banco central
Chile

Integrated Annual Report 2020

Integrated Annual Report 2020

Central Bank of Chile

COVID-19: The Challenge of the Pandemic

Exceptional Measures for an Unprecedented Crisis

The year 2020 will be recorded as one of the most challenging times for humanity. A new virus spread rapidly throughout the world, causing the most catastrophic pandemic since the Spanish flu in the early twentieth century. The measures implemented to contain the effects paralyzed the economy and precipitated the deepest economic crisis since the Great Depression.

The disease, known universally as COVID-19, has already caused more than 20,000 deaths in Chile at year-end 2020. The health measures imposed to protect people's lives, mainly mobility restrictions in the form of quarantines or lockdowns, caused a severe economic contraction in the country comparable only to the financial crisis of the early 1980s, with a sharp drop in employment, income, and investment.

The Central Bank of Chile had the challenge of preventing the economic crisis from also becoming a financial crisis and thereby threatening the performance of its second constitutional mandate, namely, to safeguard the normal functioning of the internal and external payments system.

After adjusting its internal and logistical organization to protect employees from the risk of contagion, the Bank addressed this enormous necessity through the adoption of a series of unprecedented measures, in coordination with other economic authorities associated with financial stability. The Bank was thus able not only to achieve its objectives, but to do so without halting progress on the medium- and long-term projects in its Strategic Plan.

This annual report documents the institution's performance in 2020, the commitment of the people that make up the Central Bank, and the leadership of our Governor, Board Members, and all our teams, who made every effort and worked extremely hard to face the challenges raised by the pandemic.

banco central Chile

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, and is currently governed by its Basic Constitutional Act, contained in Law N° 18,840.
Headquarters (102-3):	Agustinas 1180, Santiago. Metropolitan Region.
Website:	www.bcentral.cl
Period of the report (102-50):	2020
Contact for questions on this report (102-53):	comunicaciones@bcentral.cl

Contents

1.1 Letter from the Governor (102-14)

The operation of the Central Bank in 2020 was strongly marked by the impact of the global COVID-19 pandemic. This includes not only everything the Bank did to contain the macroeconomic impact of the crisis over the course of the year, but also all the other functions that continued to be performed and the projects that continued to move forward despite the crisis, as well as the way we had to work to accomplish all this while meeting the need for social distancing.

The year 2020 will leave an indelible mark on our collective memory on multiple levels—personal, family, social, economic, institutional. In terms of global crises, the COVID-19 pandemic is the most unusual, deep, and synchronous in living memory. Locally, it has meant changing the way that millions of people live, work, study, and consume, under a heavy burden of uncertainty and intense emotions.

For a Central Bank, a crisis of this magnitude is a fundamental test of its ability to maintain the confidence of private citizens and economic agents. How effective were the measures that were taken to contain the impact of the crisis and continue complying with the institutional mandates? How quickly were changes in the scenario identified and decisions made and implemented? Were we able to continue acting with transparency and integrity in times of great stress and urgency? How successfully did we analyze, listen, and respond to citizens' concerns? Were we able to recognize the heterogeneity in the economy and incorporate it in decisions?

In the face of these challenges, in 2020 we effectively articulated innovative, large-scale responses to the blows that hit the economy, mobilizing the entire organization and its diverse functions. We have been recognized as one of the central banks that reacted the fastest to the emergency, applying about twenty measures oriented toward increasing the monetary stimulus, stimulating credit, facilitating the adjustment of the financial markets, and recovering some of the policy space to face new risks.

Thus, multiple unconventional tools were deployed, such as the Conditional Financing Facility for Increased Loans (FCIC); the expansion of eligible collateral for peso liquidity operations offered by the Bank; and the special spot purchase and forward sale (CC-VP) program to facilitate the liquidation of pension fund assets. These were reinforced by a Flexible Credit Line from the International Monetary Fund and the approval of a constitutional amendment empowering the Central Bank to purchase Treasury securities in the secondary market in order to contain financial stability risks.

To make these decisions and visualize the situation and risks in the economy, it was necessary to accelerate and deepen access to information, exploiting new data sources. Similarly, we also had to respond to sudden changes in the demand for cash and adjust how the Bank operates with the financial market.

All these changes are reflected on the Bank's balance sheet, which practically doubled in size and recorded a significant shift in the composition of assets and liabilities.

The emergency caused by the pandemic, however, did not represent an obstacle for the implementation of our 2018–2022 Strategic Plan, which ended 2020 with around 80% compliance with the targets established for the five-year period. Moreover, many of the initiatives contained in this plan were particularly relevant for facing the conditions of the last year and a half, including the extensive use of microdata for economic analysis; the strengthening of the financial policy framework; improvements in communication and

1.1 Letter from the Governor (102-14)

the main institutional reports; the new organizational structure for risk management; the incorporation of technology in the Bank's functions; and activities for strengthening team leadership.

Similarly, social distancing did not interfere with the ongoing development of our community activities. In fact, the use of digital platforms and videoconferencing allowed us to expand the reach of our main publications and specific programs. In 2020, we saw an increase in the audience for the presentation of our reports, a significant expansion in the number of users on our different web platforms, and strong growth of our financial education initiatives.

Behind all these efforts are the people who bring our institution to life, who have had to negotiate the difficulties imposed by social distancing. Through remote work and technical support, the Central Bank operated in 2020 not from our main offices, but from our employees' homes. This was backed up by new internal communication tools, which activated information campaigns on COVID-19 prevention and care measures, facilitated teamwork, and generated spaces for dialogue with authorities and experts on a wide range of issues, so as to stay current on what was happening both inside and outside our organization. Given these efforts, we are especially proud to have been ranked as one of the ten best places to work in Chile in 2020, according to the Great Place to Work (GPTW) survey.

We are undoubtedly living in extraordinarily difficult times, which have proven the value of cooperation and coordination for facing large-scale policy, health, and economic shocks. The work will not be completed until our economy is back on its feet and we recover the capacity and outlook to aspire to a better country. Over the past several months, we have shown that it is possible to reconcile transparency and timeliness; independence and collaboration; speed and responsibility.

The Central Bank will continue facing the challenge of upholding the confidence of citizens and economic agents in the midst of this unprecedented crisis, responding quickly to changing scenarios and recognizing and integrating diversity in our work.

Mario Marcel Cullell
Governor
Central Bank of Chile

1.1 Letter from the General Manager (102-14)

It would be difficult to find someone who could have imagined a crisis like the one we lived through last year and the first quarter of this year.

The pandemic rocked the entire world and threw us into a totally unknown situation subject to exceptionally high uncertainty. The measures to contain the spread of the virus paralyzed the economy, triggering the worst crisis since the Great Depression of the 1930s.

As a Central Bank, we faced the materialization of the most severe risk scenarios that had been used to test our operational continuity and our ability to comply with our mandate.

This report, which constitutes our second integrated annual report, describes in detail everything the Central Bank has done over the past year to address the crisis and the way it was able to adapt to the new situation in order to continue performing its functions and moving forward on its medium-term strategic objectives without any major disruptions.

Using information provided by the technical teams, the Board was able to adopt timely measures to keep inflation around the target and maintain the flow of internal and external payments, which prevented the economic crisis from giving rise to an inflationary spike and instability in the financial system.

The Bank was also able to continue ensuring the supply of cash, despite the strong increase in demand generated by the lockdown measures and the withdrawal of pension fund savings.

The schedule of the monetary policy and financial stability reports was maintained, as was the publication of statistics, research, and evaluations that support macroeconomic analysis.

The large-value and retail payment systems were unimpaired, and our platforms were adapted to maintain relations with our various stakeholders.

The Bank's technological infrastructure was quickly adjusted so that 90% of our staff could continue to perform their work remotely from their homes, one of the most important policies through which the Bank sought to protect the health of our employees and their families.

The Board and staff held their regular internal meetings virtually or occasionally in person under strict health protocols.

The technological infrastructure also allowed the Governor and Board Members to give numerous presentations and talks with diverse audiences both in Chile and overseas and to organized technical seminars on the effects of the pandemic on the economy.

This was also the case for public relations and internal communications, as well as the development of financial education initiatives, which made use of digital platforms.

This second Integrated Annual Report of the Central Bank, which uses the Global Reporting Initiative (GRI) methodology and which for the first time was reviewed by an independent auditor to verify the reliability of the content, further strengthens our commitment to sustainability, laid out in the Sustainability Policy approved by the Board in August of last year. This commitment is with the country's development and the progress of its citizens, and it takes into account social, environmental, and governance criteria, which have been classified as strategic risks for the Bank and are thus monitored as part of the institution's risk management policy.

1.1 Letter from the General Manager

One of these commitments is, precisely, a constant concern for our employees and for issues that we consider crucial, such as gender equality. The Bank has almost total wage equality, and we have set a short-term goal of attaining a 40% share of women employees.

We are concerned about our employees' well-being. During the months of the pandemic last year, we held monthly talks with the Governor of the Bank on the evolution of the economic scenario and context, as well as sessions in which we invited health specialists and analysts to participate in discussions, in order to contribute to a better understanding of what was happening.

We also coordinated virtual surveys and focus groups to follow up on our employees' situation and identify ways to improve their experience and welfare.

Despite the difficulties of the past months, we were also able to move forward on our 2018–2022 Strategic Plan, adjusting it to reflect changes in the situation and the challenges these raised. To this end, workshops were held on technology, economy, and people, which generated ideas related to communication and transparency, sustainability, cybersecurity, digital transformation, remote work, etc.

In 2020, extensive work was carried out to change the Bank's corporate image with the development of a modern and sleek visual identity, which was completed in late March of this year. This was a strategic initiative under one of the priorities of the Strategic Plan.

For the first time, the Bank was certified by the Great Place to Work Institute. We are very proud of this achievement, as it shows that we were able to improve our work climate despite the difficulties caused by the pandemic.

We have also worked hard on improving fuel and electricity efficiency in our office building, and we are developing a model for calculating the Bank's direct and indirect greenhouse gas emissions.

Another of our important achievements is the treatment of damaged banknotes that have been withdrawn from circulation, which are now earmarked for energy recovery or recycling.

This Integrated Annual Report contains extensive information on all the work that we were able to accomplish in what was, for me, the most intensely challenging year of my professional career. Seeing the results and performance of highly efficient and committed teams is an experience that I will always count as one of the greatest memories of my years with this institution.

Alejandro Zurbuchen Silva
General Manager
Central Bank of Chile

1 Our Institution

We are the Central Bank of Chile, with a 95-year history of commitment to the citizens of this county. In this second Integrated Annual Report, we report on our performance as a mechanism of transparency, incorporating environmental, social, and governance criteria in compliance with our mandate.

1.1 The Year in **Numbers**

(102-7)

3%
Inflation

3%
Inflation target

14,8%
Banknote value on GDP

733
Employees

31%
women

128
External employees

57
Publications

19
Presentations to Congress

195,6 tons
Tons of banknotes recycled and/or converted to energy

1.1 The Year in **Numbers**

(102-7)

90%

of staff working remotely, approximately

CLP MM$27.881

International reserves at market value

CLP MM$-175

Income

CLP MM$29.882

Central Bank debt at market value

83%

Work climate score

4

Buildings

3.000

Virtual visits on Heritage Day

910

Suppliers

1.2 An Unprecedented Year: **Highlights**

(102-10)

January

The first cases of COVID-19 are announced in Europe.

22 / The Central Bank of Chile publishes the second volume of its history, covering 1964 to 1989.

February

A health survey is implemented for people entering the country.

25/ An updated document on the monetary policy framework is published, together with a new document explaining the Central Bank's financial policy framework.

March

On 3 March, the first case of COVID-19 is confirmed in Chile, and on 11 March the World Health Organization (WHO) declares the pandemic. The first death in the country occurred on 21 March.

16 / A special monetary policy meeting is held to adopt measures against Covid-19. It is decided to reduce the MPR by 75 basis points to 1% and a series of measures are announced to provide liquidity to the economy and support the flow of credit and the transmission of monetary policy. One of the measures is the creation of the Conditional Credit Facility to Increase Loans (FCIC) with Pledge Guarantee. There is also a bank bond purchase program, the inclusion of corporate bonds as eligible collateral, and an extension of the term of the foreign exchange sale program until January 9, 2021.

Remote work begins for Bank workers.

18/ The Board of the Central Bank of Chile temporarily modifies its Monetary and Financial Regulations, to facilitate liquidity management in national and foreign currency in response to the global financial scenario facing the Chilean economy.

23/ The Central Bank defines measures for injecting liquidity into the economy and supporting the flow of credit and the transmission of monetary policy. A key component of these measures is a collateralized Conditional Financing Facility for Increased Loans (FCIC).

26/ The Central Bank establishes the terms and conditions for FCIC and the activation of the Liquidity Credit Line (LCL).

31/ At its Monetary Policy Meeting (MPM), the Board reduces the monetary policy rate by 50 basis points, to the effective lower bound of 0.5%.

April

On 2 April 2020, 273 cases and 9 deaths are confirmed in Chile.

01/ The Central Bank publishes the March 2020 Monetary Policy Report (IPoM). Governor Mario Marcel presents the report to the Senate Finance Committee.

08/ The Bank announces the adoption of new measures: Activation of the conditional tranche of the FCIC, expansion of eligible collateral, credit access measures, financial market support measures, etc.

15/ To face the contingency, the Central Bank Works with the banks and cash-in-transit companies to ensure that people have access to cash.

The Bank increases the pension funds' investment limits on alternative assets.

22/ The Bank hosts the first of seven internal conferences featuring guest experts on a wide range of topics, aimed at keeping employees informed about the COVID-19 contingency.

28/ The Bank launches a series of online seminars to discuss research on the impact of the pandemic on the world economies, organized by the Economic Research Department of the Monetary Policy Division.

29/ A book on the Bank's use of macroeconomic models (Uso de Modelos Macroeconómicos en el Banco Central de Chile) is published, incorporating changes developed through practice and the related research of the last several years.

30-04/ The Central Bank of Chile publishes its first Integrated Annual Report.

1.2 An Unprecedented Year: Highlights

(102-10)

May

Chile has recorded a total of 22,000 cases and over a thousand deaths.

13/ The Financial Stability Report for the first half of 2020 is published; Governor Mario Marcel presents the report to the Senate Finance Committee.

26/ The Governor of the Central Bank, Mario Marcel, inaugurates the online version of the Journalist Training Seminar, organized in conjunction with the Inter-American Association of Economic and Financial Journalists (AIPEF Chile).

28/ The Central Bank of Chile participates in the Virtual National Heritage Day, with a sitio web created especially for the occasion.

29/ The International Monetary Fund (IMF) approves a Flexible Credit Line of USD 23.930 billion for Chile, on the request of the Central Bank.

June

On 15 June, a new peak in daily cases is announced in Chile, with 6,938 new cases. The Metropolitan Region is in total lockdown, along with 12 other cities across the country.

12/ In an online ceremony, the Governor of the Central Bank of Chile launches this year's "Economics Up Close" school contest.

17/ The Central Bank publishes the June 2020 Monetary Policy Report (IPoM); Governor Mario Marcel presents the report to the Senate Finance Committee.

In response to the pandemic, the Central Bank announces a new collateralized Conditional Financing Facility for Increased Loans (FCIC II) for USD 16.0 billion.

The Board of the Central Bank of Chile announces the expansion of the use of unconventional tools to increase the monetary stimulus, with the implementation of an asset purchase program of up to USD 8.0 billion over a period of six months.

24/ The Bank announces that the Federal Reserve Bank of New York (Fed) accepted its application to use the Temporary Foreign and International Monetary Authorities (FIMA) Repo Facility.

July

After strict confinement measures, daily cases decline to 2,123 on 31 July 2020.

24/ The Central Bank and the Millennium Institute (MIPP) of the University of Chile's Department of Physical and Mathematical Sciences launch the third online financial education course for teachers.

Following several months of discussion, the CBC and the People's Bank of China (PBoC) agree to increase the bilateral swap line from RMB 22.0 billion to RMB 50.0 billion, equivalent to approximately USD 7.1 billion.

30/ The Central Bank announces the adoption of measures to facilitate the orderly liquidation of assets deriving from the withdrawal of up to 10% of pension fund savings.

1.2 An Unprecedented Year: **Highlights**

(102-10)

August

At the time of the announcement of the phased lockdown plan, 1,988,709 PCR tests had been conducted in the country.

12/ Law Nº 21,253 is published, implementing a constitutional amendment that empowers the Central Bank of Chile to buy and sell debt securities issued by the Treasury on the open secondary market under exceptional circumstances.

22/ The Central Bank of Chile celebrates its 95th anniversary.

September

Chile celebrates Independence Day with limits on gatherings, and the month closes with 13,161 active cases.

02/ The Central Bank publishes the September 2020 Monetary Policy Report (IPoM); Governor Mario Marcel presents the report to the Senate Finance Committee.

08/ Law Nº 21,265 is published in the Official Gazette, modifying the Central Bank's Basic Constitutional Act to regulate the Bank's authority to buy and sell Treasury securities on the open secondary market.

14/ The 27th volume of the Central Banking, Analysis, and Economic Policies series is published.

28/ The Central Bank announces adjustments to the measures announced in July, such as the suspension of the special time deposit purchase program, considering that the asset liquidation associated with the withdrawal of up to 10% of pension funds had mostly been executed.

October

Chile is one of the 30 countries in the world that have conducted the most PCR tests.

06/ Financial Education Month is launched virtually. The event is organized jointly by the Central Bank of Chile (CBC), the Financial Market Commission (FMC), the Superintendence of Pensions (SP), and the National Consumer Service (SERNAC).

20/ The Governor of the Bank, Mario Marcel, meets with Kristalina Georgieva, Managing director of the International Monetary Fund (IMF). In the meeting, they analyzed the measures implemented by the CBC to face the crisis caused by the pandemic and discussed the importance of the Flexible Credit Line (FCL) granted by that multilateral organization.

1.2 An Unprecedented Year: **Highlights**

(102-10)

November

Cases increase precipitously in the Coquimbo, Magallanes, Metropolitan, and Valparaíso regions.

At the international level, Chile ranks 21st for the number of deaths.

11-11/ The Central Bank publishes the Financial Stability Report (Report) for the second half of 2020; Governor Mario Marcel presents the report to the Senate Finance Committee.

December

It has been one year since the World Health Organization issued the first warning on "a new virus."

01/ The award ceremony is held for the winners of the "Economics Up Close" contest.

For the first time, the publication of the IMACEC includes a breakdown by goods production, trade, and services.

04/ The Bank provides measures for the orderly liquidation of assets in relation to the second 10% private pension fund withdrawal.

09/ The Central Bank publishes the December 2020 Monetary Policy Report (IPoM); Governor Mario Marcel presents the report to the Senate Finance Committee.

22/ The Central Bank publishes a report on inflation dynamics and determinants in Chile ("Dinámicas y Determinantes de la Inflación en Chile").

29/ The Central Bank authorizes the use of the Chilean peso in cross-border operations.

Mario Marcel Recognized as Central Bank Governor of the Year for Latin America

The Governor of the Central Bank of Chile received this distinction from GlobalMarkets, an international publication by GlobalCapital magazine, specializing in finance, markets, and economics.

GlobalMarkets highlighted the effectiveness of the Central Bank of Chile, under Governor Marcel's leadership, in responding to and successfully addressing the challenges raised first by the social unrest in October 2019 and then by the COVID-19 pandemic.

The expert opinions collected by the publication emphasized the Central Bank of Chile's ability to recognize the magnitude and severity of the COVID-19 shock and the effectiveness of the monetary policy response and unconventional stimulus measures in softening the impact on the Chilean economy.

They further underscored the speed and effectiveness of the Bank's communication to the market and other agents, as well as its actions to ensure the stability of the financial system.

In this sense, the publication highlighted the approval for the Central Bank of Chile to buy Treasury bonds in the secondary market, which broadens its scope of action in the event of episodes that put financial stability at risk.

The Governor stated that he shares this honor with the Board and the entire Bank staff, who have shown tremendous commitment and creativity in facing the extremely unusual circumstances of the last year.

The award is normally given in Washington, D.C., in the framework of the IMF and World Bank Annual Meetings. This year, it was awarded remotely due to the existing health restrictions.

"The scenario that we faced over the past year was particularly challenging because it was so unexpected, and it hit the world so fast. In this context, the Central Bank broadened the policy space and toolkit."

Mario Marcel, Governor of Central Bank of Chile

1.3 History of the Central Bank of Chile's **Basic Constitutional Act**

Over the course of its history, the Central Bank of Chile has undergone changes in terms of its assigned objective, powers, and functions and its governance mechanisms.

1925

The Central Bank of Chile was created by Decree Law N° 486 of 22 August 1925, passed during the presidency of Arturo Alessandri Palma. The initiative was one of the projects presented that year by the Kemmerer Mission, which had been contracted by the government to restructure the Chilean monetary and financial system. The objectives were to stabilize the currency and regulate the interest and discount rate, to avoid disturbances in the nation's industrial and financial development and promote economic progress. The Bank was given the monopoly on issuing legal currency, and the gold standard was implemented through the so-called Monetary Law (Decree Law N° 606).

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. The Bank's main functions were monetary in nature.

1953

In 1953, the Finance Ministry published Statutory Decree DFL N° 106, which replaced the Bank's previous charter. 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." The Bank retained the legal monopoly on currency issue, and it was given, in conjunction with the former Superintendence of Banks, the qualitative and quantitative control of credit provided by banks and other lending institutions. The Bank was also responsible for setting bank reserve rates, with prior authorization by the President of the Republic.

1960

The Bank's third Constitutional Act (Decree Law N° 247 of 1960) maintained the same assigned objective as the previous 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, which was responsible for implementing resolutions adopted by the Board and managing the Bank in accordance with the Board's instructions; and expanding the Bank's regulatory authority in relation to the qualitative and quantitative control of credit, as well as bank reserves.

1975

With the passing of the fourth Constitutional Act (Decree Law N° 1,078 of 1975), the Monetary Board, a ministerial-level body whose members included the Central Bank Governor, was created for the purpose of establishing monetary, credit, capital market, foreign

1.3 Evolución de la Ley Orgánica Constitucional del BCCh

trade, tariff, foreign currency, and saving policies, in accordance with guidelines issued by the Executive Branch. The Central Bank's objective was to promote the orderly and progressive development of the national economy, through the above and other policies stipulated by law.

In addition, the Central Bank became an autonomous public-law institution that was managed independently from the state, was not subject to the regulations governing state management, 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 and subject to the fiscal debt limit approved by the Board for a given year, which could only be increased through a unanimous decision. The Executive Committee was retained.

1979

The fourth 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 (Decree Law N° 3,001 of 1979).

1980

The current Constitution of Chile establishes the constitutional status of the Central Bank as an independent technical institution with its own equity, whose composition, organization, functions, and powers must be determined via a basic constitutional act.

The Constitution further establishes that the Central Bank can only conduct operations with public or private financial entities and that it cannot provide their guarantee. It also 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 or loans, unless the National Security Council considers that the country is engaged in a foreign war or in danger of becoming so engaged.

The Bank is prohibited from adopting resolutions that imply the establishment of discriminatory requirements or regulations for people conducting similar operations.

1989

On 10 October 1989, Law N° 18,840 entered into effect, wherein the first article establishes 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

2020

Laws N° 21,253 and 21,265 entered into effect, reforming the Constitution and the Central Bank's Basic Constitutional Act to authorize the Board, by means of agreed resolution, to buy and sell Treasury debt securities in the open secondary market for a specified period, under exceptional and temporary circumstances and solely if necessary for the preservation of the normal functioning of internal and external payments, for the purpose of providing liquidity.

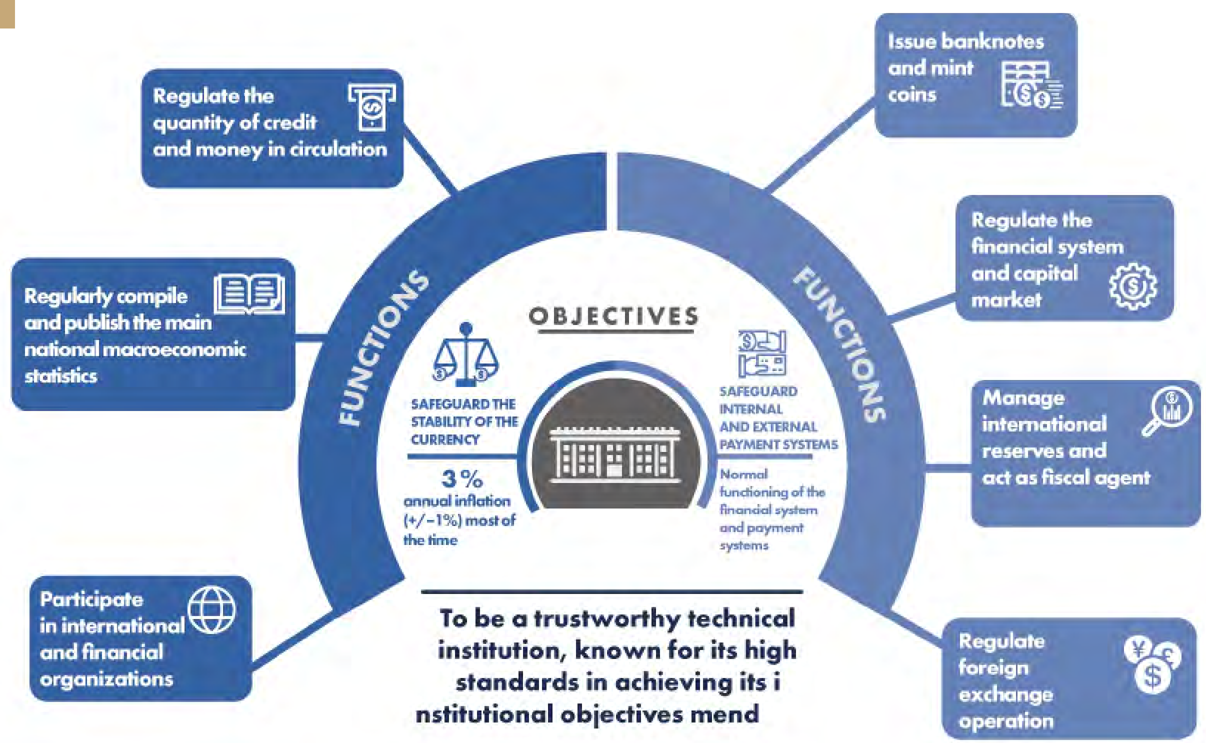
1.4 Our **Mandate**

(102-2, 102-6)

In accordance with the current Constitution and Basic Constitutional Act, the Central Bank of Chile 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, in order to ensure that there are sufficient funds for people, firms, and institutions to carry out their transactions.



Inflation Control

In 1999, in the exercise of our legal authority, the Bank adopted an inflation-targeting monetary policy framework and a floating exchange rate regime.

The target under this framework is for annual inflation (measured as the percent change in the CPI in a 12-month period) to stay around 3% most of the time. To achieve this, monetary policy decisions must be consistent with the convergence of the inflation forecast to 3% in the policy horizon of 24 months.

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.

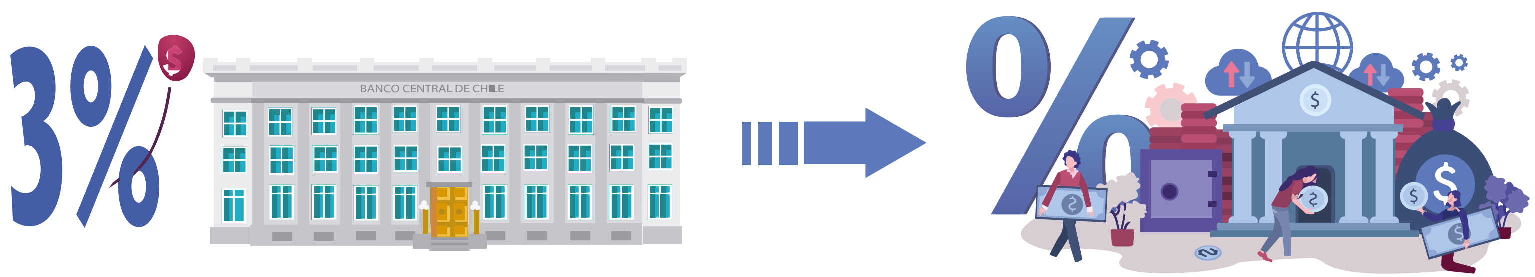
1.4 Our Mandate

(102-2, 102-6)

The Bank uses a range of operations 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, which has an impact—with a lag—on prices in the economy.

In the year, the Board held nine Monetary Policy Meetings (eight regularly scheduled meetings and a special meeting in March) to determine the MPR and published four Monetary Policy Reports. The reports contain an exhaustive analysis of the national and international macroeconomic scenario and growth and inflation forecasts.

The MPR is a tool that helps the Central Bank keep inflation around the 3% target. For this purpose, the Board raises, lowers, or maintains the MPR.



The MPR is equivalent to a minimum rate at which the commercial banks can get funding. Based on this rate, the banks set their own interest rate, which is the price that the banks charge for lending money to people and firms.

1.4 Our Mandate

(102-2, 102-6)

The legal and regulatory environment in which we operate

The Central Bank is governed by the following national and internal regulations:

- **The Constitution of Chile (Chapters I and XIII)**
- **Basic Constitutional ACT (BCA) (First Article of Law N° 18,840)**
- **Internal Rules of the Board**
- **Personnel regulations**
- **Law on Probity in Public Administration and the Prevention of Conflicts of Interest (Law N° 20,880)**
- **Transparency Law (Law N° 20,285)**
- **Lobbying Law (Law N° 20,730)**
- **Regulations on maintaining a record of the Central Bank's public agenda, lobbyists, and special interest groups and Managers of Private Interests of the Central Bank.**

Adapting to a changing environment

In the context of the social crisis that erupted on 18 October 2019, as well as the needs associated with the containment of the COVID-19 pandemic and the subsequent economic recovery and reactivation, the Central Bank has adopted various regulatory and liquidity injection measures, in fulfilment of its given mandate, thereby contributing to the general well-being of the population even during crisis scenarios.

To that end, the constitutional amendments (which modified Article 109 of the Chilean Constitution) and legal reforms (which modified Article 27 of the Central Bank's Basic Constitutional Act), introduced via Laws N° 21,65 and 21,253, respectively, gave the CBC the authority to buy Treasury securities in the secondary market, under specific exceptional and temporary circumstances. The goal of these operations is to preserve the normal functioning of internal and external payments, which is directly tied to safeguarding financial stability.

Another important issue for the country is the current process of discussing and approving a new Constitution. In this context, the CBC will be available to present all the background material that could be required by the Constitutional Convention, to support an informed and rigorous debate on the role and performance of our institution and its importance for the country's economic stability.

1.5 We Create Value for Chile and Its Citizens

(102-2)

VISIÓN: To be a trustworthy technical institution, known for its excellence in achieving its institutional objectives.

CAPITAL

- INTELLECTUAL CAPITAL
- HUMAN CAPITAL
  Culture, leadership, and work climate
- SOCIAL AND RELATIONAL CAPITAL
  Reputation and trust
  Communication and transparency
  Links to society
  Heritage management
- INDUSTRIAL CAPITAL
  Banknotes and coins

Technology and information systems

ASSETS

- 733 Employees
  41% have a masters or doctorate
- 83% Work climate
  Leadership academy
  Mentoring program
- **Stakeholders**
  Government / Financial system / Commercial banks / Academics / Universities / International organizations / Congresses
- Program Central en tu Vida
  School Contest
- Edificio Institucional
  Main building
  Numismatic Museum (approx.. 1700 pieces)
  Art collection of over 300 paintings
- 1.549 billion banknotes in circulation
  15.648 billion coins in circulation
- 2 Data centers
  884 Users
  Large-value payment systems
  Technological Observatory

MANDATE COMPLIANCE

- Monetary policy
- Financial policy
- Compilation, production, and publication of macroeconomic statistics
- Cash management
- International reserve management

CORPORATE GOVERNANCE

Basic Constitutional Act
Senior Management
Division Management
Area Management
Communication and Transparency
Management and Risk

2018–2022 STRATEGIC PLAN

SUSTAINABILITY STRATEGY

RESULTS

- 3% Inflation in December
- Adhesion to the Chilean government's commitment on climate change and the international NGFS Network
- Financial system and payment system operating with no significant disruptions
- Monthly, quarterly, and annual statistical series
- Second Integrated Annual Report
- 16 seminars and workshops
- Availability and reliability of banknotes and coins in good condition
- Availability and reliability of banknotes and coins in good condition
- 456 People trained in the Know Your Banknotes program

8 MPM	2 FSR	4 NATIONAL ACCOUNTS AND BALANCE-OF-PAYMENTS REPORTS
4 MPR	12 IMACEC	5 BUSINESS PERCEPTIONS REPORTS
		57 PAPERS AND PUBLICATIONS

1.6 Progress on Our 2018–2022 Strategic Plan

(102-2, 102-44)

Our 2018–2022 Strategic Plan is a road map that defines the institution's priorities and groups them around five pillars, with their respective initiatives, lines of action, point people, and timelines.

Every year, the Board and senior management analyze the internal and external environment to identify possible impacts on the Strategic Plan. This exercise was particularly important as we passed the halfway mark in the five-year process, so as to incorporate changes in the environment and thus achieve the desired results. The health crisis has caused a disruptive change in the scenario, forcing the Bank to use its ability to adapt in order to establish timely and effective measures, ensuring operational continuity and looking out for our employees and their families.

The follow-up we carry out on this Strategic Plan shows an advance of around 80% in meeting the objectives determined for its five strategic focuses.

In this context, four working meetings were held in September, which included three forums: technological, economic, and people. In parallel, mixed work groups of senior managers and Board Members were formed to discuss each of the priorities in depth and to reflect on the impact of changes in the environment and the foreseeable challenges.

Additionally, to involve all the people who make up the institution, we conducted a survey and two remote focus groups to discuss and reach a consensus on the key issues to address in the analysis of the Strategic Plan.

The focus groups generated seven core ideas for 2020–2022:

- **Transparency and communication**
- **Sustainability**
- **Strengthening cybersecurity**
- **Remote work**
- **Digital transformation**
- **Change management and teamwork**

1.6 Progress on Our 2018–2022 Strategic Plan

(102-2, 102-44)

The analysis established the need to broaden the original Strategic Plan to include the following three initiatives, which will be developed in 2021:

PRIORITY 1

Additional initiative: 1.3
Lead the way on the comprehensive data use and management model.

Lines of action:
1.3.a Implementation of structural Big Data project.
1.3.b Research and implementation of artificial intelligence.
1.3.c Strengthening of data governance.

PRIORITY 3

Additional initiative: 3.2
Provide leadership on the new way of working at the Bank through a multi-disciplinary working group.

Lines of action:
3.2.a Support processes with new technologies.
3.2.b Review roles, responsibilities, and IT-user relationships, in light of the organization's new needs.
3.2.c Adjust our corporate governance framework.

PRIORITY 4

Additional initiative: 4.2
Develop the payment agenda.

Lines of action:
4.2.a Direct payment systems.
4.2.b Cross-border payments.
4.2.c Central bank digital currency (CBDC).

Currently, we continue to make progress on the implementation of the 2018–2022 Strategic Plan, which was developed through an extensive consultative, participatory, and inclusive process that explored and incorporated the perceptions of our main stakeholders.

Tracking the progress on each of the strategic priorities defined in the plan is carried out by the Bank's senior management, which has the authority to make adjustments as needed over time.

EThe following table describes the main advances in 2020:

1.6 Progress on Our 2018–2022 Strategic Plan

(102-2, 102-44)

Strategic Priority 1	Initiatives	Lines of Action	2020 Status (81%)
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.	•Publication of the book Uso de Modelos Macroeconómicos en el Banco Central de Chile. •Progress on issues related to the modeling of financial and labor market frictions, the effects of global factors on the domestic economic, and monetary policy implementation. •Start of new projects on the role of international reserves, informality in the labor market, fiscal sustainability and its macroeconomic implications, and the analysis of monetary policy rules. •Significant advances on the incorporation of microdata analysis in the monitoring of activity, the labor market, and credit in real time, which allowed a better calibration and evaluation of the different monetary policy actions taken during the pandemic. •Strengthening of risk forecasting models in the area of financial stability. • Formation of the National Markets Committee, where we addressed issues raised by local market agents and industries and issues associated with the implications of the exceptional measures implemented by the CBC and the challenges for the foreign exchange market deriving from the internationalization of the Chilean peso. •Publication of regulatory adjustments to authorize the use of the Chilean peso in cross-border operations.

Foco Estratégico 2	Initiatives	Lines of Action	Advances in 2020 (78%)
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 channels.	• Renovation of the communication strategy, with the development of new listening spaces. • Delivery of more comprehensive information, such as the inclusion of more detailed risk scenario analysis in the Monetary Policy Report (IPoM). • Publication, within the monetary policy framework, of a book on models and a report on financial stability objectives. • Development of new graphic tools for social media communications. • Implementation of the "Central Contact" platform, for centralizing and addressing questions and requests from the public. • Reinforcement of work areas associated with financial education, to support the education community with specific material and generate new content. • Consolidation of the integrated management of internal communication platforms. • Completion of the second corporate website development phase, and testing of a mobile application for internal communication. .

1.6 Progress on Our 2018–2022 Strategic Plan

(102-2, 102-44)

Strategic Priority 3	Initiatives	Lines of Action	Advances in 2020 (81%)
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.	• Optimization of our ability to report on our performance to our different stakeholders and, at the same time, establishment of a solid control framework based on self-regulation, which has given the organization more flexibility and agility in decision-making. • Publication of the Bank's first Integrated Annual Report, for the 2019 fiscal year. • Incorporation of external verification as a new phase in the 2020 Annual Report. • Board approval and publication of the Sustainability Policy.

Strategic Priority 4	Initiatives	Lines of Action	Advances in 2020 (80%)
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.	• Development of a project for accelerating the identification and implementation of opportunities in the area of advanced data use, using technologies such as machine learning and artificial intelligence. • Tracking of developments in digital payments and the issue of central bank digital currencies. We believe it is expedient, at the institutional level, to deepen our understanding and exploration of this type of instrument and the related technologies. • Presentation of the conceptual framework and technical basis for the regulation of retail payment clearing houses. .

Strategic Priority 5	Initiatives	Lines of Action	Advances in 2020 (82%)
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 value.	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.	• Increased presence of women at all levels and in all areas, through a mentoring program in which 46% of the participants were women professionals; promotion of women's participation in the professional internship program; and strengthening of the university linkage strategy. • Support for management leadership through the Leadership Academy program, which included: Accountability, Teamwork and Connection, Gender Equity and Diversity, and Ethics. • Completion of the Talent Review development strategy for the implementation of talent development actions.

1.7 Our Sustaina-bility Guidelines

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

In 2020, we made progress on our objective of being a sustainable organization, as outlined in the third priority of our 2018–2022 Strategic Plan. In 2019, we unveiled our Sustainability Strategy in the first Integrated Annual Report of the Central Bank of Chile (published in 2020). This year, we put the emphasis on defining our Sustainability Policy, which was approved by the Board in August 2020.

These guidelines incorporate the Bank's commitment with the country's development and the progress of its citizens, taking into account social, environmental, and governance criteria.

Our Sustainability Policy defines four areas where the Central Bank needs to work on sustainable development: climate change adaptation, 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 internal actions through which to achieve the goal of becoming a more sustainable institution.

Our Sustainability Strategy is under constant review, in order to incorporate related advances at the international level, as well as international standards in areas such as responsible investment and climate change. Additionally, the corporate governance and risk management components cut across all aspects of the strategy.

The material topics in our Integrated Annual Report are organized around the four pillars defined in the Sustainability Policy. The definition process is described in the Methodology section.

1.7 Our sustainability guidelines

The implementation of our Sustainability Strategy is led by the General Manager, who reports to the Board on progress in this area. More specifically, issues associated with the climate change pillar are addressed by the Monetary Policy, Financial Policy, and Macroeconomic Statistics divisions. Most topics related to civic financial responsibility are handled by the Institutional Affairs Division, while the Financial Policy Division oversees disruptive technologies. Circular economy issues are the responsibility of the Operations Division. Finally, matters related to the agents of change pillar are headed up by Personnel.

CORPORATE GOVERNANCE

NATIONAL IMPACT	**Climate change adaptation**	• MONITORING THE FINANCIAL EFFECTS OF CLIMATE CHANGE
NATIONAL IMPACT	**Civic financial responsibility**	• FINANCIAL EDUCATION • KNOWLEDGE AND ADOPTION OF DISRUP-TIVE TECHNOLOGIES • LINKS TO SOCIETY
INTERNAL IMPACT	**Circular economy**	• SUSTAINABLE CASH CYCLE • SUSTAINABLE ENVIRONMENTAL MA-NAGEMENT
INTERNAL IMPACT	**Agents of change**	• EMPLOYEE WELL-BEING • DIVERSITY AND INCLUSION

RISK MANAGEMENT

2 Corporate Governance and Risk Management

The pandemic put our leaders' capacities and resilience to the test. Thanks to the actions of the Board, senior management, and the division managers, the Central Bank was able to rise to the challenge of circumstances that, in addition to being unprecedented at the global level, required substantial power to adapt swiftly.

2.1 The Board of the Central Bank of Chile

(102-18, 102-22, 102-23, 102-24)

The mechanism for the management and administration of the Central Bank is established in the Basic Constitutional Act, which identifies the Board as the highest administrative authority. The Board is chaired by the Governor, who is responsible for the out-of-court representation of the Bank and for institutional relations with public authorities, financial institutions, and international organizations.

The Board is made up of five members who are appointed by the President of Chile via Executive Decree 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.

Although the law does not require Board Members to have a specific profession or experience, their background and experience in macroeconomics and finance is considered during their appointment, as well as their academic history and/or past public service. 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 the exercise of its authority and to advise the President, when requested, on all matters associated with the Bank's functions.

The Finance Minister can attend Monetary Policy Meetings and other Board meetings and is accorded the right to speak and to propose the adoption of resolutions. When in attendance, he can also suspend any agreement or resolution adopted by the Board at that meeting, albeit for a limited period of fifteen days, where the Board Members can override the Minister by unanimous vote.

MARIO MARCEL CULLELL
Governor
Time in office: 4 years (appointed Governor in 2016)

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. He has been on the Board of the Central Bank of Chile since October 2015.

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.

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.

PABLO GARCÍA SILVA
Board Member of the Central Bank of Chile since January

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. He also holds a master's degree and Ph.D. in economics from the University of California at Los Angeles. Previously, he managed the Central Bank's Research Division.

Board Committees of the Central Bank of Chile

The Board has the following committees to address specific issues related to the management of the Central Bank.

Audit and Compliance Committee

This advisory committee on surveillance and oversight issues has the following functions: 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.

Chair:
- Ramiro Mendoza Zúñiga (since 2020).

Members:
- Anthony Dawes Martindale (since 2017).
- Ricardo Budinich Diez (since 2018).

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 issue

Chair:
- Alejandro Hevia Angulo (since 2017).

Members:
- Gonzalo Acuña Leiva (since 2018).
- José Benguria Donoso (since 2019).

2.1 The Board of the Central Bank of Chile

Audit and Compliance Committee

Since 2007, the Board is supported by an advisory committee on issues related to high-level oversight and surveillance. The Committee is responsible for providing an independent opinion on the quality of the organization's internal control systems, risk management and control, and the efficiency and efficacy of internal audit processes, and it thus constitutes an important element in the Central Bank's accountability.

The Audit and Compliance Committee of the Central Bank of Chile is made up of renowned and experienced external members, and it complies with best practices for an effective audit committee in terms of its composition, independence, and technical proficiency.

- **Ramiro Mendoza Zúñiga**
- **Ricardo Budinich Diez**
- **Anthony Dawes Martindale**

The Audit and Compliance Committee performs the following functions:

- Report on the effectiveness of the Bank's internal control systems and procedures.
- Analyze the equity and reputational effects involved in fulfilling the Bank's duties, especially with regard to the following:

  i. The preparation and content of the financial statements and explanatory notes;

  ii. Code of ethics, standards of conduct, and conflicts of interest applicable to Bank personnel;

  iii. Risks faced by the Bank in carrying out its strategic, operational, and administrative plans and objectives;

  iv. Insitutional transparency policy; and

  v. Other general aspects of corporate governance, internal control, or institutional security policy.

- Evaluate the reliability, integrity and timeliness of information delivery regarding the financial statements.
- Review the Annual Audit Plan and its execution, in accordance with the mandate assigned to the General Auditor under the Bank's Basic Constitutional Act.
- Make proposals on contracting independent auditors and meet with them regularly and directly.

The Committee met eight times in 2020. The issues addressed at the meetings included evaluating the services provided by the external audit firm, reviewing the main issues raised by Internal Auditor's Office, and reporting on the Bank's internal control and risk management systems. The results of the discussions were reported to the Board in an annual accountability report, which describes the main issues reviewed and of interest to the Committee, as well as their concerns and suggestions.

Since 4 June 2020, the Committee is chaired by Ramiro Mendoza Zúñiga.

