ANNUAL REPORT

CENTRAL BANK OF CHILE

2009

Annual Report 2009

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Central Bank of Chile

Contents

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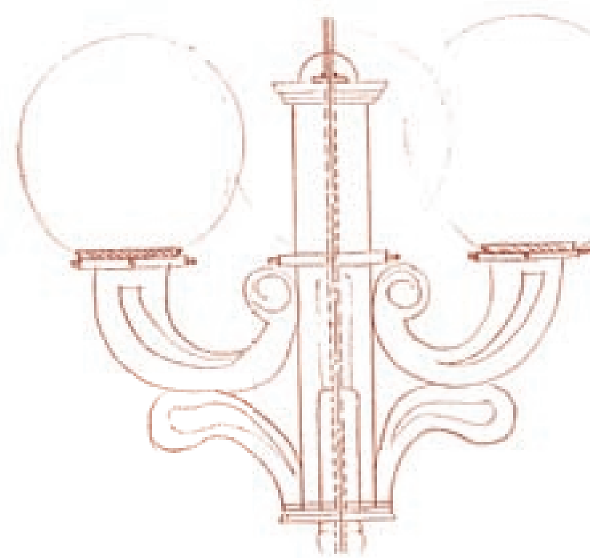


Senior authorities of the Central Bank of Chile

As of 31 December 2009

José De Gregorio Rebeco
Governor

Manuel Marfán Lewis
Acting Deputy Governor (*)

Enrique Marshall Rivera
Board Member

Sebastián Claro Edwards
Board Member

Rodrigo Vergara Montes
Board Member

(*) Deputy Governor as of 7 January 2010.

General Manager
Alejandro Zurbuchen Silva

General Counsel
Miguel Ángel Nacrur Gazali

General Auditor
Silvia Quintard Flehan

Division Directors

Kevin Cowan Logan
Financial Policy

Beltrán De Ramón Acevedo
Financial Operations

Pablo García Silva
Research

Luis González Bannura
Corporate Management and Services

Ricardo Vicuña Poblete
Statistics

Managers

Luis Álvarez Vallejos
Communications Advisor

Matías Bernier Bórquez
Domestic Financial Markets

Luis Felipe Céspedes Cifuentes
Economic Research

Rodrigo Cifuentes Santander
Financial Stability

Cecilia Feliú Carrizo
Human Resources

José Manuel Garrido Bouzo
Financial Regulation and Infrastructure

Leonardo Jadue Jadue
Informatics

Juan Esteban Laval Zaldívar
Chief Counsel of Corporate Legal Services

Sergio Lehmann Beresi
International Analysis

Pablo Mattar Oyarzún
Chief Counsel of Normative Legal Services

Iván Montoya Lara
Treasury

Enrique Orellana Cifuentes
Monetary Policy Strategy and Communication

Gloria Peña Tapia
Statistical Information

Francisco Ruiz Aburto
Macroeconomic Statistics

Cristián Salinas Cerda
International Investment

Claudio Soto Gamboa
Macroeconomic Analysis

Mario Ulloa López
Strategic and Risk Management

María Inés Urbina De Luiggi
Corporate Services

Claudia Varela Lertora
Institutional Affairs

Jorge Zúñiga Mayorga
Security

Employee profile
AS OF 31 DECEMBER 2009 (*)

Total staff	634
By gender	
Women	204
Men	430
By age (years)	
Under 25	17
25 to 35	203
36 to 45	140
46 to 55	163
56 to 65	106
Over 65	5
By educational level	
Ph.D.	34
Professional	390
Administrative	210
Average years of service	13
Annual turnover	11.87%

(*) Excluding Board Members.

BANCO CENTRAL
DE CHILE

Santiago, 26 April 2010

Mr. Felipe Larraín B.
Minister of Finance
Santiago

Pursuant to Sections 78 and 79 of the Basic Constitutional Act of the Central Bank of Chile, contained in Article One of Law 18,840, I hereby submit this institution's *Annual Report*, 2009.

Sincerely,

José De Gregorio R.
Governor

BANCO CENTRAL
DE CHILE

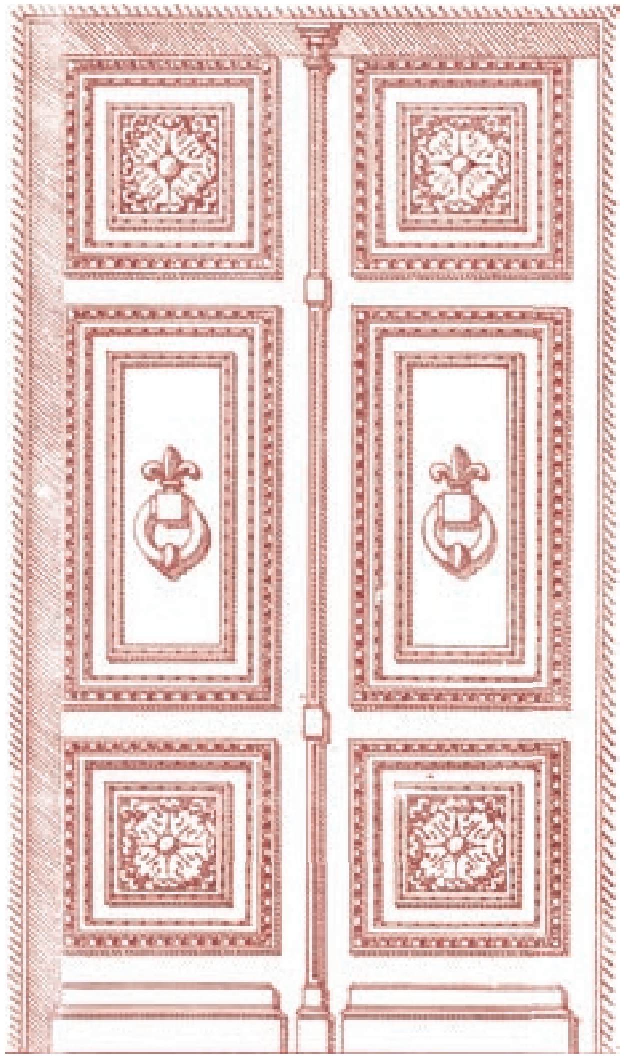
Santiago, 26 April 2010

Mr. Jorge Pizarro S.
President of the Senate
Valparaíso

Pursuant to Sections 78 and 79 of the Basic Constitutional Act of the Central Bank of Chile, contained in Article One of Law 18,840, I hereby submit to the Senate this institution's *Annual Report*, 2009.

Sincerely,

José De Gregorio R.
Governor



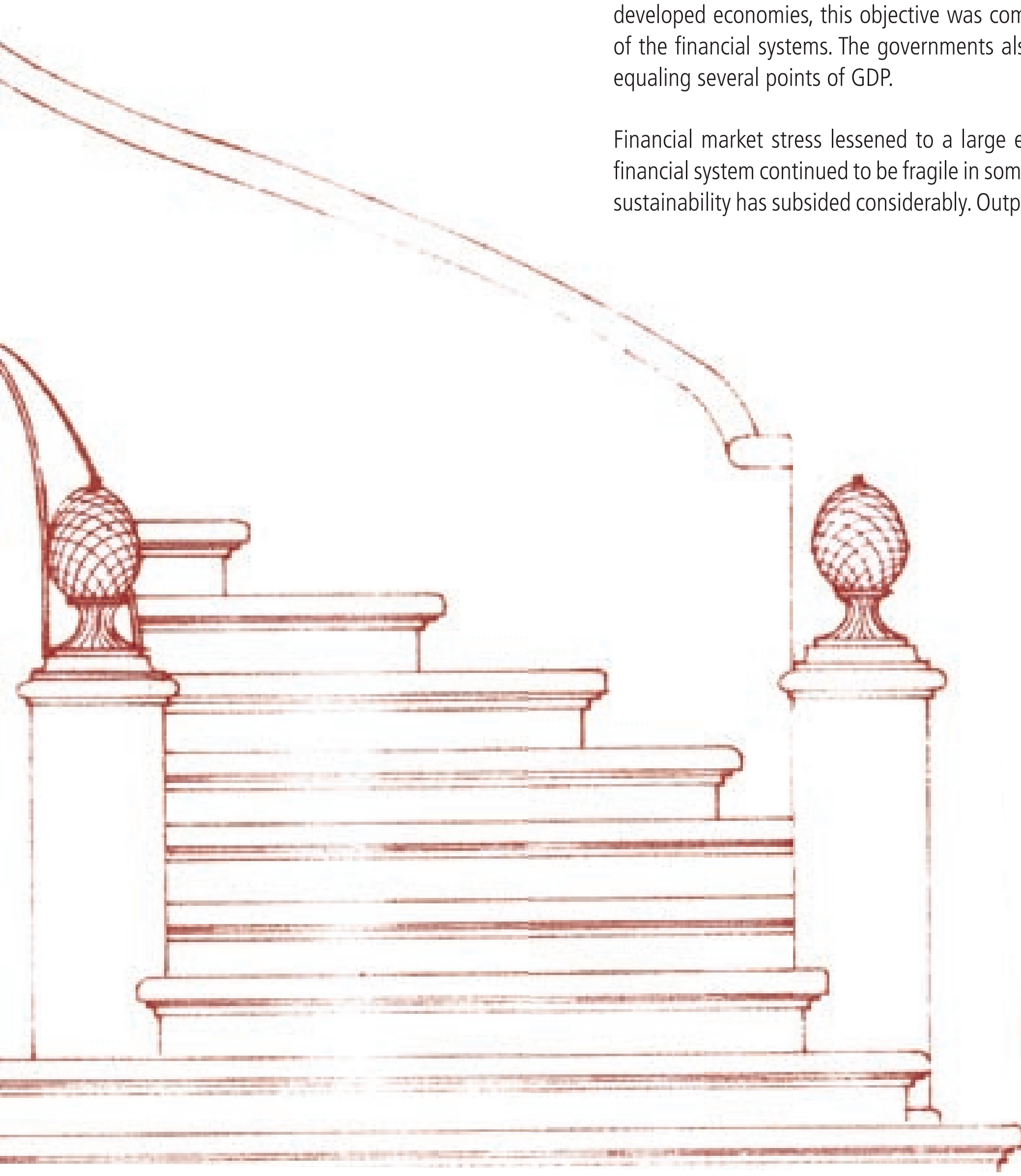
I. Financial Management and Policies of the Central Bank of Chile in 2009

A. Economic overview

In 2009, the world faced the worst recession of the last sixty years. The crisis of confidence that took hold in the international financial markets following the events of September 2008 led to a steep drop in consumption and investment, with a marked decline in international trade and a drastic reduction in inventories and manufacturing production, among other difficulties. Data for the fourth quarter of 2008 and the first quarter of 2009 reveal a significant drop in output and a consequent reduction in inflationary pressures, given the growth of excess capacity. Commodity prices, which were a dynamic source of cost pressures in 2008, fell sharply and thus also contributed to reducing inflation. Consequently, inflation plummeted at the global level, with several economies posting negative total and core measures in annual terms.

The central banks responded to this scenario with an unprecedented use of monetary policy instruments. Reference interest rates were cut to their lower limit in several countries, especially developed economies. Unconventional monetary policy measures were also adopted, expanding the monetary base through different measures seeking to contain the drop in inflation. In the developed economies, this objective was complemented by the need to support the functioning of the financial systems. The governments also adopted measures to implement relief packages equaling several points of GDP.

Financial market stress lessened to a large extent in the second half of the year. Although the financial system continued to be fragile in some important economies, the uncertainty regarding its sustainability has subsided considerably. Output has begun to recover, and consumer and business



confidence has improved. Doubts remain about the speed of the recovery, in particular with regard to the structure and timing of the withdrawal of the strong monetary and fiscal stimulus packages. The situation of some European economies is also a source of tension. Nevertheless, forecasts for 2010 and 2011 indicate, for now, that the world economy has escaped the recession of 2009.

In Chile, the macroeconomic scenario was similar. The financial system did not experience problems at the most critical moments for the developed world, thanks to both its intrinsic strengths and the support measures adopted by the Bank. Nevertheless, financial conditions tightened sharply and public confidence weakened substantially. Output, which had contracted slightly in the third quarter of 2008, fell sharply at the end of that year and remained low at least through April 2009. Employment also suffered a steep decline. In just a few months, the unemployment rate climbed from seasonally adjusted levels of under 8% to almost 11%. Inflation peaked at an annual 9.9% in October 2009 and then plummeted due to a combination of lower food and fuel prices fuels and the expansion of excess capacity. It bottomed out at –2.3% in annual terms in November 2009. Core measures followed a similar trend. Despite the significant change in the inflation path, medium-term inflation expectations remained constant throughout the year, in line with the target of 3% in a two-year horizon.

The Board reacted strongly, reducing the monetary policy rate (MPR) to its lower limit and adopting complementary monetary policy measures (section B of this chapter). The government applied a fiscal support package equivalent to almost 3 percentage points of GDP. Over the course of the year, market interest rates recorded substantial drops. Lending conditions began to loosen somewhat in the second half, and the level of loans had increased by the end of the year. Output began to recover in May, and it grew in annual terms in the fourth quarter. GDP fell 1.5% in annual terms in 2009; this is the first time it has been negative since 1999. Employment recovered in levels and also displayed a recomposition away from self-employment and toward wage jobs. Consumption was the demand component that was least affected by the crisis, in line with the application of a strong macroeconomic stimulus package. Investment and especially inventories fell significantly, but in both cases the data for late 2009 and early 2010 show signs of recovery.

B. Monetary policy in 2009

The global financial crisis exploded in the last quarter of 2008. The tension reached the heart of the global interbank and money market, producing a significant and generalized increase in counterparty risk in the world banking system. This tension would have to be addressed through aggressive liquidity provision measures from the world's central banks and, in some cases, with banking support measures from governments.

In Chile, the Central Bank quickly implemented a number of liquidity provision measures aimed at normalizing the spreads over the MPR in the peso and foreign currency money market. The heightened uncertainty, together with tighter local credit conditions, motivated a significant change in the orientation of monetary policy. In September 2008, the outlook was for additional increases in the MPR, even above market expectations. The events between mid-September and October indicated that the planned tight monetary policy stance was no longer necessary, since the deterioration of the external scenario would be sufficient to reduce domestic inflationary pressures.

In the fourth quarter of 2008, the interest rates on Central Bank instruments fell sharply, and the different measures of inflation expectations dropped from the high levels recorded up to that point, despite the sharp nominal and real depreciation of the peso. In this context, the MPR was held constant at 8.25% in October, November, and December, but the Board clearly changed the bias and outlook for monetary policy in the short term, confirming expectations of aggressive MPR cuts in the first quarter of 2009.

The negative global scenario and the heightened uncertainty associated with it triggered a sharp adjustment in spending and investment decisions, causing a significant expansion of excess capacity between the end of 2008 and the first half of 2009. The drop in commodity prices, especially oil, underpinned a scenario of lower inflationary pressures. In this context, monetary policy entered a clearly expansive phase, in which the MPR was reduced a total of 725 basis points between January and July, until it reached the lower limit of 0.5%. Real inflation fell significantly: the CPI plunged from around 10% in annual terms in October 2008 to –1% in August 2009, while the CPI excluding food and energy dropped from 6.4 to 0.8% annual. Given the low expected short-term inflation records and the persistence of excess capacity, it was necessary to continue expanding the monetary stimulus. After the MPR reached its lower limit in July 2009, the Board communicated that the MPR would remain at that level for a prolonged period, and it also implemented complementary monetary policy measures, in particular the short-term liquidity facility (*Facilidad de Liquidez a Plazo*, or FLAP). This provided the financial system with financing at a cost equal to the MPR for maturities up to 180 days, with an expanded set of collateral established through the measures implemented in October 2008. This stronger monetary stimulus had a significant impact on the interest rate structure, contributing to a more dynamic environment.

The low inflation level made the risk of a materialization of lower-than-expected cost pressures very costly. Therefore, in the August monetary policy meeting, the Board considered the possibility of implementing additional unconventional monetary policy measures. However, the global environment was continuing to improve gradually, and the growth forecasts for the developed world pointed to stabilization by the fourth quarter of 2009. The significant reduction in financial volatility in this period supported the prospects for stock market increases, rising commodity prices, and stronger currencies in emerging economies, especially commodity exporters. As the financial markets settled down, uncertainty began to grow about the timing and structure of the central banks' withdrawal of conventional and unconventional monetary stimulus measures. Chile faced the same scenario. To improve the predictability and clarity of the implementation of the unconventional monetary measures, the Board announced at the November monetary policy meeting that the terms of the FLAP would be reduced by 30 days at the monetary policy meeting in December 2009 and that they would continue to be shortened by 30 days each month, until access to the facility was closed in May 2010. At the monetary policy meeting in December 2009 and in the *Monetary Policy Report* from the same month, the Board further signaled that it considered the macroeconomic environment to be consistent with holding the monetary policy rate at 0.50% at least through the second quarter of 2010, and that the speed of normalization would be comparable to that captured in the December Economic Expectations Survey.

C. Foreign exchange policy

Since September 1999, the Central Bank of Chile has applied a floating exchange rate regime, in which the exchange rate is determined by the market. This regime allows for the conduct of an independent monetary policy, facilitates the economy's adjustment to shocks, and prevents sharp exchange rate misalignments, which in turn avoids more costly adjustments in terms of output variability and, in principle, attenuates the flow of speculative capital. Under this floating exchange rate regimen, the Bank reserves the right to intervene in exceptional circumstances, in the event of an overreaction of the exchange rate that could potentially cause adverse effects. The exchange rate is said to overreact when, without much variation in its fundamentals, it rises or falls sharply within a short period, possibly followed by movements in the opposite direction. The adverse effects of this fluctuation include a loss of confidence among economic agents, stemming from inflationary effects requiring monetary policy measures that are inadequate given the economic cycle, an increase in the volatility in the financial markets, and misleading price signals that may interfere with the efficient allocation of resources.

No such exceptional situations occurred in 2009, and the floating exchange rate regime operated normally.

D. Financial policy

D.1 Financial regulations

Under the regulatory framework on the settlement of operations involving derivative instruments, in January 2009 the Bank interpreted the sense and reach of the general terms and conditions applicable to derivatives operations involving a banking firm established in Chile or any other institutional investor. The Bank clarified that the provisions in this area do not impede this type of entity, in its role of counterparty, from establishing an agreement on the grounds for early settlement in the respective framework agreement on derivatives contracts. At the same time, the specific situations in which the resulting early settlement will be suspended were defined. These are fundamentally tied to the application of the regulatory authority of the Central Bank and to processes for regularizing the financial situation of the supervised entities by the corresponding regulatory authorities.

In August, in the context of the Bank's initiatives to modernize its financial regulations, a new regulation was enacted on mortgage loans financed through the issue of mortgage bills. This new regulation preserves the framework of prudential safeguards to which these operations have historically been subject and, at the same time, makes the loans offered through these instruments more competitive with other types of mortgage loans. The main innovation is to allow the possibility of financing more than 75% of the value of the mortgage collateral, provided that the regulatory safeguards designed specifically for these operations are strictly observed. As part of this process, the regulatory provisions were reinforced to improve the level of transparency in the use of mortgage bills to finance mortgage loans. Finally, complementary modifications were incorporated to allow banks to offer their clients more flexible payment and interest rate conditions.

D.2 Foreign exchange regulations

With regard to foreign exchange regulations, in April 2009 the requirements for participating in the Formal Exchange Market (FEM) were strengthened. To this end, it was established that entities other than stock brokers or securities dealers that wish to operate in the FEM must be legally incorporated either as an open corporation or as a closed corporation that agrees in its statutes to submit to the regulations governing open corporations; and they must guarantee their equity. Additional requirements were extended to all nonbank entities operating in the FEM, such as the provision of a specific guarantee to ensure the proper and complete fulfillment of their liabilities as FEM entities and conditions on the integrity and conduct of the entity's major shareholders, directors, managers, and main executives.

In May, the Bank set the applicable policy regarding the authorization of the exchange of ADRs for shares that are acquired by a Chilean corporation with the goal of carrying out a takeover bid. It also defined the policy on ADRs launched jointly in the national and international markets and which have been declared successful, subject to the conditions considered in that Resolution.

Finally, also in May, the Chapter XIV of the *Compendium of Foreign Exchange Regulations* was modified to incorporate investments corresponding to the former Chapter XIX. With this modification, foreign investors who signed a Foreign Exchange Agreement under the terms of the former Chapter XIX are granted the option of petitioning the Bank to have the respective investment covered by the current regulation.

E. Financial management

E.1 Monetary and foreign exchange management

To support the implementation of monetary policy, the Bank monitors market liquidity and employs the mechanisms and instruments at its disposal to ensure that the interbank interest rate remains around the MPR.

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

In 2009, monetary management took place in an environment of uncertainty regarding external credit conditions. The Bank continued to actively use its traditional policy instruments and also incorporated new unconventional instruments, together with the temporary monetary and financial stability operations used in 2008. Some additional regulatory changes were also made, expanding the list of institutions eligible to operate in the primary market for Central Bank debt instruments to include stock brokers and securities dealers. In addition, the regulations were established for a collateralized credit line in domestic currency for banking firms, which was then opened for operations. For this facility, the list of eligible collateral for securing loans to the banking sector has been expanded to include Chilean Treasury bonds, as well as previously accepted securities.

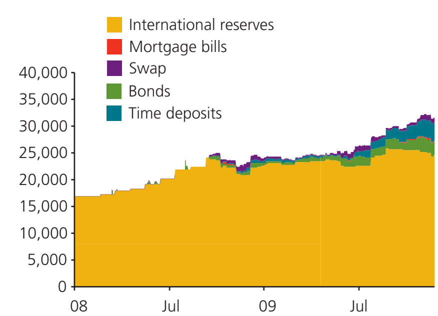
At the same time, the Board also extended the temporary regulations loosening compliance with foreign currency reserve requirements through 8 February 2010. It later announced the withdrawal of liquidity support measures, according to which the 91-day foreign exchange swaps and 28-day repo transactions will be maintained through 30 June 2010, while the 180-day foreign exchange swaps were suspended at the time of the announcement.

The liquidity support measures and the short-term liquidity facility (FLAP) had a significant effect on the Bank's assets and liabilities. Assets increased approximately US$6 billion, due to use of the liquidity provision operations, mainly the FLAP (December 2009). All of these operations are secured, mainly with bank time deposits and Central Bank bonds. As a counterpart to the increase in assets, the Bank's liabilities also grew substantially, mainly in discountable promissory notes (PDBC) and other liabilities (the standing deposit facility and liquidity deposits) (figures I.1 and I.2).

Despite the expansiveness of monetary policy in 2009, the deviation between the interbank rate and the MPR was only 6 basis points, on average. This can largely be attributed to the monetary schedule, the daily monitoring of the liquidity system, and monetary adjustments made by the Bank over the course of the year.

Figure I.1

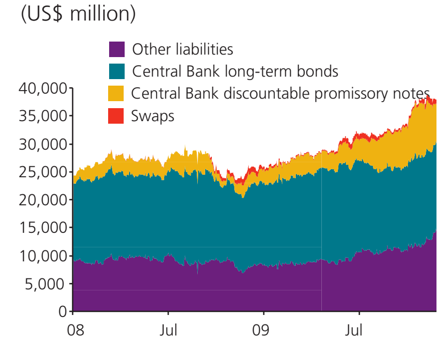
Main factors affecting Central Bank assets
(US$ million)



Source: Central Bank of Chile.

Figure I.2

Main factors affecting Central Bank liabilities
(US$ million)



Source: Central Bank of Chile.

E.2 Management of international reserves

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

In 2009 the Bank held sufficient international reserves to face potential and predictable foreign currency liquidity needs. As of 31 December, the investment portfolio, which includes short- and long-term assets to be used for dealing with unforeseen contingencies and long-term requirements, stood at US$22.696 billion. The liquidity portfolio, which includes short-term assets earmarked for covering foreseeable requirements in the near future totaled US$1.154 billion. At the aggregate level, including other assets such as monetary gold and special drawing rights (SDRs) issued by the International Monetary Fund (IMF), total international reserves closed the year at US$25.373 billion.

In 2009, international reserves grew US$1.908 billion relative to year-end 2008. This includes US$1.084 billion in SDRs from the IMF,[1]/ US$415 million from portfolio yields, and US$561 million

[1]/ In August and September the IMF increased the SDR allocation to US$283 trillion in order to supply liquidity to the global economic system, increasing the international reserves of member countries.

from price movements and changes in parity. As of 31 December 2009, the Bank's swap program had US$745 million outstanding.

Reserve liquidity was secured by investing in a short-term deposit portfolio in international commercial banks with a regular maturity schedule and in fixed-income instruments traded in highly liquid secondary markets. As of 31 December 2009, current account and time deposits represented 24.5% of total reserves; short-term papers, 30.0%; bonds, 39.5%; and other assets, 6.0%.

To safeguard Central Bank equity, investment resources are administered according to policies and controls approved by the Board and designed to limit operating and financial risks. Investment credit risk was controlled through restrictions on issuers, instruments, intermediaries, and custodians. As of 31 December, 70% of reserves were invested in AAA-rated instruments issued by banks, sovereigns, U.S. financial institutions, or supranationals. The remaining 30% was invested in instruments rated A to AA+, mainly from the banking sector. Market risk was controlled by diversifying investment currencies, instruments, and maturities and by taking into consideration the impact of decisions regarding these parameters on the Bank's balance sheet. At year-end, 59.0% of reserves were held in dollar-denominated instruments, 34.4% in euro-denominated instruments, and 6.6% in instruments denominated in other currencies. Portfolio duration averaged around 17 months. Operating risk was managed by separating duties and responsibilities and applying internal and external control mechanisms.

Throughout 2009, two independent administrators continued to perform the long-term general mandate for the external administration of part of the Bank's international reserves. They each managed a portfolio of around US$310 million. The risk evaluation method also continued to be based on a risk budget, whereby administrators are authorized to take a maximum risk of 100 basis points of tracking error against the respective benchmark. The special mandate for mortgage-backed securities (MBS) also remained unchanged, managing a portfolio of approximately US$420 million.

Total returns from international reserve management were 2.15% measured in foreign currencies (a reference basket of currencies in the investment portfolio) and 3.34% measured in U.S. dollars. The differential return relative to the benchmark that is used to guide and assess investment performance was 50 basis points. The total operating costs of managing the Bank's international reserves for this fiscal year was 3.6 basis points of the total reserves under management. Income from the securities lending program was around 1.0 basis point of international reserves.

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

E.3 Debt management

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

In continuation of its transparency policy and in line with international standards in this area, the Board announced the 2009 annual schedule of bond auctions in early January. This practice provides the public and the market with advance information that facilitates their decision-making over a given, stable horizon. At the same time, the Board indicated that the auction schedule could be subject to modifications in the event of significant changes in market conditions.

The debt plan announced by the Board included monthly auctions of Central Bank securities, denominated both in pesos, with two- and five-year maturities (BCP-2 and BCP-5), and in inflation-indexed UF (*Unidades de Fomento*), with five- and ten-year maturities (BCU-5 and BCU-10). This program was coordinated with the Ministry of Finance.

In early March, the Central Bank accepted the role of fiscal agent, on request from the Treasury of Chile, in the placement of Treasury bonds in the local capital market in 2009 and the associated provision of services on their corresponding dates of maturity. This involved the placement of ten-year peso-denominated Treasury bonds (BTP-10) and twenty- and thirty-year UF-denominated Treasury bonds (BTU-20 and BTU-30).

In mid-June, the Ministry of Finance announced a new issue of Treasury bonds in the local market, for an additional US$1.7 billion. The issue includes five-year peso-denominated bonds (BTP-5) and five- and ten-year UF-denominated bonds (BTU-5 and BTU-10).

To sterilize the possible impact of this announcement on the fixed-income market, on the same day the Bank announced adjustments to its debt schedule. Specifically, the bank suspended the issue of BCP-5, BCU-5, and BCU-10 bonds, valued at approximately US$750 million, and announced that it would buy back approximately US$1.0 billion of its own five- and ten-year UF-denominated bonds.

Over the course of the year, securities issued by the Central Bank in pesos (BCP-2 and BCP-5) and in UF (BCU-5) matured.

E.4 Provision of large-value payment services

The Bank is responsible for safeguarding the normal operation of the payments systems. To this end, it is vested with legal authority in the areas of regulation and supervision of these systems. It also operates the real time gross settlement (RTGS) system, which orchestrates the use of Central Bank money to clear large-value transactions, monetary policy operations, and transactions in other settlement and payment systems, such as the large-value payment clearing house (*Cámara de Compensación de Pagos de Alto Valor*, or CCAV) and checks.

The RTGS system functioned adequately throughout 2009, quickly and effectively fulfilling its role of distributing liquidity across the financial system and providing certainty of payment. The Bank continued to make advances in terms of risk mitigation in the payment and securities clearing and settlement systems. Through the open market operations system (known locally as *Soma*), it incorporated the principles of delivery versus payment (DVP) in transactions involving the purchase of debt instruments, which allowed the implementation of a program to buy back US$1.0 billion of its own UF-denominated bonds.

Over the course of the year, the RTGS system cleared an average of Ch$1.85 trillion a day, an increase of 31% over 2008. The average number of payments per day was 838, an increase of 9%. The settlement of individual payments maintained a high level of certainty and stability, with no indications of problems in the settlement process. The system had a low rejection rate in both the number and amount of payment instructions received, as well as a less frequent extension of the system's operating hours. The introduction of the short-term liquidity facility (FLAP) led to a significant increase in the value of transactions through the standing deposit facility and a decrease in the amounts requested from the intraday liquidity facility.

In August, after extensive operational testing, the Bank and its service provider, Logica UK, concluded the process of upgrading the LCSS/CAS application (the technical platform for the RTGS system) to version 3.50. This new version introduced improvements in the procedures for clearing net multilateral positions, incorporating a higher degree of automation in the input process, as well as tools for improving the management and monitoring of the clearing process. The project launch had to be tightly coordinated with all the institutions that use the RTGS system, in addition to *ComBanc and Sinacofi*. The new version of the RTGS system included a total renovation of the hardware platform used not only for production, but also testing. The new version is capable of multi-currency operations, which makes it a suitable technical platform for operating the Bank's foreign currency current account system.

To comply with international standards, the 2009 regulations for the SWIFT messaging system, which is used in the RTGS system, introduced changes to the fund transfer messages, with the incorporation of the COV code. This allows the full disclosure of all information on the clients and financial institutions involved, from beginning to end, in transactions using correspondent banks.

E.5 Administration of fiscal funds (ESSF and PRF)

In early 2007, in accordance with Law 20,128 on Fiscal Accountability, the Ministry of Finance requested, through Executive Decree 1383 (agency decree), that the Central Bank act as its fiscal agent in the administration of all or part of the fiscal resources held in the Economic and Social Stabilization Fund (ESSF) and the Pension Reserve Fund (PRF).

After analyzing the regulatory framework provided by the Basic Constitutional Act and considering the economies of scale and scope that the Central Bank could contribute in managing such fiscal resources, the Board accepted the request and empowered the Director of the Financial Operations Division to institute the internal procedures necessary to perform the task entrusted to the Bank as fiscal agent to manage these resources, as established in Article 4 of the agency decree and in the related performance guidelines.

During 2009, the Bank's objectives in administering these resources were the protection of principal and growth, while complying with the risk standards defined by Ministry of Finance in its performance guidelines and accepted by the Bank.

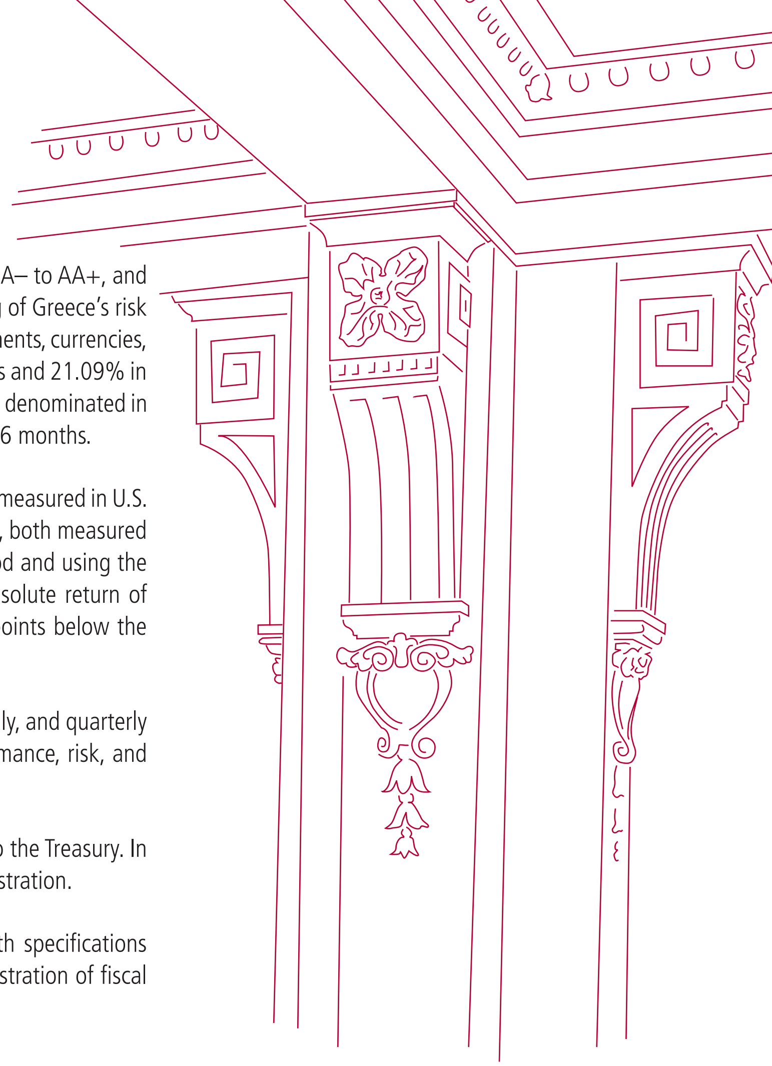
Throughout the period, the Bank continued to hire the services of a general custodian, which also measured the performance, risk, and compliance of the administration of the resources entrusted to the Bank in accordance with the standards and parameters outlined in the performance guidelines. In 2009, the Bank accepted new performance guidelines, which entered into force in September. These guidelines primarily establish new benchmarks for the short-term portion of the portfolio and for the long-term portfolios.

In 2009, the Bank received additional PRF resources totaling US$836.71 million, which were financed with ESSF resources. As of 31 December, the PRF had a market value of US$3.421 billion. In the same period, resources withdrawn from the ESSF totaled US$9.278 billion, with a market value of US$11.285 billion as of the same date.

The market value of the funds at the close of 2009 totaled US$14.706 billion. Since the Bank accepted the fiscal agent assignment, the Treasury has made contributions of US$20.358 billion and withdrawals of US$8.441 billion.

The resources administered by the Bank were invested according to policies and controls designed to limit operating and financial risks, with standards equivalent to those used in the management of international reserves.

Credit risk was controlled through restrictions on issuers, instruments, intermediaries, and custodians, as defined in the aforementioned performance guidelines. As of 31 December, 65.53% of these



resources were invested in instruments rated AAA, 33.40% in instruments rated A– to AA+, and the remaining 1.07% in instruments rated BBB+, which reflects the downgrading of Greece's risk rating. Market risk was controlled through the diversification of investment instruments, currencies, and maturities. At year-end, 78.91% of the funds were invested in sovereign bonds and 21.09% in bank securities. In terms of currency composition, 49.93% was held in instruments denominated in U.S. dollars, 40.22% in euros, and 9.85% in yen. Portfolio duration averaged 29.6 months.

The ESSF resources administered by the Bank earned an absolute return of 2.48% measured in U.S. dollars, which implies a yield differential of 16 basis points below the benchmark, both measured using the time-weighted rate of return (TWRR) methodology[2]/. In the same period and using the same methodology, the PRF resources administered by the Bank earned an absolute return of 2.28% measured in U.S. dollars, which implies a yield differential of 35 basis points below the benchmark.

Since the Bank accepted the fiscal agent assignment, it has provided daily, monthly, and quarterly reports to the Finance Minister and the Treasurer, including measures of performance, risk, and compliance with the relevant benchmarks.

With regard to agency fees, the costs of administering the funds were charged to the Treasury. In 2009 annual charges were 0.51 basis points of the total resources under administration.

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

F. Miscellaneous

F.1 Technical Secretariat for the National Commission in Charge of Investigating the Existence of Price Distortions on Imported Goods

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

In 2009, the Technical Secretariat provided support to the Commission, which held eight meetings and opened two investigations. Measures in force at the end of the year included a definitive antidumping duty on wheat flour imports from Argentina and a provisional safeguard measure on imports of powdered milk and gouda cheese.

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[2]/ The TWRR methodology yields a rate of return that has been adjusted for the impact of possible contributions (capital contributions or contributions generated through the securities lending program) and withdrawals (capital withdrawals or payments to third parties), which allows the analyst to isolate the effect of exogenous changes in the size of the portfolio on the funds' performance. This methodology also supports the comparison of the portfolio administrator's performance with a reference benchmark.

F.2 Chilean Copper Commission (Cochilco)

On 22 October 2008, the Board of the Central Bank of Chile appointed Matías Bernier Bórquez and Eduardo López Escobedo to represent the Bank on the Board of the Chilean Copper Commission (*Cochilco*). The new representatives will hold this office for two years.

F.3 Competition Tribunal

By virtue of Resolutions adopted in Session 1404E on 23 April 2008, the Board drew up the list of candidates to present to the President of Chile for the offices of Judge / Legal Counsel and Judge / Economist to be appointed to the Competition Tribunal (*Tribunal de Defensa de la Libre Competencia*, or *TDLC*). The chosen candidates replaced the acting judges whose term of office ended on 12 May 2008, as specified in Articles 6, 7, and 12 of the Antitrust Law.

In 2009, the Board did not make any new appointments or proposals, in accordance with the legislation. The legislation was modified, however, by Law 20,361, to reduce the number of Alternate Judges on the court from four to two, among other changes. These two Alternate Judges must include one lawyer and one professional with an undergraduate or graduate degree in economics. Henceforth, the President of Chile will appoint the Alternate Judge / Legal Counsel, while the Board of the Central Bank of Chile will select the Alternate Judge / Economist. The appointments will be made following a public search process carried out using the same procedures established for the acting members of the Commission.

