (publ) (SEB)	700	9
Sweden	Svenska Handelsbanken AB (publ)	700	9
Sweden	Swedbank AB	700	9
Switzerland	Crédit Suisse AG	700	9
Switzerland	UBS AG	500	3
Switzerland	Zürcher Kantonalbank	500	3
United Kingdom	Bank of Scotland PLC	1000	12
United Kingdom	Barclays Bank PLC	500	3
United Kingdom	Goldman Sachs International Bank	500	3
United Kingdom	HSBC Bank PLC	250	3
United Kingdom	Lloyds Bank PLC	700	9
United Kingdom	Merrill Lynch International	500	3
United Kingdom	Santander UK PLC	500	3
United Kingdom	Standard Chartered Bank	500	3
United Kingdom	UBS Ltd.	500	3
United States	Bank of America NA	250	3
United States	BNY Mellon National Association	500	3
United States	Citibank NA	500	9
United States	Comerica Bank	500	3
United States	Deutsche Bank Trust Company Americas	500	3
United States	Goldman Sachs Bank USA	150	1
United States	HSBC Bank USA NA	500	3
United States	J.P. Morgan Chase Bank	700	9
United States	Keybank National Association	700	9
United States	PNC Bank NA	150	1
United States	State Street Bank & Trust Company	500	3
United States	Bank of New York Mellon	700	9
United States	Northern Trust Company	700	9
United States	U.S. Bank NA	700	9
United States	Wells Fargo Bank NA	700	9
Estados Unidos	Wells Fargo Bank, NA	700	9

Source: Central Bank of Chile.

Table 6
INTERMEDIARIES USED IN 2016

Intermediaries
ABN AMRO Bank NV
ANZ Securities Inc.
Banco Bilbao Vizcaya Argentaria SA
Bank of China (Hong Kong) Ltd.
Bank of Nova Scotia, New York Agency
Barclays Bank PLC
Barclays Capital Inc.
BIS
BMO Capital Markets Corp.
BNP Paribas
BNP Paribas Fortis SA/NV
BNP Paribas Securities Corp.
BRED Banque Populaire
Caisse Centrale Desjardins
Cantor Fitzgerald & Co.
CIBC World Markets Corp.
Citigroup Global Markets Inc.
Citigroup Global Markets Ltd.
Commonwealth Bank of Australia
Crédit Agricole Corporate and Investment Bank
Crédit Suisse AG
Crédit Suisse Securities (USA) LLC
Daiwa Capital Markets America Inc.
Danske Bank A/S
Danske Markets Inc.
Deutsche Bank AG
Deutsche Bank Securities Inc.
DZ BANK AG Deutsche Zentral-Genossenschaftsbank
Goldman Sachs International Bank
Goldman, Sachs & Co
HSBC Bank (China) Co. Ltd.
HSBC Bank PLC
HSBC France
HSBC Securities (USA) Inc.
ING Bank NV
ING Belgium SA/NV
J.P. Morgan Chase Bank NA
J.P. Morgan Securities LLC
J.P. Morgan Securities PLC
Jefferies International Ltd.
Jefferies LLC
Lloyds Bank PLC
Merrill Lynch International
Merrill Lynch, Pierce, Fenner & Smith Inc.
Mizuho Securities USA Inc.
Morgan Stanley & Co. International PLC
Morgan Stanley & Co. LLC
National Bank of Canada
National Bank of Canada Financial Inc.
Natixis

continued

Intermediaries
Nomura International PLC
Nomura Securities International Inc.
RBC Capital Markets LLC
RBS Securities Inc.
Royal Bank of Scotland
Skandinaviska Enskilda Banken AB (Publ) (SEB)
Société Générale
Standard Chartered Bank Korea Ltd.
Standard Chartered Securities Korea Ltd.
TD Securities (USA) LLC
The Bank of Nova Scotia
UBS AG
UBS Ltd.
UBS Securities LLC
Wells Fargo Bank NA
Wells Fargo Securities LLC
Westpac Banking Corp.
Zürcher Kantonalbank

Source: Central Bank of Chile.

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

The average daily value at risk (VaR¹⁰) of the internally managed investment portfolio was 2.43% in 2016 (2.85% in 2015). The average tracking error was 11.9 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.

D.2 The return on foreign exchange reserve management

In 2016, the total return on reserve management was 0.90% measured in the currency of origin of the investments. Measured in U.S. dollars, the return was 0.13%. The return in local currency was partially offset by the negative exchange rate effect deriving from measuring the reserve returns in U.S. dollars. The return differential relative to the benchmark structure was -4.3 bp. For the 2007–2016 period, reserve management recorded an average return differential of 5.1 bp (table 7).

Table 7
ABSOLUTE RETURNS ON INTERNATIONAL RESERVES AND THE BENCHMARK (1) (2)
(percent)

Period	In currency of origin			In U.S. dollars		
	Int. Res.	Benchmark	Differential	Int. Res.	Benchmark	Differential
2016	0.90	0.90	0.00	0.13	0.17	-0.04
2015	0.73	0.90	-0.17	-3.74	-3.58	-0.16
2014	1.65	1.52	0.13	-2.94	-3.14	0.21
2013	0.26	0.21	0.06	-0.71	-0.77	0.06
2012	0.66	1.01	-0.35	1.43	1.77	-0.35
2011	2.43	2.41	0.02	1.22	1.20	0.02
2010	2.10	2.19	-0.09	-0.15	-0.06	-0.09
2009	2.15	1.65	0.50	3.34	2.85	0.50
2008	5.70	5.37	0.33	4.14	3.81	0.33
2007	4.81	4.78	0.03	8.86	8.83	0.03
Average	2.14	2.09	0.05	1.16	1.11	0.05

(1) Excludes holdings of monetary gold, special drawing rights, IMF reserve position, reciprocal credit agreements and other reserve assets.

(2) Starting in 2014, the return is measured in currency of origin, which does not incorporate appreciations or depreciations of the currencies in the portfolio. In contrast, from 2007 to 2013, the return in currency of origin was approximated using a foreign exchange measure based on the basket of currencies in the benchmark, which is equivalent to the return in currency of origin for investments that replicate the benchmark.

Source: Central Bank of Chile.

D.3 Securities lending program

In the period, a securities lending program was maintained with the Bank's international reserve custodians. This consists in lending instruments owned by the Bank to primary dealers, who must put up collateral equivalent to 102 or 105% of the value of the instrument being loaned, as contractually required. 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 2016, this program generated income for the Bank equivalent to 0.9 bp of total foreign exchange reserves.

¹⁰ The VaR is based on a parametric model with an annualized daily horizon, a confidence level of 84% (one standard deviation), and a decay factor of 0.94.

APPENDIX V

MANAGEMENT OF FISCAL FUNDS (ESSF and PRF)

A. Introduction

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

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

B. Institutional framework

In September 2006, Law 20,128 on Fiscal Responsibility created the ESSF and the PRF. Under this law, the Ministry of Finance issued Executive Decree 1383 (which was modified via Decree 1618), whereby the Central Bank is vested with the representation of the General Treasury for investing all or part of the ESSF and PRF resources, once the Bank has formally accepted the Fiscal Agency Agreement in accordance with its Basic Constitutional Act.

C. Investment objectives and policies

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

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

For the ESSF, managed internally by the Central Bank of Chile, the benchmark portfolio established in the performance guidelines is made up of the following asset classes: bank assets^{11/}; General Treasury bills and sovereign bonds; and inflation-indexed sovereign bonds (table 1). The bank asset and General Treasury bill portfolios use benchmark indices provided by Merrill Lynch. The sovereign bond share of the portfolio and the inflation-indexed sovereign bond portfolio are compared against selected currency indices provided by Barclays Capital.

^{11/} Bank deposits.



Table 1
BENCHMARK FOR THE ESSF PORTFOLIO MANAGED BY THE CENTRAL BANK
 (percent)

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

Source: Ministry of Finance.

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

Table 2
BENCHMARK FOR THE PRF PORTFOLIO MANAGED BY THE CENTRAL BANK
 (percent)

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

Source: Ministry of Finance.

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

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

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

D. Structure of fiscal portfolios

At year-end 2016, the market value of the ESSF and PRF portfolios managed directly by the fiscal agent was US\$12.6327 billion and US\$5.6292 billion^{12/}, respectively, which is invested in line with the benchmark composition established in the current investment guidelines (table 3).

^{12/} The market value of the ESSF on 31 December 2016 was US\$13.7721 billion, of which US\$12.6327 billion was managed internally by the Bank and US\$1.1394 billion was managed by external portfolio managers under an equity mandate. The market value of the PRF at year-end 2016 was US\$8.8621 billion, of which US\$5.6292 billion was managed internally by the Bank and US\$3.2329 was managed by external portfolio managers under equity and corporate bond mandates.

Table 3
PORTFOLIOS MANAGED BY THE CENTRAL BANK

(US\$ million as of 31 December 2016)

Portfolio / Asset class	Market value (1)					Total	Percent of total
	USD	EUR	JPY	CHF	Other (2)		
ESSF							
Bank assets / General Treasury							
bills and sovereign bonds	5,121.2	3,273.8	2,729.0	1,030.2	n/a	12,154.2	96.2
Inflation-indexed sovereign bonds	341.0	137.5	n/a	n/a	n/a	478.5	3.8
Total	5,462.1	3,411.4	2,729.0	1,030.2	n/a	12,632.7	100.0
PRF							
Sovereign bonds and related assets	1,288.1	1,105.3	1,085.2	20.9	600.3	4,099.9	72.8
Inflation-indexed sovereign bonds	656.1	326.2	7.0	0.0	540.1	1,529.3	27.2
Total	1,944.2	1,431.5	1,092.2	20.9	1,140.4	5,629.2	100.0

Portfolio	Ex ante tracking error (bp)	Risk budget (bp)
ESSF	1.3	50.0
PRF	20.2	50.0

(1) These positions include currency forwards.

(2) Includes the Canadian dollar, Australian dollar, pound sterling, and other currencies.

Source: J.P. Morgan N.A.

E. Reports

The Fiscal Agency Decree and the performance guidelines define the content and frequency of the reports that the Bank must deliver to the Finance Minister and the Treasurer of Chile. As a general rule, the custodian bank, in its middle office role, provides the necessary information for preparing reports, and the fiscal agent must report daily, monthly, quarterly, and annually on the status of the resources under management. The daily reports provide information on the market value of each portfolio, under items sorted by currency and asset class. The monthly, quarterly, and annual reports contain more detailed information on the portfolios. These reports describe changes in financial markets, discuss compliance with investment caps, provide details on the changes in the market value of each fund, and report on the absolute and differential returns obtained.

The Central Bank also measures the custodian bank's performance and compliance with the investment guidelines, and 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 report annually to the Finance Minister and the General Treasurer on the custodian bank's performance.

F. Management results

The appreciation of the U.S. dollar vis-à-vis the other investment currencies had a negative impact on the absolute return of both funds, and the interest accrued in the period did not offset the negative exchange rate affect in either case.

In 2016, the ESSF resources managed internally by the Bank generated an absolute return measured in U.S. dollars of 1.15%, which implies a positive differential return of 5.5 bp relative to the benchmark performance, where both returns are calculated using the time-weighted rate of return (TWRR).



