

**ANNUAL**  
**REPORT 2015**

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CENTRAL BANK OF CHILE

*90* años  $\frac{1925}{2015}$



*90* años  $\frac{1925}{2015}$



The Central Bank of  
Chile was founded on 22  
August 1925

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# SENIOR AUTHORITIES OF THE CENTRAL BANK OF CHILE

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31 DECEMBER 2015



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RODRIGO VERGARA MONTES  
GOVERNOR



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SEBASTIÁN CLARO EDWARDS  
DEPUTY GOVERNOR



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JOAQUÍN VIAL RUIZ-TAGLE  
BOARD MEMBER



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PABLO GARCÍA SILVA  
BOARD MEMBER



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MARIO MARCEL CULLELL  
BOARD MEMBER

# AUTHORITIES OF THE CENTRAL BANK OF CHILE

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31 DECEMBER 2015



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ALEJANDRO ZURBUCHEN SILVA  
GENERAL MANAGER



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JUAN PABLO ARAYA MARCO  
GENERAL COUNSEL



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SILVIA QUINTARD FLEHAN  
COMPTROLLER AND AUDITOR GENERAL

## DIVISION DIRECTORS

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**BELTRÁN DE RAMÓN ACEVEDO**  
Financial Operations



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**LUIS GONZÁLEZ BANNURA**  
Corporate Management and Services



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**ALBERTO NAUDON DELL'ORO**  
Research



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**GLORIA PEÑA TAPIA**  
Statistics



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**CLAUDIO RADDATZ KIEFER**  
Financial Policy

## MANAGERS

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Elías Albagli Iruretagoyena  
ECONOMIC ANALYSIS AND MODELING



Rodrigo Alfaro Arancibia  
FINANCIAL STABILITY



Mauricio Álvarez Montti  
CHIEF COUNSEL OF CORPORATE LEGAL  
SERVICES



Luis Álvarez Vallejos  
COMMUNICATIONS



Gabriel Aparici Cardozo  
FINANCIAL REGULATION AND INFRASTRUCTURE



María Angélica Arteaga Arriagada  
HUMAN RESOURCES



Matías Bernier Bórquez  
DOMESTIC MARKETS



Rodrigo Cifuentes Santander  
FINANCIAL RESEARCH



Ricardo Consiglio Fonck  
INTERNATIONAL MARKETS



Milciades Contreras Gosik  
FINANCIAL RISK ASSESSMENT AND MANAGEMENT



Carlos Escobar Alegría  
CASH CENTER PROJECT



Carmen Gloria Escobar Jofré  
STATISTICAL INFORMATION



Cecilia Feliú Carrizo  
TREASURY



Miguel Fuentes Díaz  
MACROECONOMIC ANALYSIS



Mariela Iturriaga Valenzuela  
FINANCIAL SERVICES



Leonardo Jadue Jadue  
INFORMATION SYSTEMS



Pablo Mattar Oyarzún  
CHIEF COUNSEL OF NORMATIVE LEGAL SERVICES



Enrique Orellana Cifuentes  
MONETARY POLICY STRATEGY AND  
COMMUNICATION



José Luis Pérez Alegría  
SECURITY



Francisco Ruiz Aburto  
MACROECONOMIC STATISTICS



Diego Saravia Tamayo  
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Mario Ulloa López  
STRATEGIC AND OPERATIONAL RISK  
MANAGEMENT



María Inés Urbina De Luigi  
LOGISTICAL SERVICES



Claudia Varela Lertora  
INSTITUTIONAL AFFAIRS



Bronze detailing inside  
the Central Bank building

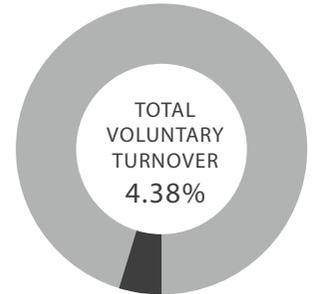
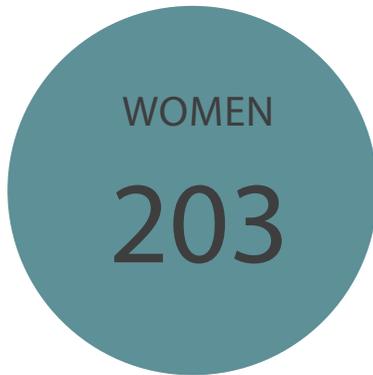


# EMPLOYEE PROFILE

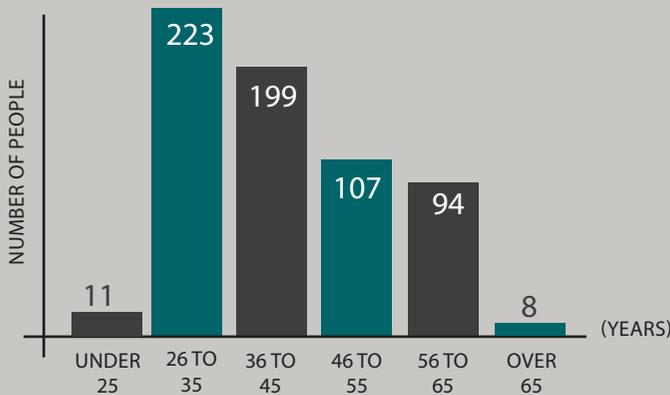
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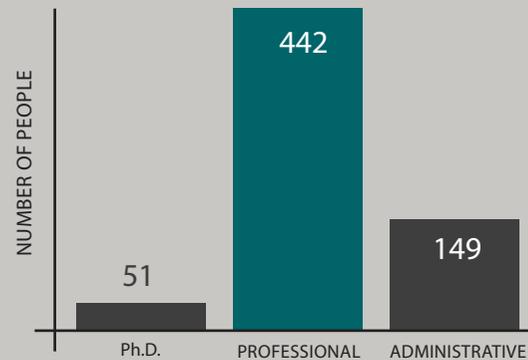
(\*) INCLUDING BOARD MEMBERS



BY AGE



BY EDUCATION LEVEL







BANCO CENTRAL  
DE CHILE

Santiago, 29 April 2016

Mr. Rodrigo Valdés P.  
Minister of Finance  
Santiago

Pursuant to Sections 78 and 79 of the Basic Constitutional Act of the Central Bank of Chile, contained in Article One of Law 18,840, I hereby submit this institution's Annual Report for 2015.

Sincerely,

A handwritten signature in black ink, appearing to be "RV", written over a faint circular stamp.

Rodrigo Vergara M.  
Governor





BANCO CENTRAL  
DE CHILE

Santiago, 29 April 2016

Mr. Ricardo Lagos W.  
President of the Senate  
Valparaíso

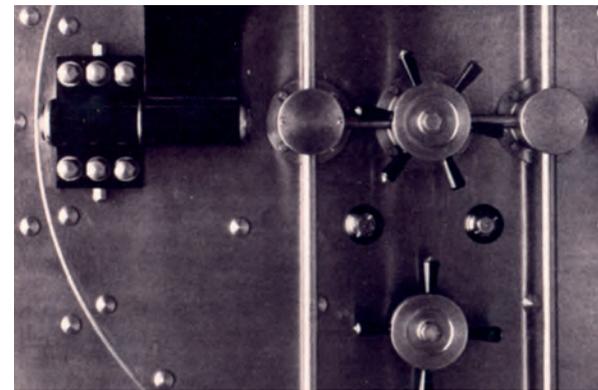
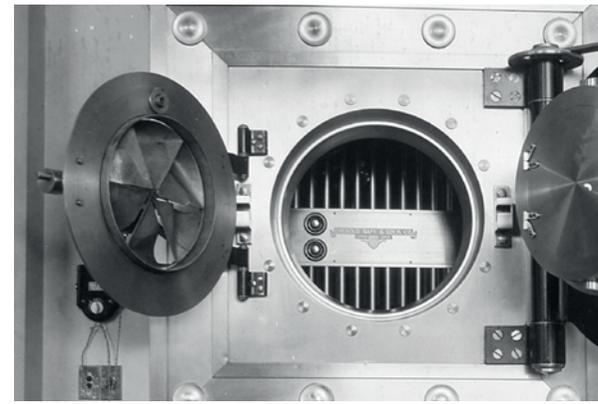
Pursuant to Sections 78 and 79 of the Basic Constitutional Act of the Central Bank of Chile, contained in Article One of Law 18,840, I hereby submit to the Senate this institution's Annual Report for 2015.

Sincerely,

Rodrigo Vergara M.  
Governor



Central Bank of Chile vaults





01

FINANCIAL  
MANAGEMENT  
AND POLICIES OF THE  
CENTRAL BANK OF  
CHILE IN 2015

# 01

## FINANCIAL MANAGEMENT AND POLICIES OF THE CENTRAL BANK OF CHILE IN 2015

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### A. ECONOMIC OVERVIEW

In 2015 annual inflation remained high due to the effects of the sustained and significant depreciation of the peso. The direct and indirect effects of the depreciation were also reflected in core inflation (the CPIPEF). In particular, annual CPIPEF goods inflation rose from 3.8 to 5.0% between January and December 2015. The services component of the CPIPEF was stable, with an annual growth rate of around 5%. Taken together, annual CPIPEF inflation was close to 5% in 2015. Over the course of the year, the drop in oil prices in international markets and the lower contribution of fresh foods reduced annual CPI inflation, which was in or above the tolerance range for several months.

In terms of output, GDP ended the year with an annual growth rate of 2.1%, similar to 2014. The mining sector deteriorated in the year, while other sectors witnessed a very limited growth of private spending. In addition, consumer and business confidence remained pessimistic, and while access to bank credit tightened, interest rates remained at their lowest levels of the past several years.

The external scenario worsened in the second half of 2015, with an increase in market volatility, a sharp drop in commodity prices, greater risk aversion and a new global appreciation of the U.S. dollar. Thus, international financial conditions became less favorable than in previous years, especially for emerging economies. The increased market volatility was associated with the change in market expectations with regard to when the U.S. Federal Reserve would start raising its reference rate, which finally occurred at the end of the year. The more consolidated recovery of that economy contrasted with the performance of the other developed countries, where the central

banks maintained or increased their monetary stimulus, as in Europe and Japan. The rate differential and the greater risk aversion accentuated the dollar's appreciation trend. Moreover, in mid-2015, concerns increased regarding the Chinese financial system, China's management of its foreign exchange system given the ongoing process of opening the capital account and the general state of that economy. These doubts triggered sharp falls in the Chinese stock market and capital outflows, which translated into wide fluctuations in asset prices at the world level. While the growth outlook for the Chinese economy has slowed, output reflected a gradual adjustment and a sectoral recomposition of growth toward services at the expense of manufacturing.

Copper and oil prices dropped around 30% in the year, with copper trading at just over US\$2.00 a pound in late 2015 and oil at US\$35 a barrel—the lowest level of the past decade. The growth outlook for commodity-exporting countries was adjusted downward, with a sharper adjustment for Latin American exporters, particularly those with macroeconomic imbalances. The fast pass-through of the exchange rate depreciation to local prices and the deterioration in the inflation outlook led many countries in the region to implement less expansionary monetary policies. This contrasts with other commodity exporters such as Australia and New Zealand, where the authorities increased the monetary stimulus.

For the Chilean economy, the cost of external credit remained favorable despite the fluctuations in the international financial markets. Over the course of the year, sovereign and corporate spreads rose slightly, as did long rates. The biggest impact was seen in the peso-dollar exchange rate, which fluctuated widely. The peso depreciation intensified again midyear, with the exchange rate rising from around \$610 in mid-2015 to the dollar to \$710 to the dollar at year-end. However, the multilateral exchange rate was more

stable than the nominal rate, since the currencies of Chile's trading partners followed a similar or steeper trend to the Chilean peso. Thus, the RER stayed around 100 in the second half of the year (where 1986=100).

## B. MONETARY POLICY

Throughout much of 2015, the monetary policy rate (MPR) stayed at 3%, the rate set by the Board in October 2014, creating highly expansionary monetary conditions. This was a response to a scenario in which the Chilean economy would require a monetary stimulus to foster a smooth adjustment to less favorable conditions than in previous years. The Board held the MPR at that level for most of 2015. At the September meeting, the Board decided to move from a neutral to a tightening bias, considering that the continuation of high inflation for a prolonged period, the sustained and greater-than-expected peso depreciation and the tight capacity in the economy made it necessary to begin withdrawing the strong monetary stimulus. The risk that inflation would remain above 4% for some time had increased, which would delay convergence with the target. Based on these arguments, the Board decided to raise the MPR by 25 basis points (bp) in October and again in December, bringing the rate to 3.50%, and to ease the tightening bias.

Even with these adjustments, Chile had one of the most expansionary monetary policies in emerging economies and the most expansionary in Latin America. In the region, Chile stands out for the credibility of its monetary policy, as evidenced by the fact that inflation expectations stayed anchored on the 3% target. This contrasts with other economies in the region, where expectations became unmoored, forcing the authorities to implement substantial increases in their reference rates.

## C. FOREIGN EXCHANGE POLICY

Since September 1999, the Central Bank of Chile has applied a floating exchange rate regime, in which the exchange rate is determined by the market. This regime allows for the conduct of an independent monetary policy, facilitates the economy's adjustment to shocks and prevents large exchange rate misalignments, thereby avoiding a more costly adjustment in terms of output variability and, in principle, attenuating speculative capital flows. Under this floating exchange rate regime, the Bank reserves the option to buy or sell on the foreign exchange market either to adjust its international liquidity position or in the event of an overreaction of the exchange rate, which could potentially have adverse effects. The exchange rate is said to overreact when, without much variation in its fundamentals, it



rises or falls sharply within a short period, possibly followed by movements in the opposite direction. The adverse effects of this fluctuation include a loss of confidence among economic agents, stemming from inflationary effects requiring monetary policy measures that are inadequate given the economic cycle, an increase in the volatility in the financial markets and misleading price signals that may interfere with the efficient allocation of resources

No such exceptional situations occurred in 2015, and the floating exchange rate regime operated normally, as has been the case for the last four years.

## D. FINANCIAL REGULATIONS

In January 2015, the Board decided to modify the regulations on the ratios between asset and liability operations of banks, adding a new Chapter to the Compendium of Financial Regulations (III.B.2.1) entitled "Regulations on Bank Liquidity Position and Management." This change was introduced in order to incorporate international consensus and developments on the regulation of liquidity risk, in particular those that have emerged out of the lessons of the international financial crisis. Specifically, the new regulations aim to achieve the following objectives:

- a. To strengthen liquidity risk management policies in the banking system, in line with the most recent guidelines issued by the Basel Committee on Banking Supervision;
- b. To improve regulatory requirements on maturity mismatches;
- c. To increase the quantity and quality of the information available to the supervisor and the market, through the inclusion of more detailed reporting requirements on both liquid assets and liabilities; and
- d. To incorporate the Basel III quantitative measures for the purposes of improving the available information and complementing the supervisory process, without establishing a specific regulatory limit, so as to advance on the calibration of these indicators in Chile while they are being discussed and implemented at the international level.

Also in January, *Corpanca* was authorized, in accordance with the provisions of the General Banking Law, to increase investment in its foreign broker-dealer affiliate, Corpanca Securities LLC, established in the United States.

In March, the Board issued a favorable report on the operating rules for *ComDer Contraparte Central S.A.*, in accordance with the current legal framework for the clearing and settlement of financial instruments. The operating rules were later approved by the Superintendence of Securities and Insurance.

In July, the Board rescinded the authorization granted to *Cruz del Sur Corredora de Bolsa S.A.* to operate in the formal exchange market.

Also in July, the Board decided to complement the general conditions applicable to bank current accounts opened at the Central Bank by management companies governed by Law 20,345, in order to allow this type of company to open additional accessory accounts to be used as additional settlement accounts in the RTGS system.

In the same month, the Board extended the period for the application of the new regulations on managing and measuring banks' liquidity position, contained in Chapter III.B.2.1 of the *Compendium of Financial Regulations*, to provide for a partial and staggered implementation. This will allow a gradual adoption and adequate implementation of the new regulations and reporting requirements issued by the Superintendence of Banks and Financial Institutions.

## E. FINANCIAL MANAGEMENT

### E.1 Monetary management

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

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



The Board of the Central Bank of Chile

In November, with the implementation of the new open market operations system, mortgage bonds were incorporated as eligible securities for all liquidity injection operations. At the same time, the special program for buying securities with a repurchase agreement, which exclusively accepted these securities, was terminated.

In 2015, the absolute deviation of the interbank rate from the MPR was zero bp. This occurred in a context characterized by higher liquidity requirements due to seasonal factors.

## E.2 International reserve management

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

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

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

In 2015, the Bank held sufficient foreign exchange reserves to meet potential and predictable foreign currency liquidity needs. As of 31 December, the investment portfolio stood at US\$33.1374 billion and the cash portfolio at US\$4.0351 billion. Taking the sum of these two portfolios plus other assets, international reserves ended the year at US\$38.6426 billion. This balance was US\$1.8044 billion lower than at year-end 2014. This was explained by a reduction in the investment portfolio of US\$1.2598 billion, a reduction in the cash portfolio of US\$315.7 million and a reduction in the other assets portfolio of US\$228.9 million. The reduction in the investment portfolio derived from the exchange rate effect of measuring the value of the reserves in U.S. dollars when the dollar is appreciating against the other currencies in which the reserves are invested. In the case of the cash portfolio, the reduction is explained by lower deposits by local banks in the Central Bank, while the change in the other assets portfolio is mainly due to a lower IMF reserve position.

The liquidity of the reserves was ensured by investing in a portfolio of short-term deposits with international commercial banks and fixed-income instruments traded on highly liquid secondary markets. On 31 December 2015, time deposits and resources held in transaction accounts represented 14.4% of international reserves; short-term papers, 19.3%; bonds, 62.5%; and other assets, 3.8%.

To safeguard the Bank's equity, the invested resources are managed under policies and controls designed to limit financial and operational risk, which are approved by the Board. Credit risk is controlled through limits on issuers, instruments, intermediaries and custodians. As of 31 December, 76.1% of reserves (excluding other assets) were invested in AAA-rated instruments issued by banks, sovereigns, external financial institutions or supranationals. The remaining 23.9% was invested in instruments with a credit rating between BBB+ and AA+, mainly in the sovereign sector. Market risk is limited by diversifying investment currencies, instruments and maturities. Decisions regarding these parameters always take into account the impact on the Bank's balance sheet.

At year-end, 63.7% of total reserves was held in U.S. dollar instruments, 14.4% in euros, 4.8% in Canadian dollars, 4.1% in Australian dollars and the remaining 13.0% in other currencies. The average duration of the investment portfolio was around 23 months.

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

For much of 2015, a portion of the investment portfolio (1.5%) was managed by a single external manager, namely, Pacific Investment Management Company (PIMCO), which managed a general long-term fixed-income government portfolio with a structure equivalent to the internally managed diversification portfolio. In the year, a selection process was carried out to contract a second external manager, which ended in December with the signing of BlackRock Institutional Trust Company N.A., which will begin operations in the first few months of 2016.

In 2015, the total return obtained from international reserve management was 0.73% measured in currency of origin (not considering changes in the portfolio currencies) and -3.74% measured in dollars. The positive return of fixed-income instruments in local currency was offset by the negative exchange rate effect of measuring returns using the U.S. dollar as the base currency. This is due to the appreciation of the dollar against the other currencies in which the international reserves are invested.

The differential return relative to the benchmark (which is used to guide and evaluate investment performance) was -16 bp.

The investment policy was revised in March 2015. The main change was in the currency composition of the investment portfolio benchmark, where the share of the U.S. dollar increased from 47.79 to 63.60%.

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

### E.3 Debt management

The Bank's debt management policy is mainly oriented toward having the instruments available for the correct implementation of monetary policy, as well as to minimize financing costs. In 2015, the debt policy was modified to focus on the issue of shorter-term securities of up to 5 years. This change is more in line with international standards on central bank debt issues. This new guideline reflects a gradual reduction in long-term Central Bank debt.

In early January, the Bank announced its annual bond auction calendar, which considered peso-denominated Central Bank securities (BCP), with a

maturity of five years, for an annual amount of Ch\$1.350 trillion. Following market best practices, these securities were placed through three auctions of Ch\$450 billion each, which implied a substantial increase in the amount traded in each operation relative to previous years.

As in past years, the Central Bank accepted the role of fiscal agent in the placement of Treasury bonds to be issued during the year, together with the related bond service at maturity. This involved placing UF-denominated Treasury bonds with maturity dates of 6, 11 and 20 years (BTU-5, BTU-10 long and BTU-20), together with the reopening of a 30-year UF bond (BTU-30) issued in 2014; and peso-denominated Treasury bonds with maturities of 11 and 20 years (BTP-10 long and BTP-20), together with the reopening of a 30-year peso bond (BTP-30) issued in 2013.

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

### E.4 Provision of large-value payment services

In July 2015, the Central Bank introduced modifications to the RTGS system regulations, to allow institutions that manage clearing and settlement systems (governed by Law 20,345) to open additional settlement accounts for the specific purpose of holding funds received as collateral.

At year-end 2015, the number of participants in the RTGS system had increased to 26, after Banco BTG Pactual and ComDer Contraparte Central started operations.

In 2015, the RTGS system processed an average of 1,579 transactions per day (including the Central Bank's own transfers), with an average daily value of Ch\$11.720 trillion. Relative to the previous year, this represents an increase in the average value of Ch\$760 billion per day. The highest daily value in 2015 was recorded on 24 April, when the system cleared a total of Ch\$17.740 trillion. Interbank payments had the highest growth rate.

In 2015, intraday liquidity facility provided an average of Ch\$625 billion per day, down from Ch\$671 billion in 2014. The highest intraday credit value in the year was Ch\$1.470 trillion, recorded on 31 August.

In 2015, the availability of the RTGS system and the open market operations system, which provides intraday liquidity, was 100%. There were 16 incidents (versus 21 in 2014).

An important development in 2015 was the entry into operations of the new open market operations system (SOMA), which introduced industry best practices and high technological standards to intraday financing operations, so as to meet the rigorous demands of the large-value payment system.

### E.5 Management of fiscal funds

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

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

In 2015, the objective of fiscal fund management was to obtain monthly returns in line with the benchmarks, following the passive management style and risk standards defined by the Finance Ministry in the performance guidelines accepted by the Bank. At the same time, the Bank's management of the funds considered the same standards applied to its international reserve management.

<sup>1/</sup>In 2015, the management of the ESSF and the PRF was carried out by the fiscal agent and external portfolio managers, in line with the current investment guidelines.





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

At year-end 2015, the ESSF had a market value of US\$13.9663 billion, of which US\$12.9766 billion was managed directly by the Central Bank<sup>2/</sup>. During the period, withdrawals from the ESSF portfolio managed internally by the Bank totaled US\$324.2 million<sup>3/</sup>. The PRF had a market value of US\$8.1122 billion on 31 December, of which US\$5.3194 billion was managed directly by the Bank<sup>4/</sup>. In 2015, the PRF received contributions of US\$409.3 million for management by the Central Bank<sup>5/</sup>.

In 2015, the Bank continued to hire the services of a general custodian, which also measured the performance, risk and benchmark compliance of the management of the funds, in accordance with the standards and parameters outlined in the performance guidelines.

In 2015, the absolute gross yield measured in dollars on the funds managed by the Bank was  $-1.81$  for the ESSF and  $-4.04\%$  for the PRF.<sup>6</sup> The negative absolute return on the ESSF and the PRF is mainly explained by the depreciation of the portfolio currencies against the U.S. dollar. In both funds, this effect was partially offset by the interest accrued in the period.

With regard to fiscal agency fees<sup>7/</sup>, the costs of managing the funds were charged to the Treasury. In 2015, the annual charges for the ESSF and PRF were 0.7 and 1.8 bp, respectively, of the total resources under the direct management of the Bank.

<sup>2/</sup>The remaining ESSF resources are managed by external portfolio managers under an equity mandate.

<sup>3/</sup> In 2015, withdrawals from the ESSF totaled US\$463.9 million, of which US\$324.2 million was withdrawn from the portfolio managed directly by the Bank and US\$139.7 million from the externally managed equity portfolio.

<sup>4/</sup> The remaining PRF resources are managed by external portfolio managers under corporate bond and equity mandates.

<sup>5/</sup> In 2015, the PRF received additional resources of US\$463.9 million, of which US\$409.3 million was allocated to the portfolio that is managed internally by the Bank and US\$54.6 million to the externally managed corporate bond portfolio. The annual capitalization of the PRF was financed through withdrawals from the ESSF.

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

<sup>7/</sup> The annual fiscal agency fees for the ESSF and PRF are associated with direct expenses and costs incurred by the Bank in the management of the funds and does not consider charges by the external portfolio managers for the management of their respective portfolios



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

## F. MACROECONOMIC STATISTICS

In 2015 the Central Bank completed its regular macroeconomic statistics revision and publication schedule: National Accounts, Balance of Payments and International Investment Position, Monetary and Financial Statistics, and Foreign Exchange Statistics.

In the year, the Bank also continued its revision of the compilation methodologies used for macroeconomic statistics and released new statistical products. Thus, the regional nominal GDP series for the 2008–2013 period was published in March, including updated production structures by region, the contribution of each region to national GDP and an estimate of regional GDP per capita. In July, the interest rate series were published for financial system loans by type of product, which facilitates understanding of the economy's credit conditions at the present juncture. To improve the timeliness of the statistics, the Bank began publishing the monthly output series quarterly as of 18 May, with a sectoral breakdown (previously these data were released after the close of the year).

In 2015, further progress was made on the 2013 Benchmark Compilation project, which provides the best possible measure of macroeconomic aggregates. In the period, the production accounts were compiled for all economic activities, and studies were carried out on household consumption, foreign trade and trade margins. Work was also done to improve measures of investment, with the incorporation of research and development expenditures, and activity in the construction sector, which will be measured using a new survey of firms in the sector. In the second half, the process of reconciling the supply and use tables was initiated.

To foster an efficient centralized management of the different micro-databases available within the Bank, a project was launched in 2015 to modernize the management of large volumes of microeconomic data and to facilitate its use, employing software available in the international market. This project has a three-year horizon.

The year saw an increase in the use of the statistics that the Bank makes available to the public. The most frequently used application is the daily

indicators, with more than 6 million hits over the course of the year. Second is the Statistical Database, with more than 700,000 hits. Use of the mobile Statistical Database application increased significantly, from less than 8,000 hits in 2014 to almost 100,000 in 2015.

## G. TREASURY MANAGEMENT

In 2015, the Treasury Management continued to fulfill its mandate to oversee cash cycle management so as to ensure the normal functioning of the payment systems, in particular with regard to cash money in circulation in the country.

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

In terms of cash requirements, the Central Bank satisfied the vast majority of the demand from commercial banks in 2015. This provided the supply for a very important channel of cash distribution—namely, automatic teller machines (ATMs), which are one of the main ways that people obtain banknotes.

The value of cash in circulation expanded at double digits in 2015, with annual growth rates of 11% and 11.9% for bills and coins, respectively. This reversed the downward trend recorded in 2014. Broken down by denomination, the \$10,000 bill accounts for the largest share of the currency in circulation, at 42%, which is largely explained by its use in ATMs. With regard to coins, the \$1 and \$10 represent about 69% of the coins issued by the Central Bank as of December 2015.

