ANNUAL REPORT | 2019

CENTRAL BANK OF CHILE

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Name of the organization (102-1):	Central Bank of Chile
Tax identification number	97.029.000-1
Ownership and legal form (102-5):	The Central Bank of Chile is constitutionally established as an independent technical institution with legal personality and its own equity. It was created via Decree Law N° 486, published on 22 August 1925.
Headquarters (102-3):	Agustinas 1180, Santiago. Santiago.
Website:	www.bcentral.cl
Period of the report (102-50):	2019
Contact for questions on this report (102-53):	comunicaciones@bcentral.cl

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CHAPTER 1

INTEGRATED ANNUAL REPORT

The Central Bank of Chile aims to perform its functions efficiently, in a framework of increasing transparency of its actions and the consistent application of criteria and policies in line with international best practices.

This report, which constitutes our first Integrated Annual Report, is one of the mechanisms through which the Central Bank reports on its performance to the citizens of Chile who, through their representatives, have placed their trust in our institution.

1.1 LETTER FROM THE GOVERNOR

(102-14)

As society imposes more stringent requirements on its organizations, institutional annual reports have been bestowed the responsibility of presenting a broad and balanced perspective of their performance. This implies addressing not only the financial and operational aspects of performance, but also the environmental and social impacts.

A year ago, the Central Bank of Chile began work in this direction, incorporating financial and nonfinancial information at the same level in the institution. We thus began the transition to a broader, more comprehensive report, to provide an integrated account of the diverse tasks carried out by the Central Bank of Chile.

Completing the transition begun last year, this year's report constitutes our first Integrated Annual Report, conceived as a tool for reporting on our performance of the mandate that we have been given.

Taking stock of 2019 inevitably leads to a distinction between the periods before and after 18 October. The social crisis that erupted on that date created challenges for all the country's institutions, and the Central Bank is no exception.

The first part of the year presented a challenging scenario for monetary policy, featuring a number of unusual events that were difficult to assess, such as the impact of immigration in Chile and the growing tension from the escalating trade war. This led to a re-estimation of the structural parameters of the Chilean economy and the recalibration of monetary policy.

In that context, we strengthened the Bank's applied research with the creation of the International Analysis Area; the extensive use of micro-databases for understanding macroeconomic phenomenon; the use of artificial intelligence, machine learning, and big data to extract and process information; and the development of a macrofinancial model for analyzing the potential impact of the financial system on the transmission of monetary policy and the impact of the macroeconomic situation on the financial markets.

In the area of financial regulation, we developed a protocol for coordination between the Central Bank and the Financial Market Commission (FMC) in the implementation of a number of important new regulations, to apply the Basel III solvency standards to the banking system. We also strengthened the information analysis and presentation processes related to the Financial Stability Report.

Additionally, progress was made on the simplification of foreign exchange regulations; the internationalization of the peso; the faster publication of the Monthly Economic Activity Index (IMACEC); and the use of administrative data sources for regional statistics.

We revised the investment policy for the international reserves. The main changes implied increasing the duration by almost five years (from two to seven years) and adjusting the currency and portfolio structure so as to allow both capital preservation and adequate liquidity.

With regard to our connection to the community, we launched a set of actions to enhance communication, to create spaces for listening, and to improve our relations with our different stakeholders. We expanded the scope of the initiatives that make up the financial education program Central to Your Life and, in parallel, exhibited our cultural heritage objects in different regions of the country, so they could be seen and appreciated by a larger number of people.

Convinced of the importance of reporting on the Bank's actions, we expanded the initiatives associated with active transparency. We published not only the full records of the Monetary Policy Meetings from 2000 onward, but also the records of meetings of the different Boards since 1925. This material is available in a digital repository, together with a series of research papers, historical books, and statistical series, which are accessible to anyone.

In the framework of the diffusion of the Monetary Policy Reports (IPoM), presentations were given not only at regional meetings, but also to undergraduate students of business administration and economics at their universities. Additionally, the Statistics Division expanded its academic activities at various universities in different regions.

We made progress on recycling all waste from the destruction of unfit banknotes, an important step toward making the Central Bank more environmentally friendly. We also achieved gender equality in upper management and successfully negotiated a new contract with the Labor Union, through a collaborative and constructive collective bargaining process.

2019 was the 30th anniversary of the passing of the Basic Constitutional Act, which legally established the Central Bank's independence. This was such an innovative change that it seems quite recent, although it actually covers nearly a third of the Bank's existence. We must not lose sight of the fact that it is this independence that has generated a framework within which the Bank has been able to achieve, with increasing efficiency, its legally assigned responsibilities: to safeguard the stability of prices and the stability of the financial system.

Nevertheless, past achievements alone are not sufficient to maintain and increase public confidence. Therefore, the Board called for an external assessment of its performance in achieving the mandates conferred in the Basic Constitutional Act. To this end, a panel was convened of five renowned world experts in central banking, who could provide an external, informed, rigorous, and independent opinion of our achievements, shortcomings, and challenges. Their report recognized the high level achieved by the Central Bank of Chile vis-à-vis its peers. In particular, the panel rated us as a high-quality, professional Central Bank, whose policy analysis and conduct meet high standards, on par with the inflation-targeting central banks in advanced economies. Undoubtedly, this is another source of pride.

The social crisis that erupted in October caused a disruptive change in the scenario, and our ability to adapt was put to the test. This episode had a contractionary effect on the economy, originating not in the protests and legitimate demands of the population, but rather in the strongly disruptive actions that occurred in the period. These included the looting of businesses; roadblocks; strikes in the education and public services sectors; and the intimidation of people and businesses that were thus unable to return to work. This led to a significant drop in output, a substantial loss of jobs, and a sharp drop in business and household confidence.

Despite the gravity of the situation, the Central Bank reacted decisively: we established special liquidity programs, intervened in the foreign exchange market, and kept the monetary policy rate (MPR) highly expansionary. Together with the measures implemented by the Finance Ministry, we spared no effort to support the economy, in line with the response to the subprime crisis and oriented toward avoiding a recession. Within the scope of its authority, the Bank implemented actions on practically all fronts, complying fully with its legal mandate to safeguard the stability of the currency and the normal functioning of internal and external payments.

In that context, the preparation of our reports and statistics faced significant challenges. Estimating the scope and persistence of the shock on economic and financial variables was highly complex; it implied an important challenge for our analytical models, the associated opinion formation processes, and decision-making, always with a primary focus on the timely provision of information to the public, the authorities, and the markets.

The implementation of the priorities contained in the 2018–2022 Strategic Plan was not an obstacle for responding to the challenges generated by the social crisis. On the contrary, many of the projects being developed under the plan were especially useful in this context. For example, the work being carried out on access to administrative databases as part of Priority 1 of the Plan (Strengthen the Bank's response capability and intellectual leadership) provided access to timely, detailed information on the impact of the crisis on businesses and the effects on the value chain.

For the same reason, the social crisis did not hinder progress on the Strategic Plan, culminating toward the end of the year in the elaboration of a new monetary policy framework and the preparation of the first financial policy document.

Finally, I think it is important to point out this Integrated Annual Report was published under unprecedented circumstances in the country, marked by the spread of COVID-19. Together with the public health control measures that have had to be adopted, the pandemic is having a growing impact on the real economy, with significant effects for households and businesses.

The Central Bank has responded rapidly to implement a major set of measures to mitigate the effects of this scenario, in accordance with its legal mandate and authority. Undoubtedly, the preparation and presentation of our Monetary Policy and Financial Stability Reports will contribute to monitoring the evolution of the scenario and provide a concrete basis for analyzing this period in our next annual report in 2020. It is a new opportunity for all of us who work at the Central Bank to renew our commitment to the country and to contribute, through all our different duties, to the progress of Chile and our fellow citizens.

MARIO MARCEL CULLELL
GOVERNOR
CENTRAL BANK OF CHILE

1.2 LETTER FROM THE GENERAL MANAGER
(102-14)

E2019 brought major challenges to the Central Bank, which were addressed using the framework provided by the current Strategic Planning process, launched in 2018 and designed to be executed over a period of five years.

All the actions taken by the Bank come under the umbrella of this Plan, which provides a road map for both achieving the institutional mandate and addressing the challenges that emerge from the evolution of the global economy and financial system, new technologies, and the local and international contingency itself.

It is with great satisfaction that we can report that at year-end 2019, the Plan's proposed objectives for the year had been fully achieved, and the Bank continued to meet its constitutional mandate, with the capacity to adapt adequately to the changing scenarios.

These advances include the incorporation of microdata in monetary and financial policy research, not a minor feat considering the need to respond quickly to crises like the U.S.-China trade war and the outbreak of social unrest in Chile.

Last year we published 950 Bank records for the period from 1925 to 1945, thereby strengthening our commitment to greater transparency and contributing to society's knowledge of the economic history of Chile.

The Board approved a Sustainability Strategy and also signed a joint statement on climate change with the Ministry of Finance, the Financial Market Commission, and the Superintendence of Pensions, in which the Bank commits to supporting this important issue within its scope of action. In this line, we are pleased to publish our first Integrated Annual Report, which describes the Bank's efforts to contribute to sustainable development and incorporate this dimension in the achievement of its mission.

We continue to make progress on the development of our Technological Observatory, which allows us to monitor and incorporate the available information on technological advances, especially in the areas of finance, markets, and big data. This involves simultaneous work on the incorporation of cybersecurity knowledge and measures.

We want to continue to be an employer of excellence. To this end, we have developed leadership and mentoring programs, with a focus on detecting and developing internal leadership skills. We are proud to have a highly committed and professional team. One of our priorities is to maintain a positive work climate, and we are pleased to report that the results of our last climate survey were very good—even better than in previous years.

We have been active in promoting gender equity and inclusion policies and continue to make progress in bringing more women onto our staff. While the ratio of women to men at the managerial level is still not as equitable as we would like, at the salary level the ratio is favorable for women.

In 2019 we worked to make our website friendlier and simpler, and some of the paintings in the Bank's art collection were exhibited in regions outside of Santiago, where they were viewed by thousands of people.

We have a number of large and ambitious projects in the pipeline, especially in the area of payment means. These include initiatives on efficient and effective recycling and progress on the complex engineering project to develop a state-of-the-art cash logistics center in Chile

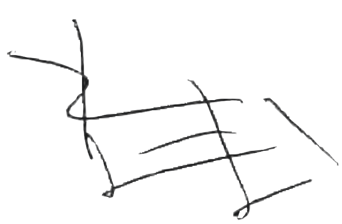
Our biggest challenge emerged in October, with the eruption of social unrest. The social crisis had a major impact on economic activity, amplifying the effects of international events, and it also complicated normal operations in our main offices.

Fortunately, the Bank has a solid risk management policy, which was further strengthened over the past year with the creation of a specialized area. We were thus able to face the contingency without disrupting operational continuity, both at the Bank itself and within the payment system.

The measures adopted by the Board, based on timely information provided by the staff, gave our society a glimpse of the Central Bank's capacity to react quickly in response to major contingencies.

The General Management of the Central Bank has as its mission the immediate oversight and management of the institution, ensuring efficient management and maintaining operational continuity.

Although the national and global contingencies imply that we will have to work arduously to comply with this mandate, I can say with all confidence that in this regard, we have a committed, high-performance team that exemplifies our institutional values and that is focused on achieving the objectives that society has entrusted to us.



ALEJANDRO ZURBUCHEN SILVA
GENERAL MANAGER
CENTRAL BANK OF CHILE

1.3 2019 AT A GLANCE
(102-7)

3%
Inflation in 2019

Value of banknotes
5.4%
Over GDP

29
Publications

239
External workers

685
Employees
(32% women)

175.6 tons
Total waste

CLP$ 2,197,569.1MM

Profit in the year

CLP$ 30,273,974.9 MM(*)

International reserves at market value

CLP $13,884,907.1

Central Bank debt securities at market value

4.775

Museum visitors

4

Buildings

1.101

Suppliers

(*) Equivalent to US $ 40,656.9 Million

1.4 2019 Highlights

(102-10)

JAN

- New appointments to strategic positions in the new organizational structure.
- Creation of the Risk Committee.
- On 28 January, the fourth-quarter Bank Lending Survey was published, showing an increase in the number of banks reporting tighter lending conditions for mortgages. In the case of demand, the survey pointed to a strengthening in the consumer segment at year-end 2018.

FEB

- On 5 February, the last IMACEC for 2018 was released. In December of that year, the economy grew 2.6% relative to the same month in the previous year, driven by the performance of services. December 2018 had one more business day than December 2017.

MAR

- The Governor of the Bank inaugurated the Basel III Seminar, organized in conjunction with the Inter-American Development Bank (IDB).

APR

- The Governor of the Bank gave a presentation to the House of Representatives Working Committee on the Chilean pension system.

MAY

- Launch of the XV Annual "Economics Up Close" school contest, a financial education initiative aimed at high school students across the country.
- 2,500 people visited the Central Bank on National Heritage Day.

JUN

- The Board reduced the monetary policy rate by 50 basis points, to 2.5%.
- The Bank updated the structural parameters used to evaluate the state of the economy.

JUL

- Presentation of the initiative to incorporate the Chilean peso in the Continuous Linked Settlement (CLS) Bank, which will reduce the risk of cross-border transactions.

AUG

- The Board approved the new structure of the Financial Markets Division.

SEP

- To commemorate its 30 years of independence, the Board received the annual award from the Chilean Institute of Rational Business Management (Icare).
- The Board reduced the monetary policy rate by 50 basis points, to 2.0%.

OCT

- Following the eruption of social unrest and the suspension of activities in the city center where its main offices are located, the Bank maintained operational continuity and reinforced the monitoring of financial system operations.
- The XXXVII Meeting of Central Bank Governors of South America was held in Santiago.
- At its Monetary Policy Meeting, the Board reduced the monetary policy rate by 25 basis points, to 1.75%.

NOV

- The Board decided to implement a preventative program to facilitate liquidity management in dollars and pesos in the financial system.
- The Board established an exchange rate intervention program of up to US$ 20.0 billion, in order to reduce exchange rate volatility.

DEC

- The Senate approved the appointment of Rosanna Costa as a Member of the Board of the Central Bank of Chile, for a period of ten years.
- The Bank launched its new website.
- Joint Statement on Climate Change by the Central Bank, the Finance Ministry, the Financial Market Commission (FMC), and the Superintendence of Pensions.
- The Bank moved up the date of its Monetary Policy Meeting and the publication of the December 2019 Monetary Policy Report.

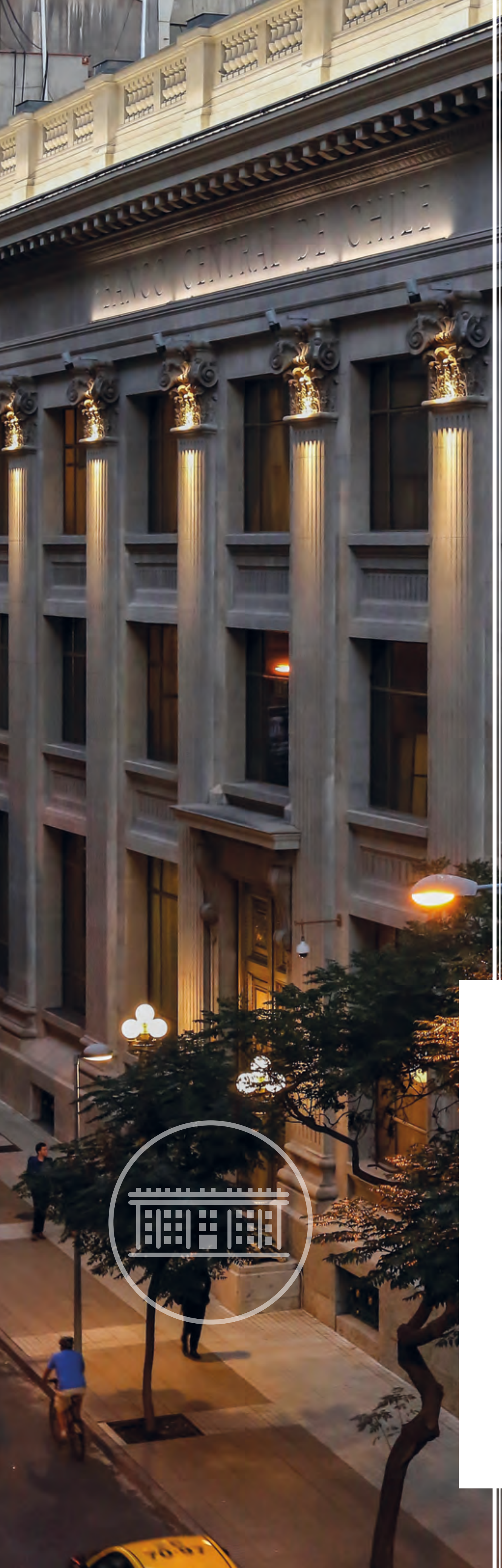
XXIII Annual Conference of the Central Bank of Chile

The XXIII Annual Conference of the Central Bank of Chile, "Central Bank Independence, Credibility, and Communication," was held on 23–24 July 2019.

The event, which was inaugurated by Governor Mario Marcel, was attended by high-level economists, including Professor Kenneth Rogoff of Harvard University, who gave the keynote speech.

The conference also enjoyed the participation of 21 representatives of 19 central banks around the world, including the governors of the central banks of Iceland, Már Guðmundsson; South Africa, Lesetja Kganyago; Colombia, Juan José Echavarría; and New Zealand, Adrian Orr; and the former governor of the Central Bank of Israel, Karnit Flug.

The International Monetary Fund (IMF), in conjunction with the Central Bank, organized its Summer Conference on 24–25 July. At the meeting, the Fund updated its global forecasts in the World Economic Outlook (WEO), presented on 23 July by the IMF's Chief Economist, Gita Gopinath.



CHAPTER 2

CENTRAL BANK OF CHILE

Over the course of 30 years under the current legal framework, inflation has been low and stable the majority of the time.

We have reduced economic volatility, and the financial system has operated without any significant disruptions.

The achievement of these objectives reflects the Bank's contribution to the country's development and people's quality of life.

In meeting its objectives, the Bank embraces the challenge of pursuing an environmentally and socially responsible internal management, aimed at contributing to the country's sustainable development.

2.1 History of the Central Bank of Chile

Over the course of its history, the Central Bank of Chile has undergone a number of changes in its role, functions, and management mechanisms.

1925

Decree Law 486 of 22 August, passed under President Arturo Alessandri Palma, created the Central Bank of Chile. The initiative was one of the projects presented that year by the Kemmerer mission, contracted by the government to restructure the Chilean monetary and financial system.

1926

The Central Bank opened its doors to the public with nominal equity of 150 million pesos, of which approximately 13% was contributed by the state, 40% by national and foreign commercial banks operating in Chile, and the remaining 47% by the public through the subscription of shares. Its main functions were monetary.

1953

Statutory Decree DFL 106 was published, replacing the previous Basic Constitutional Act. Under the new law, the Central Bank was established as a permanent independent institution, whose fundamental objective was "to promote the orderly and progressive development of the national economy through a monetary and credit policy that, by avoiding inflationary or recessionary trends, supports the more efficient use of the country's productive resources."

1960

The Third Basic Constitutional Act was published, maintaining the same objective for the Central Bank as the prior legislation while introducing a number of modifications. These included changing the composition and appointment of the Board of Directors; creating the Executive Committee, made up of the Central Bank Governor, Deputy Governor, and General Manager; and expanding the Bank's authority to control credit in the economy.

1975

With the passing of the fourth Basic Constitutional Act, the Monetary Board, a ministerial-level body, was created for the purpose of establishing monetary, credit, capital market, foreign trade, tariff, foreign currency, and saving policies, in accordance with guidelines issued by the Executive Branch. In addition, the Central Bank became

an autonomous public-law institution that was managed independently from the state and was endowed with its own equity. This new law also expressly gave the Central Bank the power to grant loans to the Treasury, pursuant to special laws.

1979

The Constitutional Act was amended to establish that under no circumstance can the Central Bank acquire, in the name of the institution, discount notes or other debt instruments issued directly by the Treasury of Chile, nor can it lend directly to firms or other public or private entities, with the exception of financial institutions.

1981

The Constitution of Chile established the constitutional status of the Central Bank as an independent institution. At the same time, it defined the Central Bank as a technical body with its own equity, whose composition, organization, functions, and powers must be determined via a basic constitutional act. In Article 109, the Charter establishes that the Central Bank can only conduct operations with public or private financial entities and that it cannot provide their guarantee. It further establishes that the Central Bank cannot acquire securities issued by the state, by government bodies, or by publicly owned companies and that it cannot finance any public expenditures, unless the National Security Council considers that the country is engaged in a foreign war or in danger of becoming so engaged.

1989

Law 18,840 was published, wherein the first article established the Basic Constitutional Act of Central Bank of Chile and inaugurated the first independent Board of Directors, chaired by Andrés Bianchi and comprising Board Members Alfonso Serrano, Roberto Zahler, Enrique Seguel, and Juan Eduardo Herrera. That year, the Central Bank began to apply policies that led to a reduction of inflation to levels fluctuating around 3% annually.

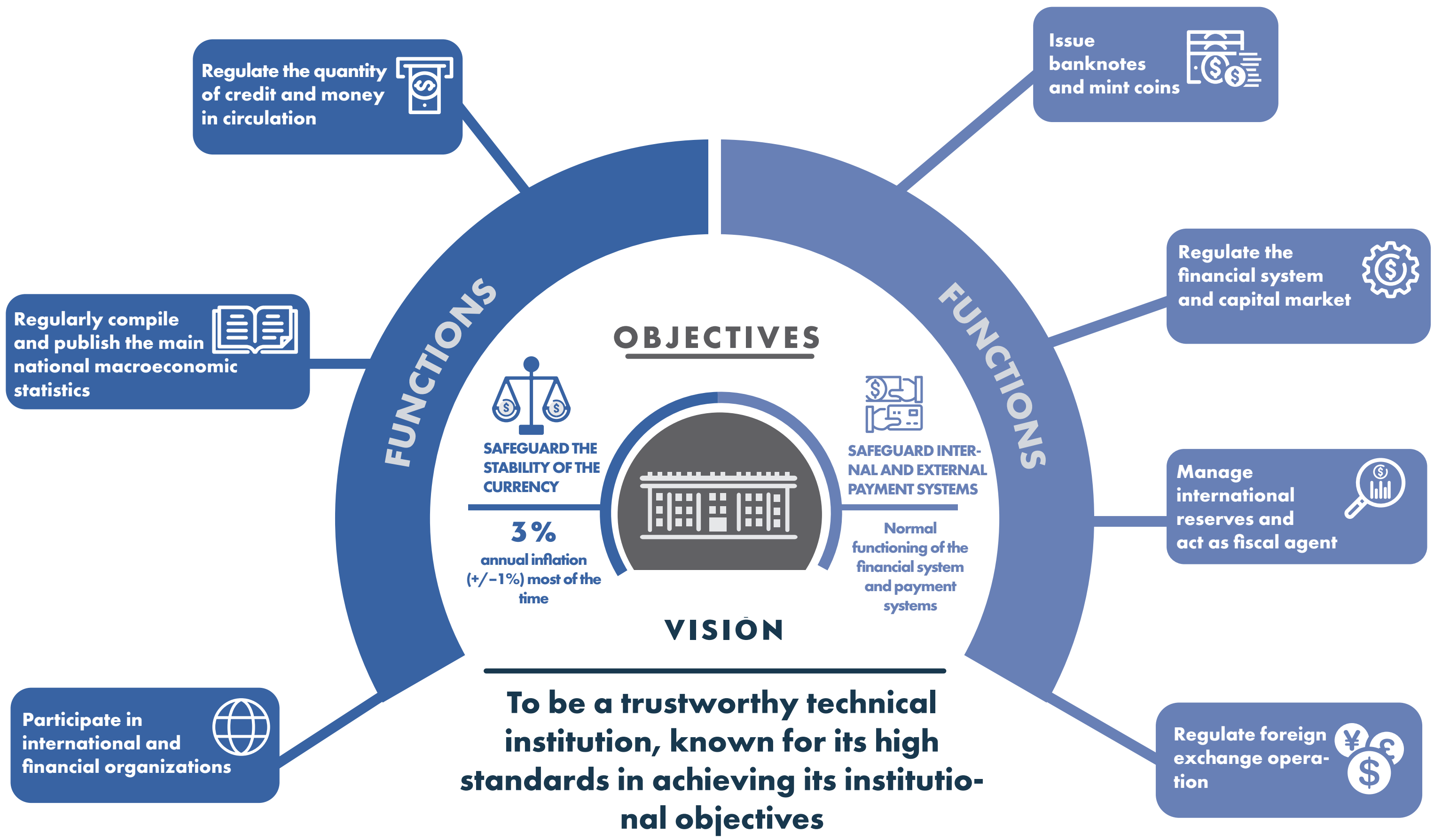
2.2 Mandate

(102-16)

The Central Bank of Chile was created on 22 August 1925. As of 10 October 1989, it is an independent technical institution, whose objective is to safeguard the stability of the currency, that is, to keep inflation low and stable over time. Its mission also includes promoting the stability and efficiency of the financial system, thereby guaranteeing the normal functioning of internal and external payments.

These objectives support the creation of a predictable environment in which to make decisions, contributing to softening economic cycles and creating the foundation for the country's sustainable growth.

To achieve these objectives, the Central Bank has the authority to regulate the quantity of money and credit in the economy, to ensure that there are sufficient funds for people, firms, and institutions to carry out their transactions.



Values

VALUES

Commitment
The Central Bank has a commitment to society to achieve the mission that has been publicly entrusted to our institution, and we assume full responsibility for the decisions we make, ensuring that they are based on technical criteria and are independent of outside influence.

Respect

It is our duty to communicate clearly and openly, demonstrating mutual respect, sharing experiences and knowledge, and promoting equal opportunity for everyone who is part of this institution.

Transparency

As a public institution, we are committed to acting transparently, and we thus seek to quickly and efficiently report our decisions to society.

Integrity

Maintaining impeccable conduct is one of our fundamental concerns in carrying out the public functions that have been entrusted to our institution, and we therefore act with the utmost professional integrity in the management of the Bank's resources.

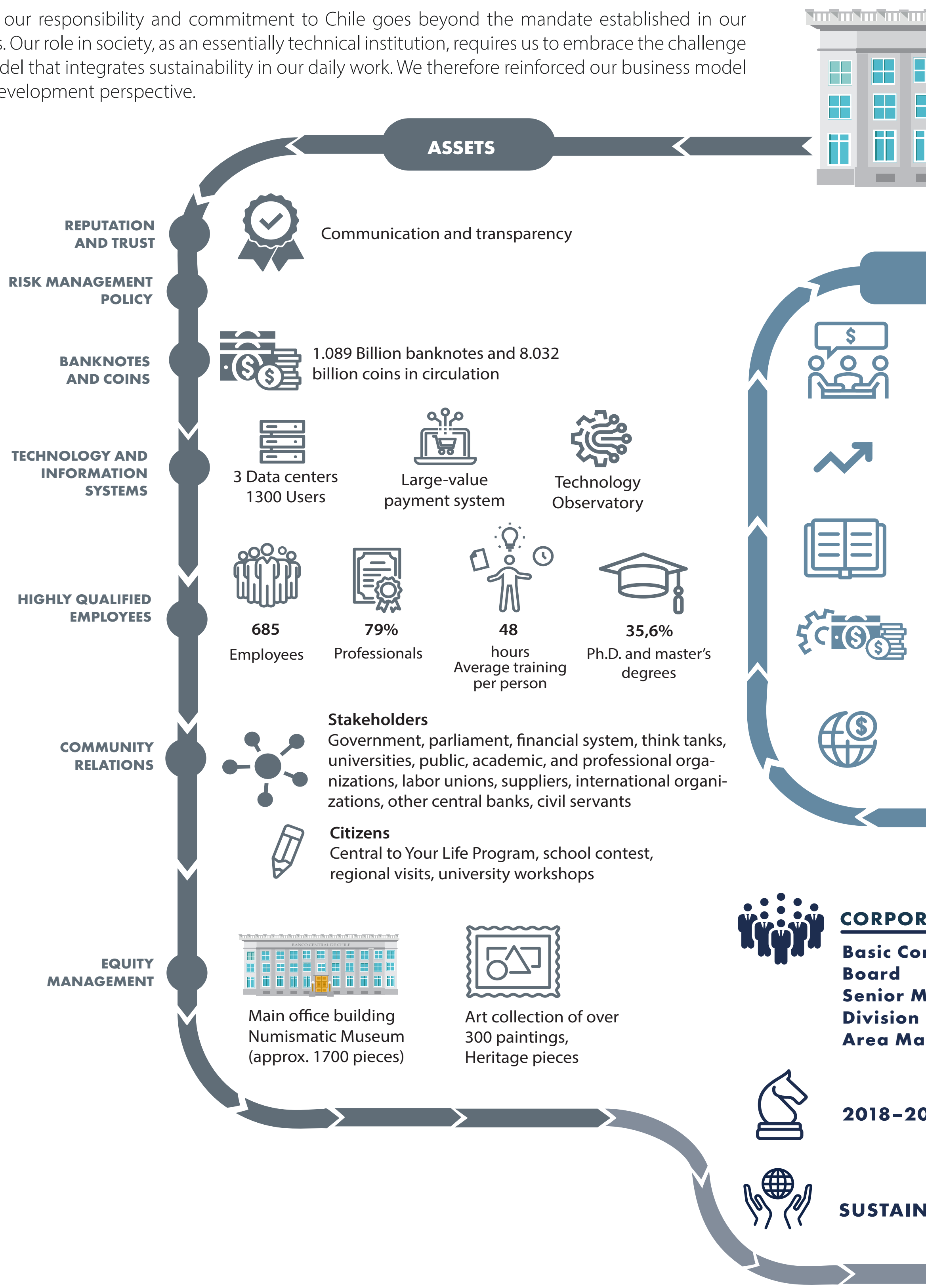
Excellence

We are constantly looking for ways to improve the Bank's processes and activities, striving for excellence in achieving our mission through the incorporation of best practices and the promotion of innovation.

2.3 Value Creation Model

(102-2; 102-40)

At the Central Bank, we believe that our responsibility and commitment to Chile goes beyond the mandate established in our mission, vision, and institutional values. Our role in society, as an essentially technical institution, requires us to embrace the challenge of moving toward a management model that integrates sustainability in our daily work. We therefore reinforced our business model in 2019, incorporating a sustainable development perspective.



RESULTS

MANDATE COMPLIANCE

MONETARY POLICY

FINANCIAL POLICY

COMPILATION, PRODUCTION, AND PUBLICATION OF MACROECONOMIC STATISTICS

CASH MANAGEMENT

INTERNATIONAL RESERVE MANAGEMENT

- 3% INFLATION IN DECEMBER
- 1.0 BASIS POINT REDUCTION IN MONETARY POLICY RATE
- FINANCIAL SYSTEM AND PAYMENT SYSTEM OPERATING NORMALLY
- MONTHLY, QUARTERLY, AND ANNUAL STATISTICAL SERIES
- FIRST INTEGRATED ANNUAL REPORT
- 2,500 PEOPLE VISITED THE BANK
- 4,078 STUDENTS AND TEACHERS USED THE EDUCATIONAL SPACE
- AVAILABILITY AND RELIABILITY OF BANKNOTES AND COINS IN GOOD CONDITION
- 2,268 PEOPLE TRAINED IN KNOW YOUR BANKNOTES WORKSHOPS
- IMPLEMENTATION OF BANKNOTE AND COIN RECYCLING METHODS
- ADHESION TO THE CHILEAN GOVERNMENT'S COMMITMENT ON CLIMATE CHANGE

- **8** MONETARY POLICY MEETINGS
- **4** MONETARY POLICY REPORTS
- **2** FINANCIAL STABILITY REPORTS
- **4** NATIONAL ACCOUNTS AND BALANCE-OF-PAYMENTS REPORTS
- **12** IMACEC
- **5** BUSINESS PERCEPTIONS REPORTS
- **1** HOUSEHOLD FINANCIAL SURVEY
- **29** PAPERS AND PUBLICATIONS

ATE GOVERNANCE

nstitutional Act

anagement
Directors
nagers

22 STRATEGIC PLAN

ABILITY STRATEGY

2.4 Strategic Plan 2018–2022: Everybody's Project

(102-20, 102-26, 102-29)

This was the second year of the implementation of the 2018–2022 Strategic Plan, which was developed through an extensive consultative, participatory, and inclusive process that drew on the wide range of perceptions that different stakeholders have about the institution.

Tracking the progress on each of the strategic priorities defined in the plan—including specific initiatives, lines of action, point people, and timelines—is carried out by the Bank's senior management, which has the authority to make adjustments as needed over time.

The following tables describe the advances made in 2019.

PRIORITY 1	INITIATIVES	LINES OF ACTION	ADVANCES IN 2019
Strengthen the Bank's response capability and intellectual leadership in order to achieve the institutional objectives defined in the Basic Constitutional Act, incorporating an increasingly complex reality.	Strengthen the analytical capacity that supports the monetary policy decision process, incorporating international best practices. Develop analytical capacities for identifying, monitoring, and communicating financial risks.	1.a Modelling agenda. 1.b Communication strategy for monetary policy analysis. 1.c Incorporation of microdata in monetary policy analysis. 1.d Financial policy agenda. 1.e Communication strategy for financial stability analysis. 1.f Incorporation of microdata in financial stability analysis. 1.g Market intelligence. 1.h Regulatory simplification.	Incorporation of microdata in research by the Monetary Policy and Financial Policy Divisions. Preparation of thematic chapters in the Monetary Policy Report and Financial Stability Report. Advances in market intelligence. Publication of the new Compendium of Foreign Exchange Regulations. Approval of the document "Financial Stability Objective."

PRIORITY 2	INITIATIVE	LINES OF ACTION	ADVANCES IN 2019
Strengthen the Bank's understanding of and dialogue with the wider environment through strategic communications management that identifies objectives, roles, and functions.	Design a comprehensive communications strategy for the Bank, which consolidates stakeholder relations.	2.a Design and implementation of a comprehensive communications strategy. 2.b Strengthening of active transparency mechanisms. 2.c Modernization of the Bank's communications, using new technologies, media, and channel.	Implementation of new corporate communications platforms: Central Bank website, Central to Your Life website (financial education), digital library, and Intranet. Modernization of the platforms associated with the national laws on lobbying and transparency. Publication of 950 Board Meeting records from 1925–1945.

PRIORITY 3	INITIATIVES	LINES OF ACTION	ADVANCES IN 2019
Strengthen the Bank's corporate governance so as to balance risk tolerance and business process efficiency, streamlining the decision-making process and facilitating innovation.	Fine-tune the institutional governance structure to streamline the decision-making and implementation processes.	3.a Governance, light organizational structure, with agile and efficient decision-making. 3.b Process optimization, risk-efficiency balance, and cultural change management. 3.c Comprehensive balance sheet management. 3.d Sustainable Bank.	Completion of the application of the risk-appetite methodology for specific processes within the scope. Completion of pilot projects for process optimization. Definition of the Sustainability Strategy, with the approval of the Board.

PRIORITY 4	INITIATIVES	LINES OF ACTION	ADVANCES IN 2019
Improve the Bank's capacity to understand, manage, and incorporate technological changes, in relation to both its operations and management and its institutional objectives.	Develop the internal management and regulatory capacities to handle disruptive technologies (DT) that affect the business models of the Bank and financial institutions.	4.a Technology Observatory. 4.b TechLab. 4.c FinLab.	Initiation of work on the Machine Learning and Digital Currency projects. Completion of the technical feasibility study for the cryptobond project.

PRIORITY 5	INITIATIVES	LINES OF ACTION	ADVANCES IN 2019
Be an employer of excellence, offering a value proposition that inspires people and teams to discover and develop their full potential, in a work environment that promotes collaboration, continuous learning, and professional and personal challenges; and thus attracting and retaining the best talent.	Attract and retain talent, identifying and training motivated, committed people who represent the Bank's institutional values. Strengthen individual leadership and management skills, in line with the organizational culture and values.	5.a Reinforcement and strengthening of the Bank's employee value proposition. 5.b Evaluation of alternatives for a segmented development system. 5.c Definition of the culture necessary for achieving the strategic objectives, which will provide the basis for modelling and implementing a leadership development program.	Implementation of programs for leadership, mentoring, and 360-degree feedback for leaders. Strengthening of the Bank's value proposition and work culture.

2.5 Sustainability Strategy

Becoming a sustainable Bank is one of the action lines under Priority 3 of the current Strategic Plan. In 2019, we undertook the vital work of defining our Sustainability Strategy as a Central Bank, which has allowed us to move forward on this objective.

This strategy starts from the principle that the Central Bank of Chile's commitment to the country's development and our citizen's progress necessarily implies that that development must be sustainable and that growth must go hand in hand with conditions of equality and environmental viability.

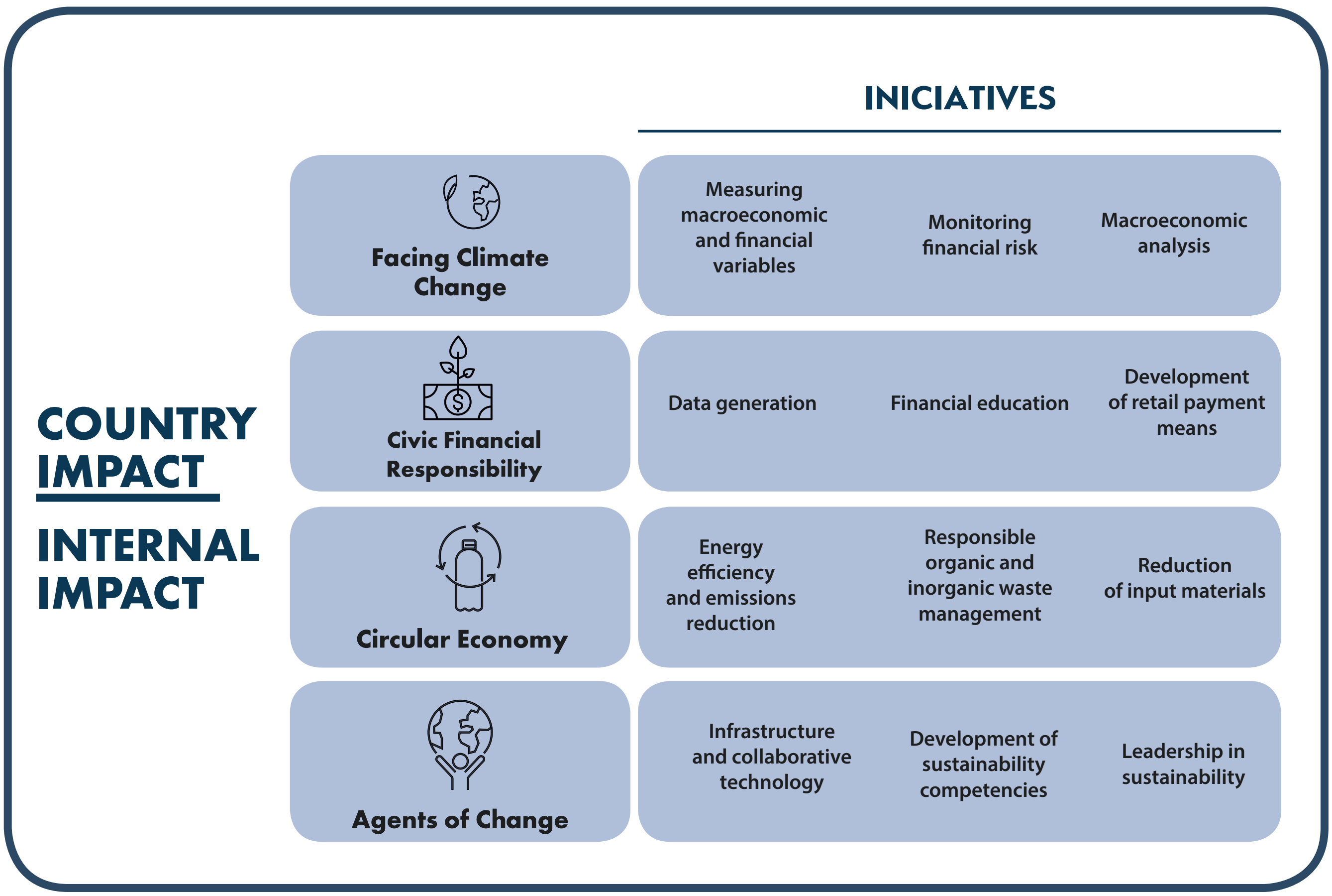
The strategy was designed and implemented with the support of an external consultant specializing in sustainability issues. The work plan included a diagnosis based on discussions with different groups within the organization, interviews of members of senior management, an online survey open to all employees, and practical workshops led by sustainability professionals.

As a result of these actions, we defined four areas in which the Central Bank needs to advance in order to achieve this objective: facing climate change, civic financial responsibility, circular economy, and agents of change. The first two are oriented toward the Bank's outward actions, with an impact on the country; while the latter two involve how the institution addresses the different dimensions of this commitment internally.

