banco central Chile

Integrated Annual Report

2021

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. Región Metropolitana de Santiago.

Website:
www.bcentral.cl

Period of the report (102-50):
2021

Contact for questions on this report (102-53):
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Content

1. Foreword

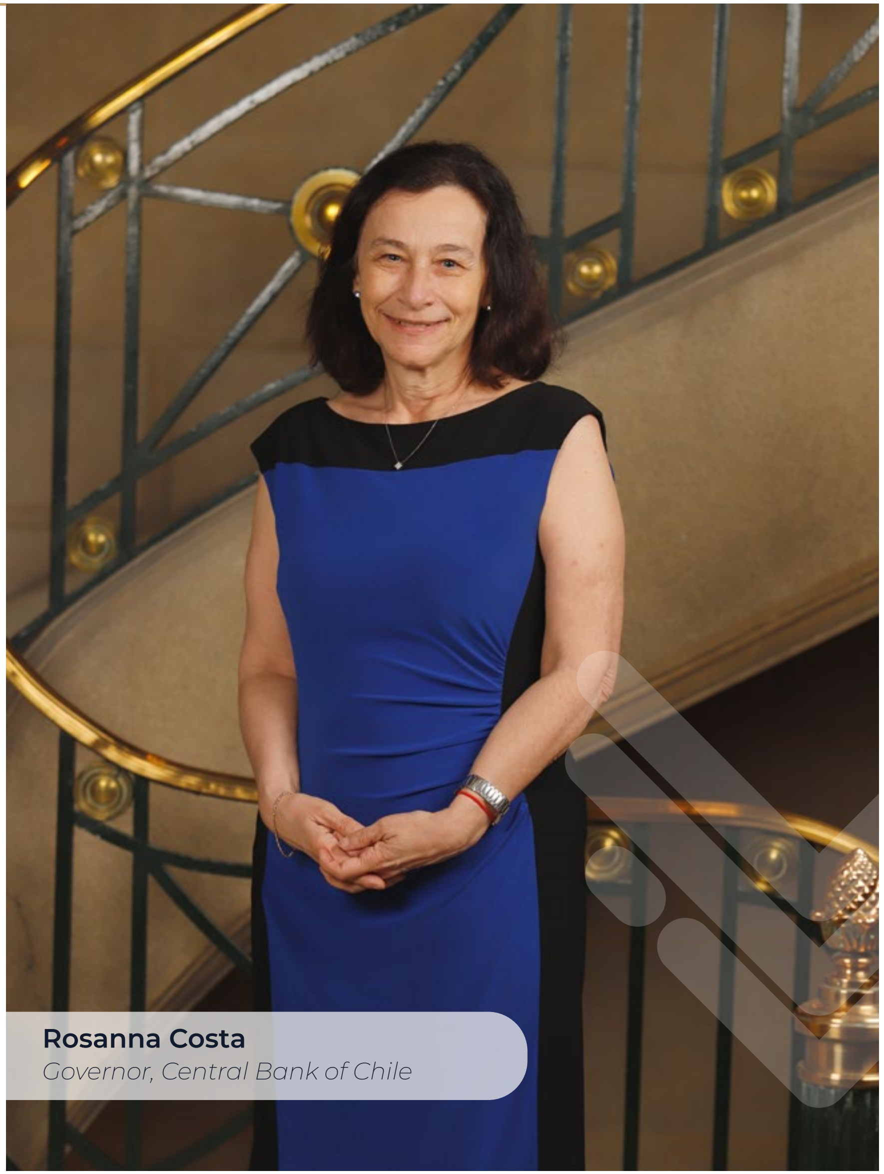
The Central Bank faced multiple challenges in 2021, especially due to the consequences of the worst period of the pandemic, which continued to affect the normal functioning of the economy. The persistence of the health crisis substantially changed the ways in which people, institutions, and the financial word interact, raising a huge digitization challenge.

In addition to adopting the necessary measures to continue fulfilling the mandate established in the Bank's Basic Constitutional Act, we faced new scenarios that require strengthening innovation and the search for better ways to contribute to sustainable development.

This 2021 Integrated Annual Report reports on how the Central Bank of Chile has addressed these important challenges.

Letter from Rosanna Costa, Governor of the Central Bank

(102-14)



In 2021, the Chilean economy consolidated its recovery, although the pandemic continued to be a factor. The adaptive capacity of people and businesses, the better management of the health crisis, and the effectiveness of the policies implemented to contain the macroeconomic effects of COVID-19 were the main drivers of the recovery. This effort to mitigate the effects of the crisis was made simultaneously in all the world's largest economies.

In the second half, spending began to increase substantially. This contributed to launching a steady rise in inflation, which motivated a swift change in the Central Bank's monetary policy strategy. Thus, the monetary policy rate reached 7% in March 2022.

Although this inflationary process is unfolding in many countries and especially in the developed world, there are a number of particularities in the Chilean case. Important local factors include the significant stimulus package that has been delivered through various channels and the general environment of prolonged uncertainty. In fact, Chile is one of the countries that has delivered the biggest stimulus relative to the size of its economy.

This ongoing scenario represents the first and biggest challenge for the position to which I was appointed in January 2022. To address this challenge, we will use all the tools available to the Central Bank to get inflation on a path of convergence with the 3% target in the two-year policy horizon.

Needless to say, inflation is a scourge for any economy, and it affects us all. It is especially hard on the lower-income population, however, as they have few tools for facing inflation in their daily lives and suffer a direct impact when it reduces the purchasing power of their income.

Another challenge facing the Bank is to continue preserving the stability of the financial system, in fulfillment of our second institutional mandate to safeguard the normal functioning of internal and external payments. This year, we will hold two financial policy meetings for the first time, in which we will evaluate and determine the level of countercyclical capital requirements in the commercial banking system, as part of the implementation of the Basel III standards. The meetings will lead to decisions aimed at strengthening the stability of the banking system and its capacity to resist financial crises which, when they occur, have disastrous effects on the country and can last for many years.

The pandemic accelerated the development of a digital retail payments market, which must be addressed through regulations that are in line with the high demands imposed by the dizzying pace of technology. To assist the regulatory institutions, economic authorities, and the country in general, the Bank will publish a report analyzing the role a central bank should play in this process, the possibility of issuing a digital currency, and the framework for action for the next five years. This is part of a broad digital agenda that is raising challenges for all central banks.

The governorship of Mario Marcel was notable for many achievements, including an institutional strengthening that, building on the work of previous governorships, squarely positioned the Bank in the evaluation and analysis of issues that are at the forefront of the macroeconomic and financial discussion. Governor Marcel also made necessary progress in the areas of sustainability and the environment, both internally and in terms of contributing to external debates and discussions.

He did this based on a Strategic Plan that was inclusive for the first time and that covered the period from 2018 through the end of this year. Thus, one of our pending tasks is to build a new Strategic Plan for 2023 to 2027, which will be a key management tool for channeling efforts and resources toward the established priorities and focuses.

We hope the new Plan will be broadly participative, with contributions both from our staff and from the Bank's external stakeholders. We will have to explore in depth the issues of digitization, the development of forecasting models, the increasing need for more and better statistics, new issues that arise around financial stability, and renewed efforts to ensure that we have the broadest information for decisionmaking and can contribute to the country's progress on the big issues within our expertise. We will also need to address the demands posed by climate change in the financial arena; the need to continue expanding financial education; and our own progress on inclusion and diversity.

One of the most pressing concerns for our institution is encouraging the participation of women in areas where they are usually absent, such as finance, macroeconomics, technology, and decisionmaking. For the first time, two of the five Central Bank Board

Members are women, and we have endeavored to extend this trend throughout the organization. We still have a way to go, however, especially in the mid-levels of the organizational structure. We are firmly committed to continue making progress in this area.

We want to continue expanding our perspective to more fully encompass regions outside of Santiago, with more timely statistics and new disaggregations, to provide information that facilitates a better analysis of regional trends and helps detect gaps that need to be closed.

In January of this year, following the resignation of Mario Marcel as Governor of the Bank, President Sebastián Piñera honored me with the appointment to the position for a period of five years.

I am not only honored, but also grateful for the confidence in my ability to lead this institution, additionally as the first woman to hold the position in its nearly one hundred years of history. It is a tremendous responsibility, which I humbly assume and to which I am fully committed. I will face this challenge with the support of a high-quality Board, both technically and personally, and a first-rate technical staff. We thus look to the future with the hope of achieving our objectives as fully as possible.

The Central Bank has earned a solid reputation, which we must strive to uphold through our daily actions. Our primary asset is our people, who have always shown a strong commitment to meeting the challenges facing the organization. We all contribute to building confidence and credibility, working seriously and responsibly every day to protect this valuable asset and put it to the service of the country’s well-being. These two basic pillars are the foundation on which we will continue to build our future.

Rosanna Costa Costa
Governor,
Central Bank of Chile

Letter from Beltrán de Ramón, General Manager of the Central Bank

(102-14)

In mid-2021, I took charge as General Manager of the Central Bank in the midst of a period of deep changes in Chile and in the world. I was thus aware from the very start of the major challenges that would be involved in leading the institution as it approaches its hundredth anniversary.

The social crisis of October 2019 and then the pandemic put to the test, first, the Bank's ability to respond to the dizzying macroeconomic effects of the two events and, second, its capacity to adapt to a new complex environment for all humanity.

I am very proud to be part of a team that has been able to meet these huge challenges, to a large degree because the institution has been preparing to face scenarios of deep macroeconomic and financial stress, as have recently materialized. In this regard, my predecessor, Alejandro Zurbuchen, who served as the Bank's General Manager for about 15 years, designed many of the policies and established the processes that now allow us to work in a top-level institution.

I am also proud of how this committed team has put all their effort and determination into fulfilling our legally established objectives.

The crisis caused by the pandemic, in an unprecedented supply and demand shock, forced a shutdown of economic activities and also gave the Bank a higher profile, which left us more exposed to citizen scrutiny than we had been previously. This heightened the challenge of achieving excellent technical quality in our work, following the guidelines of the Strategic Plan to constantly analyze changes in the environment so as to incorporate them in our institutional development.

Beltrán de Ramón
General Manager, Central Bank of Chile

We face an increasingly complex world, which will demand many different perspectives, as well as an ongoing evaluation of our performance, in order to constantly improve our internal processes and thus to not fall short in achieving our objectives.

We will have to find an adequate balance between flawlessly performing the institutional work of continuing to fulfill our legally established objectives, on the one hand, and expanding the space for innovation and developing an experimental area, on the other.

This space is what will allow us to strengthen our response capacity in an environment that poses highly important issues like digitization, sustainability, and diversity. Digitization is the most visible aspect of the new economy, where changes in business models were accelerated by the pandemic. At the same time, sustainability, in its multiple dimensions, calls on us to be more environmentally friendly and to continue incorporating best practices in corporate governance. Finally, diversity is key for what lies ahead: the expansion of our response capacity depends on our ability to hear other points of view in a fast-changing environment. In sum, to be able to work better in this new world, we need to develop adaptive capacities, to get used to the idea that change is the new normal.

In addition to implementing policies to achieve low and stable inflation and safeguard the normal flow of internal and external payments, we have to address this new environment in order to respond quickly to the growing digitization of retail payments, the new financial technologies, and the urgency and effects of previously unimaginable phenomena due to climate change and the demands for greater diversity and inclusion in society.

We are already working on several of these areas. The Central Bank continues to make efforts to achieve gender parity; has created a special task force to evaluate scenarios that could enable a digital currency; and is developing models for statistically measuring natural capital to provide a measure of the effects of climate change and incorporate these data into financial decisions.

Prior to celebrating its hundredth anniversary, the Central Bank has its first woman Governor, Rosanna Costa, and also has two women on the Board for the first time, following the appointment of Board Member Stephany Griffith-Jones.

We are also moving forward on a collaborative work model focused on roles rather than positions, on leadership rather than organizational hierarchy, and increasingly on connections to the community. Hybrid work, which combines in-person and remote work, allows us to increase flexibility and quality of life, while maintaining excellence.

We propose to continue developing a cultural change that allows us to keep generating value and increasing the Bank's reputation, with the ability to adapt to any change that might arise, thanks to the new institutional framework that is being discussed.

I would like to thank the Board of Directors for the honor of this appointment, which allows me to continue addressing new challenges and to be a part of this excellent team that I joined 16 years ago. The enthusiasm with which I started back then is still alive and, in fact, is stronger than ever now that I have been entrusted with this greater responsibility, in an institution that emphasizes a strong sense of public service, probity, and transparency, with values that provide the foundation for working toward the well-being of all Chileans.

Beltrán de Ramón
General Manager,
Central Bank of Chile

Farewell Remarks by Mario Marcel, Former Governor of the Central Bank

I was with the Central Bank for six years, one as a Board Member and just over five as Governor. Last Christmas, as I was finishing my first term in that position, President Sebastián Piñera appointed me to a second term. Shortly thereafter, President-elect Gabriel Boric called on me to serve as Finance Minister in his administration.

As a result, this is a special letter, in which, perhaps for the first time, a Finance Minister is writing in the Central Bank's Integrated Annual Report after having led the institution during the twelve months covered by the report.

It is also special because these have been six intense years, which put to the test the ability of the entire Bank staff to face the biggest economic crisis in many decades, in a context of health restrictions that forced us to work from our own homes for much of the time, without being able to use the institutional building as normal.

We were navigating troubled waters, certainly. But the commitment of the whole team was fundamental in maneuvering through as best as possible and maintaining the high standards of excellence that characterize this organization and for which it is well known.

During my years at the Bank, I publicly presented 21 Monetary Policy Reports (IPoM) and 10 Financial Stability Reports (FSR); and I attended 340 Board meetings, 45 Monetary Policy Meetings, 400 pre-board meetings, and 180 meetings of the Economic, Financial, and Statistical Committee (EFSC). This is in addition to the thousands of hours spent working in conjunction with Board Members and staff in meetings to evaluate, analyze, discuss, and prepare the decisions adopted to fulfill the Bank's legal mandate and its multiple functions.

In 2021, the COVID-19 pandemic continued, albeit with a loosening of restrictions. Economic activity recorded annual growth above the forecast, due to an extraordinary growth of domestic demand. This caused the economy to exceed its short-term potential. It was accompanied by an idiosyncratic depreciation of the peso, disruptions in global value chains, and hikes in commodity prices.

Mario Marcel
Former Governor, Central Bank of Chile

As a result, inflation spiked, which became a primary concern for households and firms. Therefore, the Central Bank Board adjusted its monetary policy strategy and in July launched a drastic process of raising the monetary policy rate (MPR), in an effort to contain and alleviate the situation for the people who had suffered the most from the ravages of the COVID-19 crisis.

The Bank was well prepared for the sudden change in scenarios, from a low-growth economy with deflationary risks to a global recession and inflationary pressures.

The 2018–2022 Strategic Plan, built with broad participation by internal staff members and external stakeholders, was a navigational chart that gave the Bank the aptitude and the tools to quickly adapt to lightning-fast changes, at both the international and local levels. The organization was able to respond quickly and effectively to a sudden and unprecedented crisis, while continuing to perform its long-range tasks.

At the same time, however, the Central Bank Board maintained a firm commitment to incorporating new visions, in response to the demands of a rapidly changing world.

This commitment extends to the whole team, which has fluidly adapted to a new organizational structure that, since 2018, has evolved into a solid line of division management that now covers both economic and support areas. The latter includes operations, treasury, risk management, and corporate affairs. The Personnel Area (formerly Human Resources) now reports directly to the General Manager.

The Bank was thus well-prepared to take on the multiple demands in all aspects of its work. It was able act immediately with a set of measures that sought to absorb the impact of the crisis and contain its propagation to areas where the negative effects could have lasted for many years.

In particular, I would highlight the coordination of monetary and fiscal policy, as well as financial regulation, which allowed mitigating the impacts under extremely adverse circumstances.

Additional challenges in facing the crisis included a significant increase in the demand for cash and the need to generate data for decisionmaking in real time and to give citizens and the markets clear and timely information on the situation of the economy in times of great uncertainty.

All of this was addressed under special conditions. As for the majority of businesses, institutions, and services, the health restrictions imposed in Santiago over more than seven months meant that this intense work had to be accomplished from the homes of the Central Bank’s staff members.

Seven hundred people performed their regular and additional functions remotely. This was possible thanks to the extraordinary support of the IT area and human resources management. Internal dialog became much more frequent, as we tried to make sense of the complex environment.

I am truly proud to say that the Central Bank of Chile was up to the task. We led with actions to contain the impact of the crisis; strengthened confidence in the institution during a time of questioning; stayed united; and motivated our work team.

This is reflected in multiple external evaluations, as well as personal and institutional recognition. Examples include the transparency code review, based on the International Monetary Fund's (IMF) Central Bank Transparency Code; the Financial System Stability Assessment carried out jointly by the IMF and the World Bank; and the Bank's ranking in tenth place in the Great Place to Work award for Chile and fifth place in the Best Workplaces for Women.

The drafting of a new Political Constitution, which will be put to a plebiscite later this year, represented an opportunity to evaluate the effectiveness of the Bank's institutional framework. In 2021 we gave a presentation to the Constitutional Convention's Committee on Justice Systems, Autonomous Institutions, and Constitutional Reform, which is addressing the issue of the Central Bank. In the presentation, we expressed our hope for a better institutional framework in the future and discussed opportunities for improvement relative to the current regulations.

Means of payment were another focus of the Central Bank's work, especially given the rapid development of the digital economy. Led by Board Member Alberto Naudon, a high-level work group is developing a digital retail payment strategy as of 2021.

The institution is also addressing the challenges facing the economy due to climate change. The Bank has already joined the Global Network for Greening the Financial System (NGFS) and the Natural Capital Committee formed by the Chilean Ministry of the Environment. Work has also begun on carbon emission accounting and the estimation of Chile's natural capital. Former Deputy Governor Joaquín Vial, in particular, is to be commended for his ability to incorporate these issues into the Board's agenda.

Although traditionally seen as being remote from the general public, the Bank has worked on strengthening its ties to society and to its stakeholder groups. This effort will be expanded to reach regions outside of Santiago.

We are also working had to promote diversity at all levels of the institution. On the international front, we have been working on the incorporation of the Chilean peso in the CLS, the contracting of a flexible credit line with the IMF—which supported the provision of liquidity to the financial system at the start of the pandemic—and the incorporation of Chile in the Latin American Reserve Fund. Board Member Pablo García played a key role in the latter two achievements.

It is a source of pride for the Bank and for Chile that the Governorship of the organization is now held by Rosanna Costa, not only because she is the first woman to fill this position in a nearly hundred-year-old institution, but also because of her excellent technical and personal skills. Women's progress in the organization extends to the very Board, which now has two women members following the appointment of Stephany Griffith-Jones as Board Member.

During my years at the Bank, I was privileged to work with so many people, both technical professionals and support personnel, from whom I learned so much and with whom I share incredible memories. I want to express my great appreciation for each and every one of our people, as well as for the two general managers with whom I worked—Alejandro Zurbuchen and Beltrán de Ramón—and my colleagues on the Board—Rodrigo Vergara, Sebastián Claro, Joaquín Vial, Pablo García, Rosanna Costa, and Alberto Naudon.

I am optimistic about the future of the Central Bank. First, because we have come so far in our understanding of its role in the country and the need to remain independent; and second, because the Bank today incorporates diverse perspectives that enhance its potential to continue fulfilling its mandate and thus contribute to the well-being of all Chileans.

In this special letter, I want to thank everyone at the Central Bank of Chile for all you have given me and for having allowed me to lead this beautiful institution.

Mario Marcel
Former Governor,
Central Bank of Chile

Farewell Remarks by Joaquín Vial, Former Deputy Governor of the Central Bank

February of this year marked the end of my ten-year term on the Board of the Central Bank of Chile, with a little over seven years as Board Member and almost four as Deputy Governor.

I am sincerely proud to have been a part of this distinguished institution, which is known for its excellence and technical quality and which has shown great dedication in successfully fulfilling the mandate established in its Basic Constitutional Act.

Over the course of my professional career, I have had the privilege to be part of two prestigious public institutions: the Central Bank and the Budget Office in the Finance Ministry. One thing they have in common is their people's commitment to the institution and to Chile, with an unwavering dedication to public service. And it is in these institutions where the value of their people becomes evident. Because the Central Bank's achievements would not have been possible without the daily commitment of both front-line and back-office teams, without whom nothing would function.

Throughout my career, the Central Bank was always in the background, starting with a study on estimating the demand for money for the Research Department in the second half of the 1970s, when I was a recent graduate. I nearly joined the staff in the late 1980s, but ultimately declined the invitation in order to finish my thesis at the University of Santiago.

Finally, in 2012 I was appointed to the Board by President Sebastián Piñera and approved by the majority of the Senate. My first thought was, "I hope I won't have to deal with a financial crisis," because I still clearly remembered the deep crisis of the 1980s.

The country came close in 2008, but Chile faced that episode with sufficiently timely measures to avoid being particularly hard-hit. Moreover, our financial system had learned its lesson.

Joaquín Vial
Former Deputy Governor, Central Bank of Chile

I must confess that I never imagined we would go through the kind of turbulence that we have experienced since late 2019. The social upheaval, followed by the most devastating pandemic of the last 100 years, forced the Central Bank to take urgent actions and adopt measures to avoid a potentially deep financial crisis and maintain the necessary equilibriums in the macroeconomy.

The lockdowns imposed by the authorities to protect lives and prevent the collapse of the health infrastructure caused a paralysis of activity, which triggered the biggest economic contraction since the 1980s.

From that point on, the Central Bank was entirely focused on the crisis and on adopting the necessary measures to maintain the stability of the financial system and guarantee the flow of credit.

I must say that this has been the most intense period of my career, and I feel privileged and especially proud to have been a part of the Central Bank team during such difficult years.

In my ten years serving on the Central Bank Board, I was lucky to work with two outstanding Governors: Rodrigo Vergara and Mario Marcel.

Rodrigo was a fantastic Governor in a period that we would consider normal today. Nevertheless, following the subprime crisis, which had a huge impact in the developed world, he wisely perceived and promoted the urgency of strengthening the Bank's oversight of financial stability, establishing a close link with financial policy. This work bore fruit, and these teams have played a key role in facing the crisis of the last two years.

Mario Marcel has been an exceptional Governor, exactly what was needed to face these difficult times. First, because he made an innovative—and absolutely necessary— shift in the way things are done at the Bank, including a broadly participative Strategic Planning process and close monitoring to verify that objectives were being met. And second, because he provided strong, unequivocal leadership to anticipate and successfully address the difficult and complex times that we have had to experience.

His tremendous ability to motivate the Bank's teams to anticipate and respond to new challenges was particularly evident in the past couple of years. He has also been able to communicate the Board's decisions and the underlying rationale to a much wider, more diverse audience, including different Congressional commissions with which we barely interacted in the past.

I have seen up close the superlative work of the Bank's various teams and the speed with which they have assimilated new issues, which is part of the challenge of living in a world that is progressing so fast. Administrative data and big data, environmental accounting, digital currency, modernization of foreign exchange regulations—these are just some of the issues that these dynamic teams have delved into enthusiastically and intelligently.

During this period, the so-called support areas have played an essential role: they have developed the technological framework for interacting remotely in secure environments and managing enormous administrative databases; they have modernized the management control systems; and they have strengthened the analysis of all types of risks and diffused it through all the Bank's activities.

For years, the Bank's management was led by Alejandro Zurbuchen, who left his mark on many of the transformations described above. He left this position in the middle of last year and was replaced by Beltrán de Ramón, who has taken on this new challenge with great enthusiasm, renewing and revitalizing the Bank's work.

I am leaving the Bank in the midst of a process of increasing transparency and diversity, which is already being reflected in new hiring and promotions. This will be important for facing the current challenges of innovation, collaboration, and contribution to new environmental issues, which will require urgent decisions and measures.

All of this is taking place in an environment of deep institutional change, while a new Constitution is being written for Chile. A process such as this necessarily causes uncertainty, but I trust that it will be successful in the end, especially given the credibility earned by Central Bank for fulfilling its objectives over the decades.

These are some of the challenges that the institution, and especially the Board, will have to address in the coming years. I sincerely believe that Rosanna Costa will lead the Bank unequivocally and efficiently. Her warmth, sense of humor, and tremendous work capacity, together with her excellent technical and personal skills, will provide a strong foundation.

During my time on the Board, I had wonderful work colleagues: Manuel Marfán, Enrique Marshall, Sebastián Claro, Alberto Naudon, and the new Deputy Governor Pablo García. They always made the work enjoyable, and I learned so much from them.

I must say again that it has been a privilege to be a part of this Central Bank, to see how each and every one of the staff gives their all to contribute to making this institution a place of excellence, with a commitment to the country's welfare. That is more important than any particular vision or policy orientation, and it is why we feel identified when the Bank is described as an essentially technical organization.

I have only been able to perform this role thanks to the constant support of my family— my wife, children, and grandchildren, who are my raison d'étre.

As I take my leave, I am happy and proud of all that we have accomplished in this time, and deeply grateful for all that I have been given. The Bank is a group of exceptional professionals, who are outstanding here or anywhere in the world. I wish everyone the best of luck, and I have no doubt that your strength will allow you to successfully navigate the changes that are coming to Chile and the world over the next few years.

Joaquín Vial
Former Board Member and Deputy Governor,
Central Bank of Chile

Chapter 1: The Year in Review

"In the context of the socio-political crisis of the past few years, the Bank has been able to respond effectively and emphatically to the needs of the economy, successfully preserving financial stability in the face of the shocks."

Francisca Lyon, Attorney, Normative Legal Services

1.1
The Year in Numbers

(102-7)

718
Direct employees

5° Best Workplaces for Women 2021 (GPTW)

198 External employees

Hybrid work schedules 90%

83% Work climate score

7,2%
Inflation

3%
Inflation target

32,8%
Total assets (% of GDP)

USD 6.6618 billion
Income

USD 50.3857 billion
Central Bank debt

USD 51.3298 billion
International reserves

271.2 million
Additional banknotes in circulation relative to 2020

425 million
Additional coins in circulation relative to 2020

USD 7.440 billion
Reserve purchases

USD 10.0 billion
for the FCIC-III

7,8% Value of banknotes issued or public stock

154,92 tons of banknotes recycled or reclaimed

22 Publications in academic journals

04 Properties

42.771 users Central en tu Vida

239.557 Visits to Central en tu Vida in 2021

873 Suppliers

17
Presentations to Congress

Note: Market value based on the value of the dollar on 30 December 2021 ($850.25).

1.2
We Create Economic, Social, and Environmental Value

(102-2)

Intellectual Capital

Human Capital
Culture, leadership, and work climate

Social and Relational Capital
Reputation and confidence
Communication and transparency
Ties to society
Wealth management

Industrial Capital
Banknotes and coins
Information systems and technologies

718 Employees
33,14% have a masters or doctorate

83% Work climate score
Leadership Academy
Mentor program
Central Academy

Reference groups
Central in Your Life Program
School contest
Institutional building

1.821 billion
Banknotes in circulation
9.240 billion
Coins in circulation

2 Data Centers
Large-value payment system
Technology Observatory

Central Bank of Chile

Vision: To be a trustworthy technical institution, with high standards in achieving its institutional objectives.

Mandate Compliance

Monetary policy

Financial policy

Compilation, production, and publication of macroeconomic statistics

Cash management

International reserve management

Corporate Governance

- Basic Constitutional Act
- Board
- Executive Management
- Risk Management
- Communication and
- Transparency
- Audit and Compliance Committee

IT Advisory Committee

2018–2022 Strategic Plan

Sustainability Policy

Results

Climate change commitment by the Chilean government and adhesion to the NGFS international network

Financial system and payments system functioning with no major disruptions

Monthly, quarterly, and annual statistical series

3rd Integrated Annual Report

Availability and integrity of banknotes and coins in circulation, in good condition

Recycling of banknotes and coins

2 FSR	**8** MP Meetings
4 IPoM	**12** IMACEC

1.3

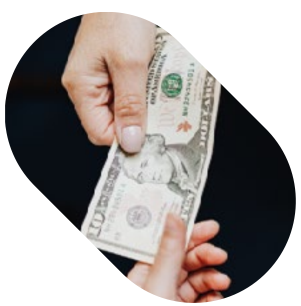
Highlights of the Year

(102-10)

JANUARY

The Board announces international reserve replenishment and expansion program
Launch of a program to replenish and increase international reserves to strengthen liquidity.

A third round of the Conditional Financing Facility for Increased Loans (FCIC) is announced
At its Monetary Policy Meeting, the Board decided to open a third round of the Conditional Financing Facility for Increased Loans (FCIC) for USD 10.0 billion over a period of six months, thereby responding to the funding needs of firms and complementing the FOGAPE-Reactivation program.



FEBRUARY

Diego Ballivián Weichmann is appointed Corporate Risk Division Director
The responsibilities of the new position include advising on and coordinating corporate, strategic, financial, and operational risk management.

A working group is formed on the reactivation of coin circulation in the country
The working group, organized by the Central Bank, includes the Association of Banks and Financial Institutions, the National Chamber of Commerce, Walmart Chile, Caja los Héroes, and Cencosud. The objective is to reactivate the circulation of coins in the country, as the cash cycle has been affected by the pandemic containment measures.

MARCH

General Manager concludes his career at the Central Bank
Alejandro Zurbuchen Silva announced his resignation from the Bank, after a 16-year career at the institution. Prior to serving as General Manager, Mr. Zurbuchen held the position of Auditor General.

Foreign exchange trading hours are extended to promote the internationalization of the Chilean peso
This program allows foreign exchange auctions to be held outside of regular business hours, with the goal of extending market trading hours.

APRIL

Special measures are introduced to support the orderly sale of assets in response to the new pension fund withdrawal
The measures include reopening the special spot purchase and forward sale (CC-VP) program for banks and other financial institutions, for the unused balance of the program, equivalent to up to USD 9.500 billion, and the rolling over of the current amount, equivalent to USD 500 million. In contrast to earlier versions of these measures, when only bank bonds were accepted, this window accepts other instruments such as time deposits.

The Receivables Exchange is recognized as part of the Formal Secondary Market
With a prior assessment report by the Superintendence of Pensions and in coordination with the Financial Market Commission (FMC), this recognition will increase the investment options available to the pension funds and unemployment funds.