Using the same methodology, the PRF resources managed by the Bank generated an absolute return measured in U.S. dollars of 2.38%, which implies a positive differential return of 7.1 bp relative to the benchmark performance. The interest accrued in the period had a significant impact on the absolute returns of both portfolios, which was augmented by the drop in interest rates in Germany, Japan, and the United Kingdom. The depreciation of most of the investment currencies against the U.S. dollar did not fully offset the positive effects of accrued interest and the reduction of interest rates in these economies.

G. Compensation of the Fiscal Agent

According to the stipulations of Article 9, letter (a), of the Fiscal Agency Decree, the Central Bank is entitled to charge an annual fee for the direct expenses and costs incurred in carrying out its assigned functions 0.7 and 1.8 basis points, respectively.

For the period from 1 January to 31 December 2016 the Ministry of Finance set the annual fee at US\$935,495 for the ESSF and US\$1,003,643 for the PRF^{13/}. These amounts are consistent with the Central Bank's Basic Constitutional Act, which stipulates that the Bank shall not finance the General Treasury. The fees paid to the Fiscal Agent represent 0.7 and 1.7 bp of the total resources managed by the Bank for the ESSF and PRF, respectively.

Table 4
FINANCIAL INSTITUTIONS WITH OUTSTANDING DEPOSITS
 (As of 31 December 2016)

Institution
Banco Bilbao Vizcaya Argentaria SA
Banco Santander SA
Bank of China (Hong Kong) Ltd.
Bayerische Landesbank
BRED Banque Populaire
China Construction Bank Corporation
Credit Agricole Corporate and Investment Bank
Danske Bank A/S
DBS Bank Ltd.
DekaBank Deutsche Girozentrale
KBC Bank NV
Lloyds Bank PLC
Natixis
Norddeutsche Landesbank Girozentrale
Nykredit Bank A/S
Société Générale
Standard Chartered Bank
Sumitomo Mitsui Banking Corp.
The Chiba Bank Ltd.

Source: JPMorgan N.A.

^{13/} The Fiscal Agency fees do not include payments to the external portfolio managers for the management of their respective portfolios.

Table 5
INTERMEDIARIES USED BY THE FISCAL AGENT IN 2016

Intermediaries
ABN Amro Bank NV, Amsterdam
ANZ Securities Inc., New York
Australia & New Zealand Banking Group Ltd. Melbourne
Banco Bilbao Vizcaya Argentaria SA, Madrid
Banco Santander SA, Madrid
Bank of China Ltd., Hong Kong
Bank of Montreal, Toronto
Bank of Nova Scotia, Canada
Bank of Nova Scotia, New York Agency
Barclays Bank PLC
Barclays Capital Securities Ltd.
Barclays Capital Inc.
Bayerische Landesbank, Muenchen
BMO Capital Markets Corp.
BNP Paribas (head office)
BNP Paribas, London
BNP Paribas Securities Corp., New York
BNP Paribas USA, New York
BRED Banque Populaire, Paris
Caisse Centrale Desjardins, Montreal
Canadian Imperial Bank of Commerce, Toronto
China Construction Bank Corporation, London
CIBC World Markets Corp.
Citibank NA, New York
Citigroup Global Markets Inc., New York
Citigroup Global Markets Ltd., London
Commonwealth Bank Of Australia, New York
Commonwealth Bank of Australia, Sydney
Crédit Agricole Corporate and Investment Bank (Calyon New York)
Crédit Suisse Securities (USA) LLC, New York
Daiwa Capital Markets America Inc.
Danske Bank A/S, Copenhagen
Danske Markets Inc.
DBS Bank Ltd., Singapore
Dekabank Deutsche Girozentrale, Frankfurt
Deutsche Bank AG, London
Deutsche Bank AG, New York
Deutsche Bank Securities Inc.
DZ Bank AG Deutsche Zentral Genossenschaftsbank, Frankfurt
Goldman Sachs International Bank, London
Goldman, Sachs & Co., New York
HSBC Bank PLC (all UK offices), London
HSBC Bank USA NA, New York
HSBC France, Paris
HSBC Securities USA Inc., New York
ING Bank NV, Amsterdam
ING Bank NV, Seoul
J.P. Morgan Chase Bank NA, New York
J.P. Morgan Securities LLC, New York
Jefferies International Ltd., London
Jefferies LLC
JP Morgan Securities PLC

continued

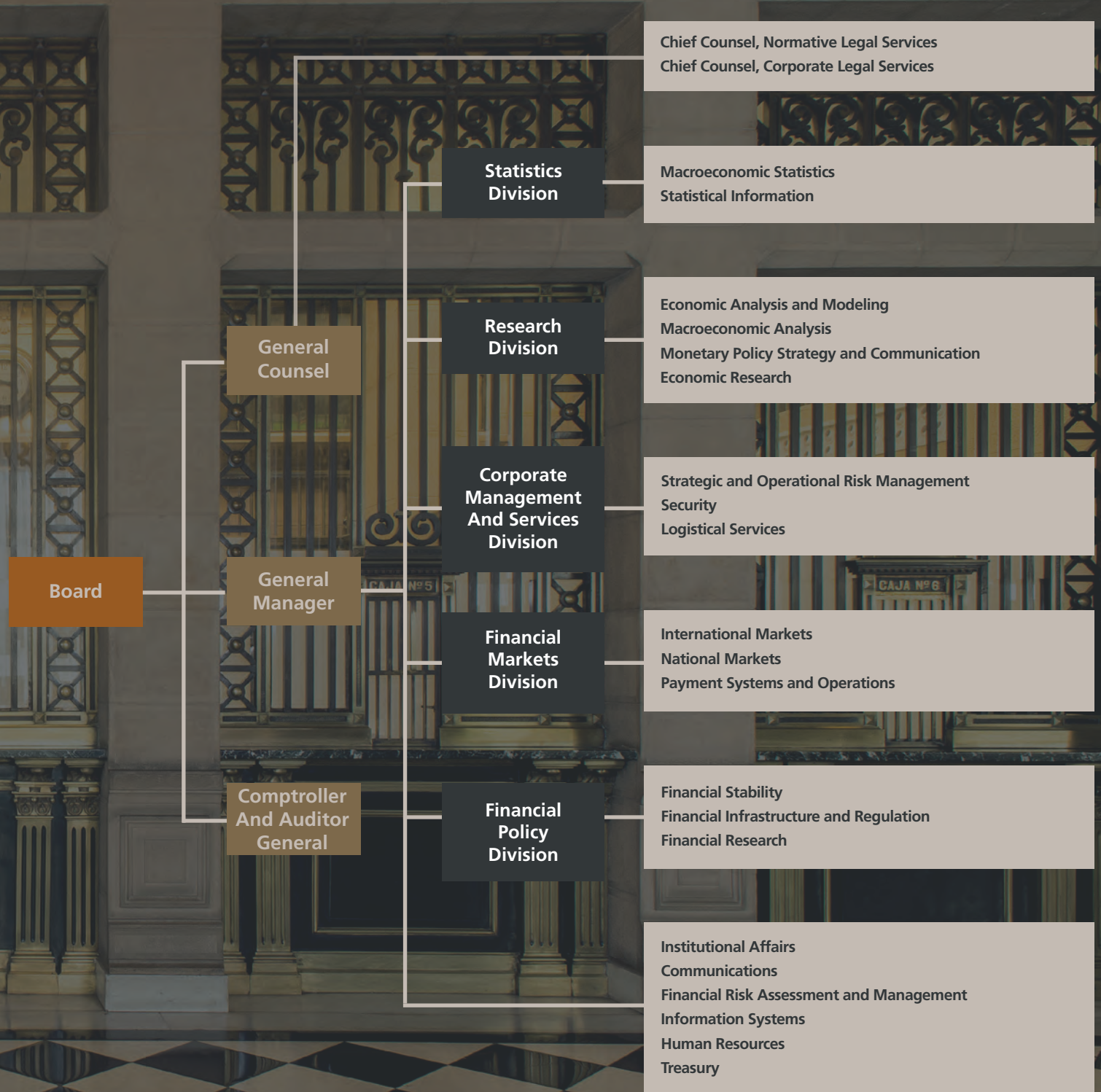
Intermediaries
JP Morgan Chase Bank, NA, London
JP Morgan Chase Bank, NA, Seoul
KBC Bank NV, Brussels
Lloyds Bank PLC, London
Merrill Lynch International
Merrill Lynch, Pierce, Fenner & Smith Inc.
Mizuho Securities USA Inc.
Morgan Stanley & Co. International PLC, London
Morgan Stanley & Co. LLC
National Australia Bank Ltd., Melbourne
National Bank of Canada Financial Inc., New York
National Bank of Canada, Montreal
Natixis (Capital Markets), Paris
Natixis (formerly Natexis Banque), New York
Nomura International PLC, London
Nomura Securities International Inc., New York
Norddeutsche Landesbank Girozentrale, Hannover
Norddeutsche Landesbank Girozentrale, London
Nykredit Bank A/S, Copenhagen
Oversea-Chinese Banking Corp. Ltd., New York
Rabobank Nederland, Utrecht
RBC Capital Markets, LLC
RBS Securities Inc., Greenwich
Royal Bank of Canada, Toronto
Santander UK, PLC
Scotiabank Europe
Skandinaviska Enskilda Banken AB, New York
Société Générale, New York
Société Générale, Paris
Standard Chartered Bank, New York
Standard Chartered Securities Korea Ltd., Seoul
Sumitomo Mitsui Banking Corp., New York
Sumitomo Mitsui Trust Bank Ltd., New York
Svenska Handelsbanken AB (Publ), New York
TD Securities (USA) LLC
The Bank of New York Mellon, New York
The Bank of Nova Scotia, London
The Chiba Bank, Ltd., London
The Chiba Bank, Ltd., New York
The Norinchukin Bank, London
The Royal Bank of Scotland PLC, London
The Toronto Dominion Bank, Toronto
UBS AG (head office/administration)
UBS AG, London
UBS Ltd., London
UBS Securities LLC, New York
United Overseas Bank Ltd., Singapore
Wells Fargo Bank NA, San Francisco
Wells Fargo Securities, LLC
Westpac Banking Corporation, London
Westpac Banking Corporation, Sydney
Zurcher Kantonalbank, Zurich

Source: Central Bank of Chile.