G. The balance sheet

G.1 Balance sheet levels and structure

The behavior of the economy and the policies adopted by the Central Bank of Chile are reflected in the Bank's balance sheet, whether in the total amount or in the composition of assets and liabilities, which in turn affects the trend of earnings and losses. Thus, the considerable debt in the form of Central Bank promissory notes on the liability side is largely explained by the need to finance the rescue of the financial system following the crisis in the first half of the 1980s and by the accumulation of international reserves in the 1990s. The balance sheet also reflects the Bank's ongoing commitment to price stability and its concern for keeping the interest rate structure compatible with existing benchmarks and with the conduct of monetary policy based on inflation targets.

Since the launching of the floating exchange rate regime in September 1999, exchange rate interventions have been limited to extraordinary situations. Thus, from 1999 to early 2008, with the free-floating regime formally established, the size of the Bank's balance sheet naturally tended to shrink relative to GDP, to the extent that the economy grew. This reduction was accentuated starting in 2003, when the Board adopted measures to use dollars (international reserves) to redeem its exchange-rate-indexed debt in domestic currency. In addition, the government used pesos to pay foreign-currency-denominated promissory notes from the Treasury to the Central Bank, which then used these resources to reduce its domestic-currency-denominated debt. These promissory notes from the Treasury, which had no secondary market, were given to the Bank in the early 1980s to compensate for losses incurred during the financial crisis of that period. The reduction of assets was curbed, in part, through three capital contributions in dollars made by the government since 2006 (0.5% of GDP each year, in accordance with stipulations in the Fiscal Accountability Law).

The decreasing trend in the size of the balance sheet was interrupted in April 2008, when the Board decided to strengthen the Bank's foreign currency position. This decision was based on the presence of symptoms signaling financial turbulence from abroad and the situation in the foreign exchange market. Starting in September 2008, with the onset of global financial instability, the Bank carried out operations designed to provide liquidity to the financial system. This continued in 2009 through foreign exchange swap operations[3]/ and repo transactions in domestic currency. The low inflationary pressures, combined with the fact that the MPR reached its lower limit in July 2009, prompted the implementation of complementary monetary policy measures, in particular the FLAP. The counterpart to these operations was an increase in commercial banks' current account and liquidity deposits with the Central Bank.

The profitability of the balance sheet deteriorated in 2009 in terms of interest income. Given the structure of the Bank's balance sheet and the currency mismatches therein, the evolution of internal and external interest rates and currency parities caused a significant equity loss.

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

The appreciation of the peso generated a deterioration in the profitability of the balance sheet. This occurs when the losses from exchange rate fluctuations are not realized through the sale of reserves and can be quickly reversed if the exchange rate rises.

As in the previous year, interest rates evolved unfavorably for the Bank in 2009. Most of the world's economies expanded the monetary stimulus, which translated into a drop in interest rates to historically low levels. The effect of these international rates was primarily felt on assets (international reserves). In Chile, the MPR was cut to its lower limit, which mainly affects liabilities (Central Bank promissory notes). Despite this reduction, the gap between the average interest rate on assets and the average interest rate on liabilities was negative: –0.6 percentage point. This intensified the negative performance of 2008 (–0.2%). An important factor in these results is the average interest rate accrued on international reserves, which fell from 3.1% in 2008 to 1.7% in 2009. The rate on monetary policy operations dropped from 4.9 to 3.8% in the same period. That is, the cost of maintaining international reserves increased relative to 2008.

In addition, exchange rate fluctuations (which have a bigger impact on assets) and changes in the UF (which is more important for liabilities) translated into an unfavorable gap of –12% for the implied rates of adjustment due to changes in the value of assets and liabilities (20% in 2008).

Thus, the most important factor in the 2009 accounting earnings was exchange rate fluctuation, as is usually the case. Between year-end 2008 and 2009, the peso-dollar exchange rate fell 20%. The value of reserves in pesos fell 19%, while the value of the net balance of all foreign currency assets minus all foreign currency liabilities on the balance sheet (foreign currency position) fell 29%. The differences between these last two rates and the dollar exchange rate fluctuation is explained by the appreciation of the other currencies that make up reserves. The value of the yen fell 21% expressed in pesos, while the euro dropped 16%.

Consequently, the Bank's 2009 income statement posts losses of Ch$2.753 trillion (table I.1), which breaks down as follows: losses of Ch$2.582 trillion due to changes in value of assets and liabilities; losses of Ch$123 billion in interest, and losses of Ch$67 billion in nonfinancial costs. Additionally, the value of equity grew Ch$193 billion due to the implementation of IFRS accounting

[3]/ At he same time, the government deposited some of its foreign currency assets in the local banking system.

standards, because these guidelines use a less conservative criterion for asset and liability valuation (and thus earnings). After adding in this adjustment, capital decreased Ch$2.559 trillion, which explains the real change in equity from its initial revalued amount of Ch$599 million to its closing value of –$1.961 trillion.

Table I.1

Central Bank Balance Sheet

(Balances in Ch$ billion, and percent of GDP, as of December of each year)

	2008		2009		Rates of return (2) (%) 2008		2009	
	Balance	%GDP	Balance	%GDP	interest	△value	interest	△value
Assets (1)	**18,233**	**21.3**	**18,612**	**20.3**	**3.4**	**25.6**	**1.8**	**-14.1**
Net international reserves	14,572	17.0	12,849	14.0	3.1	31.5	1.7	-17.6
Treasury promissory notes	0	0.0	0	0.0	1.5	12.7		
Other public sector assets	873	1.0	883	1.0	7.5	5.2	2.5	-1.3
Subordinated debt	990	1.2	914	1.0	5.2	8.8	4.8	-2.3
Monetary policy instruments (3)	1,562	1.8	3.727	4.1	1.5	1.3	0.6	-1.3
Other	235	0.3	238	0.3	3.0	18.0	1.6	-24.4
Liabilities (1)	**17,615**	**20.6**	**20,572**	**22.5**	**3.6**	**5.6**	**2.4**	**-2.1**
Monetary base	4,230	4.9	4,582	5.0	0.8	0.0	0.2	0.0
Monetary policy promissory notes (4)	10,617	12.4	11,579	12.6	4.9	5.8	3.8	-1.7
Other monetary policy liabilities (5)	2,156	2.5	3,117	3.4	3.6	10.4	0.7	-0.6
Current accounts and foreign exchange reserve	231	0.3	248	0.3	0.0	22.6	0.0	-22.9
Treasury and other public sector deposits	136	0.2	303	0.3	3.3	33.7	0.8	-11.4
Other	245	0.3	743	0.8	1.1	37.6	0.2	-20.7
Equity (1)	**618**	**0.7**	**-1,961**	**-2.1**				
Revalued initial capital	-2,363		599					
Nominal initial capital	-2,177		618					
Revaluation of equity	-186		-19					
Net result	2,553		-2,753					
Nonfinancial results (6)	-61		-67					
Net interest (6)	-56		-123					
Changes in value (7)	2,484		-2,582					
Less: Own capital revaluation	186		19					
Capital contributions	428		0					
Application of IFRS guidelines			193					

(1) Assessed equity is equivalent to the accounting measure; however total assets and liabilities differ, mainly because of differences in the treatment of provisions, temporary assets, and temporary liabilities.

(2) Implicit rates are calculated based on estimates of average balances and losses/profits due to interest or changes in value. The resulting rates may be distorted if the end-of-month balances used to estimate the average balances are not representative.

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

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

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

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

(7) Includes indexation in domestic currency and the effect of foreign exchange rate fluctuations on assets and liabilities in foreign currency.

Source: Central Bank of Chile.

G.3 Balance sheet positions

The currency positions on the balance sheet can be used to assess equity exposure to foreign exchange risk. Furthermore, by clarifying the nature of the flows that determine changes in the balance—separating out changes stemming from transactions per se (exchanges) versus changes due to interest and changes in value—it is possible to track the Bank's policies more closely.

The Bank's position denominated and payable in foreign currency increased US$30 million (table I.2b). This increase was explained by greater international reserves of US$1.235 billion (mainly due to an increase in special drawing rights, or SDRs), the growth of government funds of US$329 million, an increase in net credit to the banks of US$209 million, and an increase in the net credit balance of other transactions of US$1.085 billion.

These assets and liabilities recorded additional changes through associated interest and changes in value as well as payment (or receipt) of nonfinancial costs (income). Of the US$2.210 billion increase in international reserves, US$975 million corresponds to accrued interest and changes in the U.S. dollar value of the reserves. The latter reflects the depreciation of the U.S. dollar against other currencies (such as the euro) that also make up the reserves, so the value of the reserves measured in dollars is greater. Additionally, the Central Bank supplied liquidity in foreign currency to the banking system through swaps of US$2.065 billion (accumulated annual), although that figure is lower than operations in 2008 (subtracting mature contracts). This lower flow was partially offset by a drop of US$406 million in the banks' foreign exchange deposits in the Bank, in both current accounts and liquid dollar deposits.

The expansion of the Bank's foreign exchange position (denominated and payable in foreign currency) due to operating flows was equivalent to Ch$16 billion. The necessary counterpart of this growth was a net reduction in the position payable in domestic currency, which decreased Ch$19 billion. This reduction was partially offset by an increase in the position payable in domestic currency but expressed in dollars, by Ch$3 billion (table I.2a). The Ch$19 million decrease in the position denominated and payable in domestic currency can be broken down into flows that increased the monetary base by Ch$345 billion, debt from promissory notes of Ch$733 billion, a reduction in the net debt with banks of Ch$1.095 trillion (due to the increase in the demand for liquidity), and flows that reduced the net balance of other assets held by the Bank by Ch$35 billion. All these assets and liabilities registered additional reductions of Ch$253 billion through interest, nonfinancial readjustments, and nonfinancial costs.

The total increase in the monetary base in 2009, taking into account the interest paid for technical reserves (MPR less 100 basis points[4]/), was Ch$345 billion, implying a higher real growth than GDP. This is explained by the extraordinary measures the Bank took to supply liquidity to the private banking system. Nevertheless, the share of the monetary base in total liabilities fell from 24% at year-end 2008 to 22% at the close of 2009. In the medium term, the monetary base is expected to increase its share in the Bank's liabilities, as the effects of the complementary monetary policy measures decline.

The Ch$1.095 trillion reduction in net liabilities with the banks includes a Ch$2.379 trillion expansion carried out with monetary policy assets and a Ch$1.558 trillion increase due to liquidity deposits by the banks. The former reflects the impact of the unconventional monetary policy that the Central Bank implemented to provide liquidity to the private banking system. The Ch$35 billion reduction in the net asset balance mainly includes subordinated debt service paid to the Bank by bank shareholders ($98 billion) and a net expansion of Ch$55 billion mainly from the Bank's nonfinancial income in domestic currency.

[4]/ When the MPR is below 100 basis points, the technical reserve remuneration is zero.

The remaining assets and liabilities on the balance sheet fluctuate due to accrued interest and valuation effects. These factors together explain the changes in level of the balances described above. In sum, in 2009 assets and liabilities as a share of GDP recorded marginal changes relative to 2008, because the greater liquidity provided to banks, which increases the size of the assets, was offset by a drop in the value of reserves. Finally, in 2009, the evolution of the interest rates accrued on the Bank's assets and liabilities caused a reduction of interest income on the balance sheet. Together with the exchange rate appreciation, this generated considerable losses in equity.

Table I.2a

Central Bank balance sheet positions

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

	Balance 2008	2009 flows (4) Exchanges (5)	2009 flows (4) Earnings and △capital (6)	Balance 2009
Denominated and payable in pesos (1)	**-13.865**	**-19**	**-253**	**-14.136**
Monetary base (2)	-4.230	-345	-7	-4.582
Central Bank promissory notes	-10.614	-733	-232	-11.579
Banks	-796	1.095	0	299
Other	1.775	-35	-14	1.726
Denominated in foreign currency and payable in pesos (1)	**-3**	**3**	**0**	**0**
Denominated and payable in foreign currency (1)	**14.485**	**16**	**-2.325**	**12.176**
Equity (1)	**618**	**0**	**-2.578**	**-1.961**

Table I.2b

Foreign currency positions on the Central Bank balance sheet

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

	Balance 2008	2009 flows (4) Exchanges (5)	2009 flows (4) Earnings and △capital (6)	Balance 2009
Denominated in foreign currency and payable in pesos	**-5**	**5**	**0**	**0**
Denominated and payable in foreign currency	**23.025**	**30**	**988**	**24.044**
International reserves (3)	23.162	1.235	975	25.373
Central Government (net)	-128	-329	4	-453
Banks (net)	43	209	4	256
Central Bank bonds and promissory notes	0	0	0	0
Other (net)	-52	-1.085	5	-1.132
TOTAL	**23.020**	**35**	**988**	**24.044**

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

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

(3) Because international reserves are a positive component of the position denominated and payable in foreign currency, its flows reflect the direction of its variations (with the same sign). Exchange flows of other entries with the opposite sign are the balancing entry of its increase or decrease due to exchanges.

(4) Flows are, in general, the result of operations or imputations that translate into changes in balances.

(5) Exchange flows are produced whenever an asset or liability is modified as a consequence of the opposite variation of another asset or liability. In aggregate terms, exchanges alone do not change the equity level.

(6) Includes interests, price-level restatements, and other changes in value, profits minus nonfinancial losses, and capital contributions.

G.4 Unconventional monetary policy on the Bank's balance sheet

Starting in October 2008, the Bank implemented a set of measures with the goal of offering greater liquidity in both domestic and foreign currency and guaranteeing the smooth functioning of the payments system. These measures were deepened in 2009, for example with the creation of the FLAP. This instrument had a strong influence on the market's rate expectations, to the extent that the forward curve flattened out immediately. It also produced a change in the composition of the demand for liquidity (monetary policy instruments): the FLAP replaced repos as the banks' preferred financing mechanism in local currency. On the Bank's balance sheet, the FLAP has grown steadily to become the second most important item on the asset side (figure I.3). In 2009 total monetary policy assets were more than double the values recorded in 2008.

As of 30 December 2009, the balance for the FLAP was Ch$3.199 trillion, while repos were close to Ch$90 billion. On the liability side, the counterpart of this increase in liquidity was distributed between a larger monetary base, a higher debt level, and increased peso deposits by the banking system (figure I.4). Although the size of the balance sheet was expected to shrink as a result of the appreciation of the peso and the subsequent loss in value of the reserves, it remained practically unchanged from the close of 2008, because the drop in reserves was offset by the balance of the FLAP. At the November monetary policy meeting, the Board decided to shorten the maximum terms of the FLAP from 180 to 150 days starting on 14 December and to continue shortening it by 30 days each month, so as to close off access to the facility in May 2010. As expected, preliminary data for January 2010 indicate that the balance of the FLAP began to fall, which is also a sign of greater liquidity in the financial system.

G.5 Capitalization of the Central Bank

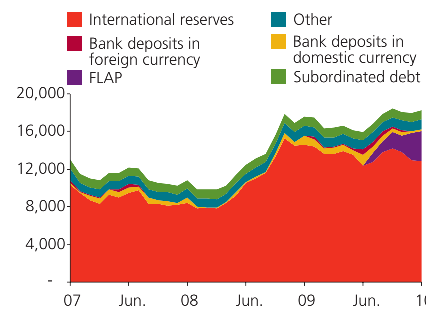
Law 20,128 on Fiscal Accountability, published in the *Official Gazette* on 30 September 2006, authorizes the Treasury (through the Ministry of Finance) to make annual capital contributions to the Central Bank of Chile. Each contribution can be up to 0.5% of the previous year's GDP. In accordance with this law, the Treasury did not make any contributions in 2009, following the guidelines governing these specific contributions as established in Article 11 of the legal text. In particular, this authority is granted to the Minister of Finance for a period of five years from the date of publication of the law, and requires the fulfillment of budgetary stipulations with regard to the existence of an effective surplus vis-à-vis one year previous to the date the contribution is made, after deducting the contribution to the Pension Reserve Fund established in the same law.

The Bank has already received three annual capital contributions. The remaining are contingent on an economic-financial study to be carried out by the Ministry of Finance to evaluate the impact of past contributions on the Bank's projected balance sheet for a period of twenty years. These past contributions were added to the Bank's international reserves, as established by the Board through Resolution 1289-02 of 31 August 2006. The value of these contributions was Ch$323 billion in 2006 (US$606 million); Ch$387 billion in 2007 (US$736 million); and Ch$428 billion in 2008 (US$730.7 million).

Figure I.3

Central Bank of Chile assets (balances)

(Ch$ billion)

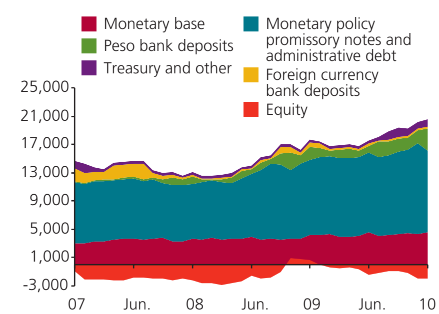


Source: Central Bank of Chile.

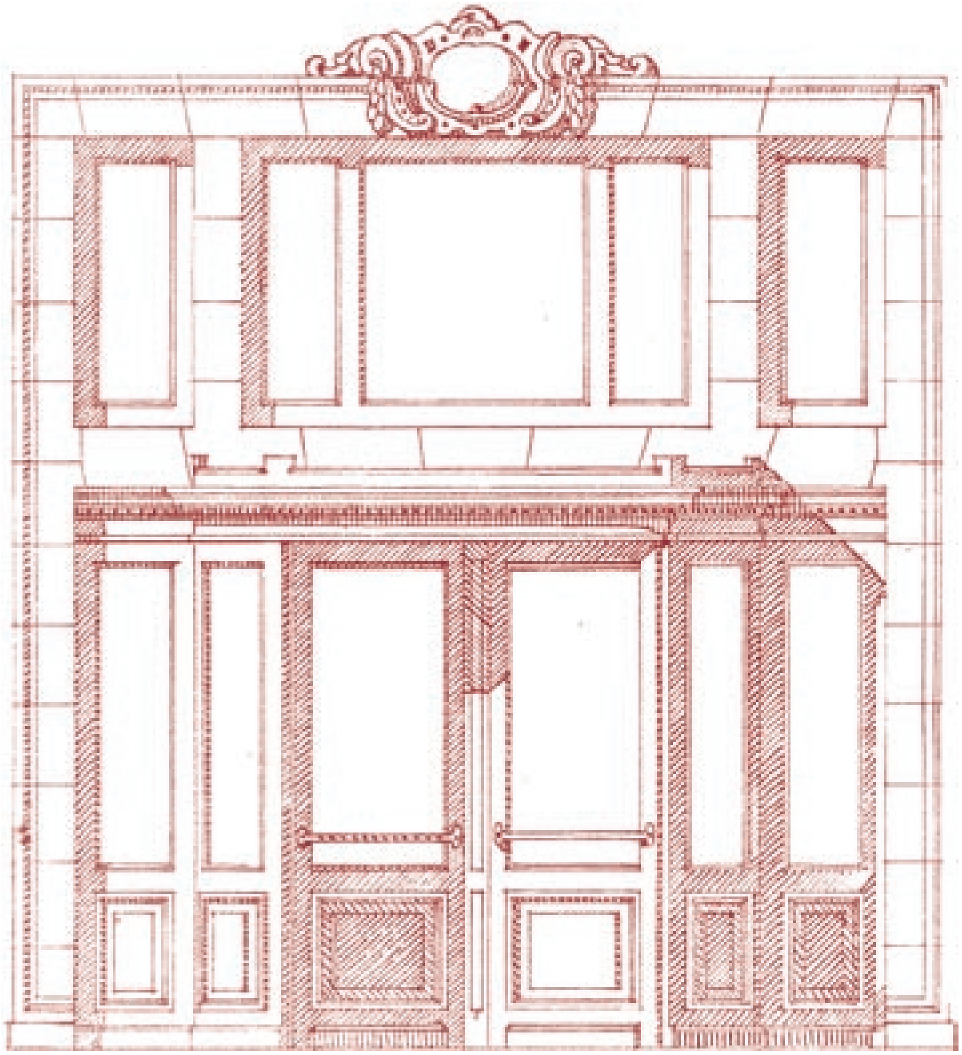
Figure I.4

Central Bank of Chile liabilities (balances)

(Ch$ billion)



Source: Central Bank of Chile.



II. Institutional management and governance

A. Organization and operation

A.1 The Board

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

[1]/ Title II of the Central Bank's Basic Constitutional Act, in accordance with Articles 108 and 109 of the Chilean Constitution, includes the regulations governing the Board and the specific laws applicable to Board Members in terms of their appointment, compensation, incompatibilities, conflicts of interest, causes for termination of office, and other legal obligations inherent to the fulfillment of their duties. The last amendment to that title was Article 7 of Law 20,088 on Equity Affidavit.

The Bank's Governor is appointed by the President of Chile from among the Board Members. The Governor holds office for five years or until his appointment as Board Member expires, whichever comes first, and may be reappointed for new periods. Along with chairing the Board, the Governor is responsible for representing the Central Bank on nonjudicial matters and directing institutional relations with public authorities, financial institutions, and international bodies. Mr. José De Gregorio Rebeco was appointed Governor on 7 December 2007 to hold office until his term as Board Member expires on 9 December 2011.

The Deputy Governor is appointed by the Board, which also specifies the applicable term of office. The Deputy Governor stands in for the Governor when necessary and performs all other tasks entrusted to him. Mr. Manuel Marfán Lewis, who was appointed Board Member in December 2003, was appointed Deputy Governor for the period from 7 January 2010 to 9 December 2011. The office was previously held by Jorge Desormeaux Jiménez from 13 December 2007 to 7 December 2009, when his term as Board Member expired.

The remaining Board Members are Mr. Enrique Marshall Rivera (appointed in December 2005), Mr. Sebastián Claro Edwards (December 2007), and Mr. Rodrigo Vergara Montes (December 2009). All three were appointed for a ten-year term.

Generally, the Board is responsible for exercising the authority and fulfilling the tasks entrusted to the Central Bank by law to comply with its mission: to ensure monetary stability and the normal operation of domestic and external payments. The Board therefore determines the general policies of the Central Bank, issues regulations governing its operation, and supervises the upper levels of the Central Bank. To this end, it also conducts ongoing assessments of compliance with the general rules and policies it has established and the development of institutional activities.

Rules governing Board sessions and resolutions

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

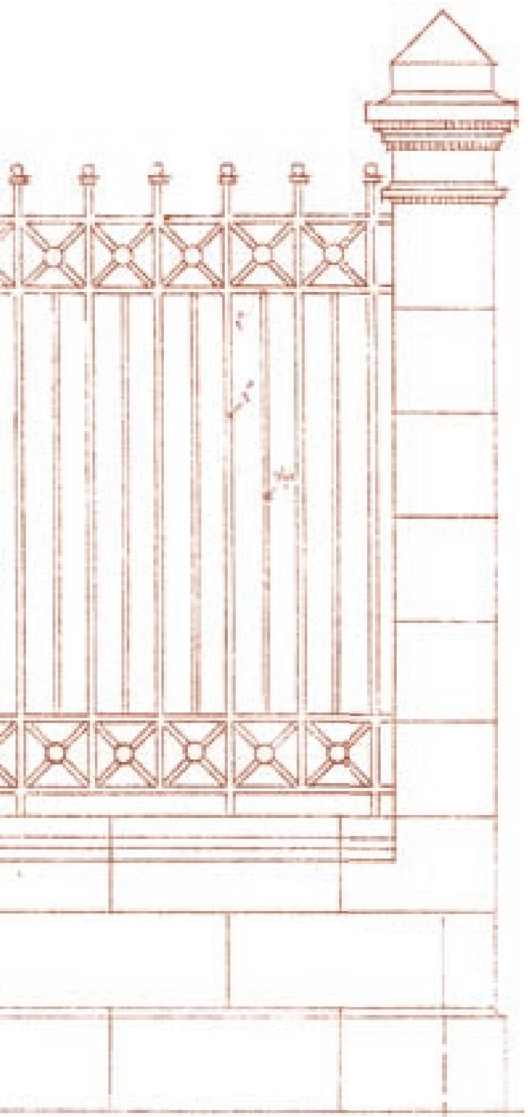
The Board must hold ordinary sessions at least once a week and special meetings when called by the Governor, either of his own volition or in response to a written request by two or more Board Members. Any resolutions adopted at the meeting must be recorded in the minutes. Board resolutions must be adopted by a quorum of three Members and must have the favorable vote of the majority of those present, except in cases in which the law requires a special quorum for specific resolutions, by reason of their importance or relevance[2]/.

The Board Member chairing the session will cast the deciding vote in case of a tie. The Board generally holds its meetings at its offices in Santiago, but it is empowered to meet and vote on legal resolutions, regulations, or other rulings anywhere within the territory of Chile.

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

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

[2]/ A special quorum is required, for example, to approve internal regulations governing Board and Central Bank operations; to override the Finance Minister's veto or suspension of a resolution; to adopt, renew, or suspend (terminate early) foreign exchange restrictions; to receive deposits from the General Treasury or other governmental bodies; and to waive immunity from the enforcement of international contracts entered into by the Central Bank on economic and financial matters.



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

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

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

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

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

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

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

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

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

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

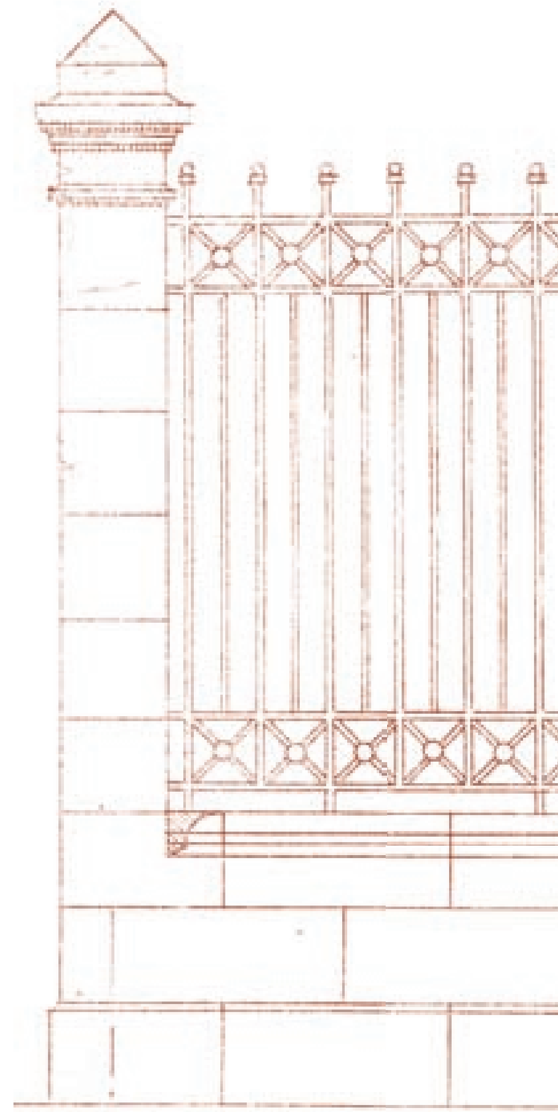
These measures include the provision of advance notice of the dates of the monetary policy meetings and the prompt publication of the meeting minutes, as well as the dissemination of information on resolutions affecting monetary, credit, financial, and foreign exchange regulations. In particular, Board Resolution 1289-01, which was adopted on 31 August 2006, addresses institutional policy on the disclosure of information. This statute was modified via Resolution 1495-01-090820 to establish a systematic schedule and format for the *Monetary Policy Reports* and the *Financial Stability Reports*, which are released to the appropriate authorities and the public. This contributes to the efficient dissemination of regular, timely information on the measures adopted by the Central Bank in the areas of monetary and foreign exchange policy and capital market regulation, as well as the fundamentals on which these policies are based.

Thus, as outlined in the modifications to Resolution 1495 cited above, the *Monetary Policy Report* is published and presented to the Senate quarterly, in March, June, September, and December of each year. The *Financial Stability Report* is published half-yearly in June and December, in conjunction with the *Monetary Policy Report*. The resolution also provides for the dissemination of information on international reserve management, which is contained in this *Annual Report* and in the Report on the Balance Sheet included in the *Monthly Bulletin*.

Law 20,285 on Access to Public Information was published in the *Official Gazette* on 20 August 2008 and went into effect on 20 April 2009. Considering that the Bank is constitutionally vested as an autonomous, technical body, this law provided for the incorporation of a new Section 65 bis in the Bank's Basic Constitutional Act and the replacement of the first paragraph of Section 66, which deals with the Bank's duty of confidentiality. The application of the legislation was thus integrated into the constitutional framework of the Central Bank of Chile.

The first of these legal provisions expressly declares that the Bank is governed by the principle of transparency in the exercise of its public function and that the publication of and access to information shall be governed by Law 20,285. It further empowers the Board to enact the rules and instructions necessary to comply with the legal provisions mentioned above, and it provides for the application of an appeal as specified in the Basic Constitutional Act, so that any person may exercise the right to claim for the nondelivery of information within the established period or for the refusal of a request, before the Court of Appeals of Santiago. This legislation also amended the first paragraph of Section 66 of the Basic Constitutional Act on the Bank duty of confidentiality, restricting it to specific situations outlined in the new legal text. Finally, the Constitutional Court's decision on the bill that was later enacted as Law, as put forth in judgment N° 1051-08-CPR, is also pertinent.

In accordance with the legal framework on transparency and access to public information, the Board of the Central Bank of Chile held a meeting (1472) on 16 April 2009 to determine the rules and instructions necessary for complying with the legislation in question. At the meeting, the Board considered the proposals submitted by the multidisciplinary group created for this purpose. The group's efforts included staff training, carried out through a series of talks aimed at creating awareness of the Law and its impact on the Bank; the design of information systems enabling the complete and timely publication of the information required by the Law and creating procedures for responding to public requests for information; and the analysis of existing institutional information in order to classify it as either public or confidential.



A.3 Board regulations

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

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

By Resolution 1465-01-090305, the Board modified its operating regulations to expedite the dissemination of the background information and discussion from the monetary policy meetings. Starting with the March meeting, background information based on publicly available information, which the Research Division delivers to the Board two business days before the meeting, is published on the Bank's website at market close on the business day before a regular monetary policy meeting. The one exception is the publication of *Monetary Policy Reports*, which are released to the public after the respective monetary policy meeting.

In addition, the Research Division's presentation during a regular monetary policy meeting, based on publicly available information, will be published on the Bank's website at noon on the business day following the meeting. This presentation replaced the tables and figures previously included in the appendix to the background information, which used to be published jointly with the meeting minutes until 5 March 2009.

Finally, the lag in publishing the monetary policy meeting minutes was reduced to eleven business days after a given meeting.

A.4 Appointment of a new Board Member

The President of Chile has appointed Mr. Rodrigo Vergara Montes to the Board for a term of ten years, starting on 28 December 2009. The appointment was recorded in Ministry of Finance Executive Decree 1619 of 28 December 2009 and published in the *Official Gazette* on 30 January 2010,

A.5 General management, general counsel, and auditing

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

Since 7 August 2006, Mr. Alejandro Zurbuchen Silva has served as General Manager. On 9 December 2008, Mr. Leonardo Hernández Tagle presented his resignation from the office as Deputy General Manager, which was accepted by the Board and became effective on 5 February 2009. The position of Deputy General Manager was then eliminated from the Bank's organizational structure via a Resolution adopted in June 2009. Mr. Miguel Ángel Nacrur Gazali has served as General Counsel and Certifying Officer of the Bank since 1 March 1997. Ms. Silvia Quintard Flehan has served as General Auditor since 1 January 2007.

A.6 Audit and Compliance Committee

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

In 2009 the Committee met seven times to execute the provisions in its governing statutes. The issues addressed at these meetings included assessing the services provided by the independent auditing firm; reviewing the annual auditing plan and final report; learning the activities of the internal auditing division; and reviewing the risk management, internal monitoring, and information systems.

B. Internal administration

B.1 Strategic planning

Alejandro Zurbuchen Silva
General Manager

The Central Bank of Chile's vision is to be widely recognized as an autonomous, technical, leading institution, known for its institutional values and the effectiveness with which it achieves price stability and the normal functioning of the payments system. Its mission is to contribute to the smooth functioning of the economy and the well-being of the community, safeguarding the stability of the currency and the normal operation of the internal and external payments systems.

The Bank's strategic planning plays an important role in the achievement of its vision and mission. The planning horizon is medium term and is tied to the term of office of the Bank's Governor, with a one-year lag. A new medium-term strategic plan was initiated in 2009, and it extends through 2012.

The new plan retained the existing strategic definitions of, for example, the mission, vision, institutional values, and strategic and specific objectives, after reviewing and approving them as consistent with new challenges. The strategic focal points for the four-year period are as follows:

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

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

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

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

The main achievements and advances in 2009 were the following:

- The development of stronger studies on the crisis and its effects, as well as economic analysis based on alternative projections and focuses, incorporating risk variables. Participation in work groups with government bodies and in various international forums (BIS, IDB, World Bank).

- The Third Summit Meeting of Central Banks, with the theme "Monetary Policy in Unusual Times," and the XIII Annual Conference of the Central Bank of Chile, addressing global macroeconomic research topics.

- The redesign of the whole family of banknotes and coins, which have been introduced gradually. The new Ch$5,000 banknote has been put in circulation, with 12.5 million and 58% of the print run.

- The application of Law 20,285 on Access to Public Information. The Information Access Unit was created, an active transparency section was included on the Bank's website, and an IT system was set up to effectively handle applications for information.

- The implementation of the Business Continuity Management System, based on standard BS 25999, covering four risk scenarios—disasters, massive absence of personnel, failure of a key supplier, and malicious acts—for 48 critical activities.

- The preparation of the Central Bank's financial statements based on new accounting criteria approved by the Board, which comply with International Financial Reporting Standards (IFRS).

B.2 Internal organization, restructuring, and appointment of executives

In 2009, the Bank implemented some changes in its internal structure to further the management streamlining process implemented through Resolution 1152E, dated 22 September 2004. In this context, the Board passed Resolution 1480-01-090604 on 16 June 2009, in which it modified the Human Resources, Informatics, and Institutional Affairs management offices and the Risk and Management Assessment Department, raising them from the general subdivision level to the General Division. The Resolution also eliminated the General Subdivision Unit.

Through Resolution 1484-01-090625 dated 25 June 2009, the Board changed the name of the Database Department to the Statistical Information Services Department, to ensure that the title clearly indicates the unit's functions.

Finally, through Resolution 1498-01-090910 dated 10 September 2009, the Board created the Monetary Policy Strategy and Communication Management, which operates within the Research Division. The new division's main task is to advise the Division Director on different issues related to the Bank's monetary policy.

With regard to the appointment of executives, in February 2009 Mr. Álvaro Nash Bobadilla Was appointed Head of the Statistical Information Services Department. In May Mr. Marcelo Simonetti Piani was named Head of the Acquisition Department. In June Ms. Marlys Pabst Cortés was appointed General Secretary. In July Mr. Mario Ulloa López was appointed Manager of the Strategic and Risk Management. In September Mr. Enrique Orellana Cifuentes was named Monetary Policy Strategy and Communication Manager. In October Ms. Carolina Besa Montes was appointed Head of the Public Relations and Communications Department. In November Mr. Luis Felipe Alarcón Gazmuri was given the position of Head of the Open Market Operations Department. In December Ms. Leticia Marticorena Oyarzún was named Head of the Strategy and Risks Department.

B.3 Human resources management

Personnel management policies

In line with efforts to streamline the Bank's management, which began in late 2003, the policies and practices regulating personnel administration were completely revised, with the objective of minimizing the risk of favoritism in personnel management and strengthening the associated regulatory framework. Thus, a key element of the general program for streamlining human resources, launched in 2004, is to view the Bank's personnel as a major corporate asset, a project led by the Human Resources Management.

The updated *Personnel Management Policy Manuals*, the fully revised Personnel Regulations, and the new *Institutional Values and Integrity Manual* (formerly the *Ethics Manual*) were presented to the entire staff of the Bank in April 2009. These documents are the result of over four years of work, and they are a crucial piece of the general streamlining project begun in 2003. These new guidelines for human resources management formalize and integrate the series of changes already implemented in the area of personnel management over the last few years.

This new regulatory framework is a fundamental support for Bank administration in terms of managing the staff. Therefore, all executives received training in thematic workshops, which were then extended to the entire staff of the Central Bank in May and June 2009.

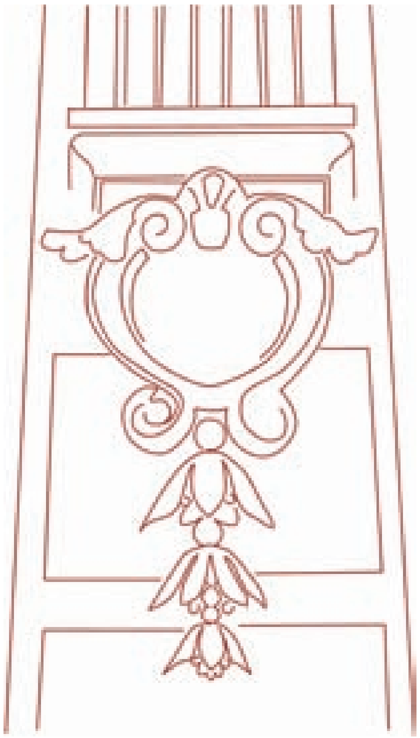
In 2009, the Bank's salary structure continued to include a variable component in the form of incentive pay based on the achievement of goals. Over time, this mechanism has become more important within the units, which reflects both improvements in the system for setting and measuring goals and an increasingly direct relationship with the Bank's strategic planning. Midyear, a project was launched to identify and develop critical and highly critical positions, with the latter defined as combining a high replacement cost and effects on the operational continuity of the Bank. Since the beginning of the year, applicants' abilities are assessed throughout the selection processes, which is important not only for individual career development, but also for identifying backup personnel and facilitating succession planning.

Toward the end of the year, the Human Resources Management announced a new internal communications service, with the launching of its new intranet portal, RRHH-on line. This friendly, easy-to-use, accessible site is expected to become a meeting place for the Institution's staff, whether through the delivery of relevant information with a strong organizational impact or through the gathering of information on individual needs and requirements. The site will be used to inform and educate staff on matters related to Personnel Management, in an accessible, understandable manner.

Work environment

The first work environment study involving the entire Bank was carried out in mid-2009. In previous years, a partial study was conducted. This round, which was administered by an external consultant, featured a high participation rate among the staff and revealed substantial improvements in most of the areas assessed, in particular communication and identification with the Bank. The different units also continued to implement workplace development and support projects, which were coordinated by the Human Resources Management. These projects generally focused on areas that were found to be the most lacking in previous versions of the study.