The strategy was approved by the Board in January 2020, with guidelines for the initial reporting exercise on the identified topics, which will be closely managed in the coming year. Each topic has its associated indicators; the next step is to define targets and measure progress in 2020.

The Office of the General Manager, the Operations Division, and the Institutional Affairs Division were particularly involved in the process that resulted in the Central Bank's Sustainability Strategy.

The following diagram summarizes the strategy, showing the four dimensions, their respective areas of impact, and the topics to be addressed in 2020.



2.6 Trends

For the Central Bank, it is crucial to stay on the vanguard. The capacity to safeguard the security and stability of the national financial system requires managing risks and decisions using the latest information on the global context. This responsibility implies that we need to communicate with a wide range of national and international authorities in order to stay abreast of what is happening at the international level, especially with regard to material topics or issues associated with the long-term planning of our mission and vision.

This responsibility implies making a major effort to be up-to-date on all the trends occurring at the world level, including academic and technological trends and the evolution of financial scenarios, so as to have access to all the available tools for the long-term planning of our mission and vision.

To achieve this mandate, we maintain an ongoing relationship with other central banks and multilateral organizations in the economic-financial area; we have a technology observatory that keeps us up-to-date on advances in this area; we strive to stay informed on issues like climate change and sustainability; we maintain close connections with stakeholder groups like government authorities, legislators, academics, think tanks, universities, businesses, labor unions, and so on, so as to stay current with society's assessments and expectations; and we deeply analyze the diverse aspects of big data and incorporate them into in our analysis and forecasts.

CHAPTER 3

CORPORATE GOVERNANCE

In a complex period of deep uncertainty in the country and the world, the Central Bank has been able to adapt and strengthen its reputation as a reliable and trustworthy institution for economic agents and the community at large.

Led by a team of professionals with extensive experience and a strong commitment to the institution and the country, the Central Bank of Chile fulfills its mandate every day.

3.1 Our Board

(102-18; 102-22; 102-23; 102-24; 102-35)

The Basic Constitutional Act that governs the Central Bank establishes its management mechanisms, giving highest authority to a Board composed of five members and chaired by the Governor, currently Mario Marcel.

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. The five Board Members are appointed by the President of Chile and then approved by a simple majority of the Senate. The members serve for a term of ten years, with a new member being appointed every two years.

The Board Members are, and have always been, experts in macroeconomics and finance, with extensive experience in academics or public service and representing a range of economic schools of thought. They must work exclusively for the Central Bank and are only allowed to participate in teaching or academic activities and nonprofit organizations.

The Basic Constitutional Act establishes that 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 President, when requested, on all matters associated with the Bank's functions.

The Finance Minister can attend Board Meetings or Monetary Policy Meetings and is accorded the right to speak. He can also suspend any Board agreement or resolution, albeit for a limited period and subject to the subsequent decision by the Board.

The remuneration policy for the Board and Senior Management is subject to compliance with the objectives established for the institution, division, and respective position.

Mario Marcel Cullell

Governor of the Central Bank of Chile since December 2016 and Board Member since October 2015.

Mr. Marcel has a bachelor's degree in business administration from the University of Chile and a master's degree in economics from the University of Cambridge, United Kingdom. Prior to his appointment to the Board, he served as Deputy Director for Public Governance and Territorial Development at the Organization for Economic Cooperation and Development (OECD) in Paris, France. For 13 years, he worked for the Government of Chile, where his positions included Budget Director, Chair of the General Government's Internal Audit Committee, and Chair of the Presidential Advisory Committee on Pension Reform. He is the author of over 90 publications on economics, finance, and public policy and administration.

Joaquín Vial Ruiz-Tagle

Deputy Governor of the Central Bank of Chile since 29 March 2018 and Board Member since 6 February 2012.

Mr. Vial has a bachelor's degree in business administration and a master's degree in economics from the University of Chile and a Ph.D. in economics from the University of Pennsylvania. He previously served as the national Budget Director, Executive Director of the Corporation for Latin American Studies (CIEPLAN), and Macroeconomic Policy Coordinator for the Finance Ministry.

Pablo García Silva

Board Member of the Central Bank of Chile since January 2014.

Mr. García holds a bachelor's degree in business administration and a master's degree in economic science from the Catholic University of Chile and a Ph.D. in economics from the Massachusetts Institute of Technology (MIT).
His prior positions include IMF Executive Director for the Southern Cone, as well as Research Division Director and Financial Policy Division Director at the Central Bank.

Alberto Naudon Dell'Oro

Board Member of the Central Bank of Chile since March 2018.

Mr. Naudon studied business administration at the Catholic University of Chile, where he received the Raúl Iver award for graduating at the top of his class in 2000. He also holds a master's degree and Ph.D. in economics from the University of California at Los Angeles. At the time of his appointment, he was managing the Central Bank's Research Division.

Rosanna Costa Costa

Board Member of the Central Bank of Chile since January 2017, to complete the term of former Governor Rodrigo Vergara. She was appointed to a new term as Board Member in December 2019.

Ms. Costa has a bachelor's degree in business administration, with a minor in economics, from the Catholic University of Chile. Her previous positions include Budget Director at the Finance Ministry and Deputy Director of the Liberty and Development Institute. She has also served on several presidential commissions and worked as an economist at the Central Bank of Chile, in the areas of national accounts, research, and monetary policy.

Functioning of the Board

Our Board holds ordinary meetings at least once a week and extraordinary meetings when summoned by the Governor, either of his own volition or in response to a written request by two or more Board Members.

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. The presiding Board Member casts the deciding vote in the event of a tie.

The Board generally holds its meetings at its offices at the Central Bank in Santiago, but it is empowered to meet and vote on legal resolutions, regulations, or other rulings anywhere within the territory of Chile. There are also internal operating mechanisms to ensure compliance with quorum requirements, in the event that a Board Member cannot be physically present at the meeting.

The following committees meet weekly to undertake an exhaustive analysis of the issues to be covered in the Board Meetings and any resolutions scheduled to be submitted for approval.

Economic, Financial, and Statistics Committee

The Committee's objective is to optimize the distribution of work between the Board and the monetary policy, financial policy, and statistics areas of the Bank.

Members	Position
Mario Marcel	Governor / CBC
Joaquín Vial	Deputy Governor / CBC
Rosanna Costa	Board Member / CBC
Pablo García	Board Member / CBC
Alberto Naudon	Board Member / CBC
Juan Pablo Araya	General Counsel
Silvia Quintard	General Auditor
Alejandro Zurbuchen	General Manager
Elías Albagli	Monetary Policy Division Director
Solange Berstein	Financial Policy Division Director
Gloria Peña	Statistics Division Director
Beltrán De Ramón	Financial Markets Division Director
Bernardita Piedrabuena	Corporate Risk Manager
Erika Arraño	Technical Secretary

Information Technology Advisory Committee

The Committee's objective is to advise the Central Bank Board and the General Manager on issues related to the corporate governance of information technology (IT), such as the definition of guidelines for IT strategic planning, monitoring of strategic initiatives, identification of risk mitigators, and cost-benefit analysis of IT-related issues.

Nombres miembros	Cargos
Alejandro Hevia	Outside member
Gonzalo Acuña	Outside member
José Benguria	Outside member
Alejandro Zurbuchen	General Manager
Leonardo Jadue	Technology Manager
Pablo Herrera	Head, Technology Planning Dept. (Technical Secretary)
Mariela Iturriaga	Administration and Technology Division Director

Audit and Compliance Committee

The Committee's objective is to report on the effectiveness of the Bank's internal control systems and procedures; analyze their equity and reputational effects; evaluate the reliability, integrity, and timely delivery of information on the financial statements; review the Annual Audit Plan and its execution; and make proposals on independent auditors.

Member	Position
Alejandro Zurbuchen	General Manager
Juan Pablo Araya	General Counsel
Silvia Quintard	General Auditor
Marlys Pabst	General Secretary
José Luis Cea	Outside member
Anthony Dawes	Outside member
Ricardo Budinich	Outside member
Ramiro Mendoza	Outside member

Risk Committee

The Risk Committee's objective is to coordinate risk monitoring and communication activities, giving feedback to the divisions in charge of the Bank's risk management with regard to their performance, when deemed necessary.

Nombres miembros	Cargos
Alejandro Zurbuchen	General Manager
Mariela Iturriaga	Administration and Technology Division Director
Juan Pablo Araya	General Counsel
Michel Moure	Institutional Affairs Division Director
Bernardita Piedrabuena	Corporate Risk Manager

Panel de Experts

In September 2018, the Central Bank Board decided to commission an external evaluation of the Central Bank's performance in fulfilling the two mandates assigned by its Basic Constitutional Act, namely, price stability and financial stability. To this end, a highly trained international Panel of Experts was convened last year.

Karnit Flug
Panel Chairperson
Governor, Central Bank of Israel (2013–18)

Donald Kohn
Senior Fellow, Brookings Institute
Member, Financial Policy Committee of the Bank of England. Vice Chairman, Board of Governors of the U.S. Federal

Petra Gerats
Professor, University of Cambridge
Expert advisor on monetary policy communication and transparency

Enrique Mendoza
Professor, University of Pennsylvania
IMF researcher (1992–94)

Guillermo Calvo
Professor, Columbia University
IDB Chief Economist (2001–06)

The Panel was asked to review the Bank's independence, the influence and impact of its policy actions, the suitability of its policy framework and policy tools for achieving its financial and price stability objectives, the effectiveness of its organization, procedures, and policy tools for achieving those objectives, and the quality of its communications. The Panel was invited to make recommendations in all these areas.

The evaluation centered on general aspects of the Central Bank of Chile and on the framework, tools, processes, and procedures for decision-making.

Based on the results of the assessment, the panel made 40 recommendations, "to further improve the CBC's capacity to react to stress or crisis situations, to continue improving its analytical tools, to further improve its communications, especially for conveying uncertainty about future developments and policy decisions, and to guarantee that it has the capacity to apply macroprudential tools when necessary."

The experts concluded that the Bank is a "high-quality and very professional" institution and that its policy analysis and conduct meet high standards, comparable to inflation-targeting central banks in advanced economies. They stated that macro/monetary policy management in Chile "has been exemplary of emerging economy standards" and that the Chilean financial system has avoided major disruptions since 1982, an indication that the Bank has achieved its financial stability mandate.

Of the 40 recommendations made by the panel, 24 have to do with monetary policy, 13 with financial policy, and three with general corporate issues.

These conclusions were presented by Governor Mario Marcel to the Senate Finance Committee in December 2019.

3.1.1 Senior Management

(102-19)

The Basic Constitutional Act grants the Board the authority to appoint the General Manager, General Counsel, and General Auditor and to specify their associated responsibilities and duties.

Within the Bank's organizational structure, senior management includes seven division directors and two managers who report to the General Manager, who are in charge of operationalizing the Bank's fulfillment of its role and functions and providing the services necessary to do so.

The General Counsel is fundamentally responsible for overseeing the legality of all agreements, resolutions, and contracts, thereby controlling legal risk in the Bank's actions.

Juan Pablo Araya Marco

General Counsel and Certifying Officer of the Central Bank of Chile Since June 2014.

Mr. Araya earned his law degree from the University of Chile, followed by a master's degree in business law from the Adolfo Ibáñez University and a Master of Laws from the University of California at Berkeley. Prior to his appointment, he held the positions of General Counsel of the Chilean Association of Banks and Financial Institutions; director and member of the Executive Committee of Sinacofi; and legal advisor to the interbank securities depository, Sociedad Interbancaria de Depósito de Valores S.A. He joined the Central Bank in 2004, serving as a senior lawyer in the Office of the General Counsel through 2012. In that capacity, he provided legal advice on the Bank's international reserve management and on the fiscal agency agreements for the overseas investment of the sovereign funds and the placement of public debt instruments in the local market.

The General Manager is in charge of the immediate oversight and management of the Bank, in accordance with the authority and instructions given by the Board.

Alejandro Zurbuchen S.

General Manager of the Central Bank of Chile since August 2006.

Mr. Zurbuchen has a bachelor's degree in business administration from the University of Valparaíso and two master's degrees, in management control and finance, from the University of Chile. He also has an MBA from the Adolfo Ibáñez University. Before taking over as General Manager, he served as the General Auditor of the Central Bank from January 2005. He worked at Shell S.A. for 25 years, holding a number of positions with a wide range of responsibilities, including Comptroller for the Southern Region and, in parallel, Director and Legal Representative for Shell Argentina and other subsidiaries. He was Chief Operations Officer of Shell Chile in Santiago (1997–98) and Audit Manager for Shell Expro in Aberdeen, Scotland (1993–97), where he was in charge of commercial and financial audits both internally and in the joint ventures.

The General Auditor is responsible for the internal audit and inspection of the Bank's accounts, operations, and management standards.

Silvia Quintard Flehan

General Auditor of the Central Bank since 1 January 2007.

Ms. Quintard studied public accounting and auditing at the Diego Portales University in Chile, and she has both a master of business administration and a master of laws, with a focus on corporate law, from the Catholic University of Chile. She is also certified in risk management assurance (CRMA) by the Institute of Internal Auditors. Previously, she worked in the Chilean financial sector and the Superintendence of Banks and Financial Institutions. She is a member of the Central Bank Audit Committee organized by the Center for Latin American Monetary Studies (CEMLA), where she has also spoken at annual conventions.

DIVISION DIRECTORS

Elías Albagli Iruretagoyena
Monetary Policy Division

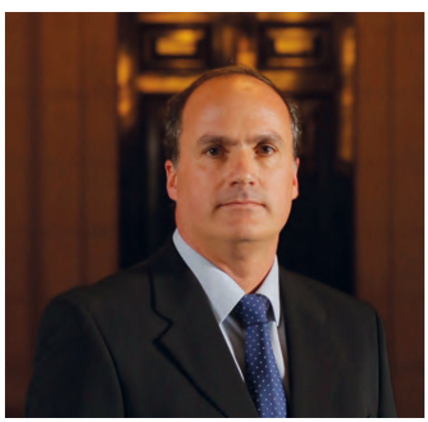
Solange Berstein Jáuregui
Financial Policy Division

Beltrán de Ramón Acevedo
Financial Markets Division

Gloria Peña Tapia
Statistics Division

Michel Moure Casabianca
Institutional Affairs Division

Mariela Iturriaga Valenzuela
Administration and Technology Division



Raimundo García
Operations Division

AREA MANAGERS

Andrés Fernández
Economic Research

Diego Gianelli Gómez
International Analysis

Miguel Fuentes Díaz (*)
Macroeconomic Analysis

Enrique Orellana Cifuentes
Monetary Policy Strategy and Communication

Cecilia Feliú Carrizo
Treasurer

Rodrigo Alfaro Arancibia
Financial Stability

Gabriel Aparici Cardozo
Infrastructure and Financial Regulation

Markus Kirchner(**)
Financial Research

Francisco Ruiz Aburto
Macroeconomic Statistics

Carmen Gloria Escobar Jofré
Statistical Information

Mauricio Álvarez Montt
Chief Legal Services Lawyer

Marcela Pumarino Cruzat
Human Resources

*Miguel Fuentes was named International Analysis Manager in January 2020.

**Markus Kirchner was appointed Macroeconomic Analysis Manager in February 2020.

AREA MANAGERS

José Luis Pérez Alegría
Security

Carlos Escobar Alegría
Central Logistics Project

Pablo Mattar Oyarzún
Chief Regulatory Lawyer

Juan Carlos Piantini Cardoso
International Markets

Bernardita Piedrabuena
Corporate Risk

Felipe Lozano
Communications

Carolina Besa Montes
Public Affairs

Juan Wlasiuk (i)
International Analysis

Andrés Vargas
Operations and Payment Systems

Mario Ulloa López
Planning and Accounting Operations

Leonardo Jadue Jadue
Technology

Timeline of Appointments in 2019
Mariela Iturriaga, Administration and Technology Division Director, 21 January 2019
Bernardita Piedrabuena, , Corporate Risk Manager, 1 March 2019
Andrés Vargas, Operations and Payment Systems Manager, 21 March 2019
Andrés Fernández, Economic Research Manager, 01 April 2019
Raimundo García, Operations Division Director, 15 April 2019
Felipe Lozano, Communications Manager, 06 May 2019
Juan Carlos Piantini, Financial Market Analysis Manager, 15 November 2019
Diego Gianelli, Market Operations Manager, 15 November 2019

3.2 Risk Management

102-15

At the Central Bank, we are motivated and committed to providing the necessary conditions for building an economically stable Chile, where everyone can have the opportunity to contribute to the wider society and achieve personal development. Fulfilling the Central Bank's mission, vision, and strategic objectives requires a comprehensive risk management system that minimizes and duly manages the risks.

An organization like the Central Bank, whose mandates have a major effect on the economy and social welfare, is subject to numerous potential contingencies that can obstruct or impede the normal fulfillment of its functions. Risk management aims precisely to identify these potential contingencies, evaluate them, and adopt appropriate preventative measures to prevent their materialization, to the extent possible, or mitigate their effects.

To achieve this objective, we have a corporate governance structure led by the Board, Senior Management, the Audit and Compliance Committee, and the Risk Committee, which promotes the framework for managing the risks that can affect the Bank's ability to achieve its mission, vision, and strategic objectives. There is also a Corporate Risk Area, responsible for identifying and monitoring the Bank's strategic risks.

The Central Bank is governed by the following legislation and regulations:

- Constitution of Chile (Art. 108 et seq.)
- Basic constitutional Act LOC (Law Nº 18,840)
- Internal Rules of the Board
- Staff regulations
- Law on Probity in Public Administration and the Prevention of Conflicts of Interest (Law N° 20,880)
- Law on Transparency (Law N° 20,285)
- Law on Lobbying (Law N° 20,730)
- Regulations on maintaining a record of the Central Bank's public agenda, lobbyists, and special interest groups

The scope, responsibilities, and guidelines for identifying, evaluating, and treating risk events are established in the Bank's Comprehensive Risk Management Policy and Comprehensive Risk Management Methodology. To disseminate the results of its risk management processes, the Bank generates reports for the different corporate governance levels, including the Monetary Policy Report, Financial Stability Report, Quarterly Management Report, and Risk Self-Assessment Reports.

In 2019, one of the advances made in comprehensive risk management, within the framework of Priority 3 of the Central Bank's Strategic Plan, on strengthening corporate governance, was to move forward on establishing a risk appetite statement for the Bank.

There was also a survey and assessment of the most important strategic risks that could affect the Bank in the event of materialization, which are subject to continuous analysis and monitoring.

Implementation was completed on the governance, risk, and compliance (GRC) tool, which integrates and improves administration of the risk management, business continuity, and incident management processes.

The Bank holds a number of risk-management-related certifications, including the following:

- ISO 27001:2013 Information Security Management System: Highly Sensitive and Confidential Information;

- ISO 22301:2012 Business Continuity Management System: Large-Value Payment System, IT Security Systems, Physical Security, Electronic Security Monitoring, Telecommunications Systems, Operational Electrical Systems, Publication and Updating on the Website, and Technical Support for Critical Business Processes;

- ISO 9001:2015 Quality Management Systems: Accounting, Security, Maintenance, Services, and Procurement Management Processes, Technical Reception of Banknotes and Coins, Decentralized Procurement of Training Courses, and ISO Budget Execution; and

- Migration from OHSAS 18001:2007 to ISO 45001:2018 Occupational Health and Safety Management System.

Our Main Risks

Economic	Social	Environmental
• Large or sudden changes in internal or external macroeconomic or financial scenarios	• Negative impact of inadequate or untimely monetary or financial policy decisions	• Natural disasters and climate change
• Inability to pay on the part of financial institutions	• •Effects of a changing social context	• Inadequate waste treatment
•• Regulatory noncompliance	• Loss of payment capacity of debtors in the system due to a deterioration of the economy and an increase in unemploy-ment	• adequate energy efficiency and emis-sions reduction
• Loss and/or leaking of confidential infor-mation	• Loss of credibility among citizens due to inappropriate or inadequate actions by Bank staff	
• Unavailability of critical systems		

Operational risk management

Our Planning and Accounting Operations Area organized the XIV Annual Conference of the International Operational Risk Working Group (IORWG), which reviewed and discussed the latest developments in innovation, research, and the promotion of best practices in operational risk management in central banks. The conference was attended by representatives of 50 central banks from around the world, together with representatives of international organizations such as the Latin American Reserve Fund (FLAR), the Bank for International Settlements (BIS), and the International Monetary Fund (IMF).

Operational continuity

The social disruption in October, which led to restricted access to the civic center in central Santiago, put to the test the Bank's ability to face contingencies that impede its daily operations. The Bank has had an alternative operations site since 2010, where we can replicate all the critical functions of the Bank in another part of the city. At the peak of the crisis, the Bank was able to continue operating from the alternative site, including part of the Board's Monetary Policy Meeting for that month.

To face contingencies that can put the Bank's operational continuity at risk, and given its active participation in the payment system, we also have two data centers located offsite from the main office building.

3.3 Office of the General Counsel

La Fiscalía del Banco se encuentra encargada de velar por la legalidad de los acuerdos, resoluciones y contratos de la institución y de brindar asesoría jurídica al Consejo y las diversas unidades del Banco, con el apoyo especializado de sus áreas de servicios legales y normativa.

In 2019, the legal services area focused on three main issues:

• Extending the use of advanced electronic signatures on institutional documents and allowing the use of qualified electronic signatures on internal Bank documents;

• Adopting best practices in transparency through the creation of an external complaints procedure for current or former suppliers, as well as participants in quotation or tender processes; and

• Updating the internal regulations for the Human Resources Area and providing legal assistance on the regulations for the new Strategic Contingency Fund and Multi-Year Fund, as well as the new guidelines for the Economic and Social Stabilization Fund (ESSF).

With regard to regulatory legal services, activities were centered on providing specialized support for the development of wide-ranging initiatives associated with regulatory modernization and innovation in financial regulation, with a focus on financial stability. This includes the FinTech Observatory and other projects that developed regulations that were subject to review and proposal by the Office of the General Counsel, including the following:

- The Integrated Derivatives Information System (IDIS);

- Allowing the real-time gross settlement (RTGS) system to settle transactions in dollars, adapting the system's operating rules to standards for financial market infrastructures; and

- Support for the pre-project on the incorporation of the Chilean peso in the foreign payment system managed by CLS Bank International, which removes principal risk from payments in foreign currency through the use of payment-versus-payment (PvP) models and the interconnection in real time of local payment systems that operate on an RTGS basis (in particular the local RTGS system), which will imply operating at night.

In coordination with the Financial Policy Division and the Statistics Division, the Office of the General Counsel reviewed proposals for a cooperation framework agreement with the Financial Market Commission (FMC) on regulatory, supervisory, and information exchange issues. This reflects the legislation approved in 2019, which amended the General Banking Law (GBL) and the Constitutional Act of the FMC, paving the way for the review of the regulatory proposals to be issued by the FMC to implement the Basel III standards in the banking system, in the following areas: credit-, market-, and operational-risk-weighted assets; compliance with regulatory requirements; factors and methodology for determining systemically important banks or banking groups; and requirements for issuing new instruments that can qualify as part of bank regulatory capital (perpetual bonds and preferred shares).

The regulatory and legal services areas have also worked in coordination on initiatives to simplify foreign exchange regulations and update close-out netting rules, as well as the adoption of new cooperation framework agreements between the Central Bank and the Chilean Internal Revenue Service, on the exchange of information and statistics for financial research purposes, using modern database merging systems.

With regard to the contingency deriving from the events of October associated with diverse social demands and public order disturbances, the Office of the General Counsel advised the Financial Markets Division on the urgent implementation of measures to safeguard the liquidity of the financial system and to intervene in the foreign exchange market, updating the applicable general regulatory guidelines.

Another important focus is on advising on and tracking legislative initiatives that could have an important impact, such as the possible constitutional process following the recent constitutional amendment and other specific bills (e.g., the bills on the National Statistics Institute, Personal Data, Debt Registry, Transparency Law, Armed Forces, Copper Reserve Law, Financial Portability, Pension System Improvement, Means of Payment Fraud, etc.).

Finally, cooperation and/or legal information has been provided as needed on the international assessment processes undergone by the CBC or its regulation, for example, the commemoration of 30 years of independence, the Organization for Economic Cooperation and Development (OECD) assessment of the statistical system, and the asset laundering and terrorist financing prevention system, under FATF-GAFILAT standards.

3.4 Office of the General Auditor

The Central Bank's Basic Constitutional Act establishes that the internal inspection and oversight of the Bank's accounts, operations, and management standards are the responsibility of the General Auditor, who reports directly to the Governor and the Board. Therefore, the reviews and/or evaluations carried out by the Office of the General Auditor are totally independent from the Bank's management.

The function, vision, mission, and objectives of the Bank's internal audit system, as well as its purpose, authority, and responsibility, are outlined in the Auditing Policy and the Code of Ethics for professional conduct, in accordance with the applicable international standards.

Internal auditing is conducted under a risk-based approach, delivering independent and objective assurance on the design and effectiveness of the risk management system, compliance with the Bank's strategic objectives, governance, norms, operations, and internal control system, including the audit of the Bank's financial statements. The results of these audits are reported to the Central Bank's Governor, the Members of the Board, and the Audit and Compliance Committee.

In line with the execution of the Bank's Strategic Plan and given the new challenges and trends, the internal audit system uses a risk-based audit plan, contributing to the consolidation and strengthening of internal controls and, therefore, the good governance, trustworthiness, and prestige of the institution.

The Annual Audit Plan for 2019, which had the favorable assessment of the Audit and Compliance Committee and the approval of the Governor and the Board of the Central Bank of Chile, considered different types of reviews and audits in the following areas: financial, operational, and process risk, cybersecurity, information security, compliance, etc.

The Office of the General Auditor of the Central Bank of Chile maintains the quality assurance certification by the Institute of Internal Auditors, reaffirming that the Central Bank's auditing activities "comply with international standards for the professional practice of internal auditing," as well as ISO 9001:2015 certification.

Additionally, in the opinion of the Audit and Compliance Committee, "The Office of the General Auditor has the appropriate organization and has applied adequate procedures for the purposes of the provisions of Article 26 of the Bank's Basic Constitutional Act, with the necessary independence within the organization."

3.5 Transparency

(102-17; 102-25)

At the Central Bank, we are governed by the principle of transparency in the exercise of public administration, established in Article 8 of the Constitution; by the provisions of the Bank's Basic Constitutional Act; and by legislation that we have expressly incorporated, such as Law N° 20,285 on public access to information (2009), Law N° 20,730 on lobbying and special interests (2014), and Law N° 20,880 on probity in public administration (2016).

In 2019, we continued to comply strictly with the regulations aimed at ensuring the increasing transparency of public institutions.

3.5.1 Access to information

In 2019, we implemented a new platform for handling requests for access to public information, under the framework of Law N°20,285, known as the Transparency Law. The design and usability of the platform incorporate good practices in transparency used by public institutions and other organizations. The main benefit of this new tool is to further strengthen the Bank's information access mechanism, using a simplified electronic form for requests from the public.

In the period, we received a total of 90 requests for this type of information, 2% more than in 2018.

Of these requests, 65% were submitted via the transparency section of our website. The average response time was 12 business days from the date the request as received, which is well below the maximum of 20 business days established in the respective legislation.

Since the transparency standards entered into effect, we have not received a single complaint to the Santiago Court of Appeals, in accordance with the provisions of Articles 65 bis and 69 of the Basic Constitutional Act.

Additionally, as part of our strategy for consolidating relations with our key stakeholder groups, in 2020 we will carry out a project aimed at strengthening other channels of communication with the public (outside the Transparency Law), with the implementation of a public service model that incorporates the experiences and good practices of central banks and local public institutions. This will show us which issues are of greatest interest to the general public and allow us to provide a timely response and appropriate content, in line with the communication guidelines established by the Bank for different stakeholder groups.

In 2019, to strengthen the institutional transparency and accountability mechanisms, the Board decided to voluntarily release the historical records of prior Boards of Directors and the former Executive Committee, with a lag of 20 years (Resolution 2249-02-190912), in line with its earlier policy on the diffusion of the full records of its Monetary Policy Meetings. Both initiatives aim to contribute to the study of the country's economic history and to promote a better public understanding of what the Central Bank does.

3.5.2 Law on Lobbying

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 decision-making power, or if they are in a position of significant influence over others who do. To date, 38 Central Bank authorities are subject to this law. The full list of their names and positions is available on the Bank's website.

In 2019, we implemented a new platform for recording the public agenda (meetings, trips, and donations), as required by the Law on Lobbying, with changes in both internal administration and website publication of the records of the Bank authorities who are subject to this law.

In this period, there were 179 meetings with lobbyists or special interest representatives, 86 business trips, and 53 donations or gifts received. All of these figures represent a reduction since 2018. Specifically, meetings declined 14%; trips, 13%; and gifts, 54%. All of this information was published on the Central Bank's website, in the transparency and probity section, and on the Infolobby website of the Chilean Transparency Council, in accordance with the Agreement signed on 25 May 2015.

3.5.3 Law on Probity

Article 20 of the Law on Probity regulates the obligation of public authorities and functionaries to publicly declare their interests and equity. This obligation is applicable to the Board Members and General Manager of the Central Bank of Chile, in accordance with the terms established by the Law and the provisions on the declaration of conflicts of interest, personal interests, and equity of Article 14 of the Bank's Basic Constitutional Act.
The current conflict-of-interest statements submitted by the Bank's authorities in 2019 are published on the institution's website, in the transparency and probity section, and on the Transparency Council's website (www.Infoprobidad.cl).

3.5.4 Ethics: Questions, concerns, and committee

The Central Bank has an Ethics Committee, made up of the General Manager, the General Counsel, the General Auditor, and the Human Resources Manager, to address situations related to Bank personnel.

We also have a channel through which employees can report any concerns they may have, which is available through the intranet. All reports or denunciations must be treated confidentially and with no repercussions for the whistleblower. There are also internal policies, rules, and regulations, which are available for employees to review on the intranet and website.

The responsibilities of the Ethics Committee include the following:

(1) Monitor observance of the staff regulations, promoting a culture of adherence and compliance with institutional standards and values by all employees; and

(2) Periodically review the staff regulations and, when necessary, propose changes to the Board to perfect the internal regulations on staff conduct, probity, and institutional values.

3.6 Community Relations

(102-42, 102-43)

The Central Bank's reputation is determined by a set of perceptions and understandings that stakeholder groups have about what the Bank does. Key factors in this process include, on the one hand, the Bank's behavior over time in terms of compliance with its commitments to these groups and, on the other, the image that these stakeholders have built based on what they deem most important.

In 2019 we launched a set of actions, contained in the annual plan, aimed at strengthening understanding and dialogue with our different stakeholder groups. We thus hope to enhance the way we relate to the community, designing new spaces for listening and taking advantage of communication opportunities to spotlight the main elements of our corporate identity and the positive impacts generated by the achievement of the Bank's mandate.

Main Highlights

- New mechanisms for diffusing the Bank's reports
- New analytical tools and the preparation of periodic reports for the Central Bank Board and staff.
- New opportunities for contact and interaction with undergraduate and graduate students in majors related to the Bank's work or the economy.
- Implementation of new communication platforms, including the new corporate website.
- Renovation of the financial education website, Central to Your Life.
- Renovation of the platforms associated with the Lobbying and Transparency Laws.
- Digital library, which provides access to the Bank's historical books and documents, together with the publication of historical records from past Boards of Directors.

Regional presence

With the publication of each Monetary Policy Report, the Bank makes an effort to coordinate presentations of the report in different regions of the country. This is achieved through the organization of regional meetings, where one of the Board Members discusses the report, together with complementary information specific to the region. Other organizations also contribute to the meetings, in line with local stakeholder interests.

These presentations are attended by diverse local audiences, including participants from local businesses, academia, government, trade associations, and social and production spheres.

In 2019, there were 12 regional meetings, organized in conjunction with a regional university or trade association, including the Federation of Chilean Industry (SOFOFA), the Chilean Chamber of Construction (CChC), the Araucanía Production Development Corporation, the Maule Regional Progress Board, the Austral University of Chile, the University of Magallanes, and the Development University.

March
Talca
Osorno
Copiapó
Antofagasta

June
Punta Arenas
Arica
Concepción
Iquique

September
Temuco
Valdivia

December
Suspended due to the social disruption that started in October

Cultural extension: National Heritage Day

Every year, the Bank participates in Chile's National Heritage Day, an event organized by the National Monuments Council since 1999 to give Chileans an opportunity to learn more about our country's cultural, historical, and architectural heritage.

In 2019, the event was held over two days, on the weekend of 25–26 May. More than 2,400 people visited the Central Bank. The tour of the historic building started at the main entrance on Agustinas 1180 and included the Governor's office, the Board Room, and the Numismatic Museum.
Numismático.

Painting exhibitions

In 2019 the Bank organized a travelling exhibition of 37 of the most representative pieces in its heritage collection, mainly paintings by Chilean and foreign artists from the mid-nineteenth to early twentieth centuries. The exhibitions, held in the cities of Talca, Concepción, and Valdivia, were attended by around 16,000 people.

The exhibitions were held on the following dates:

• Talca: University of Talca, Pedro Olmos Room, 17 April to 21 May.

• Concepción: University of Concepción, Pinacoteca Museum, 20 June to 18 August.

• Valdivia: Austral University of Valdivia, Extension Center, 6 September to 13 October.

In the same line, the Central Bank cooperates with other cultural organizations to provide public access to these heritage pieces in separately organized events. This was the case of the Alberto Valenzuela Llanos exhibit organized by the Las Condes Cultural Center.

Heritage brochures

To spotlight the historical importance of the main offices and meeting rooms, the Bank designed and produced a series of tri-fold brochures containing clear, educational information on these spaces within the Central Bank building. This initiative represents another way of bringing the history of the Central Bank to the public. This series of 26 heritage brochures highlights the building and its main cultural features.

The Central Bank building: A heritage asset

Over the past few of years, the Bank has been working on the restauration and conservation of the main building, with the twin objectives of conserving an important heritage asset, represented by the building, and protecting those who work there from potential injury, due to the gradual deterioration of the building over the years. Keeping the infrastructure operational also provides a more secure basis for facing future contingencies.

Based on exhaustive historical and empirical studies, as well as the experience from the restauration of the façade, completed in 2018, the project has been able to incorporate more authentic textures and finishes.

In 2019, the Board authorized the Operations Division to repair the stuccowork with similar characteristics to the façade in the Hall on the first and second floors, which will be completed in September 2020. The project was planned so as to not disrupt operational continuity in the affected areas.

The Bank participated in a wide range of international seminars, conferences, and meetings held both in and outside Chile, official visits from foreign authorities, missions from international organizations, and technical visits by delegations from other central banks and institutions.

3.7 International Relations

The Central Bank of Chile participates actively in a wide range of activities with international economic-financial organizations and other central banks, including both regularly scheduled events and additional activities.

Among the former, the Governor of the Bank attended the bimonthly and annual meetings of governors of the Bank for International Settlements (BIS); the BIS meeting of alternate governors; the spring and annual meetings of the International Monetary Fund (IMF) and the World Bank; the annual meeting of the Inter-American Development Bank (IDB); the Meeting of Central Bank Governors of South America (formerly MERCOSUR and associated countries); the Jackson Hole Economic Policy Symposium of the Federal Reserve Bank of Kansas City; the Meeting of Central Bank Governors of CEMLA and of the CEMLA Committee of Alternates; and Chile Day in London.

The Bank received the IMF Article IV Mission.

Additional activities held in Chile in 2019 included the XXXVII Meeting of Central Bank Governors of South America, in October (the last time was in 2015). Participants included the governors of the central banks of Colombia, Paraguay, and Peru; representatives of the central banks of Bolivia, Brazil, Ecuador, and Uruguay; and special guests Carlos Costa, Governor of the Bank of Portugal, and Agustín Carstens, General Manager of the BIS.

Official visits included the Governor of the Bank of Portugal, Carlos Costa, who participated as a panelist in the Third Statistics Conference organized by the Bank in October.

At that time, the Governors of the Central Bank of Chile and the Bank of Portugal signed an agreement to promote international cooperation between the two institutions, with an emphasis on staff exchange programs.

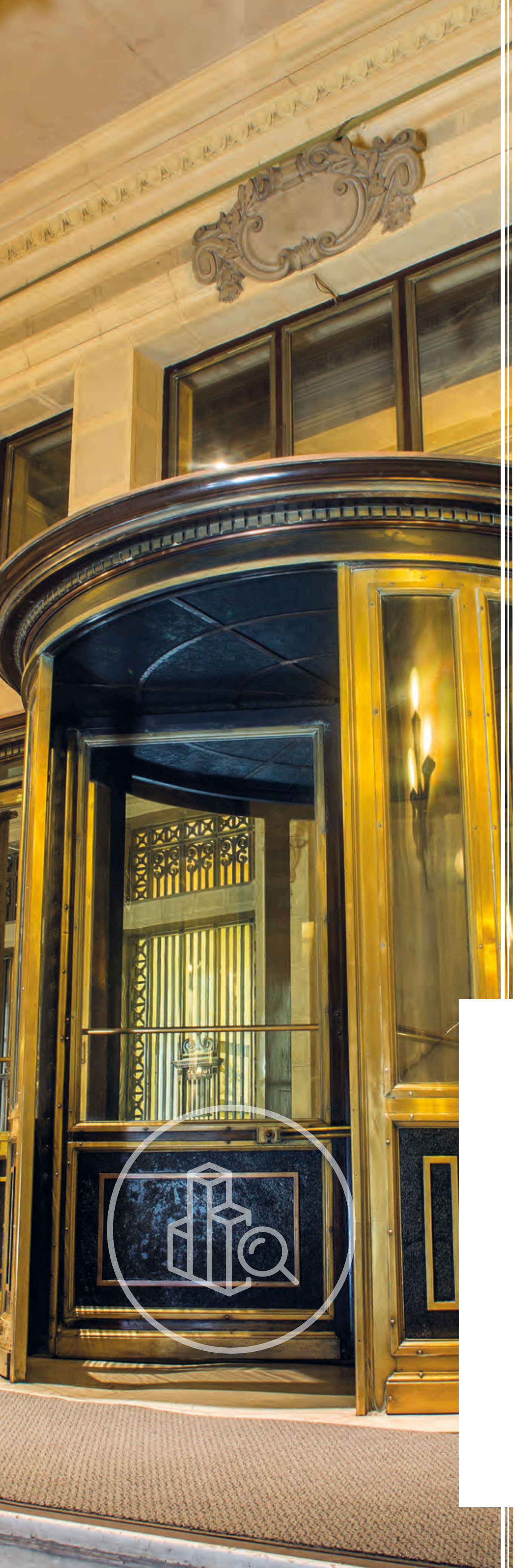
Also in October, we received the General Manager of the BIS, Agustín Carstens, who participated with the Governor of the Bank in a discussion board on the future of central banking, for members of our staff and guests from outside the organization.

In December, we received a visit from U.S. economist and Nobel laureate in economics, Richard Thaler, who met with the Central Bank Governor and Board.

In the context of international cooperation, we continue to place a priority on staff exchanges between central banks. Thus, the second exchange was agreed between our Bank and the Bank of Spain, in virtue of a cooperation agreement signed by the Governors of the two central banks in Santiago in 2017. In November of last year, Elvira Prades, an economist with the Bank of Spain who holds a Ph.D. in economics, came to work in the International Analysis Area in an exchange that will last through 30 October 2020.

One of our economists, Jessica Mena, was chosen to participate in an internship at the OECD, as part of the country committee responsible for the preparation of the OECD Economic Surveys for Chile and Colombia.

The Central Bank Governor participated as a panelist in the conference "A Cross-Sectoral Reflection on the Past, and Looking Ahead to the Future," organized by the BIS and the FSI during the bimonthly meeting of the BIS in March; a roundtable organized by the University of Columbia School of International Public Affairs (SIPA) in New York (April); and a seminar and conference organized by the OECD in Paris (September). He also gave a talk for Chile Day in London, followed by a presentation on the Chilean economy, at a roundtable organized by the OMFIF (September).



CHAPTER 4

PERFORMANCE IN 2019

We want to improve our capacity to adapt, in order to face the challenges of a changing environment, a more demanding society, and the need for a greater degree of transparency and probity in our work.

4.1 Monetary Policy

The mandate

One of the Central Bank's objectives, established in Article 3 of the Basic Constitutional Act, is to safeguard the stability of the currency, that is, to keep inflation low and stable.

Low, stable inflation promotes job growth and protects the income of the most vulnerable segments of society, while also creating the conditions for the economy to stay on a sustainable growth path, with full employment and, in general, progress and well-being for the population.

In exercise of the authority granted by the Basic Constitutional Act to meet this objective, in 1999 the Bank adopted an inflation-targeting monetary policy scheme and a flexible exchange rate policy.

The Central Bank's monetary policy is based on inflation targeting and a floating exchange rate regime. Under this scheme, the Bank is committed to using the necessary instruments to keep the inflation forecast around 3% in a horizon of two years, independently of the current inflation level. This commitment guides the expectations of economic agents and makes the inflation target the economy's nominal anchor.

The Central Bank's main instrument for keeping inflation in line with the target is the so-called monetary policy rate (MPR), which is set at each Monetary Policy Meeting. The Bank uses a range of operations, described below, to influence the interest rate on overnight interbank loans, so that it stays close to the MPR. This, in turn, affects the supply and demand for money. Finally, all of these factors have an impact—with a lag—on prices in the economy.