ORGANIZATIONAL CHART

31 DECEMBER 2016





Ocho Reales, 1775,
plata, anv. n°384



Dos Reales, 1779
plata, anv. n°7



Dos Reales, 1778,
plata, rev. n°5



Un Real, 1773,
plata, anv. n°2



Medio Real, 1788,
plata, rev. n°18



Ocho Escudos, 1789
oro, anv. n°15



Ocho Reales, 1804,
plata, anv. n°56



Cuatro Reales, 1806,
plata, anv. n°60



Cuatro Reales, 1807,
plata, rev. n°63



Dos Reales, 1793
plata, anv. n°29



Un Real, 1794,
plata, rev. n°31



Medio Real, 1802,
plata, anv. n°52



Un Cuarto de Real, 1790,
plata, rev. n°22



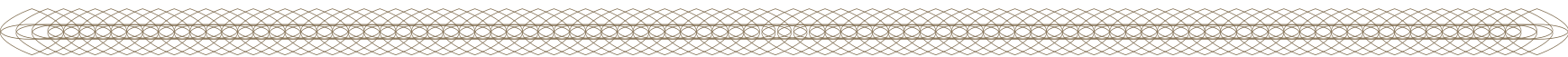
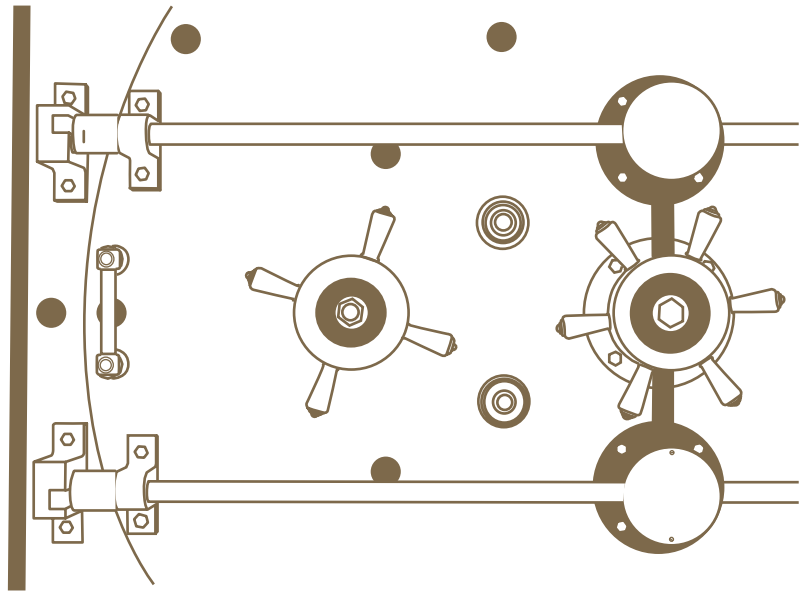
Ocho Escudos, 1816
oro, anv. n°37



Ocho Escudos, 1810,
oro, anv. n°30



Ocho Escudos, 1809,
oro, rev. n°29



FINANCIAL STATEMENTS OF
CENTRAL BANK OF CHILE

FINANCIAL STATEMENTS

STATEMENTS OF FINANCIAL POSITION

as of 31 December, 2016 and 2015

(Ch\$ million)

Assets	Note	2016	2015
Foreign assets		<u>27,181,581.1</u>	<u>27,504,904.1</u>
Reserve assets	11	<u>27,021,006.9</u>	<u>27,333,427.5</u>
Monetary gold		6,070.8	6,009.5
Special drawing rights (SDR)		485,453.8	748,636.0
Reserve position in the International Monetary Fund (IMF)	12	143,497.2	256,805.2
Correspondent banks abroad	6	683,756.5	427,681.3
Investments in foreign currency:		<u>25,691,282.3</u>	<u>25,865,919.2</u>
Securities recorded at fair value through earnings		18,322,931.3	20,423,129.2
Held-for-sale securities		3,085,235.9	1,926,789.8
Held-to-maturity securities		4,283,115.1	3,516,000.2
Reciprocal loan agreements		10,014.5	27,810.8
Other assets		931.8	565.5
Other foreign assets		<u>160,574.2</u>	<u>171,476.6</u>
Shares of and contributions to the Inter American Development Bank (IDB)		122,849.2	130,222.5
Shares of Bank for International Settlements (BIS)		37,725.0	41,254.1
Domestic assets		<u>667,452.8</u>	<u>757,238.0</u>
Domestic loans	13	<u>12,501.8</u>	<u>32.2</u>
Loans to banks and financial institutions		12,501.8	32.2
Transactions under specific legal regulations	14	<u>654,951.0</u>	<u>757,205.8</u>
General Treasury transfers Law 18,401		299,945.0	291,761.1
Loan for subordinated liabilities of financial institutions (Laws 18,401 and 19,396)		355,006.0	465,444.7
Other assets		<u>58,970.5</u>	<u>61,642.3</u>
Property, equipment and intangible assets	15	41,605.6	36,436.5
Other securities		14,101.2	21,992.5
Transition assets		<u>3,263.7</u>	<u>3,213.3</u>
Total assets		<u>27,908,004.4</u>	<u>28,323,784.4</u>

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

STATEMENTS OF FINANCIAL POSITION
as of 31 December 2016 and 2015
(Ch\$million)

Liabilities	Note	2016	2015
Foreign liabilities	16	<u>790,794.1</u>	<u>859,436.1</u>
Reciprocal loan agreements		49.9	212.7
Accounts with international organizations		57,681.3	57,802.1
Special drawing rights (SDR) allocations		733,062.9	801,421.3
Domestic liabilities		<u>31,298,960.3</u>	<u>29,413,433.1</u>
Monetary base	17	<u>10,342,493.8</u>	<u>9,151,628.2</u>
Banknotes and coins in circulation		8,651,831.2	8,417,693.6
Deposits from financial institutions (in Chilean pesos)		1,690,662.6	733,934.6
Deposits and obligations	18	<u>5,842,324.2</u>	<u>6,767,419.1</u>
Deposits and obligations with General Treasury		780,412.4	419,682.6
Other deposits and obligations		5,061,911.8	6,347,736.5
Notes issued by Central Bank of Chile	19	<u>15,114,142.3</u>	<u>13,494,385.8</u>
Central Bank of Chile bonds in UF (BCU)		6,777,119.7	8,306,056.8
Central Bank of Chile bonds in Chilean pesos (BCP)		4,037,484.6	4,154,988.0
Central Bank of Chile discountable promissory notes (PDBC)		4,206,282.1	898,329.7
Optional indexed coupons (CERO) in UF		66,314.1	98,879.9
Indexed promissory notes payable in coupons (PRC)		26,930.3	36,110.3
Other		11.5	21.1
Other liabilities		<u>24,131.6</u>	<u>26,715.0</u>
Provisions	20	19,203.8	17,896.1
Other securities		4,927.8	8,818.9
Net equity	21	<u>(4,205,881.6)</u>	<u>(1,975,799.8)</u>
Capital		(1,983,898.1)	(3,549,232.2)
Other reserves		10,789.2	8,098.3
Retained earnings		<u>(2,232,772.7)</u>	<u>1,565,334.1</u>
Total liabilities and equity		<u>27,908,004.4</u>	<u>28,323,784.4</u>

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

STATEMENTS OF COMPREHENSIVE INCOME
for the years ended 31 December 2016 and 2015
(Ch\$ million)

	Note	2016	2015
Net gain from international reserves	7	<u>213,716.6</u>	<u>178,755.3</u>
Income		<u>494,317.9</u>	<u>509,668.8</u>
Interest income		312,609.9	309,961.7
Gain on sale of instruments recorded at fair value through earnings		168,893.6	195,019.3
Gain on sale of available-for-sale securities		12,108.4	3,907.9
Other		706.0	779.9
Expenses		<u>(280,601.3)</u>	<u>(330,913.5)</u>
Interest expenses		(1.5)	(87.6)
Loss on sale of instruments recorded at fair value through earnings		(216,442.7)	(227,720.5)
Fair value adjustments		(60,837.9)	(99,377.0)
Other		(3,319.2)	(3,728.4)
Net gain (loss) from other foreign transactions	7	<u>37,388.9</u>	<u>(12,258.1)</u>
Income		<u>39,729.4</u>	<u>671.5</u>
Other income		39,729.4	671.5
Expenses		<u>(2,340.5)</u>	<u>(12,929.6)</u>
Interest expense		(614.0)	(407.2)
Other expenses		(1,726.5)	(12,522.4)
Net loss from domestic transactions	8	<u>(774,429.0)</u>	<u>(871,962.7)</u>
Income		<u>46,996.2</u>	<u>64,360.5</u>
Interest income and adjustments		39,222.6	54,919.8
Other income		7,773.6	9,440.7
Expenses		<u>(821,425.2)</u>	<u>(936,323.2)</u>
Interest expense and adjustments		(821,012.6)	(935,920.1)
Other expenses		(412.6)	(403.1)
Net (loss) gain on foreign exchange transactions	9	<u>(1,623,174.1)</u>	<u>2,312,258.7</u>
Gain on foreign exchange transactions		2,354,367.4	4,683,353.9
Loss on foreign exchange transactions		(3,977,541.5)	(2,371,095.2)
Issuance and distribution costs	10	<u>(26,154.2)</u>	<u>(60,383.1)</u>
Banknotes		(9,727.7)	(11,578.9)
Coins		(14,741.0)	(47,524.5)
Distribution		(1,685.5)	(1,279.7)
Personnel and administrative expenses		<u>(56,065.5)</u>	<u>(52,949.0)</u>
Personnel expenses		(35,587.9)	(33,536.7)
Administrative expenses		(18,619.6)	(18,002.1)
Provision for post-employment benefits	20	(1,858.0)	(1,410.2)
Other (expenses) and income		<u>(4,055.4)</u>	<u>71,873.0</u>
Depreciation and amortization	15	(3,433.4)	(2,652.0)
Taxes and contributions		(623.0)	(719.6)
Other		1.0	75,244.6
(Loss) profit for the period		<u>(2,232,772.7)</u>	<u>1,565,334.1</u>
Other comprehensive income		<u>2,690.9</u>	<u>3,340.6</u>
Other comprehensive (loss) income that will not be reclassified to profit or loss		<u>223.7</u>	<u>(1,700.6)</u>
Actuarial (loss) gain in provision for post-employment benefits		223.7	(1,700.6)
Other comprehensive income that may be reclassified to profit or loss		<u>2,467.2</u>	<u>5,041.2</u>
Fair value adjustments of available-for-sale securities		2,467.2	5,041.2
Total comprehensive income		<u>(2,230,081.8)</u>	<u>1,568,674.7</u>

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

STATEMENTS OF CHANGES IN EQUITY
for the years ended 31 December 2016 and 2015
(Ch\$ million)

	Capital	Actuarial gain or loss reserve	Fair value reserve	Total other reserves	Retained earnings	Total
Balances as of 1 January 2015	<u>(3,819,595.3)</u>	<u>1,558.5</u>	<u>3,199.2</u>	<u>4,757.7</u>	<u>270,363.1</u>	<u>(3,544,474.5)</u>
Total comprehensive income:						
Profit	-	-	-	-	1,565,334.1	1,565,334.1
Other comprehensive income	-	<u>(1,700.6)</u>	<u>5,041.2</u>	<u>3,340.6</u>	-	<u>3,340.6</u>
Total comprehensive income	-	<u>(1,700.6)</u>	<u>5,041.2</u>	<u>3,340.6</u>	<u>1,565,334.1</u>	<u>1,568,674.7</u>
Capitalization of 2014 profit	<u>270,363.1</u>	-	-	-	<u>(270,363.1)</u>	-
Balances as of 31 December 2015	<u>(3,549,232.2)</u>	<u>(142.1)</u>	<u>8,240.4</u>	<u>8,098.3</u>	<u>1,565,334.1</u>	<u>(1,975,799.8)</u>
Balances as of 1 January 2016	<u>(3,549,232.2)</u>	<u>(142.1)</u>	<u>8,240.4</u>	<u>8,098.3</u>	<u>1,565,334.1</u>	<u>(1,975,799.8)</u>
Total comprehensive income:						
(Loss)	-	-	-	-	(2,232,772.7)	(2,232,772.7)
Other comprehensive income	-	<u>223.7</u>	<u>2,467.2</u>	<u>2,690.9</u>	-	<u>2,690.9</u>
Total comprehensive income	-	<u>223.7</u>	<u>2,467.2</u>	<u>2,690.9</u>	<u>(2,232,772.7)</u>	<u>(2,230,081.8)</u>
Capitalization of 2015 profit	<u>1,565,334.1</u>	-	-	-	<u>(1,565,334.1)</u>	-
Balances as of 31 December 2016	<u>(1,983,898.1)</u>	<u>81.6</u>	<u>10,707.6</u>	<u>10,789.2</u>	<u>(2,232,772.7)</u>	<u>(4,205,881.6)</u>