Functioning of the Board during the Pandemic

In 2020, our Board adapted its operating mechanism to accommodate the social distancing requirements deriving from the pandemic, in accordance with the Bank's regulations.

The Board normally 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. With the pandemic, internal operating mechanisms were developed to ensure compliance with quorum requirements and thus continue functioning.

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

For an exhaustive analysis in preparation for the Board meetings, pre-board meetings are convened weekly by the Governor, where team members present the background material and arguments for the respective decisions.

To optimize the distribution of work between the Board and the monetary policy, financial policy, and statistics areas of the Bank, there are also weekly meetings of the Economic, Financial, and Statistics Committee (EFSC), composed of the directors of the respective divisions (Research, Financial Policy, Financial Markets, and Statistics) and a technical secretary.

In 2020, there were:

53 EFSC

69 Pre-Board

105 Board Meetings

15 In-person meetings

67 Semi-remote meetings

23 Remote meetings

2.1 The Board of the Central Bank of Chile

Board Remunerations

Board remunerations are proposed by a commission made up of former Central Bank governors or deputy governors, who are appointed by the President of Chile. The proposals are based on the remunerations currently paid to the highest executive officers of private sector banks.

In accordance with Executive Decree N° 299 issued by the Finance Ministry on 5 March 2020, the remunerations of the Governor, Deputy Governor, and other Board Members in the current fiscal year are as follows:

Position	Gross monthly remuneration	Additional compensation for responsibility and exclusivity	Total gross remuneration	Total Net Remuneration (*)
Governor	$9,946,610	$7,957,288	$17,903,898	$12,439,683
Deputy Governor	$9,946,610	$5,967,966	$15,914,576	$11,242,373
Board Members	$9,946,610	$4,973,305	$14,919,915	$10,595,844

* Net amounts are shown for reference purposes, considering estimated legal deductions for income taxes and pension and social security contributions.

2.1 The Board of the Central Bank of Chile

Panel of 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 that year.

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 and procedures; and the quality of its communications.

Based on the results of the assessment, the panel made over 40 recommendations. Of the total, 24 have to do with monetary policy, 14 with financial policy, and two with general corporate issues. The Board rejected two of the recommendations and committed to moving forward on the rest. In 2020, the Monetary Policy Division, the Financial Policy Division, and the Public Affairs Division worked on implementation.

In September, during the presentation of the Monetary Policy Report, the Central Bank Governor updated the Senate on the Bank's progress on implementing the Panel's recommendations.

In line with one of the Panel's recommendations, the Board has decided to schedule regular institutional assessments, which will be conducted every two years and will focus on different areas of institutional responsibility. The first will be commissioned next year and will be caried out with the same degree of independence, thoroughness, and diffusion as the previous process.

As of late 2020, 60% of the total recommendations approved by the Board have been fully implemented. Of the remainder, ten are near completion and five are under study (four of the latter involve issues that require legal reforms).

2.2 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.

Silvia Quintard
General Auditor

Responsibilities: Inspection and internal audit of the Bank's accounts, operations, and management rules.

Date of appointment: 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 has also completed the senior management program (PADE) at the ESE Business School, University of Los Andes, and is certified in risk management assurance (CRMA) by the Institute of Internal Auditors.

She is a member of the Central Bank Audit Committee organized by the Center for Latin American Monetary Studies (CEMLA), where she has spoken at annual conventions. She has also worked as a corporate governance consultant for the Monetary Fund, at the central banks of Guatemala, Bolivia, and Ecuador.

For 18 years, she worked in national and international financial groups, including the Superintendence of Banks and Financial Institutions (SBIF). In that period, she held a range of positions, such as Financial Operations Manager and Operations Director of the Bank; stock, mutual fund, and insurance broker; mutual fund director; comptroller of the Corpbanca Group; assistant director of internal auditing for the Southern Cone for the Santander Chile Group; and operational and financial risk supervisor at the SBIF (now the FMC).

Alejandro Zurbuchen
General Manager

Responsibilities: Immediate oversight and management of the Bank, with powers and instructions given by the Board.

Date of appointment: 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.

Juan Pablo Araya
General Counsel

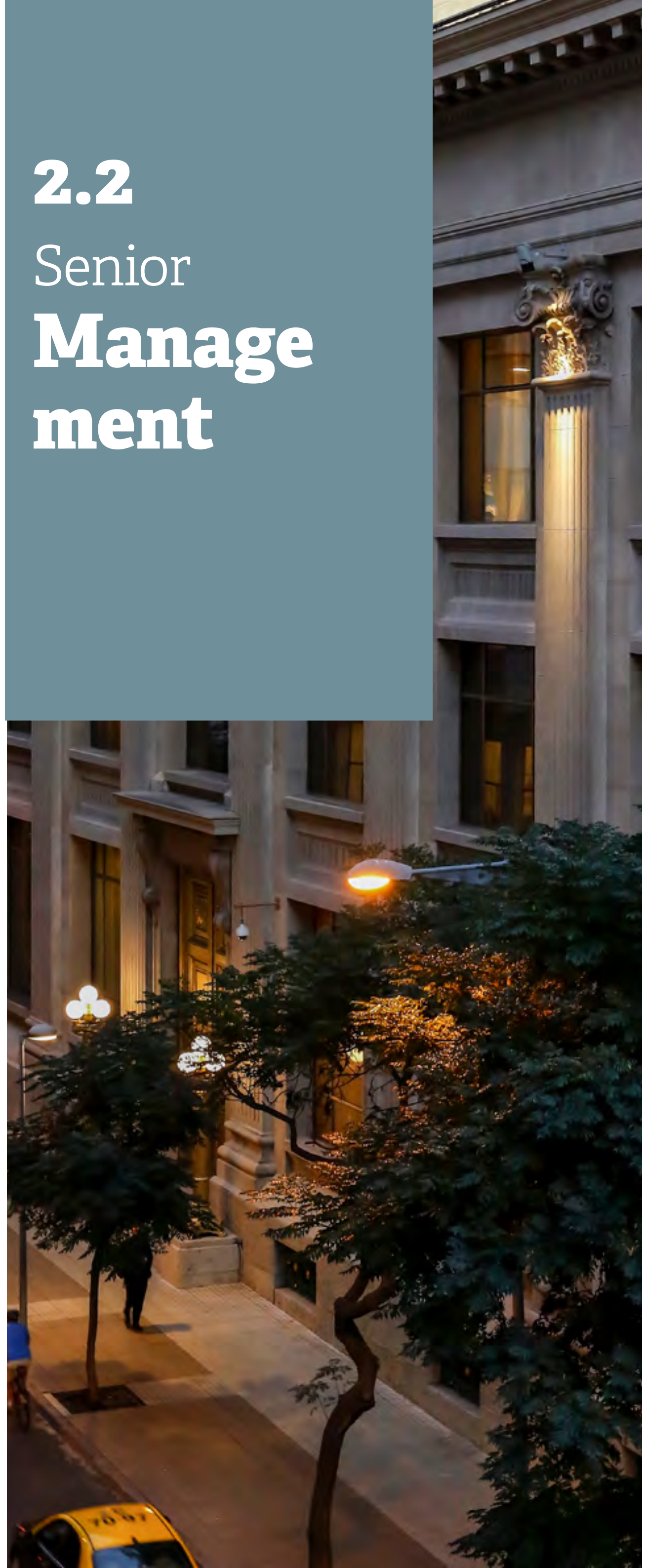
Responsibilities: Review of the legality of the Bank's agreements, resolutions, and contracts, controlling the legal risk associated with the Bank's action.

Date of appointment: 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 attorney 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.



2.2 Senior Management

Office of the General Counsel

2020 Performance

The Office of the General Counsel of the Central Bank is responsible for ensuring the legality of the Bank's agreements, resolutions, and contracts and advising the Board and the various units within the Bank on legal matters, with specialized support from the regulatory and legal services areas.

In 2020, the legal services area focused on the following issues:

- Providing legal advice to the Central Bank Board and divisions on the implementation of the unconventional credit and monetary policy measures adopted since October 2019;

- With regard to international fiscal agency, the Fiscal Agency Decree related to the Economic and Social Stabilization Fund (ESSF) and the Pension Reserve Fund (PRF) was modified to include the new sovereign wealth fund associated with Armed Forces, called the Strategic Contingency Fund (SCF);

- Providing legal advice to the Financial Markets Division on the start-up of the National Markets Committee that was implemented in 2020;

- Providing legal advice to the Financial Policy and Statisticss Divisions on the process of modernizing foreign exchange regulations;

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

- Adopting best practices in transparency through the creation of an external complaint procedure for current or former suppliers, as well as participants in quotation or tender processes.

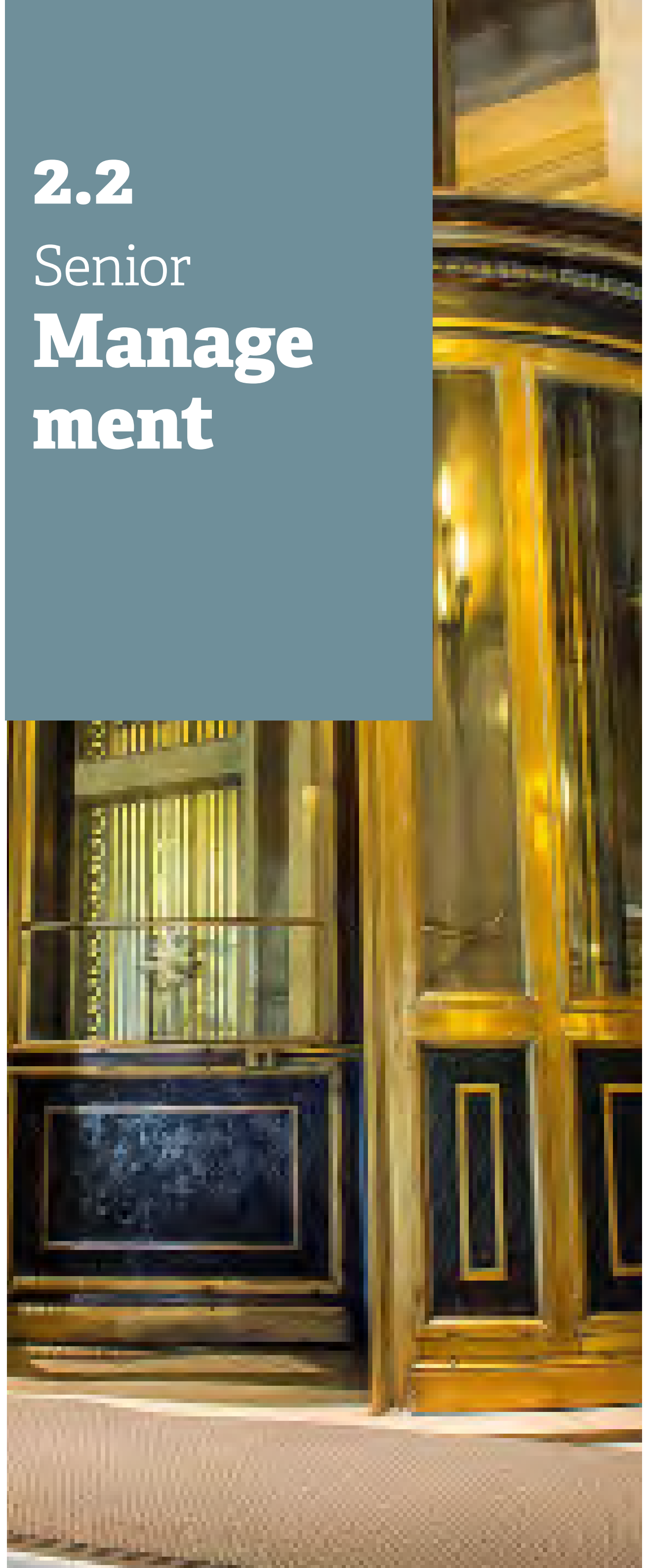
With regard to regulatory legal services, activities were centered on providing specialized support as follows:

- Contribution to the preparation of draft bills related to the messages that amended the Constitution of Chile and the Basic Constitutional Act of the Central Bank of Chile and participating in their processing, which culminated in 2020 with the passing and publication of Laws N° 21,253 and 21,265, giving the Bank the new authority to buy and sell Treasury securities on the open secondary market in exceptional and temporary situations;

- The General Counsel's Office provided the necessary legal support on the adoption of other relevant legislative frameworks, such as:

    o Law 21,233, which amended the Constitution with regard to the remuneration of public officials and authorities;

    o Laws 21,248 and 21,295, on the exceptional authorization of the voluntary withdrawal of mandatory pension savings, held in accordance with D.L. 3,500, of 1980;



2.2 Senior Management

o Laws 21,276 and 21,299, on the new legislation to promote the proper functioning of the financial market and the deferral of installment payments on mortgage loans with a state guarantee;

o The amendment of Decree Law 3,472 of 1980, on the Small Business Guarantee Fund (FOGAPE); and

o Other bills oriented toward the economic recovery and reactivation, including other parliamentary initiatives;
de retiro voluntario de ahorros previsionales obligatorios, mantenidos conforme al D.L. 3.500, de 1980

- Research and interdisciplinary coordination of an internal working group tasked with preparing technical and legal analyses for the discussion process surrounding the new Constitution; and

- Legal advice on the adoption of new Central Bank financial regulations in the areas of banking, foreign exchange, and payment means and systems, including derogations, to face the pandemic and its economic effects.

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 heads the Office of the General Auditor and 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.

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 reputation of the institution. This is achieved through the independent and objective assurance of 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.

To implement its annual work program, the Office of the General Auditor has a highly qualified staff and the necessary technological capacity. Since 2009, the Office has undergone independent assessments of the quality, objectivity, coverage, and Independence of its work, carried out by respected international organizations such as the Global Institute of Internal Auditors (IIA) of Spain in 2009 and the Board of Governors of the Federal Reserve System in 2014.

2.2 Senior Management

These assessment processes resulted in international certification by the IIA, as well as ISO 9001:2015 quality certification since 2007.

The Annual Audit Plan for 2020, 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, including research, auditing, and consulting on financial and operational risks, cybersecurity, in formation security, etc. The Plan also incorporated special reviews in response to new operations and/or financial and operational conditions deriving from the contingency scenario.

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.”

2.3 Division **Directors**

In 2020, our organizational structure included seven divisions and two areas that report to the General Manager, which operationalize our fulfillment of the Bank's role and functions and provide the services necessary to do so. In 2021, this structure was modified as shown below:

MONETARY POLICY DIVISION
Elías Albagli
Date of appointment: June 2018

FINANCIAL POLICY DIVISION
Solange Bernstein
Date of appointment: April 2017

FINANCIAL MARKETS DIVISION
Beltrán de Ramón
Date of appointment: January 2008

STATISTICS DIVISION
Gloria Peña
Date of appointment: June 2015

CORPORATE AFFAIRS DIVISION
Michel Moure
Date of appointment: June 2018

ADMINISTRATION AND TECHNOLOGY DIVISION
Mariela Iturriaga
Date of appointment: January 2019

OPERATIONS DIVISION
Raimundo García
Date of appointment: April 2019

CORPORATE RISK DIVISION
Diego Ballivián
Date of appointment: March 2021

PERSONNEL[2]
Marcela Pumarino
Date of appointment: September 2017

Area Reporting to the General Manager

For more information and details on the other areas that make up the Central Bank, visit our website.

[1] A partir del 18 de febrero de 2021 esta gerencia pasó a ser parte de las gerencias de División del Banco. Además, antes de ser una gerencia divisional, este cargo fue ocupado por Bernardita Piedrabuena hasta septiembre de 2020, quien se retiró para asumir como consejera de la Comisión para el Mercado Financiero (CMF).

[2] On 18 February 2021, the former Human Resources Area was renamed the Personnel Area.

2.4 Risk Management

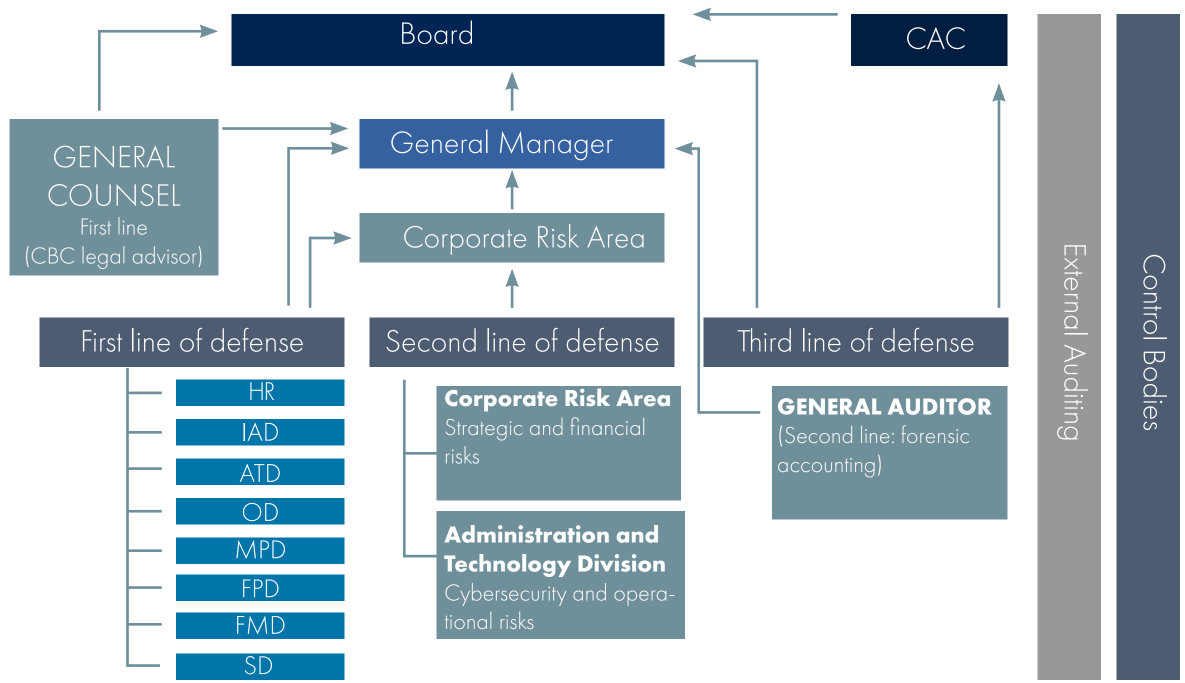
(102-15)

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 to identify, evaluate, and manage these potential contingencies and to adopt measures to prevent their materialization or mitigate their effects.

The Corporate Risk Area is responsible for evaluating and managing corporate, strategic, and financial risks, with the application of identification, analysis, monitoring, evaluation, and mitigation standards. It also advises our organization in these areas, to contribute to achieving institutional objectives. This area oversees the consistency and efficacy of strategic risk governance and the coordination of the design, review, and updating of risk policies, protocols, and methodologies. Finally, it serves as the technical counterpart of risk management for the Bank's financial operations and directs compliance thereof.

In 2020, our work focused on strengthening the Bank's risk management model, in which the highest level of governance is the Board. The model has three lines of defense, control bodies, and external auditing.

THREE LINES OF DEFENSE IN THE CBC MODEL



NOTE: In 2021, the Corporate Risk Area was raised to the division level.

2.4 Risk Management

Among the advances made in comprehensive risk management, within the framework of Priority 3 of the Central Bank's Strategic Plan, on strengthening corporate governance, we established a vision statement on the Bank's risks and risk tolerance, which is related to the amount of residual risk that the Bank is willing to accept as a result of its mission, objectives, and strategic targets[3].

We also implemented a regular compliance report on the new national liquidity injection operations and migrated the data source for financial compliance of international reserves from Wilshire to WallStreet Suite, to standardize it with the data source used by the front and back office.

Additionally, as part of the consolidation of the Corporate Risk Area, we increased the analysis of financial compliance in relation to the measures adopted due to the pandemic. We also made progress on updating the policies and methodologies that provide guidelines for the analysis of short- and long-term financial risk.

In 2021, the Central Bank continued working on the process of developing other strategic risk methodologies through the use of technologies and developments such as web scraping and text mining[4].

Environmental, Social, and Governance Risks

The Corporate Risk Area defines strategic risks as including environmental, social, and governance (ESG) factors. Given that they can affect the achievement of our institutional objectives, ESG issues are analyzed from an organization-wide perspective.

Our organization identifies and monitors ESG risks through media analysis, expert opinions, and the results of reports by respected institutions, from both a national and international perspective. ESG risk management is governed by our comprehensive institutional risk management framework.

Main ESG risks monitored by the Bank:

- Climate change.
- Board members, senior management, and employees: Fraud, illegal or unethical behavior, leakage or destruction of sensitive information, undeclared conflicts of interest.
- Third parties: Money laundering, terrorist financing, etc.

[3] /Residual risk is the risk that remains after adopting the corresponding controls and mitigation measures.
[4] /Web scraping is a technology that simulates an Internet user's navigation; text mining refers to data mining

2.4 Gestión de **Riesgos**

Emerging Risks

The analysis of strategic risks—understood as internal or external events that affect an organization's sustainability and, in the case of the Central Bank of Chile, that in any way affect compliance with the mandate conferred by the Basic Constitutional Act—is carried out by the Corporate Risk Area. The CBC has a comprehensive risk management system for monitoring risks with a high impact on the present and future of our organization.

This area regularly identifies, analyzes, and reports on strategic risks and their evolution over time, using technologies such as web scraping and text mining, as well as data from communications media and the press, expert analysis, and reports issued by respected international organizations.

In addition, a risk self-assessment of all the Bank's processes was carried out in 2020, reviewing and updating all risks, including emerging risks. At the same time, the units charged with managing and monitoring strategic, financial, operation, legal, and reputational risks gave quarterly presentations to the Risk Committee on events that could potentially materialize and/or had materialized.

Political and legal	Economic and financial	Technological
—Effects of the constitutional process on the Central Bank's institutional framework. —Fluid and effective coordination with stakeholders.	—Inflation outside the target range and a sharp drop in economic activity. —Instability of the financial system. —Availability of cash. —Functioning of the large-value payment system. —Macroeconomic and financial effects of climate change.	Given the context of the pandemic and remote work, the emerging risks associated with the following areas have been reassessed: —Cyberattacks on the CBC. —Corporate governance and human resources issues. —Employee behavior. —Third-party participation.

2.5 Cyber security

Cybersecurity continues to be a major concern, in particular given the various incidents that have occurred both locally and internationally. We therefore continue to strengthen our capacity for detecting events that compromise the Bank's cybersecurity and ensuring a timely response.

To this end, we have continued to incorporate tools that improve the detection of threats to the Bank's network and our Internet. These tools strengthen data protection and prevent he leakage of information contained in confidential documents.

As in past years and as part of our ongoing work in this area, in 2021 we will continue to promote the coordination of user training activities on issues associated with protection against cybersecurity threats.

2.6 Commitment to Transparency

(102-16)

Our Mission, Vision, and Values

Mission

To safeguard the stability of the currency and the normal functioning of internal and external payments, thereby contributing to the proper functioning of the economy, financial stability, and the well-being of society.

Vision

To be a trustworthy technical institution, known for its high standards in achieving its institutional objectives.

Values

COMMITMENT

We have a commitment to society to achieve the mission that has been publicly entrusted to our institution, through independent action based on technical criteria, and we assume full responsibility for the decisions we make. .

RESPECT

Throughout our work, we communicate clearly and openly, promoting equal opportunity, sharing experiences and knowledge, and demonstrating mutual respect.

EXCELLENCE

We achieve our mission efficiently, constantly improving our day-to-day work, incorporating best practices, developing our talent and teamwork, and promoting innovation.

INTEGRITY

In carrying out our public functions, we maintain impeccable conduct, prioritizing the general interest over particular interests and safeguarding professional and ethical integrity in the management of the Bank's resources.

TRANSPARENCY

We act clearly and openly in our day-to-day work, and we quickly and efficiently report our decisions and analysis to society.

DIVERSITY, INCLUSION, AND NON-DISCRIMINATION

We use equity criteria in all our dealings with people, making no distinction on the basis of sex, age, social condition, religion, sexual orientation, race, marital status, union membership, political preference, disability, nationality, or ethnic group, which could reflect a discriminatory bias or affect the fundamental rights of people. Furthermore, we implement actions that favor people with a disability, making a commitment to adapt jobs to their specific needs.

2.6 Commitment to Transpa rency

Transparency

At the Central Bank, we are governed by the principle of transparency in the exercise of public function, as established in Article 8 of the Constitution, the provisions of the Bank's Basic Constitutional Act, and legislation that expressly incorporates the Central Bank, 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 2020, we continued to comply strictly with these regulations aimed at increasing the transparency of public institutions.

Access to Information

In 2020, the Central Bank received a total of 98 requests under the framework of Law N° 20,285, which represents a 9% increase relative to 2019.

All the requests were addressed within the time limit established in Article 14 of the aforementioned law, namely, within 20 business days from the date the date the request is received. The average response time was 11 business days.

Since the Law 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.

As part of our new strategy for consolidating relations with our key stakeholder groups, in 2020 we implemented a new contact platform for people who do not use the channels covered by the Transparency Law. This platform, available on the Bank Central website (www.bcentral.cl), 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 Bank's communication guidelines for different stakeholder groups.

In 2020, to strengthen our institutional transparency and accountability mechanisms, the Central Bank Board voluntarily released the full records of Monetary Policy Meetings held in 2009 and the historical records of prior Boards of Directors and the former Executive Committee for the period from 1946 to 1967. 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.

For more information and access to the documents mentioned above, visit our website Transparencia Activa.

2.6 Commitment to Transpa rency

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, 39 Central Bank authorities are subject to this law. The full list of their names and positions is available on the Bank's website.

In 2020, there were 72 meetings with lobbyists or special interest representatives, 58% of which were held via videoconferencing; five business trips, and 23 donations or gifts received. 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..

Law on Probity

This law 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, 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. In 2020, the Bank's authorities complied with legal requirement and timeframe for submitting and updating their conflict-of-interest and equity statements, which are published on the Central Bank's website, in the transparency and probity section, and on the InfoLobby website of the Chilean Transparency Council.

2.7 Ethical **Behavior**

(102-17)

In 2020, we published an interactive guide on the Code of Conduct, which was accompanied by workshops on ethical decisionmaking in the exercise of leadership. A total of 132 managers attended the workshops, representing 82.5% of all the Bank's leaders.

At the Central Bank of Chile, ethics and compliance are part of our day-to-day business. We understand the important responsibility that we have been given and that this implies impeccable behavior.

To define our main code of conduct, we have Personnel Regulations approved by the Board, which lists the obligations, prohibitions, disqualifications, incompatibilities, conflicts of interest, and so forth applicable to all Bank staff. We also have a Code of Conduct, Probity, and Values, which defines the standards of behavior that must be met by Bank functionaries to ensure that their conduct is in line with institutional principles and personnel regulations.

Our policies, standards, and regulations in the area of ethics and compliance are always available on the Bank's intranet and website.

Our ethical guidelines are diffused among Central Bank employees primarily through training programs, such as our onboarding session and lecture series focused on ethics-related information and prevention. We also carry out climate, culture, and value surveys to ensure that our employees have an adequate understanding of institutional values and ethical conduct.

For division directors and area managers, our training program (Leadership Academy) includes a specific module on conduct and the analysis of ethical dilemmas.

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Ethics Committee

The Central Bank has an Ethics Committee, made up of the General Manager, the General Counsel, and the General Auditor, which has been approved by the Board and addresses issues related to Bank personnel.

This internal body acts as an advisor to the Board and senior management in the promotion and safeguarding of observance of the Personnel Regulations and the current Code of Conduct by Bank staff, promoting a culture of adhesion to institutional values and principles.

The responsibilities of the Ethics Committee include the following:

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

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

(3) Recommend plans for diffusion of ethical culture and adherence to the personnel regulations.

2.7 Ethical **Behavior**

Inquiry and Reporting Channels for Ethical Issues

Employees and suppliers of the Bank can ask questions and/or report problems or complaints on ethical issues through a number of channels maintained for this purpose. These have the necessary safeguards to protect people who report any sort of irregularity or lack of probity within the Bank, to prevent threats or harm in their employment relationship with the Bank.

EMPLOYEES	SUPPLIERS
• Reporting channel available through the Bank's intranet. • In writing, directly to the respective divisional director or the director's superior. .	• Reporting channel for suppliers This channel came online in December 2020 as a communication mechanism for both companies and their employees to report potential conduct issues in purchasing processes or during the execution of purchasing contracts or orders, which could imply legal or regulatory noncompliance by a Bank employee or area.

Additionally, the members of the Ethics Committee, the Head of the Reporting Channel, the division and area managers, and the Human Resources Area are always available to receive questions or concerns.

The procedures to be followed after a complaint has been received are outlined in the Personnel Regulations.

2.8 Conflicts of Interest

(102-25)

To prevent conflicts of interest, the Board and senior management are subject to Law N° 20,285, on public access to information; Law N° 20,730, which regulates lobbying and special interests; Law N° 20,880, on probity in public administration; and the regulations on maintaining a record of the Central Bank's public agenda, lobbyists, and special interest groups. Additionally, the Central Bank's recruitment and selection processes and procurement processes establish mechanisms for applicants to declare potential conflicts of interest with Central Bank staff.

Internally, we have established mechanisms through which employees can declare potential conflicts of interest in the course of their work using a Declaration of Disqualifications, Incompatibilities, and Conflicts of Interest, available in the electronic declaration system. This procedure is defined in the Code of Conduct, Probity, and Values and the Personnel Regulations, available on the Bank's intranet and website.

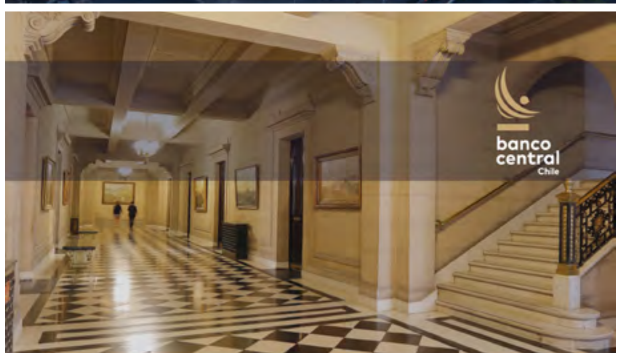
Bank authorities can submit their conflict-of-interest and equity declarations a the following times:

- Prior to assuming their position;
- Mandatory annual update (March);
- Voluntary update; and
- On leaving their position (up to 30 days after).

3 A Central Bank, closer

Contributing to the country's development and the progress of its citizens is part of our daily business. Our constitutional mandate aims to ensure that society can operate in a context of a stable financial system and low inflation.
We know that these issues can seem complex at first glance, so we work to provide people with clear and relevant information and a new, more approachable image.

3.1 A New Image for **Our Bank**



One of the objectives of the 2018–2022 Strategic Plan is to adapt the Central Bank's capacities in a climate of accelerated change. Together with achieving the Bank's vision and mission and reflecting our integrated position in society, we have taken up the challenge of strengthening our understanding and dialogue with our different stakeholders.

In this context, we launched a series of initiatives oriented toward improving the quality of institutional communications and broadening our reach to new audiences. This included integrating the corporate image into the Bank's communications.

This led us to discuss the possibility of developing a new visual identity that was attractive, modern, sleek, and technically suitable for use on web platforms and graphic designs, and that would convey the Bank's main attributes.

After reviewing the experiences of other central banks in this area, we began work on the creation of a new corporate image. The challenge was addressed by five work teams from an advertising agency, with a total of over 30 people including creative directors, art directors, creative editors, publicists, and graphic designers, as well as digital graphics specialists, most between 24 and 30 years of age.

The new corporate image considers a design that maintains our Central Bank identity, with a condor spreading its wings to fly majestically over the mountains. This important change marks a new phase of institutional development and aims to highlight our main features.

3.2 Community and **Stakeholder Relations**

(BCCh1, 103-1, 103-2, 103-3)

Trust is a public institution's principal asset, especially for an independent Central Bank such as Chile's. In this sense, strengthening understanding and dialogue with the community and diversifying and improving stakeholder relations and communications are crucial for reducing information asymmetry with important audiences.

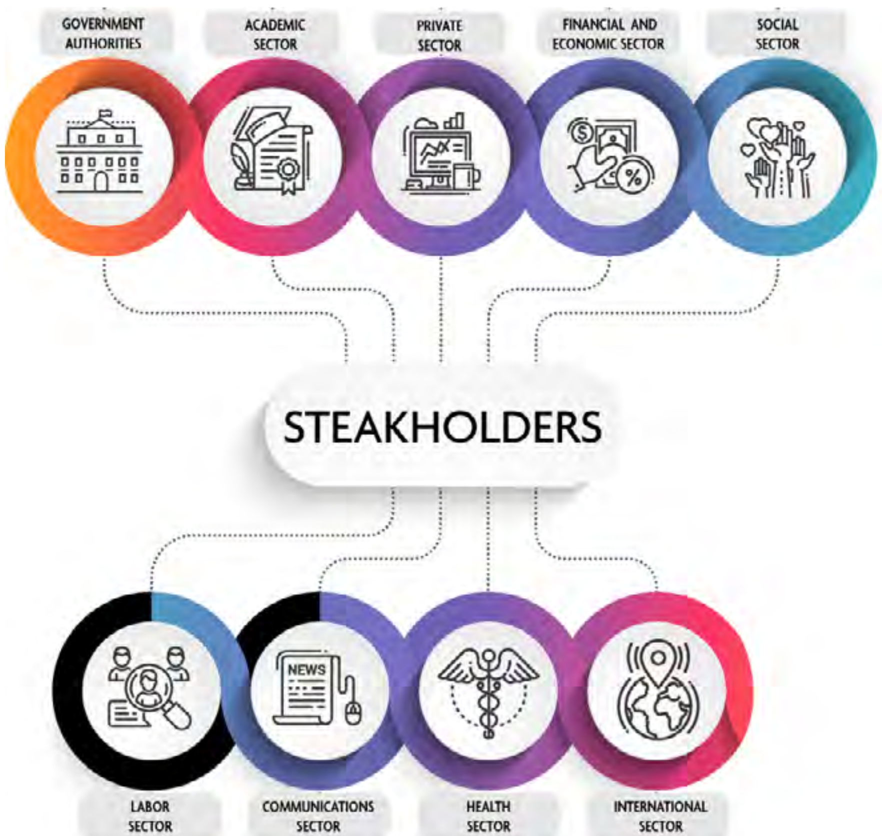
Transparency is a key determinant of trust. It depends not only on the adequate communication of the institution's interests, but also and especially on the public's ability to access institutional information as needed.

In this sense, the eruption of COVID-19 in Chile raised a new challenge for the whole organization in terms of adapting to a new reality. This led us to redesign scheduled activities; to create and adopt new listening and relationship mechanisms; and to implement new internal and external communication platforms. Thus, while the work agenda was modified, the challenges that were originally raised took on even greater significance.

For the Central Bank, 2020 will go down as the year with the greatest media coverage in the Bank's history, featuring a constant presence in the media and on social networks, essentially in relation to the effects of the social crisis, the pandemic, and the unfolding of the constitutional process. This exposure reinforced the Bank's positioning as a macroeconomic reference in a period marked by the evolution of the crisis, the implementation of exceptional measures to mitigate the impacts, and the provision of information, analysis, and forecasts of their main effects on the country.

For 2021, the forecast scenario is not very different from last year. The uncertainty caused by the pandemic, the constant change in health indicators, and access to a vaccine require a redoubling of the efforts deployed. In addition, the macroeconomic scenario and the recovery horizon will stimulate greater scrutiny of the role played by our institution in economy and its role as leading source on macroeconomics in the country.

The ability to adapt to changes in the economic scenario and the maintenance of communication channels and listening and interaction spaces within the Bank will continue to be key factors for achieving our proposed objectives for this period.



Stakeholder Groups

102-40, 102-42, 102-43, 102-44

As the primary asset of an independent Central Bank, the trust that citizens place in our institution gives it legitimacy for exercising its power and authority, and it represents a fundamental determinant of its effectiveness, by aligning the behavior of people and agents with the pursued objectives.

In this context, the Bank has regular contact with a variety of representatives in the course of our work. This contributes to an adequate analysis of risks and opportunities, facilitating stakeholder relations and communications. Thus, maintaining periodic or permanent links with stakeholders and detecting their main interests and expectations are crucial for building the foundation that makes any organization sustainable.

This work is highly important for the Central Bank. Our stakeholder interactions are based on information and communication objectives and in no way affect the technical nature of our institution or its impartiality in the performance of its duties.

Establishing trust with stakeholders is especially important for the Bank. To this end, we have identified all the individuals or organizations that are—or could be—affected by our work, as well those whose acts or decisions have an impact on our field of action.

We manage our work in this area using a large database of more than 30,000 records, organized around nine detailed areas or sectors. We also have a stakeholder relationship management plan that coordinates a wide range of activities by stakeholder group, including videoconferences, publications, diffusion of reports, opinion columns, conferences, meetings, interviews, workshops, training courses, corporate events, agreements, and so forth.

The most important issues and concerns for our stakeholders involve the management and future development of the Central Bank, from the potential impact of our decisions to issues affecting the Bank's sustainability over time.

Constant monitoring and assessment of our actions has provided key information on the primary concerns and issues of our different stakeholders.

3.2 Community and **Stakeholder Relations**

Our public relations plan in 2020 was based on:

•Maintaining and broadening alliances with trade associations, universities, and local development organizations;
• Incorporating new mechanisms for diffusing reports and relevant content;
• Generating opportunities for participation between the Board, senior management, and the staff;
• Implementing initiatives aimed at containing the impacts of the pandemic on employees; and
• Carrying out work climate surveys.

All these initiatives were adapted to a remote environment due to the pandemic.

During the year, we also worked on strengthening our internal and external communication mechanisms, including videoconferencing, social networks, and our website.

website: www.bcentral.cl

Twitter: https://twitter.com/bcentralchile

LinkedIn: https://www.linkedin.com/company/central-bank-of-chile

YouTube: https://www.youtube.com/user/BancoCentralChile

Flickr: https://www.flickr.com/photos/bancocentraldechile

3.2 Community and **Stakeholder Relations**

Regarding the dissemination of relevant content and relationship activities with reference groups, during 2020 the following indicators stand out:

External Stakeholders

34 presentations and **1.056.413** people connected for the diffusion of the Monetary Policy Report (IPoM)

8 presentations and **1.534** people connected for the diffusion of the Financial Stability Report (FSR)

31 Interviews with Board Members by the media

7 Opinion pieces published in the press

38 Economic research papers published

1.900 Downloads of the 2019 Integrated Annual Report

103 Training seminar participants from the Inter-American Association of Economic and Financial Journalists (AIPEF)

3.000 Virtual visits on National Heritage Day

Events in which the Bank participated in 2020.

The Board presents the March Monetary Policy Report (IPoM) to the Senate Fnance Committee via videoconferencing

The Deputy Governor of the Central Bank, Joaquín vial, presents the June IPoM at the Regional Virtual Meeting organized by the Maule Progress Board and the University of Talca Economics and Business School

Launch of the second volume of the history of the Central Bank of Chile, covering 1964 to 1989.

Central Bank Governor, Maro Marcel, and Financial Policy Division Director, Solange Berstein, present the Financial Stability Report (FSR) for the first half to the Senate Finance Committee

Financial Markets Division Director, Beltrán de Ramón, gives a talk during the journalist workshop organized by the Bank in conjunction with the Inter-American Association of Economic and Financial Journalists (AIPEF) in 2020.

September Monetary Policy Meeting

Board Member Rosanna costa was interviewed by Diario Financiero in June 2020.

The magazine Pulso de la Tercera interviewed Governor Mario Marcel after the presentation of the June 2020 IPoM.

3,000 virtual visits during Heritage Day

Board Member Alberto Naudon was interviewed by journalist Nicolás Paut for CNN Chile's Economic Agenda program

3.2 Community and **Stakeholder Relations**

Internal Stakeholders

50
Issues of our employee newsletter, Central Online and Mirada Central

830
Employees connected to seven virtual meetings with the Central Bank Governor and Board Members

12
of our internal publication, Mirada Central

417
Employees participated in the online celebration of the 95th anniversary of the Central Bank of Chile


Discussion on the constitutional process


Governor Mario Marcel in a discussion with Central Bank executives


The Bank published an internal message in support of International Women's Day on Sunday, 8 March


Online celebration of the 95th anniversary of the CBC, August 2020

3.2 Community and **Stakeholder Relations**

Our Networks

102-12, 102-13

The Central Bank of Chile participates in a number of organizations that add value to our work.

Center for Latin American Monetary Studies (CEMLA) Role: Member Contribution: CLP 140 million annually	**Bank for International Settlements** Role: Member and participant on the governance committee	**Network for Greening the Financial System** Role: Member	**Fondo Monetario Internacional** Role: Member
Organisation for Economic Co-operation and Development Role: Member	**Banco Interamericano de Desarrollo** Role: Member	**Banco Mundial** Role: Member	**Banco de Desarrollo de América Latina** Role: Member

To date, we have not signed any external initiatives, principles, or statutes on environmental or social issues

3.2 Community and Stakeholder Relations

International Relations

In 2020, we continued to participate actively in international organizations, including both regularly scheduled events and additional activities. Because of the pandemic, practically all our participation was virtual.

As part of our regular activities, we participated in 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); 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; and the Meeting of Central Bank Governors of CEMLA and of the CEMLA Committee of Alternates.

Additional activities included seminars, conferences, international meetings, and missions of international organizations. In this context, the Central Bank Governor participated in topical events related to COVID-19, such as the BIS Annual Conference, "Central Banking in the Wake of the Pandemic" (November); the thirteenth meeting of Bolivian economists, organized by the Central Bank of Bolivia and entitled "Economic Policies during Lockdown and the Challenges for Countries in the Region due to the Pandemic"(October); the IIF summit, "Central Banking in the Age of COVID-19" (June); and the JP Morgan conference, "Chile: Monetary Policy Strategy during and post COVID-19."

With regard to external missions, the preparatory mission for the International Monetary Fund (IMF) Article IV Mission scheduled for January was carried out in person. However, the Article IV Mission itself could not be held due to the pandemic.

Also in January, the first part of an exploratory technical mission was conducted as part of the Financial Stability Assessment Program (FSAP), with the participation of experts from the International Monetary Fund (IMF) and the World Bank (WB). However, the second part of the mission had to be postponed until 2021, again due to the pandemic.

Other additional activities were held virtually. Thus, the Governor participated in the XXXVIII Meeting of Central Bank Governors of South America (November), together with the governors of the central banks of Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru, and Uruguay; the Meeting of Central Bank Governors of CEMLA (October); the annual meeting of the IMF and the World Bank, which included participation in conferences with investment banks and a public roundtable discussion with central bank governors organized by the IDB (October).

Due to the special circumstances of the pandemic, virtual meetings were held with the Council of the Americas and various banks and investment funds, including Blackrock, Bank of the America, HSBC, JP Morgan, Gávea, and Citi. In some cases, the Governor participated; in others, the Board Members.

3.2 Community and **Stakeholder Relations**

Presentations to Congress

We organize our publications annually based on a preset schedule, which is essentially structured as follows:

4 Monetary Policy Reports

- **March**
- **June**
- **September (together with the annual report to the full Senate)**
- **December**

2 Financial Stability Reports

- **May**
- **November**

These reports are presented to the Senate Finance Committee and the full Senate. Additionally, the Bank is frequently invited to other parliamentary sessions, such as specific House and Senate committee meetings, to provide a technical opinion on issues of interest to the legislators.

Thus, the Bank participated in numerous Congressional meetings, in addition to the IPoM and FSR presentations.

3.2 Community and **Stakeholder Relations**

Presentation to the Senate

Presentation to the House of Representatives

27 January
Committee: Constitution, Legislation, Justice, and Regulations
Speaker: Mario Marcel
Topic: Study on the constitutional amendment bill, in second reading, which determines legislators' salaries by law.

20 April
Committee: Finance
Speaker: Mario Marcel
Topic: Constitutional amendment bills related to the prohibition for the Central Bank of Chile to fund public spending.

5 may
Committee: Economy
Speaker: Mario Marcel
Topic: Legislative initiatives on the mandatory deferral of loan payments.

4 june
Committee: Economy
Speaker: Joaquín Vial
Topic: Study on legislative initiatives on the mandatory deferral of loan payments

10 june
Committee: Finance
Speaker: Mario Marcel
Topic: Bill on transparency and strengthening the responsibilities of market agents.

22 june
Committee: Finance
Speaker: Mario Marcel
Topic: Amendment of the Constitution and the CBC Basic Constitutional Act to authorize the CBC to purchase Treasury bonds in the secondary market.

2 july
Committee: Finance
Speaker: Mario Marcel
Topic: Miscellaneous bill to safeguard the functioning of the financial market.

3 july
Committee: Constitution, Legislation, Justice, and Regulations
Speaker: Mario Marcel
Topic: Pension fund withdrawal

13 july
Committee: Finance
Speaker: Mario Marcel
Topic: Constitutional amendment the authorizing Central Bank of Chile to purchase Treasury bonds in the secondary market.

