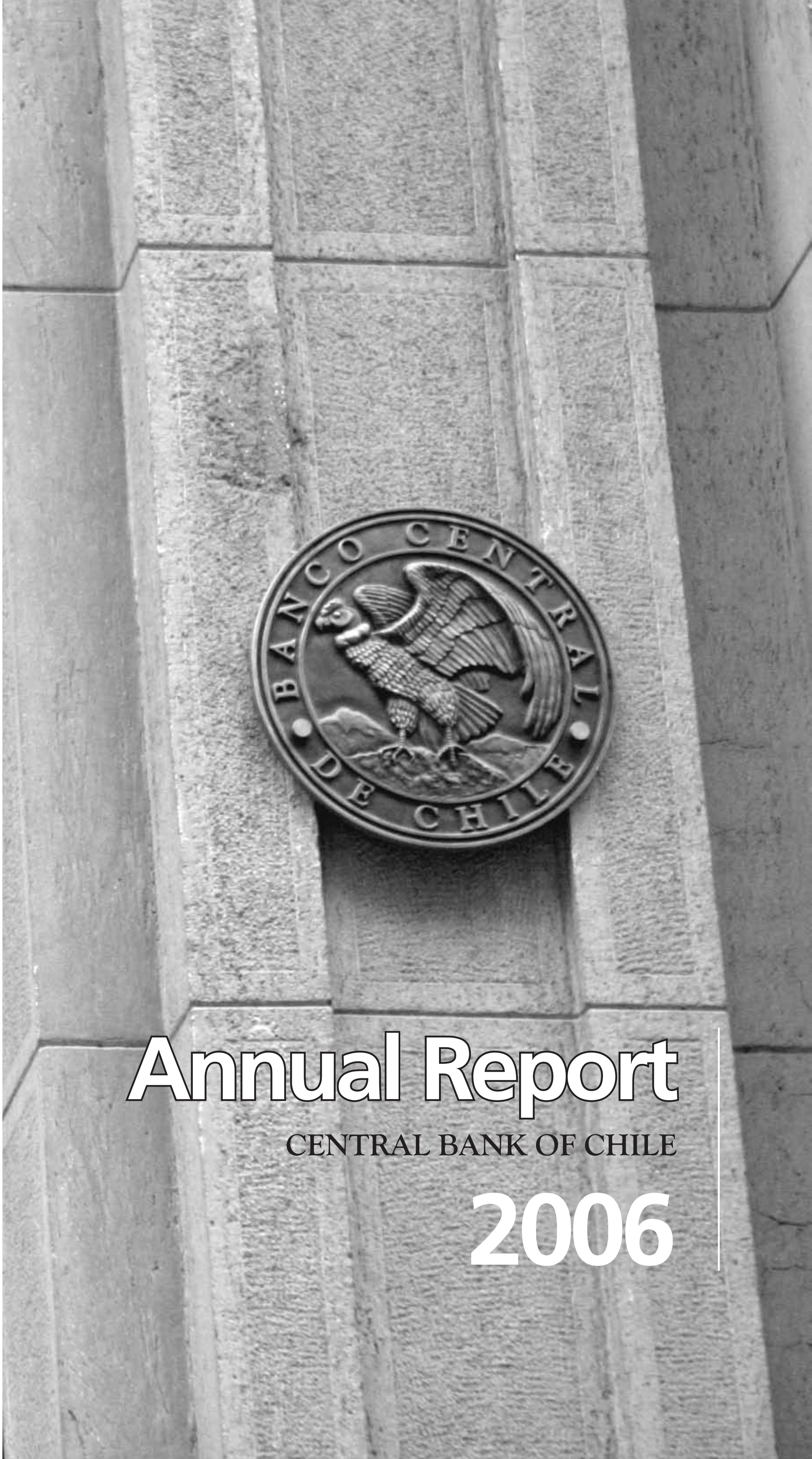

Annual Report

CENTRAL BANK OF CHILE

2006

81st Annual Report 2006*

CENTRAL BANK OF CHILE

* This is a translation of a document written in Spanish. In case of discrepancy or difference in interpretation, the Spanish original prevails. Both versions are available at www.bcentral.cl.

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Senior authorities of the Central Bank of Chile

AS OF 31 DECEMBER 2006

BOARD

Vittorio Corbo Lioi
Governor

José De Gregorio Rebeco
Deputy Governor

Jorge Desormeaux Jiménez
Board Member

José Manuel Marfán Lewis
Board Member

Enrique Marshall Rivera
Board Member

GENERAL MANAGER

Alejandro Zurbuchen Silva

DEPUTY GENERAL MANAGER

Leonardo Hernández Tagle

GENERAL COUNSEL

Miguel Ángel Nacrur Gazali

GENERAL AUDITOR (I)

Mario Ulloa López

DIVISION MANAGERS

Pablo García Silva
Financial policy

Luis González Bannura
Management and Corporate Services

Esteban Jadresic Marinovic
Financial Operations

Rodrigo Valdés Pulido
Research

MANAGERS

Mabel Cabezas Bullemore
Logistical Services

Rodrigo Cifuentes Santander
Financial Stability

Beltrán De Ramón Acevedo
Domestic Financial Markets

Cecilia Feliú Carrizo
Human Resources

Osvaldo Garay Hidalgo
Strategic And Risk Management

Jerónimo García Cañete
Information Systems

José Manuel Garrido Bouzo
Infrastructure and Financial Regulation

Juan Esteban Laval Zaldívar
Chief Counsel

Sergio Lehmann Beresi
International Analysis

Ignacio Igal Magendzo Weinberger
Macroeconomic Analysis

Iván Montoya Lara
Treasury

Gloria Peña Tapia
Foreign Exchange and Statistics Compilation

Cristián Salinas Cerda
International Investment

Klaus Schmidt-hebbel Dunker
Economic Research

Mario Ulloa López
Chief Auditor

Claudia Varela Lertora
Institutional Affairs

Ricardo Vicuña Poblete
Statistical Information and Research

Jorge Zúñiga Mayorga
Security

Central Bank of Chile Employees

As of 31 December 2006

Number of employees	601
By gender	
Females	197
Males	404
By age	
Under 25 years old	13
26 to 35 years	156
36 to 45 years	139
46 to 55 years	180
56 to 65 years	112
Over 66 years old	1
By studies	
Doctorates	31
Professional	354
Administrative	216
Average years of service	15
Annual turnover	8.3

**BANCO CENTRAL
DE CHILE**

Santiago, 25 April 2007

Mr. Andrés Velasco B.
Minister of Finance
SANTIAGO

Pursuant to Sections 78 and 79 of the Basic Constitutional Act of the Central Bank of Chile, contained in Article One of Law 18,840, I hereby submit the *Annual Report* of this institution, for the year 2006.

Yours sincerely,

Vittorio Corbo L.
Governor

BANCO CENTRAL DE CHILE

Santiago, 25 April 2007

Mr. Eduardo Frei R-T.
President
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 the *Annual Report* of this institution, for the year 2006.

Yours sincerely,

Vittorio Corbo L.
Governor

I. Financial Policies and Management of the Central Bank of Chile, 2006

A. Economic overview

In 2006, the Chilean economy continued to enjoy favorable external conditions. Growth worldwide remained robust for the third year running. The composition of world growth changed, however, with euro area and Japan performing more strongly, while the US economy had weakened, thereby shifting the balance of world growth. The copper price continued to rise in the first half of 2006, reaching new records of around US$4 per pound. In the second half, this fell to under US$3. Overall, the copper price averaged well above projections from early 2006. The prices of oil and derivatives performed similarly, soaring in the first half to reach nominal record highs, then dropping substantially in the second half.

As typical of recent years, this global outlook did not cause inflation to pick up significantly, since the rise in fuel prices did not materially affect prices or inflation expectations over the longer term, in the main economies. A gradual normalization of the US's expansionary monetary approach went ahead without generating any turbulence in international financial markets. External financial conditions remained advantageous.

Domestically, economic activity rose 4.0%, less than forecast early in the year. Domestic demand, meanwhile, gradually slowed in 2006, in line with the current point in the cycle and a heavy accumulation of stocks in previous years, particularly of capital. Lower GDP growth influenced both momentary and longer-term factors. The former reflected less active natural resource sectors and the latter saw a shift toward more imported goods consumption, which particularly hurt the manufacturing sectors that compete with these products. On the investment side, the first half of the year saw a stronger than forecast tendency to return to normal, especially in machinery and equipment. This turned around in the second half, however, with the 2006 investment to GDP rate similar to the previous year's.

Strong domestic demand in 2005-2006 did not pressure macroeconomic trends. Good conditions abroad and a significant rise in public saving, the result of the structural surplus policy, led to a significant surplus in the balance of payments' current account. Moreover, the large imported component within demand reduced pressure on domestic productive capacity and prices.

For most of the year, CPI inflation stayed in the upper end of the target range, influenced by high fuel prices. Unlike 2005, this had no significant influence on inflation expectations and financial asset prices. Core measures, meanwhile, hovered closer to 3%. In the last quarter, annual CPI inflation started to fall, in line with the lower oil price and reduced inflationary pressures, ending the year at less than 3%. Thus, in late 2006 the outlook for inflation was marked by a capacity gap that was wider than expected in previous quarters and less pressure from cost factors, including labor.

B. Monetary policy

Monetary policy normalization, begun in September 2004, continued in the first half of 2006, with three increases of 25 basis points each in the monetary policy rate (MPR, February, April and July). During this period, the Board considered that, in the most likely scenario, gradual corrections to the MPR would remain necessary to keep projected inflation at around 3% annually, over the usual policy horizon. Unlike in early 2006, by mid-year the Board warned that the timing for these corrections would depend on the circumstances, and could become less frequent in later quarters.

In the second half, the MPR posted no changes. In general, the Board considered any change would be hard to justify under the circumstances.

The Board also warned that, toward the start of the fourth quarter, the most likely scenario suggested that additional changes to the interest rate would be necessary to keep projected inflation at around 3% annually. Notwithstanding, it noted that this could take longer than expected mid-year.

By year's end, the climate of reduced inflationary pressures led the Board to announce that, in the most likely scenario, future changes to the MPR to keep projected inflation at around 3% annually would depend on incoming information and its implications for projected inflation. It also considered it premature to cut the MPR, concluding that more information would be necessary to warrant a decision of this nature. In January 2007, the Board decided to cut the MPR by 25 basis points, to 5%.

C. Financial policy

C.1 Financial infrastructure and payment system

In terms of low-value payment means, the Central Bank of Chile issued a new rule regulating the issue and operation of credit cards, which it studied jointly with the Superintendency of Banks and Financial Institutions (SBIF). This focused mainly on defining the non-bank credit cards that constitute significant means of payment and reinforcing safeguards, particularly mechanisms for managing and controlling credit, liquidity, financial and operating risks that must be applied by the respective issuers and operators. Prudent requirements that firms must meet are scaled up according to the importance of the respective card as a general means of payment within the economy and in line with the risks that their acceptance entails for the wholesale and retail trade and other affiliated bodies. Specifically, all cards used to make payments and other transactions in bodies not related to the issuer for an amount of one million UF[1]/ or more are considered relevant. The SBIF is responsible for ensuring compliance with these rules and other applicable legal measures, including those governing the maximum conventional rate. This new regulation came into effect on 30 April 2006.

[1]/ *Unidad de Fomento*, a widely used unit of account indexed to the CPI, equivalent to 34.31 US dollars at 31 December 2006.

C.2 Financial rules

In 2006, rules governing banking firms' financial intermediation and capture of funds, contained in Chapter III.B.1 of the *Compendium of Financial Regulations* were reviewed. This process concluded in January 2007 with the publication of a new regulatory framework, organized according to three general criteria: modernization, reinforcement and simplification of regulations. This approach incorporated new instruments for capturing funds, and promotes the application of standards, recommendations and best practices from abroad, as well as ordering rules under principles or categories. The main changes involved modernization of rules governing interest rates and currencies in which time deposits can be held; more flexible rules for the pre-payment of deposits and short-term intermediation; inclusion of structured notes as time deposit instruments; bringing minimum maturities into line with sales involving buyback clauses (repos); and the replacement of the rules governing short sales with a new approach to regulating security lending. The new rules, which came into effect on 2 April 2007, reflect comments from the industry and the general public on an initial proposal published in October 2006 on the Central Bank website.

C.3 Foreign exchange regulations

In the field of foreign exchange regulations, changes were made to Chapter XIV of the *Compendium of Foreign Exchange Regulations*, to include reinvestment of profits corresponding to foreign investors covered by Decree Law 600 (1974) and its amendments (DL 600), within the capital covered by this chapter provided they apply for this. Likewise, this chapter was amended to authorize inclusion of foreign investment entering the country under DL 600, provided the foreign investor(s) previously agree to terminate the respective foreign investment contract and express their interest in maintaining this investment in Chile as per the rules included in Chapter XIV. In both cases, the interested parties must relinquish their right to access the formal exchange market under DL 600, in the case of profits or investment that, in their case, are covered by these legal regulations for this purpose.

In July 2006, and as per the powers invested in it through Article 42 of its Basic Constitutional Act, the Central Bank authorized the issue in Chile of bonds expressed or payable in pesos whose issuers are private legal bodies domiciled or residents abroad, provided they are registered with Chile's National Securities Registry maintained by the Superintendency of Securities and Insurance. The above includes authorization for residents or those domiciled in Chile to purchase these securities, and establishes the corresponding reporting requirements. This measure should develop and deepen local capital markets and their integration internationally.

D. Financial management

D.1 Foreign exchange and monetary management

The main purpose of the Central Bank's monetary management is to support implementation of monetary policy and provide the market with effective, efficient liquidity. This involves ensuring that the interbank interest rate lines up with the MPR, and that credit risk assumed by the Central Bank in its operations is kept under control.

A series of instruments are used to meet this goal, including credit securities issued by the Central Bank (PDBC), the purchase of securities using buyback clauses (repo), foreign currency swaps, the liquidity deposit and permanent liquidity and deposit facilities. The Central Bank used these instruments regularly in 2006 and, along with management of long-term debt, was able to regulate liquidity in line with monetary policy established by the Board and the needs of economic agents.

The Central Bank's main purpose is to ensure it has effective, efficient and secure financial instruments available at all times, to carry out its monetary operations. In this context, to add another instrument to the usual Central-Bank-issued credit securities, in March 2006 the Bank authorized the inclusion of bank mortgages among the instruments that can be used to guarantee security buy-back (repo) operations. In December 2006, implementation of the technological platform for the Central Bank's Open Market Operations System made it possible to use these mortgages to guarantee daily and intraday liquidity operations, included in the Permanent Liquidity and Intraday Liquidity facilities.

In 2006, the Bank also changed the way the permanent deposit facility in Chilean pesos for banking and financial companies is used, by adding it to the electronic communications system between banks and the Open Market Operations System, and adding a new deposit type, called the Liquidity Deposit in Chilean pesos for banks and finance companies (LD). Both tools are designed to drain liquidity from the financial system, but they are different in that the permanent deposit facility is always available and the banks make the decision on when to use it, whereas in the case of the LD, the Central Bank makes this decision.

in August 2006, users were also given access to the new national currency data base through the national money desk, thereby making the daily gathering of financial, monetary and foreign exchange information, required of currency operators in banks and pension fund managers, automatic. The bodies involved provide this information on a voluntary basis.

In terms of foreign exchange management, in 2006, the Central Bank carried out no buy or sell operations involving foreign currencies in the domestic foreign-exchange market.

D.2 Foreign exchange reserves management

The goal of foreign exchange reserve management is to provide secure, efficient access to international liquidity, thereby safeguarding Central Bank equity. Their management is carried out in accordance with the legal definitions in the bank's Basic Constitutional Act and a set of practices and policies in line with recommendations from international bodies.

In 2006, the Bank held enough foreign exchange reserves to meet any potential and foreseeable needs for liquidity in foreign currency. As of 31 December, the investment portfolio, which includes short- and long-term assets to deal with contingencies and long-term requirements, stood at US$11.997 billion. The liquidity portfolio, meanwhile, which includes short-term assets to cover foreseeable short-term requirements for financing, stood at US$7.228 billion. Altogether, total foreign exchange reserves stood at US$19.429 billion.

In 2006, the Central Bank continued its dual program, begun in late 2003, of reducing foreign-currency-denominated liabilities and assets to cut the financial costs of its net foreign currency position. Nonetheless, liquidation of assets abroad carried out as part of this program did not reduce foreign exchange reserves, because during the period in which financial institutions make deposits and carry out swap operations for monetary purposes with the Central Bank, the General Treasury made deposits in the Central Bank and, in December 2006, capital contributions, which increased the foreign currency resources available.

Liquidity of foreign exchange reserves was ensured by investing in a portfolio of short-term deposits in international commercial banks and highly liquid, fixed-income securities trading on secondary markets. As of 31 December 2006, current account and time deposits accounted for 56.46% of foreign exchange reserves; short-term documents, 20.72%; and bonds, 22.82%.

To safeguard Central Bank equity, investments were managed according to policies and controls designed to limit financial and operating risk. Credit risk was controlled through limitations on issuers, instruments, intermediaries and holders. As of 31 December 2006, 43% of reserves were invested in AAA-rated instruments issued by banks or sovereign, US or supranational financial agencies. The remaining 57% was invested in instruments rated A- to AA+, mainly in banks. Market risk was controlled by diversifying investment currencies, instruments and maturities, thereby taking into consideration the impact of decisions regarding these parameters on the Central Bank's balance sheet. As of December 2006, 70.4% of foreign exchange reserves were held in dollar instruments, 24.7% in euros and 4.9% in other currencies, while portfolio maturity averaged 11.9 months. Operating risk was managed by separating functions and responsibilities and through internal and external controls.

In 2006, the total return from foreign exchange reserves management reached 2.45% measured in foreign currency, that is, using the investment portfolio reference currency basket, and 10.9% measured in pesos, revealing how the foreign currencies in which these reserves are invested have appreciated against the peso. In terms of the benchmark used to guide and evaluate investment performance, the return differential was over six basis points, equivalent to a return of US$10.6 million above this indicator.

For the purpose of transparency, in September 2006 the Bank published the paper "Management of Foreign Exchange Reserves at the Central Bank of Chile". This report outlines the objectives guiding foreign exchange reserves management, the institutional framework for their management, investment policies, and the makeup and basic characteristics of reserves. Similarly, the Board has established an official policy of reporting on foreign exchange reserves management to the President of Chile, to the Senate, and the public in general, and committed to presenting an annual report on foreign exchange reserves management within its annual report. The 2006 edition is included in appendix 3, "Foreign Exchange Reserves Management", presented in this *Annual Report*.

D.3 Debt management

The Central Bank's debt policy aims to minimize financing costs within the limits defined for financial risk and, where possible, encourage capital market development.

In January 2006, the Central Bank decided to publish its annual schedule of bond tenders for the year, as a way of providing both the public and the market with information enough in advance to encourage decision-making over a stable and defined horizon. To bring its practices in line with those of other central banks, the new schedule of tenders included monthly and quarterly instruments, instead of the previous weekly program, thus permitting greater efficiency in the placement of debt.

Thus, in 2006, the Bank held monthly tenders of its securities denominated in pesos, maturing in two to five years (BCP-2 and 5), and indexed to the UF, maturing in five and ten years (BCU-5 and 10). It also resumed issuing BCP-2 and BCU-10, temporarily suspended in 2005, to offset the monetary impact of the General Treasury's bonds issued to prepay the Central Bank.