MAY

Revision of the regulations for Savings and Loan Associations
The Central Bank proposed updating the references in the current legal framework for Savings and Loan Associations (S&L) regarding the definition of regulatory capital, the calculation of risk-weighted assets, the treatment of share returns, etc. These revisions are necessary due to the changes introduced to the General S&L Law. The Bank adjusted the credit limits applicable to S&L operations.

JUNE

Publication of the Institutional Transparency Policy
The Board approved the Institutional Transparency Policy, prepared under the framework of the 2018–2022 Strategic Plan, in which the objective of one of the priorities is to strengthen the mechanisms for active transparency. The policy document compiles the different mechanisms that the institution can use to report to the public on the fulfillment of its mandate.

Publication of a new regulation allowing the provision of large-value payment settlement services in foreign currency
This new framework will allow one or more private entities to implement and operate large-value payment clearing houses in foreign currency, for the clearing and settling of payments originating from foreign exchange operations in the spot market by financial institutions, corresponding to the purchase and sale of U.S. dollars against national currency.

JULY

The Board appoints Beltrán de Ramón as the new General Manager
The new General Manager started on 1 July, after having been appointed by the Board in June. Mr. de Ramon has been with the Central Bank for 16 years, during which he has held a number of positions. He was head of the Financial Markets Division since 2008, after working as Financial Markets Manager in the same division (2005–2007).

The monetary policy interest rate was increased by 25 basis points, to 0.75%
At its Monetary Policy Meeting, the Central Bank Board voted unanimously to increase the MPR, which has been at its lower bound of 0.5% since March 2020.

Signing of a collaboration agreement with the Financial Market Commission (FMC)
The objective of the agreement is to foster mutual cooperation, adequate coordination, and the exchange of information, knowledge, and technical support between the two institutions, in particular considering the responsibility that each one has for preserving financial stability. This work will allow strengthening the mechanisms for the coordination of regulation, monitoring, and supervision of the financial system.

The Central Bank establishes guidelines for meetings with market players
These guidelines establish a framework for meetings and events with Central Bank Board Members and/or Division Directors which are requested by natural or legal persons, whether local or foreign, where the objective is to address issues related to the economic scenario. The guidelines cover, for example, the presence of staff members at the meetings, the publication of presentations (if applicable), and the review of the number of meetings with a given counterparty in a specific period.

AUGUST

Monetary policy interest rate increased by 75 basis points, to 1.5%
The Board voted unanimously to increase the policy rate at its Monetary Policy Meeting.

Participation on the Natural Capital Committee of Chile
In response to an invitation by the Ministry of the Environment, on 29 July the Board voted to participate on the Natural Capital Committee, created by the Ministry and supported by the National Counsel for Science, Technology, Knowledge, and Innovation. The group's objective is to advise and make recommendations on measuring Chile's natural capital.

The Board appoints Paulina Yazigi Salamanca as the new Financial Markets Division Director
As of 4 October 2021, Ms. Yazigi replaces Beltrán de Ramón in this position. She holds a degree in business administration, with a minor in economics, and a Master in applied macroeconomics, both from the Catholic University of Chile. She also has a Master in mathematics in finance from the University of New York.

Allocation of special drawing rights (SDRs) by the International Monetary Fund (IMF)
The CBC received 1.672 billion SDRs (equivalent to USD 2.371 billion) in a new SDR allocation by the multilateral organization, which was allocated proportionally to member countries based on their quota shares. In addition to this USD 2.371 billion, the Central Bank has purchased USD 6.0 billion as part of its international reserve replenishment and expansion program.

SEPTEMBER

Publication of the document to implement the Countercyclical Capital Requirement established in the General Banking Law
In the context of the implementation of Basel III in Chile, a countercyclical capital requirement (CCR) was incorporated into the General Banking Law. The objective is to strengthen the banking system's resilience during upward phases of the financial cycle, increasing its capacity to face severe stress scenarios and thereby contributing to financial stability and avoiding the sudden restriction of essential services such as the supply of credit.

Presentation of the digital payment agenda, with the creation of a high-level working group
At the seminar "Innovation in the Financial Industry: A Boost for Reactivation and Financial Inclusion," organized jointly by the Inter-American Development Bank (IDB) and the Finance Ministry, Central Bank Governor Mario Marcel presented the Bank's digital payment agenda and announced the creation of an internal high-level working group, led by Board Member Alberto Naudon. The group's objective will be to generate a digital payment strategy that includes the prerequisites for the Central Bank to issue a digital peso, aimed at strengthening the retail payment system.

OCTOBER

Monetary policy rate increased by 125 basis points, to 2.75%
The Central Bank Board voted unanimously to increase the MPR at its Monetary Policy Meeting.

The President of the Republic, Sebastián Piñera, announces the appointment of Mario Marcel to a second term as Governor of the Central Bank, on the completion of his first five-year term in the position

Approval of the International Relations Policy
This initiative establishes guidelines on the form and standards of the Central Bank's relations with different organizations and entities from other countries.

Suspension of the international reserve replenishment and expansion program
The program culminated with the purchase of USD 7.440 billion in reserves.

The Central Bank of Chile is one of the best places to work in Chile
The Bank was awarded 10th place in the prestigious GPTW ranking and 5th place in the GPTW for women.

NOVEMBER

Participation in the COP26
Through a letter of commitment under the framework of the COP26, the Central Bank supports the collective initiative of Central Banks and Supervisors in the Network for Greening the Financial System (NGFS). The NGFS is a voluntary organization in which the Bank participates together with other central banks and financial supervisors that are willing to share best practices and contribute to the development of climate and environmental risk management in financial systems.

Central Bank Governor Mario Marcel speaks before the Constitutional Convention's Committee on Justice Systems, Autonomous Institutions, and Constitutional Reform
The Governor was invited by the Committee to discuss "Supervisory Bodies and Autonomous Agencies." Following the presentation, the documents presented to the respective Committee were published on the Bank's website, in a specially created section to facilitate public access to information to enrich analysis and discussion in the constitutional process.

DECEMBER

Monetary policy rate increased by 125 basis points, to 4.0%
The Central Bank Board voted unanimously to increase the MPR at its Monetary Policy Meeting.

The Liceo Bicentenario Padre Nicolás in Vilcún and the Colegio Academia Tarapacá in Iquique won the "Economics Up Close" contest
The two high schools earned first place in the freshman/sophomore and junior/senior categories, respectively, in the seventeenth version of the annual contest organized by the Bank.

IMF report evaluates the stability of the Chilean financial system
The evaluation, carried out under the framework of the IMF Financial Sector Assessment Program, describes a deep financial system, with solid regulatory and supervisory frameworks and adequately capitalized banks. The report acknowledges that the economic authorities' response to the events in late 2019 and 2020 was decisive and well-coordinated.

1.4

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 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.

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 stipulates 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 states 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

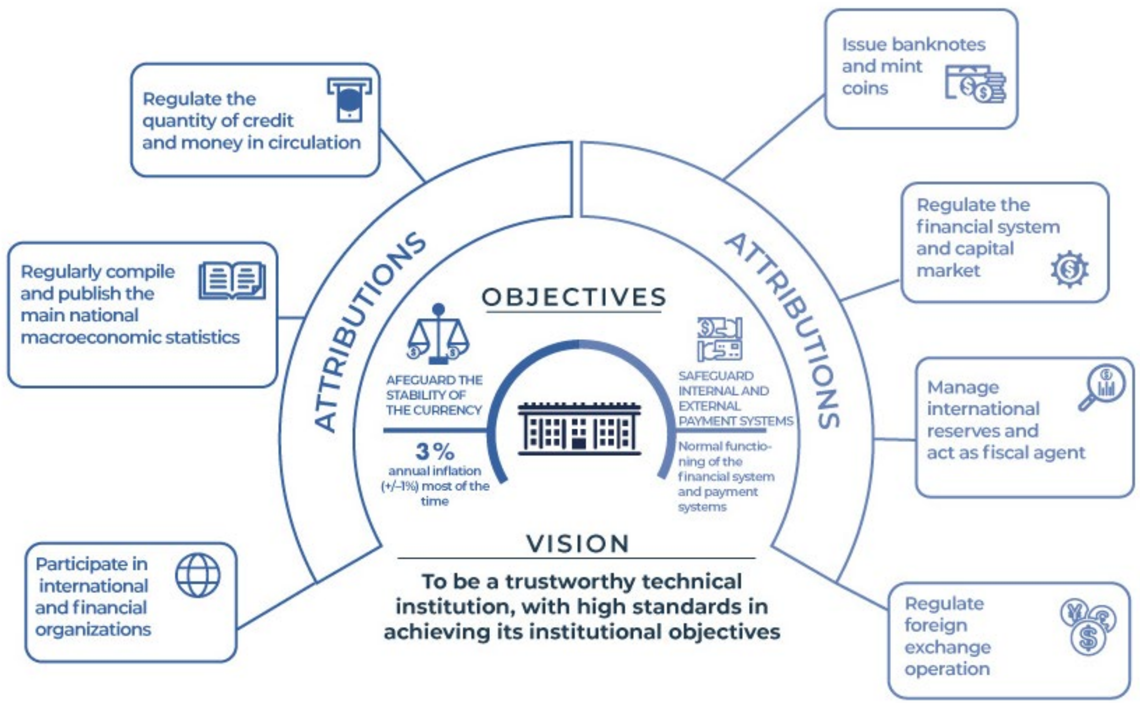
On 10 October 1989, Law N° 18,840 entered into effect, wherein the first article establishes the Basic Constitutional Act of Central Bank of Chile and inaugurated the first independent Board of Directors, chaired by Andrés Bianchi and comprising Board Members Alfonso Serrano, Roberto Zahler, Enrique 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.

1.5
Our Mandate

(102-6, 102-16)



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.

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)

· 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)

· Law N° 21,265, which regulates the Central Bank's authority to buy and sell in the secondary market

· Constitutional Reform Law N° 20,253, which authorizes the Central Bank to buy and sell on the open (secondary) market

· Regulations on maintaining a record of the Central Bank's public agenda, lobbyists, and special interest groups

· Internal Rules of the Board

· Personnel regulations

Note: Both Law No. 21,265 and No. 21,253 modify articles 109 of the Political Constitution and 27 of the Constitutional Organic Law.

The Central Bank and the Constitutional Convention

The process for discussing and approving a new Constitution is established in Chapter XV of the Constitution of the Republic of Chile, in accordance with the provisions of Laws N° 21,200 and 21,221, which regulate the constitutional process. This regulation ensures that the text of the new Constitution that will be put to a plebiscite must respect the nature of the State of the Republic of Chile, its democratic system, all final court judgements, and all international treaties signed by Chile that are currently in force.

The Central Bank of Chile was created as an autonomous institution in 1925 and was given constitutional status in 1980. It is currently governed by its Basic Constitutional Act N° 18,840 of 1989, which regulates its organization, composition, functions, and powers in terms that safeguard its autonomy and technical nature.

As in the case of other bodies established in the current Constitution, it is to be expected that the Constitutional Convention will address the status of the Bank under the new Constitution, which will be put to a vote by the people. To that end, the CBC authorities and staff will be available and willing to present all the information necessary to contribute to an informed and rigorous debate on the Bank's role and performance and its importance for the country's economic stability and well-being.

The Central Bank went before the Constitutional Convention's Committee on Justice Systems, Autonomous Institutions, and Constitutional Reform in 2021 to present information on the institutional framework of the Bank and the Constitution.

1.6

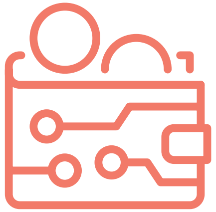
Key Issues in 2021

This year brought new challenges that enhanced our capacity to adapt in a context of economic, social, environmental, and technological changes.

As a Central Bank, we continue to rigorously perform the actions to fulfill our mandate, as established in the BCA. In addition, our work in 2021 focused on three big issues:

Pandemic Response and Measures

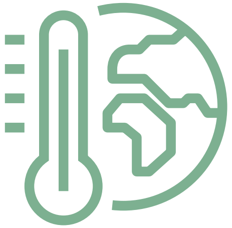
The economic impacts of the health crisis have led us, as a Central Bank, to undertake analysis, evaluations, and measures aimed at mitigating the effects on people and businesses.



Digitization and Digital Currency

Payment habits have changed due to the pandemic, with a shift toward digital retail payment alternatives. We therefore created an internal working group to study this phenomenon, in order to outline a roadmap for developing a Central Bank digital currency MDBC (CBDC).

At the same time, we are moving forward on an internal digital transformation process to promote innovation and technology use.



Climate Agenda

We continue to pursue the study and understanding of the financial effects of climate change in relation to our mandate. This global phenomenon has already been categorized as the main risk for the future.

1.7

Our Roadmap: 2018–2022 Strategic Plan

Our 2018–2022 Strategic Plan is a roadmap 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 changes that raise strategic challenges for the coming years. This allows us to identify issues that will need to be addressed in the next planning period:

Stakeholders

To continue building confidence in the technical sphere and contribute to the well-being of society, we seek to build a closer relationship with our stakeholders through the use of simple, accessible language, the implementation of financial education initiatives, and the delivery of relevant information.

Digital Transformation

We want the fulfillment of our mandate to have a strong foundation in technology. We will strive to increase process efficiency, and we will work on an internal cultural change to facilitate future technological developments.

In 2021, eleven initiatives moved out of the draft phase and were incorporated into our daily routines.

Progress is the result of participative and inclusive work, through which we seek to foster people's well-being, financial stability, and the proper functioning of the country's economy.

Advances in 2021

STRATEGIC PRIORITY 1

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.

INITIATIVES

- 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. Comprehensive data use model.

LINES OF ACTION

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.
1.i Implementation of big data structural project
1.j Consolidation of data governance

ADVANCES IN 2021

- We awarded the contract for the technology platform in the big data project and began work on developing a comprehensive solution that will strengthen microdata use and categorization, for utilization in the Bank's different analysis and research areas.
- We took important steps in the foreign exchange regulation modernization process, completing two of the four stages in the process. First, we eliminated and revised some chapters of the Compendium of Foreign Exchange Regulations (CNCI), to make it clearer and to reduce the burden on reporters. Second, we allowed cross-border transactions with the Chilean peso, and we continued working internally to move forward on the remaining phases, so that we will be able to publish new adjustments and a completely new CNCI soon.
- We opened consultations on new regulations for the creation and operation of retail payment clearing houses, modified the regulations on payment card operators, and fine-tuned the regulations for savings and loan associations.
- We carried out a survey of international benchmark rates, established investment limits on perpetual bonds for the pension funds, initiated the process of gradually rolling back the market risk regulation applicable to banks, and published a document for implementing the countercyclical capital requirement.
- We reformulated some of our surveys to better understand our environment. The Financial Brokers Survey (FBS) was divided into structured and unstructured surveys, which will improve the quality of the information that we, as an institution, are able to collect from the market. We also made adjustments to the Household Financial Survey to adapt it to a hybrid format.
- We coordinated the Financial Sector Assessment Program (FSAP).[1]
- We held a new public consultation on the banks' liquidity risk management.

[1] The FSAP is conducted by the International Monetary Fund (IMF).

STRATEGIC PRIORITY 2

Strengthen the Bank's understanding of and dialogue with the wider environment through strategic communications management that identifies objectives, roles, and functions.

INITIATIVES

- Design a comprehensive communications strategy for the Bank, which consolidates stakeholder relations.

LINES OF ACTION

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.

ADVANCES IN 2021

- We implemented a new corporate image for the Bank in the March Monetary Policy Report (IPoM) and the Financial Stability Report (FSR), together with new graphics, infographics, and communication tools associated with the diffusion of these reports.
- We generated content to contribute to the debate on the CBC in the constitutional process.
- We expanded the space for reaching out and listening to new audiences, in terms of both the diffusion of the policy reports to new actors, universities, and other financial entities and the organization of financial education workshops that are open to the general public.
- We provided new content and activities related to financial education, including the organization of an international seminar on the issue.
- We published the institutional Transparency Policy, a pioneering initiative in central banking.
- We activated the Central Contact platform, to centralize the handling of all inquiries from the public received by the organization.
- We provided the Board records for 1968–1983 in our digital repository, together with other historical documents.
- We activated the Central+ mobile app for internal communications, improving the scope of the corporate platforms.

STRATEGIC PRIORITY 3

Strengthen the Bank's corporate governance so as to balance risk tolerance and business process efficiency, streamlining the decision-making process and facilitating innovation.

INITIATIVES

- Fine-tune the institutional governance structure to streamline the decision-making and implementation processes.
- Develop and implement a new way of working in the Bank.

LINES OF ACTION

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.
3.e Process support with new technology.
3.f Technology, review of roles, responsibilities, and the user-IT relationship, in light of the new needs of the organization.
3,g Fine-tuning of our Corporate Governance framework.

ADVANCES IN 2021

- We continued to move forward on the "new way of working" project, with the migration of our accounts to cloud technology.
- We optimized eight internal processes with agile methodologies.
- We presented a proposal for integrating our sustainability indicators with our strategic objectives.
- We created the Corporate Risk Division, which encompasses the Financial Risk Department (FRD) and the Operational Risk Department (ORD), which previously were part of the Administration and Technology Division.

STRATEGIC PRIORITY 4

Improve the Bank's capacity to understand, manage, and incorporate technological changes, in relation to both its operations and management and its institutional objectives.

INITIATIVES

- Develop the internal management and regulatory capacities to handle disruptive technologies (DT) that affect the business models of the Bank and financial institutions.
- Develop a Payments and Central Bank Digital Currency (CBDC) Agenda

LÍNEAS DE ACCIÓN

4.a Technology Observatory.
4.b TechLab.
4.c FinLab.
4.d Direct payment systems.
4.e Cross-border payments.
4.f Central Bank Digital Currency (CBDC).

ADVANCES IN 2021

- We submitted an analysis of the Fintech Law to the Finance Ministry.
- We held digital acceleration workshops for the Board and senior management, to define concepts and complement elements of our Digital Strategy for the next planning period.
- We focused on four key digital aspects:
  a. We made progress on the design of the Bank's Digital Strategy.
  b. We explored the use of central bank digital currencies (CBDC) through the formation of the Digital Payments Working group, with a Technical Secretary located in the Technology Observatory. The group's objective is to analyze and provide information on developing a medium-term strategy for exploring digital currencies issued by central banks.
  c. We worked on bringing new technologies to the Bank through courses on advanced data use (Python, R, machine learning, web scraping) and central bank digital currencies (CBDC).
  d. We implemented the second version of the internal project accelerator initiative to accompany the eight new technology exploration projects.

STRATEGIC PRIORITY 5

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.

INITIATIVES

- 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.
- Define strategies for personal development in the Bank's new way of working and in the implementation of new tools and technologies.

LINES OF ACTION

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,
5.d Strengthening of leadership abilities.
5.e Adaptation of the personnel management model to the new way of working.
5.f Study and implementation of processes and tools that facilitate and catalyze the adoption of new technologies and ways of working.

ADVANCES IN 2021

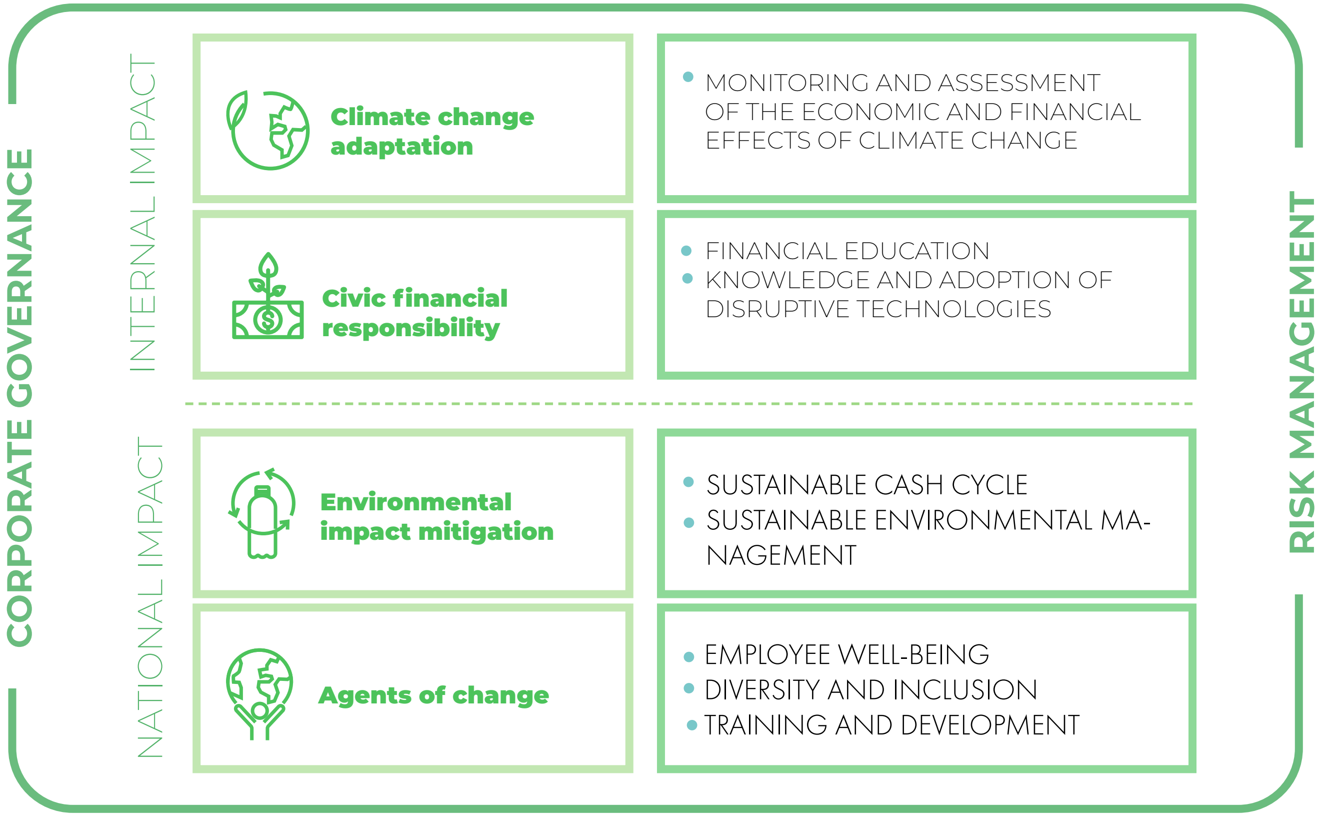
- We continued the implementation of the Leadership Academy and launched cross-disciplinary workshops in the Central Academy, with a focus on digital competencies.
- We successfully organized a second round of the mentoring program, with the objective of achieving gender parity among the participants.
- We achieved a women's participation rate of 50% in our professional intern program.
- We successfully executed the Diversity, Inclusion, and Gender Equity Program, with a women's participation rate of 50%.
- We participated in the Great Place to Work (GPTW) ranking, positioning the Bank among the top ten places to work in Chile and the top five places to work for women in Chile.
- We implemented hybrid work for our employees, to combine the benefits of remote and in-person work. This contributes to our employees' quality of life while maintaining excellence in work.

1.8

Sustainability Policy

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

In 2021, we presented a proposal for integrating sustainability indicators with our institution's strategic objectives. This will support an overarching commitment to sustainability management in the Bank's daily work.



Our Sustainability Policy was approved by the Board in 2020. It 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.

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.

Sustainability Governance

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. Topics related to civic financial responsibility are handled by the Institutional Affairs Division and the Financial Policy Division. Environmental impact mitigation issues are the responsibility of the Operations Division. Finally, matters related to the agents of change pillar are headed up by Personnel.

Chapter 2: Corporate Governance and Risk Management

"Working at the Central Bank has been a source of pride from my first day, twelve years ago, and that hasn't changed today. Everything we do has an impact on the country and on the people who live here. It's a huge responsibility, but it also provides the motivation to do better every day."

Marcela Molina, Stakeholder Relations Manager, Operations Division

2.1
The Bank

The Central Bank of Chile is a team of high-quality professional, technical, and administrative staff in diverse areas, all oriented toward meeting our institutional objectives.

Our highest authority is the Board, which directs and manages the institution and, in turn, makes decisions on monetary policy and financial and foreign exchange regulation, while also overseeing the proper performance all the Bank's functions, under a framework of efficiency and transparency.

The Bank's senior management is made up of the General Manager, General Counsel, Comptroller and Auditor General, eight Division Directors, and 21 Area Managers.

2.2
The Board Central Bank of Chile

102-18, 102-23, 102-24

The Basic Constitutional Act establishes that the Board is responsible for the direction and management of the Bank 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.

How is the board composed?

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.

What is the frequency of renewal of the Central Bank Board?

One Board Member is renewed every two years. Members are appointed for a term of ten years, which can be renewed for a second ten-year term.

How are Board Members chosen?

Board Members are chosen based on their experience and knowledge of macroeconomics and finance, as well as their academic history and/or past public service.

What other responsibilities does the Board have?

The Basic Constitutional Act establishes that it is the Board'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.

What requirements must the Board Members meet?

They must work exclusively for the Central Bank and are only allowed to participate in academic activities and nonprofit organizations.

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.

2.2.1

Governor and Board Members

ROSANNA COSTA COSTA

Governor of the Board
Date of appointment: February 2022
Education: Bachelor of Business Administration with a minor in economics, Catholic University of Chile

First Woman Governor of the Central Bank of Chile

Ms. Costa has been a Board Member since 2017. At the time of her appointment, she had been serving as Deputy Director of the Liberty and Development Institute (LyD) since June 2014 and was also on the Board of the National Productivity Commission and the Advisory Commission on Technical Education.

From 2010 to 2013, Ms. Costa held the position of National Budget Director at the Ministry of Finance. Previously, from 1993 to 2010, she was the Economics Program Director at the Liberty and Development Institute, where she researched issues related to fiscal and labor policy, state modernization, and capital markets.

From 1984 to 1992, she worked as an economist at the Central Bank of Chile, in the national accounts, research, and monetary policy areas. She was a member of the Presidential Commission on Pension Reform in 2006, the Presidential Commission on Labor and Equity in 2008, and, more recently, the Advisory Council against Conflicts of Interest, Influence Trafficking, and Corruption.

Other past positions include Director of the Public Company System (SEP), Board Member of the Senior Public Management System (CADP), Director of Comunidad Mujer, Member of the ICARE Human Resources Circle, and Member of the Executive Board of the Master's Program in Management and Public Policy at the Adolfo Ibáñez University. She has taught economics classes at the Catholic University of Chile and, more recently, at the University of Chile.

PABLO GARCÍA SILVA

Deputy Governor

Date of appointment: January 2014 (Board Member) and February 2022 (Deputy Governor)
Education: Bachelor of Business Administration and Master of Economic Science, Catholic University of Chile; Doctor of Economics, Massachusetts Institute of Technology (MIT)

Mr. García was appointed to the Board in January 2014. Prior to joining the Board, he was the Executive Director for the Southern Cone at the International Monetary Fund (IMF) from November 2012, where he also chaired the Board's Ethics Committee and sat on the Internal Evaluation Committee.

From 2010 to 2012, he was the IMF Alternate Executive Director of the Southern Cone; and from 1999 to 2010, he held various management and research positions at the Central Bank of Chile.

In particular, he was the Bank's Research Division Director (2007–2010) and Financial Policy Division Director (2006–2007). He also worked as a researcher at the Latin American Economics Research Corporation (CIEPLAN) from 1991 to 1994.

Mr. García regularly teaches courses on economic policy and macroeconomics at the University of Chile and the Adolfo Ibáñez University. He is also the author of several publications, book chapters, and working papers on monetary policy and international economics.

ALBERTO NAUDON DELL'ORO

Board Member

Date of appointment: March 2018
Education: Bachelor of Business Administration, Catholic University of Chile; Master and Doctor of Economics, University of California at Los Angeles

Before his appointment to the Board, Mr. Naudon was the Central Bank's Research Division Director from September 2014.

He first joined the Bank in 2000 as an economist in the Research Division, where he also served as Senior Economist and Head of the Macroeconomic Modeling and Forecasting Department.

In 2013 he took the position of Chief Economist at the private Banco de Crédito e Inversiones, which he held for one year.

Academic positions include professor of economics at the University of Chile, the Catholic University of Chile, the University of Los Andes, and the Adolfo Ibáñez University, teaching courses on macroeconomics, econometrics, and international economics. His research and publications focus on monetary policy and financial issues.

LUIS FELIPE CÉSPEDES

Board Member

Date of appointment: February 2022
Education: Bachelor of Business Administration with a minor in economics, Catholic University of Chile; Doctor of Economics, New York University

Mr. Céspedes served as the Chilean Minister of Economy, Development, and Tourism from March 2014 to August 2017.

From 2009 to 2011, he was the Head of Economic Research for the Central Bank of Chile. He served at the Finance Ministry from 2006 to 2009, as Economic Policy Coordinator and Chief Advisor. Earlier positions include Senior Economist in the Central Bank's Economic Research Division and Economist in the International Monetary Fund's Research Department. From 1995 to 1997, he was an advisor at the Finance Ministry.

Between 2012 and 2014, Mr. Céspedes was a Senior Member of the Technical Investment Council, which issues reports, proposals, and rulings on investments by the Chilean pension funds. In 2010, he was a member of the Finance Ministry's Trend GDP Committee.

STEPHANY GRIFFITH-JONES

Board Member

Date of appointment: March 2022
Education: Bachelor of Business Administration, University of Chile; Doctor of Economics, University of Cambridge

Ms. Griffith-Jones is currently Professor Emeritus at the Sussex University, Financial Markets Director at the Initiative for Policy Dialogue at Columbia University, Associate Fellow at the Overseas Development Institute in London, Nonresident Fellow at the Center for Global Development in Washington, D.C., and Distinguished Fellow at the Climateworks Foundation in California.

She has directed many global research projects on international financial and macroeconomic issues, with academic networks and high-level authorities in both developed and developing countries.

She has written and edited over 25 books and written many scholarly and journalistic articles

• In December, Mario Marcel Cullell was appointed Governor of the Central Bank for a new five-year term. He held that position through 27 January 2022.
• Joaquín Vial Ruiz-Tagle was Deputy Governor of the Central Bank Board until 6 February 2022.

2.2.2
Board Committees

102-22

The Board has two external advisory committees to address specific issues related to the management of the Central Bank.

What is the role of the Audit and Compliance Committee?

The Audit and Compliance Committee is an important element in the Bank's accountability and internal control, since its main function is to provide independent advice to the Board on meeting the institutional objectives in relation to corporate governance. To this end, the Committee has broad authority to communicate directly with the Bank's management team and request any information or other materials necessary to carry out its functions.