In the year, the Board held eight Monetary Policy Meetings to determine the MPR and published four Monetary Policy Reports. The reports contain an exhaustive analysis of the national and international macroeconomic scenario for the current year and the next two years, as well as growth and inflation forecasts for the short, medium, and long terms.

Our performance in 2019

A demanding and changing year

The macroeconomic scenario changed significantly over the course of 2019, which led to a change in the tone of monetary policy and the level of the monetary policy rate (MPR). The year began with an important adjustment to the inflation measure. In January, the National Statistics Institute (INE) revised the basket of goods and services used to calculate the consumer price index (CPI), updating the components and methodology. As a result, annual inflation decreased around half a percentage point for both headline inflation (i.e., total CPI inflation) and core inflation (i.e., the consumer price index excluding food and energy products, or CPIEFE).

In addition to the methodological changes, the lower inflation was also related to macroeconomic fundamentals. In particular, the depreciation of the peso reflected a global phenomenon, and the pass-through to inflation was therefore less intense than would have been the case with a depreciation deriving from local factors.

Labor market slack had increased, which was consistent with the lower inflationary pressures. As discussed in 2018, the significant increase in immigration had caused an expansion of the labor force and thus lower wage pressure. Data from the 2017 Census—available in late 2018—revealed population growth on the order of 5%, with an even larger impact on the labor force.

Doubts about inflation increased, since the low inflation was occurring in a context where the economy had become more dynamic and the output gap was estimated to be narrowing. In that context, the Board decided to pause the MPR normalization process, begun in the last quarter of 2018, and announced that in June it would review the structural parameters of the economy—trend GDP, potential GDP, and the neutral MPR—to garner more information with which to evaluate the future course of monetary policy.

1/ For more details, see the Monetary Policy Report, March 2019, box IV.1.

In June, the reevaluation of these structural parameters revealed that immigration was having a positive impact on trend and potential growth, while the neutral MPR was somewhat lower, due to changes in external interest rates.

Given these factors, monetary policy would need to be recalibrated to achieve a monetary stimulus consistent with meeting the inflation target. Consequently, the Board estimated that it was necessary to increase the monetary stimulus through a 50 bp cut in the MPR, which was implemented at the June Meeting. The Board further indicated that, going forward, the normalization of the MPR would depend on inflation being clearly on a path of convergence to the target. Key factors in this process would include the way the labor market absorbed the influx of immigrants, the investment response, and developments in the external scenario.

Following the monetary policy recalibration, the macroeconomic scenario began to show signs of a slowdown in output and, especially, a sharp deterioration in the external scenario. In the third quarter of 2019, the U.S.-China trade war intensified, which was reflected in global trade and industrial output data due to the importance of global value chains. Thus, for September, the scenario featured weaker domestic activity, a worse outlook for world growth, and a significant increase in external risks. In this context, consumer confidence diminished, and the investment outlook remained anchored on large mining investment projects, with few initiatives in other sectors of the economy.

All of these factors heightened the risks for a timely inflation convergence. Therefore, at its July meeting, the Board opened the way for new reductions in the MPR, which materialized in September—with a 50 bp cut—and October—this time with a decrease of 25 basis points. This brought the MPR to 1.75%, the lowest level since 2011.

In 2019, the Central Bank's Governor presented the Monetary Policy Reports and the Financial Stability Reports to the Senate Finance Committee, according to the following schedule.

1 april
Monetary Policy Report March 2019

14 May
Financial Stability Report First Half 2019

10 June
Monetary Policy Report June 2019

4 September
Monetary Policy Report September 2019

4 November
Financial Stability Report Second Half 2019

5 December
Monetary Policy Report December 2019

[2]/ Monetary Policy Report, June 2019, boxes V.1 and V.2.
[3]/ Monetary Policy Report, September 2019, box I.1.

Decisions in response to the social context

The social crisis that erupted in Chile on 18 October triggered a decisive change in the macroeconomic scenario. Output fell sharply in October and November, largely due to prolonged episodes of disruption and violence, which had a major impact on the productive system. Although output partially recovered toward the end of 2019, the outlook for employment and investment weakened markedly, as the strong increase in uncertainty significantly undermined business and household confidence.

In the financial markets, the reaction was limited in the days immediately following the start of the crisis, but the impact grew as the situation evolved, with a significant increase in interest rates, a peso depreciation, a drop in the stock market, and so on.

The heightened tension and significant volatility in the markets led the Central Bank to adopt extraordinary measures to ensure liquidity in pesos and dollars. Thus, in the second half of November, we announced a set of measures, including an intervention in the foreign exchange market for up to US$ 20.0 billion. These measures were able to mitigate the problems in the markets, ensuring liquidity and reducing volatility.

With regard to inflation, the future trend would depend on two opposing forces. First, output and demand growth had weakened sharply in the short and medium terms, such that the output gap would close more slowly than projected in September, with a reduction in inflationary pressures. Second, the peso had depreciated significantly, and given the idiosyncratic nature of the depreciation, the pass-through to prices would be larger and more persistent.

In the face of this scenario, the monetary policy reaction was not obvious: the larger output gap called for a stronger stimulus, whereas the exchange rate pass-through pointed in the other direction. Given the uncertainty, it was difficult to anticipate which of the two forces would prevail. The Board therefore decided to hold the MPR at its current level in December.

This decision was reinforced by the fact that the Bank had already adopted extraordinary measures that were helping to maintain loose financial conditions for firms and households, and the government had implemented a spending package that would provide a strong demand stimulus in 2020.

Bringing monetary policy to universities

An academic program was implemented to promote the role of the Central Bank among university students, through presentations by staff economists. In this context, the Statistics Division held workshops for nearly 280 students at the University of Tarapacá and the Austral University of Chile.

In addition, economists in the Monetary Policy Division presented the September Monetary Policy Report to around 700 students at the Diego Portales University, University of Santiago (USACH), DUOC, Alberto Hurtado University, the Development University, Pontificia Catholic University, University of Concepción, and Adolfo Ibáñez University.

[4]/ Monetary Policy Report, December 2019, box II.1

The Central Bank and climate change [MT]

Carbon footprint for Chile

CBC 1

We are currently in the process of working on the estimation, calculation, and prediction of economic scenarios that go beyond the traditional view of the economy. In particular, the Macroeconomic Statistics Area (MSA) is developing a study to estimate Chile's carbon footprint. This estimation implies merging and harmonizing data published by the Ministry of the Environment and the Central Bank of Chile. In 2019, the MSA has been in direct contact with the Ministry in order to gain inside knowledge on the Pollutant Release and Transfer Register (PRTR), the main input for the calculation of direct emissions. As a result, by year-end 2019 a direct CO2 emissions vector had been estimated, which will be used to calculate Chile's carbon footprint using an input-output model. A report on the methodology and results of the study is expected to be available in 2020.

Climate change is a major global challenge that can no longer be considered a solely environmental problem. The effects are multidimensional, encompassing, in particular, our economy and thus the financial sector.

The role of central banks in this area has been widely discussed in recent years. Chile is no exception, and in late 2019, the Central Bank, the Finance Ministry, the Financial Market Commission, and the Superintendence of Pensions, signed a joint statement summarizing our position on the issue, considering the risks and opportunities that the transition to a low-carbon economy can have at the financial level.

"Timely, coordinated work is key in order for the financial sector to successfully manage the risks deriving from climate change and, at the same time, promote the development of a long-term strategic vision."

Joint Statement on Climate Change.

Given the lack of information on the physical and transitional risks of climate change and the potential economic impact, there is much work to be done, mainly in collaboration with other institutions. Ultimately, our contribution will be to provide useful economic information for political leaders, as well as businesses, consumers, and all the actors involved in the process.

Training to face climate change

CBC 2

In 2019, the Central Bank of Chile participated in a number of discussions on green finance, climate change, and the possible role of financial authorities in this area:

- In April, Elías Albagli, Director of the Monetary Policy Division, participated in the first conference organized by the Network for Greening the Financial System (NGFS), where he spoke on "Central Banks and Supervisors: Taking Action on Climate Change." The conference was attended by central bank representatives from all the continents.

- In October, Governor Mario Marcel moderated a panel on "The Role of Regulators and Other Key Actors in the Promotion of Environmental, Social, and Governance (ESG) Factors." The event featured presentations by representatives of Taiwan China, Japan, and the Financial Market Commission (FMC), who discussed the importance of incorporating a sustainability perspective in the financial market.

- At the same event, Deputy Governor Joaquín Vial gave a presentation on the Central Bank and the influence of ESG factors in decision-making in the financial market, focusing mainly on the effects of climate change and the possible role of the Central Bank in this area.

- Bank representatives also attended the Green Finance Seminar for Central Banks and Supervisors of North, Central, and South America, organized by the Bank of Mexico.

- We participated in the Conference on Climate Finance in the Pacific Alliance, in Lima, Peru, organized by the Lima Stock Exchange and the British Embassy in Lima.

- We were present for "Green Finance Day" during the COP25 in Madrid, Spain, one of the most emblematic events on climate change in the world.

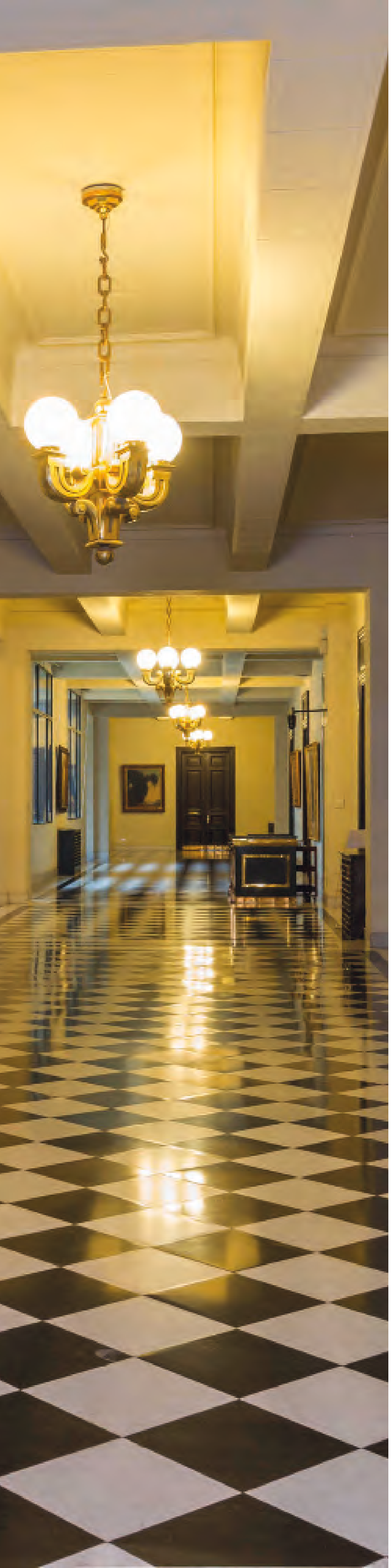
- We attended the conference and roundtable on "Economic Models and Tools for Climate Change," organized by the Bank of France and the Toulouse School of Economics, in Paris, France.

- We also attended a course on "The Macroeconomy and Climate Change," taught by the CEMF in Madrid, Spain.

Green Agreement

CBC 3

In addition to the joint statement, we signed a "Green Agreement" representing a public-private commitment by various actors in the financial sector, which will establish principles for managing the risks and opportunities associated with climate change. These principles will provide the basis for developing concrete, coordinated actions by the different entities in their respective areas of competence, in line with international standards, thereby contributing to sustainable economic development and promoting the financial, fiscal, and monetary stability of the Chilean economy.



4.2 Financial Policy

Our mandate

Article 3 of the Central Bank of Chile's Basic Constitutional Act establishes a second objective, that of safeguarding the normal functioning of the internal and external payments, which is related to the stability of the financial system.

Internal payment systems comprise the set of institutions and instruments that facilitate the realization of transactions in the economy, including the institutions that make up the national financial system and the international capital markets.

The Basic Constitutional Act grants the Central Bank the authority to regulate the financial system and the capital market. The Bank is therefore able to design and implement policies that contribute to the secure and efficient functioning of the associated market infrastructures.

These infrastructures include the payment systems, which safeguard the circulation of money in the form of cash, payment cards, electronic transfers, and bank instruments (cashier's checks, personal checks, etc.).

The Central Bank secures the normal functioning of these systems through the regulation and operation of large-value payment systems and the constant monitoring of financial risk. This includes managing the real-time gross settlement (RTGS) system and publishing the Financial Stability Report twice a year.

Public confidence in the payment systems is crucial for the functioning of the economy. History shows that a loss of confidence can trigger a financial crisis, which can have a severe impact not only on people with savings and deposits, but on the population at large.

Consequently, the Basic Constitutional Act empowers the Central Bank to regulate the financial system and the capital market, as well as to adopt measures aimed at protecting the stability of the financial system. The Bank is also authorized to act as the lender of last resort, that is, to supply liquidity to institutions that are temporarily experiencing cash flow problems.

The Central Bank is a permanent advisor to the Chilean Financial Stability Board (FSB), which was created by the Finance Ministry to coordinate actions and the exchange of information between the supervisory bodies. The Board meets regularly for the preventive management of systemic financial risk.

Performance in 2019

Organizational restructuring

In 2019, the Financial Policy Division was restructured to align it with the current decision-making process. This resulted in three main areas: The Financial Research Area, the Infrastructure and Financial Regulation Area, and the Financial Stability Area.

The FSR for the first and second halves indicated that the Chilean financial system, including the internal and external payment systems, did not record any major disruptions in the year. Furthermore, the payment systems in general functioned normally, over and above the social crisis in the fourth quarter of the year.

We made important advances in the area of Financial Policy in 2019, maintaining the Central Bank's intellectual leadership.

The Financial Stability Report (FSR), a semi-annual publication that contributes to the understanding of the financial system and its potential risks, was strengthened through wider dissemination and the consolidation of the newly incorporated thematic chapters. In particular, the first half included a chapter analyzing the financial risks and vulnerabilities of households, while in the second half analyzed the financial risks and vulnerabilities of firms.

Just days after the statistical cutoff date of the FSR for the second half of 2019, citizen protests erupted all across the country. The Board therefore prepared a complementary note to the Report, providing information on the situation.

Financial research agenda

In 2019, we consolidated a medium-term financial research agenda that prioritizes both macrofinancial issues (with an emphasis on modeling the links between the financial system and the real economy in Chile and analyzing macroprudential policies) and microfinancial issues (with an emphasis on borrowers' finances and banking system funding). The main objective of this agenda is to develop new analytical tools, models, and micro-databases, so as to enrich the analysis of financial stability, macrofinancial links, and the evaluation of regulatory changes. In this sense, this agenda aims to contribute to the implementation of the Bank's 2018–22 Strategic Plan.

Financial regulation agenda

Substantial progress was made on the financial regulation agenda proposed for 2019.

Following a public consultation process, the first phase of the modernization and simplification of foreign exchange regulations was approved, as established in the Bank's 2018–22 Strategic Plan. In particular, a new Chapter I was incorporated in the Compendium of Foreign Exchange Regulations, which provides a comprehensive explanation of the current General Framework for the Foreign Exchange Policy and Regulations of the Central Bank, and it expands the eligible denomination currencies for foreign securities that are traded in local currency. Additionally, it was decided to eliminate Chapters IV, V, VII, and XI and the respective forms and appendixes.

We published the regulation allowing the real-time gross settlement of transactions in U.S. dollars (USD RTGS system). The implementation of the USD RTGS system will give interbank dollar transfers protection under the principles of finality and irrevocability established in the Basic Constitutional Act (Art. 35.8), which is the foundation for all the large-value payment systems regulated by the Central Bank of Chile.

We also published the new regulatory framework (Chapter III.D.3 of the Compendium of Financial Regulations) to establish an Integrated Derivatives Information System (IDIS), the first trade repository in Chile, designed in accordance with accepted international standards. This regulation was put to public consultation in 2018.

Chapter III.D.2 of the Compendium of Financial Regulations, on clearing derivative contracts, was revised and updated. Although this chapter was only recently issued (2018), it was revised in 2019 to harmonize it with amendments passed earlier in the year to the General Banking Law and Law 20,720, which replaces the existing bankruptcy regime with a law governing the reorganization and liquidation of firms and individuals.

Finally, we facilitated meetings between the private sector and representatives of the Continuous Linked Settlement (CLS) Bank in Chile, on the incorporation of the Chilean peso in the international payment system in which there are currently 18 participating jurisdictions, mostly advanced economies. This is a long-term project that, on fulfillment, will imply regulatory developments that will need to be defined in the coming years.

4.2.1 Cybersecurity

In the first half, a letter (circular) was sent to participants in the real-time gross settlement (RTGS) system with recommendations on best practices in operational continuity and cybersecurity for accessing the Central Bank of Chile's private network (CBPN).

The recommendations, based on Chapters III.H, III.H.4, and III.H.4.1 regulating the RTGS system, aim to ensure the existence of operational continuity procedures in the large-value payment system and, at the same time, to mitigate and resolve possible breaches of integrity, confidentiality, and/or availability of the Central Bank's services in that system.

The recommended practices were implemented, providing advanced protection technologies as well as contingency sites.

4.2.2 Technology Observatory

Our Technology Observatory was created in 2018 to provide an analytical space for promoting the development of knowledge and the adoption of disruptive technologies within the Bank. Eight axes of innovation were identified (see illustration): Big data and the digital economy; digital payments; central bank digital currency; distributed ledger technology (DLT); crypto-assets and financial stability; cybersecurity and financial stability; open banking; and technology monitoring.

In 2019, research was conducted and information disseminated on these eight areas, and our network of contacts was expanded and strengthened though collaborative projects with universities and multilateral organizations. Internally, talks and workshops were held to increase knowledge in these areas and reinforce internal projects.

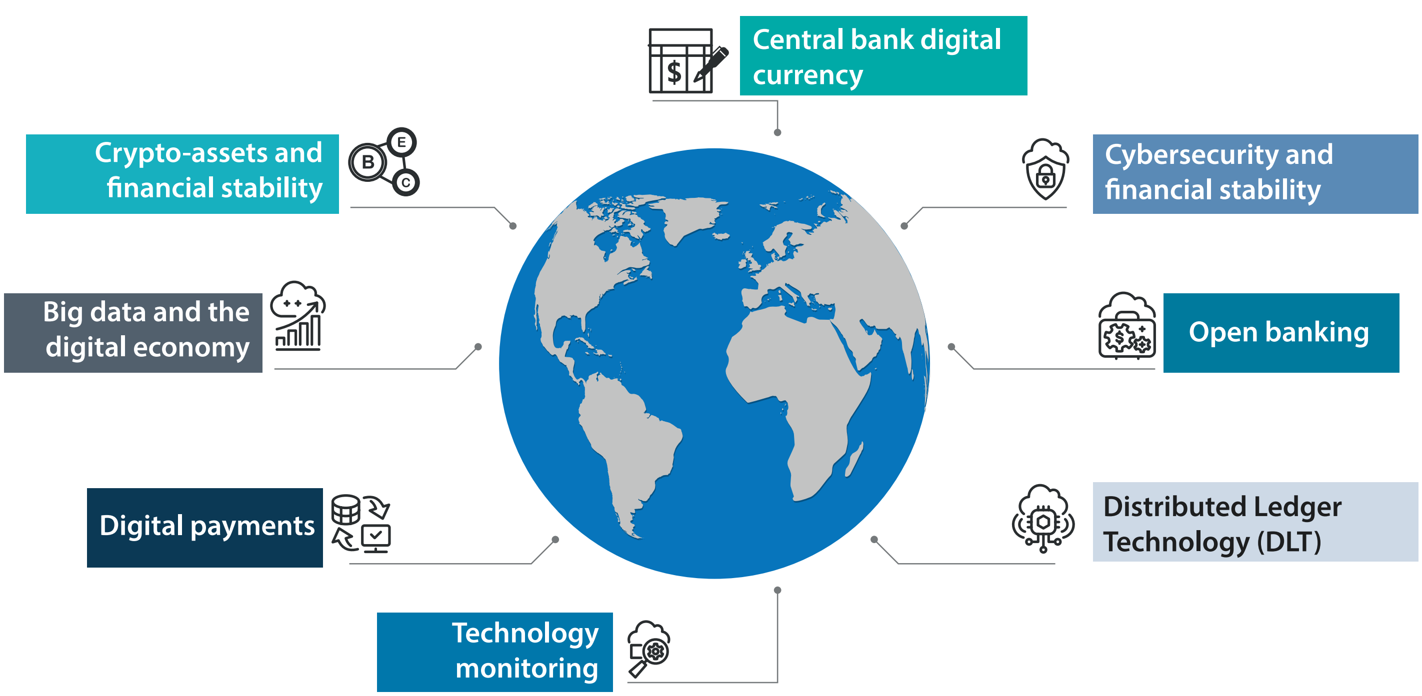
In April 2019 a workshop was held on payment means, to provide the Bank with a comprehensive view of the development of digital payments in Chile and around the world. The workshop brought together national and international supervisors, regulators, industry players, and FinTech companies.

Concept tests were conducted with disruptive technologies; the possibility of using distributed ledger technology in the issue and administration of Central Bank debt was explored; and experiments were carried out on machine learning techniques for monitoring the financial industry.

We also began a review of internal processes to identify opportunities and gaps for advanced data use, potentially in areas such as artificial intelligence, machine learning, and data science.

4.2.3 Provision of large-value payment services

The real-time gross settlement (RTGS) system is the main large-value payment system in Chile and is managed by the Central Bank of Chile (CBC). Transactions are settled immediately and on a gross basis in the accounts of each bank, in a format that removes credit or liquidity risk, thereby contributing to the stability of the financial system.



In 2019, the RTGS system settled an average of 1,809 payments per day, including the Bank's own transfers, with an average daily value of CLP 16.38 trillion (equivalent to US$23.6 billion). Relative to 2018, the average daily value increased 9.5%, with a sharper rise in the third and fourth quarters. The largest increases corresponded to payments made by banks in representation of their customers and payments associated with delivery-versus-payment securities transactions.

To increase the efficiency of the RTGS system, the Bank supplies liquidity throughout the day via access to an intraday credit facility, conditional on the provision of eligible collateral or guarantees pledged to the CBC. To increase the alternatives for liquidity provision in pesos, in November 2019 we expanded the definition of eligible securities for both intraday credit facilities, incorporating all unsecured bank bonds with the exception of the own bonds issued by the bank posting the collateral.

In the past year, the average daily value of credit supplied through the intraday credit facility, including both modalities, was CLP 1.08 trillion. The greatest activity was recorded in the third quarter, in terms of the volume of payments.

In 2019, the availability of the RTGS system was 99.93%, while that of the open market operations system, which provides intraday liquidity, was 99.90%. The former reflects the effect of two incidents that brought the system down for a total of 85 minutes. In the case of the latter, four incidents caused total downtime of 119 minutes, where the longest incident lasted 67 minutes.

At year-end, the number of participants in the RTGS system declined to 20, following the termination of activities by MUFG Bank, Ltd. (formerly the Bank of Tokyo Mitsubishi UFJ Ltd.), in the first quarter.

In response to the operational incidents that affected banks in 2019, the CBC incorporated a new operational contingency mechanism associated with the use of the Payment Gateway System in the event of an access failure in the SWIFT communications network, and work began in conjunction with the Association of Banks to establish an alternate contingency site similar to the contingency room available at the CBC. In November, we updated the Operational Continuity Procedures for participants of the RTGS system.

As in past years, we also coordinated three business continuity exercises, in conjunction with participants of the large-value payment system and financial market infrastructures, to contribute to improving the resilience of the securities clearing and settlement infrastructures. The RTGS Users Committee (RTGS-UC) has consolidated its position as a channel for addressing concerns and making suggestions on operational issues related to the payment system.

In terms of hardware and software, the most important change was the migration of the technology platform that supports the RTGS system, from version 3.80 to 3.90, ensuring operational continuity during the upgrade and adding new functionalities to improve operational control.

In December, the Board adopted a resolution to update the Central Bank's regulatory guidelines on the RTGS system, replacing Chapters III.H.4 and II.H.4.1 of the Compendium of Financial Regulations, in order to incorporate a USD-RTGS subsystem for the real-time gross settlement of U.S. dollar transactions between system participants.

Also in the year, the CBC retained its ISO 22301 Certification of Business Continuity Management Systems for the RTGS system, following a review and assessment by a qualified certifier.

4.2.2 Financial education [MT]

For the Central Bank, financial and economic education is an essential tool for empowering people to make informed decisions that safeguard their well-being and quality of life, while also contributing to the stability of the financial system. A healthy economy is built on the foundation of informed citizens who are committed to economic development and who understand and make decisions about their day-to-day financial activities. An important aspect of our sustainability strategy in 2019 and the coming years lies in this area.

4.2.2.1 Our role in financial education

CBC 4

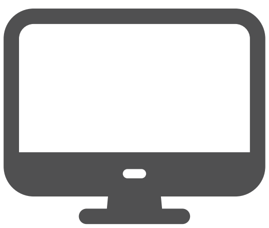
Financial literacy is considered a critical skill for succeeding in a globalized world. Digitalization has generated a growing array of increasingly complex financial products and services. This is one of the reasons that we have developed a series of actions in the area of financial education, with a special focus on the school community, to contribute to the financial empowerment of people and the general stability of the financial system.

CENTRAL
EN TU VIDA

Central to Your Life

To support financial education, in 2013 we launched the program "Central to Your Life" to coordinate initiatives aimed at different audiences throughout the year

In 2019, *the program's website* was redesigned. We modernized the platform to make it friendlier for users and to add new educational resources for teachers and students. The platform also offers a series of teaching tools and resources, such as videos, computer graphics, and flyers.



37,000
website visits in 2019

Mission

To contribute to people's economic and financial education, by providing educational content on economic concepts and processes, presented in a simple and approachable format on wide range of platforms, regarding the role and objectives of the Central Bank of Chile in the country's economy.

Vision

To improve people's quality of life, by strengthening their knowledge of economics and finance and how it relates to their daily lives, so that they can become protagonists in their own economic decision-making, based on innovative methods and new platforms that can reach a wider audience.

Action

Central to Your Life provides informative materials that give a simple explanation of economic processes that are often thought to be hard to understand. The objective is to deliver tools and information that strengthen people's ability to make decisions on their day-to-day economic and financial activities.

Launch of the online course, "City of Opportunities," in the English Garden of the Central Bank of Chile.

Inauguration of "Financial Education Month," at the Abdón Cifuentes School.


Elías Albagli presenting the Monetary Policy Report to students at the Catholic University of Chile.

Award ceremony for the "Economics Up Close" contest, at the Central Bank of Chile.

Initiatives

Online course "City of Opportunities

"**Target audience: High school teachers; students of education".**

The objective of this online course is to teach complex economic and financial issues that affect people and households, using a fun and simple approach. The course also delivers tools that teachers can use to pass on what they have learned to their students in the classroom.

The free course is consistent with the Ministry of Education's curriculum, and it includes resources such as videos and teaching worksheets. The course content was developed by one of our teams, in conjunction with the MIPP Millennium Institute of the Millennium Science Initiative and the University of Chile's Department of Industrial Engineering

252 teachers passed the course in 2019

• "Economics Up Close" contest

Target audience: High school students and teachers.

This school competition is open to municipal, subsidized, and private high schools throughout the country.

Every year, this initiative invites high school students to answer an economic question related to the Bank's primary functions, through the submission of a video filmed collectively by a group of students and their teacher. There are two categories (freshmen/sophomores and juniors/seniors), each with an award for both the students and the teacher. The videos are first reviewed by a group of Central Bank economists, and the finalists are judged by a panel of financial authorities, led by the Governor.

The question in 2019 was "How do financial crises affect countries?" The students could choose one of two cases for their presentation: the 2008 global subprime crisis or the 1982–83 Chilean financial crisis.

458 participants

390 students

68 teachers

CATEGORÍA PRIMERO Y SEGUNDO MEDIO

1 PRIMER LUGAR
$1.300.000 para el equipo y $1.300.000 para el profesor

2 SEGUNDO LUGAR
$900.000 para el equipo y $900.000 para el profesor

3 TERCER LUGAR
$700.000 para el equipo y $700.000 para el profesor

CATEGORÍA TERCERO Y CUARTO MEDIO

1 PRIMER LUGAR
$1.300.000 para el equipo y $1.300.000 para el profesor

2 SEGUNDO LUGAR
$900.000 para el equipo y $900.000 para el profesor

3 TERCER LUGAR
$700.000 para el equipo y $700.000 para el profesor

2,928

High school students

1,150

University students

• Educational tours

High school students

Our educational tours start off with a simple, engaging, and fun presentation on the Central Bank's role and functions, as well as economic concepts and processes such as inflation, the monetary policy rate, and personal finances.

After the presentation, the students take a tour of the Numismatic Museum and participate in a workshop in our Educational Space, based on the board game "Económicamente." After the tour, we give the game to the school so that it will be available to all their students. The visits are held Monday through Friday, throughout the school year.

This year, 124 groups from 84 schools visited the Central Bank.

University students

These tours are available for undergraduate and graduate students in a variety of majors or disciplines. They include a talk led by one of our economists, who explains the objectives and functions of the Central Bank, as well as a tour of the Numismatic Museum.

The Central Bank presented the Monetary Policy Report to students at the University of Santiago.

To bring the Bank closer to the community, Elías Albagli, Director of the Monetary Policy Division, gave a detailed presentation on the Monetary Policy Report (IPoM) to an audience made up largely of students from the University of Santiago, Chile. The free event received high marks from the people who attended.

Our Treasury Area worked extensively to communicate the characteristics of the Chilean banknotes and coins and their security features, as part of the Bank's work to support the normal functioning of payments. This information is available online, at www.billetesymonedas.cl.

2,268
people trained

Know Your Banknotes Program

The Know Your Banknotes Program, launched in 2006, consists in workshops held both at the Central Bank offices and in the different regions of the country. In 2019, the workshops were attended by 2,268 people, who received training on the banknote security elements and all the measures and recommendations to facilitate and strengthen confidence in this means of payment.

This free program is open to the general public, but it is especially aimed at people who work with cash daily. Over the past year, participants included cashiers from the retail sector, wholesalers, and commercial banks, as well as student cashiers in training at technical institutes and the general public. The workshops were held in Santiago, Arica, and Antofagasta, over the course of 2019.

To support the Know Your Banknotes Program and to meet the needs of businesses and other organizations, in 2019 we disseminated a total of 27,113 informational products, including brochures and pamphlets containing information on the banknotes' security features, their features to facilitate identification by the visually impaired, and specific recommendations for exchanging worn or damaged banknotes, primarily targeted at small businesses.

Training for Trainers Program

As part of the "Know Your Banknotes" initiative, the Bank continued its "Training for Trainers" Program, with the addition of new companies participating in the program. This program allows businesses and institutions to train their own staff to give workshops to company employees or students, using materials and special training provided by the Central Bank. The initiative, which was launched in 2014, grew in 2019 with the addition of new companies, including the National Customs Service, which now has the capacity to train its staff in all the regions of the country.

Police training workshops

26
workshops at the national level

2 seminars for forensic experts

1,813 officers trained

The Bank also continued its training program for the national police institutions (Carabineros de Chile and Policía de Investigaciones de Chile), which was launched in 2013 with the objective of facilitating police interaction with citizens in relation to the recognition of legal banknotes.

Our joint work with the police, our training workshops under the Know Your Banknotes Program, and ongoing technical exchange with other central banks are all part of our normal duties as guarantor of the integrity of cash payments.

Due to the increase in the number of cash transactions at certain times of the year, the Bank works with the national police force to implement targeted informational campaigns aimed at reinforcing the messages on banknote recognition. During the Independence Day holidays in September 2019, an initiative was coordinated with the Carabineros de Chile, wherein officers visited shopping areas to explain the banknote security features, demonstrate how to verify the authenticity of banknotes, and hand out print materials to both shop owners and the general public. The campaign was widely covered by the media. The Carabineros de Chile then replicated the campaign at the national level.

A similar campaign was coordinated in conjunction with the Investigative Police of Chile in February, when most families buy school supplies for the start of the school year in March. The campaign centered on a call for people to learn the banknote security features and to take the time to examine their bills when making purchases.

During the campaigns, 7.850 informational products were distributed, including flyers and brochures.

Journalist training seminar

Between July and October, we held the tenth annual training seminar for journalists, organized in conjunction with the Chilean Chapter of the Inter-American Association of Economic and Financial Journalists (AIPEF). The objective of the seminar is to contribute to the professional development of journalists interested in expanding or deepening their knowledge on economic issues related to the Bank's work. The program was initially scheduled to include eight talks, but due to the national contingency that erupted on 18 October, only six were held.

The training sessions were attended by a total 76 journalists from different communications media, including news agencies, newspapers, radio broadcasters, online media, communications agencies, public organizations, private businesses, and freelance journalists, as well as 22 students from national universities. The individual talks had an average attendance of 32 people.

For the first time this year, the seminar included an invitation for journalism students to attend the talks.

4.3 International Reserves and Sovereign Wealth Funds

The mandate

International reserves are liquid foreign currency assets held by the Central Bank 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 functioning of internal and external payments.

The management of these reserves aims to guarantee 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 its Basic Constitutional Act and a set of internal practices and policies that are in line with international recommendations.

The objectives of the investment policy are as follows:

(i) To hold the reserves in highly liquid instruments, which can be called in the briefest period possible without incurring significant transaction costs;(ii) Invertir en instrumentos que presenten riesgos financieros acotados, de modo de limitar la posibilidad de generar pérdidas de capital.

(ii) To invest in instruments that present limited financial risks, in order to limit the risk of incurring 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.

Since 2007, at the request of the Finance Minister, 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[5].

[5] Details on the management of the SCF are not included in this report.

The Bank submits daily, monthly, quarterly, and annual reports to the corresponding government authorities, in accordance with the stipulations of the respective Fiscal Agency Decrees and the corresponding performance guidelines. These reports include measures of performance, risk, and compliance with the specifications in the current performance guidelines.

Performance in 2019

4.3.1 International reserve management

Special measures and their impact on reserves

In 2019 we adopted a series of special measures to help alleviate the financial tensions observed in the local market in the final quarter. The measures that had an impact on the international reserves were currency swaps (implemented starting on 14 November), which are contracts in which two parties commit to exchanging currencies at a future date, and dollar sales in the spot market (implemented starting on 2 December). The former of these two measures has a temporary impact on the reserve level, as the Bank is selling dollars (and receiving pesos) in a transaction that will be reversed on a specified date. The latter measure, in contrast, has a permanent effect on the reserve level. The effects of these measures is explained below and also in other sections of this report.

Additionally, the Bank implemented non-delivery forward (NDF) contracts in U.S. dollars starting on 2 December. This measure does not affect the reserve level because the money flow (positive/negative) associated with the settlement at maturity is in local currency.

Adjustments to the benchmark

In March, we implemented a new benchmark for international reserve management. The adjustments included changes in the portfolio structure, currency allocation, and exposure to interest rate risk; the incorporation of inflation-linked securities; and the expansion of country exposure. These modifications were aimed at adjusting the risk-return profile and obtaining a better diversification of risks.

However, one of the most significant changes was the extension of the duration of the investment portfolio from two to seven years, approximately. In the context of the generalized drop in interest rates, the increased exposure to duration risk resulted in the generation of net earnings of US$1.9654 billion in 2019. This income helped finance the spot dollar sales, which reached a total of US$2.450 billion[6].

The benchmark was modified again in early December in order to shorten the duration of the investment portfolio from seven to two years, approximately. This decision is consistent with the need to reduce the portfolio's exposure to international interest rate risk, given the Bank's decision to intervene in the foreign exchange market.

[6] In December, US$2.4 billion was supplied to the market, considering a one-day lag between the auction and the settlement.

Performance of international reserves

As of 31 December, the investment portfolio stood at US$34.2681 billion, while the cash portfolio held US$5.2108 billion. Taking the sum of these two portfolios plus other assets (US$1.1781 billion), total international reserves closed the year at US$40.6569 billion.

This balance was US$796.4 million higher than at year-end 2018. The increase is explained by an increase of US$1.3466 billion in the cash portfolio and US$50.3 million in the other assets portfolio, which was partially offset by a reduction in the investment portfolio of US$600.6 million.

The decrease in the investment portfolio is explained by net withdrawals of US$2.5660 billion, which were partially offset by net g ains of US$1.9654 billion attributable mainly to the reduction in interest rates. In the case of the cash portfolio, the growth is explained by an increase in foreign currency deposits, mainly U.S. dollars, held at the Central Bank by local banks and the Treasury.

The liquidity of the reserves was ensured by investing in asset classes and issuers whose securities are traded on deep markets. At year-end 2019, 83.7% of total international reserves was invested in securities that are traded on highly liquid secondary markets, 13.4% in very short term bank deposits, and the remaining 2.9% in other assets, mostly resources held with the International Monetary Fund.

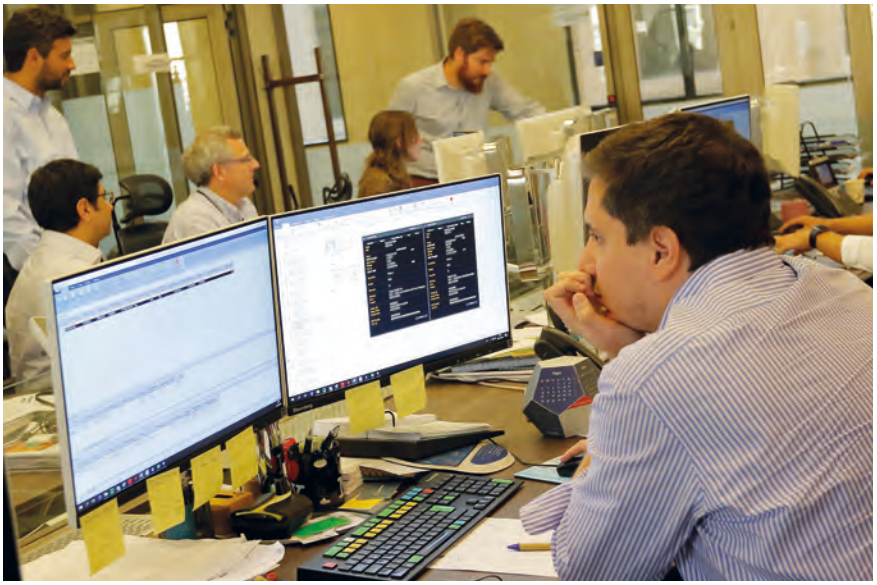
To safeguard the Bank's equity, the invested resources are managed under policies and controls designed to limit financial and operational risk, which are approved by the Board.

Credit risk is controlled through limits on issuers, instruments, intermediaries, and custodians. As of 31 December 2019, 85.2% of reserves (excluding other assets) was invested in sovereign instruments, 13.6% in bank risk, and 1.2% in supranational risk. At year-end, 64.2% of reserves was invested in AAA-rated instruments and the remaining 35.8% in instruments with a rating between BBB and AA+.

Market risk is contained through the diversification of investment currencies, instruments, and maturities, taking into account the impact of decisions regarding these parameters on the Bank's balance sheet.

At year-end, 56.0% of total reserves was held in instruments denominated in U.S. dollars, 9.4% in euros, 7.6% in Canadian dollars, 7.5% in Australian dollars, and the remaining 19.5% in other currencies. The average duration of the investment portfolio was around 24 months.

Operational risk was managed through the separation of functions and responsibilities and the application of internal and external controls. A portion of the investment portfolio was managed by two external managers, namely, BlackRock Institutional Trust Company N.A. and Amundi Asset Management.



These firms came on board in February and October 2016, respectively, with a mandate of US$500 million each. Both firms manage a long-term global government fixed-income mandate, with a structure equivalent to the internally managed diversification portfolio.

The total return obtained from international reserve management in 2019, excluding the other assets portfolio, was 5.67% measured in local currency[7] and 5.39% measured in U.S. dollars.

The local currency return on fixed-income instruments is mainly explained by the drop in bond yield rates at the global level. This was partially offset by the negative exchange rate effect of measuring returns using the U.S. dollar as the base currency, which appreciated against the other currencies in which the international reserves are invested in the period.

The differential return relative to the benchmark, which is used to guide and evaluate investment performance, was –71 basis points. This result is mainly explained by adjustments made to the benchmark in March and December. When the associated waiver periods are taken into account, the relative return in 2019 was –12.1 basis points.[8]

Appendix 1 presents a more detailed report, in accordance with institutional policy on the provision of information on the management of international reserves.

[7] The return in local currency does not incorporate appreciation or depreciation of the portfolio currencies against the U.S. dollar.
[8] The differential return in 2019 considers two waiver periods for internal management (11–19 March and 2–31 December) and two waiver periods for external management (1–9 April and 4–12 de December).

4.3.2 Sovereign wealth fund management

In 2019, we managed part of the Economic and Social Stabilization Fund (ESSF) and the Pension Reserve Fund (PRF) in accordance with investment policy established by the Finance Ministry in the performance guidelines. In that context, the Bank implemented a passive management approach in which the investment objective was to obtain monthly returns in line with the benchmarks, within the risk parameters defined by the Finance Ministry. At the same time, the Bank applied the same principles and standards to managing the fiscal funds that it uses for its international reserves.