14 july
Committee: Finance
Speaker: Joaquín Vial
Topic: Bill to suspend various types of loan payments under specified conditions, due to the pandemic, for the duration of the constitutional state of exception for a catastrophe.

3 august
Committee: Constitution, Legislation, Justice, and Regulations
Speaker: Mario Marcel
Topic: Constitutional amendment authorizing the Central Bank to purchase Treasury bonds in the secondary market. Presentation repeated before the House Finance Committee on 10 August.

14 october
Committee: Constitution, Legislation, Justice, and Regulations
Speaker: Mario Marcel
Topic: Constitutional amendment bills related to a new pension fund withdrawal and the use of life annuities.

17 november
Committee: Finance
Speaker: Mario Marcel
Topic: Bill on transparency and strengthening the responsibilities of market agents

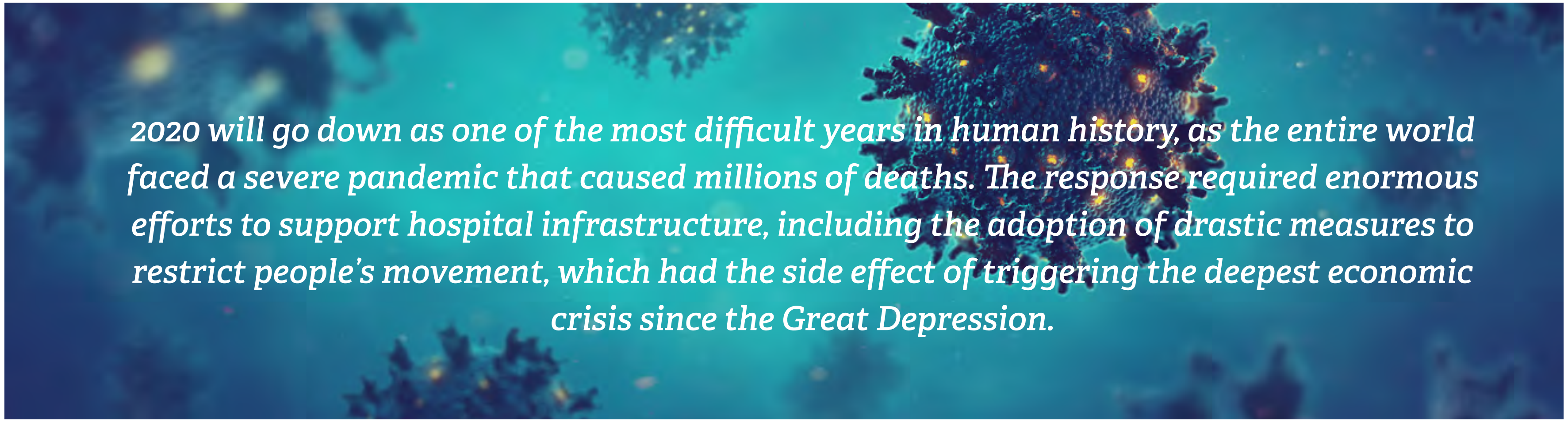
18 november
Committee: Constitution, Legislation, Justice, and Regulations
Speaker: Mario Marcel
Topic: Scope of the constitutional amendment bill allowing a second pension fund withdrawal.

22 december
Committee: Economy
Speaker: Mario Marcel
Topic: Bill on the regulation of conversion fees.

4 Our Performance

In a year marked by the pandemic and its impacts, it is a source of pride to confirm that we fulfilled our mission.
The implementation of exceptional measures, timely action, and the commitment of our entire team are key aspects of our performance and help prepare us for the coming challenges.

4.1 Response to the **Pandemic**



The Central Bank of Chile was not exempt from the pandemic's effects, which tested its ability to meet its constitutional mandates, so as to prevent the shock caused by the sudden drastic fall in output and employment from becoming a threat to financial stability and the inflation target.

To mitigate the effects of the shock, the Bank implemented an important set of measures, including a significant monetary stimulus, lending promotion initiatives, and cash management measures. These measures had to be evaluated, studied, adopted, and implemented by the Bank, in coordination with other macroeconomic authorities, while quickly adjusting our infrastructure to incorporate the necessary health precautions for all our staff, who were able to comply with mobility restrictions and maintain the required social distancing and safeguards through remote work.

This demanded a major coordination effort in terms of the digital operating systems, which the Central Bank had already adjusted over the past few years so as to ensure operational continuity precisely in the event that critical Jobs could not be performed in the main office building.

The Board met both remotely and in person, maintaining the safety measures required by the health authorities and receiving virtual information support from the technical team.

Fully 98% of the Central Bank staff was able to successfully work remotely, supported with timely training and frequent communication of information on self-care measures.

The mandatory social distancing imposed by the health authorities to prevent contagion also changed the way the Bank relates to its stakeholders, in a context of increased demand for information on the measures implemented to face the economic crisis.

These needs were met remotely, through numerous virtual meetings with a wide range of groups, which required an additional technological effort over and above the Bank's past progress in this area.

The restrictive measures implemented to contain the pandemic also had an effect on the amount of cash in circulation, due in part to the withdrawal of pension savings. As a result, the trends in the production of and demand for banknotes and coins far exceeded the forecast.

This raised a challenge for Central Bank of Chile, which had to coordinate closely with financial institutions and implement a logistics strategy that provided a timely response to the new cash trend (See box on page 100).

4.1 Response to the Pandemic

The Measures

As of the social crisis of October 2019, the Bank adopted a series of measures to facilitate the management of liquidity in dollars and in pesos of the financial system.

To provide liquidity in pesos, a repo program was implemented, in which the Bank lent pesos against eligible collateral, accepting bonds issued by banking companies as collateral.

For the provision of liquidity in foreign currency, a swap program in dollars and another for the repurchase of debt securities of the Central Bank were opened.

In order to reduce the volatility of the exchange market, in December 2019, the Board ordered an exchange intervention, with a program of spot and forward dollar sales of up to US $ 20,000 million. This program was in effect for two months. On January 10, the Bank announced that the forward stock would be maintained at USD $ 4,500 million and on June 3, 2020 a gradual reduction was announced.

In March 2020, after the appearance of the first cases of COVID-19 in Chile, the government declared a State of Catastrophe and imposed restrictions on people's mobility, with lockdowns in several communities and a curfew throughout the country.

The confinement measures triggered an abrupt paralysis of economic activity, to the point that in the second quarter GDP fell 14.2% in annual terms, closing the year with a contraction of 5.8%. The loss of jobs affected 1.8 million people.

Given the magnitude of the crisis, the government, the Financial Market Commission, and the Central Bank worked in coordination to adopt a series of measures to mitigate the impact of the loss of income for households and firms.

In the case of the government, measures were aimed at protecting jobs and labor income through subsidies and transfers; providing liquidity and tax relief for small and medium-sized enterprises (SMEs); reinforcing the Job Protection Law and unemployment insurance; providing loans backed by the Small Business Guarantee Fund (FOGAPE); supporting formal self-employed workers; and developing job- and investment-promotion plans.

The Financial Market Commission (FMC) implemented measures to relax loan duration for SMEs and guarantees on personal mortgage loans, as well as the timeline for the application of the Basel III standards for banks and the treatment of provisioning requirements on rescheduled loans for banks, savings and loan associations, and mutual societies. Additionally, measures were adopted to maintain the flow in the delivery of FOGAPE loans.

4.1 Response to the Pandemic

The Central Bank focused on providing liquidity, safeguarding financial stability in the country, and achieving its low and stable inflation target, based on the following measures:

March

16/ •At a Special Monetary Policy Meeting, the monetary policy rate (MPR) was reduced by 75 basis points, to 1.0 percent. The Board also adopted a series of measures to ensure the normal functioning of the credit markets and the effective transmission of the greater monetary stimulus. One of the measures was to open a Conditional Financing Facility for Increased Loans (FCIC) for banks, so that they continue funding loans to households and firms, especially those that do not have access to the capital market. The facility will be available for six months and features a credit duration of up to four years, an initial amount of 3% of the baseline commercial and consumer portfolios reported by the FMC, and an interest rate equivalent to the MPR in effect at the time the line is accessed. Eligible collateral includes corporate bonds. The decision was also made to start purchasing bank bonds from SOMA participants for an amount (set in UFs) equivalent to up to USD 4 billion and to extend the foreign currency sales program through 9 January 2021.

18/ • The constitution of foreign currency cash reserves was expanded to include not only U.S. dollars, but also euros, Japanese yen, and national currency.

• Provision of 30-day FX swaps extended to a USD 400 million per day for Thursday, 19 March, and Friday, 20 March.

20/ • A bank bond purchase program was launched for participants in the Open Market Operations System (SOMA), for up to USD 4.0 billion (in UF).

23/ • The Bank communicated the operating rules for the FCIC, establishing that for Banks accessing the facility, the baseline portfolio is defined as the sum of their commercial and consumer portfolios at the end of February, as reported to the FMC in the respective administrative files. There is also an additional line defined as a function of the observed growth of loans and the share of FCIC resources channeled to smaller firms, for which there will be weekly reviews and conditions based on their size. The regulations further establish that in order to access the facility, banks must pledge collateral to the CBC, in the form of securities issued by the Central Bank or the Treasury of Chile, as well as a range of fixed-income securities issued by banks and debt securities registered in the FMC securities registry.

4.1 Response to the **Pandemic**

March	**23/** • The Bank reported that the FCIC will begin to operate within the week. • The Bank also activated the Liquidity Credit Line (LCL) in national currency (Chapter 4.1 of the CMNF), where a given bank's credit limit is equal to its average national currency reserves and where access and use will be subject to the same loan-growth conditions associated with the FCIC. • The total of the two measures is around USD 24.0 billion. **31/** • At its Monetary Policy Meeting, the Board of the Central Bank voted to reduce the monetary policy rate (MPR) to its effective lower bound of 0.5% and signaled that inflation convergence to the 3% target will require monetary policy to remain highly accommodative for some time.
April	**08/** • Eligible collateral for accessing the FCIC was expanded to include high-quality commercial loans in the individually assessed portfolio (A1 to A3 rating), which triples potential access.
May	**29/** • The International Monetary Fund (IMF) announced the approval of the Central Bank of Chile's application to open a two-year Flexible Credit Line (FCL) for USD 23.93 billion, which will increase the Central Bank's immediate access to international liquidity by more than 60%. These credit lines are available for countries with solid macroeconomic foundations.
June	**17/** • A new round of the Conditional Financing Facility for Increased Loans (FCIC II) was announced for USD 16.0 billion, to ensure the continuity of businesses in the context of prolonged health restrictions due to COVID-19. This program, available starting in July for banks that have fully used their allocation in the first FCIC program or that waive their remaining balance, includes provisions to strengthen the incentives for lending to small and medium-sized firms, as well as nonbank lenders. • If the sum total of the FCIC programs is used, the CBC will have injected liquidity into the economy equivalent to 15% of GDP. • The Bank also announced the implementation of an asset purchase program of up to USD 8.0 billion for a period of six months.

4.1 Response to the Pandemic

June

24 / • The Federal Reserve Bank of New York approved the Central Bank of Chile's application to the Temporary Foreign and International Monetary Authorities (FIMA) Repo Facility, available for central banks, whereby the FIMA account holders enter into repurchase agreements with the Federal Reserve in order to temporarily exchange their U.S. Treasury securities for U.S. dollars. This will give the CBC access to U.S. dollars without having to sell securities in the international market.

July

24 /• The Central Bank and the People's Bank of China (PBoC) successfully conclude their negotiations to increase the amount of the line in the renminbi/peso bilateral swap arrangement (BSA), signed in May 2015 and renewed in 2018 for three years. The line will increase from RMB 22.0 billion to 50.0 billion, equivalent to USD 7.1 billion, approximately.

30/• • To facilitate the entry into force of the regulations authorizing the withdrawal of up to 10% of pension fund savings, the Central Bank announced a special asset purchase program for eligible bank securities, which involves the spot purchase and forward sale of bank bonds with a given counterparty. The total amount of the program (called the CC-VP) is up to USD 10.0 billion, with forward sales of one and three months.

•It was further announced that the bank bond purchase window would continue to operate for the remaining USD 4.1 billion from the March program, to contain volatility scenarios.

• A time deposit purchase window will also be made available for up to USD 8.0 billion, open to all SOMA participants.

• The Bank indicated that these measures are intended to preserve financial stability and the efficiency of the price formation process, in the face of significant asset liquidation by the pension fund managers.

September

24 / • Given the completion of the bulk of asset liquidation associated with the withdrawal of 10% of pension fund savings, the Central Bank reported that it is suspending the special time deposit purchase program and, in the case of the CC-VP program, it will only accept rollovers of the current stock by institutions that have already used the facility for earlier operations.

4.1 Response to the Pandemic

December

04 / • In advance of the second pension fund withdrawal, the Central Bank announced the reopening of the special spot sale and forward purchase (CC-VP) program, for the remaining balance from the first program, for an amount equivalent to USD 8.5 billion and the reopening of the special time deposit purchase program, also for the remaining balance from the first program, for an amount equivalent USD 7.75 billion.

• As with the previous withdrawal, the measures are intended to preserve financial stability and the efficiency of the price formation process.

• The Bank reported that these programs are in addition to the repo window for banks, which will be extended through May 2021

What are the FCIC?

The FCIC are special funding lines for banks, which provide resources and incentives for the banks to use the lines to continue financing and refinancing loans to households and firms, especially those that do not have access to the capital market.

4.2 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 target established under this scheme is for annual inflation (measured as the annual percent change in the CPI in a period of 12 months) to stay around 3% most of the time. To achieve this, monetary policy decisions must be consistent with an inflation forecast that converges to 3% in a policy horizon of 24 months.

The Central Bank's main instrument for keeping inflation in line with the target is the monetary policy rate (MPR), which is set at each Monetary Policy Meeting (MPM).

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.

Every year, the Board holds eight Monetary Policy Meetings to determine the MPR and publishes four Monetary Policy Reports. The reports contain an exhaustive analysis of the national and international macroeconomic scenario, as well as growth and inflation forecasts. Depending on the evolution of the macroeconomy and the potential effects on inflation, the Board can also hold special or extraordinary monetary policy meetings.

4.2 Monetary **Policy**

Our Performance in 2020

The Chilean economy suffered an unprecedent crisis in 2020. The COVID-19 pandemic has had a severe impact on growth, employment, and well-being and has required a decisive response by political, economic, and health authorities throughout the world. The Central Bank of Chile has not been exempt from this phenomenon, and we have adopted a series of measures to contain the impacts of the health crisis in our country.

In 2020, the Bank delivered a strong monetary stimulus, by implementing unconventional measures that significantly expanded the arsenal of available tools for achieving our mandate.

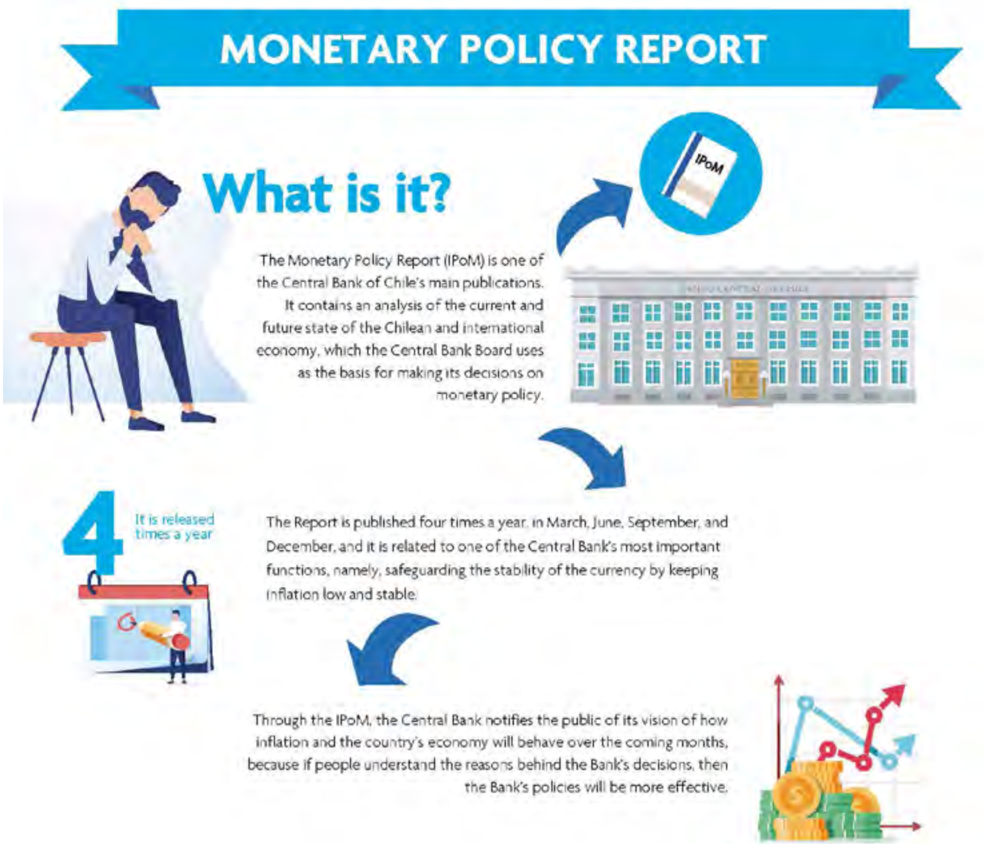
I n
early March, the sudden and significant worsening of the economic outlook due to the imposition of restrictions to contain the spread of the pandemic foreshadowed a major reduction in output and spending, putting inflation convergence at risk. The rapid unfolding of the COVID-19 crisis required adjusting our monetary policy at a much faster rate than usual.

Special Monetary Policy Meeting

On 16 March, the Board of the Central Bank of Chile held an extraordinary Monetary Policy Meeting at which it decided to reduce the monetary policy rate (MPR) by 75 basis points, to 1.0%, and to establish several measures to stimulate bank lending and support the proper functioning of the financial markets. The measures that were implemented included the creation of the FCIC; the purchase of bank bonds from SOMA System participants; the inclusion of corporate bonds as eligible collateral for peso liquidity operations in effect at that time; and the extension of the foreign currency purchase program through 9 January 2021.

At the Monetary Policy Meeting on 31 March, we announced the reduction of the MPR to its effective lower bound of 0.50%. These measures were complemented by initiatives announced by the Finance Ministry and the Financial Market Commission (FMC) to support lending and supplement household income (for details on the measures, see pages 67–72).

In this scenario, the growth forecast plummeted, from a range of 0.5% to 1.5% in the December Monetary Policy Report (IPoM) to a contraction of –1.5% to –2.5% in the March IPoM. Given the substantial widening of the gap, the inflation forecast was also revised downward significantly relative to the December outlook.



After the publication of the March Monetary Policy Report, the news continued to worsen both locally and internationally. The restriction measures to contain the spread of COVID-19 lasted much longer than expected, causing larger-than-expected output and employment contractions in Chile and the world.

Trade, Transport, Personal Services, and Restaurants and Hotels were the hardest-hit sectors in terms of both their activity levels and the size of the contraction. In addition, the mobility restrictions prevented self-employment from playing its countercyclical role in ameliorating the deterioration of the labor market, which caused a marked decline in jobs and consumer income.

In response, the authorities at the Finance Ministry, the FMC, and the Central Bank announced new measures to offset the economic effects of the pandemic.

In the area of monetary policy, one option was to increase the unconventional stimulus measures. Thus, a second phase of the FCIC was announced at the June Monetary Policy Meeting, together with a special asset purchase program involving the purchase of CBC bonds and commercial bank bonds (see pages 67–72).

Taken together, all these measures affected the financial markets in the expected direction.

Long-term interest rates fell to a historical low, and market expectations were for the MPR to stay at its lower bound for some time. Bank credit accelerated, which is unusual in an economic recession. Moreover, a significant share of the FOGAPE loans went to smaller firms, and a large number of bank loans were rescheduled.

Our growth forecasts were revised downward again in the June 2020 Monetary Policy Report, to a contraction of –5.5% to –7.5%. The width of this forecast range (2 percentage points) was greater than normal (1 percentage point), reflecting the unusually high degree of uncertainty.

Initially, the economy was projected to record a slow recovery, reaching normal activity levels only in mid-2022, a process that began in late 2019 due to various factors. Given the significant output gap in the economy and the appreciation of the peso due to the higher copper price and the decline in financial stress, inflation was expected to fluctuate around 2% over the rest of 2020 and then converge to 3% toward the end of the monetary policy horizon.

4.2 Monetary **Policy**

A Gradual Improvement

Mid-year, the health situation began to show an improvement in Chile, as in the rest of the world. This allowed raising some of the imposed restrictions, thereby beginning the recovery of economic activity, which nonetheless remained below pre-pandemic levels.

The credit market saw a growth of commercial loans, supported by the measures implemented by the Finance Ministry, the FMC, and the Central Bank. Furthermore, available information based on new microdata indicated that the firms with the sharpest drop in sales recorded the biggest increase in their bank debt.

With regard to consumption, the approval of the first pension fund withdrawal provided a temporary boost to this component, which would contribute to more dynamic activity in the second half of the year.

Additionally, the investment outlook had improved, as shown by the restarting of projects in the energy sector. Thus, and considering that uncertainty was still quite high, a GDP drop of –4.5% to –5.5% was forecast for the year, while the economy was expected to continue recovering in 2021 and 2022. With regard to inflation, the temporary increase in consumer spending also had an impact on rising prices, resulting in a higher inflation forecast for the second half of 2020 than projected in the June Monetary Policy Report.

The economy continued to recover in the last quarter of the year, as the gradual opening up allowed many people to return to their jobs. The data available at year-end showed that the economy had recovered half of the loss since June. The economic improvement also generated better cash flow for businesses, which translated into a slowdown in credit in a context in which firms had increased their financial burden. Microdata also revealed a substantial recovery in the number of firms that could restart their operations after shutting down in the worst months of the crisis, as well as more dynamic creation of new firms in the second half of the year.

While the labor market improved in the second half of the year, it still shows a significant lag, with almost a million jobs yet to be recovered relative to pre-pandemic levels. The female inactivity rate, in particular, remains high, as the restrictions implemented to control the pandemic have implied an increase in child and senior care. At the same time, private consumption rose after receiving a boost from the second pension fund withdrawal. The increased spending resulted in a scenario of low inventories, which put upward pressure on the prices of some goods. This translated into higher inflation in September and October, which was offset in November.

[5] The change in the pension fund portfolios due to the approval of fund withdrawals led to new measures by the Central Bank to preserve financial stability and the efficiency of the price formation process.

4.2 Monetary **Policy**

Several factors point to a better performance of the Chilean economy in 2021. Monetary policy will continue to provide a significant stimulus, through both the maintenance of the MPR at its lower bound and the ongoing implementation of the unconventional measures that are currently in operation.

The recovery is further supported by the initiation of the vaccination process, the fiscal stimulus considered in the 2021 budget, and the temporary effect of the second pension fund withdrawal. Finally, the expected recovery of the world economy has buoyed the copper price, among other effects. Thus, the growth forecast for 2021 has risen from a range of 4.0 to 5.0% in September to 5.5 to 6.5% in December, while a range of 3.0 and 4.0% is projected for 2022.

Many complex challenges arose for the Chilean and world economies in 2020. In response, the Central Bank of Chile implemented a set of measures to mitigate the impacts of COVID-19. The magnitude of the effort was reflected in the size of the Bank's balance sheet, which more than doubled from 15% of gross domestic product (GDP) to 34%. We believe that the crisis is far from over, and the Board will thus remain vigilant to continue providing the necessary stimulus, so as to meet our legal mandate.

4.3 Financial Policy

The 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.

To comply with this mandate, the CBC is authorized to manage critical infrastructure such as the RTGS system; has a range of regulatory powers and policy tools; and advises the Executive Branch and the Financial Stability Board on issues related to its functions.

It also participates in early intervention mechanisms in its role as lender of last resort to the banking sector.

Additionally, the Bank has broad authority over foreign exchange operations, generates statistics, and has the analytical capacity and communication instruments to raise the alert on potential vulnerabilities and risks that could be present in the financial system.

Consequently, the Basic Constitutional Act empowers the Central Bank to regulate important aspects of the financial system and the capital market, as well as to adopt measures aimed at preserving the stability of the financial system.

Confidence in the payment systems is crucial for the functioning of the economy. Historical evidence shows that a loss of confidence can generate a financial crisis with a major impact not only on savers and depositors, but also on the general population.

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 standing advisor to the Chilean Financial Stability Board (CFSB), which was created by the Finance Ministry to coordinate actions and the exchange of information between the supervisory bodies. The CFSB meets regularly to analyze the available consolidated information on activities subject to its supervision and regulation, for the purpose of managing systemic risk, among other issues.

The CFSB is comprised of the Finance Minister, who acts as chair; the Chairman of the FMC; and the Superintendent of Pensions.

4.3 Financial Policy

Our Performance in 2020

Publishing the Financial Stability Report (FSR), a semiannual publication that contributes to the understanding of the financial system and its potential risks, was especially challenging during the pandemic, and it provided crucial information for policy decision-making. As in previous years, a thematic chapter was included in each issue of the FSR.

In the first half, the thematic chapter described the role of macroprudential policy, including the international experience and developments in Chile, while in the second half, we published a thematic chapter analyzing the impact of external financial conditions on local markets.

The Financial Stability Reports for the first and second halves of 2020 revealed that the local system had managed to withstand the particularly challenging economic situation, thanks, in part, to the exceptional measures taken by the authorities to support credit, liquidity, and risk management in the markets.

Nevertheless, the reports highlighted the persistence of significant risks, associated primarily with a longer-than-expected duration of the real shock. They also underscored the need to ensure a high level of effectiveness and coordination of public policies, as well as to maintain a balance between upholding favorable financial conditions, supporting the stability of the financial sector in episodes of stress, and transitioning from the mitigation of the impact of the crisis to support for the recovery of the economy.

Financial Research Agenda

In 2020, we continued to make progress on our medium-term Financial Research Agenda, including:

Macrofinancial issues	Microfinancial issues
Modeling of real-financial linkages and macroprudential policy analysis	Borrowers' finances and banking system funding

4.3 Financial Policy

In particular, in the context of the implementation of the Basel III standards in the country, the research agenda focused on developing models that explicitly include the role of the bank funding system and the capital requirements that would be necessary, in the real economy, due to inflation dynamics and the implications for monetary and financial policy coordination.

Thus, the agenda moved forward on the primary objective of developing new analytical tools, models, and micro-databases, in an effort to enrich financial stability analysis and contribute to the understanding of macrofinancial linkages and the effects of regulatory changes.

The above is directly related to the implementation of our 2018–2022 Strategic Plan.

Financial Regulation Agenda

In the period, we also made progress on the Financial Regulation Agenda proposed for 2020, including the following highlights:

- **Expansion of cross-border operations that can be carried out with Chilean pesos:**
  Following a public consultation process, the second phase of the modernization and simplification of foreign exchange regulations was approved, in line with our commitment in the 2018–2022 Strategic Plan. This expanded the cross-border operations that can be carried out with Chilean pesos. The regulatory adjustment will contribute to increasing the competitiveness and efficiency of the local financial markets, by removing barriers to interaction between nonresidents and local market participants.

- **Payment systems and infrastructures:**
With regard to payment systems and infrastructures, the Real-Time Gross Settlement (LBTR) System for interbank payments in U.S. dollars began operating in March 2020.

We also replaced the regulations on the Check Clearing House for checks in national currency, to consolidate the payment, clearing, and settling of checks and other bank documents in dollars, authorizing their net settlement in the RTGS System in U.S. dollars, mentioned above.

We incorporated a special protocol for implementing actions during operational contingencies, and we opened a public consultation on improving and updating the regulatory framework applicable to the Large-Value Payment System, to allow the clearing of interbank payments for peso and dollar spot transactions.

In November, we launched the Integrated Derivatives Information System (IDIS), the first repository of this type

- **Retail payments**
In the area of retail payments, we prepared a regulatory framework for the clearing and settlement of retail payments, which was published in March 2021. We also adjusted the prudential requirements for payment card operators to incorporate a greater degree of proportionality, which led to the modification of Chapter III.J.2 of the Compendium of Financial Regulations.

4.3 Financial **Policy**

- **Prior favorable assessment report: Basel III**
  In 2020, the Board gave its prior favorable assessment on the guidelines prepared by the FMC for the implementation of the Basel III regulatory framework in Chile, in accordance with the provisions of the General Banking Law and Law Nº 21,130.

In addition to these initiatives, one of our financial regulation responses to the pandemic was to relax liquidity regulations for banks, suspending the regulatory limit on contractual and adjusted maturity mismatches at 30 and 90 days, but not the minimum liquidity coverage ratio (LCR). This temporary exceptional measure was renewed twice in 2020.

Work has continued on the incorporation of the Chilean peso in the CLS system, which currently accepts the currencies of 18 jurisdictions, mostly developed economies. We made important progress on this medium-term project in 2020.

International Participation

Our financial agenda is supported by links with international organizations, including regional groups and institutions (CEMLA, BIS Mexico, FSB-RCGA), multilateral organizations (IMF, OECD, WB), and specialized networks on global banking (IBRN), financial regulation (BIS, IOSCO), and financial policy recommendations (FSB).

We participate in working groups covering a wide range of complementary topics that strengthen our capacity to identify financial stability risks and make policy proposals, including regulatory changes and infrastructure improvements.

One of the most important groups analyzes vulnerabilities and identifies risks in global financial markets. Others are dedicated to studying financial innovation, the monitoring of nonbank financial institutions, the design and implementation of financial policy, the monitoring of the global banking system, banking crisis tests, and the impact of climate change on financial stability, to name a few.

These international connections allow the exchange of information and staff, facilitate joint research, and help us stay up to date on financial innovations, best practices, and other related issues.

4.3 Financial Policy

Launch of the Report on the Financial Policy of Central Bank of Chile (CBC)

In March, we published a report on the Bank's financial policy, Política Financiera del Banco Central de Chile (BCCh) which presents the conceptual framework and institutional context in which financial policy operates, as well as the analytical framework required for its conduct and implementation.

The report also discusses the role of coordination with other institutions, transparency, and the communication of the assessment of the state of the financial system and, when applicable, the Board's policy decisions.

The ultimate goal of the publication is to systematize the framework within which the CBC contributes to the objective of safeguarding the country's financial stability.

The Bank conducts its financial policy so as to contribute to the stability of the financial system, within its area of competence. This role is crucial for the proper transmission of monetary policy, which, in the case of Chile, is executed under a conceptual framework based on inflation targeting and a floating exchange rate.

Over the past few decades, the Chilean financial sector has deepened and become increasingly stable due, in part, to the development of financial policy tools and their effective application. This has contributed to the efficacy of monetary policy and has increased the economy's resilience to disruptive events.

The Board decided to publish this report given that the institutional framework for the regulation and supervision of the financial sector has changed significantly in Chile, including the expansion of macroprudential policy instruments. In particular, the new General Banking Law assigns the CBC the responsibility of making decisions on the activation and deactivation of the countercyclical capital requirement.

4.3 Financial Policy

Provision of large-value payment services in 2020

In 2020, the Central Bank of Chile retained its ISO 22301 Certification of Business Continuity Management Systems for the RTGS system, following a review and assessment by a qualified certifier.

The Real-Time Gross Settlement (RTGS) System is the main large-value payment system in Chile and is owned and operated by the Central Bank of Chile (CBC). The system has 20 participants, including banks and nonbank financial institutions, in addition to the CBC itself.

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 and the performance of the economy in general.

The RTGS sub-system in domestic currency settled an average of 1,683 payments per day in 2020.

That figure includes the Bank's own transfers, with an average daily value of CLP 40.21 trillion (equivalent to USD 51.25 billion). Relative to 2019, the average daily value increased 145.5%, with strong growth starting in the second quarter due mainly to the special operations designed to mitigate the impact of the health emergency declared in March.

The RTGS sub-system in U.S. dollars (RTGS-USD) began operating in January 2020. This sub-system settled an average of 14 transactions per day in 2020–including the CBC's own transfers—with an average daily value of USD 1.442 billion (equivalent to CLP 1.15 trillion).

To increase the efficiency of the RTGS system in domestic currency (RTGS-CLP), the Bank supplies interest-free credit throughout the day via access to an intraday liquidity facility, conditional on the provision of eligible collateral or guarantees pledged to the CBC.

In February 2020, to increase the alternatives for liquidity provision in pesos, we expanded the list of eligible collateral to include securities that partially matured during the period of the respective operation.

In 2020, the average daily value of credit supplied through the intraday credit facility, including both modalities, was CLP 1.7 trillion. Activity increased, in particular, starting in the second quarter.

4.3 Financial Policy

Availability of the RTGS and the SOMA Systems

RTGS System	SOMA System Provides intraday credit
99.99% availability in 2020. There was only one incident, which brought the system down for 10 minutes.	**99,58%** availability in 2020. Four incidents cause total downtime of 511 minutes, where the longest incident lasted 223 minutes.

In 2020, the Board adopted a resolution approving the general conditions under which the CBC can open current accounts in domestic currency for foreign central banks, incorporating the new Chapter 5 of Part I of the Compendium of Monetary and Financial Regulations. The first such current account was opened for a foreign central bank toward the end of the second quarter, namely, for the Schweizerische Nationalbank.

In August, the regulations governing the Check Clearing House in Domestic Currency were replaced, to incorporate the Check Clearing House in Dollars.

In terms of hardware and software, SWIFT Payment Approval was implemented in the RTGS System in the year, which will establish an additional approval for payments made on behalf of customers via the SWIFT network, thereby increasing the security of these transactions.

In November 2020, we launched a new functionality on our payment gateway system for processing the intraday liquidity facility, in the event the SOMA System is down.

As in past years, the CBC coordinated two business continuity exercises, in conjunction with participants of the large-value payment system and financial market infrastructures.

4.3 Financial Policy

Central Bank and Climate Change

Monitoring the Financial Effects of Climate Change [Material topic]
103-1, 103-2, 103-3

Since early 2019, we have gradually incorporated climate change issues in the Central Bank's analytical processes. We understand that 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.

As part of our sustainability strategy, we have implemented concrete actions to monitor the financial effects of climate change, and we hope to continue to move forward on these issues in 2021.

The analysis, management, and initiatives associated with the financial effects of climate change are distributed among three different divisions of the Bank, namely, the Monetary Policy Division, the Financial Policy Division, and the Statistics Division. They receive support from senior management and are supervised by the Central Bank Board. One of our challenges in 2021 is to move forward on governance aspects of climate change within the CBC

Our climate change actions can be classified in the following areas:

1. **Financial analysis.**
2. **Macroeconomic analysis.**
3. **Generation of statistical information.**
4. **Participation in national and international forums.**

Strengthening the Team of Experts on Climate Change

The climate change process—including both direct effects and the consequences of policies adopted to mitigate it—raises multiple challenges for monetary policy. This phenomenon increases the uncertainty regarding the future evolution of the economy, and it also represents a possible source of extreme shocks (drought, floods, etc.) that affect output and prices.

Given this context, climate change can be expected to cause a reallocation of resources among different sectors of the economy, as well as migration between areas affected in different ways. This could have a significant effect on trend and potential gross domestic product (GDP), goods and asset prices, financial stability, and monetary policy transmission mechanisms.

It is therefore essential to have a team of experts who can study, in analytical and quantitative terms, the effects of climate change on the Chilean economy and the challenges it raises.

4.3 Financial Policy

In response to this challenge and in search of better options in an area that is still relatively new in economics, we put out an international call for applicants in late 2020, in time for the job fair held in conjunction with the American Economic Association (AEA) Annual Meeting. After interviewing several applicants and then narrowing the field to a short list of candidates, we hired a senior economist who will join the Economic Research Area in mid-2021.

In Progress: Stress Test Design

In 2020, we continued to make progress on the design of climate change stress tests for the financial sector. This project is still in the development phase, and we expect to have significant results to report next year.

Ongoing Research and Training

The Financial Policy Division participates in the Analytical Group on Vulnerabilities (AGV) of the Financial Stability Board (FSB), a technical standing subcommittee that provides an analytical forum for discussing new and evolving risks to the financial system. In this capacity, the division participated in an analysis of climate issues.

Based on this work, two documents were published in 2020: one on the state of the inclusion of climate risks in financial stability monitoring and one on the implications of climate change for financial stability.

Carbon Footprint for Chile

YIn 2019 we announced that the Macroeconomic Statistics Area (MSA) is working on 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. As a result, by year-end 2019 a direct CO2 emissions vector had been estimated at the sectoral level, which will be used to calculate Chile's carbon footprint using an input-output model.

In 2020, the project continued to unfold successfully and was presented to the Central Bank Board and the Ministry of the Environment. Results are expected to be published in the first quarter of 2021.

Data on stationary point sources were taken from the Pollutant Release and Transfer Register (PRTR), complemented by information from the national accounts (company directory).

For mobile sources, an estimate was made using diesel and gasoline consumption, applying the corresponding CO2 conversion factor. This mainly applies to transport activities and activities that use own fleets and machinery.

For copper mining, the calculation uses data published in the 2019 report on direct and indirect greenhouse gas emissions in this sector.

The result is a representative emissions vector at the sectoral level, in accordance with the supply and use tables published by the CBC.

One of the findings of this process is that to measure the carbon footprint, it is optimal to individualize the main activities that emit CO2. In particular, electricity generation is divided into five subgroups, based on the generation technology: carbon, natural gas, diesel, biomass, and other

A Systemic Concern
CBC 2

In 2020, it became increasingly important to work with other institutions such as the Ministry of the Environment, the Financial Market Commission, and the Superintendence of Pensions, considering that climate change is an issue that requires joint coordinated action by society, in line with what the World Economic Forum has called one of the main risks at the world level.

The role of central banks in this area has been widely discussed in recent years. Chile is no exception, and in 2019, in conjunction

4.3 Financial **Policy**

with the Finance Ministry, the Financial Market Commission, and the Superintendence of Pensions, we signed a joint statement summarizing our position, taking into account the risks and opportunities that the transition to a low-carbon economy can have at the financial level.

Following on our participation in the Joint Statement of Financial Authorities and the Green Agreement of the Finance Ministry's Green Finance Roundtable, in 2020 we participated in designing the road map for the roundtable. The main task was cooperating in the creation of a taxonomy of productive activities according to their impact on climate change.

CBC Commitments under the Green Agreement:

1. Evaluate climate risks for financial stability.
2. Cooperate on forums and initiatives.
3. Issue a statement on the importance of climate risks.
4. Incorporate climate change research in the agenda.
5. Cooperate with public agencies.

For the project, the Finance Ministry is being advised by the Climate Bond Index (CBI), and the members of the roundtable have provided support with perspective on the characteristics of the local financial system and the key issues for a taxonomy in Chile.

We have also participated in diffusion activities such as the Green Finance Roundtable Webinars. In particular, the manager of the Central Bank's Financial Infrastructure and Regulation Area took part in the webinar on climate risk in the financial system, held on 15 July 2020.

International Participation

As part of our work on climate change, in 2020 we submitted an official request to join the Network for Greening the Financial System (NGFS), which brings together over 80 central banks and supervisors from around the world to address the challenges of climate change and whose objective is to accelerate the expansion of green finance.

In February 2021, we received the NGFS response accepting our participation in this important global network, in coordination with the FMC. One of the benefits of participating in the network will be moving forward on our stress test agenda, since the network has made very significant progress on the design of climate scenarios.

These actions demonstrate our concern and involvement on climate change and its effects on the stability of the financial system, and they drive us to continue to develop our work agenda in this area.

4.3 Financial Policy

During 2020, **550 teachers** graduated from the third version of this course, which represents double the number of graduates during 2019.

Financial Education during a Pandemic [Material topic]
CBC3, 103-1, 103-2, 103-3

The protagonists in the economy are not just firms, banks, and other organizations. A dynamic and efficient economy also depends on people making good decisions. In this sense, financial education, financial inclusion, and consumer protection are key elements for the financial empowerment of citizens and the stability of the financial system.

Since 2004, the Central Bank has developed a series of initiatives in this area, with a special focus on the school community. This work aims to position our institution as a leader in financial education, thereby generating a social link the supports the strengthening of understanding and dialogue with the wider community.

The Central to Your Life program, run by the Institutional Affairs Division, organizes a set of initiatives that involve the collaboration of various units within the Bank.

The pandemic meant making a significant adjustment in the 2020 program schedule, adapting the initiatives to online strategies. Thus, our financial education website, Central en tu Vida had a prominent role over the course of the year.

Central to Your Life deployed a variety of actions to promote and increase virtual contact with teachers and students. The program also promoted the online use of its teaching resources, updating audio visual material that could be used in remote classes and facilitating participation in program initiatives.

The following financial education activities were carried out online in 2020:

- **Online Course: City of Opportunities**

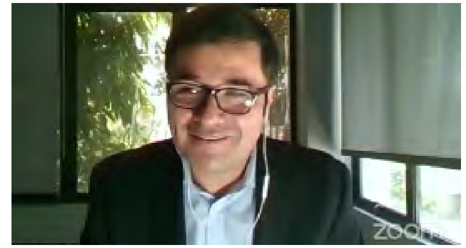
Target audience: High school teachers; students of education..

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.

This program is part of our National Financial Education Strategy launched in January 2018. It includes new curriculum content incorporated by the Ministry of education in the subjects of History, Geography, and Social Sciences.

4.3 Financial **Policy**



• Virtual Contest: Economics Up Close

Target audience: High school students and teachers.

This was the sixteenth year of the contest, which was held virtually due to the unexpected circumstances.

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 led by Governor Mario Marcel.

To facilitate, to the extent possible, the remote work implied by the current suspension of classes and working from home, this year videos could be submitted either individually or by groups of up to four people, plus the teacher/advisor. We also incorporated more awards (honorable mentions) in acknowledgement of the fact that it was harder for groups to submit their videos to the contest this year.

The question in 2020 was "What could be the main effects of COVID-19 on the household economy and gross domestic product?"

The winning videos can be viewed [on our website]

The 2020 contest received 177 videos from schools across the country, with a total of 532 participants. This represents an increase of 19.3% over 2019.

4.3 Financial **Policy**

The 34 newsletters published in the year provided educational tools, teaching materials, audiovisual pieces, and information on events and initiatives, such as the Economics Up Close contest and the City of Opportunities course.

• Info-educational Campaigns

Target audience: Teachers, high school students, students of education, and the general public.

This initiative arose in 2020 and consisted in the design and publication of a weekly newsletter sent to the contact database of our Central to Your Life program, which grew steadily over the course of the year to reach 8,000 contacts, including teachers, students, students of education, and the general public.

• Financial Education Month

Target audience: High school teachers; the general public.

This initiative involved carrying out a variety of activities in October, which has been declared Financial Education Month in Chile. Working in conjunction with the National Consumer Service and the Financial Market Commission (FMC), we sought to raise awareness on this topic and disseminate the importance of the issue within the community.

In this framework, we held a webinar on the importance of financial education in times of crisis, aimed at the general public, which had 300 participants. We also organized participatory dialogues with teachers, where approximately 30 participants shared their opinion and perception of financial education in schools and the country.

Our financial education work was complemented with the use of social network accounts to magnify our impact:

Instagram
1,105 users
https://www.instagram.com/centralentuvida/

Facebook
693 users
https://www.facebook.com/centralentuvida/

Twitter
3,443 users
https://twitter.com/centralentuvida

As of July 2020, we publish economic and financial content on these platforms, using simple language, which has allowed us to communicate the role and functions of the Central Bank and to contribute to people's knowledge on these issues through relevant content.

4.3 Financial Policy

Knowledge and Adoption of Disruptive Technologies [MT]

CBC4, 103-1, 103-2, 103-3

Digitization and new technologies can have effects not only on how people live and consume, but also on the financial system. Given this context, since 2018, we have areas that specialize in analysis, knowledge development, and experimentation for the adoption of new technologies.

These areas are:

Technology Observatory	FinLab	TechLab
Catalyst for knowledge and the adoption of disruptive technologies in the Bank.	Seeks to make space in the regulatory framework for innovations related to retail payments.	Provides a space for experimenting with disruptive technologies for the economy.

The strong digitization of the economy in 2020, due to the pandemic, has affected the way the Bank understands the movement of the Chilean economy. Our focus on the data with which we work and the technologies we use to analyze the large volume of information increased due to digitization. This challenges us to move toward a data-driven work model that allows us to offer adequate, efficient responses.

What are disruptive technologies?

Any technology or innovation that makes an earlier technology obsolete. The term disruptive is used because the process produces a sudden change, sometimes causing a substantial modification of lifestyles. These technologies have the power to change the way in which people work, think, and behave.