Wo are the members of the Audit and Compliance Committee?

Since its establishment in 2007, the Committee has been made up of leading professionals in the finance, accounting, and legal fields, in accordance with best practices on composition, independence, and technical competence.

Chair
Ramiro Mendoza Zúñiga
(Chair since 2020, member since 2018)

Bachelor of Legal and Social Sciences, University of Chile; attorney and academic at different national and foreign universities; former Dean of the Adolfo Ibáñez University Law School.

Mr. Mendoza was Comptroller General of Chile from 2007 to 2015.

He is currently President of the Chilean Bar Association and a member of the steering committee for various Chilean for-profit and non-profit companies and institutions.

Anthony Dawes Martindale
(Member since 2017)

Bachelor of Economics and Economic and Social History, University of York, England; Chartered Accountant in the United Kingdom and Certified Public Accountant in Chile.

Mr. Dawes was with one of the leading international accounting firms for over 35 years, working in Chile, the United Kingdom, and Ecuador. He was a partner for 23 years, during which he held a range of senior management positions. Prior to retirement, he was Managing Partner for the firm's office in Chile. He has served on the board of numerous companies and nonprofit organizations.

Ricardo Budinich Diez
(Member since 2018)

Bachelor of Civil Industrial Engineering, University of Chile; Certificate of Corporate Governance, Catholic University of Chile; Executive Program in Corporate Governance, Yale University. Mr. Budinich has served as board member, advisor, and manager for multiple companies in different sectors of the economy.

He currently sits on a number of corporate boards and investment fund oversight committees and is a member of the Finance Ministry's Finance Committee.

What are the functions of the Audit and Compliance Committee?

• 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 in relation to the following:

–The preparation and content of the financial statements and accompanying notes.

–Code of Ethics, rules of conduct, and conflicts of interest applicable to Bank personnel.

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

–Institutional transparency policy.

–Other general aspects of corporate governance, internal control, and institutional security policy.

• Evaluate the reliability, integrity, and timely delivery of information on the financial statements.

• Review the Annual Audit Plan and its execution.

• Make proposals on contracting independent auditors, and meet with them regularly and directly.

How does the Audit and Compliance Committee operate?

The Committee holds regular and special meetings, to which Bank managers are invited to attend in order to understand and discuss the issues of interest.

To perform its role, the Committee maintains free and open communications with the Bank's Office of the Comptroller and Auditor General, independent auditors, and managers on issues and activities covered by the Committee, determining the means, procedures, and frequency of the communication.

In 2021, the Committee held seven regular meetings and one special meeting, as well as analysis and coordination sessions.

The issues addressed at the meetings included reviewing the main issues raised by Internal Auditor's Office, studying the Bank's internal control and risk management systems, through each of its units, and reviewing and approving the 2021 Financial Statements.

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.

Information Technology Advisory Committee (ITAC)

Who are the members of the Information Technology Advisory Committee?

What is the role of the Information Technology Advisory Committee?

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

Chair
Gonzalo Acuña Leiva
(Chair since 2021, member since 2018)

Bachelor of Civil Electrical Engineering, University of Chile (1986); Doctor of Automation, Grenoble Institute of Technology, France (1995). Mr. Acuña is currently a full professor at the University of Santiago, Chile (USACH), where he previously served as Director of the IT Engineering Department.

He has been a member of the program committee for multiple national and international conferences, lead researcher for various Fondecyt, Fondef, and CORFO projects, author or co-author of numerous indexed journal articles, conference presentations, and book chapters. He has been the advisor on two post-doctoral studies, two engineering Ph.D. dissertations, 24 Master's theses, and nearly a hundred undergraduate engineering theses, all at USACH.

Alejandro Hevia Angulo
(Member since 2017)

Bachelor of Civil Computer Engineering, University of Chile; Doctor of Computer Science, University of California at San Diego, USA. Mr. Hevia is an assistant professor and assistant director of the Computer Science Department at the University of Chile, and director of the Applied Cryptography and Cybersecurity Lab at the same university.

He has worked with a number of international research centers, including the IBM Thomas J. Watson Research Center, NTT Docomo USA Labs, INRIA Sophia-Antipolis, and NIST. He is currently spearheading the Participa UChile and Random UChile projects at the University of Chile. He is a member of the Chilean Institute of Law and Technology, researcher at NIC Chile Research Labs, and board member of the Chilean Cybersecurity Alliance.

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José Benguria Donoso
(Member since 2019)

Master of Computer Science. Mr. Benguria is a professor at the University of Chile and has also taught courses at ten universities. He has worked as an IT and business model consultant for hundreds of public and private organizations. He is on the board of numerous companies and nonprofit organizations, and he supports technology-related businesses through various channels.

Previously, Mr. Benguria held a range of positions in his field, founded his own consultant company, and was lead partner for strategic consulting and public sector services at Deloitte for 16 years.

2.2.3
Board Remuneration Policy

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° 284 issued by the Finance Ministry on 17 February 2022, 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.

2.3

Executive Management:

General Manager, Comptroller, and General Counsel

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

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Beltrán De Ramón

General Manager

Responsibilities: *Immediate oversight and management of the Bank, with powers and instructions given by the Board.*
Date of appointment: *1 July 2021*
Education: *Bachelor of Business Administration with a minor in economics, Catholic University of Chile; Certificate of Corporate Governance, Catholic University of Chile*

Mr. De Ramón joined the Central Bank in 2005 as the National Financial Markets Manager. He then served as the Financial Markets Division Director from January 2008 to June 2021.

Prior to joining the Bank, he held the position of Public Finance Division Director in the Finance Ministry's Budget Office, which he also represented as a Director of the Public Company System (SEP). He was also Director of the National Mining Company (ENAMI).

Between 1990 and 2002, he worked for Copec S.A. in the positions of Financial Analyst and Head of Treasury.

Note 1: Alejandro Zurbuchen was General Manager through 15 June 2021.
Note 2: These positions are defined in Articles 24, 25, and 26 of the Basic Constitutional Act and together make up Executive Management

Silvia Quintard

Comptroller and Auditor General

Responsibilities: *Inspection and internal audit of the Bank's accounts, operations, and management rules.*
Date of appointment: *January 2007*
Education: *Certified Public Accountant, Diego Portales University, Chile; Master of Business Administration (MBA) and Master of Laws with a minor in Business Law, Catholic University of Chile*

Ms. Quintard is a member of the Central Bank Audit Committee organized by the Center for Latin American Monetary Studies (Cemla), where she has also spoken at annual conventions. Additionally, she has served as an IMF consultant on corporate governance for the Central Banks of Guatemala, Bolivia, and Ecuador.

She is a graduate of the senior management program (PADE) of the ESE Business School at the University of Los Andes and has Certification in Risk Management Assurance (CRMA) from the Institute of Internal Auditors.

Over the course of 18 years, she worked with national and international financial groups, as well as the Superintendence of Banks and Financial Institutions (SBIF, now the FMC). During the period, she held a wide range of posts: with the Corpbanca Group, she was Financial Operations Manager, Banking Operations Manager, Stock, Mutual Fund, and Insurance Broker, Mutual Fund Director, and Chief Financial Officer; at Santander Group Chile, she was Assistant Director of the Management Auditing Division for the Southern Cone; and at the SBIF, she was Operational and Financial Risk Supervisor for Banks and Financial Institutions.

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*
Education: *Bachelor of Law, University of Chile: Master of Business Law, Adolfo Ibáñez University; Master of Laws from the University of California at Berkeley*

Prior to his appointment, Mr. Araya 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.

2.3.1
Office of the General Counsel

ROLE OF THE GENERAL

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.

The Office also advises the Financial Markets Division in specific cases, such as the implementation of the exceptional measures during the COVID-19 pandemic, as well as on issues related to the Bank's international reserve management and fiscal agencies.

2021 Performance

This year, the Office of the General Counsel continued to provide specialized support to the Board and the different Divisions and Areas, focusing on cross-divisional projects and the Bank's initiatives associated with meeting its strategic objectives (launch of the IDIS system, CLS projects, modernization of the clearing houses, simplification of foreign exchange regulations, etc.).

In this context, the Office of the General Counsel plays an essential role in conferring certainty to our actions as a Central Bank and thereby mitigating legal risk, in accordance with the provisions of the current legal framework.

The year's highlights include:

- Monitoring and reporting on initiatives within the constitutional process and legislative proposals that could affect the Bank's competencies;
- Support on the Financial Sector Assessment Program (FSAP) carried out by the International Monetary Fund and the World Bank, as well as other processes involving international collaboration, consulting, or assessment (e.g., Network for Greening the Financial System, NGFS);
- The Mutual Evaluation of Chile on the prevention of money laundering and terrorist financing (Financial Action Task Force of Latin America, GAFILAT); and
- Ongoing consulting on the Bank's fiscal agent role and the process of updating the institution's internal regulations.

The Office of the General Counsel has advised the Board on issuing various internal guidelines oriented toward strengthening institutional transparency and the Bank's strict compliance with best practices in ethics and probity in public service.

2.3.2

Contraloría

ROLE OF THE COMPTROLLER AND AUDITOR GENERAL

The internal inspection and oversight of the Central Bank's accounts, operations, and management standards are the responsibility of the Comptroller and Auditor General, who reports directly to the Governor, the Board, and the Audit and Compliance Committee. Therefore, the reviews and/or evaluations carried out by the Office of the Comptroller and Auditor General 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.

2021 Performance

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 which are reported to the Governor, the Board Members, and the Audit and Compliance Committee

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

In 2021, in accordance with the international auditing standards issued by the Global IIA, the Central Bank of Chile's internal audit system was subject to an external evaluation by the Managing Director and Chief Internal Auditor of the Bank of Canada. The system received the highest rating under the international standards, and certification was thus renewed for another five-year period. ISO 9001:2015 quality certification was also maintained.

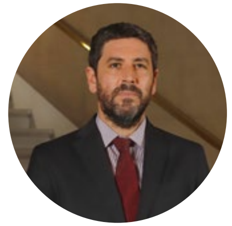
The Annual Audit Plan for 2021, which had the favorable assessment of the Audit and Compliance Committee and the approval of the Governor and the Board, considered different types of reviews, including research, auditing, special exercises, and consulting on financial and operational risks, cybersecurity, information security, etc.

In the opinion of the Audit and Compliance Committee, the Office of the Comptroller and Auditor General 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.

2.3.3
Senior Management:
Divisions

Our organizational structure includes eight divisions, responsible for executing the fulfillment of our role and functions and providing the necessary services to do so. Under the Divisions are 18 Areas. There are also two areas in the Office of the General Counsel, as well as the Personnel Area, which reports directly to the General Manager.

For more information and details on the Areas within the Central Bank, [visitar aquí.]



MONETARY POLICY DIVISION
Elías Albagli
Date of appointment:
June 2018

FINANCIAL POLICY DIVISION
Solange Berstein
Date of appointment:
Through March 2022

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

OPERATIONS DIVISION
Raimundo García
Date of appointment:
April 2019

INSTITUTIONAL AFFAIRS DIVISION
Michel Moure
Date of appointment:
June 2018

STATISTICS DIVISION
Gloria Peña
Date of appointment:
June 2015

FINANCIAL MARKETS DIVISION
Paulina Yazigi
Date of appointment:
October 2021

CORPORATE RISK DIVISION
Diego Ballivián
Date of appointment:
March 2021

[1] Note: The Financial Markets Division was headed by Beltrán de Ramón through June 2021, and the Financial Policy Division was led by Solange Berstein through March 2022.

2.4
Risk Management

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Our organization, 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.

Risk management cuts across all our daily work and must be in the DNA of everyone in the institution. Only then will we be able to maintain operational continuity and avoid possible disruptions.

As part of our efforts to strengthen the Bank's corporate governance, in the third quarter of 2021 the Board voted to create the Corporate Risk Division, which has the following responsibilities:

To ensure the coherence and efficacy of the Bank's governance framework for strategic, operational, financial, legal, digital, and reputational risk, and to establish and coordinate formal periodic review processes for risk policies and methodologies at the level of the Board and General Management.

To support and supervise the effective application of the risk management vision and methodologies throughout the organization, in order to contribute to the identification and dynamic management of the most important internal and external risks, integrating them in a corporate risk agenda.

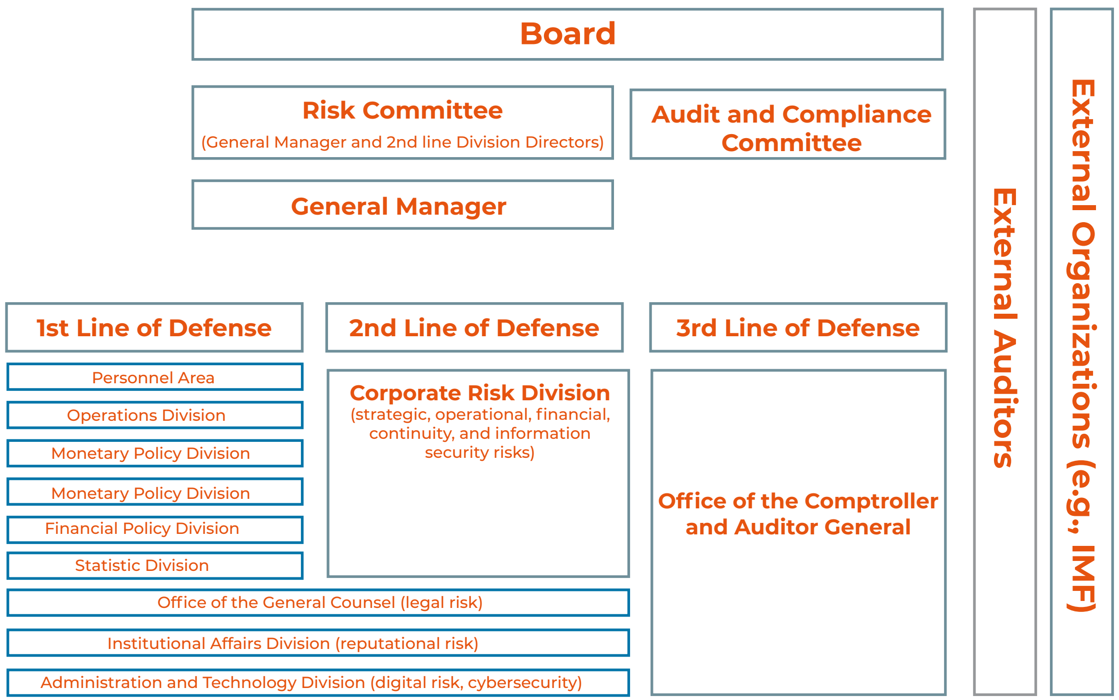
The Corporate Risk Division currently covers all the Bank's risk categories.

Strengthening the Corporate Risk Division

In 2021, the Financial Risk Department and the Operational Risk Department, which were previously part of the Administration and Technology Division, were migrated to the Corporate Risk Division. Information security issues were also incorporated in this Division. During the process, roles and functions were reorganized to strengthen the excellence, efficiency, and timeliness of risk management.

The Bank has a Risk Committee made up of the General Manager, the Corporate Risk Division Director, the Administration and Technology Division Director, the Operations Division Director, the Institutional Affairs Division Director, the Financial Markets Division Director, and the General Counsel.

Three Lines of Defense Model



2021 Work Priorities

In the year, we focused on the following issues:

- Review and updating of the risk regulations and methodologies to incorporate new, more relevant risk metrics.
- Updating and incorporation of new financial risk models associated with reserve and collateral management.
- Risk survey and self-assessment for all categories.
- Business continuity and information assets.
- Design and implementation of a new strategic risk methodology.
- Strengthening of the Bank's Risk Committee to give it more decisionmaking power with regard to risk performance, based on indicators that contribute to monitoring and action plans associated with improving risk management.

Business Continuity Certificates

In relation to business continuity and risk management, we conducted a general review at the methodological and regulatory levels to incorporate best practices in central banking and international standards. This allowed us to obtain the most current version of ISO 22301 on business continuity.

Risk Culture

With regard to internal training and communications, we developed a risk awareness plan, in conjunction with the Personnel Area and the Administration and Technology Division.

2.4.1
Environmental, Social, and Governance Risks

We manage the risks associated with environmental, social, and governance (ESG) factors by applying methodologies based on the ISO 31000 standard for risk management.

How do we identify and evaluate ESG risks?

ESG risks are identified and evaluated in the different risk categories (strategic, financial, operational, legal, digital, and reputational). They are managed and monitored using various tools that contribute to decisionmaking, including media analysis, surveys, internal monitoring with the divisions based on key risk indicators (KRIs), analysis of publications and reports from national and international benchmark institutions, etc.

Main ESG Risks Monitored

1. Risk of real or financial impacts from climate change.
2. Risks associated with financial variables.
3. Risks associated with economic variables that have a high impact on society.
4. Risks associated with pandemic fatigue among employees.
5. Risks associated with compliance with internal regulations.
6. Third-party risks and undesired impacts in the value chain, for example, in suppliers.
7. High-impact risks (reputational and/or equity) associated with the nature of the Bank's strategic projects.
8. Information security risks in the case of highly sensitive or confidential information.
9. Operational risks that affect the Bank's objectives, reputation, or equity.

2.4.2
Emerging Risks

We define emerging risks as high-impact risks for which the probability of materialization is showing an upward trend. They are managed through the application of the comprehensive institutional risk methodology and the strategic risk methodology.

The main emerging risks in the year are related to the impacts of the pandemic on the economy and on the Bank's operations. Specifically, the greater liquidity in the financial system has translated into an increase in inflation risk, while the risks related to the low availability of cash and the adaptation to the hybrid work environment have also risen.

Other risks that we are constantly monitoring are related to business continuity, information security, the increase in cybersecurity threats worldwide, and third-party impacts that could cause disruptions in our operations.

2.5

Transparency, Ethics, and Compliance

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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, with 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.

Excellence

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

Transparency

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

Respect

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

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.

Diversity, Inclusion, and Nondiscrimination

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.

2.5.1 Transparency

As an organ of the state, we must comply with the regulatory framework on transparency and probity, which comprises the following regulatory tools:

o Constitution of Chile
o Basic Constitutional Act of the Central Bank of Chile
o Law N° 20,285 on public access to information
o Law N° 20,730 on lobbying and special interests
o Law N° 19,653 on probity in public administration

System of Platforms to Facilitate Access to Information

Transparency Law

Central Contact

Lobbying Law

Active Transparency

Institutional Transparency Policy of the Central Bank of Chile

In August, we published a report on our transparency policy , prepared in the framework of the 2018–2022 Strategic Plan, which is intended to strengthen the mechanisms for active transparency.

This policy document compiles the different mechanisms available to report to the public on our fulfilment of our institutional mandate, whether through legal requirements or through voluntary transparency policies adopted in the different areas of our daily work, following international best practices. The document is based on the standards contained in the International Monetary Fund's Central Bank Transparency Code.

Additionally, the Communications Policy incorporated the guidelines for meetings between Central Bank authorities or division directors and market players to address issues related to the economic scenario.

Pilot Review of the Central Bank Transparency Code

In 2020, the Central Bank Governor sent a letter to the International Monetary Fund (IMF) indicating our interest in participating in the pilot implementation of the Central Bank Transparency Code (CBTC).

The CBTC is a voluntary standard whose objective is to help central banks evaluate their transparency framework and facilitate an informed dialog with their stakeholders. It considers that transparency practices are specific to the circumstances of each country, that the legal framework affects transparency, and that there must be a balance between transparency and credibility.

CBTC Pillars

Pillar I: Transparency in Governance

Legal structure, mandate, autonomy, decisionmaking, and risk management.

Pillar II: Transparency in Policies a

Policy framework, policy decisions, supporting analysis.

Pillar III: Transparency in Operations

Instruments, coverage, access.

Pillar IV: Transparency in Outcomes

Ex post reports on governance actions, policies, and operations.

Pillar V: Transparency in Official Relations

Government, other international agencies.

The Mission

On 3–18 March 2021, the IMF conducted a virtual visit or mission in which it held meetings with a group of the Bank's stakeholders. In June, it published the final report, "Chile: Central Bank Transparency Code," with ten key recommendations related to transparency.

The Results

The report emphasizes that the Central Bank of Chile brings a comprehensive level of transparency to its monetary policy framework, while it is updating its transparency framework for financial stability in accordance with the macroprudential policies acquired by law.

The report also indicates that the Bank has put in practice a robust framework for transparent internal governance. It identifies a broad appetite by the general public for a deeper commitment by the institution, and suggests that greater disclosure of the Bank's official relations could help in this respect.

Since the issue of the report, we have published and reorganized the information on the Bank's website, taking into account the ten key recommendations in the report. The adjustments have been concentrated in the financial policy and international relations sections. All the recommendations will be covered following the publication of the Financial Sector Assessment Program (FSAP) in May 2022, which we are conducting in conjunction with the IMF and the World Bank.

2.5.2 Access to Information

In 2021, we received a total of 80 requests for information under the framework of Law N° 20,285, which represents a 15% decrease relative to 2020.

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

Since the Law entered into effect, there has not been a single complaint against the Bank submitted to the Santiago Court of Appeals, in accordance with the provisions of Articles 65 bis and 69 of the Basic Constitutional Act.

Since 2020, we have a platform for citizen inquiries, Central Contact, which provides a public communication channel that is complementary to the Transparency Law platform, allowing a timely response on a wide range of issues that are of interest to the public.

In 2021, the Board voluntarily released the full records of Monetary Policy Meetings held in 2010 and the historical records of prior Boards of Directors and the former Executive Committee for the period from 1968 to 1983. 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, while also strengthening institutional transparency and accountability.

CENTRAL CONTACT

2.158

consultas recibidas por

"Contacto Central"

95%

of inquiries have to do with banknotes and coins, general questions, and operations related to the Compendium of Foreign Exchange Regulations

TRANSPARENCY LAW AND ACCESS TO INFORMATION

10

Business days, on average, to respond to requests for information

80

Requests under the Law on Transparency and Access to Information

2.5.3 Law on Lobbying

126	95%	34	2	25
Consultative hearings related to the Law on Lobbying or special interest management	videoconference	Central Bank officials subject to the Law on Lobbying	travel records	donations and gifts received

Currently, 34 Central Bank authorities are subject to the Law on Lobbying. The full list of their names and positions is available on the Bank's website.

Full information on our meetings, donations, travel, and reporting requirements is published on the Transparency and Probity section of our website and on the Transparency Board's Infolobby website.

2.5.4 Law on Probity

In 2021 the Bank's authorities—the Board Members and General Manager— complied with legal requirement 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 Transparency Board's Infolobby website.

Thus, the Bank is in full compliance with the Law on Probity and the provisions on the declaration of conflicts of interest, personal interests, and equity contained in Article 14 of the Bank's Basic Constitutional Act.

In the case of Bank authorities, conflict-of-interest and equity statements must be submitted at the following times:

° Prior to assuming the position.
° Mandatory annual update (March).
° Voluntary update.
° On termination of employment (within 30 days of termination).

2.5.5 Ethics as a Part of Our Culture

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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.

Our Guidelines

The Personnel Regulations approved by the Board list 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.

To learn more about our policies, standards, and regulations in the area of ethics and compliance click here

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.

"Commitment to Integrity" Award

This award is given by the Generación Empresarial Foundation to spotlight organizations that are committed to raising their ethical standards and inspiring their employees with a sense of mission and an awareness of the impact of their decisions on society. The Bank received the award in January 2022.

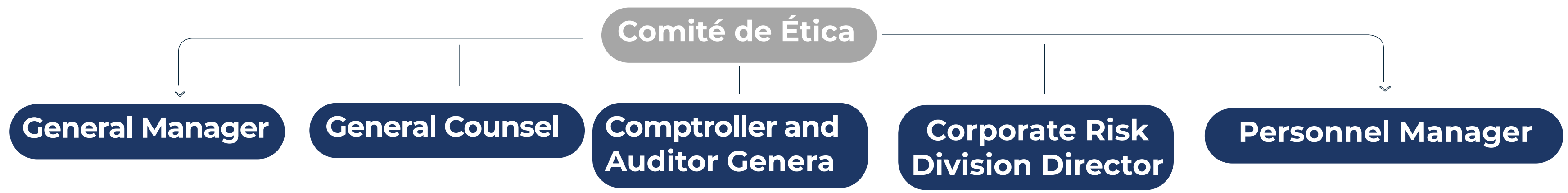
Values and Organizational Integrity Barometer

Because our values are at the center of everything we do, we participated in the "Values and Organizational Integrity Barometer" for the second time.

This study, carried out by the Generación Empresarial Foundation, measures employees' perception of how values and integrity are lived within their organization.

A total of 393 employees (57% of the total) participated in the survey, which also explored their perception of the complex context of the pandemic and the process of implementing remote work.

Ethics Committee



The Ethics Committee, which has been approved by the Board, has the following responsibilities:

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

· 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

· Recommend plans for diffusion of ethical culture and adherence to the personnel regulations.

Reporting Channels

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

· Reporting channel available through the Bank's intranet.
· In writing, directly to the respective division director or the director's superior.

Suppliers

· 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.**

Conflicts of Interest

102-25

To prevent conflicts of interest, the Board and senior management are subject to the laws on Public Access to Information; Lobbying and Special Interests; 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 an electronic declaration system through which employees can declare potential conflicts of interest in the course of their work, through a Declaration of Disqualifications, Incompatibilities, and Conflicts of Interest.

Chapter 3: An Accessible Central Bank

"Today, the Bank listens more, is more open to new trends, is more horizontal, and, in particular, has acted quickly and diligently to address the country's needs."

Eduardo Cerda, Organizational Development Coordinator, Personnel Area

3.1

Community and Stakeholder Relations

102-40; 102-42; 102-43; 102-44

The activities associated with the Strategic Plan in 2021 were carried out in a context marked by uncertainty. In particular, the pandemic continued to necessitate restrictive measures, which resulted in the implementation of fiscal support policies and motivated new pension fund withdrawals. The Central Bank went before Congress several times to provide technical support to the parliamentary debate on these measures.

In this scenario, efforts were oriented toward maintaining the Bank's status as a macroeconomic authority and a key institution to help mitigate the effects of the crisis on the country, as well as increasing confidence in our work on the part of key stakeholders and the general public.

Achieving this objective meant expanding contact with different audiences, generating more educational content, adopting new communication tools, broadening the scope of civic initiatives, responding quickly to formulated demands, and deepening our transparency mechanisms.

The results and achievements obtained demonstrate the sound execution of the objectives defined in the framework of the 2018–2022 Strategic Plan, highlighting the organization's ability to adapt to changing scenarios.

Stakeholders

The CBC bases its positioning on its technical profile and the public's confidence in its ability to attain its institutional objective. The performance of its mission has allowed the Bank to maintain a high degree of credibility, which translates into a positive reputation at both the national and international levels. At the same time, given its role as a key actor for the country's economic development and stability, the Bank is subject to constant public scrutiny.

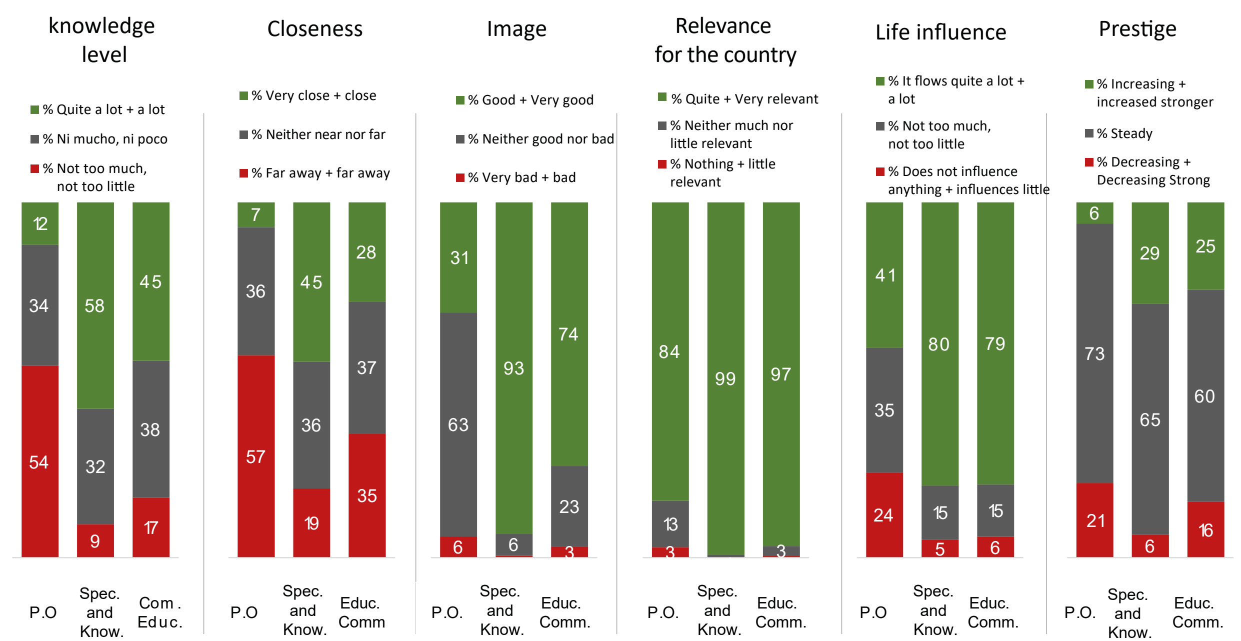
Consequently, in a context marked by public distrust in institutions and authorities, it is necessary to monitor the evolution of perceptions of the Bank's image and positioning among its different stakeholders, ever conscious of the need to safeguard and strengthen our institutional reputation.