As part of its plan for reducing liabilities and assets denominated in foreign currency, announced on 5 November 2003 in 2006, the Central Bank placed no dollar-denominated bonds maturing in one year (BCX-1). This plan, applied from 1 December 2003 to 1 December 2005 involved swapping securities denominated in foreign currencies and payable in pesos for bonds payable in dollars, and the subsequent payment of the latter, upon maturity, through selling assets abroad. The last payment was made on 1 December 2006. The purpose of this reduction in foreign currency liabilities and assets was to improve the Central Bank's balance sheet, since financing costs in foreign currency are higher than the profits on international assets.

As a result, on 1 December the Central Bank completed this program for jointly reducing foreign-currency-denominated liabilities and assets, with a total reduction of US$6.271 billion. To amortize and pay interest on this debt, assets were sold abroad for an equivalent amount.

In December, the Central Bank announced its criteria for managing the remaining debt securities (expressed in foreign currency and payable in pesos), falling due between September 2007 and January 2008. It seeks to maintain a suitable level of foreign currency liquidity, continue to reduce financial costs, and keep the risks to its balance sheet under control. It does not intend to swap these securities for bonds payable in dollars or renew them with new foreign-currency-denominated securities once they expire.

D.4 Provision of high-value payment services

The Central Bank provides high-value payment services and liquidity facilities to the financial system, thereby ensuring high standards for operating security, reliability and quality. Currently, electronic transfers in real time are possible and synchronized with value transfers, as per the principles of payment on delivery. Moreover, payment system incentives encourage financial players to understand the risks involved and take suitable precautions.

The first quarter of 2006 saw the migration of non-bank clients' payments in the securities market. For this purpose, the Central Bank approved a special clearing house run by banks and financial companies, who appointed one of their number as the institution in charge, with settlement the same day, and allowed agents as yet unprepared for electronic payments to use a means of payment with similar effects. Maximum settlement times were temporarily extended to accommodate this special clearing house.

Along with the above, the maximum amount that could be exchanged in the check clearing house was reduced.

All players cooperated actively in this process, including, on one hand: operators such as exchanges, Combanc and the central securities deposit, and, on the other: users, among them banks, brokers, insurance companies, pension and mutual funds, and the relevant supervisory bodies.

Throughout the process of payment system modernization, the Central Bank has taken a gradual approach that has allowed agents to adjust without disturbing financial markets' normal functioning.

Aside from continuing modernization, in 2006 the Central Bank also made progress on ensuring the operating continuity of the Real Time Gross Settlement (RTGS) system and the corresponding intraday liquidity facility (ILF), whose purpose is to minimize the operating, financial and other consequences arising from any interruption in services. To do so, policies, quality standards and procedures were considered that would ensure the timely recovery and maintenance of operations in the case of any disturbance to services.

This required exhaustive internal efforts to identify the critical points in the payment system and the corresponding risk evaluation and analysis of the processes involved. As a result, contingency procedures for service interruption, in effect since March 2004[2]/ were updated. These establish roles and responsibilities when service interruptions arise and provide a clear guide to the actions to be taken to ensure a timely response[3]/. Moreover, priorities for consolidating financial infrastructure were developed.

E. Miscellaneous

E.1 Technical Secretariat for the Distortions Commission

The national commission responsible for investigating price distortions affecting imported merchandise is a technical body consisting of representatives of economic public sector institutions. Its function is to advise the President of Chile on the application of antidumping measures, compensatory duties and safeguards. Its technical secretariat is located in the Central Bank and its functions include gathering information relevant to its investigations, preparing technical reports, and delivering relevant notifications.

In 2006, the distortions commission met on seven occasions and carried out three investigations. In late 2006, Argentine imports of wheat flour were subject to a provisional anti-dumping duty and Argentine milk products were subject to a safeguard.

E.2 Chilean Copper Commission (*Cochilco*)

A Board resolution (*Acuerdo* 1261-01) approved on 20 April 2006, appointed Beltrán De Ramón Acevedo as its representative to *Cochilco*, from 20 April 2006 to 20 April 2008, as per article 4 of Decree Law 1,349 (1976). Mr. De Ramón replaced Mr. Pablo García Silva.

Similarly, a Board resolution (*Acuerdo* 1280-01) approved on 24 July 2006, appointed Felipe Jaque Sarro as its representative to *Cochilco* from 20 July 2006 to 20 July 2008. Mr. Jaque replaced Mr. Sergio Lehmann Beresi.

E.3 Free Competition Defense Tribunal

A Board resolution (*Acuerdo* 1262E) approved at a special meeting on 27 April 2006 appointed Tomás Eduardo Menchaca Olivares as the lawyer/minister, and Julio Alejandro Peña Torres as the economist/minister, to serve a six-year period on the tribunal responsible for safeguarding free competition, as per the faculties granted to it under article 6 of Decree Law 211 (1973), on the defense of free competition, whose amended text forms part of DFL N° 1 (2004), issued by the Minister of the Economy, Development and Reconstruction. It also established the alternates, Blanca María Palumbo Ossa as the alternate lawyer/minister, and María Soledad Arellano Schmidt as the alternate economist/minister.

[2]/ Circular N°461, 31 March 2004.
[3]/ Circular N°494, 18 October 2006.

E.4 New 2003 Benchmark Compilation

In November 2006, the Central Bank published its new Benchmark compilation or base year for the Chilean economy's national accounts, 2003. This completed a four-year project to review ongoing estimations for national accounts, which are developed based on the previous reference base (1996). The results for the 2003 Benchmark compilation replace the ongoing estimations for that year based on the 1996 reference year figures. Similarly, the 2003 edition involved reviewing annual, quarterly and monthly national accounts estimations from 2003 on. Moreover, it established new base prices for measuring constant prices and an input-output matrix that can be used to examine the economy's structural properties.

Benchmark compilations are prepared every certain number of years, since they involve substantial effort and exhaustive research on statistics methods and preparation. In Chile, they have been developed for 1962, 1977, 1986 and 1996. With the 2003 benchmark compilation, the period between revisions fell to seven years, thus reinforcing the policy of national accounts reviews as per best international practices to ensure the accuracy of statistics.

The new benchmark increased the nominal Gross Domestic Product (GDP) for 2003 by 0.4% over the level estimated using the 1996 reference. In the case of the GDP for sectors of origin, the aggregate value for services rose, while goods fell. In terms of GDP expenditure, the new benchmark saw household consumption's share rise, while government consumption and gross formation of fixed capital fell. The latter reflected lower investment in machinery and equipment, given reclassification of some elements as consumer goods. Finally, on the GDP income side, wages' share rose, while taxes and gross operating income fell.

F. The balance sheet

F.1 Balance sheet levels and structure

The nominal decline in balance sheet assets and liabilities, apparent since late 2002, changed slightly in 2006. Nonetheless, in terms of share of GDP, this decline continued. A rise in the exchange rate and in General Treasury foreign exchange deposits contributed to the shift. The government's larger volume of liabilities, which brought an equivalent increase in foreign exchange reserves, had no major impact on the bottom line, because interest rates accruing on these deposits are similar to the yield on foreign exchange reserves.

Nominally, assets rose 2.2% in 2006 (table I.1). Their share of GDP stood at 21% at the end of 2005 and 17.7% at the end of 2006. As other assets fell or posted moderate growth, foreign exchange reserves posted the largest increase (19%). Over 11 percentage points of this change reflected the profitability of interest on stock (4.1 percentage points) and increases in the exchange rate (7.4 percentage points), not just on the US dollar but also on other currencies forming part of reserves (basically euros and yens). The rest of the increase (US$1.3 billion) reflected capital contributed by the General Treasury (US$606 million), under the fiscal responsibility law, and foreign currency operations reflected in shifts in other balance sheet components (US$700 million). These included an additional US$3 billion from the government (US$1.3 billion in regular servicing and prepayments in dollars of fiscal promissory notes and almost US$1.7 billion in deposits); a decline of almost US$2.5 billion to service BCX, and a rise of some US$200 million for different foreign exchange operations with commercial banks (reserves, swaps and overnight deposits).

TABLE I.1

Central Bank of Chile Balance Sheet

(surplus-deficit, Ch$ billion, as of 31 December of each year)

			Implicit profitability rate (2) %			
			2005		2006	
	2005	2006	Interest	Value	Interest	Value
Assets (1)	**13.535**	**13.829**	**3.2**	**-8.2**	**4.1**	**2.4**
Net foreign currency reserves	8.722	10.383	3.1	-12.2	4.1	7.2
Treasury promissory notes	1.464	678	4.0	-5.3	6.8	5.2
Other public sector assets	662	698	4.7	2.4	4.2	1.2
Subordinate debt	947	933	5.0	3.6	5.1	1.9
Deferred loss (3)	407	0	0.0	3.6	0.0	-100.0
Monetary policy instruments (4)	1.127	939	1.3	0.0	1.3	0.0
Other	206	197	2.1	-5.9	2.0	3.3
Liabilities (1)	**15.959**	**15.973**	**3.5**	**-1.0**	**3.5**	**2.0**
Monetary base	2.928	3.406	0.0	0.0	0.0	0.0
Monetary policy promissory notes (5)	10.245	8.601	4.7	-0.1	4.9	1.6
Other monetary policy liabilities (6)	1.863	1.934	0.8	-8.1	1.4	4.7
Current accounts and reserves in foreign currencies	374	524	0.0	-21.7	0.0	2.7
Treasury and other public sector deposits	140	1.068	2.0	-8.4	4.3	5.3
Other	409	440	3.2	-0.6	7.4	5.2
Capital (1)	**-2.424**	**-2.144**				
Revalued starting capital	-1.286	-2.475				
Nominal starting capital	-1.241	-2.424				
Revalued own capital	-45	-51				
Net result	-1.138	8				
Non-financial results (7)	-27	-44				
Net interest (7)(8)	-104	-8				
Changes in value (9)	-1.052	10				
Less revalued own capital	45	51				
Capital contribution	0	323				

(1) Equity evaluated is equivalent to the accounting measure; however, total assets and liabilities are different, mainly reflecting the different treatment of temporary assets and liabilities and provisions.

(2) These rates are calculated using the corresponding losses/gains (notes 8 and 9) over average estimated balances. Average balance calculations only use the balances at the end of the month for the respective year. Because of this, the resulting rates may not be representative of assets/liabilities with atypical balances at month's end.

(3) In 2006, a provision worth Ch$415.6 billion was set aside and used to cover the entire balance of deferred losses for the year (opening balance plus adjustments during the year).

(4) This includes credits to banks guaranteed using foreign currency deposits (foreign currency swaps) or risk-free documents (repos), and liquidity lines in Chilean pesos and foreign currencies.

(5) Includes PDBC, BCP, PRC, CERO UF, BCU, PRBC, PRD, ZERO US$, BCD, PCX, XERO US$ and BCX.

(6) Short-term remunerated bank deposits in foreign currency. To guarantee credits in Chilean pesos (note 3) and others, overnight.

(7) The foreign currency component of these items is measured in pesos using average exchange rates.

(8) Excludes indexation, which is included under changes in value.

(9) Includes corrections in Chilean pesos and the effect of changes in the exchange rate on foreign-currency-denominated assets and liabilities. In 2006, this also included writing off deferred losses (note 3).

Source: Central Bank of Chile.

Other assets changing significantly were Treasury promissory notes to service dollar-denominated obligations, mentioned above, plus the servicing of these same promissory notes, in pesos. As of December 2006, the outstanding balance for these promissory notes stood at around US$1.269 billion, of which US$1.0308 billion was in dollars and the remainder in UF. Note that, in the accounting books, the balance outstanding from deferred losses is registered as a decline in assets.

Total nominal liabilities posted virtually no change, which meant their share of GDP fell from 24.8% in 2005 to 20.4% at the end of 2006. Their composition also changed significantly.

The monetary base's share of total liabilities stood at 18.3% at the end of 2005 and 21.3% at the end of 2006. This rise in its share improved profitability, since its financial costs are negative in real terms and lower than the real positive cost of most of the remaining liabilities. Growth in the monetary base in 2006 (December to December) required almost Ch$500 billion in financing, as did servicing in pesos on Treasury promissory notes (Ch$200 billion), peso operations using short-term monetary policy instruments (Ch$200 billion), subordinate debt servicing, and other minor operations. Altogether, this made it possible to assign some Ch$940 billion to servicing Central Bank monetary policy promissory notes in Chilean pesos.

Thus, relatively more expensive liabilities stood at Ch$10.2 billion (US$19.9 billion) at the end of 2005 and Ch$8.6 billion (US$16.1 billion) at the end of 2006, while their share of liabilities fell from 64.2% to 53.8%.

Meanwhile, General Treasury deposits rose by almost US$1.7 billion, mainly the result of how the fiscal surplus was administered. As mentioned, the government's dollar deposits result in increased foreign exchange reserves and have little effect on the Central Bank's bottom line. Note that this rise is temporary, since the government will change surplus management during 2007.

Changes in the makeup of assets and liabilities tend to make the Central Bank's bottom line more profitable.

F.2 Asset profitability, liability costs and equity trend

In 2006, the Central Bank earned a pre-provision profit of Ch$424 billion. Of this, Ch$416 went to provisions that were used to cover the entire balance outstanding of deferred losses. These losses accumulated from 1996 to 1997 as subordinate debt contracts, the result of the way the 1980s financial crisis was handled, as per laws 18,401 and 19,396. Law 19,936 deferred these losses to be covered by future surpluses.

In December 2006, and as per Law 20,128 on fiscal responsibility, the General Treasury made a capital contribution of Ch$323 billion (US$605.9 million) which went directly to equity and brought an equivalent rise in the Central Bank's balance of assets minus liabilities payable in foreign currency. The final surplus, Ch$8 billion, plus the capital contribution from the General Treasury are behind the shift in equity from its initial revalued amount, -Ch$2.475 billion, to its closing value, -Ch$2.144 billion.

The main factor in the pre-provision results was the increase in exchange rates between the end of 2005 and 2006. In 2006, the US dollar rose 3.9%, the euro 15.6% and the SDR 9.4% against Chile's peso.

To measure the impact of fluctuations in the exchange rate on results, the balance of assets minus liabilities in said currency must be examined. The surplus for assets minus liabilities payable in foreign currency stood at Ch$6.4177 billion (US$12.4807 billion) in 2005 and Ch$7.4306 billion (US$13.9038 billion) in 2006, that is, 9.9% of GDP (2005) and 9.5% of GDP (2006). Thus, a 10% shift in the exchange rate generates profits or losses of 0.95% of GDP.

The shifts in the exchange rates, that affect mostly assets, were 2% higher than the increase in the UF, which in turn most affects liabilities. This was reflected in the rates implicit in changes in asset and liability values, which in 2006 posted a favorable spread of 0.4% despite including the write-off of deferred losses. Interest yields, meanwhile, also performed well, since the gap between the average rate on assets and that for liabilities rose from -0.3% in 2005 to 0.6% in 2006.

It is important to note that having negative equity means that earnings on assets are proportionately lower when compared to the outflows generated by more liabilities. Because of this, the net balance for earnings minus losses due to interest was negative (-Ch$8 billion), despite favorable spreads in average interest rates.

Net profits minus losses due to changing values were positive, at Ch$10 billion, despite the deferred losses covered under this item. This net balance of Ch$1 billion due to interest and shifts in value was boosted by profits from the devaluation (due to inflation) of initial negative capital, worth Ch$51 billion. Subtracting a further Ch$44 billion in non-financial costs yields a final surplus of Ch$8 billion.

Within the balance sheet, which is subject to enormous volatility due to fluctuations in exchange rates, some more stable elements nonetheless point to future improvement. The first is the narrowing of the gap between domestic and external rates observed in recent years, which is due at least partly to the credibility enjoyed by monetary policy and solid public finances. Second, the reduction in the size of the balance thanks to the General Treasury's prepayments in pesos and the repayment of dollar-denominated promissory notes using foreign exchange reserves. Thus, although liabilities cost more than assets yield, the result will be less negative because the interest differential will affect a smaller amount of assets and liabilities. Similarly, the government's capital contribution, which presumably will continue, improves the balance sheet permanently, since it means that a larger share of liabilities can be covered by asset yields. Finally, average liability costs have fallen as the monetary base's share of liabilities has risen. This rise could contain a more permanent component given the greater liquidity required by banks to run payment system modernization, which in turn is linked to less risk for the Central Bank, as guarantor. Nonetheless, part could turn around should the short-term interest rate rise in future.

Although with little impact on results, non-financial costs rose: from Ch$27 billion in 2005 to Ch$44 billion in 2006 (table I.2).

TABLE I.2

Central Bank Net Non-Financial Costs

(billions of Chilean pesos of each year)

	2005	2006	Nominal change
Costs of coins	3.0	12.2	9.2
Costs of banknotes	2.1	5.3	3.2
Personnel expenditures	16.7	18.0	1.3
Administrative expenditures	6.6	7.4	0.8
Sale of fixed asset	-0.1	1.5	1.6
Other	-1.0	0.0	1.0
Total	**27.3**	**44.4**	**17.1**

Source: Central Bank of Chile.

Most reflected the growth over the previous year of costs associated with providing the public with coins and banknotes. In the case of higher spending on coins (308%) two factors were important: first, the rise in the number of coins produced (83%), mainly those of higher value. Thus, on average the value of coins produced in 2006 was 43% more than the previous year. Second, average prices for the same composition also rose (56%). The latter to a large degree reflected the higher copper price. In the case of greater spending on banknotes (156%), the average cost for the same composition also rose (20%), as did the number of units produced (169%), but in this case composition shifted toward less expensive banknotes than the previous year, since using 2005 prices, the average value of units produced fell (-21%).

The rise in personnel expenditures mainly reflected a rise in staff and changes in composition, with professionals and managers gradually rising. The rise in administrative costs reflected improvements to computer services and infrastructure.

Almost the entire imputed loss due to the sale of fixed assets reflects the sale of a building acquired by the Central Bank to a defaulting entity in the 1980s. Since this acquisition occurred under abnormal conditions, as a partial payment to help settle that body's debt with the Central Bank, the amount then registered under assets was the one agreed upon with the liquidator, and in any case, the balance outstanding had to be written off. The sales price was lower than the asset value, considering accumulated revaluations and depreciations. Still, this does not mean a real decline in Central Bank equity, since it only involved recognizing losses that were not recognized at the time.

In summary, positive results in 2006 primarily reflected shifts in the exchange rate. The capital and profits in Central Bank balance sheet improved during the year. This reflected a capital contribution from the General Treasury; a decline in the size of assets and liabilities; a decline in the spread between domestic and foreign interest rates; and a change in the composition of liabilities that reduced their average cost.

F.3 Central Bank capitalization

Article 11, Law 20,128, governing fiscal responsibility and containing rules for improving financial and budgetary management, empowered the General Treasury to make capital contributions to the Central Bank via the Ministry of Finance. To date, this can be up to an annual amount equal to the current surplus, determined as per article 20 of said law, calculated after making the annual contribution to the pension reserve fund established in article 6 a) of the same law. In any case, the annual contribution cannot be more than 0.5% of the previous year's GDP.

The same law established that these contributions can be made during the five years following publication of Law 20,128 (30 September 2006). Moreover, by the third year, the Ministry should carry out an economic and financial study to evaluate the impact of these contributions on the Central Bank's projected balance sheet over a 20-year period.