With regard to the PRF, in accordance with the plan established by the Finance Ministry, in January 2019 resources were transferred from the portfolios directly managed by the Bank to new asset classes. First, resources were transferred to external portfolio managers delegated by the CBC for managing the U.S. agency mortgage backed securities (MBS) mandate; and second, resources were transferred to external portfolio managers delegated by the Finance Ministry for managing the high-yield bond mandate. Thus, at year-end 2019, the market value of the PRF was US$10.8121 billion, of which US$5.4219 billion were managed by the CBC and its delegated portfolio managers[9].

With regard to the ESSF, there were no changes in the Finance Ministry's investment policy in 2019. At year-end 2019, the market value of the ESSF was US$12.2334 billion, of which US$11.294,6 was managed by the CBC[10]

In the period, the Finance Ministry instructed rebalancing the different asset classes and instructed fund withdrawals and contributions. Due to these movements, the share of the PRF managed by the CBC and its delegated portfolio managers contracted by US$978.6 million, while the share of the ESSF managed by the CBC decreased US$2.3309 billion

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The absolute return measured in U.S. dollars on the funds managed directly by the Bank was 6.48% for the PRF and 3.20% for the ESSF. The differential return attributable to the Bank's management, relative to the benchmark portfolios established by the Finance Ministry, was 10.4 and 6.0 basis points for the PRF and ESSF, respectively [11]

With regard to fiscal agency fees [12], the costs of managing the funds were charged to the Treasury. In 2019, the annual charges for the ESSF and PRF were 2.2 and 0.9 basis points, respectively [13].

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[9] The PRF resources managed by the Central Bank, as fiscal agent, are divided into a sovereign and quasi-sovereign bond portfolio managed internally by the CBC (US$4.8020 billion at year-end 2019) and a U.S. agency mortgage backed securities (MBS) portfolio whose management is delegated by the CBC to external portfolio managers (US$620.0 million at year-end 2019). The remaining PRF resources were managed by external portfolio managers under equity, high-yield bond, and corporate bond mandates, which were supervised directly by the Finance Ministry.

[10] The remaining ESSF resources were managed by external portfolio managers under an equity mandate, which was supervised directly by the Finance Ministry.

[11] In the case of the PRF, if the management of both the CBC and its delegated portfolio manager (U.S. agency MBS portfolio) are taken into account, the absolute and differential returns attributable to the fiscal agent in 2019 were 6.49% and 8.7 basis points, respectively.

[12] The 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 do not consider other expenses, such as those associated with the external portfolio managers or the custodian.

[13] Calculated over the average market value of the resources directly managed by the Bank (excluding the cost of the delegated external portfolio managers of the PRF).

In accordance with both the Bank's information disclosure policy and the stipulations of the Fiscal Agency Decree, Appendix 2 provides more details on the Bank's management of the ESSF and the PRF resources.

As in past years, the Central Bank accepted the fiscal agency agreement for the placement of Treasury bonds to be issued during the year. This involved auctioning peso-denominated Treasury bonds with maturity dates of 2023, 2030, and 2050, corresponding to reopenings of two 2018 bonds (BTP-2023 and BTP-2030) and a new 2019 issue (BTP-2050); and UF-denominated Treasury bonds with maturity dates of 2023, 2030, and 2050, again corresponding to reopenings of two 2018 bonds (BTU-2023 and BTU-2030) and a new 2019 issue (BTU-2050).

Also in its role of fiscal agent, the Bank implemented a Treasury bond buyback program, in which additional bonds in the aforementioned series were auctioned, with other Treasury bonds from earlier series received in payment; as well as the redemption of bonds from earlier series with payment in cash.

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

4.4 Macroeconomic Statistics

The mandate

The Central Bank's duties include the compilation and timely publication of the main national macroeconomic statistics, including monetary and foreign exchange statistics, the balance of payments, the national accounts, and other comprehensive economic and social accounting systems. These data represent one of our contributions to achieving the desired financial development and economic stability for the people of Chile.

The Bank processes and publishes daily, weekly, quarterly, and annual statistics, including the calculation of indexation indicators such as the unidad de fomento (an inflation-indexed unit of account) and the observed dollar, foreign exchange market statistics, interest rates, monetary aggregates, international reserves, securities markets, and external debt.

The Bank publishes the Economic Activity Index (IMACEC) monthly. Quarterly publications include the National Accounts, which reflect the evolution of gross domestic product (GDP); the Balance of Payments, which reflects the trade of goods, services, and transfers to and from abroad; and the National Accounts by Institutional Sector, which supports the analysis of the economy by economic agent and supplies variables such as gross disposable income, savings, and financing, for each institutional sector.

The Bank also undertakes and coordinates statistical research and analysis, always incorporating the highest international standards.

Performance in 2019

In 2019, the Bank continued to carry out its macroeconomic statistics revision and publication program: National Accounts, Balance of Payments and International Investment Position, Monetary and Financial Statistics, and Foreign Exchange Statistics.

In 2018, work began on the 2018 Benchmark Compilation (BC-2018), in order to update the input-output matrix in the national accounts estimates, in line with the implementation of new international methodological recommendations, and exploit new data sources, such as electronic invoicing and the availability of sworn annual tax statements.

To identify and estimate the impact of digitalization and globalization on the economy, we started work on ascertaining the existing gaps in the measurement of services and the digital economy, and we revised our business surveys accordingly.

We also moved forward on a study on agriculture and fruit cultivation, to collect data for estimating value added in agricultural and fruticulture and measuring sales margins by product. The study is being implemented in conjunction with the National Statistics Institute (INE).

The BC-2018 will be published in the fourth quarter of 2021, and the historical series, consistent with the new framework, will be released in March 2022. At the same time, we have been evaluating electronic invoicing data in order to improve regional output statistics and to increase the coverage of the measure of certain items of regional spending.

In July, we published the Internet Job Listing Index, constructed on the basis of publicly available information on the main job listing websites, using advanced technology that allows the collection, storage, and processing of large volumes of unstructured data, based on specialized software. This index will provide a complementary tool for analyzing the labor market.

In October, starting with the publication of the August IMACEC, we moved up the release date of this indicator to the first business day of each month, thereby reducing the lag to 31 days. This represents an improvement in the timeliness of the output data available to users and complements earlier efforts such as the publication of the disaggregated mining and nonmining IMACEC.

Generating financial stability data [MT]

BCCh 5

The Bank has executed the Household Financial Survey (HFS) since 2007 in order to generate information that contributes to the evaluation of the household financial situation. This information allows us to assess the potential impact of the household financial situation on the stability of the financial system.

In preparation for the 2020 Household Financial Survey (HFS), we performed a number of activities related to reviewing and defining the questionnaire for this new round of the survey, in conjunction with our Financial Policy Division; hiring an international consultant to review the sample design and update the expansion factors; and contacting the households interviewed in 2017, to thank them for their participation and invite them to take part in the 2020 round.

EFH

There were 289 downloads in 2019.

Survey data were used in at least five articles and another five projects currently underway.

In the year, the Report was presented in:

—Four universities
—Superintendence of Pensions
—Financial Market Commission

The objective of the HFS is to provide a detailed view of families' financial position. It thus reveals the importance of households in the functioning of the economy, providing feedback for both financial risk analysis and financial education initiatives.

Integrated Derivatives Information System (IDIS)

In 2019, our Statistics Division, in conjunction with the Financial Policy Division and the Office of the General Counsel, continued to move forward on the development of the Integrated Derivatives Information System (IDIS), which will serve as a trade repository for recording derivative transactions, managed by the Central Bank of Chile and oriented toward increasing the transparency of these markets. Thus, in 2019, a tender was held and awarded for the development of the technological platform for data reception, storage, and processing. We also defined the requirements for the website that will support the platform, as well as diffusion functions. Chapter III.D.3 of the Compendium of Financial Regulations was published in July, establishing the respective operating rules.

International participation

Since January 2019, Chile is a member of the Executive of the Irving Fisher Committee on Central Bank Statistics (IFC) of the BIS. This committee shares experiences on monitoring developments related to data, analytical methodologies, their value in comparison with traditional statistics, and the risks associated with their use, depending on the precision of the data.

During the year, we continued to serve as co-chair of the CEMLA Financial Information Forum (FIF), together with Mexico and Peru. The objective of the FIF is to promote the exchange of information and best practices in central bank statistics, with an emphasis on financial data. Additionally, our Statistics Division participates in the expert working groups sponsored by the Organization for Economic Cooperation and Development (OECD) and the United Nations.

In the area of international cooperation, in 2019 we received technical visits from the central banks of Ecuador, Nicaragua, and Paraguay to strengthen their traditional National Accounts and their National Accounts by Institutional Sector. The visits addressed methodological aspects of implementing the benchmark compilations, the analysis and interpretation of short-term indicators, and statistics publication strategies.

On 1–2 October, we held the III Statistics Conference, entitled "Measuring the Economy in the Digital Era." The conference is an opportunity for central banks, statistics offices, and international organizations to share their vision of current and future challenges. This year, the topics addressed included measuring economic activity in the digital era and the economic policy and research potential deriving from the emergence of various mass data sources, which improve timeliness and granularity, in particular with regard to exogenous and systemic shocks that affect the economy as a whole and cause fluctuations in the economic cycle.

Macroeconomic statistics workshops

In 2019, we continued the diffusion program for statistics compiled by the CBC, to promote their use and understanding. In June and August, one-day workshops were held in Iquique and Valdivia, respectively, to review the main concepts, methodologies, and results of the national accounts, balance-of-payments, monetary, and foreign exchange market statistics. Additionally, the results of the 2017 Household Financial Survey were presented in Valdivia and Santiago.

4.5 Cash Management

The mandate

In line with the Central Bank's second objective, namely, to guarantee the normal functioning of the internal payments system, the institution must ensure the efficient management of the cash cycle.

Since its creation in 1925, the Bank has held the sole legal authority to issue banknotes and coins. There are currently five banknote denominations in Chile (1,000, 2,000, 5,000, 10,000, and 20,000 pesos) and four coin denominations (10, 50, 100, and 500 pesos). The one and five peso coins were withdrawn from circulation in November 2017.

In accordance with our mandate, these banknotes and coins are the only means of payment considered legal tender under free circulation throughout the territory of the Republic, and they will be received at their face value.

To maintain the integrity and quality of the currency, the Bank is required to remove from circulation any damaged or mutilated banknotes and coins, which are destroyed under a strict security and accounting control process.

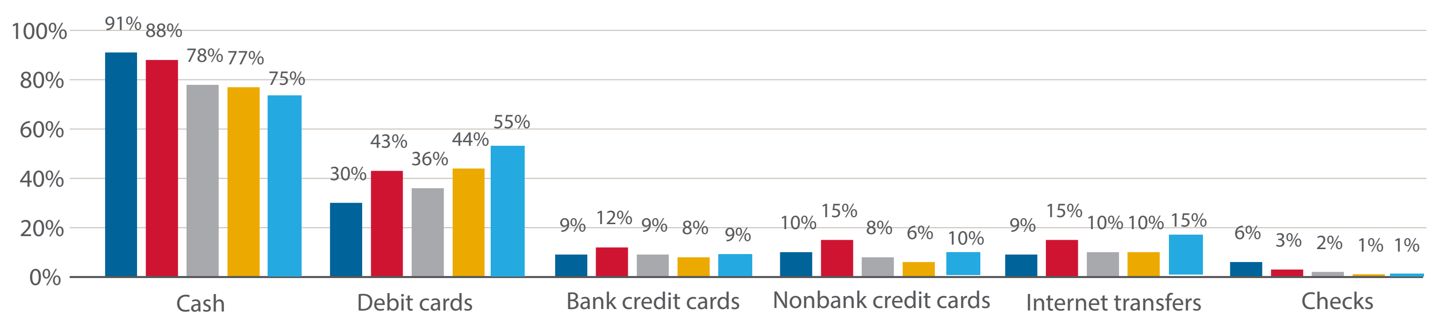
As in many countries, cash continues to be the primary means of payment in recent years in terms of personal preferences. Consequently, the Bank must guarantee the timely supply of secure and trustworthy currency. This requires managing complex logistics, including international tenders for the manufacture of banknotes and coins and a highly secure storage and distribution system. It is also critical to uphold public confidence in the currency. The Bank therefore implements a continuous information and training program aimed at preventing counterfeiting, via educational programs on the recognition of security features incorporated in the banknotes.

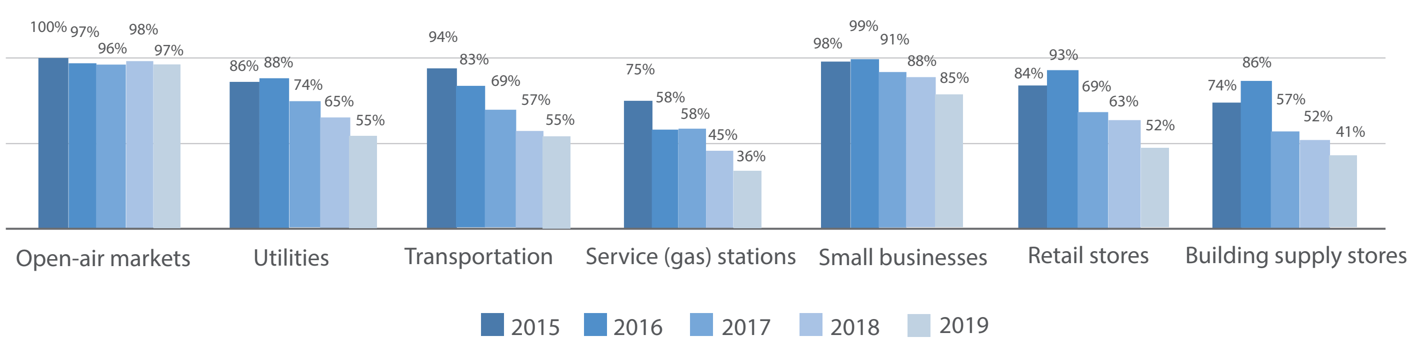
Commercial banks play an essential role in the cash cycle, given that they are the only intermediaries between the Central Bank and end users, whether these are private citizens, small business, or large corporations.

In 2019 the demand for banknotes and coins increased sharply relative to past periods. The public stock of banknotes and coins in circulation, measured in terms of value (pesos), grew 13.5% in annual terms, more than double the rate in 2018 (5.6%). This faster growth of demand largely reflects a greater need for liquidity by the commercial banks and an increase in the use of cash in the country following the events of October.

The greater demand translated into the release of an additional 112 million banknotes in 2019, versus just 18 million in 2018.

The recent evolution of cash currency is confirmed by the results of the latest National Survey on Cash Use and Preferences, carried out annually by the Central Bank of Chile. The 2019 survey shows that cash is still the preferred means of payment in Chile. Fully 75% of the people surveyed stated that they regularly use banknotes and coins for payment, a rate that has essentially been constant over the past three years. The main reasons given for the preference of cash over other payment means were ease of use (25%), speed (13%), security (13%), and the lack of interest payments (10%).





Performance in 2019

In 2019 our Treasury Area carried out a number of initiatives aimed at providing better community service, from the perspective of our role as the issuer responsible for the banknotes and coins in circulation in the country.

Replacement of burned banknotes

An important service that has been gaining ground over time is the replacement of banknotes that have been burned, as a result of accidents or fires. In the past year, we made important improvements in this process, making it more agile and increasing national coverage, through the simplification of the required documentation and the facilitation of payment, offering the possibility of receiving a direct bank transfer for the amount in question. Based on these service improvements, and with the support of commercial banks in the different regions of the country, we hope to facilitate the process mainly for people who live in communities outside the capital.

Banknote and coin changing service

In late 2019, a new cash service was introduced in the Central Bank's public teller window, where we now offer the service of breaking large denominations into smaller ones.

This service is mainly aimed at people and small businesses that handle a lot of cash and need or accumulate different denominations, as the case may be.

Along the same lines, in order to satisfy the needs of end users, we are promoting an initiative among commercial banks to go back to stocking smaller bills in the automated teller machines (ATMs). The objective is to systematically increase the share of these denominations among the banknotes currently in circulation, so as to satisfy the need for small bills on a permanent basis.

Cash supply

In accordance with our mandate, the CBC is responsible for the stability of payments, where our banknotes and coins are the only legal tender under free circulation throughout the territory of the Republic. In the last quarter of 2019, the Bank successfully met the community's demand for cash in the midst of the social crisis, despite the closure of bank branches due to property destruction and restricted access to ATMs all across the country.

The damage caused to banking infrastructure represented a risk to the cash distribution chain, mainly at the bottom end, made up of businesses and the public at large. This necessitated a major effort in terms of direct coordination and management with the commercial banks and cash-in-transit companies, as well as the Financial Market Commission and the Association of Banks, in order to ensure the provision of liquidity in Santiago and the regions.

In the regions outside of Santiago, the CBC took an active role in the delivery of banknotes and coins to key points in the national territory. In Santiago, efforts focused on satisfying the total demand of the banking system, given the travel restrictions in the period.

The strong growth in the demand for cash in the last quarter of 2019 was fully met by the CBC. The public stock of banknotes and coins in circulation grew 13.5%, more than double the rate in 2018 (5.6%). This faster growth of demand largely reflected a greater need for liquidity by the commercial banks and an increase in the use of cash by the general public.

Sustainable cash management [MT]

CBC 11, CBC 12

As expressed in our last Annual Report, we are moving forward on the sustainable management of the cash supply, incorporating actions that contribute to reducing the environmental impact of the materials used in each stage in the life cycle.

Destroyed banknotes are converted into briquettes, or small compact blocks, to facilitate transport and recycling.

The Cash Life Cycle

1 Production

Units produced in 2019

223
million coins

Produced in the Chilean mint

221
million banknotes

100% cotton

Produced in Sweden and Chile

2 Transport

Products arrive in the country by ship.

They are transported by ground to the Central Bank.

In 2019, 63 containers were received (50% coins).

3 Distribution

The Bank delivers banknotes and coins to commercial banks throughout Chile.

423
million issued

9%
delivered to regions

417
million issued

19%
o regions

4 End of the cycle

Worn or damaged banknotes and coins are returned to the Central Bank for destruction, prioritizing the circular economy.

268
million coins destroyed in 2019 (melted down by external firm)

445
million banknotes destroyed in 2019 (shredded at the Central Bank)

300 million
units will be exported as reusable material in 2020

In 2019 we undertook an in-depth analysis of the end of the cycle, in order to promote the environmentally friendly treatment of waste from the destruction of damaged banknotes and coins. This translated into the following projects:

Banknotes

Polymer banknotes

During 2019 34.9 tons of waste were recycled of polymer banknotes.

To ensure responsible waste management, we carried out research and market surveys that uncovered an innovative process for transforming the waste into a new material.

The process was awarded to an external company that recycles plastic waste and turns it into "plastic wood." This innovative material is made under the same processes as natural wood and is worked with the same traditional carpentry tools. It can be used for almost all the same uses as wood, with the significant advantages of plastic: it does not rot, splinter, or oxidize; it does not require any maintenance; and it is guaranteed to last for over 100 years.

The Bank's only cost in this contract is transporting the waste materials from the Bank to the processing plant.

Cotton banknotes

To recycle 20.0 tons of waste cotton banknotes, we incorporated a concept called co-processing, which involves the use of waste material as a source of energy in an environmentally safe process. Co-processing opens the possibility of exploiting and disposing of waste materials that, under other circumstances, would be destroyed using other processes or would be sent to a landfill, resulting in a larger environmental footprint.

After researching the issue and surveying the main national cement factories, the contract was awarded to a company that provides industrial waste management services, including a waste conditioning unit that offers sustainable solutions for waste materials that cannot be recycled, by manufacturing an alternative solid fuel for energy substitution in cement kilns.

Coins

As part of the project to withdraw coins from circulation ($1, $5, and the old $100) in late 2017, a plan was drawn up to sell the material so the metal can be melted down and reused. The sale and processing will be completed in 2020.

This will result in benefits in the form of energy savings and emissions reduction from the metal production process, from extraction through availability.

In the case of copper, data from the Chilean Copper Commission (Cochilco) indicate that for each ton of refined copper produced, an estimated 3.19 tons of de carbon dioxide (CO_2) equivalents are produced, on average. This means that, considering only the copper contained in the withdrawn $5 and $100 coins, there will be emissions savings of approximately 3.052 tons of CO_2 equivalents

Logistics Center Project

EWork continues on the construction of a Logistics Center for the Treasury Area. Since the project was launched in 2015, we have undertaken multiple activities to improve the Bank's cash management processes. In particular, a site was purchased in the El Montijo Industrial Park, and a number of national and international studies, consulting, and services were contracted for the design and later construction of the Center.

One of the highlights in 2019 was the completion of the basic engineering, which included conceptualizing the operational requirements of different areas of the Bank in the preliminary design and estimating the magnitude of the investment. During the year, we also signed contracts for the future supply, installation, and start-up of the first equipment necessary for the Logistics Center, such as vault doors, offline banknote destruction and waste disposal equipment, and banknote processing machines and accessories.

In 2020, the basic engineering will be revised to incorporate changes in the project scope, work will begin on the detail engineering, and we will hold a tender for contracting the excavation and preliminary works, as well as awarding the tender for the purchase of the logistics equipment.

4.6 Our People

(102-8, 102-41, 404-3)

The Central Bank of Chile is committed not only to serving our society, but also to empowering those who are the driving force behind the Bank's work: namely, our employees. As an institution, we are committed to offering an employee value proposition that inspires our people and teams to grow and develop their full potential, in a collaborative environment of continuous learning and professional and personal challenges, so as to attract and retain the best talent, aligned with the Bank's strategic objectives and organizational values.

685
employees

469
men (68%)

216
women (32%)

89%
of jobs are covered by a collective agreement

48 horas
hours of training per person, on average

88%
of workers had a performance evaluation in 2019

Be part of the Central Bank

To support the achievement of our mission, in 2019 we continued to implement actions aimed at meeting the strategic objective of attracting and hiring people of excellence and keeping them motivated and committed to achieving our institutional objectives, in a balanced work climate.

In 2019 we worked on reinforcing and strengthening the Bank's employee value proposition, evaluated alternatives for a comprehensive development system, and implemented the first phase of a leadership and mentoring program aligned with the organizational culture to achieve our strategic objectives.

4.6.1 Gender equality and diversity

(405-1)

As part of our personnel management strategy, we prioritize the creation of conditions that make the Central Bank a space for diversity. If we want to be a reflection of the society that has entrusted us with our mandate, then we need to encompass perspectives and ways of being that reaffirm this commitment. Today more than ever, we believe that the expression of different viewpoints will enrich our work and the contribution we make to Chile. In 2019, under Priority 5, we incorporated guidelines on gender equity and diversity, approving a program of actions to move forward in this area.

We thus promote a culture of diversity and respect, safeguarding excellence and the Bank's values and ensuring that our organizational environment is free of arbitrary discrimination, harassment, or mistreatment.

In our constant search for excellence, we are oriented toward managing the best talent and avoiding any type of bias that would hinder the attraction, development, and promotion of talent and ideas within the Bank. In this line, we promote equal opportunity with a focus on the participation of women in our institution, considering that the share of women is relatively low in some areas, roles, and leadership positions.

In the area of professional development, a Mentoring Program was launched for professionals with strong potential. Invitations were extended to 50% men and 50% women, with the objective of generating conditions of equality for the internal development of talent.

The institution maintains an almost constant gender ratio of 30:70 for women and men, respectively, within the different age ranges. In 2019 the ratio was 32:68.

Bank employees, by position and gender

Category	Men	Women	Total
Board	4	1	5
Senior management	6	6	12
Area managers	18	3	21
Other employees	441	206	647

Increasing the share of women is a medium- and long-term challenge, which we are addressing along three lines of action:

Encourage an organizational culture that promotes the development of talent, where diversity is a key attribute.	**Be proactive in the attraction and recruiting of female talent.**	**Strengthen career development to guide more women into leadership positions.**

Some of the actions developed in 2019 to make progress in terms of gender equality, and in line with Goal 5 of the Sustainable Development Agenda proposed by the United Nations (UN), included the following:

- articipation of 58% of women in the summer professional practice workshop, "Your Practice is Central."
- Better links with universities through the employer branding initiative, to attract more women to apply to the Bank.
- Process for identifying and eliminating unconscious biases in hiring practices.
- Implementation of an external talent inventory, to identify potential candidates that fit the Bank's profile and needs.

Women account for 50% of senior management positions, a solid achievement based on international standards in this area.

4.6.2 Leadership and culture management [MT]

CBC 7

In 2019 we moved forward on the leadership and culture management project launched in 2018, which aims to create and install the culture and leadership style that the Bank needs in order to achieve its strategic challenges.

We defined our own Leadership Model for the Central Bank of Chile, based on an internal survey and design process involving employees throughout the organization. The model has eight guiding principles to orient the actions of Central Bank managers, in order to align their leadership style and strengthen the Bank's culture.

Based on the Leadership Model, we designed and implemented the first phase of the CBC Leadership Academy, which was launched in the second half of 2019. Division directors, area managers, department heads, and group leaders were all invited to participate. The 2019 program included general and specific activities, to address challenges both at the level of the organization and specific to each position.

4.6.3 Promoting collaboration [MT]

CBC 8, CBC 9

In 2019 we took a number of steps to improve the infrastructure and culture for promoting collaboration and teamwork. This methodology seeks to facilitate innovative, inter-area collaboration, thereby contributing to more dynamic processes to harmonize skills, technology, and financial resources.

We currently have 100.3 square meters of collaborative workspace distributed on different floors of the Bank's central offices. For 2020, we expect to add 48 square meters of collaborative workspace in the same building.

During the remodeling, we added more meeting rooms, in addition to the collaborative workspaces. We also have 843 square meters of common space, understood as open work areas that replace individual offices or cubicles and promote collaboration.

To contribute to this new work culture, we made investments in technology in 2019, purchasing an interactive screen and a video conferencing unit, which, in addition to being energy efficient, will facilitate interaction among meeting participants by shortening delays and unifying teams virtually.

As a result of this new way of working, our Planning and Accounting Operations, Human Resources, and Engineering Areas carried out a joint project that resulted in the optimization of institutional processes through three pilot processes: infrastructure and services, procurement of goods and services, and human resources management.

As a result of this pilot project, we identified 30 improvement initiatives to be applied in 2020, which imply

- Creation of innovation teams by area.

- Empowerment to make decisions within teams.

- Incentives for collaboration and the incorporation of adaptation and innovation capacities in our internal culture.

- Adoption of "agile practices" for simplifying stages, reducing analysis times, and identifying opportunities for improvement.

- Adoptar la metodología de trabajo "prácticas ágiles" para simplificar etapas, disminuir tiempos de análisis e identificar oportunidades de mejora.

In 2020 seven processes will be implemented under the agile work methodology to strengthen the Bank's corporate governance, expediting decision-making and facilitating innovation.

4.6.4 Training to be better

(404-1, 404-2)

Last year, we implemented 167 training activities, for a total of 25,728 hours, with the participation of 549 employees.

Hours of employee training, by gender		2019		
		Employees trained	Total hours	Average hours
SEXO	Men	354	7,482	21.14
	Women	178	18,246	102.51
	Total	532	25,728	48.36

In 2019 we digitalized the course application process in order to give our employees a paper-free experience, and we also incorporated digital evaluations to increase efficiency.

Main training programs in 2019

Leadership Academy	Blockchain workshops	English program
With three six-hour workshops and three two-hour training groups, this program targeted 142 people, including all levels with management or leadership	To address the constant technological challenges, three blockchain workshops were held to impart basic knowledge on this technology, so that people can identify high-level opportunities for decision-making on projects related to these issues.	A total of 143 people participated in the English program, from all areas of the bank (92 people in the first half and 51 people in the second half).

Development of sustainability competencies [MT]

CBC 6

In 2019, to encourage sustainable habits, the Bank held a talk entitled "Bring your own," which invited participants to cultivate a waste-free life and to reflect on consumerism: what we really need versus what we accumulate. The talk was attended by 24 employees, who learned how to move toward a more sustainable lifestyle.

We also held an internal recycling campaign for cotton and polymer banknotes over 6 weeks, which was available via the Bank's screens, intranet, and employee newsletter.

Scholarships for Bank employees

International scholarships: adjudicadas 3 (1 master's and 2 Ph.D.)

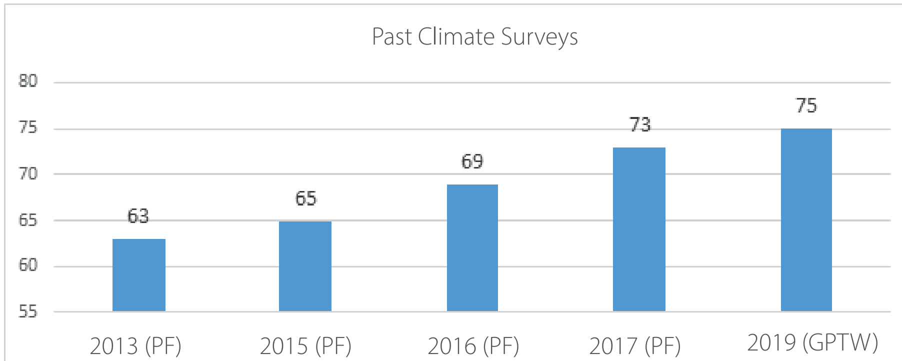
National scholarships: 15 (8 bachelor's, 4 master's, and 3 doctorates)

4.6.5 Work climate survey

This year, we decided to contract the company Great Place to Work to assess our work climate, in order to have a better basis for comparison with the best national and international organizations. Fully 77% of the Bank's employees participated in the process, and 75.3% of the responses were positive.

The score represents a baseline for implementing practices to consolidate our position as an employer of excellence, advancing on the strategic objectives defined in Priority 5.

While this survey is not comparable to the previously applied work climate survey (People First Model), it is possible to make some observations. In particular, there has been a steady improvement in the Bank's work climate since 2013 (see table).



*PF: People First

**GPTW: Great Place to Work

4.6.6 Work-life balance

In line with good practices, the Central Bank has strengthened its work-life balance policies, facilitating options for telecommuting and flexible schedules.

In addition, to address some of our employee's concerns, we organized Quality of Life discussions, such as "Adolescent Use of Social Networks" and "A Life with Less Trash: Simple Ideas for Everyone."

In 2019 we made available to our employees a support service for psychological, legal, financial, family counselling, nutrition, and social issues.

General Manager, Alejandro Zurbuchen, and Union President, Ricardo Iturra, sign the new union contract, together with executives and union leaders.

4.6.7 Labor relations

The Central Bank Labor Union was founded in 1970, and it is still the only employee union at the institution. Currently, 89% of employees with a contract are members.

The union plays an active role in the daily lives of workers, providing broad-ranging support in the areas such as legal advice, well-being, collective bargaining, and scholarships for employees' children.

In 2019 a new collective bargaining process was carried out in a framework of respect, trust, and common goals. The process culminated in a new union contract, effective for three years, and it was judged successful by all the parties involved.

4.7 Our Suppliers

(102-9, 414-1, 204-1)

1,101
Suppliers

76%
of our suppliers are SMEs

87%
of our suppliers are national

At the Central Bank, we believe that we can also contribute to the national and regional economy through our supplier relationships. The majority of our outsourced services are related to food services, cleaning, infrastructure maintenance, help desk, and correspondence. For these services, we have a network of high-quality specialized suppliers.

Our supplier relations are regulated through the Procurement Policy, Purchasing Rules, Expenditure Authorization Procedures, and Contracting Rules for the purchase of goods and services.

In 2019, we worked with 190 new suppliers.

SME supplier management

In 2019, 76% of our suppliers were Chilean small and medium-sized enterprises (SMEs), with payments totaling CLP 15,653,016,865.

In 2020, the Bank is scheduled to introduce new technological and process improvements to increase the efficiency of our payment processes. The expected result of these actions is a reduction on the order of 20% in the average payment period for local suppliers, relative to the average in 2019.

Average payment period for local suppliers, in days

Company size	2019 average
Large companies	25
SMEs	20

Contract management

The Bank's operations require the use of specialized suppliers of a variety of products and services. Additionally, we are subject to the provisions of the Basic Constitutional Act, regulating the periodic publishing of information on the performance of our public duties.

In this context, we report the administrative contracts signed by the Bank in 2019 for over CLP 180 million, for the supply of goods and services that support the Bank's normal operations.

Nº	Supplier	Purpose	Effective	Ending
3859	Heavenward Ascensores S.A.	Infrastructure maintenance services	28-Jan-19	30-Sep-20
3881	Asesorías Computacionales Neosoft Limitada	Infrastructure maintenance services	13-Mar-19	13-Sep-20
3914	Termika S.A.	Infrastructure maintenance services	26-Jun-19	24-Apr-20
3980	Importaciones y Servicios Advanced Computing Technologies S.A.	Information and technology services	01-Jul-19	01-Jul-20
3982	Sixmanager Tecnologías SpA	Information and technology services	01-Jul-19	01-Apr-20
4029	Ingeniería Barreto y Cía. Ltda.	Infrastructure maintenance services	12-Sep-19	29-Apr-20
4034	Constructora Briceño y Cía. Ltda.	Infrastructure maintenance services	07-Oct-19	03-Jun-20
4045	Jorge Caldera Cofré	Infrastructure maintenance services	16-Oct-19	12-Jun-20
4055	Hitachi Vantara (Chile) Limitada	Information and technology services	04-Nov-19	04-Nov-20
3793	ST Computación S.A.	Information and technology services	14-Jan-19	30-Jul-20

4.8 Environmental Management

Imprinting a forward-looking perspective on the Central Bank, where our environmental impact must be addressed at all levels and in all processes, is one of the major challenges we have set ourselves, and it is already being incorporated into our work.

This effort is based on earlier work to improve our environmental management, with the following objectives:

- Guarantee regulatory compliance.
- Identify, prevent, and control the impacts generated by our activities.
- Frame our actions in terms of internal sustainability guidelines.
- Improve stakeholder relations.

The recently approved Sustainability Strategy challenges us to improve our performance, incorporating these aspects into our daily actions and our work culture, where everyone is responsible.

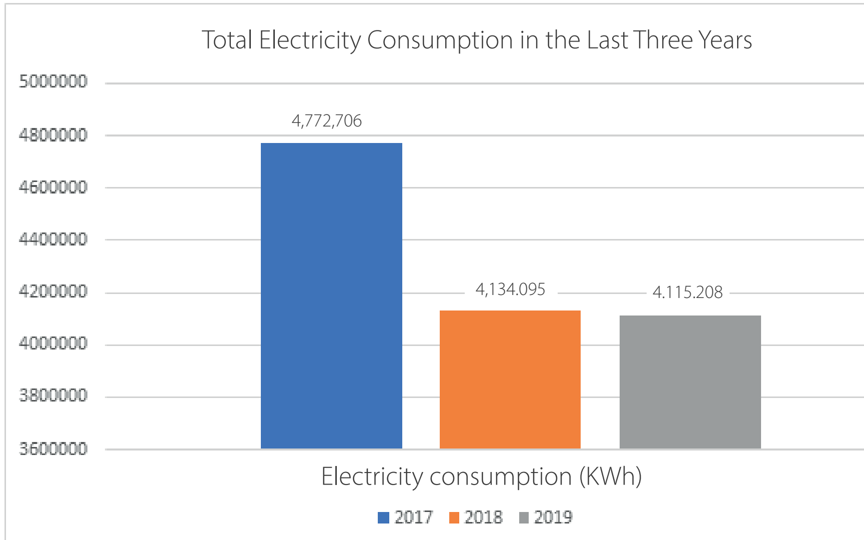
4.8.1 Energy efficiency [MT]

(302-1, 302-4, CBC 10)

Based on our Sustainability and Environmental Management Strategy, we monitor energy consumption at all of our sites in order to measure the results of actions that have been implemented to promote the efficient use of energy resources. For example, we are in the process of switching to LED technology in all our lighting systems.

Percent of LED lighting, by office building	Agustinas building	Constitution Plaza building	Cumming building
Year 2018	32%	27%	33%
Year 2019	39%	32%	33%

In 2019 total electricity consumption at our buildings was stable relative to the previous year, at 4,115,208 KWh. Natural gas consumption was 2,713 Gj.



Note: Measure includes the Agustinas, Constitution Plaza, and Cumming buildings, the beach resort, and the stadium.

Energy intensity

(302-3)

We have also calculated our energy intensity, in order to achieve a gradual reduction in the coming years.

Energy Intensity in 2019 (KWh)	
Total fuel / Total area	1.88
Total electricity / Total area	17
(Fuel + Electricity) / Total area	19.03

Energy efficiency actions

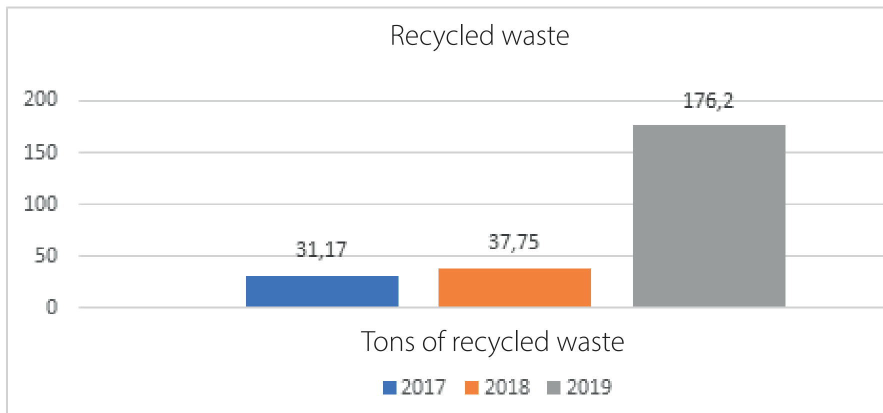
Climatization system renovation project	Modernization of the elevators	Country club bathrooms	Exit from the regulated price system
Based on a centralized control system that measures and reacts to the temperature difference between the system's inflow and outflow pipes, so that it operates based on actual needs to reach the target temperature.	Replacement of obsolete technology with modern technology, eliminating oil-flooded gear reducers and using electromagnetic motors and switchboards with speed variation	Study on the installation of solar panels at the employee country club and beach resort.	As a large consumer, we were able to negotiate a contract to supply renewable energy for the Bank's main building on Agustinas Street.

4.8.2 Responsible waste management [MT]

(306-2; 306-4)

Our concern for reducing our environmental impact has resulted in various initiatives to decrease the total tons of waste generated annually and to increase the quantity of recycled materials. An important step in this process was the installation of recycling collection points throughout our main buildings, which receive glass, metal, plastic, paper, and cardboard.

In 2019, the amount of recycled waste increased 366% over the previous year. This is explained by the incorporation of polymer and cotton banknote paper in the recycled materials, in addition to cardboard, plastic, metal, paper, and glass waste. This policy was implemented in the framework of the Bank's commitment under the 2018–2030 National Waste Policy.



We started recycling cotton and polymer banknotes in November and August, respectively, adding a total of 54.9 tons.

34.89

Recycled waste from polymer banknotes (tons)

20.01

Recycled waste from cotton banknotes (tons)

Other waste, such as retired computer equipment, is sold off once a year in a public auction. This extends the useful life of the equipment, which is reused in the private sector.

Hazardous waste

In 2019, the Central Bank generated a total of 925 kg of hazardous waste from fire extinguishers, batteries, florescent tubes, lightbulbs, oil, grease, etc. The Bank has contracts with hazardous waste management companies, including transport and final disposal. These companies must meet the following requirements for hazardous waste reception:

- Health Department permit.
- Municipal operating license.
- Special license for collection centers and dumps.
- Adequate weighing system for waste management.
- Authorized waste transport fleet.
- Compliance with current environmental regulations.
- Compliance with current waste treatment regulations.

Waste reduction [MT]

(CBC 13)

In addition to recycling waste after product use, efforts to reduce the generation of waste and, therefore, the need for office supplies have had significant results:

19.5% reduction in expenditures on paper	**29.8% reduction in paper use vis-à-vis 2018, driven by a campaign to reduce printing**	**20.1%. reduction in computer supplies (toner)**

In 2019 we began to implement a plan to reduce construction materials. In 2020, we expect to present results that will demonstrate our real commitment to becoming a pioneer among the world's central banks in the area of environmental sustainability.

CHAPTER 5

METHODOLOGY

We want our institution to have a deep connection with society.

Our first Integrated Annual Report is an important step for strengthening communication and transparency with our different stakeholder groups.

We are committed to annually reporting on our economic, social, and environmental performance, as well as our value generation for sustainable development.

5.1 Integrated Annual report

(102-32, 102-44, 102-46, 102-47, 102-48, 102-49, 102-50, 102-51, 102-54)

This report, approved by the Board, represents our first Integrated Annual Report, which consolidates information on our economic performance and our environmental and social performance into a single report. The period covered is from 1 January to 31 December 2019.