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

STATEMENTS OF CASH FLOWS

for the years ended 31 December 2016 and 2015

(Ch\$ million)

	Note	2016	2015
Cash flows from operating activities			
International reserves		<u>(1,224,488.8)</u>	<u>412,241.1</u>
Purchase (sale) of securities at fair value		616,743.3	(1,194,790.3)
Purchase (sale) of available-for-sale securities		(1,281,847.2)	929,655.8
(Investments in) redemption of held-to-maturity securities		(903,323.4)	372,081.5
Interests and commissions received for international reserves		329,735.5	269,992.0
Interests paid in foreign transactions		-	(83.0)
Taxes paid for investments in reserves		(3,514.1)	(3,615.8)
Cash receipts for reciprocal loan agreements		17,496.2	38,645.1
Interest receipts (payments) for reciprocal loan agreements		221.6	376.2
Interest paid (payments) for reciprocal loan agreements		(0.7)	(20.4)
Domestic assets		<u>128,888.3</u>	<u>151,206.9</u>
Cash receipts (loans) for loans to banks and financial institutions		(12,466.4)	7,846.1
Interests and adjustments received for loans to financial institutions		740.4	504.9
Cash receipts for subordinated obligation with financial institutions		76,971.4	78,797.7
Interests and adjustments received for subordinated obligations		63,642.9	64,058.2
Domestic liabilities		<u>947,467.8</u>	<u>(1,042,897.9)</u>
Placement of notes issued		1,762,806.0	314,848.9
Interests and adjustments paid for notes issued		(869,185.7)	(567,545.9)
Increase in deposits and obligations in Chilean pesos		(1,067,234.3)	(520,873.1)
Interests and adjustments paid for deposits and obligations		(95,263.3)	(95,135.5)
Decrease (increase) in deposits and obligations in foreign currency		1,216,345.1	(174,192.3)
Other cash flows		<u>(93,115.9)</u>	<u>(131,500.5)</u>
Cash payments for goods and services		(85,965.9)	(123,725.8)
Net cash flows for arbitrage of currencies		(14,521.2)	(11,839.0)
Cash receipts as fiscal agent and other income		4,255.0	4,432.5
Movements in international organizations		<u>3,116.2</u>	<u>(368.2)</u>
Net cash used in operating activities		<u>(241,248.6)</u>	<u>(610,950.4)</u>

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

STATEMENTS OF CASH FLOWS

for the years ended 31 December 2016 and 2015

(Ch\$ million)

continued

	Note	2016	2015
Cash flows from investing activities			
Movements, IMF		321,440.0	50,073.3
Dividends received, BIS		595.4	604.7
Sale of property and equipment		-	33.4
Acquisition of property and equipment	15	(8,586.4)	(2,259.2)
Acquisition of intangible assets	15	<u>(74.3)</u>	<u>(1,157.5)</u>
Net cash generated from investing activities		<u>313,374.7</u>	<u>47,294.7</u>
Cash flows from financing activities			
Net increase in banknotes and coins in circulation		<u>234,137.6</u>	<u>839,617.7</u>
Net cash generated from financing activities		<u>234,137.6</u>	<u>839,617.7</u>
Changes in cash and cash equivalents		<u>306,263.7</u>	<u>275,962.0</u>
Effect of exchange rate fluctuations on cash and cash equivalents		(49,753.0)	48,761.9
Cash and cash equivalents at the beginning of the reporting period	6	<u>428,354.4</u>	<u>103,630.5</u>
Cash and cash equivalents as of 31 December	6	<u>684,865.1</u>	<u>428,354.4</u>

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

NOTES TO THE FINANCIAL STATEMENTS

As of 31 December 2016 and 2015

Note 1

INCORPORATION AND DESCRIPTION OF BUSINESS

Banco Central de Chile was formed on August 22, 1925, by Decree Law 486. Central Bank of Chile is a constitutionally autonomous entity, has full legal capacity, its own assets and has indefinite duration, created in accordance with Articles 108 and 109 of the Political Constitution of Chile and ruled by its Basic Constitutional Act.

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

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

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

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

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, and 1867-01 dated 20 November 2014, having a favorable report by the Superintendence of Banks and Financial Institutions, pursuant to Section 75 of Central Bank of Chile's Basic Constitutional Act. The policies approved by the Board are consistent with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

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

(b) Basis of measurement

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

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

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

(c) Functional and presentation currency

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

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

(d) Transactions in foreign currency and foreign currency translation

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

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

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

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

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

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

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

	2016	2015
	pesos	pesos
United States dollar (observed exchange rate)	667.29	707.34
Euro	698.51	771.95
Canadian dollar	493.74	510.71
Australian dollar	480.93	515.85
Special drawing rights (SDR)	897.06	980.98

(e) Statement of cash flows

The following factors are taken into account when preparing the statement of cash flows:

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

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

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

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

(f) Interest income and expenses, adjustments and commissions

Interest income and expenses, adjustments and commissions are recognized in earnings for the year when earned. Interest is recognized on the basis of its 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, they are classified in accordance with IFRS, in the following categories and composition:

g.i Investments recorded at fair value through earnings.

Includes bonds issued by foreign governments, mid-term bonds issued by Bank for International Settlements (BIS), General Treasury bills, discount notes, inflation-linked bonds, secured bonds from public institutions issued by German banks, agency non-prepayable bonds, agency prepayable bonds, agency bills, mortgage backed securities and 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.

Floating rate notes, certificates of deposit, commercial papers, short-term investments at fixed rate with BIS (discounted and at interest rate, both tradable with BIS) and BISIP (collective investments through BIS).

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

g.iii Held-to-maturity securities.

Term and overnight deposits. Correspond to investments in financial assets that the entity has the 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 reserve assets.

g.iv.1 Monetary gold: corresponds to gold held as international reserve, expressed in Chilean minted gold, is valued at the average quotation of the London Gold Fixing (U.S. dollar per fine troy ounce) and the differences arising from updating the gold positions are recorded as profit or loss for the year.

g.iv.2 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 IMF.

g.iv.3 Reserve position in the IMF: corresponds to the net difference between the assets (payments made to the IMF for subscription, and loans granted by Central Bank of Chile to the IMF for the participation in the financing program "New Arrangement to Borrow" (NAB) and liabilities (deposits maintained by the IMF in domestic currency) and is classified as a held-to-maturity investment, measured at the cost indexed to special drawing rights (SDR).

g.iv.4 Reciprocal Loan Agreements (debit): represent the amount owed to Central Bank of Chile by the central banks comprising Aladi's Agreement on Reciprocal Payments and Credits for the exports made by Chilean entities through such method. Their classification corresponds to non-derivative, held-to-maturity financial instruments, measured at amortized cost using the effective interest method.

(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 is in 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 notes evidencing them, must be recorded by Central Bank of Chile as investments with a charge to its own resources for accounting purposes.

Shares and contributions to IDB are presented under "Other foreign assets".

(i) Bank for International Settlements (BIS) Shares

During 2003, Central Bank of Chile's Board Resolutions 1073-04 dated 10 July, 2003 and 1084-02 dated 16 September 2003, authorized the incorporation of Central Bank of Chile as a member of the Bank for International Settlements (BIS). On 26 September 2003, in accordance with these resolutions, Central Bank of Chile acquired 3,000 shares of the BIS for SDR42,054,000 which are valued at acquisition cost and are shown under "Other Foreign Assets." During 2016, dividends were received in the amount of US\$0.9 million (US\$0.9 million in 2015).

(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 their original value or at their latest renewal value and adjustable balances or denominated in foreign currency include the accrued exchange rate and adjustments at the reporting date.

(k) Transactions under specific legal regulation

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

(l) Property, equipment and intangible assets

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

Property and equipment are measured at acquisition cost, net of accumulated depreciation and any accumulated impairment losses. Amortization is calculated on a straight-line basis. In 2016 and 2015, the Bank recognized as intangible assets the costs related to the acquisition of licenses and the Open Market Transaction System - Soma.

Depreciation for 2016 has been calculated considering the following estimated useful lives:

	Years	
	2016	2015
Buildings	50 to 80	50 to 80
Facilities	10 to 20	10 to 20
Furniture and other equipment	5 to 10	5 to 10
Computer equipment	3 to 5	3 to 5
Vehicles	5	5
Intangible assets	5	5

(m) Monetary base

Mostly include liabilities of Central Bank of Chile freely-circulating banknotes and coins, plus deposits made by the financial system in Central Bank of Chile.

(n) Deposits and obligations

Deposits received and obligations are financial liabilities for deposits and other transactions made with the General Treasury and financial institutions, 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 and include the effect of the accrued exchange rate and adjustments at the reporting date.

(o) Notes issued by Central Bank of Chile

Notes issued by Central Bank of Chile are financial liabilities issued in order to adopt the decisions of the monetary and debt policy, initially measured at fair value, and is not affected by transaction costs. Subsequently, they are measured at amortized cost pursuant to the effective interest rate method with the effect recorded in earnings. Unadjustable balances are stated at their nominal value. Adjustable balances include the effect of the accrued adjustments at the reporting date.

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

(p) Impairment

p.i Financial assets.

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

p.ii Non-financial assets.

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

(q) Employee benefits

q.i Long-term benefits.

Post-employment benefits correspond to employee benefits which are payable after the completion of employment in Central Bank of Chile, as stipulated in the collective agreement between Central Bank of Chile and the Labor Union of Central Bank of Chile, signed on 26 June 2015 and in effect starting from 1 July 2015 through 30 June 2019; for special resolutions approved by the Board and for special benefits provided to retired employees of the Former Association of Retired Employees and Beneficiaries of Pensions of Public Officials of Central Bank of Chile. These benefits include severance indemnities, special indemnity Resolution 1414-01 dated 5 June, 2008, special supplementary severance indemnity under the retirement plan per Resolution 1651-06 dated 29 December 2011 and special benefits to retired employees of the Former Association of Retired Employees and Beneficiaries of Pensions of Public Officials of Central Bank of Chile.

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

The actuarial calculation is based on the following assumptions:

- Mortality rate: for 2016 the Central Bank of Chile used the RV-2014 (RV-2009 for 2015) mortality table to determine the expected lives in the calculation of benefits associated with severance indemnity payments, post-employment benefits associated with the retirement plan's health plan and benefits of the Former Association of Retired Employees and Beneficiaries of Pensions of Public Officials of Central Bank of Chile.
- Employee turnover: The probabilities of remaining an employee of Central Bank of Chile were calculated on the basis of the tables prepared by Central Bank of Chile organized in tranches by years of service.
- Salary growth rate: calculated as the annual average composed of the salary growth rate for a five-year period of 5.57%.
- Discount rate: Central Bank of Chile used the nominal rate for BCP instruments at 10 years at the calculation date. For 2016, the discount rate was 4.50% (2015: 4.62%).

q.ii Short-term benefits.