According to temporary provisions in Law 20,128, the first specific contribution to Central Bank equity was charged to the actual 2005 fiscal surplus. Supreme Decree 1,272 (2006), issued by the Ministry of Finance and published in the Official Gazette (*Diario Oficial*) on 23 December 2006, defined this contribution as the sum of Ch$322,745,685,000, deposited at the Central Bank on 29 December 2006, in its US dollar equivalent.

On specific contributions by the General Treasury to Central Bank equity, Board resolution 1312-07, passed at its 28 December 2006 meeting, made an express note of its decision that these funds will form part of Central Bank foreign exchange reserves as long as the slack exists in external accounts and macroeconomic stability holds.

The benefits of the Central Bank having its own capital should be noted, since this ensures healthier financial flows, in line with international common practice. Chile is atypical in the international context, in that few central banks have negative equity. Thus, in its annual Article IV consultation report on Chile, the IMF has for several years recommended its recapitalization. Similarly, risk-rating agencies mention the Central Bank's negative capital as something that should be corrected. If a central bank enjoys healthy capitalization, the market will consider it financially fit to act and meet its policy goals and deal with any unforeseen occurrences. In contrast, if it is perceived to suffer from weak equity, raising concern about the effects this could have on decisions and therefore financial statements, this could lead to loss of credibility and its policies could become less effective. Credibility is important, because it enhances the stabilizing effect of monetary policy. In other words, it reduces the cost or sacrifice required in terms of output to stabilize inflation and boosts capacity to stimulate the economy during recession, when inflation is below target.

A central bank's financial independence is therefore necessary to safeguard the technical nature of its decisions. Autonomy could be seriously hurt if it had to urgently request resources from the General Treasury, especially to deal with financial or balance of payments crises. Despite this, the Central Bank's current credibility and sound reputation ensure that it will be able to fulfill its duties.

A well-capitalized central bank, moreover, also reduces the risk of having to issue money to finance itself amidst instability; for example, to meet its obligations as a lender of last resort. Thus, the country and the Central Bank are better prepared to deal with a range of critical situations.

On the other hand, because this is essentially about managing assets and liabilities, Central Bank capitalization does not compete directly for government resources with other initiatives. In consolidated terms, there is no additional expenditure or rise in total public sector debt, although the way liabilities are allocated between the General Treasury and the Central Bank is different. If the Central Bank is suitably capitalized, it will be able to earn profits, which should be distributed by the government as per the Basic Constitutional Act that governs it. The fact that Central Bank debt may be profitable or cost more than investing the fiscal surplus abroad (as reflected in the country-risk premium) also makes capitalization attractive from a financial perspective.

F.4 Prepayments made by the General Treasury

In 2006, through the corresponding Board resolutions, prepayments were accepted on several government promissory notes in foreign currency issued as per article 75, Law 18,768, and covered promissory notes 31 through 36, inclusive, issued in 1984 and 1985.

Prepayments were dated 4 January, 10 March, 30 June and 15 December 2006, for a total of US$1.5007 billion in capital and US$58.4 million in interest, and were subject to capitalization and discount rates consistent with market conditions and agreed upon, in each case, by the Central Bank and the Ministry of Finance.

II. Institutional management and governance

A. Organization and functions

A.1 The Board

The Board has five Members, one of whom chairs it and serves as the Central Bank's Governor. It is responsible for the senior management of the Central Bank of Chile, as an institution of constitutional rank under public law.

The Board's Members are appointed by the President of Chile through a supreme decree issued by the Ministry of Finance, after approval from the Senate. Appointments last ten years, members can be reappointed, and one position is renewed every two years[4]/.

The Central Bank's Governor is appointed by the Chilean President from among Board members, and holds this post for five years or until his appointment is up, whichever period is shorter, with reappointment allowed. Along with chairing the Board, the Governor is responsible for representing the Central Bank on non-judicial matters and directing institutional relations with public authorities, financial institutions and international bodies, among other functions. Vittorio Corbo Lioi was appointed to the Board in May 2003 (and his appointment ends on 6 December 2007), and has been Governor ever since.

The Deputy Governor is appointed by the Board for the period it so determines, and is responsible for replacing the Governor and exercising other functions as assigned. José De Gregorio Rebeco was appointed to the Board in June 2001 for a period ending on 6 December of the same year, at which time he was appointed for a further 10-year period, which will end on 6 December 2011. Mr. De Gregorio has been Deputy Governor since December 2003 and his appointment was renewed until 19 December 2007.

[4]/ Title II of the Basic Constitutional Act ruling the Central Bank, as per articles 108 and 109 of the Chilean Constitution, includes the rules governing the Board and the specific legal regime applicable to Board Members in terms of appointments, wages, incompatibility, removal, conflicts of interest, motives for removal from their posts and other legal obligations to which they are subject in carrying out their duties. The most recent amendment to this title was Article 7 of Law 20,088 on the Sworn Affidavit of Personal Wealth.

The other Board Members are: Jorge Desormeaux Jiménez (appointed in December 1999), Manuel Marfán Lewis (appointed in December 2003) and Enrique Marshall Rivera (appointed in December 2005). All were appointed for 10-year periods.

In general terms, the Board is responsible for exercising the authorities and fulfilling the functions legally assigned to the Central Bank to comply with its mandate: ensuring monetary stability and the normal functioning of domestic and external payments. The Board therefore determines general Central Bank policies, issues regulations governing its operations, supervises and enforces practice in the upper levels of the Central Bank. It also conducts ongoing evaluations of compliance with general rules and policies it has established and the development of institutional activities.

Rules applied to Board sessions and resolutions

The Central Bank operates essentially through resolutions and other agreements passed by the Board according to the organizational statute to which it is subject.

The Board must hold regular sessions at least once a week, and special meetings when these are called by the Governor, of his own accord or in response to a written request from two or more Board Members. Resolutions passed must be included in the minutes from the respective meeting.

To be legally binding, Board resolutions require a minimum quorum of three members in attendance and the majority of those present must approve, except where the law requires a special quorum, as it does for specific resolutions of particular importance[5]/. The Board Member chairing the session will have the casting vote. The Board normally meets in its offices in Santiago, but is nonetheless empowered to meet and pass legal resolutions, regulations or otherwise make decisions elsewhere in Chile.

A.2 Mechanisms for coordination and transparency included within the institutional governance of the Central Bank of Chile

The Central Bank's Basic Constitutional Act establishes the relationships necessary for the Central Bank to fulfill its functions in coordination with the Executive and other governmental bodies, which guarantee suitable controls with regard to its actions. These include:

i) Article 6, section two of the Basic Constitutional Act, which defines coordination between the Board and the government, stating that "on passing resolutions, the Board will keep in mind the general orientation of the government's economic policy."

ii) Before 30 April of each year, the Central Bank must submit to the Minister of Finance and the Senate a report on its activities the previous year, including policies and programs carried out during that period. The *Annual Report* must include financial statements with their respective notes and the independent auditor's opinion.

iii) In terms of information about policies adopted and annual programs, the law also requires that the Central Bank report to both the Minister of Finance and the Senate, no later than 30 September of each year.

iv) The duty to report to the President of Chile and the Senate regarding general rules and policies approved as part of exercising its attributes and advising the Executive, when this is requested, and in all matters having to do with its own functions.

[5]/ Among other reasons, special quorum is required for approving the internal regulations necessary for the functioning of the Board and the Central Bank; insisting on the approval of a resolution that has been suspended or vetoed by the Minister of Finance; the adoption, renewal or early termination of foreign exchange restrictions; receiving deposits from the General Treasury or other institutions or governmental bodies; and for giving up immunity in the execution of international contracts made by the Central Bank and dealing with economic and financial matters.

v) The Minister of Finance can attend Board meetings, with speaking rights, and can propose the passing of certain resolutions. For this purpose, all invitations to Board meetings and agendas must be duly delivered in advance and in writing.

vi) The Minister of Finance can suspend any Board agreement or resolution for no more than 15 days, unless all Board Members unanimously insist on its application, in which case this suspension will not take effect.

vii) The Minister's right to veto Board resolutions involving the imposition, lifting or amendments to foreign exchange restrictions referred to in article 49 of the Basic Constitutional Act. In the event of a veto, the corresponding restriction can only be adopted through unanimous vote of all Board Members.

These last two indications aim to promote dialogue with the Executive before the passing of very important resolutions. This should avoid their possible suspension or veto, and thus overcome the differences in criteria that may arise with regard to economic measures, giving priority in all cases to the Central Bank's autonomy and technical nature.

Aside from these legal regulations, the Board has established different norms to keep both the authorities and the general public informed in an ongoing manner about any measures it approves, as part of ensuring the transparency of its actions, and keeping in mind that its decisions play a crucial role in the public's and the market's perceptions of Central Bank policies and their impact on the economy.

These measures include advance notice of the dates of monetary policy meetings and publication of the minutes from same, along with references to resolutions regarding monetary, credit, financial or foreign exchange regulations. Moreover, special consideration is due to Board resolution 1289-01 (31 August 2006), on policy for providing information to the public. This sets a systematical program for the release of information to the authorities and the public in terms of both its format and its periodicity. Its purpose is to contribute effectively to the regular and timely publication of measures adopted in terms of monetary, foreign exchange and capital market policies, and the fundamentals on which they are based.

In the same context, the Bank presents its *Monetary Policy Report* to the Senate and publishes it three times a year (in January, May and September), analyzing economic and financial conditions, the reasons behind policies applied, and the main perspectives applicable to short- and medium-term scenarios.

Similarly, it publishes its *Financial Stability Report* twice a year. This analyzes developments in the macroeconomic and financial environment in Chile and abroad, relevant to financial system stability. It also includes an analysis of trends in borrowing, borrowers' capability to pay, the status of non-bank financial intermediaries, the impact of these indicators on the banking system, and the Chilean economy's financial position internationally.

Information about foreign exchange reserve management by the Central Bank is also included in this *Annual Report* and a report on changes in the balance sheet is included in its monthly bulletin.

A.3 Board regulations

The current regulation on the Board's functioning[6]/ involves general rules applied to meetings. These refer to how the meeting is called, how the agenda is prepared, how participation and debate take place, how minutes are prepared and how information on the matters dealt with is released to the public. Special rules govern monetary policy meetings, dealing primarily with their frequency, participants, ordering of matters and debate, minutes, summary of discussion, and release of resolutions through a public news release, sent out once the respective meeting ends.

Given its importance and to make it as widely available as possible, this regulation was published in the Official Gazette and is on the Central Bank's website, *www.bcentral.cl*

[6]/ Approved by resolution 818, (27 January 2000).

A.4 General Management and Legal Department

Articles 24 and 25 in the Basic Constitutional Act indicate that the general manager will manage and supervise the Central Bank on a daily basis, according to instructions and faculties from the Board. The general counsel must ensure the Bank's legal strictures are respected and control legal risks associated with Central Bank actions.

Since 7 August 2006, Alejandro Zurbuchen Silva has been the General Manager and Leonardo Hernández Tagle is the Deputy General Manager.

Miguel Ángel Nacrur Gazali has served as the Bank's General Counsel and Certifying Officer since 1997.

B. Internal administration

B.1 Internal restructuring and the appointment of executives

In 2006, the Central Bank continued the internal restructuring begun in 2004, to improve the efficiency of its management. In April 2006, the communications management area was replaced by an Institutional Affairs Management, which deals mainly with educational efforts, public relations and publications, and a communications advisory management area was set up primarily to advise the Board and senior executives on communications issues. Similarly, in October the Bank created a security management office, within the institutional services and management division that replaced a department by the same name. These changes reflect the growing strategic importance of these areas, in the Board's eyes. Moreover, tasks were redistributed to different units, leading to changes in the names of some management areas and departments and the elimination or creation of some departments and functions within the different management areas.

This also involved the Central Bank reinforcing its management to ensure the availability of the necessary skills and abilities to improve efficiency. Thus, in August, Alejandro Zurbuchen Silva was appointed

General Manager. In November, Silvia Quintard Flehan became Comptroller, replacing Alejandro Zurbuchen Silva. In August, Pablo García Silva became manager of the Financial Policy Division, replacing Luis Óscar Herrera. In April, Igal Magendzo Weinberger became Manager of Macroeconomic Analysis and Claudia Varela Lertora became Manager of International Affairs. Other appointments included Luis Álvarez Vallejos, as Manager Advising on Communications (June), Rodrigo Cifuentes Santander, as Manager of Financial Stability (August) and Jorge Zúñiga Mayorga, as Manager of Security (October). Finally, in November Álvaro Rojas Olmedo was appointed Central Bank representative to the office of the Executive Director for Southern Cone Countries on the board of the International Monetary Fund. Depending on the position, area and division managers are selected through internal competitions, the employment of external consultants specializing in executive searches, or directly appointed by the Board.

B.2 Strategic planning

In 2006, the Bank reviewed its medium-term strategic plan for 2006-2008, implemented plans scheduled for 2006 and prepared its Strategic Plan for 2007, which the Board approved in December 2006. To the Bank's strategic goals, objectives of diligence and efficiency were added to comply with other functions that society has entrusted the Central Bank (i.e., Free Competition Defense Tribunal; Distortions Commission; Monetary Fund; Advisor to the government; Fiscal Agency).

B.3 Human resources management

In 2006, the Bank continued to apply policies promoted in recent years, which have focused on the integral development of human capital through both training and nurturing professional careers within the institution. The main achievements in this sense in 2006 were:

Career development

A new job structure was implemented in 2006, consisting of eleven hierarchical levels and two large families of positions, management and administration on one hand, and professional/technical on the other, which in turn was divided between Economic/Financial and Institutional Support. Moreover, the new wage structure for each level, based on the Hay Group General Wage Study[7]/ was also applied. This structure specifies a minimum and maximum wage for each hierarchical level, according to market values. Finally, a plan for leveling out income over up to 24 months was developed, on behalf of all staff whose income was below the minimum wage for their functions[8]/.

Training

A series of courses and internal seminars were carried out, mostly by Central Bank professionals and distinguished executives and academics from other Chilean and international organizations. This further reinforced the tendency toward in-house training options, which offer substantial advantages over other market options. This kind of training makes it possible to emphasize developing actions specific to each area of the organization, aims at massive audiences chosen according to the needs of each area, and in general involve a low unit cost to the institution.

Another important form of training was the management skills and strategic development program, directed at 50% of managers within the Institution. In 2007 the other 50% will be trained, and reinforcement courses delivered to those participating in the 2006 program, to ensure the continuity of this valuable form of training. This program was tendered and the University of Chile's Industrial Engineering Department selected. A team of distinguished professors with both academic and professional credentials was in charge. The purpose of the program was to make a substantial contribution to developing efficient and harmonious leadership skills amongst working teams within the Bank, increasing their individual and collective ability to innovate and generate value for the organization.

[7]/The Hay Group is an international human resource consultant based in the US and active worldwide. It applies an annual wage survey scored against job evaluations. The reference market used was for Chilean firms participating in this survey.

[8]/ This exercise involved wage increases for almost 20% of staff.

Finally, given ongoing concern for staff's integral development, in 2006 a quality of family life course was offered using a multidisciplinary group of external professionals. Given its success, repetition in 2007 is being considered.

Measuring the organizational climate

In June, the process of measuring the organizational climate began, covering 50% of the Central Bank. Its purpose was to analyze people's perceptions about a range of organizational factors that could strengthen or weaken the process of change in which the Central Bank is involved, and take action in this regard. In September, the consulting firm delivered its final report and recommendations for action, arising from both the study and the employees participating in survey feedback sessions to improve the variables posting the most serious deficits.

Currently, each management area evaluated is working to create task forces to develop action plans to improve the factors that are most sensitive and have the most impact on the organization.

New instruments for evaluating performance

In July, the Bank carried out promotion evaluations for July 2005-June 2006 of all senior management posts, as per the regulations governing this procedure. In August, the remaining steps were followed to obtain an overview of the different management areas.

Finally, human resources management prepared new performance evaluation instruments offering clear, visible tools for measuring all staff and management, to come into effect in 2007.

B.4 Controls management

The Comptroller's activities focus on helping the Board and management to fulfill their duties through an independent, objective and systematic evaluation of the design and effectiveness of governance, internal controls and risk management.

In 2006, the main challenges involved consolidating a working method for evaluating risks and processes, the use of up-to-date technological tools, and the development of activities associated with unit certification. This was done through applying international best practices and standards, to improve service quality, add value to functions and meet strategic objectives.

B.5 Main contracts and consultancies

In line with rules in the Bank's constitution on regular reporting to the public by the Central Bank, the main contracts for purchasing goods and services are provided here. These are contracts worth more than Ch$200 million throughout, signed in 2005 and 2006 (table II.1) and consultancies, surveys and studies (table II.2). Section D.7 on suppliers and security in the issuing of money provides general information on the Bank's contracts as per the emissions programmed in 2006.

TABLE II.1
Contracts signed, 2005 and 2006
(amounts higher than Ch$200 million)

Supplier	Purpose	Starting date	Ending date
Nationasl Estatistics Bureau (INE)	Provision of statistical products	1/1/2006	1/1/2009
Central de Restaurantes - Aramak Ltda.	Bank employee services	3/12/2005	3/12/2010
Sodexho Chile S.A.	Bank employee services	1/4/2005	2/12/2005
Comercial Visto Bueno Producciones Ltda.	Resort services at Punta de Tralca	1/11/2005	1/11/2010
DMR Consulting Group Chile S.A.	Consulting services	31/8/2006	31/1/2008
ATCOM Outsourcing S.A.	Information technology services	8/8/2006	8/8/2009
Entel Chile S.A.	Information technology services	1/6/2006	1/6/2009
BAC Servicios Computacionales S.A.	Information technology services	5/4/2005	5/4/2010
Microsoft	Information technology services	1/12/2005	1/12/2008
NOUS Ltda.	Information technology services	1/8/2005	1/8/2008

Source: Central Bank of Chile.

TABLE II.2
Spending on consultancies, surveys, studies and seminars
(Ch$ million, 2006 pesos)*

	2002	2003	2004	2005	2006
Consultancies	1,966	584	447	390	448
Surveys and studies	273	372	605	411	239
Seminars	178	125	143	119	129

*The average CPI was used to update figures previous to 2006 pesos.
Source: Central Bank of Chile.

C. Operating expenses

Operating expenses include staff wages and benefits, the use and consumption of goods and services, and other associated expenditures necessary for carrying out Central Bank activities. They are broken down as follows: i) personnel; ii) administration; iii) depreciation, amortization and write-offs; and iv) taxes, contributions and others. Of total operating expenses, personnel accounts for 66%; administration, 27%; depreciation, amortization and write-offs, 5%; and taxes, contributions and others, 2% (table II.3).

Personnel expenditures

From 2002–2006, personnel expenditures rose 23.2% in real terms, reflecting a gradual change in the job structure that has involved a tendency toward more professional and fewer administrative, secretarial and service staff. Thus, professionals, along with executives and management accounted for 51% of total employees in 2002, and 64% in December 2006. This trend is expected to continue. The real increase of 4.6% in spending on personnel in 2006 over 2005 basically reflects investment in training, which nonetheless remains in line with strategic planning, or about 5% of the total payroll.

Administrative expenditures

Administrative expenditures fell a real 6.1% from 2002 to 2006. This mainly reflected higher than usual spending on consultancies and professional services in 2002 (the result of honoraria paid using the proceeds from sale of *Banco Santiago* shares received in lieu of payment, under Law 19,396). The real 9.4% increase in administrative expenditure from 2005 to 2006 mainly reflected higher spending to maintain fixed asset goods and larger disbursements due to spending on technological development and computers.