In preparing this report, we used the core option of the Global Reporting Initiative (GRI). This implied carrying out a three-phase materiality study, which resulted in the list of material topics in 2019:

Step 1: Identification	Step 2: Prioritization	Step 3: Validation
· Benchmark of good practices, including six central banks from different parts of the world. • Review of internal material. • Review of external media. • Review of sustainability and finance standards and documents	• 17 in-person interviews with the Bank's top executives. • Three validation workshops on the strategy and material topics, with different Bank employees. • Survey of 361 employees	• Validation of the material topics by the Central Bank Board.

Material topics in 2019

103-1, 103-2, 103-3

The materiality study identified the following material topics:

Material topic	Definition	Coverage	Responsibility	Contribution
Financial risk monitoring	Study the effects of climate change, through the constant monitoring of financial risks, in order to identify potentially systemic impacts.	Internal with external impact	• **Monetary Policy Division** • **Financial Policy Division**	13 ACCIÓN POR EL CLIMA
Macroeconomic analysis	Study the macroeconomic effects of climate change and their impact on the main variables affecting monetary policy conduct.	Internal with external impact	• **Monetary Policy Division** • **Financial Policy Division** • **Statistics Division**	13 ACCIÓN POR EL CLIMA
Generation of financial information	Generate information that contributes to the evaluation of the financial situation of households and other segments.	Internal with external impact	• **Financial Policy Division**	8 TRABAJO DECENTE Y CRECIMIENTO ECONÓMICO
Financial education	Implement financial education initiatives developed by the bank and/or in coordination with other institutions to contribute to people's economic and financial education.	Internal with external impact	• **Institutional Affairs Division**	8 TRABAJO DECENTE Y CRECIMIENTO ECONÓMICO
Retail means of payment	Contribute to the sustainable development of retail payment means.	Internal with external impact	• **Under development**	8 TRABAJO DECENTE Y CRECIMIENTO ECONÓMICO
Energy efficiency and emissions reduction	Implement and manage energy efficiency mechanisms in our buildings.	Internal	• **Operations Division**	9 INDUSTRIA, INNOVACIÓN E INFRAESTRUCTURA 7 ENERGÍA ASEQUIBLE Y NO CONTAMINANTE 13 ACCIÓN POR EL CLIMA

Responsible organic and inorganic waste management	We are responsible for the waste we generate, so we aim to reduce or reuse it, thereby contributing to the circular economy.	Internal	• **Operations Division**	12 PRODUCCIÓN Y CONSUMO RESPONSABLES
Cash life cycle management	We take responsibility for the social and environmental impacts of banknotes and coins, which implies managing the life cycle from production through disposal.	Internal with external impact	• **Operations Division** • **Treasury**	12 PRODUCCIÓN Y CONSUMO RESPONSABLES 13 ACCIÓN POR EL CLIMA
Reduction of input materials	We contribute to the circular economy by reducing as much as possible the materials we purchase and looking for ways to give new life to the materials we already have.	Internal	• **Operations Division**	12 PRODUCCIÓN Y CONSUMO RESPONSABLES
Collaborative technology and infrastructure	Collaboration is crucial for achieving a more dynamic and modern organization that contributes to the well-being of our employees, and we therefore provide spaces with collaborative technology and infrastructure.	Internal	• **Operations Division**	9 INDUSTRIA, INNOVACIÓN E INFRAESTRUCTURA
Development of sustainability competencies	The Central Bank is concerned for the comprehensive development of our employees, including sustainability awareness and training	Internal	• **Human Resources**	12 PRODUCCIÓN Y CONSUMO RESPONSABLES
Sustainability leadership	Leaders promote a culture of sustainability among all employees.	• Internal	• **Human Resources**	12 PRODUCCIÓN Y CONSUMO RESPONSABLES

CHAPTER 6

APPENDIXES

6.1 Appendix 1: International Reserves

Introduction

In line with the Bank's transparency policies, this appendix reports on annual international reserve management.

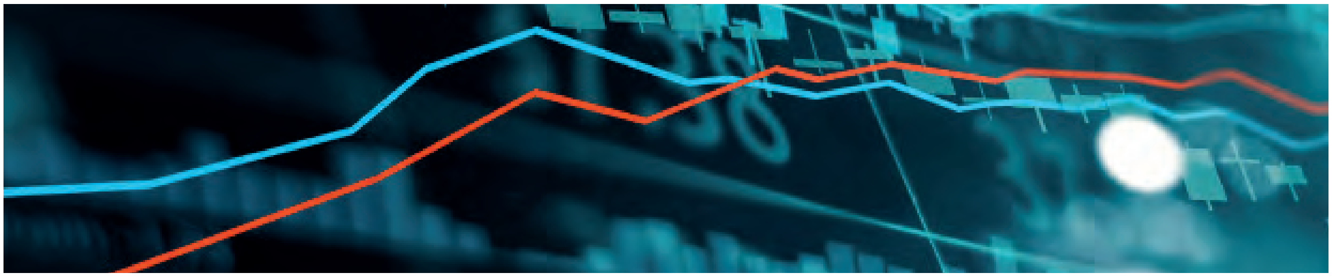
International reserves are liquid foreign currency assets held by the Central Bank of Chile (CBC). They are one of the policy tools available to the Bank to meet its primary objectives of safeguarding the stability of the currency and the normal functioning of internal and external payments. Under a floating exchange rate regime like the one in Chile, international reserves are used to provide liquidity in foreign currency, in order to achieve these two objectives.

The management of these reserves aims to guarantee secure, efficient access to international liquidity. Under the legal framework defined in the Basic Constitutional Act (BCA), the Board of the Central Bank of Chile establishes a strategic framework[14] for international reserve management, in line with international recommendations and practices.

Subject to this framework, the investment policy is designed to ensure that at all times, the CBC has access to the necessary reserves to fulfill its objectives, within a short timeframe and at a reasonable cost. To achieve that, reserve management pursues two central objectives: capital preservation and liquidity. The investment policy also takes into account the potential impacts on the CBC's balance sheet.

Total international reserves are made up of the investment portfolio plus the cash portfolio (transaction account balances held by the 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

[14] The document, "Lineamientos Generales para la Gestión de Reservas Internacionales del Central Bank of Chile (LGGR)" [General Guidelines for International Reserve Management of the Central Bank of Chile] establishes the standards for corporate governance, reserve level, investment policy, investment process, and accountability.



funding requirements deriving from withdrawals from the foreign currency accounts maintained at the Central Bank by commercial banks and the public sector.

The following sections provide more details on the Bank's international reserve management.

Investment portfolio policy

In March 2019, the benchmark for the investment portfolio was modified to adjust the risk-return profile of the investments and increase the diversification of risks. The structure of three sub-portfolios was reduced to two: namely, the liquidity portfolio and the diversification portfolio. The former is designed to invest primarily in U.S. Treasury bonds, while the second is invested in a wider range of currencies and issues in order to diversify risks, while at the same time ensuring an adequate level of liquidity. The portfolio duration was increased from two to seven years, approximately; the currency allocation was adjusted; and inflation-indexed bonds were incorporated. With regard to the currency allocation, exposure was increased to Canadian dollars, Australian dollars, Chinese yuan, and pounds sterling, to the detriment of U.S. dollars and euros. Additionally, the new benchmark solely considered exposure to sovereign risk (whereas previously the benchmark also included bank securities).

In December 2019, in the context of financial stress in the local markets and the approval of exceptional liquidity injection measures, the Board approved changes to the investment policy. The most important was a reduction in the duration of the reserve portfolio, from seven to two years, approximately, while maintaining the key risk parameters unchanged.

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 (indexes) used to guide and measure performance. This section outlines the benchmark structure of the investment portfolio in effect at year-end 2019.

The benchmark structure defines two investment portfolios: liquidity and diversification (table 1).

The liquidity portfolio represents 45% of the investment portfolio, and its benchmark is entirely composed of nominal U.S. Treasury bonds (in dollars) with a residual maturity of one to three years. These instruments are considered highly liquid and safe, and they have an average credit rating of AAA. This portfolio does not allow deviations in

TABLE 1. BENCHMARK STRUCTURE OF THE INVESTMENT PORTFOLIO

		Type	% Portfolio	% Sub-portfolio	Duration	Benchmark index
Liquidity	USD	Nominal	45.0	100.0	22.1	Bloomberg-Barclays Global Aggregate-Treasury Bond Index (Unhedged) (2)
	Total		**45.0**	**100.0**	**22.1**	
Diversification	EUR(1)	Nominal	7.0	12.7	23.0	Bloomberg-Barclays Global Aggregate-Treasury Bond Index (Unhedged) (2) Bloomberg-Barclays Global Inflation Linked Index (Unhedged) (3)
		Indexed	4.0	7.3	19.6	
		Total	11.0	20.0	21.8	
	CAD	Nominal	9.0	16.4	24.4	
	CNY	Nominal	9.0	16.4	21.1	
	GBP	Nominal	8.0	14.5	21.5	
	USD	Nominal	8.0	14.5	22.6	
	KRW	Indexed	7.0	12.7	17.0	
	Total	Nominal	3.0	5.5	21.4	
	Total		**55.0**	**100.0**	21.5	
Total			100,0		21.8	

(1) Countries with a credit rating of A3/A–/A– or higher. Excludes Malta, Lithuania, Luxembourg, Latvia, Slovenia, and Slovakia.
(2) Issues in the 1–3 year maturity tranche.
(3) Issues in the 1–5 year maturity tranche.
Source: Central Bank of Chile.

currency or issuer. To facilitate interest rate risk management, this sub-portfolio allows investment in nominal notes and bonds issued by the U.S. Treasury, as well as the use of interest rate futures for managing duration. To manage balances, the use of some money market instruments is allowed. The main objective of this portfolio is to ensure an adequate level of liquidity, so the investments must be easily convertible into cash in a short timeframe and at a reasonable cost, if necessary.

The diversification portfolio represents 55% of the investment portfolio, and its benchmark is composed of nominal sovereign bonds with a residual maturity of one to three years and inflation-linked sovereign bonds with a residual maturity of one to five years. The nominal share of the diversification portfolio (80%) is made up of instruments denominated in Australian dollars (16.4%), Canadian dollars (16.4%), Chinese yuan (14.5%), pounds sterling (14.5%), euros (12.7%), and South Korean won (5.5%); while the inflation-indexed share (20%) is denominated in U.S. dollars (12.7%) and euros (7.3%). The target duration of this portfolio is 22 months, approximately. Additionally, all instruments included in the International Reserve Investment Policy approved by the Board are also eligible for investment. The main objective of this sub-portfolio is to diversify the risks to which the investments are exposed, while maintaining adequate liquidity.

budget defined as an ex ante tracking error of 100 basis points a year, which cannot exceed 150 puntos base at any given time.[16]

The investment portfolio has mechanisms for rebalancing the sub-portfolios to ensure that their relative size remains in line with the benchmark

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 allocation is thus tied to the currency composition of expected disbursements and the 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.

Portfolio performance in 2019

On 31 December 2019, the investment portfolio stood at US$34.2681 billion, while the cash portfolio held US$5.2108 billion. Taking the sum of these two portfolios plus other assets (US$1.1781 billion),[17] total international reserves closed the year at US$40.6569 billion.

This balance was US$796.4 million higher than at year-end 2018. The growth is explained by an increase in the cash portfolio of US$1.3466 billion and in the other assets portfolio of US$50.3 million, which was partially offset by a decrease in the investment portfolio of US$600.6 million.

The reduction in the value of the investment portfolio is mainly due to net withdrawals of US$2.5660 billion, which were partially offset by net gains of US$1.9654 billion, mainly attributable to the drop in interest rates. In the case of the cash portfolio, the growth is due to an increase in foreign currency deposits, mainly U.S. dollars, held at the CBC by commercial banks and the Treasury.

With regard to the value of the internally managed investment portfolio, US$14.6642 billion was in the liquidity portfolio, US$18.2862 billion was in diversification portfolio, and US$95.1 million was being held in current accounts. Additionally, the externally managed portfolio accounted for US$1.1132 billion. At year-end, there were also investments in onshore Chinese government bonds, through investments in a BIS Investment Pool denominated in Chinese yuan (BISIP CNY), for a total of US$109.3 million.

[16] At the time of writing, the risk budget (tracking error) for the external portfolio managers was under review.
[17] The other assets portfolio is mainly composed of monetary gold and IMF special drawing rights (SDRs).

Of the internally managed investment portfolio (US$33.0455 billion),[18] 98.31% was invested in sovereign risk, 1.29% in supranational risk, 0.38% in bank risk,[19] and 0.02% in agency risk. Relative to year-end 2018, there was an increase in exposure to sovereign risk and a decrease in exposure to supranational risk.

Sovereign risk includes investments in the United States (51.6%), Canada (9.0%), Australia (8.4%), China (8.4%), United Kingdom (7.6%), France (4.8%), Republic of South Korea (3.1%), Germany (2.6%), Spain (2.1%), Belgium (0.5%), Netherlands (0.5%), Japan (0.3%), Austria (0.3%), Ireland (0.3%), Poland (0.1%), Finland (0.1%), and Italy (0.1%). Supranational risk is made up issues by the European Investment Bank (36.9%), Inter-American Development Bank (28.3%), International Bank for Reconstruction and Development (17.3%), International Finance Corporation (12.9%), Asian Development Bank (2.9%), African Development Bank (1.4%), and Eurofima (0.4%). Agency risk is concentrated in one issue from Landwirtschaftliche Rentenbank (Germany). Finally, bank risk corresponds to bank deposits in Canada and China.

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

Risk management

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

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 cash portfolio (primarily overnight deposits) and the short-term liquidity portfolio. In addition, the investment policy includes a liquidity portfolio, equivalent to 45% of the investment portfolio, which mainly allows investment in securities issued by the U.S. Treasury.

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).

[18] Excluding the BIS Investment Pool shares, the externally managed resources, other assets, and the cash portfolio.
[19] Supranational institutions are multilateral financial institutions, whose articles of agreement are signed by the governments of two or more countries.

TABLE 2a. COMPOSITION OF INTERNATIONAL RESERVES
(millions of dollars)

Portfolio	Currency	2018 Dec.	2018 %	2019 Dec.	2019 %
Investment portfolio		**34,868.6**	**87.5**	**34,268.1**	**84.3**
Currencies and deposits	U.S. dollar	11.9	0.0	14.2	0.0
	Euro	0.7	0.0	3.2	0.0
	Canadian dollar	0.1	0.0	0.3	0.0
	Australian dollar	0.5	0.0	0.5	0.0
	Other currencies	762.0	1.9	205.2	0.5
Securities	U.S. dollar	22,140.6	55.5	17,551.1	43.2
	Euro	6,000.3	15.1	3,802.9	9.4
	Canadian dollar	1,630.4	4.1	3,094.0	7.6
	Australian dollar	1,434.6	3.6	3,055.0	7.5
	Other currencies	2,887.6	7.2	6,541.6	16.1
Total	U.S. dollar	22,152.5	55.6	17,565.3	43.2
	Euro	6,001.0	15.1	3,806.1	9.4
	Canadian dollar	1,630.5	4.1	3,094.3	7.6
	Australian dollar	1,435.1	3.6	3,055.5	7.5
	Other currencies	3,649.6	9.2	6,746.9	16.6
Cash portfolio		**3,864.2**	**9.7**	**5,210.8**	**12.8**
Currencies and deposits	U.S. dollar	3,864.2	9.7	5,210.8	12.8
Other assets portfolio		**1,127.7**	**2.8**	**1,178.1**	**2.9**
Monetary gold	Other currencies	10.1	0.0	12.0	0.0
IMF SDR	Other currencies	751.0	1.9	745.7	1.8
IMF reserve position	Other currencies	366.6	0.9	419.0	1.0
Currencies and deposits	U.S. dollar	0.0	0.0	1.4	0.0
Total international reserves		**39,860.6**	**100.0**	**40,656.9**	**100.0**
	U.S. dollar	26,016.7	65.3	22,777.5	56.0
	Euro	6,001.0	15.1	3,806.1	9.4
	Canadian dollar	1,630.5	4.1	3,094.3	7.6
	Australian dollar	1,435.1	3.6	3,055.5	7.5
	Other currencies	4,777.4	12.0	7,923.5	19.5

Source: Central Bank of Chile.

TABLE 2b. INVESTMENT PORTFOLIO: CURRENCY ALLOCATION (1)

(percent on 31 December 2019)

Currency	Share (1)
U.S. dollar	51.8
Euro	11.1
Canadian dollar	9.1
Australian dollar	9.0
Chinese Yuan	8.0
Pound sterling	7.9
South Korean won	3.0
Other currencies (3)	0.0
Total	100.0
Japanese yen	0.5
Other (2)	0.3
Total	**100.0**

(1) Excluding the cash and other assets portfolios.
(2) The share includes currency forwards.
(3) Includes JPY, CHF, NZD, CZK, DKK, NOK, PLN, SEK, SGD, and MYR.
Source: Central Bank of Chile.

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

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 via tracking error limits.

The average daily value at risk (VaR)[20] of the internally managed investment portfolio was 2.74% in 2019 (1.65% in 2018). The average tracking error was 18.6 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

[20] The VaR is based on a parametric model with an annualized daily horizon, a confidence level of 84% (1 σ), and a decay factor of 0.94.

TABLE 3. COMPOSITION OF INTERNATIONAL RESERVES BY CREDIT RISK (1) (2) (3) (4)

(percent on 30 December 2019)

Type of credit risk	Credit rating									
	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	TOTAL
Sovereign	61.3	0.9	13.2	0.0	7.7	0.0	1.9	0.0	0.1	85.2
Bank	1.6	0.0	2.6	3.0	0.5	5.3	0.6	0.0	0.0	13.6
Supranational	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.2
Agency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	64.2	0.9	15.8	3.0	8.2	5.3	2.6	0.0	0.1	100.0

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

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

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

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

Source: Central Bank of Chile.

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.

TABLE 4.

(millions of dollars)(percent on 30 December 2019)

Financial Institutions With Outstanding Deposits On 31.Dec.2019 (1) (2)	
AAA, AA+, AA, AA-	Australia & New Zealand Banking Group Limited
	Bank of Montreal
	J.P. Morgan Chase Bank NA
	Royal Bank of Canada
	The Bank of Nova Scotia
	Zurcher Kantonalbank
	Maximum
	Minimum
	Category average

Continued

Financial Institutions With Outstanding Deposits On 31.Dec.2019 (1) (2)	
A+, A, A-	Banco Bilbao Vizcaya Argentaria S.A.
	Bred Banque Populaire
	China Construction Bank Corporation (London)
	Danske Bank A/S
	Landesbank Baden-Württemberg
	Mizuho Bank Ltd
	Sumitomo Mitsui Banking Corporation
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.
	Maximum
	Minimum
	Category average

(1) Includes the internally managed investment portfolio and the cash portfolio.
(2) Includes balances held in interest-bearing current accounts.
Source: Central Bank of Chile.

TABLE 5. ELIGIBLE BANKS AND PERMISSIBLE LIMITS AS OF 31.DEC.2019

(US$ millions and months)

Country	Bank	Amount	Dura-tion
Germany	Bayerische Landesbank	150	1
Germany	Commerzbank AG	150	1
Germany	DekaBank Deutsche Girozentrale	500	3
Germany	DZ BANK AG Deutsche Zentral-Genossenschaftsbank	700	9
Germany	Landesbank Baden-Württemberg	150	1
Germany	Landesbank Hessen-Thüringen Girozentrale	500	3
Germany	NRW.BANK	700	9
Germany	UBS Europe SE	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	Belfius Bank SA/NV	150	1
Belgium	BNP Paribas Fortis SA/NV	500	3
Belgium	ING Belgium SA/NV	500	3
Belgium	KBC Bank NV	500	3
Canada	Bank of Montreal	700	9
Canada	Canadian Imperial Bank of Commerce	700	9

Continued

Country	Bank	Amount	Dura-tion
Canada	National Bank of Canada	500	3
Canada	Royal Bank of Canada	700	9
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	Industrial and Commercial Bank of China (Asia) Ltd.	500	3
China	Industrial and Commercial Bank of China Ltd.	500	3
China	The Hongkong and Shanghai Banking Corp. Ltd.	700	9
South Korea	Standard Chartered Bank Korea Limited	250	3
Denmark	Danske Bank Aktieselskab	500	3
Denmark	Nykredit Bank A/S	250	3
Spain	First Abu Dhabi Bank	700	9
Spain	Banco Bilbao Vizcaya Argentaria S.A.	150	1
Spain	Banco Santander S.A.	500	3
Finland	Nordea Bank Abp	700	9
France	BNP Paribas S.A.	500	3
France	Bred Banque Populaire	500	3
France	Credit 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 S.A.	500	3
France	Société Générale	500	3
Netherlands	ABN AMRO Bank NV	500	3
Netherlands	Coöperatieve Rabobank UA	700	9
Netherlands	ING Bank NV	700	9
Netherlands	NV Bank Nederlandse Gemeenten	1000	12
Israel	Bank Hapoalim B.M.	500	3
Japan	Mizuho Bank Ltd.	500	3
Japan	MUFG Bank, Ltd.	500	3
Japan	Sumitomo Mitsui Banking Corporation	500	3
Japan	Sumitomo Mitsui Trust Bank Ltd.	500	3
Japan	The Chiba Bank, Ltd.	500	3
Japan	The Norinchukin Bank	500	3
Japan	The Shizuoka Bank Ltd.	500	3
Norway	DNB Bank ASA	700	9
Singapore	DBS Bank Ltd.	700	9
Singapore	Oversea-Chinese Banking Corp Ltd.	700	9
Singapore	United Overseas Bank Ltd.	700	9
Sweden	Skandinaviska Enskilda Banken AB (Publ) (SEB)	700	9

Continuación

País	Banco	Monto	Plazo
Sweden	Svenska Handelsbanken AB (publ)	700	9
Sweden	Swedbank AB	700	9
Switzerland	Credit Suisse AG	500	3
Switzerland	UBS AG	700	9
Switzerland	Zürcher Kantonalbank	1000	12
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	Merrill Lynch International	500	3
United Kingdom	Santander UK PLC	500	3
United Kingdom	Standard Chartered Bank	500	3
United States	Bank of America NA	700	9
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 NA	700	9
United States	Keybank National Association	150	1
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 NA	700	9
United States	Wells Fargo Bank, NA	700	9

Source: Central Bank of Chile.

TABLE 6. INTERMEDIARIES USED IN 2019

Intermediary
ABN Amro Bank N.V., Amsterdam
Agricultural Bank of China
ANZ Securities Inc., New York
Australia & New Zealand Banking Group Limited, Melbourne
Australia & New Zealand Banking Group Limited, New York
Banco Bilbao Vizcaya Argentaria S.A., Madrid
Banco Santander S.A., Madrid
Bank For International Settlements, Basle
Bank of China Limited, Hong Kong
Bank of Montreal, London
The Bank of Montreal, Toronto
Bank of Nova Scotia, Canada
Bank of Nova Scotia, New York Agency
Barclays Bank Plc.
Barclays Capital Inc.
Bayerische Landesbank, Muenchen
Bayerische Landesbank, New York
BMO Capital Markets Corp.
BNP Paribas (Head Office)
BNP Paribas Securities Corp., New York
BNP Paribas U.S.A., New York
BOFA Securities Inc
Bred Banque Populaire, Paris
Caisse Centrale Desjardins, Montreal
Canadian Imperial Bank of Commerce, Toronto
China Construction Bank Corporation
China Construction Bank Corporation, London
China Construction Bank Corporation, Hong Kong
CIBC World Markets Corp.
Citibank N.A., New York
Citigroup Global Markets Inc., New York
Citigroup Global Markets Limited, London
Commerzbank, France
Commonwealth Bank of Australia, New York
Commonwealth Bank of Australia, Sydney
Credit Agricole Corporate and Investment Bank (CALYON London)
Credit Agricole Corporate and Investment Bank (CALYON New York)
Credit Agricole Corporate And Investment Bank (CALYON New York)
Credit Agricole Corporate and Investment Bank (CALYON Seoul)
Credit Suisse Securities (U.S.A) Llc., New York
Credit Suisse, New York

Continued

Intermediary
Daiwa Capital Markets America Inc.
Daiwa Securities Capital Markets Co. Ltd. Seoul
Danske Bank A/S, Copenhagen.
Danske Markets Inc.
Dbs Bank Ltd., London
Dbs Bank Ltd., Seoul
Dbs Bank Ltd., Singapore
Deutsche Bank A.G., London
Deutsche Bank Securities Inc.
DZ Bank Ag Deutsche Zentral Genossenschaftsbank, Frankfurt
Federal Reserve Bank of New York
Goldman, Sachs & Co., New York
Goldman Sachs International Bank, London
Goldman, Sachs & Co. LLC
HSBC Bank (China) Co., Ltd.
HSBC Bank PLC, London (London)
HSBC Bank U.S.A. N.A., New York.
HSBC Securities U.S.A Inc., New York
Industrial and Commercial Bank of China
ING Bank N.V., Amsterdam
DBS Bank LTD, Seoul
DBS Bank LTD, Singapore
Deutsche Bank AG London Branch
Deutsche Bank Securities Inc.
DZ Bank AG Deutsche Zentral Genossenschaftsbank, Frankfurt
Goldman Sachs International Bank, London
Goldman, Sachs & Co. LLC
HSBC Bank PLC, London
HSBC Securities (USA) Inc., New York
DBS Bank LTD, Seoul
DBS Bank LTD, Singapore
Deutsche Bank AG London Branch
Deutsche Bank Securities Inc.
DZ Bank AG Deutsche Zentral Genossenschaftsbank, Frankfurt
Goldman Sachs International Bank, London
Goldman, Sachs & Co. LLC
HSBC Bank PLC, London
HSBC Securities (USA) Inc., New York
ING Bank NV, Amsterdam
ING Bank NV, Seoul
J.P. Morgan Chase Bank N.A., New York

Continued

Intermediary
J.P. Morgan Securities Llc., New York
Jefferies International Ltd., London
Jefferies Llc.
JP Morgan Securities Plc.
JPMorgan Chase Bank, N.A. London
JPMorgan Chase Bank, N.A. Seoul
KBC Bank NV Brussels
Landesbank Baden Wurttemberg, New Yotk
Landesbank Baden Wurttemberg, Stuttgart
Merrill Lynch International
Merrill Lynch, Pierce, Fenner & Smith Incorporated
Mizuho Bank Ltd., New York
Mizuho Securities USA Inc.
Morgan Stanley & Co. International Plc., London
Morgan Stanley & Co. Llc.
MUFG Securities Americas Inc.
National Australia Bank Ltd, London
National Australia Bank Ltd., Melbourne
National Bank of Canada Financial Inc., New York
National Bank of Canada, Montreal
Natixis (Capital Markets), Paris
Natixis , New Yotk
Nomura International Plc., London
Nomura Securities International Inc., New York
Nordea Bank AB (Publ), Stockholm
Oversea-Chinese Banking Corp. Ltd. London Branch
Oversea-Chinese Banking Corp. Ltd. New York Branch
Rabobank Nederland, Utrecht
Rabobank Nederland, New York
Rbc Capital Markets Llc.
Rbs Securities Inc., Greenwich
Royal Bank Of Canada, Toronto
Scotia Capital (USA) Inc
Shangai Pudong Development Bank Co., Ltd.
Societe Generale, New York
Societe Generale, Paris
Standard Chartered Bank (China) Co., Ltd.
Standard Chartered Securities Korea Limited, Seoul
Standard Chartered Bank, London
Standard Chartered Bank, New York

Continued

Intermediary
State Street Bank and Trust Co, Boston
Sumitomo Mitsui Banking Corporation, New York
Sumitomo Mitsui Trust Bank Ltd., New York
Svenska Handelsbanken Ab (Publ), New York
TD Securities (Usa) Llc.
The Bank of New York Mellon, New York
The Bank of Nova Scotia, London
The Bank of Tokyo-Mitsubishi UFJ Ltd., New York
The Chiba Bank Ltd., New York
The Royal Bank Of Scotland Plc., London
The Toronto Dominion Bank, Toronto
Ubs A,G., London
Ubs Limited, London
Ubs Securities Llc., New York
Wells Fargo Bank N.A., San Francisco
Wells Fargo Securities, Llc.
Westpac Banking Corporation, Sydney
Westpac Banking Corporation, Wellington
Zurcher Kantonalbank, Zurich

Source: Central Bank of Chile.

Return on international reserve management

In 2019, the total return on reserve management was 5.67% measured in the currency of origin of the investments, mainly due to the generalized reduction in interest rates. Measured in U.S. dollars, the return was 5.39%, which is lower than the local currency return because of the negative exchange rate effect deriving from measuring the reserve returns in U.S. dollars (the dollar appreciated against the basket of investment currencies in the period). The return differential relative to the benchmark structure was –71 basis points base (table 7). The latter result primarily reflects the months of March and December, when the benchmarks were adjusted and a performance waiver was in place. When those two months are excluded, the return differential in 2019 was –12.1 basis points.[21]

[21]/ This result (–12.1 bp) considers two waiver periods for internal management (11–19 March and 2–31 December) and two waiver periods for external management (1–9 April and 4–12 de December).

External portfolio management program

At year-end 2019, a portion of the investment portfolio was managed by two external managers: BlackRock Institutional Trust Company N.A. and Amundi Asset Management. The firms were brought on in February and October 2016, respectively, with a mandate of US$500 million each. Both firms manage a long-term global government fixed-income mandate, with an investment structure equivalent to the internally managed portfolio.

The priority objectives of the external management program are to provide an active benchmark for the internally managed diversification portfolio, to add value to the international reserve portfolio, and to facilitate the transference of knowledge, technology, and international best practices in portfolio management.

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

(percent)

Period	USD	EUR	JPY	CHF	Other (2)	Total
2019	5.67	6.25	-0.57	5.39	6.09	-0.71
2018	1.70	1.66	0.04	-0.35	-0.32	-0.03
2017	0.77	0.62	0.15	4.17	4.06	0.11
2016	0.90	0.90	0.00	0.13	0.17	-0.04
2015	0.73	0.90	-0.17	-3.74	-3.58	-0.16
2014	1.65	1.52	0.13	-2.94	-3.14	0.21
2013	0.26	0.21	0.06	-0.71	-0.77	0.06
2012	0.66	1.01	-0.35	1.43	1.77	-0.35
2011	2.43	2.41	0.02	1.22	1.20	0.02
2010	2.10	2.19	-0.09	-0.15	-0.06	-0.09
Average	1.69	1.77	-0.08	0.45	0.54	-0.10

(1) Excluding 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, prior to that year, 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.
(3) There were significant benchmark adjustments in 2012 and 2019. The returns listed in the table do not take into account the associated waiver periods.
Source: Central Bank of Chile.

Deviations from the benchmark by the external portfolio managers is limited to an average monthly ex ante tracking error of 100 basis points, which cannot exceed 150 puntos base at any given time. Additionally, as with the internally managed portfolios, there are limits and restrictions to control credit and other risks.

Securities lending program

In the period, a securities lending program In the period, a securities lending program was maintained with the Bank's international reserve custodians. This consists in lending instruments owned by the Bank to primary dealers, who must put up collateral equivalent to 102 or 105% of the value of the instrument being loaned, as contractually established. 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. Securities lending operations are exclusively overnight, that is, the loaned securities must be returned on the next business day after the loan date, in accordance with the settlement practices of each market.

In 2019, this program generated income for the Bank equivalent to 0.34 bp of total foreign exchange reserves.

6. 2 Appendix 2: Fiscal Fund Management (ESSF and PRF)

A. Introduction.

As fiscal agent, the Central Bank of Chile manages resources in the name and on behalf of the 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 N° 20,128 on Fiscal Responsibility created the ESSF and the PRF. Under this law, the Ministry of Finance issued Executive Decree N° 1,383 (which was amended via Decree N° 1,618), whereby the Central Bank is vested with the representation of the Treasury for investing all or part of the ESSF and PRF resources, once the Bank has formally accepted the fiscal agency agreement in accordance with its Basic Constitutional Act.

C. Investment policy and objectives

The investment policy objectives for the fiscal portfolios and the associated risk-return profile reflect decisions made by the Finance Ministry. The Central Bank must manage the fiscal resources in accordance with the associated 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 Finance Ministry. The results of the fiscal portfolio management are assessed against these benchmark portfolios.

For the ESSF portfolio managed internally by the Central Bank of Chile, the benchmark portfolio established in the performance guidelines is made up of the following asset classes: bank assets;[22] treasury bills and sovereign bonds; and inflation-indexed sovereign bonds (table 1). The bank asset and treasury bill portfolios use benchmark indexes by ICE Bank of America Merrill Lynch. The sovereign bond share of the portfolio and the inflation-indexed sovereign bond portfolio are compared against selected Bloomberg Barclays indexes.

TABLE 1. BENCHMARK FOR ESSF PORTFOLIO MANAGED BY THE CBC

(percent)

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

Source: Finance Ministry.

For the PRF portfolio that is managed by the CBC, the investment policy establishes two portfolios: one that is managed internally, composed of sovereign bonds and other government-related assets plus inflation-linked sovereign bonds; and one whose management was delegated by the CBC to external portfolio managers, made up of U.S. agency mortgage-backed securities (MBS). The associated benchmark indexes are by Bloomberg Barclays (table 2).

TABLE 2. BENCHMARK FOR PRF PORTFOLIO MANAGED BY THE CBC

(percent)

Asset class	Share
Sovereign bonds and other government-related assets	67.3
Inflation-indexed sovereign bonds	21.2
U.S. agency MBS	11.5

Source: Finance Ministry.

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.

22/ Bank deposits.

Under the current guidelines, the management mandate controls the main portfolio risks through risk budgets. Specifically, the Finance Ministry established a daily ex ante tracking error[23] of 50 basis points for the ESSF and the internally managed PRF portfolios and 30 basis points for the delegated PRF portfolio (U.S. agency MBS). [24]

Additionally, the investment guidelines dictated by the Finance Ministry establish specific rules and limits on exposure, including eligibility criteria for issuers, operations, instruments, and intermediaries and rules on the treatment of derivatives (tables 4 and 5).

D. Structure of fiscal portfolios

At year-end 2019, the market value of the ESSF and PRF portfolios managed directly by the fiscal agent was US$11.2946 billion and US$5.4219 billion,[25] respectively, which is invested in line with the benchmark composition established in the current investment guidelines (table 3).

TABLE 3. PORTFOLIOS MANAGED BY THE CBC
(31 December 2019; millions of dollars)

Portfolio/Asset class	Market value (1)						Percent of total
	USD	EUR	JPY	CHF	Other	Total	
ESSF							
Bank / Treasury bills and sovereign bonds	4,575.1	2,927.2	2,443.1	919.4	n/a	10,864.7	96.2
Inflation-indexed sovereign bonds	307.5	122.3	n/a	n/a	n/a	429.8	3.8
Total	4,.882.6	3,049.5	2,443.1	919.4	n/a	11,294.6	100.0
PRF							
Sovereign bonds and government-related assets	1,115.0	941.0	835.5	13.2	748.7	3,653.4	67.4
Inflation-indexed sovereign bonds	485.6	225.9	37.4	0.0	399.7	1,148.6	21.2
U.S. agency MBS	620.0	n/a	n/a	n/a	n/a	620.0	11.4
Total	2,220.6	1,166.9	872.9	13.2	1.148.3	5,421.9	100.0

Portafolio	*Ex ante tracking error (bp)*	Risk budget (bp)
ESSF	2.0	50.0
Internal PRF	19.0	50.0
Delegated PRF (4)	12.3	30.0

(1) Includes currency forwards.

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

(3) Daily risk budget.

(4) Additionally, for the delegated PRF portfolio, the average monthly tracking error cannot exceed 20 basis points.

[23] Tracking errors are calculated in annual terms.
[24] Additionally, for the MBS share of the PRF portfolio that the Bank has delegated to external managers, the average tracking error cannot exceed 20 basis points in a calendar month.
[25] The market value of the ESSF on 31 December 2019 was US$12.2334 billion, of which US$11.2946 billion is managed internally by the Bank, while US$938.8 million is managed by external portfolio managers under an equity mandate, which are supervised directly by the Finance Ministry. The market value of the PRF at year-end 2019 was US$10.8121 billion, of which US$5.4219 billion was managed by the Bank (US$4.8020 internally and US$620.0 delegated), while US$5.3902 billion was managed by external portfolio managers under equity, corporate bond, and high-yield bond mandates, which are supervised directly by the Finance Ministry.

E. Reports

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

The Central Bank also measures the custodian bank's performance and compliance with the investment guidelines; and monitors and assesses the information provided by the custodian, using its own calculation methods based on systematically recorded information.

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

F. Management results

In 2019, the ESSF resources managed internally by the Bank generated an absolute return measured in U.S. dollars of 3.20%, which implies a positive differential return of 6.0 basis points. The PRF resources managed internally by the Bank generated an absolute return measured in U.S. dollars of 6.48%, which implies a positive differential return of 10.4 basis points relative to the benchmark performance.[26] For both portfolios, most of the absolute return is explained by the generalized reduction in interest rates in the period.

G. Fiscal agency fees

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 2019, the Finance Ministry set the annual fee at US$1,189,801.00 for the ESSF and US$1,085,958.00 for the PRF.[27] These amounts are consistent with the Central Bank's Basic Constitutional Act, which stipulates that the Bank shall not finance the Treasury. The fees paid to the fiscal agent represent 0.9 and 2.2 basis points—for the ESSF and PRF, respectively—of the average market value of the resources directly managed by the Bank in 2019.

[26] For the combined PRF resources that are managed internally by the CBC and delegated to external managers (the U.S. agency MBS portfolio), the absolute return in 2019 was 6.49%, with a differential of 8.7 basis points.

[27] The 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 do not include other costs, such as those associated with external portfolio management and custody.

TABLE 4. FINANCIAL INSTITUTIONS WITH OUTSTANDING DEPOSITS

(31 December 2019)

Institution
Australia & New Zealand Banking Group Limited
Banco Bilbao Vizcaya Argentaria S.A.
Banco Santander S.A.
Bank Hapoalim B.M.
Bank of China (Hong Kong), Ltd.
BNP Paribas
Bred Banque Populaire
China Construction Bank Corporation
Commonwealth Bank of Australia
Credit Agricole Corporate and Investment Bank
Danske Bank A/S
DekaBank Deutsche Girozentrale
DZ Bank AG
HSBC France
ING Bank NV
Landesbank Baden-Württemberg
Mizuho Bank, Ltd.
MUFG Bank, Ltd
Nykredit Bank A/S
Santander UK PLC
Société Générale
Standard Chartered Bank
Sumitomo Mitsui Banking Corporation
Sumitomo Mitsui Trust Bank, Ltd.
Svenska Handelsbanken AB (publ)
The Chiba Bank, Ltd.
The Shizuoka Bank, Ltd.

Source: Central Bank of Chile.

TABLE 5. INTERMEDIARIES USED BY THE FISCAL AGENT IN 2019

Intermediary
ABN Amro Bank N.V., Amsterdam
ANZ Securities Inc., New York
Australia & New Zealand Banking Group Limited, Melbourne
Banco Bilbao Vizcaya Argentaria S.A., Madrid
Banco Santander S.A., Madrid
Bank Hapoalim B.M., New York Branch
Bank of China Limited, Hong Kong
The Bank of Montreal, Toronto
Bank of Nova Scotia, Canada
Bank of Nova Scotia, New York Agency
Barclays Bank Plc.
Barclays Capital Inc.
BMO Capital Markets Corp.
BNP Paribas (Head Office)
BNP Paribas Securities Corp., New York
BNP Paribas U.S.A., New York
BOFA Securities Inc
Bred Banque Populaire, Paris
Canadian Imperial Bank of Commerce, Toronto
China Construction Bank Corporation, London
CIBC World Markets Corp.
Citibank N.A., New York
Citigroup Global Markets Inc., New York
Citigroup Global Markets Limited, London
Commerzbank, France
Commonwealth Bank of Australia, New York
Commonwealth Bank of Australia, Sydney
Credit Agricole Corporate And Investment Bank (Calyon New York)
Credit Agricole Corporate and Investment Bank (CALYON Seoul)
Credit Suisse Securities (U.S.A) Llc., New York
Daiwa Capital Markets America Inc.
Danske Bank A/S, Copenhagen.
Danske Markets Inc.
Dbs Bank Ltd., London
Dbs Bank Ltd., Seoul
Dbs Bank Ltd., Singapore
Dekabank Deutsche Girozentrale, Frankfurt
Deutsche Bank A.G., London
Deutsche Bank A.G., New York
Deutsche Bank Securities Inc.