To ensure an efficient and secure money supply and management, the Treasury Management has executed a series of projects over the years to improve its processes and projects. Thus, one of the biggest projects in the

history of the Bank was launched in 2015. Following an analysis of the current trend in the demand for money and the operations forecast for the coming decades, it was determined that the Treasury facilities needed to be relocated, expanded and modernized, taking a long-term vision in accordance with central banking best practices in terms of infrastructure, security and technology.

## H. THE BALANCE SHEET OF THE CENTRAL BANK OF CHILE

### H.1 Balance sheet levels and structure<sup>8</sup>

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

Measured in pesos, the size of total assets grew by Ch\$2.698 trillion in 2015 (table I.1). Measured relative to GDP, total assets grew from 17.4 to 18.1% between 2014 and 2015. The largest increase, of Ch\$2.7667 trillion, was in foreign reserves, due to peso depreciation (Ch\$2.825 trillion) and earnings from interest (\$310 billion) (that is, income from interest and adjustments on international reserves), less withdrawals by commercial banks and the General Treasury (Ch\$368 trillion).

The balance of other public sector assets increased Ch\$87 billion, mainly from to the adjustment of the asset "*Sinap* Liquidation, Law 18,900" for Ch\$78.5 billion<sup>9</sup>.

<sup>8</sup> / The balance sheet is prepared in accordance with International Financial Reporting Standards (IFRS). See the Financial Statements (note 2 (a)).

<sup>9</sup> / For accounting purposes, the Central Bank recognizes a provision for impairment of equity for the total value of the credit recorded on the balance sheet stemming from the entities that made up the National Savings and Loan System (*Sinap*), which is in an ongoing settlement process for the indefinite future. The adjustment consists in excluding from assets and liabilities the accounting of external loan AID 513-HG-006, which was granted to the Republic of Chile by the Federal Home Loan Bank of New York and which was settled in 2008. For more details, see note 14 (b) in the Financial Statements.

**TABLE I.1**  
**BALANCE SHEET OF THE CENTRAL BANK OF CHILE**  
(balance in Ch\$ billion and percentage of GDP, as of 31 December of each year)

	2014		2015		Rate of return (1) (%)			
	Balance	% GDP	Balance	% GDP	Interest	Δ value	Interest	Δ value
<b>Assets</b>	<b>25,626</b>	<b>17.4</b>	<b>28,324</b>	<b>18.1</b>	<b>1.6</b>	<b>9.9</b>	<b>1.3</b>	<b>9.3</b>
International reserves	24,567	16.7	27,333	17.5	1.3	10.4	1.2	9.4
Other public sector assets (7)	209	0.1	296	0.2	7.2	2.7	5.2	13.7
Subordinated debt	566	0.4	465	0.3	5.1	5.4	5.0	2.9
Monetary policy instruments (2)	8	0.0	0	0.0	5.7	0.0	3.4	0.0
Other	277	0.2	229	0.1	1.2	7.2	1.3	5.8
<b>Liabilities</b>	<b>29,171</b>	<b>19.8</b>	<b>30,300</b>	<b>19.4</b>	<b>2.4</b>	<b>2.9</b>	<b>2.1</b>	<b>2.3</b>
Monetary base	8,183	5.6	9,152	5.9	0.5	0.0	0.4	0.0
Monetary policy promissory notes (3)	12,908	8.8	13,494	8.6	3.8	3.0	3.4	2.4
Other monetary policy liabilities (4)	5,160	3.5	5,638	3.6	2.0	4.1	1.5	1.9
Current accounts and bank foreign currency reserves	770	0.5	666	0.4	0.0	20.6	0.0	16.0
General Treasury and other public sector deposits	1,311	0.9	420	0.3	0.7	6.3	0.3	4.4
Other	839	0.6	930	0.6	0.9	8.8	0.7	10.5
<b>Equity</b>	<b>-3,544</b>	<b>-2.4</b>	<b>-1,976</b>	<b>-1.3</b>				
Initial capital	-3,820		-3,549					
Valuation accounts (8)	3		5					
Other (8)	2		2					
Net result	270		1,565					
Nonfinancial result (5)	-1,128		-136					
Net interest (5)	-263		-212					
Change in value (6)	1,661		1,913					
Capital contributions	0		0					

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

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

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

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

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

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

(7) Includes a provision for 100% of the "SINAP liquidation" asset for Ch\$1.050 trillion.

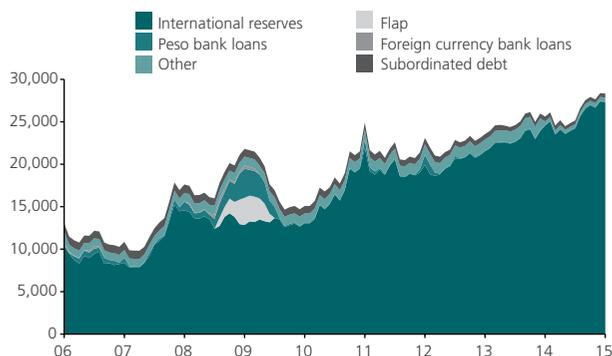
(8) See note 4 and the Comprehensive Income Statement in the 2015 Financial Statements.

Source: Central Bank of Chile.

Liabilities (excluding equity) increased Ch\$1.129 trillion in 2015, but declined from 19.8 to 19.4% of GDP. The largest increase (Ch\$969 billion) was recorded in the monetary base, primarily due to the increase of money in circulation, followed by the growth of monetary policy promissory notes by Ch\$586 billion, stemming from the placement of five-year BCP bonds for Ch\$1.350 trillion, which was offset by maturing bonds of Ch\$976 billion. Other monetary policy liabilities also increased by Ch\$478 billion, due to an increase in overnight foreign currency deposits and a greater utilization of the standing deposit facility. In contrast, General Treasury deposits and other public sector deposits decreased by Ch\$891 billion.

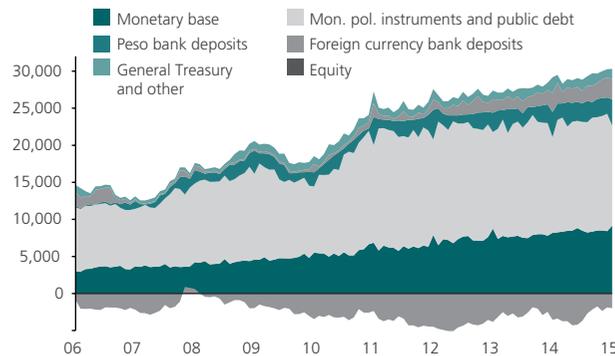
As a result, the Bank's deficit equity contracted in 2015, with a larger increase in the nominal value of assets than in the nominal value of liabilities (figures 1.1 and 1.2). The balance sheet carried a negative equity of Ch\$1.976 trillion, reflecting initial capital of –\$3.549 trillion, other reserves of Ch\$8 billion and net earnings in 2015 of Ch\$1.565 trillion. The latter is explained by gains of Ch\$1.913 trillion from the monetary restatement of assets and liabilities, mainly due to the exchange rate; interest expense of Ch\$212 billion; and nonfinancial costs of Ch\$136 billion, mostly deriving from the production and distribution of currency and to personnel and administrative expenses. Thus, equity increased from –2.4 to –1.3% of GDP between the two years.

**FIGURE 1.1**  
**CENTRAL BANK OF CHILE ASSETS**  
(balance in Ch\$ billion, at the end of December)



Source: Central Bank of Chile.

**FIGURE 1.2**  
**CENTRAL BANK OF CHILE LIABILITIES**  
(balance in Ch\$ billion, at the end of December)



Source: Central Bank of Chile.

## H.2 Return on assets and cost of liabilities

The average return on assets, mainly reserves, is determined by the level of external interest rates on safe, highly liquid instruments. The cost of liabilities is associated with the MPR and its expected trend, which affects the placement rate for Central Bank promissory notes. In 2015, the differential between the interest earned on assets (1.3%) and the cost of liabilities (2.1%) was negative, at 0.8 percentage points (pp).

The interest rate earned on international reserves fell 0.3 pp between 2014 and 2015, due to lower coupon rates on the component instruments. Locally, the interest rate on monetary policy promissory notes decreased 0.4 pp, primarily due to the drop in rates on PDBC and BCPs in 2015.

With regard to adjustments, exchange rate fluctuations generated accounting gains in 2015, while changes in the UF (*unidad de fomento*, an inflation-indexed unit of account) caused accounting losses. As usual, the biggest contributing factor was the exchange rate effect, given its impact on the value of the international reserves in pesos. Between year-end 2014 and year-end 2015, the peso depreciated against the currencies that make up the foreign exchange reserves, causing the value of the reserves to rise by 9.4% and total assets by 9.3%. At the same time, the effects of higher inflation on UF-denominated promissory notes and of exchange rate fluctuations on current and collateral accounts in foreign currency resulted in an adjustment of 2.3% in the value of total liabilities.

### H.3 Balance sheet positions by currency<sup>10/</sup>

The reduction in the Bank's position denominated and payable in domestic currency is largely explained by negative interest flows. The changes in the valuation of the position in domestic currency (Ch\$853 billion) were primarily due to the costs of Central Bank promissory notes and the provision for the *Sinap* liquidation. The flow of exchange operations reduced the Bank's position denominated and payable in domestic currency by Ch\$56 billion and increased the position denominated and payable in foreign currency by the same amount (table I.2a).

The position denominated and payable in foreign currency decreased US\$1.523 billion, due to interest, adjustments and other restatements mainly associated with the international reserves, and increased US\$83 million due to exchange flows. These exchange flows were the result of foreign exchange operations carried out by the Bank solely for operating purposes, primarily in connection with the purchase of bills and coins for circulation, and do not in any way involve operations in the foreign exchange market deriving from policy decisions (table I.2b).

## I. MISCELLANEOUS

### I.1 Commission on Price Distortions

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

By Board Resolution 1937-04-151029, Mr. Francisco Ruiz Aburto was appointed to replace Mr. Juan Eduardo Chackiel Torres as the Central Bank's representative to the National Commission Responsible for Investigating the Existence of Price Distortions on Imported Goods.

<sup>10/</sup> The positions or balances of assets less liabilities by currency can be used to evaluate equity exposure to foreign exchange risk. By disaggregating the changes into flows from (a) exchanges between balances and (b) interest and valuation changes, it is possible to more closely monitor the policies adopted by the Bank.

In 2015, the Commission on Price Distortions met on nine occasions, settling on the opening of six investigations and the application of a provisional safeguard measure on steel wire rod imports, which was in force at the end of the year.

### I.2 Chilean Copper Commission (*Cochilco*)

The Board is responsible for appointing two representatives to the Chilean Copper Commission<sup>11/</sup>, who serve a two-year term<sup>12/</sup>. By Resolution 1893-01-150326, Mr. Francisco Ruiz Aburto was appointed to replace Mr. Ricardo Vicuña Poblete as representative, starting on 1 April 2015 and ending on 25 October 2016.

### I.3 Tribunal for Defense of Free Competition (TDLC)

The Tribunal Competition (*Tribunal de Defensa de la Libre Competencia*, or *TDLC*) is made up of five Judges and two Alternates<sup>13/</sup>. The President of the Republic appoints the President of the Tribunal, who must be a certified lawyer, choosing from a list of candidates provided by the Supreme Court following a public call for nominees. The Board of the Central Bank is responsible for appointing a Judge / Legal Counsel and a Judge / Economist, as well as an Alternate Judge / Economist, following a public call for nominees. The Board also provides the President of the Republic with a short list for choosing a Judge / Legal Counsel and a Judge / Economist, as well as an Alternate Judge / Legal Counsel, following a public call for nominees.

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

In 2015, the Board did not make any appointments or proposals for Judges or Alternate Judges for this Tribunal.

<sup>11/</sup> Letter (d) of Article 4 of Decree Law 1349 of 1976.

<sup>12/</sup> The appointment can be renewed, or it can be revoked before the two-year term is completed.

<sup>13/</sup> Article 6 of Statutory Decree N° 1, of 2005, issued by the Ministry of Economy, Development and Reconstruction (DFL N° 1).

TABLE I.2A  
CENTRAL BANK OF CHILE BALANCE SHEET POSITIONS  
(balance as of 31 December of each year and annual flows in Ch\$ billion)

	2015 flows (4)			
	Balance 2014	Exchanges (5)	Earnings and Δ capital (6)	Balance 2015
<b>Denominated and payable in pesos (1)</b>	<b>-24,822</b>	<b>-56</b>	<b>-853</b>	<b>-25,731</b>
Monetary base (2)	-8,183	-936	-32	-9,152
Central Bank promissory notes	-12,908	258	-844	-13,494
Banks	-3,322	-194	-59	-3,575
Other	-409	817	82	490
<b>Denominated in foreign currency and payable in pesos (1)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Denominated and payable in foreign currency (1)</b>	<b>21,278</b>	<b>56</b>	<b>2,421</b>	<b>23,755</b>
<b>Equity (1)</b>	<b>-3,544</b>	<b>0</b>	<b>1,569</b>	<b>-1,976</b>

TABLE I.2B  
FOREIGN CURRENCY POSITIONS ON THE CENTRAL BANK BALANCE SHEET  
(balance as of 31 December of each year and annual flows in US\$ million)

	2015 flows (4)			
	Balance 2014	Exchanges (5)	Earnings and Δ capital (6)	Balance 2015
<b>Denominated and payable in foreign currency</b>	<b>35,032</b>	<b>83</b>	<b>-1,523</b>	<b>33,592</b>
International reserves (3)	40,447	-265	-1,539	38,643
Central government (net)	-179	5	0	-174
Banks (net)	-4,168	307	0	-3,861
Other (net)	-1,069	37	16	-1,016
<b>TOTAL</b>	<b>35,032</b>	<b>83</b>	<b>-1,523</b>	<b>33,592</b>

(1) 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.

#### I.4 Technical Investment Council

Article 168 of Title XVI of Decree Law 3500 of 1980, on the pension system reform, authorizes the Board to appoint a member and an alternate to the Technical Investment Council.

Through Resolution 1937-05-151029, in October 2015 the Central Bank Board appointed Ms. Catherine Tornel León to replace Ms. Carmen Gloria Silva Llanos as an alternate member of the Technical Investment Council. The appointment was effective starting on the 30th of that month and will continue for the period remaining in the original appointment, which ends on 10 June 2016.



## I.5 Foreign Investment Committee

The Foreign Investment Committee is the only entity authorized, in representation of the Republic of Chile, to accept the entry of foreign capital under Decree Law 600 of 1974, which contains the Foreign Investment Statute, and to establish the terms and conditions of the respective foreign investment contracts.

The Committee is represented by its Chairman in the case of investments that require the Committee's approval. Otherwise, the Committee is represented by its Executive Vice Chairman. Its members include the Minister of Economy, Development and Tourism, who presides, the Minister of Finance, the Minister of Foreign Affairs, the Minister of Planning and the Governor of the Central Bank. Additional ministers participate on the Committee in the event of investment requests related to ministries that are not represented by permanent members.

In the case of the Central Bank, the Deputy Governor acts as the institution's representative to the Committee, as allowed under Article 12 of its Basic Constitutional Act. In 2015, Mr. Enrique Marshall Rivera acted in this capacity through 21 August, when he presented his resignation as Deputy Governor of the Central Bank. From that date, Mr. Sebastián Claro Edwards has held the position of Deputy Governor of the Bank and its Board. As such, he attended the Committee meetings called during the period. However, in accordance with Article 9 and Provisional Article 23 of Law 20,780 on the Tax Reform, Decree Law 600 was repealed on 1 January 2016 or on the entry into effect of the legislation described below. As of that date, the Committee cannot sign any new foreign investment contracts under the aforementioned legal statute, although existing investment contracts will continue to be subject to the legal provisions in force at the time the contracts were signed, including the provisions of Title III on the Committee.

The new framework for foreign direct investment in Chile, together with the respective institutional structure, was established under Law 20,848, published in the *Official Gazette* on 25 June 2015. This new framework—which provides for the creation of a Council of Ministers in charge of designing a National Strategy on the Promotion and Facilitation of Foreign Direct Investment and a new Foreign Investment Promotion Agency for the implementation thereof—does not involve the direct participation of the Central Bank in these processes. Statutory Decree N°1, issued by the Ministry of Economy, Development and Tourism and published in the *Official Gazette* on 21 January 2016, established that date as the day on which the Foreign Investment Promotion Agency initiated activities. Therefore, the Agency succeeded the Foreign Investment Committee as of that date.

### I.6 Technical Commission created under Article 6 of Law 18,480

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

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

In October 2015, the Central Bank Board issued Resolution 1937-02-151029, wherein it proposed to the Minister of Economy, Development and Tourism the appointment of Ms. Ivette Alejandra Fernández Delgado as the Central Bank's representative to this Commission, replacing Mr. Juan Eduardo Chackiel Torres, and Ms. María Isabel Méndez Ferrada as alternate, replacing Mr. Germán Moya Rojas.

The proposed individuals were approved by the Ministry of Economy, Development and Tourism and appointed via Exempt Resolution 211 of 30 November 2015. The resolution stipulates that they shall assume their duties immediately as of the date of the resolution, in advance of the full processing of the legal measure.

### I.7 Technical Commission created under Article 4 of Law 18,634

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

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

In October 2015, the Central Bank Board issued Resolution 1937-03-151029, appointing Ms. Ivette Alejandra Fernández Delgado as the Central Bank's representative to this Commission, replacing Mr. Juan Eduardo Chackiel Torres; and Ms. María Isabel Méndez Ferrada as alternate, replacing Mr. Germán Moya Rojas.





Meeting rooms of the  
Central Bank of Chile





# 02

## INSTITUTIONAL MANAGEMENT AND GOVERNANCE

# 02

## INSTITUTIONAL MANAGEMENT AND GOVERNANCE

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### A. ORGANIZATION AND OPERATION

#### A.1 The Board

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

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

<sup>1/</sup>Title II of the Central Bank's Basic Constitutional Act, in accordance with Articles 108 and 109 of the Chilean Constitution, includes the regulations governing the Board and the specific laws applicable to Board Members in terms of their appointment, compensation, incompatibilities, ineligibilities, conflicts of interest, causes for termination of office and other legal obligations inherent to the fulfillment of their duties. The last amendments to that title were Article 7 of Law 20,088 on Equity Affidavit and Law 20,880 on Probity in public Office and the Prevention of Conflicts of Interest. Additionally, Law 20.730 (on lobbying) entered into force on 29 November 2014 and for all intents and purposes is applicable to the Central Bank of Chile.

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. Enrique Marshall Rivera served as Deputy Governor from 17 February 2014 to 20 August 2015, when his resignation was accepted through Board Resolution 1923E-01-150821. Board Member Sebastián Claro Edwards was named the acting Deputy Governor until the first ordinary Board meeting at which a new Board Member would be added. Mr. Claro's appointment to the position of Deputy Governor was later renewed through Board Resolution 1937-01-151029, for the period from 29 October 2015 through the remainder of his term as Board Member.

The remaining Board Members include Mr. Joaquín Vial Ruiz-Tagle (appointed in February 2012) and Mr. Pablo García Silva (appointed in January 2014), both of whom are serving for a period of ten years from the date of their appointment. Finally, Mr. Mario Marcel Cullell was appointed Board Member on 26 October 2015, replacing Mr. Enrique Marshall Rivera, for the period legally remaining in his post. On 24 December 2015, Mr. Marcel was reappointed as Board Member 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 payment systems. 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.



Monetary Policy Meeting,  
May 2015

### Rules governing Board sessions and resolutions

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

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

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

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

### Activities of the Board

In 2015, there were 73 Board sessions and 82 pre-Board sessions. Additionally, during the preparation of each *Monetary Policy Report* and *Financial Stability Report*, the Board held several meetings for coordination, analysis and discussion.

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

The Central Bank's Basic Constitutional Act establishes the relationships that allow the Bank to adequately fulfill its duties in coordination with the





Visit by the  
President of  
Chile, Michelle  
Bachelet, to the  
Central Bank of  
Chile,  
December 2015



Executive Branch and other government bodies, thereby ensuring suitable control of its actions. Provisions in this area include the following:

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

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

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

(iv) It is the Bank's duty to report to the President of Chile and the Senate regarding the general rules and policies it approves in exercising its powers and to advise the Executive Branch, when requested, on all matters associated with the Bank's functions. In this line, Article 1, paragraph 3, of Law 20,789 of 2014, which created the Financial Stability Board, stipulates that this entity will continually consult with the Central Bank on all matters associated with its functions. The Central Bank Governor can participate in all Financial Stability Board meetings and is accorded the right to speak, as well as access to all the information and materials that are analyzed at the meetings, in accordance with the provisions of Article 4 of the Bank's Basic Constitutional Act.

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

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

(vii) The Minister of Finance has the right to veto Board resolutions that impose, terminate or modify foreign exchange restrictions covered under Article 49 of the Basic Constitutional Act, as well as the provision of foreign



exchange conventions addressed in Article 47 of that legislation. In the event of a veto, the resolution in question can only be adopted through a unanimous vote by the Board Members.

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

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

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

### A.3 Board regulations

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

Given their importance and to make them as widely available as possible, these regulations and their modifications, incorporated in Resolution 1851-01 of 11 September 2014, have been published in the *Official Gazette* and may be accessed directly on the Bank's website at [www.bcentral.cl](http://www.bcentral.cl).

### A.4 Appointment of a new Board Member

As indicated earlier, on 26 October 2015, through Executive Decree 1369 of 2015 issued by the Finance Ministry, the President of the Republic appointed Mr. Mario Marcel Cullell to the position of Board Member of the

Central Bank of Chile, replacing Mr. Enrique Marshall Rivera, for the period legally remaining in Mr. Marshall's post.

Subsequently, through Executive Decree 2077 of 2015 issued by the Finance Ministry, the President of the Republic appointed Mr. Marcel as Board Member for a ten-year term starting on 24 December 2015. The Decree further clarified that for reasons of good service, Mr. Marcel was authorized to assume his functions immediately on that date, in advance of the final processing of the decree.

### A.5 General management, general counsel and auditing

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

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

### A.6 Audit and Compliance Committee

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

In 2015, the Committee met eight times. The issues addressed at these meetings included assessing the services provided by the independent auditing firm; reviewing the annual auditing plan and final report; learning the activities of the internal auditing division; and reviewing the Bank's risk management, internal monitoring and information systems.

The Committee is chaired by Mr. José Luis Cea Egaña, who was appointed to this position on 16 June 2014. In 2015, the other members of the Committee were Mr. Gustavo Favre Domínguez and Mr. Santiago Meersshohn Ernst.

## B. INTERNAL MANAGEMENT

### B.1 Strategic planning

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

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

The Bank's strategic planning plays an important role in the achievement of its vision and mission. The planning horizon is medium term and is tied to the term of office of the Bank's Governor, with a one-year lag. This year, 2015, was the third year of the Medium-Term Strategic Plan developed under Governor Rodrigo Vergara Montes, which extends through 2017.

The strategic focal points for this period are as follows:

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

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

#### **Strengthening the financial stability objective**

- a. Publication of the new bank liquidity regulations and active participation in the initiative to reform the General Banking Law.

- b. Presentation and wide dissemination of the results of the Household Financial Survey.

- c. Implementation of new shadow banking reporting standards and methodological advances on bank stress tests.

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

- a. Ongoing progress on initiatives to revise the work model and process with human resources, including generating a value proposal to attract and retain talent, improving the performance evaluation system, implementing effective leadership programs, providing national postgraduate scholarships, recognizing employee potential and identifying critical positions within the organization.

- b. Development and completion of the collective bargaining process with the workers' union at the Central Bank, in a climate of mutual respect and a strong willingness to reach an agreement that was satisfactory to all parties involved.

#### **Renovating and optimizing Treasury processes**

Development of the new Cash Center Project.

#### **Consolidating the Bank's internal governance and institutional structures**

- a. Coordination of integrated technological tests with key entities in the financial systems, to ensure the maintenance of continuity in the large-value payment system.

- b. Operationalization of a new technological platform for the open market operations system.

- c. Implementation of the public agenda and other requirements stemming from the so-called Law on Lobbying.

- d. Creation of the Project Management Department.

- e. ISO certification in operational continuity of the Bank's security processes.

- f. Implementation of the new organizational website, which supports the adoption of the best technological standards for interacting more effectively with our interest groups.



Open Market Operations System

#### Other achievements

- a. Improvement of the available statistical information, providing regional nominal GDP for the period 2008–2013 and the interest rate series for financial system loans by type of product.
- b. Launch of a new project to modernize the management of large volumes of microeconomic data and facilitate its use within the Bank.

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

In January, the Board made the decision to change the structure of the Strategic and Operational Risk Management Area, in the Corporate Management and Services Division, by creating the Project Management Department and defining the staff positions therein. Also in January, the Financial Services Management, in the Financial Operations Division, underwent a structural change, with the creation of the Technology

Department and the staff positions therein. In February, the Board implemented a change in the structure of the Treasury Management, which reports directly to the General Manager, by creating the Currency Supply and Analysis Department and the staff positions therein. In April, the Institutional Affairs Management, which reports directly to the General Manager, also underwent a structural reorganization, with the creation of the Digital Information and Library Department and the corresponding staff positions. In October, the Board undertook the restructuring of the Office of the Comptroller and Auditor General, which reports to the Board, by eliminating the position of Chief Auditor and creating three departments and the corresponding staff positions: the Technology and Information Security Auditing Department, the Financial Auditing Department and the Operational and Project Auditing Department.

With regard to executive appointments, in February, Mr. Sebastián Aguirre Gran was hired as the Head of the Talent Management and Organizational Development Department; Mr. Nicolás de La Cuesta Gormaz, Head of the Employee Benefits and Quality of Life Department; Ms. Hye Kyung Kim, Head of the Business Technology Department; and Mr. José Lazo Viveros,

Head of the Currency Supply and Analysis Department. In May, Mr. Claudio Sepúlveda Méndez was appointed Head of the Digital Information and Library Department. In June, Ms. Gloria Peña Tapia was named the Statistics Division Director; and Ms. Carmen Gloria Escobar Jofré, the Statistical Information Manager. In August, Ms. Ivette Fernández Delgado was appointed Head of the Balance of Payments and External Debt Department; Mr. Sebastián Rébora Dides, Head of the Annual National Accounts Department; Mr. Daniel Ubilla Baier, Head of the Project Management Department; and Mr. Carlos Escobar Alegría, Project Manager for the Central Bank of Chile's new Cash Center, reporting to the Treasury Management. In December, Ms. Claudia Pérez Nuñez was hired as Head of the Operational and Project Auditing Department; Ms. Jeannette Maturana Veloso, Head of the Technology and Information Security Auditing Department; and Mr. César Mahncke Arancibia, head of the Financial Auditing Department.

### B.3 Human resources management

In 2015, the Central Bank implemented a comprehensive value proposal for its staff, with support from the Bank's area managers and an external consultant specializing in the area. One of the key goals was to maintain internal equity while enhancing competitiveness with the reference market. Progress was also made on the Career Development Program, which focuses on reviewing critical positions within the Bank in terms of succession planning and identifying high-potential employees.