Under the 2018–2022 Strategic Plan, an opinion survey was conducted in May 2021 to measure the level of awareness and perceptions of the Central Bank's role and actions among the general public and the informed or specialist public. The survey design considered the possibility of addressing a series of relevant dimensions. The set of questions allowed establishing the following key points:

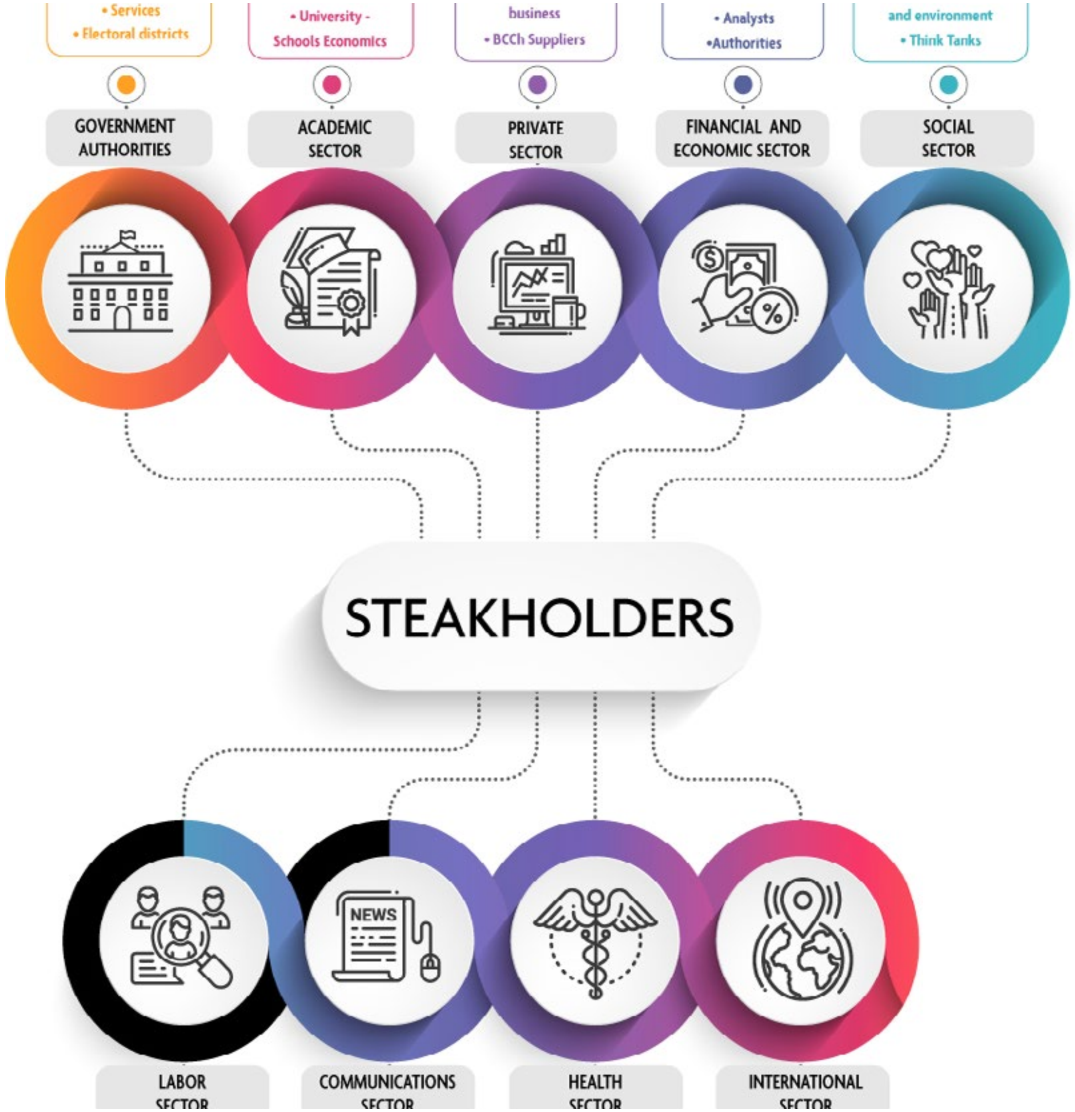
- The CBC has a positive public image, based on its prestige and relevance.
- Its work is perceived not only as important for the country, but also as influential in people's lives.
- It is not known for its accessibility by either the general public or more specialized audiences.
- This reinforces our main institutional challenge: To increase the degree of awareness among stakeholders regarding the Bank's role and main functions.

Establishing trust with stakeholders is especially important for the Bank. Consequently, in identifying our stakeholders, we have considered all individuals and organizations that are—or could be—affected by our work, as well as those whose actions or decisions could influence our field of action.

Our work in this area draws on a large database of over 30,000 records, organized around nine detailed areas or sectors. We also have a stakeholder



[For more details on the Bank's image and positioning study, click here]



relationship management plan that involves a wide range of activities by stakeholder group, including videoconferences, publications, diffusion of reports, opinion columns, conferences, meetings, interviews, workshops, training, 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.

In 2021, the Central Bank's community relations agenda was largely marked by the reformulations that were necessary after the previous year, including adjusting to an online format, strengthening the management of both internal and external communication platforms, and broadening the scope of contact mechanisms with the establishment of an action agenda, which began with the redesign of the Central Bank's logo.

We have also developed new graphics and audiovisual diffusion mechanisms on social media, to facilitate understanding of the reports we issue, as well as constant monitoring of our participation in different contingency spaces.

Our Main Virtual Communication Channels:

www.bcentral.cl

Twitter

LinkedIn

YouTube

Flickr

2021 figures of our outreach activities

1.539
downloads of the Integrated Annual Report

3.589
visits for the 360° virtual tour on National Heritage Day

133.516
visits and

58.352
users of the Digital Repository

13.353
visits and

3.442
users of the Library Website launched in May 2021

42.771
users and

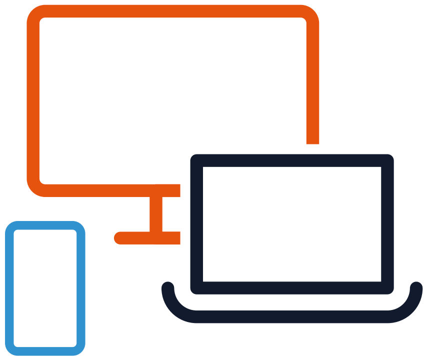
239.557
visits to Central en tu vida in 2021

8.800
followers on social media (Facebook, Instagram, and Twitter)

34
media interviews and columns (print, audiovisual, and digital)

132
Training seminar participants from the Inter-American Association of Economic and Financial Journalists (AIPEF)

Publicaciones internas

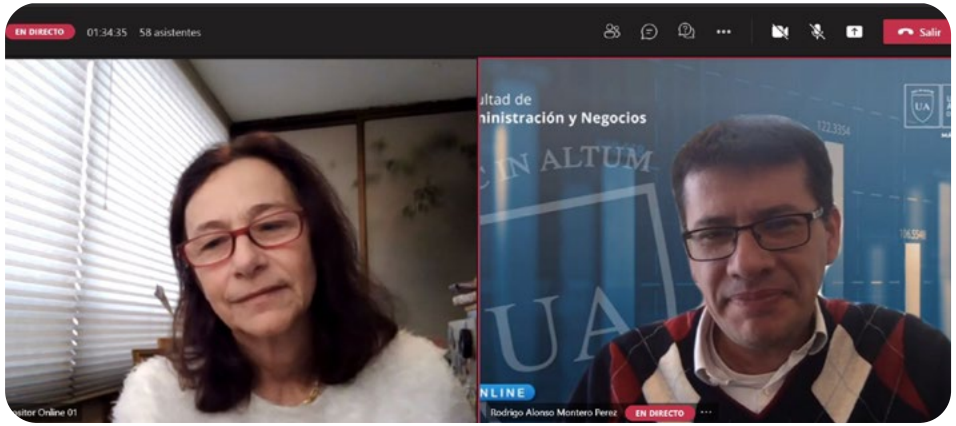


- **Central en Línea** (internal newsletter) → **52** editions
- **Mirada Central** (internal magazine) → **12** editions
- **Patio Inglés Virtual** (employee conversations) → **7** meetings → **2.249** participants

Partnerships with Universities

We maintain partnerships with entities in the academic work, such as universities and professional associations. In 2021 we incorporated new university partners, both for the presentation of Central Bank reports and for offering modules by the Bank's Statistics and Monetary Policy Divisions. To this end, we have collaborated with the AIEP Professional Institute, the University of the Americas, Metropolitan University of Technology, and the University of the Andes.

We have also established new collaborative alliances with the University of Chile, the University of Bíobío, Finis Terrae University, and the University of Development.



3.2

Our Networks

102-12; 102-13

Center for Latin American Monetary Studies (CEMLA)

Role: Member
Includes annual fund contri-bution

Bank for International Settlements

Role: Member
and participant on the Governance Committee

Network for Greening the Financial System

Role: Member

International Monetary Fund (IMF)

Role: Member

Organisation for Economic Co-operation and Development

Role: Member

Inter-American Development Bank (IDB)

Role: Member

World Bank

Role: Member

Development Bank of Latin American

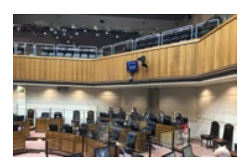
Role: Member

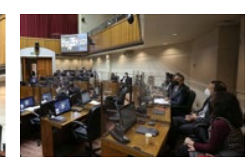
To date, we have not signed any external environmental or social initiatives, such as standards or directives.

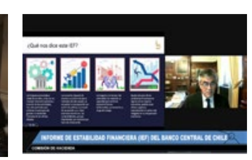
3.3
Presence in Congress

Each year, the Governor of the Central Bank, accompanied by the four Board Members and some of the Division Directors and Area Managers, presents the Monetary Policy Report (IPoM) on four occasions: once to the full Senate and three times to the Senate Finance Committee. The Governor also presents the Financial Stability Report (FSR) to the Senate Finance Committee twice a year. Both the Governor and the other Board Members make presentations on issues related to the Bank's work at the invitation of the different parliamentary committees.

The following is a list of congressional presentations given by the Bank in 2021.







JAN FEB MAR APR

31 March
Speaker: Mario Marcel
Topic: March IPoM
Body: Senate Finance Committee

13 April
Speaker: Mario Marcel
Topic: Pension reform
Body: House Labor Committee

19 April
Speaker: Mario Marcel
Topic: Third pension fund withdrawal
Body: Senate Constitution Committee

MAY JUN JUL AUG

5 May
Speaker: Mario Marcel
Topic: FSR, First Half
Body: Senate Finance Committee

9 June
Speaker: Mario Marcel
Topic: June IPoM
Body: Senate Finance Committee

5 July
Speaker: Mario Marcel
Topic: Financial advisory to pension fund affiliates
Body: House Investigative Committee

9 July
Speaker: Joaquín Vial
Topic: Law to allow the buyback of S&L shares and the Data Protection Law
Body: House Economic Committee

20 July
Speaker: Mario Marcel
Topic: Impact of the crisis on women
Body: Senate Finance Committee

18 August
Speaker: Mario Marcel
Topic: Fourth pension fund withdrawal
Body: House Constitution Committee

SEP OCT NOV DIC

1 September
Speaker: Mario Marcel
Topic: Fourth pension fund withdrawal
Body: House Constitution Committee

1 September
Speaker: Mario Marcel
Topic: September IPoM
Body: Full Senate

27 September
Speaker: Mario Marcel
Topic: Digital payments
Body: Senate Finance Committee

27 September
Speaker: Mario Marcel
Topic: Support to PFMs for paying out pension fund withdrawals
Body: House Economic Committee

12 October
Speaker: Mario Marcel
Topic: Fourth pension fund withdrawal
Body: Senate Constitution Committee

3 November
Speaker: Mario Marcel
Topic: FSR, Second Half
Body: Senate Finance Committee

15 de diciembre
Expone: Mario Marcel
Tema: IPoM diciembre
Instancia: Comisión de Hacienda del Senado

20 December
Speaker: Pablo García
Topic: Financial Inclusion Law
Body: Senate Finance Committee

3.4
Regional Presence

The pandemic forced the Bank to conduct its outreach activities with regions outside of Santiago via online platforms, drawing on links that were developed over the past few years. In this context, the main communication channels implemented in 2021 were associated with the following activities:

- **Diffusion of the Monetary Policy Reports (IPoM) and the Financial Stability Reports (FSR);**
- **Development of the “Academic Offer” program by the Monetary Policy, Statistics, and Institutional Affairs divisions for different institutions of higher learning;**
- **Implementation of an online platform to exhibit a selection of paintings from the Central Bank’s collection, in conjunction with the Catholic University of the North.**

The activities associated with the communication of the Bank’s main policy reports, as well as the organization of seminars, workshops, specific presentations, and so forth, considered the possibility of providing access to a larger audience, through connection to these transmission platforms via streaming. It was thus possible to ensure that many of the activities reached a large geographical cross-section of the country.

The Bank’s regional activities in 2021 included the following highlights:

5 April Speaker: Alberto Naudon Topic: IPoM Location: Department of Economics and Business, University of Development (Santiago and Concepción)	**6 April** Speaker: Joaquín Vial Topic: IPoM Location: Department of Economics and Business Administration, University of Concepción	**7 April** Speaker: Elías Albagli Topic: IPoM Location: Maule Progress Board and Department of Economics and Business, University of Talca
15 April Speaker: Pablo García Topic: IPoM Location: Atacama Region Development Corporation (CORPROA)	**19 April** Speaker: Miguel Fuentes Topic: International scenario for the Chilean economy Location: Department of Industries, Federico Santa María University (UFSM)	**4 May** Speaker: Enrique Orellana Topic: Role and functions of the Central Bank Location: Department of Economics and Business, University of Talca (Advanced Macroeconomics I)
12 May Speaker: Tatiana Vargas Topic: Chilean monetary policy in practice Location: Department of Economics and Business, University of Development	**26 May** Speaker: Mario Marcel Topic: FSR Location: Araucanía Region Development Corporation (CorpAraucanía) and UniverCity Temuco*	**1 June** Speaker: Sebastián Rébora Topic: Sectoral GDP Location: Department of Economics and Business, University of Talca (Advanced Macroeconomics I)
14 June Speaker: Matías Tapia Topic: Stylized facts on the labor market Location: Department of Industries, Federico Santa María University (UFSM) (Valparaíso campus)	**15 June** Speaker: Felipe Labrín Topic: Regional GDP Location: Department of Economics and Business, University of Talca (Advanced Macroeconomics II)	**17 June** Speaker: Alberto Naudon Topic: IPoM Location: Chilean Chamber of Construction (Copiapó campus)
23 June Speaker: Miguel Fuentes Topic: The COVID Crisis: Economic impacts and policy lessons Location: UniverCity Temuco	**29 June** Speaker: Andrés Fernández Topic: Inflation dynamics and determinants in Chile Location: Department of Business Administration, Autonomous University of Chile (Talca campus)	**30 June** Speaker: Pablo García Topic: IPoM Location: AIEP Business School (Viña del Mar campus)
10 August Speaker: Alfredo Fuentes Topic: Securities market statistics Location: Department of Economics and Business, University of Talca (Advanced Macroeconomics IV)	**25 August al 30 November** Virtual exhibit of paintings from the Central Bank Chile’s collection Location: Community Outreach Office, Catholic University of the North (Antofagasta)	**29 August** Speaker: Elías Albagli Topic: Planetary limits and natural capital Location: Department of Business Administration, Autonomous University of Chile (Talca campus)
3 September Speaker: Joaquín Vial Topic: IPoM Location: University of Development (Santiago and Concepción)	**8 September** Speaker: Rosanna Costa Topic: IPoM Location: Arica and Parinacota Savings and Loan Cooperative (PARINACOP)	**28 September** Speaker: Rosanna Costa Topic: IPoM Location: CorpAraucanía
1 October Speaker: María Isabel Méndez Topic: Balance of payments and the international investment position Location: FEN, University of Talca (International Macroeconomics)	**6 October** Speaker: Elías Albagli Topic: Planetary limits and natural capital Location: UniverCity Temuco	**19 October** Speaker: Miguel Fuentes Topic: The COVID Crisis: Economic impacts and policy lessons Location: FEN, University of Development (Santiago and Concepción)
5 November Speaker: Alberto Naudon Topic: FSR Location: Department of Economics and Business Administration, Austral University of Chile (Valdivia)	**12 November** Speaker: Enrique Orellana Topic: Role and functions of the Central Bank Location: Department of Economics and Business Administration, Catholic University of the Holy Conception	**16 November** Speaker: Matías Tapia Topic: Inflation dynamics and determinants in Chile Location: Department of Economics and Business Administration, Catholic University of Maule
24 November Speaker: Elías Albagli Topic: Planetary limits and natural capital Location: Department of Economics and Business Administration, Austral University of Chile (Valdivia)	**21 December** Speaker: Pablo García Topic: IPoM Location: Department of Economics and Business Administration, University of Concepción	**22 December** Speaker: Joaquín Vial Topic: IPoM Location: Department of Economics and Business Administration, Austral University of Chile (Valdivia)
23 December Speaker: Elías Albagli Topic: IPoM Location: Department of Economics and Business Administration, Catholic University of Maule		

* The following five universities make up UniverCity-Temuco: Catholic University of Temuco, University of La Frontera, University Mayor, Autonomous University of Chile, and St. Thomas University

3.5

Financial Education (Material topic)

103-1; 103-2; 103-3

Why is it important?

The protagonists of the economy are not just businesses, banks, and other financial entities. A dynamic and efficient economy also depends on citizens who make good decisions. In this sense, financial education, financial inclusion, and consumer protection are key factors for the financial empowerment of the people and the stability of the financial system.

How do we manage it?

Since 2004, we have developed a series of financial education initiatives, with a special focus on the school community. This work aims to position our institution as a leader in financial education, generating links that contribute to understanding and dialog with the community.

Our Main Initiatives

Central en tu vida program

Central in your Life

CBC1

The program Central in Your Life, run by the Institutional Affairs Division, organizes a set of initiatives with the collaboration of various units within the Bank. All the program's activities have been virtual since 2020.

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

What financial education activities does the Central Bank carry out through the Central in Your Life program?

222 participants in 2021

1.300 teachers have participated since 2018

Online Course: City of Opportunities

The objective of this online course, developed in conjunction with the MIPP Millennium Institute and the University of Chile, is to increase and strengthen teachers' and student teachers' knowledge of economics and personal finance. The course also delivers tools that teachers can use in the classroom to teach these issues to their students.

In 2021, the fourth version of the course was given, reaching a total of 222 people.

Since 2018, this initiative has reached more than 1,300 teachers, who have taken this knowledge to approximately 46,000 students.

To learn more about City of Opportunities, click here

Watch the video

School Contest: “Economics Up Close”

557
students

64
teachers

214
videos

Our school contest is aimed at high school students in public, subsidized, and private schools throughout the country. The objective is to stimulate students’ interest in and knowledge of economic topics and everyday issues related to the Central Bank’s work, asking them to explain a given topic creatively and in simple language.

In 2021, a total of 557 students and 64 teachers answered the question, **How important is cash as a means of payment in Chilean society today, how does it coexist with electronic payments, and what role does the Central Bank play in this area?**

We received 214 videos in total, of which 96 were sent from within the Santiago Metropolitan Region and 118 were from other regions of the country.

To learn more about the contest, click here

2021 First Place, Freshmen and Sophomores: Liceo Bicentenario Padre Nicolás

70
Weekly mass mailings

842
Students

Weekly Information and Education Campaigns

This initiative seeks to maintain a stable channel of communication with teachers, students, universities, and the general public. It offers interesting content on all the educational initiatives and updates in the "Central in Your Life" program and allows direct access to all the program resources, news, and content, according to a specific calendar of initiatives and interests.

In 2021 we published 54 campaigns and sent 70 weekly mass mailings to approximately 8,500 contacts.

Online Student Workshops

The objective of this initiative is to replace our previous program of educational school tours of the Central Bank, which were in person before the pandemic. These fun and friendly online workshops for students present information on personal finances using clear language, so that students can make better decisions and improve their quality of life through good financial health.

There were 31 workshops in 2021, which were attended by 842 students. An important benefit of the online format is that we are able to reach schools and students in regions outside of Santiago, which accounted for 45% of the workshops held in the year.

Online Talks for University Students

El objetivo de estas charlas dictadas por economistas de las diferentes divisiones del Banco es explicar el rol y las principales funciones de nuestra institución, así como profundizar en otros temas económicos como la inflación, la tasa de política monetaria, el funcionamiento del sistema de pago, entre otros.

En 2021 realizamos siete charlas, en las que participaron 246 personas.

Online Talks: "Finance for Everyone"

This new initiative, aimed at the general public, consists in online talks on economic and financial topics. The objective is to provide information, resources, and content so that people can learn about these issues and to answer questions about the topic of each talk.

We held 14 talks on Thursday evenings, on issues such as inflation, the family budget, savings, and credit. A total of 1,169 people participated in this initiative in 2021.

Financial Literacy Month

Each year in October, we coordinate various initiatives in the framework of Financial Literacy Month. Through the Central in Your Life program, we organize an international online seminar aimed at the general public. This year's seminar, entitled "Financial Education in the Region: Comparative Experiences during the Pandemic," was attended by 186 people.

In 2021, the speakers included representatives from the Organization for Economic Cooperation and Development (OECD), Aflatoun International, the Central Bank of Uruguay, the Peruvian Superintendence of Banking, Insurance, and PFMs, and the Central Bank of Chile.

Educational Resources

In 2021 we prepared a series of teaching handouts and three financial tools for the educational community and the general public. The tools have to do with the family budget, savings plan, and debt capacity.

To facilitate public understanding, we also created six infographics on our main reports and actions and on issues related to our work: the Financial Stability Report (FSR); the Monetary Policy Report (IPoM); the Monetary Policy Meetings and the monetary policy rate (MPR); deposit insurance; gross domestic product (GDP); and the IMACEC.

These materials have been downloaded 1,308 times.

1.308

downloads

To access these materials click here

Animated Series: “Los Previ$ores”

“Los Previ$ores” is an animated series published in 2021 to teach economic and financial topics in a fun way, using an accessible, everyday setting.

The series has spots, explanatory videos, and radio clips on seven topics:

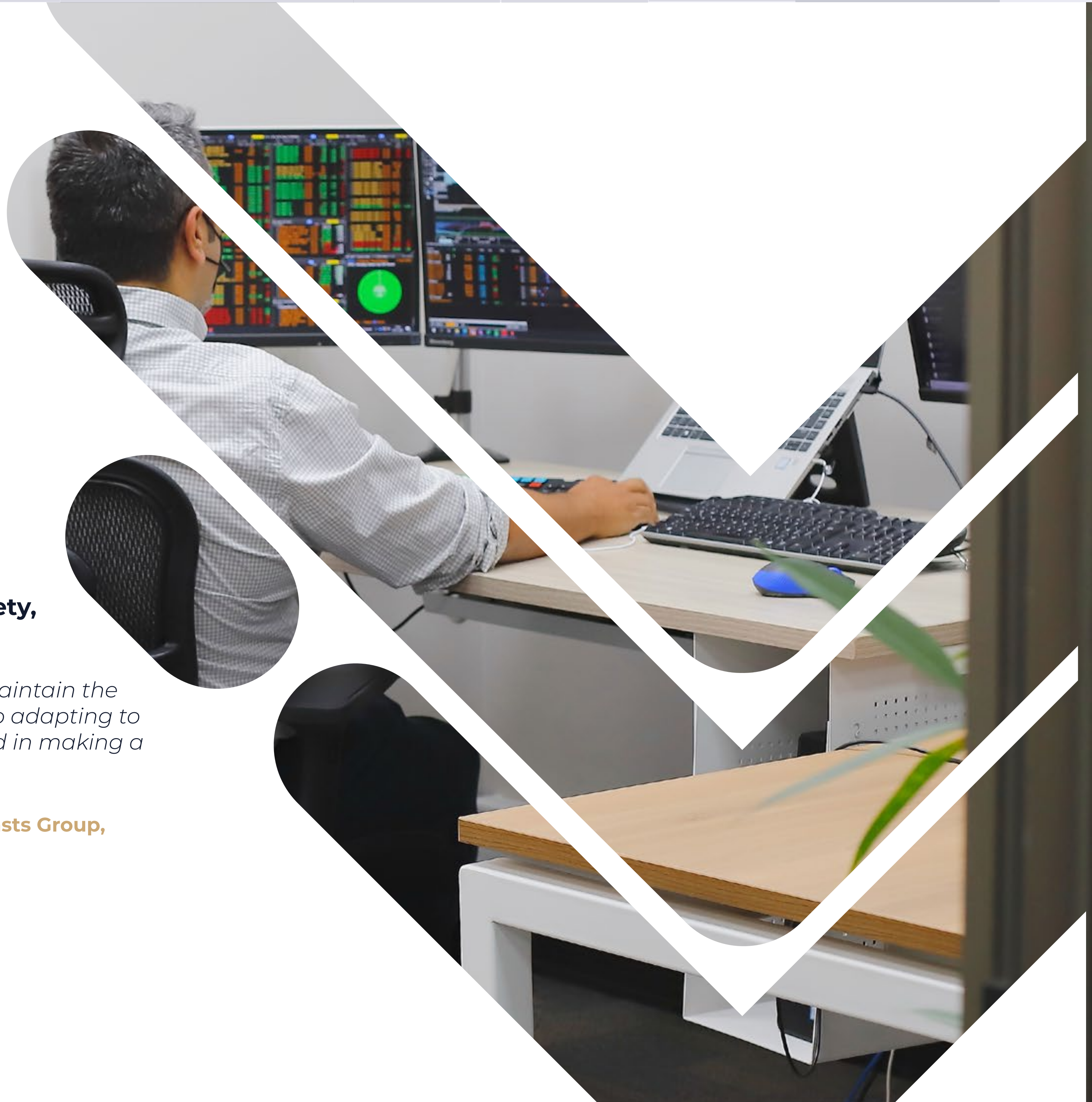
- The Central Bank
- The Financial System
- Credit
- Credit Cards
- Savings
- Budgeting
- Gross Domestic Product (GDP)

Los Previ$ores had 4,076 views in 2021.

4.076

views

Watch Los Previ$ores



Chapter 4: Our Contribution to the Economy, Society, and Environment

"Over the last few years, the Central Bank has been able to maintain the core values that underlie its credibility and prestige, while also adapting to a changing and challenging world, and it has thus succeeded in making a major contribution to society."

Lucas Berttinatto, Head of the International Scenario and Forecasts Group, Monetary Policy Division

4.1
Monetary Policy

The Mandate

One of the Central Bank's objectives, established in Article 3 of the Basic Constitutional Act, is to safeguard the stability of the currency, that is, to keep inflation low and stable. 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, our monetary policy decisions must be consistent with an inflation forecast that converges to 3% in a policy horizon of 24 months.

Low, stable inflation promotes job growth and protects the income of the most vulnerable segments of society. It also creates 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.

Our 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).

We use 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. 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.

4.1.1
Our Performance in 2021

4.1.1.1 Macroeconomic Context and Measures

In 2021 the Chilean economy managed to overcome the effects of the pandemic on output. By mid-year, production had returned to the level recorded before the start of the COVID-19 crisis.

The economic recovery was based on several factors, such as the capacity of businesses and households to adapt to new working conditions during the pandemic, the fast vaccination process, and the different measures implemented by the economic authorities to help mitigate the impacts of the pandemic.

Among these measures, the policies adopted by the Bank played an important role, especially those oriented toward incentivizing the flow of credit to firms. As a result, healthy businesses that are sustainable in the medium term were able to face the unprecedented liquidity shock caused by the sudden closure of the economy due to the pandemic.

The analysis of various sources of information has revealed the importance of these credit measures for the survival of many businesses, with the subsequent impact on employment.

The fast and strong recovery of demand has also raised very significant challenges in the evolution of inflation, which differentiates Chile from the inflation hike recorded in many other economies. In any case, in the second half of 2021 many central banks began to withdraw the strong monetary stimulus imposed at the start of the pandemic.

The Central Bank of Chile has been one of the most active central banks in the world in terms of raising the interest rate, because the causes of inflation in Chile have been associated with an excessive increase in domestic spending in 2021. By closely monitoring the developments of

the economy using a robust set of analytical tools in real time, we were able to identify inflationary pressures before market observers, which made it possible to announce and implement a significant change in the monetary policy strategy.

Starting in July, the Central Bank Board began to withdraw the monetary stimulus. In the Monetary Policy Meeting (MPM) that month, the Board raised the monetary policy rate (MPR) by 0.25 basis points, to 0.75%. At subsequent meetings, the rate continued to rise: 75 basis points in August, 125 basis points in October, and another 125 basis points in December, to close the year at 4.0%. The latter two increases were larger than anticipated in the central scenario of the September Monetary Policy Report (IPoM), in response to greater risks for inflation convergence to the 3% target.

At 4.0%, the MPR was now around its neutral level, and the Bank's forecasts indicated that inflation would remain high for a few more quarters and then start to drop to 3% within the monetary policy horizon of two years.

The following timeline shows the evolution of annualized inflation and the MPR in the last year:

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Inflation	3.1%	2.9%	2.9%	3.3%	3.7%	3.8%	4.5%	4.8%	5.3%	6.0%	6.7%	7.2%
MPR	0.50%		0.50%		0.50%	0.50%	0.75%	1.5%		2.75%		4.00%

4.1.1.2 Research, Modeling, and Microdata

The economic context in 2021 implied important challenges for monetary policy analysis and macroeconomic forecasting.

The advances achieved on our Monetary Policy Division's research, modeling, and microdata agenda were crucial for addressing these challenges.

We implemented new models and extensions of existing forecasting models, as well as high-frequency indicators and tools for adequately monitoring the economic climate, based on:

- Administrative records;
- Massive databases;
- Regular monetary policy analysis;
- Forecasts presented in the Monetary Policy Report (IPoM).

We have changed our research focus, and in 2021 we reoriented our priorities toward topics that are directly related to the functioning of monetary policy, without sacrificing high-quality analysis.

Thanks to the construction of large databases of anonymous administrative records, we have been able to improve the support material that accompanies the different reports on the nationaland international economy, as well as a study of Financial Intermediation and Central Banking in Chile published in December.

This new focus on high-quality applied research played a key role in identifying and reacting quickly to the macroeconomic context in 2021.

4.1.1.3 Communication of Macroeconomic Analysis

Another important innovation in our work at the Central Bank was the communication of the macroeconomic analysis underlying monetary policy decisions. In the year, we developed infographics, explanatory videos, graphics, and social media publications as de diffusion mechanisms for reaching a broader audience.

This strategy turned out to be very useful, as we were able to explain monetary policy decisions more concretely. This was especially true in the second half of 2021, when we had to act to address inflationary pressures, which generally affect the pocketbooks of people living in social vulnerability.

What does this IPoM tell us? December 2021

Explanatory videos for the general public

4.2

Financial Policy

The Mandate

Confidence in the payment system 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.

Article 3 of the Central Bank of Chile's Basic Constitutional Act establishes our second objective, that of safeguarding the normal functioning of 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 Real Time Gross Settlement (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.