Continued

Intermediary
DZ Bank Ag Deutsche Zentral Genossenschaftsbank, Frankfurt
Goldman Sachs International Bank, London
Goldman, Sachs & Co., New York
HSBC Bank Plc (All U.K. Offices), London
HSBC Bank U.S.A. N.A., New York.
HSBC Securities U.S.A Inc., New York
ING Bank N.V., Amsterdam
ING Bank N.V., Seoul
J.P. Morgan Chase Bank N.A., New York
J.P. Morgan Securities Llc., New York
Jefferies International Ltd., London
Jefferies Llc.
JP Morgan Chase Bank, N.A., London
JP Morgan Chase Bank, N.A., Seoul
JP Morgan Securities Plc.
Landesbank Baden Wurttemberg, Stuttgart
Merrill Lynch International
Mizuho Bank Ltd., New York
Mizuho Securities USA Inc.
Morgan Stanley & Co. International Plc., London
Morgan Stanley & Co. Llc.
MUFG Securities Americas Inc.
National Australia Bank Ltd., Melbourne
National Bank of Canada Financial Inc., New York
National Bank of Canada, Montreal
Natixis (Capital Markets), Paris
Nomura International Plc., London
Nomura Securities International Inc., New York
Nordea Bank AB (Publ), Helsinki
Nordea Bank AB (Publ), Stockholm
Nykredit Bank A/S, Copenhagen
Rabobank Nederland, Utrecht
Rbc Capital Markets Llc.
Rbs Securities Inc., Greenwich
Royal Bank Of Canada, London
Royal Bank Of Canada, Toronto
Skandinaviska Enskilda Banken Ab, New York
Societe Generale, New York
Societe Generale, Paris
Standard Chartered Bank, London
Standard Chartered Securities Korea Limited, Seoul

Continued

Intermediary
Standard Chartered Bank, New York
Standard Chartered Bank, Singapore
State Street Bank and Trust Co, Boston
Sumitomo Mitsui Banking Corporation, New York
Sumitomo Mitsui Trust Bank Ltd., New York
Svenska Handelsbanken Ab (Publ), New York
TD Securities (Usa) Llc.
The Bank of New York Mellon, New York
The Bank of Nova Scotia, London
The Bank of Tokyo-Mitsubishi UFJ Ltd., New York
The Chiba Bank Ltd., London
The Chiba Bank Ltd., New York
The Royal Bank Of Scotland Plc., London
The Toronto Dominion Bank, London
The Toronto Dominion Bank, Toronto
Ubs A,G., London
Ubs Limited, London
Ubs Securities Llc., New York
Wells Fargo Bank N.A., San Francisco
Wells Fargo Securities, Llc.
Westpac Banking Corporation, Sydney
Westpac Banking Corporation, Wellington
Zurcher Kantonalbank, Zurich

6.3 Appendix 3: GRI

Category	Type	Code	Content	Page
GRI 102: General Disclosures 2016	Organizational profile	Disclosure 102-1	Name of the organization	Inside front
		Disclosure 102-2	Activities, brands, products, and services	22
		Disclosure 102-3	Location of headquarters	Inside front
		Disclosure 102-4	Location of operations	Chile
		Disclosure 102-5	Ownership and legal form	Inside front
		Disclosure 102-6	Markets served	Chile
		Disclosure 102-7	Scale of organizations	12, 13
		Disclosure 102-8	Information on employees and other workers	95
		Disclosure 102-9	Supply chain	103
		Disclosure 102-10	Significant changes to the organization and its supply chain	14
		Disclosure 102-11	Precautionary Principle or approach	Not
	Strategy	Disclosure 102-14	Statement from senior decision-makers	6, 10
		Disclosure 102-15	Key impacts, risks, and opportunities	42
	Ethics and integrity	Disclosure 102-16	Values, principles, standards, and norms of behavior	20
		Disclosure 102-17	Mechanisms for advice and concerns about ethics	47
	Governance	Disclosure 102-18	Governance structure	31
		Disclosure 102-19	Delegating authority	37
		Disclosure 102-20	Executive-level responsibility for economic, environmental, and social topics	24
		Disclosure 102-22	Composition of the highest governance body and its committees	31
		Disclosure 102-23	Chair of the highest governance body	31
		Disclosure 102-24	Nominating and selecting the highest governance body	31
		Disclosure 102-25	Conflicts of interest	47
		Disclosure 102-26	Role of highest governance body in setting purpose, values, and strategy	24

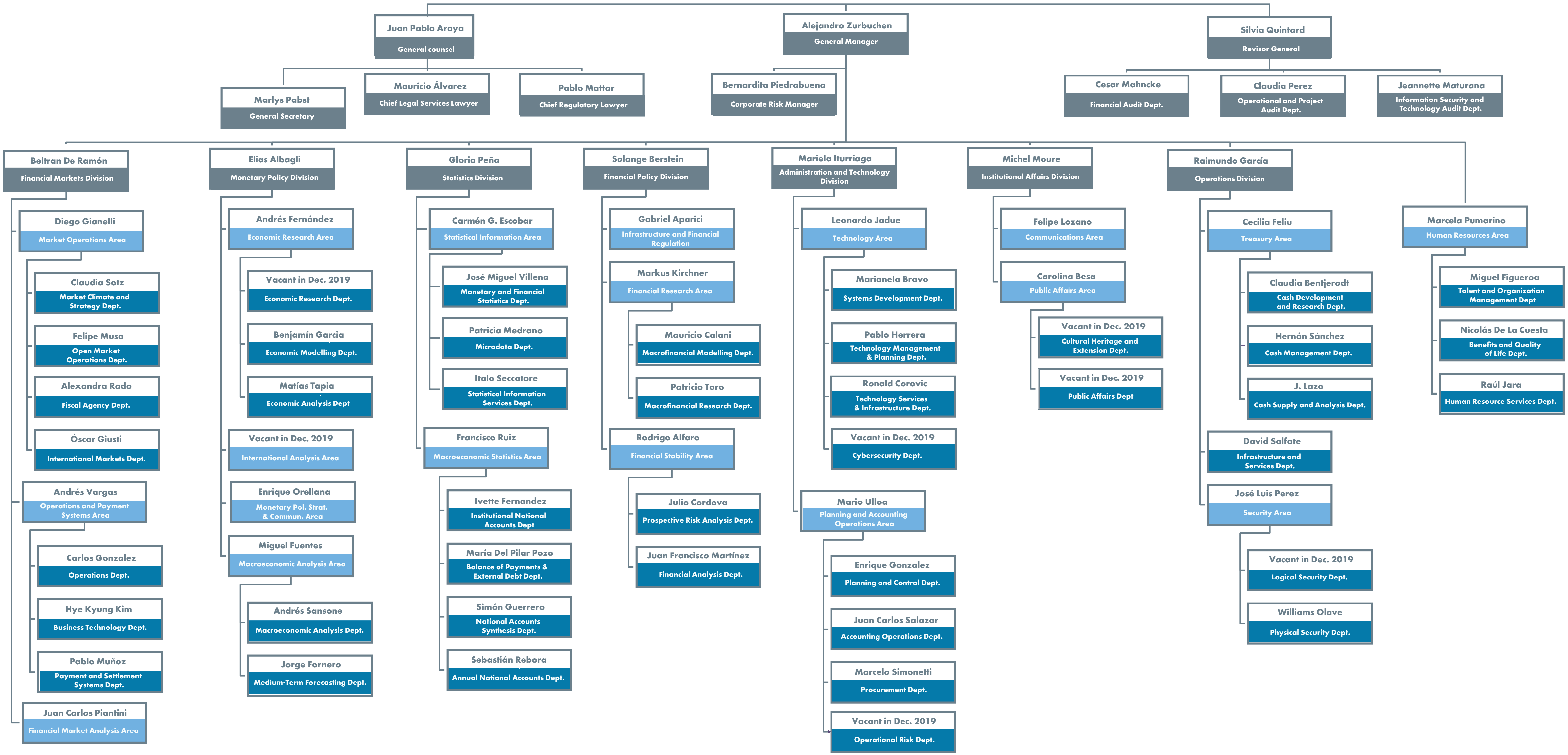
GRI 102: General Disclosures 2016	Governance	Disclosure 102-29	Identifying and managing economic, environmental, and social impacts	24
		Disclosure 102-32	Highest governance body's role in sustainability reporting	111
		Disclosure 102-35	Remuneration policies	31
	Stakeholder engagement	Disclosure 102-40	List of stakeholder groups	22
		Disclosure 102-41	Collective bargaining agreements	95
		Disclosure 102-42	Identifying and selecting stakeholder groups	49
		Disclosure 102-43	Approach to stakeholder engagement	49
		Disclosure 102-44	Key topics and concerns raised	111
	Reporting practice	Disclosure 102-45	Entities included in the consolidated financial statements	Central Bank of Chile
		Disclosure 102-46	Defining report content and topic boundaries	111
		Disclosure 102-47	List of material topics	111
		Disclosure 102-48	Restatements of information	111
		Disclosure 102-49	Changes in reporting	111
		Disclosure 102-50	Reporting period	Inside front
		Disclosure 102-51	Date of most recent report	111
		Disclosure 102-52	Reporting cycle	Annual
		Disclosure 102-53	Contact for questions regarding the report	Inside front
		Disclosure 102-54	Claims for reporting in accordance with GRI standards	111
		Disclosure 102-55	GRI content index	138
		Disclosure 102-56	External assurance	No external assurance
Material topic				
Statistics on macroeconomic and financial climate change variables				
GRI 103: Management Approach	Management approach	Disclosure 103-1	Explanation of the material topic and its boundary	112
		Disclosure 103-2	The management approach and its components	112
		Disclosure 103-3	Evaluation of the management approach	112
Own indicator	Own indicator	CBC 1	Carbon footprint for Chile	63
Monitoring of financial risks related to climate change				
GRI 103: Management Approach	Management approach	Disclosure 103-1	Explanation of the material topic and its boundary	112
		Disclosure 103-2	The management approach and its components	112
		Disclosure 103-3	Evaluation of the management approach	112
Own indicator	Own indicator	CBC 2	Participation in climate change training workshops, conferences, etc.	64

Analysis of macroeconomic variables related to climate change				
GRI 103: Management Approach	Management approach	Disclosure 103-1	Explanation of the material topic and its boundary	112
		Disclosure 103-2	The management approach and its components	112
		Disclosure 103-3	Evaluation of the management approach	112
Own indicator	Own indicator	CBC 3	Analysis of macroeconomic variables related to climate change	64
Financial education				
GRI 103: Management Approach 2016	Management approach	Disclosure 103-1	Explanation of the material topic and its boundary	112
		Disclosure 103-2	The management approach and its components	112
		Disclosure 103-3	Evaluation of the management approach	112
Own indicator	Own indicator	CBC 4	Financial education projects	70
Generation of financial information				
GRI 103: Management Approach 2016	Management approach	Disclosure 103-1	Explanation of the material topic and its boundary	112
		Disclosure 103-2	The management approach and its components	112
		Disclosure 103-3	Evaluation of the management approach	112
Own indicator	Own indicator	CBC 5	Citations and downloads of the Household Financial Survey	85
Development of sustainability competencies				
GRI 103: Management Approach 2016	Management approach	Disclosure 103-1	Explanation of the material topic and its boundary	112
		Disclosure 103-2	The management approach and its components	112
		Disclosure 103-3	Evaluation of the management approach	112
GRI 405: Diversity and Equal Opportunity 2016	Diversity and equal opportunity	Disclosure 405-1	Diversity of governance bodies and employees	96
GRI 404: Training and Education 2016	Training and education	Disclosure 404-1	Average hours of training per year per employee	100
		Disclosure 404-2	Programs for upgrading employee skills and transition assistance programs	100
		Disclosure 404-3	Percentage of employees receiving regular performance and career development reviews	95
Own indicator	Own indicator	CBC 6	Internal sustainability training	100

Sustainability leadership				
GRI 103: Management Approach 2016	Management approach	Disclosure 103-1	Explanation of the material topic and its boundary	112
		Disclosure 103-2	The management approach and its components	112
		Disclosure 103-3	Evaluation of the management approach	112
Own indicator	Own indicator	CBC 7	Leadership model	98
Collaborative technology and infrastructure				
GRI 103: Management Approach 2016	Management approach	Disclosure 103-1	Explanation of the material topic and its boundary	112
		Disclosure 103-2	The management approach and its components	112
		Disclosure 103-3	Evaluation of the management approach	112
Own indicator	Own indicator	CBC 8	Square meters of collaborative workspace	98
Own indicator	Own indicator	CBC 9	Initiatives to invest in and improve collaborative workspace	98
Energy efficiency and emissions reduction				
GRI 103: Management Approach 2016	Management approach	Disclosure 103-1	Explanation of the material topic and its boundary	112
		Disclosure 103-2	The management approach and its components	112
		Disclosure 103-3	Evaluation of the management approach	112
GRI 306: Energy 2016	Energy	Disclosure 302-1	Energy consumption within the organization	105
		Disclosure 302-3	Energy intensity	106
		Disclosure 302-4	Reduction of energy consumption	105
Own indicator	Own indicator	CBC 10	LED lighting in all buildings	105
Responsible organic and inorganic waste management				
GRI 103: Management Approach 2016	Management approach	Disclosure 103-1	Explanation of the material topic and its boundary	112
		Disclosure 103-2	The management approach and its components	112
		Disclosure 103-3	Evaluation of the management approach	112
GRI 306: Effluents and Waste 2016	Effluents and waste	Disclosure 306-2	Waste by type and disposal method	107
		Disclosure 306-4	Transport of hazardous waste	107
Cash life cycle management				
GRI 103: Management Approach 2016	Management approach	Disclosure 103-1	Explanation of the material topic and its boundary	112
		Disclosure 103-2	The management approach and its components	112
		Disclosure 103-3	Evaluation of the management approach	112

Own indicator	Own indicator	CBC 11	Disposal method for retired banknotes and coins	91
Own indicator	Own indicator	CBC 12	Recycle-reuse projects for retired banknotes and coins	91
Reduction of input materials				
GRI 103: Management Approach 2016	Management approach	Disclosure 103-1	Explanation of the material topic and its boundary	112
		Disclosure 103-2	The management approach and its components	112
		Disclosure 103-3	Evaluation of the management approach	112
Own indicator	Own indicator	CBC 13	Reduction and/or savings of materials purchased relative to the previous year	91
Other indicators				
GRI 414: Supplier Social Assessment 2016	Supplier social assessment	Disclosure 414-1	New suppliers that were screened using social criteria	103
GRI 204: Procurement Practices 2016	Procurement practices	Disclosure 204-1	Proportion of spending on local suppliers	103

6.4 ORGANIGRAMA DICIEMBRE 2019



CHAPTER 7

FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

Financial Statements as of 31 December 2019 and 2018

STATEMENT OF FINANCIAL POSITION

31 December 2019 and 2018

Assets	Note	2019 CLP M	2018 MM$
Foreign assets		30,451,826.0	27,892,346.3
Reserve assets:	7a	30,273,974.9	27,730,639.6
Cash	6	377,298.7	510,999.4
Investment portfolio	7c	29,019,811.9	26,433,660.9
Monetary gold	7d	8,950.7	7,055.5
Special drawing rights (SDR)	7e	555,267.3	522,497.0
IMF reserve position	7f	311,964.9	255,006.6
Other assets		681.4	1,420.2
Other foreign assets:		177,851.1	161,706.7
IDB shares and contributions	8a	97,976.9	91,538.7
BIS shares	8b	79,874.2	70,168.0
Domestic assets		2,042,720.6	617,048.6
Domestic loans:	9	1,569,551.4	160,258.1
Loans to banks and financial institutions		1,569,551.4	160,258.1
Operations under specific legal regulations:		319,349.1	400,351.1
Subordinated debt loan to financial institutions (Laws N°18,401 and 19,396)	10a	—	88,567.2
Treasury transfers (Law N°18,401)	10b	319,349.1	311,783.9
Other asset accounts:		153,820.1	56,439.4
Property, plant, and equipment and intangible assets	11–12	47,135.8	43,378.5
Other assets	13	106,684.3	13,060.9
Total assets		32,494,546.6	28,509,394.9

The accompanying notes 1 to 30 are an integral part of these financial statements

STATEMENT OF FINANCIAL POSITION (continued)

31 December 2019 and 2018

Liabilities and equity	Note	2019 CLP M	2018 CLP M
Foreign liabilities	14	905,061.7	849,825.0
Accounts with international organizations		62,827.7	58,012.6
SDR allocations		842,230.5	791,809.5
Reciprocal credit agreements		3.5	2.9
Domestic liabilities		33,152,244.9	31,419,899.0
Monetary base:	15	12,335,260.5	11,295,937.6
Banknotes and coins in circulation		10,753,789.7	9,475,030.3
Deposits from financial institutions (domestic currency)		1,581,470.8	1,820,907.3
Deposits and obligations:	16	6,903,965.1	6,219,183.6
Deposits and obligations with the Treasury		715,807.0	869,433.3
Other deposits and obligations		6,188,158.1	5,349,750.3
Securities issued by the Central Bank of Chile:	17	13,885,795.0	13,884,907.1
Central Bank discounted promissory notes (PDBC)		9,119,977.7	6,449,710.0
Central Bank bonds in pesos (BCP)		2,444,523.9	3,079,209.5
Central Bank bonds in UF (BCU)		2,295,225.8	4,309,285.2
Indexed coupons (CERO) in UF		16,371.3	32,735.7
Indexed promissory notes payable in coupons (PRC)		9,688.5	13,958.9
Other		7.8	7.8
Other liability accounts:		27,224.3	19,870.7
Provisions	18	19,299.7	19,678.1
Other securities		7,924.6	192.6
Equity		(1,562,760.0)	(3,760,329.1)
Capital	19	(3,824,746.7)	(5,711,088.2)
Other reserves		197,475.6	64,417.6
Retained earnings		2,064,511.1	1,886,341.5
Total liabilities and equity		32,494,546.6	28,509,394.9

The accompanying notes 1 to 30 are an integral part of these financial statements

STATEMENT OF COMPREHENSIVE INCOME

31 December 2019 and 2018

	Note	2019 CLP M	2018 CLP M
Net gain from international reserves	20	1,440,460.8	306,703.1
Interest income (expense):		411,215.5	384,111.5
Interest income		411,248.9	384,132.8
Interest expense		(33.4)	(21.3)
Fee and commission income (expense):		(1,036.8)	(400.3)
Income from fees and commissions		1,549.0	1,704.1
Expense from fees and commissions		(2,585.8)	(2,104.4)
Income from sale of investments:		1,044,918.1	(86,708.1)
Income from sale of investments		1,134,397.9	32,531.6
Expense from sale of investments		(89,479.8)	(119,239.7)
Other income (expense):		(14,636.0)	9,700.0
Other income (expense) net of investments		(14,636.0)	9,700.0
Net gain (loss) from other foreign transactions	21	(7,640.1)	(6,713.0)
Interest expense:		(8,370.0)	(7,377.5)
Interest expense		(8,370.0)	(7,377.5)
Other income (expense):		729.9	664.5
Other income (expense)		729.9	664.5
Net gain (loss) from domestic transactions	22	(1,044,386.0)	(668,815.9)
Interest and indexation income (expense):		(608,058.5)	(672,740.7)
Interest and indexation income		14,380.0	19,561.3
Interest and indexation expense		(622,438.5)	(692,302.0)
Other income (expense):		(436,327.5)	3,924.8
Other income (expense)		(436,327.5)	3,924.8
Net gain (loss) from foreign exchange transactions:	23	1,763,552.6	2,340,128.0
Gain from foreign exchange transactions		7,755,825.9	4,976,167.2
Loss from foreign exchange transactions		(5,992,273.3)	(2,636,039.2)

The accompanying notes 1 to 30 are an integral part of these financial statements

STATEMENT OF COMPREHENSIVE INCOME (continued)

31 December 2019 and 2018

	Note	2019 CLP M	2018 CLP M
Issuance, distribution, and processing costs:		(21,016.9)	(23,242.4)
Issuance, distribution, and processing costs	24	(21,016.9)	(23,242.4)
Personnel and administrative expenses:		(64,355.1)	(57,664.2)
Personnel expenses		(41,929.3)	(37,317.3)
Administrative expenses		(20,950.5)	(18,493.1)
Post-employment benefit costs	18	(1,475.3)	(1,853.8)
Other (expenses) income:		(2,104.2)	(4,054.1)
Depreciation and amortization	11–12	(3,376.3)	(2,766.0)
Taxes and contributions		(684.3)	(668.0)
Other		1,956.4	(620.1)
Profit for the year		2,064,511.1	1,886,341.5
Other comprehensive income		133,058.0	115,831.3
Other comprehensive income that will not be reclassified to profit or loss:		6,798.2	3,151.1
Fair value adjustments to equity instruments		7,093.8	3,105.1
Actuarial gain (loss) on post-employment benefit provisions		(295.6)	46.0
Other comprehensive income that will be reclassified to profit or loss:		126,259.8	112,680.1
Fair value adjustments to debt instruments		126,259.8	112,680.1
Total profit for the year		2,197,569.1	2,002,172.7

The accompanying notes 1 to 30 are an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY

for the years ended on31 December 2019 and 2018

	Capital CLP M	Actuarial gain or loss reserve CLP M	Fair value reserve CLP M	Retained earnings CLP M	Total equity CLP M
Balance on 1 January 2018	(4,216,670.8)	25.7	17,076.1	(1,583,767.5)	(5,783,336.5)
Impact of the adoption of IFRS 9	—	—	(68,515.4)	89,350.1	20,834.7
Restated balance on 1 January 2018	(4,216,670.8)	25.7	(51,439.3)	(1,494,417.4)	(5,762,501.8)
Total comprehensive income in the year:					
Profit for the year	—	—	—	1,886,341.5	1,886,341.5
Other comprehensive income	—	46.0	115,785.2	—	115,831.2
Total comprehensive income in the year	—	46.0	115,785.2	1,886,341.5	2,002,172.7
Capitalization in 2017 deficit	(1,494,417.4)	—	—	1,494,417.4	—
Balance on 31 December 2018	(5,711,088.2)	71.7	64,345.9	1,886,341.5	(3,760,329.1)
Balance on 1 January 2019	(5,711,088.2)	71.7	64,345.9	1,886,341.5	(3,760,329.1)
Total comprehensive income in the year:					
Profit for the year	—	—	—	2,064,511.1	2,064,511.1
Other comprehensive income	—	(295.6)	133,353.6	—	133,058.0
Total comprehensive income in the year	—	(295.6)	133,353.6	2,064,511.1	2,197,569.1
Capitalization of 2018 income	1,886,341.5	—	—	(1,886,341.5)	—
Balance on 31 December 2019	(3,824,746.7)	(223.9)	197,699.5	2,064,511.1	(1,562,760.0)

The accompanying notes 1 to 30 are an integral part of these financial statements

STATEMENT OF CASH FLOWS

for the years ended on31 December 2019 and 2018

	Nota	2019 CLP M	2018 CLP M
Cash flows from operating activities			
International reserves:		706,574.3	(1,034,724.4)
Investment portfolio sales (purchases)		208,171.2	(1,371,499.5)
Interest and commissions received on reserves		499,442.2	338,585.3
Interest paid on foreign transactions		(29.1)	(18.4)
Taxes paid on reserve investments		(1,000.3)	(3,034.9)
(Payments) receipts from reciprocal credit agreements		(9.5)	1,215.2
Interest received from reciprocal credit agreements		—	29.6
Interest paid for reciprocal credit agreements		(0.2)	(1.7)
Domestic assets:		(1,314,812.7)	296,233.2
(Disbursements) receipts from loans to banks and financial institutions		(1,407,400.7)	142,585.9
Interest and indexation received from loans to banks and financial institutions		2,288.1	717.1
Cash receipts from subordinated debt of financial institutions		52,703.7	88,907.1
Interest and indexation received from subordinated debt		37,596.2	64,023.1
Domestic liabilities:		(698,689.6)	144,172.1
(Decrease) from notes issued		(69,793.5)	(1,208,454.4)
Interest and indexation paid on notes issued		(988,492.4)	(342,004.0)
(Decrease) increase from deposits and obligations in domestic currency		(766,924.0)	933,572.7
Interest and indexation paid on deposits and obligations		(54,369.3)	(81,172.9)
Increase from deposits and obligations in foreign currency		1,180,889.6	842,230.7
Other cash flows:		(119,129.9)	(55,989.2)
Payment for goods and services		(93,967.3)	(82,056.4)
Net cash inflows (outflows) from currency arbitrage		(31,871.1)	14,141.1
Fiscal agency fees and other income		4,249.1	3,853.6
Flows with international organizations		2,459.4	8,072.5
Net cash inflows (outflows) from operating activities		(1,426,057.9)	(650,308.3)

The accompanying notes 1 to 30 are an integral part of these financial statements

STATEMENT OF CASH FLOWS (continued)

for the years ended on31 December 2019 and 2018

	Note	2019 CLP M	2018 CLP M
Cash flows from investing activities:			
Outflows, IMF		(36,614.2)	(104,681.1)
Dividends received, BIS	8b	695.8	642.4
Proceeds from the sale of property, plant, and equipment		83.8	3.9
Purchase of property, plant, and equipment	11	(6,502.4)	(6,319.7)
Purchase of intangible assets	12	(687.3)	(2,075.4)
Net inflows (outflows) from investing activities		**(43,024.3)**	**(112,429.9)**
Cash flows from financing activities:			
Net increase in banknotes and coins in circulation		1,278,759.4	504,746.5
Net inflows (outflows) from financing activities		**1,278,759.4**	**504,746.5**
Change in cash and cash equivalents in the year		**(190,322.8)**	**(257,991.7)**
Exchange rate effect		56,383.7	47,372.4
Cash and cash equivalents on 01 January		511,396.4	722,015.7
Cash and cash equivalents on 31 December		**377,457.3**	**511,396.4**

The accompanying notes 1 to 30 are an integral part of these financial statements

Notes to the Financial Statements

31 December 2019 and 2018

Note 1
Incorporation and purpose

The Central Bank of Chile, henceforth the Central Bank or the Bank, was created on 22 August 1925 by Decree Law N°486. It is constitutionally established as an independent technical institution with legal personality, its own equity, and indefinite duration, in accordance with 108 and 109 of the Constitution of Chile, and it is governed by its Basic Constitutional Act.

The Central Bank's objective is to safeguard the stability of the currency and the normal functioning of internal and external payments.

To meet this objective, the Bank is tasked with regulating the amount of money and credit in circulation, executing credit and foreign exchange transactions, and dictating monetary, credit, financial, and foreign exchange regulations.

The Bank also holds the exclusive authority to print banknotes and mint coins that circulate as legal tender throughout the territory of the Republic of Chile.

The Bank is domiciled in Santiago, Chile, and its main offices are located at 1180 Agustinas Street.

Note 2
Summary of significant accounting policies

(a) Bases of preparation

These financial statements have been prepared following the policies approved by the Board of the Central Bank, pursuant to Resolutions 1456-01 of 15 January 2009, 1519-01 of 14 January 2010, 1867-01 of 20 November 2014, and 2205-02 of 24 January 2019, with the favorable assessment of the Superintendence of Banks and Financial Institutions, now the Financial Market Commission, as stipulated in Article 75 of the Bank's Basic Constitutional

Act. The policies approved by the Board are in line with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (ASB).

The presentation of these financial statements is based on an economic and accounting framework that fairly reflects the financial position of the Central Bank of Chile, while also facilitating the economic analysis of Central Bank operations by clearly identifying whether they are undertaken by domestic or foreign agents. From this information, it is possible to determine the Central Bank of Chile's share of the domestic supply of monetary and credit assets and the related effects on the Central Bank of Chile's net foreign creditor position. For this reason, the economic concepts of international reserves and the monetary base are reported under the items reserve assets and monetary base liabilities, respectively.

(b) Basis of accounting and measurement focus

These financial statements are prepared on an accrual accounting basis, except for cash flow information. The measurement focus is historical cost, with the exception of transactions with financial instruments recorded at fair value through profit or loss, which are measured using fair value as a reference.

(c) Functional and presentation currency

Because the Central Bank's main objective is to safeguard the stability of the currency, open market operations play a significant role in the development of monetary policy, and the Bank's main activity is the issuance of banknotes and coins. Consequently, the Chilean peso has been defined as the financial statement's functional and presentation currency. The figures reported in the statements are stated in millions of Chilean pesos (CLP), while the figures in these notes are stated in either millions of Chilean pesos or millions of U.S. dollars (USD), as applicable, rounded to the nearest decimal.

(d) Transactions in foreign currency and foreign currency translation

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

(i) U.S. dollars are converted to Chilean pesos at the closing date using the "observed" U.S. dollar exchange rate, as described in Article 44 of the Basic Constitutional Act governing the Central Bank of Chile and Nº 6 of Chapter I "General Provisions" of the Compendium of Foreign Exchange Regulations.

(ii) Special drawing rights (SDR) are adjusted at the exchange rate for each business day in the month, reported by the Central Bank of Chile, except for the last business day of the month, when the exchange rate reported by the International Monetary Fund (IMF) is used.

(iii) The translation of foreign currencies other than the U.S. dollar is performed using the current exchange rates on the presentation date, which are always based on the closing observed U.S. dollar exchange rate. At year-end 2019, the exchange rates reported by Bloomberg Generic (BGN) on 31 December at 21:15 hours via Data License were used (at year-end 2018 the exchange rates reported on the Bank's website were used).

(iv) Assets and liabilities stated in Chilean minted gold are valued at the morning London Gold Fixing price (in U.S. dollars per fine troy ounce) on the closing business day of the financial statements.

The results from the purchase and sale of foreign currency, as well as differences arising from the updating of foreign exchange positions to reflect exchange rate fluctuations vis-à-vis the Chilean peso, are recorded as profits or losses for the year.

The main exchange rates used as of year-end 2013 and 2012 are as follows:

	2019 pesos	2018 pesos
United States dollar (observed)	744.62	695.69
Euro	834.96	795.89
Canadian dollar	573.14	509.74
Australian dollar	522.43	488.58
Yuan	106.94	101.18
Pound sterling	987.56	880.06
Special drawing rights (SDR)	1,029.68	967.56

(e) Statement of cash flows

The statement of cash flows was prepared using the direct method, taking the following factors into account:

(i) Cash flows: Cash and cash equivalents inflows and outflows. Cash equivalents include deposits in foreign banks, cash balances in foreign currency, and deposits in national and foreign currency held by the Central Bank in in correspondent banks.

(ii) Operating activities: Normal activities carried out by the Central Bank with the exception of issuance, which is classified as a financing activity.

(iii) Investing activities: The acquisition, sale, or disposal by other means of long-term assets and other investments not included in cash and cash equivalents.

(f) Financial assets and liabilities

(i) Initial recognition and measurement

Financial assets and liabilities are recognized on the statement of financial position if and only if they become a part of the contractual provisions of the instrument in question. Financial assets and liabilities are initially measured at fair value, including, in the case of a financial asset or liability not recognized at fair value through profit or loss, the transaction costs that are directly attributable to the acquisition.

Starting in 2019, all conventional (normal) purchases and sales of financial assets (investment portfolio) are recognized and derecognized based on the trade date. Normal purchases and sales are those that require the delivery of the financial asset within a period that is, in general, either regulated or subject to established convention in the corresponding market.

(ii) Derecognition

Financial assets are derecognized when the contractual rights to receive the cash flows from the asset expire, or when the rights to the contractual cash flows are transferred in a transaction in which essentially all of the risks and rewards of ownership are passed on and control over the transferred assets is surrendered.

The Bank derecognizes financial liabilities when the obligation specified in the contract is discharged or expires.

(iii) Offsetting

Financial assets and liabilities are offset, so the statement of financial position presents the net amount when the Bank has a legal right to offset the amounts and intends to settle the asset and liability simultaneously on a net basis.

(iv) Classification and subsequent measurement

Financial assets

The bank classifies its financial assets on the basis of its business model for financial asset management and the contractual cash flow characteristics of the assets. In the initial recognition, a financial asset is classified as measured at:

- Amortized cost (CA).
- Fair value through other comprehensive income (FVOCI).
- Fair value through profit or loss (FVTPL).

Financial assets are not reclassified after their initial recognition, unless the Bank changes its business model, in which case all the affected financial assets are reclassified prospectively on the date of the reclassification.

The definition of each classification is as follows:

(a) Amortized cost (AC): A financial asset is measured at amortized cost if the following two conditions are met:

- The financial asset is carried under a held-to maturity business model, with the intention of collecting the associated contractual cash flows; and
- The contractual terms of the financial asset give rise, on specified dates, to cash flows that correspond solely to principal and interest payments.

These assets are measured at amortized cost using the effective interest method. The amortized cost is subsequently reduced for impairment losses. Interest revenue, foreign currency gains or losses, and impairment losses are recognized in profit or loss. Any gain or loss from the sale of a financial asset is recognized in profit or loss.

(b) Fair value through other comprehensive income (FVOCI): The following two conditions must be met:

• The financial asset is carried under an available-for-sale business model with the intention of collecting the associated contractual cash flows and selling financial assets; and

• The cash flows correspond solely to principal and interest payments.

These assets are subsequently measured at fair value. Interest revenue calculated through the effective interest method, gains or losses from foreign exchange transactions, and impairment losses are recognized in profit or loss. Other net gains or losses are recognized in other comprehensive income (fair value adjustments). Any gain or loss from the sale of a financial asset is recognized in profit or loss.

At initial recognition of an investment in an equity instrument that is not held for trading, the Bank may make an irrevocable choice to present subsequent changes in fair value in other comprehensive income. This choice is made separately for each investment.

(c) Fair value through profit or loss (FVTPL): Residual category for assets that meet the above criteria.

These assets are subsequently measured at fair value. Net gains or losses, including any income from interest or dividends, are recognized in profit or loss.

Financial liabilities

The Bank classifies and measures all its financial liabilities at amortized cost, using the effective interest method, with the exception of derivatives, which are measured at fair value.

(V) Business model assessment

The Bank performs an assessment, at the portfolio level, of the business model under which it holds its financial assets. This assessment reflects how the investments are managed. The information considered in this assessment includes the following:

- The policies and objectives established in the investment portfolio and their operation in practice. These policies and objectives include whether the Bank's strategy is focused on collecting interest revenue, maintaining an interest yield profile, coordinating the duration of financial investments and the duration of liabilities and expected cash outflows, or obtaining cash flows from the sale of those assets.

- How the Bank assesses the performance of the investment portfolio and how this is reported to the Bank's key management personnel.

- The risks affecting the performance of the business model and investments held, and how these risks are managed.

- The frequency, value, and timing of sales of financial instruments in the portfolio in prior periods, the rationale for those sales, and expectations on future sales.

(vi) Assessment of whether contractual cash flows correspond solely to principal and interest payments

For the purposes of this assessment, principal is defined as the fair value of the financial asset at initial recognition. Interest is defined as the compensation for the time value of money, the credit risk associated with the outstanding principal in a particular period of time, and other basic lending risks and costs (e.g., liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows correspond solely to principal and interest payments, the Bank considers the instrument's contractual terms, based on the currency in which the asset is denominated. This includes assessing whether a financial asset has a contractual feature that could change the timing or amount of the contractual cash flows so that it would not meet this condition. In performing this assessment, the Bank considers the following:

- Contingent events that could change the amount or timing of cash flows;
- Terms that may adjust the contractual coupon, including variable rates;
- Prepayment and extension features; and
- Terms limiting the Bank's right to cash flows from specific assets.

(vii) Derivative financial instruments

Financial derivative contracts are initially recognized on the statement of financial position at fair value on the initial contract date.

In the international reserves, derivative contracts are used to hedge the investment portfolio's risk exposure (currency and interest rate risk), and not specific assets. In open market operations, derivative contracts are used to intervene in the foreign exchange market.

The Bank does not use accounting hedges. Thus, derivative contracts are initially classified as held-for-trading instruments (measured at fair value through profit or loss).

(viii) Securities lending

The Bank has a securities lending program with custodian banks for the international reserves. This program consists in the overnight lending of securities owned by the Bank to primary dealers, who are required to constitute collateral higher than the amount of the security being loaned. The loaned securities are not derecognized from the statement of financial position, and they are controlled in off-balance accounts. Income from securities lending is recognized as a commission (see note 20).

(ix) Investment in equity instruments

The Bank has chosen the irrevocable option of presenting in other comprehensive income the subsequent changes in the fair values of equity investments, within the scope of IFRS 9, which are not held for trading.

These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains or losses are recognized in other comprehensive income and are never reclassified in profit or loss.

(g) Repo operations

Credit instruments that are purchased under repurchase (repo) agreements (liquidity injection operations) are classified and measured at amortized cost at the effective interest rate (under Loans to banks and financial institutions). For these transactions, the Bank recognizes the cash disbursement and constitutes a right (asset), initially measured at the agreed price or reimbursement amount, which relates to its fair value. Collateral received (securities purchased) is not recognized in the statement of financial position.

(h) Cash and cash equivalents

For the statements of financial position and cash flows, the Bank defines cash and cash equivalents as cash balances in foreign correspondent banks, current accounts with external portfolio managers, cash balances in foreign currency, and domestic correspondent bank deposits.

(i) Monetary and non-monetary gold

Investments in monetary gold refer to the gold held by monetary authorities as reserve assets (central banks). The Central Bank believes that the most appropriate treatment of this type of asset, following the hierarchy established by IFRS, derives from the application of the Conceptual Framework for Financial Reporting issued by the IASB.

Consequently, investments in monetary gold are initially recognized at their fair value. Subsequent to initial recognition, gains or losses from changes in fair value, measured by prices on the London Metal Exchange, are directly recognized in the statement of income.

Non-monetary gold is included as part of artistic and/or cultural heritage assets and is measured on a historical cost basis.

(j) Property, plant, and equipment and intangible assets

Property, plant, and equipment is valued at acquisition cost and is presented net of accumulated depreciation and any accumulated impairment losses. At the end of the asset's useful life, it is presented at its residual value, based on reference prices in the market. Depreciation is calculated on a straight-line basis.

Intangible assets are valued at acquisition cost and are presented net of accumulated depreciation and any accumulated impairment losses. Amortization is calculated on a straight-line basis.

Depreciation and amortization for 2019 and 2018 have been calculated using the following useful life estimates:

	Years	
	2019	2018
Buildings	50–80	50–80
Premises	10–20	10–20
Furniture and other equipment *	3–10	5–10
Computer equipment	3–5	3–5
Vehicles	5	5
Intangible assets	5	5

*The useful life of other equipment reflects with the addition of new goods with a shorter useful life than in the previous year, resulting in a wider range. This did not have a retroactive effect on the figures in the statement of financial position.

(k) Artistic and/or cultural heritage assets

The IFRS do not establish a specific accounting treatment for artistic and/or cultural heritage assets. Therefore, following the hierarchy established in the IFRS, the most appropriate treatment is the application of International Public Sector Accounting Standards (IPSAS), which do address heritage assets.

Under the acquisition method, the initial cost for historical banknote and coin collections and works of art correspond to: (i) the acquisition cost when the asset is purchased; or (ii) the amount of the donation when the asset is donated or one peso when the cost is not reliable. Artistic and/or cultural heritage assets for non-operating use are not subject to depreciation and are presented under the heading Domestic assets, in the Other assets account.

(l) Leases

The Central Bank does not lease out equipment, real estate, or any other of its assets to third parties.

Policy applicable on 1 January 2019:

A contract is, or contains, a lease if it transfers the right to use a specified asset for a period of time in exchange for compensation.

On the start date of the lease contract, a right-of-use asset is created for the leased good at cost, which includes the initial measure of the lease liability plus other disbursements made, with the exception of short-term leases and leases where the underlying asset is of low value, which are recognized directly in profit or loss.

The amount of the lease liability is measured at the present value of future lease payments that have not been paid on that date, which are discounted using the Bank's incremental financing interest rate.

The Bank has chosen not to recognize right-of-use assets and lease liabilities with a term of 12 months or less and with low-value assets. The Bank recognizes the payments associated with these leases as an expense on a straight-line basis during the term of the lease contract.

Policy applicable before 1 January 2019:

For contracts signed before 1 January 2019, the Bank only had operating lease contracts, which implied recognizing the associated lease payments as a straight-line expense during the term of the lease contract.

(m) Impairment of financial assets

Financial assets

The Bank recognizes a loss allowance account for expected credit losses on:

- Financial assets measured at amortized cost (AC);
- Debt investments measures at fair value through other comprehensive income (FVOCI).

The Bank measures the loss allowance as the total expected credit loss over the life of the asset, with the exception of the following assets, where the loss allowance is measured as the expected credit loss over 12 months:

- Debt instruments determined to have a low credit rating on the reporting date; and
- Other investment instruments for which credit risk (that is, the risk of default during the expected life of the financial instrument) has not increased significantly since the initial recognition.

In determining whether the credit risk on a financial instrument has increased significantly from initial recognition in estimating expected credit losses, the Bank considers reasonable and sustainable information that is available without undue cost or effort. This includes quantitative and qualitative information and analyses, based on the Bank's historical experience and an informed credit assessment, including forward-looking assessments.

Quantitatively, the Bank assumes that the credit risk of a financial asset has significantly increased if it is 30 days past due.

The Bank considers a financial asset to be in default when:

- It is not probable that the borrower or issuer will pay or meet their credit obligations in full, without actions by the Bank to recover the amount, such as the performance of the guarantee (if any); or
- The financial asset is past due by 90 days or more.

Expected credit losses are the probability-weighted estimate of credit losses. Credit losses are measured as the present value of cash shortfalls (i.e., the difference between the cash flow owed under the contract and the cash flows that the Bank expects to receive).

Expected credit losses are discounted using the effective interest rate of the financial asset.