The aggregate measures of the work environment are regularly conducted every two years in the Bank, and they will be complemented by the aforementioned projects for directly supporting the work team and the administration of the different units. Given that the staff has become increasingly



familiar with the exercises and gained confidence in addressing the issue of the work environment, the next exercise in two years will be developed within the Human Resources Management, which is now proficient in the methodology to be used in future studies.

Skills management

In 2009, the Bank continued to make advancements in the development of deep initiatives in personnel management policies, aimed at strengthening the skills and abilities necessary for optimal performance in administrative positions. Thus, work continued on projects initiated in 2007 with regard to the definition, measure, and closing of the skills gap in management and administrative positions. In particular, skills were defined for group leaders, and work began on closing the gap among the management units via the definition of individual development plans and group workshops. The goal of the project is to ensure that the positions responsible for managing work teams possess a minimum level of expertise and a common language in terms of the strategic skills defined for the Bank's managers. Thus, the hiring process for these positions includes a skills measure, and managers' general performance is evaluated as a function of improvements in terms of closing the gaps. The benefits of this model are related to the alignment of incentives in management toward the achievement of the institutional values and targets, the promotion of excellent performance, the strengthening of professional development, the reinforcement of personal hiring processes, the increased transparency of personnel decisions, and the application of current best practices in human resource management in the main central banks.

Retirement plan

In 2009, the Bank moved forward in developing the retirement plan initiated in the middle of last year, which has had a high level of staff participation. The Bank's permanent retirement policy seeks to facilitate an adequate conclusion of the job cycle, allowing for greater mobility and substitution on work teams by adjusting worker profiles to new institutional requirements.

As of December 2009, 56 people have used this benefit, which aims to recognize the services rendered by employees and to facilitate the retirement, under favorable conditions, of people who meet or are about to meet the legal requirements for retirement. It also includes additional retirement benefits and other benefits associated with health and education. In June, the transition phase ended for people who were not eligible for the full benefits of the plan, which led to a substantial number of retirements in that period.

B.4 The Comptroller

The Comptroller's activities focus on helping the Board and the Administration fulfill their duties, through an independent, objective, and systematic evaluation of the design and effectiveness of risk management, internal monitoring, and corporate governance. It also carries out consulting duties that, combined with the above, add value and contribute to the achievement of institutional objectives.

In 2009, the main challenges were in the following areas: implementing an audit plan based on international practices; supporting and responding to the needs of the Audit and Compliance Committee; maintaining the certification and quality of the audit process and its personnel; and, toward the end of the year, successfully concluding the independent evaluation of the Quality Assurance Review, carried out by the Institute of Internal Auditors (IIA). This review certified (09.004-E) that the activities of the Bank's Comptroller "Comply with International Standards for the Professional Exercise of Internal Auditing." This certification is evidence of the Comptroller's commitment to continuously improving the quality of its performance and its use of best practices.

This is the third consecutive year that the Internal Auditing Service of the Central Bank of Chile maintained its certification under ISO 9001:2000 standards.

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

The Bank is subject to the provision in its Basic Constitutional Act governing the periodic release of information on the fulfillment of its public duties. In this context, this report discloses the main contracts signed by the Bank for an amount greater than Ch$100 million, which are related to the supply of goods and services that allow the institution to operate normally (tables II.1 and II.2). With regard to the issue of banknotes and coins, section E.3 provides general information on the contracts signed by the Bank in connection with the 2009 issue program.

Table II.1

Contracts signed in 2009.
(over Ch$100 million during life of contract)

Supplier	Contract purpose	Effective	Ending
Productos y tecnologías eléctricas	Infrastructure maintenance services	13-01-2009	29-11-2009
Empresa de Transportes Compañía de Seguridad de Chile Ltda. (1)	Securities transport	16-01-2009	15-01-2012
Provectis S.A.	Information and technological services	16-01-2009	22-01-2010
Instituto Nacional de Estadísticas, INE	Statistical products	02-01-2009	01-01-2010
Casa de Moneda de Chile	Custodian services	01-02-2009	(2)
Dimacofi (1)	Photocopy services	01-05-2009	30-04-2012
DHL Express Chile Ltda. (1)	Publications delivey services	01-05-2009	30-04-2012
Royal Canadian Mint	Technical assistance	18-05-2009	26-05-2010
Novared Ingeniería y Asesorías Computación y Comunicaciones S.A. (1)	Information and technological services	20-06-2009	19-06-2012
Casa de Moneda de Chile	Custodian services	28-07-2009	27-09-2012
ACT S.A. (1)	Information and technological services	24-08-2009	23-08-2012
Television Nacional de Chile	Publicity transmission	23-09-2009	22-09-2011

(1) One-year contract, with two possible renewals of one year each.
(2) One-year contract that is automatically renewable for additional one-year periods, indefinitely.

Source: Central Bank of Chile.

Table II.2

Expenditures in consulting, surveys, studies, and seminars
(Ch$ million of 2009) (*)

	2005	2006	2007	2008	2009
Consulting, surveys, studies and seminars	1.018,1	904,1	2.146,5	1.866,9	1.662,5
Consulting	431,7	496,4	1.624,2	1.263,3	754,1
Surveys and studies	455,0	264,9	297,7	408,4	697,1
Seminars	131,4	142,7	224,6	195,2	211,3

(*) The average CPI was used to update older figures to 2009 pesos.
Source: Central Bank of Chile.

C. Personnel, administration, and other expenses

These expenses include personnel compensation and benefits, the use and consumption of goods and services, and other expenses necessary for carrying out the Bank's activities (table II.3). On the income statement, they are broken down as follows: (i) personnel and administration; and (ii) other expenses. Of the total personnel and administrative expenses, personnel represents 64%; administrative expenses, 30%; depreciation and amortization, 5%; and retirement benefit costs 1%.

Personnel expenses

Table II.3
Personnel, administration, and other expenses
(Ch$ million of 2009) (1)

	2005	2006	2007	2008	2009
Personnel and administrative expenses					
Personnel expenses	17.890,8	18.859,2	20.828,4	22.398,5	22.570,3
Administrative expenses	7.531,2	8.246,2	9.973,9	10.776,9	10.651,2
Provisions for severance pay (2)	1.231,7	1.148,0	947,9	4.438,9	2.090,2
Total	**26.653,7**	**28.253,4**	**31.750,2**	**37.614,3**	**35.311,7**
Other expenses					
Depreciation and amortization	1.843,3	1.580,2	2.352,5	2.846,4	2.067,5
Taxes and contributions	533,6	511,9	475,0	483,8	560,7
Total	**2.376,9**	**2.092,1**	**2.827,5**	**3.330,2**	**2.628,2**
Total Personnel, administrative, and other expenses	**29.030,6**	**30.345,5**	**34.577,7**	**40.944,5**	**37.939,9**
A. Personnel expenses					
Wages and other employer contributions	15.291,0	15.985,5	17.926,6	17.603,5	19.364,3
Employee wellbeing	2.122,1	2.191,4	2.234,6	4.238,1	2.540,4
Training	477,7	682,3	667,2	556,9	665,5
Total	**17.890,8**	**18.859,2**	**20.828,4**	**22.398,5**	**22.570,2**
B. Administrative expenses					
Utilities	679,3	674,8	783,3	881,5	1.004,9
General services	2.974,8	3.057,7	3.201,1	3.235,7	4.001,5
Maintenance of fixed assets	454,0	936,1	724,2	1.146,4	630,9
Informatics and technological development expenses	2.404,9	2.673,5	3.118,8	3.646,5	3.351,4
Consulting, surveys, studies, and seminars	1.018,1	904,1	2.146,5	1.866,8	1.662,5
Total	**7.531,1**	**8.246,2**	**9.973,9**	**10.776,9**	**10.651,2**

(1) The average CPI was used to update older figures to 2009 pesos.

(2) Due to the implementation of the International Financial Reporting Standards (IFRS), 2009 and 2008 incorporate new accounting criteria on provision, which include financial and demographic parameters.

Source: Central Bank of Chile.

Personnel expenditures rose 26% in real terms over the last five years, from Ch$17.891 billion in 2005 to Ch$22.570 billion in 2009. This reflects the evolution of the personnel structure, with a trend toward professionalization and a decline in administrative, secretarial, and service personnel. From December 2005 to December 2009, the size of the staff grew 8%, from 587 to 634 employees. Professionals, executives, and senior managers accounted for 62% of the total in 2005, versus 67% in December 2009. This trend is expected to continue in the future.

Retirement benefit costs

The 70% real increase in retirement benefit costs between 2005 and 2009 is essentially explained by the payment in 2009 of severance pay for years of service to retiring personnel. These severance payments totaled Ch$1.532 bilion. Another factor was the change in accounting criteria implemented in 2009—to comply with IFRS—which include an accumulated benefit obligation for severance pay for years of service, as well as retirement health benefits and benefits to former employees who are members of the Bank's Association of Retirees and Pensioners. To facilitate comparison, the 2008 values of retirement benefit costs are presented below the new values.

Administrative costs

Administrative costs recorded a real increase of 41% between 2005 and 2009, from Ch$7.531 billion to Ch$10.651 billion. This mainly reflects higher expenses for general services, IT services, and professional services and consulting. Between 2008 and 2009, administrative expenses fell 1.2% in real terms, mainly due to building and equipment maintenance and IT services.

D. Communication and diffusion

D.1 Main publications

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

The main publications through which the Bank communicates its policies are the *Monetary Policy Report* and the *Financial Stability Report*. The former presents the Board's assessment of the recent and expected evolution of inflation, its implications for monetary policy in the medium term, and the information necessary for agents to adequately formulate their price and economic growth estimates.

The *Financial Stability Report*, which is published half-yearly (in June and December of each year), reports on recent macroeconomic and financial developments related to the Bank's objective of safeguarding the normal functioning of the internal and external payment systems. The publication includes a description of the main factors affecting the financial stability of the Chilean economy, such as the evolution of debt of the main users of credit, the performance of the capital markets, and the ability of the financial system and the international financial position to adapt to adverse economic situations.

In August, Board Resolution 1495-01-090820 increased the frequency of publication of the *Monetary Policy Report* from three times a year (in January, May, and September of each year) to four (in March, June, September, and December of each year). In June, the publication of the *Monetary Policy Report* coincides with the *Financial Stability Report* for the first half of each year; in December, it coincides with the Financial Stability Report for the second half. The Resolution went into effect in December 2009, such that there were four editions of the *Monetary Policy Report* in 2009 (January, May, September, and December).

In the field of economic research, the Bank published volume 13 of the series, *Central Banking, Economic Policy and Analysis*, entitled *Monetary Policy under Uncertainty and Learning*, in October 2009. This publication mainly focuses on discussing and promoting issues related to the transmission and absorption of external shocks—both financial and real—in emerging economies. The current volume contains revised versions of the papers presented at the Eleventh Annual Conference of the Central Bank of Chile, held in November 2007.

The Bank's economic research is also reflected in the journal *Economía Chilena*, which is published three times a year (in April, August, and December). The twelve papers and nine research notes published in 2009 mainly address issues affecting the Chilean economy, with a strong empirical focus and an emphasis on issues relevant for the conduct of economic policy.

In November, the Central Bank published its Bilingual (English and Spanish) book, *Iconografía de Billetes and Monedas Chilenos* (*Iconography of Chilean Banknotes and Coins*). Based on Bank's collection of banknotes and coins, this publication presents a chronological analysis of the images and symbolism on the money that has circulated in Chile since the first monetary issue in 1749 to the present.

Over the course of 2009, six new papers were published in the *Economic Policy Papers Series*. This series discloses the opinion of Bank authorities on relevant economic and monetary policy topics. The subjects discussed were related to the analysis of the phases of the international financial crisis since mid-2007 and the implications for Chile; Chile's position in the face of the 2009 global recession; the effects of a crisis of confidence, defined as a worsening of expectations and an increase in uncertainty during a global recession; the importance of commodity prices for inflation dynamics in Chile; the role of macroeconomists, the usefulness of their theories, and their ability to anticipate and handle economic crises; and the relation between the exchange rate, the real adjustment, and monetary policy in emerging economies.

In addition, 44 *Working Papers* were published in 2009. This series has become one of the most important series internationally in the field of specialized economics, based on the number of Internet visits. Its purpose is primarily to facilitate the exchange of ideas and to release preliminary economic research results for discussion and commentary.

The Bank also published eleven new papers in the *Studies in Economic Statistics Series*. The purpose of this series is mainly to release research papers in economic statistics, with a strong empirical and factual content. The papers address the reconciliation of public finance statistics and the national accounts, the Chilean foreign exchange market in the period 1998–2008, the methodology and results for converting quarterly sectoral GDP to a monthly frequency in the period 1996–2008, and the breakdown of total consumption by purpose, for households and private nonprofit institutions, in the period 2003–2007.

Finally, in accordance with the provisions of Section 53 of its Basic Constitutional Act, the Bank continued its annual program of periodical publications, aimed at disseminating information on the main domestic macroeconomic statistics. This year's publications included the following: *Informativo*

Diario (Daily Report), *Boletín Mensual* (Monthly Bulletin), *Indicadores de Comercio Exterior* (Foreign Trade Indicators), and *Indicadores Macroeconomicos y de Coyuntura* (Macroeconomic Indicators and Current Indicators). The following yearbooks were also published: *Cuentas Nacionales* (National Accounts), *Balanza de Pagos* (Balance of Payments), *Deuda Externa de Chile* (Chilean External Debt), *Síntesis Monetaria y Financiera* (Monetary and Financial Synthesis), and *Síntesis Estadística de Chile* (Statistical Synthesis of Chile) in Spanish and English versions.

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

As required in the Basic Constitutional Act with regard to reporting to the Senate on policies and regulations issued, the Board submitted its *Monetary Policy Report* for January, May, and December to the Senate Finance Committee; the September *Monetary Policy Report* was submitted to the full Senate. In January, the *Monetary Policy Report* was submitted to the Senate Finance Committee jointly with the *Financial Stability Report*—Second Half 2008; in July, with the *Financial Stability Report*—First Half 2009; and in December, with the *Financial Stability Report*—Second Half 2009.

In March, the Chamber of Representatives invited the Governor of the Central Bank to a working meeting of the Economy, Promotion, and Development Committee to discuss the effects on the financial and commercial system of the Central Bank's decision to change the monetary policy interest rate (MPR) and, in particular, how to verify the pass-through of the MPR cuts to the private banking system. In July, the Governor attended a Finance Committee meeting called to analyze the economic effects of the MPR cuts and the fiscal policy measures announced and adopted by the government over the past few months. Also in July, Mr. Enrique Marshall Rivera, a Central Bank Board Member, attended a meeting of the Economics Committee of the Chamber of Representatives, in his capacity as former Superintendent of Banks and Financial Institutions. The meeting was called to analyze the protection of personal data in economic areas.

D.3 Seminars and conferences

As part of the ongoing training program coordinated by the Human Resources Management, a broad range of academic activities was organized in the Bank in 2009, including internal seminars not only for the Bank's economists, but also for professionals from public institutions and graduate students from the main economic schools in the country.

On 21 January, the Bank of Mexico's Assistant Director of Archives, Víctor Manuel Espinosa, visited the Bank to give a series of talks on their experience implementing an archive management system. The development of a document management system is a key step to fulfilling the requirements of the Transparency Law.

On 26–30 January, the workshop "The Central Balance Sheet Data Office" was held, featuring Manuel Ortega, the Head of the Bank of Spain's Central Balance Sheet Data Office and Member of the European Committee's Central Balance Sheet Data Office (president from 1993 to 1997). Ortega, who currently directs the European Committee's IFRS impact group within the Central Balance Sheet Data Office, spoke about his international experience in the field of analysis and generation of balance sheet statistics for nonfinancial corporations.

On 3 April, a seminar was held on "The short- and medium-term outlook for the price of copper," with presentations by Eleni Joannides, the Copper Team Manager for the Commodities Research Unit (CRU), and Carlos Risopatrón, of the International Copper Study Group (ICSG).

On 17 June, an internal seminar was held on "Central Bank Finances," to provide an applied discussion of the main variables that determine prices in local markets, such as the fixed-income and foreign exchange markets, and the main agents that operate in them, both Chilean and foreign. The activity was led by Santiago Bausili, of Deutsche Bank New York, and Germán Fritsch, Financial Director of Deutsche Bank Chile.

On 27–31 July, a "Course on Dynamic, Stochastic General Equilibrium Models" was taught by renowned economist and professor from Northwestern University, Lawrence J. Christiano. The course was attended by Bank economists and graduate students from the main economic schools in the country.

On 17 August, the Bank hosted a conference entitled "Financial Regulation: Lessons from the Recent Global Crisis," which brought together academics and experts from different research centers to analyze the main lessons of the recent international crisis. The speakers included Guillermo Calvo, Columbia University; Richard Herring, Wharton School of Business, University of Pennsylvania; Liliana Rojas-Suárez, Center for Global Development, Washington D.C.; Harald Benink, Tilburg University; and Takeo Hoshi, University of California, San Diego.

On 20 August, a conference was held on "Price and Wage Dynamics." Some of the issues analyzed were the degree of price and wage flexibility, the determinants of flexibility, and its importance for monetary policy. At the conference, leading researchers in this field at the world level presented their recent work.

On 22, 23, and 24 August, Eduardo Engel, professor at Yale University, taught a course on "Estimation, Solution, and Policy using Equilibrium Monetary Models (EMM)" for Bank economists. The course explored recent developments in research on the relation between uneven price adjustments and the real effects of nominal disturbances.

In October, the Central Bank, in conjunction with the Inter-American Association of Economic and Financial Journalists (AIPEF Chile), organized a series of talks for economic journalists. The talks, which were held over a period of three months, were aimed at promoting the development and improvement of journalists that regularly cover issues related to the Bank. A panel of Bank managers and economists discussed issues related to the National Accounts and Balance of Payments, the financial system, and the role of the Central Bank.

On 21 October, the seminar "Household Debt in Chile" brought together experts from Chile and abroad to analyze issues associated with household access to various sources of bank and nonbank financing in Chile. The conference featured presentations by Olympia Bover, from the Bank of Spain's Directorate General for Economics, and Frank Vella, Professor of Economics at the University of Georgetown.

On 27 October, the seminar "Regional Economic Outlook: Western Hemisphere, Fall 2009" was held, with keynote speaker Nicolás Eyzaguirre, Director of the IMF Western Hemisphere Department. The Central Bank's Governor, José De Gregorio, gave the opening remarks. At the seminar, economists Rodrigo Vergara and Andrés Solimano discussed the paper, "Las Américas: La crisis se evitó ¿Qué sigue ahora?" (The Americas: The crisis was avoided. What happens now?), prepared by the IMF Western Hemisphere Department.

On 16 November, Remigio Echeverría, of the Directorate General for Statistics of the European Central Bank, gave a talk on "Financial accounts and monetary policy: The ECB's approach." The talk described the development of these statistics for the euro area and its importance within the framework of the recent financial crisis. On 17 and 19 November, Pedro Abad, of the Statistics Division of the Bank of Spain, discussed his experience in preparing the financial accounts of the Spanish economy.

On 18 November, the Central Bank hosted the Third Summit Meeting of Central Banks with Inflation Targeting, entitled "Monetary Policy in Unusual Times." This summit has become a prestigious event among central banks that have adopted an inflation-targeting regime. Participants included governors and representatives from 22 central banks, including Argentina, Armenia, Australia, Bolivia, Brazil, Canada, Colombia, Costa Rica, Czech Republic, Egypt, England, Hungary, Paraguay, Peru, Philippines, Poland, South Africa, South Korea, Spain, Switzerland, the United States, and Uruguay. The participants shared experiences and extracted lessons from the events of the two years since the last Conference, focusing on monetary policy conduct in the recent international crisis.

On 19 November, the Thirteenth Annual Conference of the Central Bank of Chile took place. The theme of the Conference was "Monetary Policy under Financial Turbulence." Every year at this event, economists from Chile and abroad discuss and debate topics that are on the cutting edge of global macroeconomic research. The conference attracted over a hundred academics, researchers, and central bank experts from around the world. For two days, these experts debated the challenges currently facing the world's central banks, especially their role in international crises in terms of the policy measures that can be adopted to prevent crises and, when they occur, to manage them. The papers resulting from this Conference will be edited into a new volume in the *Series on Central Banking, Analysis, and Economic Policies*.

D.4 "Economics for the Majority" program

As part of its community outreach program "Economics for the Majority," the Central Bank continued to develop its guided tour program, which consists of a visit to the main premises of the Bank. During the year, 4,207 people visited the Bank, most of whom were high school and university students. The tour includes a walk through the main premises of the Bank, an informational video, and, in the case of students, a talk explaining the Bank's role, objectives, and monetary policy, depending on their level of understanding.

For the fifth year running, the Bank organized the contest "Economics close up," in which third- and fourth-year high school students from all over the country use their daily lives as the basis for researching and analyzing economic issues that tie into the Bank's role and objectives. For this year's contest, which was sponsored by the Ministry of Education, 1,989 students from 381 educational establishments created 522 team projects. The winning group was from the *Liceo Camilo Henríquez* in Temuco, and their project was entitled "*¿Para dónde va la micro*?: *las alzas y caídas de la tasa*

de interés" (¿Where is the bus going?: The ups and downs of the interest rate). Second place went to the group from the *Colegio la Girouette*, who entered an essay on "*La confianza en el juego de la economía*" (Confidence in the game of economics). Third place was awarded to the group from the *Colegio Los Alerces* and their project "*¿Cómo afectan en nuestra vida cotidiana los cambios en la tasa de interés fijada por el Banco Central*?" (¿How do changes in the interest rate set by the Central Bank affect our daily lives?). The finalists' written reports and presentations to the judges revealed a theoretical and conceptual understanding of the issues, using simple, everyday examples to demonstrate the relationships and interdependencies of economic agents.

Over the five years since the contest was first launched, the Bank has held seminars for the students, with talks on the key economic concepts involved in the proposed topics. In 2009, complementary workshops were added for their high school teachers, to facilitate preparation for the contest. These workshops, which are designed for 15 to 20 participants, aim to provide the teachers with ideas for motivating and accurately guiding their students. For this year's contest, the Bank held eleven student seminars, attended by 480 students and 53 teachers, and five teacher workshops, with 85 participants. In general, the teachers gave a positive assessment of the workshops.

D.5 Regional visits

In 2009, the Bank continued to present its main reports, the *Monetary Policy Report* and *Financial Stability Report*, at the regional meetings. These meetings are intended to promote the public's learning and becoming familiar with the Bank's objectives, policies, instruments, and projections and to facilitate a better understanding of the Bank's actions, and improve the effectiveness of its policies. These meetings coincide with the publication of the *Monetary Policy Report*, and the presentation of this *Report* and of the *Financial Stability Report* are complemented with other presentations on the Central Bank's policies and instruments and with a panel on the development prospects of the visited region.

The Bank organizes these meetings in association with a university or regional business group. This offers a valuable opportunity to get closer to the community, business people, and regional authorities, thereby promoting direct and fluent dialogue to foster greater mutual awareness between the Bank and different economic sectors in each region of the country. Attendance ranged from 80 to 250 people at each meeting. The 2009 meetings were held in Iquique, Copiapó, Chillán, Valparaíso, La Serena, and Valdivia and were led by Board Members Sebastián Claro, Manuel Marfán, Enrique Marshall, then–Deputy Governor Jorge Desormeaux, and Central Bank Governor José De Gregorio.

Board Members and other senior executives also made several presentations outside Santiago, for example in Angol and San Carlos, in response to invitations from academic institutions, union associations, and the media.

D.6 Cultural outreach

For the sixth consecutive year, the Bank participated in Chile's National Heritage Day, which was held on Sunday 31 May. The event is organized by the government's Monument Committee, and for the day more than 50 cultural heritage buildings open their doors to the public. This year, the Governor and other senior authorities hosted 1,810 people and discussed the Central Bank's most important functions. The visitors toured the most interesting areas of the building, including the Board Room, the Pedro Lira Room, the Governor's Office, and the exhibit "Money in Chile: Memoir of a nation." The exhibit, which was opened for this event, is located in one of the rooms that will house the Bank's future numismatic museum. The museum will display a selection of the most representative pieces in the Bank's currency collection, covering 32 highlights in our country's monetary evolution.

From 26 May to 31 July, the Rural Landscapes exhibit was on display in the hall on the first floor of the building, in line with the Bank's policy of making its painting collection available for public viewing. The exhibit displayed nineteen works selected by the exhibit curator, Milan Ivelic, including paintings by Alberto Orrego Luco, Alberto Valenzuela Llanos, Enrique Swinburn, Juan Francisco González, Onofre Jarpa, Pablo Burchard, Pedro Lira, Rafael Correa, and Thomas Somerscales, among others.

In September, to celebrate the circulation of the new Ch$5,000 banknote, the exhibit "Gabriela: A universal perspective" was opened in the same hall on the first floor. The exhibit included a selection of works by Gabriela Mistral, who is featured on the banknote, and images from her life, together with a complete biography edited by the exhibit curator, Pedro Pablo Zegers, who is the poet's biographer and director of the Writers' Archives in the National Library.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E. Miscellaneous

E.1 Technological changes

The main technological changes at the Central Bank in 2009 were focused on strengthening the technological infrastructure that supports critical business processes. This translated into an overhaul of equipment, an improvement in the mechanisms within the different technological platforms for accommodating high demand and dealing with contingencies, and the revision and updating of procedures for ensuring continuity of services in the face of unforeseen contingencies. A plan was implemented to periodically alternate the critical technological services between the Bank's two processing sites. In addition, important improvements were made in the mechanisms for monitoring the Bank's technological infrastructure, which will allow a proactive approach to the use of corrective action. Finally, the main processing site underwent a series of improvements in its ambient conditions and electrical supply, establishing the bases for a project to reorganize the room in 2010.

These technological changes were accompanied by a restructuring of the Informatics Division at the organizational level. This involved a division of responsibilities among the different areas that make up the division, assigning specific teams for the operating of the services, on one hand, and support and administration, on the other. A team was formed specializing in the development and support of the IT services that underpin the Bank's critical processes. Another team was created to establish and monitor the standards to be followed by the Informatics Division in terms of the technological architecture of Bank projects.

In the area of information security, notable achievements include the implementation of a plan for communicating the Bank's information security policies, the delineation of a workstation-based model of user profiles and privileges, and the evaluation and selection of technological mechanisms for strengthening the secure handling of sensitive information.

In 2009, all units in the Informatics Division incorporated the use of project management methodologies that will allow projects to be strictly monitored and thus promote timely decision-making and the application of mitigation measures in the event of delays. Finally, over the course of the year the Informatics Division participated actively in the technology projects of other areas. For the Statistical Information Division, the data management system for statistical time series was fully implemented. Two projects were carried out for the Domestic Financial Markets Division: the implementation of an application for managing the current account in foreign currency, and the initiation of a project to install business intelligence tools to support the process of monetary programming and analysis.

E.2 Appointment of independent auditors

The second paragraph of Section 76 of the Basic Constitutional Act stipulates that the Central Bank's financial statements must include an independent auditors' opinion and that the Board is to appoint the auditors from among those registered with the Superintendence of Banks and Financial Institutions. After issuing a call for tenders to contract financial statement auditing services for an initial period of three years, and based on a report by the Audit and Compliance Committee, the Board appointed *KPMG Auditores and Consultores Ltda*. to provide professional auditing services for the period 2008–2010, through Resolution 1406-01-080424.

E.3 Banknotes and coins

As of December 2009 the number of banknotes in circulation was 545.25 million, an increase of 11% relative to year-end 2008 (491.18 million). The total number of coins grew 6.4%, to 9.04. To meet public demand for coins, in 2009 the Bank signed a two-year supply contract with *Casa de Moneda de Chile S.A*. The contract is for a total of 963 million coins, which breaks down as follows: 3 million Ch$500 coins; 213 million Ch$100 coins; 52 million Ch$50 coins; 555 million Ch$10 coins; 125 million Ch$5 coins, and 15 million Ch$1 coins. The banknotes and coins issued by the Bank in 2009 were produced in Germany, Australia, and Chile.

The Bank continued its training program to help the community become familiar with its banknotes and learn how to recognize counterfeit banknotes. Over the course of the year, the Bank trained 1,275 commercial bank tellers and 1,125 retail cashiers in Santiago and other regions of the country. About 22,000 leaflets and 9,000 posters were distributed to banks, stores, and public institutions, including the local police (*carabineros*) and the investigative police.

In 2009, the Bank moved forward with the project to modernize the design of the Chilean banknote series. The artwork was completed for four denominations in the new series, and on 24 September the new Ch$5,000 banknote was launched, as the first in the new family of Chilean banknotes. The new Ch$10,000 banknote will enter circulation in March 2010, first in commercial banks and then gradually in ATMs. Two additional banknotes will be added in 2010, and the process will be completed with the fifth banknote in 2011.

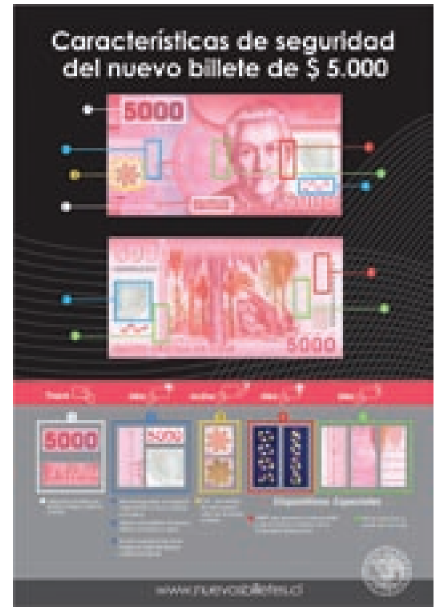
The new family of banknotes is a modern means of payment developed with the latest technology available today. Three denominations of these new banknotes will be made with polymer substrate and two with paper. The new banknotes incorporate elements of Chilean history, its natural landscapes, and its roots. They also include elements to make them easier for the general public to recognize, especially the visually impaired and the elderly.

E.4 New family of banknotes

On 18 August, in a ceremony attended by the President of Chile Michelle Bachelet, the Governor of the Central Bank, in the name of the Board, announced the beginning of a process to replace the whole family of banknotes and revealed the new Ch$5,000 banknote.

The new banknote began to circulate throughout the country on 24 September, in a gradual replacement process that is expected to take around a year. During this time, the new banknote will circulate jointly with the old. In the first phase, 12.5 million banknotes were distributed, out of a total of 58.8 million that need to be replaced based on the current stock in circulation as of August 2009.

The release of this new family of banknotes included a closed tendering for advertising and communications services. The chosen advertising agency, J Walter Thompson, developed a publicity campaign for this first banknote, incorporating audiovisual, written, and digital materials with a national and regional focus. The communications company, Burson and Marstellers, provided consulting services and worked with the national and regional media.



Additional efforts included communication and training centered on the currency recognition systems in public institutions and private organizations that work with these means of payment. To facilitate the transition for the blind, 2,000 sets of cards printed in Braille were distributed to the main associations for the visually impaired in the country, providing information on the change and demonstrating the real sizes of the new banknotes.

As outlined in their contracts, the advertising and communications firms continued working for the rest of the year on projects associated with the launching of the new banknotes scheduled for 2010.

E.5 International relations activities

In 2009, the Bank continued to undertake its regular international activities, as well as a series of special activities. Regular activities included the participation of authorities and executives in the bimonthly and annual meetings of the Bank for International Settlements (BIS), the spring meetings of the Institute of International Finance (IIF) and the International Monetary Fund (IMF), the annual meetings of the Inter-American Development Bank (IDB) and the IIF, the annual joint meeting of the IMF and the World Bank, the meeting of central bank governors of Mercosur and associated countries, the Cemla meeting of governors, and visits to other central banks. The International Monetary Fund Mission took place between 25 May and 5 June. The Mercosur meetings of central bank governors were held in São Paulo, Brazil, and Punta del Este, Uruguay.

The special activities were largely related to the financial crisis of late 2008. They included trips abroad to learn in situ the effects of the crisis in different countries. Between January and July 2009, the Governor and a number of Bank executives visited central banks and investment banks in Europe, Asia, and North America.

The Bank also participated in special international meetings held in Santiago, international seminars and presentations, courses taught by foreign experts, and visits from technical staff from other central banks. In particular, the special meeting of Finance Ministers and Central Bank Governors for Mercosur and associates was held in Asunción, Paraguay, in July, and the meeting of the BIS working group on monetary policy was organized by the Research Division in October. As part of the IMF Article IV mission, the Bank held a seminar in May and June to discuss papers submitted for the purpose.

The Bank also received technical visits from other central banks, including the Central Bank of Bolivia (April), the Central Bank of Costa Rica (July), the Central Bank of Brazil (November), the Central Bank of Egypt (November), and the Central Bank of Paraguay (December).

E.6 Transparency Law

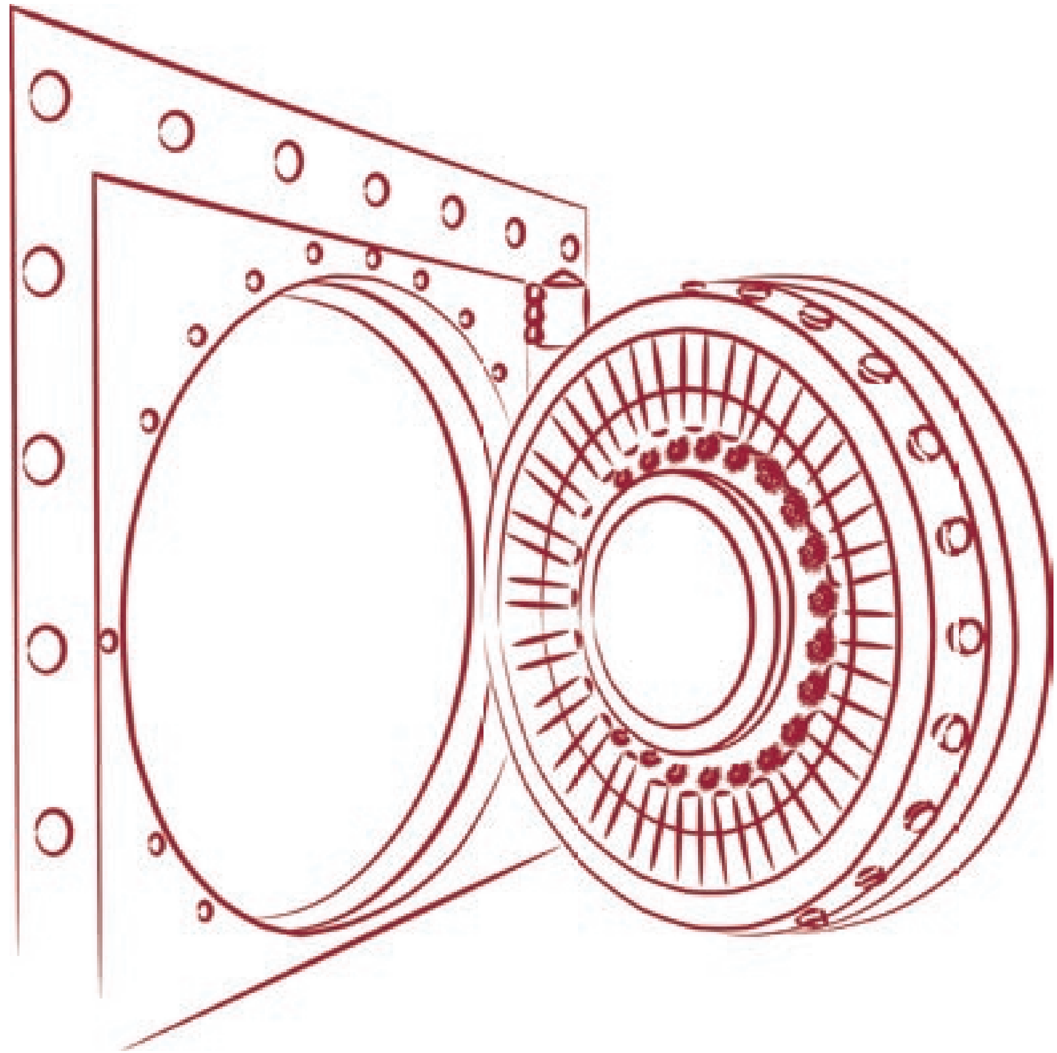
The Bank maintains a policy on institutional transparency, as defined by the Board and reflected in its ongoing commitment to delivering regular, timely information on the exercise of its public function. Independently of this policy, the Bank, in its quality as an autonomous public institution with constitutional status, is subject to the principle of publicity and transparency of government acts and resolutions, their foundations, and the procedures used therein. This principle is established in Article 8° of the Political Constitution of the Republic, and in Articles 3° and 4° of Law 20,285 on Access to Public Information, and require that the public function be carried out in a way that allows and promotes knowledge of the procedures, content, and decisions adopted in the exercise thereof. The Bank strictly complies with this principle, ensuring the publication of its acts, resolutions, procedures, and documents, together with their foundations, and facilitating public access to this information, through the means and procedures established in the law.

Section 65 bis of the Basic Constitutional Act stipulates that, in addition to the constitutional and legal precepts described above, the following provisions of Law 20,285 on Access to Public Information, with regard to the publication of and access to information, are applicable to the Bank: Title II on Publication of Information; Title III on Active Transparency (only Article 7°); and Articles 10° to 22° of Title IV on the Right to Access to Information (Passive Transparency).

Law 20,285 on Access to Public Information went into effect on 20 April 2009. To address this new challenge, the Bank created the Information Access Unit to implement operating procedures designed to ensure compliance with the Law.

Also in April, the Bank created a special section on its website called "Transparency," where the information required by Article 7 of the Law and Board Resolution 1472-01- 090416 is published every month, together with instructions for exercising the public right to access to information.

Passive transparency refers to the Bank's obligation to respond to applications for access to information under the terms established in the Law and defined by the Board. As of 31 December 2009, the Central Bank of Chile had received 32 applications for access to information, all of which were addressed in less time than stipulated in Law 20,285 on Access to Public Information (20 business days to respond to a request). To date, no applications have required an extension of this period for resolution.



Appendices

Appendix I
Press releases on monetary policy meetings, 2009

8 January

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to reduce the monetary policy interest rate by 100 basis points, to 7.25% in annual terms.

This decision was based on prospects of a significant drop in inflation in the medium term, due to the drastic change in the macroeconomic scenario.

Internationally, credit conditions continued to tighten, although interbank illiquidity had eased and financial volatility had lessened. The most recent data confirmed a severe slowdown of the global economy in the fourth quarter. Commodity prices remained low.