In June, the collective bargaining between the Bank and its workers' union was successfully concluded. The union comprises approximately 87% of the Bank's staff.

In September, there was a new survey on the organizational climate. The results, which were released in November, showed an improvement of 2.2 points relative to the 2013 survey. The information analysis and communication process began immediately, in order to define and initiate concrete plans and actions for improvement.

In 2015, the new national scholarship policy was put into practice. This policy aims to standardize the process of awarding national postgraduate scholarships and thus to support the constant improvement of organizational productivity and career development.

Over the course of the year, there were 194 training activities, totaling 15,794 hours. The activities reached 395 staff members, for an average of 25.2 hours per person.

### B.4 Office of the Comptroller and Auditor General

The Office of the Comptroller and Auditor General is focused on helping the Board and Management fulfill their duties, through an independent, objective and systematic evaluation of the design and effectiveness of risk management, internal control and management. The Office also provides consulting services that add value and support the achievement of institutional objectives. In 2015, the Bank maintained its quality assurance certification by the Institute of Internal Auditors, reaffirming that the Central Bank's auditing activities "comply with international standards for the professional exercise of internal auditing." The Bank also maintained certification of the certification of its process, "Internal Auditing Services for the Central Bank of Chile," under ISO 9001:2008 standards.

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

The Bank is subject to the provisions in its Basic Constitutional Act governing the periodic release of information on the fulfillment of its public duties. In this context, this report discloses the main contracts signed by the Bank for an amount over Ch\$100 million, which are related to the supply of goods and services that allow the institution to operate normally (table II.1) and annual expenditures on consultant services, surveys, research and seminars (table II.2).

With regard to the issue of paper money and coins, section E.3 provides general information on the contracts signed by the Bank in connection with the 2015 issue program.

## C. PERSONNEL, ADMINISTRATIVE AND OTHER EXPENSES

These management-related expenses include personnel compensation and benefits; the use and consumption of goods and services; and other expenses necessary for carrying out the Bank's activities (table II.3). On the income statement, they are broken down as follows: (i) personnel and administrative expenses; and (ii) other expenses and income. In 2015, of the total personnel, administrative and other expenses, personnel costs represent 63.3%; administrative expenses, 34%; and retirement benefits, 2.7%.

Internal activities  
for the 90-year  
anniversary, 2015



**TABLE II.1**  
**CONTRACTS SIGNED IN 2015**  
(over Ch\$100 million over the life of the contract)

N°	Supplier	Purpose	Effective	Ending
3010	Prosegur Chile S.A. (1)	Transport services	01-02-2015	01-02-2018
3021	Sistemas Oracle de Chile S.A. (2)	Information and technology services	28-01-2015	13-05-2016
3041	University of Chile (3)	Supply of statistical products	02-01-2015	02-01-2016
3074	Sociedad en Obras Civiles Abalux Ltda.	Infrastructure maintenance services	23-06-2015	19-01-2016
3087	Salinas, Silva y Compañía Ltda. (3)	Country club and stadium services	01-06-2015	01-06-2016
3110	Sonda S.A. (1)	Information and technology services	26-06-2015	01-09-2018
3157	Walmart Chile S.A. (4)	Bank staff services	01-10-2015	01-10-2016

(1) Three-year contract, which is automatically renewable for up to one/two additional one-year periods in accordance with the respective clause.

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

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

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

Source: Central Bank of Chile.

**TABLE II.2**  
**EXPENDITURES ON CONSULTING, SURVEYS, RESEARCH AND SEMINARS**  
(millions of 2015 pesos) (1)

	2011	2012	2013	2014	2015
<b>Consulting, surveys, research and seminars</b>	<b>1.886,7</b>	<b>1.791,4</b>	<b>1.619,9</b>	<b>2.407,4</b>	<b>2.066,0</b>
Consulting	1.075,6	901,3	961,7	956,5	1.063,3
Surveys and research (2)	546,6	578,4	397,1	1.059,6	581,8
Seminars (3)	264,5	311,7	261,1	391,3	420,9

(1) The average CPI was used to update older figures to 2015 pesos (base year 2013).

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

(3) The increase in 2014 relative to earlier years is largely explained by the Meeting of Central Bank Treasurers of Cemla. The increase in 2015 is mainly explained by the XXI Pacific RIM Banknote Conference.

Source: Central Bank of Chile.

**TABLE II.3**  
**PERSONNEL, ADMINISTRATIVE AND OTHER EXPENSES**  
(millions of 2015 pesos) (1)

	2011	2012	2013	2014	2015
<b>Personnel and administrative expenses</b>					
Personnel expenses (2)	29.655,3	29.783,7	30.485,7	31.108,8	33.536,7
Administrative expenses	15.935,1	13.601,5	15.783,5	16.413,1	18.002,1
Provision for post-employment benefits (3)	2.647,1	4.388,5	1.562,1	1.338,4	1.410,2
<b>Total</b>	<b>48.237,5</b>	<b>47.773,7</b>	<b>47.831,3</b>	<b>48.860,3</b>	<b>52.949,0</b>
<b>Other expenses and (income)</b>					
Depreciations, amortizations	2.213,2	2.442,6	3.041,2	3.003,5	2.652,0
Taxes and contributions	701,0	660,1	597,0	614,2	719,6
Other (4)	14.052,8	(25,6)	93,8	(14,1)	(58,7)
<b>Total</b>	<b>16.967,0</b>	<b>3.077,1</b>	<b>3.732,0</b>	<b>3.603,6</b>	<b>3.312,9</b>
<b>Subtotal personnel, administrative and other expenses</b>	<b>65.204,5</b>	<b>50.850,8</b>	<b>51.563,3</b>	<b>52.463,9</b>	<b>56.261,9</b>
<i>Sinap</i> liquidation impairment, Law 18,900 (5) and (6)	-	-	-	1.187.552,8	(75.185,9)
<b>Total personnel, administrative and other expenses</b>	<b>65.204,5</b>	<b>50.850,8</b>	<b>51.563,3</b>	<b>1.240.016,7</b>	<b>(18.924,0)</b>
<b>A. Personnel expenses</b>					
Wages and other employer contributions	25.797,9	25.284,9	26.178,8	26.677,3	29.065,0
Employee well-being	3.074,4	3.647,6	3.387,5	3.565,3	3.582,2
Training	783,0	851,2	919,4	866,2	889,5
<b>Total</b>	<b>29.655,3</b>	<b>29.783,7</b>	<b>30.485,7</b>	<b>31.108,8</b>	<b>33.536,7</b>
<b>B. Administrative expenses</b>					
Utilities	1.117,6	932,3	1.029,4	971,8	1.189,6
General services	5.824,1	4.610,1	5.077,1	5.606,4	6.420,8
Maintenance of fixed assets	1.509,1	1.962,8	2.643,6	2.178,9	2.149,1
Informatics and technological development expenses	5.597,6	4.304,9	5.413,5	5.248,6	6.176,6
Consulting, surveys, research and seminars	1.886,7	1.791,4	1.619,9	2.407,4	2.066,0
<b>Total</b>	<b>15.935,1</b>	<b>13.601,5</b>	<b>15.783,5</b>	<b>16.413,1</b>	<b>18.002,1</b>

(1) The average CPI was used to update older figures to 2015 pesos (base year 2013).

(2) The higher expense in 2015 was mainly due to the payment of a bonus on the conclusion of the collective bargaining process.

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

(4) The higher expense in 2011 was due to the lower real estate appraisal value.

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

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

Source: Central Bank of Chile.

### Personnel expenses

Personnel expenditures rose 7.8% in real terms between 2014 and 2015. This increase is mainly explained by the payment of a bonus on the conclusion of the collective bargaining process and, to a lesser extent, by higher salaries deriving from agreements established in the current collective employment

contract; from the annual salary review process; from performance raises; and from adjustments for promotions to a higher level in the Bank's organizational structure. Moreover, the total staff increased in 2015, from 624 people in 2014 to 642 people currently. Professionals accounted for 76.2% of the total staff as of December.

## Administrative costs

Administrative costs recorded a real increase of 9.7% between 2014 and 2015. This was mainly due to an increase in general services and in computing and technological development (from the renewal of software, support and data maintenance), which was partially offset by a reduction in consulting, surveys, research and seminars.

## Other (expenses) and income

Relative to 2014, there were lower charges for depreciation and amortization, mainly due to lower replacement of building and equipment. As shown in table II.3, in 2014 a provision was recognized for the impairment of the total value of the credit associated with the entities that make up the National Savings and Loan System (*Sinap*), with an effect on income of Ch\$1,187.5528 billion. The income of Ch\$75.1859 billion basically corresponds to the recovery of the impairment loss from the *Sinap* liquidation asset (Law 18,900) recorded the previous year in accordance with International Financial Reporting Standards (IFRS).

# D. COMMUNICATION AND DIFFUSION

## D.1 Main publications

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

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

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

In 2015, the Bank continued to publish the *Business Perceptions Report* (BPR). This quarterly report—published in February, May, August and November—summarizes the opinions and perceptions of corporate executives from across the country. The interviews, which are carried out by economists from the Monetary Policy Strategy and Communication Management, increased over the course of the year, from around 130 to 200 executives per quarter. The perspectives expressed in this report do not necessarily coincide with the Central Bank Board's assessment of current economic conditions.

With regard to economic research, in 2015 the Bank published volumes 20, 21 and 22 of the series *Central Banking, Analysis and Economic Policies*, which contain the final versions of papers presented at conferences organized by the Bank. The three volumes are entitled *Global Liquidity, Spillovers to Emerging Markets and Policy Responses*; *Economic Policies in Emerging-Market Economies*; and *Commodity Prices and Macroeconomic Policy*.

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

The Bank continued to publish its *Economic Policy Papers* over the course of 2015, with the issue of seven new papers. This series discloses the thinking of Central Bank authorities on issues relevant to the economy and the conduct of monetary policy.

The Bank also published 28 *Working Papers* in 2015. This series has been positioned as a leading economics publication at the international level, based on the number of Internet hits. Its purpose is primarily to facilitate the exchange of ideas and to release preliminary economic research results for discussion and commentary.



Launch of volumes 21 and 22 of the Central Banking series, December 2015



The publication *Investigación al Día* (Current Research) is another outlet for research papers generated by the Bank. Its main objective is to summarize the current research underway at the Central Bank of Chile. This quarterly series issued four new papers in 2015.

Five new papers were published in the *Research in Economic Statistics* series in 2015. The purpose of this series is mainly to release research papers on economic statistics, with a strong empirical content.

In addition to these internal publications, Central Bank economists also published a range of research papers in trade journals such as *Economics Letters*, *Applied Economic Letters*, *Advances in Econometrics*, *International Journal of Forecasting* and *The Czech Journal of Economics and Finance*.

## D.2 communication technologies

In August 2015, the Bank launched its new automated website, operating on a world-class platform in line with other similar institutions. By strengthening its website, which is its main diffusion mechanism, the Bank is ensuring fair and timely access to the information it publishes, including the *Monetary Policy Report*, the *Financial Stability Report*, press releases and minutes from the monetary policy meetings, presentations by Board Members and other Bank executives, statistical publications, research papers, and other information related to the country's economy—all in digital format.

From the August launch through December 2015, the site was accessed over 1,857,000 times, and pages were opened more than 6,119,000 times. During working hours, an average of 300 users are connected to the site at any given time, with as many as 500 users or more when the Bank releases key financial system information. The site has received visits from every country in the world, with the largest share of hits originating from the United States, India, Argentina, Brazil and Spain.

The Bank also releases information through its Twitter account, which has 10,400 followers, and YouTube channel, featuring 57 videos and 286 subscribers. The most watched video is on the monetary policy rate, with 3,761 views.



## D.3 Visits to the Senate and the House of Representatives

The *Monetary Policy Report* was presented to the Senate Finance Committee on 30 March, 3 June and 21 December, and to the full Senate on 1 September. The June and December presentations included the *Financial Stability Report*.

In the House of Representatives, then-Deputy Governor Enrique Marshall gave a presentation to the Finance Committee on 17 March, to discuss the bill to establish a framework law on foreign direct investment in Chile and the corresponding institutional framework.

## D.4 Seminars, workshops and conferences

Within the program of seminars, conferences, book launches and workshops organized by Central Bank, the first activity carried out in 2015



## Presentation of the *Monetary Policy Report, June 2015*

was the short course on Heterogeneous Agents and Macroeconomics, taught by Yale University Professor Anthony Smith on 9–12 March. The short course was organized by the Economic Research Management in collaboration with the Human Resources Management. Approximately 60 people attended the course, including Bank staff and invitees.

The XI Meeting on International Reserve Management was held at the Central Bank on 8–10 April, organized by the International Markets Management and the Center for Latin American Monetary Studies (Cemla). The meeting brought together 37 representatives of central banks and financial institutions in developed and emerging countries. The objective was to analyze the implications of the international financial crisis for international reserve management, in terms of the new financial instruments, their returns and valuation, and credit risk management models in commercial banks.

On 28 May, the Economic Research Management organized the workshop Wages and Labor Market Dynamics over the Business Cycle, featuring keynote speaker Professor Robert Hall from Stanford University. The event brought together local and foreign economists, including Carlos Carrillo-Tudela, University of Essex; Nikita Céspedes, Central Bank of Peru; Marcelo

Veracierto, Federal Reserve Bank of Chicago; and Mauricio Tejada, Alberto Hurtado University.

On 1–2 July, the Central Bank and the Financial Stability and Development (FSD) Group, an initiative of the Inter American Development Bank (IDB), jointly organized a seminar on Household Debt in Latin America: Macroeconomic and Financial Risk Perspectives. The meeting was attended by academics and central bank and financial institution executives. The keynote speaker was Sumit Agarwal, the Vice-Dean of Research and Professor in the Business School at the National University of Singapore. The seminar closed with a panel discussion moderated by Deputy Governor Enrique Marshall, which featured the participation of Alejandro Vanoli, Governor of the Central Bank of Argentina; Rodrigo Vergara, Governor of the Central Bank of Chile; Carlos Fernández, Governor of the Central Bank of Paraguay; and Tony Volpon, Deputy Governor of the Central Bank of Brazil.

The XXIX Meeting of Central Bank Governors of South America was held on 3 July. The governors shared their perspectives on the economies in the region, their countries' experiences with household debt and the real and financial impact of the future path of commodity prices.

On 29–30 September, the Bank organized the first Conference on Statistics for Economic and Financial Analysis, organized by the Statistics Division. The event, which was opened by Governor Rodrigo Vergara and Louis Marc Ducharme, Director of the IMF Statistics Department, provided an opportunity for international organizations to share their experiences on the development, compilation and publication of statistics, including financial accounts, bank statistics, derivatives statistics and household financial surveys. Participants included representatives from the International Monetary Fund (IMF), the U.S. Federal Reserve, the European Central Bank, the Bank for International Settlements (BIS), the Organization for Economic Cooperation and Development (OECD) and the central banks of Brazil, Colombia, Mexico, Portugal, Spain and Turkey. Local participants included representatives from the National Statistics Institute, the Superintendence of Banks and Financial Institutions, the Superintendence of Securities and Insurance, the Superintendence of Pensions and the Ministry of Finance.

The Sixth Foreign Exchange Roundtable was held on 13–15 October, coordinated by the Financial Operations Division. The high-level meeting was attended by representatives of the central banks of Australia, Brazil, India, Israel, Japan, Mexico and Switzerland, who discussed the development of the foreign exchange and financial markets.

On 21–23 October, the Economic Research Area and the Human Resources Management jointly organized the short course on Topics in Panel Data Models, taught by Professor Manuel Arellano of the Center for Monetary and Financial Studies (CEMFI) in Madrid. The course was attended by over 120 people, including Bank staff members and invitees.

On 19–20 November, the Nineteenth Annual Conference of the Central Bank of Chile was held in Santiago, entitled Monetary Policy through Asset Markets: Lessons from Unconventional Measures and Implications for an Integrated World. The keynote address was delivered by Lawrence H. Summers, former Secretary of the U.S. Treasury and President Emeritus of Harvard University. Other participating economists and academics included Michael Woodford, Columbia University; Stephen Morris, Princeton University; Dimitri Vayanos, London School of Economics; Eric Swanson, University of California at Irvine; Simon Gilchrist, Boston University; Helene Rey, London School of Economics; Gauti Eggertson, Brown University; and Jeremy Greenwood, Harvard University.

On 26 November, the Economic Research Management, in collaboration with the Becker Friedman Institute, organized the workshop on The Fiscal and Monetary History of Chile, which featured a keynote address by Thomas Sargent, Nobel Laureate and Professor of New York University. The workshop analyzed the different periods in the country's fiscal and monetary history from 1960 to the present.

On 11 December, the Economic Research Management organized the workshop on The Relevance of the Keynesian Phillips Curve, with Professor James Stock of Harvard University. Nearly 70 people attended the workshop, which included the participation of Olivier Coibion, University of Texas at Austin; Laurence Ball, Johns Hopkins University; and Marco del Nero, Federal Reserve Bank of New York.

## D.5 Community outreach program

The community outreach program, Central to Your Life, developed a series of activities in 2015 to provide financial education to various target audiences, as well as educational content on the main functions of the Central Bank.

In January and July, four economics workshops were organized for high school teachers, led by Claudia Varela, Institutional Affairs Manager. The workshops were attended by 72 teachers from different regions of the country, who spent a day at the Bank reviewing issues related to the economy, learning about the Bank's work in more detail and designing a class in which they applied what they learned at the workshop.

Global Money Week was held the week of 13 March, an event promoted by the Dutch NGO Child and Youth Finance International with the participation of 124 countries and 962 organizations. In Chile, the event was sponsored jointly by the Superintendence of Banks and Financial Institutions (SBIF), the National Consumer Service, the state bank (*BancoEstado*) and the Central Bank of Chile. Activities included visits to the Bank's Numismatic Museum and historical building by educational establishments, as well as other educational activities in the offices of the other organizers.

On 14–15 October, the Bank participated in the 2015 Financial Education Fair, organized by the SBIF. The Fair was opened by the President of Chile, who visited the different stands with the Finance Minister and Superintendent of Banks and Financial Institutions.

At the Fair, the main activity promoted by the Bank was the launch of a new application, Know Your Money, created by the Treasury Management. This tool, designed for mobile phones and tablets, helps people recognize the Chilean banknotes; it can be downloaded to these devices free of charge. The application has been well-received by the public, with over 10,000 downloads in 2015. In addition, the Bank provided Fair attendees with information on its program "Central to Your Life;" hired three actors to portray the historical figures featured on some of the banknotes and

Global Money Week  
visit, March 2015



# Conozca su dinero

Una aplicación del  
Banco Central de Chile

¡Descúbrala  
ahora!



Launch of the mobile  
application for  
banknote recognition,  
at the second Financial  
Education Fair, October  
2015



interact with the public; held a trivia quiz with prizes for students who participated; and presented two short plays, entitled "Healthy Borrowing" and "The Central Bank, the CPI and Inflation."

Parallel to the Fair, the Bank also participated in Financial Education Month, arranging for bus transportation to bring school groups and social organizations to the Bank for guided tours from 14 to 23 October.

To reach other regions with the financial education program, the Bank participated in a conference organized by the National Council of Commercial Engineering Student Centers (CONCAIC) in the center-south region, held at the University of the Bío-Bío in Chillán on 3 December. The conference, entitled "How to Watch Your Wallet," brought together high school teachers and students in the region to talk about the role and functions of the Central Bank, as well as to present two short plays exploring economic concepts in a more accessible format. The SBIF also participated in the conference.

The seventh training seminar for journalists was held between June and November 2015. The program is organized annually by the Bank in conjunction with the Chilean Chapter of the Inter-American Association of Economic and Financial Journalists (Aipef). The eight workshops in the series were led by the Central Bank Governor and by Management and Department Heads, who discussed a range of topics related to the role of the Central Bank. The talks were attended by a total of 73 journalists from newspapers, news agencies, radio and television stations, online media, communication companies and public organizations, with an average of 21 people per session.

In the context of the information diffusion program on the banknotes in circulation and their security features, the Bank continued presenting its training workshops, Know Your Banknotes. Over the course of the year, there were 49 workshops organized in Santiago, Arica, Iquique, La Serena and Concepción. A total of 2,626 people received training, mainly cashiers from retail establishments, small businesses and commercial banks, as well as student cashiers in training at technical institutes and the general public. To support this initiative, 29,200 brochures, 8,200 posters and 5,200 stickers were distributed to provide information on the security features that facilitate the recognition of authentic bills, and 10,300 banknote identification devices for the visually impaired were provided free of charge, with support from the National Disability Service (Senadis).

As part of this training initiative, the Bank continued its Training for Trainers Program, which was launched in 2014. As of December 2015, the program had agreements with 28 businesses, of which 20 were signed in 2015.

In addition to retail businesses, the program attracted the participation of public institutions, foundations and training institutes this year, resulting in 85 new instructors who can train company employees, students and vulnerable members of the community.

The Bank also continued its training program for the national police institutions, which was launched in 2013 with the objective of facilitating police interaction with citizens in relation to the recognition of legal banknotes. In 2015, the program reached 469 officers at the Santiago Police Academy and forensic experts.

In conjunction with the *Carabineros de Chile*, the Treasury Management implemented an informational campaign during the Independence Day holidays, going out to shopping areas to talk with shop owners and customers in order to explain the banknote security features, demonstrate how to authenticate banknotes and hand out print materials. The campaign received wide media coverage.

In 2015 the Bank continued its statistical diffusion program. The program entails university presentations that review the concepts, methodology and results of the Balance of Payments, National and Regional Accounts, National Accounts by Sector, Foreign Exchange Statistics and Expectations Surveys. In addition, practical examples are used to describe the features of the statistical database and other applications, such as interactive chart packs or mobile applications. In the year, 24 talks were given at universities in Santiago, Concepción, La Serena, Osorno, Puerto Montt, Temuco and Valparaíso, with an attendance of over a 1,000 people.

### **Economics Up Close Contest**

On 4 May, at an event attended by 220 students, The Central Bank Governor kicked off the Eleventh Annual Economics Up Close Contest, at the President Alessandri School in the neighborhood of Independencia. For this year's contest, the participating students and teachers were asked to answer the following question: What are the benefits of having a solid financial system? The contest rules specify that the entries be presented in a video format, which should not exceed three minutes and should use simple language.

To promote participation in the contest, promotional material was sent via certified mail to nearly 3,000 educational establishments along the country, and posters were put up in the Santiago and Valparaíso metro stations. In addition, Central Bank economists gave a series of nine talks at schools in Cerro Navia, Ñuñoa, Santiago Center, Maipú, Independencia, La Florida and Talagante.

Economics Up Close  
awards ceremony,  
November 2015



Economics Up Close  
teacher workshops,  
July 2015





Regional meeting in Punta Arenas, June 2015

This year, the Bank received 317 videos prepared by 1,114 students from 147 educational establishments around the country. The videos were reviewed first by 28 economists of the Central Bank of Chile and then by the contest jury, which in 2015 was made up of the Governor of the Central Bank, Board Member Joaquín Vial, Finance Minister Rodrigo Valdés, Education Minister Adriana Delpiano, the Superintendent of Banks and Financial Institutions Eric Parrado, former Bank Governor Vittorio Corbo, Professor Marianela Denegri of La Frontera University, and the winning teachers of the 2014 contest, Sandra Fuente-Alba and Mirla Narváez.

The winning groups were presented at an awards ceremony held on 4 November. In the ninth and tenth grade category, first prize went to the San Ignacio El Bosque School in Providencia, for the video “The Financial System in Three Minutes.” Second place was awarded to the Jorge Sánchez Ugarte Professional Technical School in Concepción, for the video “Vincent and the Economy.” Third place went to the Buin School, of the homonymous town, for the video “Lady, your lettuce is expensive!”

In the eleventh and twelfth grade category, first place was awarded to the Internacional SEK del Pacífico School in Concón, for the video “Economics.” Second place went to Anglo Maipú School in Maipú, for the video “Diego and Matías in: Finance without Cash,” and finally, third place went to the Charles De Gaulle School in Concepción, for the video “What Are the Benefits of Having a Solid Financial System?”

#### Numismatic Museum and guided tours

The Numismatic museum received a total of 14,885 visits in 2015, including National Heritage Day, tours reserved through the guided tour program, private tours of the museum for primary school students, delegations, people attending conferences and workshops held at the Bank, and walk-in tourists who entered the Numismatic Museum as general public.

#### D.6 Regional visits

The regional meetings are intended to promote the public’s learning and becoming familiar with the Bank’s objectives, policies, instruments and forecasts; to facilitate a better understanding of the Bank’s actions; and to improve the effectiveness of its policies.

The Central Bank, in conjunction with other entities, organized several meetings to present the *Monetary Policy Report* and the *Financial Stability Report*, which were complemented with additional presentations on Central Bank policy and instruments.

In April, Board Member Joaquín Vial gave the *Monetary Policy Report* presentation at a regional meeting organized in conjunction with the Maule Progress Board. In Antofagasta, Board Member Pablo García presented the

*Report* at a seminar organized by *Sofofa* and the Antofagasta Industrial Association (AIA). The regional meeting organized by the Central Bank in conjunction with the Atacama Regional Development Corporation (*Corproa*) and scheduled for the same day in Copiapó was cancelled due to flooding in the area.

In June, the regional meetings to present the June *Monetary Policy Report* and the *Financial Stability Report* for the first half were held in Arica, in coordination with the Arica and Parinacota Development Corporation (*Cordap*), where Board Member Joaquín Vial gave the presentation. In Punta Arenas, the meeting was organized in conjunction with the University of Magallanes, and the presentation was given by Board Member Pablo García. On the same day, Board Member Sebastián Claro participated in the *Sofofa* Regional Conference Cycle organized in conjunction with the Malleco and Cautín Industrial Union Association (*Asimca*) and the Araucanía Productive Development Corporation (*CorpAraucanía*) in Temuco.

In September, the *Monetary Policy Report* was presented by Deputy Governor Sebastián Claro in Iquique, at a meeting organized in conjunction with the Association of Duty Free Area Users, the Arturo Prat University and the Municipality of Iquique. In Temuco, Board Member Pablo García presented the *Report* at the meeting in association with *CorpAraucanía*, while Board Member Joaquín Vial gave the presentation at the Puerto Varas Regional Conference Cycle, organized by *Sofofa* and *SalmonChile*.

In addition, in 2015 several Board Members gave presentations on current economic issues at other events across the country.

## E. MISCELLANEOUS

### E.1 Technological changes

A technology modernization project was launched in 2014 to upgrade the server network at the two processing centers. The project was concluded in 2015. The faster network speed at the main processing site has contributed to improving the performance of the available infrastructure and significantly shortening certain processes, including data backup.

With regard to information security, work continued on the technological updating of the corporate firewall platform, improving access speed for various services and Internet navigation and incorporating new functions that support a more detailed control of permissions and privileges. Additionally, a double authentication process was added for remote access to corporate email, thereby improving security levels.