TABLE II.3
Main Operating expenses
(Ch$ million, 2006)*

	2002	2003	2004	2005	2006
Operating expenses					
Personnel	14,638.9	16,084.3	17,187.2	17,253.8	18,040.6
Administration	7,922.4	8,730.5	7,463.3	6,795.1	7,435.7
Depreciation, amortization and write-offs	1,598.1	1,388.7	1,658.9	1,663.2	1,424,9
Taxes, contributions and others	524.9	544.4	505.9	481.4	461.6
Total	**24,684.3**	**26,747.9**	**26,815.3**	**26,193.5**	**27,362.8**
A. Personnel expenditures					
Wages and other employer contributions	12,351.0	13,031.7	13,871.9	13,796.6	14,414.2
Staff welfare	1,792.3	1,809.7	1,856.1	1,914.8	1,976.0
Training	175.4	202.7	290.9	431.1	615.2
Provision for severance pay (years of service)	320.2	1,040.2	1,168.3	1,111.3	1,035.2
Total	**14,638.9**	**16,084.3**	**17,187.2**	**17,253.8**	**18,040.6**
B. Administrative expenditures					
Basic utilities	612.9	587.8	608.6	613.0	608.5
General services	2,315.6	2,188.2	2,579.2	2,684.0	2,757.2
Maintenance of fixed asset goods	686.0	914.9	970.2	409.7	844.1
Expenditures on computers and technological development	1,891.4	3,958.6	2,110.8	2,169.8	2,410.7
Consulting, surveys, studies and seminars	2,416.5	1,081.0	1,194.5	918.6	815.2
Total	**7,922.4**	**8,730.5**	**7,463.3**	**6,795.1**	**7,435.7**

* The average CPI was used to update figures in pesos from prior to 2006.
Source: Central Bank of Chile.

D. Communications and diffusion

D.1 Main publications

In 2006, the Central Bank of Chile carried out an extensive publishing program, which reveals the importance it assigns to distributing information to the public in a timely, transparent and suitable fashion. These publications offer policy information, promote the development of and debate about economic research, contribute to making specialized subjects associated with its activities more widely known, and provide financial and economic statistics and other data.

In this context, the *Monetary Policy Report* and the *Financial Stability Report* are the Bank's flagship publications. The former contains an evaluation of the latest developments and expected inflation trends and the economy in general, their implications for monetary policy in the medium term, and information needed by agents to reach reasonable conclusions about prices and economic growth. The latter, analyzes the relevant macroeconomic and financial environment relevant to financial system stability, trends in borrowing and the capacity to pay of the economy's main credit users, the status of non-bank financial intermediaries, and their impact on the banking system and the Chilean economy's international position.

Likewise, in March 2006, volume 10 of the series on Central Banking, Analysis and Economic Policies was published. Its purpose is to promote discussions of relevant economic research for emerging economies. This particular edition, called *External Vulnerability and Preventive Policies*, contains several papers presented at the Central Bank of Chile's Eighth Annual Conference, held in August 2004.

Economic research was also reflected in the journal *Economía Chilena*, through the publication of ten research papers and seven articles. Subjects dealt with mainly involved the Chilean economy and offered substantial empirical information useful for conducting economic policy.

In the first quarter of 2006, the *Economic Studies* series was discontinued and replaced by a new series, Studies on *Economic Statistics*, which focuses primarily on economic statistics, offering more empirical data. Five issues of this new publication came out during the year, offering information about the new definitions of the monetary aggregates used by the Central Bank from May onward and a document dealing with the significant increase in analytical information on its balance sheets and foreign currency liquidity.

In 2006, the Bank published 54 working papers. This series, which has become one of the most important ones in its field internationally as measured by visits to our website, encourages the free exchange of ideas and news about preliminary economic research for discussion and comments. The current volume of publications in this lineup is well above that of other Latin American central banks and most of the US federal reserve banks, and the central banks of Europe, Asia, Australia and New Zealand. This trend began in 2000, with the series holding third place in world production of working papers for 1997-2005.

In 2006, the Bank published three editions as part of its *Economic Policy Papers* series, which reports on the thinking of central bank authorities with regard to relevant topics in the economy and in terms of monetary policy management. The subjects analyzed dealt with the Chilean banking system from the perspective of the Basel II accords, economic policy considerations within the inflation targeting approach in emerging economies, and the change in foreign exchange and monetary regimes apparent in the past ten years in the world and particularly in Latin America.

In September, the paper "Managing the Central Bank of Chile's Foreign Exchange reserves" was published in Spanish, and its English version was released in December. This position paper, the result of the bank's transparency policies, puts forward its goals in managing its foreign exchange reserves, the institutional framework governing their management, investment policies, basic composition and characteristics, external portfolio management programs, risk management and yields from these reserves.

In October, an updated version of the Central Bank's Basic Constitutional Act (*Ley Orgánica Constitucional*) was published as article one, Law 18,840. This version included the latest amendments to this Act, made in January 2006, which established several provisions regarding personal equity declarations required of Board Members.

In November, the newest version of Chile's National Accounts, 2003 Benchmark compilation, was published, known as the input-output matrix for the Chilean economy in its earlier versions (1962, 1977, 1986 and 1996). The purpose of this document, part of normal practice of reviewing this accounting system, for macroeconomic aggregates for 2003, will be used as the reference for new annual and quarterly national accounts estimates.

Similarly, in December 2006, the website offered a digital version of the paper, *Legislación Económica y Financiera* (Economic and Financial Legislation), which is a complete selection from the main legal and regulatory bodies governing the financial system, capital markets, public sector borrowing, foreign trade and foreign investment.

In terms of releasing economic and financial statistics and related information, as per article 53 of the Basic Constitutional Act, the Bank applied an annual schedule of periodical publications, among them its monthly bulletin *Boletín Mensual*, *Síntesis Monetaria y Financiera*, *Indicadores de Comercio Exterior*, and the yearbooks *Cuentas Nacionales* (National Accounts), *Balanza de Pagos* (Balance of Payments) and *Deuda Externa de Chile* (Chilean External Debt).

D.2 Visits to the Senate

As per the provisions in the Basic Constitutional Act regarding the requirement to report on policies and regulations issued, the Board presented its *Monetary Policy Report* for January and May to the Senate finance commission and the September report to the plenary of the Senate. Similarly, in January it was invited to a special session to discuss the dollar's effect on the Chilean export sector and throughout the year met several times with the finance commission to discuss department store credit cards and a draft law on fiscal responsibility, among other issues.

D.3 Seminars and conferences

On 9 - 10 November 2006, the Central Bank held its Tenth Annual Conference, on this occasion focusing on the subject of the current account and external financing. The meeting's purpose was to promote and discuss progress in economic research of interest to central banks, in areas relating to optimizing the current account, external financing decisions and appropriate policy responses.

The meeting, which included a special presentation from the former chief economist of the Inter-American Development Bank, Guillermo Calvo, brought together senior policymakers and academics from Chile and abroad, who presented and discussed original research in this field, focusing especially on policy implications.

On 28 - 29 September, the workshop "Central Bank Macroeconomic Modeling" was held, to discuss and promote new advances in research on central bank and other policy-making institutions' modeling. The main issue was the empirical evaluation of general equilibrium stochastic models, with talks and comments by Board Members, the US Federal Reserve, the European Central Bank, the Bank for International Settlements (BIS), the universities of Laval and Brescia, and central banks in Canada, Chile, Colombia, England, Italy, Norway, New Zealand, Peru, Serbia and Sweden.

In August, the Central Bank and the Superintendency of Securities and Insurance organized the seminar "Payment and Security Settlement Systems, Recent Developments and Future Challenges." Its purpose was to analyze the functioning of new high-value settlement systems in Chile and challenges in the field of securities market clearing and settling. Presentations were by the European Central Bank's director for infrastructure markets, the Central Bank's domestic financial markets manager, and general managers from *Combanc*, the Chilean association of banks and financial institutions, the central securities deposit and the Santiago stock exchange.

A seminar entitled "Chile's economic growth and cycles" was held on 2 June, in response to questions about the prospects for long-term growth and Chile's future cyclic behavior. Professionals from the Central Bank, the finance ministry, the World Bank and the universities of Chile, Diego Portales and Harvard spoke.

In 2006, the Central Bank continued to hold seminars on relevant macroeconomics and finances, with the year's total reaching 27. These focused on bringing more public attention to theoretical and applied research amongst researchers, professors, students and Central Bank staff. Speakers included researchers with several foreign bodies, such as the International Monetary Fund, the National Bureau of Economic Research and the Bank of Canada, and issues dealt with included central banks' experiences with inflation targeting, economic development, macro-financial risk, volatility and employment.

D.4 "Economics for the Majority" program

As part of its outreach program, "Economy for the Majority," the Central Bank continued to organize guided tours, a program begun in 2004 involving visits to its main premises. In 2006, more than 4,500 people visited the head office, mostly high school and university students.

For the second year running, the bank organized its competition "*La economía + cerca*" (Close-up on the Economy). This initiative, designed to bring economics closer to students and teach them about the Central Bank's role and functions, is organized by the Central Bank and sponsored by the Ministry of

Education. Third and fourth year high school students are invited to work in groups with a teacher on an essay that, from a daily perspective, explores the impact of Central Bank decisions on the country, their region, their municipal area or household.

In 2006, the Bank received 520 essays from 302 schools, some public, some subsidized private and some fully private, all over Chile. The winning group came from the Linares *Instituto Comercial*, with an essay on "The Superintendency of Banks' role in our high school." Second place went to the team from Ovalle's *Amalia Errázuriz* school, for its essay "The Monetary Policy Rate and financial acceleration from a local perspective," while third place went to the paper "Lending and Inflation Control," from the *San Agustín* school in Viña del Mar.

D.5 Visits to regions

To foster learning and familiarity with Bank objectives, policies, instruments and projections among the population at large and thereby achieve greater and better understanding of its actions and policy impacts, in 2006 the Central Bank continued to present its main reports as part of its regional meetings program.

These meetings, which coincide with publication of the *Monetary Policy Report* every four months, and the *Financial Stability Report,* twice yearly, are complemented by other talks on Central Bank policies and instruments and a panel on development perspectives for the region visited. In 2006, these sessions were held in Coihaique, Punta Arenas, Concepción and La Serena, and were hosted by Board Members José De Gregorio, Enrique Marshall, Jorge Desormeaux and Manuel Marfán, respectively.

The Bank organizes these meetings in association with a university or regional business group, and they offer a valuable opportunity for approaching the community, business people and regional authorities, offering direct and fluid dialogue to foster greater mutual awareness between the Bank and different economic sectors in each region. Attendance ranges from 75 to 200 people.

Board members and other high-ranking authorities also made presentations outside of Santiago, in response to invitations from academic bodies, the media or other types of associations.

D.6 Cultural outreach

For the third year running, the Central Bank participated in Chile's national heritage day, organized by the government and involving the participation of more than 50 buildings of historical and cultural interest. The Governor and other senior authorities received more than 2,000 visitors, explaining the Bank's main functions and general role.

In late October, the Central Bank officially opened its fifth annual painting exposition, "Urban Memory", as part of efforts to share its valuable collection with the general public. The exposition included 20 works of art, united by the theme of the urban landscape.

More than 1,200 people visited this fifth show, which was open from 26 October to 29 December at no charge, and offered a special guided tour by an art historian and a video featuring the national arts museum director and curator of the show, Milan Ivelic, who explained each of the works presented.

D.7 Suppliers and money issuance security

As per article 28 and thereafter in the Basic Constitutional Act, the Central Bank is the sole body responsible for issuing the banknotes and coins circulating in Chile. It hires a group of specialized firms to supply them through international and national tenders. In 2006, the Central Bank signed contracts for banknotes and coins two years' hence from suppliers in Australia, Canada, Chile, France and England, giving priority to economic efficiency in deciding the tenders.

To satisfy growing demand for currency, in 2006 the Bank signed contracts for the production of Ch$373.2 million in banknotes and Ch$524.8 million in coins, with the following breakdown: 144.4 million in 10,000-peso banknotes; 39 million in 5,000-peso banknotes; 189.8 million in 1,000-peso banknotes; 57.3 million in 100-peso coins; 46.5 million in 50-peso coins; 147 million in ten-peso coins; 88 million in five-peso coins; and 186 million in one-peso coins.

To raise consciousness about the importance of security measures regarding banknotes, a training program was developed and applied to familiarize users with banknotes and how to confirm their authenticity. In 2006, some 1,050 people were trained in Santiago and elsewhere. A program was also applied with commercial bank tellers to improve their knowledge of security elements. Moreover, some 17,000 leaflets and 1,000 posters were distributed to banks, stores and police stations, the website was updated to reflect the new issue of 1,000-peso, 5,000-peso, and 10,000-peso bills, ensuring it continues to be a useful tool for professionals handling cash.

D.8 Marked banknotes for the visually impaired

One of the Central Bank's objectives is to provide efficient and secure means of payment, by providing high-quality and secure banknotes and coins according to international standards. In this sense, it works constantly to ensure the public correctly recognizes banknotes and coins, thus keeping confidence in these means of payment high. As part of its efforts to facilitate identification and use of banknotes, in August 2006 the Central Bank issued new banknotes worth 1,000, 5,000 and 10,000 pesos that include special marks to assist the visually impaired. This change means that all Chilean banknotes include special marks of this nature in the same place and with similar characteristics.

D.9 International relations

In 2006, the Central Bank continued to encourage Chile's integration into the world, both through its regular activities and through an additional agenda of special activities. The former included participation by Central Bank authorities and executives at bi-monthly and annual BIS meetings, the spring meetings of the Institute for International Finance (IIF) and the International Monetary Fund (IMF), and annual meetings of the Inter-American Development Bank (IDB) and IIF, the joint annual meeting of the IMF and the World Bank, the meeting of Mercosur and associated countries' central bank governors, the meeting of governors at the regional association of Latin American and Caribbean central banks Centre for Latin American Monetary Studies (Cemla), and visits with authorities and executives from other central banks. Moreover, the Central Bank received five IMF missions and ten student groups from MBA programs at foreign universities during 2006.

Special activities included the joint organization of seminars, held in Santiago, and visits from senior authorities and technical staff from other central banks. The former included the “Seminar on Foreign Exchange Reserve Management,” jointly organized with the BIS (May), the “Meeting of Central Bank of the Americas Open Market Operations Managers”, organized with the New York Fed (October), and two seminars jointly organized with the IMF, the “World Economic Outlook Seminar” (November) and “Seminar on the IMF’s Medium-Term Strategy” (December). This last included the special participation of John Lipsky, First Deputy Manager of this multilateral body.

Visitors included the Central Bank of Canada’s Governor (July), a board member from the Central Bank of Brazil (July), the Governor of Poland’s Central Bank (July), the Governor of Vietnam’s Central Bank (August) and the Vice-Governor of Indonesia’s Central Bank (November). Technical visits in 2006 included staff from central banks in Nicaragua (January), Russia (March), Honduras (April), Paraguay (April), Australia (July), Vietnam (August), Nigeria (October) and Indonesia (November). Finally, staff from the state agency in charge of managing the People’s Republic of China’s reserves (SAFE), which forms part of China’s Central Bank also visited (July).

E. Other

E.1 Technological change

Since mid-2004 and in line with modernization underway at the Central Bank, the information technology management area has developed a multi-year plan to improve technology, information and support systems. This has focused on two elements: (i) achieving the best market standards in terms of information, communications and security-related technologies and (ii) line up objectives for the information technology area with the Central Bank’s strategic objectives to generate added value.

The main guidelines in technological terms are to select the best practices available on the market, through comparisons with other central banks or similar bodies, and to meet international standards such as the BS-7799, COBIT and ITIL.

The main activities to improve corporate governance in the IT field included the creation of a Technology Committee in 2005, to advise the General Manager when evaluating new technologies and risks, to ensure these add value and line up with strategic objectives. In terms of technological infrastructure, most efforts focused on standardizing software platform versions, applying, for example, server virtualization technologies to use resources more efficiently. From late 2004 to the end of 2006, this cut by about one-third the physical servers in the Central Bank. In terms of work stations, the Bank implemented a plan to renew one-third of the stock each year, at the same time as it increased the number of portable work stations with wireless connections, and increased remote connection channels for authorized staff. Progress in this field included harmonizing and upgrading data base, e-mail, Internet surfing software, server operating systems and basic software to the most recent versions. It also integrated new tools such as corporate chat, cooperative work and knowledge management. The help counter was also significantly improved with implementation of an incident service model, change management and early detection of faults in critical services.

E.2 Independent auditors appointed

Section two of article 76 of the Basic Constitutional Act establishes that financial statements must be approved by external auditors appointed by the Board from those registered with the Superintendency of Banks and Financial Institutions.

As a result, through resolution N° 1200-02-050609, the Board renewed its contract with *Ernst & Young Servicios Profesionales de Auditoría Ltda.*, to audit its financial statements through 31 December 2006.

Appendix I

Monetary policy meeting press releases, 2006

12 January

In its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to maintain the monetary policy interest rate at 4.5% (annual).

Annual inflation is within the 2-4% target range and core inflation measures CPIX and CPIX1 (that exclude fuels, perishables and some regulated rates, among others) have remained below 3% per annum. Other inflationary trend indicators and the various measures of expected inflation continue to be well anchored. Projections are that—after being temporarily around 4% per annum during the first quarter— the rate of inflation will be under 3% for some time to later converge to the center of the target range in the normal policy horizon of 12 to 24 months.

Economic activity has resumed a growth pace above the trend, which implies that the deceleration of previous months may have been partly transitory. Although the annual growth pace of job creation has moderated, salaried employment continues to grow vigorously. The external environment concerning the Chilean economy is still favorable and domestic financial conditions continue to be expansionary.

The decision to pause is no indication of a change in the strategy of normalization of the monetary impulse. The Board estimates that further increases in the interest rate in future months are still necessary to attain, in the most likely scenario, an annual inflation rate around 3% over the normal policy horizon.

9 February

In its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to raise the monetary policy interest rate by 25 basis points to 4.75% (annual).

The external scenario relevant to the Chilean economy continues to be favorable, with a persistently high copper price and an advantageous international financial environment. Internally, financial conditions are still expansionary. Domestic demand is showing signs of moderating its fast growth rate and activity growth continues above its trend. The above reaffirms that output deceleration of the third quarter of last year may have been partly transitory, in line with projections in the latest *Monetary Policy Report*. Although the annual growth pace of job creation has moderated, salaried employment continues to grow vigorously.

Twelve-month inflation was just above 4%, and core inflation measures CPIX and CPIX1 (that exclude fuels, perishables and some regulated utilities, among others) are already around 3%. Although annualized inflation is expected to remain over 4% in the short term, prospects remain that it will converge to 3% during the course of this year, consistently with the baseline scenario described in the latest *Monetary Policy Report*. Other indicators of the inflation trend and the various measures of expected inflation continue well anchored around the center of the target range.

The Board believes that, in the most likely scenario, it will continue with the gradual reduction of the prevailing monetary stimulus, in order to maintain expected inflation around 3% per annum over the normal policy horizon of 12 to 24 months.

16 March

In its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to maintain the monetary policy interest rate at 4.75% (annual).