Domestically, the available data on output and demand in the fourth quarter pointed to a slowdown. Unemployment continued to be stable, and tight credit conditions persisted. The Government announced a substantial fiscal stimulus program.

In December, monthly inflation was negative and lower than expected. Monthly core inflation measures showed a drop. Wage dynamics remained in line with past trends, and inflation expectations had fallen.

The Board considered that in the most likely scenario, the monetary loosening process would continue, at a rate determined by inflation prospects. Thus, the Board renewed its commitment to conducting monetary policy so that projected inflation converges to 3% in the policy horizon.

12 February

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to reduce the monetary policy interest rate by 250 basis points, to 4.75% in annual terms.

This decision was based on prospects of a significant drop in inflation, and it contributed to the convergence of the policy rate to a level consistent with the current macroeconomic environment and its risks.

Internationally, the most recent data showed that the severe slowdown of the global economy had deepened more than expected in the first quarter of the year. There was ongoing uncertainty about how long it would take to resolve the global financial problems, and the probability of more negative scenarios had increased. Commodity prices remained low.

Domestically, the available data on output and demand for the fourth quarter of 2008 and the first quarter of 2009 revealed that excess capacity had increased more than had been projected in the baseline scenario of the recent *Monetary Policy Report*. Employment had slowed, and tight credit conditions persisted.

In January, monthly inflation was lower than expected, which was mainly explained by methodological changes to seasonal adjustments in the new CPI. Inflation was expected to quickly converge to the target. Wage dynamics remained in line with past trends, and inflation expectations had fallen.

The Board considered that in the most likely scenario, the MPR path would be lower than projected in the baseline scenario of the *Monetary Policy Report*, and in the short term would converge to the levels implicit in financial asset prices for the middle of the year. Thus, the Board renewed its commitment to conducting monetary policy so that projected inflation converges to 3% in the policy horizon.

12 March

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to reduce the monetary policy interest rate by 250 basis points, to 2.25% in annual terms.

This decision was based on the prospect of a sharp drop in inflation, and it brought the policy rate to a level consistent with the current macroeconomic environment and its risks.

Internationally, the most recent data indicated that the outlook for world growth this year had continued to deteriorate, while there was ongoing uncertainty about how long it would take to resolve the global financial problems. The copper price had increased, but overall commodity prices remained low.

Domestically, the available data on output for the first quarter of this year showed negative year-on-year rates, mainly because of the strong slowdown in late 2008. Unemployment had increased. Credit conditions remained tight, but they were beginning to reflect the impact of the strong monetary stimulus.

In February, the set of inflation indicators revealed low inflationary pressures. Wage dynamics remained in line with past trends. Inflation expectations had fallen, and a fast reduction toward the target was projected.

The Board considered that additional MPR cuts might be necessary, though of a size and frequency on par with historical trends. Thus, the Board renewed its commitment to conducting monetary policy so that projected inflation converges to 3% in the policy horizon.

9 April

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to reduce the monetary policy interest rate by 50 basis points, to 1.75% in annual terms.

This decision was based on the prospect of a sharp drop in inflation, and it brought the policy rate to a level consistent with the current macroeconomic environment and its risks.

Internationally, the most recent data indicated that the outlook for world growth this year had continued to deteriorate, and uncertainty persisted. However, the stock markets had rebounded, and commodity prices had risen, especially copper and oil.

Domestically, the available data on output for the first quarter of this year continued to show negative year-on-year rates, mainly because of the sharp contraction at the end of 2008. Unemployment had risen. Credit conditions remained tight, but they were beginning to reflect the impact of the strong monetary stimulus.

In March, the set of inflation indicators showed limited inflationary pressures. Wage dynamics remained in line with past trends. Low annual inflation rates were projected for the coming quarters, while medium-term inflation expectations remained stable.

The Board considered that additional MPR cuts might be necessary, and it renewed its commitment to conducting monetary policy so that projected inflation converges to 3% in the policy horizon.

7 May

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to reduce the monetary policy interest rate by 50 basis points, to 1.25% in annual terms.

Internationally, some recent data suggested that the outlook for world growth for this year had stabilized. Although uncertainty persisted, the stock markets had rebounded, and commodity prices had increased, especially copper and oil.

Domestically, the available data on output for the first quarter of this year continued to show negative year-on-year rates, mainly because of the sharp contraction at the end of 2008. Unemployment had risen. Credit conditions remained tight, but they were beginning to reflect the impact of the strong monetary stimulus.

In April, the set of inflation indicators showed low inflationary pressures. Wage dynamics remained in line with past trends. Low annual inflation rates were projected for the coming quarters, while medium-term inflation expectations remained stable.

The Board did not rule out the possibility that additional MPR cuts might be necessary, and it renewed its commitment to conducting monetary policy so that projected inflation converges to 3% in the policy horizon.

16 June

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to reduce the monetary policy interest rate by 50 basis points, to 0.75% in annual terms.

Internationally, recent data indicated that the outlook for world growth for this year had stabilized. The stock markets had rebounded, credit premiums had dropped, and commodity prices had increased, especially copper and oil.

Domestically, the available data on output for the second quarter of this year continued to show negative year-on-year rates. Unemployment had risen. Credit conditions remained tight, but they reflected the impact of the strong monetary stimulus.

In May, the set of inflation indicators showed low core inflationary pressures. Wage dynamics remained in line with past trends. Low annual inflation rates were projected for the coming quarters, while medium-term inflation expectations remained stable.

The Board considered that in the most probable scenario, it would be necessary to maintain the monetary stimulus longer than was implicit in financial asset prices. This would allow projected inflation to converge to the 3% target in the policy horizon.

9 July

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to reduce the monetary policy interest rate by 25 basis points to 0.50% in annual terms and to adopt complementary monetary policy measures.

Internationally, recent data indicated that the outlook for world growth for this year had stabilized, but financial indicators revealed increased uncertainty about the strength of the global recovery. Commodity prices had fallen, especially copper and oil.

Domestically, the available data for the second quarter of this year were consistent with lower output and demand than projected in the last *Monetary Policy Report*. Unemployment had risen, and credit conditions remained tight.

In June, the set of inflation indicators showed low core inflationary pressures. Wage dynamics remained in line with past trends, while the real exchange rate had fallen since the last meeting. Low annual inflation rates were projected for the coming quarters—lower than projected in the last *Report*—while medium-term inflation expectations had fallen marginally.

With the decision made at this meeting, the MPR reached its lower limit. The Board considered that in order for projected inflation to converge to 3% in the policy horizon, in a context of lower-than-projected excess capacity and low imported cost pressures, it was necessary to increase the monetary stimulus. Consequently, the MPR would be kept at its lower limit for a prolonged period.

To reinforce this decision and to align financial asset prices with the monetary policy path, the Board decided to implement the following complementary monetary policy measures:

- Establish a short-term liquidity facility (FLAP) for banks, through which it will supply liquidity at 90 to 180 days at the current MPR level.

- Adjust the issue schedule for Central Bank discountable promissory notes (PDBC) at maturities of less than a year, in line with the previous decision.

- Suspend, for the rest of 2009, the issue of debt securities at maturities of one year or longer, namely, two-year nominal Central Bank bonds (BCP-2) and one-year Central Bank discountable promissory notes (PDBC-360).

The Board reiterated that it would continue to use its policies flexibly so that projected inflation would converge to 3% in the policy horizon.

13 August

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 0.50% in annual terms and to continue applying the complementary monetary policy measures adopted at the last meeting.

Internationally, recent data confirmed the stabilization of the outlook for world growth for this year, which had contributed to a better environment in the financial markets. Commodity prices had risen, especially copper and oil.

Domestically, the available data for the second quarter of this year indicated that output was no longer contracting. Although unemployment continued to rise, jobs had tended to stabilize. Credit conditions remained tight, despite lower lending rates.

In July, the set of inflation indicators showed low core inflationary pressures. Wage dynamics remain in line with past trends. Low annual inflation rates were projected for the coming quarters, while medium-term inflation expectations had been stable.

The Board reiterated that the MPR would remain at its lower limit of 0.50% for an extended period and that it would continue to use its policies flexibly so that projected inflation would converge to 3% in the policy horizon.

8 September

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 0.50% in annual terms and to continue applying the complementary monetary policy measures adopted at the July meeting.

Internationally, recent data confirmed the stabilization of the outlook for world growth for this year, which had contributed to a better environment in the financial markets. Commodity prices were stable, especially copper and oil.

Domestically, the available data suggested that output and demand had expanded in recent months, although they still showed drops relative to one year previous. The rise in unemployment had eased off, and jobs had stabilized. Credit conditions remained tight, despite lower lending rates.

In August, CPI inflation was not affected by a temporary reduction in electricity rates. Wage dynamics remain in line with past trends. Low annual inflation rates were projected for the coming quarters, while medium-term inflation expectations had been stable.

The Board reiterated that the MPR would remain at its lower limit of 0.50% for an extended period and that it would continue to use its policies flexibly so that projected inflation would converge to 3% in the policy horizon.

13 October

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 0.50% in annual terms and to continue applying the complementary monetary policy measures adopted at the July meeting.

Internationally, recent data confirmed the stabilization of the outlook for world growth for this year, which had contributed to a better environment in the financial markets. Commodity prices were stable, especially copper and oil.

Domestically, the available data suggested that output and demand had expanded in recent months. Unemployment and jobs were stabilized. Credit conditions had improved at the margin, but they remained tight.

In September, CPI inflation was not affected by the usual seasonality or the adjustment in electricity rates. Wage dynamics remain in line with past trends. Low annual inflation rates were projected for the coming quarters, while medium-term inflation expectations had been stable.

The Board considered that the macroeconomic environment and its implications for monetary policy were not substantially different from projections in the *Monetary Policy Report*. It therefore reiterated that the MPR would remain at its lower limit of 0.50% for an extended period and that it would continue to use its policies flexibly so that projected inflation would converge to 3% in the policy horizon.

12 November

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 0.50% in annual terms. It also decided to reduce the maximum maturity of the FLAP from 180 to 150 days starting on 14 December and to continue reducing it by 30 days each month, so as to close the facility in May of the coming year.

Internationally, recent data supported the outlook for world growth for this year and next, which had contributed to gradually stabilizing the financial markets. Commodity prices had risen.

Domestically, the available data suggested that despite the relapse in September, output and demand grew in the third quarter, although at a slower rate than forecast. Unemployment and jobs were stabilized. Credit conditions had improved at the margin, but they remained tight.

In October, the CPI and several core measures did not change. Wage dynamics remain in line with past trends. Low annual inflation rates were projected for the coming quarters, while medium-term inflation expectations had been stable. The real exchange rate had fallen.

The Board considered that the macroeconomic environment and its implications for monetary policy were not substantially different from projections in the *Monetary Policy Report*. This was consistent with holding the MPR at its lower limit of 0.50% for an extended period, at least until the second quarter of the coming year.

The Board considered that the rate at which the MPR would be normalized in the second quarter of the coming year would be more gradual than was implicit in financial asset prices. It therefore reiterated that it would continue to use its policies flexibly so that projected inflation would converge to 3% in the policy horizon.

15 December

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 0.50% in annual terms.

Internationally, recent data supported the outlook for world growth for the coming year, which had contributed to gradually stabilizing the financial markets. The performance of commodity prices was mixed.

Domestically, the available data suggested that output and demand were growing in the second half. Employment had grown, and the unemployment rate had begun to drop. Credit conditions had improved at the margin, but they remained tight.

In November, the CPI and several core measures had fallen. Wage dynamics remain in line with past trends. Low annual inflation rates were projected for the coming quarters, while medium-term inflation expectations had been stable.

The Board considered that the macroeconomic environment was consistent with holding the MPR at its lower limit of 0.50% at least until the second quarter of the coming year, and that the rate at which it would be normalized would be comparable to expectations captured in the monthly survey and more gradual than was implicit in financial asset prices. The Board reiterated that it would continue to use its policies flexibly so that projected inflation would converge to 3% in the policy horizon.

Appendix II
Press releases on foreign exchange and financial measures in 2009

15 June

The Ministry of Finance has informed the Central Bank that in the second half of this year it will issue Treasury bonds in the local market for approximately US$1.7 billion and that in July of this year it will continue with the program of competitive foreign exchange auctions for a total of US$4.0 billion, at a rate of US$40 million a day.

To offset the impact in the fixed-rate market, the Central Bank will adjust its current debt program as follows. For the rest of 2009, it will suspend the issue of bonds with maturities of five years or more, for US$750 million, and it will buy back debt securities for up to US$1.0 billion at the same maturities.

These measures will be implemented as follows:

- As of this date, the remainder of the BCP-5, BCU-5, and BCU-10 placements, totaling approximately US$750 million, will be suspended.

- Starting in July, five- and ten-year UF bonds, for up to US$1.0 billion, will be repurchased.

To offset the monetary effects of these measures, the Central Bank of Chile will increase its supply of securities at shorter maturities and will carry out open market operations of up to US$1.75 billion. These operations will be carried out in a manner consistent with the monetary policy conduct defined by the Board.

This auction schedule is subject to change in the event of significant changes in market conditions. Any such adjustments will be duly announced.

10 July

Today, the Director of the Financial Operations Division, Beltrán de Ramón, met with the Financial Directors of local banks to explain the implementation of the measures recently adopted by the Central Bank Board.

Specifically, he reported the following:

- That the short-term liquidity facility (FLAP) will be implemented at maturities of 90 and

180 days at a fixed rate for the full period of the operation, and it will be available starting in the second half of July. The collateral that can be used for these operations is the same as required for overnight operations.

- That the adjustments in the issue schedule for Central Bank discountable promissory notes (PDBC) are intended to align these rates with the levels considered in the previous measure. They will be implemented starting today, as will the suspension of issues of one-year PDBCs and two-year nominal Central Bank bonds.

- That starting next week, the financial terms on dollar swaps, which the Central Bank has offered weekly since October of last year at 90 and 180 days, will be raised 200 basis points (2%). This measure will accommodate the demand collateral to align incentives for requesting FLAP loans. While maintaining the Central Bank's commitment to supplying liquidity in dollars throughout 2009, this measure reinforces the Central Bank's commitment to playing a subsidiary role in the dollar market, given that the local banking system has other sources of financing in this currency.

30 October

In the second half of 2008, the Central Bank adopted several temporary measures to increase the flexibility of liquidity management in the financial market, with the goal of mitigating the effects of the global financial market on the local economy. These were announced on 29 September, el 10 October, and 3 and 10 December 2008.

These measures prevented liquidity problems in the economy, in both domestic and foreign currency. In recent months, the global financial situation has improved. The Chilean financial system has been solid, and it has maintained an adequate degree of access to the international financial markets.

Consequently, the Board of the Central Bank has drawn up a schedule for withdrawing the liquidity support measures, according to which the following programs will be maintained through 30 June 2010, at which point they will be closed:

- Foreign currency swaps, suspending 182-day operations starting next week. The Central Bank will hold weekly auctions of up to US$400 million, thereby committing a total of US$5.2 billion.

- 28-day repos with Central Bank of Chile securities, mortgage bills, and bank deposits as collateral.

The previously announced period for constituting reserves in foreign currency deposits in other currencies or pesos will remain unchanged. This implies that this facility will be closed on 8 February 2010.

These measures are independent of the monetary policy rate, including the short-term liquidity facility (FLAP), which is set at the monthly monetary policy meetings.

18 November

At the monetary policy meeting held on 12 November 2009, the Board of the Central Bank of Chile decided to reduce the maximum maturity of the short-term liquidity facility (FLAP), starting on 14 December 2009. This facility is one of the additional monetary policy instruments implemented at the July 2009 meeting.

In conjunction with this announcement, the Central Bank reports the modifications in its Monetary Operations Calendar:

- Starting on 14 December 2009 and for the first month, the FLAP will only be accessible on Mondays, at alternating maturities of 63 and 154 days.

- In subsequent months, the maximum maturity of the FLAP will be reduced by 30 days. These reductions will also be applied to the shortest maturity.

- This gradual reduction will lead to the closing of the facility in May 2010.

- As of 14 December 2009, auctions of 180-day Central Bank discountable promissory notes will be suspended.

Appendix III
Main measures taken by the Central Bank of Chile in 2009

January

08

By Board Resolution 1455-03-090108, the Central Bank of Chile approved its Debt Plan for 2009. Starting with the reserve period beginning on 9 January 2009 and continuing through the reserve period beginning on 9 December 2009, the following Central Bank bonds will be issued in the primary market: two-year peso bonds (BCP-2), for up to Ch$360 billion; BCP-5, for up to Ch$264 billion; five-year UF bonds (BCU-5), for up to UF12 million; and BCU-10, for up to UF 0.8 million.

08

At its monthly monetary policy meeting, the Board of the Central Bank decided to reduce the monetary policy interest rate by 100 basis points, that is, to 7.25% in annual terms.

15

By Board Resolution 1456-02-090115, Chapter IV.B.8 the Central Bank's *Compendium of Financial Regulations* was modified to expand the group of institutions or agents eligible to operate in the primary market for Central Bank debt instruments to include stock brokers and securities dealers, as covered in Law 18.045 on the Securities Market.

Securities dealers, as authorized agents in the primary market, must follow the guidelines established for Pension Fund Administrators, Insurance Companies, and Mutual Fund Administrators, in terms of the setting and payment of the placement price and the issue, delivery, and later redemption of the Central Bank debt instruments. Given that these dealers carry out transactions for third parties, they must, if they wish to operate in the primary market in question, provide the Central Bank with a bank guarantee for UF10,500, as a good faith margin on the securities dealer's liabilities with the Central Bank.

This resolution was adopted in line with the general orientation of government's economic policy, laid out in Official Letter 787, 8 August 2008, of the Minister of Finance, in the context of the legal and regulatory reform of the capital market (namely, the Third Capital Market Reform), and taking into account the provisions in Sections 3 and 34 Nos. 5 and 7 of the Central Bank's Basic Constitutional Act.

20

The Central Bank of Chile published the Operating Regulations for the collateralized liquidity credit line in domestic currency for banking firms, stipulated in Letter B of Chapter II.B.1.1 of the *Compendium of Financial Regulations*, recently modified through Resolution 1453-04-081224 and published in the *Official Gazette* on 30 December 2008. The modification introduced the financing mechanism to allow banks to open the new credit line with the Bank and to carry out liquidity credit operations using the line, through 26 January 2010.

This decision, which was announced by the Board in December, is one of the additional measures being implemented to facilitate a more flexible liquidity management for the domestic financial system. It will extend financing at maturities of over 28 days, and the eligible collateral includes Treasury bonds and bank time deposits.

22

The Central Bank of Chile interpreted the sense and reach of numeral 2 of Board Resolution 1457-02-080807, on the general terms and conditions required for framework agreements on derivative contracts recognized by the Central Bank, with regard to allowing the reciprocal payment of liabilities contracted by the counterparties to the agreements, in the event of the forced liquidation of a banking firm established in Chile or the bankruptcy or liquidation of any other institutional investor that is counterparty to the agreement.

It was determined that the provisions in this area do not represent an impediment to banking firms and institutional investors entering into an agreement with grounds for early settlement of liabilities stemming from these operations, in their role as counterparty. The interpretation also stipulated the specific situations in which the settlement will be suspended, which are basically tied to safeguarding the regulatory authority of the Central Bank and privileging the exercise of the legal powers granted to the relevant economic superintendencies to regulate the financial situation of the supervised entities, in accordance with their respective legislations.

22

By Board Resolution 1457-03-090122, adopted in accordance with Article 136 of the General Banking Law with regard to Article 69 of the bankruptcy legislation, the Central Bank of Chile decided to also recognize framework agreements on derivatives contracts approved by the Association of Banks and Financial Institutions of Chile in its General Conditions for Derivatives

Contracts in the Local Market, which are consistent with the general terms and conditions established by the Central Bank on framework agreements on derivative contracts recognized by the Bank.

Previously, in January 2008, the Bank had recognized the "1992 ISDA Master Agreement" and the "2002 ISDA Master Agreement" on derivatives contracts between nonbank counterparties, and in August 2008 it extended them to include banking firms established in Chile or any other institutional investor.

22

By Board Resolution 1457-04-090122, the Central Bank of Chile modified Chapter III.B.1.1 of the *Compendium of Financial Regulations*, to allow the opening of demand accounts based on a contract with an electronic signature. For the application of this contracting mechanism, the bank's board must have previously established the necessary policies, procedures, and systems for adequately handling the associated legal and operating risks, with the goal of preventing and, in the event, detecting the possible use of these demand accounts in the commission of illegal acts associated with identity theft, money laundering, the financing of terrorism, or other types of fraud or criminal activity.

The Bank also released instructions on the minimum content and documentation of these account contracts, always privileging the authority of the Superintendence of Banks and Financial Institutions.

February

12

At its monthly monetary policy meeting, the Board of the Central Bank decided to reduce the monetary policy interest rate by 250 basis points, that is, to 4.75% in annual terms.

26

By Resolution 1464-02-090226, the Board of the Central Bank accepted the changes to the performance guidelines submitted by the Minister of Finance in Official Letter 168 dated 23 February 2009, with regard to the annual compensation to the Bank for its work as fiscal agent, as established in the Law on Fiscal Accountability, in relation to the management of resources in the Economic and Social Stabilization Fund and the Pension Reserve Fund.

26

By Board Resolutions 1458-03-090129 and 1464-03-090226, the Bank changed the minimum amount subject to reporting requirements on certain foreign exchange operations, in accordance with Chapters II, IV, V, and XIV of the *Compendium of Foreign Exchange Regulations.*

These changes simplify the additional foreign exchange information on external financing operations that legal entities and firms currently must report to the Bank. Specifically, the limit subject to periodic reporting requirements for commercial loans tied to foreign trade operations was increased from US$5 million to US$50 million (fob on import and export operations).

Furthermore, all external loan operations under US$1 million are exempt from supplying additional information on the payment plan. However, the Bank upheld the requirement that external credits over US$10,000 or the equivalent in other currencies can only be channeled through entities in the Formal Exchange Market, and that details on income and payment must be reported as established under current regulations.

These changes contribute to improving the quality of information, by focusing data collection efforts on large operations, without substantially changing the current foreign exchange regime. In particular, financial operations must still be channeled through the Formal Exchange Market, so the changes do not affect the Central Bank's ability to analyze the respective capital flows, especially with regard to external financial credit and trade loans.

March

05

By Board Resolution 1465-03-090305, the Central Bank of Chile modified Chapter III.J.2 of the *Compendium of Financial Regulations*, to establish Special Operating Regulations on the use of secure electronic sites provided by the Issuer or Operator to carry out debit card transactions. These regulations are aimed at facilitating electronic transactions.

09

By Board Resolution 1465-01-090305, the Board modified its Operating Regulations to speed up the release of background information and discussion from its monetary policy meetings. Starting with the March meeting, background information based on publicly available information, which the Research Division delivers to the Board two business day before the meeting, are to be published on the Bank's website at market close on the business day before a regular monetary policy meeting. The one exception is the publication of the *Monetary Policy Reports*, which are released to the public after the respective monetary policy meeting.

It was also determined that the Research Division's presentation to the Board at the meeting, which is based on publicly available information, will be available on the Bank's website at noon on the business day following a regular monetary policy meeting.

This presentation replaces the tables and figures in the appendix to the background information, which until 5 March 2009 was published with the meeting minutes. Finally, the lag in the publication of the minutes was reduced to eleven business days after the respective monetary policy meeting.

09

By Board Resolution 1465-02-090305, the Central Bank accepted the role of fiscal agent granted by Ministry of Finance Executive Decree 150 of 2009, published in the *Official Gazette* on 25 February 2009, to represent and act in the name and on the account of the Treasurer in the placement and administration of the bonds specified in the Decree. Specifically, two new Treasury bonds (BTU-20 and BTU-30) are to be placed in the capital market in 2009, and the BTP-10 series (issued on 1 March 2008 in accordance with Executive Decree 122) is to be reopened; the directive includes the service of the bonds at maturity.

12

At its monthly monetary policy meeting, the Board of the Central Bank decided to reduce the monetary policy interest rate by 250 basis points, that is, to 2.25% in annual terms.

19

By Board Resolution 1467-02-090319, the Central Bank accepted the role of fiscal agent to act in the name and on the account of the Treasury in the sale of foreign currency to be transferred to the Bank for this purpose, as established by Executive Decree 250 issued by the Ministry of Finance in 2009 and subject to the specific instructions provided by the Ministry in Official Letter 234, dated 16 March 2009. To fulfill this mandate, the Central Bank, in the role of fiscal agent, will offer for sale a total of US$3.0 billion in the local market, though daily competitive auctions of US$50 million, starting on 27 March 2009.

30

The Central Bank of Chile communicated that in accordance with the authority granted in Article 31 letter (b) of Law 19,396 on the new treatment of subordinated debt, the Bank opted to receive in cash the payment of a share of *Banco de Chile*'s earnings in the 2008 fiscal year, which is owed to the Central Bank as a subordinated debt holder. Therefore, *Banco de Chile* must, on a given date, transfer to the Central Bank its annual installment of approximately Ch$98.223 billion, or 36.06% of the bank's earnings in the 2008 fiscal year.

April

07

By Board Resolution 1470-01-090402, the Central Bank extended through 8 February 2010 the temporary regulations in Chapter III.A.1 of the *Compendium of Financial Regulations*, on international reserves.

09

At its monthly monetary policy meeting, the Board of the Central Bank decided to reduce the monetary policy interest rate by 50 basis points, that is, to 1.75% in annual terms.

16

By Board Resolution 1472-04-090416, Chapter III of the Central Bank's *Compendium of Foreign Exchange Regulations* was modified to establish the requirements for official entities other than banks to operate in the Formal Exchange Market (FEM), as anticipated in Section 41 of the Central Bank's Basic Constitutional Act. To this end, it was established that entities other than stock brokers and securities dealers that want to participate in the FEM must be legally incorporated either as an open corporation or as a closed corporation that agrees in its statutes to submit to the regulations governing open corporations. These entities must provide all records required by the regulatory framework, and they must have proof of registration in the SVS Securities Registry and a net equity of not less than UF12,000.

The following additional requirements were extended to all nonbank entities operating in the FEM:

- The provision of a specific guarantee for a minimum of UF8,000 in the form of a bank guarantee, to ensure the proper and complete fulfillment of their liabilities as FEM entities; and

- Conditions on the integrity and conduct of the entity's shareholders, directors, managers, and main executives, who, on the date of the application to join the FEM, must not have participated in acts or negotiations that are contrary to the law or at odds with healthy financial or business practices.

Finally, entities currently operating in the FEM are given a period of 120 days to comply with these requirements, as are entities that put in their application before the Resolution was passed, as provided in the temporary provisions that were incorporated into Chapter III of the *Compendium.*

16

By Resolution 1472-01-090416, the Board established the necessary instructions and regulations for the Bank to comply with the provisions of the Public Transparency Law and the Law on Access to Public Information, contained in the First Article of Law 20,285 on active transparency and the implementation of the public registry, as provided in Article 6 of the legislation and in accordance with the final paragraph of Section 65 bis of the Central Bank's Basic Constitutional Act.

May

07

At its monthly monetary policy meeting, the Board of the Central Bank decided to reduce the monetary policy interest rate by 50 basis points, that is, to 1.25% in annual terms.

20

By Board Resolution 1478-01-090520, the Central Bank set the applicable policy regarding the authorization of the exchange of ADRs for shares that are acquired by a Chilean corporation in a takeover bid launched jointly in the national and international markets and which has been declared successful, subject to the conditions considered in that Resolution.

20

By Resolution 1478-02-090520, the Board modified Chapter XIV of the C*ompendium of Foreign Exchange Regulations* to incorporate investments corresponding to the former Chapter XIX of Title I of the that *Compendium.*

Foreign investors who signed a Foreign Exchange Agreement under the terms of the former Chapter XIX or whose investments are covered by that Chapter are granted the option of petitioning the Bank to have the respective investment covered by the general regimen of Chapter XIV of the current *Compendium*, provided it complies with the general requirements therein. This is in accordance with the authorization granted to the Bank under Article 15 of the Foreign Exchange Law, whose composite text was established in Executive Decree 471 of 1977, by the Ministry of Economy, Development, and Reconstruction.

June

11

By Resolution 1481-01-090611, the Board renewed the appointment of Mr. Francisco Mobarec Asfura to the Central Bank's Audit and Compliance Committee, for a period of three years starting on 16 June 2009.

15

By Board Resolution 1482E-01-090615, the Central Bank modified its debt schedule by suspending the issue of five-year peso bonds (BCP-5), five-year UF bonds (BCU-5), and BCU-10 in the primary market, starting on that date. At the same time, the Central Bank announced that it would buy back up to US$1.0 billion of its five- and ten-year Central Bank UF bonds. It further communicated that the measures described above are necessary to offset the impact on the fixed-income market of the Finance Ministry's announcement, on the same day, of a new issue of Treasury bonds for approximately US$1.7 billion and a new program of foreign exchange sales totaling US$4.0 billion, in the form of competitive auctions of US$40 million a day.

16

At its monthly monetary policy meeting, the Board of the Central Bank decided to reduce the monetary policy interest rate by 50 basis points, that is, to 0.75% in annual terms.

25

By Resolution 1484-03-090625, the Regulations on Central Bank Debt Instrument Auctions, contained in Chapter IV.C.1 of the *Compendium of Financial Regulations*, were modified to include the option of carrying out early redemption operations using the Central Bank's electronic trading platform (the Open Market Operations System, known as *Soma*). These auctions are open to institutions and agents that operate in the Primary Market.

An Administrative Directive (*Carta Circular*) was issued on 30 June 2009 to provide market agents with information on the terms of the operating rules applicable to operations executed under the new procedure.

25

By Board Resolution 1484-02-090625, the Central Bank accepted the provisions of the Finance Ministry's Official Letter 649, of 16 June 2009, which modifies the Ministry's specific instructions regarding the Bank's Fiscal Agency to act in the name and on the account of the Treasury in the sale of foreign currency transferred to the Bank for that purpose. The specific instructions were originally accepted by Board Resolution 1467-02-090319. According to the new modifications, the fiscal agent will sell an additional US$4.0 billion, over and above the US$3.0 billion authorized in March, through competitive auctions of US$40 million a day beginning on 1 July 2009.

25

By Board Resolution 1484-05-090625, the Central Bank replaced Annex 1 of Chapter III of the *Forms and Procedures Manual* of the *Compendium of Foreign Exchange Regulations*, which concerns the requirements and documentation applicable to legal entities other than banking firms that wish to operate in the Formal Exchange Market, in accordance with the modifications to Chapter III of the *Compendium* effected through Board Resolution 1472-04-090416.

At the same time, it was ruled that the compliance period provided for in the Temporary Provisions of Chapter III of the *Compendium*, in accordance with Resolution 1472-04, would be in force as of the publication of Board Resolution 1484-05-090625 in the *Official Gazette*.

July

02

By Board Resolution 1486-03-090702, the Central Bank accepted the Fiscal Agency granted through Executive Decree 677, issued by the Ministry of Finance and published in the *Official Gazette* on 1 July 2009, to represent and act in the name and on the account of the Treasury in the issue and administration of the bonds identified in the decree. Specifically, three new Treasury bonds (BTU-05, BTU-10, and BTP-05) are to be issued in the local capital market in the second half of 2009, in accordance with Executive Decree 677. The directive includes the service of the bonds at maturity.

09

In its monthly monetary policy meeting, the Central Bank Board decided to reduce the monetary policy interest rate by 20 basis points, that is, to 0.50% annually, and to adopt the following complementary monetary policy measures: (1) establish a short-term liquidity facility (FLAP) for banking firms, which will be used to supply liquidity at 90 and 180 days at the MPR rate; (2) adjust the issue schedule for Central Bank discountable promissory notes (PDBC) with maturities of under one year, consistent with the previous decision; and (3) suspend, for the rest of 2009, the issue of debt securities with maturities of one year or more, which correspond to two-year Central Bank peso bonds (BCP-2) and one-year Central Bank discountable promissory notes (PDBC-360).

09

By Board Resolution 1488E-01-090709, the Central Bank adjusted its debt plan as described. At the same time, it was decided to modify Chapters IV.B.6.2 and IV.B.8.5 of the *Compendium of Financial Regulations* along two dimensions. First, the percentage of the Central Bank's discretionary allocation in PDBC auctions was changed from an increase or decrease of 25% to 50%. Second, it was established that in the case of operations involving the Central Bank's purchase of credit instruments with a repurchase agreement (repos), with regard to debt instruments offered for sale by banking firms that have partial maturities within the period of the respective repo operation, the Central Bank will discount the latter at the time of the corresponding offer of sale and will move up the payment in the amount of the proceeds of the sale, to the financial institution whose offer of sale was accepted, together with the payment of the price of the initial purchase subject to the terms and conditions established in the respective Operating Rules.

15

The Central Bank communicated the modifications to the Operating Rules outlined in Administrative Directive 520—Banks, in accordance with the modification to Chapter IV.B.8.5 of the *Compendium of Financial Regulations*, "Purchases of Credit Instruments with Repurchase Agreement." The provisions, in the context of FLAP operations, include procedures for valuating securities that have partial maturities within the period of the repo operation and for replacing letters of credit sold with a repo that are subject to lottery.

Consistent with the modifications to the aforementioned operating rules, Administrative Directive 522 – Banks was issued on 20 July to provide notification of the adjustments made to the valuation mechanism applicable to discounts or margins, with regard to operations involving the purchase of credit instruments with a repurchase agreement in the context of the standing liquidity facility and the intraday liquidity facility provided by the Central Bank to the banking system.

15

By Resolution 1489-02-090715, the Board substituted Chapter III.F.7 of the *Compendium of Financial Regulations*, on "Financial Regulations Applicable to the Unemployment Funds Administrator, Considered in Law 19,728, Which Established Unemployment Insurance," taking into account the modifications to that Law contained in Law 20,328, published in the *Official Gazette* on 30 January 2009.

Rules were also established on the period for harmonizing these provisions with the provisions of the third temporary article of Law 20,328.

20

By Board Resolution 1490-03-090723, the Central Bank interpreted the sense and reach of the provisions outlined in letter A of Title III on "Card-Issuing Firms" of Chapter III.J.1 of the *Compendium of Financial Regulations,* in order to clarify that the phrase "banking firms" used in that regulatory framework also covers, for the purposes of that regulation, subsidiary companies involved in the delivery of financial services, as described in Article 70 letter (b) of the General Banking Law, and banking support companies that have the nature of a bank subsidiary, as described in Article 74 letter (b) of the same legal text, in the terms authorized by the Superintendence of Banks and Financial Institutions in accordance with its legal faculties.

August

06

By Board Resolution 1493-02-090806, the Central Bank established the nature, content, and frequency of the statistical information that the Bank must submit, in accordance with the provisions of Section 53 of its Basic Constitutional Act, as specified in the attached annex, which is an integral part of this Board Resolution.

It was ruled that the Resolution will go into effect on 17 August 2009, and as of that date it will override Resolution 1110-02- 040122 on the same material and its later modifications.

13

By Board Resolution 1494-02-090813, the Bank accepted the new performance guidelines for its role as fiscal agent as established in the Law on Fiscal Accountability, in relation to the administration of the resources in the Pension Reserve Fund and the Economic and Social Stabilization Fund.

These new performance guidelines were submitted by the Minister of Finance through official letters 879 and 880, dated 30 July 2009. The fiscal agent functions granted to the Central Bank of Chile correspond to the Fiscal Agency accepted through Resolution 1321-01-070222 of 22 February 2007, with regard to Executive Decree 1383 issued by the Ministry of Finance in 2006 (the "Fiscal Agency Decree") and published in the *Official Gazette* on 17 February 2007.

The new performance guidelines replace those contained in official letters 134 and 135, dated 8 February 2007, and in official letters 204 and 205, dated 26 February 2008, all from the Minister of Finance.

The adopted Resolution went into force on 1 September 2009.

20

With the goal of more frequently conveying the Board's view on the outlook for inflation, growth, and monetary policy, by Board Resolution 1495-01-090820, the Central Bank increased the frequency at which the *Monetary Policy Report* is issued and published, from three times a year to four. This measure will also allow a better synchronization of the communication of the monetary policy forecast both with the half-yearly release of the *Financial Stability Report* and with the publication of the quarterly revisions and updates of the *National Accounts* and the *Balance of Payments*. The *Monetary Policy Report* will be published in March, June, September, and December. The *Financial Stability Report* for the first half of the year will be released jointly with the June *Monetary Policy Report*, while the *Financial Stability Report* for the second half of the year will be published at the same time as the December *Monetary Policy Report*. The new publication schedule for these two *Reports* will be implemented this year. The March and September *Monetary Policy Reports* will have the same structure as the current four-month reports. The June and December *Reports*, which coincide with the release of the half-yearly *Financial Stability Reports*, will be shorter, so as not to overload the public information released by the Central Bank. This change in the publication schedule represents another step toward a better communication of monetary policy decisions, together with the changes already implemented in terms of the early disclosure of the facts and data presented at the monetary policy meeting and a reduction in the lag in the publication of the respective minutes. These adjustments keep Central Bank at the forefront of best practices employed by the world's main central banks. The *Monetary Policy Report* constitutes a central element in the communication of the Board's vision for the Chilean economy, and it is a fundamental instrument for decision-making in monetary policy.

The present Resolution does not imply any modification to institutional policy on disclosing information to the President of the Republic and the Senate.

20

By Board Resolution1495-03-090820, the Board of the Central Bank of Chile modernized, adjusted, and integrated its regulations on mortgage loans financed through the issue of mortgage bonds, while preserving the framework of safeguards that has historically been applied to these operations, in accordance with the General Banking Law. At the same time, this measure will allow these instruments to be offered under terms that are more competitive with other types of mortgage loans.

These regulations, which are contained in Chapter II.A.1 of the *Compendium of Financial Regulations,* incorporate the possibility of funding mortgage operations through the issue of a new category of mortgage bills, which can finance loans representing more than 75% of the value of the mortgage collateral, up to a limit of 100% of this value, provided that the relevant regulatory safeguards are strictly observed. These safeguards include, among other stipulations, the requirement that mortgage bills in this new category can only be issued by banks with the highest solvency rating from the Superintendence of Banks and Financial Institutions and can only be granted to clients to whom the issuing bank has assigned the highest grade on the applicable credit rating scale. This modification should favor a reduction in the costs of financing, stemming from a reduction in the use of complementary loans to supplement mortgage loans.