- 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 for which there exists uncertainty related to their timing or amount. These provisions are recognized in the statement of financial position when both of the following requirements are met:

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

A contingent liability is:

- An obligation that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the control of Central Bank of Chile; or
- A present obligation, as a result of past events, which has not been recognized because:
 - It is not probable that an outflow of economic benefits will be required to settle the obligation; or
 - The amount cannot be estimated reliably.

(s) Financial derivative instruments

Financial derivative contracts corresponding to forward exchange contracts that are initially recognized in the statement of financial position at fair value at the date in which the contract is entered into. Derivative contracts are reported as an asset when their fair value is positive and as a liability when is negative and are included in the captions "Other securities" in asset and liability, 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 changes from accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

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

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

(u) Issued but not yet effective IFRSs

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January, 2016, and have not been applied in preparing these financial statements. Those which may be relevant to the Bank are set out below.

The Bank does not plan to adopt these standards early.

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

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

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

IFRS 16 "Leases" issued on 13 January 2016, this standard will require companies to bring all leases on-balance sheet from 1 January 2019. Companies with operating leases will be more asset-rich but also more heavily indebted. The larger the lease portfolio, the greater the impact on key reporting metrics.

This standard is effective for periods beginning on or after 1 January 2019. Early adoption is permitted.

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

Note 3

METHODOLOGY APPLIED FOR THE MEASUREMENT OF FAIR VALUE

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

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

(a) Priced securities (source: Bloomberg)

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

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 2016 and 2015:

$$IR\ Profit/Loss = Total\ Gain\ Loss - Accrued\ Interest - FX\ Gain/Loss$$

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 quoted prices, it will only reflect the straight-line accrual of the premium/discount over the life of the transaction.

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

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

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

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

Note 4

CHANGES IN ACCOUNTING POLICIES

As of 31 December 2016, the accounting policies have been consistently applied in relation to the year ended 31 December 2015.

Note 5

FINANCIAL INSTRUMENT RISKS

The goal of Central Bank of Chile is to monitor the stability of the Chilean currency; i.e. maintain a low and stable inflation rate over time. Additionally, the Bank promotes the stability and effectiveness of the financial system, safeguarding the normal performance of internal and external payments.

In order to meet that goal, Central Bank of Chile disposes of its international reserves, liquid assets in foreign currency which are mainly comprised of financial instruments that are traded and kept in custody abroad such as bonds and government notes, bank deposits, among others.

Additionally, 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 financial instruments related to the management of debt and open-market transactions made by the local market through the issuance of notes and time deposits received.

Central Bank of Chile's financial risks are related to those risks arising from managing the asset and liability portfolio and their effect on the Bank's equity. Such risks can be classified as: Market risk, Credit risk, Liquidity risk, and Operational risk.

Financial Risk Management is established and based on general policies approved by Central Bank of Chile's Board. In this respect, the definition of guidelines and assets and debt exposure limits are proposed to the General Management and the Council for the Management of the Financial Markets Division (Former Financial Operations Division) for their approval.

International Market Management and Domestic Market Management, which report to the Financial Markets Division (Former Financial Operation Division), are responsible for implementing the policies established by the Board. While, within the same hierarchical line, the Management of Operations and Payment Systems records, processes and performs the settlement of transactions. Additionally, they manage the technological infrastructure in which these are carried out.

Financial Risk Management and Evaluation Management, which report to the General Management, monitor the compliance with the established limits, measures management results and risks and reports them to the Manager of the Financial Markets Division (Former Financial Operation Management) and the General Management. In addition, the Bank's Controllership, which reports directly to the Board, assesses the effectiveness and efficiency of the internal control, risk management and governance of the financial asset and liability portfolio process.

Finally, Central Bank of Chile's Audit and Compliance Committee, which is an external advisor entity for the Board, is responsible, among other functions, for reporting on the effectiveness of the systems and the internal control procedures used in the financial asset and liability portfolio management, and assesses the reliability, integrity and timeliness of the information of the financial statements.

(a) 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. Risks are identified mainly by fluctuations in currencies and interest rates. Market risk affecting the Central Bank of Chile statement of financial position is dominated by international reserves mainly due to the increased volatility of currencies composing their investments, while for liabilities, the greatest impact arises from fluctuations in the inflation-adjusted unit which impacts the long-term debt.

Market risk of international reserves is limited by the investment policy by establishing maturity and composition margins of currencies around referential parameters of the portfolios and through the diversification of currencies, securities and investment periods. Market risk is monitored through the daily term and detail by currency and through the follow-up of Value at Risk (VaR) and risk related to the Referential Buyer (Tracking Error or TE).

Table 5.1 sets out the different monitored market risk measurements.

Table 5.1
MARKET RISK, INVESTMENT PORTFOLIO AS OF 31 DECEMBER 2016 AND 2015

		2016	2015
Amount (Ch\$ million)		2,401,089.9	23,439,468.2
Length (Months)*	Portfolio	23.8	22.8
	Departure	(0.1)	(0.7)
Breakdown by currency (%)	US\$	64.6	62.0
	EUR	16.3	16.8
	JPY	0.5	0.6
	Other	18.6	20.6
VaR** Internal Investment Portfolio	Absolute (%)	2.5	2.1
	Tracking Error (p.b.)	11.2	20.3
VaR** External Investment Portfolio Blackrock***	Absolute (%)	5.2	-
	Tracking Error (p.b.)	26.9	-
VaR** External Investment Portfolio Amundi***	Absolute (%)	4.9	-
	Tracking Error (p.b.)	89.4	-

Source: BCCh.

* The amounts correspond solely to the Investment Portfolio portion within the International Reserves. We do not consider amounts related to the Cash Portfolio or Other Assets.

** Value at Risk (VaR) and Tracking Error: a parametric estimate methodology for VaR is used through a portfolio decomposition in risk factors related to changes in currencies, fiscal rates and spread. For those factors, we have developed a variance and covariance matrix, using a data window of 550 days, with an exponential decline factor of 0.94. The VaR is presented with a confidence level of 84%, equivalent to a standard deviation. VaR and TE are measured in U.S. dollars and are presented relative to the Investment Portfolio.

*** Starting from 23 February 2016, BLACKROCK was appointed as the new external administrator of BCCh, replacing Goldman Sachs which was the external administrator through 31 January 2015. Starting from 9 September AMUNDI was appointed as the new external administrator of BCCh replacing PIMCO, which was the external administrator through 8 September.

For open-market transactions, this risk is mainly associated with changes in the market value of bonds and promissory notes issued by Central Bank of Chile, and the change in value of collaterals received in liquidity injection transactions. For collaterals the risk of value loss is mitigated by using margins and haircuts that write-down their value and allow the effective amount lent to be lower than the collateral received. For the placement of bonds and promissory notes, risk is mitigated in line with the provisions in current legislation contained in the *Compendium of Financial Regulations* ruling the placement and adjudication of debt that contemplates the use of competitive bidding processes among financial institutions. Upon issuance of instruments, the main risk is associated with changes in inflation that affect bonds issued in UF.

Monitored market risk indicators include the term and currency of notes issued. Tables 5.2 and 5.3 show such indicators.

Table 5.2
STRUCTURE AND RISK OF THE DEBT PORTFOLIO OF CENTRAL BANK OF CHILE AS OF 31
DECEMBER 2016

Instrument	Ch\$ million	% UF	Holding pe- riod (months)
Short-term	4,206,282.1	-	0.7
Long-term	10,907,860.2	63	57.2
Total	15,114,142.3	45	42.3

Source: BCCh.

Table 5.3
STRUCTURE AND RISK OF THE DEBT PORTFOLIO OF CENTRAL BANK OF CHILE AS OF 31
DECEMBER 2015

Instrument	Ch\$ million	% UF	Holding pe- riod (months)
Short-term	898,329.7	-	0.7
Long-term	12,596,056.1	67	55.8
Total	13,494,385.8	63	52.3

Source: BCCh.

(b) Credit risk

Credit risk is the risk of potential losses due to a counterparty failing to make a payment. The main source of risk arises from the investments in international reserves in debt instruments issued by foreign countries and financial institutions. A second source of credit risk comes from open market transactions and facilities that provide liquidity to the domestic financial system (Repo and FPL).

For international investments, the credit risk is mitigated by controls and limits established in the investment policies considering limits by type of risk (Sovereign, Supranational, Agencies and Banking), by type of instrument, issuer and counterparty, risk management of brokers and custodians. Additionally, the Company considers restrictions and controls by credit ranking related to the issuer of the instrument, which is calculated using the average ratings obtained from Fitch, Moody's, Standard and Poor's and DBRS; if solely two ratings are available, the lowest will prevail; and in the event of only one rating is available, such rating will be used.

Tables 5.4 and 5.5 show the breakdown of reserves by credit rating and type of risk.

Table 5.4
BREAKDOWN OF THE INVESTMENT PORTFOLIO ACCORDING TO CREDIT RISK AS OF 31
DECEMBER 2016.

Credit rating	Type of credit risk (%)				Total
	Agency	Banking	Sovereign	Supranational	
AAA	0.1	0.7	78.8	4.6	84.2
AA+, AA, AA-	0.0	1.2	9.3	0.0	10.5
A+, A, A-	0.0	2.5	1.9	0.0	4.4
BBB+	0.0	0.0	0.9	0.0	0.9
Total	0.1	4.4	90.9	4.6	100.0

Source: BCCh.

Table 5.5
BREAKDOWN OF THE INVESTMENT PORTFOLIO ACCORDING TO CREDIT RISK AS OF 31
DECEMBER, 2015.

Credit rating	Type of credit risk (%)				Total
	Agency	Banking	Sovereign	Supranational	
AAA	0.7	0.3	77.5	4.5	83.0
AA+, AA, AA-	0.0	1.0	6.7	0.0	7.7
A+, A, A-	0.0	3.3	1.5	0.0	4.8
BBB+	0.0	0.0	4.5	0.0	4.5
Total	0.7	4.6	90.2	4.5	100.0

Source: BCCh.

Credit risk is associated with open-market transactions and facilities that inject liquidity into the local financial system (Repo, permanent liquidity facility, collateralized credit lines and term liquidity facilities) is mitigated requiring 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.

As of the end of December 2016, the Bank recorded no liquidity injection Repo transactions and recorded no FPL transactions. As of 31 December 2016, the Bank recorded FPL transactions amounted to Ch\$12.4908 billion. However, the annual average for 2016 amounted to Ch\$ 10.6110 billion guaranteed exclusively with securities issued by the Central Bank of Chile.

Table 5.6 shows the credit risk exposures related to the open-market transactions and facilities. We can identify that such risk is mitigated by the required collaterals, where Central Bank of Chile's securities are eligible.

Tabla 5.6
AVERAGE EXPOSURE FPL DURING 2016 AND 2015.

	Average amount		(Ch\$ million)
	2016	2015	
Gross exposure	10,611.0	11,234.4	
Collaterals:			
PDBC	(776.6)	(693.7)	
BCCh bonds	(10,184.9)	(10,654.1)	
Net exposure	(350.5)	(113.4)	

Source: BCCh.