4.3 Financial **Policy**

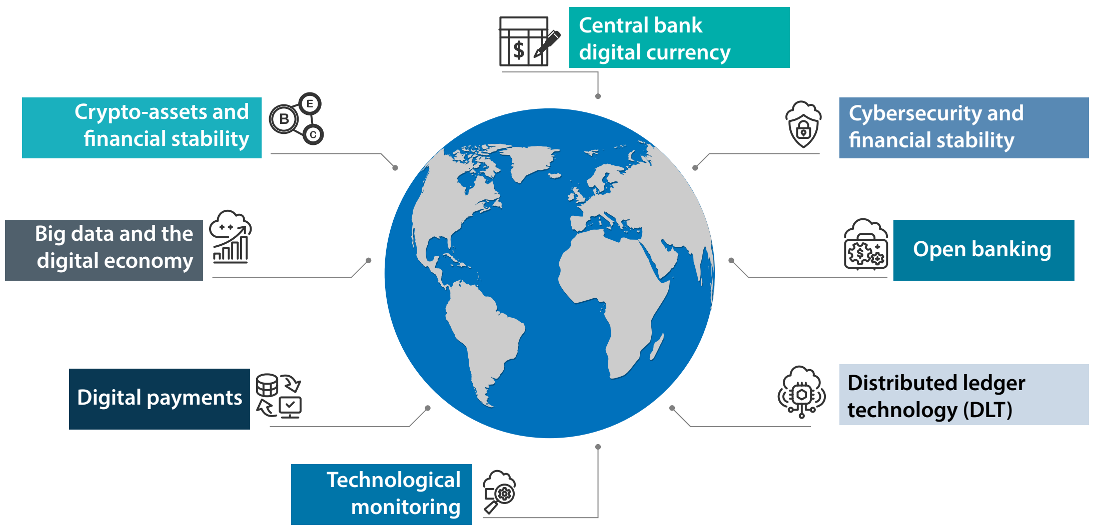
Technology Observatory

The Technology Observatory is an internal management tool for actively researching and analyzing disruptive technologies in order to detect potential opportunities and impacts within the Bank's fields of work.

The Observatory has three overarching objectives:

- Facilitate internal coordination.
- Facilitate cooperation and the strengthening of external networks.
- Promote knowledge development on issues related to disruptive technologies.

The Technology Observatory was launched in 2018, and to date it has identified eight axes of innovation.



In 2020, efforts in this area mainly focused on two areas, developing concrete projects to move forward on these issues:

Big data and the digital economy

Central bank digital currencies

4.3 Financial Policy

Big data and the digital economy

We carried out a series of activities aimed at accelerating advanced data use in the Bank, through the identification of ideas, opportunities, and gaps for making recommendations and the development of a road map for innovation on this issue. We also created an advanced data use community for sharing experiences and knowledge and supporting collaborative development.

Central bank digital currencies

In the last quarter of 2020, we held an internal workshop for discussing arguments and cases for the use of a hypothetical CBC digital currency. This collaborative work featured the participation of all the areas of the Bank, and it will continue in the first quarter of 2021.

Additionally, to further the objective of strengthening external networks, we developed a work agenda with the Bank of Spain in 2020, to share experiences on innovation issues and collaborative projects.

FinLab

In 2020, work centered on the preparation of a new chapter of the Compendium of Financial Regulations to regulate the clearing and settlement of retail payments. An important innovation from a regulatory perspective is the flexibility of the proposal, which was developed to encompass both experimental projects and more consolidated modes of operation, under proportionality criteria in the established requirements.

The medium- and long-term objective of this new regulation is to create regulatory certainty in an effort to attract new actors to the retail payments industry in Chile. In addition to promoting innovation, this will make the clearing process more robust for a significant share of payments in the economy and contribute to increasing the interoperability of different payment means and platforms. Thus, an increasingly large number of people will have alternatives that meet their needs for making payments.

In March, the new regulatory framework was published for public consultation. The initiative falls within the Bank's mission to safeguard the continuity of the payment system and to contribute to financial inclusion. The consultation will be open through 7 May 2021.

Techlab

One of the main TechLab projects in 2020 was to conduct a concept test on an API management tool, to evaluate its applicability to future developments in the Bank and to generate a standard for data collection and publication.

Another highlight was the support process with group of experts on text mining and sentiment analysis, applied in different areas of the Bank. This support agenda was applied to three specifically selected projects.

[6]/Application Programming Interfaces connect applications to share information.

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 peso-dollar exchange rate, 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.

4.4 Macroeconomic **Statistics**

Our Performance in 2020

In 2020, 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.

New Disaggregates in the Monthly Economic Activity Indicator (IMACEC)

In the first days of December, with the publication of the October IMACEC, new disaggregates were announced, for the following economic activities:

Goods production (mining, manufacturing, and other goods)	Trade	Services

The refinement of this index will provide more timely disaggregated data on monthly activity. The change is based on the availability of new information in electronic tax records from the Internal Revenue Service (IRS), which complement our other data sources and strengthen the output estimates made using administrative records.

Together with the October 2020 figures, the historical series of the new disaggregates were released, consisting in quarterly gross domestic product (GDP) since 1996, in original and seasonally adjusted terms, their growth rates, and their contribution to the aggregate IMACEC.

To satisfy users' demands for more detailed data, in the year we published new categories for the monetary aggregate components, identifying personal and business current accounts in M1; time deposits of less than a year, more than a year, and bank bonds in M2; and breakdowns by currency for the categories of Central Bank and Treasury of Chile securities in M3.

We also began to publish consumer, commercial, mortgage, and foreign trade loans in the banking sector, in both national and foreign currency, weekly with a lag of one week; as well as current and seasonally adjusted price series, with data versioning, for GDP and its components by origin and expenditure. Additionally, data on loans from nonbank lenders, monthly data on nonresident investment in fixed- and variable-income securities in the local market (with a 15-day lag), and the disaggregation of the financial account into capital inflows and outflows remain available to the public.

Improving Access to Information

To improve access to information, in April we implemented a user-friendly digital tool, the Key Data Index, that lets users easily visualize the data series associated with general economic concepts.

4.4 Macroeconomic **Statistics**

In June, we operationalized public access to the functionality for massive data downloads from the Bank's Statistics Database (SDB), using Python and R software, through a direct and standard transmission service between external systems and the SDB.

Benchmark Compilation Project

In 2018 we launched the 2018 Benchmark Compilation (BMC-2018) project, whose objectives are to update the components of the supply and use tables prepared with partial data during the national accounts cycle, in line with international methodological recommendations, and to incorporate new data sources, such as administrative tax records.

In the framework of the BMC, the fruticulture study was completed in 2020, providing basic information on activity in the sector with a breakdown by crop, which will be used to update the production accounts. The information from administrative tax records is being used to complement survey data to determine the structure of intermediate consumption and the investment matrix by economic activity, as well as to strengthen the allocation of the counterpart of imported supply by use component.

This information is being used to improve the regional coverage of the national accounts, with more regional breakdowns, and to increase its frequency. To estimate the effects of digitization on regularly measured economic statistics, work is being done on identifying online commerce and strengthening the estimation of digital trading platforms based on new sources of information. The BMC-2018 will be published in the fourth quarter of 2021, while the historical series, consistent with the new benchmark framework, will be available in March 2022.

Development of the Integrated Derivatives Information System (IDIS-TR)

In 2020, our Statistics Division, in conjunction with the Financial Policy Division and the Office of the General Counsel, has continued to move forward on the development of the Integrated Derivatives Information System Trade Repository (IDIS-TR). Additionally, the implementation of the regulations applicable to the IDIS has been coordinated with the FMC, which has imparted the respective guidelines and instructions to the entities under its supervision.

The IDIS consists in a repository of information on over-the-counter (OTC) derivative transactions, managed by the Central Bank of Chile and oriented toward strengthening the transparency of these markets. In November we began the trial phase of the technological infrastructure and website (www.siid.cl) for data reception, storage, and management. The IDIS-TR is expected to be fully operational in the first half of 2022, when it will be possible to access information on currency, interest rate, inflation, and fixed-income derivatives.

4.4 Macroeconomic **Statistics**

Data Governance is led by a Strategic Committee that reports directly to the Board, is chaired by the General Manager, and has an office in the Statistics Division. The main objective is coordinating the administration, security, and access to the micro-databases available within the Bank, which are important resources for the economic, financial, and statistics areas.

Updating the Household Financial Survey (HFS) Questionnaire

In 2020 we updated the questionnaire for the 2020 Household Financial Survey (HFS), which was to be carried out in the second half of the year. However, due to the pandemic and the impossibility of conducting in-person interviews, the survey was postponed until 2021. The HFS has been carried out by the Bank since 2007 to collect information that contributes to the assessment of the economic situation of households and its potential impact on the stability of the financial system.

Data Governance

Given the need for more timely information, in 2019 we began to receive new sources of large-volume data in the financial, economic, and statistics areas.

Relatedly, in mid-2020 we formed the Data Governance Committee to provide guidelines for managing and making available databases within the Bank, promote efficiency, avoid duplications and inorganic growth in the different areas, and establish backup and information security policies.

In this period, we began to explore the available tools for managing big data and formulated a Big Data Strategic Plan, which includes a centralized data repository that all areas can access.

International Participation

In 2020, Chile continued to take part in the Irving Fisher Committee on Central Bank Statistics (IFC) of the BIS, which provides a forum for central banks to share experiences related to data, analytical methodologies, their value relative to traditional statistics, and the risks associated with their use.

We also continued to serve as co-chair of the Financial Information Forum (FIF) of the Center for Latin American Monetary Studies (CEMLA), together with Mexico and Peru. The forum's objective is to promote the exchange of experiences and best practices in central bank statistics, with an emphasis on financial data.

In addition, our Statistics Division participates in expert working groups sponsored by the Organization for Economic Cooperation and Development (OECD), the United Nations, and the International Network for Exchanging Experience on Statistical Handling of Granular Data (INEXDA).

4.4 Estadísticas macro-económicas

Macroeconomic Statistics Workshops

In 2020, we continued the diffusion program for statistics compiled by the CBC, to promote their use and understanding. In the fourth quarter, we held five videoconference workshops for different universities in the country, covering the topics of economic expectations, the evolution of GDP, and the measure of sectoral GDP, which were attended by up to 180 people.

Chile adheres to the International Monetary Fund (IMF) Special Data Dissemination Standard Plus (SDDS Plus)

The SDDS Plus is one of the initiatives promoted by international organizations to close the data gap, in the context of the 2008 international financial crisis. It is the most advanced data dissemination standard in the world, though it has only been signed by 23 countries, most of which are G20 members.

2013

Chile was invited to sign the new reporting standard, initiating a new data development and implementation process, mainly related to the local financial system, under strict standards on quality, frequency, and timeliness.

2019

The International Monetary Fund (IMF) reviewed the requirements for compliance with the SDDS Plus, which was coordinated by the Central Bank of Chile (CBC) and considered the incorporation of statistics prepared by the Budget Office of the Finance Ministry and the Central Bank of Chile. The adoption of the SDDS Plus further implied the implementation of a new data transmission (Statistical Data and Metadata Exchange, SDMX) and the development of a new website on Chilean data for the IMF.

2020

Chile adheres to the Special Data Dissemination Standard Plus (SDDS plus) of International Monetary Fund (IMF).

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.

To maintain the integrity and quality of the currency, the Bank is required to remove from circulation any worn or damaged 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.

4.5 Cash Management

Treasury officials working with the proper sanitary safeguards.

Cash Management during the Pandemic

One of the primary functions of the Central Bank is to guarantee the stability and availability of money for the functioning of the economy and the markets. In times of crisis, we must guarantee people's access to cash and maintain the normal functioning of the payment chain. To do so, we must guarantee the supply of banknotes and coins in the economy.

The start of the pandemic in our country was marked by an increase in the need for cash, which had already begun to rise in the last quarter of 2019 due to the social crisis. As in most Western countries, the health crisis has affected the quantity of cash in circulation, which grew 25% annually in Chile in the first months of lockdown.

This trend varied over the course of the year, and the impact was hard to predict. On the one hand, the pandemic brought a reduction in retail payments, reducing the transactional power of cash. On the other, the role of cash as a store of value and as a means of saving for contingencies has increased in response to the uncertainty caused by the health crisis.

According to banks and cash managers, the speed of circulation fell considerably with the closure of bank branches, ATMs, in-person stores, and cash payment outlets, which further contributed to the increase in demand.

In parallel, the two pension fund withdrawals implied an even greater increase in cash needs since August.

Over the course of the year, the annual growth rate of issuance was the highest in the history of the Central Bank, reaching over 45% in August and staying around 40% through the end of the period.

[7]/The United States reports annul growth of 11.6% at year-end 2020, while the Eurozone recorded the largest increase in the amount of money in circulation since the 2008 financial crisis.

4.5 Cash Management

Treasury officials working with the proper sanitary safeguards.

All of the above has raised multiple operating challenges for the Central Bank's Treasury Area:

• Constant communication and coordination with financial institutions, in order to better understand the evolution of their needs.

• Early reaction and an active supply policy to meet an extraordinary injection of nearly USD 3.0 billion in banknotes and coins, which involved the delivery of over 350 million banknotes more than the average of recent years, as well as 120 million coins in the later months of the year.

• Closer contact with the main actors in the circuit to facilitate the availability of cash over the course of the year and jointly resolve problems caused by the pandemic, with a focus on continued improvement going into 2021.

Active Communication on the Use of Cash

Maintaining confidence in the currency was just as important as the supply. We therefore maintained constant communication with our strategic partners, the commercial sector, and the general public.

The secure use of banknotes and coins, taking into account the health recommendations of the World Health Organization (WHO), was the first communication message in the year.

With advice and support from organizations like the Chilean Insurance Association (AChS) and Caja Vecina, we released statements through their large member networks, held online conferences, and disseminated information through social networks and the media.

We continuously monitored the best practices of other central banks around the world, which were experiencing the same challenges in terms of the use of bills and coins and the increased demand for cash during the pandemic.

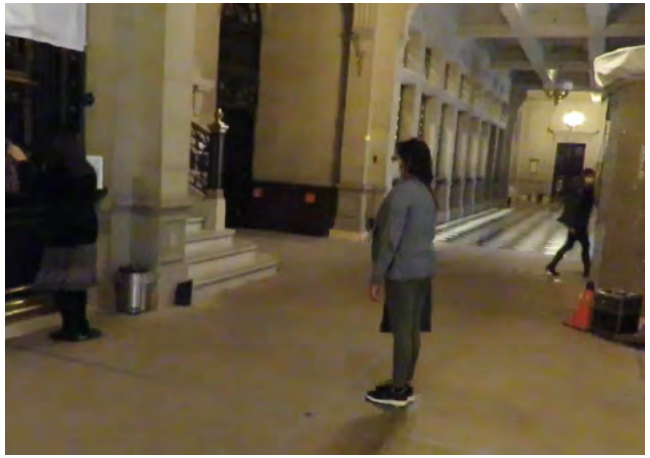
Starting in August, when the government launched the phased lockdown program, many businesses, especially small retailers, needed to replenish their stock of bills and coins. Banks were not able to fully meet the demand, and it was necessary to get smaller denominations back into circulation.

The Central Bank called on businesses to accept a range of payment means, including cash, and on people to use the cash they were holding at home, in order to stimulate circulation.

The cash withdrawal of 10% of pension savings from the pension funds in August and December represented important challenges in terms of coordinating with the banking sector to ensure the availability of the cash and preparing communication messages to support the processes.

4.5 Cash Management

The Central Bank responds to the demand for bills and coins, acting as a wholesale supplier that delivers the cash to intermediaries (the banks), which in turn perform the function of distribution (retailers) to end users, either natural persons or businesses.



Our Performance in 2020

In 2020, our Treasury Area carried out a number of initiatives aimed at providing better community service, from the perspective of our role as the sole issuer and supplier of banknotes and coins, generating the necessary confidence in the currency.

Replacement of Damaged Banknotes

We continue to make progress on the replacement of damaged bills and coins in the community. In the year, 6,622 people came to the Central Bank's public teller window with damaged bills and coins. A total of 239 cases, many from the regions, were analyzed in the laboratory by forensic experts. Payments under this heading totaled over CLP 684 million and were mostly made via electronic transfer or cashier's check.

When the neighborhood of Santiago was in lockdown, such that the Central Bank was not open to the public, we worked with authorized banks in Santiago to maintain service continuity.

The review of these banknotes by forensic experts is the only way the public can recover the value of severely damaged banknotes, which must be validated by the Central Bank prior to replacement and otherwise represent a loss to the holder.

Banknote and Coin Changing Service

We carried out a diffusion campaign for this service (commonly called sencilleo, or breaking bills), which reached over 4,000 people in Santiago. The campaign focused on the core commercial areas of the city, including the historic district, the central market, the old food market, the farmers' market, and the Patronato neighborhood. To promote the communication of this information, we worked in partnership with the BancoEstado's Caja Vecina and the Technical Cooperation Service (Sercotec) of the Ministry of Economy, Development, and Tourism, who used their communication channels to deliver the message to another 4,000 people, including micro and small merchants.

The banknote and coin changing service provided at the Central Bank's public teller window is mainly aimed at people and small businesses that handle a lot of cash and need or accumulate different denominations.

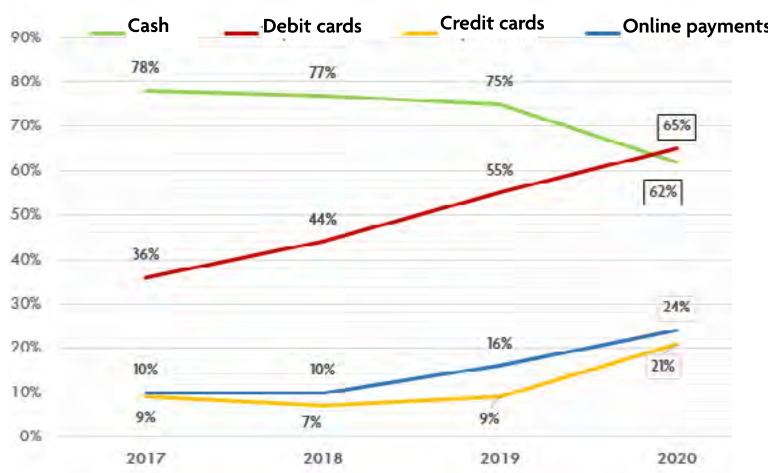
4.5 Cash Management

In mid-2020, due to the increased demand for cash caused by the post-lockdown business reopening plan, changing bills at the Central Bank became an essential service for many businesses that were not able to get what they needed from commercial banks. From that point on, our public teller window received more traffic per day, which had to be handled during special hours..

2020 National Survey on Cash Use and Preferences

According to the last National Survey on Cash Use and Preferences, conducted in late 2020, cash became the second most used means of payment in Chile, behind debit cards. Thus, 65% of the people surveyed stated that they frequently use debit cards; this share has increased steadily since 2017, when 36% of the sample said they use debit cards frequently. At the same time, 62% of participants said they always or almost always use cash in their transactions in 2020, which represents a reduction from previous years, when around 75% said cash was their preferred choice. The other means of payment (credit cards and online payments) were much lower in regular payment preferences.

Frequency of Use
Response: "Always or almost always"



Source: 2020 National Survey on Cash Use and Preferences.

4.5 Cash Manage ment

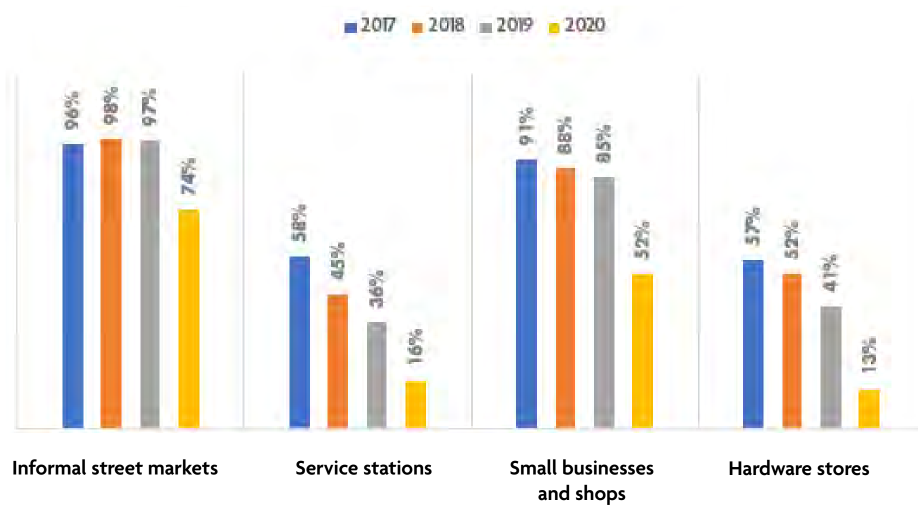
Cash continues to be the most preferred means of payment with street markets, street vendors, and small businesses and shops. Debit cards are preferred for purchases from large retailers, hardware stores, service stations, and utilities.

In terms of amounts, banknotes and coins are preferred for making small payments (less than CLP 5,000), whereas debit cards are preferred for amounts over CLP 5,000 and up to CLP 100,000. Credit cards and online payments are mainly used for payments over CLP 50,000.

The majority of the people surveyed (81%) said they got their cash from ATMs, anywhere from once a month to everyday, while 39% of participants said they use their bank branches at the same frequency. The median amount withdrawn from ATMs is in the range of CLP 21,000 to 50,000.

The evolution of payment preferences observed in the 2020 survey is probably strongly influenced by the effects of the pandemic and the associated lockdowns in the majority of cities, where mobility and in-person purchases were limited for a good part of the year. Nevertheless, it could also be reflecting more structural changes in payment trends and preferences in various segments of society, which will be confirmed in future surveys over the coming years.

Cash Use by Item



Source: 2020 National Survey on Cash Use and Preferences.

4.5 Cash Management

In 2020, 456 people participated in the new remote workshops, which covered banknote security elements, recommendations to prevent counterfeiting, and advice on handling cash.

Cash Training and Extension

Know Your Banknotes Program

Our Treasury Area is in charge of public extension activities to communicate the characteristics of the Chilean banknotes and coins and the provision of services to support the normal functioning of cash payments. This information is available online, at www.billetesymonedas.cl.

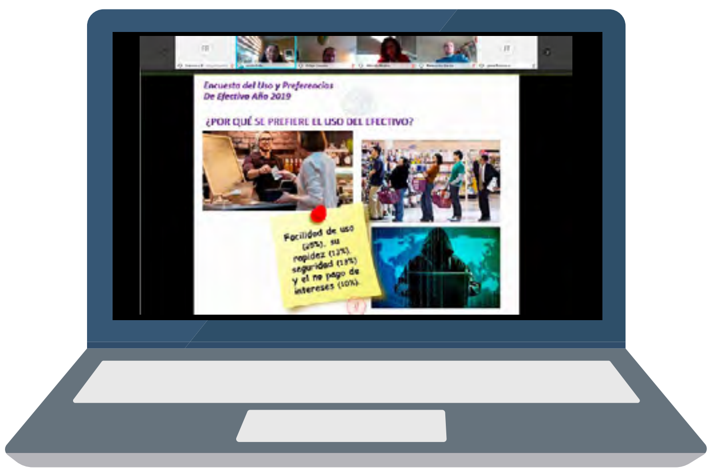
The Know Your Banknotes Program, launched in 2006, underwent a major transformation in 2020 due to the national health contingency. The training workshops were converted to a totally virtual format, which involved using new platforms, adapting the content to the new format, and even integrating new messages related to COVID-19, all with the aim of keeping the banknote education program current and thereby maintaining confidence in the currency.

This free program is open to the general public, but it is especially aimed at people who work with cash daily. Thanks to the online format, people from all over the country were able to take part, including over 20 businesses and institutions from a wide range of sectors. Participants included cashiers from the retail sector, small businesses, wholesalers, commercial banks, and cash-in-transit companies, as well as student cashiers in training at technical institutes and the general public.

To support the virtual Know Your Banknotes Program and to meet the needs of businesses and other organizations, in 2020 we disseminated a total of 10,901 digital and physical 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.

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.

4.5 Cash Management



Strategic Partnerships

As one of our strategic partnership initiatives for disseminating program content, in 2020 we signed an institutional collaboration agreement with Caja Vecina [8], which has more than 30,000 outlets in small quien, businesses throughout Chile, to use its communication channels to deliver information to the public on issues that contribute to upholding confidence in the currency. We were thus able to deliver messages focused on health measures, so as to help people and businesses continue using cash safely in their daily transactions.

Extension Activities

Throughout 2020, and especially during the months when the pandemic effects were strongest, we held a series of presentations for different audiences, in which we discussed the current cash situation and recent trends in Chile and other countries and reinforced the recommendations of international health authorities, highlighting that handling cash is similar to any other everyday object, that is, the prevention of contagion is based on using a face mask and washing your hands.

We held virtual presentations for groups such as the Inter-American Association of Economic and Financial Journalists (AIPEF) and employees of members of the Chilean Insurance Association, as well as banks, cash-in-transit companies, and service and retail businesses.

Joint Police Training Workshops

To prevent losses from people receiving false banknotes, we implement targeted informational campaigns aimed at reinforcing the messages on banknote recognition. During the Independence Day holidays in September 2020, and in the context of the phased reopening plan, an initiative was coordinated with the Carabineros de Chile, wherein officers visited shopping areas in different parts of Santiago 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 campaign included recommendations on using banknotes and coins during the pandemic. The Carabineros de Chile replicated the campaign at the national level, distributing a total of 8,400 informational products such as flyers and brochures.

[8] A banking support services corporation operated by the state-owned bank, Banco del Estado de Chile, which has developed a system of services based on a POS device installed in small businesses, whether in remote areas or densely populated communities, whereby users can make transactions such as electronic fund transfers, withdrawals, deposits, and cash payments through authorized bank accounts.

4.5 Cash Management

Logistics Center Project

Work continues on the construction of a Logistics Center for the Treasury Area in the El Montijo Industrial Park, a project launched in 2015 to improve the Bank's cash management processes. In particular, a number of national and international studies, consulting, and services were contracted for the design and later construction of the Center.

In 2020, we contracted out the adaptation of the basic engineering conducted in 2019 to incorporate changes in the project scope and the estimated investment. The work resulted in a preliminary design and the conceptualization of the operational needs of the different areas of the Bank (Treasury, Security, IT, and Human Resources).

During the year, we also contracted the archeological and geotechnical services, as well as the supply, installation, start-up, and maintenance of the logistics equipment. A company was contracted to develop the logistics solution, and progress was made on the detail engineering and some functional processes in the future operation of the Center.

Sustainable Cash Management [Material topic]

CBC5, CBC6, 103-1, 103-2, 103-3

Starting last year, we report on the cash life cycle (coins and banknotes), from production through final disposal. In 2020 this process became even more critical when, as explained above, our production of cash increased significantly to meet the greater need for cash at the national level, due the withdrawal of pension fund savings. At one point, for example, banknotes produced overseas had to be flown to Chile in order to speed up their arrival in the country and thus meet the demand for cash.

Total production of banknotes grew 46.6% in 2020 relative to the previous year. The distribution of coins in the regions grew 136% versus 2019; banknotes, 166%.

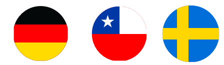
4.5 Cash Management

CURRENT CYCLE

1 Production

Year – Units produced – material
2019 – **221 million** – 100% cotton
2020 – **324 million** – 28% polymer

Produced in:



Year – Units produced
2019 – **223 million**
2020 – **130 million**

Produced in:

2 Transport

In 2020, products produced overseas arrived in the country mostly by ship, with some air transport...

...and were transported by ground to the Central Bank, as were locally produced units

In 2020, total banknote production was divided into 11 different shipments, and 21 containers were received.

For coins, there were 4 shipments of a total of 31 containers.

3 Distribution

The Bank delivered banknotes and coins to commercial banks on demand. In Santiago, the money is delivered directly from our distribution centers.

In other regions, delivery is coordinated through the custodian system and/or direct transport.

Year – Amount distributed – % to regions

2019 – **434 million** – 9%
2020 – **709 million** – 25%

Year – Amount distributed – % to regions

2019 – **480 million** – 19%
2020 – **463 million** – 49%

4 End of the Cycle

221
million banknotes destroyed in 2020

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

Banknotes are shredded at the Central Bank

4.5 Cash Management

Sustainable Cycle: Coins

In 2019, we made a commitment to avoid generating waste at the end of the banknote and coin life cycle, to the extent possible. We are thus proud to report that we made progress on this objective in 2020, with the introduction of a virtuous circle: worn-out coins are sold to Turkey, where they the material is recycled to produce Turkish coins.

This sustainable waste management translated into income of USD 4,563,250.

Coin Withdrawal and Sale Process

2017

In November 2017, Productivity Law N°20,956 entered into effect, authorizing the elimination of the $1 and $5 coins. The logistics of withdrawing these two coin denominations at the national level began in December of that year.

2018

In November 2018 the mono-metallic $100 coin (the old $100 coin) was declared unfit, and it began to be withdrawn from circulation.

A TOTAL OF SIX WITHDRAWALS WERE CONDUCTED NATIONALLY.

2019

The last withdrawal of these three denominations ($1, $5, and old $100) was in July 2019.

In November, the contract was signed with the international firm that won the tender for the sale of the metal.

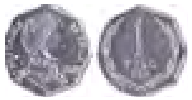
2020

The export process began in May de 2020 and ended in August.

Five shipments were sent to Turkey, carrying a total of 52 containers with 1,129 tons of metal. The smelting process will be completed in 2021.

Tons of Coins Sent to Turkey

89 tons.



168 tons.

872 tons.

4.5 Cash Management

Coin Recycling Pilot Program

In May 2020, we presented a recirculation model for the $100 bimetallic coins, which have been in circulation since late 2001.

Recirculation will promote collaborative work between the Central Bank and the commercial banks. By introducing a virtuous circle for this product, we achieve a triple impact:

Save on minting costs	Reuse current resources to avoid generating waste	Reduce the need to manufacture coins

The initiative was based on using surplus coins stored by commercial banks, which had been accumulated over time mainly in Santiago. The pilot project was implemented in July and August 2020, at the Central Bank, and it involved reviewing and validating the reception, processing, and distribution of the coins.

The initiative is currently in the trial phase. The results have been even better than projected thanks to the implementation of improvements identified during the pilot phase and the adaptation of equipment to the process.

	Pilot results	Trial phase
No. $100 coins processed	600,000	4,000,000
Coins obtained for recirculation	576,514	3,981,464
Yield	96%	99.5%
Loss	4%	0.5%
No. $100 coins processed daily	85,714	200,000

4.5 Cash Manage ment

Fin de ciclo sustentable: billetes

In the case of banknotes, the end of the cycle depends on the base material. In 2020, we processed a total of 195,67 tons of waste from banknotes.

POLYMER BANKNOTES	COTTON BANKNOTES
Quantity processed in 2020: 65.78 tons The transformation process for this type of bill consists in combining and/or pelletizing the waste shavings which, combined with other polymers in different concentrations, produces the necessary mix to make the final product. Since 2019, Timberecco, the company contracted to process the plastic waste, recycles the material into a product with properties similar to natural wood. The so-called "plastic wood" is made into the same formats as natural wood and is worked with the same traditional carpentry tools. It can be used for almost all the same purposes 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.	**Quantity processed in 2020: 129.89 tons** Cotton banknotes are treated using a method called co-processing, which involves the use of waste material to produce another product or subproduct in an environmentally safe process. In this case, the waste is used as a source of energy 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. The contract was awarded to the Polpaico cement company, whose subsidiary, Coactiva, provides industrial waste management services and has a unit dedicated to sustainable solutions for waste that cannot be recycled. The waste from cotton banknotes is converted into an alternative solid fuel for energy substitution in cement kilns.

4.6 International Reserves and Sovereign Wealth Funds

The Mandate

International reserves are liquid foreign currency assets held by the Central Bank of Chile (CBC) to support monetary and financial stability policy. 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.

The management of these reserves aims to guarantee secure, efficient access to international liquidity while preserving the Bank's financial equity. This is done under the legal framework defined in the Basic Constitutional Act (BCA) and a set of internal policies and practices that are in line with international recommendations.

The main objectives of the investment policy are as follows:

- To hold the reserves in highly liquid instruments, which can be called in the briefest period possible without incurring significant transaction costs;
- To invest in instruments that present limited financial risks, in order to limit the risk of incurring capital losses; and
- To reduce the cost of holding the reserves at the margin.

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).

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.

4.6 International Reserves and **Sovereign Wealth Funds**

Performance in 2020

International Reserve Management

Special Measures and the Impact on Reserves

In 2019, we adopted a series of special measures to contribute to alleviating the financial tensions in the local market, some of which were in place in 2020.

The following measures had an impact on the international reserves:

1. Currency swaps: implemented from 14 November 2019 to 9 January 2021. This measure had a temporary impact on the reserve level, as the Bank was selling dollars (and receiving pesos) in a transaction that was reversed on a specified date.	**2. Dollar sales in the spot market:** implemented as of 2 December 2019, with the last operation on 3 January 2020. The announced program ended on 9 January 2021. This measure had a permanent effect on the reserve level.

The swap operations implied an outflow of dollars from the international reserve investment portfolio, with a peak of USD 1.221 billion delivered to the market in the month of April. These funds were fully reincorporated into the investment portfolio in the following months as the operations expired.

Additionally, the Bank implemented non-delivery forward (NDF) contracts in U.S. dollars starting on 2 December. The stock of NDFs peaked in February 2020, with a total of USD 4.875 billion. This measure did not affect the reserve level because the money flow (positive/negative) associated with the settlement at maturity was in local currency.

International Reserve Performance

Investment Portfolio	Cash Portfolio	Other Assets
USD 36.0185 billion	USD 1.7814 billion	USD 1.4001 billion

2020 International Reserves
USD 39.20 billion

Note: 31 December 2020.

4.6 International Reserves and **Sovereign Wealth Funds**

The reserve balance at year-end 2020 was USD 1.457 billion lower than at year-end 2019. The decrease is explained by a USD 3.4294 billion reduction in the cash portfolio, which was partially offset by an increase in the investment portfolio of USD 1.7505 billion and in other assets of USD 222.0 million.

The increase in the value of the investment portfolio was largely explained by net gains of USD 1.9295 billion, attributable mainly to the appreciation of the currencies in the portfolio against the U.S. dollar. The drop in rates, especially in the first quarter, also increased the gains in the investment portfolio. The reduction in the cash portfolio, in turn, is explained by a drop in foreign currency deposits denominated in U.S. dollars held at the CBC by commercial 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 2020, total international reserves were invested as follows:

91,7% Securities that are traded on highly liquid secondary markets	**4,7%** Very short term bank deposits	**3,6%** 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.

4.6 International Reserves and **Sovereign Wealth Funds**

At year-end 2020, excluding other assets and current foreign currency operations, our international reserves are invested as follows:

93,9% Sovereign risk	**4,9%** Bank risk	**1,2%** Supranational risk

68,9% AAA rating	**31,1%** A- to AA+ rating

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, the average duration of the investment portfolio was around 22.3 months, while the distribution of total reserves by currency was as follows:

52,2% U.S. dollars	**10,0%** Euros	**8,3%** Canadian dollars	**8,3%** Australian dollars	**21,2%** Other currencies

4.6 International Reserves and **Sovereign Wealth Funds**

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 USD 500 million each. Both firms manage a long-term global government fixed-income mandate, with a structure equivalent to the internally managed diversification portfolio.

Returns

The total return obtained from international reserve management in 2020, excluding the other assets portfolio, was 2.42% measured in local currency and 5.64% measured in U.S. dollars.

The local currency return on fixed-income instruments is explained, in part, by the drop in bond yield rates at the global level, especially in the first quarter of 2020. However, the biggest share of returns was generated through the positive exchange rate effect of measuring returns using the U.S. dollar as the base currency, which depreciated against the currency basket in the period, especially in the second half of the year.

The differential return relative to the benchmark, which is used to guide and evaluate investment performance, was 1.5 basis points in 2020.

Liquidity Buffers

To strengthen the country's financial position, we executed a number of actions in 2020 to complement our foreign currency liquidity buffers:

Month	Highlight
May	The IMF approved a Flexible Credit Line (FCL) for USD 23.930 billion, a precautionary and temporary (2 years) measure for facing adverse balance-of-payments scenarios (in this case, in the context of the COVID-19 pandemic).
June	The CBC opened an account in the Temporary Foreign and International Monetary Authorities (FIMA) Repo Facility offered by the Federal Reserve Bank of New York, whereby foreign monetary authorities can temporarily access funding in U.S. dollars using their U.S. Treasury securities as collateral.
July	The parameters were modified for the renminbi/peso bilateral swap arrangement (BSA), held since 2015 with the People's Bank of China (PBoC). The line increased 127% (to the equivalent of USD 7.1 billion), and the permissible uses of the available resources were expanded to include contributing to the stability of the financial markets.

Note: At year-end 2020, none of these facilities had been used by the CBC.

[9]/The return in local currency does not incorporate appreciation or depreciation of the portfolio currencies against the U.S. dollar.

4.6 International Reserves and **Sovereign Wealth Funds**

Exploring Green Investment

In 2020 we continued to further our understanding of investments that incorporate environmental, social, and governance (ESG) criteria. Activities this year included a presentation to the Board on the functioning of the green bond market, which has some differences with the standard fixed-income markets in which we usually invest. Our challenge for 2021 is to study these issues in more detail and to evaluate the space we have for contributing from the perspective of green finance.

Appendix 2 presents a more detailed report, in accordance with institutional policy on the provision of information on the management of international reserves.

Sovereign Wealth Fund Management

In 2020, the Central Bank of Chile (CBC) 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, we 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, we applied the same principles and standards to managing the fiscal funds that we use for our international reserves.

Pension Reserve Fund (PRF)

Short-term	Long-term
• U.S. Treasury notes and bonds	• Sovereign and quasi-sovereign (government-related) bonds • U.S. agency mortgage-backed securities (MBS) • Corporate bonds • High-yield bonds • Equity

In 2020, the Finance Ministry issued instructions to subdivide the PRF into a short-term portfolio and a long-term portfolio, using the existing resources

[10] In the context of the implementation of Law N° 21,174 published in the Official Gazette on 26 September 2019, the Finance Ministry informed the CBC on 28 October 2019 that it would no longer be responsible for the financial management of the Strategic Contingency Fund (FCE) as of 31 December 2019. El CBC transferred over the SCF resources on 2 January 2020.

4.6 Reservas internacionales **y fondos soberanos**

Due to these movements, the share of the PRF managed by the CBC and its delegated portfolio managers increased by USD 810.7 million, while in the case of the ESSF, the share managed by the CBC decreased by USD 2.8019 billion.

On 1 October the corresponding resources were transferred from the portfolios managed directly by the CBC and by the external fund managers, to comply with these directions. Additionally, the Finance Ministry issued further instructions to withdraw approximately s USD 1.6 billion on the same date. Thus, at year-end 2020, the market value of the PRF was USD 10.1568 billion, of which USD 6.2326 was managed by the CBC and its delegated managers[11].

Economic and Social Stabilization Fund (ESSF)

With regard to the ESSF, we adjusted the investment policy in the year, in accordance with the Finance Ministry's guidelines. In particular, the equity share managed by the external portfolio managers was reduced from 7.5% to 5.0%, with a corresponding increase in the share managed by the CBC. Additionally, the Finance Ministry issued instructions for a number of withdrawals over the course of the year, for a total of approximately USD 4.1 billion.

At year-end 2020, the market value of the ESSF was USD 8.9552 billion, of which, USD 8.4927 billion was managed by the CBC[12] .

In 2020, the Bank continued to use the services of a global custodian, which also measured the performance, risk, and benchmark compliance of fund management, in accordance with the standards and parameters outlined in the Finance Ministry's investment guidelines.

Absolute Return Measured in U.S. dollars on the funds managed directly by the Central Bank

Long-term PRF	ESSF
10.71%	7.95%

The differential return attributable to the Bank's management, relative to the benchmark portfolios established by the Finance Ministry, was 42.5 and 5.0 basis points for the long-term PRF and ESSF, respectively[13].

The short-term PRF was implemented in the fourth quarter of the year. In that period, it had absolute return of 0.03% and a differential return of –0.2 basis point.

[11] The PRF resources managed by the Central Bank, as fiscal agent, are divided into a sovereign and quasi-sovereign bond portfolio (USD 3.0099 billion at year-end 2020) and a U.S. Treasury note and bond portfolio (USD 2.8061 billion at year-end 2020) managed internally by the CBC. There is also a U.S. agency mortgage-backed security (MBS) portfolio whose management is delegated by the CBC to external portfolio managers (USD 416.6 million at year-end 2020). 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.

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

[13] In the case of the PRF, if the management of both the CBC and its delegated portfolio managers (U.S. agency MBS portfolio) are taken into account, the absolute and differential returns attributable to the fiscal agent in 2020 were 9.89% and 41.2 basis points, respectively

4.6 Reservas internacionales **y fondos soberanos**

With regard to fiscal agency fees, the costs of managing the funds were charged to the Treasury. In 2020, the annual charges for the ESSF and PRF were 2.5 and 1.1 basis points, respectively[15] .

In accordance with both the Bank's information disclosure policy and the stipulations of the Fiscal Agency Decree, Appendix 3 provides more details on the Bank's management of the ESSF and the PRF resources.

Fiscal Agency

As in past years, the Central Bank accepted the fiscal agency agreement for the placement of Treasury bonds and bills. This involved auctioning peso-denominated Treasury bonds with a maturity date of 2025 (BTP-2025); UF-denominated Treasury bonds with a maturity date of 2025 (BTU-2025); and 6- and 12-month bills in both pesos and UFs.

Also in its role of fiscal agent, the Bank continued the implementation of the Treasury bond redemption 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.

[14] 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.

[15] 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).

5 A Committed Team

Everything we achieved as an institution in 2020 was thanks to the commitment and excellence of our employees.
The team of people that make up the Central Bank of Chile demonstrated their vocation to service and responsibility for Chile and its citizens in the midst of an unprecedented crisis.

5.1 Our Most **Valuable Capital**

(102-8, 102-41, 404-1, 404-3)

Being part of the Central Bank of Chile is a commitment to the citizens of the country. We therefore strive to build a team of excellence.

As an institution, we offer 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, aligned with the Bank's strategic objectives and organizational values.

To support the achievement of our mission, in 2020 we continued working on one of our strategic objectives: to attract and hire people of excellence, keeping them motivated and committed to the organization's objectives and values, in a friendly and balanced work climate.

733
Employees
(including the 5 Board Members)

504
Men
(69%)

229
Women
(31%)

43,57
hours
Average training per person

89,2%
of employees had a performance evaluation in 2020[16]

91%
of employees are covered by a collective agreement

EMPLOYEES WITH A BACHELOR'S DEGREE
Men: 5,0%
Women: 4,8%

EMPLOYEES WITH A MASTER'S DEGREE
Men: 8,1%
Women: 4,4%

EMPLOYEES WITH A PH.D.
Men: 8,5%
Women: 3,9%

[16] Current employees with at least six months on the job, as of 31 December.

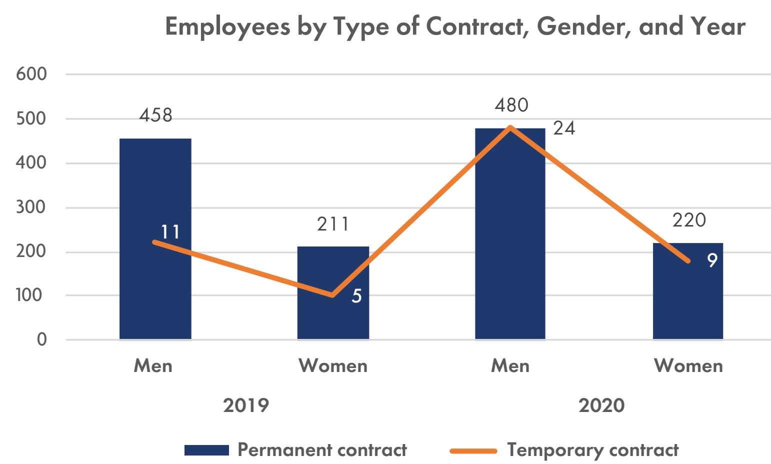
5.1 Our Most **Valuable Capital**

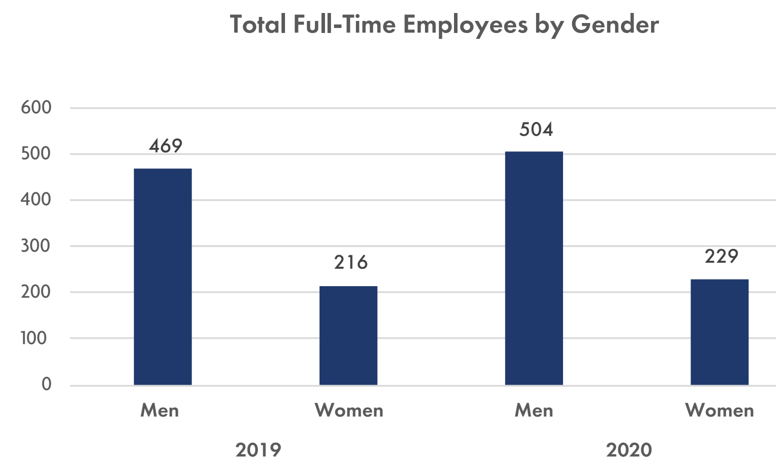
Sustainability: Part of Our Induction Process

In 2020 we incorporated a sustainability workshop into the Bank's induction program for people who join our organization. For 2021 we are also incorporating a chapter on sustainability in the remote version of our induction process, which will include interns.