At the same time, additional modifications were introduced and are applicable to all mortgage bills without distinction. The objectives of these changes include the following: to allow banks to offer their clients more flexibility in their loan payments, to facilitate a greater degree of consistency between the loan payment simulations of mortgage bills and other mortgage financing arrangements, and to specify that this type of loan can be contracted with more than one fixed interest rate over the life of the loan, which could generate a reduction in loan costs for mortgage debtors, especially for loans contracted during periods in which the long-term market interest rates are in a downward cycle.

As part of this modernization process, the regulatory provisions were reinforced to improve the level of transparency in the use of mortgage bonds to finance mortgage loans, thereby maximizing the available information on the terms offered and contracted, such as real interest rates, commissions charged, interest rates on endorsable mortgage loans, development tables, and the expenses paid by the mortgage debtor, among others. This ensures the timely disclosure of the costs, expenses, rights, and obligations that these operations represent for mortgage debtors, as well as the legal and financial terms that are applied to investments in mortgage bills for financing mortgage operations in the capital market, as provided for in the banking legislation.

The implementation of the regulatory developments described above is accomplished through the adaptation, coordination, and systematization of the current regulations in this area, which are issued by the Central Bank of Chile and are contained primarily in Chapters II.A.1, II.A.1.1 and II.A.2 of the *Compendium of Financial Regulations*, to be replaced by the new Chapter II.A.1, "Regulations on Mortgage Operations using Mortgage Bills." At the same time, Chapter III.B.2 of the same *Compendium* preserves the limits on an institution's purchasing its own mortgage bills, while Chapter III.C.2 addresses the corresponding adjustments for this type of operation by Saving and Loan Cooperatives, as legally authorized.

The Superintendence of Banks and Financial Institutions will provide the necessary guidelines for applying the new regulatory framework and issue the corresponding accounting instructions, as well as monitor compliance.

The modification discussed herein will enter into force 45 days after the publication of the Board Resolution in the *Official Gazette*, which took place on 24 August. Mortgage loans granted prior to that date and involving the issue of mortgage bills, together with the associated mortgage bills, will continue to be governed by the old regulations contained in the *Compendium of Financial Regulations*, which have now been modified.

September

23

By Resolution 1490-02-090723, the Board of the Central Bank of Chile stipulated the technical specifications of the new Ch$5,000 banknote, which entered circulation that same day. This measure was taken in the context of the release of a new family of Chilean banknotes in time for the Republic of Chile's bicentennial celebration, with the purpose of providing the community with modern, safe, reliable means of payment.

October

08

By Resolution 1504-01-091008, the Board of the Central Bank of Chile authorized the provision to third parties of statistical information that has not been officially published by the Central Bank, provided the following interconnected requirements are satisfied:

1. The individual or aggregate data—which have been compiled by the Central Bank from various sources, such as surveys, forms, and studies, for the purposes of statistics collection as described in Section 53 of the Basic Constitutional Act—must respect the guidelines on statistical confidentiality of sources, in accordance with the provisions of Section 66 of the Basic Constitutional Act. Thus, the requested data cannot identify natural persons or legal entities, subject to the aforementioned confidentiality.

2. The information must correspond to statistical data compiled by the Central Bank of Chile or for which the Bank holds the sole material or intellectual property rights, and which can be generated without substantial costs.

3. The information provided to third parties in accordance with this Resolution must remain available for any other interested party.

4. The applicant who receives the information is required to adopt safeguards to ensure that in the studies, reports, or any other type of publication using the information in question, the applicant expressly documents that the data have not been published by the Central Bank of Chile and that they were provided in accordance with this Resolution, such that any use or application of the information is the sole responsibility of the applicant or the person who uses the information thus obtained. It must further be documented that the Central Bank is in no way accountable for the data in question and that the data do not represent the institution's opinion, especially with regard to the estimates or conclusions drawn by the applicant or the person using the data.

5. When appropriate, the Bank must provide notification on the statistical reach and limits of the requested data.

This decision is related to Resolution 1493-02-090806, adopted in accordance with Section 53 of the Basic Constitutional Act, which establishes the nature, content, and frequency of the information the Bank releases on the main national macroeconomic statistics, in compliance with its statistical duties. At the same time, the aforementioned Resolution 1504-01 serves to revoke Resolution 1225-01-051027 on the provision of statistical information that has not been officially published by the Central Bank of Chile.

These guidelines were established with the objective of responding to the applications for information that are periodically received by the Bank in terms of the data used in preparing official statistics. They outline a simplified procedure that will allow interested parties to put in requests for the statistical data available in the Central Bank and stipulate the time allowed for a response.

30

The Board of the Central Bank communicated the scheduled withdrawal of the temporary liquidity support measures for the financial system, which were announced last year and were aimed at mitigating the effects of the international financial crisis. The following programs will remain open through 30 June 2010, at which point they will be closed:

- Foreign currency swap purchases, with 182-day operations suspended starting next week; and

- 28-day repos using Central Bank securities, mortgage bills, and bank deposits as collateral.

This decision takes into account the fact that the adopted measures contributed to preventing liquidity problems in our economy, in both local and foreign currency, and that the global financial situation has improved in recent months, during which time the Chilean financial system has been solid and has maintained adequate access to the international financial markets.

In the same communication, the Board announced that the period for constituting reserves on foreign currency deposits in other currencies or pesos will remain unchanged, thus closing on 8 February 2010.

Finally, the communication reiterated that these measures are independent of the monetary policy rate, including the short-term liquidity facility (FLAP), which is set at the monetary policy meetings.

November

2.

In a ceremony held at the Bank and attended by the President of Chile and the National Prosecutor, head of the Public Prosecutor's Office, a collaboration agreement was signed between the two institutions in an effort to improve their coordination. The main objectives of the agreement are to prevent and suppress criminal acts associated with counterfeiting Chile's legal currency, to share good practices in the search for relevant information for criminal investigations, and to consider the mutual training of their officers.

12

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to keep the monetary policy interest rate at 0.50% in annual terms. It also decided to reduce the maximum maturity of the FLAP from 180 to 150 days starting on 14 December and to continue shortening it by 30 days each month, until the facility is closed in May 2010.

18

El Central Bank announced changes to its Calendar of Monetary Operations, in line with the announcement made at the last monetary policy meeting:

- For one month starting on 14 December 2009, the FLAP will only be open on Mondays, with alternating maturities of 63 and 154 days.
- In subsequent months, the maximum terms offered through the FLAP will be shortened by 30 days a month. These reductions will be applied to the shortest segments.
- With this gradual reduction, access tot he facility will be closed in May 2010.
- Starting on 14 December 2009 auctions of 180-day Central Bank discountable promissory notes will be suspended.

26

By Board Resolution 1511-03-091126 the Board decided to change the dates stipulated in letter (a) of the Appendix to Chapter I del Central Bank's *Compendium of Foreign Exchange Regulations*, in relation to the adjustment factor to be used in the daily correction of the value of the reference currency basket between 10 January 2010 and 9 January 2011 (inclusive).

December

3

By Resolution 1512-05-091203, the Board of the Central Bank of Chile modified Chapter III.F.6 of the *Compendium of Financial Regulations*, on the limit on overseas investment by the insurance companies, which is currently set at the maximum allowed by law. This will be maintained "as long as the Bank does not decide to change it, for the period of one year, in exercise of its legal powers."

24

By Board Resolution 1515-03-091224, the Central Bank of Chile approved its Debt Plan for 2010, which encompasses placing the following Central Bank bonds in the primary market: two-year peso bonds (BCP-2), for Ch$41.7 billion a month; and five-year peso bonds (BCP-5), for Ch$62.5 billion a month. This will run from the reserves period that started on 9 January 2010 and continuing until the reserves period that started on 9 December 2010.

Appendix IV:
Foreign exchange reserve management

A. Introduction

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

The current system of a floating exchange rate regime, inflation targeting, solid fiscal policies, prudent financial regulation and supervision, and financial integration together provide a consistent framework for maintaining essential macroeconomic balances and facing the different shocks that affect the economy, thereby reducing their impact. Nevertheless, the Bank reserves the right to intervene in the foreign exchange market under certain exceptional circumstances.

Consistent with the purpose, benefits, and costs of international reserves, their administration aims to guarantee secure, efficient access to international liquidity and safeguard the financial equity of the Bank. To achieve this, the Bank acts according to the legal framework stipulated in Section 38 of its Basic Constitutional Act, which specifically grants it the authority to manage, maintain, and dispose of its international reserves, abroad.

In line with its transparency policies, the Bank must report on annual international reserve management in 2009. The next section reports on the investment policies and benchmark structure used in managing reserves. The third section reports on external administrators. The fourth section summarizes the risk management policies and the results of the international reserve management.

B. Investment policies and benchmark structure

The foreign exchange reserve investment policy encompasses liquid financial assets that meet the legal requirements applicable to their management. This policy was designed in terms of its impact on the bank's financial balance sheet results and risks, and the characteristics of the potential needs for foreign exchange liquidity. The primary objective is to preserve principal in view of possible market fluctuations.

B.1 Investment portfolio and liquidity portfolio

In 2009, foreign exchange reserve investment was grouped in two main portfolios: the investment portfolio and the liquidity portfolio.

The investment portfolio included short- and long-term foreign exchange assets. The short-term component acted as a buffer to deal with shifts in foreign currency liquidity needs. Investments in this subportfolio were held in bank deposits and money market instruments maturing in up to one year. The long-term subportfolio included investments in nominal and indexed bonds maturing in one to ten years. In 2009, the main source of movements in the investment portfolio funds was foreign currency swaps carried out by the Bank.

A share of the investment portfolio was managed by external administrators, who were vested with the authority to manage a long-term global portfolio and an MBS portfolio, as detailed in section C of this appendix.

Within the investment portfolio, a total of US$21.653 billion was internally managed, while the remaining US$1.043 billion was handled by external administrators. The internally managed portion was invested as follows: 22.8% in bank deposits, 2.2% in U.S. agencies, and the remaining 75% in sovereign and supranational risk. The last item included investments in the United States (36%) and Germany (34%). The remaining 30% was dived among the Netherlands, France, Ireland, Italy, Spain, Portugal, Finland, Sweden, Belgium, Austria, Greece, Denmark, Canada, and suprantionals. The shares invested in the United States and Germany fell relative to the previous year, putting a greater emphasis on countries outside the benchmark.

Investments in deposits increased US$668 million, while investments in sovereign instruments rose US$53 million.

The liquidity portfolio is designed to cover the foreseeable need for funds in the short term. It was the preferred source for dealing with the daily fund requirements deriving from withdrawals from foreign currency accounts maintained by commercial banks and the public sector in the Bank. This portfolio is made up of bank deposits (overnight, weekend, and time).

As of 31 December, the Bank's international reserves totaled US$25.373 billion, of which US$22.696 was in the investment portion, US$1.154 billion in the liquidity portfolio, and US$1.523 billion in other assets (table 1). Of the total, 59.0% was invested in U.S. dollars, 34.4% in euros, and 6.6% in other currencies.

Table 1
Composition of international reserves
(US$ million)

Type of portfolio	Currency	Dec.09	Percent
Investment portfolio		22,695.7	89.4
Currencies and deposits	Dollar	2,846.4	11.2
	Euro	2,183.0	8.6
	Other currencies	39.8	0.2
Securities	Dollar	10,896.5	42.9
	Euro	6,539.9	25.8
	Other currencies	190.1	0.7
Totals	Dollar	13,742.9	54.2
	Euro	8,722.9	34.4
	Other currencies	229.9	0.9
Liquidity portfolio		1,153.6	4.5
Currencies and deposits	Dollar	1,141.4	4.5
	Euro	12.2	0.0
	Other currencies	0.0	0.0
Securities	Dollar		
Totals	Dollar	1,141.4	4.5
	Euro	12.2	0.0
	Other currencies	0.0	0.0
Other currencies		1,523.2	6.0
Monetary gold	Other currencies	8.8	0.0
IMF SDRs	Other currencies	1,143.4	4.5
IMF reserve position	Other currencies	286.1	1.1
Reciprocal lending agreements	Dollar	84.9	0.3
Total international reserves		25,372.5	100.0
Totals	Dollar	14,969.2	59.0
	Euro	8,735.1	34.4
	Other currencies	1,668.2	6.6

Source: Central Bank of Chile.

In 2009, international reserves grew US$1.908 billion relative to 2008, which is mainly explained by US$1.084 billion of special drawing rights (SDRs) allocated by the International Monetary Fund (IMF), US$415 million in portfolio earnings, and US$561 million from price and currency fluctuations. In 2009, the Bank carried out a program of foreign currency swaps aimed at providing foreign currency liquidity to the domestic financial system. As of 31 December, the program had an outstanding amount of US$745 million.

B.2 Investment portfolio benchmark structure

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

The investment policy was revised in 2009 to update the portfolio duration and reference benchmarks, to better address the volatility of the international financial markets and protect the Bank's balance sheet. In June the benchmark was lowered for nominal long-term nominal bonds, from 36 to 34%, and raised for inflation-indexed bonds, from 4 to 6%. In particular, Euro Linkers were integrated into this family, which account for 2.4% of the portfolio, while TIPS represent 3.6%. The upper limit on investment for A and A+ banks was raised from 5 to 10%, with drop in maximum maturity from six to three months (table 2).

Table 2
Benchmark structure of the investment portfolio, by risk and reference benchmark

Structure	Credit risk	Share through May 2009 (percent)	Reference benchmark	Share since June 2009 (percent)	Reference benchmark
Short-term portfolio	Banks	20.0	Merrill Lynch indices: 6-mth. LIBID, average of the last 6 mths. USD and EUR	20.0	Merrill Lynch indices: 6-mth. LIBID average of the last 6 mths. USD y EUR
	Sovereign, Agency, and Supranational	40.0	Merrill Lynch indices: U.S. Treasury Bills German Gov. Bill Index	40.0	Merrill Lynch indices: US Treasury Bills German Gov. Bill Index
Long-term portfolio	Sovereign, Agency, Supranational, and Bank	36.0	JP Morgan bond index for 1- to 10-year segments in U.S. and Germany	34.0	JP Morgan bond index for 1- to 10-year segments in U.S. and Germany
	TIPS	4.0	Barclays bond index for 1- to 10-year segments in the U.S.	3.6	Barclays bond index for 1- to 10-year segments in U.S.
	Euro Linkers			2.4	Barclays bond index for 1- to 10-year segments in euro area
Total portfolio		100.0		100.0	

Source: Central Bank of Chile.

With regard to the duration of the internally managed investment portfolio, the benchmark duration of the long-term portfolio was 36.5 months, with a permissible range of zero months to eight months over the overall portfolio duration. For the short-term the investment portfolio, the benchmark duration the benchmark duration was 3.7 months. In sum, the investment portfolio had an average duration of 16.8 months, with an accepted minimum duration of zero months and a maximum deviation of six months over the benchmark value. This implies an increase of 2.9 months relative to December 2008. The currency composition was adjusted from 59% in U.S. dollars and 41% in euros to 60% in U.S. dollars and 40% in euros, with a permissible deviation margin of ±5% (table 3).

Table 3
Currency, maturity, and duration structure of internally managed portfolio benchmark

		USD		EUR		Total	
		Share (%)	Duration (months)	Share (%)	Duration (months)	Share (%)	Duration (months)
Short-term portfolio	Banks	12.0	3.0	8.0	3.0		
	Sovereign. Agency. and Supranational	24.0	3.5	16.0	4.8		
	Subtotal CP	36.0	3.3	24.0	4.2	60.0	3.7
Long-term portfolio	Nominals bonds						
	Maturity						
	1-3 years	11.4	22.4	7.6	21.3		
	3-5 years	4.9	46.8	3.3	42.8		
	5-7 years	2.0	64.3	1.4	63.6		
	7-10 years	2.0	84.8	1.4	84.5		
	Subtotal	20.4	38.7	13.6	37.0	34.0	
	Indexed bonds						
	Maturity						
	1-10 years	3.6	28.6	2.4	26.4		
	Subtotal	3.6	28.6	2.4	26.4	6.0	
	Subtotal LT	24.0	37.2	16.0	35.4	40.0	36.5
Total portfolio		60.0	16.9	40.0	16.7	100.0	16.8

Source: Central Bank of Chile,

To protect the Bank's balance sheet, in December 2009 the Board approved a new currency benchmark structure that went into effect on 15 January 2010. The new composition incorporated three new currencies in the benchmark, which together will represent 10% of the investment portfolio. The share of the U.S. dollar will fall by the same magnitude to offset the addition. This new portfolio is composed of 3.5% Australian dollars, 3.5% Canadian dollars, and 3.0% pound sterling. The goal of this change is to reduce the volatility of the Bank's currency assets relative to its liabilities. The past few years have seen an increase in the volatility of the U.S. dollar–Chilean peso parity. The incorporation of the currencies of other commodity exporters, such as Australia and Canada, will contribute to diversifying the currency risk on the Bank's balance sheet.

The benchmarks were not adjusted for the externally managed MBS portfolio.

B.3 Liquidity portfolio benchmark structure

The investments in this portfolio matched the projected disbursements on the Bank's balance sheet in terms of currency composition and maturity. The liquidity portfolio's currency benchmark structure was defined as a function of the real currency composition of the projected disbursements and of the deposits and withdrawals made by commercial banks and the public sector. With regard to interest rates, the benchmark for investments in this portfolio was calculated on the basis of the overnight, weekend, and time rates of the currencies that make up this portfolio, as a function of characteristics of the projected disbursements.

C. External management program

C.1 External portfolio management programs

In 2009, the Bank had two external portfolio management programs, for a total of US$1.043 billion. The first was a long-term general mandate, for which the administrators were selected in 2006 and began operating in January 2007. This mandate focuses on a portfolio similar to the internally managed long-term investment portfolio, except that the external administrators are allowed to invest in mortgage-backed securities (MBSs). The program continued to pursue three objectives: to add value to the foreign currency portfolio: to obtain transfers of know-how and technologies; and to act as an active benchmark for the Central Bank portfolio. This program kept its two external administrators during 2009, each with a portfolio of approximately US$310 million. The risk assessment methodology is based on a risk budget, whereby the administrators are allowed to take risk up to a maximum of a 100-basis-point tracking error (deviation from the benchmark).

The second program involves an MBS-specific mandate, which was maintained in 2009. The primary objectives were to add value to the portfolio and transfer know-how through dialogue between the administrators and the staff of the Central Bank. This program had one administrator in 2009, which managed a portfolio valued at approximately US$420 million as of 31 December.

The measurement of performance, risk assessment, and benchmark compliance for both programs continued to be outsourced by the custodian bank.

D. Risk management and results of foreign exchange reserve management

D.1 Risk management within foreign exchange reserve management

The tensions in the international financial markets eased up over the course of the year, and there were several signs of recovery. This improvement in the international situation is backed by the growth figures for the main economies (the United States, euro area, and Japan) in the last quarters of the year, after falling in the preceding quarters. The bank-sovereign spread fell in both U.S. dollars and euros. Similarly, the spreads over Germany of the euro area countries began to come down in the second quarter of 2009. Nevertheless, financial turbulence in countries such as Ireland, Greece, Portugal, and Spain pushed the spreads up again toward the end of the fourth quarter. For the investment portfolio, the impact of these trends was minor thanks to a conservative, timely management.

The main central banks kept their rates at historically low levels. The U.S Federal Reserve and the Bank of Japan held their policy rates at 0.25 and 0.1%, respectively. The European Central Bank cut its rate by 150 basis points, to 1.0%. In the longest segment of the yield curve, the rates on ten-year bonds rose for these three economies.

With regard to currencies, the dollar weakened at the world level. The euro appreciated 1.5% against the U.S. dollar; the Australian dollar, 27.8%; the New Zealand dollar, 24.8%; and the pound sterling, 10.2%.

International reserve management takes into account criteria for limiting liquidity, credit, market, and operating risk. To reduce liquidity risk, the Bank managed a portfolio made up exclusively of short-term deposits in international commercial banks (diversified by maturity) and fixed-income instruments traded in deep, highly liquid secondary markets. Credit risk was managed through limits on bank risk, sovereign risk, supranational risk, and risk from external financial institutions, as well as the counterparties used (table 4).

Table 4

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

(percent as of 31 December 2009)

	Credit rating							
Type of credit risk	AAA	AA+	AA	AA-	A+	A	BBB+(4)	Total
Agency	2.2	0.0	0.0	0.0	0.0	0.0	0.0	2.2
Bank	0.6	0.0	1.9	11.3	4.4	4.6	0.0	22.8
Sovereign	64.5	1.0	4.2	2.4	0.0	0.0	0.6	72.7
Supranational	2.3	0.0	0.0	0.0	0.0	0.0	0.0	2.3
Total	69.6	1.0	6.1	13.7	4.4	4.6	0.6	100.0

(1) Banking risk is related to investment in banks' financial instruments (deposits, foreign exchange spot/forward, Pfandbriefe). Sovereign risk is related to investment in instruments from sovereign states (deposits, bills, floating-rate notes, nominal and indexed bonds). Agency risk is associated with investment in instruments of U.S. gonvernment agencies (bills, nominal bonds, mortgage-backed securities). Supranational risk is associated with investment in instruments from a multilateral official issuer (deposits, bills, floating-rate notes, nominal bonds).

(2) The risk rating corresponds to the average of the Fitch, Moody's, and Standard and Poor's ratings.

(3) Excluding investments in externally managed portfolios and the liquidity portfolio, fold holdings, and IMF positions.

(4) On 16 December 2009, the average rating for Greece fell from A– to BBB+, which is below the minimum required for the Central Bank of Chile's international reserve investments and thus disqualifies the country from the list of eligible counterparties.

Source: Central Bank of Chile.

Market risk was managed by diversifying investment currencies, instruments, and maturities and by measuring and monitoring the limits on exposure to currency and maturity risks, as noted above. In 2009, the average daily VaR of the internally managed investment portfolio was 5.59%, while the average tracking error was 16.8 basis points.

With regard to operating risk, a clear separation of responsibilities and functions was maintained at the institutional and hierarchical levels, and efficient controls were used to mitigate this risk in the area of reserve management. The Bank also employs IT systems that enable operating under market quality standards. Additional initiatives to improve operational continuity standards include the development of lines of succession for critical positions and the maintenance of an active contingency unit to guarantee the operational continuity of both international reserves and fiscal resources in the event of problems with the Bank's physical or technological infrastructure. This, combined with internal and external audits, has ensured that the decision-making process and management assessment within the Bank remain clearly defined.

D.2 Returns on foreign exchange reserve management

The total return from international reserve management in 2009 was 2.15% measured in foreign currency, that is, in terms of the reference basket of currencies of the investment portfolio. Measured in U.S. dollars, it was 3.34%. The differential return obtained against the benchmark structure was 49.8 basis points.

For the 2000–2009 period, the average annual return measured in foreign currency was 3.99%, with a differential return against the benchmark structure of 25 basis points (table 5).

Table 5
Absolute returns and differentials on international reserves and benchmark

Period	In foreign currencies		In U.S. dollars		Differential
	International reserves	Benchmark	International reserves	Benchmark	
2009	2.15	1.65	3.34	2.84	0.50
2008	5.70	5.37	4.14	3.81	0.33
2007	4.81	4.78	8.86	8.83	0.03
2006	2.45	2.39	6.84	6.78	0.06
2005	2.90	2.85	-1.72	-1.77	0.05
2004	1.84	1.95	4.08	4.20	-0.11
2003	2.31	1.78	6.64	6.12	0.53
2002	5.25	4.69	9.34	8.78	0.57
2001	5.57	5.27	3.90	3.60	0.30
2000	6.88	6.65	4.84	4.61	0.22

Source: Central Bank of Chile.

D.3 Operating costs and the securities lending program

In 2009, total operating costs involved in the administration of the Bank's international reserves represented around 3.6 basis points of the total managed portfolio (table 6).

During the period, the Bank continued its securities lending program with the custodians for safekeeping international reserves. This program consists in lending securities owned by the Bank to primary dealers, who are required to provide a guarantee equivalent to 102% of the value of the instrument being lent. The contractual relationship with the loan agent—that is, the custodian—also includes a clause stipulating that in the event of the debtor's default, the custodian is liable for the full amount of the positions lent, thereby transferring the risk from the debtor to the custodian. The custodian bank must keep the Bank's position in separate accounts, so that there is no credit risk for the lender. In 2009, the income generated for the Bank by this program was 0.8 basis point of international reserves.

Table 6

Net summary of reserve management in 2009

	Net return (percent)	Differential return (bp)	Administrative costs (bp)	Income from securities lending (bp)	Net differential return (bp)	Return (percent)
Total international reserves	3.34	49.8	3.6	0.8	47.0	3.31

Source: Central Bank of Chile.

Table 7

Intermediaries used in 2009
Banca Imi Securities Corp. USA
Banco Santander SA, Madrid
Bank for International Settlements, Basle
Bank of America Securities Llc, USA
Barclays Capital Inc., USA
Barclays Capital, UK
Bayerische Hypo-Und Vereinsbank SA, Munich
BNP Paribas Securities Corp., USA
BNP Paribas, France
Calyon Corporate and Investment Bank, New York
Cantor Fitzgerald & Co., USA
Citigroup Global Markets Inc. USA
Citigroup Global Markets Ltd., UK
Commerzbank AG, Frankfurt
Credit Suisse Securities (Europe) Ltd., UK
Credit Suisse Securities (USA) Llc, USA
Deutsche Bank AG (London Branch), UK
Deutsche Bank AG, Frankfurt
Deutsche Bank Securities Inc., USA
Dresdner Bank AG, Frankfurt
Dz Bank Ag Deutsche Zentral-Genossenschafts, Frankfurt
Goldman, Sachs & Co., USA
Hsbc Bank Plc, U.K.
Hsbc Securities (USA) Inc., USA
JPMorgan Sec. Ltd., UK
JPMorgan Securities Inc., USA
Kbc Bank Nv, Brussels
Merrill Lynch Gov. Sec. Inc., USA
Merrill Lynch International, UK*
Mizuho Securities USA Inc., USA
Morgan Stanley & Co. Inc., USA
Morgan Stanley & Co. International Plc, UK
Nomura Securities International, Inc. USA
Nordea Bank Finland Plc, Helsinki
Rbs Securities Inc. USA
Royal Bank of Scotland, U.K.
Société Générale, France
The Royal Bank of Scotland Plc, London
UBS Ltd., UK
UBS Securities Llc, USA

* Merrill Lynch & Co. Inc. was acquired by Bank of America Corporation in February 2009.

Source: Central Bank of Chile.

Table 8

Financial institutions with outstanding deposits as of 31 December 2009		
AA-, AA, AA+, AAA	ABN Amro Bank N.V	
	Banco Santander SA	
	Bank of Scotland PLC	
	Barclays Bank PLC	
	Caixa Geral de Depositos	
	Crédit Industriel et Commercial	
	Fortis Bank SA/NV	
	Lloyds TSB Bank PLC	
	Svenska Handelsbanken	
	The Royal Bank of Scotland PLC	
	Zurcher Kantonalbank	
	Minimum	57
	Maximum	403
	Average	276
A+	Bayerische Landesbank München	
	Caja de ahorros y monte de piedad de Madrid	
	DnB NOR Bank ASA	
	ING Bank NV	
	ING Belgium NV/SA	
	Landesbank Baden Wurttemberg	
	Mizuho Corporate Bank Ltd.	
	UniCredit Bank AG	
	Minimum	40
	Maximum	228
	Average	122
A	Allied Irish Bank PLC	
	Banca Monte dei Paschi di Siena SpA	
	Bank of Ireland	
	Erste Bank der oesterreichischen Sparkassen AG	
	HSH Nordbank AG	
	KBC Bank NV	
	Nordeutsche Ladesbank Girozentrale	
	Raiffeisen Zentralbank Österreich AG	
	Unicredito Italiano SpA	
	Minimum	29
	Maximum	159
	Average	114

Source: Central Bank of Chile.

Table 8 (continued)

Elegible banks and permissible limits as of 31 December 2009

(US$ million and months)

Country	Bank	Amount	Term (months)
Germany	UniCredit Bank AG	180	3
Germany	Bayerische Landesbank	180	3
Germany	Commerzbank AG	180	3
Germany	DekaBank Deutsche Girozentrale	180	3
Germany	Deutsche Bank AG	432	9
Germany	DZ BANK AG Deutsche Zentral-Genossenschaftsbank	180	3
Germany	HSH Nordbank AG	180	3
Germany	Landesbank Baden-Württemberg	180	3
Germany	Landesbank Hessen-Thüringen Girozentrale	180	3
Germany	Norddeutsche Landesbank Girozentrale	180	3
Australia	Australia & New Zealand Banking Group Limited	432	12
Australia	Commonwealth Bank of Australia	432	12
Australia	National Australia Bank Ltd.	432	12
Australia	Westpac Banking Corporation	432	12
Austria	Erste Group Bank AG	180	3
Austria	Raiffeisen Zentralbank Österreich AG (RZB)	180	3
Belgium	Dexia Bank Belgium SA	180	3
Belgium	Fortis Bank SA/NV	432	9
Belgium	ING Belgium SA/NV	180	3
Belgium	KBC Bank NV	180	3
Canadá	Bank of Montreal	432	9
Canada	Canadian Imperial Bank of Commerce	432	9
Canada	National Bank of Canada	180	3
Canada	Royal Bank of Canada	432	12
Canada	The Bank of Nova Scotia	432	9
Canada	The Toronto-Dominion Bank	432	9
Denmark	Danske Bank Aktieselskab	180	3
Denmark	Nordea Bank Danmark A/S	432	9
Spain	Banco Bilbao Vizcaya Argentaria SA	432	12
Spain	Banco Santander Central Hispano S.A.	432	12
Spain	Caja de Ahorros y Pensiones de Barcelona	432	9
Spain	Caja de Ahorros y Monte de Piedad de Madrid	180	3
Finland	Nordea Bank Finland PLC	432	9
France	BNP Paribas S.A	432	12
France	Calyon Corporate and Investment Bank	432	9
France	HSBC France	432	12
France	Credit Agricole S.A.	432	9
France	Crédit Industriel et Commercial (CIC)	324	9
France	Natixis	180	3
France	Société Générale	180	3
Netherlands	ABN AMRO Bank NV	432	9
Netherlands	ING Bank NV	180	3

Table 8 (continued)

Elegible banks and permissible limits as of 31 December 2009

(US$ million and months)

Country	Bank	Amount	Term (months)
Netherlands	NV Bank Nederlandse Gemeenten	585	12
Netherlands	Rabobank Nederland	702	12
Ireland	Allied Irish Banks	180	3
Ireland	Bank of Ireland	180	3
Italy	Banca Monte dei Paschi di Siena SpA	180	3
Italy	Intesa Sanpaolo SpA	432	9
Italy	Unicredit SpA	180	3
Japan	Mizuho Corporate Bank Ltd.	180	3
Japan	Sumitomo Mitsui Banking Corporation	180	3
Japan	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	180	3
Japan	The Norinchukin Bank	180	3
Japan	The Shizuoka Bank Ltd.	432	9
Norway	DnB NOR Bank ASA	180	3
Norway	Nordea Bank Norge ASA	324	9
Portugal	Banco Espirito Santo S.A.	180	3
Portugal	Caixa Geral de Depositos SA	432	9
Sweden	Skandinaviska Enskilda Banken AB (Publ) (SEB)	180	3
Sweden	Svenska Handelsbanken AB (publ)	432	9
Sweden	Credit Suisse	432	9
Sweden	UBS AG	180	3
Sweden	Zürcher Kantonalbank	702	12
United Kingdom	Alliance & Leicester PLC	324	9
United Kingdom	Bank of Scotland PLC	432	9
United Kingdom	Barclays Bank PLC	432	9
United Kingdom	HSBC Bank PLC	432	12
United Kingdom	LloydsTSB Bank PLC	432	9
United Kingdom	National Westminster Bank PLC	432	9
United Kingdom	Standard Chartered Bank	180	3
United Kingdom	The Royal Bank of Scotland PLC	432	9
United States	The Bank of New York Mellon	432	12
United States	Bank of America NA	180	3
United States	Citibank, NA	180	3
United States	Comerica Bank	180	3
United States	Deutsche Bank Trust Company Americas	432	9
United States	HSBC Bank USA N.A.	432	12
United States	J.P. Morgan Chase Bank	432	9
United States	BNY Mellon Bank National Association	324	12
United States	PNC Bank NA	180	3
United States	State Street Bank & Trust Company	432	9
United States	The Northern Trust Company	432	9
United States	U.S. Bank N.A.	432	9
United States	Wachovia Bank, NA	432	12
United States	Wells Fargo Bank, NA	432	12

Appendix V
Real time gross settlement system (RTGS)

A. Introduction

Payment systems are a key component of the financial infrastructure. Since most transactions are settled through them, their safe and efficient operation is critical for the good performance of the economy, for effective monetary policy and financial stability, and, in particular, for the control of the systemic risk that could affect financial institutions.

The Central Bank of Chile is responsible for safeguarding the normal operation of the payment systems. To this end, it has been vested with the power to regulate and supervise different aspects of these systems. Because these payments are systemically important, compliance with the "Basic Principles" recommended by the Payment and Settlement Systems Committee of the Bank for International Settlements (BIS) is an essential requirement for operations in these systems.

In Chile, the large-value payment system comprises the real time gross settlement (RTGS) system, which is owned and operated by the Central Bank, and the deferred netting system of the large-value payment clearing house (LVPCH), operated by *ComBanc S.A.*, a banking support corporation. The RTGS system settles individual gross payments. In the LVPCH, participants settle the net position resulting from payments made and received once the business cycle is completed in the RTGS system. Both systems process interbank and delivery versus payment (DVP) transactions for their clients. DVP is a procedure whereby the transfer of securities in the Central Securities Depository occurs simultaneously with the payment settlement in the RTGS or LVPCH; it is carried out by *ComBanc S.A.*, which acts on behalf of the purchasing participant in issuing payment (switch function).

B. The RTGS system

The real time gross settlement system (RTGS) has been operating in Chile since April 2004. The system provides settlement services for system participants, and all banks keep a single settlement account with the Central Bank. As of December 2009, the system had 25 direct participants. There is no indirect participation in the RTGS system.

The criteria for direct participation in the system are that the participants hold a current account with Central Bank and have the capacity to connect with the system. Those eligible for a current account with Central Bank include banks, the Treasury of Chile, and, most recently, financial instrument clearing and settling firms.

The RTGS system processes payments issued by participants with a current value date between 9:00 and 17:30. It also processes Central Bank transactions associated with the settlement of open market transactions, standing deposit and lending facility operations, and Treasury transactions (cash deposits and withdrawals), which are open until 18:15.

The RTGS system reviews the payments initiated by participants by first verifying that there are sufficient funds in the issuing participant's account to clear the payment and then transferring the funds in real time to the settlement account of the participant receiving the payment. In the event that there are insufficient funds in the issuer's account, the payment is placed on hold until the account has sufficient funds.

To settle each transaction as a gross payment in real time, a participant must either have the necessary funds in its Central Bank account at the time the payment is processed or have access to intraday credit from the Central Bank (the intraday liquidity facility). Intraday credit is provided interest free against the delivery of collateral via repo operations. Eligible collateral include Central Bank securities and bank mortgage bills. These are valued on the basis of their denomination and residual maturity. There is no limit on the number or value of applications for intraday lending, as long as it is backed by the required collateral. If the counterparty does not have sufficient funds, the transaction is converted to an overnight loan known as the standing liquidity facility with an interest rate equal to 25 basis points over the monetary policy rate.

C. Initiatives

In 2009, the Board reduced the monetary policy rate (MPR) to its lower limit and implemented complementary monetary policy measures. In particular, it established a short-term liquidity facility (FLAP) to provide liquidity to banks at 90 and 180 days, at a rate fixed for the full period of the loan equal to the MPR at the time the transaction was initiated. In this context, the RTGS system operated smoothly, quickly and effectively fulfilling its role in the distribution of liquidity across the financial system.

In August, the Central Bank, together with its supplier Logica UK, concluded the process of upgrading the LCSS/CAS application (the technical platform for the RTGS system) from version 3.40 to 3.50. Because the new version has the capability for multi-currency transactions, it became the technological platform for the simultaneous operation of the Bank's foreign currency current account system.

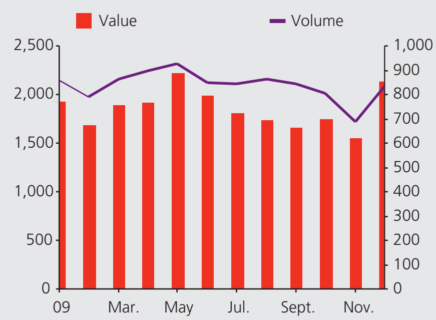
D. Statistical report

In 2009, the daily value of payments or fund transfer instructions (FTIs) settled by participants in the RTGS system averaged nearly Ch$1.85 trillion. This represents a 31% increase over 2008. The peak occurred in March, when the daily value of payments slightly exceeded Ch$3 trillion. The daily volume of payments averaged 838 transferences, or 9% more than in 2008 (figure 1). The rate of rejection remained low, in terms of both value (0.25%) and volume (0.31%). The main reason for rejection was again the delivery of payment instructions after closing.

The RTGS system processes interbank FTIs associated with payments between financial institutions on behalf of clients, when the final beneficiary is not a bank. It also processes delivery versus payment (DVT) FTIs, which involve synchronizing payments with the transfer of securities in the Central Securities Depository. The value of client payments settled grew strongly toward the end of the fourth quarter of 2009, to around 50% of the total value of payments settled (figure 2). This trend is expected to continue in the future. A similar trend is evident in the breakdown by type of payment in the large-value payment clearing house (LVPCH), where client payments have exceeded interbank payments in both value and volume. Interbank payments fell in the second half of the year, to levels approaching the values recorded before the financial turbulence. In 2009, the average value of each payment settled was Ch$2.212 billion.

Figure 1

FTIs settled in the RTGS system (*)
(Ch$ billion, number of transactions)

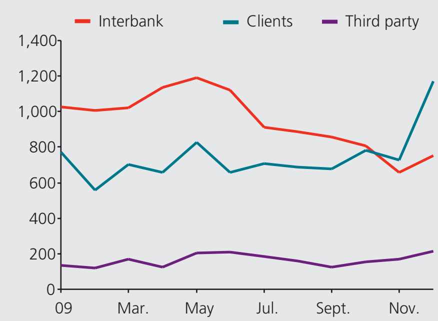


(*) Monthly daily average.

Source: Central Bank of Chile.