(c) Liquidity risk

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

To reduce liquidity risk of the international reserves, 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 and bonds from countries with a lower credit rating. The most liquid tranche includes instruments from the United States and Germany, as well as, overnight and weekend transactions, representing 62.3% of the internal investment portfolio in 2016 and a 60.8% in 2015.

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

and their institutions. In the event of a decrease in demand for its securities, the Central Bank of Chile could pay its maturities by issuing cash. For further information on maturities for the Central Bank of Chile's financial liabilities, see note 19 to these financial statements.

Tables 5.7 and 5.8 show a summary of the results of the granting of bonds and promissory notes for 2016 and 2015.

Table 5.7
RESULTS OF THE BIDDING OF DEBT INSTRUMENTS OF CENTRAL BANK OF CHILE AS OF 31 DECEMBER 2016

Instrument	Amount granted in Ch\$ million	Demand (%)	Award (%)	Binding rate (%)	Market rate (%)	Spread (pb)
PDBC	36,550,000.0	146	101	3.47	3.55	(8.0)
BCP	800,000.0	145	75	3.89	3.88	1.0

Source: BCCh.

Table 5.8
RESULTS OF THE BIDDING OF DEBT INSTRUMENTS OF CENTRAL BANK OF CHILE AS OF 31 DECEMBER 2015

Instrument	Amount granted in Ch\$ million	Demand (%)	Award (%)	Binding rate (%)	Market rate (%)	Spread (pb)
PDBC	27,130,000.0	164	102	2.98	3.12	(14.0)
BCP	1,350,000.0	322	100	4.20	4.20	-

Source: BCCh.

(d) Operational risk related to the financial instrument management

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events that prevent the normal performance of processes related to the financial instrument management.

The internal organization in Central Bank of Chile enables for an appropriate implementation of the design of processes related to financial instruments management, considering segregation of duties and responsibilities. Consequently, the International Investments Management and Domestic Market Management with the Operations and Payment Systems Management, which report to the Financial Markets Division (Formerly – the Financial Operations Division), are responsible for making investments and their settlement, respectively. The Financial Risk Management and Evaluation Management, reporting to the General Management, is responsible for issuing the performance and financial risks and ensure the compliance with investment limits.

Each management involved in the processes related to the financial instrument management, manages and controls its own operational risks. However, the Strategy and Operating Risk Management, which reports to the Management and Institutional Services Division, supports the units in the identification, analysis, evaluation and treatment of risks through a methodology that measures the inherent risk based on its feasibility and impact, and in the assessment of the residual risk we measure the effectiveness of the corresponding controls, in order to reduce the impact and/or possibility of occurrence. In addition, we track the action plans related to the risk management system and the business continuity system, including the results arising from the regular tests performed to ensure that the mechanisms developed to face contingency situations are working properly.

The Central Bank of Chile's Controllership, which reports directly to the Board, reviews regulatory compliance, the existence of an appropriate internal control environment and security of the information technology applications and infrastructure, as well as several issues related to governance, risks management, information and communication.

In addition, we have computer applications operating with market quality standards and we carried out initiatives to improve operational continuity, maintaining an alternate operation site to ensure the operation in case of problems with the physical infrastructure of the building and an external processing site in case of eventual technological failures which could affect its main technological processing site. The aforementioned elements ensure that the decision making and management evaluation process within Central Bank of Chile are appropriately defined.

Note 6

CASH AND CASH EQUIVALENTS

The detail of balances under cash and cash equivalents and their reconciliation to the statement of cash flows at each year-end is as follows:

	(Ch\$ million)	
	2016	2015
Correspondent banks abroad	683,756.5	427,681.3
Other reserve assets (foreign currency)	931.8	565.5
Domestic correspondents (*)	176.8	107.6
Total cash and cash equivalents	684,865.1	428,354.4

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

Note 7

NET INCOME FROM INTERNATIONAL RESERVES

(a) Foreign reserves

For the years ended 31 December 2016 and 2015, this caption is composed of the following:

	(Ch\$ million)	
	2016	2015
(a) Net interests and commissions on:		
Securities recorded at fair value		
through earnings	275,424.2	281,340.5
Held-to-maturity securities	31,922.3	27,266.6
Held-for-sale securities	1,894.0	688.1
Foreign correspondents	3,367.9	578.9
Subtotal for net interest and commissions	312,608.4	309,874.1
(b) Sales of securities:		
Recorded at fair value through earnings	(47,549.1)	(32,701.2)
Available for sale	12,108.4	3,907.9
Subtotal for sales of securities	(35,440.7)	(28,793.3)

continued

	(Ch\$ million)	
	2016	2015
(c) Fair value adjustments:		
Gains from fair value adjustments	8,041.3	7,892.7
Losses from fair value adjustments	(68,879.2)	(107,269.7)
Subtotal for fair value adjustments	(60,837.9)	(99,377.0)
(d) On other income	(2,613.2)	(2,948.5)
Total net income from international reserves	213,716.6	178,755.3

(b) Other foreign transactions

Net gain or loss on foreign transactions comprise the following:

	(Ch\$ million)	
	2016	2015
Revaluation of accounts with international agencies	39,128.9	(10,791.3)
Interest	(614.0)	(407.2)
Net income and expenses	(1,126.0)	(1,059.6)
Total income from foreign transactions	37,388.9	(12,258.1)

Note 8

NET GAIN FROM DOMESTIC TRANSACTIONS

For the years ended 31 December 2016 and 2015, this caption is composed of the following:

	(Ch\$ million)	
	2016	2015
(a) Income from domestic loans		
Interest	744.9	505.1
Adjustments	(333.6)	26.4
Other income	7,773.6	9,440.7
Total income from domestic loans	8,184.9	9,972.2
(b) Income from transactions under specific legal regulations		
Interest	19,518.0	24,559.5
Adjustments	18,841.4	29,595.4
Total income from transactions under specific legal regulations	38,359.4	54,154.9

continued

	(Ch\$ million)	
	2016	2015
(c) Income from deposits and obligations held by Central Bank of Chile		
Interest	(94,357.4)	(91,597.5)
Adjustments	(412.6)	(403.1)
Total income from deposits and obligations held by Central Bank of Chile	(94,770.0)	(92,000.6)
(d) Income from notes issued by Central Bank of Chile		
Interest	(529,455.1)	(513,697.8)
Adjustments	(196,748.2)	(330,391.4)
Total income from notes issued by Central Bank of Chile	(774,429.0)	(871,962.7)

Note 9

NET GAIN (LOSS) FROM FOREIGN EXCHANGE TRANSACTIONS

For the years ended 31 December, 2016 and 2015, this caption is composed of the following:

	(Ch\$ million)	
	2016	2015
Gain on foreign exchange transactions	2,354,367.4	4,683,353.9
Loss on foreign exchange transactions	(3,977,541.5)	(2,371,095.2)
Total	(1,623,174.1)	2,312,258.7

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

	(Ch\$ million)	
	2016	2015
U.S. dollar	(865,207.0)	2,005,733.0
Euro	(377,503.7)	85,096.5
Yuan	(67,670.0)	61,409.7
Canadian dollar	(34,209.4)	(59,385.4)
Korean won	(55,330.1)	49,717.7
Other currencies	(217,765.3)	188,896.3
Subtotal net (loss) gain from foreign exchange transactions	(1,617,685.5)	2,331,467.8
Arbitrage and other	(5,488.6)	(19,209.1)
Total net (loss) gain from foreign exchange transactions	(1,623,174.1)	2,312,258.7

Note 10

ISSUANCE AND DISTRIBUTION COSTS

For the years ended 31 December 2016 and 2015, this caption is composed of the following:

	(Ch\$ million)	
	2016	2015
Banknotes	(9,727.7)	(11,578.9)
Coins	(14,741.0)	(47,524.5)
Distribution	(1,685.5)	(1,279.7)
Total	(26,154.2)	(60,383.1)

Note 11

RESERVE ASSETS AND FAIR VALUES

(a) Reserve assets

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

	(Ch\$ million)	
	2016	2015
Monetary gold	6,070.8	6,009.5
Special drawing rights (SDR)	485,453.8	748,636.0
Reserve position in the International Monetary Fund (IMF)	143,497.2	256,805.2
Correspondent banks abroad	683,756.5	427,681.3
Investments	<u>25,691,282.3</u>	<u>25,865,919.2</u>
Instruments recorded at fair value through earnings:		
Level 1 market value	18,322,931.3	20,423,129.2
Held-for-sale securities:		
Level 1 market value	3,085,235.9	1,926,789.8
Held-to-maturity securities	4,283,115.1	3,516,000.2
Reciprocal loan agreements	10,014.5	27,810.8
Other assets	<u>931.8</u>	<u>565.5</u>
Total reserve assets	27,021,006.9	27,333,427.5

	(Ch\$ million)	
	2016	2015
Monetary gold	9.1	8.5
Special drawing rights (SDR)	727.5	1,058.4
Reserve position in the International Monetary Fund (IMF)	215.0	363.1
Correspondent banks abroad	1,024.7	604.6
Investments	<u>38,501.0</u>	<u>36,567.9</u>
Instruments recorded at fair value through earnings:		
Level 1 market value	27,458.8	28,873.2
Held-for-sale securities:		
Level 1 market value	4,623.5	2,724.0
Held-to-maturity securities	6,418.7	4,970.7
Reciprocal loan agreements	15.0	39.3
Other assets	<u>1.4</u>	<u>0.8</u>
Total reserve assets	40,493.7	38,642.6

As of 31 December 2016, monetary gold amounted to US\$9.1 million (US\$8.5 million in 2015) equivalent to 7,940 fine gold troy ounces valued at US\$1,145.9 per ounce (US\$1,070.1 in 2015). There was no change in the amount of troy ounces compared to 2015.