More Information on our Employees

102-8





Note: All our staff works full time.

At the organizational level, we were proactive in the early adoption of remote work for all employees starting on 16 March. When lockdowns were initiated, over 90% of our staff was working remotely.

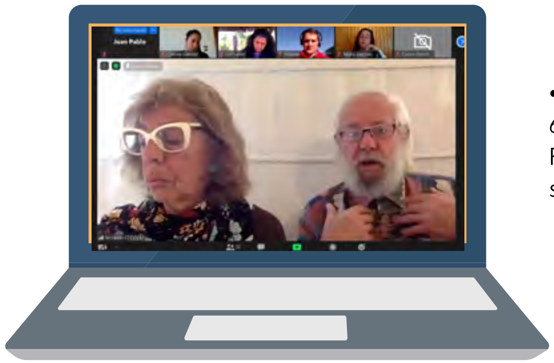
Our Employees' Well-being [Material topic]

CBC7, 103-1, 103-2, 103-3

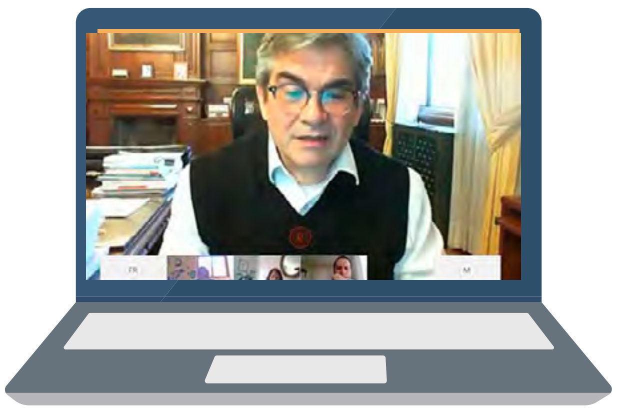
This year, the health, well-being, and safety of our employees became a critical issue. As soon as COVID-19 reached our country, we took measures to protect the health of all the people on our team and their families. We strengthened work-life balance policies, facilitating options for remote work and flexible hours.

5.1 Our Most **Valuable Capital**

To address the concerns of the Bank's employees, we carried out a wide range of online activities in the year:



• Central Contigo Workshops
628 participants
From May through the end of 2020, we held a series of workshops consisting in ten discussions aimed at supporting employee well-being both at work and in the family.



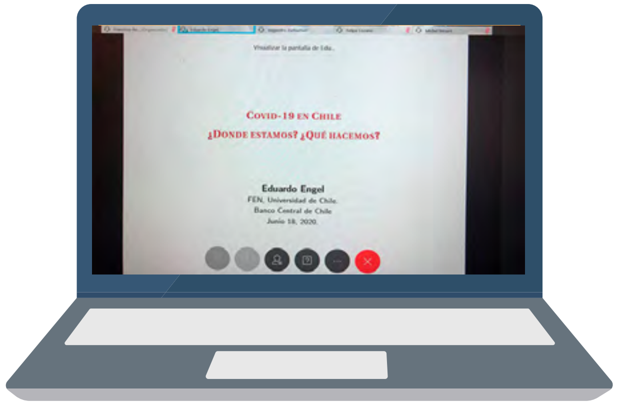
• Conversations with the Governor of the Central Bank of Chile
831 participants
The Central Bank Governor held seven virtual discussion groups, in which he met with a group of employees to talk and share information on the context, facilitating spaces for dialogue where people could express their doubts and resolve their concerns about the current scenario.

There were two series, the first in April and May and the second in July and August. A total of 831 people participated.

The meetings opened with a discussion of how the work of the CBC staff had had to be adapted to reflect current needs, acknowledging the contribution of all the areas and divisions to the achievement of the Bank's objectives and describing the outlook for recovery from the shocks.

The Governor also addressed the main factors to be considered in the future and the Bank's role given the development of the new Constitution, technological changes, and the challenge for institutions in the face of society's expectations. Finally, the meetings concluded with a question-and-answer period.

5.1 Our Most **Valuable Capital**



- **Expert Discussions, Led by the General Manager**

904 participants

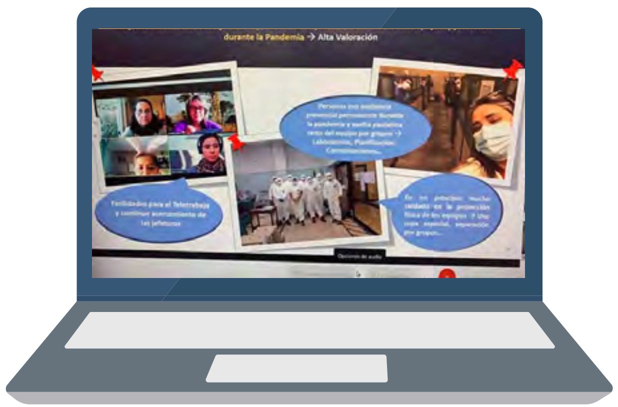
In our effort to stay connected, up-to-date with the current scenario, and united around our institutional challenges, we delivered key information on the situation in the country in the context of the pandemic, identifying the political and epidemiological scenario, the social implications, and technological changes in response to the situation, promoting discussion and participation by all the Bank's staff.

The talks, which began in 2019 and continued in March and July of 2020, featured seven experts, including epidemiologists, political analysts, and data scientists.

- **Remote Work Surveys**

400 participants

To evaluate and monitor the well-being of our employees during lockdown and remote work, we conducted six surveys, one of which was led by the Bank union. The results allowed us to make continuous improvements in remote work, identifying the main challenges and assessing our management.



- **Focus Groups on the Return Plan and the Future of the Workplace**

96 participants

We organized a total of eight focus groups to analyze the changes in social relationships and the organization of work due to the pandemic and remote work; study the link between the organization's current and future challenges; and generate spaces for listening, support, and participation.

- **Implementation of the Great Place to Work COVID Pulse Survey**

Result: 79% positive assessment

In June and July, we implemented this GPTW survey, which consisted in 17 statements covering four dimensions: leadership, work climate, balance, and pride. The survey explores employees' perceptions of our pandemic management, where we received a 79% positive assessment.

Additionally, we strengthened out employee support services in terms of psychological, legal, financial, family, nutrition, and social orientation counselling.

5.1 Our Most **Valuable Capital**

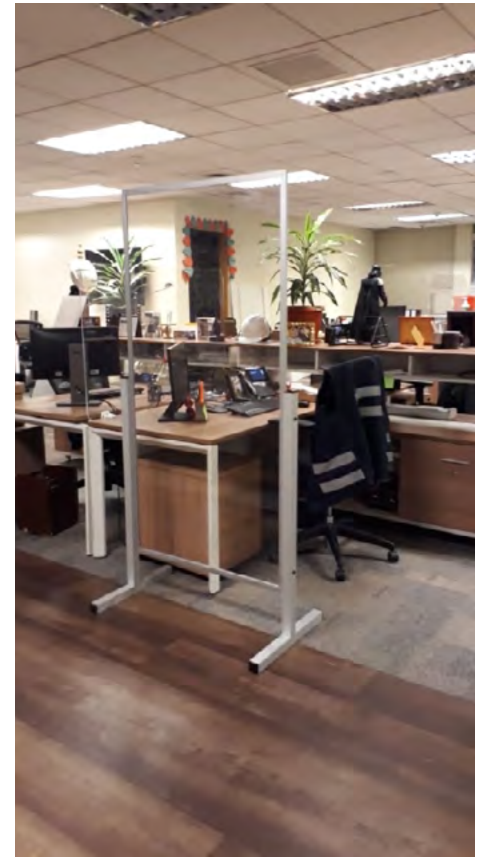
Infrastructure Adaptation

In addition to all the professional and emotional support activities for employees working remotely, we also worked intensively to adapt the Bank's infrastructure for those that needed to visit the office building or whose position and work could not be performed offsite.

In conjunction with our suppliers, we created synergies for sharing and implementing the different pandemic mitigation experiences, with strict adherence to the guidelines issued by the Ministry of Health (MINSAL).

Adaptations included the following:

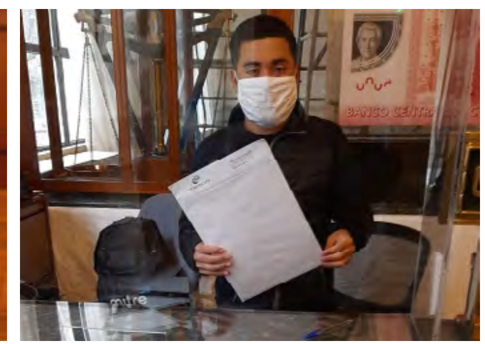
Installation of 850 signs	Incorporation of 290 acrylic partitions to separate work areas	Installation of thermometers at entrances and on each floor	Distribution of quaternary ammonia among contractors, cleaning staff, and installations
Availability of face masks	Adaptation of the break room with acrylic partitions, signs, maximum capacity, and face mask hooks, and modification of the food delivery system	Capacity management in line with MINSAL protocols and space availability	Definition of authorized positions
Provision of 87 spaces for bicycles as an alternative form of transportation	Installation of an ionizing air conditioner and sanitizing system, with 12 ionizing machines	Weekly sanitization of work areas by the services unit, and emerging sanitization as needed	Purchase of inputs to provide to external personnel: atomizers, alcohol dispensers, alcohol gel, etc.




Prefiere
usar
escaleras


Recuerda
uso de
mascarillas


Recuerda
lavarte
las manos



5.1 Our Most **Valuable Capital**

Technological Adaptations for Remote Work

Following the eruption of the 2019 social crisis, we made some adaptations to enable remote work, without knowing that it would be the normal scenario throughout much of 2020.

Previously, we had a technological platform that allowed remote work for staff who provide essential services or who work on systems that require operational continuity. In 2020 this capacity was expanded to cover all personnel and also employees of the Bank's suppliers.

The remote work infrastructure includes all personal equipment (computers, mobile phones, and tablets) and communication and network equipment, which was reinforced to improve the user experience.

We also accelerated the migration and implementation process for institutional email and cloud collaboration software, so as to facilitate work and collaboration at the team level. We implemented an online events platform that supports simultaneous interaction with all Bank employees, as well as external events.

This deployment of human and technological resources allowed us to provide access to remote work to about 90% of the staff, with increasing service quality over the course of the year. This involved a major effort by most of our technological area and a lot of user interaction, as well as communication issues such as the implementation of new collaborative work tools and office equipment. We also incorporated new cybersecurity controls, which mitigated the risks that arose over time.

All of these efforts contributed to maintaining the Bank's usual productivity levels, which was reflected in the achievement of our strategic objectives despite the COVID-19 context.

5.1 Our Most **Valuable Capital**

The Central Bank of Chile received its first Great Place to Work certification.

Considering all the implications of remote work and the unexpected conditions introduced by the pandemic, we are proud to report that in 2020 the Bank recorded an 8 percentage point increase in its workplace climate score, measured annually in coordination with the Great Place to Work organization.

Great Place To Work.

This year, we achieved an 83% positive assessment on the survey, and for the first time, we were certified as a Great Place to Work.

Work Climate
CBC8

We know that a good work climate is important not only for our employees' development, but also for the organization's efficiency. We have therefore implemented a continuous improvement model since 2014, with action plans and programs aimed at improving the workplace environment.

The current model follows the Great Place to Work (GPTW) methodology, which emphasizes the central role of trust and the positive perception that people have of management, the organization, and their peers.

The main work is done by area managers and their teams, positioning the work environment as a central factor for promoting job satisfaction and productivity. Additionally, the Human Resources Area and all the service areas have benefit programs and training and development activities that contribute to our employees' perception of the Central Bank of Chile as a great place to work.

In our leadership model, one of the main features of any position is to take care of our people. This quality was strengthened over the past year, and it was one of the reasons for the increase in our annual GPTW survey score. People indicated that our leaders are understanding and approachable and that they embody the characteristics of our organization.

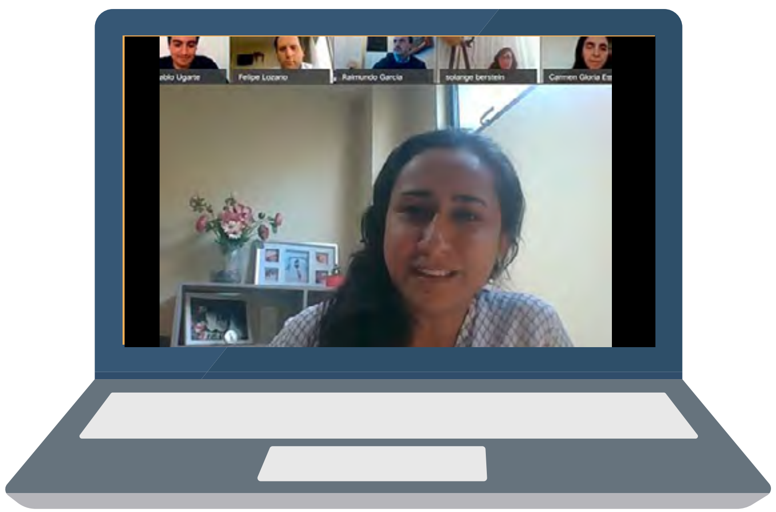
Training and Development for a Team of Excellence
404-1, 404-2

The Central Bank has had a culture management and leadership program since 2018. The objective is to instill qualities that we need to achieve our strategic challenges. The model has eight principles for orienting the actions of the Bank's management teams.

In 2020 work centered on strengthening and reinforcing the Bank's value proposition for its employees. Thus, alternatives for a comprehensive development system were evaluated, and a new phase of the leadership and mentoring program was implemented, to promote the necessary culture for achieving our strategic objectives.

We also maintained our various training activities, despite the work dynamics adopted due to the pandemic, by reworking activities into an online format. We thus recorded an average of 43.57 training hours per person.

5.1 Our Most **Valuable Capital**



Employee training hours, by type of position		2019			2020		
		People trained	Total hours	Average hours	People trained	Total hours	Average hours
Position	Executive Committee and senior managers	31	1,162	37.48	35	804	22.97
	Department managers	43	1,751	40.71	44	1,809	41.11
	Group leaders	37	2,437	65.85	78	3,424	43.89
	Professionals	341	18,292	53.64	388	20,591	53.07
	Technical/Administrative	80	2,087	26.09	112	1,999	17.84
Total		532	25.729	48,36	657	28.627	43,57

We also have a general training program for institution-wide technical and adaptive issues, as well as specific training activities by unit. The latter are defined by each area, since they are related to the strategic challenges established in each division.

Leadership Academy

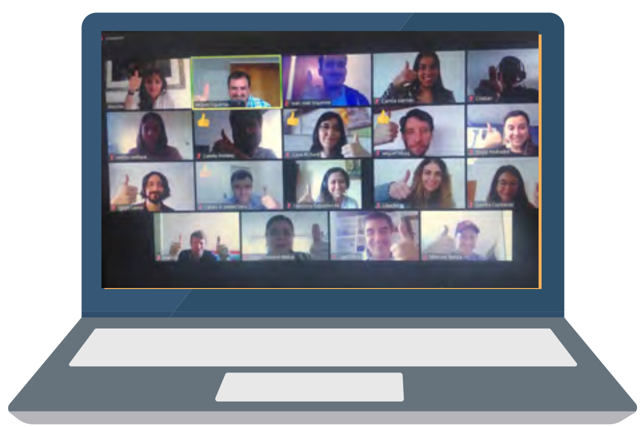
The Leadership Academy was designed to support people in leadership positions, providing an opportunity to develop key competencies and share experiences, lessons, and good practices with their peers. The program was modified in 2020 to adapt to the challenges and needs deriving from the pandemic, starting in April.

The 2020 Leadership Academy had 158 participants in a variety or workshops:

3 general workshops (Accountability, collaboration, connection, and ethics)

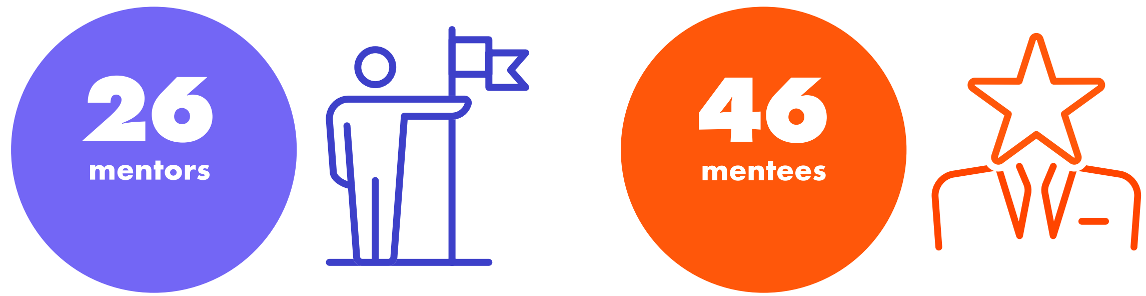
3 elective workshops (Emotional management, recognition, and inspirational stories)

The content design focused on adapting to the new work dynamics over the course of the year, providing practical tools for managing teams in the new context and using this space to reflect on the implications of the new labor dynamics.



All levels of management participated in the workshops, including division directors, area managers, department heads, and group leaders, as well as seven people who have a broader role in the organization, such as Board advisors.

The Great Place to Work survey has questions specifically associated with leadership, which provide a measure of the program's success. In 2020, our score was 9.9 percentage points higher than in 2019, with a 14.8 percentage point improvement on the specific question of whether "leaders fully embody the best characteristics of the organization."



With the aim of developing and strengthening internal talent, we coordinated our first mentoring program in 2020. In the program, people with extensive professional experience act as mentors for high-performance individuals (mentees), to strengthen their behavioral and relational conduct through motivating conversations. The process generates an exchange of valuable experiences for the professional development of the participants, which promotes collaboration among people from different areas of the Bank.

Considering the good results and positive program assessment in 2020, we will continue to coordinate the program annually.

5.1 Our Most **Valuable Capital**

TOTAL NUMBER OF PARTICIPANTS IN THE MENTORING PROGRAM, BY DIVISION AND GENDER			
División	PARTICIPANTS		
	MEN	WOMEN	TOTAL
Office of the General Auditor	0	1	1
Office of the General Counsel	3	1	4
Office of the General Manger	3	5	8
Monetary Policy Division	8	2	10
Financial Policy Division	5	1	6
Financial Markets Division	5	2	7
Statistics Division	1	9	10
Operations Division	7	4	11
Institutional Affairs Division	3	2	5
Administration and Technology Division	8	2	10
TOTAL	43	29	72

Employee scholarships

International Scholarships
3 men

Scholarships for postgraduate studies abroad offer high-performance employees the possibility of studying at the best universities in the world, with the goal of delivering the necessary tools for their specialization in areas that are essential for our work. This year, there were no women applicants.

National Scholarships
10 men and 5 women

Scholarships for undergraduate and postgraduate programs in Chile aim to provide our employees with the necessary tools for facing future labor challenges and achieving growing levels of responsibility, Independence, flexibility, and mobility.

5.1 Our Most **Valuable Capital**

In 2020, 89.2% of our staff had a performance evaluation.

Performance Evaluation

404-3

The performance evaluation process allows us to define clear goals for our employees, establishing timelines, controls, and feedback for reaching our institutional objectives and reinforcing the professional development of the entire staff.

	Number and % of performance evaluations, by job category											
	Women				Men				Total			
	2019		2020		2019		2020		2019		2020	
	Nº	%	Nº	%	Nº	%	Nº	%	Nº	%	Nº	%
Senior management	1	1%	1	0%	2	0%	2	0%	3	1%	3	0%
Area managers	8	4%	7	3%	2	6%	22	5%	30	5%	29	4%
Other staff	185	95%	198	96%	378	94%	424	95%	563	94%	622	95%
Total	194	28%	206	28%	402	59%	448	61%	596	87%	654	89%

5.1 Our Most **Valuable Capital**

Inclusion and Diversity [Material topic]
405-1, 103-1, 103-2, 103-3

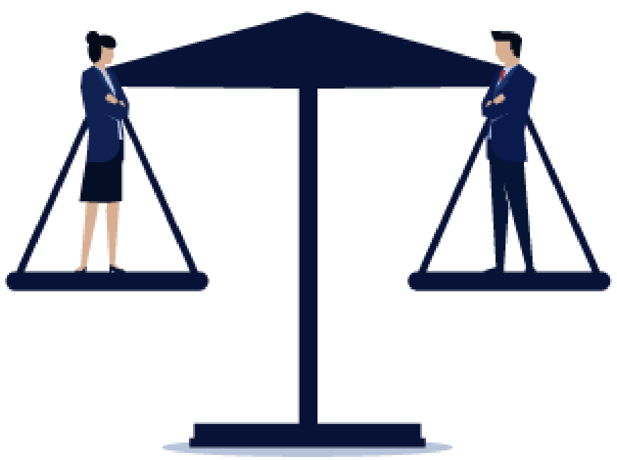
This year, the Bank's diversity and gender equity guidelines were strengthened. To move forward in this area, we set targets for achieving an increase in women's participation, in particular in middle-management positions. We are aiming for a share of 40% women on the total staff and 36% in middle management.

Historically, we have had a gender ratio of 30:70 among the different age groups. This year, the ratio was 31:69.

Employees by Position and Gender

Category	Men	%	Women	%	Total
Board	4	0.8%	1	0.4%	5
Senior management	6	1.2%	5	2.2%	11
Area management	18	3.6%	3	1.4%	21
Other staff	476	94.4%	220	96.0%	696
Total	504	100%	229	100%	733

5.1 Our Most **Valuable Capital**



Employees by Position and Age

	2019						2020					
Age group	Less than 30		30 to 50		Over 50		Less than 30		30 to 50		Over 50	
Board	0	0%	2	0.5%	3	2%	0	0%	1	0.1%	4	2.4%
Senior management	0	0%	1	0.2%	2	1%	0	0%	1	0.1%	2	1.2%
Area management	0	0%	15	3.3%	6	4%	0	0%	13	2.8%	9	5.4%
Other staff	86	100%	425	96%	145	93%	100	100%	451	97%	152	91%
Total	86	100%	443	100%	156	100%	100	100%	466	100%	167	100%

Our Achievements in 2020

For much of the year, we reached **gender parity** at the senior management level.

To promote professional development with gender equity, our **mentoring program** sent invitations to **50% men** and **50% women**.

In 2020, **we hired 78** people, of whom **30% were women.**

405-2
In terms of compensation, the Bank has achieved nearly full **equal pay**, because our good compensation practices promote **the absence of a pay gap,** which at some levels is in favor of women. This is in line with the equality principles established by the Bank for men and women who have the same education and work responsibilities.

Gender Pay Gap, 2020			
Level	Base pay, women	Base pay, men	Ratio (%)
Administrative	$1,609,007	$1,351,632	–19%
Executive	$12,471,055	$11,923,797	–5%
Managerial	$6,865,858	$6,662,521	–3%
Professional	$3,433,693	$3,606,090	5%

5.1 Our Most **Valuable Capital**

Internship Program: Early Attraction of Talent with Gender Equality

Our internship program, Tu Práctica es Central, is the main component of our strategy for the early attraction of talent, aimed at detecting and evaluating the performance and potential of students in technical and professional majors, who meet the Bank's standards of academic excellence, skills, and values.

Through this program, we seek to find and train the best talent to subsequently hire as employees, with proven knowledge and performance and in line with the needs of the Central Bank of Chile. Another key objective is to promote diversity and gender equity, thereby achieving a larger share of women on the staff and motivating women to pursue a career in areas such as economics, finance, information technology, and operations.

57% women

60 interns in 2020

43% men

In 2020 we incorporated various program improvements:

- Online application and participation in group assessments in the interview phase.
- Part-time internships, which allow students to balance their studies and internships.
- Intern induction process, with talks on safety, communications, cybersecurity, and human resources.
- Economics career development workshop, featuring senior professionals from different economic areas of the Bank.

Of the 60 participants in this process, 28 went on to join our organization, after participating in the open recruitment and selection process. Of these, 57% are women.

5.1 Our Most **Valuable Capital**

Labor Relations

102-41

The Central Bank Labor Union was founded in 1970, and it is still the only employee union at the institution. Currently, 89% of contracted employees 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 2020, we worked with the union to find better ways to promote the well-being of our employees during the pandemic, both for those whose jobs required them to work in-person and for people working remotely.

Jobs That Are Covered by a Collective Agreement

2019		2020	
Number	**%**	**Number**	**%**
607	**89%**	**663**	**91%**

NOTE: Coverage includes people who qualify for benefits under the agreement (both unionized and nonunionized).

5.2 Our Suppliers

(102-9, 204-1)

910 suppliers

87% of our suppliers are national

76% are national SMEs

Most of our suppliers provide information services, consulting, and computer development, as well as the procurement of supplies and technological infrastructure. In 2020, we worked with 304 new suppliers.

The most labor-intensive services are outsourced, including food services, security, cleaning, physical infrastructure maintenance and upgrading, computer help desk, computer services, and correspondence.

Our supplier relations are regulated through the Procurement Policy, Purchasing Rules, Expenditure Authorization Procedures, and Contracting Rules for the purchase of goods and services. As part of our continuous improvement processes, we are working on the development of Supplier Performance Evaluation Guidelines. We are also in the process of incorporating gender equality and disability inclusion variables in the selection criteria in this area.

SME Suppler Management

In 2020, 76% of our suppliers were Chilean small and medium-sized enterprises (SMEs), with payments totaling CLP 15,523,919,160.

In 2019, we worked on incorporating new technological and process improvements to increase the efficiency of our payment processes. As a result, the average payment period was reduced significantly.

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Average Payment Period for Local Suppliers, in Days

Firm size	2019	2020
Large companies	25	17
SMEs	20	18

6 Environmental Management

We know that protecting the environment is one of the main challenges facing humanity. Climate change is not only a concern at the financial level, but also a challenge that we want to support through concrete actions in our operations, to be increasingly sustainable and contribute by example to society.

6.1 Environmental Management Sustainable: Infrastructure and Operations

(103-1, 103-2, 103-3)

Although our environmental impact is low given our sphere of action, we have implemented several initiatives to become more efficient in our environmental management every year. The areas identified for improvement, which are also in line with the organization's sustainability strategy, have 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.

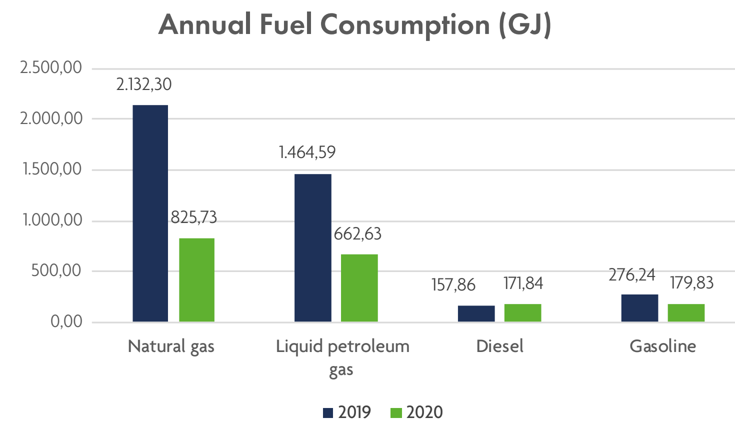
This year, the results are not comparable with 2019 due the COVID-19 pandemic. However, we can identify opportunities for improvement that can be implemented in the face of the new reality, which has transformed the way people work and live throughout the world.

Energy Efficiency [Material Topic]

302-1, 302-3

Fuel and electricity are the two major sources of our energy consumption, primarily at the main office building.

Our nonrenewable fuel consumption totaled 1,840 gigajoules (GJ) in 2020, which represents a 54% reduction vis-à-vis 2019, when consumption was 4,031 GJ. This reflects the restrictions imposed during quarantines, which resulted in the lower activity at our offices.



Note: In 2020, the calculation methodology was redefined to reflect the GRI standard[17]

Electricity consumption declined 13% relative to 2019, with total consumption of 12,937 GJ in 2020. To obtain the total, we take the consumption in each building, by type of energy, based on utility bills and invoices for electricity, natural gas, and liquid petroleum gas.

*Gigajoule is a unit of energy equivalent to one billion joules.

[17] The methodology used in 2020 standardizes the way the information is calculated and presented for 2019 and 2020. The 2019 information for 2019 contained inaccuracies that were adjusted this year using the GRI conversion table, with the results reported in GJs. In particular, each type of energy is disaggregated by building and type of energy.

6.1 Environmental Management Sustainable: Infrastructure and Operations

Our total energy consumption in 2020, including both fuels and electricity, was 14,778 GJ, a reduction of 21% relative to the previous year.

Energy Intensity [18]

Our total energy consumption in 2020, including both fuels and electricity, was 14,778 GJ, a reduction of 21% relative to the previous year.

Energy Intensity (GJ)	2019	2020
Total fuel / Total surface area	0,017	0,008
Total electricity / Total surface area	0,062	0,054
(Fuel + electricity) / Total surface area	0,079	0,062

Energy Efficiency Actions

LED Lighting

The Bank has four premises. In 2020 we made progress on switching to LED lights in the Agustinas building, reaching 55% coverage. This will contribute to more efficient energy consumption in the long term. The beach resort still does not use LED lights, but we will work on upgrading the lighting systems in 2021.

% LED lights per building	Institutional office buildings			
	Agustinas building	Constitution Plaza building	Cumming building	Stadium
2018	32%	27%		
2019	39%	32%	33%	-
2020	55%	32%	33%	67%

HVAC System Renovation Project

The renovation of the heating, ventilation, and air conditioning (HVAC) system, begun in 2019 and completed in October 2020, consisted in the total replacement of the air conditioning and heating equipment in the main office building.

The new chiller system and the respective secondary equipment are operated with a centralized control system that adjusts to the temperature needs inside the building, ensuring efficient energy consumption. The efficiency results will be available in late 2021.

Remodeling of the Great Room (Central Bank of Chile Country Club)

The Great Room was completely remodeled in 2020, taking into account sustainability criteria for the lighting, with the incorporation of a centralized control system using low-energy lights, and the HVAC system, based on the same standards as the project described above. The efficiency results will be evaluated in late 2021.

Prior to 2020, we did not have a baseline for specifically measuring the different components of energy consumption. We will therefore develop an energy measurement plan in 2021 to track progress and results. This implies incorporating digital meters in the electrical system panels with technical criteria for measuring the magnitude of consumption.

[18] The calculation of energy intensity assumes an operational surface area of 240,005 m2.

6.1 Environmental Management Sustainable: **Infrastructure and Operations**

We are also planning several initiatives for 2021 to contribute to more efficient energy management in the short and medium term:

Exit from the regulated price system

We have evaluated exiting the regulated price system to become a so-called free customer (unregulated prices), to ensure that some of the energy we consume is generated from renewable energy sources. In 2020, following a feasibility study, we concluded that it would be possible to switch to the unregulated price system at the junction box with the highest distribution at the main office building, which represents 45% of the total connected load for this building.

Beach resort lighting

In 2021, we will modernize the lighting system at the beach resort, using low-energy LED lights.

Modernization of the elevators

This initiative, currently in progress, considers the incorporation of modern technology for the elevators in the main office building, to promote efficient energy use. The project includes five elevators, one hydraulic freight elevator, and two dumbwaiters, for an estimated energy savings of 30% relative to the traditional elevators

6.1 Environmental Management Sustainable: **Infrastructure and Operations**

Next Challenges: Measuring Our Carbon Footprint

To continue improving our environmental management, we plan to have a model for calculating the total greenhouse gases (GHG) emitted directly and indirectly by the Bank. Knowing the environmental impact of our activities will allow us to establish measures to mitigate and offset these emissions.

The first phase of the project will consist in defining our baseline emissions. Based on the results, we will study different short-, medium-, and long-term scenarios for reducing the organization's carbon footprint. This project is in line with Chile's commitment to reduce its GHG emissions under the Paris Agreement.

6.1 Environmental Management Sustainable: Infrastructure and Operations

Sustainable Infrastructure Projects

Given the significant heritage value of our infrastructure, we want to take a sustainable approach to maintaining these spaces, aligning all of our projects with this commitment. With every intervention, we take advantage of the opportunity to modernize equipment that has completed its useful life and replace it with technology that contributes to reducing our energy consumption. This underlies our decision to switch to LED lights, and we have also prioritized an open design to improve the efficiency of the heating, ventilation, and air conditioning (HVAC) system.

Additionally, all our projects involving the construction and improvement of infrastructure take into account the current legislation on the inclusion of people with disabilities.

Restauration of the Agustinas Heritage Building

This project is 65% complete. The restauration began before the pandemic and was interrupted in late 2020. These changes are part of a series of building conservation initiatives, aimed at preserving the value of this heritage asset and improving safety for users.

The work includes dry steam cleaning the walls, renovating the stuccowork, and repairing cracks, always matching the building's original construction.

At year-end 2020, 2,770 m2 of stuccowork had been repaired

Inclusive Infrastructure

We are adapting the Bank's infrastructure for people with disabilities, through the installation of an elevator to connect the three levels of the building and the allocation of accessible parking spaces and ramps for both visitors and employees. Additionally, the elevators in the Agustinas building were upgraded to incorporate universal accessibility, Braille signage, and audible floor and door announcements.

Sustainable Remodeling of the Agustinas Building

The new centralized HVAC system works according to building requirements. The system incorporates 31 exhaust fans, to ensure clean air.

We also remodeled the third floor of the building based on an open floor plan, eliminating the false ceiling and contributing to the optimization of the HVAC system, thereby creating a sustainable space with more natural light and lower energy consumption.

Reuse of Equipment for New Projects

The renovation of the HVAC system for the great room, which had completed its useful life, considered the reuse of existing equipment, with the adaptation of two mini chillers that now work as water coolers or heat pumps depending on the needs of the users.

Reusing material and equipment is part of our commitment to the circular economy. To date, we have reused 2,500 m2 of rubber membrane, 500 kilos of steel, and 250 fans, to mention a few examples.

6.1
Environmental Management Sustainable:
Infrastructure and Operations

Responsible Waste Management
306-3, 306-4, 306-5

As in the case of other environmental indicators, the waste management data for 2020 are not comparable with previous years, given that it was an atypical year in terms of building use and the respective waste management.

Hazardous Waste

In the period, we generated 0.66 metric tons of hazardous waste. This represents a reduction of 28% relative to 2019, when we generated 0.92 metric tons.

Hazard waste is not recycled, for obvious reasons. Rather, we have delegated the processes to specialized external companies that provide comprehensive waste management services, including transport and final disposal.

Nonhazardous Waste

Total nonhazardous waste in 2020 was 297.29 metric tons. This represents 99.8% of the waste produced by the Central Bank and is largely made up of materials such as polymer paper, cardboard, and glass.

In the year, 74.56 metric tons of nonhazardous waste were sent to landfills.

In 2020, a total of 129.89 tons of cotton banknotes considered waste were used for energy recovery.

A total of 65.78 tons of polymer banknotes were recycled.

For more information on our recycling and energy recovery processes, see the material topic Sustainable Cycle on page 112.

7 About This Integrated Annual Report

7.1 Methodology

(102-32, 102-48, 102-49, 102-50, 102-51, 102-52, 102-54, 102-56)

This report, approved by the Board, represents our second Integrated Annual Report, which consolidates information on the organization's economic performance and its environmental, social, and governance performance into a single report.

The report is prepared annually and covers the period from 1 January to 31 December 2020. There have been no significant changes in the preparation of this report since the last publication, in April 2019. Restatements of information are indicated in the applicable sections, and they involve the financial education programs reported in 2019, on the one hand, and fuel and electricity consumption and energy intensity in our buildings, on the other.

This Integrated Annual Report uses the core option of the Global Reporting Initiative (GRI). For the first time, the Integrated Annual Report was reviewed by an independent external auditing firm, PricewaterhouseCoopers, to provide limited assurance on the information provided in the report and verify compliance with the GRI Standards. The assurance process included a detailed review of the materiality study, which provided opportunities for improvement. For more information, see the assurance report on page 156.

7.1 Methodology

Material Topics 2020

102-29, 102-46, 102-47

To define the material topics addressed in this report, a three-phase materiality study was carried out, following the GRI guidelines:

ETAPA 1: IDENTIFICATION	ETAPA 2: PRIORITIZATION	ETAPA 3: VALIDATION
Benchmark of good practices, including three other central banks. **Review of internal CBC material.** **Review of external media.** **Review of international finance and sustainability standards and documents.**	**16 online interviews with the Bank's top executives, including the CBC Governor and Deputy Governor.** **Survey of 239 Central Bank employees on sustainability issues.**	**Validation of the material topics by the General Manager of the Central Bank.**

7.1 Methodology

The materiality study identified the following material topics for the Central Bank of Chile in 2020: 103-1, 103-2, 103-3

MATERIAL TOPIC	DEFINITION	COVERAGE	RESPONSIBILITY	CONTRIBUTION TO THE SUSTAINABLE DEVELOPMENT GOALS (SDGS)
Monitoring the financial effects of climate change	Study the effects of climate change through the constant monitoring of the financial risks produced, in order to identify potential impacts on the financial system.	Internal with external impact	**• Monetary policy Division • Financial Policy Division • Statistics Division**	
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**	
Knowledge and adoption of disruptive technologies	Promote innovation in the Bank's internal management and understanding of new technologies, to evaluate the risks and opportunities for the organization and the industry.	Internal with external impact	**• Financial Policy Division**	
Community relations	Build relationships based on trust and transparency with the community and other stakeholders, through simple, clear, and timely communications.	Internal with external impact	**• Institutional Affairs Division**	
Sustainable cash 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**	 

7.1 Methodology

MATERIAL TOPIC	DEFINITION	COVERAGE	RESPONSIBILITY	CONTRIBUTION TO THE SUSTAINABLE DEVELOPMENT GOALS (SDGS)
Sustainable environmental management	Manage operations under sustainable parameters in terms of energy, waste, and soon also emissions.	Internal with external impact	• **Operations Division**	
Employee well-being	We must ensure that our employees have favorable working conditions and a good work climate, with special concern for their well-being.	Internal	• **Human Resources**	
Diversity and inclusion	We are committed to providing the conditions for developing a diverse and inclusive team, where everyone feels welcome and can develop without prejudice.	Internal	• **Human Resources**	

7.2 GRI Content Index (102-55)

CATEGORY	TYPE	CODE	CONTENT	PAGE
GRI 102: General Disclosures 2016	Organizational profile	Disclosure 102-1	Name of the organization	4
		Disclosure 102-2	Activities, brands, products, and services	20, 23, 24
		Disclosure 102-3	Location of headquarters	4
		Disclosure 102-4	Location of operations	Chile
		Disclosure 102-5	Ownership and legal form	4
		Disclosure 102-6	Markets served	Chile
		Disclosure 102-7	Scale of organizations	11
		Disclosure 102-8	Information on employees and other workers	122, 123
		Disclosure 102-9	Supply chain	139
		Disclosure 102-10	Significant changes to the organization and its supply chain	13
		Disclosure 102-11	Precautionary Principle or approach	Not applicable
		Disclosure 102-12	External initiatives	62
		Disclosure 102-13	Membership of associations	62
	Strategy	Disclosure 102-14	Statement from senior decision-makers	6
		Disclosure 102-15	Key impacts, risks, and opportunities	44
	Ethics and integrity	Disclosure 102-16	Values, principles, standards, and norms of behavior	48
		Disclosure 102-17	Mechanisms for advice and concerns about ethics	51
	Governance	Disclosure 102-18	Governance structure	31
		Disclosure 102-19	Delegating authority	39
		Disclosure 102-20	Executive-level responsibility for economic, environmental, and social topics	28
		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	53
		Disclosure 102-26	Role of highest governance body in setting purpose, values, and strategy	28
		Disclosure 102-29	Identifying and managing economic, environmental, and social impacts	28
		Disclosure 102-32	Highest governance body's role in sustainability reporting	148

7.2 GRI Content Index

	Stakeholder engagement	Disclosure 102-40	List of stakeholder groups	57
		Disclosure 102-41	Collective bargaining agreements	122, 138
		Disclosure 102-42	Identifying and selecting stakeholder groups	57
		Disclosure 102-43	Approach to stakeholder engagement	57
		Disclosure 102-44	Key topics and concerns raised	57
	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	149
		Disclosure 102-47	List of material topics	149
		Disclosure 102-48	Restatements of information	148
		Disclosure 102-49	Changes in reporting	148
		Disclosure 102-50	Reporting period	4
		Disclosure 102-51	Date of most recent report	148
		Disclosure 102-52	Reporting cycle	Annual
		Disclosure 102-53	Contact for questions regarding the report	4
		Disclosure 102-54	Claims for reporting in accordance with GRI standards	148
		Disclosure 102-55	GRI content index	152
		Disclosure 102-56	External assurance	148
MATERIAL TOPICS				
COMMUNITY RELATIONS				
GRI 103: Management Approach 2016	Management approach	Disclosure 103-1	Explanation of the material topic and its boundary	56, 150
		Disclosure 103-2	The management approach and its components	56, 150
		Disclosure 103-3	Evaluation of the management approach	56, 150
Own indicator	Own indicator	CBC1	Stakeholder relation activities	56
MONITORING THE FINANCIAL EFFECTS OF CLIMATE CHANGE				
GRI 103: Management Approach 2016	Management approach	Disclosure 103-1	Explanation of the material topic and its boundary	85, 150
		Disclosure 103-2	The management approach and its components	85, 150
		Disclosure 103-3	Evaluation of the management approach	85, 150
Own indicator	Own indicator	CBC2	Participation in climate change dialogues	87

7.2 GRI Content Index

FINANCIAL EDUCATION				
GRI 103: Management Approach 2016	Management approach	Disclosure 103-1	Explanation of the material topic and its boundary	88, 150
		Disclosure 103-2	The management approach and its components	88, 150
		Disclosure 103-3	Evaluation of the management approach	88, 150
Own indicator	Own indicator	CBC3	Financial education projects	88
KNOWLEDGE AND ADOPTION OF DISRUPTIVE TECHNOLOGIES				
GRI 103: Management Approach 2016	Management approach	Disclosure 103-1	Explanation of the material topic and its boundary	91, 150
		Disclosure 103-2	The management approach and its components	91, 150
		Disclosure 103-3	Evaluation of the management approach	91, 150
Own indicator	Own indicator	CBC4	Priniciples actividades observatorio tecnológico	91
SUSTAINABLE CASH MANAGEMENT				
GRI 103: Management Approach 2016	Management approach	Disclosure 103-1	Explanation of the material topic and its boundary	107, 150
		Disclosure 103-2	The management approach and its components	107, 150
		Disclosure 103-3	Evaluation of the management approach	107, 150
Own indicator	Own indicator	CBC5	Disposal method for retired banknotes and coins	107
Own indicator	Own indicator	CBC6	Recycle-reuse projects for retired banknotes and coins	107
EMPLOYEE WELL-BEING				
GRI 103: Management Approach 2016	Management approach	Disclosure 103-1	Explanation of the material topic and its boundary	123, 150
		Disclosure 103-2	The management approach and its components	123, 150
		Disclosure 103-3	Evaluation of the management approach	123, 150
Own indicator	Own indicator	CBC7	Pandemic response with regard to employees	123
Own indicator	Own indicator	CBC8	Work climate	129

7.2 GRI Content Index

DIVERSITY AND INCLUSION				
GRI 103: Management Approach 2016	Management approach	Disclosure 103-1	Explanation of the material topic and its boundary	135, 150
		Disclosure 103-2	The management approach and its components	135, 150
		Disclosure 103-3	Evaluation of the management approach	135, 150
GRI 405: Diversity and Equal Opportunity 2016	Diversity and equal opportunity	Disclosure 405-1	Diversity of governance bodies and employees	135
		Disclosure 405-2	Ratio of basic salary and remuneration of women to men	136
SUSTAINABLE ENVIRONMENTAL MANAGEMENT				
GRI 103: Management Approach 2016	Management approach	Disclosure 103-1	Explicación del tema material y su cobertura	141, 150
		Disclosure 103-2	Enfoque de gestión y sus componentes	141, 150
		Disclosure 103-3	Evaluación del enfoque de gestión	141, 150
GRI 302: Energy 2016	Energy	Disclosure 302-1	Consumo energético dentro de la organización	141
		Disclosure 302-3	Intensidad energética	141
GRI 306: Effluents and Waste 2020	Effluents and waste	Disclosure 306-3	Waste generated	146
		Disclosure 306-4	Waste not destined for disposal	146
			Waste destined for disposal	146
OTHER INDICATORS				
GRI 204: Procurement Practices 2016	Procurement practices	Disclosure 204-1	Proportion of spending on local suppliers	139
GRI 404: Training and Education 2016	Training and education	Disclosure 404-1	Average hours of training per year per employee	122, 129
		Disclosure 404-2	Programs for upgrading employee skills and transition assistance programs	129
			Percentage of employees receiving regular performance and career development reviews	134

7.3 Assurance Letter

pwc

(A free translation from the original in Spanish)

Santiago, April 29, 2021

Messrs. Shareholders and Directors
Banco Central de Chile

Report of Independent Professionals

We have reviewed the sustainability information of Banco Central de Chile for the year ended December 31, 2020 included in the 2020 Integrated Report. Banco Central de Chile management is responsible for the presentation of sustainability information in accordance with the "core" option of the sustainability reporting standards of the Global Reporting Initiative (GRI standards). Our responsibility is to express a conclusion on the sustainability information based on our review.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA) AT-C section 105, Concepts Common to All Attestation Engagements, and AT-C section 210, Review Engagements. Those standards require that we plan and perform the review to obtain limited assurance about whether any material modifications should be made to the sustainability information for it to be in accordance with the "core" option of the GRI standards. A review is substantially less in scope than an examination, the objective of which is to obtain reasonable assurance about whether the sustainability information is in accordance with the "core" option of the GRI standards, in all material respects, in order to express an opinion. Accordingly, we do not express such an opinion. We believe that our review provides a reasonable basis for our conclusion.