Despite fluctuations due mainly to the incidence of changes in fuel prices, inflation has been in line with expectations in the last *Monetary Policy Report*. Annual CPI inflation is temporarily somewhat above 4%, and core inflation CPIX (that excludes fuels and perishables) is at 3.5%. Nonetheless, core inflation CPIX1 (that also excludes some regulated utility rates) and other inflation trend indicators, as well as the various measures of inflation expectations are still well anchored around the center of the target range.

Output has continued to grow at a pace above its trend, leaving behind the relative weakness it showed the third quarter of last year. Domestic demand growth has slowed, although less than forecast in the last *Monetary Policy Report*, as a result of stronger consumption. Salaried employment continues to expand vigorously. The favorable external scenario faced by the Chilean economy looks somewhat better than in recent months, and domestic financial conditions are still expansionary.

The Board considers that the information analyzed is insufficient to warrant acceleration, on this occasion, of the pace of monetary policy normalization. Notwithstanding the above, it reaffirms that future increases in the policy rate are still necessary to attain, in the most likely scenario, an inflation rate around 3% per annum over the normal policy horizon of 12 to 24 months.

13 April

In its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to raise the monetary policy interest rate by 25 basis points, to 5% (annual).

The external scenario relevant for the Chilean economy continues to be very favorable, with the copper price considerably above earlier projections. In the first quarter of this year, domestic demand has shown some moderation in its high growth rate, in line with the projection scenario considered in the last *Monetary Policy Report*. In the same period, output showed signs of less than expected growth, influenced by circumstantially poor performance from some sectors. Job creation has resumed its growing annual expansion rhythm and, in particular, salaried employment continues to grow strongly. At the same time, internal financial conditions continue to be expansionary.

Inflation has continued along a similar path to that expected in the last *Monetary Policy Report*. Annual inflation measures CPI and CPIX (that exclude fuels and perishables) are temporarily at the upper half of the target range. On the other hand, both core inflation CPIX1 (that also excludes some regulated utility rates), and other inflation trend indicators, and the different measures of inflation expectations, continue to be well anchored around the center of the target range.

The Board considers that, in the most likely scenario, gradual adjustments to the interest rate will continue to be necessary to maintain projected inflation around 3% per annum in the normal policy horizon. The timing of these adjustments will depend on the implications of news in economic activity, exchange rate and prices, over the expected path of inflation.

11 May

In its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to maintain the monetary policy interest rate at 5% (annual).

The external scenario relevant for the Chilean economy continues to be very favorable, with the copper price increasing sharply to levels considerably above earlier projections. Available information continues to indicate that domestic demand is moderating its fast growth. It also confirms less-than expected growth for the first quarter, although because of one-off effects on specific sectors. Employment continues to grow at high rates, especially the salaried component. Internal financial conditions continue to be expansionary, although lately they show signs of attenuation.

The inflation trend has continued in line with projections. Annual inflation measures CPI and CPIX (that excludes fuels and perishables) are temporarily at the upper half of the target range. On the other hand, core inflation CPIX1 (that also excludes some regulated utility rates), other inflation trend indicators and the different measures of expected inflation, continue to be well anchored around the center of the target range. While fuel prices have risen, other cost pressures are well contained.

The decision to take a pause does not modify the Board's evaluation that, in the most likely scenario, additional increases in the interest rate in coming months continue to be necessary to have annual inflation around 3% in the normal monetary policy horizon.

15 June

In its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to maintain the monetary policy interest rate at 5% (annual).

The external scenario relevant for the Chilean economy continues to be favorable, despite the fact that financial conditions facing emerging economies have become less advantageous in the past few weeks. In this context, both corporate shares and currencies have adjusted downward, while sovereign spreads have risen slightly. The price of copper has made relatively fast downward corrections, but it remains high.

The information available continues to point at domestic demand moderating its growth rate, in line with projections in the last *Monetary Policy Report*. April's output growth was slower than expected, although evidence at hand suggests that no persistent factors are behind. Employment continues to grow at high rates, especially the salaried component. Internal financial conditions are still expansionary, although less so than in the past few months.

CPI inflation has continued along the path foreseen in the last *Monetary Policy Report*. CPIX1 inflation (that excludes fuels, perishables and some regulated utilities) has declined recently, as have other trend inflation indicators, while the different measures of expected annual inflation continue to be well anchored around 3%. While fuel prices have continued on the rise, other cost pressures seem to be well contained.

This decision to maintain the monetary policy interest rate unchanged is consistent with the strategy of gradual normalization of monetary policy. It does not modify the Board's evaluation that, in the most likely scenario, additional increases in the interest rate in coming months continue to be necessary to have annual inflation around 3% in the normal policy horizon .

13 July

In its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to raise the monetary policy interest rate by 25 basis points to 5.25% (annual).

The external scenario relevant for the Chilean economy remains favorable. The volatility of international financial markets observed in recent weeks has decreased. The copper price has increased again while oil has reached record-high price levels.

Domestic demand suggests a moderation in its growth rate for the second quarter, in line with projections in the last *Monetary Policy Report*. The latest output indicators support the evaluation that April's low growth figures were due mainly to transitory factors. However, available information points a somewhat lower increase in the second semester growth rate than previously considered. Meanwhile, salaried employment continues to increase relatively vigorously, and domestic financial conditions are still expansionary.

CPI inflation is in the higher part of the target range, probably postponing its convergence to the center for a few quarters, due to the incidence of higher fuel prices. Measures of core inflation CPIX and CPIX1 (that exclude fuels, perishables and some regulated utilities) are around 3%. Other trend inflation indicators remain stable while the different measures of expected inflation continue to be anchored around 3%. While fuel prices have continued on the rise, other cost pressures are contained.

The Board considers that, in the most likely scenario, additional gradual adjustments to the interest rate will continue to be necessary to maintain projected annual inflation around 3% in the normal policy horizon. The timing of said adjustments will depend on incoming information, and may be less frequent than they have been in recent quarters.

10 August

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to maintain the monetary policy interest rate at 5.25% (annual).

The external scenario relevant to the Chilean economy remains favorable, with a recent change in the contribution to economic growth by the various economic zones. International financial conditions continue to be positive, the copper price remains high and oil is again at a record peak.

Domestic demand seems to have slowed during the second quarter—in line with projections in the last *Monetary Policy Report*—with a sustained drive from consumption and some investment deceleration. Nonetheless, second-quarter output growth was somewhat lower than expected, while available indicators continue to suggest that the increase in the pace of growth considered for the second half of the year may fall short of projections. On the other hand, salaried employment continues to grow relatively vigorously, and domestic financial conditions are still expansionary.

CPI inflation remains in the higher part of the target range, due mainly to the incidence of higher fuel prices. Measures of core inflation CPIX and CPIX1 (that exclude fuels, perishables and some regulated utilities) are still near 3%. Other trend inflation indicators remain stable, while the different measures of medium- and long-term expected inflation continue to be anchored around 3%. While fuel prices are still high, other cost pressures are contained.

The Board considers that, in the most likely scenario, gradual adjustments to the interest rate will continue to be necessary to maintain projected annual inflation around 3% in the normal policy horizon. The timing of said adjustments will depend on incoming information, but the data available reaffirms that they may be less frequent than they have been in recent quarters.

7 September

In its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to maintain the monetary policy interest rate at 5.25% (annual).

The external scenario relevant for the Chilean economy remains favorable. International financial conditions continue to be positive; the copper price remains high while the oil price has dropped significantly in the last several days.

Although consumption continues to grow with relative strength, output is still less dynamic than previously forecast. However, salaried employment continues to rise while unemployment is gradually declining. Market interest rates in general have fallen, and domestic financial conditions are still favorable.

CPI inflation remains in the upper part of the target range, due mainly to the incidence of higher fuel prices. Measures of core inflation CPIX and CPIX1 (that exclude fuels, perishables and some regulated utilities) have fallen short of projections, at around 3% and 2.5%, respectively. Also, other indicators of trend inflation show a slight decline. Cost pressures are well contained. The various measures of expected inflation continue to be well anchored around 3% over the normal policy horizon.

The Board considers that, in the most likely scenario, additional increases in the interest rate will be necessary to maintain projected annual inflation around 3%. However, these adjustments might take a rather long period of time, depending on incoming information and its implications on projected inflation.

12 October

In its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to maintain the monetary policy interest rate at 5.25% (annual).

The oil price level is lower than projected in the last *Monetary Policy Report*, strengthening the favorable external scenario for the Chilean economy. International financial conditions continue to be positive, and the copper price remains high.

Output continues to grow at a low pace, partly affected by specific developments in mining and manufacturing. Nonetheless, salaried employment continues to rise, while unemployment is gradually declining. Domestic financial conditions remain favorable. All these facts, combined with the evolution of the external scenario, are consistent with the economic recovery projected for next year.

CPI inflation and core CPIX inflation (which excludes fuels and perishables) are close to 3%. Core CPIX1 inflation (which also excludes some regulated services) has been below forecast and is now less than 2.5%. Other indicators of trend inflation also show a decline and cost pressures are contained. This, together with reduced fuel prices, permits to forecast that inflation in the next few months will be less than projected in the last *Monetary Policy Report*. Medium- and long-term inflation expectations continue to be anchored around 3%.

With the information at hand, the Board considers that, for a rather extended period of time, new increases in the policy rate may not be necessary to maintain projected annual inflation around 3%. However, this will depend on incoming information and its implications on projected inflation.

16 November

In its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to maintain the monetary policy interest rate at 5.25% (annual).

The external scenario relevant to the Chilean economy remains favorable. Oil prices remain below projections in the last *Monetary Policy Report*, world financial conditions are still positive and the copper price, despite recent reductions, is still high.

Domestic output continues to grow at a low pace, below earlier projections, and beyond specific developments in manufacturing industry and mining. Nonetheless, salaried employment continues to rise, while unemployment falls and consumption grows steadily with relative strength. Domestic financial conditions remain favorable. This information, combined with the evolution of the external scenario and increases in investment intentions, is consistent with economic growth picking up during next year.

Annual CPI inflation dropped significantly, largely influenced by the decline in fuel prices, and is now in the lower part of the target range, below earlier projections. This also reflects the decline in core CPIX1 inflation (which excludes fuels and perishables, plus some regulated services). Other indicators of trend inflation also show a decline, and cost pressures are well contained. These events permit to forecast that inflation will be, for some months, below the center of the target range. Long-term inflation expectations continue to be anchored around 3%.

The Board reaffirms its commitment of conducting monetary policy to assure that projected inflation will be at 3% over the policy horizon. Future changes in the monetary policy rate intended to achieve this objective will depend on incoming information and its implications for projected inflation.

14 December

In its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to maintain the monetary policy interest rate at 5.25% (annual).

The external scenario relevant to the Chilean economy remains favorable. Global growth continuous strong, commodity prices remain high and international financial conditions continue to be positive.

While domestic activity remains below projections in the last *Monetary Policy Report*, the latest information suggests it might recover dynamism during the present quarter. Better performance of the manufacturing sector and investment is observed. Salaried employment continues to rise and unemployment is falling. Internal financial conditions remain favorable, with some signs of attenuation of the high growth in credit. These developments are consistent with an economic growth rebound.

Annual CPI inflation is close to the floor of the target range, below earlier projections, due to the incidence of lower fuel prices and to a decline in core CPIX1 inflation (which excludes fuels and perishables, plus some regulated services). Other indicators of trend inflation are still low, but some are showing an incipient reversal. Cost pressures are well contained. These events permit to forecast that inflation will be, for some time, below the center of the target range. Long-term inflation expectations continue to be anchored around 3%.

The Board reaffirms its commitment of conducting monetary policy to assure that projected inflation will be at 3% over the policy horizon. Future changes in the monetary policy rate intended to achieve this objective will depend on incoming information and its implications for projected inflation.

Appendix 2

Main Central Bank of Chile measures in 2006

January

6 The Central Bank of Chile presented its schedule for tendering open market securities operations for 2006, which came into effect on 9 January 2006.

As part of its modernization of monetary policy instruments and to bring its practices into line with other central banks, it also announced that starting with the securities scheduled for tender during this period, Central Bank peso-denominated bonds maturing in two and five years and UF-denominated bonds maturing in five and ten years (BCP-2, BCP-5, BCU-5 and BCU-10 series) would take place once a month, while ten-year bond (BCP-10) auctions would take place every three months, starting in March.

26 The operating rules for the permanent deposit facilities were announced, the purpose of which is to establish a floor for Interbank rate fluctuations, allowing banks to make deposits electronically at the end of the day and whenever they wish, using the open market operations system, a technology that registers the conditions of each operation.

February

9 At its monthly monetary policy meeting, the Board of the Central Bank of Chile raised the monetary policy interest rate by 25 basis points, to 4.75% per annum.

After reviewing the technical specifications for banknotes and coins in circulation, the Board decided to add tactile recognition marks for the seeing impaired to those denominations not yet having them, that is 1,000-, 5,000- and 10,000-peso banknotes. In the case of coins, the Bank decided to make some adjustments to bring their technical specifications in line with international practices.

27 The Central Bank of Chile issued a new regulation on credit card issues and operations, which it had studied jointly with the Superintendency of Banks and Financial Institutions. The new regulatory framework established prudent requirements to be met by firms issuing or operating with non-bank credit cards widely used in the economy.

The main thrust of these changes involved regulations governing non-bank credit cards serving as relevant payment means and management and control procedures for credits, liquidity, financial, operating, technological risks to be used by the issuers and operators of said cards.

The requirements established for these firms depend on their importance as generally accepted means of payment and the risks that their acceptance involves for the retail trade and other affiliated bodies. These measures cover all cards used to make payments and other transactions in bodies not related to the issuer for amounts of 1,000,000 UF or more.

The Superintendency of Banks and Financial Institutions is responsible for enforcing compliance with these rules and other legal requirements applicable to this activity, including those regarding the maximum conventional interest rate. This new regulation came into effect on 30 April 2006.

March

3 As of this date, the regulation established by the Central Bank of Chile to govern the clearing house for checks and other documents in domestic currency, used by banks, came into full effect as part of its program to modernize the payment system and limit the use of this clearing house to swapping, compensating and cashing demand and other similar documents payable in pesos, worth (individually) less than Ch$50 million. Higher amounts can only be cashed through the high-value interbank payment systems managed or regulated by the Central Bank of Chile within the Real Time Gross Settlement system (RTGS system) and the high-value payments in pesos clearing house (*Cámara de Compensación de Pagos de Alto Valor en Moneda Nacional, CCAV*).

8 Starting with the reserve period beginning on 9 March, the Central Bank of Chile ruled that bank mortgage documents could be used in securities buy-back (repo) operations, carried out by the Central Bank of Chile and banks for monetary regulation purposes. Note that until then only securities issued by the Central Bank of Chile itself were accepted.

For the purposes of this authorization, bills of credit issued by banks enjoying risk ratings of AA and A or higher are allowed, excluding those issued by the bank requesting financing itself and once these instruments have been evaluated by the Bank.

13 The daily operating cycle for the RTGS system was changed to improve the functioning of this system, managed by the Central Bank of Chile. Early settlements (11:00 am) of the net results of the high-value clearing house documents, in effect since July 2004, were eliminated.

April

13 At its monthly monetary policy meeting, the Board of the Central Bank of Chile raised the monetary policy interest rate by 25 basis points, to 5% per annum.

May

18 The Central Bank of Chile amended regulations governing clearing houses for checks and other peso-denominated documents having to do with the operating aspects, to make settlement more efficient, timely and secure. This, moreover, consolidated the check settlement process at the national level, suppressing intermediate steps that on occasions produced errors or delays in settlements.

A new way for banks to deposit in the Central Bank was added, called the "Liquidity Deposit in Pesos for Banks and Finance Companies". This type of deposit, which serves the purpose of monetary regulation, operates through electronic communications between commercial banks and the Central Bank, through the open-market operations system, subject to supply and conditions that are set by the Central Bank on each occasion.

This modification came into effect as of 9 June 2006.

23 Through Resolution 1267-04-060518, the Board amended rules governing the content and frequency of release of the main Chilean macroeconomic figures provided by the Bank under Article 53 of the Basic Constitutional Act, in full compliance with the International Monetary

Fund's recommendations in this sense. Changes consist mainly of regrouping monetary aggregate components, reducing their number and extending the coverage of financial instruments.

July

10 The process of adjusting hours for the Real-Time Gross Settlements (RTGS) system was completed, as part of moving securities market operations from paper-based to electronic means of payment, and 5:30pm was established as closing time for daily operations. Note that the RTGS system operates by transferring pesos in real time among accounts that banks have with the Central Bank of Chile. In 2006, daily operations settled in this system averaged about 850, worth around Ch$3.5 billion. These included transfers ordered by banks, settlement of net balances from interbank clearing house operations and other Central Bank operations with banks.

13 At its monthly monetary policy meeting, the Board of the Central Bank of Chile raised the monetary policy interest rate by 25 basis points, to 5.25% per annum.

27 Through Resolution 1282-02-060727, empowered by the authority granted to it over foreign currency exchange operations as per article 42 of its Basic Constitutional Act, the Board of the Central Bank of Chile authorized legal bodies domiciled or resident abroad to trade publicly supplied securities issued by exchanges authorized by the risk-rating commission (DL 3500, 1980), to issue and place in Chile bonds payable in pesos. For this purpose, and among other requirements, these issuers and the securities they issue must be registered with the National Securities Registry established in Title II of the securities market law. This authorization also covers purchasing of these securities by people domiciled or resident in Chile, who are solely subject to the reporting required in section two of this resolution, whose regulation is included in Circular 847, 6 October 2006.

August

10 Upon request from the Superintendency of Banks and Financial Institutions, the Board clarified the reach of the regulation it had issued on credit cards issued by non-bank operators, approved by Resolution 1250E-01 (27 February 2006), in terms of compliance with registry requirements and other aspects involved in the application of these rules and supervision thereof by this Superintendency.

September

9 The Central Bank of Chile reported that, in the context of its policy of institutional transparency, established by the Board to explain to the country the scope of decisions made as part of fulfilling the public role entrusted to it, it had established the policy of delivering the following information to the President of Chile, the Senate, and the general public: a) *Monetary Policy Report* (three times a year); b) *Financial Stability Report* (twice a year); c) *Report on Foreign Exchange Reserve Management*. This information is provided in the Bank's *Annual Report*; d) The Board's main resolutions and measures affecting the level of foreign exchange reserves, foreign currency liquidity, and the Central Bank of Chile's balance sheet valued in foreign currency; and e) Information on changes in the Central Bank of Chile's balance sheets published in its monthly bulletin (*Boletín Mensual*).

12 The operating rules for the national money desks data system were published. These enable banking firms to file daily electronic reports on their monitoring of financial and monetary markets and market expectations, via the national money desk.

29 Instructions to banks regarding information they provide electronically to the Central Bank to determine the average Interbank rate (known as TIB, for *tasa interbancaria*) via the national money desks system, were updated to standardize market information by changing the basis for information on this rate from monthly to annual.

October

18 As part of Central Bank initiatives to ensure the smooth operating of the Real Time Gross Settlements system (RTGS) and the corresponding Intraday Liquidity Facility, contingency procedures for recovering and keeping operations timely in the event of accidents were updated.

November

21 The Central Bank of Chile decided to extend the coverage of credit bills issued by banks as financial investments for use as guarantees on credit operations with the Central Bank, among them the Permanent Liquidity Facility and the Intraday Credit Facility, except for their own bills of credit.