At each reporting date, the Bank assesses whether the financial assets recorded at amortized cost and debt instruments at fair value through other comprehensive income are credit-impaired. A financial asset is credit-impaired if one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following financial data from the issuer or borrower:

- A breach of contract, such as default or event of default of more than 90 days;•
- A growing probability that the borrower or issuer will enter into bankruptcy or another form of financial reorganization; or
- The disappearance of an active market for the financial asset in question because of financial difficulties.

The Bank uses the expected credit loss model, applying the standard risk model: ECL=PD*LGD*EAD, where

- ECL: Expected credit loss (CLP)
- PC: Probability of default (%)
- LGD: Loss given default (%)
- EAD: Exposure at default (CLP)

The impairment model is applicable to financial assets measured at amortized cost or at fair value through other comprehensive income (FVOCI), except for investments in equity securities. Loss estimates will be measured using one of the following bases:

- Expected credit losses in the next 12 months: These are expected credit losses that may result from events of default within 12 months of the reporting date. If at the reporting date, the credit risk of a financial instrument has not significantly increased from initial recognition, the Bank will measure the loss allowance at an amount equal to the 12-month expected credit loss.
- Expected credit loss over the life of the asset: These are expected credit losses that may result from events of default over the life of a financial instrument.

The amount of expected credit losses or reversals will be recognized as an impairment gain or loss in profit or loss. However, the adjustment to the asset account for losses associated with assets measured at FVOCI should be recognized in other comprehensive income, and it will not reduce the carrying amount of the financial asset.

Nonfinancial assets

The carrying amount of nonfinancial assets is revised at each reporting date to determine whether there is any indication of impairment. If such indications exist, then the recoverable amount of the asset is estimated.

The recoverable amount of an asset is the higher of its value in use and its fair value, less selling costs. The value in use is based on the estimated future cash flows at present value, using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount.

(n) Employee benefits

Short-term benefits

Short-term employee benefits are recognized as expenses when the service is rendered on an accrual basis. An obligation is recognized for the expected amount payable if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Long-term benefits

The Bank recognizes long-term benefits using an actuarial valuation method that considers demographic and financial variables (projected unit credit method). It is measured at the present value of all future payments using an annual discount interest rate, affected by the expected employment term and life expectancy of beneficiaries.

- Post-employment benefits correspond to employee benefits that are payable after the completion of employment at the Central Bank, as stipulated in the collective agreement between the Bank and the Labor Union.
- Other long-term employee benefits include all employee benefits other than short-term benefits, benefits after the employment term, and severance indemnities.

The actuarial calculation is based on the following assumptions:

- Mortality rate: For 2019, the Bank used the RV-2014 mortality table (RV-2014 for 2018) to determine expected lifespan in the calculation of benefits associated with severance indemnity, post-employment benefits associated with the retirement health plan, and benefits of the former Association of Retired Employees and Pension Beneficiaries of the Central Bank of Chile

- Employee turnover: The probability of remaining an employee of the Bank was calculated on the basis of tables prepared by the Bank, disaggregated by tenure tranches.
- Wage growth rate: For 2019, the wage growth rate, calculated as the composite average annual growth rate of wages in a five-year period, was 4.91% (5.46% for 2018).
- Discount rate: The Bank uses the nominal ten-year rate BCP bond rate on the calculation date, which was 3.54% in 2019 (4.40% in 2018).

(o) Provisions and contingent liabilities

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

- It is a present obligation arising from past events; and
- At the reporting date, it is probable that the Bank will have to disburse funds to settle the obligation, and the amount of the settlement can be reliably estimated

When the disbursement of funds is not probable or when it is not possible to obtain a reliable estimate of the obligation, the Bank discloses a contingent liability.

(p) Revenue and expense recognition

The most relevant criteria used by the Bank for recognizing revenue and expenses in the financial statements are as follows:

- Interest income and expense are recognized based on the accrual period, applying the effective interest method interest on assets classified as fair valued through profit or loss (FVTPL), where interest income is recognized on a straight-line basis using the coupon rate.
- Fee and commission income and expense and other revenue from the rendering of services are recognized in profit or loss in the period in which services are rendered.
- Nonfinancial revenue, costs, and expenses are recognized to the extent that economic events occur, so that they are systematically recorded in the corresponding accounting period.
- Income and expense from changes in the fair value of financial assets measured at fair value are reported in other comprehensive income (equity) and will be recognized in profit or loss on the date of disposal, with the exception of changes in fair value for assets classified at FVTPL, which are directly charged to profit or loss

(q) 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 the Central Bank's senior management in order to quantify some assets, liabilities, income, expenses, and uncertainties. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

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

- Note 2(j) Property, plant, and equipment and intangible assets: Estimation of useful life, depreciation or amortization, and residual value;
- Note 2(n) Employee benefits: Basis for actuarial calculation;
- Note 3 Fair value: Methodology applied for the measurement of fair value;
- Note 5(b) Financial instrument risks and risk management; 5(b)-3 Expected credit loss; and
- Note 10(c) Central Savings and Loan Fund and the National Savings and Loan Association

(r) Nuevos pronunciamientos contables

The Bank has applied all the accounting standards currently in effect and is not aware of any new standards that have been issued but are not yet in effect that could affect the accounting records of the Bank's current operations.

Note 3
Fair value

Fair value is defined as the price that would be received for the sale of an asset or paid for the transfer of a liability in a transaction under current market conditions, independent of whether this price is directly observable or estimated using another valuation technique.

IFRS 13 Fair Value Measurement establishes a fair value hierarchy, which classifies the valuation inputs and/or technical assumptions used to measure the fair value of financial instruments. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to measures that rely strongly on unobservable inputs (level 3). The three levels in the fair value hierarchy are as follows:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access on the measurement date;
- Level 2: Input data other than quoted market prices included within level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: Unobservable input data for the asset or liability.

Given the characteristics of the investment instruments held by the Bank (mainly fixed-income instruments traded in highly liquid, deep secondary markets), they are largely covered by level 1 (quoted prices) of the fair value hierarchy.

The fair value and hierarchy level of international reserves instruments that are measured at fair value on a recurring basis are shown in Note 7(c).

Solely for informative purposes, the following table compares the accounting book value (the recorded value of assets and liabilities) and the corresponding fair value at the close of each year.

Central Bank of Chile Statement of Financial Position (millions of pesos)	2019			2018		
	Book value (a)	Fair value (b)	Difference (b–a)	Book value (a)	Fair value (b)	Difference (b–a)
International reserves	30,273,974.9	30,273,974.9	—	27,730,639.6	27,730,639.6	—
Other foreign assets	177,851.1	177,851.1	—	161,706.7	161,706.7	—
Loans to banks and financial institutions	1,569,551.4	1,569,551.4	—	160,258.1	160,258.1	—
Treasury transfers	319,349.1	293,840.8	(25,508.3)	311,783.9	249,084.0	(62,699.9)
Subordinated obligations	—	—	—	88,567.2	89,251.1	683.9
Other asset accounts	153,820.1	153,820.1	—	56,439.4	56,439.4	—
Total Assets	32,494,546.6	32,469,038.3	(25,508.3)	28,509,394.9	28,447,378.9	(62,016.0)
Foreign liabilities	905,061.7	905,061.7	—	849,825.0	849,825.0	—
Monetary base	12,335,260.5	12,335,260.5	—	11,295,937.6	11,295,937.6	—
Other deposits and obligations	6,188,158.1	6,188,158.1	—	5,349,750.3	5,349,750.3	—
Obligations with the Treasury	715,807.0	715,807.0	—	869,433.3	869,433.3	—
Securities issued	13,885,795.0	14,152,965.9	267,170.9	13,884,907.1	14,400,613.0	515,705.9
Other liabilities accounts	27,224.3	27,224.3	—	19,870.7	19,870.7	—
Total liabilities	34,057,306.6	34,324,477.5	267,170.9	32,269,724.0	32,785,429.9	515,705.9
Net equity	(1,562,760.0)	(1,855,439.2)	(292,679.2)	(3,760,329.1)	(4,338,051.0)	(577,721.9)

Fair value approximates book value in those items that by their nature are short term, such as cash, time deposits, monetary base, deposit liabilities, and obligations in general.

The Bank determines the fair value of financial assets and liabilities for which there is a difference between their fair value and book value as follows:

Loan for subordinated obligation of financial institutions (note 10a)

At year-end 2019, the subordinated obligation was paid in full. For 2018, the fair value estimate used a baseline scenario featuring a 5% increase in the distributable earnings of the Banco de Chile, no change in the equity share held by the Central Bank of Chile as collateral from the bank, and, for the cash flow discount, the market rates on Central Bank UF bonds with a similar duration to the estimated duration of the obligation, plus 2.26%.

Treasury transfers (note 10b)

The fair value measurement is based on the present value of annual quotes, which, in turn, is estimated taking the market rates on 30-year BCU (0.81% for 2019 and 1.90% for 2018).

Securities issued (note 17)

The Central Bank's debt portfolio has been valued based on the present value of flows using the parameters supplied by the Risk America website.

Note 4
Changes in accounting policies

The accounting policies described in these financial statements are consistent with the application of accounting policies in 2018. Starting on 1 January 2019, IFRS 16 Leases entered into effect, and the Bank thus reviewed and analyzed its leasing contracts, concluding that they are short-term leases of low-value assets as described in note 2(l). Therefore, on 1 January 2019 there was no effect from this accounting change.

Note 5
Financial instrument risks and risk management

The Central Bank's objective is to safeguard the stability of the currency, that is, to keep the inflation rate low and stable over time. The Bank also promotes stability and efficiency in the financial system, safeguarding the normal functioning of internal and external payments.

To meet these objectives, the Bank holds international reserves, which are liquid assets in foreign currency, mainly financial instruments that are traded and kept in custody overseas, such as government notes and bonds, bank deposits, etc.

Additionally, the Bank implements its monetary policy through the definition of a target level for the nominal interbank interest rate, known as the monetary policy rate (MPR). To bring the interbank rate to this level, the Bank regulates the availability of liquidity (or reserves) in the financial system using several financial instruments related to debt management and open-market transactions made by the local market, through the issuance of securities and the reception of time deposits.

The Bank's financial risks are related to the risks of managing the asset and liability portfolio and their effect on the Bank's equity (risks deriving from international reserve management and open-market operations). These include market risk, credit risk, liquidity risk, and operational risk.

Financial risk management is established and based on general policies approved by the Board of the Central Bank. The Financial Markets Division submits proposals on the definition of guidelines and asset and debt exposure limits to the General Manager and the Board for their approval.

Within the Financial Markets Division, the Market Operations Area is responsible for implementing the policies established by the Board; the Financial Market Analysis Area is in charge of measuring and assessing the risks associated with these operations; and the Operations and Payment Systems Area records, processes, and settles the operations, as well as managing the technological infrastructure in which they are carried out.

The Corporate Risk Area, which reports to the General Manager, is responsible for monitoring the medium- and long-term risks of the investment portfolio and verifying compliance with the limits established in the investment policy, which are reported to the Financial Markets Division and the General Manager. The Office of the General Auditor, which reports directly to the Board, assesses the efficacy and efficiency of the internal control, risk management, and governance of the financial asset and liability portfolio management process.

Finally, the Audit and Compliance Committee, which acts as an external advisor to the Board, reports on the efficacy of the internal control systems and procedures that are used in the financial asset and liability portfolio management process and evaluates the reliability, integrity, and timeliness of the information in the financial statements.

(a) Market risk

Se considera riesgo de mercado a las potenciales pérdidas producto de las fluctuaciones que afectan el precio o valor final de un instrumento o grupo de instrumentos financieros.

Market risk is the risk of potential losses due to changes in the market price of an instrument or group of instruments. Market risk mainly derives from fluctuations in currencies and interest rates. Most of the market risk affecting the Bank's statement of financial position is associated with the international reserves, due to increased volatility of the investment currencies, while for liabilities, the greatest impact arises from fluctuations in the UF (unidad de fomento, an inflation-indexed unit of account used in Chile), which affects long-term debt.

The market risk of the investment portfolio is largely determined by the benchmark (reference index).

Currency	Investment portfolio	
	Share (%)	Duration (years)
USD	52%	2.0
EUR	11%	2.4
AUD	9%	2.0
CAD	9%	1.9
GBP	8%	2.0
CNY	8%	1.9
KRW	3%	1.9
Total	100%	2.0

a-1. Currency risk

Given its functions, the Bank is exposed to currency risk through a currency mismatch on the balance sheet, where assets are primarily denominated in foreign currency and liabilities in national currency. Currency risk basically derives from the international reserves.

2019 MM$	Dólar de EEUU (USD)	Euro (EUR)	Australian dollar (AUD	Canadian dollar (CAD)	Yuan (CNY)	Pound sterling (GBP)	Other currencies	Chilean peso (CLP)	Total
International reserves	16,960,579.8	2,834,106.1	2,275,189.1	2,304,074.2	2,199,039.6	2,029,388.8	1,671,597.3	—	**30,273,974.9**
Other foreign assets	97,976.8	—	—	—	—	—	79,874.3	—	**177,851.1**
Domestic loans	—	—	—	—	—	—	—	1,569,551.4	**1,569,551.4**
Operations under specific legal regulations	—	—	—	—	—	—	—	319,349.1	**319,349.1**
Other asset accounts	2,245.1	103.4	—	—	—	—	—	151,471.6	**153,820.1**
Total assets	**17,060,801.7**	**2,834,209.5**	**2,275,189.1**	**2,304,074.2**	**2,199,039.6**	**2,029,388.8**	**1,751,471.6**	**2,040,372.1**	**32,494,546.6**
Foreign liabilities	(59,454.7)	—	—	—	—	—	(842,230.4)	(3,376.6)	**(905,061.7)**
Monetary base	—	—	—	—	—	—	—	(12,335,260.5)	**(12,335,260.5)**
Deposits and obligations	(3,889,547.3)	(1,482.8)	(10.3)	—	—	—	(178.1)	(3,012,746.6)	**(6,903,965.1)**
Securities issued	—	—	—	—	—	—	—	(13,885,795.0)	**(13,885,795.0)**
Other liability accounts	(7,694.9)	—	—	—	—	—	—	(19,529.4)	**(27,224.3)**
Total liabilities	**(3,956,696.9)**	**(1,482.8)**	—	—	—	**(10.3)**	**(842,408.5)**	**(29,256,708.1)**	**(34,057,306.6)**
Net currency position	**13,104,104.8**	**2,832,726.7**	**2,275,189.1**	**2,304,074.2**	**2,199,039.6**	**2,029,378.5**	**909,063.1**	**(27,216,336.0)**	**(1,562,760.0)**
Percent foreign currency	**51%**	**11%**	**9%**	**9%**	**9%**	**8%**	**3%**		

2019 MM$	U.S. dollar (USD)	Euro (EUR)	Australian dollar (AUD)	Canadian dollar (CAD)	Yuan (CYN)	Pound sterling (GBP)	Other currencies	Chilean peso	Total
International reserves	18,100,618.2	4,174,846.2	998,361.8	1,134,336.5	644,041.8	350,436.7	2,327,998.4	—	**27,730,639.6**
Other foreign assets	91,538.7	—	—	—	—	—	70,168.0	—	**161,706.7**
Domestic loans	—	—	—	—	—	—	—	160,258.1	**160,258.1**
Operations under specific legal regulations	—	—	—	—	—	—	—	400,351.1	**400,351.1**
Other asset accounts	919.9	13.2	—	—	—	—	—	55,506.3	**56,439.4**
Total assets	18,193,076.8	4,174,859.4	998,361.8	1,134,336.5	644,041.8	350,436.7	2,398,166.4	616,115.5	28,509,394.9
					—	—			
Foreign liabilities	(55,547.5)	—	—	—	—	—	(791,809.5)	(2,468.0)	**(849,825.0)**
Monetary base	—	—	—	—	—	—	—	(11,295,937.6)	**(11,295,937.6)**
Deposits and obligations	(2,706,389.0)	(306.8)	—	—	—	—	(116.0)	(3,512,371.8)	**(6,219,183.6)**
Securities issued	—	—	—	—	—	—	—	(13,884,907.1)	**(13,884,907.1)**
Other liability accounts	—	—	—	—	—	—	—	(19,870.7)	**(19,870.7)**
Total liabilities	(2,761,936.5)	(306.8)	—	—	644,041.8	350,436.7	(791,925.5)	(28,715,555.2)	(32,269,724.0)
Net currency position	15,431,140.3	4,174,552.6	998,361.8	1,134,336.5	644.041,8	350.436,7	1,606,240.9	(28,099,439.7)	(3,760,329.1)
Percent foreign currency	63%	17%	4%	5%	3%	1%	7%		

a-2. Interest rate risk

Interest rate risk implies that either the fair value or the effective future flows of a financial instrument can fluctuate due to variations in market interest rates.

Most of the balance sheet exposure to fair value fluctuations derives from the investment portfolio (mostly fixed-income instruments). Specifically, an increase in international interest rates implies a reduction in the value of the investment portfolio, while a reduction in international rates implies an increase in value. The other financial assets and liabilities (valued at amortized cost) are subject to either a fixed rate or no interest rate.

a-3. Market risk management in the international reserves

International reserves

The market risk of the international reserves is limited by the investment policy, which establishes ranges for duration and currency allocation around the benchmark portfolio parameters, and through the diversification of investment currencies, instruments, and duration.

The international reserve investment policy considers liquid financial assets that meet the legal requirements established for reserve management. The policy is designed considering the impact on profit and risk on the Bank's balance sheet and potential liquidity needs in foreign currency, where the primary goal is the preservation of capital in the face of possible market fluctuations.

Market risk is monitored by measuring portfolio duration and currency allocation daily and tracking the value at risk (VaR) and the risk relative to the benchmark (tracking error, TE). The VaR is the statistical calculation of the maximum loss that could be incurred by a portfolio of financial instruments as a result of exposure to different risks, such as interest rate and exchange rate fluctuations, over a given period of time under normal market conditions, within a specified confidence interval.

The Bank can contract derivatives, namely, rate futures (Eurodollars) and bond futures (U.S. Treasury bonds), to manage rate risk and hedge exposure to undesired risks in the investment portfolio, within the guidelines established in the investment policy.

		2019	2018
Amount (CLP M)*		29,019,811.9	26,433,660.9
Duration	Portfolio	23.4	21.5
(Months)	Deviation	1.7	–2.5
Currency allocation (%)	USD	57.4%	63.5%
	EUR	9.8%	17.2%
	JPY	0.0%	0.5%
	Other	32.8%	18.8%
VaR** internal investment portfolio	Absolute (%)	1.4%	1.9%
	Tracking error (bp)	10.6	12.5
VaR** internal investment portfolio, BlackRock	Absolute (%)	1.4%	3.4%
	Tracking error (bp)	62.3	25.8
VaR** internal investment portfolio, Amundi	Absolute (%)	1.4%	3.3%
	Tracking error (bp)	30.0	71.9

*Share of the investment portfolio in international reserves.

** VaR and TE: A parametric VaR estimation method is used, through a portfolio decomposition into risk factors associated with variations in currencies, government rates, and spreads. A variance-covariance matrix is defined for the factors using a data window of 550 days, with an exponential decline factor of 0.94. The VaR is presented with an 84% confidence level, equivalent to one standard deviation. The VaR and TE are measured in U.S. dollars and are presented relative to the investment portfolio. The risk budget for the investment portfolio is a monthly average of 25 bp; or in the case of the externally managed portfolio, a monthly average of 100 bp.

Open market operations

For open market operations, market risk is associated mainly with changes in the market value of bonds and promissory notes issued by the Central Bank and, to a lesser extent, with changes in the value of collateral received in liquidity injection operations. In the case of collateral, the risk of value loss is mitigated by using margins and haircuts that write down their value, such that the effective loan (liquidity injection) is less than the collateral received. For the placement of bonds and promissory notes (security issues), the risk is mitigated by the current regulatory provisions, contained in the Compendium of Monetary and Financial Regulations, on the placement and sale of debt securities through competitive auctions among financial institutions. Once the securities have been issued, the main risk is associated with changes in inflation, which affect bonds denominated in UFs.

Monitored market risk indicators include the duration and currency of debt securities issued.

Instrument	$ChM	% UF	Duration in months
Short-term	9,119,977.7	—	1.1
Long-term	4,765,817.3	48.7%	23.0
Total	13,885,795.0	16.7%	8.6

Instrument	$ChM	% UF	Duration in months
Short-term	6,449,710.0	—	1.4
Long-term	7,435,197.1	60.9%	58.3
Total	13,884,907.1	32.6%	31.9

(b) Credit risk

Credit risk is the risk of potential losses due to a counterparty failing to make a payment. The main source of credit risk derives from international reserve investments in debt instruments issued by foreign countries and financial institutions. A second source of credit risk comes from open market operations and intraday and standing liquidity facilities for the domestic financial system (repos, FLI, and FPL).

b-1. Credit risk: International reserves

EnFor international investments, credit risk is mitigated by controls and limits established in the investment policies, including limits by type of risk (agency, bank, sovereign, and supranational), by type of instrument, issuer, and counterparty, risk management of brokers, and custodians. There are also restrictions and controls on the issuer's credit rating, calculated as the median rating by Fitch, Moody's, Standard and Poor's and DBRS; if only two ratings are available, the lower is used; and if only one rating is available, that rating is used.

Credit rating	Type of credit risk				
	Agency	Bank	Sovereign	Supranational	Total
AAA	0.0%	0.0%	71.0%	1.4%	**72.4%**
AA+, AA, AA-	0.0%	0.1%	16.4%	0.0%	**16.5%**
A+, A	0.0%	0.2%	10.8%	0.0%	**11.0%**
BBB+, BBB	0.0%	0.0%	0.1%	0.0%	**0.1%**
Total	0.0%	0.3%	98.3%	1.4%	100.0%

Credit rating	Type of credit risk				
	Agency	Bank	Sovereign	Supranational	Total
AAA	0.2%	0.3%	73.0%	12.6%	**86.1%**
AA+, AA, AA-	0.0%	0.4%	6.9%	0.0%	**7.3%**
A+, A	0.0%	1.4%	5.1%	0.0%	**6.5%**
BBB+, BBB	0.0%	0.0%	0.1%	0.0%	**0.1%**
Total	0.2%	2.1%	85.1%	12.6%	100.0%

	Type of credit risk				
Country	Agency	Bank	Sovereign	Supranational	Total
United States	0.0%	0.0%	50.7%	0.0%	**50.7%**
Canada	0.0%	0.1%	8.9%	0.0%	**9.0%**
Australia	0.0%	0.0%	8.2%	0.0%	**8.2%**
China	0.0%	0.2%	7.8%	0.0%	**8.0%**
United Kingdom	0.0%	0.0%	7.6%	0.0%	**7.6%**
Other	0.0%	0.0%	15.1%	1.4%	**16.5%**
Total	0.0%	0.3%	98.3%	1.4%	100.0%

	Type of credit risk				
Country	Agency	Bank	Sovereign	Supranational	Total
United States	0.0%	0.0%	49.8%	0.0%	**49.8%**
Germany	0.2%	0.0%	14.7%	0.0%	**14.9%**
Canada	0.0%	0.0%	4.3%	0.0%	**4.3%**
Australia	0.0%	0.0%	3.3%	0.0%	**3.3%**
South Korea	0.0%	0.0%	3.2%	0.0%	**3.2%**
Other	0.0%	2.1%	9.8%	12.6%	**24.5%**
Total	0.2%	2.1%	85.1%	12.6%	100.0%

b-2. Credit risk: Open market operations

Credit risk associated with open market operations and liquidity facilities for the local financial system (repos, FLI, FPL) is mitigated by the provision of eligible collateral, defined based on credit quality, which is valued at market price at the time of reception and subject to the application of discounts or haircuts according to the specific characteristics of the instrument.

To mitigate possible stress in the financial markets, deriving from the combination of the social disturbances that started in October 2019 and the lower-than-usual liquidity in the last quarter of the year, the Bank decided to implement a program to facilitate the financial system's liquidity management in dollars and pesos between mid-November 2019 and early January 2020. The program included dollar injections through peso-dollar swaps and peso injections via repo operations (at 30 and 90 days), the redemption of securities issued by the Central Bank, and the non-renewal of PDBC through 8 December.

On 31 December 2019, total operations in the standing liquidity facility (FPL) were CLP 3,844,476.2 million, while repo liquidity injection in pesos was CLP 2,936,807.6 million. The average exposure in 2019 was CLP 10,532.8 million in FPL and CLP 214,444.8 million in repos, collateralized with securities issued by the Central Bank of Chile, the Treasury of Chile, bank bonds, and bank time deposits.

Tables 5.11 and 5.12 present the credit risk exposures associated with open market operations and liquidity facilities. As the tables show, this risk is mitigated by the requirement of collateral, where eligible instruments are Central Bank securities, Treasury securities, bank bonds, and bank deposits.

Table 5.11 Average exposure of FPL in 2019 and 2018.
Table 5.12 Average exposure of repo transactions in 2019 and 2018.

	Average amount (CLP M)	
	2019	2018
Gross exposure	10,532.8	6,944.4
Guarantee/collateral:		
PDBC (Central Bank of Chile)	(979.8)	(413.4)
Central Bank bonds	(3,377.1)	(2,346.6)
Treasury bonds (BTP)	(6,335.0)	(4,316.4)
Bank deposits	(9.8)	0
Net exposure	(168.9)	(132.0)

	Average amount (CLP M)	
	2019	2018
Gross exposure	214,444.8	—
Guarantee/collateral:		
PDBC (Central Bank of Chile)	(22,474.8)	—
Central Bank bonds	(68,694.9)	—
Treasury bonds (BTP)	(35,209.2)	—
Bank deposits	(67,831.0)	—
Bank time deposits	(23,278.8)	—
Net exposure	(3,043.9)	—

Additionally, on 31 December 2019, the Bank recorded foreign currency swaps and forward settlement (sales) (both in dollars) associated with the following extraordinary measures: (1) support for liquidity management in foreign currency in the financial market for up to USD 4.0 billion in the case of swaps; and (2) foreign exchange intervention program for up to USD 10.0 billion in the case of forward settlement. These were temporary programs, through 9 January 2020 in the case of swaps and through 29 May 2020 in the case of forwards.

Table 5.13 presents the credit risk exposures associated with the swap operations swap. As the tables show, this risk is mitigated by the requirement of collateral, resulting in a favorable net exposure for the Central Bank.

Table 5.13 presents the credit risk exposures associated with the swap operations swap. As the tables show, this risk is mitigated by the requirement of collateral, resulting in a favorable net exposure for the Central Bank.

	Average amount (CLP M)	
	2019	20181
Gross exposure	141,477.8	—
Guarantees:		
Cash	(149,586.1)	—
Net exposure	(8,108.3)	—

Table 5.14 presents the credit risk exposures associated with forward settlement (sales). As the table shows, this risk is mitigated by the requirement of collateral. .

	Average amount (CLP M)	
	2019	20181
Gross exposure (USD thousands)	4,240,000.0	-
Net exposure form settlement (USD thousands)	(124,000.0)	-

b-3 Expected credit loss

The impairment model is applicable to financial assets measured at amortized cost or FVOCI (except for equity investments).

The expected credit loss is calculated using the following model:
ECL=PD*LGD*EAD, where

- ECL:Expected credit loss (CLP)
- PC: Probability of default (%)
- LGD: Loss given default (%)
- EAD: Exposure at default (CLP)

Probability of default (PD)) is an estimate of the probability of default over a given time horizon, and it is estimated at a specific point in time. The calculation of the PD for a horizon of up to one year is based on the method developed by Bloomberg for corporate (DRSK) and sovereign (SRSK) entities, using financial, macroeconomic, and credit performance variables. To calculate the PD for over one year, a neutral risk model is used based on market information (bond prices and risk-free rates), where a Poisson stochastic process determines the probability of default.

Loss given default (LGD): is the estimate of the loss that would be incurred in the event of a default. It is based on the difference between the cash flows owed under the contract and the cash flows that the lender could expect to receive, taking into account cash flows from any collateral. It can be estimated using the recovery rate (RR), where LGD = (1 – RR). The loss given default has generally been estimated as 60% for senior bonds (a recovery rate of 40%).

Exposure at default (EAT): is an estimate of the exposure on a future default date, taking into account the expected changes in exposure after the reporting date, including reimbursement of principle and interest and expected reductions in committed facilities.

Given the characteristics of the financial instruments in which the Bank invests, the model used is relatively simple and is deemed to be sufficient, with no need for detailed scenario simulations. This is in line with the IFRS on the use of reasonable and sustainable information that is readily available at a reasonable cost and that is relevant for the specific financial instrument being assessed.

The three steps in applying the expected loss model are as follows:

(a) tep 1: Expected credit losses in 12 months. This step estimates the losses that could materialize as a result of events occurring in the next 12 months.

(b) Step 2: Expected credit losses over the life of the asset. This step is applied when there is a significant increase in credit risk since the initial recognition.

(c) Step 3: Credit-impaired financial assets. In this step, the loss estimate is the same as in the previous step, but it takes into account any new information that may since have become available.

The criteria for assessing a significant change in credit risk are as follows: substantial changes in the credit risk indicators (a two-notch downgrade in a single calendar year), interest rates, or financial conditions of the instruments, in market indicators such as duration, prices, bond spreads, CDS, domestic credit indicators, regulatory changes, modification of guarantees, etc.

Grados	Rating*	Grado de inversión
1	AAA a BBB-	Investment Grade
2	BB a CCC	Standard Monitoring

* Rating promedio en base a clasificaciones de Standard and Poor's, Moody´s y Fitch.

	Amortized cost CLP M			FVOCI CLP M		
	Step 1	Step 2	Step 3	Step 1	Step 2	Step 3
(a) International reserves:						
(investment portfolio)						
Grado 1: Investment Grade	3,672,835.2	—	—	25,263,216.7	—	—
Grado 2: Standard Monitoring	—	—	—	—	—	—
Gross amount	**3,672,835.2**	**—**	**—**	**25,263,216.7**	**—**	**—**
Loss provision*	(3,569.9)	—	—	(13,359.1)	—	—
Book value	**3,669,265.3**	**—**	**—**	**25,263,216.7**	**—**	**—**

* The loss provision for instruments classified as FVOCI is recorded directly in Other comprehensive income (OCI) (the book value of the assets is not reduced).

Table 5.15 Risk ranking and description.
Table 5.16 Credit risk and expected credit loss provision, 31 December 2019.
Table 5.17 Credit risk and expected credit loss provision, 31 December 2018..

	Amortized cost CLP M			FVOCI CLP M		
	Step 1	Step 2	Step 3	Step 1	Step 2	Step 3
(b) Domestic assets:						
(Domestic loans and Operations under specific legal regulations)						
Grado 1: Investment Grade	1,891,831.3	—	—	—	—	—
Grado 2: Standard Monitoring	—	—	—	—	—	—
Gross amount	1,891,831.3	—	—	—	—	—
Loss provision	(2,930.8)	—	—	—	—	—
Book value	1,888,900.5	—	—	—	—	—

	Amortized cost CLP M			FVOCI CLP M		
	Step 1	Step 2		Step 1	Step 2	
(a) International reserves:						
(investment portfolio)						
Grado 1: Investment Grade	4,895,007.1	—	—	21,456,758.3	—	—
Grado 2: Standard Monitoring	—	—	—	—	—	—
Gross amount	4,895,007.1	—	—	21,456,758.3	—	—
Loss provision*	(5,773.0)	—	—	(7,687.7)	—	—
Book value	4,889,234.1	—	—	21,456,758.3	—	—

* The loss provision for instruments classified as FVOCI is recorded directly in Other comprehensive income (OCI) (the book value of the assets is not reduced).

	Amortized cost CLP M			FVOCI CLP M		
	Step 2		Step 1	Step 2		Etapa 3
(b) Domestic assets:						
(Domestic loans and Operations under specific legal regulations)						
Grado 1: Investment Grade	562,636.4	—	—	—	—	—
Grado 2: Standard Monitoring	—	—	—	—	—	—
Gross amount	562,636.4	—	—	—	—	—
Loss provision	(2,027.2)	—	—	—	—	—
Book value	560,609.2	—	—	—	—	—

(c) Liquidity risk

Liquidity risk is the risk of not being able to sell an instrument when desired or of incurring a loss on the sale due to a lack of market depth; as well as the risk that an entity will have difficulty fulfilling its obligations on financial liabilities that are settled through the delivery of cash or another financial asset.

c-1. Liquidity risk: International reserves

To reduce the liquidity risk of the international reserves, the portfolio is composed primarily of fixed-income securities traded in deep, highly liquid secondary markets and, to a lesser extent, short-term deposits in international commercial banks, which are diversified by maturity. The most liquid tranche includes instruments from the United States and Germany, as well as overnight and weekend transactions, representing 54.1% of the internally managed investment portfolio at year-end 2019 and 65.9% in 2018.

c-2. Liquidity risk: Open market operations

In the case of open-market operations, liquidity 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 by the current regulatory provisions, contained in the Compendium of Monetary and Financial Regulations, on the placement and auction of debt securities, and by monitoring both secondary and primary markets and their institutions. In the event of a decrease in demand for its securities, the Bank could pay its maturities by issuing cash.

Table 5.19 Debt security auctions by the Central Bank of Chile as of 31 December 2019.
Table 5.19 Debt security auctions by the Central Bank of Chile as of 31 December 2018.

Instrument	Scheduled amount (CLP M)	Demand	Awards	Auction rate	Market rate	Spread (BP)
PDBC	71,670,000.0	180,0%	104,0%	2,47%	2,49%	–2,0

Instrument	Scheduled amount (CLP M)	Demand	Awards	Auction rate	Market rate	Spread (BP)
PDBC	60,850,000.0	155.6%	95.4%	2.59%	2.58%	1.0

c-3. Exposure to liquidity risk by contract maturity date

Given the Bank's balance sheet structure (nearly all assets in foreign currency), almost all the Bank's foreign currency liabilities are covered, that is, the Bank has sufficient liquid financial assets to meet the cash outflows of its financial liabilities in foreign currency (see table 5.2-Currency risk).

In national currency, the Bank is a monopolist in the supply of the monetary base and thus does not have liquidity risk in terms of paying its obligations, since it has the power and operating capacity to create money in national currency at its discretion at any given time.

(d) Operational risk associated with managing financial instruments

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

The internal organization of the Central Bank supports the adequate implementation of the processes designed for financial instrument management, with a clear separation of duties and responsibilities.

Consequently, the Market Operations Area and the Operations and Payment Systems Area, within the Financial Markets Division, are responsible for making and settling investments, respectively. The Corporate Risk Area, which reports to the General Manager, is responsible for verifying compliance with investment limits. The Financial Market Analysis Area, in the Financial Markets Division, measures performance and risk management.

Each area involved in the processes related to financial instrument management manages and controls its own operational risks. However, the Planning and Accounting Operations Area supports the divisions through risk identification, analysis, evaluation, and treatment, using a methodology that measures inherent risk based on probability and impact, and the assessment of residual risk, measuring the effectiveness of the corresponding controls in order to reduce the impact and/or probability of occurrence. This area also monitors action plans related to the risk management and business continuity systems, including the results of periodic tests performed to ensure that the mechanisms developed to face contingency situations are working properly.

The Office of the General Auditor, which reports directly to the Board, reviews regulatory compliance, the existence of an appropriate internal control environment, and the security of the information technology applications and infrastructure, as well as several issues related to governance, risks management, information, and communication.

In addition, the Bank uses computer applications in line with market quality standards and implements initiatives to improve operational continuity, maintaining an alternate operation site to ensure operational continuity in the event of problems with the physical infrastructure of the building and an external processing site in case of technological failures that could affect the main technological processing site. These practices ensure that the decision-making and management evaluation processes within the Bank are appropriately defined.

Note 6
Cash and cash equivalents

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

	2019 MM$	2018 MM$
Foreign correspondent banks (*)	361,966.0	490,016.6
Current accounts of external portfolio managers (*)	14,305.0	19,729.7
Foreign currency deposits (*)	1,027.7	1,253.1
Total cash	377,298.7	510,999.4
Domestic correspondent banks (**)	158.6	397.0
Total cash and cash equivalents	377,457.3	511,396.4

(*) Included under Cash on the statement of financial position.

(**) Included under Other assets on the statement of financial position

Note 7
Reserve assets

(a) Reserve assets

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 functioning of internal and external payments. Reserve assets are composed of foreign assets that are readily available and under the control of the monetary authority, for directly financing balance-of-payments imbalances and indirectly regulating the magnitude of those imbalances.

Reserve assets

- Cash: This item, defined as cash that is immediately available with no restrictions, includes balances held in current accounts with foreign banks and the balance in the foreign currency cash account. It is classified and measured at amortized cost.

- Investment portfolio: This item is made up of instruments that are eligible for reserve investment, of which a share is directly managed by the Bank (the internally managed investment portfolio) and a share is managed by external portfolio managers (the externally managed investment portfolio) under mandates approved by the Board. The investments in this item represent the Bank's principle reserve asset, and they are classified and measured at fair value.

- Monetary gold: Gold held as international reserves, expressed in Chilean gold peso coins, is valued at the London Gold Fixing price (dollars per fine troy ounces). Differences deriving from updating the gold position are recorded in profit and loss for the year.

- Special drawing rights (SDR): SDRs are a reserve asset equivalent to foreign currency, allocated by the International Monetary Fund (IMF) to member countries in proportion to the quota subscription paid and valued in pesos at the current exchange rate reported by the IMF.

- IMF reserve position: This item corresponds to the net difference between assets (IMF quota subscriptions plus loans granted by the Central Bank of Chile to the IMF through the New Arrangements to Borrow, NAB, program) and liabilities (deposits held by the IMF in local currency). It is classified as an investment at amortized cost and measured in SDR units (the IMF's unit of account).

This heading, Reserve assets, includes the international reserves held by the Bank at each year-end, as follows:

	2019 CLP M	2018 CLP M
Cash	377,298.7	510,999.4
Investment portfolio:		
Fair value through other comprehensive income	25,263,216.7	21,456,758.3
Amortized cost	3,669,265.3	4,889,234.1
Fair value through profit or loss	87,329.9	87,668.5
Monetary gold	8,950.7	7,055.5
Special drawing rights (SDR)	555,267.3	522,497.0
IMF reserve position	311,964.9	255,006.6
Other assets	681.4	1,420.2
Total	30,273,974.9	27,730,639.6

The distribution of foreign currency reserve assets by currency at each year-end was as follows:

	2019 MM$	2018 MM$
United States dollar	17,016,443.9	18,099,530.5
Euro	2,834,106.1	4,174,846.5
Other currencies	10,423,424.9	5,456,262.6
Total	30,273,974.9	27,730,639.6

	2019 USD M	2018 USD M
Cash	506.7	734.5
Investment portfolio:		
Fair value through other comprehensive income	33,927.6	30,842.5
Amortized cost	4,927.7	7,027.9
Fair value through profit or loss	117.3	126.0
Monetary gold	12.0	10.1
Special drawing rights (SDR)	745.7	751.0
IMF reserve position	419.0	366.6
Otros activos	0.9	2.0
Total	40,656.9	39,860.6

(b) Reserve assets, expressed in U.S. dollars

The distribution of foreign currency reserve assets by currency, expressed in U.S. dollars, at each year-end was as follows:

	2019 USD M	2018 USD M
United States dollar	22,852.5	26,016,7
Euro	3,806.1	6,001.0
Other currencies	13,998.3	7,842.9
Total	40,656.9	*39,860.6*

(c) Investment portfolio by asset class(d) Monetary gold

	Fair value hierarchy	2019 CLP M	2018 CLP M
Fair value through other comprehensive income:			
Internally managed portfolio:			
Treasury notes	Level 1	91,613.9	3,605,929.6
Nominal notes and bonds	Level 1	21,578,680.2	16,396,058.6
Inflation-indexed bonds	Level 1	2,786,913.0	758,434.7
Externally managed portfolio:			
Discount notes (Treasury notes)	Level 1	89,015.3	42,377.6
Nominal notes and bonds	Level 1	481,522.3	556,586.6
Inflation-indexed bonds	Level 1	235,472.0	68,895.7
Floating-rate notes	Level 1	—	28,475.5
Subtotal		25,263,216.7	21,456,758.3
Amortized cost:			
Internally managed portfolio:			
Time deposits		3,669,975.5	2,714,978.7
Overnight deposits		223.4	208.7
BIS FIX		—	2,172,507.9
Accounts receivable (payable) trade date (net)		101.6	—
Securities lending fees		126.4	99.2
Other assets		—	1,377.0
Externally managed portfolio:			
Collateral, net position		(1,161.6)	62.6
Subtotal		3,669,265.3	4,889,234.1
Fair value through profit or loss:			
Internally managed portfolio:			
Derivatives, net position	Level 2	(3,741.0)	(439.5)
Externally managed portfolio:			
BISIP	Level 2	81,390.5	74,358.7
Derivatives, net position	Level 2	1,852.6	1,374.0
Mortgage-backed securities (MBS)	Level 1	7,827.8	12,375.3
Subtotal		87,329.9	87,668.5
Total		29,019,811.9	26,433,660.9

At year-end 2019, monetary gold amounted to USD 12.0 million (USD 10.1 million in 2018) equivalent to 7,940 fine troy ounces valued at USD 1,514.04 per ounce (USD 1,277.3 in 2018). There was no change in the quantity of troy ounces relative to 2018.