We performed the following procedures:

- Scoping and planning based on relevance and volume of the sustainability information presented in the 2020 Integrated Report;
- Understanding of the materiality criteria used by Banco Central de Chile, the material aspects identified, management approaches and selected indicators, in accordance with the "core" option under the GRI standards;
- Interviews with executives responsible for the sustainability information in the 2020 Integrated Report;
- Review, based on selective testing, to verify that the sustainability data included in the 2020 Integrated Report is consistent with supporting documentation and/or is extracted from verifiable supporting information sources;
- Review that the financial information included in the sustainability information is derived from accounting records or from financial statements as of December 31, 2020, audited by an independent firm of auditors.

In performing our review, we have also complied with the independence and other ethical requirements set forth in the Code of Professional Conduct and applied the Statements on Quality Control Standards

The information reviewed is detailed on pages 152 to 155 of Banco Central de Chile's 2020 Integrated Report.

Based on our review, we are not aware of any material modifications that should be made to the sustainability information of Banco Central de Chile for the year ended December 31, 2020, included in their 2020 Integrated Report, in order for it to be in accordance with the "core" option of the sustainability reporting standards of the Global Reporting Initiative.

Colin Becker

PricewaterhouseCoopers

PricewaterhouseCoopers, Av. Andrés Bello 2711 - piso 5, Las Condes – Santiago, Chile | Teléfono: (56 2) 2940 0000 | www.pwc.cl

8 Appendixes

8.1 Appendix 1: Central Bank of Chile's Balance Sheet

Balance Sheet Levels and Structure [19]/

The behavior of the economy and the policies adopted by the Central Bank of Chile (CBC) affect the size and composition of the Bank's balance sheet, which affects earnings and losses.

In 2020, the Bank implemented a series of special measures to support the flow of credit, ensure the correct transmission of monetary policy, and contain financial market volatility. The main objective of these measures was to mitigate the effects of the economic and financial tension caused by the social crisis (2019), the spread of the COVID-19 pandemic, and the pension fund withdrawals.

As a consequence of the measures implemented, the size and composition of the balance sheet has changed significantly. Specifically, measured in pesos, the balance sheet grew 83% in 12 months.

In terms of composition, 47% of assets were international reserves, versus 93.2% in December 2019. The growth of peso-denominated assets is mainly explained by the commercial banks' use of the Liquidity Credit Line (LCL) and the Conditional Financing Facility for Increased Loans (FCIC I and II). In addition, and also as a result of the special measures, the Bank held peso-denominated bonds and time deposits at year-end.

At the same time, the monetary base increased as a share of liabilities, from 36.2% to 49.5%, while the share of Central Bank notes and policy instruments (debt) contracted from 40.8% in 2019 to 34.5% at year-end 2020. This change in the composition of liabilities is largely explained by an increase in the demand for money in 2020, together with a reduction in the Bank's stock of long-term debt, from 14% to 1.7% of total liabilities. The latter is primarily due to the debt buyback program carried out in the period, which helped finance the greater demand for money.

As a result of the change in the asset-liability structure, there were changes in the composition of risk and in the income and expense structure. Prior to 2020, most assets were denominated in foreign currency, while the majority of liabilities were denominated in local currency, leaving the balance sheet exposed to fluctuations in the U.S. dollar and the other currencies that make up the international reserves. With the growth of the liquidity facilities and asset purchases in local currency, this risk was cut nearly in half.

The purchase of local assets has also contributed to improving the income and expense structure by increasing balance sheet earnings, in particular compared to the yield at maturity of the international reserves, which is indexed to sovereign debt rates, mostly in developed countries. At the same time, the loans to financial institutions earned a rate of 0.5%, while the liabilities that funded those loans carried a lower cost.

[19] / The balance sheet is prepared in accordance with International Financial Reporting Standards (IFRS). See the Financial Statements (note 2(a)).
[20] / See the box on the FCIC.

8.1 Appendix 1: Central Bank of Chile's Balance Sheet

Table 1.1
Central Bank Balance
(Balances in billions of pesos, and% of GDP, as of December 31 of each year)

	2019 Balance/%GDP		2020 Balance/%GDP		Profitability rates (%) (1) 2019 interest/Δ value		Profitability rates (%) (1) 2020 interest/Δ value	
Assets	**32.495**	**16,5**	**59.339**	**29,6**	**1,5**	**10,1**	**0,7**	**0,6**
International reserves	30.274	15,4	27.881	13,9	1,5	10,1	0,5	-0,1
Other assets with public sector	324	0,2	322	0,2	0,1	2,6	0,0	2,7
Subordinated debt	0	0,0	0	0,0	6,4	-1,6	0,0	0,0
Monetary policy instruments (2)	1.662	0,8	59	0,0	1,2	0,0	1,2	0,3
Investments in local assets (3)			8.756	4,4			2,2	0,6
Credit to financial institutions (4)			22.044	11,0			0,5	0,0
Others	234	0,1	277	0,1	1,5	38,8	0,4	98,5
Passives	**34.057**	**17,3**	**61.077**	**30,5**	**1,9**	**0,7**	**0,0**	**0,0**
Monetary base	12.335	6,3	30.256	15,1	0,2	0,0	0,0	0,0
Monetary Policy Notes (5)	13.886	7,1	21.052	10,5	3,2	0,9	0,9	1,1
Other monetary policy liabilities (6)	3.015	1,5	7.564	3,8	1,9	0,0	0,3	0,5
Accounts ctes. and lace foreign currency	3.161	1,6	1.267	0,6	0,0	0,5	0,0	0,0
Treasury deposits and other public sector	718	0,4	0	0,0	3,1	1,8	8,6	0,0
Others	942	0,5	939	0,5	0,7	9,5	0,3	59,7
Heritage	**-1.563**	**-0,8**	**-1.739**	**-0,9**				
Initial capital	-3.825		-1.760					
Other reserves (9)	197		509					
Net result	2.065		-487					
Non-financial results	-87		-84					
Net interest (7)	-100		112					
Value changes (8	2.252		-515					
Capital contributions	0		0					

(1) Implied rates calculated from monthly average balances and gains / losses due to interest or changes in value.
(2) Includes loans to banks guaranteed with risk-free documents (repos), liquidity lines in national currency and swaps
(3) Includes investments in bank bonds, time deposits and CC-VP
(4) Includes LCL credit lines, FCIC1 and FCIC2 (FOGAPE and OCNB)
(5) Includes PDBC, BCP, PRC, ZERO UF and BCU.
(6) Short-term bank deposits paid in M / N and M / E. Deposits in M / E, except daily ones, guarantee credits in M / N (note 3).
(7) Interest rate differential between assets and liabilities
(8) Includes readjustments in local currency and the effect of exchange rate fluctuations on assets and liabilities in foreign currency.
(9) See Statements of Changes in Equity of the Financial Statements 2020
Source: Central Bank of Chile.

8.1 Appendix 1: Central Bank of Chile's Balance Sheet

Measured in pesos, total assets increased by CLP 26.844 trillion. As a share of GDP, assets grew from 16.4% to 30.9% between 2019 and 2020 (Table 1.1). The increase is explained, first, by the commercial banks' use of the special credit lines (LCL and FCIC I and II), for CLP 22.044 trillion, and second, by the investment in local assets, mainly bank bonds, which totaled CLP 8.756 trillion. International reserves contracted CLP 2.393 trillion, due to the combined effect of the reduction in bank deposits in the cash portfolio of CLP 2.616 billion, income from interest, sales, and net commissions of CLP 581 billion, and losses associated with the appreciation of the peso of CLP 371 billion.

Liabilities, excluding equity, increased CLP 27.020 trillion in 2020, in relative terms reaching 31.8% of GDP (versus 17.2% in 2019). The largest increase was in the monetary base, which grew CLP 17.921 trillion, mainly due to the increase in the current account balance of additional required reserves (reserva técnica) of CLP 12.010 trillion and the increase in cash of CLP 4.050 trillion. Monetary policy securities grew CLP 7.166 trillion, due to an increase in Central Bank discount notes (PDBCs) of CLP 10.879 trillion and a reduction in long-term debt of CLP 3.713 trillion. Additionally, other monetary policy liabilities (standing deposit facility) increased by CLP 4.548 trillion. The significant increase in the PDBC stock and the standing deposit facility served to drain excess liquidity from the economy.

Finally, Treasury and other public sector deposits and current accounts and banks' foreign currency reserves decreased CLP 1.895 trillion and CLP 718 billion, respectively.

At year-end, the Bank had negative equity of CLP 1.739 trillion, reflecting an initial equity of CLP –1.760 trillion, an increase in other reserves of CLP 509 billion, and a net loss in 2020 of CLP –487 billion. The latter was explained by losses of CLP 515 billion deriving from changes in the value of assets and liabilities (mainly due to exchange rate fluctuations, debt redemption, and losses on forward operations), net interest income of CLP 112 billion, and nonfinancial costs of CLP 84 billion, mostly personnel and administrative expenses and currency issuance and distribution costs.

8.1 Appendix 1: Central Bank of Chile's Balance Sheet

Figure 1.1
Assets of the Central Bank of Chile (Balances)
(billions of pesos)

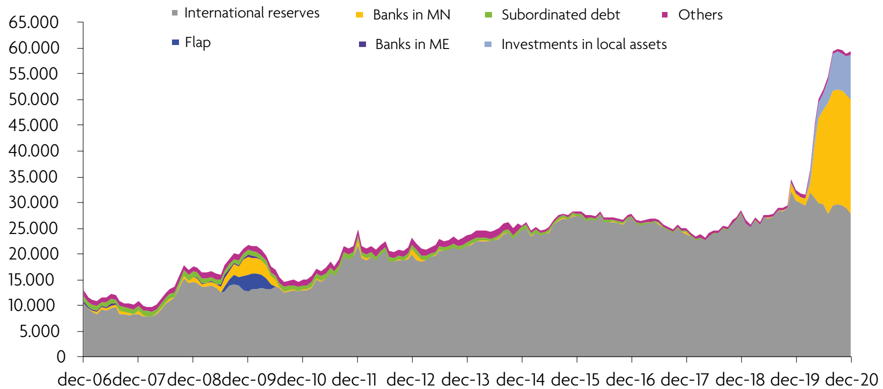
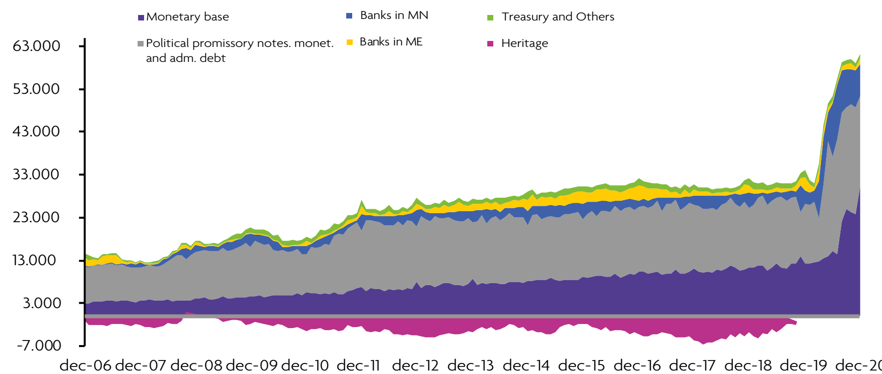


Figure 1.2
Liabilities of the Central Bank of Chile (Balances)
(billions of pesos)



Return on Assets and the Cost of Liabilities

The average return on assets is determined by the interest rate level and the income from bond coupons. In the case of the international reserves, these interest rates are associated with safe, highly liquid instruments, mainly sovereign bonds, which have lower yields than investments in local assets, mainly bank securities. The cost of liabilities, in turn, is primarily associated with the MPR and its expected trend, which affects the placement rate for Central Bank securities.

At year-end 2020, the average nominal rate on assets (0.63%) was higher than the average nominal rate on liabilities (0.24%). On the one hand, domestic credit (FCIC and LCL) and investment in bank bonds contributed to raising the average rate on assets. On the other, debt placements (PDBC) below the MPR and the monetary base, whose components—with the exception of additional reserves (reserva técnica)—do not earn interest, contributed to reducing the average rate on liabilities (Table 1.2).

8.1 Appendix 1: Central Bank of Chile's

Table 1.2
Income and Expense Structure
(balance on 31 December of each year, in CLP MM, interest rate in %, maturity in years)

Assets	Amount	"Average Rate"	Average Maturity
RIN	27.881	0,40	2,0
FCIC - LCL	22.044	0,50	2,9
Bank Bonds	6.392	3,47	4,8
Total Assets	**30.735**	**0,63**	**2,70**

Passives	Amount	Average issue rate	Average Maturity
PDBC	19.999	0,25	0,0
BCP	460	6,00	0,6
BCU	584	3,00	2,2
Other deposits and oblig. (1)	7.564	0,25	0,0
Cash in circulation (2)	14.804	0,00	0,0
Additional reserve deposits (2)	12.010	0,25	0,0
Fin. inst. current accounts (2)	3.442	0,00	0,0
Total Liabilities	**58.863**	**0,24**	**0,03**

(1) Permanent Deposit Facility (FPD)
(2) Components of the monetary base

Source: Central Bank of Chile.

8.1 Appendix 1: Central Bank of Chile's

At year-end 2020, there was a positive differential of 0.3% between the effective interest rate earned on assets (0.7%) and effective rate paid on liabilities (0.4%) (Table 1.1). In the context of this measure, international reserves contributed 0.25% to the return, a smaller contribution than last year due to their smaller share of total assets. Investments in local assets contributed 0.32% to the return. On the liability side, the share of interest paid decreased, mainly due to the lower debt issue costs from PDBCs, in line with the 125 basis point reduction in the MPR over the course of the year, and the lower financial burden associated with the reduction in longer-term debt (BCU and BCP). Thus, the average interest rate paid and earned, associated with the cost of monetary policy securities, was 0.3%.

The change in the value of assets (Table 1.1), associated with foreign currency adjustments and changes in the value of financial instruments through buy/sell transactions, was positive (0.6%), mainly explained by the restatement of investments in national UF-indexed bonds (96% of total national bonds). In this context, international reserves had a marginally negative return (–0.1%), due to accounting losses deriving from the appreciation of the peso against the other currencies that make up the reserve portfolio.

The change in the value of liabilities was also positive (1.8%), mainly due to losses on currency forwards and the cost of buying back long-term debt (accounted at amortized cost).

Personnel and Administrative Expenses

These management-related expenses include personnel compensation and benefits; the use and consumption of goods and services; and other expenses necessary for carrying out the Bank's activities (Table 1.3). On the comprehensive income statement, they are broken down as follows: (i) personnel and administrative expenses and (ii) other expenses and income. In 2020, of the total personnel and administrative expenses, personnel costs represented 67.3%; administrative expenses, 30.7%; and retirement benefits, 2.0%.

Table 1.3

Personnel, Administrative, and Other Expenses
(2020 CLP MM) (1)

	2016	2017	2018	2019	2020
Personnel expenses	39.574	39.955	39.594	43.206	42.261
Administrative expenses	20.705	19.756	19.621	21.589	19.304
Provision for post-employment benefits	2.066	2.076	1.967	1.520	1.274
Other expenses (income)	4.510	2.266	4.301	2.168	1.347
Total	66.855	64.052	65.483	68.483	64.185

(1) The average CPI was used to updated older figures to 2020 pesos (base year: 2018).

8.1 Appendix 1: Central Bank of Chile's Balance Sheet

Personnel Expenses

Personnel expenditures decreased 2.2% between 2019 and 2020, due to well-being and training programs. In 2020, the total staff increased to 733 people, (685 in 2019). Professionals accounted for 81.3% of the total staff as of December 2020.

Administrative Expenses

Administrative costs decreased 10.6% between 2020 and 2019. This was mainly due to a reduction in general services, consulting, surveys, and research and in expenditures on computer equipment and technological development.

External Auditors

The second paragraph of Article 76 of the Basic Constitutional Act stipulates that the Central Bank's financial statements must include an independent auditors' opinion and that the Board is to appoint the auditors from among those registered with the Financial Market Commission (FMC). Through Board Resolution 2245-01 of 29 August 2019, the Board awarded the contract for professional auditing services to EY Servicios Profesionales de Auditoría y Asesorías SpA, for the 2020–2022 period; the contract can be automatically renewed annually in the 2023–2025 period.

8.2 Appendix 2: International reserves

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 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, state-owned enterprises, and banks) and the other assets portfolio (IMF special drawing rights, or SDRs, certified gold, and other assets). The cash portfolio is allocated to covering expected funding requirements in the short term and is the preferred source for handling the daily funding requirements deriving from withdrawals from the foreign currency accounts maintained at the Central Bank by commercial banks and the public sector.

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

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 2020.

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

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

8.2 Appendix 2: International reserves

TABLA 2a: ESTRUCTURA REFERENCIAL DEL PORTAFOLIO DE INVERSIONES

		TIPO	% PORTAFOLIO	% SUB-PORTA-FOLIO	DURACIÓN	INDICES BENCHMARK
Liquidez	USD	Nominal	45,0	100,0	22,1	Bloomberg-Barclays Global Aggregate-Treasury Bond Index (Unhedged) (2)
	Total		45,0	100,0	22,1	
Diversificación	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)
		Indexado	4,0	7,3	19,6	
		Total	11,0	20,0	21,8	
	AUD	Nominal	9,0	16,4	24,4	
	CAD	Nominal	9,0	16,4	21,1	
	CNY	Nominal	8,0	14,5	21,5	
	GBP	Nominal	8,0	14,5	22,6	
	USD	Indexado	7,0	12,7	17,0	
	KRW	Nominal	3,0	5,5	21,4	
	Total		55,0	100,0	21,5	
Total			100,0		21,8	

(1) Países con clasificación de riesgo igual o mejor que A3/A-/A-. Se excluye Malta, Lituania, Luxemburgo, Letonia, Eslovenia y Eslovaquia.
(2) Emisiones del tramo de madurez 1 - 3 años.
(3) Emisiones del tramo de madurez 1 - 5 años.

Fuente: Banco Central de Chile.

8.2 Appendix 2: International reserves

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 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.

Deviations of the investment portfolio from its benchmark are controlled through a risk budget. Thus, since 1 October 2020, the Bank's investment portfolio management is subject to a global risk limit equivalent to an average monthly ex ante tracking error of 40 basis points, which cannot exceed 50 basis points[22] at any given time. The external portfolio managers, in turn, have a benchmark structure that is identical to the investment portfolio, as well as the same risk budget[23].

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.

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

23/Through 30 September 2020, the portfolio managed by the Bank had an allocated global risk budget equivalent to an average monthly ex ante tracking error of 25 basis points, which could not exceed 30 basis points at any given time. The external portfolio managers had an average monthly risk budget defined as an ex ante tracking error of 100 basis points a year, which could not exceed 150 puntos base at any given time. On 1 October 2020, the risk Budget was modified and standardized for internal and external portfolio management

8.2 Appendix 2: International reserves

Portfolio Performance in 2020

On 31 December, the investment portfolio stood at USD 36.0185 billion, while the cash portfolio held USD 1.7814 billion. Taking the sum of these two portfolios plus other assets (USD 1.4001 billion), total international reserves closed the year at USD 39.2000 billion.

This balance was USD 1.4570 billion lower than at year-end 2019. The reduction is explained by a decrease in the cash portfolio of USD 3.4294 billion, which was partially offset by an increase in the investment portfolio of USD 1.7505 billion and in the other assets portfolio of USD 222.0 million.

The increase in the value of the investment portfolio is mainly due to net income of USD 1.9295 billion, mainly attributable to the appreciation of the currencies that make up the reserve portfolio against the U.S. dollar. The drop in interest rates, especially in the first quarter, also increased the return on the investment portfolio. This was partially offset by net withdrawals of USD 179.0 million in connection to IMF operations and special operations (dollar spots and swaps[24]) in 2020. In the case of the cash portfolio, the contraction is explained by a reduction in foreign currency deposits denominated in U.S. dollars, held at the CBC by commercial banks and the Treasury.

With regard to the value of the internally managed investment portfolio, USD 14.9894 billion was in the liquidity portfolio, USD 19.8351 billion was in diversification portfolio, and USD 19.7 million was being held in current accounts. Additionally, the externally managed portfolio accounted for USD 1.1743 billion. In November 2020, the current position in the BIS Investment Pool in onshore Chinese government bonds (BISIP CNY) was settled, for total de USD 115.8 million.

Of the internally managed investment portfolio (USD 34.8442 billion)[25], 98.70% was invested in sovereign risk, 1.28% in supranational risk,[26] and 0.02% in agency risk[27] (with the exception of currency operations, there was no bank exposure). Relative to year-end 2019, there was an increase in exposure to sovereign risk and a decrease primarily in exposure to bank risk.

Sovereign risk includes investments in the United States (51.79%), Canada (8.85%), Australia (8.65%), China (8.18%), United Kingdom (7.77%), France (4.99%), Republic of South Korea (3.06%), Germany (2.45%), Spain (1.88%), Netherlands (0.49%), Austria (0.48%), Belgium (0.40%), Japan (0.30%), Finland (0.16%), Ireland (0.15%), Poland (0.13%), Czech Republic (0.11%), United Arab Emirates (0.07%), Denmark (0.05%), and Sweden (0.04%). Supranational risk is made up issues

[24]/In 2020, USD 100 million was settled in relation to the dollar sales program implemented starting in December 2019.
[25]/Excluding the externally managed resources, other assets, and the cash portfolio.
[26]/Supranational institutions are multilateral financial institutions, whose articles of agreement are signed by the governments of two or more countries.
[27]/Agencies are financial institutions with a specific purpose, which are fully or partially backed by the governments of their respective countries.

8.2 Appendix 2: International reserves

by the European Investment Bank (30.74%%), Inter-American Development Bank (26.94%), International Bank for Reconstruction and Development (18.84%), Asian Development Bank (5,01%), International Finance Corporation (4.12%), Inter-American Investment Corporation (3.18%), International Development Association (3.15%), Eurofima (3,14%), Council of Europe Development Bank (2.66%), and African Development Bank (2.21%). Agency risk is concentrated in one issue from Landwirtschaftliche Rentenbank (Germany).

La composición de las reservas internacionales totales y la composición de monedas del portafolio de inversiones se presentan en las tablas 2b y 2c, respectivamente.

8.2
Appendix 2:
International reserves

TABLA 2b: COMPOSICIÓN DE LAS RESERVAS INTERNACIONALES
(millones de dólares)

TYPE OF PORTFOLIO	CURRENCY	2019 DEC.	2019 %	2020 DEC.	2020 %
Investment Portfolio		34.268,1	84,3	36.018,5	91,9
Currencies and Deposits	US dollar	14,2	0,0	41,4	0,1
	Euro	3,2	0,0	0,3	0,0
	Canadian dollar	0,3	0,0	0,1	0,0
	Australian dollar	0,5	0,0	3,3	0,0
	Other currencies	205,2	0,5	30,5	0,1
Values	US dollar	17.551,1	43,2	18.636,9	47,5
	Euro	3.802,9	9,4	3.909,4	10,0
	Canadian dollar	3.094,0	7,6	3.262,3	8,3
	Australian dollar	3.055,0	7,5	3.240,0	8,3
	Other currencies	6.541,6	16,1	6.894,3	17,6
Totals	US dollar	17.565,3	43,2	18.678,2	47,6
	Euro	3.806,1	9,4	3.909,7	10,0
	Canadian dollar	3.094,3	7,6	3.262,4	8,3
	Australian dollar	3.055,5	7,5	3.243,4	8,3
	Other currencies	6.746,9	16,6	6.924,8	17,7
Portfolio Box		5.210,8	12,8	1.781,4	4,5
Currencies and Deposits	US dollar	5.210,830	12,8	1.781,4	4,5
Other assets		1.178,1	2,9	1.400,1	3,6
Monetary Gold	Other currencies	12,0	0,0	14,9	0,0
SDR IMF	Other currencies	745,7	1,8	691,8	1,8
IMF Reserve Position	Other currencies	419,0	1,0	693,4	1,8
Currencies and Deposits	US dollar	1,4	0,0	0,0	0,0
Total International Reserves		40.656,9	100,0	39.200,0	100,0
	US dollar	22.777,5	56,0	20.459,6	52,2
	Euro	3.806,1	9,4	3.909,7	10,0
	Canadian dollar	3.094,3	7,6	3.262,4	8,3
	Australian dollar	3.055,5	7,5	3.243,4	8,3
	Other currencies	7.923,5	19,5	8.324,9	21,2

Source: Central Bank of Chile

8.2 Appendix 2: International reserves

TABLE 2c: INVESTMENT PORTFOLIO: INVESTMENTS BY CURRENCY (1)
(percentage as of December 31, 2020)

CURRENCY	PARTICIPATION (2)
US dollar	51,9
Euro	10,9
Canadian dollar	9,1
Australian dollar	9,0
Renminbi from China	8,1
Pound sterling	8,0
South Korean Won	3,0
Other currencies (3)	0,1
Total	100,0

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

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 mainly limited to the cash portfolio (primarily overnight deposits). 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).

8.2 Appendix 2: International reserves

TABLE 2d: COMPOSITION OF INTERNATIONAL RESERVES ACCORDING TO CREDIT RISK (1) (2) (3) (4)

(percentage as of December 31, 2020)

TYPE OF RISK OF CREDIT	CREDIT CLASSIFICATION							
	AAA	AA+	AA	AA-	A+	A	A-	TOTAL
Sovereign	67,7	0,7	7,5	7,8	8,3	0,0	1,9	93,91
Banking	0,1	0,0	3,7	0,0	0,0	1,0	0,0	4,86
Supranational	1,1	0,1	0,0	0,0	0,0	0,0	0,0	1,21
Agency	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,02
Total	68,9	0,8	11,3	7,8	8,3	1,0	1,9	100,0

(1) Bank risk is related to investment in bank financial instruments (deposits). Sovereign risk consists of investing in instruments of sovereign states (bills, nominal bonds). Includes investment in BIS Investment Pool denominated in CNY, associated with China's sovereign risk. Agency risk is associated with investment in instruments of government agencies in the US and Germany (bills, nominal bonds). Supranational risk is associated with investment in official multilateral issuer instruments (nominal deposits, bills and bonds).

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

(3) For agency, banking and supranational risk, the credit rating corresponds to the average of the ratings obtained from Fitch, Moody's and Standard and Poor's agencies.

(4) Includes cash portfolio and excludes other assets.

Source: Central Bank of Chile.

8.2 Appendix 2: International reserves

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

TABLE 2e
(millions of dollars)

Financial institutions with current deposits as of Dec 31, 2020 (1) (2)		
AAA, AA+, AA, AA-	J.P. Morgan Chase Bank NA	
	Royal Bank of Canada	
	Bank for International Settlements	
	Average Category	473
A+, A, A-	Citybank N.A.	
	Sumitomo Mitsui Banking Corporation	
	Average Category	181

(1) Includes investments from the internal management portfolio and cash portfolio.
(2) Includes balances held in remunerated checking accounts.
Source: Central Bank of Chile.

8.2 Appendix 2: International reserves

TABLE 2f: ELIGIBLE BANKS AND ALLOWED LIMITS IN FORCE AS OF 12.31.2020
(values in millions of dollars and term in months)

Country	Bank	Amount	Term
Germany	Bayerische Landesbank	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
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 Corporation Limited	700	9

8.2
Appendix 2: International reserves

South Korea	Standard Chartered Bank Korea Limited	250	3
Denmark	Danske Bank Aktieselskab	500	3
Denmark	Nykredit Bank A/S	500	3
United Arab Emirates	First Abu Dhabi Bank	700	9
Spain	Banco Bilbao Vizcaya Argentaria S.A.	150	1
Spain	Banco Santander S.A.	500	3
USA	Bank of America NA	700	9
USA	BNY Mellon National Association	500	9
USA	Citibank NA	500	3
USA	Comerica Bank	150	1
USA	Goldman Sachs Bank USA	500	3
USA	HSBC Bank USA NA	700	9
USA	J.P. Morgan Chase Bank NA	700	9
USA	Keybank National Association	150	1
USA	PNC Bank NA	500	3
USA	State Street Bank & Trust Company	700	9
USA	The Bank of New York Mellon	700	9
USA	The Northern Trust Company	700	9
USA	U.S. Bank NA	700	9
USA	Wells Fargo Bank, NA	700	9
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
Holland	ABN AMRO Bank NV	500	3
Holland	Coöperatieve Rabobank UA	500	3
Holland	ING Bank NV	700	9
Holland	NV Bank Nederlandse Gemeenten	1000	12

8.2 Appendix 2: International reserves

England	Bank of Scotland Plc	500	3
England	Barclays Bank Plc	500	3
England	Goldman Sachs International Bank	250	3
England	HSBC Bank Plc	500	3
England	Lloyds Bank Plc	500	3
England	Lloyds Bank Corporate Markets Plc	500	3
England	Merrill Lynch International	500	3
England	Natwest Markets Plc	150	1
England	Santander UK PLC	500	3
England	Standard Chartered Bank	500	3
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.	150	1
Japan	The Norinchukin Bank	500	3
Japan	The Shizuoka Bank Ltd.	150	1
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
Sweden	Svenska Handelsbanken AB (publ)	700	9
Sweden	Swedbank AB	500	3
Switzerland	Credit Suisse AG	500	3
Switzerland	UBS AG	700	9
Switzerland	Zürcher Kantonalbank	1000	12

Source: Central Bank of Chile.

8.2
Appendix 2:
International reserves

TABLE 2g
Intermediaries used during 2020

Intermediarios		
ABN Amro Bank N.V., Amsterdam	Daiwa Capital Markets America Inc.	National Australia Bank Ltd., Melbourne
Agricultural Bank of China	Danske Markets Inc.	National Bank of Canada Financial Inc., New York
ANZ Securities Inc., New York	DBS Bank Ltd., Seoul	National Bank of Canada, Montreal
Australian & New Zealand Banking Group Limited, Melbourne	DBS Bank Ltd., Singapore	Natixis, Paris
Banco Bilbao Vizcaya Argentaria S.A., Madrid	Deutsche Bank AG, London	Nomura International Plc., London
Banco Santander S.A., Madrid	Deutsche Bank Securities Inc.	Nomura Securities International Inc., New york
Bank For International Settlements, Basle	DZ Bank AG Deutsche Zentral Genossenschaftsbank, Frankfurt	Nordea Bank Abp., Helsinki
Bank of China (Hong Kong) Limited	Goldman Sachs Bank, USA	RBC Capital Markets Llc.
Bank of Nova Scotia,Canada	Goldman Sachs International Bank, London	RBS Securities Inc., Greenwich
Bank of Nova Scotia, New York Agency	Goldman, Sachs & Co. Llc.	Royal Bank of Canada Europe Limited, London
Barclays Bank Plc.	HSBC Bank PLC., London	Royal Bank of Canada, Toronto
Barclays Capital Inc.	HSBC Bank USA N.A., New York	Shangai Pudong Development Bank Co. Ltd.
BBVA Securities Inc.	HSBC Securities (USA) Inc., New York	Skandinaviska Enskilda Banken AB, New York
BMO Capital Markets Corp.	Industrial and Commercial Bank of China	Societe Generale, New York
BNP Paribas	ING Bank N.V., Amsterdam	Societe Generale, Paris
BNP Paribas Securities Corp,. New York	ING Bank N.V., Seoul	Standard Chartered Bank, London
BOFA Securities Inc.	J.P. Morgan Chase Bank N.A., New York	Standard Chartered Bank Korea Limited
Bred Banque Populaire, Paris	J.P. Morgan Securities Llc., New York	State Street Bank & Trust Company, Boston
Canadian Imperial Bank of Commerce, Toronto	Jefferies International Ltd., London	Svenska Handelsbanken AB, New York
China Construction Bank Corporation	Jefferies Llc.	TD Securities (USA) Llc.
CIBC World Markets Corp.	J.P. Morgan Securities Plc.	The Bank of New York Mellon, New York
Citibank N.A., New York	J.P. Morgan Chase Bank N.A., London	Natwest Markets, London
Citigroup Global Markets Inc., New York	J.P. Morgan Chase Bank N.A., Seoul	The Toronto Dominion Bank, Toronto
Citigroup Global Markets Limited, London	Landesbank Baden Wurttemberg, Stuttgart	UBS AG, London
Commerzbank AG, Frankfurt	Lloyds Bank Corporate Markets Plc.	UBS AG, Stamford
Commerzbank, France	Merrill Lynch International	UBS Securities Llc., New York
Commonwealth Bank of Australia, New York	Mizuho Securities USA Llc.	Wells Fargo Bank N.A., San Francisco
Commonwealth Bank of Australia, Sydney	Mizuho Securities USA Llc.	Wells Fargo Securities Llc.
Credit Agricole Corporate and Investment Bank, London	Morgan Stanley & Co. International Plc., London	Westpac Banking Corporation, Sydney
Credit Agricole Corporate and Investment Bank, New York	Morgan Stanley & Co. Llc.	Westpac Banking Corporation, Wellington
Credit Agricole Corporate and Investment Bank, Seoul	MUFG Securities Americas Inc.	Zurcher Kantonalbank, Zurich
Credit Suisse Securities (USA) Llc., New York	National Australia Bank Ltd., London	
	National Australia Bank Ltd., Melbourne	

Source: Central Bank of Chile.

8.2 Appendix 2: International reserves

Market risk is contained through the diversification of investment currencies, instruments, and maturities and through the measurement and control of exposure to duration and currency risk via tracking error limits.

The average daily value at risk (VaR)[28] of the internally managed investment portfolio was 3.92% in 2020 (2.74% in 2019). The average tracking error was 4.02 basis points.

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

Results

In 2020, the total return on reserve management was 2.42% 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 5.64%, which is higher than the local currency return because of the positive exchange rate effect deriving from measuring the reserve returns using the U.S. dollar as the base currency (the dollar depreciated against the basket of investment currencies in the period). The return differential relative to the benchmark structure was 1.5 basis points (table 7).

[28]/ The VaR is based on a parametric model with an annualized daily horizon, a confidence level of 85% (1σ), and a decay factor of 0.94.

TABLE 2h

Absolute returns on international reserves and benchmark (1) (2) (3)

	In currency of origin			In dolllars		
Period	RRII	BMK	Differential (3)	RRII	BMK	Differential (3)
2020	2,42	2,39	0,02	5,64	5,63	0,02
2019	5,67	6,25	-0,57	5,39	6,09	-0,70
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
Average	1,72	1,79	-0,07	1,02	1,11	-0,09

(1) Excludes holdings in monetary gold, special drawing rights, reserve position in IMF, reciprocal credit agreements and other reserve assets.
(2) As of 2014, the return measured in currency of origin is considered, which does not include appreciations or depreciations of the portfolio currencies, while for previous years the return expressed in foreign currency is shown, as an approximation of the return in currency of origin. The return in foreign currency is the return expressed in the benchmark's basket of currencies and is equivalent to the return in the original currency to the extent that the investments adhere to the benchmark.
(3) In 2012 and 2019, relevant adjustments were made to the benchmark comparators. The returns presented do not consider the waiver periods that were granted to make such adjustments.
Source: Central Bank of Chile.

8.2 Appendix 2: International reserves

External Portfolio Management Program

At year-end 2020, 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 global government fixed-income mandate, with a benchmark investment structure equivalent to the internally managed portfolio.

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

Since 1 October 2020 (see note 3), deviations from the benchmark by the external portfolio managers are limited to an average monthly ex ante tracking error of 40 basis points, which cannot exceed 50 basis points 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 was maintained with the Bank's international reserve custodians, J.P. Morgan Chase Bank N.A. and State Street Bank and Trust Company. 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 2020, this program generated income for the Bank equivalent to 0.14 basis point of total foreign exchange reserves.

8.3 Appendix 3: Sovereign **Wealth Fund Management (ESSF and PRF)**

As fiscal agent, the Central Bank of Chile manages part of the Economic and Social Stabilization Fund (ESSF) and the Pension Reserve Fund (PRF)[29] in the name and on behalf of the Treasury.

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 as fiscal agent.

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.

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 is made up of the following asset classes: bank assets; treasury bills and sovereign bonds; and inflation-linked sovereign bonds (table 1). The bank asset and treasury bill portfolios use benchmark indexes by ICE Bank of America Merrill Lynch. The sovereign bond and inflation-indexed sovereign bond portfolios are compared against selected Bloomberg Barclays indexes.

[29]/Bank deposits.

8.3 Appendix 3: Sovereign **Wealth Fund Management (ESSF and PRF)**

TABLE 3a
Referential composition FEES managed by the BCCH (percentage)

Asset class	Participation
Banking	16,3
Treasury bills and sovereign bonds	80,0
Sovereign bonds indexed to inflation	3,7

Source: Ministry of Finance

In the case of the PRF, the CBC manages a share of the resources in the short-term investment portfolio and the long-term investment portfolio, in accordance with the PRF investment policies. For the short-term investment portfolio (created in October 2020), the CBC internally manages all the allocated resources, which are made up of U.S. Treasury notes and bonds (table 2). The long-term investment portfolio managed by the CBC is divided into an internally managed portfolio, composed of sovereign bonds and government-related assets, plus inflation-linked sovereign bonds; and a second portfolio whose management was delegated by the CBC to external portfolio managers, made up of U.S. agency mortgage-backed securities (MBS). With regard to benchmarks, the long-term PRF uses Bloomberg Barclays indexes (table 2). For the short-term PRF portfolio, the benchmark for U.S. Treasury notes is by ICE Bank of America Merrill Lynch; while Bloomberg Barclays indexes are used for U.S. sovereign bonds (table 2).

TABLA 3b
Composición referencial FRP gestionado por el BCCh (porcentaje)

Asset class	Participation
Long-Term Investment Portfolio	
Sovereign bonds and other assets related	70,8
Indexed sovereign bonds to inflation	16,7
US Agency Mortgage Backed Bonds (MBS)	12,5
Short Term Investment Portfolio	
US Treasury bills	93,0
US Sovereign Bonds	7,0

Source: Ministry of Finance

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

Under the current guidelines, the management mandate controls the main portfolio risks through risk budgets. Specifically, the Finance Ministry established a daily ex ante tracking error[30] 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)[31].

[30]/ Tracking errors are calculated in annual terms.

[31]/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.

8.3 Appendix 3: Sovereign **Wealth Fund Management (ESSF and PRF)**

The short-term PRF establishes a limit of +/– 0.5 year deviation of the actual duration of the portfolio from the benchmark.

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 3d and 3e).

Structure of Fiscal Portfolios

At year-end 2020, the market value of the ESSF and PRF portfolios managed directly by the fiscal agent was USD 8.4927 billion and USD 6.2326 billion,[32] respectively, which is invested in line with the benchmark composition established in the current investment guidelines (table 3c).

TABLE 3 c
Portfolios Managed by the Central Bank (percentage)

Portfolio / Asset class	Market Value (1)						
	USD	EUR	JPY	CHF	Others (2)	Total	Percentage of total
FEES							
Banking / Treasury bills and sovereign bonds	3.446,1	2.202,1	1.832,9	699,4	n/a	8.180,6	96,3
Sovereign bonds indexed to inflation	223,2	88,9	n/a	n/a	n/a	312,2	3,7
Total	**3.669,3**	**2.291,1**	**1.832,9**	**699,4**	**n/a**	**8.492,7**	**100,0**
Long term FRP							
Sovereign bonds and other related assets	643,0	648,6	490,5	8,0	641,2	2.431,4	71,0
Sovereign bonds indexed to inflation	219,3	119,0	18,7	n/a	221,5	578,5	16,9
US Agency Mortgage Backed Bonds (MBS)	416,6	n/a	n/a	n/a	n/a	416,6	12,2
Total	**1.279,0**	**767,6**	**509,3**	**8,0**	**862,7**	**3.426,5**	**100,0**
Short term FRP							
US Sovereign Treasury Bills and Bonds	2.806,1	n/a	n/a	n/a	n/a	2.806,1	100,0
Total	**2.806,1**	**n/a**	**n/a**	**n/a**	**n/a**	**2.806,1**	**100,0**

Briefcase	Tracking error ex ante (pb)	Risk budget (bp) (3)
FEES	0,5	50,0
Internal FRP	13,9	50,0
FRP Delegated by the Central Bank (4)	2,7	30,0

(1) Includes currency forward positions.
(2) Consider the Canadian dollar, Australian dollar, and British pound, among other currencies.
(3) Daily risk budget.
(4) Additionally, the delegated FRP has a monthly average risk budget limit of 20 bp of Tracking Error.
Source: J.P. Morgan N.A..

[32]/ The market value of the ESSF on 31 December 2020 was USD 8.9552 billion, of which USD 8.4927 billion is managed internally by the Bank, while USD 462.5 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 2020 was USD 10.1568 billion, of which USD 6.2326 billion was managed by the Bank (USD 5.8160 billion internally and USD 416.6 million delegated), while USD 3.9242 billion was managed by external portfolio managers under equity, corporate bond, and high-yield bond mandates, which are supervised directly by the Finance Ministry.

8.3 Appendix 3: Sovereign Wealth Fund Management (ESSF and PRF)

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.

Management Results

In 2020, the ESSF resources managed internally by the Bank generated an absolute return measured in U.S. dollars of 7.95%, which implies a positive differential return of 5.0 basis points. The PRF resources managed internally by the Bank generated an absolute return measured in U.S. dollars of 10.71%, which implies a positive differential return of 42.5 basis points relative to the benchmark performance.[33] For both portfolios, most of the absolute return is explained by the appreciation of the basket of investment currencies and the generalized reduction in interest rates in the period.

The short-term PRF was implemented in the fourth quarter of 2020. In that period, it recorded an absolute return of 0.03% and a differential return of –0.2 basis points.

External Manager Selection Processes

Through Official Letter N° 562, dated 04 March 2020, the Finance Ministry asked the CBC to start a selection process for external portfolio managers for the equity and corporate bond asset classes of the PRF, specifying that the terms and conditions of the process should include the possibility that the external managers chosen for the PRF[34] equity mandate would also manage the ESSF equity mandate.

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[33]/Taking the sum of the long-term PRF resources managed internally by the Bank and the resources that the Bank has delegated to external managers (MBS portfolio), the absolute return and differential attributable to the fiscal agent in 2020 was 9.89% and 41.2 basis points.

[34]/The Finance Ministry considers it expedient to carry out a periodic review of external portfolio management services, considering the time since the current contracts were signed.

8.3 Appendix 3: Sovereign **Wealth Fund Management (ESSF and PRF)**

In this context, in 2020, the Financial Markets Division of the CBC, with support from an external consultant, carried out two parallel selection processes for external portfolio managers, one for the PRF equity asset class and one for corporate bonds.

Based on the set of assessments made during the two selection processes, the Finance Ministry, via Official Letter N° 1,891 of 27 August 2020, authorized the Bank to contract UBS Asset Management (Americas) Inc. and Mellon Investment Corporation as external portfolio managers for the equity mandate; and UBS Asset Management (Americas) Inc. and Credit Suisse Asset Management (Switzerland) Ltd. as external portfolio managers for the PRF corporate bond mandate.

Subsequently, though Official Letter N° 2,058 of 21 September 2020, the Finance Ministry asked the Bank to start a selection process for an external portfolio manager for the ESSF equity mandate.[35] Based on the bids received, though Official Letter N° 2,409 of 19 October 2020, the Finance Ministry authorized the Bank to contract UBS Asset Management (Americas) Inc. as the external portfolio manager for the ESSF equity mandate.

As planned, the investment of the new mandates was initiated in December 2020.

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 2020, the Finance Ministry set the annual fee at USD 1,101,679.00 for the ESSF and USD 1,251,219.00 for the PRF.[36] 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 1.1 and 2.5 basis points—for the ESSF and PRF, respectively—of the average market value of the resources directly managed by the Bank in 2020 in its role as fiscal agent.

35/In line with the Finance Ministry's instructions, the CBC carried out an external manager selection process for the ESSF equity asset class, in which a call for proposals was sent to the two external managers that were selected for the PRF equity mandate, and the firm with the lowest fees was chosen.

36/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.