23 The Board of the Central Bank of Chile set the limit on general and life insurance and reinsurance companies abroad at 20% of their technical reserves and risk equity, thus maintaining the previous margin, which is the most legally permitted. This limit will remain in effect until 31 December 2007.

December

7 The Central Bank of Chile complemented the definition of the External Formal Secondary Market in which pension funds can trade investment securities internationally, to include securities or other documents issued by foreign firms through the National Formal Secondary Market, as per securities market legislation.

21 Through Resolution 1311-03-061221, the Board changed the content of the information that the Bank provides under article 53 of its Basic Constitutional Act regarding the main macroeconomic statistics, mainly in terms of updating and ensuring the consistency of the economic information it provides, by changing the appendices that detail the relevant information. This change came into effect on 23 December 2006.

27 The Central Bank of Chile reported that on 1 December 2006 it completed its joint program of reducing foreign currency-denominated liabilities and assets, thereby reducing the financial costs of its net position in foreign currency, reported on 5 November 2003. As a result of this program, its debt in foreign currency fell by US$6.271 billion. To amortize and pay interest on this debt, assets for the same amount were sold abroad.

This program, underway from 1 December 2003 to 1 December 2005, involved swapping securities expressed in foreign currency, payable in pesos, for bonds payable in dollars, and the eventual payment of the latter as they fell due by selling off assets abroad. The last payments in foreign currency were made on 1 December 2006. This reduction in foreign currency assets and liabilities was to improve the Central Bank's balance sheets, since the cost of financing in foreign currency was higher than its returns on international assets.


SINGLE MARKET CHANGES
U.S. TREASURY ACTIVES
KEY CROSS CURRENCY RATES
Bloomberg
Markets

Appendix 3

Foreign exchange reserves management

A. Introduction

Foreign exchange reserves are liquid assets in foreign currency 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 objective of safeguarding currency stability and the normal functioning of domestic and external payment systems.

The current floating exchange rate, combined with inflation targeting, solid fiscal policies, prudent financial regulations and supervision, and full financial integration abroad, constitute a coherent framework that helps to maintain essential macroeconomic balances and deal with the different shocks facing the economy, absorbing their impact. Notwithstanding, the Central Bank reserves the right to intervene in the foreign exchange market under exceptional and carefully defined circumstances.

As is consistent with the function of foreign exchange reserves and their benefits and costs, the purpose of their management is to guarantee secure, efficient access to foreign currency liquidity and safeguard Central Bank equity. To achieve this, the Bank acts according to the legal framework outlined in article 38 of its Basic Constitutional Act , which specifically empowers it to manage, maintain and dispose of its foreign exchange reserves, abroad.

In line with the Bank's transparency policies[1]/, it reports on foreign exchange management in 2006 in this *Annual Report*. The next section reports on investment policies and the reference structure applied to their management. The third section summarizes risk management policies and the result of foreign exchange reserves management. Finally, this report outlines the characteristics of the external portfolio management program. A more detailed analysis is available in the document published in September 2006[2]/.

[1]/ Board resolution 1289-01-060831, 29 August 2006.

[2]/ "Management of Foreign Exchange Reserves at the Central Bank of Chile," www.bcentral.cl/eng/financial-operations/pdf/Reservemanagement.pdf.

B. Investment policy and reference structure

The foreign exchange reserve investment policy covered liquid financial assets meeting the legal requirements for their management and was designed in terms of their impact on Central Bank balance sheet results and risks and the potential need for liquidity in foreign currency, seeking essentially to preserve capital in the face of possible market fluctuations.

B.1 Investment portfolio and liquidity portfolio

In 2006, foreign exchange reserves investments were grouped mainly in two portfolios: the investment portfolio and the liquidity portfolio.

The investment portfolio included short- and long-term foreign currency assets. The short-term component acted as a buffer to deal with shifts in foreign currency liquidity needs. This subportfolio's investments were held in bank deposits and monetary market instruments maturing in up to one year. Similarly, the long-term subportfolio included investment in nominal and indexed bonds[3] maturing mainly in from one to ten years. This subportfolio was designed to deal with unforeseeable contingencies and long-term requirements.

Note, moreover, that part of the investment portfolio was managed externally, as both a long-term portfolio and an MBS[4] portfolio, as detailed in Section D of this appendix.

The liquidity portfolio was designed to cover financing needs foreseeable in the short term and represented the preferred source for dealing with daily requirements arising from withdrawals from foreign currency accounts that the public sector and commercial banks held in the Central Bank. It also included General Treasury deposits in the Central Bank. These consisted mainly of bank deposits (overnight, weekend and time) and monetary market instruments.

Table B.1 shows that, as of December 2006, the Central Bank of Chile's foreign exchange reserves stood at US$19.429 billion, with US$11.997 billion in the investment portfolio and US$ 7.228 billion in the liquidity portfolio. Of total foreign exchange reserves, 70.4% were in US dollars, 24.7% in euros and 4.9% in other currencies. In 2006, reserves rose US$2.466 over the close of the previous year, given the rise in foreign currency deposits of both the financial system and the public sector, and capitalization received in December 2006, worth 0.5% of GDP, which were partly offset by expiration of BCXs associated with the swap begun in December 2003 and ending in December 2006.

3/ Bonds indexed to inflation are in US dollars and are known as TIPS (Treasury Inflation-Protected Securities).

4/ Mortgage backed-securities.

TABLE B.1
Foreign exchange reserves
(US$ million)

Portfolio type	Currency	2005 Dec.	%	2006 Dec.	%
I. Investment portfolio		**12,736.3**	**75.1**	**11,997.2**	**61.7**
Currencies and deposits	Dollar	3,876.6	22.9	3,654.5	18.8
	Euro	290.7	1.7	439.9	2.3
	Other	780.4	4.6	1.8	0.0
Securities	Dollar	3,479.9	20.5	3,551.1	18.3
	Euro	4,303.9	25.4	4,349.8	22.4
	Other	4.8	0.0	0.0	0.0
Total	Dollar	7,356.5	43.4	7,205.6	37.1
	Euro	4,594.6	27.1	4,789.7	24.7
	Other	785.2	4.6	1.8	0.0
II. Liquidity portfolio		3,952.7	23.3	7,227.8	37.2
Currencies and deposits	Dollar	3,952.7	23.3	5,893.1	30.3
	Euro	0.0	0.0	0.0	0.0
	Other	0.0	0.0	782.8	4.0
Securities	Dollar	-	-	551.8	2.8
Total	Dollar	3,952.7	23.3	6,445.0	33.2
	Euro	0.0	0.0	0.0	0.0
	Other	0.0	0.0	782.8	4.0
III. Other assets		**274.3**	**1.6**	**204.0**	**1.1**
Monetary gold	Other	3.3	0.0	4.3	0.0
IMF SDR	Other	52.6	0.3	54.6	0.3
IMF reserve position	Other	188.8	1.1	113.2	0.6
Reciprocal credit agreements	Dollar	29.6	0.2	31.9	0.2
Foreign exchange reserves (I + II + III)		**16,963.4**	**100.0**	**19,428.9**	**100.0**
	Dollar	11,338.9	66.8	13,682.5	70.4
	Euro	4,594.6	27.1	4,789.7	24.7
	Other	1,029.9	6.1	956.7	4.9
	Other	1,029.9	6.1	956.7	4.9

Source: Central Bank of Chile.

B.2 Investment portfolio reference structure

The investment portfolio reference structure establishes the basic parameters guiding the composition of currencies, maturities, distribution of credit risk by type of risk and instrument, and the respective benchmarks for comparison.

In September 2006, as a result of the annual review, changes were made to the investment portfolio benchmark in terms of its composition, by currency, for internal management and the duration of its long-term component. These changes were based on the nature of foreign currency needs that could arise and the potential impact of investment decisions, based on the reference structure, on Central Bank balance sheet results and risks.

The reference structure had 60% of its assets in US dollars and the remaining 40% in euros, with a ±5% deviation from the main values, corrected for hedging requirements for a predetermined amount of liquidity in foreign currency.

For the long-term investment portfolio, the reference duration was 31 months, with a range of from zero to eight months permitted over and above the reference maturity of this portfolio. For the short-term investment portfolio, the reference maturity was three months. Overall, the reference duration for the investment was 11.3 months, with a minimum maturity of zero months and a maximum deviation of six months allowed for the reference value.

Table B.2 shows the composition of the investment portfolio managed internally by the Central Bank as of December 2006, broken down by maturity, risk and currency. For the external managers of long-term investments, a structure similar to the long-term portfolio structure illustrated in the table was used. The MBS portfolio, meanwhile, was completely in dollars and used the corresponding Lehman Brothers index as its benchmark, (table B.3).

TABLE B.2

Internal administration investment portfolio reference structure
(percent)

Instrument	Share	Share by currency	
		Dollar	Euro
Short-term portfolio	70.0	41.3	28.7
Bank short-term	37.0	21.8	15.2
Sovereign short-term	33.0	19.5	13.5
Long-term portfolio	30.0	17.7	12.3
Bonds	27.0	14.7	12.3
Indexed bonds	3.0	3.0	-
Total	**100.0**	**59.0**	**41.0**

Source: Central Bank of Chile.

Finally and based on the composition indicated in table B.2, reference benchmarks were established for each investment portfolio component.

TABLE B.3

Investment portfolio reference benchmarks

	Reference benchmark	
Instrument	Dollar	Euro
I. Short-term portfolio		
Bank short-term	US$ Libid rate to six months	EUR Libid rate to six months
Sovereign short-term	US$ Fixbis rate to six months	EUR Fixbis rate to six months
II. Long-term portfolio		
Bonds	JP Morgan Index 1-10 years	JP Morgan Index 1-10 years
Indexed bonds	Barclays Indexed bonds index	
Mortgage-backed securities	Lehman Brothers MSB index	

Source: Central Bank of Chile.

B.3 Liquidity portfolio reference structure

In terms of currency and maturity, this portfolio's investments matched disbursements foreseen in the Central Bank's balance sheet. The currency reference structure for the liquidity portfolio was defined in terms of the actual currency composition of planned disbursements and deposits and withdrawals by commercial banks and the public sector. For interest rates, the benchmark for liquidity portfolio investments was calculated using overnight, weekend and time rates for currencies making up this portfolio, in terms of planned disbursements.

C. Foreign currency reserve risk management and results

Foreign exchange reserves management also took into account criteria necessary to limit liquidity, credit, market and operating risk.

To reduce liquidity risk, a portfolio consisting solely of international commercial banks short-term deposits, with diverse maturities, was used, along with fixed income instruments trading on highly liquid, deep secondary markets. On credit risk, limits to bank risk, sovereign, supranational and external financial institution risk was considered, as well as the counterparts used.

Table C.1 presents the composition of foreign exchange reserves by type of credit risk and risk rating as of December 2006.

TABLE C.1
Foreign exchange reserves by type of credit risk and risk rating
(percent)

Type of credit risk				Risk rating (2)				
(1)	AAA	AA+	AA	AA-	A+	A	A-	Total
Bank	6.1	1.9	8.4	26.3	8.1	5.2	0.2	56.1
Sovereign	23.2	5.1	0.0	1.7	0.0	0.1	0.0	30.0
Agency	10.0	0.0	0.0	0.0	0.0	0.0	0.0	10.0
Supranational	3.8	0.0	0.0	0.0	0.0	0.0	0.0	3.8
Total	43.0	6.9	8.4	28.0	8.1	5.3	0.2	100.0

(1) Bank risk is associated with investment in bank financial instruments (deposits, forex-spot/forward, pfandbriefes). Sovereign risk arises from investment in sovereign state instruments (deposits, bills, floating rate, notes, nominal and indexed bonds. Agency risk is associated with US government agency instruments (bills, nominal bonds, mortgage-backed securities). Supranational risk is associated with investment in instruments from an official multilateral agency (deposits, bills, floating rate, notes, nominal bonds).

(2) The risk rating reflects average ratings from Fitch, Moody's and Standard and Poor's.

Source: Central Bank of Chile.

Market risk was controlled by diversifying currencies, instruments and investment maturities and by measuring and controlling exposure to maturity and currency risk, as described above. This was quantified using absolute and relative Values at Risk (VaR) compared to a reference portfolio, using the parametric method, with a daily timeframe, a 95% confidence level, and a drop factor of 0.94.

Operating risk was controlled at an institutional and hierarchical level, maintaining a suitable separation of functions and responsibilities, and applying efficient controls to mitigate risk associated with reserve management. Computer applications were used that ensure market quality standards. These, combined with audits and evaluations, ensured that decision-making and evaluation of management within the Bank was clearly defined.

C.2 Returns on foreign exchange reserves management

In 2006, the total return from foreign exchange reserves management was 2.5% measured in foreign currency, that is, as a function of a reference basket for the investment portfolio. Measured in pesos, this return reached 10.9%, revealing the impact of shifts in parities against the Chilean peso. The differential from the reference structure was 0.06%. This meant that foreign exchange reserves management generated a surplus of US$10.6 million more than the benchmark. For 2000-2006 period, the average annual return, measured in foreign currency, was 3.88%, 23 basis points more than the reference benchmark (table C.2).

TABLE C.2
Total annual returns, benchmark and difference in returns
(percent)

Year	Currencies		Pesos		Dollars		In		Difference	
	RRII	BMK	RRII	BMK	RRII	BMK	RRII	BMK	%	Dollars
2000	6.88	6.65	12.92	12.70	4.84	4.61	11.64	11.41	0.22	30,860,148
2001	5.57	5.27	18.08	17.78	3.90	3.60	9.28	8.98	0.30	42,988,824
2002	5.25	4.69	17.89	17.32	9.34	8.78	-7.19	-7.76	0.57	81,421,354
2003	2.31	1.78	-12.84	-13.37	6.64	6.12	-11.26	-11.79	0.53	81,486,123
2004	1.84	1.95	-2.36	-2.25	4.08	4.20	-3.50	-3.39	-0.11	-17,240,565
2005	2.90	2.85	-9.92	-9.97	-1.72	-1.77	11.72	11.67	0.05	7,094,786
2006	2.45	2.39	10.93	10.87	6.84	6.78	-3.95	-4.01	0.06	10,635,972
Average	3.88	3.65	4.96	4.73	4.85	4.62	0.96	0.73	0.23	33,892,377

Source: Central Bank of Chile.

D. External portfolio management programs

D.1 Characteristics

In 2006, the Central Bank maintained two external portfolio management programs. The first involved three external managers in charge of US$630 million. The mandate focused on a portfolio similar to the long-term investment portfolio. The purpose of this program was three-fold: to add value to the foreign currency portfolio; to obtain transfers of know-how and technologies; and to create an active benchmark for the Central Bank portfolio. According to the review structure for these mandates, carried out regularly, in November 2006 this program ended. To decide on replacements, a selection process was implemented using the method described in the next section. This program came into effect in 2007, and involved two external managers handling a total of US$500 million.

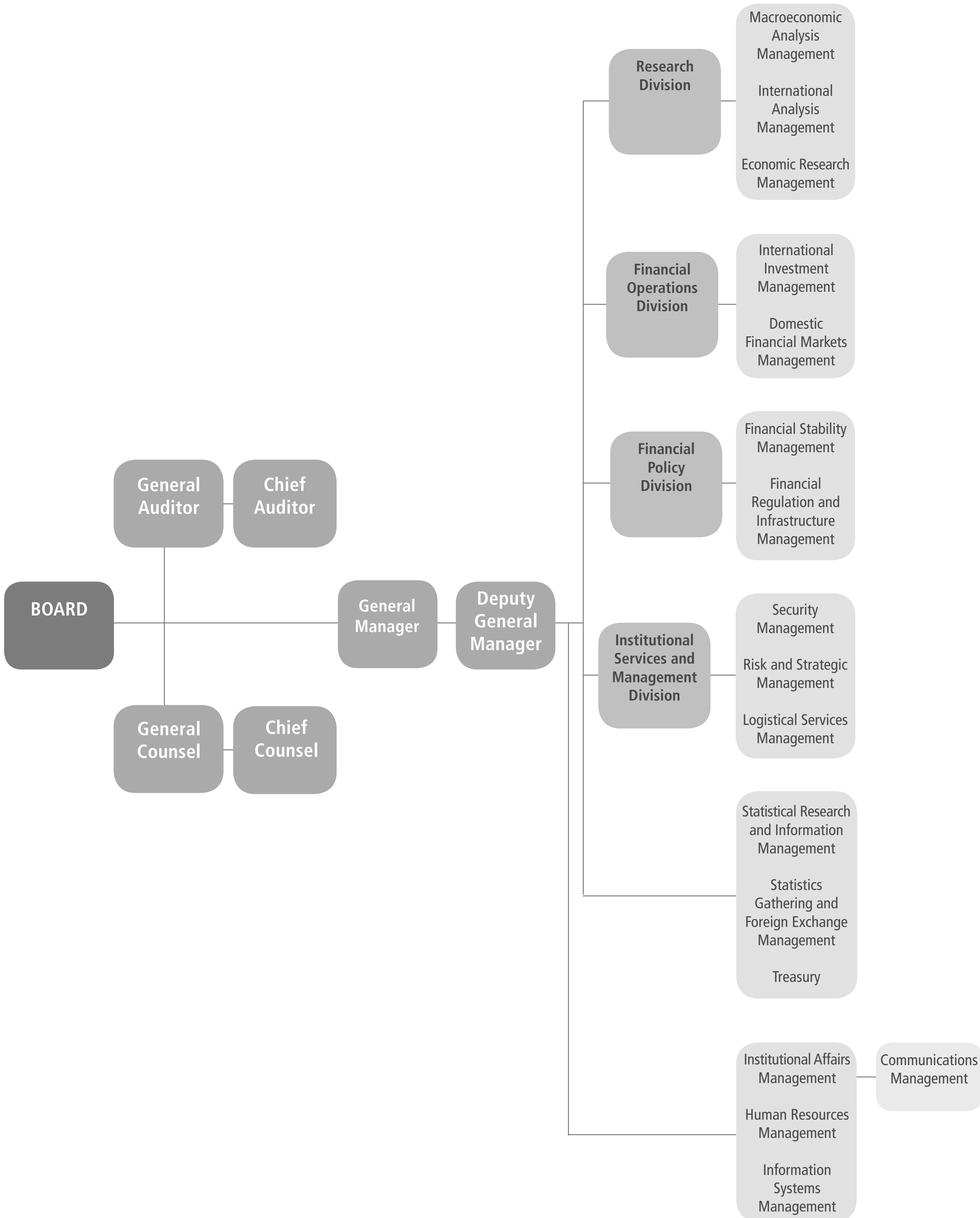
In 2006, the specialized MBS program mandate was kept up. Its main purpose consisted of adding value to the portfolio and achieving a transfer of know-how through dialogue with Bank staff and managers. This program had one external manager in 2006, handling a US$340 million portfolio, as of 30 December.

D.2 Processes for selecting external managers

New external managers were selected in a two-stage process. First, a “request for information” was sent to all institutions that had expressed an interest in forming part of this selection. These were commercial banks, investment banks or companies specializing in portfolio management. This information was pre-evaluated according to three basic criteria: the institution’s seniority and experience with similar portfolios; the personnel assigned to the Central Bank portfolio; and finally, other characteristics such as costs, knowledge transfers, previous performance, investment philosophy and the solidity of the different candidates. The pre-evaluation method consisted of scoring each on these variables. As a result, a small number of institutions were selected to go on to the next stage.