In the ongoing project to modernize obsolete technological infrastructure, the server network's domain controllers and the corporate email platform were updated, optimizing the server infrastructure that supports it.

In the year, the Information Systems Area incorporated the use of tools that can generate dashboards, which support decisionmaking on the quality of technology services the area provides to the organization and facilitate the execution of the information technology proposal.

Progress was also made on the legacy applications developed by the Bank, which are being migrated to more modern software development platforms, while ensuring operational continuity and continued software support.

Also in 2015, the Information Systems Management was closely involved in coordinating participants of the large-value payment system (LVPS) and carrying out a series of LPVS system-continuity tests. Moreover, the first steps were taken to incorporate the private banking sector in the implementation of these activities.

Finally, the Information Systems Management participated actively in a series of technology projects for the user areas of the Bank, including the modernization of the software platform and infrastructure that supports the statistical information system (SIETE); the startup of the new open market operations system; the upgrading of the platform that supports the organizational website and the document management system (ADOC); and the implementation of solutions for publishing information required under the Lobby Law and the Public Agenda.

### E.2 External auditors

The second paragraph of Article 76 of the Basic Constitutional Act stipulates that the Central Bank's financial statements must include an independent auditors' opinion and that the Board is to appoint the auditors from among those registered with the Superintendencia de Bancos and Financial Institutions (SBIF). After issuing a call for tenders to contract financial statement auditing services for an initial period of three years, with a maximum of three contract renewals, and based on a favorable report by the Audit and Compliance Committee, the Board awarded the contract for professional auditing services for the period 2014–2016 to *KPMG Auditores y Consultores Ltda.*, via Resolution 1,775 of 5 September 2013.

### E.3 Banknotes and coins

In terms of units, the number of banknotes in circulation has tended to stabilize in the last two years, with an annual growth rate of 7% in December 2015 relative to year-end 2014, such that there are 945.6 million banknotes in circulation<sup>3/</sup>. In the same period, the number of coins in circulation grew 5.5%, to 13.4131 billion in December 2015<sup>4/</sup>. In terms of value, the bills in circulation total Ch\$8.0397 trillion, up 11% from year-end 2014. The value of the stock of coins grew 11.9% in annual terms in 2015, to Ch\$378.0 billion.

To meet public demand for currency, the Bank received new banknotes and coins in 2014 and 2015, which were produced under contracts signed in 2013 following an international tender. The banknotes received in 2015 were printed in Sweden and Germany; the coins were minted in the Netherlands and Chile. The new currency was duly distributed to the commercial banks as scheduled.

After analyzing its operations forecast, the Treasury Management determined that its installed capacity is insufficient to cover the economy's cash requirements in the coming decades. To address this limitation, a project was launched in 2015 to relocate, expand and modernize the Treasury facilities, using state-of-the art logistics, security, technology and infrastructure for central banking. During the year, a site was identified and purchased in the Santiago Metropolitan Region for the relocation and centralization of the future Treasury facilities. At the same time, research began on current operational and security standards in central banking, which will be taken into account in the initial phase of project development. Subsequent phases will undertake the conceptualization, design, construction and installation of the facilities, over an estimated period of six to seven years.

An opinion survey on habits and perceptions in the use of Chilean banknotes and coins was carried out in 2015. The results of this study confirm that the public's perception of the banknotes is generally positive and that there is a preference for the denominations printed on cotton paper. Most people agree that certain usage habits damage the bills, but there are still a number of practices that need to be changed, such as folding the bills for storage. The survey results will contribute to improving the Bank's educational programs and reinforcing its public messages.

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

### E.4 International relations activities

In 2015, the Bank maintained an intense international agenda, through both its regular international activities and a wide range of additional activities. The former included the bi-monthly and annual meetings of governors of member banks of the Bank for International Settlements (BIS); the BIS meeting of alternate governors; the spring and annual meetings of the International Monetary Fund (IMF); the annual meeting of the Inter American Development Bank (IDB); the meetings of central bank governors of South America (formerly *Mercosur* and associated countries); the Meeting of Central Bank Governors of Cemla and of the Cemla Committee of Alternates; the meetings of the Institute of International Finance (IIF), which were held in conjunction with the annual IDB meeting (April) and the annual IMF meeting (October); and the IMF Article IV mission (in April–May).

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

In March, the Governor of the Bank spoke at the international conference *New Challenges for Emerging Market Economies in the Aftermath of the Global Financial Crisis*, organized jointly by the Latin American Financial Affairs Committee (CLAAF) and the Torcuato Di Tella University and held in Buenos Aires, Argentina. In May, he participated in the meeting of the BIS Regional Consultative Group for the Americas, held in Cancún, Mexico together with the Second BIS High-Level Round Table on Financial Sector Issues and the Meeting of Central Bank Governors of Cemla. In June, he participated in the Plenary Session of the Group of 30 (G30) in Rio de Janeiro, Brazil. In July, he attended the annual FLAR-CAF conference in Cartagena de Indias, Colombia. In October, he was in London for Chile Day and also gave a presentation in Chile's pavilion at Expo Milan 2015.

<sup>3/</sup> Total banknotes in circulation do not include the item "Other banknotes," which covers the \$100 and \$50 denominations in the previous currency series.

<sup>4/</sup> Total coins in circulation do not include the item "Other coins," which covers the old centavos and escudos issued that have not been returned to the Central Bank of Chile. It also does not include the commemorative coins issued by the Central Bank of Chile in \$10,000 and \$2,000 denominations.

At the Meeting of Central Bank Governors of Cemla, Governor Rodrigo Vergara was elected for a two-year term as Chairman of the Board of Governors. In addition, Chile became a member of the organization's Committee of Alternates and Audit Committee, also for a two-year period.

The official visits from foreign authorities featured the Secretary General of the Union of South American Nations (USAN) and former President of Colombia, Mr. Ernesto Samper (July); the Director of the IMF Western Hemisphere Department, Mr. Alejandro Werner (April); the CEO of China Construction Bank, Mr. Wang Zujii; and a number of central bank governors in Latin America.

With regard to international organizations, the Bank received missions from the Organization for Economic Cooperation and Development (OECD) (April and September), in the framework of a study published by the organization in November, entitled *Economic Surveys: Chile 2015*.

The Bank also received two missions from the World Bank (August and September), in relation to the Report on the Observance of Standards and Codes (ROSC), which assesses the degree of convergence of the local financial system with the Principles for Financial Market Infrastructures (PFMI). There was an IMF mission on financial integration in July and an IMF staff visit in November.

Technical visits to the Bank included an official from the Central Bank of the Dominican Republic, who spent three months with the Open Market Operations Department; a delegation from the Central Bank of Indonesia, sharing experiences with the Financial Operations Division on the implementation of operating systems; and a delegation from the Central Bank of Sri Lanka, which had meetings with the Financial Risk Management and Assessment Management.

In 2015, the Central Bank continued to participate actively in a broad range of world and regional forums, such as the OECD, the Financial Stability Board (FSB) and USAN. At the OECD, representatives from the Research Division attended the Short-Term Economic Prospects (STEP) meeting in October and the meetings of the Economic Policy Committee (EPC) in May and October. With regard to the FSB, representatives from the Financial Policy Division attended meetings of the Analytical Group on Vulnerabilities (AGV) in January, May and November; meetings of the Regional Consultative Group for the Americas (RCGA) in May, November and December; and a

workshop with the Working Group on Shadow Banking in November. Work with USAN centered on the meetings of the financial integration technical group in August and the special meeting of Working Group N°1 on the International Reserve Management and Mobilization. In November, the Bank participated in the Fourth Annual Meeting of the Macroeconomic Monitoring Group of *Mercosur* and Associated States.

## E.5 Access to information

In 2015, the Bank received a total of 71 applications for access to information, all of which were addressed in less time than required under Law 20,285 on access to public information (20 business days). To date, no complaints have been filed against the Bank in cases in which the information requested had to be denied for reasons addressed in the Law on Transparency.

### Law on Lobbying

For all intents and purposes, the Law on Lobbying is applicable to the Central Bank of Chile, and it establishes that the Governor, the Deputy Governor and the other Board Members are subject to the obligations stipulated therein. The law further establishes that the legal obligations can be extended to other functionaries via Board Resolution, if their duties, responsibilities or position within the Bank require that they be subject to the regulatory guidelines, if they possess substantial decisionmaking power or if they are in a position of significant influence over others who do. Thus, through Board Resolution 1920-02-150813 published in the *Official Gazette* on 17 August 2015, the Board identified the functionaries of the Central Bank who are considered Passive Subjects, to whom the law is applied as of 29 August 2015. The full list of names and positions is published on the Bank's website.

With regard to the Bank's Public Agenda Record, in 2015 there was record and publication of 60 meetings held with Passive Subjects of the Bank for the purposes of lobbying or the representation of special interests; 48 business trips; and 118 donations received.

As part of the transparency policy promoted by the Bank, and in compliance with the Laws on Transparency and Lobbying, the schedule of meetings and public activities of the Governor, Deputy Governor and Board Members of the Central Bank have been available to the public on the Bank's website since 6 July.



Old premises of the  
Central Bank of Chile





# 03

## APPENDICES



# APPENDIX I

## Press releases on monetary policy meetings in 2015

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### 15 January

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 3% in annual terms.

Internationally, commodity prices continued to follow a downward trend, with another drop in the oil price and a decrease in the copper price. International financial conditions for emerging economies have deteriorated, while long-term rates in developed economies have fallen and the dollar has continued to appreciate. Recent data confirm the outlook for a strong economic performance in the United States and lower growth and low inflation in the Eurozone and Japan, a trend that has accentuated the expected differences in monetary policy in those countries.

Domestically, output and demand continue to reflect the low growth rate of the Chilean economy, in line with the baseline scenario in the December *Monetary Policy Report*. The unemployment rate fell, and nominal wages remained dynamic. Local financial conditions reflect the impact of the monetary stimulus. Annual inflation fell, while the core indicators were stable. Medium-term inflation expectations remain around 3%. The evolution of prices will be closely monitored.

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

### 12 February

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 3% in annual terms.

Internationally, the Eurozone announced a quantitative easing program, and several developed economies increased their monetary stimulus. With some exceptions, commodity prices rose. The copper price has

stayed around the level recorded last month. International financial conditions for emerging economies have not changed appreciably. The dollar continues to strengthen.

January inflation surprised the markets on the upside, with high core inflation. In the most probable scenario, annual inflation will stay above the target range for several months, a trend that will be closely monitored. Medium-term inflation expectations remain around 3%. Output and demand data point to growth rates in line with the forecast in the December *Monetary Policy Report*. The unemployment rate fell, and nominal wages remained dynamic. Local financial conditions reflect the impact of the monetary stimulus.

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

### 19 March

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 3% in annual terms.

The economic recovery in the developed world continued its course, especially in the United States, while the outlook for most of Latin America has worsened. Over the past month, commodity prices fell, with some exceptions such as copper. International financial conditions for emerging economies worsened, and the dollar continued to strengthen. Several economies increased their monetary stimulus, and the U.S. Federal Reserve has recently taken a more cautious tone in its communication.

Similar to last month, February inflation was higher than the market expected. Core inflation remains high. In the most probably scenario, annual inflation will remain above the target range for several months, a trend that will be closely monitored. Medium-term inflation expectations remain around 3%. Output and demand data point to

growth rates in line with the forecast in the December *Monetary Policy Report*. The unemployment rate rose slightly, and nominal salaries remained dynamic. Local financial conditions reflect the impact of the monetary stimulus.

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

## 16 April

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 3% in annual terms.

Internationally, the recent data indicate a somewhat better outlook for Europe, although the risks remain. At the same time, China has slowed, and Latin America continues to weaken. In the United States, the recovery remains on course, although the first quarter could post weaker growth, which caused the market to push back the expected timing of the Fed's first rate hike. In this context, the dollar depreciated at the global level, and international financial conditions improved relative to a month ago. Commodity prices continue to be mixed, although both copper and especially oil and oil derivatives increased.

The data released after the publication of the *Monetary Policy Report* are, in general, consistent with the baseline scenario described in the report. Output is in line with expectations, although investment is somewhat less dynamic. The unemployment rate fell slightly, but job creation was low. Nominal wages remain dynamic. In March, total inflation was lower than expected, but not core inflation. Annual CPI inflation thus remains high, and its evolution will be closely monitored. Medium-term inflation expectations remain around 3%. Local financial conditions reflect the impact of the monetary stimulus.

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

## 14 May

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 3% in annual terms.

Internationally, the world growth outlook has not changed significantly, although first-quarter data were lower than expected. In Latin America, the scenario has continued to deteriorate. During the month, long-term rates increased in most countries, although they are still low. The movements in sovereign spreads were mixed. In general, currencies appreciated against the dollar, with a strong movement in the euro. With the exception of foods, commodity prices increased, including copper and fuels.

Domestically, first-quarter data point to a moderate growth rate for output and demand. Some indicators suggest less dynamism at the margin. The growth of employment and the labor force remain low, and the unemployment rate was unchanged. The annual growth rate of nominal wages was stable. In April, total inflation was higher than expected, but not core inflation. Both remain high, and their evolution will be closely monitored. Medium-term inflation expectations remain around 3%. Local financial conditions reflect the impact of the monetary stimulus.

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

## 11 June

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 3% in annual terms.

Internationally, the data available after the publication of the *Monetary Policy Report* confirm a gradual recovery of growth in what remains of the year. Long-term rates and spreads increased in most countries, while the stock indices fell. Capital inflows declined for most emerging economies. The dollar appreciated globally. Commodity prices were mixed, and copper fell.

Domestically, the most recent data are consistent with the baseline scenario in the *Monetary Policy Report*. May inflation was in line with the forecast, and it is expected to remain high for several months. The inflation trend will be closely monitored. Medium-term inflation expectations remain around 3%. The growth of employment and the labor force remain low, and the unemployment rate was unchanged. The annual growth rate of nominal wages was stable, and the peso depreciated.

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

## 14 July

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 3% in annual terms.

Internationally, the biggest news was the volatility in the financial markets, in response to events in Greece and China, but the markets have tended to settle in the most recent period. In this context, the price of higher-risk assets fell sharply in the month, but recovered substantially in the past few days. The dollar appreciated at the global level. Commodity prices fell, in particular copper and oil.

Domestically, the June CPI was higher than forecast, and annual inflation was over 4%. One year ahead, market expectations increased, but they were stable two years ahead. The inflation trend will continue to be closely monitored. Output and demand have been weaker than projected in the baseline scenario in the *Monetary Policy Report*, and private growth expectations have fallen for this year and next. Confidence indicators have not improved. At the same time, the peso has depreciated.

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

## 13 August

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 3% in annual terms.

Internationally, the financial markets continued to experience substantial volatility. Emerging currencies continue to depreciate, and spreads have increased. The world growth outlook has deteriorated slightly, and developments in China have increased the risks, especially for commodity exports. Copper and fuel prices decreased again.

Domestically, annual CPI inflation was over 4%, and it is expected to stay at that level for longer than previously projected. One year ahead, market expectations rose again, but they were stable two years ahead. The evolution of inflation and inflation expectations will continue to be closely monitored. Output and demand continue to be weaker than projected in the baseline scenario in the *Monetary Policy Report*, and private growth expectations declined again for this year and next. Confidence indicators are more pessimistic. Private job creation and annual wage growth did not change significantly in the month. The peso has depreciated.

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

## 15 September

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 3% in annual terms.

Internationally, the financial markets continue to record substantial volatility. The key risks are associated with developments in the Chinese economy, the uncertainty surrounding the Fed's coming decision and the deterioration of the scenario for Latin America, especially Brazil. Commodity prices were also volatile, in particular oil and, to a lesser extent, copper.

Domestically, the August CPI surprised the markets on the upside, mainly due to the more volatile components. As a result, annual inflation reached 5%. Core inflation—The CPIPE—was in line with the forecast. Inflation expectations increased at some horizons. The evolution of inflation and inflation expectations will continue to be closely monitored. Output and demand remain weak, and confidence indicators are more pessimistic. Private job creation and annual wage growth did not change significantly in the month.

In line with September *Monetary Policy Report*, the Board considers that in order for inflation to converge to 3% in the policy horizon, the strong monetary stimulus currently in place will need to be reduced, and given recent develops, this process will begin in the short term. The Board reaffirms its commitment to being flexible in its use of monetary policy in order to keep forecast inflation at 3% in the policy horizon.

## 15 October

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

Internationally, after the U.S. Federal Reserve meeting, the dollar depreciated multilaterally and the price of most high-risk assets recovered. However, market volatility remains high. The risks remain in terms of the evolution of the Chinese economy, and doubts have increased regarding the performance of Latin America, especially Brazil. Commodity price movements were mixed in the month.

Domestically, the September CPI was lower than projected, although annual inflation—total and core—is expected to remain high, in line with the forecast in the last *Monetary Policy Report*. Inflation expectations two years ahead are at 3%. The evolution of inflation and inflation expectations will continue to be closely monitored. In August, output was lower than expected, with a surprise that was concentrated in the mining sector. Demand indicators remain weak. Confidence indicators improved at the margin, although they remain pessimistic. Private job creation remains dynamic, and annual wage growth declined.

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

## 12 November

At its monthly monetary policy meeting, the Board of the Central Bank of Chile decided to hold the monetary policy interest rate at 3.25%.

Internationally, the most recent data confirm the higher growth rate of the developed countries and the less dynamic performance of the emerging economies. The data on the United States significantly increase the probability that the U.S. Federal Reserve will apply its first rate increase in December. Although this increase is expected, there are still risks that it could trigger possible market disruptions. In general, commodity prices decreased in the month.

Domestically, the October CPI was somewhat higher than expected, with a surprise that was concentrated in core inflation (the CPIPE). Annual CPI inflation was 4% and CPIPE inflation, 4.8%. Inflation expectations two years ahead remain at 3%. The evolution of these variables will continue to be closely monitored. Third-quarter data indicate that output and demand are in line with the forecast in the *Monetary Policy Report*. Confidence indicators improved at the margin, although they remain pessimistic. Job creation and wage growth remain dynamic.

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

## 17 December

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

The international scenario continues to point to a deterioration for the emerging economies, largely due to commodity prices, which continue to fall, and less favorable global financial conditions. The outlook for world growth has not changed significantly since last month, although the world growth forecast has decreased in the most recent period. The U.S. Federal Reserve increased its interest rate, without triggering significant changes in the global financial markets, at least for now.

Domestically, annual CPI inflation declined to 3.9%, but it is expected to go back over 4% in the short term. Core inflation (the CPIPE) remains near 5% in annual terms. At the same time, inflation expectations two years ahead remain at 3%. The evolution of these variable will continue to be closely monitored. Partial data for the fourth quarter indicate limited growth of output and domestic demand. Confidence indicators remain pessimistic. Job creation and wage growth remain dynamic.

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

## APPENDIX II

### Press releases on foreign exchange and financial measures in 2015

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#### 5 January

In its regular session held on 18 December 2014, the Board of the Central Bank of Chile approved the annual auction calendar for 2015. The program considers up to Ch\$1.350 trillion, all of which will be issued in pesos with a maturity of five years (BCP-5).

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

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

#### 26 January

Today, the Central Bank of Chile published the new Chapter III.B.2.1 of the *Compendium of Financial Regulations* ([www.bcentral.cl](http://www.bcentral.cl)), which introduces new regulations on bank liquidity management. Prior to publication, the Bank conducted an analysis and assessment of comments received in response to the change proposal published on 9 May 2014.

Since 2013, the Central Bank, in conjunction with the SBIF, has been revising its regulations in order to incorporate international developments and consensus on liquidity risk regulation, especially in regard to the lessons of the 2008 financial crisis. These lessons highlight the importance of adequate liquidity management for the normal functioning of the financial markets and the banking sector. Essentially, the relatively sound solvency position of some banks in various countries was insufficient to avoid situations of financial instability deriving, to a large extent, from deficiencies in liquidity risk management.

Based on this review process, it was possible to develop the regulation being published today, which has the following main objectives:

- Strengthen liquidity risk management policies in the banking sector, in line with international best practices, in particular the recent guidelines issued by the Basel Committee on Banking Supervision (BCBS). For example, the regulations establish that the bank's board will be responsible for approving a liquidity management policy and a formal contingency plan for facing a liquidity deficit.
- Improve the current regulatory requirements on maturity mismatches. In this area, the regulations incorporate the lessons from the experience of applying the regulation in Chile since its last modification in October 2003. In particular, the regulations establish greater standardization of adjusted mismatch measures and incorporate a consolidated measure as a regulatory limit.
- Increase the quantity and quality of information available to the supervisor and the market. In particular, the regulations incorporate more granular reporting requirements for both liquid assets and liabilities, as well as the abovementioned liquidity indicators, and establish that the banks must release quantitative information to the public, at the frequency determined by the Superintendence.
- Incorporate the Basel III quantitative measures as informative tools that are complementary to the supervision process, without imposing a regulatory limit, so as to advance in the calibration of these indicators in Chile while they are being discussed and implemented at the international level. The indicators in question are the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR).

## 10 March

The Central Bank of Chile announces its auction calendar for five-year peso-denominated bonds (BCP-5), under the rubric of the bond issue program approved for the year and announced on 5 January, for a total of Ch\$1.350 trillion.

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

- 7 April 2015: a peso bond issue of Ch\$450.000 billion, with an issue rate of 4.5% and maturity date of 1 April 2020.
- 3 June 2015: a peso bond issue of Ch\$450.000 billion, with an issue rate of 4.5% and maturity date of 1 June 2020.
- 7 July 2015: a peso bond issue of Ch\$450.000 billion, with an issue rate of 4.5% and maturity date of 1 June 2020.

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

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

## 25 May

On 25 May 2015, the Central Bank of Chile and the People's Bank of China (PBC) signed a Memorandum of Understanding (MoU) to promote conditions that facilitate the use of the renminbi (RMB) in Chile. To this end, the PBC will appoint an RMB Clearing Bank in Chile.

The Central Bank of Chile and the PBC had previously signed a Bilateral Agreement on RMB/CLP Currency Swaps, effective on 25 May 2015, which considers the opening of a facility or line for a maximum amount of RMB 22 billion, or CLP 2.200 trillion. This agreement is valid for three years and will be renewable with the mutual consent of both central banks

Finally, China authorities have agreed to grant Chile a share of RMB 50 trillion in its Renminbi Qualified Foreign Institutional Investor (RQFII) program, which allows qualified foreign institutional investors to invest directly in the Chinese securities market.

These agreements constitute new advances in financial cooperation between the two central banks, in order to promote the use of the RMB in cross-border transactions and facilitate bilateral trade and investment.

## 27 November

The Central Bank of Chile has incorporated mortgage bonds as eligible securities for the intraday liquidity facility and the standing liquidity facility, for the new open market operations system that began operating on Friday 20 November.

For the aforementioned operations, eligible mortgage bonds include bonds issued by banks, with the exception of own issues, depending on the specific financial conditions of each operation.

Since 12 August 2013, mortgage bonds have been eligible on a weekly basis through a special program. They will now be incorporated regularly in all open market operations. Consequently, the special program of securities purchases with a repurchase agreement will be concluded, accepting mortgage bonds solely as eligible instruments.

## APPENDIX III

### Main measures taken by the Central Bank of Chile in 2015

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#### January

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##### 5

The Bank reported that the Board, in its regular session on 18 December 2014, approved the annual schedule for the placement of debt instruments in 2015 (the Debt Plan), which considers the issue of up to Ch\$1.350 trillion in peso-denominated bonds with a five-year maturity (BCP-5).

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

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

##### 15

At its monthly monetary policy meeting, the Board decided to hold the monetary policy rate at 3% in annual terms.

##### 22

Through Resolution 1879-03-150122, the Board modified the regulations on the ratio of banks' operating assets and liabilities contained in Chapter III.B.2 of the *Compendium of Financial Regulations*,

with the incorporation of a new Chapter III.B.2.1 on "Regulations on the Management and Measurement of Bank Liquidity Position," which was expected to enter into effect on 1 August 2015.

Chapter III.B.2.1 introduces a new regulation on bank liquidity management, which aims to incorporate international developments and consensus on liquidity risk regulation, in particular stemming from the lessons of the international financial crisis.

Specifically, the new regulations have the following objectives: (i) to strengthen liquidity risk management policies in the banking sector, in line with the most recent guidelines from the Basel Committee on Banking Supervision; (ii) to improve the current regulatory requirements on maturity mismatches; (iii) to increase the quantity and quality of information available to the supervisor and the market, incorporating more detailed reporting requirements on both liquid assets and liabilities; and (iv) incorporate the Basel III quantitative measures as informative tools that are complementary to the supervision process, without imposing a regulatory limit, so as to advance in the calibration of these indicators in Chile while they are being discussed and implemented at the international level.

##### 29

Through Board Resolution 1881-08-150129, and in accordance with Article 76 of the General Banking Law, the Bank authorized *Corpbanca* to increase investment in its foreign broker-dealer affiliate, *Corpbanca Securities LLC*, established in the United States, whose initial investment was authorized under Resolution 1752-03-130509.

## February

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12

At its monthly monetary policy meeting, the Board decided to hold the monetary policy rate at 3% in annual terms.

23

The Governor of the Bank, in his capacity as representative of Chile to the International Monetary Fund (IMF), appointed Mr. Ricardo Vicuña Poblete to the role of Chief Consultant on the IMF Southern Cone Seat, from 1 June 2015 through the end of the two-year period 2014–2016.

26

In virtue of Resolution 1887-01-150226, the Board renewed the appointment of Mr. Gustavo Favre Domínguez as member of the Audit and Compliance Committee of the Central Bank of Chile, for a period of three years, starting on 2 March 2015.

## March

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10

The Bank reported the auction calendar for the five-year peso bonds (BCP-5) that will be issued in accordance with the 2015 Debt Plan.

19

Through Resolution 1890-02-150319, the Board accepted the fiscal agent assignment entrusted to the Central Bank through Executive Decree 26 of 22 January 2015, from the Ministry of Finance, to represent and act in the name and on the account of the General Treasurer in the placement and administration of the General Treasury bonds identified in the Decree in the local capital market.

19

Through Resolution 1890-03-150319, the Board issued its favorable report on the operating rules of *ComDer, Contraparte Central S.A.*, in accordance with the current legal framework for the clearing and settling of financial instruments (Law 20,345), which were later approved by the Superintendence of Securities and Insurance through Exempt Resolution 181 of 8 June 2015. This new infrastructure acts as central counterparty for operations in the OTC derivatives market for banks and other participants. It started operations on 30 July 2015.

19

At its monthly monetary policy meeting, the Board decided to hold the monetary policy rate at 3% in annual terms.

26

Through Resolution 1893-01-150326, the Board appointed Mr. Francisco Ruiz Aburto to represent the Central Bank of Chile on the Board of the Chilean Copper Commission (*Cochilco*), replacing Mr. Ricardo Vicuña Poblete.

26

Through Resolution 1893-02-150326, the Board modified Chapter 1.2 of Part One of the *Compendium of Monetary and Financial Regulations*, expanding the payment date alternatives for debt instruments issued by the Bank that are auctioned or sold to the different institutions and agents that make up the primary market, through auctions or window sales of these securities on the open market.