8.3 Appendix 3: Sovereign Wealth Fund Management (ESSF and PRF)

TABLE 3d
Financial institutions with Current Deposits

INSTITUTION
Banco Bilbao Vizcaya Argentaria S.A.
Bank of China Limited, Hong Kong
Bred Banque Populaire
Danske Bank A/S
DBS Bank London, Ltd.
First Abu Dhabi Bank
Landesbank Baden-Württemberg
Lloyds Bank Corporate Markets Plc
Nykredit Bank A/S
Société Générale
Standard Chartered Bank
Sumitomo Mitsui Banking Corporation
The Chiba Bank, Ltd.
The Shizuoka Bank, Ltd.

8.3 Appendix 3: Sovereign **Wealth Fund Management (ESSF and PRF)**

TABLE 3e
Intermediaries used during 2020 by the Fiscal Agent

Intermediaries		
ABN Amro Bank N.V., Amsterdam	Daiwa Capital Markets America Inc.	National Australia Bank Ltd., London
Agricultural Bank of China	Danske Bank A/S, Copenhagen.	National Australia Bank Ltd., Melbourne
ANZ Securities Inc., New York	Danske Markets Inc.	National Bank of Canada Financial Inc., New York
Australia & New Zealand Banking Group Limited, Melbourne	Dbs Bank Ltd., London	National Bank of Canada, Montreal
Australia & New Zealand Banking Group Limited, New York	Dbs Bank Ltd., Seoul	Natixis (Capital Markets), Paris
Banco Bilbao Vizcaya Argentaria S.A., Madrid	Dbs Bank Ltd., Singapore	Nomura International Plc., London
Banco Santander S.A., Madrid	Dekabank Deutsche Girozentrale, Frankfurt	Nomura Securities International Inc., New York
Bank Hapoalim B.M., New York Branch	Deutsche Bank A.G., London	Nordea Bank AB (Publ), Helsinki
Bank of China Limited, Hong Kong	Deutsche Bank Securities Inc.	Nykredit Bank A/S, Copenhagen
Bank of Nova Scotia, Canada	DZ Bank Ag Deutsche Zentral Genossenschaftsbank, Frankfurt	Oversea-Chinese Banking Corp. Ltd. New York
Bank of Nova Scotia, New York Agency	First Abu Dhabi Bank, London	Rbc Capital Markets Llc.
Barclays Bank Plc.	Goldman Sachs International Bank, London	Rbs Securities Inc., Greenwich
Barclays Capital Inc.	Goldman, Sachs & Co., New York	Royal Bank Of Canada, London
BBVA Securities Inc.	HSBC Bank Plc (All U.K. Offices), London	Royal Bank Of Canada, Toronto
BMO Capital Markets Corp.	HSBC Bank U.S.A. N.A., New York.	Santander UK, PLC.
BNP Paribas (Head Office)	HSBC Securities U.S.A Inc., New York	Skandinaviska Enskilda Banken Ab, New York
BNP Paribas Securities Corp., New York	Industrial and Commercial Bank of China	Societe Generale, New York
BNP Paribas U.S.A., New York	ING Bank N.V., Amsterdam	Societe Generale, Paris
BOFA Securities Inc	J.P. Morgan Chase Bank N.A., New York	Standard Chartered Bank, London
Bred Banque Populaire, Paris	J.P. Morgan Securities Llc., New York	Standard Chartered Securities Korea Limited, Seoul
Canadian Imperial Bank of Commerce, Toronto	Jefferies International Ltd., London	Standard Chartered Bank, New York
China Construction Bank Corporation	Jefferies Llc.	Standard Chartered Bank, Singapore
China Construction Bank Corporation, London	JP Morgan Chase Bank, N.A., London	State Street Bank and Trust Co, Boston
CIBC World Markets Corp.	JP Morgan Chase Bank, N.A., Seoul	The Chiba Bank Ltd., London
Citibank N.A., New York	JP Morgan Securities Plc.	The Chiba Bank Ltd., New York
Citigroup Global Markets Inc., New York	Landesbank Baden Wurttemberg, New York	The Royal Bank Of Scotland Plc., London
Citigroup Global Markets Limited, London	Landesbank Baden Wurttemberg, Stuttgart	The Shizuoka Bank, Ltd., New York
Commerzbank, Frankfurt	Lloyds Bank Corporate Markets Plc.	The Toronto Dominion Bank, Toronto
Commerzbank, France	Merrill Lynch International	Ubs A,G., London
Commonwealth Bank of Australia, New York	Mizuho Bank Ltd., New York	UBS A.G., Stamford, CT
Commonwealth Bank of Australia, Sydney	Mizuho Securities USA Inc.	Ubs Securities Llc., New York
Credit Agricole Corporate And Investment Bank (Calyon New York)	Morgan Stanley & Co. International Plc., London	Wells Fargo Securities, Llc.
Credit Agricole Corporate and Investment Bank (CALYON	Morgan Stanley & Co. Llc.	Westpac Banking Corporation, Sydney
Credit Suisse Securities (U.S.A) Llc., New York	MUFG Securities Americas Inc.	Westpac Banking Corporation, Wellington
		Zurcher Kantonalbank, Zurich

9 Financial Statements

on 31 December 2020 and 2019
and for the years ending on those dates

Statement of Financial

31 December 2020 and 2019

STATEMENT OF FINANCIAL POSITION

31 December 2020 and 2019

Assets	Note	2020 CLP MM	2019 CLP MM
Foreign assets		**28,094,427.1**	**30,451,826.0**
Reserve assets:	7a	**27,880,595.7**	**30,273,974.9**
Cash	6	530,286.8	377,298.7
Investment portfolio	7c	26,354,405.2	29,019,811.9
Monetary gold	7d	10,607.8	8,950.7
Special drawing rights (SDR)	7e	492,017.4	555,267.3
IMF reserve position	7f	493,161.8	311,964.9
Other assets		116.7	681.4
Other foreign assets:		**213,831.4**	**177,851.1**
IDB shares and contributions	8a	93,584.7	97,976.9
Bank for International Settlements (BIS) shares	8b	88,942.2	79,874.2
IMF Flexible Credit Line Commission	8c	31,304.5	–
Domestic assets		**31,244,403.8**	**2,042,720.6**
Domestic loans and investments:		**30,858,836.4**	**1,569,551.4**
Loans to banks and financial institutions	9a a9	22,102,728.7	1,569,551.4
Domestic investment portfolio	9b 9	8,756,107.7	–
Operations under specific legal regulations:		**321,988.1**	**319,349.1**
Treasury transfers (Law N° 18,401)	10a	321,988.1	319,349.1
Other asset accounts:		**63,579.3**	**153,820.1**
Property, plant, and intangible equipment	11 - 12	49,408.7	47,135.8
Other assets	13	14,170.6	106,684.3
Total assets		59,338,830.9	32,494,546.6

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

STATEMENT OF FINANCIAL POSITION (continued)

31 December 2020 and 2019

LIABILITIES AND EQUITY	NOTE	2020 CLP MM	2019 CLP MM
Foreign liabilities:	14	916,337.4	905,061.7
Accounts with international organizations		58,528.9	62,827.7
SDR allocations		857,803.1	842,230.5
Reciprocal credit agreements		3.4	3.5
Deposits from central banks		2.0	–
Domestic liabilities		60,161,014.1	33,152,244.9
Monetary base:	15	30,256,436.5	12,335,260.5
Banknotes and coins in circulation		14,804,078.7	10,753,789.7
Deposits from financial institutions (NC)		3,442,191.0	1,581,470.8
Additional reserve deposits		12,010,166.8	–
Deposits and obligations:	16	8,830,317.7	6,903,965.1
Deposits and obligations with the Treasury		155.0	715,807.0
Other deposits and obligations		8,830,162.7	6,188,158.1
Securities issued by the Central Bank of Chile:	17	21,051,586.0	13,885,795.0
Central Bank discount notes (PDBC)		19,998,910.2	9,119,977.7
Central Bank bonds in pesos (BCP)		459,965.0	2,444,523.9
Central Bank bonds in UF (BCU)		584,051.3	2,295,225.8
Indexed coupons (CERO) in UF		2,861.5	16,371.3
Indexed notes payable in coupons (PRC)		5,790.2	9,688.5
Other		7.8	7.8
Other liability accounts:		22,673.9	27,224.3
Provisions	18	22,631.6	19,299.7
Other liabilities		42.3	7,924.6
Equity:		(1,738,520.6)	(1,562,760.0)
Capital	19	(1,760,235.6)	(3,824,746.7)
Other reserves		508,691.1	197,475.6
Retained earnings		(486,976.1)	2,064,511.1
Total liabilities and equity		59,338,830.9	32,494,546.6

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

STATEMENT OF COMPREHENSIVE INCOME

for the years ended on 31 December 2020 and 2019

	NOTE	2020 CLP MM	2019 CLP MM
Net gain from international reserves	20	506,118.5	1,440,460.8
Interest income (expense):		157,401.0	411,215.5
Interest income		157,410.3	411,248.9
Interest expense		(9.3)	(33.4)
Fee and commission income (expense):		(1,977.0)	(1,036.8)
Income from fees and commissions		383.5	1,549.0
Expense from fees and commissions		(2,360.5)	(2,585.8)
Income from sale of investments:		344,995.2	1,044,918.1
Income from sale of investments		344,995.2	1,044,918.1
Other income (expense):		5,699.3	(14,636.0)
Derivative operations		1,363.6	(10,350.7)
Other		4,335.7	(4,285.3)
Net gain (loss) from other foreign operations	21	(45,618.7)	(7,640.1)
Interest expense:		(1,721.9)	(8,370.0)
Interest expense		(1,721.9)	(8,370.0)
Other income (expense):		(43,896.8)	729.9
IMF Flexible Credit Line Commission		(43,826.3)	–
Bank for International Settlements (BIS) dividend		–	758.4
Other		(70.5)	(28.5)
Net gain (loss) from domestic operations	22	(492,058.6)	(1,044,386.0)
Interest and indexation income (expense):		(49,810.6)	(608,058.5)
Interest and indexation income		207,665.0	14,380.0
Interest and indexation expense		(257,475.6)	(622,438.5)
Other income (expense):		(442,248.0)	(436,327.5)
Derivative operations		(213,407.4)	59,047.5
Early redemption of issued bonds		(198,050.3)	(497,814.4)
Other		(30,790.3)	2,439.4
Net gain (loss) from FX operations:	23	(371,401.9)	1,763,552.6
Net gain (loss) from FX operations		(371,401.9)	1,763,552.6

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

STATEMENT OF COMPREHENSIVE INCOME (continued)

for the years ended on 31 December 2020 and 2019

	Note	2020 CLP MM	2019 CLP MM
Currency Issuance, distribution, and processing costs:	24	**(19,830.3)**	**(21,016.9)**
Currency Issuance, distribution, and processing costs		(19,830.3)	(21,016.9)
Personnel and administrative expenses:		**(62,838.0)**	**(64,355.1)**
Personnel expenses		(42,260.6)	(41,929.3)
Administrative expenses		(19,303.8)	(20,950.5)
Post-employment benefit costs	18	(1,273.6)	(1,475.3)
Other income (expense):		**(1,347.1)**	**(2,104.2)**
Depreciation and amortization	11-12	(3,983.3)	(3,376.3)
Taxes and contributions		(739.6)	(684.3)
Other		3,375.8	1,956.4
Profit (loss) for the year		**(486,976.1)**	**2,064,511.1**
Other comprehensive income		**311,215.5**	**133.058,0**
Other comprehensive income that will not be reclassified to profit or loss:		6,311.5	6,798.2
Fair value adjustments to equity instruments		8,217.7	7,093.8
Actuarial gain (loss) on post-employment benefit provisions		(1.906,2)	(295,6)
Other comprehensive income that will be reclassified to profit or loss:		**304,904.0**	**126,259.8**
Fair value adjustments to debt instruments		304,904.0	126,259.8
Total profit (loss) for the year		**(175,760.6)**	**2,197,569.1**

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

STATEMENT OF CHANGES IN EQUITY

for the years ended on 31 December 2020 and 2019

	CAPITAL CLP MM	ACTUARIAL GAIN OR LOSS RESERVE CLP MM	FAIR VALUE RESERVE CLP MM	RETAINED EARNINGS CLP MM	TOTAL EQUITY CLP MM
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)**
Balance on 1 January 2020	**(3.824.746,7)**	**(223.9)**	**197,699.5**	**2,064,511.1**	**(1.562.760,0)**
Total comprehensive income in the year:					
Loss for the year	-	-	-	(486,976.1)	(486.976,1)
Other comprehensive income	-	(1,906.2)	313,121.7	-	311.215,5
Total comprehensive income in the year	**-**	**(1,906.2)**	**313,121.7**	**(486,976.1)**	**(175.760,6)**
Capitalization of 2019 income	2,064,511.1	-	-	(2,064,511.1)	-
Balance on 31 December 2020	**(1,760,235.6)**	**(2,130.1)**	**510,821.2**	**(486,976.1)**	**(1,738,520. 6)**

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

STATEMENT OF CASH FLOWS

for the years ended on 31 December 2020 and 2019

	NOTE	2020 CLP MM	2019 CLP MM
Cash flows from operating activities			
International reserves:		**2,952,587.2**	**706,574.3**
Investment portfolio sales (purchases)		2,476,693.6	208,171.2
Interest and commissions received on reserves		475,989.7	499,442.2
Interest paid on foreign operations		(9.6)	(29.1)
Taxes paid on reserve investments		(75.1)	(1,000.3)
(Payments) receipts from reciprocal credit agreements		(11.4)	(9.5)
Interest paid on reciprocal credit agreements		-	(0.2)
Domestic assets:		**(28,933,474.2)**	**(1,314,812.7)**
(Disbursements) from loans to banks and financial institutions		(20,544,438.7)	(1,407,400.7)
Interest and indexation received from loans to banks and financial institutions		77,097.5	2,288.1
Domestic investment portfolio		(8,545,026.8)	-
Interest and indexation received from domestic investment portfolio		78,893.8	-
Cash receipts from subordinated debt of financial institutions		-	52,703.7
Interest and indexation received from subordinated debt		-	37,596.2
Domestic liabilities:		**22,448,003.0**	**(698,689.6)**
Placement (redemption) of issued bonds		7,437,218.6	(69,793.5)
Interest and indexation paid on issued bonds		(686,900.3)	(988,492.4)
(Decrease) increase from deposits and obligations in NC		18,422,254.9	(766,924.0)
Interest and indexation paid on deposits and obligations		(35,496.5)	(54,369.3)
(Decrease) increase from deposits and obligations in FX		(2,689,073.7)	1,180,889.6
Other cash flows:		**(134,447.3)**	**(119,129.9)**
Payment for goods and services		(90,409.7)	(93,967.3)
Net cash (outflows) from currency arbitrage		(45,041.3)	(31,871.1)
Fiscal agency fees and other income		3,448.0	4,249.1
Flows with international organizations		(2,443.7)	2,459.4
Net cash inflows (outflows) from operating activities		(3,667,330.7)	(1,426,057.9)

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

STATEMENT OF CASH FLOWS (continued)
for the years ended on 31 December 2020 and 2019

	NOTE	2020 CLP MM	2019 CLP MM
Cash flows from investing activities:			
Outflows, IMF		(193,852.7)	(36,614.2)
Dividends received, Bank for International Settlements (BIS)	8b	-	695.8
Proceeds from sale of property, plant, and equipment		3.0	83.8
Purchase of property, plant, and equipment	11	(6,322.9)	(6,502.4)
Purchase of intangible assets	12	(292.4)	(687.3)
Total cash flows from investing activities		**(200,465.0)**	**(43,024.3)**
Cash flows from financing activities:			
Net increase in banknotes and coins in circulation	15	4,050,289.0	1,278,759.4
Total cash flows from financing activities		**4,050,289.0**	**1,278,759.4**
Change in cash and cash equivalents in the year		**182,493.3**	**(190,322.8)**
Exchange rate effect		(29,575.1)	56,383.7
Cash and cash equivalents on 01 January		377,457.3	511,396.4
Cash and cash equivalents on 31 December	6	**530,375.5**	**377,457.3**

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

Notes to the **Financial Statements**

Estados Financieros al 31 de diciembre 2020 y 2019

Introduction

Given the events that have occurred in our country, first due to the social crisis in October 2019 and then in response to the health emergency declared in March 2020, the Board of the Central Bank of Chile, in the exercise of its powers, adopted a series of exceptional measures designed to mitigate the impact of the internal and external shocks on the national economy.

These special measures, including foreign exchange sales, bank bond purchases, loans to commercial banks, and the redemption of long-term bonds issued by the Central Bank, have resulted in considerable growth in some items on the Statement of Financial Position in the current year—on the asset side, domestic loans and investments; on the liability side, short-term debt securities and the standing deposit facility, which drain liquidity from the system, together with an increase in the monetary base due to a greater demand for cash on the part of the public. All these changes have an effect on the bottom line and thus on the Bank's equity.

Details on the change and composition of these items are shown in the corresponding notes, disaggregated by category and in comparison to last year's balance. Note 29, "Material events," provides more details on the exceptional measures adopted in the year.

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 operations, 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) Basis of preparation of the financial statements

These financial statements have been prepared following the policies approved by the Board of the Central Bank of Chile, 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

The 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 statements' 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, the exchange rates reported by Reuters (WM Company) on 31 December via Data License (London close at 16:00 hours) 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 profit or loss for the year.

The main exchange rates used at the close of each year are as follows:

	2020 CLP	2019 CLP
U.S. DOLLAR	711.24	744.62
EURO	870.23	834.96
AUSTRALIAN DOLLAR	548.88	522.43
CANADIAN DOLLAR	558.27	573.14
POUND STERLING	972.30	987.56
CHINESE YUAN	108.76	106.94
SOUTH KOREAN WON	0.65	0.64
SPECIAL DRAWING RIGHTS (SDR)	1,049.90	1,029.68

(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: Inflows and outflows of cash and cash equivalents. 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 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.

(iv) Financing activities: Activities that produce changes in the size and composition of net equity and liabilities and that are not included in operating or investing activities.

(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 the Bank becomes a party to 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.

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): A financial asset is measured at FVOCI if the following two conditions are 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 do not 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 implementation 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 financial 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) Financial derivatives

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 operations, 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 amortization and any accumulated impairment losses. Amortization is calculated on a straight-line basis.

Depreciation and amortization for 2020 and 2019 were calculated using the following useful life estimates:

	Years 2020	2019
BUILDINGS	50–80	50–80
INSTALLATIONS	10–20	10–20
FURNITURE AND OTHER EQUIPMENT	3–10	3–10
COMPUTER EQUIPMENT	3–5	3–5
VEHICLES	5	5
INTANGIBLE ASSETS	5	5

The useful life of property, plant, and equipment and intangible assets is reviewed annually, and any change in the estimation is recognized prospectively.

(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 value 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.

—Applicable policy:

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.

(m) Impairment of assets

Financial assets

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

- Financial assets measured at amortized cost (AC);
- Debt investments measured 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 or more 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 collateral (if any); or
- The financial asset is past due by 90 days or more.

Expected credit losses are the probability-weighted average 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 ($)
- PD:Probability of default (%)

- LGD: Loss given default (%)
- EAD: Exposure at default ($)

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.

Non-financial 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

An obligation is recognized for the expected amount payable if (i) the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and (ii) 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, considering the expected employment term and life expectancy of beneficiaries. Changes in benefit provision due to actuarial variables are recognized in Other comprehensive income (equity).

- 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, post-employment benefits, and severance indemnities.

The actuarial calculation is based on the following assumptions:

- Mortality rate: For 2020 and 2019, the Bank used the RV-2014 mortality table 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: The wage growth rate, calculated as the composite average annual growth rate of wages in a five-year period, was 4.53% (4.91% for 2019).
- Discount rate: The Bank uses the nominal ten-year rate BCP bond rate on the calculation date, which was 2.80% in 2020 (3.54% in 2019).

(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 4 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(b) Central Savings and Loan Fund and the National Savings and Loan Association.

(r) New accounting pronouncements

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

Note 3
Changes in accounting policies

The accounting policies described in these financial statements, for the year ended on 31 December 2020, are consistent with the application of accounting policies for the year ended on 31 December 2019.

Note 4
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 (CLP MM)	2020			2019		
	BOOK VALUE (a)	FAIR VALUE (b)	DIFFERENCE (b-a)	BOOK VALUE (a)	FAIR VALUE (b)	DIFFERENCE (b-a)
International reserves	27,880,595.7	27,880,595.7	–	30,273,974.9	30,273,974.9	–
Other foreign assets	213,831.4	213,831.4	–	177,851.1	177,851.1	–
Loans to banks and financial institutions	22,102,728.7	21,884,270.1	(218,458.6)	1,569,551.4	1,569,551.4	–
Domestic investment portfolio	8,756,107.7	8,756,107.7	–	–	–	–
Treasury transfers	321,988.1	308,066.7	(13,921.4)	319,349.1	293,840.8	(25,508.3)
Other asset accounts	63,579.3	63,579.3	–	153,820.1	153,820.1	–
Total assets	**59,338,830.9**	**59,106,450.9**	**(232,380.0)**	**32,494,546.6**	**32,469,038.3**	**(25,508.3)**
Foreign liabilities	916,337.4	916,337.4	–	905,061.7	905,061.7	–
Monetary base	30,256,436.5	30,256,436.5	–	12,335,260.5	12,335,260.5	–
Other deposits and obligations	8,830,162.7	8,830,162.7	–	6,188,158.1	6,188,158.1	–
Obligations with the Treasury	155.0	155.0	–	715,807.0	715,807.0	–
Securities issued	21,051,586.0	21,120,786.7	69,200.7	13,885,795.0	14,152,965.9	267,170.9
Other liability accounts	22,673.9	22,673.9	–	27,224.3	27,224.3	–
Total Liabilities	**61,077,351.5**	**61,146,552.2**	**69,200.7**	**34,057,306.6**	**34,324,477.5**	**267,170.9**
Net equity	**(1,738,520.6)**	**(2,040,101.3)**	**(301,580.7)**	**(1,562,760.0)**	**(1,855,439.2)**	**(292,679.2)**

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:

Loans to banks and financial institutions (note 9 a)

Under the heading Loans to banks and financial institutions, operations for which there is a difference between book value and fair value are the Conditional Financing Facility for Increased Loans (FCIC) and the Liquidity Credit Line (LCL). For the purposes of calculating fair value, the LCL can be treated as a bullet-type debt instrument that pays monthly interest at a fixed rate equal to the monetary policy rate (MPR), with a maximum maturity of March 2022. Similarly, for fair value measurement, the FCIC can be treated as a bullet-type debt instrument that pays weekly interest at a fixed rate equal to the monetary policy rate (MPR), with a maximum maturity of (a) FCIC-1: March 2024; and (b) FCIC-2: July 2022 (FOGAPE) or July 2024 (NBL), depending on the case. These loans can be prepaid at any time, but prepayment is unlikely given that the prevailing rate for these instruments in 2020 was 0.5% in annual terms.

Treasury transfers (note 10 a)

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 (0.63% for 2020 and 0.81% for 2019).

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 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 the stability and efficiency of 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 the desired level, the Bank regulates the availability of liquidity in the financial system using several financial instruments related to debt management, the purchase of financial assets in the local market, and open-market operations with institutions in the local market, through the issuance of securities and the reception of time deposits.

To face the increase in financial tensions caused by the spread of COVID-19 in the first half of 2020 and the two cash withdrawals from the pension funds in the second half of the year, the Bank announced a series of measures to inject liquidity into the economy and support the flow of credit in the former case and to contain financial market volatility and ensure the correct transmission of monetary policy in the latter.

The liquidity injection measures included the collateralized Conditional Financing Facility for Increased Loans (FCIC) and the Liquidity Credit Line (LCL), repurchase agreement operations (repos) at 90 and 180 days, bank bond purchases (recorded on the financial statements under the heading Loans to banks and financial institutions), and the early redemption of CBC bonds and notes (under the heading Securities issued). Measures to contain financial market volatility included the purchase of bank bonds, the purchase of time deposits, and the spot purchase and forward sale (CC-VP) of bank bonds (under the heading Domestic investment portfolio).

The implementation of the special measures had a significant effect on the size of the Bank's balance sheet, which was equivalent to 30.9% of GDP([1]) at year-end 2020, versus 16.4% at year-end 2019. These measures also changed the structure of the balance sheet. In addition to an increase in the recorded value of domestic assets and liabilities, there was an increase in equity due to a reduction in financial costs, since the interest rate on these domestic assets was higher than the interest rate on liabilities, in turn reducing interest rate and currency risk. At the same time, there was an increase in the credit risk associated with investments in local assets and credit lines with financial institutions. At year-end 2020, domestic assets represented 52.7% of the Bank's total assets, versus just 6.3% at year-end 2019.

The Bank's financial instrument risks are related to the risks of managing the asset and liability portfolio, and they have an effect on the Bank's equity (namely, risks deriving from international reserve management, the purchase of local financial assets, 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 international asset and debt exposure limits to the General Manager and the Board for their approval. In the case of local asset purchases in 2020, the Monetary Policy Division and the Financial Policy Division participated in the preparation of proposals to the Board, in conjunction with the Financial Markets Division.

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, the debt plan, and the operating rules, 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

Market risk is the risk of potential losses due to changes in the market price of an instrument or group of instruments. These variations could potentially have a negative impact on the Bank's bottom line. Market risk mainly derives from fluctuations in currencies and interest rates. In the case of the international reserves, the main risk for the Bank's balance sheet is the fluctuation of the investment currencies against

[1] GDP expressed in national currency. The real GDP forecast for 2020 is 6.0% lower than 2019.

the local currency, while in the case of local asset investments, the main market risk is associated with the volatility of local interest rates. In the case of 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, although the impact of this effect on the Bank's balance sheet has declined due to the reduction of the liability portfolio.

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

Table 5.1 shows the global benchmark allocation of the reserves at year-end 2020 and 2019.

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 the nature of its assets and liabilities, the Bank is exposed to currency risk to the extent that its assets are primarily denominated in foreign currency and its liabilities in national currency.

Table 5.2 shows the balance sheet exposure to currency risk as of 31 December 2020.

2020 CLP MM	U.S. dollar (USD)	Euro (EUR)	Australian dollar (AUD)	Canadian dollar (CAD)	Chinese yuan (CNY)	Pound sterling (GBP)	Other foreign currencies	Chilean peso (CLP)	Total
International reserves	14,551,716.5	2,780,748.8	2,306,801.4	2,320,354.5	2,067,224.3	2,054,877.4	1,798,872.8	-	**27,880,595.7**
Other foreign assets	93,584.7	–	–	–	–	–	120,246.7	-	**213,831.4**
Domestic loans and investments	—	—	—	—	—	—	—	30,858,836.4	**30,858,836.4**
Operations under specific legal regulations	—	—	—	—	—	—	—	321,988.1	**321,988.1**
Other asset accounts	1,844.7	107.7	—	—	—	—	—		**63,579.3**
Total assets	**14,647,145.9**	**2,780,856.5**	**2,306,801.4**	**2,320,354.5**	**2,067,224.3**	**2,054,877.4**	**1,919,119.5**	**31,242,451.4**	**59,338,830.9**
Foreign liabilities	(56,789.5)	–	–	–	–	–	(857,803.1)	(1,744.8)	**(916,337.4)**
Monetary base	–	–	–	–	–	–	–	(30,256,436.5)	**(30,256,436.5)**
Deposits and obligations	(1,268,769.4)	(337.7)	–	–	–	(4.0)	(211.1)	(7,560,995.5)	**(8,830,317.7)**
Securities issued	–	–	–	–	–	–	–	(21,051,586.0)	**(21,051,586.0)**
Other liability accounts	–	–	–	–	–	–	–	(22,673.9)	**(22,673.9)**
Total liabilities	**(1,325,558.9)**	**(337.7)**	**–**	**–**	**–**	**(4.0)**	**(858,014.2)**	**(58,893,436.7)**	**(61,077,351.5)**
Net currency position (Assets – Liabilities)	**13,321,587.0**	**2,780,518.8**	**2,306,801.4**	**2,320,354.5**	**2,067,224.3**	**2,054,873.4**	**1,061,105.3**	**(27,650,985.3)**	**(1,738,520.6)**
Percent foreign currency	**51%**	**11%**	**9%**	**9%**	**8%**	**8%**	**4%**		

Table 5.3 shows the balance sheet exposure to currency risk as of 31 December 2019.

2019 CLP MM	U.S. dollar (USD)	Euro (EUR)	Australian dollar (AUD)	Canadian dollar (CAD)	Chinese yuan (CNY)	Pound sterling (GBP)	Other foreign 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 and investments	–	–	–	–	–	–	–	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 (Assets – Liabilities)	**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%**		

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 Bank's international and national assets are exposed to interest rate risk, since these assets are made up almost entirely of fixed-income instruments. An increase in interest rates translates into a reduction in the market value of fixed-income instruments, while a reduction in the interest rate level has the opposite effect. However, interest rate risk is relatively low for both international and national investments. 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

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 daily by measuring portfolio duration and currency allocation 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.

Table 5.4 presents the different market risk measures that are monitored.

		2020 MM$	2019 MM$
Amount (CLP MM)*		26,354,405.2	29,019,811.9
Duration (months)	Portfolio	21.8	23.4
	Deviation	(0.5)	1.7
Currency composition %	USD	53.3%	57.4%
	EUR	10.6%	9.8%
	Other	36.1%	32.8%
VaR internal investment portfolio**	Absolute %	5.1%	1.4%
	Tracking Error (bp)	1.2	10.6
VaR internal investment portfolio, Blackrock**	Absolute %	5.3%	1.4%
	Tracking Error (bp)	15.8	62.3
VaR internal investment portfolio, Amundi**	Absolute %	5.7%	1.4%
	Tracking Error (bp)	42.4	30.0

*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 decay 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. At year-end 2020, the risk budget for the internal and external investment portfolio is a monthly average of 40 basis points, which cannot exceed 50 basis points at any given time.

bp: basis points.

The local asset investment portfolio is made up of bank bonds, bought either directly or under the spot purchase and forward sale (CC-VP) program, and time deposits (TD). In this case, market risk manifests as the possible change in the value of bank bonds held in the portfolio (direct purchase), as well as time deposits, due to interest rate fluctuations in the secondary market.

The market risk indicators that are monitored include the daily market valuation of the bonds, their duration (interest rate risk), and the interest rate structure by currency.

Table 5.5 presents the different market risk measures that are monitored.

		2020 CLP MM
Amount	Bank bond portfolio	6,392,133.7
	CC-VP portfolio	2,154,987.3
	TD portfolio	208,986.7
	Total	8,756,107.7
Duration (months)	Bank bond portfolio	57.3
	CC-VP portfolio	0.2
	TD portfolio	2.7
	Total	**41.9**
Currency composition %	Bank bond portfolio, UF	96.3%
	Bank bond portfolio, CLP	3.7%
	Total	**100.0%**
	CC-VP portfolio, UF	99.9%
	CC-VP portfolio, CLP	0.1%
	Total	100.0%
	TD portfolio, UF	26.7%
	TD portfolio, CLP	73.3%
	Total	**100.0%**

Open market operations

For open market operations, market risk is mainly associated with differences in value between the primary and secondary markets for bonds and notes issued by the Central Bank. This risk is mitigated by the current regulatory provisions, contained in the CBC 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 Unidades de Fomento (UF).

The market risk indicators that are monitored include the duration and currency in which debt securities are issued.

In 2020, the long-term debt portfolio decreased CLP 3,713,141.5 million, mainly due to the implementation of the CBC debt repurchase program. In the case of short-term debt, the increase of CLP 10,878,932.5 million was essentially explained by issues oriented toward draining excess liquidity originating from the special measures implemented by the Bank.

Table 5.6 Structure and risk of the Central Bank of Chile's debt portfolio, 31 December 2020.

INSTRUMENT, BY ISSUE	CLP MM	% UF	DURATION (MONTHS)
Short-term	19,998,910.2	–	0.3
Long-term	1,052,675.8	56.3%	17.9
Total	**21,051,586.0**	**2.8%**	**1.1**

Table 5.7 Structure and risk of the Central Bank of Chile's debt portfolio, 31 December 2019.

INSTRUMENT, BY ISSUE	CLP MM	% UF	DURATION (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**

(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, as well as the investments in bank bonds and time deposits in the local asset portfolio. The credit operations for national financial institutions channeled through the LCL are limited to 100% of the sum of the average reserve requirement two months previous, for demand and time deposits in national currency, in compliance with the stipulations of Section I, Chapter 3.1, of the CBC Compendium of Monetary and Financial Regulations, while the FCIC is backed by collateral (eligible securities are listed in Appendix N° 1 of the FCIC regulations), and open market operations and liquidity facilities for the domestic financial system (repo, FLI, and FPL) are backed either by the securities that are purchased or by securities given as collateral.

b-1. Credit risk: International reserves

For 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, counterparty's issuer credit rating, risk management of brokers, and custodians. In the case of sovereign risk, the credit rating is calculated as the average rating by Fitch, Moody's, Standard and Poor's and Dominion Bond Rating Service (DBRS). If only two ratings are available, the lower is used; if only one rating is available, that rating is used. In the case of agency, bank, and supranational risk, the same logic applies, using the first three credit rating agencies.

Table 5.8 Investment portfolio composition by credit risk, 31 December 2020.

CREDIT RATING	TYPE OF CREDIT RISK				
	AGENCY	BANK	SOVEREIGN	SUPRANATIONAL	TOTAL
AAA	0.0%	0.0%	71.1%	1.3%	**72.4%**
AA+, AA, AA-	0.0%	0.0%	16.8%	0.0%	**16.8%**
A+, A	0.0%	0.0%	10.8%	0.0%	**10.8%**
BBB+, BBB	0.0%	0.0%	0.0%	0.0%	**0.0%**
Total	0.0%	0.0%	98.7%	1.3%	**100.0%**

Table 5.9 Investment portfolio composition by credit risk, 31 December 2019.

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%**

Table 5.10 Investment portfolio composition by geographic concentration, 31 December 2020**.**

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COUNTRY	TYPE OF CREDIT RISK				
	AGENCY	BANK	SOVEREIGN	SUPRANATIONAL	TOTAL
United States	0,0%	0,0%	50,8%	0,0%	**50,8%**
Canada	0,0%	0,0%	8,8%	0,0%	**8,8%**
Australia	0,0%	0,0%	8,4%	0,0%	**8,4%**
China	0,0%	0,0%	8,1%	0,0%	**8,1%**
United Kingdom	0,0%	0,0%	7,6%	0,0%	**7,6%**
Other	0,0%	0,0%	15,0%	1,3%	**16,3%**
Total	**0,0%**	**0,0%**	**98,7%**	**1,3%**	**100,0%**

Table 5.11 Investment portfolio composition by geographic concentration, 31 December 2019.

COUNTRY	TYPE OF CREDIT RISK				
	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%**

In the local asset portfolio, credit risk is associated with the default risk of the issuers of the bank bonds and financial institution time deposits that make up these investments.

To control the concentration of credit risk, purchases are limited to a maximum amount of 30% from a given issuer in the case of bank bonds and 20% in the case of time deposits. Additionally, the program does not allow financial institutions to offer the Bank their own securities as collateral.

The financial conditions of these portfolios are monitored daily. At year-end 2020, the value of the bank bond portfolio was CLP 6,392,133.7 million; the CC-VP portfolio, CLP 2,154,987.3 million; and the time deposit portfolio, CLP 208,986.7 million.

Table 5.12 Domestic investment portfolio composition by credit risk, 31 December 2020.

CREDIT RATING	TYPE CREDIT RISK			
	TIME DEPOSITS (TD)	BANK BONDS (BB)	BANK BONDS (CC-VP)	TOTAL
AAA	1.1%	46.7%	21.9%	**69.7%**
AA+, AA, AA-	0.0%	24.8%	2.7%	**27.5%**
A+, A	1.3%	1.5%	0.0%	**2.8%**
Total	**2,4%**	**73,0%**	**24,6%**	**100,0%**

Tabla 5.13 Composición del portafolio de inversiones interno, según concentración de emisores al 31 de diciembre de 2020.

ISSUER	CONCENTRACIÓN POR EMISOR BANCARIO			
	Time deposits (TD)	Bank bonds (BB)	Bank bonds (CC-VP)	TOTAL
ISSUER 1	–	9.4%	8.8%	**18.2%**
ISSUER 2	–	13.2%	3.8%	**17.0%**
ISSUER 3	–	8.2%	4.9%	**13.1%**
ISSUER 4	–	10.9%	1.9%	**12.8%**
ISSUER 5	–	7.5%	1.5%	**9.0%**
ISSUER 6	–	5.0%	2.4%	**7.4%**
ISSUER 7	–	5.0%	0.7%	**5.7%**
ISSUER 8	0.7%	4.3%	0.6%	**5.6%**
ISSUER 9	–	4.6%	–	**4.6%**
ISSUER 10	–	2.8%	–	**2.8%**
ISSUER 11	1.2%	0.8%	–	**2.0%**
ISSUER 12	0.5%	0.6%	–	**1.1%**
ISSUER 13	–	0.7%	–	**0.7%**
Total	**2.4%**	**73.0%**	**24.6%**	**100.0%**

b-3. Credit risk: Loans to banks (special measures)

This category includes the loan operations channeled through the FCIC (FCIC-1 and FCIC-2) and LCL facilities.

In the case of credit granted through the LCL, the amount loaned is limited to the amount of the financial institutions' reserve requirement for demand and time deposits two months previous. This limit is updated monthly and, in the event of a reduction in the reserve requirement below the amount loaned, the bank must prepay the CBC the difference or refinance the operation with a charge to the FCIC, posting the corresponding collateral.

In the case of the FCIC, the loans are fully backed by different types of collateral.

The negotiable financial instruments provided as collateral are subject to discounts (haircuts), and margin calls are made to replace collateral when the value drops. When the banks provide commercial loans as collateral, they are subject to a 10% haircut.

Additionally, the negotiable financial instruments must meet the following criteria:

(a) Credit securities in series issued by the Central Bank or the Chilean Treasury.

(b) Fixed-income credit securities issued by banks, consisting in letters of credit, mortgage bonds, or other uncollateralized bonds or debentures (with the exception of subordinated bonds and perpetual bonds), and notes or certificates of deposit, all issued by a bank other than bank posting the collateral.

(c) Debt securities that are registered in the national Securities Registry maintained by the Financial Market Commission (FMC), including bonds and commercial paper (corporate securities), and that meet the risk conditions established by the Bank.

(d) Eligible currencies: Chilean peso and Unidad de Fomento (UF).

Commercial loans, in turn, must meet the following requirements:

(a) They must be part of the normal individually assessed commercial loan portfolio (excluding leasing and factoring operations) of the respective bank, with a risk rating of A1, A2, A3, or A4 as defined in Chapter B-1 of the FMC Compendium of Accounting Regulations for banks.

(b) They must be issued as registered securities. Loans and/or loan portfolio rights securitized in bearer form will not be accepted. Only entire issues will be accepted as collateral.

(c) At the time the collateral is posted and throughout the collateral period, the pledged loans must be the exclusive property of the bank and must be free of liens, restrictions, encumbrances, precautionary measures, pledges, or other real rights or measures that prohibit, limit, or affect their free disposal, which must be evidenced to the satisfaction of the CBC, in accordance with the nature of the respective instrument that is given as collateral.

(d) The value of each pledged loan corresponds to the unpaid balance of the loan, as reported monthly to the Financial Market Commission (FMC) by each bank, although the CBC can require complementary information from the respective bank. The valuation of the pledged loans will not take into account any real or personal guarantees associated with the loans or any provisions or other adjustments that change the value of the unpaid balance of the loans. The CBC can establish other valuation rules in the FCIC funding conditions.

(e) Loans with a risk rating of A4 can be used as collateral for up to 50% of the total FCIC.

(f) Each bank must comply with the following concentration rule: the total pledged loans of a given final debtor (identified as a given tax identification number) cannot exceed, at any given time, 3% of the total normal individually assessed commercial loan portfolio of the respective bank.

(g) The pledged loans must have a maturity of three months or longer.

(h) Eligible currencies are the Chilean peso, Unidad de Fomento (UF), and U.S. dollar.

The loan-to-value ratio of the pledged collateral and the associated credit was monitored daily, issuing margin calls in the event that the value of the collateral fell below the financial institutions' debt (to ensure a loan-to-collateral ratio of 100% or better).

At year-end 2020, the total amount of credit granted through the LCL was CLP 5,246,066.7 million; through the FCIC (FCIC-1 and FCIC-2), CLP 16,797,400.0 million. The value of collateral on FCIC operations, considering discounts from haircuts on the interest rates and margins on the value, was CLP 18,404,623.8 million, and the equivalent reserve limit for the LCL was CLP 5,758,218.0 million.

Table 5.14 Composition of loans to financial institutions, by line or facility, 31 December 2020

	Concentration by bank credit rating, CLP MM			
CREDIT RATING	**LCL**	**FCIC-1***	**FCIC-2***	**Total**
AAA	4,306,234.3	9,311,400.0	3,591,800.0	**17,209,434.3**
AA	789,757.9	2,895,600.0	281,400.0	**3,966,757.9**
AA-	124,141.0	576,600.0	–	**700,741.0**
A+	25,933.5	140,600.0	—	**166,533.5**
Total	5,246,066.7	12,924,200.0	3,873,200.0	22,043,466.7

*Includes REPO FCIC repo operations.

Table 5.15 Exposure of FCIC operations, 31 December 2020.

CLOSING AMOUNT	**2020 MM$**
GROSS EXPOSURE	16,797,400.0
COLLATERAL*:	
CENTRAL BANK BONDS (BCP, BCU, PDBC)	(14,980.0)
TREASURY BONDS (BTP Y BTU)	(4,828,144.0)
BANK DEPOSITS	(1,075,097.0)
BANK BONDS	(623,187.0)
CORPORATE BONDS	(104,774.0)
COMMERCIAL PAPER	(205,821.7)
SECURITIZED BONDS	(2,447.6)
BANK LOANS	(11,550,172.5)
NET EXPOSURE	**(1,607,223.8)**

*All collateral is at fair value (market value) except Bank loans, which are valued at nominal value. The collateral valuation takes into account discounts from interest rate haircuts and value margins in the case of financial instruments traded in the secondary market and a value margin of 10% for bank loans.

Table 5.16 Exposure of FCIC operations by collateral type and risk rating, 31 December 2020.

CLOSING AMOUNT	2020 CLP MM
GROSS EXPOSURE	(6,854,451.3)
COLLATERAL—SECURITIES:	(4,843,123.7)
SOVEREIGN (TREASURY AND CBC)	(1,209,663.2)
AAA	(742,875.1)
AA+, AA, AA-	(24,160.8)
A+, A, A-	(34,628.5)
BBB+, BBB, BBB-	(11,550,172.5)
COLLATERAL—BANK LOANS:	(254,829.2)
A1	(3,025,971.2)
A2	(4,982,509.0)
A3	(3,286,863.1)
A4	(1,607,223.8)
NET EXPOSURE	**(1.607.223,8)**

b-4. Credit risk: Open market operations

Credit risk associated with open market operations and liquidity facilities for the local financial system (repos; the intraday liquidity facility, FLI; and the standing liquidity facility, 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.

In 2020 total operations in the standing liquidity facility (FPL) were CLP 1,205,794.0 million, while repo liquidity injection in pesos was CLP 2,002,713.0 million. The average exposure in 2020 was CLP 3,303.5 million in the FPL and CLP 718,783.1 million in repos, collateralized with securities issued by the Central Bank of Chile, the Treasury of Chile, bank bonds, and time deposits.

Tables 5.17 y 5.18 present the credit risk exposure of open market operations and facilities. As the tables show, this risk is mitigated by the requirement of collateral.

Table 5.17 Average exposure of the FPL in 2020 and 2019.

	MONTOS PROMEDIO MM$	
	2020	**2019**
GROSS EXPOSURE	3,303.5	10,532.8
COLLATERAL*:		
PDBC (CENTRAL BANK OF CHILE)	(97.0)	(979.8)
BONDS (CENTRAL BANK OF CHILE)	(574.3)	(3,377.1)
BTP BONDS (TREASURY)	(2,716.6)	(6,335.0)
CORPORATE BONDS	(0.6)	–
BANK DEPOSITS	–	(9.8)
NET EXPOSURE	**(85,0)**	**(168,9)**

*All collateral is at fair value (market value).

Table 5.18 Average exposure of repo operations in 2020 and 2019.

	Average amount CLP MM	
	2020	**2019**
GROSS EXPOSURE	718,783.1	214,444.8
COLLATERAL:		
PDBC (CENTRAL BANK OF CHILE)	(10,670.7)	(22,474.8)
BONDS (CENTRAL BANK OF CHILE)	(18,037.5)	(68,694.9)
BTP BONDS (TREASURY)	(137,072.1)	(35,209.2)
BANK BONDS	(72,990.3)	(67,831.0)
BANK DEPOSITS	(258,162.6)	(23,278.8)
CORPORATE BONDS	(193,793.2)	–
SECURITIZED BONDS	(12,154.5)	–
MORTGAGE BONDS	(28,412.1)	–
COMMERCIAL PAPER	(542.4)	–
NET EXPOSURE	**(13.052,3)**	**(3.043,9)**

* All collateral is at fair value (market value).