The purpose of the second stage in the selection process was to generate a definitive ranking of the pre-selected bodies, according to the external portfolio management program, and an external consultant was used for this purpose. This ranking completed the initial selection according to each firm's qualitative characteristics, as identified and evaluated in the first phase. This result was presented to the Board, which chose the new external managers.

III. Organizational structure


BOARD
General Auditor
Chief Auditor
General Counsel
Chief Counsel
General Manager
Deputy General Manager
Research Division
Macroeconomic Analysis Management
International Analysis Management
Economic Research Management
Financial Operations Division
International Investment Management
Domestic Financial Markets Management
Financial Policy Division
Financial Stability Management
Financial Regulation and Infrastructure Management
Institutional Services and Management Division
Security Management
Risk and Strategic Management
Logistical Services Management
Statistical Research and Information Management
Statistics Gathering and Foreign Exchange Management
Treasury
Institutional Affairs Management
Communications Management
Human Resources Management
Information Systems Management

IV. Financial Statements Central Bank of Chile

Balance sheets as of 31 December 2006 and 2005

(In millions of Chilean pesos)

ASSETS	NOTE	2006	2005
Foreign assets		10,515,690.0	9,034,204.9
Reserve assets	3	10,383,410.9	8,905,916.9
Monetary gold		2,308.5	1,750.3
Special drawing rights (SDR)		29,186.4	27,619.9
Reserve position in the IMF		60,504.2	99,117.4
Foreign currencies		10,274,378.3	8,761,886.0
Other assets		17,033.5	15,543.3
Other foreign assets		132,279.1	128,288.0
Shares and contributions to the IDB		98,467.7	96,731.8
Bank for International Settlements (BIS) shares		33,811.4	31,556.2
Domestic assets		3,013,097.5	3,604,147.0
Domestic loans		3,013,097.5	3,604,147.0
Loans to state-owned companies	4	1,232.0	2,004.7
Loans to *Banco del Estado de Chile*		112,138.4	4,765.4
Loans to commercial banks	5	552,102.0	424,093.9
Loans to other institutions	6	527,419.0	502,617.8
Treasury transfers (Laws 18,267, 18,401 and 18,768)	7	887,096.5	1,704,111.4
Loan for subordinated obligations of financial institutions (Laws 18,401 and 19,396)	8	933,109.6	966,553.8
Other assets		300,575.8	1,181,021.7
Bank premises and equipment, net	9	13,954.5	17,042.0
Other securities		3,489.4	419,481.2
United States dollars purchased with resell agreement		283,131.9	744,498.5
Total assets		13,829,363.3	13,819,373.6

The accompanying notes 1 to 26 are an integral part of these financial statements.

Balance sheets as of 31 December 2006 and 2005

(In millions of Chilean pesos)

(From previous page)

LIABILITIES	NOTE	2006	2005
Foreign liabilities		188,388.4	187,274.9
Reciprocal loan agreements		7,281.0	8,671.8
Loans		87.0	256.6
Accounts with international organizations		82,330.7	86,401.6
Special drawing rights (SDR) allocations		98,689.7	91,944.9
Domestic liabilities		15,427,953.7	15,299,802.3
Currency issuance		3,405,611.2	2,989,634.3
Banknotes and coins in circulation	10	2,823,073.1	2,518,111.9
Deposits from financial institutions (domestic currency)		181,538.1	197,486.0
Deposits for technical reserves		401,000.0	274,036.4
Deposits and obligations	11	3,486,900.9	1,822,651.6
Deposits and obligations with the Treasury		1,067,829.5	142,364.7
Other deposits and obligations		2,419,071.4	1,680,286.9
Instruments issued by Central Bank of Chile	12	8,535,441.6	10,487,516.4
Central Bank bonds in UF (BCU)		1,955,154.7	1,643,266.2
Indexed promissory notes payable in coupons (PRC)		1,914,060.8	2,561,511.4
Central Bank bonds in Chilean pesos (BCP)		1,786,222.5	1,712,505.9
Central Bank discountable promissory notes (PDBC)		1,725,500.0	1,978,289.6
Indexed coupons (CERO) in UF		723,010.5	772,566.5
Central Bank bonds expressed in US dollars (BCD)		430,914.6	423,317.9
Other		578.5	1,105.9
Central Bank bonds in US dollars (BCX)		-	1,251,426.8
Commercial notes from redenomination of foreign debt securities		-	83,338.6
Promissory notes indexed in US dollars (PRD)		-	60,187.6
Other liabilities		356,713.1	807,110.4
Provisions		7,116.8	7,013.7
Other securities		187.7	132.6
Temporary liabilities		66,313.8	56,419.9
Creditors on foreign currency purchased with resale agreements		283,094.8	743,544.2
Capital and reserves	13	(2,143,691.9)	(2,474,814.0)
Capital		(2,152,068.4)	(1,312,531.3)
Surplus (deficit) for the year		8,376.5	(1,162,282.7)
Total liabilities		13,829,363.3	13,819,373.6

The accompanying notes 1 to 26 are an integral part of these financial statements.

Statements of Income for the years ended as of 31 December 2006 and 2005

(In millions of Chilean pesos)

Operating results	Note	2006	2005
Operating income		1,306,653.2	907,803.3
Interest received and accrued	14	555,195.9	473,337.7
Readjustments received and accrued	15	30,051.2	59,247.5
Income on price differences	16	82,966.1	152,685.7
Exchange earnings	17	637,688.2	221,948.6
Other operating income		751.8	583.8
Operating expenses		(916,764.6)	(2,108,172.8)
Interest paid and accrued	18	633,730.0	696,547.8
Indexation paid and accrued	19	119,015.3	152,864.5
Loss due to price differences	20	35,123.4	71,573.4
Exchange losses	17	110,011.1	1,180,569.8
Other operating expenses		18,884.8	6,617.3
Gross margin		389,888.6	(1,200,369.5)
Other operating expenses		(27,362.8)	(25,864.3)
Personnel expenses		18,040.6	17,036.9
Administrative expenses		7,435.7	6,709.7
Depreciation, amortization and write-offs		1,424.9	1,642.3
Taxes and contributions		461.6	475.4
Income before provisions and write-offs		362,525.8	(1,226,233.8)
Provisions and write-offs		(415,578.9)	-
Net margin (Total operating results)		(53,053.1)	(1,226,233.8)
Non-operating results		(511.6)	940.0
Non-operating income		606.5	940.1
Non-operating expenses		(1,118.1)	(0.1)
Results before price-level restatement		(53,564.7)	(1,225,293.8)
Price-level restatement		61,941.2	63,011.1
Surplus (deficit) for the year		8,376.5	(1,162,282.7)

The accompanying notes 1 to 26 are an integral part of these financial statements.

Notes to the Financial Statements 31 December 2006 and 2005

Note 1. Description of business

The Central Bank of Chile was established on 21 August 1925 by Decree Law 486. The Bank is an autonomous organization of technical nature, with full legal capacity, its own assets and indefinite duration, created in accordance with Sections 108 and 109 of the Political Constitutions of Chile and ruled by its Basic Constitutional Act contained in Article One of Law 18,840 and its modifications.

The Bank's objective is to ensure stability of both the currency and the normal operations of domestic and foreign payments.

In order to meet its objectives, the Bank regulates the amount of money and credit in circulation and executes credit operations and international exchange, such as, dictating regulations on monetary credit, and financial and international exchange matters. Additionally, the Bank is exclusively empowered to issue banknotes and to mint coins.

Note 2. Summary of significant accounting policies

a) Basis of preparation of the financial statements

The financial statements have been prepared in conformity with generally accepted accounting principles in Chile ("Chilean GAAP") and regulations issued by the Board of the Central Bank of Chile, upon approval by the Chilean Superintendency of Banks and Financial Institutions, as established in Article 75 of the Basic Constitutional Act of the Central Bank of Chile. These rules are consistent with Chilean GAAP, except for the method used in recording losses on subordinated loan obligations, which is explained in letter g) below.

Certain accounting practices applied by the Company that conform to Chilean GAAP may not conform to generally accepted accounting principles in the United States ("US GAAP") or International Financial Reporting Standards ("IFRS"). For the convenience of the reader, these financial statements and their accompanying notes have been translated from Spanish to English.

The presentation of these financial statements is within an economic and accounting framework that provides an understanding of the financial and accounting position of the Bank and, at the same time, contributes to the economic analysis of the Bank's operations by clearly identifying whether they are undertaken by domestic or foreign agents. From this information it is possible to determine the Bank's share in the domestic supply of monetary assets and credit and the related effects on the Bank's foreign indebtedness position. For this reason the economic concepts of international reserves and currency issuance are shown under the captions Reserve Assets and Liabilities and Currency Issuance, respectively. Therefore, and especially considering the unique operating features of the Bank, the statement of cash flows is not presented. Instead, notes to the financial statements containing the monetary base change and another detailing the international asset reserve change (note 22) are disclosed.

For comparative purposes, the 2005 figures have been restated according to changes in the Chilean consumer price index for the period between 30 November 2005 and 30 November 2006, amounting to 2.1%.

b) Assets and liabilities in foreign currency

Assets and liabilities denominated in foreign currency are translated to Chilean pesos at the “observed US dollar” exchange rate pursuant to Article 44 of the Basic Constitutional Act, that governs the Bank, 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*.

Assets and liabilities expressed in Chilean sealed gold pesos are valued at the average London morning quotation of the “Gold Fixing” rate (United States dollars per fine troy ounce) for all business days in the prior quarter, less 10%.

Settlement of foreign currencies other than US dollars is made at the exchange rates published daily by Central Bank of Chile, in the Official Gazette, which are always based upon the “observed US dollar” rate.

The principal exchange rates used as of each year-end are as follows:

	2006 Ch$	2005 Ch$
United States dollar (Observed exchange rate)	534.43	514.21
Pound sterling	1,049.34	886.26
Euro	703.38	608.60
Special Drawing Rights (SDR)	804.00	734.94

c) Shares and contributions to the Interamerican Development Bank (IDB) and contributions to the International Monetary Fund (IMF).

Shares issued by and contributions made to the IDB, and contributions to the IMF, on behalf of the Chilean Treasury, are valued at acquisition or contribution cost plus restatements, 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 Official Gazette on 16 November of the same year, according to which such shares and contributions, as well as the documents evidencing them, must be recorded for the Bank’s accounting purposes as investments with a charge to its own resources.

Shares and contributions to IDB are shown under “Other Foreign Assets”. Contributions to the IMF are recorded under “Foreign Reserve Assets”.

d) Bank for International Settlements (BIS) shares

During 2003, Board resolutions 1073-04-030710 and 1084-02-030916, authorized the incorporation of the Central Bank of Chile as a member of the Bank for International Settlements (BIS). On 26 September, 2003, in accordance with these resolutions, the Central Bank of Chile acquired 3,000 shares of the BIS for SDR 42,054,000, which are valued at acquisition cost and are shown under “Other Foreign Assets”. During the year, the Bank received a dividend for US$1.1 million (US$1.0 million in 2005).

e) Financial investments

Foreign financial investments including interest receivable are shown under “Foreign Currency” in “Reserve Assets” and mainly include bonds and securities issued by governments, foreign institutions and banks, which are valued at the lower of cost or market value.

f) Loans receivable and obligations

Non-adjustable loans receivable and obligations are stated at their original value or the value of the last renewal. Indexed balances include accrued indexation adjustments as of the balance sheet date, and balances denominated in foreign currency include the related exchange rate adjustments.

Interest accrued as of year-end on transactions with foreign residents are included under "Other Foreign Assets" and "Other Foreign Liabilities" and those related to operations with residents in Chile are included in Domestic assets and Domestic liabilities, respectively.

Interest paid and not accrued from obligations, and interest received and not accrued from loans are shown as "Transitory Assets" under "Other Assets" or as "Transitory Liabilities" under "Other Liabilities", according to the net balance.

g) Subordinated obligations of financial institutions

In accordance with Law 19.396, loans for subordinate obligations included under Domestic assets (note 8) include restated balances as of each year-end and accumulated increases recorded and credited to income on an accrual basis.

Accounting losses arising from changes in payment terms of the subordinated debt from the banks *BHIF, Internacional, Concepción and Santiago*, have been deferred in conformity with Article 19 of Law 19,396 which states: "Any losses incurred by the Central Bank of Chile in its capacity as creditor of a subordinated obligation may be deferred and absorbed by any surpluses generated in future periods. To this effect, the Central Bank of Chile is entitled to allocate such surplus to set up provisions to absorb any such losses ".

During 2006, the Bank provisioned Ch$415,566.9 million, which was applied in its entirety to cover the balance of the deferred loss as of year-end (during 2005 no provision was made for this concept). As of 31 December 2005, the deferred loss amounted to Ch$415,566.9 million and is included under "Other securities" within "Other assets".

h) Loan provisions

The Bank has not made any loan provisions during 2006 and 2005. As of 31 December 2006 and 2005, no provisions are maintained for this concept.

During 2005, the Bank wrote-off amounts with a charge to provisions made in 1989 of Ch$8,782.7 million.

i) Bank premises and equipment

Bank premises and equipment as of each year-end are shown at cost plus price-level restatement, net of accumulated depreciation under "Other assets". Depreciation has been calculated using the straight-line method based on the estimated useful lives of assets.

j) Staff severance indemnities

Staff severance indemnities have been determined using the present value method (accrued cost of the benefit), with an annual interest rate of 6%. The total amount of the provision as of year-end is Ch$5,973.7 million (Ch$5,958.9 million in 2005).

k) Vacation accrual

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

l) Price-level restatement

Capital, Bank premises and equipment and other assets and liabilities have been price-level restated in accordance with changes in the Chilean Consumer Price Index (CPI), which was 2.1% in 2006 (3.6% in 2005). Income statement account balances in local currency, except for depreciation and price-level restatement, have not been restated for inflation. Price-level restatement produced a net credit to income of Ch$61,941.2 million in 2006 (Ch$63,011.1 million in 2005).

The effect of foreign currency translation on assets and liabilities denominated in foreign currencies and indexation on loans and liabilities is included under Operating results, separate from price-level restatement.

Note 3. Reserve Assets

Reserve assets include international reserves held by the Bank at each year-end, detailed as follows:

	(US$ million)	
	2006	2005
Monetary gold	4.3	3.3
Special drawing rights (SDR)	54.6	52.6
Reserve position in the IMF	113.2	188.8
Foreign currencies:		
Coins and deposits	10,772.2	8,900.4
Bonds issued by governments, organizations and foreign banks	4,522.6	4,105.6
Commercial papers	557.6	-
Foreign government treasury bills	2,224.1	3,042.2
Notes for discount	1,148.5	640.9
Other assets:		
Reciprocal loan agreements	31.8	29.6
Total reserve assets	19,428.9	16,963.4

As of 31 December 2006, monetary gold amounted to US$4.3 million (US$3.3 million in 2005) equivalent to 7,940 fine gold troy ounces valued at US$544.03 per ounce. In respect to 2005, there was no variation in the amount of troy ounces.

The increase observed as of 31 December 2006 of reserve assets of US$2,465.5 million, compared to 2005, is explained by the capital contribution to the Central Bank of Chile by the Chilean Treasury of US$605.9 million (note 13), for deposits made by the Chilean Treasury of US$604.0 million and the remaining amount, mainly, to overnight deposits by financial institutions.

Note 4. Accounts receivable from *Corporación de Fomento de la Producción*

Balances receivable from *Corporación de Fomento de la Producción (CORFO)*, in accordance with Law 18,401 dated 1985 and its modifications, and Law 18,577 dated 1986, relate to loans granted to financial institutions that were sold by the Central Bank of Chile to *CORFO* in order to finance the acquisition, on behalf of third parties, of shares of these financial institutions.

CORFO amortizes its debt by transferring securities that it recovers from shareholders, to be assigned as shares of the corresponding financial institutions. As of 31 December 2006, accounts receivable from *CORFO* amount to Ch$937.6 million (Ch$1,148.3 million in 2005), and are included under "Loans to state-owned companies".

In accordance with Article 13 of Law 18,401, differences produced in the recovery, as a result of discounts granted to shareholders of up to UF15 million, will be covered by the Treasury through future transfers (note 7), which as of 31 December 2006 amounted to Ch$208,946.5 million, equivalent to UF11.4 million (Ch$209,127.6 million in 2005 equivalent to UF11.4 million). Based on the available information, the maximum transfer amount established by law is deemed adequate to absorb the discounts.

Likewise, the Central Bank of Chile, in conformity with Article 13 of Law 18,401, requested a preliminary report to the Superintendency of Banks and Financial Institutions in order to materialize the corresponding government transfer of UF697,630.81, referring to the shares of *Banco Internacional* that were disposed in accordance with the above mentioned law.

Note 5. Loans to Commercial Banks

Loans to commercial banks mainly include the following operations:

	(Millions of Ch$) 2006	2005
Credit lines on debt restructuring	7,912.4	11,510.9
Credit lines to finance the sale of mortgage portfolio of former *ANAP*	-	6,736.9
Purchase of promissory notes issued by the Central Bank of Chile with resale agreements	544,189.6	405,846.1
Total	552,102.0	424,093.9

Note 6. *Caja Central de Ahorros y Préstamos and Asociación Nacional de Ahorro y Préstamo*

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

Article 5 of the aforementioned law establishes that the Treasury shall be responsible for any obligations of the *CCAP* and the *ANAP* that are not covered upon liquidating shareholders' equity, the funds for which should be requested from the national budget, in conformity with Article 21 of Decree Law 1,263 dated 1975.

As of 31 December 2006, the amount payable to the Bank from the liquidation of these institutions, including accrued interest as of such date, was Ch$527,419.2 million, of which Ch$484,935.2 million relate to direct loans granted by the Bank and Ch$42,483.8 million with credit lines for international organizations programs (Ch$502,617.8 million in 2005, of which Ch$462,367.5 million relate to direct credits granted by Central Bank of Chile and Ch$40,250.3 million to credit lines for international organizations programs) and is shown under “Loans to other institutions”.

Note 7. Treasury transfers

Treasury transfers, included under Domestic Loans, are detailed as follows:

	(Millions of Ch$)	
	2006	2005
Treasury promissory notes Law 18,267	127,280.1	189,193.9
Treasury promissory notes Law 18,768	550,869.9	1,305,789.9
Treasury transfers Law 18,401	208,946.5	209,127.6
Total	887,096.5	1,704,111.4

a) Treasury promissory notes Law 18,267

In conformity with Law 18,267, the Treasury transferred Ch$100,000 million to the Bank by issuing 40 Treasury promissory notes over a 25-year term, denominated in UF with an annual interest rate of 1%, capitalized and amortized on a semiannual basis with a five-year grace period. The last installment matures on 15 December 2008.

b) Treasury promissory notes Law 18,768

This item relates to promissory notes denominated and payable in US dollars, accruing on an annual interest of Libor plus 0.5 points, of which 2% is payable semiannually and the balance is capitalized. The last installment expires on 15 December 2014. During the present period, the Bank received principal payments of US$1,500.7 million and interest payments of US$58.4 million, which were credited to income (in 2005, principal of US$1,957.1 million and interest of US$43.1 million).

c) Treasury transfer Law 18,401

The balance of this account relates to discounts of up to UF15 million, as indicated in Article 13 of Law 18,401, that have been granted to shareholders who are subject to the aforementioned law, as explained in note 4.

Also in conformity with this law, Treasury transfers will be completed in a period not exceeding 30 years, with a 10-year grace period, beginning on the date of final determination of the total amount.