30

Through Resolution 1894E-01-150330, the Board dictated that all the earnings or surpluses from the *Banco de Chile* in 2014 that are due to the Central Bank, as creditor of subordinated debt, be paid in cash. This decision was adopted in accordance with the stipulations of paragraph (b) of Article 31 of Law 19,396, on new forms of payment of subordinated debt.

## April

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16

At its monthly monetary policy meeting, the Board decided to hold the monetary policy rate at 3% in annual terms.

## May

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14

At its monthly monetary policy meeting, the Board decided to hold the monetary policy rate at 3% in annual terms.

## 25

The Central Bank of Chile and the People's Central Bank of China (PBC) signed the following financial cooperation agreements: (i) a Bilateral Agreement on Renminbi-Pesos (RMB/CLP) Currency Swaps, effective as of 25 May 2015, which considers the opening of a facility or line for a maximum of RMB 22 billion or CLP 2.200 trillion; this agreement is valid for three years and is renewable with the mutual consent of both central banks; and (ii) a Memorandum of Understanding (MoU) to promote conditions to facilitate the use of the Renminbi in Chile.

## June

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### 11

At its monthly monetary policy meeting, the Board decided to hold the monetary policy rate at 3% in annual terms.

### 18

Through Board Resolution 1909-02-150618, the Bank accepted the new performance guidelines on the management of the resources held in the Pension Reserve Fund and the Economic and Social Stability Fund, issued by the Ministry of Finance in Letters 1566 and 1567, both dated 17 June 2015.

The new guidelines do not require any modification to the fiscal agency fees for either the Pension Reserve Fund or the Economic and Social Stability Fund, which were accepted through Resolution 1861E-01-141022.

### 25

Through Resolution 1910-04-150625, the Board updated its communication policy to incorporate the adjustment to the quiet period, made on 5 June, with regard to the communication blackout preceding the monetary policy meetings and publication of the *Monetary Policy Reports*. In the case of the meetings, the quiet period will begin five days prior to the meeting, including the day of the meeting, and will end at noon on the day after the meeting. For the *Report*, the period will begin one week prior to the issue of the report and end on the day that it is presented before the Senate.

The objective of the quiet period is to reduce market volatility and speculation on monetary policy decisions or on publications that contain forecasts, which are reported on the Events Calendar on the Bank's website.

## July

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### 2

Through Resolution 1911-02-150702, the Board revoked the authorization granted to *Cruz del Sur Corredora de Bolsa S.A.* to operate in the formal exchange market.

### 6

In the framework of its institutional transparency policy, the Board determined to release to the public via the Bank's website the calendar of meetings and public activities scheduled for the Governor and Board Members of the Bank, which will henceforth be published in the website's Active Transparency section. This does not affect the Public Agenda Record that the Bank maintains in compliance with the stipulations of the Law on Lobbying and the Representation of Special Interests before Authorities and Functionaries.

### 9

Through Resolution 1913-02-150709, the Board appointed Mr. José Alberto Pino Urbina to serve as a member on the Information Technology Advisory Committee of the Central Bank of Chile, for a new three-year period, starting on 1 August 2015. The Board also named Ignacio Casas Raposo to the position of Chairman of the same committee, for a new one-year period, starting on 1 August 2015.

### 14

At its monthly monetary policy meeting, the Board decided to hold the monetary policy rate at 3% in annual terms.

### 15

Through Resolution 1914-01-150715, the Board decided to complement the general conditions applicable to bank current accounts opened at the Central Bank by management companies governed by Law 20,345. The adjustments were subsequently introduced into Chapters III.H.4 and III.H.4.1 of the *Compendium of Financial Regulations*.

The new regulations specify that management companies operating financial clearing and settlement systems (CSS), which are governed by Law 20,345, can open additional accessory accounts to be used as additional settlement accounts in the RTGS system, for the specific purpose of holding cash received as collateral, as required under the aforementioned law, in order to guarantee the clearing of the net cash

balance deriving from the settlement orders accepted by the respective CSS, provided that the balance is cleared in the RTGS system.

The opening of these additional current accounts will be optional and must be expressly contemplated in the operating rules of the CSS(s) managed by the management company. The account can be requested simultaneously with the opening of the main account held at the Central Bank or at a later date.

## 30

Through Resolution 1918E-01-150730, the Board extended the period for the application of the new regulations on managing and measuring banks' liquidity position, contained in Chapter III.B.2.1 of the *Compendium of Financial Regulations*, to provide for a partial and staggered implementation. This will allow a gradual adoption and adequate implementation of the new regulations and reporting requirements issued by the Superintendence of Banks and Financial Institutions.

The following schedule has been established for phasing in the requirements: (a) Liquidity risk management, comprising requirements on the role of the bank's board and upper management, the liquidity management policy, stress tests and contingency plans, entered into effect on 1 August 2015; (b) the measurement and control of maturity mismatches subject to regulatory limits will enter into effect no later than 1 December 2015; and (c) the measurement of the new indicators for monitoring the liquidity position—namely, the reporting requirements for liquid assets and liabilities, the liquidity coverage ratio, the net stable funding ratio, and the release of information to the public and the SBIF—will enter into effect no later than 1 March 2016.

Until the aforementioned regulations become effective, the provisions of section number 1 of Chapter III.B.2 will continue to be applied, which was replaced by Resolution 1879-03-150122.

## August

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### 13

At its monthly monetary policy meeting, the Board decided to hold the monetary policy rate at 3% in annual terms.

### 13

Through Resolution 1920-02-150813, in compliance with Law 20.730 on Lobbying and the Representation of Special Interests to authorities and functionaries, the Board designated the following authorities of the Central Bank of Chile as passive subjects: General Manager, General

Counsel, Comptroller and Auditor General, and Division Directors, regardless of whether the individuals in question are acting in these positions on a permanent, substitute or interim basis.

## 21

Through Resolution 1923E-01-150821, the Board accepted the resignation of Mr. Enrique Marshall Rivera from the position of Deputy Governor of the Board and of the Central Bank of Chile and appointed Board Member Sebastián Claro Edwards to the position of Deputy Governor, effective immediately, until the next ordinary Board meeting at which a new Board Member would be appointed. Mr. Marshall's resignation from the position of Board Member of the Central Bank of Chile was expected and was presented for consideration by the President of Chile.

## September

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### 15

At its monthly monetary policy meeting, the Board decided to hold the monetary policy rate at 3% in annual terms.

### 17

Through Resolution 1929-02-150917, the Board modified the first part of the *Compendium of Monetary and Financial Regulations*, to encompass the implementation of the new technological platform for the open market operations system. This new technological platform entered into operations on 20 November 2015, on which date these regulations became effective.

## October

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### 1

Through Resolution 1933-01-151001, the Board accepted the fiscal agency fees corresponding to the management of the resources held in the Economic and Social Stabilization Fund and the Pension Reserve Fund for the period from 1 January to 31 December 2016, in accordance with letter 2295 from the Ministry of Finance on 4 September 2015.

### 15

At its monthly monetary policy meeting, the Board decided to raise the monetary policy rate by 25 basis points, to 3.25%.

## 29

Through Resolution 1937-01-151029, the Board appointed Mr. Sebastián Claro Edwards to the position of Deputy Governor of the Board and of the Central Bank of Chile, from this date through the end of his term as Board Member of the Bank, thereby renewing the appointment executed through Resolution 1923E-01-150821 with no break in continuity.

## 29

Through Resolution 1937-02-151029, the Board proposed to the Minister of Economy, Development and Tourism the appointment of Ms. Ivette Alejandra Fernández Delgado, to replace Mr. Juan Eduardo Chackiel Torres, as member of the Technical Commission responsible for reviewing applications for reconsideration of the input tax credit for exporters, as stipulated in Article 6 of Law 18,480, and Ms. María Isabel Méndez Ferrada, to replace Mr. Germán Moya, as alternate.

Through Exempt Resolution 211 of 30 November 2015, the Ministry of Economy, Development and Tourism appointed the proposed individuals to the Technical Commission. The resolution stipulates that they shall assume their duties immediately as of the date of the resolution, in advance of the full processing of the legal measure.

## 29

Through Resolution 1937-03-151029, the Board appointed Ms. Ivette Alejandra Fernández Delgado, replacing Mr. Juan Eduardo Chackiel Torres, as the Bank's representative on the Technical Commission created under Article 4° of Law 18.634 on capital goods for the purpose of the deferred payment of customs duties and other legal regulations; and Ms. María Isabel Méndez Ferrada as alternate, replacing Mr. Germán Moya Rojas.

## 29

Through Resolution 1937-04-151029, the Board appointed Mr. Francisco Ruiz Aburto to replace Mr. Juan Eduardo Chackiel Torres as the Central Bank's representative to the National Commission Responsible for Investigating the Existence of Price Distortions on Imported Goods, as stipulated under Article 11 of Law 18,525, whose consolidated, coordinated and systematized text was established through Decree with Force of Law 31 of 18 October 2004, issued by the Ministry of Finance.

## 29

Through Resolution 1937-05-151029, the Board of the Central Bank of Chile appointed Ms. Catherine Carolina Tornel León as an alternate member of the Technical Investment Council, in accordance with Article 168 of Decree Law 3500 of 1980, replacing Ms. Carmen Gloria Silva Llanos, effective 30 October 2015, for the period remaining in the original appointment, which ends on 10 June 2016.

## November

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### 12

At its monthly monetary policy meeting, the Board decided to hold the monetary policy rate at 3.25% in annual terms.

### 27

The Central Bank of Chile announced through a press release that it was permanently incorporating mortgage bonds—that is, bonds issued by banks to raise money for mortgage loans, as defined in the General Banking Law—as eligible credit securities for operations carried out through the open market operations system, wherein the Central Bank of Chile purchases credit securities with a repurchase agreement, in conjunction with banks' operations in the intraday liquidity facility and the standing liquidity facility.

Own-issued mortgage bonds are excluded from eligibility.

As of August 2013, mortgage bonds constituted an eligible security for the weekly repo operations carried out under the special program solely comprising these instruments, which was ended when the necessary adjustment was achieved.

## December

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### 17

At its monthly monetary policy meeting, the Board decided to raise the monetary policy rate by 25 basis points, to 3.5%.



# APPENDIX IV

## International reserve management

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### A. Introduction

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

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

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

### B. Investment policy and benchmark structure

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

toward the preservation of capital in the face of possible market fluctuations.

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

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

The investment policy was adjusted in March 2015. The main change was in the currency composition of the investment portfolio benchmark, with an increase in the share of the U.S. dollar from 47.79% to 63.6% (table 1a).

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<sup>1/</sup> Board Resolution 1289-01-060831 of 29 August 2006.

TABLE 1A  
BENCHMARK CURRENCY ALLOCATION OF THE INVESTMENT  
PORTFOLIO

(percent, as of 31 December of each year)

Currency	Share 2014	Share 2015
U.S. dollar	47.79	63.60
Euro	21.96	16.75
Canadian dollar	9.15	4.575
Australian dollar	6.10	4.575
South Korean won	2.25	3.00
Chinese renminbi	2.25	3.00
New Zealand dollar	1.80	1.80
Pound sterling	2.25	1.50
Swiss franc	2.40	0.75
Japanese yen	3.00	0.45
Singapore dollar	1.05	0.00
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

Source: Central Bank of Chile.

## B.1 Benchmark structure of the investment portfolio

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

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

TABLE 1B  
BENCHMARK STRUCTURE FOR THE INTERNALLY MANAGED INVESTMENT PORTFOLIO

		Tranche (years)	% over internally managed portfolio	% over subportfolio	Duration (months)	Benchmark indices
Short-term liquidity	USD	0-1	24.7	100.0	3.7	Merrill Lynch U.S. Treasury Bills (Unhedged)
	<b>Total</b>		<b>24.7</b>	<b>100.0</b>	<b>3.7</b>	
Medium-term liquidity	USD	1-3	33.9	54.0	21.6	Barclays Global Aggregate - Treasury Bond Index (Unhedged) (EUR, Germany only)
		3-5	3.8	6.0	46.3	
		Total	37.7	60.0	24.1	
	EUR	1-3	14.1	22.5	20.5	
		3-5	1.6	2.5	45.1	
		Total	15.7	25.0	23.0	
	CAD	1-3	4.2	6.8	20.4	
		3-5	0.5	0.8	45.0	
		Total	4.7	7.5	22.9	
	AUD	1-3	4.2	6.8	20.9	
3-5		0.5	0.8	43.3		
Total		4.7	7.5	23.2		
<b>Total</b>		<b>62.7</b>	<b>100.0</b>	<b>23.7</b>		
Diversification (internal)	USD	5-7	2.2	17.7	67.2	Barclays Global Aggregate - Treasury Bond Index (Unhedged) (EUR, Germany only)
		7-10	0.3	2.4	92.7	
		Total	2.5	20.0	70.2	
	EUR	5-7	1.1	8.8	67.3	
		7-10	0.2	1.2	94.5	
		Total	1.3	10.0	70.5	
	CHF	5-7	0.6	4.4	66.6	
		7-10	0.1	0.6	90.5	
		Total	0.6	5.0	69.4	
	GBP	5-7	1.1	8.8	64.6	
		7-10	0.2	1.2	93.4	
		Total	1.3	10.0	68.0	
	JPY	5-7	0.3	2.7	67.9	
		7-10	0.0	0.4	97.5	
		Total	0.4	3.0	71.4	
	KRW	5-7	2.2	17.7	63.0	
		7-10	0.3	2.4	87.9	
		Total	2.5	20.0	65.9	
	NZD	5-7	1.3	10.6	55.8	
7-10		0.2	1.4	73.0		
Total		1.5	12.0	57.8		
CNH	3 month	2.5	20.0	1.5	Bloomberg CGDRC Currency Index	
<b>Total</b>		<b>12.6</b>	<b>100.0</b>	<b>53.9</b>		
<b>Total internally managed portfolio</b>			<b>100.0</b>	<b>22.5</b>		

Source: Central Bank of Chile.

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

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

The diversification portfolio represents 15% of the investment portfolio, and its benchmark structure comprises 20% U.S. dollars, 20% Chinese renminbi, 20% South Korean won, 12% New Zealand dollars, 10% euros, 10% pounds sterling, 5% Swiss francs, and 3% Japanese yen. With the exception of the renminbi, this benchmark includes securities issued by the United States, South Korea, New Zealand, Germany, the United Kingdom, Switzerland and Japan, with a residual maturity of five to ten years. In the case of the renminbi, the benchmark is associated with the deposit rate on three-month bank deposits denominated in Chinese renminbi and traded offshore. The target duration of the portfolio is approximately 54 months. Investments can also be made in any and all instruments approved under the most recent *Current Policy Manual for the Management of Foreign Exchange Reserves*, with no restrictions on terms (or residual maturity) or currencies. The diversification portfolio is managed on the basis of a risk budget. Deviations from the benchmark are limited to an average monthly ex ante tracking error of 100 basis points (bp) per year<sup>5/</sup>, which cannot exceed 150 bp at any given time. The main objective of holding these

<sup>2/</sup> Fixed-Rate Investment at the BIS: Short-term fixed-income securities issued by the Bank for International Settlements.

<sup>3/</sup> Separate Trading of Registered Interest and Principal Securities: Zero-coupon securities backed by notes and bonds issued by the U.S. Treasury.

<sup>4/</sup> Medium-Term Instruments: medium-term fixed-income securities issued by the Bank for International Settlements (BIS).

<sup>5/</sup> The tracking error identifies the incremental risk incurred by a portfolio, relative to the benchmark, when it takes positions outside the benchmark. For the purposes of management, limits can be imposed on this incremental risk, and these limits are known as a risk budget.

assets is to increase returns at the margin so as to reduce the existing gap between the cost of the Bank's liabilities and the returns on its investments. The investment portfolio has mechanisms for rebalancing the subportfolios to ensure that their relative size remains in line with the benchmark.

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

## B.2 Benchmark structure of the cash portfolio

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

## B.3 Evolution of the portfolios in 2015

As of 31 December 2015, the investment portfolio stood at US\$33.1374 billion, while the cash portfolio held US\$4.0351 billion. Taking the sum of these two portfolios plus other assets<sup>6/</sup>, total international reserves closed the year at US\$38.6426 billion. This balance was US\$1.8044 billion less than at year-end 2014. The decrease is explained by reductions of US\$1.2598 billion in the investment portfolio, US\$315.7 million in the cash portfolio and US\$228.9 million in the other assets portfolio. In the case of the investment portfolio, the drop is mainly explained by the depreciation of all the currencies in which the international reserves are invested against the U.S. dollar, where the largest depreciation was recorded by the Canadian dollar (16%), followed by the New Zealand dollar (12%), the Australian dollar (11%) and the euro (10%). The negative return deriving from the exchange rate effect when the value of the reserves is measured in U.S. dollars was partially offset by interest earned in the period. For the cash portfolio, the decrease is explained by lower deposits by local banks in the Central Bank, while the decline in the other assets portfolio mainly reflects a reduction in the IMF reserve position.

With regard to the value of the investment portfolio, US\$8.0157 billion was in the short-term liquidity portfolio, US\$20.097 billion was in the medium-term liquidity portfolio, US\$4.9162 billion was in diversification portfolio and US\$5.3 million was in current accounts. At year-end, there were also investments in onshore Chinese government bonds, through investments in a BIS Investment Pool denominated in renminbi (BISIP CNY), for a total of US\$103.1 million. In addition, a share of the diversification portfolio was managed by two external managers, which are described in section C of this appendix.

<sup>6/</sup> The other assets portfolio is mainly composed of special drawing rights (SDRs) and the IMF reserve position.

Of the US\$32.5542 billion in the internally managed portfolio<sup>7/</sup>, 90.3% was invested in sovereign risk, 4.5% in supranational risk<sup>8/</sup>, 0.5% in agency risk<sup>9/</sup>, and 4.7% in bank risk. Relative to year-end 2014, there was a marginal increase in sovereign and bank risk, which was offset by a reduction in supranational and agency risk.

Sovereign risk includes investments in the United States (53.6%), Germany (16.8%), Canada (10.0%), Australia (4.7%), Ireland (3.3%), South Korea (3.0%), New Zealand (1.6%), the United Kingdom (1.5%), Poland, Spain and Italia (0.9% each), Switzerland, Japan and Austria (0.7% each), France (0.4%) and China (0.3%). Supranational risk is made up entirely of issues by the International Finance Corporation (IFC), the European Investment Bank (EIB), the Bank for International Settlements (BIS), the Inter-American Development Bank (IDB), the International Bank for Reconstruction and Development (IBRD), the Asian Development Bank (ADB) and the European Company for the Financing of Railroad Rolling Stock (Eurofima). Agency risk

is concentrated in issues from Freddie Mac (United States) and Landwirtschaftliche Rentenbank (Germany). Finally, bank risk comprises deposits denominated in U.S. dollars and New Zealand dollars, in banks in Germany Australia, China, France, Japan, Singapore, Sweden, the United Kingdom and Switzerland.

The cash portfolio stood at US\$4.0351 billion at year-end 2015.

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

TABLE 2A  
COMPOSITION OF INTERNATIONAL RESERVES, BY CURRENCY AND PORTFOLIO, 2014 AND 2015  
(US\$ million as of 31 December)

Portfolio	currency	2014		2015	
		Dec	%	Dec.	%
<b>Investment portfolio</b>		<b>34,397.2</b>	<b>85.0</b>	<b>33,137.4</b>	<b>85.8</b>
Currencies and deposits	U.S. dollar	712.0	1.8	704.0	1.8
	Euro	1.4	0.0	0.1	0.0
	Canadian dollar	0.1	0.0	0.1	0.0
	Australian dollar	0.2	0.0	0.0	0.0
	Other	733.7	1.8	836.1	2.2
Securities	U.S. dollar	16,421.6	40.6	19,829.9	51.3
	Euro	7,886.7	19.5	5,559.5	14.4
	Canadian dollar	3,093.1	7.6	1,871.9	4.8
	Australian dollar	2,014.4	5.0	1,574.3	4.1
	Other	3,534.0	8.7	2,761.6	7.1
Total	U.S. dollar	17,133.6	42.4	20,533.9	53.1
	Euro	7,888.1	19.5	5,559.6	14.4
	Canadian dollar	3,093.2	7.6	1,871.9	4.8
	Australian dollar	2,014.6	5.0	1,574.3	4.1
	Other	4,267.6	10.6	3,597.6	9.3
<b>Cash portfolio</b>		<b>4,350.8</b>	<b>10.8</b>	<b>4,035.1</b>	<b>10.4</b>
Currencies and deposits	U.S. dollar	4,350.8	10.8	4,035.1	10.4
<b>Other assets</b>		<b>1,698.9</b>	<b>4.2</b>	<b>1,470.1</b>	<b>3.8</b>
Monetary gold	Other	9.4	0.0	8.5	0.0
IMF SDRs	Other	1,079.1	2.7	1,058.3	2.7
IMF reserve position	Other	489.7	1.2	363.1	0.9
Reciprocal credit agreements	U.S. dollar	119.4	0.3	39.3	0.1
Currencies and deposits	U.S. dollar	1.3	0.0	0.8	0.0
<b>Total International reserves</b>		<b>40,446.9</b>	<b>100.0</b>	<b>38,642.6</b>	<b>100.0</b>
	U.S. dollar	21,605.2	53.4	24,609.2	63.7
	Euro	7,888.1	19.5	5,559.6	14.4
	Canadian dollar	3,093.2	7.6	1,871.9	4.8
	Australian dollar	2,014.6	5.0	1,574.3	4.1
	Other	5,845.9	14.5	5,027.6	13.0

source: Central Bank of Chile.

<sup>7/</sup> The investment portfolio excluding the BIS investment pool shares and the externally managed resources.

<sup>8/</sup> Supranational institutions are multilateral financial institutions, whose articles of agreement are signed by the governments of two or more countries.

<sup>9/</sup> Agencies are financial institutions with specific objectives; they are fully or partially backed by the government of the country in which they are established.

**TABLE 2B**  
**INVESTMENT PORTFOLIO: INVESTMENTS BY CURRENCY**  
 (percent as of 31 December 2015)

Currency	Share (*)
U.S. dollar	65.7
Euro	16.2
Australian dollar	4.2
Canadian dollar	4.1
Chinese renminbi	3.2
South Korean won	3.0
New Zealand dollar	1.5
Pound sterling	1.4
Swiss franc	0.7
Japanese yen	0.1
<b>Total</b>	<b>100.0</b>

(\*) Share includes currency forwards.

Source: Central Bank of Chile.

## C. External portfolio management program

In 2015, a portion of the investment portfolio was managed by Pacific Investment Management Company (PIMCO), while Goldman Sachs Asset Management (GSAM) participated in the external management program through January. At the close of the year, a total of US\$480.0 million was managed externally.

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

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

## D. Risk management and returns from international reserve management

### D.1 Risk management in international reserve management

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

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

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

**TABLE 3**  
**COMPOSITION OF INTERNATIONAL RESERVES BY CREDIT RISK (1) (2) (3) (4)**  
 (percent as of 31 December 2015)

Type of credit risk	AAA	AA+	AA	AA-	A+	A	A-	BBB+	Total
Agency	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.6
Bank	2.7	0.0	0.0	6.2	2.7	3.4	0.0	0.0	15.0
Sovereign	68.9	1.3	1.7	2.6	1.2	0.0	3.3	1.4	80.4
Supranational	4.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.0
<b>Total</b>	<b>76.1</b>	<b>1.3</b>	<b>1.7</b>	<b>8.9</b>	<b>3.9</b>	<b>3.4</b>	<b>3.3</b>	<b>1.4</b>	<b>100.0</b>

(1) Bank risk is related to investment in banks' financial instruments (deposits).

Sovereign risk is related to investment in instruments from sovereign states (deposits, bills and nominal bonds). Includes investments in a BIS Investment Pool denominated in renminbi, associated with Chinese sovereign risk.

Agency risk is associated with investment in instruments from U.S. and German government agencies (bills and nominal bonds).

Supranational risk is associated with investment in instruments from an official multilateral issuer (deposits, bills and nominal bonds).

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

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

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

Source: Central Bank of Chile.

TABLE 4  
(US\$ million)

Financial institutions with outstanding deposits as of 31.Dec.2015 (1) (2)

AAA and AA-	Australia & New Zealand Banking Group Limited DZ BANK AG Deutsche Zentral-Genossenschaftsbank HSBC France J.P. Morgan Chase Bank Oversea-Chinese Banking Corp Ltd. Rabobank Nederland Svenska Handelsbanken AB (publ) Zurcher Kantonalbank	Minimum 46 Maximum 996 Category average 413
A+ and A	Bank of China (Hong Kong) Ltd. Bred Banque Populaire China Construction Bank Corporation Natixis Société Générale Standard Chartered Bank The Chiba Bank, Ltd.	Minimum 23 Maximum 498 Category average 322

(1) Includes the internally managed investment portfolio and the cash portfolio.  
(2) Includes balances held in remunerated current accounts.

Source: Central Bank of Chile.

TABLE 5  
ELIGIBLE BANKS AND PERMISSIBLE LIMITS AS OF 31 DECEMBER  
2015  
(US\$ million and months)

Country	Bank	Amount	Duration
Germany	DekaBank Deutsche Girozentrale	500	3
Germany	DZ BANK AG Deutsche Zentral-Genossenschaftsbank	700	9
Germany	Landesbank Hessen-Thüringen Girozentrale	500	3
Germany	NRW.BANK	700	9
Australia	Australia & New Zealand Banking Group Limited	700	9
Australia	Commonwealth Bank of Australia	700	9
Australia	National Australia Bank Ltd	700	9
Australia	Westpac Banking Corporation	700	9
Belgium	BNP Paribas Fortis SA/NV	500	3
Belgium	ING Belgium SA/NV	500	3
Belgium	KBC Bank NV	500	3
Canada	Bank of Montreal	700	9
Canada	Caisse Centrale Desjardins	500	9
Canada	Canadian Imperial Bank of Commerce	700	9
Canada	National Bank of Canada	500	3
Canada	Royal Bank of Canada	700	9

continued

Canada	The Bank of Nova Scotia	700	9
Canada	The Toronto-Dominion Bank	700	9
China	Bank of China (Hong Kong) Ltd.	500	3
China	China Construction Bank Corporation	500	3
China	The Hong Kong and Shanghai Banking Corporation Limited	700	9
South Korea	Standard Chartered Bank Korea Limited	500	3
Denmark	Danske Bank A/S	500	3
Denmark	Nordea Bank Danmark A/S	700	9
Denmark	Nykredit Bank A/S	500	3
United States	Bank of America NA	500	3
United States	BNY Mellon National Association	500	9
United States	Citibank, NA	500	3
United States	Comerica Bank	500	3
United States	Goldman Sachs Bank USA	500	3
United States	HSBC Bank USA NA	700	9
United States	J.P. Morgan Chase Bank	700	9
United States	PNC Bank NA	500	3
United States	State Street Bank & Trust Company	700	9
United States	The Bank of New York Mellon	700	9
United States	The Northern Trust Company	700	9
United States	U.S. Bank N.A.	700	9
United States	Wells Fargo Bank, NA	700	9
Finland	Nordea Bank Finland Plc	700	9
France	BNP Paribas	500	3
France	Bred Banque Populaire	250	3
France	Crédit Agricole Corporate and Investment Bank	500	3
France	Crédit Agricole S.A.	500	3
France	Crédit Industriel et Commercial (CIC)	500	3
France	HSBC France	700	9
France	Natixis	500	3
France	Société Générale	500	3
Netherlands	ABN AMRO Bank NV	500	3
Netherlands	ING Bank NV	500	3
Netherlands	NV Bank Nederlandse Gemeenten	1.000	12
Netherlands	Rabobank Nederland	700	9
Japan	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	500	3
Japan	The Chiba Bank, Ltd	500	3
Japan	The Norinchukin Bank	500	3
Japan	The Shizuoka Bank Ltd	500	3
Japan	Mizuho Bank Ltd.	500	3
Japan	Sumitomo Mitsui Banking Corporation	500	3
Japan	Sumitomo Mitsui Trust Bank Ltd.	500	3
Norway	DNB Bank ASA	500	3
Norway	Nordea Bank Norge ASA	700	9
United Kingdom	Bank of Scotland Plc	500	3
United Kingdom	Barclays Bank Plc	500	3
United Kingdom	Goldman Sachs International Bank	250	3
United Kingdom	HSBC Bank Plc	700	9
United Kingdom	Lloyds Bank Plc	500	3
United Kingdom	Santander UK PLC	500	3
United Kingdom	Standard Chartered Bank	500	3
Singapore	DBS Bank Ltd	700	9
Singapore	Oversea-Chinese Banking Corp Ltd.	700	9
Singapore	United Overseas Bank Ltd.	700	3
Sweden	Skandinaviska Enskilda Banken AB (publ) (SEB)	500	3
Sweden	Svenska Handelsbanken AB (publ)	700	9
Sweden	Swedbank AB	700	9
Switzerland	Credit Suisse AG	500	3
Switzerland	UBS AG	500	3
Switzerland	Zurcher Kantonalbank	1.000	12

Source: Central Bank of Chile.