Table 5.19 presents the credit risk exposures associated with the swap operations. As the tables show, this risk is mitigated by the requirement of collateral, resulting in a favorable net exposure for the Central Bank.

Table 5.19 Average exposure of swap operations in 2020 and 2019.

	AVERAGE AMOUNT CLP MM	
	2020	2019
GROSS EXPOSURE	101,513.7	141,477.8
COLLATERAL*:		
CASH	(101,899.8)	(149,586.1)
EXPOSICIÓN NETA	**(386.)**	**(8,108.3)**

* All collateral is at fair value (market value).

Additionally, in 2020 the Bank recorded forward sales of dollars associated with the extraordinary measures to support liquidity management in foreign currency.

Table 5.20 presents the credit risk exposure of dollar forwards through settlement risk.

Table 5.20 Average exposure of forward sales in 2020 and 2019.

	AVERAGE AMOUNT USD THOUSANDS	
	2020	2019
GROSS EXPOSURE	2,728,415.3	4,240,000.0
NET EXPOSURE FROM SETTLEMENT	**6.499,5**	**(124.000,0)**

b-5 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: 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 principal 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) Etapa 1 Pérdidas esperadas en 12 meses. En esta etapa se estiman las pérdidas del activo financiero que se pueden poner de manifiesto como consecuencia de eventos producidos en los próximos 12 meses.

b) Etapa 2 Pérdidas esperadas en la vida del activo. Esta etapa se aplica cuando se produce un aumento significativo del riesgo crediticio con respecto de su reconocimiento inicial.

(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.

Table 5.21 Risk ranking and description.

RANKING	RATING*	INVESTMENT GRADE
2	BB TO CCC	STANDARD MONITO-
2	BB A CCC	STANDARD MONITO-

* Average rating from Standard and Poor's, Moody´s, and Fitch.

Table 5.22 Credit risk and expected credit loss provision, 31 December 2020.

	AMORTIZED COST CLP MM			FVOCI CLP MM		
	STEP 1	**STEP 2**	**STEP 3**	**STEP 1**	**STEP 2**	**STEP 3**
(a) International reserves:						
(Investment portfolio)						
Grade 1: Investment Grade	778,487.5	-	-	25,573,747.7	-	-
Grade 2: Standard Monitoring	-	-	-	-	-	-
Gross amount	778,487.5	-	-	25,573,747.7	-	-
Loss provision*	(298.9)	-	-	(12,231.1)	-	-
Book value	**778,188.6**	**-**	**-**	**25,573,747.7**	-	-

* 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).

	AMORTIZED COST CLP MM			FVOCI CLP MM		
	STEP 1	STEP 2	STEP 3	STEP 1	STEP 2	STEP 3
(b) Domestic assets:						
(Domestic loans and Operations under specific legal regulations)						
Grade 1: Investment Grade	24,598,666.2	-	-	6,601,120.4	-	-
Grade 2: Standard Monitoring	-	-	-	-	-	-
Gross amount	24,598,666.2	-	-	6,601,120.4	-	-
Loss provision	(18,962.1)	-	-	(17,811.8)	-	-
Book value	24,579,704.1	-	-	6,583,308.6	-	-

Table 5.23 Credit risk and expected credit loss provision, 31 December 2019.

	AMORTIZED COST CLP MM			FVOCI CLP MM		
	STEP 1	STEP 2	STEP 3	STEP 1	STEP 2	STEP 3
(a) International reserves:						
(Investment portfolio)						
Grade 1: Investment Grade	3,672.835.2	-	-	25,263.216.7	-	-
Grade 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).

	AMORTIZED COST CLP MM			FVOCI CLP MM		
	STEP 1	STEP 2	STEP 3	STEP 1	STEP 2	STEP 3
(b) Domestic assets:						
(Domestic loans and Operations under specific legal regulations)						
Grade 1: Investment Grade	1,891,831.3	-	-	-	-	-
Grade 2: Standard Monitoring	-	-	-	-	-	-
Gross amount	1,891,831.3	-	-	-	-	-
Loss provision	(2,930.8)	-	-	-	-	-
Book value	1,888,900.5	-	-	-	-	-

(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 54.3% of the internally managed investment portfolio at year-end 2020 (54.1% at year-end 2019).

c-2. Liquidity risk: Investment in local assets (special measures)

investment is not the primary objective of the local assets portfolio, which was established as a result of the implementation of the special measures in 2020 aimed at ensuring financial stability and the correct transmission of monetary policy. In that context, the Bank bought liquid assets traded in the secondary market.

c-3. Liquidity risk: Loans to banks (special measures)

The objective of the FCIC and LCL is to inject liquidity into the financial system, and the Bank does not intend to settle the operations before they come to maturity.

c-4. 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 5.24 Debt security auctions by the Central Bank of Chile as of 31 December 2020..

INSTRUMENT	SCHEDULED AMOUNT CLP MM	DEMAND	AWARDS	AUCTION RATE	MARKET RATE	SPREAD (BP)
PDBC	555,200,000.0	163.2%	99.6%	0.36%	0.51%	(15.0)

Table 5.25 Debt security auctions by the Central Bank of Chile as of 31 December 2019.

INSTRUMENT	SCHEDULED AMOUNT CLP MM	DEMAND	AWARDS	AUCTION RATE	MARKET RATE	SPREAD (BP)
PDBC	71,670,000.0	180.0%	104.0%	2.47%	2.49%	(2.0)

c-5. Exposure to liquidity risk by contract maturity date

Given the Bank's balance sheet structure, 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 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.

The Market Operations Area and the Operations and Payment Systems Area, within the Financial Markets Division, are responsible for making and executing 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 Operational Risk Department, in 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 well 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 are as follows:

	2020 CLP MM	2019 CLP MM
FOREIGN CORRESPONDENT BANKS (*)	479,227.1	361,966.0
CURRENT ACCOUNTS OF EXTERNAL PORTFOLIO MANAGERS (*)	50,105.5	14,305.0
FOREIGN CURRENCY DEPOSITS (*)	954.2	1,027.7
TOTAL CASH	**530,286.8**	**377,298.7**
DOMESTIC CORRESPONDENT BANKS (**)	88.7	158.6
TOTAL CASH AND CASH EQUIVALENTS (***)	**530,375.5**	**377,457.3**

(*) Included under Cash on the statement of financial position.

(**) Included under Other assets, nder the heading Domestic assets.

(***) There are no restrictions on the use of the headings included under cash and cash equivalents.

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 primary 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:

	2020 CLP MM	2019 CLP MM
CASH	530,286.8	377,298.7
INVESTMENT PORTFOLIO:		
FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	25,573,747.7	25,263,216.7
AMORTIZED COST	778,188.6	3,669,265.3
FAIR VALUE THROUGH PROFIT OR LOSS	2,468.9	87,329.9
MONETARY GOLD	10,607.8	8,950.7
SPECIAL DRAWING RIGHTS (SDR)	492,017.4	555,267.3
IMF RESERVE POSITION	493,161.8	311,964.9
OTHER ASSETS	116.7	681.4
TOTAL	**27,880,595.7**	**30,273,974.9**

The distribution of foreign exchange reserve assets by currency at each year-end was as follows:

	2020 CLP MM	2019 CLP MM
UNITED STATES DOLLAR	14,551,716.5	17,016,443.9
EURO	2,780,748.8	2,834,106.1
AUSTRALIAN DOLLAR	2,306,801.4	2,275,189.1
CANADIAN DOLLAR	2,320,354.5	2,304,074.3
POUND STERLING	2,054,877.4	2,029,388.9
CHINESE YUAN	2,067,224.3	2,199,039.7
SOUTH KOREAN WON	766,277.8	776,436.2
OTHER CURRENCIES	1,032,595.0	839,296.7
TOTAL	**27,880,595.7**	**30,273,974.9**

(b) Reserve assets, expressed in U.S. dollars

	2020 CLP MM	2019 CLP MM
CASH	745.6	506.7
INVESTMENT PORTFOLIO:		
FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	35,956.5	33,927.6
AMORTIZED COST	1,094.1	4,927.7
FAIR VALUE THROUGH PROFIT OR LOSS	3.5	117.3
INVESTMENT PORTFOLIO:	14.9	12.0
FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	691.8	745.7
AMORTIZED COST	693.4	419.0
FAIR VALUE THROUGH PROFIT OR LOSS	0.2	0.9
TOTAL	**39,200.0**	**40,656.9**

The distribution of foreign exchange reserve assets by currency, expressed in U.S. dollars, at each year-end was as follows:

	2020 CLP MM	2019 CLP MM
UNITED STATES DOLLAR	20,459.6	22,852.5
EURO	3,909.7	3,806.1
AUSTRALIAN DOLLAR	3,243.4	3,055,5
CANADIAN DOLLAR	3,262.4	3,094.3
POUND STERLING	2,889.1	2,725.4
CHINESE YUAN	2,906.5	2,953.2
SOUTH KOREAN WON	1,077.4	1,042.7
OTHER CURRENCIES	1,451.9	1,127.2
TOTAL	**39,200.0**	**40,656.9**

(c) Investment portfolio by asset class

	FAIR VALUE HIERARCHY	2020 CLP MM	2019 CLP MM
Fair value through other comprehensive income:			
Internally managed portfolio:			
Treasury notes	Level 1	–	91,613.9
Nominal notes and bonds	Level 1	22,057,153.0	21,578,680.2
Inflation-linked bonds	Level 1	2,722,742.0	2,786,913.0
Externally managed portfolio:			
Treasury notes	Level 1	62,486.3	89,015.3
Nominal notes and bonds	Level 1	623,052.8	481,522.3
Inflation-linked bonds	Level 1	108,313.6	235,472.0
Subtotal		**25,573,747.7**	**25,263,216.7**
Amortized cost:			
Internally managed portfolio:			
Time deposits		790,395.1	3,669,975.5
Overnight deposits		71.1	223.4
Accounts receivable (payable) trade date (net)		586.0	101.6
Securities lending fees		49.4	126.4
Externally managed portfolio			
Accounts receivable (payable) trade date (net)		(11,085.1)	
Collateral, net position		(1,827.9)	(1,161.6)
Subtotal		**778,188.6**	**3,669,265.3**
Fair value through profit or loss:			
Internally managed portfolio:			
Derivatives, net position	Level 2	(44.4)	(3,741.0)
Externally managed portfolio:			
BISIP	Level 2	–	81,390.5
Derivatives, net position	Level 2	2,513.3	1,852.6
Mortgage-backed securities (MBS)	Level 1	–	7,827.8
Subtotal		**2,468.9**	**87,329.9**
Total		**26,354,405.2**	**29,019,811.9**

(d) Monetary gold

At year-end 2020, monetary gold amounted to USD 14.9 million (USD 12.0 million in 2019) equivalent to 7,940 fine troy ounces valued at USD 1,878.5 per ounce (USD 1,514.0 in 2019). There was no change in the quantity of troy ounces relative to 2019.

	2020 CLP MM	2019 CLP MM
MONETARY GOLD	10,607.8	8,950.7
TOTAL	**10,607.8**	**8,950.7**

(e) Special drawing rights (SDR)

At year-end 2020, the balance in the special drawing rights account was SDR 468,632,653.0, of which SDR 81,202.0, equivalent to CLP 85.3 million, was from interest.

	2020 CLP MM	2019 CLP MM
IMF SDRs	492,017.4	555,267.3
TOTAL	**492,017.4**	**555,267.3**

(f) International Monetary Fund (IMF) reserve position

At each year-end, the IMF reserve position was as follows:

	2020 CLP MM	2019 CLP MM
IMF QUOTA SUBSCRIPTION	1,831,411.6	1,796,355.0
NEW ARRANGEMENTS TO BORROW (NAB)	31,119.3	46,414.8
DEPOSITS (ACCOUNTS N° 1 AND 2)	(1,369,369.1)	(1,530,804.9)
TOTAL	**493,161.8**	**311,964.9**

Note 8
Other foreign assets

(a) Inter-American Development Bank (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 no similar instruments for comparison.

In 2020, 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:

	2020 CLP MM	2019 CLP MM
IDB SHARES AND CONTRIBUTIONS	93,584.7	97,976.9
TOTAL	**93,584.7**	**97,976.9**

(b) Bank for International Settlements (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, for a value of SDR 42,054,000.

	2020 CLP MM	2019 CLP MM
OPENING BALANCE	79,874.2	
FAIR VALUE ADJUSTMENT	8,217.7	
SDR VALUATION INCREASE	850.3	
CLOSING BALANCE 31-12-2020	**88,942.2**	**79,874.2**

In 2020, the BIS did not distribute dividends (USD 1.0 million in 2019).

The Bank calculates the fair value (level 3) based on its percentage ownership of BIS equity, discounting the shares' net asset value by 30%. This follows the methodology applied by the BIS for the last repurchase of shares issued in 1970.

(c) IMF Flexible Credit Line

In 2020, the Board of the Central Bank of Chile considered it necessary to strengthen the Bank's international liquidity position, so as to be able to mitigate the potential materialization of financial risks in the country. On 29 May 2020, the International Monetary Fund (IMF) announced that the IMF Executive Board had approved the Bank's application for a two-year Flexible Credit Line (FCL), in the amount of SDR 17.443 billion (USD 23.930 billion at that time). These resources increase the international liquidity to which the Bank has immediate access by over 60%.

The opening of this credit line, which guarantees the availability of funds but does not create a financial asset or liability until it is used, has an associated commission fee that is paid in advance in the same currency. The book entry of the credit line is made in off-balance accounts, while the commission paid is recorded as an amortizable asset.

To date, the Bank has not used the resources available through this line. The balance recorded for this item corresponds to the unamortized amount of the annual commission that the Bank paid to the IMF when the FCL was established, while the amortized portion of the commission is recognized using straight-line amortization.

The commission is refundable based on the percentage and timing of the use of the credit line. If the full amount is used in the first 365 days, the entire commission fee is refunded at the end of the period.

	2020 CLP MM
OPENING BALANCE, 29 MAY 2020	75,130.8
AMORTIZATION IN THE PERIOD	(43,826.3)
CLOSING BALANCE, 31 DEC 2020	**31,304.5**

Note 9

Domestic loans and investments

(a) Loans to banks and financial institutions

This item records loan operations classified as non-derivative financial assets, valued at amortized cost using the effective interest rate method:

	2020 CLP MM			
	CAPITAL	INTEREST	IMPAIRMENT PROVISION	TOTAL
REPURCHASE AGREEMENTS (REPOS)	68,579.7	84.1	–	**68,663.8**
REPURCHASE AGREEMENTS (FCIC REPOS)	6,800,400.0	188.9	–	**6,800,588.9**
CONDITIONAL FINANCING FACILITY FOR INCREASED LOANS (FCIC)	9,997,000.0	277.7	–	**9,997,277.7**
LIQUIDITY CREDIT LINE (LCL)	5,246,066.7	145.7	(10,014.1)	**5,236,198.3**
Total	**5,246,066.7**	**145.7**	**(10,014.1)**	**5,236,198.3**

	2019 MM$			
	CAPITAL	INTEREST	IMPAIRMENT PROVISION	TOTAL
REPURCHASE AGREEMENTS (REPOS)	1,567,607.6	1,943.8	–	**1,569,551.4**
Total	**1,567,607.6**	**1,943.8**	**–**	**1,569,551.4**

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. The FCIC and LCL operations were initiated in 2020 as part of the special measures to address the impact of internal shocks deriving from the pandemic. They are open credit lines for banks, designed to promote the continued financing and refinancing of bank loans to households and firms, especially those that do not have access to the capital market.

The collateral associated with the aforementioned operations are discussed in Note 5b.

	FAIR VALUE HIERARCHY	2020 CLP MM	2019 CLP MM
Fair value through other comprehensive income:			
Bank bonds	Level 1	6,392,133.7	-
Certificates of deposit	Level 1	208,986.7	-
Subtotal		6,601,120.4	-
Amortized cost:			
Spot purchase–forward sale (CC-VP)		2,154,987.3	-
Subtotal		2,154,987.3	-
Total		8.756.107,7	-

The bank bonds and certificates of deposit correspond to the special asset purchase program for all participants of the Open Market Operations System (SOMA), which aims to contain the effects of high volatility events on the fixed-income market and avoid episodes of money market volatility. The CC-VP operations started in August 2020, under a special program for the simultaneous spot purchase and forward sale of financial instruments. This facility was made available by the Bank to SOMA system participants as a special measure for mitigating the possible impact on the financial system of the partial withdrawal of pension funds.

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) Treasury transfers

Under the heading Operations under specific legal regulations, the item Treasury transfers includes the following amounts

	2020 CLP MM	2019 CLP MM
TREASURY TRANSFERS LAW N° 18,401	330,936.2	322,279.9
IMPAIRMENT PROVISION	(8,948.1)	(2,930.8)
Total	**321,.988.1**	**319,349.1**

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 2020 amounted to CLP 330,936.2 million (excluding the impairment provision), equivalent to UF11.4 million (CLP 322,279.9 million in 2019, equivalent to UF11.4 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.

	2020 CLP MM	2019 CLP MM
OPENING BALANCE	319,349.1	311,783.9
INDEXATION ADJUSTMENT IN THE PERIOD	8,656,2	8,471.5
IMPAIRMENT IN THE PERIOD	(6,017.2)	(906.3)
CLOSING BALANCE	321,988.1	319,349.1

(b) 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 and financial 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 2020, 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 1,514,341.7 million ($1,411,708.1 million in 2019), 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 92,537.9 million ($90,073.2 million in 2019), 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

	2020 MM$	2019 MM$
PROPERTY, PLANT, AND EQUIPMENT (GROSS)	69.391,2	63.467,7
ACCUMULATED DEPRECIATION	(22.797,7)	(20.176,9)
PROPERTY, PLANT, AND EQUIPMENT (NET)	46.593,5	43.290,8

Reconciliation of the carrying amount of property, plant, and equipment

	MM$					
	Balance on 31.Dec.19	Additions	Disposals	Depreciation	Transfer	Balance on 31.Dec.20
REAL ESTATE AND INSTALLATIONS	27,162.8	—	—	(66.8)	—	27,096.0
FURNITURE AND EQUIPMENT	6,825.1	2,258.2	(359.1)	(2,564.2)	3,202.0	9,362.0
TRANSPORT MATERIAL	152.4	—	—	(30.1)	—	122.3
WORKS IN PROGRESS	9,150.5	4,064.7	—	—	(3,202.0)	10,013.2
TOTAL	43,290.8	6,322.9	(359.1)	(2,661.1)	—	46,593.5

On 31 December 2020 and 2019, the items Depreciation and amortization on the statement of comprehensive income included CLP 2,661.1 million and CLP 2,118.3 million, respectively, for depreciation. In 2020 and 2019, there were no recognized losses due to impairment.

Operating leases

On 31 December 2020 and 2019, 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

	2020 CLP MM	2019 CLP MM
INTANGIBLE ASSETS (GROSS)	8,813.3	8,520.9
ACCUMULATED AMORTIZATION	(5,998.1)	(4,675.9)
ACTIVO INTANGIBLE (VALOR NETO)	**2,815.2**	**3,845.0**

Intangible assets (net)

	MM$				
	Balance on 31.Dec.19	Additions	Amortization	Transfer	Balance on 31.Dec.20
COMPUTER PROGRAMS	3,778.1	–	(1,322.2)	–	2,455.9
COMPUTER PROGRAMS UNDER DEVELOPMENT	66.9	292.4	–	–	359.3
TOTAL	**3,845.0**	**292.4**	**(1,322.2)**	**–**	**2,815.2**

Al 31 December 2020 and 2019, the item Depreciation and amortization on the statement of comprehensive income included CLP 1,322.2 million and CLP 1,258.0 million, respectively, for straight-line amortization. In 2020 and 2019, there were no recognized losses due to impairment.

Note 13
Other assets

This item is made up of the following assets:

	2020 CLP MM	2019 CLP MM
ARTISTIC AND/OR CULTURAL HERITAGE ASSETS	5,281.4	5,281.4
ADVANCE ON CONTRACTS	2,433.5	1,684.8
PREPAYMENT OF EXPENSES	253.6	955.7
CASH	88.7	158.6
DERIVATIVES (INTERVENTION PROGRAM)	–	92,714.5
OTHER DOMESTIC ASSETS	6,113.4	5,889.3
TOTAL	14,170.6	106,684.3

(a) Reconciliation of the carrying amount of artistic and/or cultural heritage assets

	2020 CLP MM	2019 CLP MM
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:

	2020 CLP MM	2019 CLP MM
ACCOUNTS WITH INTERNATIONAL ORGANIZATIONS	58,528.9	62,827.7
SDR ALLOCATIONS	857,803.1	842,230.5
RECIPROCAL CREDIT AGREEMENTS	3.4	3.5
DEPOSITS FROM CENTRAL BANKS	2.0	—
TOTAL	916,337.4	905,061.7

(a) 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:

	2020 CLP MM	2019 CLP MM
IDB PROMISSORY NOTE DEBT	56,786.1	59,451.2
INTER-AMERICAN DEVELOPMENT BANK (IDB)	785.8	2,369.2
INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA)	901.1	901.1
MULTILATERAL INVESTMENT GUARANTEE AGENCY (MIGA)	32.9	32.9
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (IBRD)	23.0	73.3
TOTAL	**58,528.9**	**62,827.7**

(b) 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 and subsequently measured at amortized cost. At year-end, the balance of this account was SDR 817,033,151 (equivalent to CLP 857,803.1 million) allocated to Chile, of which SDR 141,572.0 (equivalent to CLP 148.6 million) corresponded to interest.

(c) 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 and subsequently measured at amortized cost.

(d) Deposits from central banks are financial liabilities for deposits received and other operations carried out with other central banks. They are classified and subsequently measured at amortized cost.

This item is composed of the following:

	2020 CLP MM	2019 CLP MM
CURRENT ACCOUNTS IN NATIONAL CURRENCY	2.0	

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.

	2020 CLP MM	2019 CLP MM
BANKNOTES AND COINS IN CIRCULATION	14,804,078.7	10,753,789.7
DEPOSITS FROM FINANCIAL INSTITUTIONS	3,442,191.0	1,581,470.8
ADDITIONAL RESERVE DEPOSITS (RESERVA TÉCNICA)	12,010,166.8	-
TOTAL	**30,256,436.5**	**12,335,260.5**

(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 vaults.

The change in this item, which represents the Bank's funding source on the statement of cash flows, was as follows:

	2020 CLP MM	2019 CLP MM
OPENING BALANCE, 01 JAN 2020	10,753,789.7	9,475,030.3
NET ISSUANCE	4,050,289.0	1,278,759.4
CLOSING BALANCE, 31 DEC 2020	**14,804,078.7**	**10,753,789.7**

Banknotes and coins in circulation are recorded at face value. Printing and minting costs are recorded as an expense under the heading Currency issuance, distribution, and processing costs.

The composition of banknotes and coins in circulation on 31 December of each year was as follows:

BANKNOTE DENOMINATION	2020 CLP MM	2019 CLP MM	COIN DENOMINATION	2020	2019
$ 20,000	7,576,924.3	5,589,521.5	$ 10,000	348.4	348.4
$ 10,000	5,349,250.9	3,861,316.8	$ 2,000	98.6	98.6
$ 5,000	770,232.6	436,472.9	$ 500	239,511.2	224,516.0
$ 2,000	244,133.1	87,426.0	$ 100	159,265.7	152,383.3
$ 1,000	350,581.3	292,928.2	$ 50	32,334.1	30,257.7
$ 500	4,706.7	4,709.9	$ 10	60,963.1	58,067.2
Other	252.9	251.1	$ 5	10,712.4	10,726.0
			$ 1	4,691.1	4,693.8
			Other	72.3	72.3
TOTAL	14,296,081.8	10,272,626.4	TOTAL	507,996.9	481,163.3

(b) Deposits from financial institutions

Financial system deposits reflect local currency deposits and withdrawals made by financial institutions in operations 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) Additional reserve deposits

Article 65 of the General Banking Law establishes that banks are required to maintain an additional required reserve (reserve técnica), which can be held in 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 as additional required reserves (reserva técnica) consisting of Central Bank deposits or Treasury or Central Bank notes of any maturity valued at market price. At year-end 2020, the amount deposited in the additional reserve account was CLP 12,010,166.8 million; in 2019, there were no additional reserve deposits.

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.

	2020 CLP MM	2019 CLP MM
DEPOSITS AND OBLIGATIONS WITH THE TREASURY	155.0	715,807.0
OTHER DEPOSITS AND OBLIGATIONS	8,830,162.7	6,188,158.1
TOTAL	8,830,317.7	6,903,965.1

(a) The item Deposits and obligations with the Treasury includes:

	2020 CLP MM	2019 CLP MM
CURRENT ACCOUNTS HELD BY THE TREASURY	155,0	715,807.0
TOTAL	155,0	715,807.0

(b) The item Other deposits and obligations includes:

	2020 CLP MM	2019 CLP MM
STANDING DEPOSIT FACILITY IN LOCAL CURRENCY (FPD)	7,563,605.0	3,007,494.8
CURRENT ACCOUNTS IN FOREIGN CURRENCY	982,377.7	1,126,259.1
SHORT-TERM FOREIGN CURRENCY DEPOSITS BY BANKS	273,116.2	2,036,683.9
OTHER	11,063.8	17,720.3
TOTAL	8,830,162.7	6,188,158.1

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 discount notes (PDBC), indexed 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 2020 and 2019, Central Bank securities recorded the following maturities:

	(CLP MILLION)					
	UP TO 90 DAYS	91 TO 180 DAYS	181 DAYS TO 1 YEAR	OVER 1 YEAR TO 3 YEARS	OVER 3 YEARS	TOTAL 2020
CENTRAL BANK DISCOUNT NOTES (PDBC)	19,998,910.2					19,998,910.2
PESO-DENOMINATED CENTRAL BANK BONDS (BCP)	287,226.1			172,738.9		459,965.0
UF-DENOMINATED CENTRAL BANK BONDS (BCU)	198,422.9			319,873.6	65,754.8	584,051.3
UF-DENOMINATED INDEXED COUPONS (CERO)	1,532.9	751.6	577.0			2,861.5
INDEXED NOTES PAYABLE IN COUPONS (PRC)	102.8	204.8	1,739.4	3,743.1		5,790.2
OTHER	7.8					7.8
TOTAL	**20,486,202.7**	**956.4**	**2,316.4**	**496,355.6**	**65,754.8**	**21,051,586.0**

	(MILLONES DE 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 DISCOUNT 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 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**

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:

	2020 CLP MM	2019 CLP MM
SEVERANCE INDEMNITY	13,672.5	11,815.6
SPECIAL INDEMNITY AND AGREED DEPOSIT FOR RETIREMENT PLAN (RES.1651)	1,919.7	1,720.4
SUBTOTAL PROVISION FOR SEVERANCE INDEMNITY	**15,592.2**	**13,536.0**
BENEFITS TO FORMER ASSOC. RETIRED EMPLOYEES AND PENSION BENEFICIARIES	2,372.2	2,284.5
RETIREMENT HEALTH PLAN BENEFITS	9.4	18.3
PENDING ACCRUED VACATION TIME FOR PERSONNEL	4,118.8	3,000.5
SPECIAL INDEMNITY (RES. 572-05-961226)	0.3	0.7
INCENTIVE ALLOCATION	511.3	437.0
DEATH BENEFIT ALLOCATION	27.4	22.7
SUBTOTAL OTHER PROVISIONS	**7,039.4**	**5,763.7**
TOTAL	**22,631.6**	**19,299.7**

	2020 CLP MM	2019 CLP MM
MOVEMENTS IN SEVERANCE INDEMNITY PROVISIONS (*):		
CURRENT VALUE OF LIABILITIES ON 01 JANUARY	13,536.0	14,185.9
SERVICE COSTS	959.2	1,009.8
INTEREST COSTS	379.0	502.1
BENEFITS PAID	(568.7)	(1,942.9)
ACTUARIAL LOSSES	1,286.7	(218.9)
BALANCE ON 31 DECEMBER	**15,592.2**	**13,536.0**

(*)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.

	2020 CLP MM	2019 CLP MM
TOTAL POST-EMPLOYMENT BENEFIT EXPENSE:		
SERVICE COSTS	829.5	891.8
INTEREST COSTS	444.1	583.5
TOTAL	**1,273.6**	**1,475.3**

On 31 December 2020, the sensitivity of the actuarial liability deriving from post-employment benefits to the indicated changes in actuarial assumptions is as follows:

SENSITIVITY ANALYSIS VARIABLES	BASELINE SCENARIO	SCENARIO 1	SCENARIO 2
DISCOUNT INTEREST RATE (–1%, +1%)	3,54%	2,54%	4,54%
EFFECT ON SEVERANCE INDEMNITY PROVISIONS (CLP MM)	13.536,0	14.729,9	12.518,8
EFFECT ON SEVERANCE INDEMNITY PROVISIONS (%)	-	8,82%	(7,51)%

CALCULATION OF PROBABLE SEVERANCE INDEMNITY PAYMENTS	2020 CLP MM
SHORT-TERM PROVISIONS FOR SEVERANCE INDEMNITY (UP TO ONE YEAR)	1,574.8
LONG-TERM PROVISIONS FOR SEVERANCE INDEMNITY (OVER ONE YEAR)	14,017.4
TOTAL	15,592.2

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 2020 corresponds to CLP 2,694,243,300,000 (31 December 2019: CLP 2,623,411,200,000) 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, as established by Board Resolution.

on 31 December 2020, the Central Bank had negative equity of CLP 1,738,520.6 million (negative equity of CLP 1,562,760.0 million on 31 December 2019), 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.

On 31 December 2020, the negative capital revaluation from price-level restatement, recognized in memorandum accounts, was a negative CLP 81,193.4 million (negative CLP 138,139.0 million in 2019), resulting in an adjusted capital at year-end of negative CLP 3,088,356.9 million (negative CLP 5,071,674.6 million in 2019). 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 2020 there were no capital contributions by the Treasury.

	CAPITAL ON 31 DEC 2020, BEFORE PRICE-LEVEL RESTATEMENT CLP MM	CAPITAL REVALUATION IN MEMORANDUM ACCOUNTS CLP MM	TOTAL CAPITAL ON 31 DEC 2020 WITH PRICE-LEVEL RESTATEMENT CLP MM
Balance on 31 December 2020	(3,007,163.5) (*) 2.7%	(81,193.4)	(3,088,356.9)

(*) Capital on 31 December 2019 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:

	2020 MM$	2019 MM$
INTEREST INCOME AND EXPENSE:		
INTEREST INCOME	157,410.3	411,248.9
INVESTMENTS MEASURED AT FVOCI (EFFECTIVE RATE)	145,703.6	352,036.9
INVESTMENTS MEASURED AT AMORTIZED COST (EFFECTIVE RATE)	11,571.7	58,781.2
INVESTMENTS MEASURED AT FVTPL (COUPON RATE)	135.0	430.8
INTEREST EXPENSE	(9.3)	(33.4)
AT AMORTIZED COST (EFFECTIVE RATE)	(9.3)	(33.4)
SUBTOTAL	**157,401.0**	**411,215.5**
FEE AND COMMISSION INCOME AND EXPENSE:		
FEE AND COMMISSION INCOME	383,5	1.549,0
SECURITIES LENDING FEES (*)	383,5	1.549,0
FEE AND COMMISSION EXPENSE	(2,360.5)	(2,585.8)
CURRENT ACCOUNT OPERATING EXPENSES	(121.7)	(166.0)
SECURITIES CUSTODY FEES	(1,790.7)	(2,036.8)
EXTERNAL PORTFOLIO MANAGEMENT FEES	(448.1)	(383.0)
SUBTOTAL	**(1,977.0)**	**(1,036.8)**
INCOME FROM SALE OF INVESTMENTS:		
SALE OF INVESTMENTS MEASURED AT FVOCI	344,755.0	1,044,897.2
SALE OF INVESTMENTS MEASURED AT AMORTIZED COST		38.8
SALE OF INVESTMENTS MEASURED AT FVTPL	240.2	(17.9)
SUBTOTAL	**344,995.2**	**1,044,918.1**
OTHER INCOME (EXPENSE):		
DERIVATIVES	1,363.6	(10,350.7)
OTHER:		
FAIR VALUE OF INVESTMENTS THROUGH PROFIT OR LOSS (FVTPL)	1,374.2	105.1
IMPAIRMENT	3,640.2	(2,521.6)
TAXES	(678.7)	(1,872.1)
OTHER	—	3.3
SUBTOTAL	5,699.3	(14,636.0)
TOTAL	**506,118.5**	**1,440,460.8**

(*) At year-end 2020 and 2019, the value of securities on loan (par value) represented 4% of total reserves (CLP 1,233,362.8 million in 2020 and CLP 1,172,573.0 million in 2019). Securities are loaned overnight against collateral that exceeds the value of the securities.

Note 21
Net loss from other foreign operations

The net loss from other foreign transactions breaks down as follows:

	2020 CLP MM	2019 CLP MM
INTEREST EXPENSE	(1,721.9)	(8,370.0)
SDR ALLOCATIONS	(1,721.9)	(8,369.9)
RECIPROCAL CREDIT AGREEMENTS	—	(0.1)
OTHER INCOME (EXPENSE)	(43,896.8)	729.9
COMMISSION ON IMF FLEXIBLE CREDIT LINE	(43,826.3)	
BIS DIVIDENDS	-	758.4
FISCAL AGENCY OPERATING EXPENSES	(70.5)	(28.5)
TOTAL	**(45,618.7)**	**(7,640.1)**

Note 22
Net loss from domestic operations

The net loss from domestic transactions, at year-end of each year, breaks down as follows:

	2020 CLP MM	2019 CLP MM
INTEREST AND INDEXATION INCOME AND EXPENSE:		
INTEREST AND INDEXATION INCOME:	207,665.0	14,380.0
DOMESTIC LOANS AND INVESTMENTS	199,008.7	4,178.5
OPERATIONS UNDER SPECIFIC LEGAL REGULATIONS	8,656.3	10,201.5
INTEREST AND INDEXATION EXPENSE:	(257,475.6)	(622,438.5)
SECURITIES ISSUED	(222,302.7)	(572,172.6)
DEPOSITS AND OBLIGATIONS	(35,172.9)	(50,265.9)
SUBTOTAL	(49,810.6)	(608,058.5)
OTHER NET INCOME AND EXPENSE:		
DERIVATIVE OPERATIONS	(213,407.4)	59.047,5
EARLY REDEMPTION OF SECURITIES ISSUED	(198,050.3)	(497.814,4)
OTHER:		
COMMISSIONS	3.052,7	3,343.0
IMPAIRMENT	(33.843,0)	(903.6)
SUBTOTAL	**(442,248.0)**	**(436,327.5)**
TOTAL	**(492,058.6**	**(1,044,386.0)**

Note 23

Net gain (loss) from foreign exchange operations

The net gain (loss) from foreign exchange operations, at year-end of each year, derives primarily from the effect of exchange rate fluctuations on foreign exchange assets, as follows

	2020 CLP MM	2019 CLP MM
UNITED STATES DOLLAR	(156,997.3)	797,469.6
EURO	(30,471.0)	5,464.9
AUSTRALIAN DOLLAR	(23,726.9)	27,411.9
CANADIAN DOLLAR	(55,003.4)	138,782.6
POUND STERLING	(3,234.4)	55,754.4
CHINESE YUAN	(83,510.9)	896,044.1
SOUTH KOREAN WON	(24,592.3)	(24,081.4)
OTHER CURRENCIES	3,870.9	(168,316.7)
SUBTOTAL NET FOREIGN EXCHANGE (LOSS) GAIN	**(373,665.3)**	**1,728,529.**
OTHER	2,263.4	35,023.2
TOTAL	**(371,401.9**	**1,763,552.6**

Note 24

Currency Issuance, distribution, and processing costs

Banknote and coin issuance, distribution, and processing costs at year-end of each year break down as follows:

	2020 CLP MM	2019 CLP MM
BANKNOTES	(11,886.4)	(9,958.2)
COINS	(4,354.5)	(7,942.6)
DISTRIBUTION AND PROCESSING	(3,589.4)	(3,116.1)
TOTAL	**(19,830.3)**	**(21,016.9)**

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 (the ESSF/PRF Fiscal Agency Decree), 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.

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.

In addition, the Bank was appointed fiscal agent for the management of the Strategic Contingency Fund (SCF) though Executive Decree N°19 of 2011, issued by the Ministry of Finance. Pursuant to the repeal of Law Nº 13,196 ("Copper Reserve Law"), under the provisions of Law Nº 21,174, and in accordance with the stipulations of Article 10 of the SCF Fiscal Agency Decree, the Finance Ministry informed the Bank of the termination of the fiscal agency agreement, effective 31 December 2019. Through Reserve Letter Nº 524, dated 30 March 2020, the Bank submitted the final statement of accounts for this fiscal agency, which was approved through Joint Resolution Nº 6, of 29 April 2020, by the Ministries of Finance and National Defense.

The aforementioned Law Nº 21,174, which establishes a new funding mechanism for strategic national defense, considered the creation of a new Strategic Contingency Fund (SCF) to fund military equipment and the associated infrastructure and maintenance costs to face a possible external war or international crisis that could severely affect the foreign security of Chile. The law stipulates that the SCF resources are to be invested in accordance with the provisions of Articles 12 and 13 of Law N° 20,128.

By Executive Decree Nº 334, of 2020, the Finance Ministry introduced a series of amendments to the ESSF/PRF Fiscal Agency Decree, in order to include the SCF as part of the fiscal resources under its management, which was accepted by the Bank (ESSF/PRF/SCF Fiscal Agency Decree).

In accordance with Article 5 of the ESSF/PRF/SCF Fiscal Agency Decree, 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 guidelines are contained in the following documents:

(a) ESSF performance guidelines: Ordinary Letter N° 68 of 2019, amended by Ordinary Letter N° 649 of 2020, both from the Finance Ministry.

(b) PRF performance guidelines: Ordinary Letter N° 1.838 of 2020, from the Finance Ministry.

(c) SCF guidelines: Ordinary Letter N° 1.321 of 2020, from the Finance Ministry.

(d) ESSF/PRF custody guidelines: Ordinary Letter N° 2.463 of 2018, amended by Ordinary Letter N° 69 of 2019, both from the Finance Ministry.

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 Central Bank Board and key executives in 2020 was a CLP 1,662.8 million ($1,635.4 million in 2019).

Note 29

Material events

(a) Exceptional measures adopted by the Bank:

(a)-1 Liquidity injection and foreign exchange market

Since November 2019, the Bank has implemented a preventive program aimed at facilitating liquidity within the local financial system in both national and foreign currency. At the same time, the Bank implemented a foreign exchange intervention program to reduce the excessive exchange rate volatility. Additionally, in this period, the Bank carried out actions to increase the effectiveness of the announced national and foreign currency operations and to facilitate liquidity management in the local financial system.

(a)-2 Monetary policy rate and banking sector loans

The Bank increased the monetary stimulus by cutting the monetary policy rate (MPR) to its effective lower bound (0.5%) and adopting the following extraordinary measures:

- Conditional Financing Facility for Increased Loans (FCIC) and the Liquidity Credit Line (LCL) for commercial banks. These credit lines made resources available to the commercial banking sector, so that the banks would continue financing and refinancing loans to households and firms, especially small and medium-sized enterprises (SMEs) that do not have access to capital markets.

- Inclusion of corporate bonds as eligible collateral for Central Bank liquidity operations.

- Bank bond purchase program for commercial banks and other financial institutions.

- Special purchase program for fixed-income certificates of deposit and notes issued by banks.

- Special program for the simultaneous spot purchase and forward sale of financial instruments issued by banks, for SOMA system participants (CC-VP program).

(a)-3 Other measures

Other measures include the establishment of a Flexible Credit Line (FCL) with the International Monetary Fund, the inclusion of the Bank in the FIMA Repo Facility from the Federal Reserve Bank of New York, and the expansion of the size and possible uses of the renminbi/peso bilateral swap arrangement (BSA) with the People's Bank de China, thereby solidifying Chile's external position significantly.

(b) Through Resolution N° 2313—01, of 4 June 2020, the Central Bank Board appointed Mr. Ramiro Mendoza Zúñiga as Chairman of the Audit and Compliance Committee for the remainder of his term on the advisory committee, replacing Mr. José Luis Cea Egaña, whose term as committee member and Chairman ended that month.

(c) Starting in January 2021, the Bank will implement a gradual foreign currency purchase program for a total of USD 12.0 billion. Of the total, USD 2.55 million will replace the reserves used in the intervention plan executed between December 2019 and January 2020, while the remainder represents the amount necessary to increase the size of reserves to around 18% of GDP. This program will be implemented over

Note 30

Subsequent events

In the opinion of the Management of the Central Bank of Chile, the following events that occurred between 31 December 2020 and the publication of these financial statements could have a material effect on the data presented herein:

(a) Exchange rate fluctuation of the main currencies.

The peso-dollar exchange rate on 27 January 2021 was CLP 731.00, which represents an increase of CLP 19.76 relative to the exchange rate used for the closure of the accounts on 31 December 2020. This would represent an increase in the Bank's equity of CLP 355,908.0 million.

The peso-euro exchange rate on 27 January 2021 was CLP 888.54, which represents an increase of CLP 18.31 relative to the exchange rate on 31 December 2020. This would represent an increase in the Bank's equity of CLP 58,292.9 million.

The peso-Australian dollar exchange rate on 27 January 2021 was CLP 566.10, which represents an increase of CLP 17.22 relative to the exchange rate on 31 December 2020. This would represent an increase in the Bank's equity of CLP 70,429.1 million.

The peso-Canadian dollar exchange rate on 27 January 2021 was CLP 575.64, which represents an increase of CLP 17.37 relative to the exchange rate on 31 December 2020. This would represent an increase in the Bank's equity of CLP 69,904.7 million.

The total increase in the Bank's equity due to the increase in the U.S. dollar, euro, Australian dollar, and Canadian dollar exchange rates on 27 January 2021 would be CLP 554,534.7 million.

(b) Approval of the financial statements

The financial statements for the year ended on 31 December 2020 were presented by the General Manager to the Board on 28 January 2021, and they were approved for publication at Board Meeting N°2369 on the same date.

(c) 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

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Informe del Auditor Independiente

A los Señores
Presidente, Vicepresidente y miembros
del Consejo del Banco Central de Chile:

Hemos efectuado una auditoría a los estados financieros adjuntos del Banco Central de Chile, que comprenden el estado de situación financiera al 31 de diciembre de 2020, y los correspondientes estados de resultados integrales, de cambios en el patrimonio y de flujos de efectivo por el año terminado en esa fecha y las correspondientes notas a los estados financieros.

Responsabilidad de la Administración por los estados financieros

La Administración es responsable por la preparación y presentación razonable de estos estados financieros de acuerdo con Normas Internacionales de Información Financiera. Esta responsabilidad incluye el diseño, implementación y mantención de un control interno pertinente para la preparación y presentación razonable de estados financieros que estén exentos de representaciones incorrectas significativas, ya sea debido a fraude o error.

Responsabilidad del auditor

Nuestra responsabilidad consiste en expresar una opinión sobre estos estados financieros a base de nuestra auditoría. Efectuamos nuestra auditoría de acuerdo con Normas de Auditoría Generalmente Aceptadas en Chile. Tales normas requieren que planifiquemos y realicemos nuestro trabajo con el objeto de lograr un razonable grado de seguridad que los estados financieros están exentos de representaciones incorrectas significativas.

Una auditoría comprende efectuar procedimientos para obtener evidencia de auditoría sobre los montos y revelaciones en los estados financieros. Los procedimientos seleccionados dependen del juicio del auditor, incluyendo la evaluación de los riesgos de representaciones incorrectas significativas de los estados financieros ya sea debido a fraude o error. Al efectuar estas evaluaciones de los riesgos, el auditor considera el control interno pertinente para la preparación y presentación razonable de los estados financieros de la entidad con el objeto de diseñar procedimientos de auditoría que sean apropiados en las circunstancias, pero sin el propósito de expresar una opinión sobre la efectividad del control interno de la entidad. En consecuencia, no expresamos tal tipo de opinión. Una auditoria incluye, también, evaluar lo apropiadas que son las políticas de contabilidad utilizadas y la razonabilidad de las estimaciones contables significativas efectuadas por la Administración, así como una evaluación de la presentación general de los estados financieros.

Consideramos que la evidencia de auditoria que hemos obtenido es suficiente y apropiada para proporcionarnos una base para nuestra opinión de auditoria.

Opinión

En nuestra opinión, los mencionados estados financieros presentan razonablemente, en todos sus aspectos significativos, la situación financiera del Banco Central de Chile al 31 de diciembre de 2020 y los resultados de sus operaciones y los flujos de efectivo por el año terminado en esa fecha, de acuerdo con Normas Internacionales de Información Financiera.

Otros asuntos - Informe de otros auditores sobre los estados financieros al 31 de diciembre de 2019

Los estados financieros del Banco Central de Chile por el año terminado al 31 de diciembre de 2019 fueron auditados por otros auditores, quienes emitieron una opinión sin salvedades sobre los mismos en su informe de fecha 30 de enero de 2020.

Juan Francisco Martínez A.
EY Audit SpA

Santiago, 28 de enero de 2021