The Central Bank is a standing advisor to the Chilean Financial Stability Board (CFSB), which is made up of the Finance Minister, the Chairman of the Financial Market Commission (FMC), and the Superintendent of Pensions. The CFSB supports the coordination of actions and exchange of information between supervisory bodies, and it meets regularly to analyze information on regulated activities.

We also participate in early intervention mechanisms in our 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.

Under its Basic Constitutional Act, the Bank is empowered to regulate important aspects of the financial system and the capital market. We also have the legal authority to act as lender of last resort, that is, to provide liquidity to solvent institutions that are facing temporary cash flow problems.

4.2.1. Our Performance in 2021

4.2.1.1 Management of Traditional Issues

Development and Adjustment of New and Existing Regulations
Last year, we worked on nine regulatory changes, as described below:

MARCH

Regulation: Chapter III.J.2 of the Compendium of Financial Regulations (CNF)

Description: Following a public consultation process opened in late 2020, we approved changes to Chapter III.J.2 of the Compendium of Financial Regulations (CNF), to incorporate greater proportionality in the prudential capital and liquidity requirements for **Payment Card Operators.**

Norma: Nuevo capítulo del Compendio de Normas Financieras (CNF)

Regulation: New chapter of the Compendium of Financial Regulations (CNF)
Description: We opened a public consultation on a new Chapter of the CNF, regulating the creation and operation of **Retail Payment Clearing Houses.**

This development aims to strengthen the retail payment clearing and settling process, which previously did not have a specialized regulatory framework.

The regulation is innovative in that it considers space for developing experimental projects, along the lines of the regulatory sandboxes used in other jurisdictions.

The consultation was met with great interest by market agents. After reviewing the comments received and working in coordination with the FMC, we published the definitive regulation on retail payment clearing houses in February 2022.

APRIL

Regulation: Receivables Exchange

Description: We recognized the Chilean receivables exchange, constituted under Law N° 19,220, and the brokers who trade as members thereof, as a National Formal Secondary Market, for the purposes of Article 48 of D.L. 3,500 of 1980. This measure was adopted with the prior favorable assessment of the Superintendence of Pensions (SP) and in coordination with the Financial Market Commission (FMC).

The legal framework establishes that transactions made using pension fund resources must be conducted in a formal secondary market, understood as a market that guarantees the transparency and certainty of transactions. The Central Bank is authorized to determine which markets are considered to be formal secondary markets, and we have exercised that authority in Chapter III.F.3 of the CNF.

We also issued a favorable assessment report, on the request of the Superintendence of Pensions, on allowing the pension funds and unemployment funds to purchase securities backed by invoices, issued by the receivables exchange constituted under Law N° N° 19,220 and held by securities custodians regulated by Law N° 18,876.

MAY

Regulation: Savings and Loan Associations (S&Ls)

Description: We published for consultation a proposal on a regulatory modification to promote and facilitate the **transition of financial product contracts linked to the London Inter-Bank Offered Rate (LIBOR), to new benchmark interest rates**

We modified Chapter III.C.2 of the CNF to modernize and strengthen the regulatory and prudential framework applicable to Savings and Loan Associations (S&Ls) and the operations that they are permitted to carry out.

The new regulations propose a new standard for S&Ls that meet a series of requirements, allowing them to: participate in the purchase of loan portfolios, without assuming the assignor's liability; request access to the Central Bank's Open Market Operations System (SOMA); and give and receive loans between S&Ls, within established limits.

Additionally, we updated a series of references in view of the modifications introduced to the General Law on Savings and Loan Associations by Laws N° 20,881, 20,950, and 21,130.

The final version of the regulations was published in November 2021

JUNE

Regulation: Transition of financial product contracts based on the London Inter-Bank Offered Rate (LIBOR)

Description: We published for consultation a proposal on a regulatory modification to promote and facilitate the transition of financial product contracts linked to the London Inter-Bank Offered Rate (LIBOR), to new benchmark interest rates, in the context of a global transition to end the use of the LIBOR in December 2021.

The definitive version of this regulation was published in August 2021, officially recognizing the following foreign benchmark interest rates:

Secured Overnight Financing Rate (SOFR)

Euro Short-term Rate (ESTR)

Sterling Overnight Index Average (SONIA)

Tokyo Overnight Average Rate (TONA)

Swiss Average Rate Overnight (SARON).

Regulation: Regulation allowing the offer of large-value payment clearing services in foreign currency

Description: Also in June, following a public consultation process published in January, we published the new regulation on large-value payment clearing services in foreign currency, which constitutes an important step forward on the agenda to strengthen the financial market infrastructure.

AUGUST

Regulation: Pension fund investment limit on perpetual bonds

Description: We published a public consultation on the limit on the Pension Funds' investment in perpetual bonds issued by banks, which were introduced in the local capital market with the adoption of Basel III in the General Banking Law (GBL).

The GBL reform of 2019 allows banks to issue perpetual bonds (i.e., bonds with no maturity date), with prior authorization by the FMC. At the same time, the legal framework governing the Pension Funds (DL 3,500) was modified to permit investment of fund resources in these new bonds and to authorize the Central Bank to establish the corresponding investment limits, which cannot exceed 5% of each fund.

The definitive version of the regulation was published in December, establishing the following structure of investment limits by fund type: up to 5% for Type A and B funds; 2% for Type C funds; and 0% for Type D and E funds.

SEPTEMBER

Regulation: Market risks applicable to banks

Description In September, we published a gradual substitution program for the CBC regulation on market risks, to be replaced by a regulation issued by the FMC under the current General Banking Law (GBL).

The CBC market risk regulation has, for many years, allowed rectifying the legal impossibility of incorporating the measurement of this type of risk into the bank solvency measure, following Basel standards, which only considered credit risk.

This gap was resolved with the passing of the new GBL in 2019, which allows the Financial Market Commission (FMC) to establish the methodology for determining bank capital requirements, based on the credit, market, and operational risks to which the banks are exposed. Thus, the FMC incorporated new requirements into its regulatory framework, which will enter into effect in January 2023.

To facilitate a gradual transition from the current market risk regulation established by the CBC to the guidelines developed by the FMC, we made the necessary adjustments to our regulatory guidelines. These were approved by the FMC via the prior assessment report mechanism considered in the regulatory framework, whereby the FMC issued a favorable assessment without comment.

NOVEMBER

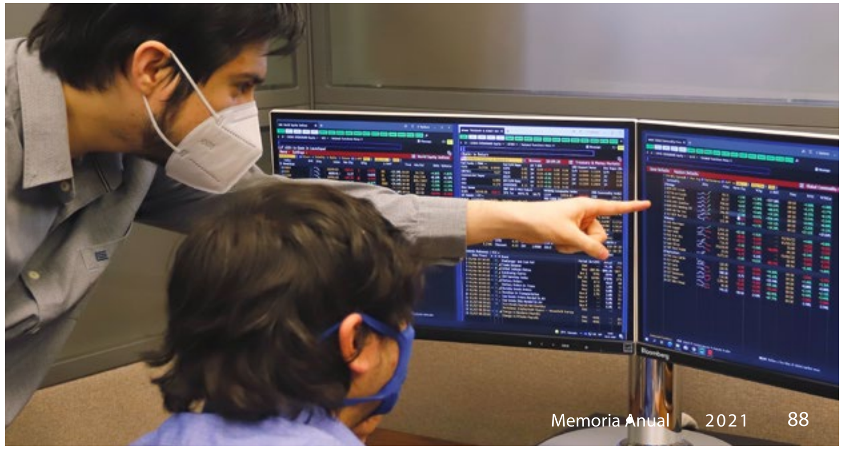
Regulation: Liquidity risk management in the financial system

Description: We opened a public consultation on a new liquidity risk management regulation for the financial system, which aims to finalize the incorporation of the Basel III standards in our guidelines, together with complementary international standards on liquidity management.

Basel III defined a short-term liquidity standard (liquidity coverage ratio, LCR) and a long-term standard (net stable funding ratio, NSFR). Our regulation, in place since 2017, required banks to comply with a minimum of 100% for the LCR and only to report the NSFR.

With this latest reform, we established mandatory compliance for the NSFR, at a minimum of 100%, while eliminating some requirements on maturity mismatches that were historically included in our regulations.

Additionally, we incorporated a self-assessment process for bank liquidity management, which will be subject to oversight by the FMC.



Implementation of the Countercyclical Capital Requirement (CCR) Established in the General Banking Law

In September, we published a report on the implementation of the countercyclical capital requirement (CCR), outlining the policy objectives that will guide the Board's decisions in this area.

A structural characteristic of the CCR is its macroprudential and countercyclical nature, so we will pursue a preventive and prospective strategy in our decisions to activate the CCR and calibrate its level, founded on a quantitative and qualitative analysis.

This decision process will be developed in semiannual Financial Policy Meetings, starting in the first half of 2022.

Financial System Stability Assessment

During the year, we carried out the Financial System Stability Assessment (FSSA), within the framework of the Financial Sector Assessment Program (FSAP) program.

The assessment concluded that Chile has a deep financial system, with solid regulatory and supervisory frameworks and adequately capitalized banks.

This review was requested voluntarily by Chile, through the CBC and the Finance Ministry. It was the third time the assessment was carried out (previous rounds were in 2004 and 2011).

The assessment notes that the significant reorganization of the regulatory authorities has been completed and that the implementation of Basel III began in December 2021. The FSAP further recognizes that the response of the economic authorities to the events in late 2019 and 2020, marked by the coordination of fiscal, financial, and monetary policies, including the protection of financial stability through unprecedented liquidity support by the CBC, demonstrates the Chilean financial system's capacity for adaptation.

Recommendations for the CBC

The recommendations that are most directly related to our organization include improving systemic liquidity management, to limit the risks taken by the Central Bank, and developing a repo market—that is, the sale of financial assets with an agreement to buy them back later—which would serve as the first line of containment in the event of a systemic liquidity shock.

To learn more about the results of the FSSA, click here

4.3
Climate Agenda

Climate change represents the greatest long-term risk for the world economy, and Chile is no exception. This has implications for monetary and financial policy. The Central Bank is therefore monitoring the financial effects of this global phenomenon, while researching and proposing a climate agenda that will allow us to understand and anticipate the possible economic implications.

4.3.1 Monitoring the Financial Effects of Climate Change (Material Topic)

103-1, 103-2, 103-3

Why is it important?

Climate change is considered to be one of the main risks at the world level. The implications go beyond the environment and into the economic sphere of all countries. Central banks, which are tasked with safeguarding financial stability, are called to consider the climate factor in their work.

How do we manage it?

The Bank defined its sustainability strategy as part of the "responsible bank" pillar of the 2018–2022 Strategic Plan, which is where issues associated with climate change adaptation are addressed. Every division throughout the Bank, with support from senior management and supervision by the Board, manages issues related to climate change, through participation in inter-institutional working groups, the exploration of responsible investment, and the generation of knowledge.

Our Main Guidelines

- **Sustainability Strategy**
- **Recommendations of the Network of Central Banks and Supervisors for Greening the Financial System (NGFS).**
- **Commitments by the Central Bank of Chile under the Green Agreement of the Finance Ministry's Green Finance Working Group (2019).**

The phenomenon of climate change has become an increasing priority on the agendas of public and private entities, constituting a large-scale global challenge with multidimensional effects that could have an impact on countries' economies.

At Central Bank of Chile, we have made significant progress on integrating the analysis of the effects of this phenomenon in our day-to-day work. We also participate in national and international initiatives to implement good practices that allow us to better understand the consequences.

Central Bank Milestones in Climate Change Monitoring

2018

Strategic Planning

The "responsible bank" pillar was defined as part of the 2018–2022 Strategic Plan.

2019

Sustainability Strategy

The Bank published its Sustainability Strategy, in which climate change adaptation is an outward-looking pillar.

2019

Joint Statement on Climate Change

In conjunction with the Finance Ministry, the FMC, and the Superintendence of Pensions, we signed a Joint Statement on Climate Change and Financial Stability. This is a key guideline for directing financial flows toward a low-carbon economy, generating the general principles on managing the risks and opportunities associated with climate change, and, most importantly, committing to taking concrete actions on this area in the future.

2019

Financial Stability Report

In the FSR for the second half of 2019, we included a box on climate change risks for the financial system for the first time. participamos en el webinar "Riesgo

2020

Inter-institutional Participation

Together with the FMC and the Bank of England, we participated in the webinar "Climate Risks in the Financial System: a Discussion of Types and Management."

4.3.1.1 Progress in 2021

CBC2

We are part of the Network of Central Banks and Supervisors for Greening the Financial System (NGFS)

In February 2021 we were accepted as a member of the NGFS, a voluntary organization where central banks and financial supervisors share best practices and contribute to developing climate and environmental risk management in financial systems. It is the main international forum on green finance, and it seeks to mobilize financial systems' contribution to the transition to a more sustainable economy.

Since joining the network, we have participated actively in order to gain theoretical and practical knowledge on green finance and climate change from other jurisdictions, so as to be able to enrich our monitoring and study of the local financial system.

In addition to participating in the NGFS plenary sessions, we are involved in three of the network's five working groups. As members of Working Group 2 on macrofinancial analysis, we participated in a case study in which a group of central banks applied climate change scenario analysis to their respective financial systems, using a methodology and scenarios defined by the NGFS.

We also participate in Working Group 5 on economic research and Working Group 4 on data gaps.

We are on the Ministry of the Environment's Natural Capital Committee

En julio del 2021 nos integramos al Comité de Natural Capital Committee, grupo creado por el Ministerio de Medio Ambiente con apoyo del Consejo de Ciencia, Tecnología, Conocimiento e Innovación, que tiene por objetivo medir y evaluar el stock de capital natural en Chile.

Este proyecto tiene como referente el trabajo desarrollado por el Natural Capital Committee creado en el Reino Unido en 2012, el que motivó el Informe "Economía de la Biodiversidad: el Informe Dasgupta" publicado a comienzos de 2021. Esto responde a la necesidad de incorporar la integridad de la biodiversidad y los servicios ecosistémicos al análisis económico, de manera de asegurar que el desarrollo sea coherente con la protección de la naturaleza y el bienestar de futuras generaciones.

El aporte del Banco Central se orientará a identificar formas concretas de medir el capital natural de Chile y las necesidades de información para lograrlo, tomando en cuenta su experiencia en la elaboración de Cuentas Nacionales y los criterios recientemente desarrollados por las Naciones Unidas en la materia.

Medir y cuantificar los servicios ecosistémicos que la naturaleza provee a las personas ayudará a impedir que su deterioro continúe pasando desapercibido, así como valorar las políticas de conservación y recuperación de ecosistemas, apuntando a que el desarrollo económico sea coherente con la protección de la naturaleza y el bienestar de futuras generaciones.

Planetary Limits and Natural Capital

In August, Elías Albagli, Director of the Central Bank's Monetary Policy Division, gave an online seminar on "Planetary Limits and Natural Capital," organized by the University Mayor School of Business. In the talk, he warned about the impact of human activity in terms of environmental and natural degradation, covering multiple planetary dimensions.

He also addressed the need to integrate human capital into economic analysis, the role of central banks and other regulatory authorities in this area, and the need for institutions to address this challenge, which is a primary concern for Chile and the world.

To watch the presentation, click here.

COP26 Participation

In November, we participated with the NGFS in the 2021 United Nations Climate Change Conference (COP26), during which we assumed a series of individual commitments on various issues:

- Incorporating climate change scenarios in the analysis and quantification of financial stability risks;
- Enriching the analytical tools used to calibrate monetary policy by incorporating sustainability criteria in the estimation of long-term trends;
- Reducing the gaps in the availability and quality of the data needed to analyze and quantify the risks of climate change in our statistics production;
- Continuously monitoring structural developments in the market with regard to sustainable financial products.

Seguimiento actividades del Green Agreement sobre el cambio climático

On 5 May 2021, the Finance Ministry presented the progress to date of each member of the Working Group on Green Finance in terms of their commitments under the Green Agreement, in an exercise of accountability.

The majority of the commitments contained in the Joint Statement of Financial Authorities (and the Green Agreement) have been fulfilled. Permanent commitments will be maintained as part of our day-to-day activities.

First Steps toward the Development of a Green Taxonomy

We continue participating in the Green Finance Working Group and cooperating on the initiatives developed for meeting its objective. In particular, we are involved in the Working Group's plan to lead an effort to coordinate the first phase in developing a classification of environmentally sustainable economic activities, known as a green taxonomy. The Working Group members, together with the Ministry of the Environment, were called on to form a Preparatory Committee for a System of Classification of Environmentally Sustainable Economic Activities.

These taxonomies, which have been developed in countries such as Canada, China, and the European Union, establish a classification based on the contribution of products or activities to reducing CO2 emissions. This helps encourage a shift in investment and output toward these activities and away from those that do not contribute to reducing climate change or that simply increase greenhouse gas emissions.

The Bank's technical support in this area is essential, so we hope to participate actively on the project.

4.3.1.2 Incorporation of Climate Change in Financial Stability Monitoring

We continue studying climate change risks in the financial sector and how green finance can change the topography of financial markets.

Transition Risks
The analysis of climate risks has progressed significantly in the past year, in particular with regard to transition risks. We now have a good estimation of the carbon footprint of productive sectors in Chile, following the publication of the report Documento de Huella de Carbono para la Economía Chilena 2017, in 2021.

Our Performance Assessment
Our participation in the Financial Sector Assessment Program (FSAP) marked the first time a jurisdiction has been evaluated in terms of green finance and climate change. In particular, the assessment looked at how these aspects have been incorporated by different financial agents and authorities.

Stress Tests
In this context, we performed a stress test on climate risks in Chile, in conjunction with the International Monetary Fund (IMF). The exercise was the first step toward improving this type of test and converging toward an understanding on par with traditional risks. To achieve this, we need to identify and close the existing gaps that hinder an optimal measure, such as the necessary methodologies and information, so as to finally be able to measure the financial system's resilience to these risks.

Macroeconomic Statistics
We are incorporating environmental factors in our macroeconomic statistics, such as the loss of biodiversity and the degradation of ecosystem services. This agenda also includes the analysis of the short- and long-term macroeconomic implications, the potential risks to the financial system, and the need to provide statistics related to these dimensions.

4.3.1.3 Carbon Footprint for Chile

In April 2021, we published the report "Huella de Carbono para la Economía Chilena 2017". which provides a methodology for measuring the country's carbon footprint. The study thus supports the analysis of emissions reductions and the identification of how the different sectors contribute to this objective.

Estimating the carbon footprint using the consumption-based carbon accounting method allows calculating the CO2 emissions that are incorporated in final-demand goods, taking into account the input-output relationships between the different economic activities. This methodology is widely used to measure the flow of regional CO^2.

The study used direct CO2 emissions data at the firm and activity levels, published by the Ministry of the Environment, and national accounts statistics, published by the Central Bank of Chile.

The estimation of a direct emissions vector consistent with the economic activities in the national accounts and its annual publication by the Bank in conjunction with the extended input-output matrix will allow users of these statistics to update carbon footprint estimates, analyze emissions reduction by economic sector, and evaluate projects from this perspective.

In the future, this methodology will allow the inclusion of firms' efforts to neutralize their carbon footprint, through the incorporation of carbon absorption in the emissions vector.

For 2022, our work agenda includes the following:

- Update the estimate for 2018 and 2019.
- Offer an interactive visualization of the input-output matrix with carbon footprint applications.
- Work on the structural decomposition of CO2 emissions, the effect of the green tax, and a carbon footprint estimate by household income decile.

4.3.1.4 Knowledge Generation

- We cooperated with the Financial Stability Board (FSB) on the preparation of reports, specifically in the Analytical Group on Vulnerabilities. This entity monitors and makes recommendations on the global financial system.
- On 8 October, we organized a workshop on the "Implicaciones macroeconómicas y financieras del cambio climático". The virtual event featured participation by representatives from institutions such as the IDB, New York University (NYU), and the OECD, as well as authorities from the FMC and the CBC.
- In November, we participated in the workshop "Climate Change and Central Banking: A Strategic Perspective," organized by the Bank of England.
- In December, we published a report on the "past and future impact of climate change on economic activity in Chile."

Economic Growth and Biodiversity: Something has to Give

The report, "Crecimiento económico y biodiversidad: algo tiene que ceder" [Economic Growth and Biodiversity: Something has to Give] by Elías Albagli, Monetary Policy Division Director, and Joaquín Vial, former Deputy Governor of the Bank, was published in 2022. The report is part of the Central Bank's Economic Policy Reports series, which reveals the thinking of CBC authorities on the Chilean economy, policy conduct, and key national and international issues related to the Bank's work. The series provides a channel of diffusion and discussion of relevant topics related to the Bank's objectives and actions and is aimed at a broader audience than solely specialists.

4.3.1.5 Sustainable Investment

One of our commitments under the NGSF involves reviewing the investment process considering environmental, social, and corporate governance (ESG) criteria, as well as continuing to study the integration of green bonds in the Bank's own portfolio. In the same line, we are monitoring the evolution of the sustainable product market and analyzing the space for managing these instruments in the context of the international reserves. The results of this analysis will be released in 2022.

Additionally, we will continue to monitor the structural evolution of the sustainable product market to support innovation in the area of sustainable finance. One example is accepting sustainability-linked bonds as collateral in the different programs in which we interact with the financial markets.

4.4

Digitization Agenda and Digital Currency

One of the many effects of the pandemic was the acceleration of digitization in organizations, together with the expansion of retail digital payments. The Central Bank is not impervious to these changes in the behavior of individuals and firms, and we have thus developed a specific agenda to address issues in this area, including our internal digital transformation and the analysis of digital payments.

4.4.1 Knowledge and Adoption of Disruptive Technologies (Material Topic)

103-1, 103-2, 103-3

Why is it important?

The world is moving quickly toward digitization. The pandemic accelerated these processes at the global scale, and the Central Bank has a role in monitoring the effects of these new behaviors at the economic level. Furthermore, as an organization, we must adapt to a work scenario that privileges the digital transformation.

How do we manage it?

Starting with the Board, and in the role of each of the divisions that make up the Bank, we have promoted a digital agenda that includes the digital transformation, cloud migration, big data, cybersecurity, etc. The Administration and Technology Division has developed various initiatives to facilitate the management of these issues.

In 2021, we also strengthened our analysis of digital currencies. The Bank's Technology Observatory played an active role in this process.

Our Main Guidelines

- Digital maturity survey
- Project accelerator
- Digital strategy design

The Administration and Technology Division is responsible for strategic planning, management control, technological services, and information security. It also proposes and implements technology objectives, strategies, and policies, including information systems, technological infrastructure, and cybersecurity, and provides technological support to all the Bank's units.

4.4.1.1 Innovation and Internal Digital Transformation

Innovation

At the Central Bank of Chile, we understand innovation to be one of the fundamental pillars for achieving our institutional objectives and the evolution of our organization. It is a skill to be able to update, adapt, and/or change processes in accordance with current needs and our vision of the future, under demanding, challenging, and constantly changing circumstances.

We motivate the organization to take a critical and aggressive view of its processes and technologies, in search of excellence and efficiency, and to develop new products and services using this perspective.

In the area of process management, highlights include the updating of the Bank's process map and the use of automation tools.

Digital Transformation

We seek to incorporate emerging technologies into the Bank's day-to-day routines that contribute to meeting our objectives, as well as to detect opportunities and potential impacts in areas specific to the Bank's work.

Thus, in 2021 we discussed the results of a survey on the digital maturity of the Central Bank, in a presentation to the Board, the management team, and Bank staff. The survey revealed the need to continue moving forward on developing a strategy in this area for the organization, in response to which we defined a Digital Strategy for the Bank.

Development of Digital Capacities

In the year, we deployed a series of initiatives to develop the digital capacities of the Bank's staff members. These included "Digital Acceleration Workshops" for the management team, aimed at establishing a shared understanding of key definitions in the digital transformation process.

This resulted in a consensus definition of the Bank's Digital Strategy and its principles and the approval of a model and roadmap to implement it over the coming years.

The Bank staff also received specialized training to develop digital capacities through the Central Academy platform. This training cycle consisted in four technical courses (Python, R, web scraping, and machine learning) and an informative talk on advanced data use.

We also made available version control tools (such as GIT and Visual Studio Code) for the entire Bank, to facilitate the development of economic and/or financial models that use programming languages.

In this context, we analyzed the purchase of news databases, used in work related to sentiment analysis by the Financial Policy and Monetary Policy Divisions.

With regard to concept testing, we conducted pilot tests with Qualtrics online survey software for surveys by the Financial Markets Division and the Treasury Area.

In conjunction with the innovation area of the Bank of Spain, we defined a collaborative work agenda on sentiment analysis.

Project Accelerator
The Technology Observatory implemented the second version of the Project Accelerator. The objective is to enhance the results of projects related to data analytics and innovation. In total, eight projects received support in areas such as mentoring for technology exploration, inter-divisional collaboration, networking, and diffusion.

Improvement of the Remote Work Experience with the Provision of Cloud Services

In 2021, we explored options for providing cloud-based services.

Together with tendering out services like Enterprise Resource Planning (ERP), we consolidated hybrid work with the migration of all personnel office operations to services provided by the Microsoft Azure M365 platform, for all Bank employees. We thus implemented an environment that includes email, storage systems, spreadsheets, etc., in the cloud. As a result, the remote work experience has the same level of security as when the jobs were performed onsite at the Bank's facilities.

We have also moved to the use of a data cloud for research application processing, data analysis, and remote support, for people who work offsite.

The plan originally had a timeline of two years, but that had to be adjusted to just twelve months to accommodate the remote work context driven by the pandemic. Nonetheless, user satisfaction remained high, because in addition to improving efficiency, the new system increased collaboration levels thanks to the mobility provided by cloud tools.

4.4.1.2 Cybersecurity

New Cybersecurity Controls
The increase in cybersecurity risks has forced us to redouble our efforts and controls to prevent potential impacts.

Therefore, in 2021 we incorporated improvements in our response to cybersecurity incidents in the face of emerging technological threats. We undertook a proactive review of incidents in relevant national and international external institutions and considered alerts and indications by the Computer Emergency Response Team (CSIRT), United States Computer Emergency Readiness Team (US-CERT), and so forth.

We also sought to reduce risk in technological components and devices that are susceptible to attack, through patches, vulnerability management, and robust configuration of systems and equipment. This allowed us to bring our exposure down to below the international banking average and below the industry standard.

Our objective is to improve our cybersecurity indicators to better channel our efforts and the implementation of new controls, in conjunction with raising user awareness and education in the Bank.

As challenges, we identified achieving greater compliance with the National Institute of Standards and Technology (NIST) Cybersecurity Framework and strengthening our implementation of the Defense in Depth (DiD) approach. We will also continue to develop and coordinate tests to ensure an adequate response to cybersecurity incidents.

4.4.1.3 Central Bank Digital Currency

CBC3

This has motivated an active research agenda among central banks to issue an electronic currency, including the Central Banks of the Bahamas, China, Sweden, and Uruguay, as well as the U.S. Federal Reserve.

A key development in international finance in recent years is the proliferation of various digital means of payment.

Chile is not removed from this reality, and we are thus exploring the potential issue of a digital currency by the Central Bank, with a focus on retail payments.

The study was launched by the Technology Observatory in 2019 and 2020, with an initial internal collaboration that allowed a general understanding of the difficulties and possible motivations and implications of this type of initiative for the Bank.

Potential Benefits of a Digital Currency and Payment Architecture

- Efficiency and cost reduction in payment processes.
- Greater inclusion of unbanked segments.
- Improvements in information protection and security protocols in the payment system.
- Prevention of the loss of central bank monetary autonomy due to the fast growth of private digital payment mechanisms.

To maximize the benefits and reduce the potential risks and costs, it is important to choose the right design of the digital payment architecture.

Working Group on Digital Payments

Taking into consideration a more strategic perspective, the current status of internal work, and the digital payments regulatory agenda, in 2021 the Board launched an investigative process on this issue.

Specifically, a Working Group on Digital Payments was created, led by Board Member Alberto Naudon. The 26 members include Division Directors and people from different areas of the Bank, under a successful horizontal group work model. The objective is to analyze and deliver information for developing a medium-term strategy on a digital currency to potentially be issued by the Central Bank of Chile.

In 2021, the working group met three times to discuss their progress. In the first half of 2022 the group will publish a white paper on the results of this preliminary analysis and outline the short- and medium-term work agenda.

The Bank's Digital Payments Agenda was presented to the Senate Finance Committee in September. The presentation highlighted the regulatory proposal for Retail Payments Clearing Houses, mentioned earlier, and the establishment of the Working Group on Digital Payments.

In addition, the Technology Observatory collaborated with other central banks and multilateral organizations on the exploration and investigation of digital currencies.

Finally, to strengthen knowledge on these issues within the Bank, we held talks, organized courses with international experts, and published internal informational material.

CBDC and Digital Payments Forum

To better understand the opportunities and risks of these new developments for the future of central banks, we established an internal digital repository called the Central Bank Digital Currency (CBDC) and Digital Payments Forum. The repository holds a collection of documents related to the digital payments disruption and the potential role of CBDCs, as well as information on the work being done by other central banks and relevant news items.

The site is available to all Bank staff and, in addition to being a source of information, is a space for sharing content dynamically and systematically between everyone who is working on this issue.

4.4.1.4 Technology Observatory, FinLab, and TechLab

Digitization and new technologies can have effects not only on people's lives and consumption habits, 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.

Technology Observatory

Acts as a catalyst for knowledge and the adoption of disruptive technologies in the Bank.

FinLab

Seeks to make space in the regulatory framework for innovations related to retail payments.

TechLab

Provides a space for experimenting with disruptive technologies for the economy.

Technology Observatory

The Technology Observatory was launched under the 2018–2022 Strategic Plan. It reports directly to the Financial Policy Division and is made up of the team leader and two senior professionals.

It 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 objectives:

- Facilitate internal coordination.
- Determine the axes of innovation; promote and contribute to knowledge on those axes.
- Strengthen the Bank's network of contacts, to increase interaction with the ecosystem on issues related to innovation and disruptive technologies.

In 2021, the main topics explored included big data, advanced data use, central bank digital currencies (CBDC), and distributed ledger technology.

Technology Observatory: Axes of Innovation

FinLab

The FinLab aims to create space for innovations in the regulatory framework for retail payments. Thus, since 2020 work has centered on the preparation of a new chapter of the Compendium of Financial Regulations to regulate the clearing and settlement of retail payments. This regulatory framework will distinguish between systemic initiatives and experimental initiatives.