**TABLE 6**  
**INTERMEDIARIES USED IN 2015**

Intermediary
ABN AMRO Bank NV
ANZ Securities Inc.
Australia & New Zealand Banking Group Limited
Bank of Nova Scotia, New York Agency
Barclays Bank PLC
Barclays Capital Inc.
Barclays Capital Securities Limited
BIS
BMO Capital Markets Corp.
BNP PARIBAS
BNP Paribas Securities Corp.
Caisse Centrale Desjardins
Cantor Fitzgerald & Co.
CIBC World Markets Corp.
Citigroup Global Markets Inc.
Citigroup Global Markets Limited
Commonwealth Bank of Australia
Crédit Agricole Corporate and Investment Bank
Credit Suisse Securities
Credit Suisse Securities (USA) LLC
Daiwa Capital Markets America Inc.
Danske Markets Inc.
Deutsche Bank AG
Deutsche Bank Securities Inc.
Goldman Sachs International Bank
Goldman, Sachs & Co.
HSBC Bank PLC
HSBC Securities (USA) Inc.
ING Bank NV
J.P. Morgan Securities LLC
Jefferies International Limited
Jefferies LLC
JP Morgan Securities PLC
JP Morgan Chase Bank N.A.
Lloyds Bank PLC
Merrill Lynch International
Merrill Lynch, Pierce, Fenner & Smith Incorporated
Mizuho Securities USA Inc.
Morgan Stanley & Co. International PLC
Morgan Stanley & Co. LLC
National Australia Bank Ltd
NATIXIS
National Bank of Canada Financial Inc.
Nomura International PLC
Nomura Securities International, Inc.
RBC Capital Markets, LLC
RBS Securities Inc.
Royal Bank of Scotland
Shanghai Pudong Development Bank Co., Ltd.
Skandinaviska Enskilda Banken AB (Publ) (SEB)
SG Americas Securities, LLC
Société Générale
Standard Chartered Bank
Standard Chartered Securities Korea Limited
Svenska Handelsbanken AB (publ)

continued

TD Securities (USA) LLC  
The Hongkong and Shanghai Banking Corporation Limited  
UBS AG  
UBS Limited  
UBS Securities LLC.  
Westpac Banking Corporation  
Zürcher Kantonalbank

Source: Central Bank of Chile.

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

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

The average daily value at risk (VaR<sup>10</sup>) of the internally managed investment portfolio was 2.85% in 2015 (1.97% in 2014). The average tracking error was 31.7 basis points.

Operational risk is controlled through the separation of functions and responsibilities at the institutional and hierarchical levels, the application of efficient controls to mitigate it and the use of computer applications that adhere to market quality standards. Initiatives were carried out to improve the standards of operational continuity, and a contingency unit was maintained to guarantee the operational continuity of both the international reserves and the fiscal resources in the event of problems with the physical or technological infrastructure of the Central Bank building.

## D.2 The return on foreign exchange reserve management

In 2015, the total return on reserve management was 0.73% measured in the currency of origin of the investments. Measured in U.S. dollars, the return was -3.74%. The positive return in local currency on the fixed-income instruments was offset by the negative exchange rate effect deriving from measuring the reserve returns in U.S. dollars, due to the appreciation of the dollar against the currencies in which the reserves are invested. The return differential relative to the benchmark structure was -15.6 bp. For the 2006–2015 period, reserve management recorded an average return differential of 6.1 bp (table 7).

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

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

Period	In currency of origin			In dollars		
	Int. res.	Benchmark	Difference	Int. res.	Benchmark	Difference
2015	0.73	0.90	-0.17	-3.74	-3.58	-0.16
2014	1.65	1.52	0.13	-2.94	-3.14	0.21
2013	0.26	0.21	0.06	-0.71	-0.77	0.06
2012	0.66	1.01	-0.35	1.43	1.77	-0.35
2011	2.43	2.41	0.02	1.22	1.20	0.02
2010	2.10	2.19	-0.09	-0.15	-0.06	-0.09
2009	2.15	1.65	0.50	3.34	2.85	0.50
2008	5.70	5.37	0.33	4.14	3.81	0.33
2007	4.81	4.78	0.03	8.86	8.83	0.03
2006	2.45	2.39	0.06	6.84	6.78	0.06
<b>Average</b>	<b>2.29</b>	<b>2.24</b>	<b>0.05</b>	<b>1.83</b>	<b>1.77</b>	<b>0.06</b>

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

(2) Starting in 2014, the return is measured in currency of origin, which does not incorporate appreciations or depreciations of the currencies in the portfolio. In contrast, from 2005 to 2013, the return in currency of origin was approximated using a foreign exchange measure based on the basket of currencies in the benchmark, which is equivalent to the return in currency of origin for investments that replicate the benchmark.

Source: Central Bank of Chile.

### D.3 Securities lending program

In the period, a securities lending program was maintained with the Bank's international reserve custodians. This consists in lending instruments owned by the Bank to primary dealers, who must put up collateral equivalent to 102% of the value of the instrument being loaned. Primary dealers are financial institutions designated by the treasury offices of the issuing countries, for the placement and distribution of their debt securities. The contractual relationship with the lending agent—that is, the custodian—incorporates a clause stipulating that in the event of default by the debtor, the custodian will be responsible for the totality of the positions loaned, thereby transferring the risk from the debtor to the custodian bank. In addition, the custodian keeps the custodial positions in separate accounts on its balance sheet, so there is no credit risk. In 2015, this program generated income for the Bank equivalent to 0.42 basis points of total foreign exchange reserves.

# APPENDIX V

## Management of fiscal funds (the ESSF and the PRF)

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### A. Introduction

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

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

### B. Institutional framework

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

### C. Investment objectives and policies

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

The performance guidelines contain the investment criteria, which define a benchmark and place restrictions on fiscal portfolio management.

The benchmark structure implicitly incorporates risk-return objectives established by the Ministry of Finance. The fiscal agent's performance is assessed against these benchmark portfolios.

For the ESSF, the benchmark portfolio established in the performance guidelines is made up of the following asset classes: bank assets<sup>1/</sup>; U.S. Treasury bills and sovereign bonds; and inflation-indexed sovereign bonds (table 1). The bank asset and U.S. Treasury bill portfolios use benchmark indices provided by Merrill Lynch. The sovereign bond share of the portfolio and the inflation-indexed sovereign bond portfolio are compared against global indices provided by Barclays Capital.

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

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

Source: Ministry of Finance.

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

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<sup>1/</sup> Bank deposits.

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

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

Source: Ministry of Finance.

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

Under the current guidelines, the management mandate controls the main portfolio risks through risk budgets. The internally managed ESSF

and PRF portfolios establish an ex ante tracking error of 50 basis points per year.

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

## D. Structure of fiscal portfolios

At year-end 2015, the market value of the ESSF and PRF portfolios managed directly by the fiscal agent was US\$12.9766 billion and US\$5.3194 billion<sup>2/</sup>, respectively, which is invested in line with the benchmark composition established in the current investment guidelines (table 3).

TABLE 3  
PORTFOLIOS MANAGED BY THE CENTRAL BANK  
(US\$ million as of 31 December 2015)

Portfolio / Asset class	Market value (1)					Total	Percent of total
	USD	EUR	JPY	CHF	Other (2)		
ESSF							
Bank assets / U.S. Treasury bills and sovereign bonds	5,270.0	3,354.9	2,814.4	1,047.9	n/a	12,487.3	96.2
Inflation-indexed sovereign bonds	350.5	138.8	n/a	n/a	n/a	489.4	3.8
<b>Total</b>	<b>5,620.5</b>	<b>3,493.8</b>	<b>2,814.4</b>	<b>1,047.9</b>	<b>n/a</b>	<b>12,976.6</b>	<b>100.0</b>
PRF							
Sovereign bonds and other related assets	1,233.5	1,137.0	967.2	0.0	637.6	3,975.3	74.7
Inflation-indexed sovereign bonds	581.4	273.7	6.8	0.0	482.2	1,344.0	25.3
<b>Total</b>	<b>1,814.9</b>	<b>1,410.7</b>	<b>974.0</b>	<b>0.0</b>	<b>1,119.8</b>	<b>5,319.4</b>	<b>100.0</b>
Portfolio	Ex ante tracking error (bp)	Risk budget (bp)					
ESSF	3.0	50.0					
PRF	26.0	50.0					

(1) These positions include currency forwards.

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

Source: J.P.Morgan N.A.

## E. Reports

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

details on the changes in the market value of each fund and report on the absolute returns and differentials obtained.

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

<sup>2/</sup> The market value of the ESSF on 31 December 2015 was US\$13.9663 billion, of which US\$12.9766 billion was managed internally by the Bank and US\$989.7 million was managed by external portfolio managers under an equity mandate. The market value of the PRF at year-end 2015 was US\$8.1122 billion, of which US\$5.3194 billion was managed internally by the Bank and US\$2.7928 billion was managed by external portfolio managers under equity and corporate bond mandates.

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

## F. Management results

In 2015, the ESSF resources managed internally by the Bank generated an absolute return measured in dollars of  $-1.81\%$ , which implies a positive differential return of 1.5 basis points relative to the benchmark performance, where both returns are calculated using the time-weighted rate of return (TWRR). Using the same methodology, the PRF resources managed by the Bank generated an absolute return measured in dollars of  $-4.04\%$ , which implies a negative differential return of 5.8 basis points relative to the benchmark performance. The appreciation of the U.S. dollar vis-à-vis the other investment currencies had a negative impact on the absolute return of both funds, and the interest accrued in the period did not offset the negative exchange rate effect in either case.

## G. Compensation of the fiscal agent

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

For the period from 1 January to 31 December 2015, the Ministry of Finance set the annual fee at US\$957,404 for the ESSF and US\$947,984 for the PRF<sup>3/</sup>. These amounts are consistent with the Central Bank's Basic Constitutional Act, which stipulates that the Bank shall not finance the General Treasury. The fees paid to the fiscal agent represent 0.7 and 1.8 basis points of the total resources managed for the ESSF and PRF, respectively.

**TABLE 4**  
**FINANCIAL INSTITUTIONS WITH OUTSTANDING DEPOSITS**  
(as of 31 December 2015)

Institution
ABN AMRO Bank NV
Banco Santander S.A.
Bank Hapoalim BM
Bank of China (Hong Kong) Ltd.
BNP Paribas
Bred Banque Populaire
China Construction Bank Corporation
Crédit Agricole Corporate and Investment Bank
Danske Bank A/S
DekaBank Deutsche Girozentrale
Deutsche Bank AG
DZ Bank AG
Goldman Sachs Bank USA
ING Bank NV
Lloyds Bank Plc
Natixis
Norddeutsche Landesbank Girozentrale

<sup>3/</sup> The fiscal agency fees do not include payments to the external portfolio managers for the management of their respective portfolios.

*continued*

Nykredit Bank A/S  
Santander UK PLC  
Skandinaviska Enskilda Banken AB (publ) (SEB)  
Société Générale  
The Chiba Bank, Ltd  
The Norinchukin Bank

Source: J.P. Morgan N.A.

**TABLE 5**  
**INTERMEDIARIES USED BY THE FISCAL AGENT IN 2015**

Intermediary
ABN Amro Bank NV, Amsterdam
ANZ Securities Inc, New York
Australia & New Zealand Banking Group Limited, Melbourne
Australia & New Zealand Banking Group Limited, New York
Banco Santander SA, Madrid
Bank Hapoalim BM, New York
Bank of China (Hong Kong) Limited
Bank of Montreal, London
Bank of Montreal, Toronto
Bank of Nova Scotia, New York
Bank of Nova Scotia, Toronto
Barclays Bank PLC
Barclays Capital Inc.
BMO Capital Markets Corp
BNP Paribas
BNP Paribas Fortis SA/NV
BNP Paribas Securities Corp, New York
BNP Paribas USA, New York
Bred Banque Populaire, Paris
Caisse Centrale Desjardins, Montreal
Canadian Imperial Bank of Commerce, Toronto
China Construction Bank Corporation, London
CIBC World Markets Corp
Citibank NA, London
Citibank NA, New York
Citigroup Global Markets Inc, New York
Citigroup Global Markets Limited, London
Commerzbank AG, Frankfurt
Commonwealth Bank of Australia, New York
Commonwealth Bank of Australia, Sydney
Crédit Agricole Corporate and Investment Bank, New York
Credit Suisse Securities (USA) LLC, New York
Credit Suisse Securities, London
Daiwa Capital Markets America Inc.
Danske Bank A/S, Copenhagen
Danske Markets Inc.
Dekabank Deutsche Girozentrale, Frankfurt
Deutsche Bank AG, Frankfurt
Deutsche Bank AG, London
Deutsche Bank AG, New York
Deutsche Bank Securities Inc.
DZ Bank AG Deutsche Zentral Genossenschaftsbank, Frankfurt
Goldman Sachs International Bank, London
Goldman Sachs & CO, New York
HSBC Bank PLC, London

continuación

HSBC Bank USA NA, New York  
HSBC France, Paris  
HSBC Securities (USA) Inc., New York  
ING Bank NV, Amsterdam  
Jefferies International Ltd, London  
Jefferies LLC  
JP Morgan Chase Bank NA, London  
JP Morgan Chase Bank NA, New York  
JP Morgan Chase Bank NA, Seoul  
JP Morgan Securities Ltd, Seoul  
JP Morgan Securities LLC, New York  
JP Morgan Securities PLC  
KBC Bank NV, Brussels  
Lloyds Bank PLC, London  
Merrill Lynch International  
Merrill Lynch, Pierce, Fenner & Smith Incorporated  
Mizuho Bank Ltd, London  
Mizuho Securities USA Inc.  
Morgan Stanley & Co. International PLC, London  
Morgan Stanley & Co LLC  
National Australia Bank Ltd, London  
National Australia Bank Ltd, Melbourne  
National Bank of Canada Financial Inc., New York  
National Bank of Canada, Montreal  
Natixis, New York  
Natixis, Paris  
Nomura International PLC, London  
Nomura Securities International Inc., New York  
Norddeutsche Landesbank Girozentrale, London  
Nykredit Bank A/S, Copenhagen  
Rabobank International, London  
Rabobank Nederland, New York  
Rabobank Nederland, Utrecht  
RBC Capital Markets LLC  
RBS Securities Inc.  
Royal Bank of Canada, Toronto  
Santander UK PLC  
SG Americas Securities LLC  
Skandinaviska Enskilda Banken AB (Publ) (SEB), Stockholm  
Skandinaviska Enskilda Banken AB, New York  
Société Générale, New York  
Société Générale, Paris  
Standard Chartered Securities Korea Limited, Seoul  
Svenska Handelsbanken AB (publ), New York  
TD Securities (USA) LLC  
The Bank of New York Mellon, New York  
The Bank of Tokyo-Mitsubishi UFJ Ltd, London  
The Bank of Tokyo-Mitsubishi UFJ Ltd, New York  
The Chiba Bank Ltd, London  
The Chiba Bank Ltd, New York  
The Norinchukin Bank, London  
The Royal Bank of Scotland PLC, London  
The Toronto Dominion Bank, Toronto  
UBS AG, Zurich  
UBS AG, Seoul  
UBS Limited, London  
UBS Securities LLC USA, New York  
Wells Fargo Bank NA, San Francisco  
Westpac Banking Corporation, London

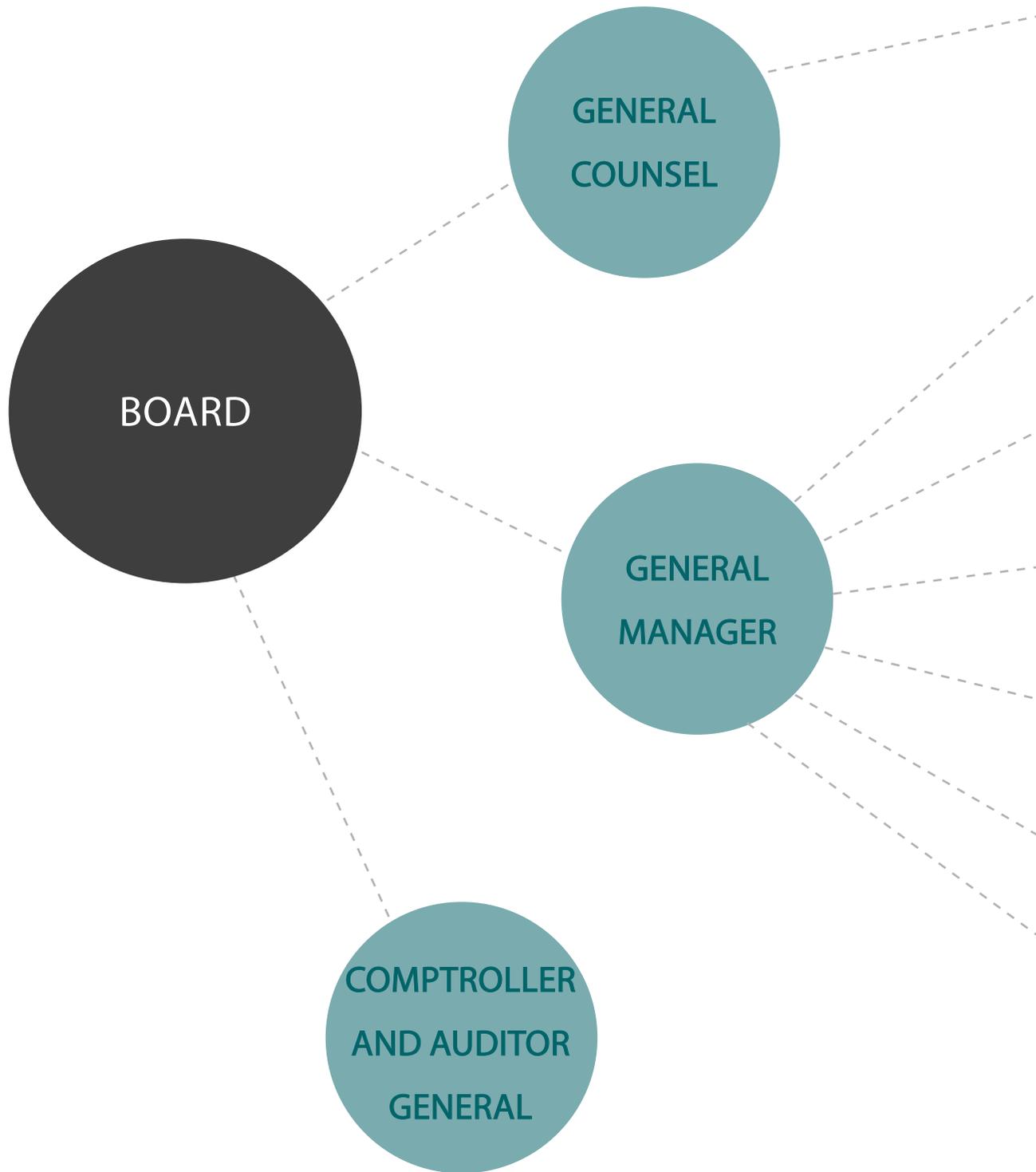
Source: Central Bank of Chile.



Numismatic Museum of  
Central Bank of Chile

# ORGANIZATIONAL CHART

CENTRAL BANK OF CHILE



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

**STATISTICS DIVISION**

MACROECONOMIC STATISTICS MANAGEMENT  
STATISTICAL INFORMATION MANAGEMENT

**RESEARCH DIVISION**

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

**CORPORATE MANAGEMENT  
AND SERVICES DIVISION**

STRATEGIC AND OPERATIONAL RISK MANAGEMENT  
SECURITY MANAGEMENT  
LOGISTICAL SERVICES MANAGEMENT

**FINANCIAL OPERATIONS  
DIVISION**

INTERNATIONAL MARKETS MANAGEMENT  
DOMESTIC MARKETS MANAGEMENT  
FINANCIAL SERVICES MANAGEMENT

**FINANCIAL POLICY  
DIVISION**

FINANCIAL STABILITY MANAGEMENT  
FINANCIAL REGULATION AND INFRASTRUCTURE MANAGEMENT  
FINANCIAL RESEARCH MANAGEMENT

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



Central Bank of Chile buildings.  
Main office and former regional  
branches.



Puerto Montt



Antofagasta



Valparaíso

# 04

## FINANCIAL STATEMENTS

# FINANCIAL STATEMENTS

## STATEMENTS OF FINANCIAL POSITION, AS OF 31 DECEMBER 2015 AND 2014 (Ch\$ million)

Assets	Note	2015	2014
<b>Foreign assets</b>		27,504,904.1	24,715,475.6
<b>Reserve assets</b>	11	<u>27,333,427.5</u>	<u>24,566,660.2</u>
Monetary gold		6,009.5	5,716.7
Special drawing rights (SDR)		748,636.0	655,457.2
Reserve position in the International Monetary Fund (IMF)	12	256,805.2	297,408.7
Correspondent banks abroad	6	427,681.3	102,823.3
Investments in foreign currency:		<u>25,865,919.2</u>	<u>23,431,932.7</u>
Securities recorded at fair value through earnings		20,423,129.2	17,557,081.0
Held-for-sale securities		1,926,789.8	2,455,969.3
Held-to-maturity securities		3,516,000.2	3,418,882.4
Reciprocal loan agreements		27,810.8	72,535.4
Other assets	6	565.5	786.2
<b>Other foreign assets</b>		<u>171,476.6</u>	<u>148,815.4</u>
Shares of and contributions to the Inter American Development Bank (IDB)		130,222.5	111,819.7
Shares of Bank for International Settlements (BIS)		41,254.1	36,995.7
<b>Domestic assets</b>		<u>757,238.0</u>	<u>853,784.4</u>
<b>Domestic loans</b>	13	<u>32.2</u>	<u>7,877.6</u>
Loans to banks and financial institutions		32.2	7,877.6
<b>Transactions under specific legal regulations</b>	14	<u>757,205.8</u>	<u>845,906.8</u>
General Treasury transfers Law 18,401		291,761.1	280,354.5
Loan for subordinated liabilities of financial institutions (Laws 18,401 and 19,396)		465,444.7	565,552.3
<b>Other assets</b>		<u>61,642.3</u>	<u>57,000.0</u>
Property, equipment and intangible assets	15	36,436.5	35,738.0
Other securities		21,992.5	18,588.5
Transition assets		<u>3,213.3</u>	<u>2,673.5</u>
<b>Total Assets</b>		<u>28,323,784.4</u>	<u>25,626,260.0</u>

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

STATEMENTS OF FINANCIAL POSITION, AS OF 31 DECEMBER 2015 AND 2014

(Ch\$ million)

Liabilities	Note	2015	2014
<b>Foreign liabilities</b>	16	859,436.1	777,118.6
Reciprocal loan agreements		212.7	8,233.3
Accounts with international organizations		57,802.1	50,189.3
Special drawing rights (SDR) allocations		801,421.3	718,696.0
<b>Domestic liabilities</b>		29,413,433.1	28,377,259.9
<b>Monetary base</b>	17	9,151,628.2	8,183,119.5
Banknotes and coins in circulation		8,417,693.6	7,578,075.9
Deposits from financial institutions (in Chilean pesos)		733,934.6	605,043.6
<b>Deposits and obligations</b>	18	6,767,419.1	7,285,955.5
Deposits and obligations with General Treasury		419,682.6	1,301,785.2
Other deposits and obligations		6,347,736.5	5,984,170.3
<b>Notes issued by Central Bank of Chile</b>	19	13,494,385.8	12,908,184.9
Central Bank of Chile bonds in UF (BCU)		8,306,056.8	8,204,652.4
Central Bank of Chile bonds in Chilean pesos (BCP)		4,154,988.0	3,538,547.5
Central Bank of Chile discountable promissory notes (PDBC)		898,329.7	998,556.7
Optional indexed coupons (CERO) in UF		98,879.9	118,596.9
Indexed promissory notes payable in coupons (PRC)		36,110.3	47,810.3
Other		21.1	21.1
<b>Other liabilities</b>	20	26,715.0	16,356.0
Provisions		17,896.1	15,885.2
Other securities		8,818.9	470.8
<b>Net equity</b>	21	(1,975,799.8)	(3,544,474.5)
Capital		(3,549,232.2)	(3,819,595.3)
Other reserves		8,098.3	4,757.7
Profit for the year		1,565,334.1	270,363.1
<b>Total liabilities and equity</b>		28,323,784.4	25,626,260.0