Note 8. Subordinated obligation

The loan for the subordinated obligation represents balances at the end of each year owed to the Central Bank of Chile as a result of the agreement for the modification of payment conditions entered with the Central Bank of Chile on 8 November 1996, in conformity with Law 19,396. On that date, the parent company of *Banco de Chile*, previously referred to as *Banco de Chile*, agreed to, in accordance with that indicated in paragraphs three and five of the aforementioned Law 19,396, the transfer of this agreement to *Sociedad Administradora de la Obligación Subordinada SAOS S.A.* Consequently, the obligation must be paid in 40 annual, consecutive and equal installments beginning in April 1997.

During 2006, the Bank received UF1,719,967.2595 from *Sociedad Administradora de la Obligación Subordinada SAOS S.A.*, for the amortization of the loan for subordinated obligation (UF1,222,985.2857 in 2005). The remaining balance amounts to Ch$ 933,109.6 million in 2006 (Ch$966,553.8 million in 2005).

Note 9. Bank's premises and equipment

As of each year-end, the Bank's premises and equipment mainly includes the following:

	(Millions of Ch$)	
	2006	2005
Properties and facilities	7,545.6	11,167.7
Furniture and equipment	3,225.5	2,951.7
Other immovable property	3,183.4	2,922.6
Total	**13,954.5**	**17,042.0**

The charge to income for depreciation for the year amounted to Ch$1,424.9 million (Ch$1,642.3 million in 2005).

During 2006, the Bank sold the building located at 1175 Huérfanos, which was valued at Ch$4,496 million and had accumulated depreciation of Ch$1,461.4 million.

Note 10. Banknotes and coins in circulation

Banknotes and coins in circulation are recorded at face value. The costs of printing and coining are recorded as operating expenses.

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

	(Millions of Ch$)	
Denomination	2006	2005
Ch$ 20,000	646,021.1	551,973.1
Ch$ 10,000	1,619,898.7	1,447,555.7
Ch$ 5,000	234,724.2	218,859.8
Ch$ 2,000	72,201.0	72,551.6
Ch$ 1,000	107,115.7	97,080.0
Ch$ 500	4,852.1	5,013.9
Coins	138,260.3	125,077.8
Total	2,823,073.1	2,518,111.9

Note 11. Deposits and obligations

Deposits and obligations with the Chilean Treasury include the following:

	(Millions of Ch$)	
	2006	2005
Current accounts, Chilean Treasury	145,408.1	99,849.6
Time deposits	877,153.4	-
Other	45,268.0	42,515.1
Total	**1,067,829.5**	**142,364.7**

Other deposits and loan obligations include the following items:

	(Millions of Ch$) 2006	2005
Foreign currency current accounts	524,517.4	382,341.7
Short-term deposits from bank institutions	1,649,907.3	1,157,876.4
Liquidity deposits from financial institutions	232,859.3	131,342.8
Other	11,787.4	8,726.0
Total	2,419,071.4	1,680,286.9

Note 12. Instruments issued by Central Bank of Chile

As of 31 December 2006 and 2005, the expiration dates of these documents are as follows:

	(Millions of Ch$)						
Type of document	Up to 90 days	91 to 180 days	181 days to 1 year	Over 1 year to 3 years	Over 3 years	Total 2006	Total 2005
Central Bank bonds in UF (BCU)	29,199.7	1,652.8	255,324.9	710,534.7	958,442.6	1,955,154.7	1,643,266.2
Indexed promissory notes payable in coupons (PRC)	163,872.7	140,564.7	245,287.7	713,720.4	650,615.3	1,914,060.8	2,561,511.4
Central Bank bonds in Chilean pesos (BCP)	37,276.8	136,795.7	232,500.0	755,000.0	624,650.0	1,786,222.5	1,712,505.9
Central Bank discountable promissory notes (PDBC)	1,725,500.0	-	-	-	-	1,725,500.0	1,978,289.6
Indexed coupons(CERO) in UF	15,038.0	29,818.5	58,321.2	114,295.4	505,537.4	723,010.5	772,566.5
Central Bank bonds expressed in US dollars (BCD)	8,714.9	-	213,772.0	208,427.7	-	430,914.6	423,317.9
Deposit certificates expressed in US dollars, Resolution 1649	15.5	-	541.9	-	-	557.4	1,084.4
Exchange differential promissory notes	21.1	-	-	-	-	21.1	21.5
Central Bank bonds in US dollars (BCX)	-	-	-	-	-	-	1,251,426.8
Commercial notes from redenomination of foreign debt securities	-	-	-	-	-	-	83,338.6
Promissory notes indexed in US dollars (PRD)	-	-	-	-	-	-	60,187.6
Total as of 31 December 2006	1,979,638.7	308,831.7	1,005,747.7	2,501,978.2	2,739,245.3	8,535,441.6	-
Total as of 31 December 2005	2,622,152.4	724,264.3	1,183,726.3	2,946,912.4	3,010,461.0	-	10,487,516.4

Balances include interest and adjustments accrued as of 31 December 2006 and 2005.

Transitory liabilities include net discounts granted but not accrued, net of price differences received but not accrued, generated by notes issued for Ch$66,382.4 million (Ch$56,652.9 million in 2005).

Note 13. Capital and reserves

Changes in capital and reserves during 2006 and 2005 were as follows:

	Capital	(Millions of Ch$) Results for the year	Total
Balances as of 1 January 2005	(558,372.6)	(682,491.4)	(1,240,864.0)
Distribution of the 2004 deficit	(682,491.4)	682,491.4	-
Price-level restatement on equity	(44,671.1)	-	(44,671.1)
Deficit for the year	-	(1,138,376.8)	(1,138,376.8)
Balances as of 31 December 2005	(1,285,535.1)	(1,138,376.8)	(2,423,911.9)
Balances as of 31 December 2005 restated for comparison purposes	(1,312,531.3)	(1,162,282.7)	(2,474,814.0)
Balances as of 1 January 2006	(1,285,535.1)	(1,138,376.8)	(2,423,911.9)
Distribution of the 2005 deficit	(1,138,376.8)	1,138,376.8	-
Contribution by the Chilean Treasury, 1st. installment	322,745.7	-	322,745.7
Price-level restatement on equity	(50,902.2)	-	(50,902.2)
Surplus for the year	-	8,376.5	8,376.5
Balances as of 31 December 2006	(2,152,068.4)	8,376.5	(2,143,691.9)

Article 5 of the Basic Constitutional Act of the Central Bank of Chile established a start-up capital for the Bank at Ch$500,000 million (Ch$1,694,379.2 million restated as of 31 December 2006), to be paid according to Transitory Article 2 of Law 18,840.

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

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

As of 31 December 2006, the Bank has an equity deficit of Ch$2,143,691.9 million, which is mainly generated, as a result of the accumulated effects from prior years of decreases generated in exchange gains or losses of assets in foreign currency.

As of 31 December 2005, the Central Bank of Chile had an equity deficit of Ch$2,474,814.0 million. The negative variation in equity as of 31 December 2005 is generated as a result of the deficit for the year of Ch$1,162,282.7 million, which is mainly explained by the decrease in the exchange rate of United States dollars and euros for 2005, which had an unfavorable effect on the asset position in foreign currency maintained by the Bank.

Article 11 of Law 20,128 published in the Official Gazette on 30 September 2006 established that the Chilean Treasury, through the Ministry of Finance will be able to make capital contributions to the Central Bank of Chile under the conditions established in the aforementioned law.

On 27 December 2006, the Chilean Treasury made a capital contribution to the Bank of Ch$322,745.7 million, which was formalized in its equivalent sum in United States dollars (US$605.9 million), in conformity with Decree No. 1,272 dated 29 November 2006 issued by the Ministry of Finance, published in the Official Gazette on 23 December 2006. This amount was directly credited to equity and relates to the first annual contribution indicated in Article 11 of Law 20,128 on Fiscal Responsibility. This amount, through its equivalent sum in United States dollars, became a part of the Bank's international reserves.

Note 14. Interest received and accrued

As of each year-end, income from interest received and accrued is as follows:

	(Millions of Ch$) 2006	2005
Investments abroad	394,389.9	298,990.7
Treasury transfers (Laws 18,768 and 18,267)	71,229.7	78,194.1
Subordinated obligation	46,019.9	47,061.2
Other institutions	30,800.1	33,413.1
Commercial banks	11,983.0	14,906.2
Reciprocal loan agreements	662.8	262.7
Banco del Estado de Chile	110.5	509.7
Total	555,195.9	473,337.7

Note 15. Indexation received and accrued

As of 31 December 2006 and 2005, income from indexation received and accrued is as follows:

	(Millions of Ch$) 2006	2005
Subordinated obligation	17,827.6	34,155.0
Treasury transfers (Laws 18,401 and 18,267)	7,537.9	15,962.3
Caja Central and Asociación Nacional de Ahorro y Préstamo	4,111.1	7,636.0
Other	574.6	1,494.2
Total	30,051.2	59,247.5

Note 16. Income from price differences

As of 31 December 2006 and 2005, income from price differences is as follows:

	(Millions of Ch$) 2006	2005
Central Bank bonds in Chilean pesos (BCP)	38,553.0	86,431.9
Central Bank bonds in UF (BCU)	30,442.3	26,736.5
Central Bank indexed promissory notes (PRC)	9,701.0	11,787.1
Central Bank bonds in US dollars (BCX)	2,793.2	20,732.7
Central Bank bonds expressed in US dollars (BCD)	1,476.5	6,204.4
Indexed promissory notes in US dollars (PRD)	0.1	793.1
Total	82,966.1	152,685.7

Note 17. Net exchange rate income (loss)

As of 31 December 2006 and 2005, net foreign currency exchange rate income and loss are as follows:

	(Millions of Ch$)	
	2006	2005
Foreign exchange rate income	637,688.2	221,948.6
Foreign exchange rate losses	(110,011.1)	(1,180,569.8)
Net foreign exchange rate income (loss)	527,677.1	(958,621.2)

This net foreign exchange rate income (loss) is mainly generated by exchange variations in assets in foreign currency, according to the following detail:

	(Millions of Ch$)	
	2006	2005
U.S. dollar	165,904.1	(246,695.0)
Euro	342,373.1	(647,051.5)
Pound sterling	15,222.7	(28,863.4)
IMF special drawing rights (SDR)	10,540.0	(20,171.8)
Other currencies	652.4	(6,968.1)
Subtotal net foreign exchange rate income (loss)	534,692.3	(949,749.8)
Arbitrage and others	(7,015.2)	(8,871.4)
Total net foreign exchange rate income (loss)	527,677.1	(958,621.2)

Note 18. Interest paid and accrued

As of 31 December 2006 and 2005, income from interest paid and accrued is as follows:

	(Millions of Ch$)	
	2006	2005
Indexed promissory notes payable in coupons (PRC)	139,963.0	183,249.0
Central Bank bonds in Chilean pesos (BCP)	132,842.8	162,054.9
Central Bank bonds in UF (BCU)	88,112.8	72,740.1
Central Bank discountable promissory notes (PDBC)	84,831.6	53,732.5
Other notes issued	78,348.4	33,446.0
Foreign operations	57,287.7	64,040.2
Central Bank bonds in US dollars (BCX)	29,997.7	72,987.5
Central Bank bonds expressed in US dollars (BCD)	21,155.5	35,110.2
Indexed promissory notes in US dollars (PRD)	905.3	18,995.6
Reciprocal loan agreements	285.2	191.8
Total	633,730.0	696,547.8

Note 19. Indexation paid and accrued

As of 31 December 2006 and 2005, income from indexation paid and accrued is as follows:

	(Millions of Ch$)	
	2006	2005
Indexed promissory notes payable in coupons (PRC)	43,052.7	100,173.4
Central Bank bonds in UF (BCU)	34,777.1	56,344.8
Central Bank bonds expressed in US dollars (BCD)	15,973.8	(12,755.6)
Optional indexed coupons (CERO) in UF	15,737.1	29,318.4
Other notes	8,409.0	5,706.5
Indexed promissory notes in US dollars (PRD)	1,065.6	(21,146.6)
Optional indexed coupons (CERO) in US dollars	-	(4,776.4)
Total	119,015.3	152,864.5

Note 20. Losses from price differences

As of 31 December 2006 and 2005, income from price differences is as follows:

	(Millions of Ch$)	
	2006	2005
Redemption to CERO promissory notes in UF	31,706.5	35,853.3
Indexed promissory notes payable in coupons (PRC)	2,618.9	6,824.1
Indexed promissory notes in US dollars (PRD)	3.2	164.6
Other	794.8	225.1
Central Bank bonds in Chilean pesos (BCP)	-	23,802.3
Redemption to CERO promissory notes in US dollars	-	4,704.0
Total	35,123.4	71,573.4

Note 21. Relevant Events

Through Board Resolution 1284E-01-060803, the Board of the Central Bank of Chile appointed Mr. Alejandro Zurbuchen Silva as General Manager beginning on 7 August 2006.

Note 22. Monetary base and international reserve asset variations

According to note 2 a) and in consideration of the Bank's unique operations, beginning in 2001, instead of a Statement of Cash Flows, the Bank discloses a Statement of Variations in Monetary Base and a Statement of Variations in International Reserves, further defined as follows:

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

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

VARIATIONS IN THE MONETARY BASE

	(Millions of Ch$) 2006	2005
BEGINNING BALANCE	2,989,634.3	2,463,714.5
INCREASE		
Operations with international organizations	3.827.0	10.792.8
Foreign currency forward sales receivables	-	744,498.5
Domestic loans	219,777.7	-
Deposits and obligations	-	579,635.6
Notes issued	424,601.9	1,914,869.4
Interest and indexation paid	1.516.573.9	365.575.6
Technical reserve	132,600.0	274,036.4
Other operating expenses	25,141.7	23,820.2
TOTAL INCREASE	2.322.522.2	3,913,228.5
DECREASE		
Domestic loans	-	(665,463.2)
Deposits and obligations	(236,091.1)	-
Foreign currency forward sales receivables	(446,053.2)	-
Other liabilities	(186.9)	-
Other assets	(2.388.1)	(10.864.7)
Interest and indexation received for domestic loans	(1.004.234.9)	(135.067.5)
Currency exchange operations	(156.100.1)	(2,490,301.5)
TOTAL DECREASE	(1.845.054.3)	(3,301,696.9)
Change in monetary base for the period	477.467.9	611,531.6
Effect of price-level restatement on		
beginning balance of monetary base	(61.491.0)	(85,611.8)
ENDING BALANCE	3,405,611.2	2,989,634.3

VARIATIONS IN INTERNATIONAL RESERVE ASSETS

	(US$ million) 2006	2005
BEGINNING BALANCE	16,963.4	16,016.0
INCREASE		
Domestic loans	1,205.2	17.1
Deposits and obligations	2.851.4	2.412.9
Foreign currency forward sales receivables	-	1.416.3
Capitalization of Treasury contribution		
Interest received for deposits and other	605.9	-
investment instruments abroad	790.7	681.6
TOTAL INCREASE	5.453.2	4,527.9
DECREASE		
Notes issued	(2,400.0)	(2,510.8)
Foreign currency forward sales receivables	(886.5)	-
Other liabilities	(0.3)	(0.3)
Other assets	(0.2)	-
Interest paid for foreign liabilities	(121.4)	(119.5)
Currency exchange operations, net (*)	0.5	(95.5)
TOTAL DECREASE	(3,407.9)	(2,726.1)
Change in reserves during the year	2,045.3	1,801.8
Effect of exchange rate	420.2	(854.4)
FINAL BALANCE	19,428.9	16,963.4
(*) Currency exchange operations, net, are as follows:		
Currency exchange operations	(297.6)	(4,357.7)
Less: Currency exchange operations that do not generate cash flows		
Treasury transfers	248.1	1,912.2
BCX tender	50.0	2,350.0
Total currency exchange operations, net	**0.5**	**(95.5)**

Note 23. Balance in foreing currency

Rights and obligations payable in foreign currency included in the balance sheet as of 31 December 2006 and 2005, are as follows:

	(US$ million)	
	2006	2005
ASSETS		
FOREIGN ASSETS	19,857.9	17,299.5
Reserves	19,610.4	17,055.1
Other foreign assets	247.5	244.4
DOMESTIC ASSETS	1,030.8	2,487.2
Domestic loans	1,030.8	2,487.2
OTHER ASSETS	2.2	2.6
Total assets	20,890.8	19,789.3
LIABILITIES		
FOREIGN LIABILITIES	288.5	282.1
Reserves	13.6	16.5
Other foreign liabilities	90.2	90.5
Special drawing rights (SDR) allocations	184.7	175.1
DOMESTIC LIABILITIES	5,987.5	5,513.3
Deposits and obligations with the Treasury	1,916.5	192.5
Other deposits and obligations	4,070.0	2,935.1
Notes issued	1.0	2,385.7
Total liabilities	6,276.0	5,795.4
NET ASSETS	14,614.8	13,993.

Note 24. Contingencies and commitments

There are lawsuits currently in process against Central Bank of Chile, whose outcomes according to the Bank's legal department will have no material effect on equity.

Note 25. Income tax

Pursuant to Article 7 of Decree Law 3,345 dated 1980, the Bank's income is tax exempt.

Note 26. Subsequent events

Between 31 December 2006, and the date of issuance of these financial statements there have been no significant subsequent events that may affect them.

ALEJANDRO ZURBUCHEN SILVA
General Manager

SILVIA QUINTARD FLEHAN
General Auditor

CÉSAR CARO BROWN
General Accountant

Report of independent auditors

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

1. We have audited the accompanying balance sheets of Central Bank of Chile (the "Bank") as of 31 December 2006 and 2005, and the related statements of income for the years then ended. These financial statements (including the related notes) are the responsibility of the management of Central Bank of Chile. Our responsibility is to express an opinion on these financial statements based on our audits.
2. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Bank's management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.
3. The Bank prepares its financial statements in accordance with accounting policies established by its Board with prior approval from the Chilean Superintendency of Banks and Financial Institutions (Law 18,840). These policies are in accordance with generally accepted accounting principles in Chile, except for the deferral of accounting losses arising from amendments to the subordinated loan obligation payment agreements of certain banks, in accordance with Law 19,396 (notes 2g) and 8). As of 31 December 2005, these losses amounted to Ch$415,566.9 million, which were paid in full as of 31 December 2006, with a charge to net income for the year.
4. In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Central Bank of Chile as of 31 December 2006 and 2005 and the results of its operations for the years then ended, in conformity with the accounting policies described in note 2.
5. As indicated in note 13 to these financial statements, as of 31 December 2006, the Central Bank of Chile presents an equity deficit of Ch$2,143,691.9 million (Ch$2,474,814 million in 2005), which is mainly due to decreases in foreign currency exchange rates in 2005 and prior years.
6. As indicated in Article 11 of Law 20,128, during 2006, the Chilean Treasury, through the Ministry of Finance, made a capital contribution to the Central Bank of Chile of Ch$322,745.7 million, in accordance with the Fiscal Responsibility Law.

Enrique Aceituno A. ERNST & YOUNG LTDA.

Santiago, Chile, 19 January 2007

BANCO CENTRAL DE CHILE
Agustinas 1180, Santiago, Chile • P.O. Box 967, Santiago, Chile
Zip code 834-0454 Santiago
Tel: 56-2-670 2000 • Fax: 56-2-670 2231 • www.bcentral.cl • bcch@bcentral.cl

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