As of 31 December 2016 and 2015, the distribution of investments in foreign currencies by currency is as follows:

	(Ch\$ million)	
	2016	2015
U.S. dollar	18,456,296.0	17,407,070.0
Euro	3,662,447.3	3,932,499.1
Other currencies	4,902,263.6	5,993,858.4
Total	27,021,006.9	27,333,427.5

	(Ch\$ million)	
	2016	2015
U.S. dollar	27,658.6	24,609.2
Euro	5,488.5	5,559.6
Other currencies	7,346.6	8,473.8
Total	40,493.7	38,642.6

(b) Fair values as of 31 December

Statement of Financial Position BCCh (Ch\$ million)	Carrying amount	2016			2015		
		Fair value	Difference	Carrying amount	Fair value	Difference	
International reserves	27,021,006.9	27,021,006.9	-	27,333,427.5	27,333,427.5	-	
Other foreign assets	160,574.2	160,574.2	-	171,476.6	171,476.6	-	
Loans to banks and financial institutions	12,501.8	12,501.8	-	32.2	32.2	-	
Assets General Treasury transfers (Law 18.401)	299,945.0	231,814.5	(68,130.5)	291,761.1	215,043.0	(76,718.1)	
Subordinated liabilities (Laws 18,401 and 19,396)	355,006.0	367,254.4	12,248.4	465,444.7	493,081.6	27,636.9	
Other assets	58,970.5	58,970.5	-	61,642.3	61,642.3	-	
Total assets	27,908,004.4	27,852,122.3	(55,882.1)	28,323,784.4	28,274,703.2	(49,081.2)	
Monetary base	10,342,493.8	10,342,493.8	-	9,151,628.2	9,151,628.2	-	
Other deposits and obligations	5,061,911.8	5,061,911.8	-	6,347,736.5	6,347,736.5	-	
Obligations with General Treasury	780,412.4	780,412.4	-	419,682.6	419,682.6	-	
Assets Notes issued by Central Bank of Chile	15,114,142.3	15,893,661.4	779,519.1	13,494,385.8	14,155,319.9	660,934.1	
Foreign liabilities	790,794.1	790,794.1	-	859,436.1	859,436.1	-	
Other liabilities	24,131.6	24,131.6	-	26,715.0	26,715.0	-	
Total liabilities	32,113,886.0	32,893,405.1	779,519.1	30,299,584.2	30,960,518.3	660,934.1	
Equity Net equity	(4,205,881.6)	(5,041,282.8)	(835,401.2)	(1,975,799.8)	(2,685,815.1)	(710,015.3)	

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)	
	2016	2015
Subscription installment, contribution	1,564,744.5	839,816.2
Loan, account No.1	-	6.5
New Arrangement to Borrow (NAB)	108,680.5	129,503.8
Deposits	(1,529,927.8)	(712,521.3)
Total position in the IMF	143,497.2	256,805.2

NOTE 13**LOANS TO BANKS AND FINANCIAL INSTITUTIONS**

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

	(Ch\$ million)	
	2016	2015
Line of credit on debt restructuring	11.0	32.2
Central Bank of Chile repurchase agreements (Repo)(*)	12,490.8	-
Total	12,501.8	32.2

(*) As of 31 December, 2015, the Bank records no reverse repurchase agreements.

Note 14**TRANSACTIONS UNDER SPECIFIC LEGAL REGULATIONS**

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

(a) General Treasury transfers

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

	(Ch\$ million)	
	2016	2015
General Treasury transfer Law 18,401	299,945.0	291,761.1

In accordance with Article 13 of Law 18,401, differences produced in the recovery, as a result of discounts granted to shareholders of up to UF15.0 million, will be covered by the General Treasury through future transfers which as of 31 December 2016 amount to Ch\$299,945.0 million, equivalent to approximately UF11.4 million (Ch\$291,761.1 million in 2015, equivalent to UF11.4 million).

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

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

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

Central Bank of Chile granted the mentioned loans with a charge to its own resources through credit facilities for refinancing to organizations which were part of Sinap. In addition, the former *Caja Central de Ahorros y Préstamos*, part of Sinap, was also granted loans by the Chilean Government, with charge of the external resources from the Credit Program Agreement "AID 513-HG-006" entered into by the Republic of Chile, and applied through the Central Bank of Chile, as Fiscal Agent and Financial Agent, in accordance with Decree 20 of the Finance Ministry of 1976.

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

Article 3 of the law establishes that *Caja Central de Ahorros y Préstamos* shall cease its transactions and with consideration of existing commitment, whether it has settled the liquidations required by the law or not, and shall include an inventory of all its rights, obligations and equity and those of the *Asociación Nacional 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*.

Likewise, Article 5 of the aforementioned law establishes that the General Treasury shall be responsible for any obligations of the Sinap 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.

The recovery of such amounts depends on the determination of a specific date for the payment of that loans, from the General Treasury in favor of Central Bank of Chile. For this reason it is not possible to determine because the Ministry of Finance has not issued the Decree approving the account for the *Caja* and the *Asociación*.

Accordingly, based on considerations solely for accounting and financial reporting purposes, as provided in Sections 18, 9 and 75 et seq. of the Basic Constitutional Act regulating the Central Bank of Chile, the criteria and standards on International Financial Reporting Standards (IFRS), the Bank has determined that starting from year-end 2014 this Institution's financial statements will recognize an allowance for its losses in equity of Central Bank of Chile for the total amount of debt owed to the Bank has recorded by the entities comprising Sinap which are indefinitely in the process of liquidation.

Likewise, the obligation by the Chilean Treasury established in Law 18,900, which guarantees the obligations of the abovementioned entities which could not be covered by the amount resulting from their liquidation, as indicated in several opportunities by the Ministry of Finance, is subject to the legal budget and the publication in the *Official Gazette* of the executive decree approving the liquidation account for such entities, because this had not yet occurred or has a determined verification date; the Central Bank of Chile has opted to reflect this situation in the notes to the financial statements to comply with the requirement of substantiating the rationale behind these decisions. Additionally, expressly indicate that the information contained in the preceding paragraph will only affect the method for recognizing the "Sinap liquidation Law 18,900" loan for reporting purposes, in accordance with IFRS standards. Accordingly, this should not and cannot be deemed, in any case, as a waiver by Central Bank of Chile of its right to continue to require the total and full payment of such debt.

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

Additionally, in relation to the part of the debt of the former *Caja Central de Ahorros y Préstamos* assumed by such entity in accordance with Decree 20 of the Ministry of Finance of 1976, considering that: (i) this transaction refers to an obligation in which the Central Bank of Chile was Fiscal Agent and Financial Agent of the General Treasury and (ii) once the condition established in Article 5 of Law 18,900 has been complied with, the General Treasury will have the double status of creditor and debtor of such obligation. During this year, the Central Bank of Chile has determined that it is not applicable to recognize such part of the debt of the former *Caja Central de Ahorros y Préstamos* in its financial statements, and therefore, it derecognized such item from the Bank's asset and liability account. But whilst the mentioned condition is not verified, it will be registered at its adjusted value in order accounts, under the name and on behalf of the General Treasury, for identification purposes, in order to distinguish it clearly from the higher part of the debt of the former Sinap corresponding to such other part financed directly by the Bank using its own resources, adjusting also the impairment recognized as of 31 December 2014.

In this respect, as of 31 December 2016, the amount owed by the Central Bank of Chile for the settlement of the institutions that were part of Sinap, for the concept of credit facilities for refinancing granted directly to them charged to the bank's own resources, amounts to Ch\$1,134,052.7 million (Ch\$1,050,244.0 million in 2015), included the impairment mentioned above. In addition, the updated value of the debt of the former *Caja Central de Ahorros y Préstamos*, member of Sinap, corresponding to the loans to related parties financed by the Chilean Government, through Central Bank of Chile, in accordance with Decree 20 stated above, amounts to Ch\$81,702.0 million (Ch\$78,514.3 million in 2015), which has been recognized in order accounts maintained by the Bank acting as Fiscal Agent of Chile.

(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 2016, *Sociedad Administradora de la Obligación Subordinada* SAOS S.A. paid UF5,426,250.9493 to Central Bank of Chile, of which UF897,552.1146 were allocated to the payment of interests of the debt and UF4,528,698.8348 to the credit amortization for subordinated liability (during 2015, a payment of UF5,770,842.8725 was made, from which UF1,125,717.1800 was destined to the payment of interest, and UF4,645,125.6926 to the repayment of principal owed).

As of 31 December 2016, the balance amounts to Ch\$355,006.0 million, equivalent to UF13,473,746.9114 (Ch\$465,444.7 million in 2015, equivalent to UF18,160,796.3183).

Note 15

PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

	(Ch\$ million)	
	2016	2015
Property and equipment, net	39,172.0	33,254.9
Intangible assets, net	2,433.6	3,181.6
Total property, equipment and intangible assets	41,605.6	36,436.5

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

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

	(Ch\$ million)					
	Balance as of 31. Dec. 15	Acquisitions	Disposals	Depreciation	Transfers	Balance as of 31. Dec. 16
Real estate and facilities	20,869.8	7,090.6	.	(264.1)	-	27,696.3
Furniture and equipment	7,007.5	1,298.4	(40.7)	(2,322.0)	88.0	6,031.2
Transport material	158.1	105.2	(17.5)	(25.0)	-	220.8
Collection of banknotes and coins (*)	3,486.0	31.1	-	-	-	3,517.1
Works of art	1,651.9	-	-	-	(6.5)	1,645.4
Work in progress	81.6	61.1	-	-	(81.5)	61.2
Net property, plant and equipment	33,254.9	8,586.4	(58.2)	(2,611.1)	-	39,172.0

(*) Variation of \$31.1 million is due to variations in foreign currency exchange of gold peso.

As of 31 December 2016 and 2015, the caption Depreciation and Amortization in the statement of comprehensive income includes Ch\$2,611.1 million and Ch\$2,283.4 million, respectively.

(b) Reconciliation of Intangible Assets carrying amounts

Composition and movements of intangible assets

	(Ch\$ million)				
	Balance as of 31. Dec. 15	Acquisitions	Amortization	Transfers	Balance as of 31. Dec. 16
Computer programs	3,061.1	-	(822.3)	-	2,238.8
Computer programs under development	120.5	74.3	-	-	194.8
Intangible assets, net	3,181.6	74.3	(822.3)	-	2,433.6

As of 31 December 2016 and 2015, the amortization of intangible assets of Ch\$822.3 million and Ch\$368.6 million is recorded on a straight-line basis in the caption depreciation and amortization in the statement of income.

(c) Operating lease contracts

As of 31 December 2016 and 2015, there are no non-cancellable operating lease contracts.

Note 16

FOREIGN LIABILITIES

This caption includes the following transactions:

	(Ch\$ million)	
	2016	2015
Reciprocal loan agreements	49.9	212.7
Accounts with international organizations	57,681.3	57,802.1
Special drawing rights (SDR) allocations	733,062.9	801,421.3
Total foreign liabilities	790,794.1	859,436.1

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

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

This caption is composed of the following:

	(Ch\$ million)	
	2016	2015
Promissory note obligations with IDB	53,277.2	56,474.8
Inter-American Development Bank (IDB)	3,445.9	362.7
Agency for International Development (AID)	901.1	901.1
Multilateral Investment Guarantee Agency (MIGA)	32.9	32.9
International Bank for Reconstruction and Development (IBRD)	24.2	30.6
Total accounts with international organizations	57,681.3	57,802.1

The assignments of special drawing rights (SDRs) correspond to SDR817,183,786 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)	
	2016	2015
Banknotes and coins in circulation	8,651,831.2	8,417,693.6
Deposits from financial institutions	1,690,662.6	733,934.6
Total monetary base	10,342,493.8	9,151,628.2

(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:

Banknotes denomination	(Ch\$ million)		Coins denomination	(Ch\$ million)	
	2016	2015		2016	2015
\$ 20.000	3,820,699.0	3,294,372.1	\$ 10.000	348.4	348.4
\$ 10.000	3,720,204.8	4,019,344.2	\$ 2.000	98.6	98.6
\$ 5.000	349,155.5	387,417.5	\$ 500	183,695.2	165,848.7
\$ 2.000	74,930.9	83,054.8	\$ 100	139,910.4	126,047.9
\$ 1.000	267,264.1	250,482.3	\$ 50	26,183.4	24,342.0
\$ 500	4,742.2	4,742.6	\$ 10	48,699.2	46,057.4
Various	251.4	251.4	\$ 5	10,847.1	10,606.6
Total	8,237,247.9	8,039,664.9	\$ 1	4,728.9	4,607.0
			Other currencies	72.1	72.1
			Total	414,583.3	378,028.7