The regulation was published for public consultation in 2021. During the two-month consultation period, we received more than 150 comments from 13 interested parties, market agents, and the Financial Market Commission (FMC). The rest of the year was dedicated to processing all the comments received and discussing key elements of the new regulation with the FMC. Given the current legal framework, the publication of the new regulation will require a prior favorable assessment report by the FMC.

What are disruptive technologies?

Any technology or innovation that renders an older technology obsolete. They are called disruptive because they cause a sudden change, sometimes leading to a deep shift in people's way of life. These technologies have the power to change how people work, live, think, and behave.

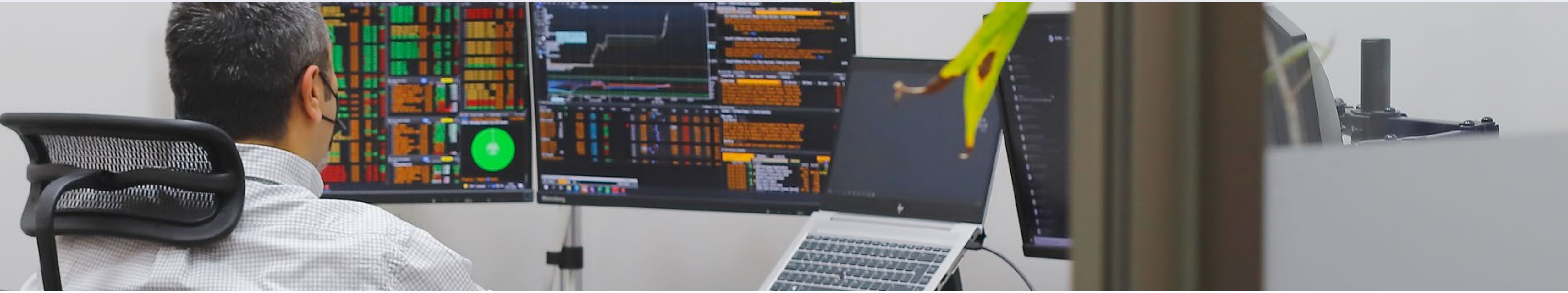
4.5
Financial Markets

What Does the Financial Markets Division Do?

This division is responsible for implementing monetary and financial policy, that is, for carrying out the necessary operations in the financial markets to ensure that the objectives of these policies are met. The division also acts as an advisor to the Board on the design and implementation of special operations, studying their short-term effects on our balance sheet.

The international reserves (IR), which are one of the tools available to the Board for attaining the Bank's objectives, are managed by this division, which also makes proposals on reserve management policies.

Another of the division's functions is to manage the payment systems. This includes the RTGS System, which is the country's primary large-value payment system.



4.5.1 Our Performance in 2021

4.5.1.1 2021 Highlights

Date	Action	Description
18 January	Start of the reserve replenishment and expansion program	Objective is to purchase USD 12.0 billion, at a rate of USD 40 million a day.
01 February	Change in the international reserve benchmark	U.S. dollar share increases to 77%; duration, from 2.1 years to 3.2 years.
28 February	Closure of the FCIC-II	FCIC-II closes, with CLP 3.696 trillion used.
01 March	Opening of the FCIC-III	The third phase of the FCIC window opens.
Expansion of eligible collateral to include A5–A6 rated loans with a state guarantee.	Habilitación de liquidación de Cámara de Cheques en dólares en LBTR	Habilitación de la liquidación de Cámara de Cheques en dólares de LBTR, con un promedio de 11 contrapartes y US$9,6 millones.
01 March	Authorization for the Check Clearing House in USD to be settled in the RTGS	Check Clearing House in USD is now settled in the RTGS System, with an average of 11 counterparties and USD 9.6 million.
03 May	Reopening of the CC-VP program	In the context of the third pension fund withdrawal, we made the remainder of the CC-VP bank bond repo program available to banks and other financial institutions, with an amount of up to USD 9.5 billion plus the rollover of the current amount of USD 500 million. The program was in effect through the second week of July, after which only rollovers were accepted.
31 May	Publication of the Exceptional Measure Series in the Statistical Database (SDB)	Daily publication of the exceptional measure time series in the SDB, thereby increasing public data availability.
25 June	National Markets Committee	The National Markets Committee met twice in June and July.
30 August	Closure of the FCIC-III	Although the window closed in August, 100% of the line was used in June (CLP 7.1 trillion).
04 October	Launch of the FCIC Collateral Website	Starting this month, we opened a web portal to facilitate the constitution of the pledge on the loan portfolio used as collateral for the FCIC.
05 October	Changes in the Financial Brokers Survey	The survey was reformulated, dividing it into structured and unstructured sections.
13 October	Suspension of the reserve replenishment and expansion program	In view of the evolution of the financial market and the international reserve level, the purchase program was suspended, with a total of USD 7.440 billion purchased, or 62% of the announced objective.
1 November	Change in external managers for the international reserves	BNP Paribas Asset Management USA, Inc. and Allianz Global Investors GmbH are the new portfolio managers.
15 November	Announcement of gradual dismantling of the LCL	To facilitate the closure of the liquidity facility, we authorized banks to gradually dismantle their current stock over five additional months, extending the closure date to 30 August 2022.
21 December	Announcement of change in margins and haircuts	The Bank announced a change in the structure of margins and haircuts used in its collateralized liquidity injection operations, which entered into force on 4 January 2022.

4.5.1.2 Traditional Areas

Debt Management

Given the growth of the monetary base and the larger quantity of discount notes (PDBC) in circulation, our balance sheet recorded changes on both the asset and liability sides, in order to support a correct transmission of the monetary policy rate, in the context of the interest rate normalization process launched by the Board in mid-2021.

The average stock of discount notes (PDBC) increased 65% in the year ($36.352 trillion as of December).

894 auctions at different maturities were held during the year, with 84% sold.

64% had a maturity of under 30 days, with auction rates of 94,5%

Average PDBC Stock	
Month	**Stock**
January	**21.950**
February	**22.492**
March	**21.951**
April	**22.129**
May	**29.907**
June	**31.789**
July	**34.297**
August	**38.353**
September	**39.422**
October	**38.878**
November	**41.944**
December	**36.352**

In trillions of pesos.

1.- PDBC
Repo operations

PDBC auctions								
	Type of PDBC							
	PDBC 7	PDBC 14	PDBC 30	PDBC 60	PDBC 90	PDBC 180	PDBC 360	Total
No. auctions	140	250	178	115	141	35	35	894

2.- Repo (excl. FCIC)
Repo operations

PDBC auctions								
	Type of PDBC							
	6 days	7 days	27 days	28 days	91 days	92 days	182 days	Total
No. operations (#)	1	83	4	128	83	1	17	317
No. operations auctioned (#)	0	0	0	1	0	0	1	2
Amount auctioned	0	0	0	1	0	0	10	11

In billions of pesos.

4.5.2
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.

4.5.2.1 International Reserve Management

Reserve Replenishment and Expansion Program

On 18 January 2021, our country launched a program to gradually replenish and increase its international reserves in order to strengthen its international liquidity position. The program considered daily purchases of USD 40 million, to reach a total of USD 12.0 billion, with the objective of increasing the international reserve level to around 18% of GDP. At the October Monetary Policy Meeting, our Board voted to suspend the reserve accumulation program, in view of the evolution of the financial market and the current level of international reserves.

From the start of the program on 18 January 2021 through its suspension on 13 October 2021, a total of USD 7.44 billion was purchased. Thus, the program executed 62% of the initial target. Of the total transactions, 96% were channeled through banks, and the remainder through stock and securities brokers. At year-end 2021, the international reserves were equivalent to 18.1% of GDP.[1]

International Reserve Performance

Investment Portfolio	Cash Portfolio	Other Assets
USD 42.8178 billion	**USD 4.3091 billion**	**USD 4.2029 billion**

2021 International Reserves
USD 51.3298 billion

Note: 31 December 2021.

[1] Relative to nominal GDP of CLP 240.633 trillion in 2021, published on 18 March 2022.

At year-end 2021, the international reserve balance was USD 51.3298 billion, which is USD 12.1298 billion higher than at year-end 2020. The growth is explained by an increase of USD 6.7993 billion in the investment portfolio, USD 2.5277 billion in the cash portfolio, and USD 2.8029 billion in the other assets portfolio.

The increase in the value of the investment portfolio was largely due to the influx of dollars from the international reserve replenishment and expansion program, which added USD 7.44 billion to the portfolio during the period in which it was operating. This was partially offset by net losses of USD 93.5 million, due mainly to the depreciation against the U.S. dollar of the currencies that make up the reserve portfolio, and net withdrawals of USD 642.0 million in relation to IMF operations.

The increase in the cash portfolio, in turn, is explained by an increase in foreign currency deposits denominated in U.S. dollars held at the CBC by commercial Banks and the Treasury.

Finally, the increase in the other assets portfolio primarily reflects an allocation of special drawing rights (SDRs) by the International Monetary Fund (IMF) in August 2021, of which Chile's share was 1.672 billion. SDRs are the IMF currency, and at the time of allocation the amount was equivalent to USD 2.371 billion.

The liquidity of the reserves was ensured by investing in asset classes and issuers whose securities are traded on deep markets. At year-end 2021, total international reserves were invested as follows:

83,4%

Securities that are traded on highly liquid secondary markets

8,4%

Very short term bank deposits

8,2%

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.

At year-end 2021, excluding other assets and current foreign currency operations, our international reserves are invested as follows:

88.8% Sovereign risk	**9.6%** Bank risk	**1.5%** Supranational risk	**0.1%** Agency risk

73.7% AAA rating	**26.3%** 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 31.4 months, while the distribution of total reserves by currency was as follows:

72.5% U.S. dollars	**4.2%** Euros	**2.5%** Australian dollars	**20.7%** Other currencies

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, Allianz Global Investors and BNP Paribas Asset Management. These firms came on board in November 2021, with a mandate of USD 600 million each. Both firms manage a long-term global government fixed-income mandate, with a structure equivalent to the internally managed portfolio.

Returns

The total return obtained from international reserve management in 2021, excluding the other assets portfolio, was 0.58% measured in local currency and –0.13% 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 second and third quarters of 2021. However, this was offset by the negative exchange rate effect of measuring returns using the U.S. dollar as the base currency, which appreciated against the currency basket in the period.

The differential return relative to the benchmark, which is used to guide and evaluate investment performance, was –9.3 basis points in 2021, excluding the waiver period granted for rebalancing the portfolio to the benchmark in February 2021.

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

4.5.2.2 Sovereign Wealth Fund Management

In 2021, the Central Bank of Chile (CBC) continued to manage 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)

PRF Portfolio Allocation

- **Long-term**
- **Sovereign and quasi-sovereign (government-related) bonds**
- **Inflation-indexed sovereign bonds**
- **U.S. agency mortgage-backed securities (MBS)**
- **Corporate bonds**
- **High-yield bonds (high yield)**
- **Equity**

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

The short-term portfolio established by the Finance Ministry in 2020 was only in effect through 8 June 2021, due to withdrawals of USD 1.4818 billion on 8 April and USD 1.3251 billion on 8 June.

Additionally, the portfolios were rebalanced, with contributions of USD 146.1 million to the portfolio managed internally by the CBC, USD 26.0 million to the delegated MBS portfolio, and USD 49.0 million the external corporate bond portfolio, together with a reduction of USD 374.0 million in the external equity portfolio.

Thus, at year-end 2021, the market value of the PRF was USD 7.4729 billion, of which USD 3.4670 billion was managed by the CBC and its delegated managers.[3]

At year-end 2021, the market value of the ESSF was USD 2.4572 billion, of which USD 2.4567 billion was managed by the CBC.[4]

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 externally managed equity portfolio was eliminated on 1 October, with a corresponding transfer of USD 145.0 million to the portfolio managed internally by the CBC.

The bank securities benchmark was eliminated, and the use of these instruments is now restricted to cash management. Additionally, the Finance Ministry issued instructions for a number of withdrawals from the internally managed portfolio in April, June, July, August, and September, for a total of USD 5.944 billion.

Finally, another important movement in the year was the result of portfolio rebalancing, which involved the transfer of USD 117.0 million.

Due to these movements, the share of the sovereign wealth funds managed by the CBC contracted by USD 2.7656 billion in the case of the PRF and by USD 6.0360 billion in the case of the ESSF.

[3] The PRF resources managed by the Central Bank, as fiscal agent, are divided into a sovereign and quasi-sovereign bond portfolio (USD 2.4511 billion at year-end 2021) and an inflation-indexed sovereign bond portfolio (USD 578.0 million at year-end 2021) 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 437.9 million at year-end 2021). 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

[4] The remaining ESSF resources were managed by external portfolio managers under an equity mandate, which ended on 01 October 2021 in accordance with the new guidelines for this fund.

In 2021, 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. dollarson the funds managed directly by the Central Bank	
Long-term PRF	ESSF
–4.00%	–5.74%

The differential return attributable to the Bank's management, relative to the benchmark portfolios established by the Finance Ministry, was 12.9 and –4.7 basis points for the long-term PRF and ESSF, respectively.[5]

The short-term PRF was in effect in the first half of the year. In that period, it earned an absolute return of 0.03% and a differential return of 0.0 basis points.

With regard to fiscal agency fees,[6] the costs of managing the funds were charged to the Treasury. In 2021, the annual charges for the ESSF and PRF were 3.5 and 2.2 basis points, respectively.[7]

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 2030 (BTP-2030); UF-denominated Treasury bonds with maturity dates of 2028, 2030, and 2033 (BTU-2028, BTU-2030, and BTU-2033); and peso-denominated Treasury bills at 4, 6, 9, and 21 months.

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

[5]In the case of the PRF, if the management of both the CBC (long-term portfolio) 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 2021 were –3.64% and 10.3 basis points, respectively.
[6]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.
[7]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).

4.5.2.3 Provision of Large-Value Payment Services in 2021

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.

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 2021, the average daily value of credit supplied through the intraday credit facility, including both modalities, was CLP 3.2 trillion.

As of 1 March, the RTGS sub-system in USD processes net settlements for the national Check Clearing House in USD, which has an average of 11 participating banks.

The average daily value of payments settled and processed through this clearing house was USD 9.6 million.

On 30 June, the Board adopted a Resolution approving the new regulation on the establishment of large-value payment clearing houses in foreign currency, together with improvements in the regulations on large-value payment clearing houses in domestic currency.

In terms of hardware and software, in the year we launched a new functionality in the Payment System Web Portal, corresponding to a contingency mechanism for sending fund transfer instructions (FTI) in dollars, in the event that the participants are unable to send the instructions via SWIFT FIN messages or if they are not connected to the SWIFT communications network.

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

Real Time Settlement System in CLP

The RTGS sub-system in domestic currency settled an average of 1,654 payments per day in 2021—including includes the Bank's own transfers—with an average daily value of CLP 48.59 trillion(equivalent to USD 65.28 billion). This represents an increase in the average daily value of 20.83% over last year.

Real Time Settlement System in Foreign Currency

The RTGS sub-system in USD settled an average of 36 payments per day in 2021—including includes the Bank's own transfers—with an average daily value of USD 7.111 million (equivalent to CLP 5.5 trillion). This represents an increase in the average daily value of 393.13% over last year.

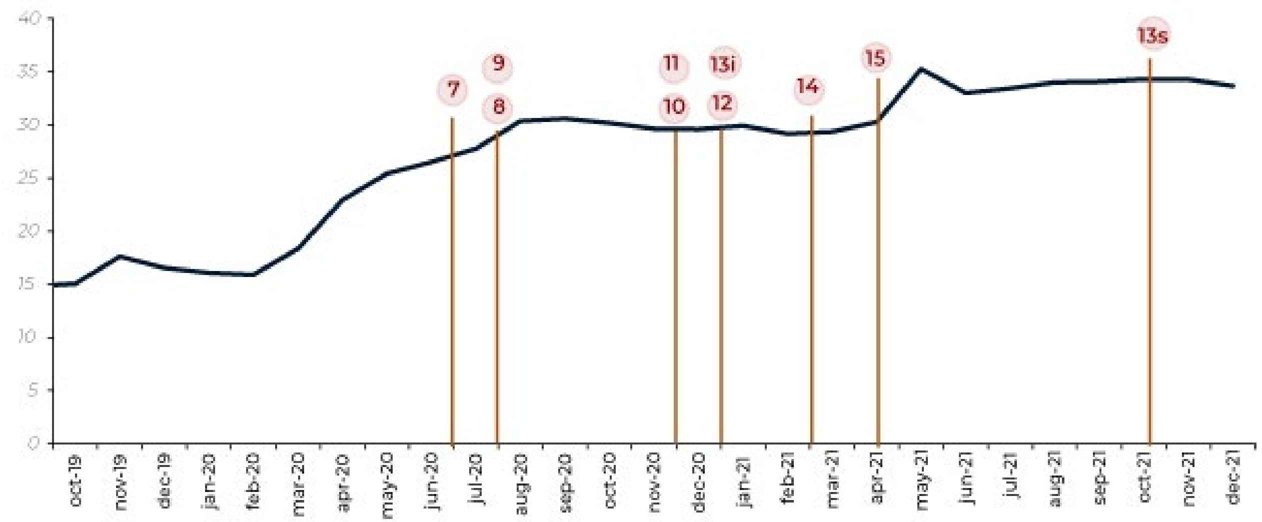
Availability

In 2021, the availability of the RTGS System and the SOMA System (which provides intraday credit), was 100% and 99.98%, respectively. The SOMA System had two incidents, which caused downtime of 28 minutes.

4.5.2.4 New Operations since 2019

The exceptional measures[8] implemented since the fourth quarter of 2019 have caused a strong expansion and reconfiguration of the assets and liabilities on the Bank's balance sheet. In GDP terms, liquidity and credit operations in pesos grew from 0.7% of GDP in February 2020 to 15% of GDP in August 2020 (measures 4, 5, 6, and 7 in the figure and table below). The balance sheet peaked at 35.3% of GDP in May 2021, due to the use of the CC-VP program (simultaneous spot purchase and forward sale of bank bonds) in the context of the third pension fund withdrawal. In the second half of 2021, the level stabilized at around 33% or 34% of GDP, largely reflecting dollar purchases of USD 7.44 billion, which increased the international reserves from 13.9% of GDP at year-end 2020 to 18.6% of GDP in 2021.[9]

Central Bank's Balance Sheet and Exceptional Measures
(percent of GDP)



[9] These measures were mainly oriented toward facilitating liquidity management in both dollars and pesos in the financial markets, injecting liquidity into the markets, supporting the monetary stimulus and the flow of credit to the sector, and containing the effects of volatility on the fixed-income market. For more details, se[e] https://www.bcentral.cl/web/banco-central/medidas-excepcionales
[10] See note 1

CBC Exceptional Measures, 2019 to 2021

(program amounts in millions of USD; accumulated use and current stock in billions of CLP)

Year	N°	Operation	Program amount (USD MM)	Accumulated use/ Stock on 31-Dec-2021 (CLP MMM)	Dates available
2019	1	Repo	Demand	5,025/0	Nov-19 – Jan-21
		Repurchase of CBC debt	Demand	5,357	Nov-19 – Dec-20
	2	Purchase of FX swaps (2)	4,000	1,915/0	Nov-19 – Apr-20
	3	Spot sale of USD (2)	10,000	1,969	Dec-19 – Jan-20
		Forward sale of USD (2)	10,000	3,811	Dec-19 – Oct-20
2020	4	Bank bond purchase program	8,000	3,271	Mar-20 – Sep-20
	5	FCIC-1 – LCL	24,000	18,170	Mar-20 to date
	6	Special asset purchase program	8,000	3,112	Jun-20 – Dec-20
	7	FCIC-2	16,000	3,696	jul-20 - hoy
	8	CC-VP 1	10,000	4,222/0	Aug-20 – Dec-20
	9	Deposit purchase	8,000	195/0	Aug-20 – Oct-20
	10	CC-VP 2	8,500	2,169/0	Dec-20 – Mar-21
	11	Deposit purchase	7,750	198/0	Dec-20 – Feb-21
2021	12	Bank bond reinvestment	500	322	Jan-21 – Jun-21
	13	Reserve purchase (2) (3)	12,000	5,526	Jan-21 – Oct-21
	14	FCIC-3	10,000	7,100	Mar-21 to date
	15	CC-VP 3	9,500	6,678/0	May-21 – Sep-21

Note 1: For more detail, see https://www.bcentral.cl/web/banco-central/medidas-excepcionales
Note 2: For USD programs, amounts are converted to CLP using the observed exchange rate on the day of the operation.
Note 3: In the figure, measure 13i corresponds to the initiation of the program, while 13s corresponds to the suspension of the program.

The growth of the balance sheet also implied a reconfiguration of assets and liabilities. The figure below illustrates the main changes in the asset and liability composition between 2019 and 2021. Until 2019, international reserves accounted for almost the entirety of the Bank's assets.

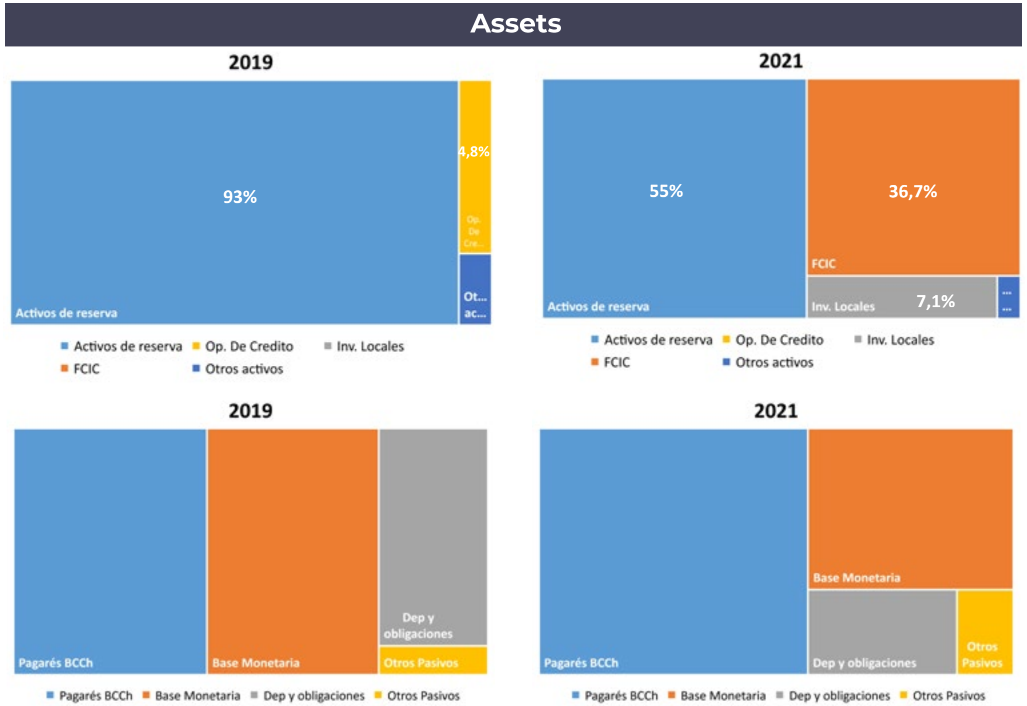
In terms of the currency composition, 50% of assets were denominated in U.S. dollars, followed by euros and Chinese yuan, while assets denominated in local currency represented a smaller share.

Since 2020, due to the various credit operations and local asset purchase programs, international reserves have come to represent less than half of the Bank's assets, while the share of assets denominated in local currency (Chilean peso and UF) has increased.

At year-end 2021, international reserves once again account for the largest share of assets, thanks to the dollar purchases and the maturing of assets denominated in local currency. This, combined with the change in the IR benchmark, has repositioned the USD as the currency with the largest share.

There have also been changes on the liability side. Until 2019, the bulk of liabilities was made up of short-term discount notes (PDBC) and long-term bonds (BCU, BCP, PRC, and CERO). In 2020, as a result of the monetary support measures implemented by the Bank and the government, together with the pension fund withdrawals, the monetary base came to account for the largest share, representing almost half of all liabilities. At year-end 2021, debt securities—now almost entirely PDBC—again dominate the liability composition, with around 57% of the total.

Changes in the Asset and Liability Composition of the CBC Balance Sheet
(percent of total assets and liabilities)



Appendix 1 provides more detail on the evolution of the Central Bank's balance sheet.

4.5.2.5 Management of Pandemic-Related Issues

The pandemic has posed challenges to our mission of implementing monetary and financial policy.

The challenges have included operational continuity in the context of COVID-19 and remote work, the greater need to collect market information in order to function properly in a changing financial system, and the formulation and implementation of exceptional measures to guarantee the normal functioning of the financial market.

From this perspective, we have maintained a high response capacity, quickly and correctly identifying the risks and potential frictions, executing a large volume of operations, and effectively and efficiently adjusting market operations and systems.

Having a committed team with a high level of technical expertise has been a crucial asset. And the challenges are not over. We face increasing needs to continue improving market intelligence, to deepen our models and data analysis, and to communicate with market actors.

As seen in the work of monetary authorities around the world, the challenges brought by the pandemic and the recent cycle could persist in the future. We must therefore continue improving our response capacity and refining the design of operations, measures, and transactional systems, so as to be able to more robustly navigate this new environment.

Bank Bond Purchases

As part of the measures implemented to mitigate the impacts of the 2019 social crisis and the effects of the pandemic, we have implemented a series of asset purchase programs since 2020, specifically bank bonds:

i. First bank bond purchase program: The objective was to mitigate episodes of excessive financial market volatility.
ii. Second bank bond purchase program: The objective was to intensify liquidity injection as an unconventional measure.
iii. Third bank reinvestment program: The objective was to reinvest coupons and flows received from bonds purchased in the previous programs.

Current Portfolio	
Portfolio value (CLP MMM)	5,591
Duration (1) (years)	1.9
No. issuers (#)	13
Distribution by Currency	
Pesos (%)	3.5%
UF (%)	96.5%
Distribution by Risk Rating	
A+ (%)	0.8%
AA (%)	23.1%
AA– (%)	11.9%
AAA (%)	64.2% (1)
Duration of UF-denominated securities is adjusted by a factor of 0.5	

Program use	
Program	Amount
1st Program	3,089
2nd Program	3,030
3rd Program	319
In billions of pesos	

4.5.2.6 FCIC and LCL

The effects of the pandemic on the economy include the evolution of businesses' financing needs and the adjustments made to the government loan guarantee programs.

In January, through joint work between the Financial Policy Division and the Financial Markets Division, we announced the start of the third phase of the Conditional Financing Facility for Increased Loans (FCIC).

The FCIC is an unconventional monetary policy measure that consists in offering low-cost medium-term liquidity to banks. The banks' access to the facility is conditional on their lending performance, in particular the provision of credit to small and medium-sized enterprises.

Created in March 2020, this measure allocated USD 40.0 billion in its first two phases, in the context of the global economic crisis caused by the COVID-19 pandemic. The third phase of the FCIC, which was open for six months, offered USD 10.0 billion, equivalent to the unused balance of the first two phases.

In April, Law 21,330 was approved, implementing a constitutional reform allowing a third withdrawal of pension savings held by the pension fund managers (PFMs), as well as the prepayment of an amount equivalent to 10% of the technical reserve maintained for annuity pensions by the life insurance companies.

Considering that the implementation of the reform would involve a major liquidation of assets by the PFMs and life insurance companies, and that the orderly liquidation of these assets was essential for preserving the stability of the financial markets and the efficiency of the price formation process, we reopened the special bank bond repo program (CC-VP), in accordance with our legal mandate.

The Liquidity Credit Line (LCL) was established as a complementary measure to the first phase of the FCIC (FCIC-1), and it was in effect in the first half of 2020. The current amount outstanding in this facility, at year-end 2021, was CLP 3.919 trillion (USD 4.610 billion), and the credit facility expires in March 2022. In November 2021, the CBC announced that the LCL amounts that had not been refinanced with the FCIC-I must be repaid at a rate of 20% of the outstanding amount per month, from April to August 2022.

The FCIC phases and the LCL have involved a liquidity injection of CLP 28.966 trillion (USD 34.068 billion [10]).

[10] Converted to dollars using the observed exchange rate of $850,25 on 30 December 2021

	FCIC I	LCL	FCIC II	FCIC III
Program amount	19.062	12.400		7.100
Use	14.251	3.919	3.696	7.100
End date	30-Mar-24	30-Mar-22	1/Jul/22 (OCNB) 1/Jul/24 (FOGAPE)	01-Jul-24

Amounts outstanding on 31 December; trillions of pesos.

	Monto
Total loan FCIC Collateral value	25.047 25.586
FI securities Bank portfolio	9.978 15.609
Trillions of pesos	

4.5.2.7 CC-VP

In the context of the 10% pension withdrawals, and with the objectives of promoting an orderly liquidation of assets by the pension fund managers (PFM) and mitigating the adverse effects on financial asset prices, we opened the CC-VP program, involving the simultaneous spot purchase and forward sale of bank bonds, to be executed in a given period. The purchase and sale conditions of these operations were agreed in advance.

In the first leg of the operation (CC), we buy a security at market price, which becomes the property of the Bank via full transfer of ownership, as recorded and processed in the Central Securities Depository. Thus, if the bond has any coupon payments while the operation is in effect, the CBC receives that payment as owner of the security. In the second leg of the operation (VP), the CBC sells the security back to the original counterparty at the price contracted for the spot purchase (CC), plus a differential or spread that reflects the passing of time and the credit risk associated with the operation.

These operations were available to SOMA system participants, with a maximum outstanding amount of USD 10.0 billion. In 2021 new CC-VP operations were conducted between May and July, in the context of the third pension fund withdrawal.

On 31 December 2021 there were no outstanding operations.

Use of the CC-VP Program			
CC-VP	**Maximum Use (CLP MMM)**	**Average Term (days)**	**Bond Currency**
Program 1	4,222	40	100% UF
Program 2	2,169	30	100% UF
Program 3	6,678	31	97,4% UF

4.5.2.8 Complementary Liquidity Lines

Since 2020, we have liquidity buffers in foreign currency to complement the Bank's own resources:

Buffer	Amount	Expiration Date
Flexible Credit Line (FCL): A temporary and precautionary credit line for facing adverse balance-of-payments scenarios (in this case, in the context of the COVID-19 pandemic).	USD 23.93 billion	May 2022
Renminbi/Peso (RMB/CLP) Swap Line: A swap line maintained with the PBoC since 2015, whose uses and amounts were expanded in 2020 (including financial stability motives)	USD 7.10 billion	N/A
Temporary Foreign and International Monetary Authorities (FIMA) Repo Facility, New York Federal Reserve: While this facility is not an additional liquidity line, it gives us temporary access to dollars against the delivery of U.S. Treasury securities as collateral.	N/A	N/A

Note: At year-end 2021, none of these facilities had been used by the CBC.