(e) Special drawing rights (SDR)

	2019 CLP M	2018 CLP M
Monetary gold	8,950.7	7,055.5
Total	8,950.7	7,055.5

At year-end 2019, the balance in the special drawing rights account was SDR 539,261,976.0, of which SDR 700,161, equivalent to CLP 720.9 million, was from interest.

(f) IMF reserve position

	2019 CLP M	2018 CLP M
IMF SDRs	555,267.3	522,497.0
Total	555,267.3	522,497.0

At year-end 2019, the reserve position held with the International Monetary Fund (IMF) was as follows:

	2019 CLP M	2018 CLP M
IMF quota subscription	1,796,355.0	1,687,712.1
New Arrangements to Borrow (NAB)	46,414.8	56,815.1
Deposits (Accounts N° 1 and 2)	(1,530,804.9)	(1,489,520.6)
Total	311,964.9	255,006.6

Note 8
Other foreign assets

(a) IDB shares and contributions

The accounting treatment of shares and contributions is subject to the provisions of Article 3 of Decree Law N°2,943, of 1979, according to which shares and contributions, and the corresponding certificates, must be recorded by the Bank, for accounting purposes, as investments using own resources.

Ordinary Capital shares of the Inter-American Development Bank (IDB) are measured at fair value, which in this case is the purchase cost or contribution plus the adjustments reported by the IDB, if any. For this type of investment, the best fair value reference is the purchase cost, since they not held for trade and do not have an active market, and there are not similar instruments for comparison.

In 2019, there were no new share subscriptions or contributions to the IDB.

At each year-end, the balance of IDB shares and contributions was as follows:

	2019 CLP M	2018 CLP M
IDB shares and contributions	97,976.9	91,538.7
Total	97,976.9	91,538.7

(b)) BIS shares

In 2003, the incorporation of the Central Bank of Chile as a member of the Bank for International Settlements (BIS) was authorized through Board Resolutions N°1073-04 of 10 July 2003 and N°1084-02 of 16 September 2003. On 26 September 2003, in accordance with these resolutions, the Central Bank of Chile acquired 3,000 BIS shares,

	2019 CLP M
Initial balance on 01 Jan 2019	88,567.2
Interest and indexation	1,730.1
Subordinated debt payment	(90,299.9)
Reversal of impairment in previous period	2.6
Final balance on 31 Dec 2019	—

for a value of SDR 42,054,000

In 2019, dividends were received in the amount of USD 1.0 million (USD 1.0 million in 2018), which were recognized directly through profit.

The Bank calculates the fair value (level 3) based on its percentage ownership of BIS equity, using the discounted net asset value method, which discounts the shares' net asset value by 30%. This follows the methodology applied by the BIS for the last repurchase of shares issued in 1970.

Note 9
Loans to banks and financial institutions

This item is defined as a non-derivative financial asset, valued at amortized cost using the effective interest rate method:

	2019 CLP M	2018 CLP M
Standing liquidity facility (FPL) (overnight repo)	—	160,258.1
Repurchase agreements (repo)	1,569,551.4	—
Total	1,569,551.4	160,258.1

Repo operations provide liquidity to the national financial system. The balance of these operations includes operations with a maturity of one day (overnight repos in the standing liquidity facility, FPL) and operations with a maturity of more than one day (repo), in which the counterparties are domestic financial institutions. Every one of these operations has associated guarantees (collateral) to mitigate credit risk (see note 5 b).

Note 10
Operations under specific legal regulations

This item mainly includes operations deriving from specific laws, which are defined as non-derivative financial instruments, measured at amortized cost using the effective interest rate method, with recognition through profit or loss.

(a) Subordinated debt loan to financial institutions

The subordinated debt loan comprises the balances owed to the Central Bank of Chile at year-end 2019 and 2018, as a result of the contract amending the payment terms of the obligation, signed by the Central Bank of Chile and the Banco de Chile on 8 November 1996, in accordance with the provisions of Law N°19,396.

On that date, the parent company Sociedad Matriz del Banco de Chile (previously Banco de Chile) agreed to transfer the contract to SAOS S.A. (Sociedad Administradora de la Obligación Subordinada), in accordance with the provisions of the third and fifth paragraphs of Law N°19,396. According to the new terms, the liability must be paid in forty annual, consecutive, and equal installments, beginning in April 1997.

On 30 April 2019, the final payment of UF 3,264,381.8867 was received from SAOS S.A., equivalent to CLP 90,299.9 million, of which UF 157,501.5715 equivalent to CLP 4,356.8 million represented interest on the debt and UF 3,106,880.3152 equivalent to CLP 85,943.1 million amortization of the subordinated debt loan (in 2018, the total payment was UF 5,663,110.7754 equivalent to CLP 152,930.2 million, of which UF 422,035.5311 equivalent to CLP 11,396.9 million was interest and UF 5,241,075.2443 equivalent to CLP 141,533.3 million was amortization).

	2019 MM$
Initial balance on 01 Jan 2019	88,567.2
Interest and indexation	1,730.1
Subordinated debt payment	(90,299.9)
Reversal of impairment in previous period	2.6
Final balance on 31 Dec 2019	—

(b) Treasury transfers

Under the heading Operations under specific legal regulations, the item Treasury transfers includes the following amounts:

	2019 CLP M	2018 CLP M
Treasury transfers Law N°18,401	322,279.9	313,808.5
Impairment provision	(2,930.8)	(2,024.6)
Total	319,349.1	311,783.9

According to the provisions of Article 1 of Law N°18,401, which establishes the regulatory guidelines for the normalization of intervened banks, the Production Development Corporation (CORFO) would purchase from the Central Bank, subject to the periods and terms stipulated in the law, the loan contracts held by the Central Bank against banks and financial corporations that were, on the date of publication of the law, subject to provisional administration under the terms of Article 23 of Decree Law N°1,097, of 1975.

The requirement that CORFO purchase the aforementioned loan contracts was subject to the Bank's acceptance of the sale.

Through Resolution N° 1643-15 of 17 April 1985, issued by the former Executive Committee of the Central Bank of Chile, authorization was granted for the sale to CORFO of the emergency loans and similar credit facilities that the Central Bank had granted to the Banco de Chile, Banco de Santiago, Banco Concepción, Banco Internacional, and Banco Colocadora Nacional de Valores, for up to the amounts indicated in the agreement.

According to Article 13 of Law N°18,401, differences produced in the recovery, due to shareholder discounts, of up to UF 15.0 million, would be covered by the Treasury through future transfers to the Bank, which on 31 December 2019 amounted to CLP 322,279.9 million (excluding the impairment provision), equivalent to UF 11.4 million (CLP 313,808.5 million in 2018, equivalent to UF 11.4 million).

The law further indicated that the Ministry of Finance would issue an executive decree establishing when and how the total amount of the aforementioned transfer would be announced, which must be executed in a period not to exceed 30 years, including a ten year grace period.

In 2010, the Ministry of Finance issued Executive Decree N°1,526, which specifies that the total amount of the transfer to be made by the Treasury of Chile to the Central Bank of Chile as a result of the application of the legal framework cited above was set at UF 11,383,983.4695. This fiscal transfer is to be paid through annual installments, equal to at least one twentieth of the aforementioned total, starting in the eleventh year after the Executive Decree was passed on 25 January 2011. The Decree expressly authorizes the Treasury to make advance payments.

	2019 CLP M
Initial balance 01 Jan 2019	311,783.9
Indexation adjustment in the period	8,471.5
Impairment in the period	(906.3)
Final balance 31 Dec 2019	319,349.1

(c) Central Savings and Loan Fund and the National Savings and Loan Association

Decree Laws 1,381 of 23 March 1976 and 2,824 of 6 August 1979 regulate the Central Bank of Chile's assigned obligation to grant loans to organizations that were part of the former National Savings and Loan System (Sistema Nacional de Ahorro y Préstamo, SINAP), in response to the financial situation affecting the system at that time.

The Bank granted the aforementioned loans using its own resources through refinancing credit facilities to the organizations that were part of the SINAP. In addition, the former National Savings and Loan Fund (Caja Nacional de Ahorros y Préstamos), part of SINAP, was also granted loans by the Chilean government, with charge to external resources from the Credit Program Agreement AID 513–HG–006 entered into by the Republic of Chile, and applied through the Central Bank, as fiscal and financial agent, in accordance with Executive Decree N°20, issued by the Finance Ministry in 1976.

Subsequently, Law N°18,900 shut down the Central Savings and Loan Fund (Caja Central de Ahorros y Préstamos) and the National Savings and Loan Association (Asociación Nacional de Ahorro y Préstamo) and specified the procedures for liquidating their respective equity and paying outstanding liabilities.

Article 3 of the law stipulates that the Central Savings and Loan Fund shall cease its operations, providing an account of its existing commitments, whether or not it has settled the liquidation required by law, including an inventory of all the rights, obligations, and equity pertaining to the Fund and to the National Savings and Loan Association. This account will be submitted for review to the President of the Republic through the Ministry of Finance. This article further stipulates that the President of the Republic will approve the account through executive decree issued by the Ministry of Finance and published in the Official Gazette.

Article 5 of the aforementioned law establishes that for all legal purposes, as of the date of publication of the executive decree approving the account, the Treasury shall take on any outstanding obligations from the SINAP system that are not covered by the proceeds of the liquidation of equity, with the funds being requested from the national budget, in accordance with the provisions of Article 21 of Decree Law N°1,263 of 1975.

The recovery of these amounts depends on the determination of a specific date for the payment of the SINAP loans, via a transfer from the Treasury to the Central Bank. However, the date has not been specified, because the Ministry of Finance has not issued the executive decree approving the account for the Central Savings and Loan Fund and the National Savings and Loan Association.

Therefore, based on considerations solely for accounting and financial reporting purposes, as provided in Articles 18, 9, and 75 et seq. of the Basic Constitutional Act regulating the Central Bank of Chile and in accordance with IFRS criteria and standards, the Bank has determined that starting from year-end 2014, its financial statements will recognize an impairment provision in the Bank's equity for the total amount of debt owed to the Bank by the former SINAP entities, which are indefinitely in the process of liquidation.

The obligation of the Chilean Treasury—established in Law N°18,900, which guarantees the share of the debt of the abovementioned entities that was not covered by their liquidation, and which has been corroborated by the Ministry of Finance on several opportunities—is subject to the legal budget and the publication in the Official Gazette of the executive decree approving the liquidation account for these entities. Because this has not yet occurred or been scheduled for a future date, the Central Bank has opted to report this situation in the notes to the financial statements to comply with the requirement of substantiating the rationale behind these decisions. However, it is hereby expressly stated that the information contained in the preceding paragraph will only affect the accounting treatment for recognizing the SINAP liquidation loan (Law N°18,900) 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 full and total payment of this debt.

Prior to making this decision, the Bank informed the Minister of Finance of its intention. In response, the Minister communicated to the Bank that although the President of

Chile will approve the account through an executive decree issued by the Ministry of Finance, this approval has not been formalized. The Minister further indicated that because of this situation, the Ministry of Finance was unable to express an opinion with respect to the balances in the account, but acknowledged the information provided by the Bank.

Additionally, in relation to the part of the debt assumed by the former National Savings and Loan Fund in accordance with Ministry of Finance Executive Decree N°20 of 1976, (i) the Central Bank acted as the fiscal agent of the Treasury in this debt transaction; and (ii) once the conditions of Article 5 of Law N°18,900 have been met, the Treasury will have the double status of creditor and debtor of the obligation. Consequently, the Central Bank has determined that it is not applicable to recognize this share of the debt of the former National Savings and Loan Fund in its financial statements, so the item was derecognized from the Bank's asset and liability accounts at year-end 2014. However, as long as the aforementioned conditions are not fulfilled, the debt will be recorded at its adjusted value in off-balance-sheet accounts, in the name and on behalf of the Treasury, for identification purposes, in order to distinguish it clearly from the larger share of the debt of the former SINAP system that was financed directly by the Bank using its own resources. The impairment provision recognized as of 31 December 2014 was also adjusted.

As of 31 December 2013, the amount owed to the Central Bank of Chile for the liquidation of the SINAP institutions, deriving from the refinancing credit facilities granted directly to these institutions using the Bank's own resources, was CLP 1,411,708.1 million (CLP 1,308,775.2 million in 2018), including the total impairment described above. The updated value of the debt of the former National Savings and Loan Fund, a former member of the SINAP system, corresponding to subsidiary loans financed by the Chilean government acting through the Bank, in accordance with Executive Decree N° 20 cited above, was CLP 90,073.2 million (CLP 87,395.8 million in 2018), which has been recorded in memorandum accounts kept by the Central Bank as fiscal agent of the Republic of Chile.

Note 11

Property, plant, and equipment

Reconciliation of the carrying amount of property, plant, and equipment

	2019 CLP M	2018 CLP M
Property, plant, and equipment (gross value)	63,467.7	57,714.3
Accumulated depreciation	(20,176.9)	(18,684.6)
Property, plant, and equipment (net value)	43,290.8	39,029.7

On 31 December 2019 and 2018, the item Depreciation and amortization on the

	CLP M					
	Balance on 31 Dec 18	Additions	Dispo-sals	Deprecia-tion	Transfer	Balance on 31 Dec 19
Real estate and facilities	27,220.8	29.3	—	(87.3)	—	**27,162.8**
Furniture and equipment	7,144.5	1,148.2	(34.9)	(1,993.0)	**560.3**	**6,825.1**
Transport material	175.0	36.6	(21.2)	(38.0)	—	**152.4**
Works in progress	4,489.4	5,221.4	—	—	**(560.3)**	**9,150.5**
Total	39,029.7	6,435.5	(56.1)	(2,118.3)	—	43,290.8

statement of comprehensive income included $2,118.3 million and $2,035.6 million, respectively, for depreciation.

Operating leases

On 31 December 2019 and 2018, there were no non-cancellable operating leases, and all leased assets were of low value relative to the Bank's asset and liability levels. Therefore, the Bank recognizes lease payments as an expense over the life of the contract.

Note 12
Intangible assets

Reconciliation of the carrying amount of intangible assets

	2019 CLP M	2018 CLP M
Intangible asset (gross value)	8,520.9	7,766.7
Accumulated amortization	(4,675.9)	(3,417.9)
Intangible asset (net value)	3,845.0	4,348.8

Al 31 de diciembre de 2019 y 2018, se presenta en el rubro depreciaciones,

	CLP M				
	Balance on 31 Dec 18	Additions	Amortiza-tion	Transfer	Balance on 31 Dec 19
Computer programs	1,870.8	687.3	(1,258.0)	2,478.0	**3,778.1**
Computer programs under development	2,478.0	66.9	—	(2,478.0)	**66.9**
Total	4,348.8	754.2	(1,258.0)	—	3,845.0

amortizaciones del Estado de Resultados por $1.258,0 millones y $730,4 millones por amortización lineal.

Note 13
Other assets

This item is made up of the following assets:

	2019 CLP M	2018 CLP M
Artistic and/or cultural heritage assets	5,281.4	5,281.4
Advance on contracts	1,684.8	586.4
Prepayment of expenses	955.7	809.8
Cash	158.6	397.0
Derivatives (intervention program)	92,714.5	—
Other domestic assets	5,889.3	5,986.3
Total	106,684.3	13,060.9

(a) Reconciliation of the carrying amount of artistic and/or cultural heritage assets

	2019 CLP M	2018 CLP M
Banknote and coin collection	3,635.2	3,635.2
Works of art	1,646.2	1,646.2
Total	5,281.4	5,281.4

Note 14
Foreign liabilities

This heading includes the following items:

		2019 CLP M	2018 CLP M
Reciprocal credit agreements	14 a	3.5	2.9
Accounts with international organizations	14 b	62,827.7	58,012.6
SDR allocations	14 c	842,230.5	791,809.5
Total		905,061.7	849,825.0

(a) Reciprocal credit agreements (loans) represent the amount owed by the Central Bank of Chile to the central bank members of the ALADI Reciprocal Payment and Credit Agreement for imports conducted by Chilean entities through this mechanism. They are classified as non-derivative held-to-maturity financial instruments, valued at amortized cost using the effective interest rate method.

(b) Accounts with international organizations correspond to demand accounts in national currency held by such organizations and to obligations of the Central Bank, as fiscal agent, with the IDB, for promissory notes subscribed in foreign currency in payment of the subscription of shares and capital increases. They do not bear interest, but in some cases the value is adjusted for fluctuations in the U.S. dollar. They are classified and subsequently measured at amortized cost.

This item is composed of the following:

	2019 CLP M	2018 CLP M
IDB promissory note debt	59,451.2	55,544.6
Inter-American Development Bank (IDB)	2,369.2	1,529.4
International Development Association (IDA)	901.1	901.1
Multilateral Investment Guarantee Agency (MIGA)	32.9	32.9
International Bank for Reconstruction and Development (IBRD)	73.3	4.6
Total	62,827.7	58,012.6

(c) Special drawing rights (SDR) are recorded as a liability by IMF member countries, as there is an associated repayment obligation under certain circumstances and they accrue interests for the IMF, based on a weekly rate calculated by the IMF. They are classified as non-derivative held-to-maturity financial instruments, valued at amortized cost using the effective interest rate method. At year-end, the balance of this account was SDR 817,953,583 (equivalent to CLP 842,230.5 million) allocated to Chile, of which SDR 1,062,004 (equivalent to CLP 1,093.5 million) corresponded to interest.

Note 15
Monetary base

The monetary base is a Central Bank liability composed of banknotes and coins in circulation, plus financial system deposits held at the Bank.

The monetary base breaks down as follows:

	2019 CLP M	2018 CLP M
Banknotes and coins in circulation	10,753,789.7	9,475,030.3
Financial system deposits	1,581,470.8	1,820,907.3
Total	12,335,260.5	11,295,937.6

(a) Banknotes and coins in circulation

This item comprises the amount of banknotes and coins of legal tender issued by the Central Bank of Chile that are held by third parties, calculated as the total banknotes and coins received from suppliers and recorded as a liability at face value, less the banknotes and coins that are in the Bank's cash account and in its vault.

	2019 CLP M
Initial balance 01 Jan 2019	9,475,030.3
Net issuance	1,278,759.4
Final balance 31 Dec 2019	10,753,789.7

The change in this item, which represents the Bank's funding source on the statement of cash flows, was as follows:

Banknotes and coins in circulation are recorded at face value. Printing and minting costs are recorded as an expense under the heading Issuance, distribution, and processing costs.

The composition of banknotes and coins in circulation on 31 December of each year was as follows:

Banknote denomination	2019 CLP M	2018 CLP M	Coin denomination	2019	2018
$ 20,000	5,589,521.5	4,715,935.8	$ 10,000	348.4	348.4
$ 10,000	3,861,316.8	3,575,755.9	$ 2,000	98.6	98.6
$ 5,000	436,472.9	364,712.8	$ 500	224,516.0	213,186.6
$ 2,000	87,426.0	80,449.0	$ 100	152,383.3	150,018.1
$ 1,000	292,928.2	270,414.1	$ 50	30,257.7	29,002.0
$ 500	4,709.9	4,714.2	$ 10	58,067.2	54,659.6
Other	251.1	251.5	$ 5	10,726.0	10,747.9
			$ 1	4,693.8	4,698.0
			Other	72.3	37.8
Total	10,272,626.4	9,012,233.3	Total	481,163.3	462,797.0

(b) Financial system deposits

Financial system deposits reflect local currency deposits and withdrawals made by financial institutions in transactions performed with the Central Bank. The balance represents the funds or reserves held by financial institutions at the Bank and is used for the constitution of deposit reserves.

(c) Technical reserve deposits

Article 65 of the General Banking Law establishes that banks are required to maintain a technical reserve and that one alternative for doing so is to maintain deposits with the Central Bank. Specifically, the law stipulates that current account and other demand deposits received by a bank, as well as amounts allocated to pay on-demand liabilities assumed in its financial line of business, that are in excess of two and a half times the bank's regulatory capital, must be held in cash accounts or in a technical reserve consisting of Central Bank deposits or Treasury notes of any maturity valued at market price. At year-end 2019 and 2018, there were no current deposits under this item.

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Note 16
Deposits and obligations

These financial liabilities, deriving from deposits received from the Treasury and financial institutions and other transactions with these entities, are not affected by transactional costs. Subsequently, they are measured at amortized cost using the effective interest rate method. The unadjusted balances are presented at face value. UF and foreign currency balances include accumulated indexation or conversion restatements on the reporting date.

	2019 CLP M	2018 CLP M
Deposits and obligations with the Treasury	715,807.0	869,433.3
Other deposits and obligations	6,188,158.1	5,349,750.3
Total	6,903,965.1	6.,219,183.6

(a) The item Deposits and obligations with the Treasury includes:

	2019 CLP M	2018 CLP M
Current accounts held by the Treasury	715,807.0	869,433.3
Total	715,807.0	869,433.3

(b) The item Other deposits and obligations includes:

	2019 CLP M	2018 CLP M
Standing deposit facility in local currency (FPD)	3,007,494.8	3,525,078.9
Current accounts in foreign currency	1,126,259.1	184,474.4
Short-term foreign currency deposits by banks	2,036,683.9	1,610,882.0
Other	17,720.3	29,315.0
Total	6,188,158.1	5,349,750.3

Note 17

Securities issued by the Central Bank of Chile

Central Bank securities are financial liabilities issued in order to implement monetary and debt policy decisions. They are initially measured at fair value and are not affected by transaction costs; they are subsequently measured at amortized cost using the effective interest rate method through profit or loss. Non-indexed balances are stated at par value, while inflation-indexed balances include the accumulated indexation adjustments at the reporting date.

The securities issued by the Bank include UF-denominated Central Bank bonds (BCU), peso-denominated Central Bank bonds (BCP), Central Bank discounted promissory notes (PDBC), indexed promissory notes payable in coupons (PRC), and UF-denominated indexed coupons (CERO).

The issue of securities by the Bank is the main element supporting the implementation of monetary and debt policy, to efficiently provide liquidity to the market and deepen market transactions.

As of 31 December 2019 and 2018, Central Bank securities recorded the following maturities:

	(Millions of pesos)					
	Up to 90 days	91 to 180 days	181 days to 1 year	Over 1 year to 3 years	Over 3 years	Total 2019
Central Bank discounted promissory notes (PDBC)	7,907,700.5	743,562.2	468,715.0	—	—	**9,119,977.7**
Peso-denominated Central Bank bonds (BCP)	—	1,358,594.2	—	832,996.5	**252,933.2**	**2,444,523.9**
UF-denominated Central Bank bonds (BCU)	—	—	—	1,849,268.6	**445,957.2**	**2,295,225.8**
UF-denominated indexed coupons (CERO)	3,243.0	4,437.4	6,050.6	2,640.3	—	**16,371.3**
Indexed promissory notes payable in coupons (PRC)	229.7	198.1	383.1	8,877.6	—	**9,688.5**
Other	7.8	—	—	—	—	**7.8**
Total	7,911,181.0	2,106,791.9	475,148.7	2,693,783.0	698,890.4	13,885,795.0

	(Millions of pesos)					
	Up to 90 days	181 days to 1 year	Over 1 year to 3 years	Over 3 years	Total 2019	Total 2018
Central Bank discounted promissory notes (PDBC)	5,775,620.8	373,333.5	300,755.7	—	—	**6,449,710.0**
Peso-denominated Central Bank bonds (BCP)	611,936.0	—	—	1,847,372.7	**619,900.8**	**3,079,209.5**
UF-denominated Central Bank bonds (BCU)	—	26,568.3	—	1,234,355.2	**3,048,361.7**	**4,309,285.2**
UF-denominated indexed coupons (CERO)	4,195.8	4,369.6	9,143.3	15,026.9	**0.1**	**32,735.7**
Indexed promissory notes payable in coupons (PRC)	125.2	138.7	510.2	6,458.6	**6,726.2**	**13,958.9**
Other	7.8	—	—	—	—	**7.8**
Total	6,391,885.6	404,410.1	310,409.2	3,103,213.4	3,674,988.8	13,884,907.1

The balances include interests and indexation adjustments accumulated through 31 December of each year.

Note 18
Provisions

The Central Bank has constituted provisions for severance indemnities, a benefit established in the Collective Labor Agreement in effect for the period 2019–2022, which are calculated using the projected cost model. These provisions also cover the retirement benefits to the former Association of Retired Employees and Pension Beneficiaries of the Central Bank of Chile and benefits associated with the retirement health plan, as follows:

	2019 CLP M	2018 CLP M
Severance indemnity	11,815.6	12,377.5
Special indemnity and agreed deposit for retirement plan (Resolution N°1651)	1,720.4	1,808.4
Subtotal provision for severance indemnity	13,536.0	14,185.9
Benefits to former Association of Retired Employees and Pension Beneficiaries	2,284.5	2,280.3
Retirement health plan benefits	18.3	15.4
Pending accrued vacation time of personnel	3,000.5	2,814.9
Special indemnity (Resolution N°572-05-961226)	0.7	1.1
Incentive allocation	437.0	380.5
Death benefit allocation	22.7	—
Subtotal other provisions	5,763.7	5,492.2
Total	19,299.7	19,678.1

	2019 CLP M	2018 CLP M
Movements in provisions for severance indemnities (*)		
Current value of liabilities on 01 January	14,185.9	14,754.0
Service costs	1,009.8	1,212.9
Interest costs	502.1	649.2
Benefits paid	(1,942.9)	(1,967.1)
Actuarial losses	(218.9)	(463.1)
Balance on 31 December	13,536.0	14,185.9

(*) Excluding benefits for the former Association of Retired Employees and Pension Beneficiaries of the Central Bank, retirement health plan benefits, incentive allocation, and death benefit allocation.

	2019 CLP M	2018 CLP M
Total post-employment benefit expense:		
Service costs	891.8	1,460.5
Interest costs	583.5	393.3
Total	1,475.3	1,853.8

As of 31 December 2019, the sensitivity of the actuarial liability deriving from post-employment benefits to the indicated changes in actuarial assumptions is as follows:

Sensitivity analysis variable	Baseline scenario	Scenario 1	Scenario 2
Discount rate (–1%, +1%)	3.54%	2.54%	4.54%
Effect on provision for severance indemnity (CLP M)	13,536.0	14,729.9	12,518.8
Effect on provision for severance indemnity (%)	—	8.82%	(7.51)%

Calculation of probable payments for severance indemnity	2019 MMJ$
Short-term provisions for severance indemnity (up to one year)	1,367.1
Long-term provisions for severance indemnity (over one year)	12,168.9
Total	13,536.0

Note 19
Capital

(a) Capital

Article 5 of the Central Bank's Basic Constitutional Act established initial capital of CLP 500,000,000,000, which on 31 December 2019 corresponds to CLP 2,623,411,200,000 (31 December 2018: CLP 2,551,956,400,000) adjusted for consumer price index inflation at year-end, with a one-month lag, which must be reported as stipulated in transitory Article 2 of the same law.

Article 77 of the Basic Constitutional Act specifies that if a deficit is produced in any given year, it will be absorbed though a debit to constituted reserves.

If there are no reserves or if reserves are insufficient, the deficit in any given year will be absorbed through a debit to paid-in capital.

On 31 December 2019, the Central Bank had negative equity of CLP 1,562,760.0 million (negative equity of CLP 3,760,329.1 million on 31 December 2018), which is mainly explained by differences between international reserve returns and the cost of liabilities at domestic interest rates, as well as gains and losses deriving from the effects of exchange rate fluctuations on foreign currency assets.

(b) Capital revaluation

With the 2010 accounting period, the Board discontinued the application of comprehensive price-level restatement to the financial statements, such that the capital revaluation is not presented on the statement of financial position or the statement of comprehensive income, but rather is recorded in memorandum accounts, for the purposes of compliance with Article 5 of the Central Bank's Basic Constitutional Act, wherein the second paragraph stipulates that "by majority decision of the Board, capital can be increased through capitalization of reserves and revalued through price-level restatement," and compliance with the provisions of Title VI of the same legislation, in terms of the distribution of Central Bank surpluses covered in Article 77 and the disclosure of initial capital covered in transitory Article 2. Once the duly revalued initial capital has been recorded as stipulated in Article 5, the surplus produced in any given accounting period will be determined and calculated on the basis of earnings in accordance with the statement of financial position, for the purposes of distribution to the Treasury under the provisions of Article 77, with the capital revaluation due to price-level restatement recorded in memorandum accounts.

As of 31 December 2019, As of 31 December 2013, the negative capital revaluation from price-level restatement, recognized in memorandum accounts, was a negative CLP 138,139.0 million (negative CLP 183,135.4 million in 2018), resulting in an adjusted capital at year-end of negative CLP 5,071,674.6 million (negative CLP 6,723,683.9 million in 2018). The item subject to price-level restatement is Capital on the statement of financial position on the reporting date and the corresponding contributions from the Treasury, if any; this amount does not consider valuation accounts. To date, there has been no distribution of earnings, and in 2019 there were no capital contributions by the Treasury.

	Capital on 31 Dec 2019, before price-level resta-tement	Capital revaluation in memorandum accounts	Total capital on 31 Dec 2013 with price-level restatement
Balance on 31 December 2019	(4,933,535.6) (*)2.,8%	(138,139.0)	(5,071,674.6)

(*) Capital on 31 December 2018 adjusted for price-level restatement plus earnings in the year.

Note 20

Net gain from international reserves

The net gain generated by international reserves, at year-end of each year, breaks down as follows:

	2019 CLP M	2018 CLP M
Interest income and expense:		
Interest income	411,248.9	384,132.8
Investments measured at FVOCI (effective rate)	352,036.9	303,334.3
Investments measured at amortized cost (effective rate)	58,781.2	80,269.4
Investments measured at FVTPL (coupon rate)	430.8	529.1
Interest expense	(33.4)	(21.3)
At amortized cost (effective rate)	(33.4)	(21.3)
Subtotal	**411,215.5**	**384,111.5**
Fee and commission income and expense:		
Fee and commission income	1,549.0	1,704.1
Securities lending fees (*)	1,549.0	1,704.1
Fee and commission expense	(2,585.8)	(2,104.4)
Current account operating expenses	(166.0)	(261.7)
Securities custody fees	(2,036.8)	(1,579.3)
External portfolio management fees	(383.0)	(263.4)
Subtotal	**(1,036.8)**	**(400.3)**
Income from sale of investments:		
Sale of investments measured at FVOCI	1,044,897.2	(86,708.1)
Sale of investments measured at amortized cost	38.8	—
Sale of investments measured at FVTPL	(17.9)	—
Subtotal	**1,044,918.1**	**(86,708.1)**
Other income and expense net of investment:		
Fair value through profit or loss (FVTPL)	105.1	(51,881.0)
Derivative instruments	(10,350.7)	58,839.0
Impairment	(2,521.6)	5,923.3
Taxes	(1,872.1)	(3,181.3)
Other	3.3	—
Subtotal	**(14,636.0)**	**9,700.0**
Total	**1,440,460.8**	**306,703.1**

(*) At year-end 2019 and 2018, the value of securities on loan (par value) represented 4% of total reserves (CLP 1,172,573.0 million in 2019 and CLP 1,687,538.5 million in 2018). Securities are loaned overnight against collateral that exceeds the value of the securities.

Note 21

Net loss from other foreign transactions

The net loss from other foreign transactions breaks down as follows:

	2019 CLP M	2018 CLP M
Interest expense	(8,370.0)	(7,377.5)
SDR allocations	(8,369.9)	(7,376.6)
Reciprocal credit agreements	(0.1)	(0.9)
Other income and expense	729.9	664.5
Dividends from BIS shares	758.4	692.0
Fiscal agency operating expenses	(28.5)	(27.5)
Total	(7,640.1)	(6,713.0)

Note 22

Net loss from domestic transactions

The net loss from domestic transactions, at year-end of each year, breaks down as follows:

	2019 CLP M	2018 CLP M
Interest and indexation income and expense:		
Interest and indexation income:	14,380.0	19,561.3
Domestic loans	4,178.5	613.4
Operations under specific legal regulations	10,201.5	18,947.9
Interest and indexation expense:	(622,438.5)	(692,302.0)
Securities issued	(572,172.6)	(612,107.0)
Deposits and obligations	(50,265.9)	(80,195.0)
Subtotal	(608,058.5)	(672,740.7)
Other net income and expense:		
Commissions	3,343.0	3,034.9
Impairment	(903.6)	1,094.1
Derivatives	59,047.5	(204.2)
Early redemption of securities issued	(497,814.4)	—
Subtotal	(436,327.5)	3,924.8
Total	(1.044.386,0)	(668.815,9)

Note 23
Net gain from foreign exchange transactions

The net gain from foreign exchange transactions, at year-end of each year, breaks down as follows:

	2019 CLP M	2018 CLP M
Gain from foreign exchange transactions	7,755,825.9	4,976,167.2
Loss from foreign exchange transactions	(5,992,273.3)	(2,636,039.2)
Total	1,763,552.6	2,340,128.0

The net gain from foreign exchange transactions at year-end of each year derives mainly from the effect of exchange rate fluctuations on foreign currency assets, as follows:

	2019 CLP M	2018 CLP M
United States dollar	797,469.6	1,784,671.0
Euro	5,464.9	307,208.2
Yuan	896,044.1	43,166.0
Canadian dollar	138,782.6	46,366.2
Korean won	(24,081.4)	59,720.5
Other currencies	(85,150.4)	126,955.8
Subtotal net foreign exchange gain (loss)	1,728,529.4	2,368,087.7
Other	35,023.2	(27,959.7)
Total	1,763,552.6	2,340,128.0

Note 24
Issuance, distribution, and processing costs

Banknote and coin issuance, distribution, and processing costs at year-end of each year break down as follows:

	2019 CLP M	2018 CLP M
Banknotes	(9,958.2)	(15,165.8)
Coins	(7,942.,6)	(5,848.4)
Distribution and processing	(3,116.1)	(2,228.2)
Total	(21,016.9)	(23,242.,4)

Note 25
Contingencies and commitments

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

Note 26
Income tax

Pursuant to Article 7 of Decree Law N°3,345 of 1980, the Bank is exempt from income taxes.

Note 27
Fiscal agency

Law N°20,128, on Fiscal Responsibility created the Economic and Social Stability Fund (ESSF) and the Pension Reserve Fund (PRF). In conformity with the provisions of this law, the Finance Ministry, through Executive Decree N°1,383 of 2006, amended by Executive Decree N°1,618 of 2012, appointed the Central Bank of Chile to act as fiscal agent in the management of the resources held in these two funds, in accordance with the procedures, conditions, modalities and standards established in the executive decree.

In addition, the Strategic Contingency Fund was incorporated in the fiscal agency agreement, though Executive Decree N°19 of 2011, issued by the Ministry of Finance.

In accordance with Article 5 of Executive Decree N°1,383, amended by Executive Decree N°1,618, the investment of the fiscal resources managed by the Central Bank, as fiscal agent, has been carried out in compliance with the guidelines established by the Finance Ministry. The Central Bank records these investments in off-balance-sheet accounts.

The current performance guidelines for the Economic and Social Stabilization Fund were approved on 18 June 2015, via Agreement N° 1909-02. The current performance guidelines for the Pension Reserve Fund were approved on 13 December 2018, via Agreement N° 2191-03. The current performance guidelines for the Strategic Contingency Fund on 18 July 2013, via Agreement N°1765-04.

On 28 October 2019, through Official Letter N° 2,066, the Finance Ministry informed the Bank that the fiscal agency agreement associated with the Strategic Contingency Fund was to be terminated, effective 31 December 2019, and gave instructions for implementing the termination.

On 19 December 2019, through Resolution N° 2272-02, the Board of the Central Bank acknowledged the Official Letter communicating the termination of the fiscal agency agreement associated with the Strategic Contingency Fund effective 31 December 2019, pursuant to the repeal of the Copper Reserve Law N°13,196 under the provisions of Law N°21,174, and accepted the instructions contained in the Letter, in accordance with the stipulations of Article 10 of the Fiscal Agency Decree.

Note 28
Related-party transactions

(a) The Central Bank of Chile has no related companies.

(b) Remuneration of the Board and key executives:

In accordance with the Central Bank's Basic Constitutional Act, the remuneration of the Board is determined by President of the Republic for periods not exceeding two years, based on a recommendation by a commission of former governors or deputy governors of the Central Bank, appointed by the President of the Republic. The law establishes that the proposed remunerations should take into account the remunerations currently received by the highest executives of banks in the private sector.

The remunerations of the General Manager, General Counsel, and General Auditor of the Central Bank of Chile are classified as level one in the remunerations structure, per the treatment of these positions in Articles 24 to 26 of the Basic Constitutional Act.

The total gross remunerations paid to the Board and key executives in 2019 was CLP 1,635.4 million (CLP 1,441.8 million in 2018).

Note 29
Material events

(a) On 14 November 2019, the Board of the Central Bank announced its decision to implement a preventative program to facilitate liquidity management in dollars and pesos in the financial system. The objective of this measure is to mitigate possible stress in the financial markets, deriving from the combination of the social disturbances that started in October 2019 and the lower-than-usual liquidity in the last quarter of the year.

On 28 November 2019, the Board of the Central Bank made the decision to implement a foreign currency sales program, with a foreign exchange market intervention of up to USD 20.0 billion, starting on Monday, 2 December, through 29 May 2020, under the following modalities:

1. Spot dollar sales totaling up to USD 10.0 billion.
2. Sale of currency hedging instruments totaling up to USD 10.0 billion.

These measures would be implemented from 14 November 2019 through 29 May 2020.

(b) Through Executive Decree N°2138 dated 23 December 2019, the Ministry of Finance renewed the appointment of Rosanna Costa Costa as a Member of the Board of the Central Bank of Chile, to a new ten-year term effective 28 December 2019.

Note 30
Subsequent events

In the opinion of the Management of the Central Bank of Chile, the following events that occurred between 31 December 2019 and the publication of these financial statements could have a material effect on the data presented herein:

(a) Dollar, yuan, and euro exchange rate fluctuation

The peso-dollar exchange rate on 27 January 2020 was $776.52 pesos to the dollar, which represents an increase of $31.90 relative to the exchange rate used for the closure of the accounts on 31 December 2019. This would represent an increase in the Bank's equity of $526,557.3 million.

The peso-yuan exchange rate on 27 January 2020 was $112.01 pesos to the yuan, representing an increase of $5.07 relative to the exchange rate on 31 December 2019. This would represent an increase in the Bank's equity of $101,401.6 million.

The peso-euro exchange rate on 27 January 2020 was $856.05 pesos to the euro, representing an increase of $21.09 relative to the exchange rate on 31 December 2019. This would represent an increase in the Bank's equity of $67,998.0 million.

The total increase in the Bank's equity due to the increase

(b) Liquidity injection program in dollars and pesos

The Bank has continued to implement the program to facilitate liquidity management in dollars and pesos in the financial system. The monetary effects of the foreign exchange market intervention have been sterilized, such that the liquidity provision in pesos is consistent with the monetary policy rate.

In simple terms, the net effect of the foreign exchange intervention on the Bank's statement of financial position implies a reduction in international reserves (sale of dollars) and a reduction in the monetary base (purchase of Chilean pesos). The effect of the sterilization implies an increase in domestic loans (repos) and an increase in the monetary base (current accounts in local currency). The net result is a decrease in the foreign currency exposure and an increase in the local currency exposure.

The measures included in the program are consistent with the monetary policy scheme, based on inflation targeting and a floating exchange rate.

(c) Approval of the financial statements

The financial statements for the year ending on 31 December 2019 were presented by the General Manager to the Board on 30 January 2020, and they were approved for publication at Board Meeting N°2281 on the same date.

(d) Other

There are no other subsequent events that could have a material effect on the figures presented herein or on the economic and financial position of the Central Bank of Chile.

ALEJANDRO ZURBUCHEN SILVA
General Manager

JUAN CARLOS SALAZAR TAPIA
General Accountant

SILVIA QUINTARD FLEHAN
General Auditor

Independent Auditors' Report

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

Report on the financial statements

We have audited the accompanying financial statements of the Central Bank of Chile, including the statement of financial position as of 31 December 2019 and 2018 and the corresponding statements of comprehensive income, changes in equity, and cash flows for the years ending on those dates and the respective notes to the financial statements.

Management's responsibility for the financial statements

The Management of the Central Bank of Chile is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards. This responsibility includes the design, implementation, and maintenance of appropriate internal control procedures that ensure the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditors' responsibility

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

An audit involves carrying out procedures to obtain audit evidence on the amounts and disclosures in the financial statements. The selected procedures depend on the auditor's judgment, including the assessment of the risks associated with material misstatements on the financial statements, whether due to fraud or error. On making these risk assessments, the auditor considers the internal control procedures that are relevant to the preparation and fair presentation of the entity's financial statements, in order to design auditing 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. We therefore do not express such an opinion. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the significant accounting estimates made by the directors, as well as assessing the general presentation of the financial statements.

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

Opinion

In our opinion, these financial statements fairly present, in all material aspects, the financial position of the Central Bank of Chile on 31 December 2019 and 2018 and its financial performance and cash flows for the years ended on those dates, in accordance with International Financial Reporting Standards.

Mario Torres S.
Santiago, 30 January 2020

KPMG Ltda.

CENTRAL BANK OF CHILE

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