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

**STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED 31 DECEMBER 2015 AND 2014**  
(Ch\$ million)

	Note	2015	2014
<b>Net results from international reserves</b>	7	<u>178,755.3</u>	<u>349,119.2</u>
<b>Income</b>		<u>509,668.8</u>	<u>543,973.7</u>
Interest income		309,961.7	293,938.5
Gain on sale of instruments recorded at fair value through earnings		195,019.3	103,248.6
Gain on sale of available-for-sale securities		3,907.9	1,075.9
Fair value adjustments		-	144,358.4
Other		779.9	1,352.3
<b>Expenses</b>		<u>(330,913.5)</u>	<u>(194,854.5)</u>
Interest expenses		(87.6)	(30.6)
Loss on sale of instruments recorded at fair value through earnings		(227,720.5)	(187,889.8)
Fair value adjustments		(99,377.0)	-
Other		(3,728.4)	(6,934.1)
<b>Net results from other foreign transactions</b>	7	<u>(12,258.1)</u>	<u>(954.0)</u>
<b>Income</b>		<u>671.5</u>	<u>1,268.1</u>
Other income		671.5	1,268.1
<b>Expenses</b>		<u>(12,929.6)</u>	<u>(2,222.1)</u>
Interest expense		(407.2)	(650.9)
Other expenses		(12,522.4)	(1,571.2)
<b>Net results from domestic transactions</b>	8	<u>(871,962.7)</u>	<u>(927,754.4)</u>
<b>Income</b>		<u>64,360.5</u>	<u>178,468.0</u>
Interest income and adjustments		54,919.8	174,847.8
Other income		9,440.7	3,620.2
<b>Expenses</b>		<u>(936,323.2)</u>	<u>(1,106,222.4)</u>
Interest expense and adjustments		(935,920.1)	(1,105,052.8)
Other expenses		(403.1)	(1,169.6)
<b>Net results on foreign exchange transactions</b>	9	<u>2,312,258.7</u>	<u>1,979,981.7</u>
Gain on foreign exchange transactions		4,683,353.9	4,169,539.8
Loss on foreign exchange transactions		(2,371,095.2)	(2,189,558.1)

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

STATEMENTS OF COMPREHENSIVE INCOME, CONTINUED  
FOR THE YEARS ENDED 31 DECEMBER 2015 AND 2014  
(Ch\$ million)

	Note	2015	2014
<b>Issuance and distribution costs</b>	10	(60,383.1)	(43,517.6)
Banknotes		(11,578.9)	(20,546.9)
Coins		(47,524.5)	(22,033.7)
Distribution		(1,279.7)	(937.0)
<b>Personnel and administrative expenses</b>		(52,949.0)	(46,801.1)
Personnel expenses		(33,536.7)	(29,797.7)
Administrative expenses		(18,002.1)	(15,721.4)
Provision for post-employment benefits		(1,410.2)	(1,282.0)
<b>Other (expenses) and income</b>		71,873.0	(1,039,710.7)
Depreciation and amortization	15	(2,652.0)	(2,876.9)
Taxes and contributions		(719.6)	(588.3)
Provision for accumulated impairment			
Sinap liquidation Law 18,900		.	(1,036,259.0)
Other		75,244.6	13.5
<b>Profit for the period</b>		1,565,334.1	270,363.1
<b>Other comprehensive income</b>		3,340.6	5,470.7
<b>Other comprehensive (loss) income that will never be reclassified to profit or loss</b>		(1,700.6)	2,271.5
Actuarial (loss) gain in provision for post-employment benefits		(1,700.6)	2,271.5
<b>Other comprehensive income that may be reclassified to profit or loss</b>		5,041.2	3,199.2
Fair value adjustments of available-for-sale securities		5,041.2	3,199.2
<b>Total comprehensive income</b>		1,568,674.7	275,833.8

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

**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED 31 DECEMBER 2015 AND 2014**  
(Ch\$ million)

	Capital	Actuarial gain and loss reserve	Fair Value reserve	Other reserves total	Retained earnings	Total
<b>Balances as of 1 January 2014</b>	(4,478,737.6)	(713.0)	-	(713.0)	659,142.3	(3,820,308.3)
<b>Total comprehensive income:</b>						
Profit	-	-	-	-	270,363.1	270,363.1
Other comprehensive income	-	2,271.5	3,199.2	5,470.7	-	5,470.7
<b>Total comprehensive income</b>	-	2,271.5	3,199.2	5,470.7	270,363.1	275,833.8
Capitalization of 2013 surplus	659,142.3	=	=	=	(659,142.3)	=
<b>Balances as of 31 December 2014</b>	(3,819,595.3)	1,558.5	3,199.2	4,757.7	270,363.1	(3,544,474.5)
<b>Balances as of 1 January 2015</b>	(3,819,595.3)	1,558.5	3,199.2	4,757.7	270,363.1	(3,544,474.5)
<b>Total comprehensive income</b>						
Profit	-	-	-	-	1,565,334.1	1,565,334.1
Other comprehensive income	-	(1,700.6)	5,041.2	3,340.6	-	3,340.6
<b>Total comprehensive income</b>	-	(1,700.6)	5,041.2	3,340.6	1,565,334.1	1,568,674.7
Capitalization of 2014 surplus	270,363.1	=	=	=	(270,363.1)	=
<b>Balances as of 31 December 2015</b>	(3,549,232.2)	(142.1)	8,240.4	8,098.3	1,565,334.1	(1,975,799.8)

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

**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED 31 DECEMBER 2015 AND 2014**  
(Ch\$ million)

	Nota	2015	2014
<b>Cash flows from operating activities:</b>			
<b>Foreign reserves</b>		412,241.1	(328,067.9)
(Acquisition) sales of securities at fair value		(1,194,790.3)	2,346,268.7
(Acquisition) sales of available-for-sale securities		929,655.8	(2,294,437.8)
Redemption (investment) of held-to-maturity securities		372,081.5	(689,453.7)
Interests and commissions received for international reserves		269,992.0	306,304.9
Interests paid in foreign transactions		(83.0)	(30.0)
Taxes paid for investments in reserves		(3,615.8)	(3,658.0)
Cash receipts for reciprocal loan agreements		38,645.1	6,505.9
Interest receipts (payments) for reciprocal loan agreements		376.2	461.6
Interest receipts (payments) for reciprocal loan agreements		(20.4)	(29.5)
<b>Domestic assets</b>		151,206.9	137,723.3
Cash receipts (loans) for loans to banks and financial institutions		7,846.1	(7,609.6)
Interests and adjustments received for loans to financial institutions		504.9	210.3
Cash receipts for subordinated obligation with financial institutions		78,797.7	80,381.3
Interests and adjustments received for subordinated obligations		64,058.2	64,741.3
<b>Domestic liabilities</b>		(1,042,897.9)	(340,850.6)
Placement (redemption) of notes issued		314,848.9	(532,153.8)
Interests and adjustments paid for notes issued		(567,545.9)	(588,907.3)
Decrease (increase) in deposits and obligations in Chilean pesos		(520,873.1)	482,236.7
Interests and adjustments paid for deposits and obligations		(95,135.5)	(96,904.0)
Decrease (increase) in deposits and obligations in foreign currency		(174,192.3)	394,877.8
<b>Other cash flows</b>		(131,500.5)	(105,630.1)
Cash payments for goods and services		(123,725.8)	(93,668.4)
Net cash flows for arbitrage of currencies		(11,839.0)	(12,244.5)
Cash receipts as fiscal agent and other income		4,432.5	3,224.8
Movements in international organizations		(368.2)	(2,942.0)
<b>Net cash used in operating activities</b>		(610,950.4)	(636,825.3)

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

STATEMENTS OF CASH FLOWS, CONTINUED  
FOR THE YEARS ENDED 31 DECEMBER 2015 AND 2014  
(Ch\$ million)

	Note	2015	2014
<b>Cash flows from investing activities:</b>			
Movements, IMF		50,073.3	69,542.7
Dividends received, BIS		604.7	551.5
Proceeds from sale of property and equipment		33.4	50.8
Acquisition of property and equipment	15	(2,259.2)	(2,360.9)
Acquisition of intangible assets	15	(1,157.5)	(383.3)
<b>Net cash generated from investing activities</b>		<u>47,294.7</u>	<u>67,400.8</u>
<b>Cash flows from financing activities:</b>			
Net increase in banknotes and coins in circulation		839,617.7	660,468.9
<b>Net cash generated from financing activities</b>		<u>839,617.7</u>	<u>660,468.9</u>
<b>Changes in cash and cash equivalents</b>		<u>275,962.0</u>	<u>91,044.4</u>
<b>Effect of exchange rate fluctuations on cash and cash equivalents</b>		48,761.9	2,126.8
<b>Cash and cash equivalents at the beginning of the reporting period</b>	6	103,630.5	10,459.3
<b>Cash and cash equivalents as of 31 December</b>	6	<u>428,354.4</u>	<u>103,630.5</u>

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

# NOTES TO THE FINANCIAL STATEMENTS

as of 31 December 2015 and 2014

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## Note 1

### Incorporation and description of business

Banco Central de Chile (hereinafter the "Central Bank of Chile") was formed on 21 August 1925, by Decree Law 486. Central Bank of Chile is a constitutionally autonomous entity, with full legal capacity, its own assets and indefinite duration, created in accordance with Articles 108 and 109 of the Political Constitution of Chile and ruled by its Basic Constitutional Act.

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

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

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

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

## Note 2

### Summary of significant accounting policies

#### (a) Basis of preparation of the financial statements

These financial statements have been prepared in conformity with the "Policies of presentation and preparation of financial reports of Central Bank of Chile" approved by the Central Bank of Chile's Board, pursuant to Resolution 1456-01 dated 15 January 2009 and 1519-01 dated 14 January 2010, and 1867-01 dated 20 November 2014, having a favorable report by the Superintendence of Banks and Financial Institutions, pursuant to Section 75 of Central Bank

of Chile's Basic Constitutional Act. The policies approved by the Board are consistent with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

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

#### (b) Basis of measurement

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

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

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

#### (c) Functional and presentation currency

As Central Bank of Chile's main objective is to monitor the stability of the Chilean currency, which implies that open-market transactions play a significant role in the development of the

monetary policy, accordingly, its main activity is the issuance of banknotes and coins, in Chilean pesos, which has been defined as the functional and presentation currency for the financial statements.

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

**(d) Transactions in foreign currency and foreign currency translation**

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

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

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

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

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

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

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

	2015 Ch\$	2014 Ch\$
United States dollar		
(observed exchange rate)	707.34	607.38
Euro	771.95	739.53
Canadian dollar	510.71	521.54
Australian dollar	515.85	494.61
Special drawing rights (SDR)	980.98	879.72

**(e) Statement of cash flows**

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

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

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

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

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

#### (f) Interest income and expenses, adjustments and commissions

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

#### (g) International reserve measurement criteria

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

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

##### g.i Investments recorded at fair value through earnings

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

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

##### g.ii Available-for-sale securities

Floating rate notes, certificates of deposit, commercial papers, short-term investments at fixed rate with BIS (discounted and

at interest rate, both tradable with BIS) and BISIP (collective investments through BIS).

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

##### g.iii Held-to-maturity securities

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

##### g.iv Other reserve assets

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

g.iv.2 Special drawing rights (SDR) correspond to reserve assets, equivalent to foreign currencies, assigned by the International Monetary Fund (IMF) to the member countries proportionally to the installment paid and valued in Chilean pesos considering the current parity reported by the International Monetary Fund.

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

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

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

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

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

Shares and contributions to IDB are shown under "Other foreign assets". Contributions to the IMF are recorded under "Reserve position in the IMF" in "Foreign reserve assets". The "Reserve Position in the IMF" includes the loans granted by Central Bank of Chile to the IMF for involvement in the financing program referred to as "New Arrangements to Borrow" (NAB) and, which at year-end was SDR132.0 million. Such loans are disbursed against the revolving credit facility in favor of the IMF approved by Central Bank of Chile's Board on 24 September 2009 up to SDR1,360.0 million. While as of 31 December 2015, the remaining balance of the IMF revolving credit facility amounted to SDR1,228.0 million in practice the mechanism operates by calculating quarterly capitalization periods that include the stakeholders' maximum contribution during that period.

#### **(i) Bank for International Settlements (BIS) Shares**

During 2003, Central Bank of Chile's Board Resolutions 1073-04 dated 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 SDR42.0540 million which are valued at acquisition cost and are shown under "Other Foreign Assets." During 2015, dividends were received in the amount of US\$0.9 million (US\$1.0 million in 2014).

#### **(j) Domestic loans**

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

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

#### **(k) Transactions under specific legal regulation**

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

#### **(l) Property, equipment and intangible assets**

Property and equipment are mainly measured at acquisition cost, net of accumulated depreciation and any accumulated impairment losses. The goods that have met their useful life are stated at their

residual value considering market reference prices. Depreciation is calculated on a straight-line basis.

Property and equipment are measured at acquisition cost, net of accumulated depreciation and any accumulated impairment losses. Amortization is calculated on a straight-line basis. In 2015 and 2014, the Bank recognized costs related to the acquisition of licenses and the Open Market Transaction System (SOMA).

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

	Years	
	2015	2014
Buildings	50 to 80	50 to 80
Facilities	10 to 20	10 to 20
Furniture and other equipment	5 to 10	5 to 10
Computer equipment	3 to 5	3 to 5
Vehicles	5	5
Intangibles	5	5

#### (m) Monetary base

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

#### (n) Deposits and obligations

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

#### (o) Notes issued by Central Bank of Chile

Notes issued by Central Bank of Chile are financial liabilities issued in order to adopt the decisions of the monetary and debt

policy, initially measured at fair value, and are not affected by transaction costs. Subsequently, they are measured at amortized cost pursuant to the effective interest rate method through earnings. Unadjustable balances are stated at their nominal value. Adjustable balances include the effect of the accrued adjustments at the reporting date.

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

#### (p) Impairment

##### p.i Financial assets

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

##### p.ii Non-financial assets

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

#### (q) Employee benefits

##### q.i Long-term benefits

Post-employment benefits correspond to employee benefits which are payable after the completion of employment in Central Bank of Chile, as stipulated in the collective agreement between Central Bank of Chile and the Labor Union of Central Bank of Chile, signed on 26 June 2015 and in effect through 30 June 2019; for special resolutions approved by the Board and for special benefits provided to retired employees of the Former Association of Retired Employees and Beneficiaries of Pensions of Public Officials of Central Bank of Chile. These benefits include severance indemnities, special indemnity

Resolution 1414-01 dated 5 June 2008, special supplementary severance indemnity under the retirement plan per Resolution 1651-06 dated 29 December 2011 and special benefits to retired employees of the Former Association of Retired Employees and Beneficiaries of Pensions of Public Officials of Central Bank of Chile.

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

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

- Mortality rate: Central Bank of Chile used the RV-2009 mortality table to determine the expected lives in the calculation of benefits associated with severance indemnity payments, post-employment benefits associated with the retirement plan's health plan and benefits of the Former Association of Retired Employees and Beneficiaries of Pensions of Public Officials of Central Bank of Chile.
- Employee turnover: The probabilities of remaining an employee of Central Bank of Chile were calculated on the basis of the tables prepared by Central Bank of Chile organized in tranches by years of service.
- Salary growth rate: calculated as the annual average composed of the salary growth rate for a five-year period of 5.66%.
- Discount rate: Central Bank of Chile used the nominal rate for BCP instruments at 10 years at the calculation date. For 2015, the discount rate was 4.62% (2014: 4.36%).

#### q.ii Short-term benefits

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

#### (r) Provisions and contingent liabilities

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

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

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

#### (s) Financial derivative instruments

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

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

#### (t) Use of estimates and judgments

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

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

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

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

#### (u) Issued but not yet effective IFRSs

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

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

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

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

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

### Note 3 Methodology applied for the measurement of fair value

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

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

#### (a) Priced securities (source: Bloomberg)

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

Where:

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

On the other hand, the system calculates the gains and losses from investments on a daily basis using the following formula for 2015 and 2014:

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

Where:

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

#### (b) Non-priced securities (reference rate)

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

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

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

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

- Level 3, fair value measurements using unobservable inputs for the asset or liability.

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

#### Note 4 Changes in accounting policies

As of 31 December 2015, the accounting policies have been consistently applied in relation to the year ended 31 December 2014.

#### Note 5 Financial instrument risks

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

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

Additionally, Central Bank of Chile implements its monetary policy through the definition of an objective level for the nominal inter-bank interest rate, known as the Monetary Policy Rate (*Tasa de Política Monetaria, TPM* in Spanish). In order for the inter-bank rate to be determined at this level, Central Bank of Chile regulates the availability of liquidity (or reserves) of the financial system through several financial instruments related to the management of debt and open-market transactions made by the local market through the issuance of notes and time deposits received.

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

The financial risk management is established and conditioned by general policies approved by Central Bank of Chile's Board. In this respect, the definition of guidelines and assets and debt exposure limits are proposed to the General Management and the Board by the Management of the Financial Operations Division for their approval.

Both Managements of International Market and Domestic Market, which report to the Financial Operation Division, are responsible for implementing the policies established by the Board. While, within the same hierarchical line, the Financial Service Management records, processes and performs the settlement of transactions, and manages the technological infrastructure in which these are carried out.

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

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

#### (a) Market risk

Market risk is the risk of potential losses from changes affecting the price or final value of a financial instrument or group of financial instruments. Risks are identified mainly by fluctuations in currencies and interest rates. Market risk affecting the Bank's statement of financial position is dominated by international reserves mainly due to the increased volatility of currencies composing their investments, while for liabilities, the greatest impact arises from fluctuations in the inflation-adjusted unit which impacts the long-term debt.

Market risk of international reserves is limited by the investment policy by establishing maturity and composition margins of currencies around referential parameters of the portfolios and through the diversification of currencies, securities and investment periods. Market risk is monitored through the daily measurement of the maturity and composition of currencies, and by the follow-up of VaR and Tracking Error.

Table 5.1 sets out the different monitored market risk measurements.

**TABLE 5.1 MARKET RISK, INVESTMENT PORTFOLIO AS OF 31 DECEMBER 2015 AND 2014**

		2015	2014
Amount (Ch\$ million)*		23,439,468.2	20,892,279.3
Length (months)	Portfolio	22.8	23.6
	Departure	-0.7	-0.1
Breakdown by currency (%)	US\$	62.0	49.8
	EUR	16.8	22.9
	JPY	0.6	2.1
	Other	20.6	25.2
VaR** Domestic investment portfolio	Absolute (%)	2.1	2.5
	Tracking Error (bp)	20.3	13.7
VaR** Investment portfolio abroad	Absolute (%)	4.1	4.5
	Tracking Error (bp)	61.0	52.6

Source: BCCh.

\* The amounts correspond solely to the Investment Portfolio portion within the International Reserves. Amounts related to the Cash Portfolio or Other Assets, are not considered.

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

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

Monitored market risk indicators include the length and VaR. Tables 5.2 and 5.3 display these indicators.

**TABLE 5.2 STRUCTURE AND RISK OF THE DEBT PORTFOLIO OF CENTRAL BANK OF CHILE AS OF 31 DECEMBER 2015**

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

Source: BCCh.

**TABLE 5.3 STRUCTURE AND RISK OF THE DEBT PORTFOLIO OF CENTRAL BANK OF CHILE AS OF 31 DECEMBER 2014**

Instrumento	Ch\$ million	UF %	Holding period (months)
Short-term	998,556.7	-	0.6
Long-term	11,909,628.2	70	62.7
<b>Total</b>	<b>12,908,184.9</b>	<b>65</b>	<b>58.2</b>

Source: BCCh.

#### (b) Credit risk

Credit risk is the risk of potential losses due to a counterparty failing to make a payment. The main source of risk arises from the investments in international reserves in debt instruments issued

by foreign countries and financial institutions. A second source of credit risk comes from open market transactions and facilities that provide liquidity to the domestic financial system (Repo and FPL).

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

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

**TABLE 5.4 BREAKDOWN OF THE INVESTMENT PORTFOLIO ACCORDING TO CREDIT RISK AS OF 31 DECEMBER 2015**

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

Source: BCCh.

**TABLE 5.5 BREAKDOWN OF THE INVESTMENT PORTFOLIO ACCORDING TO CREDIT RISK AS OF 31 DECEMBER 2014**

Credit rating	Type of credit risk (percent)				Total
	Agency	Banking	Sovereign	International	
AAA	0.7	0.9	73.6	4.8	80.0
AA+, AA, AA-	0.0	0.8	15.2	0.0	16.0
A+, A	0.0	2.3	1.7	0.0	4.0
<b>Total</b>	<b>0.7</b>	<b>4.0</b>	<b>90.5</b>	<b>4.8</b>	<b>100.0</b>

Fuente: BCCh.

Credit risk is associated with open-market transactions and facilities that inject liquidity into the local financial system (Repo, permanent liquidity facility, collateralized credit lines and term liquidity facilities) is mitigated requiring collaterals eligible according to their credit quality, which are valued at market prices at the time of their receipt and subject to the application of discounts or haircuts according to the instrument specific characteristics.

As of the end of December 2015, the Bank recorded no liquidity injection Repo transactions and recorded no permanent liquidity facility (PLF) transactions. However, the annual average for 2015 amounted to Ch\$11,234.4 million guaranteed exclusively with securities issued by the Central Bank of Chile.

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

**TABLE 5.6 AVERAGE EXPOSURE OF PLF DURING 2015 AND 2014**

	Average amount (Ch\$ million)	
	2015	2014
Gross exposure	11,234.4	4,477.3
Collaterals		
PDBC	(693.7)	(266.8)
BCCCh bonds	(10,654.1)	(4,255.8)
<b>Net exposure</b>	<b>(113.4)</b>	<b>(45.3)</b>

Source: BCCh.

### (c) Liquidity risk

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

To reduce liquidity risk of the international reserves, a portfolio is mainly structured comprising fixed income securities traded in secondary markets of high liquidity and depth, and to a lesser extent short-term deposits in international commercial banks, with different due dates and bonds from countries with a lower credit rating. The most liquid tranche includes instruments from United States and Germany, as well as, overnight and weekend transactions, representing 60.8% of the internal investment portfolio in 2015 and a 48.8% in 2014.

For open-market transactions, this risk relates to the possibility of issuing bonds and promissory notes or rolling them over in the primary market at prices that are too high compared to securities with similar characteristics traded in the secondary market. This type of risk is mitigated through the provisions in current legislation contained in the Compendium of Financial Regulations that governs the placement and adjudication of debt and by monitoring both secondary and primary markets and their institutions. In the event of a decrease in demand for its securities, the Central Bank of Chile could pay its maturities by issuing cash. For further information on maturities for the Central Bank of Chile's financial liabilities, see note 19 to these financial statements.

Tables 5.7 and 5.8 show a summary of the results of the granting of bonds and promissory notes for 2015 and 2014.

TABLE 5.7 RESULTS OF THE BIDDING OF DEBT INSTRUMENTS OF CENTRAL BANK OF CHILE AS OF  
31 DECEMBER 2015

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

Fuente: BCCh.

TABLE 5.8 RESULTS OF THE BIDDING OF DEBT INSTRUMENTS OF CENTRAL BANK OF CHILE AS OF  
31 DECEMBER 2014

Instrument	Amount granted (Ch\$ million)	Demand (%)	Award (%)	Bidding rate (%)	Market rate (%)	Spread (bp)
PDBC	34,550,000.0	136	98	3.63	3.60	3.0

Source: BCCh.

#### (d) Operational risk related to the financial instrument management

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

The internal organization in BCCh enables an appropriate implementation of the design of processes related to the financial instruments management, considering segregation of duties and responsibilities. Consequently, Management of International Investments and Domestic Market Management with Financial Service Management, which report to the Financial Operation Division, are responsible for making investments and its development, respectively. The Financial Risk Management and Evaluation Management, reporting to the General Management, measures the performance and financial risks and ensure the compliance with investment limits.

Each Management involved in the processes related to the financial instrument management, manages and controls its own operational risks. However, the Strategy and Operating Risk

Management supports the units in the identification, analysis, evaluation and treatment of risks through a methodology that measures the inherent risk based on its feasibility and impact, and in the assessment of the residual risk it measures the effectiveness of the corresponding controls, in order to reduce the impact and/or possibility of occurrence. In addition, it also tracks the action plans related to the risk management system and the business continuity system, including the results arising from the regular tests performed to ensure that the mechanisms developed to face contingency situations are working properly.

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

In addition, there are computer applications operating with market quality standards and are also carried out initiatives to improve operational continuity, maintaining an alternate operation site to ensure the operation in case of problems with the physical infrastructure of the building and an external processing site in

case of eventual technological failures which could affect its main technological processing site. The aforementioned elements ensure that the decision making and management evaluation process within the Bank are appropriately defined.