4.6
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 sectoral financing.

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

4.6.1 Our Performance in 2021

4.6.1.1 Management of Traditional Issues

Our duties include the compilation and timely publication of the main national macroeconomic statistics, including monetary and foreign exchange statistics, the balance of payments, and the national accounts.

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, the Balance of Payments, and the National Accounts by Institutional Sector.

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

In 2021, we continued to carry out our macroeconomic statistics revision and publication program: National Accounts, Balance of Payments and International Investment Position, Monetary and Financial Statistics, and Foreign Exchange Statistics.

Benchmark Compilation Project

In 2018 we launched the 2018 Benchmark Compilation (BMC-2018) project, which has the following objectives:

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.

To incorporate new data sources that were not available for the regular estimations (for example, new electronic tax records).

To incorporate estimates of new phenomenon associated with the digital economy and globalization, which are not currently recorded in the usual measures.

The 2018 Benchmark Compilation was published on 18 March 2021. The publication of the historical series since 1996, consistent with this new measurement framework, was scheduled for the first half of 2022.

In 2021, work focused on closing the production accounts and the reconciliation of the supply-use tables. The new information from administrative records, balance sheets, and electronic tax records was used to complement survey data and to strengthen the estimates of the structure of intermediate consumption, household consumption, and the investment matrix by economic activity, as well as the national and imported supply by use component.

Thus, the new records are being used to strengthen the measurement of regional GDP, considering greater geographic disaggregation and more timely data. On 23 June 2022 we will publish quarterly regional gross domestic product (RGDP) for the first time.

Integrated Derivatives Information System (IDIS-TR)

In 2021, the Statistics Division, in conjunction with the Financial Policy Division and the Office of the General Counsel, continued to move forward on the development of a new market structure, in accordance with international standards: namely, the Integrated Derivatives Information System Trade Repository (IDIS-TR).

What is the IDIS-TR?

The IDIS-TR is a repository of information on over-the-counter (OTC) derivatives transactions, managed by the Bank and oriented toward strengthening transparency and the availability of information on the foreign exchange, inflation, and interest rate derivatives market, in order to promote financial stability and prevent market abuse.

In 2021 the test period for the submission of information by banks and their subsidiaries ended, and we began to receive information from other market agents, such as pension fund managers, general fund managers, life insurance companies, stockbrokers, and corporations. Additionally, the first meetings were held by the IDIS Quarterly Surveillance Committee, made up of representatives of the Central Bank and the FMC.

The IDIS-TR (www.siid.cl) is expected to be fully operative in the first half of 2022, with the publication of information on currency, interest rate, inflation, and fixed-income derivatives.

Household Finance Survey (HFS)

In September 2021 we began collecting data for the Household Finance Survey (HFS), which has been conducted every three years since 2007.

Around 4,500 households were interviewed at the national level to collect information for evaluating the financial situation of households and its potential impact on the stability of the financial system. This year, the survey was conducted via telephone, using a questionnaire adapted to that format.

We expect to publish the results of the 2021 HFS in October 2022.

Participation in International Organizations

- **CIrving Fisher Committee on Central Bank Statistics (IFC)**
  In November 2021, the Central Bank of Chile's participation on the Irving Fisher Committee (IFC) of the BIS was renewed for the 2022–2024 period.

  What is the IFC?
  This Committee is a global network of economists and statisticians from central banks and international and regional organizations who formally work on issues related to central banking. The objective is to share experiences related to data, analytical methodologies, their value relative to traditional statistics, and the risks associated with their use.

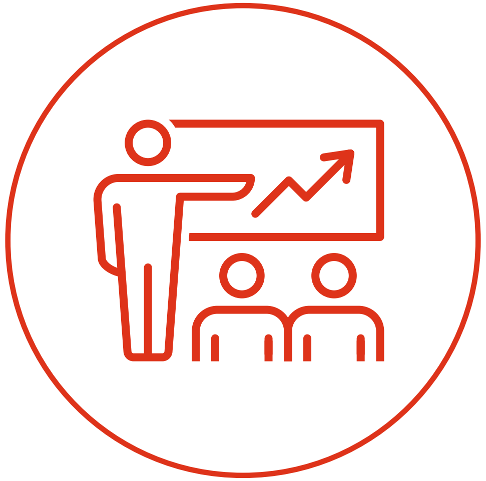
- **Co-Chair of the CEMLA Financial Information Forum (FIF)**
  We continued to serve as co-chair of the Financial Information Forum (FIF) of the Center for Latin American Monetary Studies (CEMLA), together with the central banks of Mexico and Peru. The forum's objective is to promote the exchange of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

- **OECD Working Groups**
  In 2021 the Statistics Division participated actively in various expert working groups sponsored by the Organization for Economic Cooperation and Developments (OECD), the United Nations, and the International Network for Exchanging Experience on Statistical Handling of Granular Data (INEXDA).

4.6.1.2 Management of Pandemic-Related Issues

During the pandemic, and given the mobility restrictions, we worked with information suppliers to minimize the impacts on the statistics. Additionally, we carried out a range of activities to improve our understanding of the economy during the period.

UDW represented 25.6% of expanded GDP in 2020, an increase of 4.8 percentage points relative to 2015. Of the total, women account for 17.5% and men 8.1%.



Measuring Unpaid Domestic Work

Unpaid domestic work (UDW) is a key factor in the well-being of individuals, their families, and society. It consists in the time that people spend caring for others or performing domestic chores in their own home or another household, without pay.

While the monetary valuation of UDW represents a challenge, since many of these activities are not traded in the market, its calculation contributes to estimating the contribution of these unmarketed activities to GDP. In particular, given the effects of the COVID-19 pandemic and the implications for the behavior of people and firms, the estimation of UDW is becoming increasingly important.

A preliminary estimate of the monetary value of UDW in 2020 was published in June 2021, using a replacement cost approach in line with international guidelines. For the purposes of this study, the structures for 2020 were extrapolated from the 2015 National Time Use Survey, conducted by the National Statistics Institute (INE).

IV Statistics Conference: "Post-Pandemic Statistics"

On 28–29 September, we hosted our IV Statistics Conference, entitled "Post-Pandemic Statistics," which was held virtually. The conference objective was to generate space for sharing visions and opinions on how the statistics community has responded to the demand for more timely information due to the health crisis, and which challenges will need to be faced in the near future.

In this version of the Conference, we reviewed new high-frequency indicators that emerged during the pandemic, which are more timely than regular statistics, and their use for monitoring economic activity and for monetary policy decisionmaking.

These indicators are based on the exploitation of administrative records and open data, using Big Data techniques. Examples include the Weekly Economic Index (WEI), constructed by the New York Federal Reserve, and the Retail Trade Index for large companies, by the INE of Spain. The Conference also analyzed experiences in the estimation of household consumption and investment based on credit card transaction records, presented by representatives of the Bank of Ireland and the Bureau of Economic Analysis (BEA).

The event's participants included representatives of statistics agencies and central banks that are leaders in the production of macroeconomic statistics, as well as international organizations such as the Bank for International Settlements (BIS), the International Monetary Fund (IMF), and the Organization for Economic Cooperation and Development (OECD).

4.6.1.3 Challenges in Statistics

Experimental Statistics

The health and social crisis has heightened the need for more timely and more disaggregated economic information. In this context, efforts have been made to increase the availability of granular data, which, to a large extent, was not regularly collected for statistical purposes.

At the international level and also in the case of Chile, our response to the new data needs has centered on the development and diffusion of experimental statistics.

What are experimental statistics?

In general, experimental statistics are non-traditional statistics, to the extent that they are not included in official publications by the National Statistics System and there are no guides or manuals on their elaboration. They can be less precise than macroeconomic statistics, but they are sufficiently reliable for use in economic analysis. Finally, because they are products under development, they can be subject to substantial revisions

The Bank's Statistics Division made progress on the elaboration of indicators for monitoring daily retail sales and the demography of companies by macrozone and firm size. These studies are expected to be published in 2022 in a new chapter of the Statistics Database and a new page in the Statistics area of the website.

System of National Accounts Manual

In recent years, there has been a growing interest in distributive analysis relating aspects of inequality with macroeconomic evolution. Although attention has always been given to aggregates like gross domestic product (GDP) and national income, macroeconomic data and average growth rates only provide a partial image, which can obscure a lot of heterogeneity among different types of households.

In this context, the Stiglitz Report (Stiglitz, Sen, and Fitoussi, 2009) and the Data Gap Initiative (DGI) of the International Monetary Fund, among others, highlight the importance of indicators that are more directly related to the material (or economic) well-being of households.

Picking up this challenge for statistics, the newest version of the System of National Accounts Manual (in preparation, to be published in 2025) will promote the compilation of distributive accounts that take into account the joint relationships between income, consumption, saving, and wealth, which will allow the elaboration of multivariate indicators (such as consumption-to-income, debt-to-income, or wealth-to-income ratio) for different groups of households.

To date, international experience shows that central banks, mainly in advanced economies, have begun to address these issues, for example, through the publication of statistical distributions of household income, consumption, and wealth.

4.6.1.4 New Data Collection Models

Big Data Strategic Project

In the area of data collection, the Statistics Division has continued to move forward on the Big Data Strategic Project, which consists in a centralized data repository to which all the user areas will have access, with a set of tools to facilitate proper use.

A tender was already held and awarded for the construction of a technology platform for data handling and exploration on a massive scale. The platform is expected to be available in the second half of 2022.

Data Governance Committee

In 2021, the Data Governance Committee, which is directed by the Statistics Division, continued to consolidate its work.

In particular, the Committee has established a policy on the use, handling, and storage of economic-financial microdata, which outlines the principles and guidelines for managing and providing access to micro-databases within the Bank, at the institutional level. This will promote efficiency, prevent duplication, impede inorganic growth in the different areas, and safeguard information security.

The policy specifies how economic-financial microdata can be accessed and exploited, with due safeguards, including the procedure for approving requests to transfer information between the Bank and third parties through written agreements.

What are microdata?

Economic-financial microdata are microdata that are economic or financial in nature, disaggregated at the individual or firm level. Examples include the customs foreign trade database, the tax service's real estate sales declaration database, and the CBC's Economic Expectations Survey database.

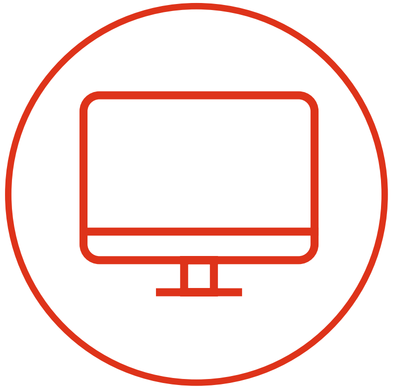
4.6.1.5 Statistics Communication

An important part of the Bank's actions to enhance transparency involves providing the general public with information to help them understand our mandate and the work that we do.

Economic Glossary

Our Economic Glossary, which has been available since March 2021, includes concepts and definitions that are used in the Bank's recurrent economic, financial, and statistical publications.

[*Access the glossary here.*]



New Statistics Website

Additionally, we have made available to the public a new website dedicated to the Statistics Area, which provides the Central Bank's balance sheet statistics and related information. The objective is to facilitate user access to current and historical information and thus to contribute the analysis of the monetary and foreign exchange policies applied by the Bank.

[*Access the statistics website here.*]

New Version of the Statistics Database for Mobile Devices

In November 2021, we released a new version of the statistics database for mobile devices (called BDE Móvil), which is available on the App Store and Google Play.

This version, which is implemented in the Microsoft cloud, offers a friendlier, more intuitive user interface; faster access to the data; and a responsive design that adapts to different sized devices.

4.7
Cash Management

The Mandate

The Central Bank's second objective is to guarantee the normal functioning of the internal payments system, ensuring 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 starting 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.

Given the importance of cash as a means of payment, the cash management process requires the execution of complex logistics, including international tenders for the manufacture of banknotes and coins and a highly secure storage and distribution system. The Central Bank must also secure public confidence in the currency. We therefore implement 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.

* That is, the banknotes and coins are legally recognized as satisfactory payment for any monetary debt.

As in most western countries, the pandemic had an impact on the quantity of cash in circulation, as a result of the social support programs implemented by governments to mitigate the economic and social effects of the crisis; and also, in the case of Chile, due to the authorization to withdraw a share of pension savings.

4.7.1 The Effects of the Pandemic on Coin Circulation

Cash needs have increased since the final quarter of 2019, due to the social crisis and then the pandemic.

One of the consequences of the closures and quarantines was a decrease in the circulation of coins through the normal cash cycle. This caused a drastic reduction in the coin inventories and surpluses of both commercial banks and the Central Bank.

We reacted to the shortage by ordering an extraordinary quantity of new coins between 2020 and 2021. Even so, the deficit from the lack of circulation continued, since the issue of new coins does not guarantee a solution when the coins are not circulating. A coin changes hands many times over the course of its useful life. If issued coins do not flow naturally through circulation, but rather get stuck somewhere along the cycle, the problem continues.

Coins are a critical input for businesses, which need a minimum volume to facilitate their cash transactions. On the consumer side, the stagnation in the coin circulation cycle has affected social groups that are dependent on cash as a means of payment, mainly the unbanked, low-income families, people who live in more isolated areas, and small businesses and open-air markets that do not have the technological support or connectivity to make electronic transactions.

To address the situation, we formed a working group in early 2021 to bring together diverse actors from the public and private sectors to work on increasing coin circulation in the country. The group's objective was to identify, develop, and promote strategies for reestablishing the flow of coins, in order to facilitate cash payments.

#Useyourcoins

The working group, led by the Central Bank and comprising representatives of banks, financial institutions, trade-related unions, Walmart, Cencosud, and Caja los Héroes, designed a social media and print communication strategy. The campaign included graphics and messages aimed at the general public, which were published on social media, and posters and flyers for businesses and institutions that needed them. The Governor of the Bank also participated in a market activity to promote the use of coins.

The campaign highlighted the need to get coins back into circulation (there are currently over 500 issued coins per capita). The call was to use coins for cash payments or, alternatively, to trade them in for banknotes at businesses, banks, or special units installed for that purpose—or even at the Central Bank in the case of large volumes.

We maintain our call to mobilize coins, which are still being stockpiled in significant quantities by people and households, so as to return to pre-pandemic circulation patterns. We especially call on those who changed their payment habits toward a greater use of digital payments during the pandemic, asking that they trade in their excess coins as indicated above.

4.7.2 Our Performance in 2021

In 2021, 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.

4.7.2.1 Exchange of Banknotes and Coins

The banknote and coin exchange service provided by the Central Bank's public teller window, located on the first floor of our Agustinas Street building, is oriented toward people and small businesses that handle a lot of cash and need or accumulate different denominations. The main objective is to receive (exchange) banknotes and coins that are at the end of their useful life, as well as to provide banknotes and coins in smaller denominations.

The Central Bank responds to the demand for bills and coins, acting as a wholesale supplier who delivers the currency to intermediaries (commercial banks), who in turn act as retail distributors for end users, whether natural persons or businesses.

This year, due to the breakdown in coin circulation, the Central Bank's public teller window concentrated its efforts on exchanging banknotes for coins for the general public, mainly small retail businesses. To improve service and help a larger number of people, we established daily limits and a telephone reservation system for deliveries.

In the year, we served a total of 12,158 people to exchange money and provided 6,222,400 coins of different denominations, equivalent to CLP 1.252 billion. The most commonly requested coin was the $100.

Another service provided by the public teller window is the exchange of damaged banknotes. The most common forms of damage we encounter are burned, stained, worn, and infected banknotes.

In 2021, a total of 15,187 people brought in 1,155,300 damaged banknotes and coins, equivalent to CLP 3.506 billion.

Additionally, we also received 624 special cases, many from regions outside Santiago, which were analyzed in the lab by the Central Bank's forensic experts. Payments under this heading totaled CLP 3.965 billion and were made via electronic transfers and cashier's checks.

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 would otherwise represent a loss to the holder.

In its commitment to support the cash cycle, the public teller window recovered and put back in circulation a total of 299,000 units in different denominations, of which 5% were banknotes and 95% coins.

4.7.2.2 Coin Use Survey

In the context of scarce coin circulation, we conducted a national survey in August 2021, with the following objectives:

- Learn the public's perception and valuation of our coins as physical pieces and as a means of payment;
- Explore people's coin use habits and storage mechanisms;
- Study the impact of the pandemic on coin use and handling; and
- Evaluate he acceptance of technological solutions to coin collection.

Main Results

- 53% of the participants have a positive valuation of coins as a means of payment.
- 43% of those surveyed have the habit of saving coins at home, especially in the south of the country, while 59% say they save coins in "transit spaces," such as coin purses.
- The main motive for collecting coins at home is savings. 40% indicate that they trade in their coins at a business when they reach their saving target or when they reach an amount they consider significant.
- Six out of every ten people surveyed say they have had problems making change in the last three months (second quarter of 2021), a problem observed equally in all regions of the country.
- 83% of the people surveyed personas say they are willing to use coin collection machines to exchange their coins for bills or some other means for making a purchase.
- 80% would be willing to take their coins to a bank or use them in a business, if there was a formal call to do so.
- 56% of those surveyed believe that you can catch COVID-19 from handling coins.

In addition to supporting the normal functioning of banknotes and coins as a means of payment, we conduct extension activities for public diffusion and education on the characteristics of the notes in circulation. This information is available online, at www.billetesymonedas.cl.

4.7.2.3 Cash Use Training and Extension

Know Your Banknotes Program

The Know Your Banknotes Program was launched in 2006. It has been virtual since 2020 due to the national health contingency.

In 2021, we focused our efforts on fine-tuning the platforms to strengthen the transmission of the workshops, adjusting the content to the online format and incorporating new course evaluation tools. Our objective was to modernize and strengthen the banknote education program and thereby contribute to maintaining confidence in the currency.

In 2021, **1,424** people participated in our online training workshops, which covered banknote security elements, ecommendations to prevent counterfeiting, and advice on handling cash.

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, the program was able to reach over 25 businesses and institutions from a wide range of sectors this year. 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.

This year, we made progress on digitizing the workshop support and diffusion materials. Thus, to support the virtual training program and to meet the needs of businesses and other organizations, we disseminated a total of 9,118 informational pieces, 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.

The online format favored the decentralization of the workshops and allowed us to reach all the cities in the country. In 2021, over 60% of the participants were from regions outside Santiago.

Strategic Partnerships

We worked in collaboration with the National Chamber of Trade, Services, and Tourism, which extended an invitation to participate in training all their members, in order to disseminate the security measures, recommendations on detecting counterfeit bills, messages from the #UseYourCoins campaign, and other advice on using cash.

These training sessions were also held in conjunction with the Caja Vecina network, which advertised the workshops to its entire network of merchants. We were thus able to reach over 300 people all across Chile, including large companies, small and medium-sized enterprises, and neighborhood shops.

In the context of the #UseYourCoins campaign, we worked closely with Caja Vecina to communicate the importance of using coins for cash payments to the customers of small neighborhood shops. The digital and field campaign lasted approximately six months. This initiative reached over 31,000 shop workers and more than a million customers all across the country.

Public Information Channels

Since 2017, we have an informative website on the currency, www.billetesymonedas.cl, which not only provides useful information on the use of cash money, such as the security measures, instructions for detecting counterfeit bills, and recommendations for handling banknotes and coins, but also offers various educational resources for the general public, businesses, and students.

In 2021, the www.billetesymonedas.cl website had more traffic than in the past few years, with 263,545 visits.

Another public service offered by the Bank is a channel for people to contact us with questions or inquiries. In 2021, we received over 2,800 inquiries through the Bank's website and telephone service.

Joint Police Training Workshops

To prevent losses from people receiving false banknotes, we implemented an informational campaign during the Independence Day holidays in September 2021, in conjunction with the Carabineros de Chile. During the campaign, 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 13,808 informational products such as flyers and brochures.

We also have a training program for police institutions, called "Protect Your Banknotes," which was launched in 2013 and is aimed at officers of the Carabineros de Chile and the Investigative Police. The objective is to help current and future officers recognize legal bills during their interactions with the public. In 2021 we held 12 workshops and trained 1,227 officers.

4.7.2.4 National Survey on Cash Use and Preferences (ENUPE)

One of the tools used to monitor the public's payment behavior, together with the associated impact on the need for banknotes and coins in the economy, is the National Survey on Cash Use and Preferences (ENUPE).

This annual survey has been carried out since 2012. In 2021, it was implemented using remote surveys, and the objective was to understand the behavior, uses, and preferences for cash and other means of payment among the population over the age of 18 in the main cities of the country. The survey focused on the following issues:

- Adoption and frequency of use of the various payment instruments, such as debit cards, credit cards, cash, etc.;
- Cash handling strategies and satisfaction with its availability;
- Some individual demographic variables, as well as transaction characteristics that can be related to the use of payment means.

One of the key findings is that a large percentage of the sample has access to some form of digital payment. Additional results are as follows:

- 94% of the total stated that they have some kind of debit card, while 56% mentioned having access to credit cards and 31% to prepaid cards.
- 77% of those surveyed indicated that debit cards are their preferred means of payment, beating out cash for the second consecutive year (60%).
- The preference for the use of cash fell marginally, from 62% in 2020 to 60% currently.
- The use of credit cards increased strongly (30%), while digital payments were fairly stable (23%).
- The biggest use of cash is in open-air markets and informal businesses (77%), although this rate has fallen significantly relative to 2016–2020, when it was 92%.
- The main attributes of cash are its facility, speed of use, and low handling costs.
- Cash is preferred for payments of less than CLP 5,000; debit cards are preferred for amounts of CLP 5,000 to over 100,000.

The change in people's payment behavior is potentially due to the impossibility of making in-person payments during the quarantines implemented at the height of the pandemic, as well as the unfounded fear of virus transmission through banknotes and coins,[12] which has resulted in fewer and fewer people using cash as a payment means. Nevertheless, cash still plays a fundamental role in the functioning of the national payments system, especially for population segments that have maintained their preference for the use of physical money in their daily transactions.

[12] Chilean Security Association (ACHS), "Recommendations to avoid the spread of COVID-19 in the handling of money and other means of payment" (July 2020).

4.7.2.5 Logistics Center Project

In late 2021, following an exhaustive review led by the General Manager, the Board of the Central Bank decided to reevaluate cash provision needs and the scope and costs of the Logistics Center Project (LCP). As a result, the execution of the project has been postponed, halting the development of this strategic initiative under the previously approved terms. This will allow space for a complete review of the scope of the project, which must be adjusted to the new context of the economy and the functioning of payments.

At the same time, it was decided that the review should be undertaken in a period of up to one year, so that the definitive decision on the course of the initiative can be made in a more stable and certain environment, with new information and studies gathered to that effect.

4.7.3 Sustainable Cash Management (Material Topic)

103-1, 103-2, 103-3

Why is it important?

Cash management includes the identification of the main environmental impacts and the definition of the cash life cycle. This allows us to establish effective mechanisms to mitigate the most significant impacts and ensure that the end of the life cycle incorporates circular economy considerations.

How do we manage it?

The Operations Division, through the Treasury Area, is in charge of cash management and the cash life cycle. In recent years, we have implemented various initiatives for recycling, reuse, or energy recovery from withdrawn banknotes and coins, under an environmentally responsible perspective.

Our Main Guidelines

✔ **Sustainability Strategy**

Total production of coins increased 253% in 2021 over the previous year, while banknotes grew 91% relative to 2020.

4.7.3.1 The Cash Life Cycle

CBC4

Every year, we monitor the cash life cycle (coins and banknotes), from production to final disposal, to identify improvements in circularity and the environmental impacts of the process.

Production

Banknotes

Year – Units produced – Material
2019 – 221 million –100% cotton
2020 – 324 million –28% polymer
2021 – 619 million – 24% polymer

Produced in:

Coins

Year – Units produced
2019 – 223 million
2020 – 130 million
2021 – 460 million

Produced in:

Transport

In late 2020 and 2021, transporting cash was very demanding due to the growth in production caused by the pandemic. The Bank took safeguards to be able to face this situation with good results.

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 – Qty distributed – % to regions

2019 – 434 million – 9%
2020 – 709 million – 25%
2021 – 451 million – 8%

Year – Qty distributed – % to regions

2019 – 480 million – 19%
2020 – 463 million – 49%
2021 – 419 million – 39%

End of the Cycle

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

183
million banknotes were destroyed in 2021 (equivalent to 11 containers)

Sustainable Cycle: Coins

In 2020, to contribute to environmental sustainability through the reuse of the materials from our withdrawn coins, we sent 1,129 tons of metal to Turkey, to be recycled to produce new coins for different countries.

The withdrawn coins then underwent a smelting process that was completed in 2021. The Bank has received certificates of destruction for the $1, $5, and $100 denominations.

Sustainable Cycle: Banknotes

In the case of banknotes, the end of the cycle depends on the base material. In 2021, we processed 154.92 tons of waste from banknotes.

Recycling and Transformation

Polymer Banknotes: 51.34 tons processed in 2021

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.

Co-processing

Polymer Banknotes: 34.26 tons processed in 2021

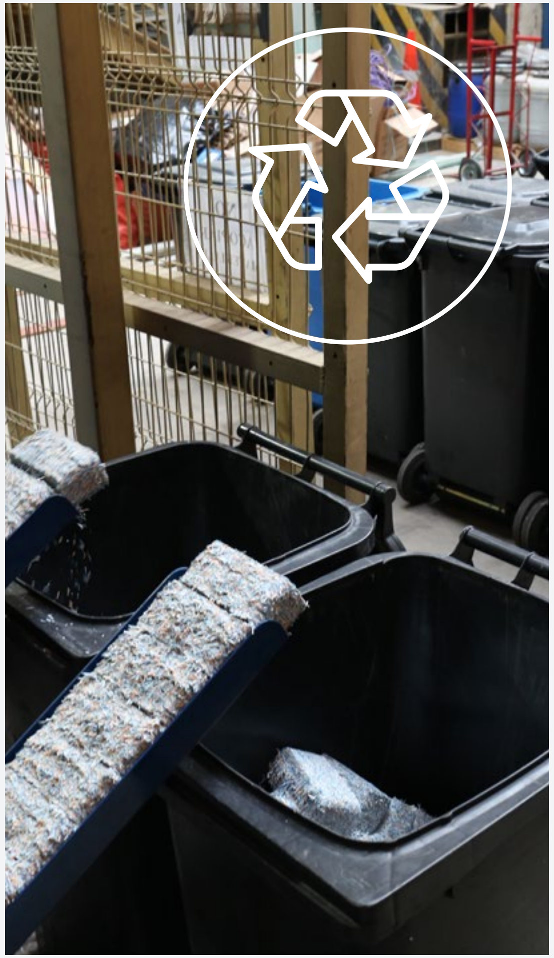
Cotton Banknotes: 69.32 tons processed in 2021

These banknotes are treated using a method called co-processing, which involves the environmentally safe use of waste material or byproduct in another production 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 banknote waste that we produce is thus converted into an alternative solid fuel for energy substitution in cement kilns.

The contract for this service was awarded to the Polpaico cement company, whose subsidiary, Coactiva, provides industrial waste management services and has a unit dedicated to sustainable waste solutions.



4.8
Equity and Infrastructure

The Operations Division directs and implements a sustainable management strategy for the buildings and their services to guarantee our operational continuity.

4.8.1 Our Performance in 2021

The pandemic raised major challenges for the Central Bank's Operations Division, since much of their work must be done in person. Additionally, we depend on many national and international suppliers, whose processes were affected by the health crises. We therefore adapted our processes progressively.

Infrastructure Adaptation

In 2021 we developed a work plan for adapting the Bank's infrastructure to the conditions imposed by the pandemic and hybrid work. Thanks to these adaptations, people were able to return to in-person work with effective health and safety protocols in place.

We are also designing a medium-term plan to remodel our workspaces. The plan will allow the people who make up the Divisions' various teams to meet in one place, whereas they are currently spread out on different floors of the building. This will foster collaborative work, with more modern and more functional facilities.

Heritage Conservation Plan

With the completion of two major restauration works, in 2021 we formulated a Heritage Conservation Plan, featuring timely maintenance to prevent the deterioration of the distinguished aspects of our infrastructure. The plan includes the inspection, maintenance, and reparation of the main elements and the training of the people in charge of managing and/or carrying out conservation work.

This is an important step in the development of a permanent, comprehensive conservation plan for our physical heritage—in particular, the Central Bank of Chile building, which was built in downtown Santiago over 90 years ago.

In 2018, restauration work was performed on the building facade on the corner of Agustinas and Ahumada streets, a project that demonstrated the need to anticipate the deterioration of the building's heritage elements. As a first measure, we are identifying susceptible areas of the building that may need to be covered by the Conservation Plan, which will then be organized according to their heritage value, typology, and groups.

We hope to extend the Conservation Plan to other Central Bank facilities.

4.8.2 Sustainable Environmental Management (Material Topic)

103-1, 103-2, 103-3

Why is it important?

The rational use of resources is crucial for contributing to the fight against climate change. Although our work does not imply intensive environmental use, we aim to be efficient and to generate the lowest impact possible.

How do we manage it?

Our Sustainability Policy considers the mitigation of our environmental impact, and the Operations Division oversees the responsible management of energy, emissions, water, waste, and materials.