Figure 2

FTIs settled in the RTGS system, by type (*)
(Ch$ billion)



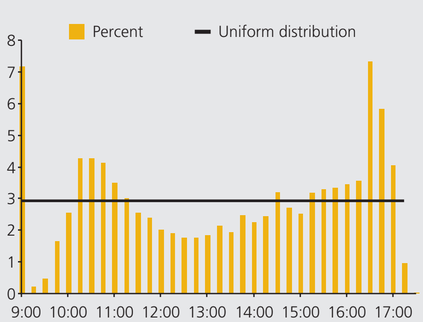
(*) Monthly daily average.

Source: Central Bank of Chile.

The intraday pattern in the value of settlements continued be highly concentrated in the hour right after the system opens. This reflects the posting of guarantees by banks for the start of operations in the deferred netting system operated by *Combanc* S.A. (LVPCH). However, the relative weight of this factor continued to shrink, to just over 7% of the total daily value of payments settled, as a result of the greater level of general activity in the system. In 2009, the hour after 16:30 recorded the greatest activity, which is explained by the close of the payment settlement business cycle in the LVPCH. This leaves the RTGS system as the sole mechanism for settling transactions with no sign of liquidity restrictions. The intraday profile provides a guide to the necessary activities for mitigating risk within the system, in that it indicates when operational monitoring should be more strict (figure 3).

In 2009, the large-value payment systems—RTGS and *Combanc*—cleared an average 4,925 transactions per day, totaling Ch$9.4 trillion (around 10% of GDP). This represents an increase of 20% in terms of value and 6% in volume. The larger increase in the value settled relative to the number of payments reflects a more intensive use of the RTGS system by the banks. This is probably associated with a "precautionary" strategy adopted by these institutions since late 2008: the liquidity measures implemented by the Central Bank allowed the accumulation of liquid assets, which was reflected in a strong use of the standing deposit facility. In 2009, the share of amounts settled through the RTGS system grew 67%, versus 59% in 2008 (figure 4).

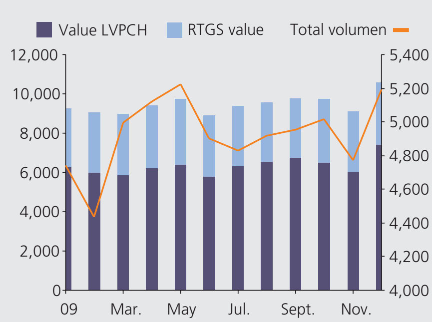
Figure 3
Intraday pattern of FTIs settled (*)
(percent)



(*) Daily average in 2009.

Source: Central Bank of Chile.

Figure 4
Payments settled in the large-value payments system (*)
(Ch$ billion, number of transactions)



(*) Monthly daily average.

Sources: ComBanc and Central Bank of Chile.

Over the course of the year, the intraday liquidity facility recorded an average of 68 operations per day (33 applications and 35 reversals), which were valued at Ch$638 billion or 31% higher than in the previous year. Both the number and value of the operations tended to decrease sharply in the second half due to the opening of the FLAP, which ended 2009 with an outstanding balance of Ch$3.2 trillion (figure 5).

In 2009, check clearing[1]/ accounted for a net settled amount of Ch$44 billion per day in the RTGS system, which represents just over 3% of the value of documents presented for payment. The ATM clearing house[2]/ made net settlements of Ch$8 billion per day, or around 18% of total gross cash withdrawals (figure 6).

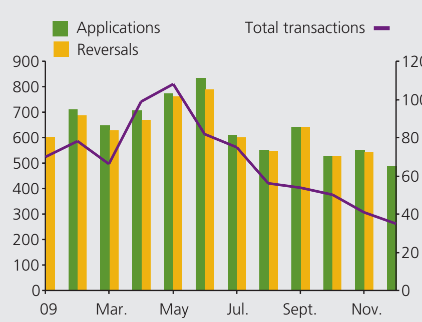
In the case of the large-value payment clearing house (LVPCH), net positions settled daily in 2009 were Ch$218 billion. The accumulated delays in clearing net positions for each deferred netting system in terms of operating hours were significantly shorter than in 2008. Each incident was short, not exceeding 5 minutes per month (figure 7).

On a daily basis, available liquidity represented 130% of total payments made in 2009, confirming the high level of liquidity in the system. One factor in this trend was the supply of liquidity through the FLAP in the second half, combined with a strategy of accumulating liquid assets. This is reflected in the behavior of daily deposits in the standing deposit facility at the close of business. The value is expected to normalize in 2010, considering that the Board has established the process for gradually withdrawing the FLAP until it closes (figure 8).

Figure 5

Intraday liquidity facility transactions (*)

(Ch$ billion, number of transactions)



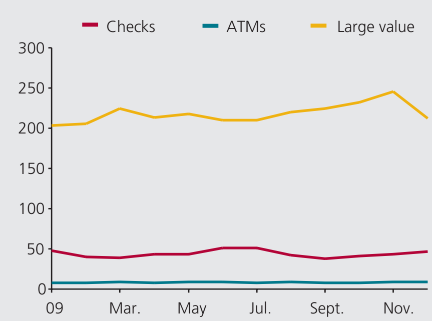
(*) Monthly daily average.

Source: Central Bank of Chile.

Figure 6

Amount settled through clearing houses (*)

(Ch$ billion)



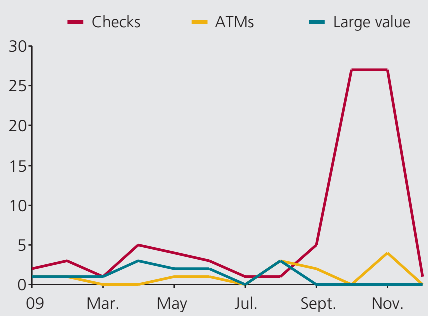
(*) Monthly daily average.

Source: Central Bank of Chile.

[1]/ The check clearing house provides for paper-based payment instructions to be exchanged, cleared, and settled among banks. It is managed by the national financial communications system (*Sistema Nacional de Comunicaciones Financieras S.A.*, or *Sinacofi*).

[2]/ Redbanc S.A. manages the country's automated teller machines (ATMs). This allows members' clients to withdraw cash from any ATM independently of the bank with which they hold their accounts. The system is cleared by *Sinacofi*.

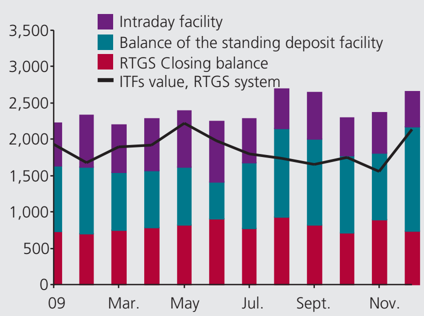
Figure 7
Accumulated delay in clearing house settlements (*)
(minutes)



(*) Monthly.

Source: Central Bank of Chile.

Figure 8
Liquidity in the RTGS system (*)
(Ch$ billion)



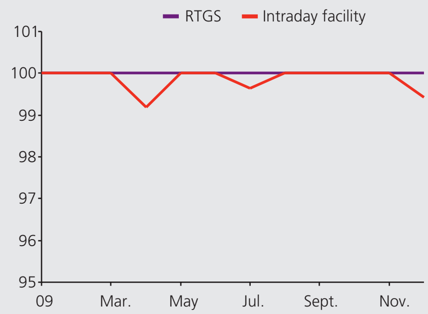
(*) Monthly daily average.

Source: Central Bank of Chile.

The RTGS system and the *Soma* system for intraday loans maintained a high level of availability. Fund transfer and multilateral netting services operated without interruptions throughout the year, implying a 100% availability to participants during the business hours established in the regulations. The *Soma* system also achieved 100% availability for most of the period (figure 9).

The extension of operations beyond regular clearing hours reflects the impact of problems in the operating capacity of the system as a whole, as well as situations of financial tension resulting in tight liquidity, which make it impossible to complete the clearing cycle on time. In 2009, there was a significant drop in extensions, to only nine incidents (versus 18 in 2008). Of these, only five were before the close of business (17:30); the other four occurred when the standing facilities were closed out. The average extension was 28 minutes per incident, versus 36 minutes in 2008 (figure 10).

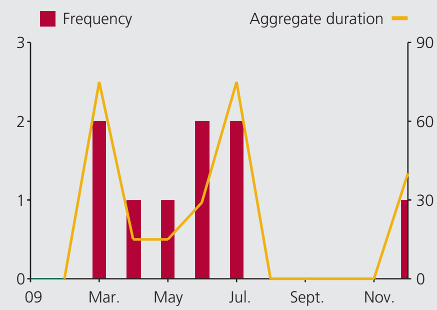
Figure 9
Availability of the RTGS and the intraday liquidity facility (*)
(percent)



(*) Monthly.

Source: Central Bank of Chile.

Figure 10
Frequency and aggregate duration of extended clearing hours (*)
(times, minutes)



(*) Monthly.

Source: Central Bank of Chile.

Appendix VI
Management of fiscals funds (ESSF and PRF)

A. Introduction

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

The following sections describe the institutional context in which this fiscal agency operates. They also report on the investment policy, the structure of the funds, the reporting system, the administration results, and the costs of managing the resources.

B. Institutional framework

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

Through Board Resolution 1321-01, issued on 22 February 2007, the Bank accepted the role of representation. This extended to the performance guidelines, which govern the actions of the fiscal agent. These guidelines were in effect throughout 2008 and part of 2009. The Board accepted new performance guidelines in August 2009, which went into effect on 1 September 2009. This Resolution authorized the Director of the Financial Operations Division (FOD) to establish the internal procedures necessary to regulate the fulfillment of these tasks, in accordance with the Decree and the performance guidelines.

The operational management of this fiscal agency is centered in the International Investment Management, under the FOD. All of the procedures used in international reserve management were considered and applied to the administration of the fiscal resources. This has ensured equivalent quality standards in portfolio management and in the processes for controlling financial and operating risk.

C. Investment objectives and policy

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

The performance guidelines contain the investment criteria, which define a reference benchmark and place restrictions on the administration of fiscal portfolios. The benchmark structure implicitly incorporates risk-return objectives established by the Ministry of Finance. The performance of the fiscal agency is assessed against this benchmark portfolio.

The investment guidelines determine and restrict the different risks to which the fiscal portfolios are exposed, such as foreign exchange, interest rate, and credit risk. To limit foreign exchange risk, the benchmark requires that funds be distributed as follows: 50% in U.S. dollar, 40% in euros, and 10% in yen, with a maximum deviation of ±5% from the central values defined for each currency. Nine additional currencies are also eligible under the guidelines[1]/. However, investment in these secondary currencies is conditional on the existence of an underlying asset and hedging in one of the main currencies.

With regard to interest rate risk, the investment guidelines stipulate that the duration of the benchmark portfolio is near 30 months and the minimum duration of the fiscal portfolios can reach zero months, with a maximum deviation of 5 months over the duration of the benchmark portfolio.

Exposure to credit risk is controlled through restrictions on the issuers in which funds can be invested. The guidelines allow investment in sovereign risk investments (up to 100% of the portfolio), supranational risk (up to 60%), bank risk (up to 50%), and U.S. agencies (up to 30%). The universe of eligible instruments further includes balances held in current accounts, overnight deposits, time deposits, certificates of deposit, bank acceptances, commercial papers, bills, notes, discount notes, nominal bonds, inflation-indexed bonds, and floating-rate notes.

[1]/ Australian dollar, Canadian dollar, Danish krone, Norwegian krone, Pound sterling, Swedish krona, Swiss franc, New Zealand dollar, and Singapore dollar.

The investment guidelines establish additional criteria and restrictions as complementary measures to minimize credit risk, including eligibility criteria by issuer, maximum exposure by risk type, eligible operations, treatment of derivatives, and eligible intermediaries.

The benchmark portfolio specified in the investment guidelines is made up of a short-term portfolio (30%) and a long-term portfolio (70%). The bank-risk benchmark for the short-term portion is made up of London interbank bid (Libid) rates obtained from a reference deposit portfolio with a residual maturity of between 1 and 180 days. The short-term portion corresponding to sovereign risk is benchmarked against a portfolio of government bond portfolio, with an average maturity of approximately three months. The indices used as reference benchmarks for the short-term portfolios are provided by Merrill Lynch.

The nominal long-term portion and the long-term portion composed of Treasury Inflation-Protected Securities (TIPS) are benchmarked against the total return index provided by Barclays Capital.

D. Structure of fiscal portfolios

At the request of the Ministry of Finance, the Bank delivered ESSF resources of US$9.278 billion in 2009. Of the total resources withdrawn, US$836.71 million were used for the annual contribution to the PRF.

As of 31 December, the market value of the resources managed by the Bank was US$14.706 billion. Of this amount, US$11.285 billion corresponded to the ESSF and US$3.421 billion to the PRF. This meant an increase in the market value of the net resources delivered for management of US$2.789 billion (table 1).

Table 1

Summary of ESSF and PRF as of 31 December 2009

(US$ million)

Sector	Market value		Total value	% of market value
	PRF	ESSF		
Agency	0.0	0.0	0.0	0.0
USD	0.0	0.0	0.0	
Banking risk	731.0	2,370.8	3,101.9	21.1
USD	336.5	1,245.5	1,581.9	
EUR	292.6	787.9	1,080.5	
JPY	102.0	337.4	439.5	
Sovereign risk	2,689.8	8,914.0	11,603.7	78.9
USD	1,371.9	4,388.9	5,760.8	
EUR	1,083.3	3,750.3	4,833.6	
JPY	234.6	774.8	1,009.3	
Total	3,420.8	11,284.8	14,705.6	100.0

Currency	Market value		Total value	% of market value
	PRF	ESSF		
USD	1,708.4	5,634.4	7,342.7	49.9
EUR	1,375.9	4,538.2	5,914.1	40.2
JPY	336.6	1,112.2	1,448.8	9.9
Total	3,420.8	11,284.8	14,705.6	100.0

Currency	Duration (years)	
	PRF	ESSF
USD	2.6	2.5
EUR	2.3	2.3
JPY	2.7	2.7
Total	2.5	2.5

Source: J.P. Morgan N.A.

E. Reports

Executive Decree 1383 and the performance guidelines define the content and frequency of the reports that the Bank must deliver to the Minister of Finance and the General Treasurer of Chile. As a general rule, the custodian bank, in its middle office role, must provide the relevant information that is needed to prepare reports, and the fiscal agent must report daily, monthly, quarterly, and annually on the status of the resources under administration.

Daily reports deliver information on the market value and duration of each portfolio, under items sorted by currency and risk type. Monthly, quarterly, and annual reports contain more detailed information on the portfolios. These reports describe changes in financial markets, discuss compliance with investment caps, provide details on the changes in the market value of each fund, and report on the absolute returns and differentials obtained.

In addition to measuring the custodian bank's performance and compliance with the investment guidelines, the Central Bank monitors and assesses the information delivered by the custodian. To this end, it uses its own calculation methods based on systematically recorded information.

The fiscal agent must also report annually to the Minister of Finance and the General Treasurer on the custodian bank's performance.

F. Management results

In 2009, the ESSF and PRF resources obtained positive absolute returns. The ESSF resources being administered by the Bank generated an average return of 2.48% measured in U.S. dollars[2]/. This implied a differential return of 16 basis points below the benchmark performance, both measured using the time weighted rate of return (TWRR)[3]/, Using the same methodology, the PRF resources generated an absolute return of 2.28% measured in U.S. dollars)[4]/. This meant a differential return of 35 basis points below the benchmark performance (table 2).

[2]/ This return in consistent with a 2.17% IRR measured in U.S. dollars (J.P. Morgan N.A.).

[3]/ The TWRR methodology yields a rate of return that has been adjusted for the impact of possible contributions (capital contributions or contributions generated through the securities lending program) and withdrawals (capital withdrawals or payments to third parties), which allows the analyst to isolate the effect of exogenous changes in the size of the portfolio on the funds' performance. This methodology also supports the comparison of the portfolio administrator's performance with a reference benchmark.

[4]/ This return in consistent with a 2.65% IRR measured in U.S. dollars (J.P. Morgan N.A).

Table 2
Time-Weighted Rate of Return (TWRR) 2009
(percent)

	Basket (*)	Dollar
ESSF	1.18	2.48
PRF	0.99	2.28

(*) Reference basket of currencies for the portfolio (50% USD, 40% EUR, and 10% JPY)

Source: JP Morgan N.A.

G. Compensation of the fiscal agent

According to the stipulations of Article 9°, letter (a), of Executive Decree 1383, the fiscal agent is entitled to charge an annual fee for the direct costs and expenses incurred in carrying out its assigned functions. For 2009, Ministry of Finance set the annual fee of US$960,000. This amount is consistent with the Central Bank's Basic Constitutional Act, which stipulates that the Bank shall not finance the Treasury. This fee corresponds to 0.51 basis point of the total resources managed in the year.

Table 3

Financial institutions with outstanding deposits as of 31 December 2009

Institutions
ABN Amro Bank NV
Allied Irish Banks
Banco Santander Central Hispano SA
Bank of Ireland
Bank of Scotland PLC
Barclays Bank PLC
Bayerische Hypo-Und Vereinsbank AG
Bayerische Landesbank
Caja de Ahorros y Monte de Piedad de Madrid
Dexia Bank Belgium SA
Erste Group Bank, AG
Fortis Bank NV/SA
Ing Bank NV
Kbc Bank NV
Landesbank Baden-Württemberg
Lloyds TSB Bank PLC
Mizuho Corporate Bank Ltd.
Raiffeisen Zentralbank Österreich Ag (RZB)
Société Générale
The Royal Bank of Scotland PLC

Source: JP Morgan N.A.

Table 4
Intermediaries used in 2009

Intermediaries
Bank of America Sec. LLC, USA
Barclays Capital Inc., USA
Barclays Capital, U.Kingdom
BNP Paribas SA, N.York
BNP Paribas SA, Paris
BNP Paribas Securities Corp., USA
Calyon Corporate And Investment Bank (I) New York.
Cantor Fitzgerald & Co., USA
Citigroup Global Markets Inc., USA
Citigroup Global Mk. Ltd., U.Kingdom
Commerzbank A.G., Frankfurt
Credit Suisse Securities (USA) LLC, USA
Credit Suisse Securities, U.Kingdom
Deutsche Bank AG (London Branch), U.Kingdom
Deutsche Bank AG, Frankfurt
Deutsche Bank Securities Inc., USA
Dresdner Bank AG, Frankfurt
Goldman, Sachs & Co., USA
HSBC Bank PLC, London
HSBC Securities (USA) Inc., USA
J.P. Morgan Sec. Ltd., U.Kingdom
J.P.Morgan Securities, Inc., USA
Merrill Lynch Gov. Sec. Inc., USA
Merrill Lynch Intl., U.Kingdom
Mizuho Securities USA Inc., USA
Morgan Stanley & Co. Inc., USA
Morgan Stanley & Co. Intl. PLC, U.Kingdom
RBC Capital Markets N. AND.
RBS Securities Inc., USA
Société Générale, France
The Royal Bank of Scotland PLC, London
UBS Limited, U.Kingdom
UBS Securities LLC, USA
Unicredit Bank AG, Munich

Source: Central Bank of Chile.

Organizational Chart

General Counsel

- Normative Legal Services Chief Counsel
- Corporate Legal Services Chief Counsel

Statistics Division

- Macroeconomic Statistics Management
- Statistical Information Management

Research Division

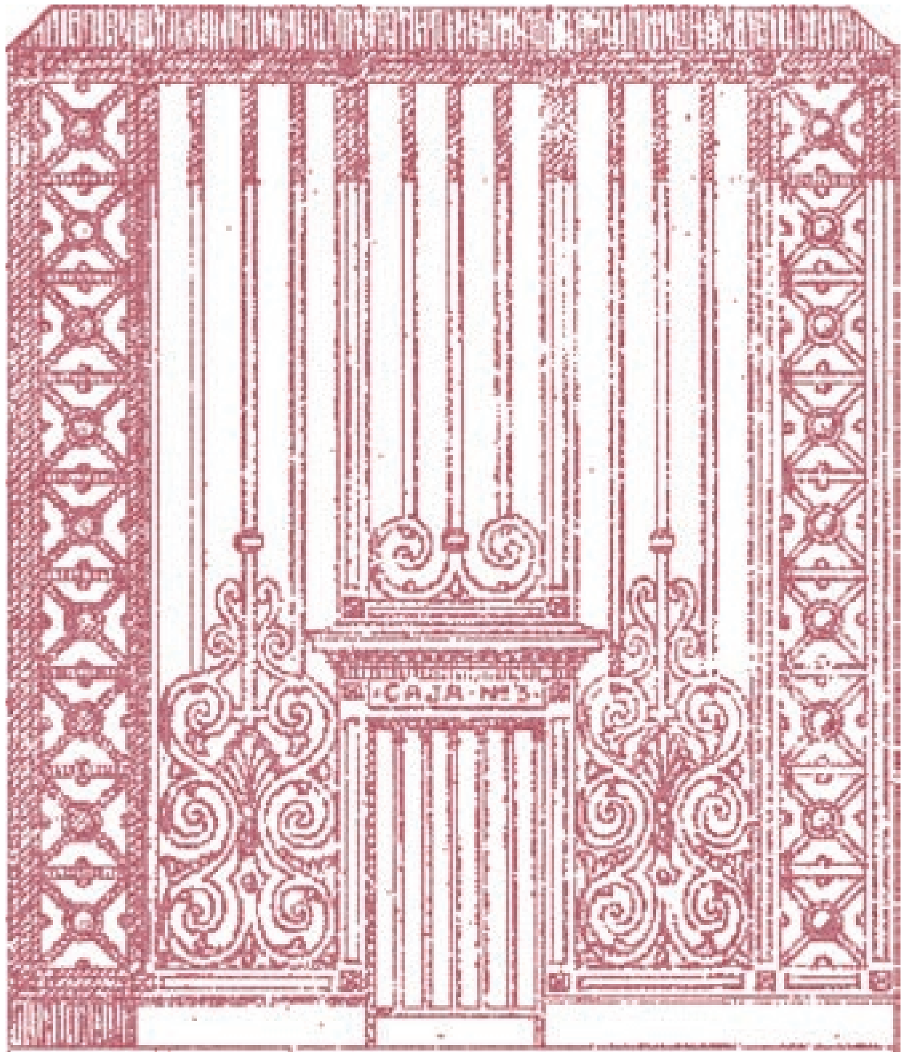
- International Analysis Management
- Macroeconomic Analysis Management
- Monetary Policy Strategy and Communication Management
- Economic Research Management

Corporate Management and Services Division

- Strategic and Risk Management
- Security Management
- Logistical Services Management

BOARD

- General Manager
  - Financial Operations Division
    - International Investment Management
    - Domestic Financial Markets Management
  - Financial Policy Division
    - Financial Stability Management
    - Financial Regulation and Infrastructure Management
  - Communications Advisory Management
  - Institutional Affairs Management
  - Informatics Management
  - Human Resources Management
  - Treasury Management
- General Auditor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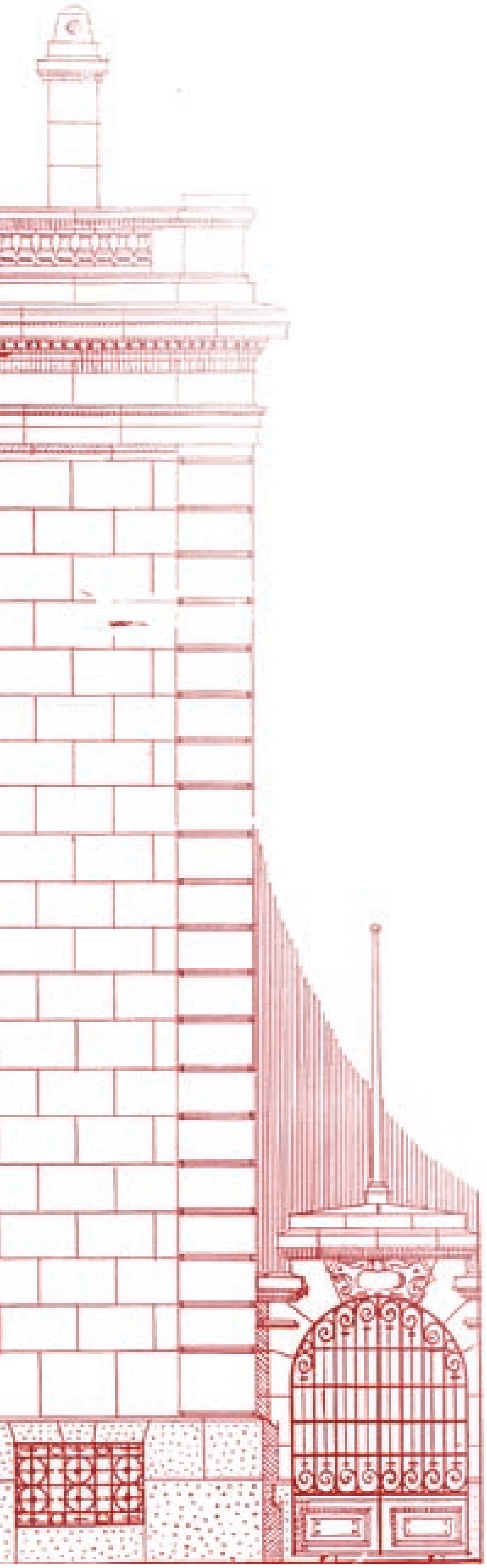
III. Financial Statements of Central Bank of Chile



Balance Sheets as of 31 December 2009 and 2008

(Ch$ million)

ASSETS	NOTE	31.DEC.09	31.DEC.08	01.JAN.08
Foreign assets		12,975,910.6	14,575,229.6	9,069,916.3
Reserve assets	11 y 12	12,849,409.6	14,422,065.4	8,937,779.3
Monetary gold		4,446.9	4,295.5	3,472.1
Special drawing rights (SDR)		579,052.2	35,134.6	28,177.1
Reserve position in the IMF		144,891.5	103,214.7	46,633.7
Correspondent banks abroad		9,656.5	24,669.2	3,880.4
Investments in foreign currency:		12,068,153.6	14,203,468.1	8,819,690.1
Instruments at fair value with effect on net income		7,055,273.7	10,801,377.6	4,609,078.8
Available-for-sale securities		1,871,316.7	-	424,874.6
Held-to-maturity securities		3,141,563.2	3,402,090.5	3,785,736.7
Reciprocal loan agreements		43,014.6	51,002.3	35,670.1
Other assets		194.3	281.0	255.8
Other foreign assets		126,501.0	153,164.2	132,137.0
Shares of and contributions to the IDB		93,234.6	113,156.3	97,119.0
Shares of Bank for International Settlements (BIS)		33,266.4	40,007.9	35,018.0
Domestic assets		5,209,790.4	2,807,140.6	2,567,082.9
Domestic loans	13	3,359,585.3	936,235.0	606,439.2
Loans to banks and financial institutions		3,359,585.3	936,235.0	606,439.2
Operations Under Specific Legal Regulation	14	1,850,205.1	1,870,905.6	1,960,643.7
General Treasury transfers (Laws 18,267 and 18,401)		238,413.4	238,833.5	311,088.5
Loan for subordinated liabilities of financial institutions (Laws 18,041 and 19,396)		914,374.2	967,451.8	1,018,084.4
Sinap Liquidation Law 18,900		696,385.9	663,579.5	630,434.1
Securities receivable Corfo Law 18,401		1,031.6	1,040.8	1,036.7
Other assets		426,386.5	645,000.3	47,958.4
Premises and equipment	15	44,404.9	44,736.3	43,725.8
Other securities		4,598.1	5,579.1	4,149.4
Temporary assets		93.1	194.6	83.2
Repurchase agreements		377,290.4	594,490.3	-
Total Assets		18,612,087.5	18,027,370.5	11,684,957.6

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

Balance Sheets as of 31 December 2009 and 2008

(Ch$ million)

(Continued)

LIABILITIES	NOTE	31.DEC.09	31.DEC.08	01.JAN.08
Foreign liabilities	16	721,461.3	212,439.4	190,729.4
Reciprocal loan agreements		1,865.9	7,273.1	6,716.9
Accounts with international organizations		73,138.8	88,953.3	81,883.9
Special drawing rights (SDR) allocations		646,456.6	116,213.0	102,128.6
Domestic liabilities		19,463,646.1	16,376,075.4	13,778,113.0
Monetary base	17	4,582,203.6	4,132,501.7	3,906,998.5
Banknotes and coins in circulation		4,189,634.9	3,600,978.4	3,527,893.2
Deposits from financial institutions (in Chilean pesos)		392,568.7	531,523.3	347,186.7
Deposits for technical reserves		-	-	31,918.6
Deposits and obligations	18	3,302,270.7	1,860,080.0	1,595,270.6
Deposits and obligations with the General Treasury		302,719.7	132,399.7	219,551.5
Other deposits and obligations		2,999,551.0	1,727,680.3	1,375,719.1
Documents issued by Central Bank of Chile	19	11,579,171.8	10,383,493.7	8,275,843.9
Central Bank bonds in UF (BCU)		4,782,123.6	5,411,652.7	2,837,797.1
Central Bank discountable promissory notes (PDBC)		3,603,398.4	1,098,702.3	901,001.3
Central Bank bonds in Chilean pesos (BCP)		1,939,862.4	2,212,432.6	2,144,900.5
Indexed-promissory notes payable in coupons (PRC)		773,201.1	1,133,766.1	1,608,306.0
Optional indexed coupons (CERO) in UF		480,565.2	522,061.5	572,962.0
Central Bank bonds in U.S. dollars (BCD)		-	2,803.1	210,854.6
Central Bank indexed-promissory notes (PRBC)		-	2,054.7	-
Other		21.1	20.7	22.4
Other liabilities	20	387,193.1	635,421.6	17,331.5
Provisions		13,737.7	12,966.9	16,272.8
Other securities		451.7	284.9	1,058.7
Repurchase agreements		373,003.7	622,169.8	-
Net equity	21	(1,960,213.0)	803,434.1	(2,301,216.3)
Capital		803,434.1	(1,875,748.0)	(2,000,779.2)
Valuation accounts		3,126.8	-	84.6
Surplus (deficit) for the year		(2,766,773.9)	2,679,182.1	(300,521.7)
Total Liabilities and Equity		18,612,087.5	18,027,370.5	11,684,957.6

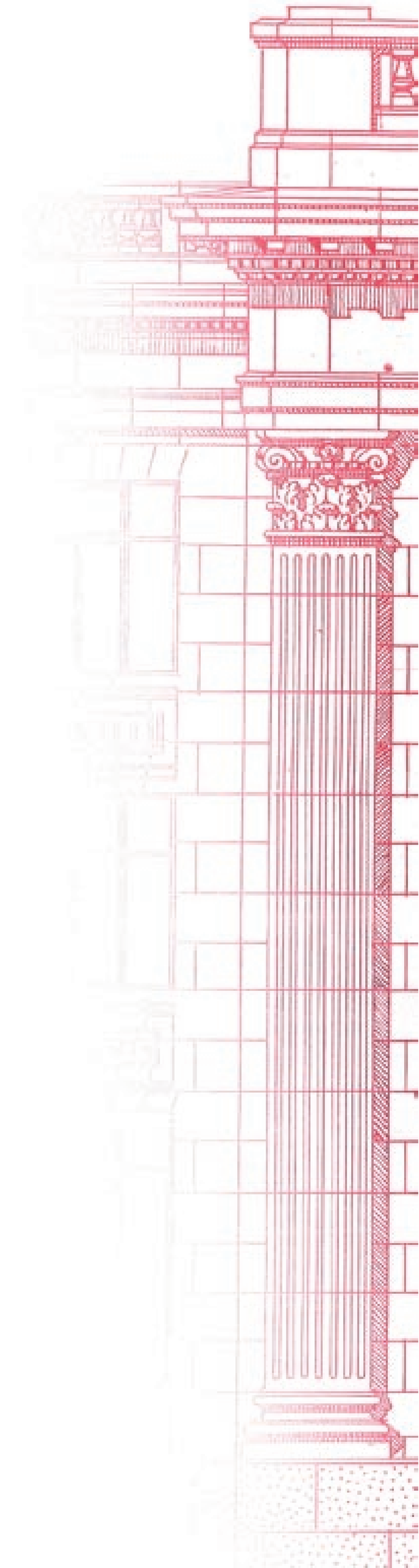
Accompanying notes from 1 to 29 are an integral part of these financial statements.

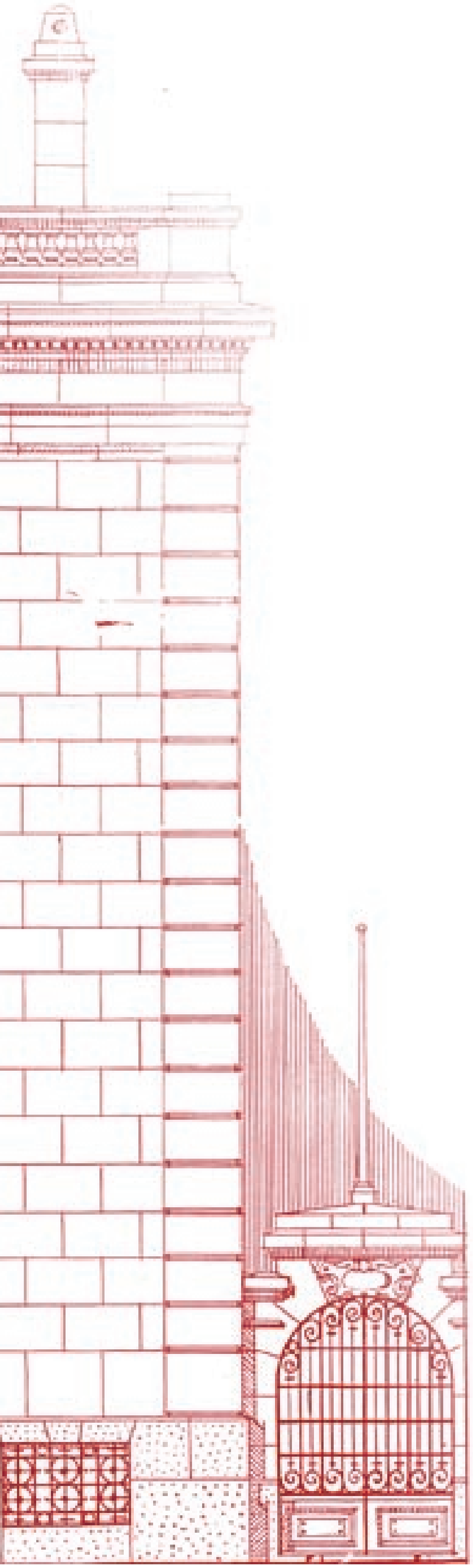
Statements of Income years ended 31 December 2009 and 2008

(Ch$ million)

	NOTE	31 DEC. 09	31 DEC. 08
Net income for international reserves	7	231,735.7	711,448.4
Income		532,375.0	854,015.6
Interest income		212,335.2	334,176.3
Gain on sale of instruments at fair value with effect on net income		314,160.6	312,476.6
Gain on sale of available-for-sale securities		4,437.9	5,325.3
Adjustments at fair value		-	198,955.6
Other		1,441.3	3,081.8
Expenses		(300,639.3)	(142,567.2)
Interest expenses		(38.3)	(25.7)
Loss on sale of instruments at fair value with effect on net income		(181,552.0)	(127,454.3)
Loss on sale of available-for-sale securities		-	(12.2)
Adjustments at fair value		(119,049.0)	(15,075.0)
Income net of other foreign operations		10,656.2	(27,893.4)
Income		12,156.9	1,750.4
Other income		12,156.9	1,750.4
Expenses		(1,500.7)	(29,643.8)
Interest expenses		(899.9)	(3,167.4)
Other expenses		(600.8)	(26,476.4)
Net income for domestic operations	8	(184,947.0)	(785,790.0)
Income		86,240.0	322,145.3
Interest income and adjustments		51,373.9	314,541.5
Other income		34,866.1	7,603.8
Expenses		(271,187.0)	(1,107,935.3)
Interest expenses and adjustments		(268,364.9)	(1,104,946.0)
Other expenses		(2,822.1)	(2,989.3)
Net (loss) gain on foreign exchange transactions	9	(2,776,156.6)	2,666,120.5
Gain on foreign exchange transactions		71,532.7	2,783,775.1
Loss on foreign exchange transactions		(2,847,689.3)	(117,654.6)
Issuance and distribution costs	10	(28,478.8)	(30,178.5)
Banknotes		(10,019.5)	(10,308.0)
Coins		(17,902.2)	(19,627.1)
Distribution		(557.1)	(243.4)

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





Statements of Income years ended 31 December 2009 and 2008

(Ch$ million)

(Continued)

	NOTE	31 DEC. 09	31 DEC. 08
Personnel and administrative expenses		(35.311,7)	(37.614,3)
Personnel expenses		(22.570,3)	(22.398,5)
Administrative expenses		(10.651,2)	(10.776,9)
Provision for post-employment benefits		(2.090,2)	(4.438,9)
Other expenses		(2.628,2)	(3.330,2)
Depreciation and amortization		(2.067,5)	(2.846,4)
Taxes and contributions		(560,7)	(483,8)
Operating income		(2.785.130,4)	2.492.762,5
Price-level adjustment	2 (e)	18.356,5	186.419,6
(Deficit) surplus for the year		(2.766.773,9)	2.679.182,1

Notes to the Financial Statements 31 December 2009 and 2008

Note 1

Description of business

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

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

In order to meet its objectives, 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.

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

Note 2

Summary of Significant Accounting Policies

(a) Basis of Preparation of the Financial Statements

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

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

a.ii Accounting treatment of premises and equipment, see note 2(l). Measurement at acquisition cost plus price-level adjustment based on the variation of the CPI less accumulated depreciation. Depreciation is calculated using the straight-line method over the assets' estimated useful lives up to the residual value of the goods. The useful life will be reviewed on an annual basis since 2010.

a.iii Application of comprehensive price-level adjustment. Pursuant to note 2(e), price-level adjustment has been applied based on the variation of the CPI to the equity and premises and equipment during 2009 and 2008.

a.iv Provisions, assets and contingent liabilities. The Board decided to adopt the criterion of the international standards, however, it will be able to use the power granted by the Bank's Basic Constitutional Act to record global or individual provisions as per the risk that may be estimated for some investing or credit operations. During 2009 and 2008, no provisions were recorded in this regard.

a.v The statement of changes in equity is not presented. Instead, note 21 Capital and reserves is included; containing the capital movements during 2009 and 2008.

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

a.vii The statements of comprehensive income are not presented, instead, the statements of income for 2009 and 2008 are presented.