(b) Deposits from financial institutions

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

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)	
	2016	2015
Deposits and obligations with the General Treasury	780,412.4	419,682.6
Other deposits and obligations	5,061,911.8	6,347,736.5
Total	5,842,324.2	6,767,419.1

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

	(Ch\$ million)	
	2016	2015
General Treasury current accounts	780,412.4	419,682.6
Total	780,412.4	419,682.6

(b) Other Deposits and Obligations include:

	(Ch\$ million)	
	2016	2015
Permanent Deposit Facility in local currency	1,380,669.1	3,572,444.8
Current accounts in foreign currencies	1,124,993.3	665,576.4
Short-term deposits from bank institutions in foreign currencies	2,532,365.6	2,065,432.8
Other	23,883.8	44,282.5
Total	5,061,911.8	6,347,736.5

Note 19

NOTES ISSUED BY CENTRAL BANK OF CHILE

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

As of 31 December 2016 and 2015, maturities of these instruments are as follows:

	(Ch\$ million)						
	Up to 90 days	91 - 180 days	181 days to 1 year	Over 1 year to 3 years	Over 3 years	Total 2016	Total 2015
Central Bank of Chile bonds in UF (BCU)	335,635.7	203,878.0	332,668.0	1,799,367.4	4,105,570.6	6,777,119.7	8,306,056.8
Central Bank of Chile bonds in Chilean pesos (BCP)	180,222.9	176,446.2	-	1,197,751.4	2,483,064.1	4,037,484.6	4,154,988.0
Central Bank of Chile discountable promissory notes (PDBC)	3,983,914.4	222,367.7	-	-	-	4,206,282.1	898,329.7
Optional indexed coupons (CERO) in UF	3,464.5	5,008.1	10,507.2	34,570.6	12,763.7	66,314.1	98,879.9
Indexed promissory notes payable in coupons (PRC)	1,245.1	827.9	1,793.0	3,841.0	19,223.3	26,930.3	36,110.3
Other	11.5	-	-	-	-	11.5	21.1
Total as of 31 December	4,504,494.1	608,527.9	344,968.2	3,035,530.4	6,620,621.7	15,114,142.3	13,494,385.8

Balances include interest and adjustments accrued as of 31 December 2016 and 2015.

Note 20

PROVISIONS

Central Bank of Chile has recorded provisions for severance indemnity, a benefit established in the Collective Labor Agreement in force for the periods 2011-2015 and 2015-2019 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)	
	2016	2015
Provision for the year:		
Severance indemnity	12,259.7	11,671.7
Special indemnity Resolution 1651 and agreed deposit for retirement plan	1,593.9	1,350.5
Subtotal provision for severance indemnity	13,853.6	13,022.2
Benefits to the former Association of Retired Employees and Beneficiaries of Pensions of Public Officials of Central Bank of Chile	2,448.9	2,563.5
Healthcare benefits for retirement plans	12.3	5.4
Pending accrued vacations of personnel	2,571.0	2,010.0
Special indemnity Resolution 572-05-961226	1.1	3.0
Incentive allocation	316.9	292.0
Subtotal other provisions	5,350.2	4,873.9
Total	19,203.8	17,896.1

	(Ch\$ million)	
	2016	2015
Movements in provisions for severance indemnities (*):		
Current value of liabilities as of 1 January	13,022.2	10,993.7
Current value of service costs	1,275.0	902.6
Interest cost	586.0	507.9
Benefits paid	(532.2)	(716.0)
Actuarial gains (losses)	(497.4)	1,334.0
Total	13,853.6	13,022.2

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

	(Ch\$ million)	
	2016	2015
Post-employment benefit expenses		
Current value of service costs	1,156.4	783.0
Interest cost	701.6	627.2
Total cost of post-employment benefits	1,858.0	1,410.2

As of 31 December 2016, the sensitivity of the actuarial liability amount from post-employment benefits considering changes indicated in actuarial assumptions generates the following effects:

Calculation of variable sensitivity analysis impact	Base scenario	Scenario 1	Scenario 2
Discount rate (%)	4.50	3.50	5.50
Effect on provision for severance indemnity payments (Ch\$ million)	13,853.6	14,978.1	12,888.3
Effect on provision for severance indemnity payments (%)	-	8.12	-6.97

Calculation of probable payment of the provision for severance indemnity payments	(Ch\$ million)
Short-term provisions for severance indemnity payments (up to one year)	1,518.4
Long-term provisions for severance indemnity payments (over one year)	12,335.2
Balance as of 31 December	13,853.6

Note 21

CAPITAL AND RESERVES

(a) Capital and reserves

Section 5 of the Basic Constitutional Act of Central Bank of Chile established an initial capital for Central Bank of Chile at \$500,000 million, which at 31 December 2016 corresponds to \$2,436.1608 billion adjusted to the Consumer Price Index as of that date, with a time lag of one month, which has to be paid according to transitory Article 2 of the Basic Constitutional Act.

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

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

As of 31 December 2016, Central Bank Chile has a negative equity of Ch\$4,205.8816 billion (negative equity of Ch\$1,975.7998 billion as of 31 December 2015) arisen mainly from differences between international reserve returns and the cost of liabilities at domestic interest rate due to gains and losses from changes in the exchange rates of assets in foreign currencies.

(b) Price-level adjusted capital

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

As of 31 December 2016, the negative capital price-level adjustment recognized in memorandum accounts amounted to a negative equity of Ch\$79.3226 billion (negative equity of Ch\$161.4276 billion in 2015), which resulted in adjusted capital at the reporting date of Ch\$2,814.5845 billion (negative equity of Ch\$4,300.5961 billion in 2015). The amount to price-level adjusted is capital at the reporting date which includes the capital adjusted at the prior year-end, plus the profit or loss from such year and its 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 and during 2016, there were no capital contributions by the General Treasury.

	Capital as of 31.Dec.16 before price-level adjustment	Price-level adjustment in memorandum accounts	Price-level adjusted total capital as of 31.Dec.16
Balances as of 31 December 2016	(2,735,261.9) (*)	(79,322.6)	(2,814,584.5)

(*) Corresponds to price-level adjusted capital as of 31 December 2015 plus profit or loss for the same year.

Note 22

FOREIGN CURRENCY BALANCES

The statement of financial position includes assets and liabilities payable in foreign currencies, whose balances as of 31 December 2016 and 2015 are as follows:

	(Ch\$ million)	
	2016	2015
Assets		
Foreign assets	40,734.4	38,885.0
Reserves	40,493.7	38,642.6
Other foreign assets	240.7	242.4
Other asset accounts	11.0	16.1
Total assets	40,745.4	38,901.1
Liabilities		
Foreign liabilities	1,178.5	1,213.1
Other foreign liabilities	79.9	80.1
Special drawing rights (SDR) allocations	1,098.6	1,133.0
Domestic liabilities	5,994.6	4,096.1
Deposits and obligations with General Treasury	474.2	173.9
Other deposits and obligations	5,520.4	3,922.2
Other liability accounts	0.2	0.1
Total liabilities	7,173.3	5,309.3
Net assets	33,572.1	33,591.8

Note 23

CONTINGENCIES AND COMMITMENTS

There are no lawsuits that are in process against Central Bank of Chile; accordingly, the Bank has recorded no contingencies that are expected to have a material effect on equity.

Note 24

INCOME TAXES

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

Note 25

FISCAL AGENCY

Law 20,128 related to General Treasury Liability created the "Economic and Social Stabilization Fund" (FEES) and the "Pension Reserve Fund" (FRP)". In conformity with the provisions of the aforementioned law, through Executive Decree 1383, dated 2006 of the Ministry of Finance amended Executive Decree 1618 dated 2012, and 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 decree.

Executive Decree 19 in 2011, issued by the Ministry of Finance, appointed Central Bank of Chile as Fiscal Agent for the administration of the Strategic Contingency Fund.

In accordance with Article 5 of the abovementioned Executive Decree 1383, as amended by Decree 1618, 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 Ministry of Finance. These investments have been recorded in off balance sheet accounts.

On 18 June 2015, via Resolution 1909-02, the current execution guidelines for the Pension Reserve Fund and the Economic and Social Stabilization Fund, respectively, were approved. On 18 July 2013, via Resolution 1765-04, the current execution guidelines for the Strategic Contingency Fund were approved.

Note 26

TRANSACTIONS WITH RELATED PARTIES

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

(b) Compensation of the Board and key executives:

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

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

The total gross compensation paid to the Board and key executives during 2016 amounted to Ch\$1,493.8 million (Ch\$1,394.4 million in 2015).

Note 27

RELEVANT EVENTS

(a) On 26 October 2016, the Ministry of Finance enacted Decree 1404, which appoints Mr. Mario Marcel Cullell as Chairman of the Board of the Central Bank of Chile starting on 11 December 2016, for a five year term replacing Mr. Rodrigo Vergara Montes, who left office and resigned prior to completing the period for which he was appointed as Board Member.

(b) On 2 June 2016, by Resolution 1983-01, the Board agreed to appoint Mr. Jesús Riveros Gutiérrez as member of the Audit and Compliance Committee of Central Bank of Chile for a three-year term replacing Mr. Santiago Meersohn Ernst who ended his period.

(c) Starting from 30 January 2017, the President of the Republic appointed Mrs. Rosanna Costa Costa as Board Member of Central Bank of Chile replacing Mr. Rodrigo Vergara Montes to complete the remaining legal period of ten years required for the position.

Note 28

Subsequent events

In the opinion of Management, between 31 December 2016 and the date of issuance of these financial statements the following subsequent events which could significantly affect the amounts presented in the financial statements have occurred:

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

The exchange rate for U.S. dollar as of 23 January 2017 amounted to Ch\$659.49 representing a decrease of Ch\$7.80 compared with the exchange rate prevailing as of 31 December 2016. This represents a decrease in Central Bank of Chile's equity of Ch\$168,774.6 million.

The exchange rate for euro as of 23 January 2017 amounted to Ch\$704.43 representing an increase of Ch\$5.92 compared with the exchange rate prevailing as of 31 December 2016. This represents an improvement in Central Bank of Chile's equity of Ch\$30,114.2 million.

The total decrease in Central Bank of Chile's equity because of the decrease in the exchange rate for U.S. dollar and euro on 23 January 2017 amounts to Ch\$138,630.4 million.

(b) Approval of financial statements

The financial statements for the year ended 31 December 2016 were presented by the General Manager to the Central Bank of Chile's Board on 26 January 2017 and approved for issue at the Meeting 2036.

(c) Other

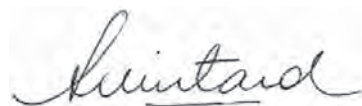
There are no subsequent events that might have a significant effect on the amounts presented herein or in Central Bank of Chile's economic or financial position.



ALEJANDRO ZURBUCHEN SILVA
General Manager



JUAN CARLOS SALAZAR TAPIA
General Accountant



SILVIA QUINTARD FLEHAN
Auditor General

INDEPENDENT AUDITORS' REPORT

The Governor and Board Members of
Banco Central de Chile:

Report on the financial statements

We have audited the accompanying financial statements of Banco Central de Chile, which comprise the statements of financial position as of 31 December 2016 and 2015, and the related statements of comprehensive income, changes in equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Banco Central de Chile as of 31 December 2016 and 2015 and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

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

Cristián Bastián E.

KPMG Ltda.

Santiago, 26 January 2017