## Note 6 Cash and cash equivalents

As of 31 December 2015 and 2014, the detail of cash and cash equivalents, is as follows:

	(Ch\$ million)	
	2015	2014
Foreign correspondents	427,681.3	102,823.3
Other reserve assets (foreign currency)	565.5	786.2
Domestic correspondents (*)	107.6	21.0
<b>Total cash and cash equivalents</b>	<b>428,354.4</b>	<b>103,630.5</b>

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

## Note 7 Net income from international reserves

### International reserves

For the years ended 31 December 2015 and 2014, this caption is composed of the following:

	(Ch\$ million)	
	2015	2014
(a) Net interests and commissions on:		
Securities recorded at fair value through earnings	281,340.5	277,987.1
Held-to-maturity securities	27,266.6	15,769.1
Available-for-sale securities	688.1	153.8
Foreign correspondents	578.9	(2.1)
Subtotal for net interest and commissions	309,874.1	293,907.9
(b) Sales of securities:		
Recorded at fair value through earnings	(32,701.2)	(84,641.2)
Available for sale	3,907.9	1,075.9
Subtotal for adjustments at fair value	(28,793.3)	(83,565.3)
(c) Adjustments at fair value		
Gain adjustments at fair value	7,892.7	145,422.4
Loss adjustments at fair value	(107,269.7)	(1,064.0)
Subtotal for adjustments at fair value	(99,377.0)	144,358.4
(d) On other income	(2,948.5)	(5,581.8)
<b>Total net income from international reserves</b>	<b>178,755.3</b>	<b>349,119.2</b>

### Other foreign transactions

Net gain or loss on foreign transactions comprise the following:

	(Ch\$ million)	
	2015	2014
On revaluation of accounts with international agencies	(10,791.3)	661.5
On interest	(407.2)	(650.9)
Other net income and expenses	(1,059.6)	(964.6)
<b>Total net income from foreign transactions</b>	<b>(12,258.1)</b>	<b>(954.0)</b>

## Note 8

### Net income from domestic transactions

For the years ended 31 December 2015 and 2014, this caption is composed of the following:

	(Ch\$ million)	
	2015	2014
(a) Income for domestic loans		
Interest	505.1	211.9
Adjustments	26.4	248.0
Other	9,440.7	3,620.2
Total income from domestic loans	9,972.2	4,080.1
(b) Income from transactions under specific legal regulations		
Interest	24,559.5	109,343.4
Adjustments	29,595.4	61,434.8
Total income from transactions under specific legal regulations	54,154.9	170,778.2
(c) Income from deposits and obligations held by Central Bank of Chile		
Interest	(91,597.5)	(100,005.5)
Other	(403.1)	(1,169.6)
Total income from deposits and obligations held by Central Bank of Chile	(92,000.6)	(101,175.1)
(d) Income from notes issued by Central Bank of Chile		
Interest	(513,697.8)	(560,398.8)
Adjustments	(330,391.4)	(441,038.8)
Total income from notes issued by Central Bank of Chile	(844,089.2)	(1,001,437.6)
<b>Total net income from domestic transactions</b>	<b>(871,962.7)</b>	<b>(927,754.4)</b>

## Note 9

### Net gain (loss) from foreign exchange transactions

For the years ended 31 December 2015 and 2014, this caption is composed of the following:

	(Ch\$ million)	
	2015	2014
Gain from foreign exchange transactions	4,683,353.9	4,169,539.8
Loss from foreign exchange transactions	(2,371,095.2)	(2,189,558.1)
<b>Total</b>	<b>2,312,258.7</b>	<b>1,979,981.7</b>

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

	(Ch\$ million)	
	2015	2014
U.S. dollar	2,005,733.0	1,432,734.0
Euro	85,096.5	97,564.9
Yuan	61,409.7	61,307.1
Canadian dollar	(59,385.4)	112,349.1
Korean won	49,717.7	44,897.4
Other currency	188,896.3	245,209.0
Subtotal net (loss) gain from foreign exchange transactions	2,331,467.8	1,994,061.5
Arbitrage and other	(19,209.1)	(14,079.8)
<b>Total net (loss) gain from foreign exchange transactions</b>	<b>2,312,258.7</b>	<b>1,979,981.7</b>

## Note 10

### Issuance and distribution costs

For the years ended 31 December 2015 and 2014, this caption is composed of the following:

	(Ch\$ million)	
	2015	2014
Banknotes	(11,578.9)	(20,546.9)
Coins	(47,524.5)	(22,033.7)
Distribution	(1,279.7)	(937.0)
<b>Total</b>	<b>(60,383.1)</b>	<b>(43,517.6)</b>

## Note 11

### Reserve assets and fair values

#### a) Reserve assets

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

	(US\$ million)	
	2015	2014
Monetary gold	8,5	9,4
Special drawing rights (SDR)	1.058,4	1.079,2
Reserve position in the IMF	363,1	489,7
Correspondent banks abroad	604,6	169,3
Investments :	36.567,9	38.578,7
Instruments recorded at fair value through earnings:		
Level 1 market value	28.873,2	28.906,3
Available-for-sale securities:		
Level 1 market value	2.724,0	4.043,5
Held-to-maturity securities	4.970,7	5.628,9
Reciprocal loan agreements	39,3	119,4
Other assets	0,8	1,2
<b>Total reserve assets</b>	<b>38.642,6</b>	<b>40.446,9</b>

#### b) Fair values as of 31 December

Statement of financial position BCCh (Ch\$ million)	Carrying amount	2015			2014		
		Fair value	Difference	Carrying amount	Fair value	Difference	
International reserves	27,333,427.5	27,333,427.5	-	24,566,660.2	24,566,660.2	-	
Other foreign assets	171,476.6	171,476.6	-	148,815.4	148,815.4	-	
Loans to banks and financial institutions	32.2	32.2	-	7,877.6	7,877.6	-	
<b>Assets</b>	<b>291,761.1</b>	<b>215,043.0</b>	<b>(76,718.1)</b>	<b>280,354.5</b>	<b>211,106.4</b>	<b>(69,248.1)</b>	
Subordinated liabilities (Laws 18,401 and 19,396)	465,444.7	493,081.6	27,636.9	565,552.3	586,812.6	21,260.3	
Other securities and asset account	61,642.3	61,642.3	-	57,000.0	57,000.0	-	
<b>Total assets</b>	<b>28,323,784.4</b>	<b>28,274,703.2</b>	<b>(49,081.2)</b>	<b>25,626,260.0</b>	<b>25,578,272.2</b>	<b>(47,987.8)</b>	
Monetary base	9,151,628.2	9,151,628.2	-	8,183,119.5	8,183,119.5	-	
Bank borrowings	6,347,736.5	6,347,736.5	-	5,984,170.3	5,984,170.3	-	
Obligations with General Treasury	419,682.6	419,682.6	-	1,301,785.2	1,301,785.2	-	
<b>Liabilities</b>	<b>13,494,385.8</b>	<b>14,155,319.9</b>	<b>660,934.1</b>	<b>12,908,184.9</b>	<b>13,818,397.2</b>	<b>910,212.3</b>	
Notes issued by Central Bank of Chile	859,436.1	859,436.1	-	777,118.6	777,118.6	-	
Foreign liabilities	26,715.0	26,715.0	-	16,356.0	16,356.0	-	
<b>Total liabilities</b>	<b>30,299,584.2</b>	<b>30,960,518.3</b>	<b>660,934.1</b>	<b>29,170,734.5</b>	<b>30,080,946.8</b>	<b>910,212.3</b>	
<b>Equity</b>	<b>Net equity</b>	<b>(1,975,799.8)</b>	<b>(2,685,815.1)</b>	<b>(710,015.3)</b>	<b>(3,544,474.5)</b>	<b>(4,502,674.6)</b>	
		<b>(958,200.1)</b>					

	(Ch\$ million)	
	2015	2014
<b>Total reserve assets</b>	<b>27,333,427.5</b>	<b>24,566,660.2</b>

As of 31 December 2015, monetary gold amounted to US\$8.5 million (US\$9.4 million in 2014) equivalent to 7,940 fine gold troy ounces valued at US\$1,070.1 per ounce (US\$1,185.5 in 2014). There was no change in the amount of troy ounces compared to 2014.

As of 31 December 2015 and 2014, the distribution of investments in foreign currencies by currency is as follows:

	(US\$ million)	
	2015	2014
U.S. dollar	24,609.2	21,789.3
Euro	5,559.6	7,888.1
Other currency	8,473.8	10,769.5
<b>Total</b>	<b>38,642.6</b>	<b>40,446.9</b>

## 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)	
	2015	2014
Subscription installment, contribution	839,816.2	753,126.0
Loan, account No.1	6.5	10.7
New Arrangement to Borrow (NAB)	129,503.8	143,648.9
Deposits	(712,521.3)	(599,376.9)
<b>Total position in the IMF</b>	<b>256,805.2</b>	<b>297,408.7</b>

## Note 13

### Loans to banks and financial institutions

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

	(Ch\$ million)	
	2015	2014
Line of credit on debt restructuring	32.2	130.2
Central Bank of Chile repurchase agreements (Repo)(*)	-	7,747.4
<b>Total</b>	<b>32.2</b>	<b>7,877.6</b>

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

## Note 14

### Transactions under specific legal regulations

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

### a) General Treasury transfers

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

	(Ch\$ million)	
	2015	2014
<b>General Treasury transfer</b>		
<b>Law 18,401</b>	<b>291,761.1</b>	<b>280,354.5</b>

In accordance with Article 13 of Law 18,401, differences produced in the recovery, as a result of discounts granted to shareholders of up to UF15.0 million, will be covered by the General Treasury through future transfers which as of 31 December 2015 amount to Ch\$291,761.1 million, equivalent to approximately UF11.4 million (Ch\$280,354.5 million in 2014, equivalent to UF11.4 million).

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

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

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

The Central Bank of Chile granted the mentioned loans with charge to its own resources through credit facilities for refinancing to organizations which were part of *Sinap*. In addition, the former *Caja Nacional de Ahorros y Préstamos*, part of *Sinap*, was also granted loans by the Chilean Government, with charge of the external resources from the Credit Program Agreement "AID

513-HG-006" entered into by the Republic of Chile, and applied through the Central Bank of Chile, as Fiscal Agent and Financial Agent, in accordance with Executive Decree 20 of the Finance Ministry of 1976.

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

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

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

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

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

recorded by the entities comprising *Sinap* which are indefinitely in the process of liquidation.

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

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

Additionally, in relation to the part of the debt of the former *Caja Nacional de Ahorros y Préstamos* assumed by such entity in accordance with Executive Decree 20 of the Ministry of Finance of 1976, considering that: (i) this transaction refers to an obligation in which the Central Bank of Chile was Fiscal Agent and Financial Agent of the General Treasury and (ii) once the condition established in Article 5 of Law 18,900 has been complied with, the General Treasury will have the double status of creditor and debtor of such obligation. During this year, the Central Bank of Chile has determined that it is not applicable to recognize such part of the debt of the former *Caja Nacional de Ahorros y Préstamos* in its

financial statements, and therefore, it derecognized such item from the Bank's asset and liability account. But whilst the mentioned condition is not verified, it will be registered at its adjusted value in order accounts, under the name and on behalf of the General Treasury, for identification purposes, in order to distinguish it clearly from the higher part of the debt of the former SINAP corresponding to such other part financed directly by the Bank using its own resources, adjusting also the impairment recognized as of 31 December 2014.

In this respect, as of 31 December 2015, the amount owed by the Central Bank of Chile for the settlement of the institutions that were part of *Sinap* for the concept of credit facilities for refinancing granted directly to them charged to the Bank's own resources, amounts to Ch\$1,050,244.0 million (Ch\$961,073.1 million in 2014), included the impairment mentioned above. In addition, the updated value of the debt of the former *Caja Nacional de Ahorros y Préstamos*, member of *Sinap*, corresponding to the loans to related parties financed by the Chilean Government, through Central Bank of Chile, in accordance with Executive Decree 20 stated above, amounts to Ch\$78,514.3 million (Ch\$75,185.9 million in 2014), which has been recognized in order accounts maintained by the Bank acting as Fiscal Agent of Chile.

#### c) Loan for subordinated liability

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

On that date, the parent company *Sociedad Matriz del Banco de Chile*, previously referred to as *Banco de Chile*, agreed to

transfer the liability to SAOS S.A. (*Sociedad Administradora de la Obligación Subordinada*), based on paragraphs three and five of the aforementioned law. Consequently, the liability must be paid in 40 annual, consecutive equal installments beginning in April 1997.

During 2015, *Sociedad Administradora de la Obligación Subordinada SAOS S.A.* paid UF5,770,842.8725 to Central Bank of Chile, of which UF1,125,717.1800 were allocated to the payment of interests of the debt and UF4,645,125.6926 to the credit amortization for subordinated liability (during 2014, a payment of UF6,104,408.2806 was made, from which UF1,365,931.6217 was destined to the payment of interest, and UF4,738,476.6589 to the repayment of principal owed).

As of 31 December 2015, the balance amounts to Ch\$465,444.7million, equivalent to UF18,160,796.3183 (Ch\$565,552.3 million in 2014, equivalent to UF22,964,630.4720).

#### Nota 15

##### Property, equipment and intangible assets

	(Ch\$ million)	
	2015	2014
Property and equipment, net	33,254.9	33,345.3
Intangible assets, net	3,181.6	2,392.7
<b>Total property, equipment and intangible assets</b>	<b>36,436.5</b>	<b>35,738.0</b>

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

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

	(Ch\$ million)					Balance as of 31. Dec.15
	Balance as of 31. Dec.14	Acquisitions	Disposals	Depreciation	Transfers	
Real estate and facilities	20,795.6	343.6	-	(269.4)	-	20,869.8
Furniture and equipment	7,160.1	1,646.1	(35.9)	(1,971.6)	208.8	7,007.5
Transport material	191.9	38.9	(30.3)	(42.4)	-	158.1
Collection of banknotes and coins(*)	3,337.0	149.0	-	-	-	3,486.0
Works of art	1,651.9	-	-	-	-	1,651.9
Work in progress	208.8	81.6	-	-	(208.8)	81.6
<b>Net property, plant and equipment</b>	<b>33,345.3</b>	<b>2,259.2</b>	<b>(66.2)</b>	<b>(2,283.4)</b>	<b>-</b>	<b>33,254.9</b>

(\*) Difference of \$149.0 million is due to variations in foreign currency exchange of gold pesos.

As of 31 December 2015 and 2014, the caption Depreciation and Amortization in the statement of comprehensive income includes Ch\$2,283.4 million and Ch\$2,549.6 million, respectively.

#### b) Reconciliation of intangible assets carrying amounts

Composition and movements of intangible assets

	Balance as of 31. Dec.14	Acqui- sitions	Amor- tiza- tion	Trans- fers	Balance as of 31. Dec.15
Computer programs	954.8	1,153.9	(368.6)	1,321.0	3,061.1
Computer programs under development	1,437.9	3.6	-	(1,321.0)	120.5
<b>Intangible asset, net</b>	<b>2,392.7</b>	<b>1,157.5</b>	<b>(368.6)</b>	<b>-</b>	<b>3,181.6</b>

As of 31 December 2015 and 2014, the amortization of intangible assets of Ch\$368.6 million and Ch\$327.3 is recorded on a straight-line basis in the caption depreciation and amortization in the statement of income.

#### c) Operating lease contracts

As of 31 December 2015 and 2014, there are no non-cancellable operating lease contracts.

#### Note 16 Foreign liabilities

This caption includes the following transactions:

	(Ch\$ million)	
	2015	2014
Reciprocal loan agreements	212.7	8,233.3
Accounts with international bodies	57,802.1	50,189.3
Special drawing rights (SDR) allocations	801,421.3	718,696.0
<b>Total foreign liabilities</b>	<b>859,436.1</b>	<b>777,118.6</b>

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

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

This caption is composed of the following:

	(Ch\$ million)	
	2015	2014
Promissory note obligations with IDB	56,474.8	48,493.8
Inter American Development Bank (IDB)	362.7	732.8
Agency for International Development (AID)	901.1	901.1
Multilateral Investment Guarantee Agency (MIGA)	32.9	32.9
International Bank for Reconstruction and Development (IBRD)	30.6	28.7
<b>Total accounts with international organizations</b>	<b>57,802.1</b>	<b>50,189.3</b>

The assignments of special drawing rights (SDRs) correspond to SDR816,959,995 assigned to Chile through Central Bank of Chile, by the International Monetary Fund, which are subject to possible restitution; they accrue interests on the basis of a rate determined by the IMF on a weekly basis.

## Note 17 Monetary base

This caption is composed of the following:

	(Ch\$ million)	
	2015	2014
Banknotes and coins in circulation	8,417,693.6	7,578,075.9
Deposits from financial institutions	733,934.6	605,043.6
<b>Total monetary base</b>	<b>9,151,628.2</b>	<b>8,183,119.5</b>

### a) Banknotes and coins in circulation

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

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

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

Banknotes denomination	(Ch\$ million)	
	2015	2014
\$ 20,000	3,294,372.1	2,414,066.6
\$ 10,000	4,019,344.2	4,076,067.4
\$ 5,000	387,417.5	439,862.7
\$ 2,000	83,054.8	95,623.1
\$ 1,000	250,482.3	209,836.4
\$ 500	4,742.6	4,743.1
Other	251.4	61.7
<b>Total</b>	<b>8,039,664.9</b>	<b>7,240,261.0</b>

Currency denomination	(Ch\$ million)	
	2015	2014
\$ 10-000	348.4	348.4
\$ 2-000	98.6	98.6
\$ 500	165,848.7	139,180.2
\$ 100	126,047.9	119,395.5
\$ 50	24,342.0	22,283.2
\$ 10	46,057.4	41,500.2
\$ 5	10,606.6	10,360.6
\$ 1	4,607.0	4,575.9
Other	72.1	72.3
<b>Total</b>	<b>378,028.7</b>	<b>337,814.9</b>

### (b) Deposits from financial institutions

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

### (c) Deposits for technical reserve

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

### Note 18 Deposits and obligations

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

	(Ch\$ million)	
	2015	2014
Deposits and obligations with the General Treasury	419,682.6	1,301,785.2
Other deposits and obligations	6,347,736.5	5,984,170.3
<b>Total</b>	<b>6,767,419.1</b>	<b>7,285,955.5</b>

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

	(Ch\$ million)	
	2015	2014
General Treasury current accounts	419,682.6	1,226,599.3
Other	-	75,185.9
<b>Total</b>	<b>419,682.6</b>	<b>1,301,785.2</b>

(b) "Other Deposits and Obligations" include:

	(Ch\$ million)	
	2015	2014
Permanent Deposit Facility (PDF) in local currency	3,572,444.8	3,398,719.2
Current accounts in foreign currency	665,576.4	769,974.7
Short-term deposits from bank institutions in foreign currency	2,065,432.8	1,761,402.0
Other	44,282.5	54,074.4
<b>Total</b>	<b>6,347,736.5</b>	<b>5,984,170.3</b>

### Note 19 Notes issued by Central Bank of Chile

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

As of 31 December 2015 and 2014, maturities of these instruments are as follows:

	(Ch\$ million)						Total	Total
	Up to 90 days	91 to 180 days	181 days to 1 year	1 -3 years	Over 3 years	Total 2015	Total 2014	
Central Bank bonds in UF (BCU)	1,128,913.4	-	573,336.1	2,580,409.9	4,023,397.4	8,306,056.8	8,204,652.4	
Central Bank bonds Ch\$ (BCP)	398,031.8	-	321,074.6	945,747.4	2,490,134.2	4,154,988.0	3,538,547.5	
Central Bank promissory notes (PDBC)	898,329.7	-	-	-	-	898,329.7	998,556.7	
Adjustable issuance coupons (CERO) in UF	10,744.7	5,912.3	21,455.1	35,319.5	25,448.3	98,879.9	118,596.9	
Adjustable promissory notes with payments in coupons (PRC)	454.4	476.9	1,021.3	10,015.0	24,142.7	36,110.3	47,810.3	
Other	21.1	-	-	-	-	21.1	21.1	
<b>Total as of 31 December</b>	<b>2,436,495.1</b>	<b>6,389.2</b>	<b>916,887.1</b>	<b>3,571,491.8</b>	<b>6,563,122.6</b>	<b>13,494,385.8</b>	<b>12,908,184.9</b>	

Balances include interest and adjustment accrued as of 31 December 2015 and 2014.

## Note 20

### Other liability accounts

This caption is composed of the following financial liabilities:

	(Ch\$ million)	
	2015	2014
Provisions	17.896,1	15.885,2
Other securities	8.818,9	470,8
<b>Total</b>	<b>26.715,0</b>	<b>16.356,0</b>

## Provisions

Central Bank of Chile has recorded provisions for severance indemnity, a benefit established in the Collective Labor Agreement in force for the periods 2011-2015 and 2015-2019 accounted for in accordance with the actuarial method of projected cost. At the same time, the benefits granted to the former Association of Retired Employees and Beneficiaries of Pensions of Public Officials of Central Bank of Chile and healthcare benefits for retirement plans are also included and detailed as follows:

	(Ch\$ million)	
	2015	2014
Provision for the year:		
Severance indemnity	11,671.7	9,917.7
Special indemnity Resolution and agreed deposit for retirement plan 1651	1,350.5	1,076.0
Subtotal provision for severance indemnity	13,022.2	10,993.7
Benefits to the former Association of Retired Employees and Beneficiaries of Pensions of Public Officials of Central Bank of Chile		
- Healthcare benefits for retirement plan	2,563.5	2,576.3
- Pending accrued vacations of personnel	5.4	7.8
- Special indemnity, Resolution 572-05-961226	2,010.0	2,037.9
- Incentive allocation	3.0	3.0
Subtotal provision for severance indemnity	292.0	266.5
<b>Total</b>	<b>4,873.9</b>	<b>4,891.5</b>
<b>Total</b>	<b>17,896.1</b>	<b>15,885.2</b>

	(Ch\$ million)	
	2015	2014
Movements in provisions for severance indemnities (*):		
Current value of liabilities as of 1 January	10,993.7	13,737.3
Service cost	902.6	686.0
Interest cost	507.9	548.1
Benefits paid	(716.0)	(1,305.7)
Actuarial gains (losses)	1,334.0	(2,672.0)
<b>Total</b>	<b>13,022.2</b>	<b>10,993.7</b>

\* This excludes benefits for the Former Association of Retired Employees and Beneficiaries of Pensions of Public Officials of Central Bank of Chile, retirement healthcare plans and incentive payments.

	(Ch\$ million)	
	2015	2014
Post-employment benefit expenses		
Current value of service costs	783.0	570.2
Interest cost	627.2	651.4
<b>Total</b>	<b>1,410.2</b>	<b>1,221.6</b>

As of 31 December 2015, the sensitivity of the actuarial liability amount from post-employment benefits considering changes indicated in actuarial assumptions generates the following effects:

Calculation of variable sensitivity analysis impact	Base scenario	Scenario 1	Scenario 2
Discount interest rate (%)	4.62	3.62	5.62
Effect on provision for severance indemnity payments (Ch\$ million)	13,022.2	14,056.2	12,131.8
Effect on provision for severance indemnity payments (%)	-	7.94	-6.84

Calculation of probable payment of the provision for severance indemnity payments	(Ch\$ million)
Short-term provisions for severance indemnity payments (up to one year)	1,462.0
Long-term provisions for severance indemnity payments (over one year)	11,560.2
<b>Balance as of 31 December</b>	<b>13,022.2</b>

## Note 21 Capital and reserves

### (a) Capital and reserves

Section 5 of the Basic Constitutional Act of Central Bank of Chile established an initial capital for Central Bank of Chile at Ch\$500,000 million, which at 31 December 2015 corresponds to Ch\$2,367,503.2 million adjusted to the Consumer Price Index as of that date, with a time lag of one month, which has to be paid according to transitory Article 2 of the Basic Constitutional Act.

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

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

As of 31 December 2015, Central Bank Chile has negative equity of Ch\$1,975,799.8 million (negative equity of Ch\$3,544,474.5

million as of 31 December 2014) arisen mainly from differences between international reserve returns and the cost of liabilities at domestic interest rate due to gains and losses from variations in the exchange rates of assets in foreign currencies, and for the recognition of an allowance for impairment losses of the total debt receivable from the entities which compose the Loans and Saving National System (*Sinap*).

### (b) Price-level adjusted capital

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

As of 31 December 2015, the negative capital price-level adjustment recognized in memorandum accounts amounted to a negative equity of Ch\$161,427.6 million (negative equity of Ch\$237,789.3 million in 2014), which resulted in adjusted capital at the reporting date of Ch\$4,300,569.1 million (negative equity of Ch\$4,409,531.6 million in 2014). The amount to price-level adjusted is capital at the reporting date which includes the capital adjusted at the prior year-end, plus the profit or loss from such year and its contributions by the General Treasury, if any, which does not consider valuation accounts. Note that as of to-date the related deficit has not been distributed yet and during 2015, there were no capital contributions by the General Treasury.

	Capital as of 31. Dec. 15 before price-le- vel adjustment	Price-level adjustment in memorandum accounts	Price-level adjusted total capital as of 31. Dec. 15
Balances as of 31 December 2015	(4,139,168.5)	(161,427.6)	(4,300,596.1)

## Note 22 Foreign currency balances

The statement of financial position includes assets and liabilities payable in foreign currencies, whose balances as of 31 December 2015 and 2014 are as follows:

	(US\$ million)	
	2015	2014
<b>Assets</b>		
<b>Foreign assets</b>	38,885.0	40,691.9
Reserves	38,642.6	40,446.9
Other foreign assets	242.4	245.0
<b>Other asset accounts</b>	16.1	22.9
<b>Total assets</b>	<b>38,901.1</b>	<b>40,714.8</b>
<b>Liabilities</b>		
<b>Foreign liabilities</b>	1,213.1	1,276.7
Other foreign liabilities	80.1	93.4
Special drawing rights (SDR) allocations	1,133.0	1,183.3
<b>Domestic liabilities</b>	4,096.1	4,406.3
Deposits and General		
Treasury liabilities	173.9	178.8
Other deposits and obligations	3,922.2	4,227.5
<b>Other liability accounts</b>	0.1	-
<b>Total liabilities</b>	<b>5,309.3</b>	<b>5,683.0</b>
<b>Net assets</b>	<b>33,591.8</b>	<b>35,031.8</b>

## Note 23 Contingencies and commitments

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

## Note 24 Income taxes

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

## Note 25 Fiscal agency

Law 20,128 related to General Treasury Liability created the "Economic and Social Stabilization Fund" (FEES) and the "Pension Reserve Fund" (FRP)". In conformity with the provisions of the aforementioned law, through Executive Decree 1383, dated 2006 of the Minister of Finance, appointed Central Bank of Chile as Fiscal Agent for the administration of resources referred to such funds, in conformity with the procedures, conditions, methods and other standards established in the aforementioned decree.

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

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

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

## Note 26 Transactions with related parties

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

#### (b) Compensation of the Board and key executives:

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

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

The total gross compensation paid to the Board and key executives during 2015 amounted to Ch\$1,394.4 million (Ch\$1,361.1 million in 2014).

#### Note 27 Relevant events

(a) On 16 September 2015, the Chilean Senate approved the decision of the Chilean President of appointing Mr. Mario Marcel Cullell as Board Member of the Central Bank of Chile starting from 26 October 2015 replacing Mr. Enrique Marshall Rivera after his resignation and for the time remaining to legally complete his period in that position; i.e., until 23 December 2015. On 22 December 2015, the Chilean Senate approved the proposal by the President of the Republic of renewing the appointment of Mr. Mario Marcel Cullell as Board Member of Central Bank of Chile, for a period of 10 years starting from 24 December 2015.

(b) At the Extraordinary Meeting 1923E-01, held on 21 August 2015, the Central Bank of Chile's Board agreed to the appointment of Mr. Sebastián Claro Edwards as Deputy Governor of the Board and of the Central Bank of Chile. At the Meeting 1937-01, held on 29 October 2015, Mr. Claro was reappointed as Deputy Governor for his remaining period as Board Member of the Central Bank of Chile.

#### Note 28 Subsequent events

In the opinion of Management, between 31 December 2015 and the date of issuance of these financial statements the following subsequent events which could significantly affect the amounts presented in the financial statements have occurred:

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

The exchange rate for U.S. dollar as of 25 January 2016 amounted to Ch\$715.63 per US\$1.00 representing an increase of Ch\$8.29 compared with the exchange rate prevailing as of 31 December 2015. This represents an improvement in Central Bank of Chile's equity of Ch\$171,228.9 million.

The exchange rate for euro as of 25 January 2016 amounted to Ch\$773.40 per €1.00, representing an increase of Ch\$1.45 compared with the exchange rate prevailing as of 31 December 2015. This represents an improvement in Central Bank of Chile's equity of Ch\$7,375.9 million.

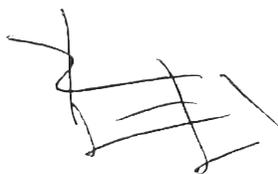
The total increase in Central Bank of Chile's equity because of the increase in the exchange rate for United States dollar and euro on 25 January 2016 amounts to Ch\$178,604.8 million.

**(b) Approval of financial statements**

The financial statements for the year ended 31 December 2015 were presented by the General Manager to the Central Bank of Chile's Board on 28 January 2016 and approved for issue at the Meeting 1955.

**(c) Other**

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



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ALEJANDRO ZURBUCHEN SILVA

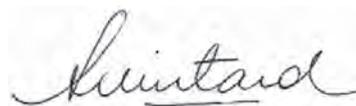
General Manager



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JUAN CARLOS SALAZAR TAPIA

General Accountant



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SILVIA QUINTARD FLEHAN

General Auditor

# Independent Auditors' Report

The Governor and Board Members of  
Banco Central de Chile:

## ***Report on the financial statements***

We have audited the accompanying financial statements of Banco Central de Chile, which comprise the statements of financial position as of 31 December 2015 and 2014, and the related statements of comprehensive income, changes in equity, and cash flows for the years then ended, and the related notes to the financial statements.

## ***Management's responsibility for the financial statements***

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

## ***Auditors' responsibility***

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

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

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

## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Banco Central de Chile as of 31 December 2015 and 2014 and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

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

Cristián Bastián E.

KPMG Ltda.

Santiago, 28 January 2016

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