The presentation of these financial statements is framed within an economic and accounting framework that allows reflecting the financial 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 creditor position. For this reason, the economic concepts of international reserves and currency issuance are shown under the captions reserve assets and monetary base liabilities, respectively.

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

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

For comparative purposes, the 2008 figures have been price-level adjusted based on changes in Chilean consumer price index for the period from 30 November 2008 to 30 November 2009, which was -2.3%.

Note 6 includes a reconciliation between the Bank's balance sheet results as of 1 January 2008 and as of 31 December 2008, the Bank's financial statements for 2008 and the corresponding balances of that year ended in conformity with the new criteria.

(b) Functional and presentation currency

As the Bank's main objective is to look after the stability of the Chilean currency, which implies that open-market operations play a significant role in the development of the monetary policy, being its main characteristic the issuance of banknotes and coins, the Chilean peso has been defined as the financial statement's functional and presentation currency. The figures of such statements are stated in millions of Chilean pesos, while the figures of these notes are stated in millions of Chilean pesos or U.S. dollars, as applicable.

(c) Transactions in foreign currency and foreign currency translation

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

c.i U.S. dollars are translated into Chilean pesos at the "observed U.S. dollar" exchange rate pursuant to Section 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*).

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

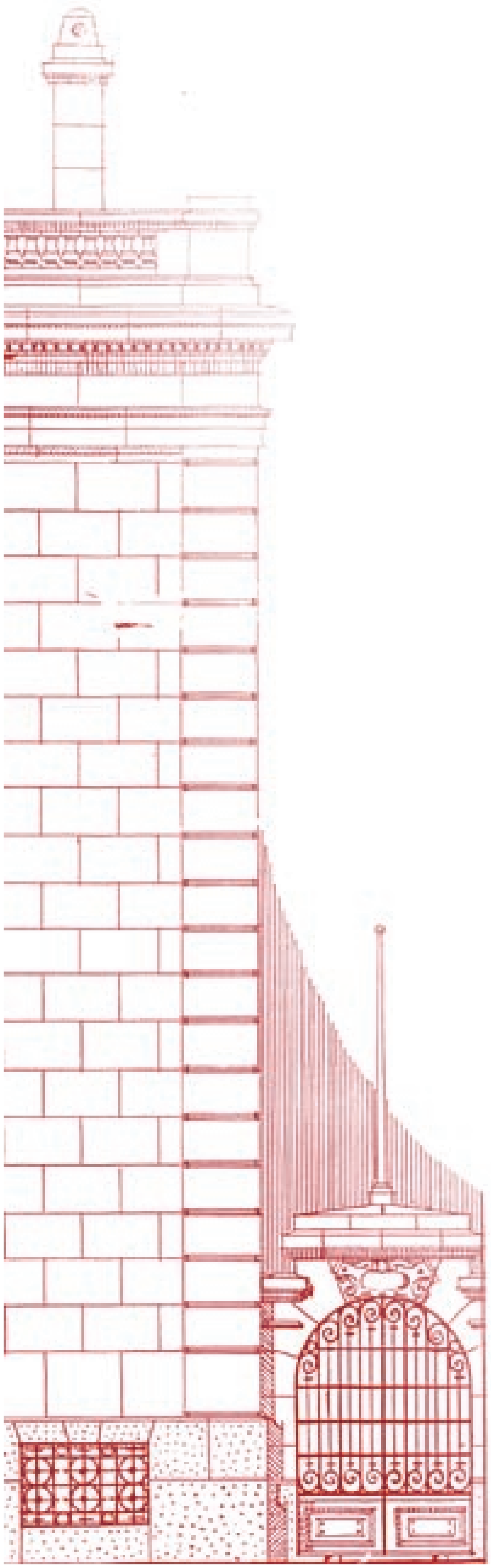
c.iii Translation of foreign currencies other than U.S. dollars is made at the exchange rates published daily by Central Bank of Chile in the *Official Gazette*, which are always based upon the "observed U.S. dollar" rate.

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

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

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

	2009 Ch$	2008 Ch$
United States dollar (observed exchange rate)	506.43	629.11
Pound Sterling	806.03	913.74
Euro	727.21	889.33
Special Drawing Rights (SDR)	791.04	973.74



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

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

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

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

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

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

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

(e) Price-level adjustment

Section 5 of the Bank's Basic Constitutional Act, establishes the paid-in capital of the Bank and refers to its increase through the capitalization of reserves, in addition to its adjustment for price-level adjustment. In conformity with such legal provision, the Board decided to adjust equity and premises and equipment based on the variation of CPI in 2009, which reached -2.3% (8.9% in 2008). Notwithstanding the above, the Board decided for 2010, upon the approval of the Superintendence of Banks and Financial Institutions, and the following years to cease the application of price-level adjustment in order to adapt the Bank's financial statements to IFRS, with the condition to protect the application in relation to its equity, from the specific legal regime governing the Bank as a public law entity, as well as regarding the payment of paid-in capital and the distribution of the annual surplus to the General Treasury covered by Sections 5, 75, 77, and transitory Section 2 of the abovementioned legislation.

Revenues and expenses in local currency, except for depreciation and price-level adjustment, have not been adjusted. The application of this adjustment resulted in a net credit to net income of Ch$18,356.5 million in 2009 (Ch$186,419.6 million in 2008).

The effect of variations in the exchange rates for assets and liabilities in foreign currencies and indexation on loans and liabilities is included within the Operating income, separate from price-level adjustment.

(f) Interest income and expenses, adjustments and commissions

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

(g) International reserve measurement criteria

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

Investments in foreign financial instruments are measured and classified in accordance with IFRS, in the following categories and composition:

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

The considerations held to classify the documents already mentioned in this level focus on their high liquidity. They are recorded at fair value and their changes are recognized directly in earnings. The methods used to measure fair values are described in note 3.

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

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

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

g.iv Other financial assets

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

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

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

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

The accounting treatment of the previously mentioned shares and contributions conformity with Article 3 of DL 2943 dated 1979, published in the *Official Gazette* on 16 November of the same year, according to which such shares and contributions as well as the documents evidencing them, must be recorded for the 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 "Reserve position in the IMF" in "Foreign reserve assets".

(i) Bank for International Settlements (BIS) Shares

During 2003, Board Resolutions 1073-04 dated 10 July 2003 and 1084-02 dated 16 September 2003, authorized the incorporation of Central Bank of Chile as a member of the Bank for International Settlements (BIS). On 26 September 2003, in accordance with these resolutions, Central Bank of Chile acquired 3,000 shares of the BIS for SDR42,054 million which are valued at acquisition cost and are shown under "Other Foreign Assets". During 2009 dividends were received in the amount of US$1.2 million (US$1.3 million in 2008).

(j) Domestic loans

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

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

(k) Operations under specific legal regulation

Correspond to non-derivative financial assets subject to specific regulatory and legal restrictions such as the loans related to the *Sinap* Liquidation governed by Law 18,900 and Receivables from *Corfo* in conformity with Law 18,401 of General Treasury Transfer covered in Article 13 of such law, they are classified as held-to-maturity securities and are measured at amortized cost pursuant to the effective interest rate method, and are not affected by transaction costs.

(l) Premises and equipment

Premises and equipment are measured at acquisition cost plus price-level adjustment, based on the variation of CPI, net of accumulated depreciation. The goods that have met their useful life are stated at their residual value considering market reference prices.

Depreciation for 2009 is recognized as expense and has been calculated considering the following estimated useful lives:

	Years
Buildings	100
Furniture and office equipment	10
Computer equipment	5
Vehicles	3

(m) Monetary base

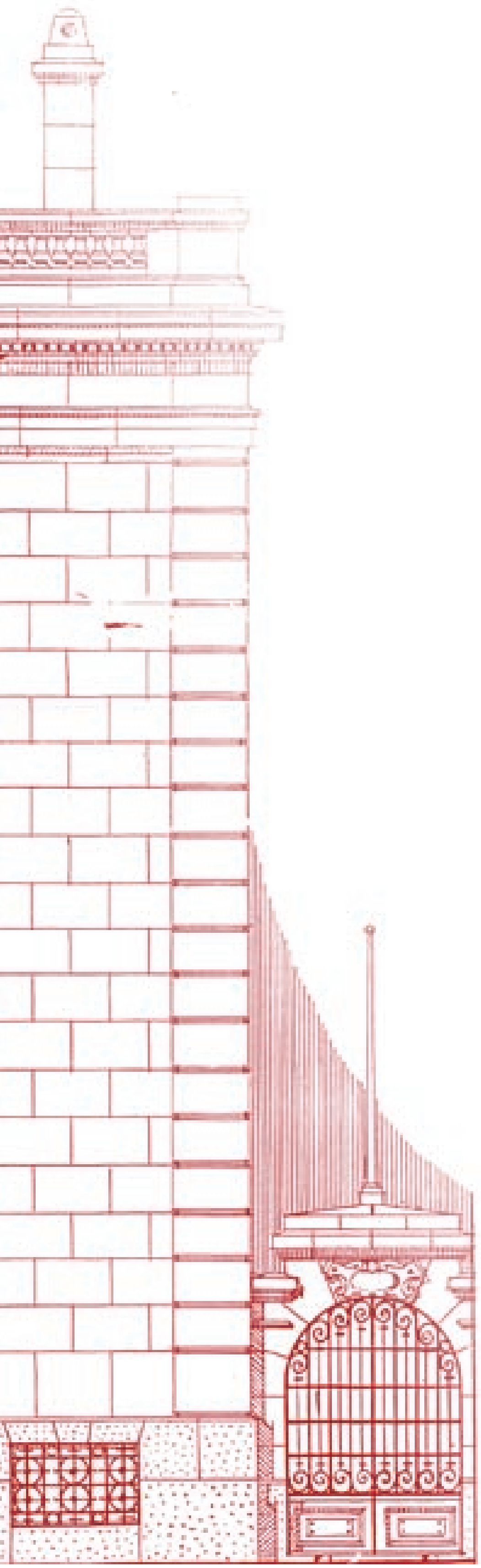
Mostly include liabilities of Central Bank of Chile that are part of money, or otherwise contribute to the formation of monetary aggregates including freely-circulating banknotes and coins, plus deposits made by the financial system in Central Bank of Chile and the banknotes and coins held on cash by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

(n) Deposits and obligations

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

(o) Documents issued by Central Bank of Chile.

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



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

(p) Value impairment of financial assets at amortized costs

Regardless of the classification or reclassification of the instruments, in the event it is determined that the recoverable value (fair value) is lower than the earning value recorded in accounting, their impairment shall be recognized with a debit to earning. Pursuant to this policy, during 2009 and 2008, the Bank has not recognized any impairment of these financial assets.

(q) Employee benefits

q.i Post-employment benefits
Post-employment benefits are employee benefits which are payable after the completion of employment in the Bank, as stipulated in: collective contract between Central Bank of Chile and the Labor Union of Central Bank of Chile, signed on
29 June 2007; for special resolutions approved by the Board and for special benefits delivered to retired employees of the Former Association of Retired Employees and Beneficiaries of Pensions of Public Officials of Central Bank of Chile. These benefits include: severance indemnities, special indemnity Resolution 1414-01 dated 5 June 2008 special benefits to retired employees of the Former Association of Retired Employees and Beneficiaries of Pensions of Public Officials of Central Bank of Chile.
This recognition is made through an actuarial calculation that considers in both cases demographic and financial variables. It is measured at the current value of all future payments using an annual discount effective interest rate, affected by the expected employment duration and expected lives of beneficiaries, in conformity with note 2(t).

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

(r) Provisions and contingent liabilities

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

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

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

(s) Financial derivative instruments

Financial derivative contracts corresponding to forward exchange contracts and currency swaps are initially recognized in the balance sheet at cost and subsequently measured at fair value. Derivative contracts are reported as an asset when their fair value is positive and as a liability when is negative and are included in the captions "Other securities" and "Other deposits and obligations", respectively, in the case of forward exchange contracts and in the case of currency swaps are included in "Purchase of U.S. dollars with agreements to resale" and "Creditors for the purchase of U.S. dollars with agreements to repurchase", respectively.

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

(t) Use of estimates and judgements

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

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

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

- Note 2 (l) Premises and equipment, determination of useful life, depreciation and residual value

- Note 3 Determination of the fair value of international reserves

- Note 20(a) Provision for post-employment benefits, which estimate has been performed based on the actuarial calculation considering the following assumptions:

• Mortality rate: Mortality charts M-95 were used to determine survival probabilities in the calculation of severance indemnity payments, and mortality charts RV-2004 for the calculation of survival probabilities of post-employment benefits related to the healthcare plan of the retirement plan and the benefits of the Former Association of Retired Employees and Beneficiaries of Pensions of Public Officials of Central Bank of Chile.

• Labor turnover: Chart ESA-77 was used to calculate the probabilities of permanence of the Bank's officials in the determination of the provision for severance indemnity payments.

• Discount rate: The annual average of the nominal rate of BCP securities at 10 years was used. For 2009, the discount rate was 6.35% (7.56% in 2008).

• Salary growth rate: The annual average of the salary growth rate was calculated in a period of five years. For 2009 and 2008, the growth rate was 4.76%.

Note 3

Methodology applied for the measurement of fair values

The methodology for the calculation of fair values is applied to financial instruments held as foreign investments, classified as securities at fair value with effect on net income or available-for-sale securities with value changes through equity.

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

I. Priced securities (source: Bloomberg)

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

Where:

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

On the other hand, the system calculates the gains and losses from investments on a daily basis considering the following formula:

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

Where:

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

II. Non-priced securities (reference rate)

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

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

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

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

Note 4
Segment reporting

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

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

Note 5
Financial instrument risks

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

(a) International reserves

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

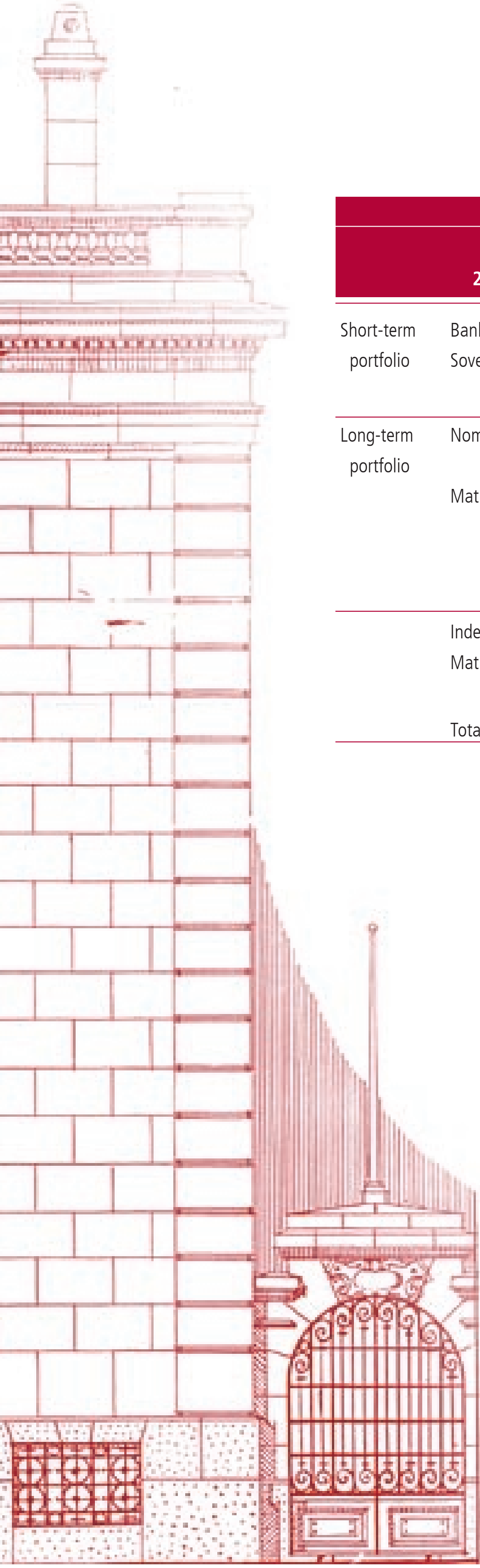
Consistently with the function of international reserves, as well as with its benefits and costs, the objective of its management aims to provide efficiently a secure access to international liquidity and look after the financial equity of the Bank. To achieve this, it acts in conformity with the institutional framework set out in Section 38 of its Basic Constitutional Act, where it is explicitly empowered to manage, maintain and dispose of its international reserves.

a.i Investment policy and referential structure

The investment policy of international reserves considers liquid financial assets meeting the legal requirements established for its administration. It is designed based on its impact on the earnings and risks of the Bank's financial balance sheet and on the characteristics of the potential foreign currency liquidity needs searching for the preservation of capital in case of possible market fluctuations.

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

The Investment Portfolio includes short- and long-term assets in foreign currency that are held to face unforeseen contingencies and long-term requirements. The referential structure of this portfolio considers 60% of U.S. dollars, 40% of euros, and an average maturity of 17 months.



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

Currency structure, period terms and maturity of the referential portfolio

2009			US$ Ownership (%)	US$ Maturity	€ Ownership (%)	€ Maturity	Total Ownership (%)	Total Maturity
Short-term portfolio	Banking		12.00	3.0	8.00	3.0		
	Sovereign, Agency. Supranational		24.00	3.5	16.00	4.8	60	3.7
			36.00	**3.3**	**24.00**	**4.2**		
Long-term portfolio	Nominal bonds							
		1 – 3 years	11.42	22.4	7.62	21.3		
	Maturity tiers	3 – 5 years	4.90	46.8	3.26	42.8		
		5 – 7 years	2.04	64.3	1.36	63.6		
		7 – 10 years	2.04	84.8	1.36	84.5		
			20.40	**38.7**	**13.60**	**37.0**		
	Indexed bonds						40	36.5
	Maturity tiers	1 – 10 years	3.60	28.6	2.40	26.4		
			3.60	28.6	2.40	26.4		
	Total portfolio		**60.00**	**16.9**	**40.00**	**16.7**	**100**	**16.8**

Benchmark – 2009 investment policy

Structure			Benchmark
Short-term portfolio	Banking Risk Sovereign, Agency. Supranational		Libid at 6 months average Merrill Lynch Government Bills Merrill Lynch (%)
Long-term portfolio	**Total Return**		
		1 – 3 years	56
	Maturity tiers	3 – 5 years	24
	for JP Morgan bonds	5 – 7 years	10
		7 – 10 years	10
	Total Return		
	Maturity tiers		
	Indexed bonds incepted		
	by Barclays Capital	1 – 10 years	

a.ii Risk policy and management

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

a.iii Management of liquidity risk

To reduce liquidity risk, a portfolio is managed which is comprised only by short-term deposits in international commercial banks, with different due dates and by fixed income securities traded in secondary markets of high liquidity and depth.

a.iv Management of market risk

Market risk implies possible losses due to variations in the price of investments. The investment policy limits the market risk arising from variations on interest rates and parities by establishing maturity and composition margins of currencies around referential parameters of the portfolios and through the diversification of currencies, securities and investment periods. Market risk is monitored through the daily measurement of the maturity and composition of currencies, and by the follow-up of VaR and Tracking Error. The international reserve management monthly report, prepared by the Department of Management and Risk Evaluation, includes the measurements of performance and risk in an absolute manner and as compared to a benchmark, and presents an evaluation of the implemented investment strategy.

a.v Management of credit risk

The policies on credit risk refer, on one hand, to the level of diversification allowed among the types of risk, and on the other, to the standards setting the transactions that can be performed by the Bank and the way to perform them. The current policy defines the securities, issuers and counterparties, among other eligible, over which international reserves can be invested.

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

The investment policy limits the exposures to credit risk of countries, counterparties and issuers, setting amounts and maximum investment maturities that rely on risk ratings reported by rating agencies Moody's, Standard & Poor's and Fitch, and of other criteria such as equity and debt, among others. Similar with market risk, the Department of Management and Risk Evaluation monitors the credit risk on a daily basis by measuring the exposures to different countries, counterparties and issuers and updating regularly risk ratings and other criteria that determine the limits and investment margins. The table below shows that the sovereign, supranational and agency risks are concentrated in risk rating category AAA, while the securities issued by bank institutions are concentrated in the AA- category.

Composition of international reserves as per credit risk (1) (2) (3)

(percent as of 31 December 2009)

Credit risk	Credit rating							
	AAA	AA+	AA	AA-	A+	A	BBB+(4)	Total
Agency	2.2	0.0	0.0	0.0	0.0	0.0	0.0	2.2
Banking	0.6	0.0	1.9	11.3	4.4	4.6	0.0	22.8
Sovereign	64.5	1.0	4.2	2.4	0.0	0.0	0.6	72.7
Supranational	2.3	0.0	0.0	0.0	0.0	0.0	0.0	2.3
Total	**69.6**	**1.0**	**6.1**	**13.7**	**4.4**	**4.6**	**0.6**	**100.0**

(1) Banking risk is related to the investment in bank financial instruments (deposits, arbitrations and future arbitrations, secured bonds from public institutions issued by German banks).
Sovereign risk consists of the investment in securities from sovereign states (deposits, bills, floating rate notes, nominal and indexed bonds).
Agency risk is related to the investment in securities from U.S. government agencies (bills, nominal bonds, securities secured with mortgages).
Supranational risk is related to the investment in multilateral official issuer securities (deposits, bills, floating rate notes and nominal bonds).
(2) Credit rating corresponds to the average of the ratings obtained from the agencies Fitch, Moody's and Standard and Poor's.
(3) Excludes investments in portfolios of external administrators and liquidity, gold possessions and positions in IMF.
(4) On 16 December 2009, the average classification of Greece went down from A- to BBB+, thus becoming a counterparty not eligible for investments by the international reserves of Central Bank of Chile as it has a credit rating below the one requested.

a.vi Settlement of operations

The Department of International Treasury is in charge of this process and corresponds to the stage at which the transactions of financial instruments are enhanced. It includes the instruction of transfer of funds from and to other checking accounts of Central Bank of Chile held abroad.

a.vii Compliance control

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

a.viii Custody of securities

The Bank operates with the custodians of the following institutions that qualify in accordance with the policies established by the Board of: JP Morgan Chase, State Street Bank and Bank for International Settlement (BIS).

a.ix External administrators

The Bank has three external administrators: Pimco, Wellington and BlackRock, in order to add value to the currency portfolio, obtain knowledge transfer and technology, and constitute an active comparison or benchmark for the Bank's portfolio. JP Morgan Chase was engaged to perform consistent control functions in the monitoring of the financial risk of the externalized portfolio and compliance control.

(b) Open-market operations

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

The injection of liquidity is generally performed through purchases of promissory notes with overnight agreements to resale (REPO). In the opposite situation, where there is excess of liquidity and the inter-bank rate falls below the objective rate, the transitory excess is withdrawn through the opening of the liquidity deposit window. Other instruments used by Central Bank of Chile correspond to the line of credit for liquidity in local currency for secured banks and to the line of credit for liquidity used in special situations.

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

b.i Management of credit risk

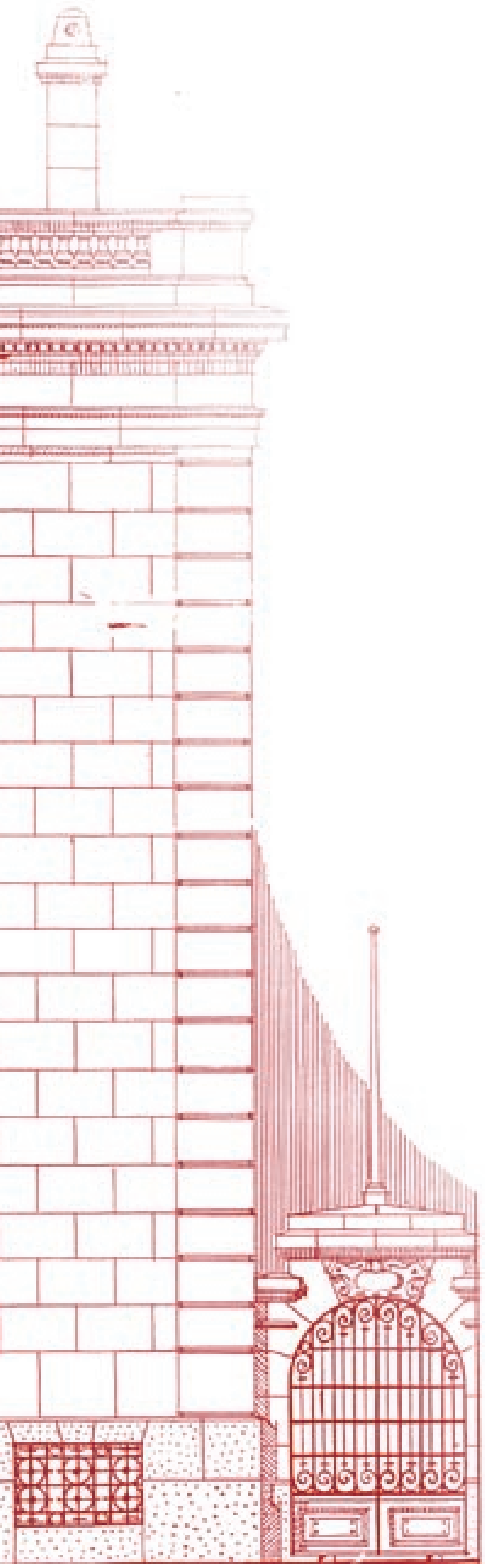
To reduce the risk of open-market operations performed by Central Bank of Chile with financial institutions there is a payment system called Gross Settlement System in Real Time (*Sistema de Liquidación Bruta en Tiempo Real - LBTR* in Spanish), which eliminates the risk of settlement, when processing the payments only to the extent that there are sufficient funds in the corresponding account, placing them in a waiting queue in case of any insufficiency of funds. Additionally, open-market operations are performed under the principles of delivery versus payment (DVP), eliminating the main risk. When financial institutions do not have sufficient funds, Central Bank of Chile permanently offers an inter-day liquidity facility, through which banks can apply for inter-day credits without interests in exchange of the delivery of collaterals, such as debt securities issued by Central Bank of Chile, letters of credit and time deposits, which can be converted into a permanent liquidity option that bears interests.

b.ii Management of operational risk

The management of operational risk is a key activity in the Bank which is controlled through the identification of operational risk scenarios and their impact on resources and support for each activity seen as critical, including the definition of recovery activities. Additionally, there are contingency plans to provide operational continuity to the services that have an impact on the *LBTR* and *Soma* systems, which are tested on a regular basis.

Note 6
Changes in accounting policies

As stated in the Bank's Basic Constitutional Act, title VI, the Board shall, with a prior favorable report from the Superintendence of Banks and Financial Institutions, issue the regulations containing the requirements and general conditions to which the financial statements of the Bank shall conform, to be prepared for periods of one year ending on 31 December of each year. Based on the above, the Bank's Board, in accordance with Resolution 1456-01 dated 15 January 2009, approved new



policies for the presentation and preparation of the Bank's financial statements, which also have been approved by the Superintendence of Banks and Financial Institutions.

These criteria consider the adoption of IFRS during 2009, in all matters in which the application of these international accounting standards do not affect specific provisions or the compliance with their functions. Should there be any disagreement; the standards issued by the Bank's Board shall prevail.

(a) Balance Sheet: reconciliation as of 1 January 2008 – assets, liabilities and net equity

The following is an explanation of how the transition from the previous accounting principles to the ones mentioned in the policies of presentation and preparation of the Bank's financial statements already mentioned in note 2(a), has affected the main captions of the Bank's financial statements.

1. Effects on equity as of 1 January 2008

Central Bank of Chile–Balance Sheet as of 1 January 2008

(Ch$ million as of 1 January 2008)

Assets	Former GAAP balances as of 1. Jan. 2008	IFRS application adjustments	New accounting balances as of 1. Jan. 2008
Foreign assets	**8,508,562.5**	**16,171.5**	**8,524,734.0**
Reserve assets	8,384,368.1	16,171.5	8,400,539.6
Investments in foreign currency			
Instruments at fair value with effect on net income	4,316,515.4	15,516.9	4,332,032.3
Available-for-sale securities	399,256.5	79.4	399,335.9
Held-to-maturity securities	3,558,180.4	-	3,558,180.4
Other reserve assets	107,727.6	-	107,727.6
Monetary gold	2,688.2	575.2	3,263.4
Other foreign assets	124,194.4	-	124,194.4
Domestic assets	**2,412,778.4**	**-**	**2,412,778.4**
Domestic loan	569,986.8	-	569,986.8
Operations under specific legal regulation	1,842,791.6	-	1,842,791.6
Other asset accounts	**19,088.6**	**25,987.0**	**45,075.6**
Premises and equipment	15,223.1	25,874.3	41,097.4
Other assets	3,865.5	112.7	3,978.2
Total assets	**10,940,429.5**	**42,158.5**	**10,982,588.0**

Central Bank of Chile–Balance Sheet as of 1 January 2008

(Ch$ million as of 1 January 2008)

Liabilities	Former GAAP balances as of 1. Jan. 2008	IFRS application adjustments	New accounting balances as of 1. Jan. 2008
Foreign liabilities	**179,264.8**	**-**	**179,264.8**
Domestic liabilities	**12,929,221.8**	**20,704.6**	**12,949,926.4**
Monetary base	3,672,153.3	-	3,672,153.3
Deposits and obligations	1,499,301.3	79.4	1,499,380.7
Instruments issued	7,757,767.2	20,625.2	7,778,392.4
by Central Bank of Chile	2,653,.924.2	13,296.1	2,667,220.3
BCCh bonds in UF (BCU)	2,004,741.9	11,231.1	2,015,973.0
Other	3,099,101.1	(3,902.0)	3,095,199.1
Other liability accounts	**8,769.5**	**7,520.2**	**16,289.7**
Provisions	7,887.3	7,407.3	15,294.6
Other securities	882.2	112.9	995.1
Capital and reserves	**(2,176,826.6)**	**13,933.7**	**(2,162,892.9)**
Capital	(1,894,368.8)	-	(1,894,368.8)
Reserves for equity effect for change of standards	-	13,854.2	13,854.2
Valuation accounts	-	79.5	79.5
(Deficit)	(282,457.8)	-	(282,457.8)
Total liabilities	**10,940,429.5**	**42,158.5**	**10,982,588.0**

(b) Notes to the reconciliation of net equity as of 1 January 2008

Until 2007, the valuation of investments considered the criterion of the lower of cost or market, therefore, in the opening balance sheet as of 1 January 2008 the effects on equity for the application of new accounting criteria are presented, resulting in a higher value of international investments of Ch$15,596.3 million for the adjustment at positive market value, Ch$15,516.9 million of securities at fair value with effect on net income and Ch$79.4 million from available-for-sale securities.

On the other hand, note 2(o) states that the documents issued by Central Bank of Chile are classified as "Held-to-maturity securities", at amortized cost using the effective interest rate method and as "Instruments at fair value with effect on net income". Until 2007, these instruments were recorded at their nominal value and their premium or discount granted in each transaction is reflected in transitory asset and liability accounts, and were amortized straight-line over the term of the document. The change from nominal to effective rate provoked negative effects on equity as of 1 January 2008, amounting to Ch$20,625.2 million.

Due to the application of the new criteria, other changes that also affect equity as of 1 January 2008 are presented as follows:

- Change of valuation of gold, equity increase by Ch$575.2 million for the elimination of a 10% discount of the market value of the moving quarterly average, replaced by the market value of gold in London at year-end.

- Determination of residual values of premises and equipment with a positive impact on equity of Ch$25,874.3 million for the items with accumulated depreciation higher than their assigned residual value assigned at year-end, and

- Actuarial calculation and recognition of provisions for post-employment benefits with a negative effect on equity of Ch$7,407.3 million.

(c) Balance Sheet: reconciliation as of 31 December 2008 – assets, liabilities and net equity

Central Bank of Chile – Balance Sheet as of 31 December 2008
(Ch$ million as of 31 December 2008)

Assets	Former GAAP balances as of 31. Dec. 2008	IFRS application adjustments	New accounting balances as of 31. Dec. 2008
Foreign assets	**14,728,435.1**	**189,916.5**	**14,918,351.6**
Reserve assets	14,571,665.2	189,916.5	14,761,581.7
Investment in foreign currencies	14,354,313.9	183,524.5	14,537,838.4
Other reserve assets	213,756.2	5,590.5	219,346.7
Monetary gold	3,595.1	801.5	4,396.6
Other foreign assets	156,769.9	-	156,769.9
Domestic assets	**2,873,224.7**	**-**	**2,873,224.7**
Domestic loan	958,275.3	-	958,275.3
Operations under specific legal regulation	1,914,949.4	-	1,914,949.4
Other asset accounts	**665,536.4**	**(5,351.7)**	**660,184.7**
Premises and equipment	17,043.1	28,746.4	45,789.5
Other assets	648,493.3	(34,098.1)	614,395.2
Total assets	**18,267,196.2**	**184,564.8**	**18,451,761.0**
Foreign liabilities	**217,440.5**	**-**	**217,440.5**
Domestic liabilities	**16,786,220.0**	**(24,628.0)**	**16,761,592.0**
Monetary base	4,229,786.8	-	4,229,786.8
Deposits and obligations	1,903,849.9	19.1	1,903,869.0
Documents issued by BCCh	10,652,583.3	(24,647.1)	10,627,936.2
BCCh bonds in UF (BCU)	5,484,696.2	54,354.7	5,539,050.9
BCCh bonds in Chilean pesos (BCP)	2,232,432.5	32,084.0	2,264,516.5
Indexed-promissory notes payable in coupons (PRC)	1,140,524.1	19,932.5	1,160,456.6
Central Bank discountable promissory notes (PDBC)	1,144,250.0	(19,682.7)	1,124,567.3
Optional indexed coupons (CERO) in UF	645,572.4	(111,220.8)	534,351.6
Other	5,108.1	(114.8)	4,993.3
Other liability accounts	**645,837.0**	**4,543.4**	**650,380.4**
Provisions	8,728.7	4,543.4	13,272.1
Other securities	637,108.3	-	637,108.3
Capital and reserves	**617,698.7**	**204,649.4**	**822,348.1**
Capital	(1,934,992.9)	-	(1,934,992.9)
Reserves for equity effect for change of standards	-	15,087.2	15,087.2
Surplus	2,552,691.6	189,562.2	2,742,253.8
Total liabilities	**18,267,196.2**	**184,564.8**	**18,451,761.0**

Central Bank of Chile– Statement of Income for the year ended 31 December 2008

(Ch$ million as of 31 December 2008)

	More/less adjustments, reclassifications	Net income for the year ended 31. Dec. 2008
Surpluses for 2008 according to former GAAP		2,552,691.6
Increases for change of regulation		
Securities at fair value marked-to-market	175,827.5	
Premises and equipment (net)	2,464.8	
Provisions	2,863.9	
Documents issued by Central Bank of Chile	9,639.0	
Price-level adjustment of reserve for equity effects	(1,233.0)	
IFRS application results		189,562.2
Surpluses for 2008 new accounting basis		2,742,253.8

(d) Effect on net income for the year ended 31 December 2008

During 2008, the valuation of investments considered the criterion of the lower of cost or market, therefore, when applying the new criteria, a positive effect arises in net income for a market cost adjustment of Ch$175,827.4 million.

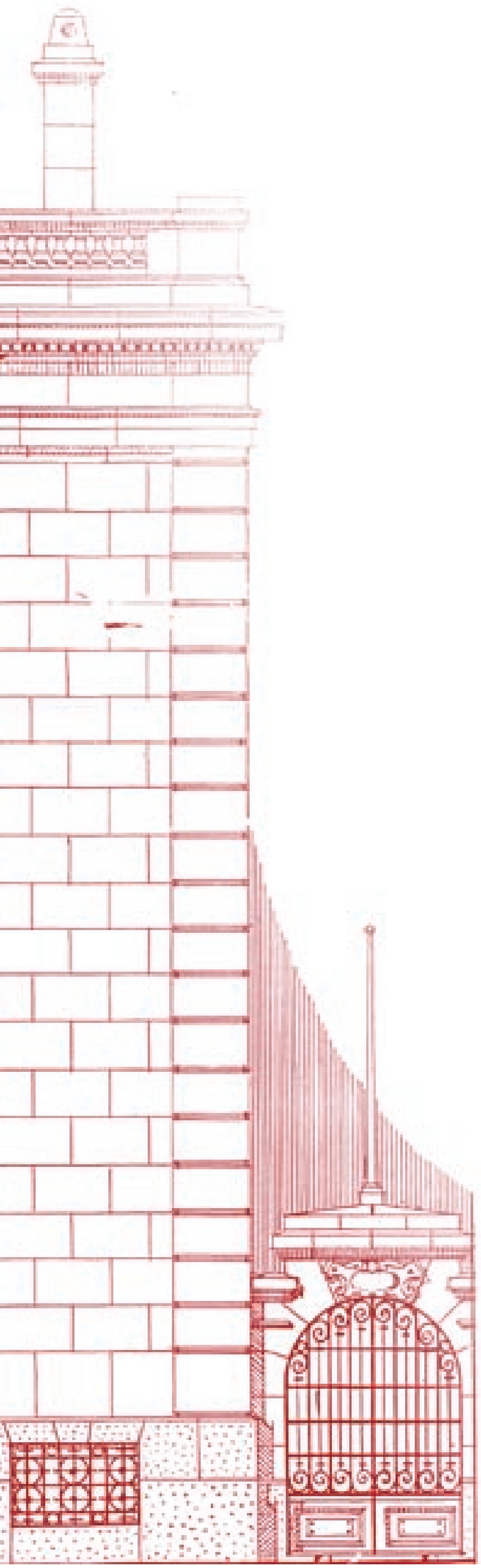
The documents issued by Central Bank of Chile are measured at amortized cost at the respective nominal rate recognizing a premium or discount, which is amortizable over the term of the document. With the new criteria, these documents are valued at amortized cost at the effective rate, which produces a positive effect on net income of Ch$9,639.0 million.

Due to the application of the new criteria, other changes that also affect net income for the year ended 31 December 2008 are presented as follows:

- Determination of residual values of premises and equipment with a positive impact on income of Ch$2,464.8 million for the items with accumulated depreciation higher than their assigned residual value at year-end, and.
- Actuarial calculation and recognition of provisions for post-employment benefits with a positive effect on income of Ch$2,863.9 million.

(e) Change in the format of presentation of the financial statements starting in 2009

Chapter IX covers the criteria regarding the presentation format for the financial statements of Central Bank of Chile. The change observed, compared to the financial statements for 2008, is related to the caption "Domestic loan" included in "Domestic assets" and is explained as all financial assets subject to specific regulatory and legal restrictions such as the *Sinap* liquidation Law 18,900, Securities receivable from *Corfo* Law 18,401, Fiscal Transfer Artcicle 13 Law 18,401, which are valued at amortized cost and recognized in income, have been separated under a new caption called "Operations under specific legal regulations".



Note 7

Net income for international reserves

For the years ended 31 December 2009 and 2008, this caption is composed of the following:

	(Ch$ million)	
	2009	2008
(a) Net interests and commissions on:		
- Foreign correspondents	2.3	151.2
- Securities at fair value with effect on income	163,358.8	176,827.5
- Available-for-sale securities	443.6	1,460.2
- Held-to-maturity securities	49,214.9	155,711.6
Subtotal for net interests and commissions	213,019.6	334,150.5
(b) Sales of securities:		
- At fair value with effect on income	132,849.6	185,022.3
- Available-for-sale	4,323.5	5,313.2
Subtotal for sales of securities	137,173.1	190,335.5
(c) Gain (loss) on adjustments at fair value	(119,898.3)	183,880.6
(d) On other income	1,441.3	3,081.8
Total income for international reserves	231,735.7	711,448.4

Note 8

Net income for domestic operations

For the years ended 31 December 2009 and 2008, this caption is composed of the following:

	(Ch$ million)	
	2009	2008
(a) Income for domestic loan		
Interests	16.366,0	15.483,1
Adjustments	(84,0)	409,6
Other	2.248,3	7.603,8
Total income for domestic loan	18.530,3	23.496,5
(b) Income for operations under specific legal regulations		
Interests	66.733,7	106.161,5
Adjustments	(34.249,2)	125.418,3
Total income for operations under specific legal regulations	32.484,5	231.579,8
(c) Income for deposits and obligations held by Central Bank of Chile		
Interests	(24.929,2)	(87.936,8)
Adjustments	31.165,2	(2.933,9)
Total income for deposits and obligations held by Central Bank of Chile	6.236,0	(90.870,7)
(d) Income for documents issued by Central Bank of Chile		
Interests	(416.561,0)	(443.392,0)
Adjustments	174.363,2	(506.603,6)
Total income for documents issued by Central Bank of Chile	(242.197,8)	(949.995,6)
Total net income for domestic operations	(184.947,0)	(785.790,0)

Note 9

Net Gain (Loss) on Foreign Exchange Operations

For the years ended 31 December 2009 and 2008, this caption is composed of the following:

	(Ch$ million)	
	2009	2008
Gain on foreign exchange operations	71,532.7	2,783,775.1
Loss on foreign exchange operations	(2,847,689.3)	(117,654.6)
Total	(2,776,156.6)	2,666,120.5

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

	(Ch$ million)	
	2009	2008
U.S. dollar	(1,762,331.2)	1,722,027.5
Euro	(1,014,662.1)	910,166.8
SDR	(27,862.6)	27,806.2
Pound Sterling	328.8	2,108.3
Other currency	(17,163.3)	3,706.4
Subtotal net (loss) gain on foreign exchange operations	(2,821,690.4)	2,665,815.2
Arbitrage and other	45,533.8	305.3
Total net (loss) gain on foreign exchange operations	(2,776,156.6)	2,666,120.5

Note 10

Issuance and distribution costs

For the years ended 31 December 2009 and 2008, this caption is composed of the following:

	(Ch$ million)	
	2009	2008
Banknotes	10,019.5	10,308.0
Coins	17,902.2	19,627.1
Distribution	557.1	243.4
Total	28,478.8	30,178.5

Note 11

Reserve assets

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

	(Ch$ million) 2009	2008
Monetary gold	8.8	7.0
Special drawing rights (SDR)	1,143.4	57.2
Reserve position in the IMF	286.1	167.9
Correspondent banks abroad	19.1	40.1
Investments in foreign currency:	23,829.9	23,108.6
Instruments at fair value with effect on net income	13,931.3	17,573.5
Level 1 market value	13,604.8	15,615.6
Level 2 measurement with market price	326.5	1,957.9
Level 3 measurement without reference to market price	-	-
Available-for-sale securities	3,695.1	-
Level 1 market value	352.1	-
Level 2 measurement with market price	-	-
Level 3 measurement without reference to market price	3,343.0	-
Held-to-maturity securities	6,203.5	5,535.1
Reciprocal loan agreements	84.9	83.0
Other assets	0.3	0.5
Total reserve assets	25,372.5	23,464.3

As of 31 December 2009, monetary gold amounted to US$8.8 million (US$7.0 million in 2008), equivalent to 7,940 fine gold troy ounces valued at US$1,106 per ounce (US$719.77 in 2008). There was no change in the amount of troy ounces compared to 2008.

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

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

The increase observed in reserve assets for the year ended 31 December 2009 in the amount of US$1,908.2 million, compared to 2008, is mainly explained by an increase in the assignments of SDRs equivalent to US$1,084.4 million, portfolio profitability for US$414.5 million and in price and parity changes for US$561.0 million.

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

	(Ch$ million) 2009	2008
U.S. dollars	14,969.1	14,293.1
Euro	8,735.1	8,862.7
Other currencies	1,668.3	308.5
Total	25,372.5	23,464.3

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

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

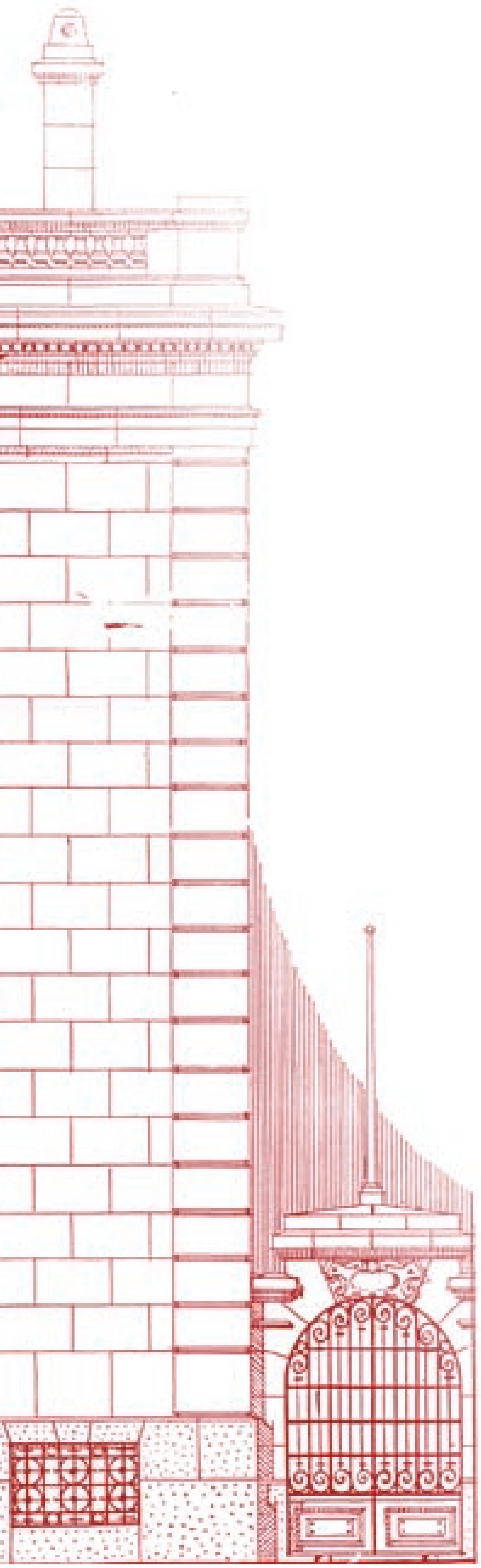
	(Ch$ million) 2009	2008
Subscription installment, contribution	677,208.8	814,444.4
Loan. account No.1	44.3	79.6
Deposits	(532,361.6)	(711,309.3)
Total position in the IMF	144,891.5	103,214.7

Note 13
Loans to banks and financial institutions

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

	(Ch$ million) 2009	2008
Secured liquidity line of credit	64,765.2	-
Line of credit on debt restructuring	2,667.9	4,169.0
Central Bank promissory notes acquired with resale agreement	3,292,152.2	932,066.0
Total	3,359,585.3	936,235.0

The average interest rate of the credit line during 2009 was 0.96% (during 2008, there were no operations of this line). The average discount rate for Central Bank promissory notes acquired with resale agreement was 1.69% in 2009 (7.33% in 2008).



Note 14

Operations under specific legal regulations

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

(a) Accounts Receivable from *Corporación de Fomento de la Producción (Corfo)*

Balances receivable from *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 Central Bank of Chile to *Corfo* in order to finance the acquisition, on behalf of third parties, of shares of these financial institutions.

Corfo amortized its debt by transferring securities that it recovered from shareholders, for the assignment of shares of the corresponding financial institutions. As of 31 December 2009, accounts receivable from *Corfo* amount to Ch$1,031.6 million (Ch$1,040.8 million in 2008).

In accordance with Article 13 of Law 18,401, differences produced in the recovery, as a result of discounts granted to shareholders of up to UF15 million, will be covered by the General Treasury through future transfers which as of 31 December 2009, amount to Ch$238,413.4 million, equivalent to UF11.4 million (Ch$238,833.5 million in 2008, equivalent to UF11.4 million). Based on the available information, the maximum transfer amount established by law is deemed adequate to absorb the discounts.

In conformity with this law, General 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. To date, the amounts corresponding to *Banco Internacional* (UF697,630.8054) and former *Banco Concepción*, currently *Corp Banca* (UF4,435,114.9515) have been determined and reviewed by external auditors appointed by the Superintendence of Banks and Financial Institutions, the amounts corresponding to *Banco de Chile* (UF3,983,509.6105) are under the final review process and the Superintendence has been requested the previous report corresponding to former *Banco de Santiago*, currently *Banco Santander Chile* (UF2,267,728.1037).

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

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

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

As of 31 December 2009, the amount payable to the Bank from the liquidation of these institutions, including accrued interest as of such date, was Ch$696,385.9 million (this amount includes interest accrued for Ch$436,760.3 million to that date), of which Ch$640,398.0 million relate to direct loans granted by the Bank and Ch$55,987.9 million with credit lines for international organizations programs (Ch$663,579.5 million in 2008, of which Ch$610,093.9 million relate to direct credits granted by Central Bank of Chile and Ch$53,485.6 million to credit lines for international bodies programs).

The recovery of such amounts depends on the determination of a specific date for the payment of that loan, from the General Treasury in favor of the Bank which is the reason why a specific date and other conditions under which the General Treasury collateral shall be enforced cannot be determined.

(c) General Treasury transfers

"General Treasury transfers", included within Domestic Loans, are the following:

	(Ch$ million)	
	2009	2008
General Treasury promissory notes Law 18,401	238,413.4	238,833.5

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.

(d) Loan for subordinated liability

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

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

During 2009, *Sociedad Administradora de la Obligación Subordinada SAOS S.A.* paid UF4,678,656.6013 to Central Bank of Chile, of which UF2,262,691.0487 were allocated to the payment of interests of the debt and UF2,415,965.5526 to the credit amortization for subordinated liability (in 2008 UF4,909,338.5553 of which UF2,320,178.0464 corresponded to interest and UF2,589,160.5089 to amortization).

As of 31 December 2009, the balance amounts to Ch$914,374.2 million (Ch$967,451.8 million in 2008).

Note 15
Premises and equipment

As of 31 December 2009 and 2008, this caption is comprised of the following:

	(Ch$ million)					
	Balances as of 31.Dec.08 (históricos)	Price-level adjustment	Acquisitions	Disposals	Depreciation	Balances as of 31.Dec.09
Real estate and facilities	33,660.9	(774.0)	258.9	-	(139.5)	33,006.3
Furniture and equipment	7,501.1	(173.0)	791.2	(869.0)	(283.7)	6,966.6
Transport material	249.3	(6.0)	-	(42.5)	(46.0)	154.8
Collection of banknotes and coins	2,675.4	(62.0)	-	-	-	2,613.4
Works of art	1,687.3	(39.0)	0.1	-	-	1,648.4
Other	15.5	-	-	-	(0.1)	15.4
Premises and equipment. net	45,789.5	(1,054.0)	1,050.2	(911.5)	(469.3)	44,404.9

As of 31 December 2009 and 2008 the caption depreciation and amortization include Ch$2,067.5 million and Ch$2,846.4 million, corresponding to depreciations and write-offs recognized in each year.

Note 16
Foreign liabilities

This caption includes the following operations:

	(Ch$ million)	
	2009	2008
Reciprocal loan agreements	1,865.9	7,273.1
Accounts with international bodies	73,138.8	88,953.3
Special drawing rights (SDR) allocations	646,456.6	116,213.0
Total foreign liabilities	721,461.3	212,439.4

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

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

This caption is composed of the following:

	(Ch$ million)	
	2009	2008
International Bank for Reconstruction and Development (IBRD)	20,921.5	20,438.7
Inter-American Development Bank (IDB)	5,708.7	12,289.4
International Development Association (AID)	901.1	880.4
Multilateral Investment Guarantee Agency (MIGA)	33.0	32.2
Promissory note obligations with IDB	45,574.5	55,312.6
Total accounts with international organizations	73.,138.8	88,953.3

The assignments of Special Drawing Rights (SDRs) correspond to SDR 816,891,579 assigned to Chile through Central Bank of Chile, by the International Monetary Fund, which are subject to a possible restitution; they accrue interests based on a rate determined by the IMF on a weekly basis.

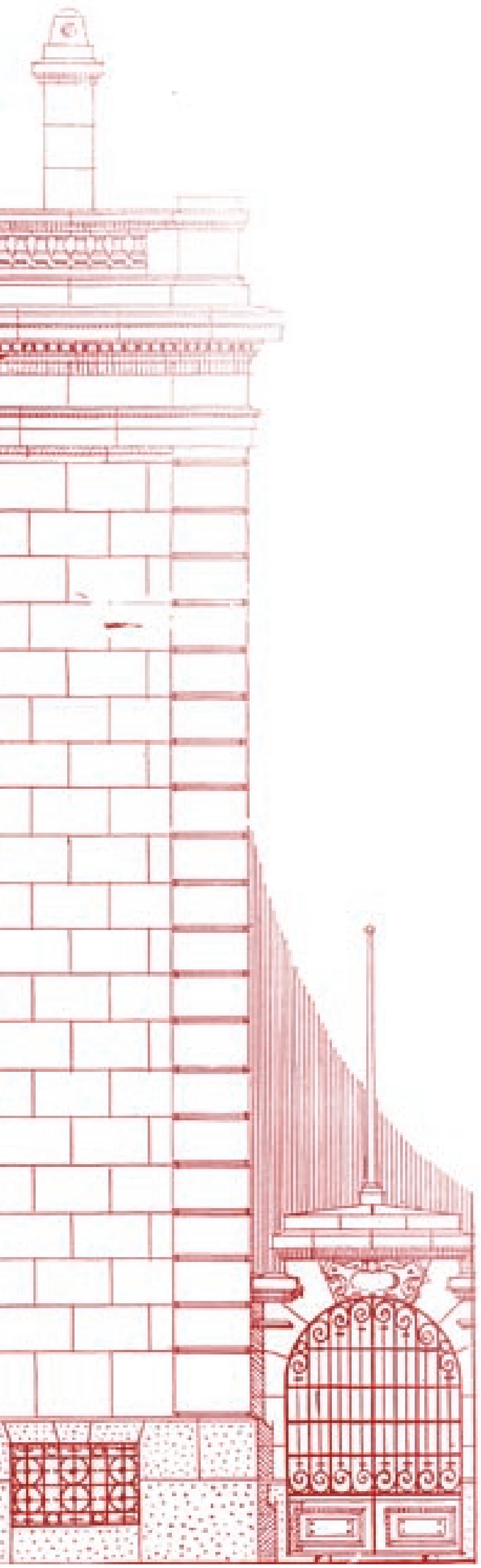
Note 17
Monetary base

This caption is composed of the following:

	(Ch$ million)	
	2009	2008
Banknotes and coins in circulation	4,189,634.9	3,600,978.4
Deposits from financial institutions	392,568.7	531,523.3
Total monetary base	4,582,203.6	4,132,501.7

(a) Banknotes and coins in circulation

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



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

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

	(Ch$ million)	
Denomination	**2009**	**2008**
$ 20,000	1,027,388.4	882,059.8
$ 10,000	2,391,585.3	2,036,327.4
$ 5,000	341,895.3	295,740.6
$ 2,000	95,311.3	87,292.8
$ 1,000	129,139.7	120,001.0
$ 500	4,772.5	4,675.5
Other	251.4	-
Coins	199,291.0	174,881.3
Total	4,189,634.9	3,600,978.4

(b) Deposits from financial institutions

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

Note 18
Deposits and obligations

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

	(Ch$ million)	
	2009	**2008**
Deposits and obligations with the General Treasury	302,719.7	132,399.7
Other deposits and obligations	2,999,551.0	1,727,680.3
Total	3,302,270.7	1,860,080.0

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

	(Ch$ million) 2009	2008
General Treasury current accounts	143,526.8	65,649.4
Other	159,192.9	66,750.3
Total	302,719.7	132,399.7

(b) "Other Deposits and Obligations" include:

	(Ch$ million) 2009	2008
Liquidity deposits of financial institutions	2,743,819.1	1,141,878.2
Current accounts in foreign currency	247,577.0	225,906.7
Short-term deposits from banking companies	-	342,354.8
Other	8,154.9	17,540.6
Total	2,999,551.0	1,727,680.3

Note 19

Documents issued by Central Bank of Chile

The issuance of documents of Central Bank of Chile constitutes the main supporting element for the implementation of the monetary policy in order to provide liquidity to the market in an efficient manner. These financial liabilities are defined to the maturity and are valued at amortized cost through the effective rate.

Maturities of these instruments as of 31 December 2009 and 2008 are as follows:

				(Ch$ million)			
	Up to 90 days	91 to 180 days	181 days to 1 year	Over 1 year to 3 years	Over 3 years	Total 2009	Total 2008
Central Bank bonds in UF (BCU)	-	270,488.7	664,651.3	1,002,065.0	2,844,918.6	4,782,123.6	5,411,652.7
Central Bank discountable promissory notes (PDBC)	3,292,690.0	271,058.8	39,649.6	-	-	3,603,398.4	1,098,702.3
Central Bank bonds in Chilean pesos (BCP)	200,578.5	-	414,618.8	434,308.1	890,357.0	1,939,862.4	2,212,432.6
Indexed promissory notes payable in coupons (PRC)	22,326.7	19,365.8	46,995.5	186,170.4	498,342.7	773,201.1	1,133,766.1
Optional Indexed coupons (CERO) in UF	15,863.3	17,937.5	60,081.9	208,006,.9	178,675.6	480,565.2	522,061.5
Central Bank bonds in U,S, dollars (BCD)	-	-	-	-	-	-	2,803.1
Central Bank indexed promissory notes (PRBC)	-	-	-	-	-	-	2,054.7
Other	21.1	-	-	-	-	21.1	20.7
Total as of 31 December	3,531,479.6	578,850.8	1,225,997,1	1,830,550.4	4,412,293.9	11,579,171.8	10,383,493.7

Balances include interest and adjustments accrued as of 31 December 2009 and 2008.

The increase for 2009 of these liabilities for Ch$1,195,678.1 million, compared to 2008, is explained mainly by an increase in the issuance of PDBC for monetary adjustment purposes, offset by: (i) the maturity of debt securities of Central Bank of Chile, (ii) the decision of Central Bank of not issuing new bonds during the second semester of 2009 and (iii) the repurchase program for Central Bank bonds in UF (BCU) developed during the third quarter of 2009.

Note 20
Other liability accounts

This caption is composed of the following:

	(Ch$ million) 2009	2008
Provisions	13,737.7	12,966.9
Other securities	451.7	284.9
Repurchase agreements	373,003.7	622,169.8
Total	387,193.1	635,421.6

(a) Provisions

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

	(Ch$ million) 2009	2008
Balance at the beginning of the year	11,795.2	14,926.4
Provision for the year:		
- Severance indemnity	103.5	(2,334.2)
- Benefits to the former Association of Retired Employees and Beneficiaries of Pensions of Public Officials of Central Bank of Chile	420.0	(1,068.3)
- Healthcare benefits for retirement plans	9.3	-
Post-employment benefit provision balance	12,328.0	11,523.9
Pending accrued vacations of personnel	1,405.3	1,437.8
Special indemnity Resolution 572-05-961226	4.4	5.2
Balance at the end of the year	13,737.7	12,966.9

(b) Other securities

This item corresponds mainly to minor amounts related to operations with the Bank's Country Club and Seaside Resort.

(c) Foreign Currency Repurchase Agreement

As of 31 December 2009, Central Bank of Chile maintains the right to repurchase US$745.0 million, as it has been established in Chapter IV D 1.2 of the Compendium of Financial Regulations, equivalent to Ch$377,290.4 million (Ch$594,490.3 million in 2008). The obligation of Ch$373,003.7 million (Ch$622,169.8 in 2008) arising from these operations is shown in liabilities. The abovementioned values are shown under "Repurchase agreements", in assets as well as in liabilities. At year-end, these contracts are valued according to the U.S. observed dollar exchange rate. They are settled using the agreed exchange rate at liquidation.

Note 21
Capital and reserves

Changes in capital and reserves during 2009 and 2008 were as follows:

	(Ch$ million)			
	Capital	Valuation accounts	Net income (loss)	Total
Balances as of 1 January 2008	(1,880,514.6)	79.5	(282,457.7)	(2,162,892.8)
Distribution of 2007 surplus	(282,457.7)	-	282,457.7	-
General Treasury contribution 3rd, installment	428,199.1	-	-	428,199.1
Price-level adjustment	(192,504.5)	-	-	(192,504.5)
Price-level adjustment of General Treasury contribution	7,372.0	-	-	7,372.0
Valuation account recovery	-	(79.5)	-	(79.5)
Adjustment for IFRS application	-	-	189,562.2	189,562.2
Surplus for the year	-	-	2,552,691.6	2,552,691.6
Balances as of 31 December 2008	(1,919,905.7)	-	2,742,253.8	822,348.1
Balances as of 31 December 2008 adjusted for comparative purposes	(1,875,748.0)	-	2,679,182.1	803,434.1
Balances as of 1 January 2009	(1,919,905.7)	-	2,742,253.8	822,348.1
Distribution of 2008 deficit	2,742,253.8	-	(2,742,253.8)	-
Price-level adjustment	(18,914.0)	-	-	(18,914.0)
Valuation accounts	-	3,126.8	-	3,126.8
Deficit for the year	-	-	(2,766,773.9)	(2,766,773.9)
Balances as of 31 December 2009	803,434.1	3,126.8	(2,766,773.9)	(1,960,213.0)

Section 5 of the Basic Constitutional Act of Central Bank of Chile established a paid-in capital for the Bank at Ch$500,000 million (Ch$1,936,142.6 million adjusted as of 31 December 2009), to be paid according to Transitory Section 2 of Law 18,840.

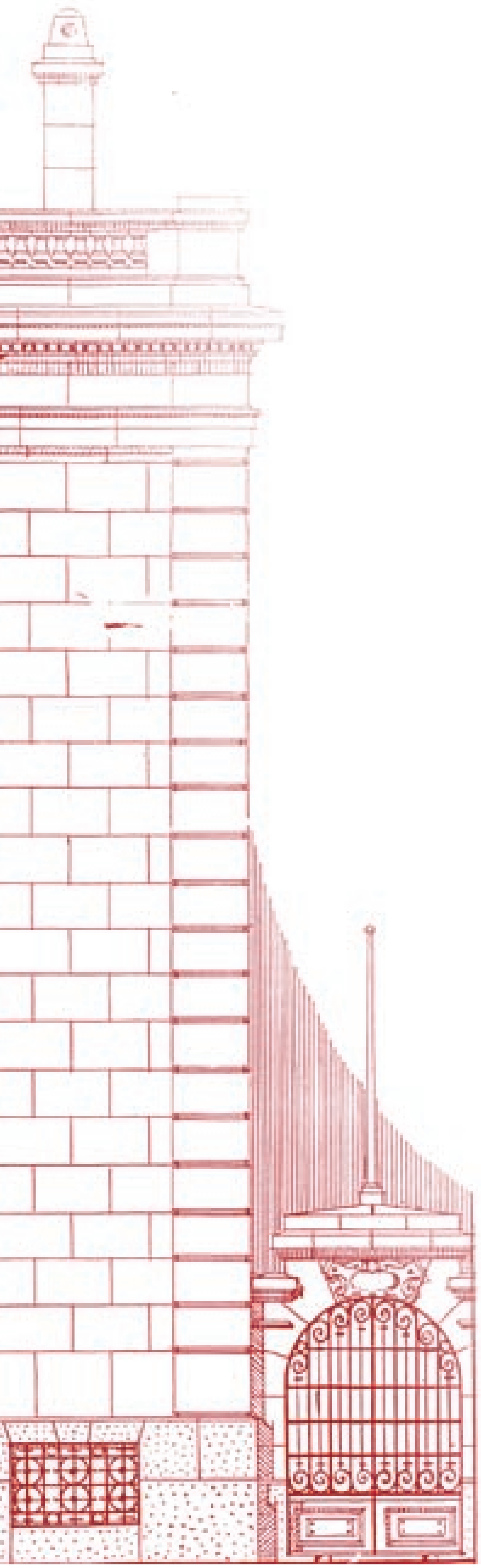
In accordance with Section 77 of the Basic Constitutional Act of Central Bank of Chile, the deficit produced in any year will be absorbed with a debit to constituted reserves.

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

As of 31 December 2009, the Bank presents a negative equity of Ch$1,960,213.0 million (equity of Ch$803,434.1 million as of 31 December 2008), which are mainly originated from the decrease in exchange rate variations of assets in foreign currencies.

Article 11 of Law 20,128 published in the *Official Gazette* dated 30 September 2006, stated that the General Treasury may make capital contributions to the Bank through the Ministry of Finance, under the conditions established in such law.

During 2009, the General Treasury did not make any contributions to the Bank equity (in 2008, the General Treasury contributed US$730.7 million, in conformity with Executive Decree 600 of the Ministry of Finance, dated 25 April 2008).



Note 22

Monetary base and international reserve asset changes

According to note 2.a.vi and in consideration of the Bank's unique operations, beginning in 2001, instead of preparing 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:

Variations in the monetary base	(Ch$ million) 2009	2008
Initial balance of monetary base	**4,132,501.7**	**3,906,998.5**
Increase		
Foreign exchange operations	15,634.7	2,788,795.3
Interest and indexation paid	740,246.9	751,675.2
Domestic loans	2,316,836.4	345,835.4
Operating support expenses	28,051.2	28,734.9
Operations with international bodies	4,677.4	2,207.2
Accounts receivable for future currency sales	225,477.5	-
Other liabilities	48.2	37.4
Other assets	31,183.4	-
Total increase	**3,362,155.7**	**3,917,285.4**
Decrease		
Deposits and obligations	(686,990.9)	(118,310.4)
Interest and indexation received for domestic operations	(123,179.7)	(170,641.7)
U,S, dollar sale with repurchase agreement	-	(604,041.6)
Securities issued	(2,196,097.4)	(2,476,553.3)
Other minor foreign exchange changes	(3,470.6)	-
Other assets	-	(2,930.6)
Total decrease	**(3,009,738.6)**	**(3,372,477.6)**
Variation of monetary base for the year	352,417.1	544,807.8
Effect of inflation on the initial balance of monetary base	97,284.8	(319,304.6)
Final balance of monetary base	**4,582,203.6**	**4,132,501.7**

Variations in international reserve assets	(US$ million) 2009	2008
Initial reserve balance	**23,464.3**	**16,910.1**
Increase		
Foreign exchange operations	30.2	5,830.5
Capitalization of General Treasury contribution	-	730.7
Deposits and obligations	-	252.1
U.S. dollars sale with agreement to repurchase	221.9	-
Operations with international bodies	963.4	-
Other liabilities	66.0	-
Interests received for deposits and other investment instruments abroad	1,095.4	1.015.2
Total increase	**2,376.9**	**7,828.5**
Decrease		
U.S. dollars sale with agreement to repurchase	-	(969.9)
Deposits and obligations	(271.2)	-
Other assets	(46.0)	-
Interest paid for foreign liabilities	(486.0)	(18.0)
Total decrease	**(803.2)**	**(987.9)**
Variation in reserves for the year	1,573.7	6,840.6
Effect of exchange rate	334.5	(588.3)
Adjustment at fair value	-	301.9
Final balance	**25,372.5**	**23,464.3**

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 unbalances, indirectly regulating such unbalances through exchange market intervention and/or for other purposes.

Note 23
Foreign currency balances

The balance sheets include assets and liabilities payable in foreign currencies, which balances as of 31 December 2009 and 2008 are as follows:

	(US$ million)	
Assets	**2009**	**2008**
Foreign assets	**25,622.3**	**23,713.5**
Reserves	25,372.5	23,464.3
Other foreign assets	249.8	249.2
Other asset accounts	**749.5**	**925.2**
Total assets	26,371.8	24,638.7

	(US$ million)	
Liabilities	**2009**	**2008**
Foreign liabilities	**1,370.2**	**290.9**
Other foreign liabilities	93.7	101.8
Special drawing rights (SDR) allocations	1,276.5	189.1
Domestic liabilities	**946.6**	**1,051.3**
Deposits and General Treasury liabilities	453.2	124.4
Other deposits and obligations	493.4	926.9
Other liability accounts	**745.5**	**907.4**
Total liabilities	**3,062.3**	**2,249.6**
Net assets	**23,309.5**	**22,389.1**

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 are not expected to have a material effect on equity.

Note 25
Income taxes

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

Note 26
Fiscal Agency

Law 20,128 related to General Treasury Liability published in the *Official Gazette* as of 30 September 2006, created the "Economic and Social Stabilization Fund" (FEES) and the "Pension Reserve Fund" (FRP)". In conformity with the provisions of the aforementioned law, the Minister of Finance through Executive Decree 1383, dated 11 December 2006, appointed Central Bank of Chile as Fiscal Agent, for the administration of resources referred to such funds, in conformity with the procedures, conditions, methods and other standards established in the aforementioned Executive Decree.

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

Through Resolution 1406 of the Board, dated 24 April 2008, *KPMG Auditores y Consultores Ltda.* was assigned as the auditor of the "Economic and Social Stabilization Fund" (FEES) and the "Pension Reserve Fund" (FRP) for 2009 and 2008.

Note 27
Transactions with related parties

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

(b) Remunerations of the Board and key executives:

According to the Bank's Basic Constitutional Act, the remunerations of the Board are proposed by a commission comprised of former governors and deputy governors of the entity, appointed for such purposes by the President of the Republic. In order to propose the remunerations, the act requires the consideration of remuneration assigned to the highest-ranked executive positions in the bank institutions of the private sector.

The remunerations corresponding to the General Manager, the General Counsel and General Auditor of Central Bank of Chile, are at level 1 of the remuneration structure, as they are positions established in Sections 24 through 26 of the Basic Constitutional Act.

The total gross remunerations paid to the Board and key executives during 2009 amounted to Ch$1,156.4 million (Ch$1,094.5 million in 2008).

Note 28
Relevant events

Pursuant to Resolution 1456 dated 15 January 2009, the Board approved new policies for the presentation and preparation of the financial statements of Central Bank of Chile, upon approval of the Superintendence of Banks and Financial Institutions as established in Section 75 of the Bank's Basic Constitutional Act.

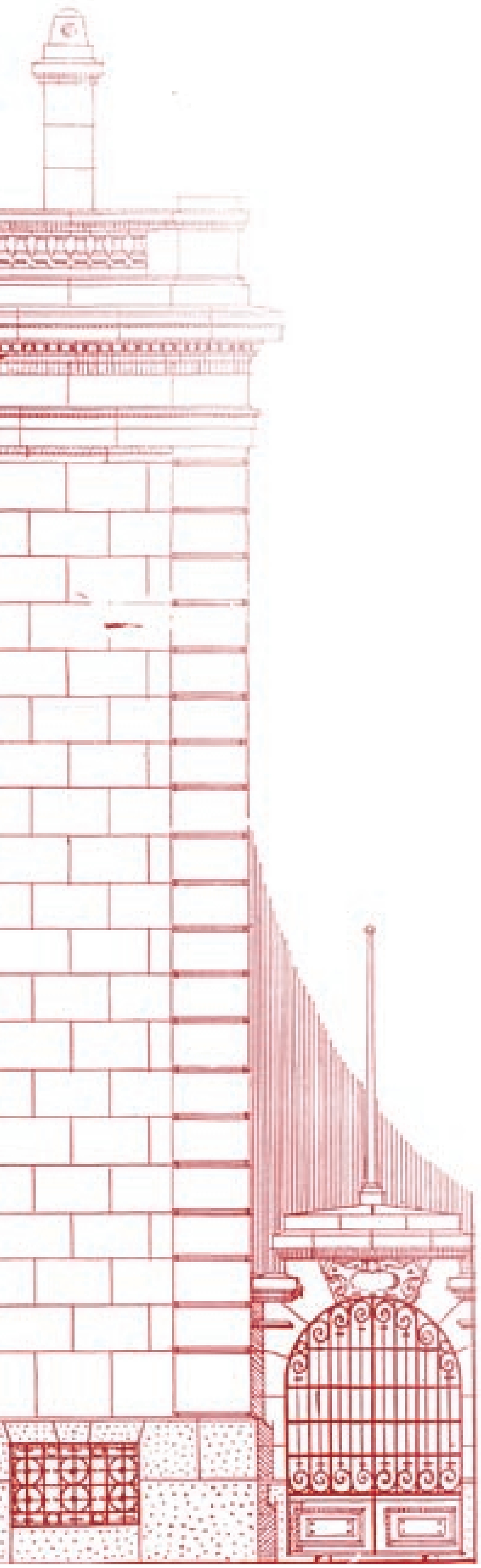
Executive Decree 1619 of the Ministry of Finance, dated 28 November 2009, the President of the Republic appointed Mr. Rodrigo Vergara Montes as Member of the Bank's Board for a 10-year term, starting on that date.

Similarly, through Resolution 1517E-01, dated 7 January 2010, the Bank's Board decided to designate Mr. Manuel Marfán Lewis as Deputy Governor of the Bank effective since 7 January 2010 through 9 December 2011, included. Such Resolution was published in the *Official Gazette* on 9 January 2010.

Note 29
Subsequent events

(a) New policies for the presentation and preparation of financial statements

Through Resolution 1519-01, dated 14 January 2010, the Board approved new policies for the presentation and preparation of the Bank's financial statements, which have also been approved by the Superintendence of Banks and Financial Institutions pursuant to Section 75 of the Bank's Basic Constitutional Act which states that starting in 2010, price-level adjustment will no longer be presented in the financial statements, reflecting the annual adjustment of equity in order accounts, for the purposes of the provision contained in Section 5 of the Bank's Basic Constitutional Act , which states "The capital may be increased by decision of the majority of the Board Members, through capitalization of reserves and adjusted by means of price-level adjustment", as well as stated in Title VI of the same legislation, regarding the distribution of the Bank's surpluses included in Section 77, and the payment of the initial capital referred to in transitory Section 2, therefore, starting in 2010, a specific note will be included in the financial statements in relation to the adjustment for price-level adjustment and the distribution of surpluses to the General Treasury in conformity with the special legal regime governing the Bank as a public entity. Once the initial capital, properly adjusted as stated in the terms of Section 5 is paid, the resulting surplus for each year, will be determined and calculated for the purposes of surplus distribution to the General Treasury as contained in Section 77, considering the annual adjustment to the equity recorded in order accounts.



(b) Approval of the financial statements

The financial statements as of and for the year ended 31 December 2009 were presented by the General Manager to the Board on 28 January 2010 obtaining the favorable pronouncement for its release in Session 1521.

ALEJANDRO ZURBUCHEN SILVA
General Manager

JUAN CARLOS SALAZAR TAPIA
General Accountant

SILVIA QUINTARD FLEHAN
General Auditor

Independent Auditors' Report

The Governor and Board Members
of Central Bank of Chile:

1. We have audited the accompanying balance sheets of Central Bank of Chile ("the Bank") as of 31 December 2009 and 2008 and the related statements of income for the years then ended. The preparation of these financial statements (including their notes) is the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.
2. We conducted our audits in accordance with auditing standards generally accepted in Chile. Those standards require that we plan and perform an 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. As discussed in note 2 to the financial statements, the Bank prepares its financial statements in accordance with standards issued by the Bank's Board, as approved by the Chilean Superintendence of Banks and Financial Institutions, as established in Section 75 of the Bank's Basic Constitutional Act. These standards are consistent with International Financial Reporting Standards (IFRS). Should there be any discrepancy, the standards issued by the Bank's Board shall prevail, as discussed in note 2(a) to the financial statements in relation to the following matters: a) Accounting treatment of the Sinap Liquidation Account Law 18,900 dated 16 January 1990, which is presented within the caption Operations Under Specific Legal Regulation and explained in note 14(b) to the financial statements; b) Accounting treatment of premises and equipment; c) Application of comprehensive price-level adjustment, as discussed in note 2(e) to the financial statements; and d) Omission of the Statements of Changes in Equity, Cash Flows and Comprehensive Income.
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 2009 and 2008 and the results of its operations for the years then ended, in conformity with the accounting principles described in note 2 to the financial statements.
5. As discussed in note 6 to the financial statements, in accordance with Resolution 1456-01 dated 15 January 2009, the Bank's Board approved new policies for the presentation and preparation of the Bank's financial statements, which also have been approved by the Superintendence of Banks and Financial Institutions pursuant to Section 75 of the Bank's Basic Constitutional Act. The purpose of these new policies is for the preparation and presentation of the Bank's financial statements to comply with the requirements established by IFRS as applicable to the Bank, as well as the guidelines prepared by the technical organizations in Chile and the Bank's Board own policies. In that sense, the Bank's financial statements have been modified retroactively since 1 January 2008.

6. In accordance with Article 11 of Law 20,128, the General Treasury through the Ministry of Finance will be able to make capital contributions to Central Bank of Chile, under the conditions established in such law. During 2009, the General Treasury did not make any contributions (Ch$425,553 million in 2008).

7. As discussed in note 21 to the financial statements, as of 31 December 2009 Central Bank of Chile has a net equity deficit in the amount of Ch$1,960,213 million (net equity of Ch$803,434.1 million in 2008), which is explained by decreases resulting from variations in the exchange rates of assets denominated in foreign currency.

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

Alejandro Cerda G. KPMG Ltda.

Santiago, 28 January 2010

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