Our Main Guidelines

- Sustainability Policy

Although our environmental impact is low given our sphere of action, we have implemented several initiatives to become more efficient in our energy and waste management. 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.**

Main Advances

Start of the carbon footprint measurement process	Start of the unregulated-price contract to purchase 100% renewable energy	31% reduction in fuel consumption since 2019
13% reduction in total energy consumption since 2019	**4.335** kilos of banknote waste was transformed into plastic wood	**39%** of our nonhazardous waste corresponds to polymer paper and cotton paper from withdrawn banknotes, for which we have established mechanisms for recycling, reuse, and energy recovery

4.8.2.1 Sustainable Infrastructure Commitment

Circular Economy: Construction of Own Infrastructure with Plastic Wood from Banknotes

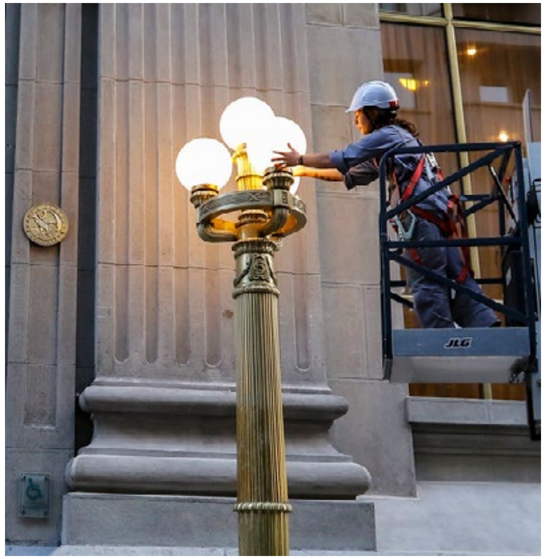
For three years, we have been working continuously on the sustainable cash cycle, which includes circular economy processes for withdrawn banknotes. Thus, at the end of the life cycle, destroyed bills are converted into plastic wood.

In 2021, to complete the circular economy cycle, we used plastic wood paneling, made from polymer banknote waste, for the installation of an elevator and the remodeling of the terrace at the Punta de Tralca beach resort.

We were one of 45 central banks in the world to participate in a survey on banknote recycling, conducted by Banknote Industry News (BIN). The survey results on the treatment of banknotes at the end of the life cycle reveal that 39% of the central banks send their shredded banknotes to a landfill.

The Central Bank of Chile is among the 8% of central banks in the world that implement measures to reuse banknotes, in our case as a construction material.

The survey results show that countries with polymer banknotes in circulation have increasingly adapted recycling concepts to their shredded bills, mainly through transformation into other plastic products.



Restauration of interior stucco

As an early intervention to prevent further deterioration of the heritage elements of the structure, we undertook the effective maintenance of the ceiling and walls of the hall of the Agustinas building, particularly the stuccowork.

An effective maintenance is that which

- Coordinates conservation- restauration actions in the immediate, short, medium, and long terms;
- Protects the heritage value of the building;
- Ensures an efficient use of resources; and
- Guarantees the safety of the people who use the building.

We know that our infrastructure is a valuable heritage asset, and we want to maintain a sustainable perspective on these spaces. Therefore, every project we undertake is aligned with this commitment.

We take advantage of every project to replace equipment that has completed its useful life with more energy efficient options, thereby reducing our energy consumption. Thus, we have switched to LED lighting and designed open floor plans for more efficient heating, ventilation, and air conditioning (HVAC) systems.

Additionally, all our projects related to the construction or remodeling of infrastructure take into account the current regulations on the inclusion of people with disabilities.

Sustainable Infrastructure Projects

Inclusive adaptation of infrastructure

- Provision and installation of a stairlift at the Morandé 153 building.
- Installation of an inclusive elevator at the beach resort.
- Universal access bathroom on the fourth floor Agustinas building.

Unregulated energy prices

In November 2021, junction N°4 of the Agustinas building was switched to renewable energy, under an unregulated-price contract with the Cerro Dominador solar energy plant. The contract is for a renewable period of four years.

The monthly electric bill saw a 20% reduction in electricity costs at the HVAC-dedicated junction.

Recycling Infrastructure

Construction of a 40 m^2 covered waste storage facility with a perimeter enclosure. We also purchased a hazardous waste (HAZMAT) storage facility at the beach resort, in accordance with:

- Articles 3 and 9 of the Health Code (DFL N°725 of 1967);
- Article 19 of Executive Decree N°594 of 1999 from the Health Ministry, which approves the Regulations on Basic Health and Environmental Conditions in the Workplace;
- Executive Decree N° 148 of 2003 from the Health Ministry, which approves the Health Regulations on Solid and Hazardous Waste Management.

We have used the available storage facilities optimally to comply with Health Department stipulations. Our waste management procedures include the technical regulatory requirements to provide traceability for a subsequent authorization application for temporary waste storage.

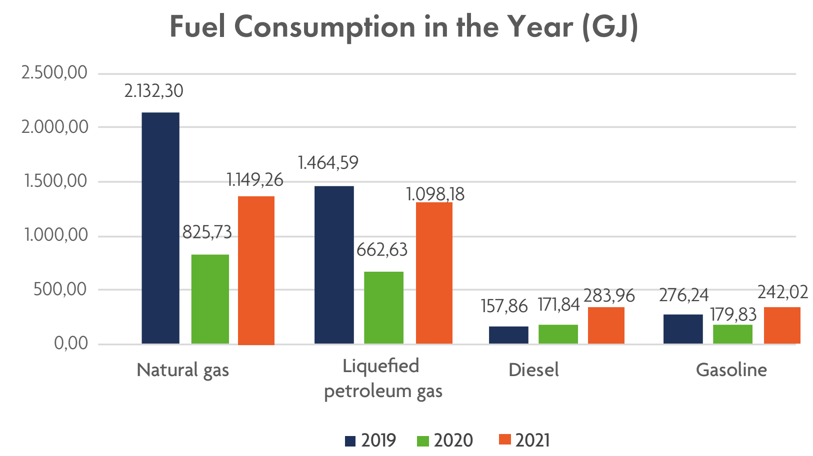
4.8.2.2 Progress toward Energy Efficiency

Our energy consumption, which is primarily associated with our main office building, has two sources: fuel and electricity.

302-1, 302-3

Fuel

Sources of fuel consumption are considered nonrenewable. In 2021, we used a total of 2,773 gigajoules (GJ), which represents a 51% increase over 2020, when our fuel consumption was 1,840 GJ. Given that we implemented hybrid work during the year, our fuel consumption remained below the level of base year 2019 (4,031 GJ). We will continue to look for more efficient alternatives so as to further reduce the use of fuels in our operations.



Electricity

This year, despite our return to hybrid work, there was only a 4.6% increase in electricity consumption relative to 2020, from 12,937 GJ to 13,532 GJ in 2021.

Total Energy Consumption

Our total energy consumption including both fuels and electricity, was 16,306 GJ in 2021. This implies a reduction of 13% from our baseline in 2019, when we reported a total of 18,846 GJ.

Energy Intensity

Energy Intensity (GJ)	2019	2020	2021
Total fuel / Total surface area	0.017	0.008	0.012
Total electricity / Total surface area	0.062	0.054	0.056
(Fuel + electricity) / Total surface area	0.079	0.062	0.068

Note: The calculation of energy intensity assumes a total operating surface area of 240,005 square meters.

LED Lighting

The Central Bank has four premises. In 2020 we launched a project to switch to LED lights, to increase the efficiency of our energy consumption in the long term.

Highlights include the remodeling of the third floor of the Agustinas building, where we replaced 110 fluorescent lights with 83 LED lights. We have also completed 80% of the remodeling of the first and third floors of the Constitution Plaza building, where 150 old lights will be replaced.

Finally, in 2021 we replaced 130 sodium lights with LED lights at the beach resort.

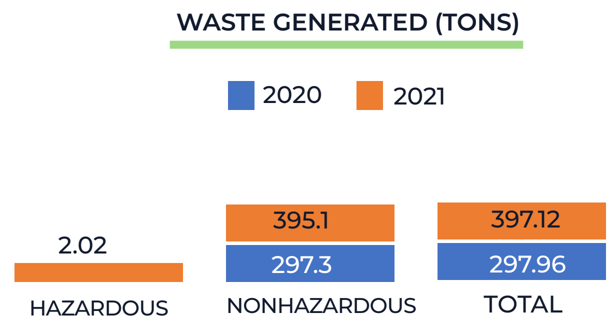
	Office Buildings			
% LED lights	Agustinas building	Constitution Plaza building	Cumming building	Stadium
2018	32%	27%		
2019	39%	32%	33%	—
2020	55%	32%	33%	67%
2021	Under maintenance		33%	67%

4.8.2.3 Efficient Waste Management

306-3, 306-4, 306-5

The waste generated by our operations includes withdrawn banknotes, debris, and biodegradable materials. Our waste generation increased 33% in 2021 relative to 2020, due to the partial reactivation of in-person activities.

Since 2019 we have focused on the promotion of the circular economy through the reuse of withdrawn banknotes, our main source of waste.



Note: Hazard waste in 2020 was 0.66 ton.

47%

of our total waste is reclaimed or stored to avoid disposal, contributing to extending its useful life.

41%

of the nonhazardous waste that we produce corresponds to biodegradable materials, glass, debris, cardboard, etc.

In 2021 we generated **2,0 tons** of hazardous waste, which was treated in accordance with the current applicable regulations.

Total waste destined for disposal		
Type of waste destined for disposal	**Total waste in metric tons 2020**	**Total waste in metric tons 2021**
Nonhazardous		
Biodegradable	**53.26**	**66.94**
Debris	**21.29**	**69.00**
Total waste	**74.55**	**125.94**

Total waste destined for reclamation or storage (not disposal)		
Type of reclaimed waste	**Total waste in metric tons 2020**	**Total waste in metric tons 2021**
Hazardous		
Hazardous waste	**0.66**	**2.02**
Nonhazardous		
Cardboard	**22.07**	**21.26**
Plastic containers	**0.31**	**0.64**
Metals	**0.07**	**0.34**
Other plastics	**0.32**	**0.91**
Paper	**0.15**	**0.00**
Polymer paper	**65.77**	**85.59**
Cotton paper	**129.89**	**69.32**
Glass	**4.13**	**8.10**
Total waste	**223.39**	**118.18**

Note 1: The incineration of polymer and cotton paper in energy recovery processes is not considered a disposal process, as it occurs under specific environmental parameters that do not generate emissions and that allow the reuse of the material.

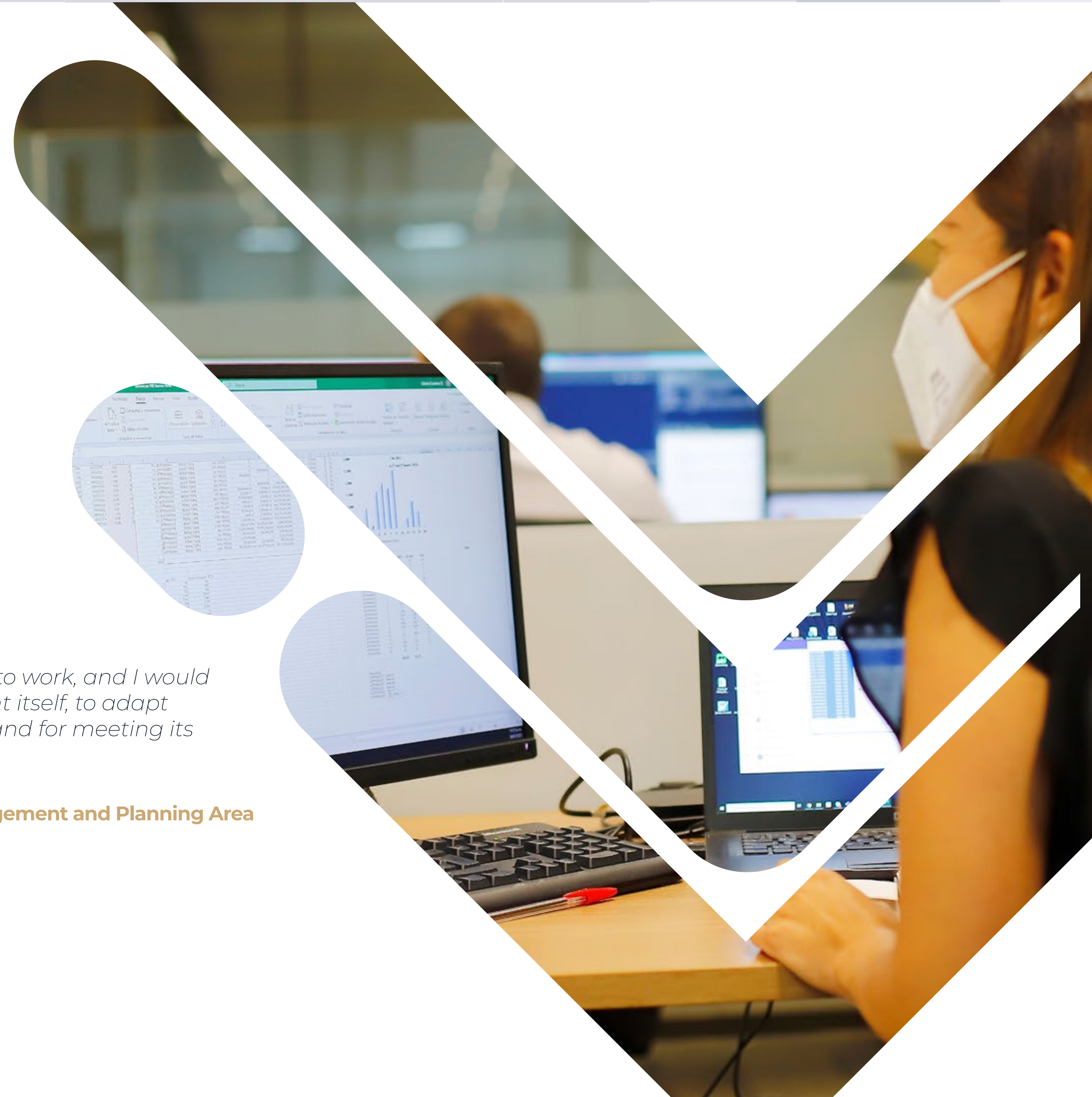
Note 2: The amount of waste increased between 2020 and 2021 due to the reactivation of in-person activities at our facilities.

4.8.2.4 Measuring Our Carbon Footprint

In the second half of 2021, we began the process of measuring our carbon footprint. In addition to establishing a baseline and identifying our main sources of emissions, this study will provide the starting point for a more intensive emissions reduction management.

The objective is to construct a model for determining the Bank's corporate carbon footprint. The model will include all four buildings and will cover scope 1,2, and 3 emissions.

In the 2022 Annual Report, we will report the results of our carbon footprint measurement for the first time, together with our mitigation plan.



Chapter 5: A Committed Team

"In general terms, I would describe the Bank as a good place to work, and I would emphasize the ability it has shown as an institution to reinvent itself, to adapt to changes, and to always strive for excellence for its workers and for meeting its objectives."

América Canales, Process Management Analyst, Accounting Management and Planning Area

5.1

The Central Team

102-8

Being part of the Central Bank of Chile is a commitment to the citizens of our country. One of our strategic objectives is to attract and hire people of excellence and to keep them motivated and committed to the organization's objectives and values, in a friendly and balanced work climate.

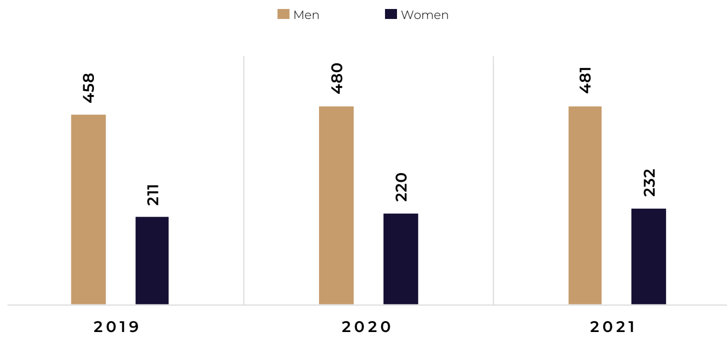
Our employee value proposition aims to inspire our people and teams to grow and develop their full potential. We therefore try to create a collaborative environment of continuous learning and professional and personal challenges, so as to attract and retain the best talent, aligned with the Bank's strategic objectives and organizational values.

Sustainability: Part of Our Induction Process

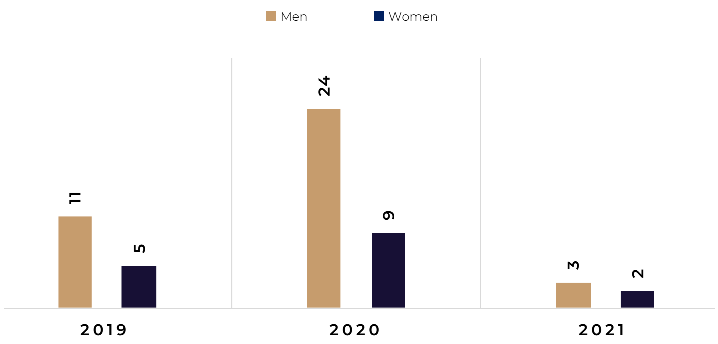
Starting in 2020, we include a sustainability workshop in the Bank's induction program for people who join our organization. Through e-learning courses, we have been able to provide key guidelines on various environmental, social, and governance issues that our employees need to know.

Between March and December 2021, 96% of our personnel received the induction.

EMPLOYEES WITH A PERMANENT CONTRACT



EMPLOYEES WITH A TEMPORARY CONTRACT



A Prepared Team

6,3%

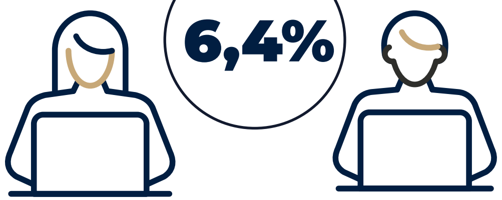
Have a bachelor's

2,09% women
4,18% men

26,7%

Have a master's

8,08% women
18,66% men



6,4%

Have a Ph.D.

1,25% women
5,15% men

5.2

Diversity and Inclusion (Material Topic)

103-1; 103-2; 103-3

Why is it important?

Inclusion and diversity are valuable attributes in a world where business models change quickly in response to the digital economy. They allows us to broaden our perspective and incorporate points of view that favor flexibility and, therefore, innovative capacity, as well as reflecting our current society.

How do we manage it?

We have developed actions to move forward on this issue, such as establishing objective parameters for setting salaries according to the position and responsibility level and adopting diversification criteria for hiring employees.

Our Main Guidelines

- ✔ **Diversity and Inclusion Program**

We strive to include all ideas and talents, valuing people's individuality. Every one of our employees brings something special to our institution, and we therefore provide the conditions and opportunities for their personal and professional development, regardless of their age, gender, or nationality.

Consistent with this conviction, we have incorporated the concepts of diversity, inclusion, and nondiscrimination in our institutional values. Furthermore, the 2018–2022 Strategic Plan has a specific pillar focused on people.

How do we recruit women?

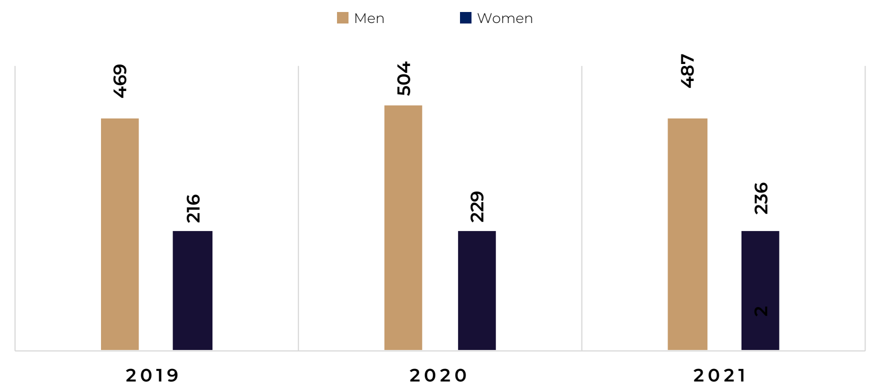
We strive to recruit more women to our team and to promote the development of those who are already part of our organization. We have incorporated a policy of always considering women candidates in our hiring process, a policy recognized by the Official Monetary and Financial Institutions Forum (OMFIF) in its Gender Balance Index 2021. We also ensure that interview panels are mixed.

Employee Breakdown by Position and Sex

Sex	Men		Women	
Category	N°	%	N°	%
Board	3	1%	2	0%
Executive management	2	0%	1	0%
Department heads	66	14%	37	16%
Senior management	4	1%	4	2%
Middle management	17	3%	4	2%
Professional	303	62%	157	67%
Administrative	56	11%	15	6%
Secretarial		0%	16	7%
Services	7	1%	0	0%
Security	29	6%	0	0%
TOTAL	**487**		**236**	

Note 1: Inforamtion on the Board Members was updated in April 2022.
Note 2: Board Members are not employees of the Central Bank.
Note 3: Executive Management comprises the General Manager, the General Counsel, and the Comptroller and Auditor General.

Number of Employees by Sex



Pay Equity

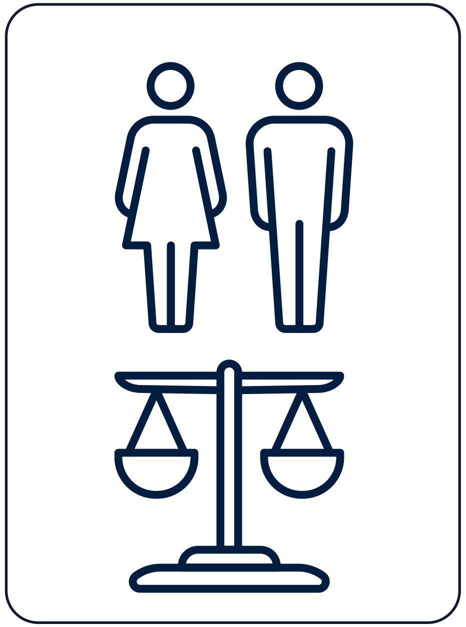
Our compensation model has a transparent pay structure and methodology that is known by our employees and available to the general public.

Pay is based on responsibility level and merit, which has resulted in equitable income levels between men and women, considering our organization's entire staff.

This is due to three factors:

- Implementation of well-structured procedures and standards;
- A culture devoted to probity and transparency; and
- The conviction that pay equity is a fundamental pillar for materializing the value of diversity, inclusion, and nondiscrimination.

We currently have a team of managers and department heads that is certified in the Hay Group methodology. Taking an organization-wide perspective, the team carries out assessment audits of positions when a review is needed to determine the responsibility level and corresponding pay range, thereby ensuring that income levels are equitable and responsibility-based.



Pay Gap

2021			
Category	Men	Ratio (%)	Women
Administrative	$1,479,421	120%	$1,777,910
Executive	$11,976,210	108%	$12,973,959
Department heads	$5,932,910	99%	$5,853,348
Professional	$3,483,752	95%	$3,316,361

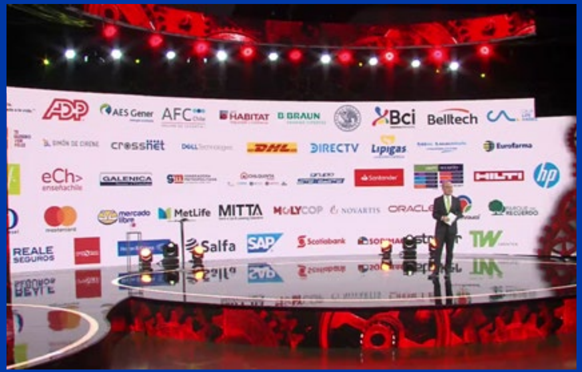
Note: Excluding Senior Management, secretaries, services, and security. Department heads include Group Leaders, a new position that emerged with a structural reorganization by the Central Bank in 2021.

Great Place To Work®

Best Workplaces for Women Ranking

Best Workplaces for Women is a certification and also a recognition of companies and organizations that have implemented different inclusion policies with the objective of strengthening women's employment, thereby reducing the labor gap and improving work-life balance.

We were awarded fifth place in the mid-sized category, which covers organizations with 251 to 1,000 employees. This award reflects the actions that we have carried out, and it challenges us to continue working to become a more diverse and equitable organization.



Age group	2021					
	Under 30		30 to 50		Over 50	
Category	N°	%	N°	%	N°	%
Board	0	0%	1	0%	4	3%
Executive management	0	0%	1	0%	2	1%
Senior management	0	0%	3	1%	5	3%
Middle management	0	0%	12	3%	9	6%
Department heads	0	0%	82	18%	21	13%
Professional	95	88%	298	65%	67	43%
Administrative	11	10%	37	8%	23	15%
Secretarial	0	0%	4	1%	12	8%
Services	0	0%	0	0%	7	4%
Security	2	2%	20	4%	7	4%
Total	108		458		157	

OTHER DIVERSITY INDICATORS

21.7% of our employees are over 50 years old, while **15%** are under 30. Additionally, **7%** are immigrants.

Immigrants and people with disabilities	2020				2021			
	Immigrants		People with disabilities		Immigrants		People with disabilities	
Category	N°	%	N°	%	N°	%	N°	%
Board	0	0%	0	0%	0	0%	0	0%
Executive Management	0	0%	0	0 %	0	0%	0	0%
Senior management	0	0%	0	0%	0	0%	0	0%
Middle management	3	5%	0	0%	3	5%	0	0%
Department heads	5	9%	0	0%	12	21%	0	0%
Professional	46	82%	1	0.14%	31	55%	1	0.14%
Administrative	2	4%	0	0 %	4	7%	0	0%
Secretarial	0	0%	0	0%	0	0%	0	0%
Services	0	0%	0	0%	0	0%	0	0%
Security	0	0%	0	0 %	0	0%	0	0%
Total	56	0%	1	0%	50	0%	1	0%

Note 1: Board Members are not employees of the Central Bank.
Note 2: Executive Management comprises the General Manager, the General Counsel, and the Comptroller and Auditor General.

Internship Program

Our internship program, Tu Práctica es Central, is one of our strategies for the early attraction of talent. It is aimed at identifying, attracting, and evaluating students on the verge of graduation and developing their potential. The program considers students in professional majors, who meet standards of academic excellence, skills, and values that are in line with our organization.

The program seeks to identify and attract the best professionals who can bring value to the organization, so they might later be incorporated as future employees. In the process, we promote diversity and gender equity, encouraging women's participation in fields like economics, finance, and operations.

In 2021, we incorporated remote work as part of our safety measures during the pandemic. We were therefore careful to ensure a positive experience from the start of the process, through our online application system and the participation of remote support groups during the interview stage, by the Personnel Area.

We were also flexible with the internships themselves, which could be scheduled any time during the year. The students were also able to work part-time so as to combine the internship with their studies. There was a remote induction process in conjunction with the induction workshops given by the Security, Cybersecurity, Communications, and Personnel Areas. Finally, on 6 February, we celebrated Intern Day with a virtual tour of the Heritage Building, a talk on sustainability, and a presentation of the Internship Program oriented toward the Strategic Plan.

Thanks to "Tu Práctica es Central," in 2021 we incorporated 66 students in the different areas and divisions, with gender parity of 33 women and 33 men. In the last two years, 11% of our new hires were people who did their internship with us and subsequently joined our talent pool.

5.3

Employee Health and Well-being (Material Topic)

103-1, 103-2, 103-3

Why is it important?

The pandemic and the new work modes have brought to the fore the need to promote actions that favor people's health and well-being. The fast adaptation to remote work, as well as the demands associated with quarantines, have affected work-life balance for people at the global level.

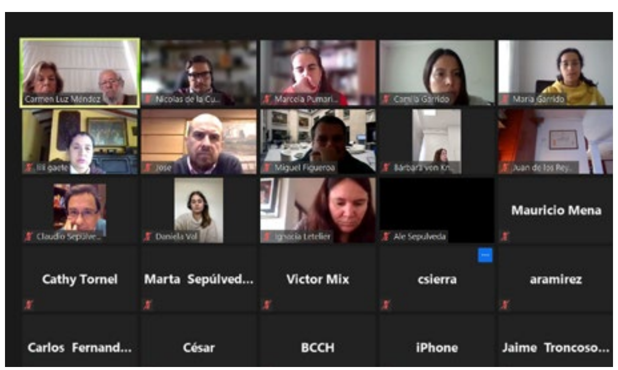
How do we manage it?

We have developed a new hybrid work model that combines in-person and remote work. We have also adapted the Bank's infrastructure to be able to comply with health regulations, and we have developed various support and training programs aimed at improving work conditions.

Our Main Guidelines

- ✓ New hybrid work model

78% of our employees are using a hybrid work model.



5.3.1 Hybrid Work

To ensure the health and safety of our employees, we have adopted a hybrid work model starting in September 2021, combining remote work and in-person work at the Bank offices. This approach seeks to favor collaborative work and the creation of spaces where people can work safely, implementing all the health protections approved by the Chilean Safety Association (ACHS) and the Regional Secretary of the Ministry of Health.

We outlined a three-year work plan aimed at unifying the physical location of all the Areas in each Division. The spaces will be designed according to the needs of each division, using open floorplans to lower operating costs and reduce rented space.[1]

5.3.2 Reconciliation of Work and Family Life

In 2021 we strengthened our work-life balance policies. In particular, we provided options for remote work and flex days, to promote the health and well-being of our employees and their families.

We also maintained our support service for psychological, legal, and financial advice, as well as for social, family, and nutrition issues.

Space for Dialog and Reflection

In 2021 we provided valuable spaces for reflection and conversation with contingent information, as well as a direct line of communication with the Bank's top authority. These activities support our efforts to create a work climate that reconciles work and family life.

- **Conversations with the Governor**
We held two virtual conversations with the Governor and the Board in order to share important information on the organization and facilitate opportunities for dialog to address questions. The topics covered included progress on the 2018–2022 Strategic Plan and the Virtual English Café for current events.

- **Talk Series**
We held a series of six talks on quality of life, which drew the participation of 744 people. The issues addressed included: how to face the changing world on a personal level; empathy and solidarity; mindfulness; and emotional regulation.

  We also held a series of five talk on current topics such as the digital transformation and the Constitutional Convention.

- **"Being an Excellent Place to Work"**
Francois Le Calvez (PhD in Economics and coach) led a discussion on "Being an Excellent Place to Work: Building Trust and the Future." During the event, employees received recognition for their commitment to maintaining excellence and promoting a positive work climate based on trust during the pandemic. There were 230 employees in attendance.

[1] The plan includes vacating the seventh and tenth floors in 2022, as well as the fifth floor of the Constitution Plaza building. This amounts to 1,857 m2.

In 2021, we retained the positive rating of our workplace climate, with a score of 83% on the employee work climate survey.

5.3.3 Work Climate

CBC5

We continue to make progress on creating a work climate based on trust, respect, and collaboration. This year, to consolidate our position as an employer of excellence and one of the best places to work in Chile, we again participated in a climate study, in conjunction with Great Place to Work, to evaluate employee satisfaction and manage our practices.

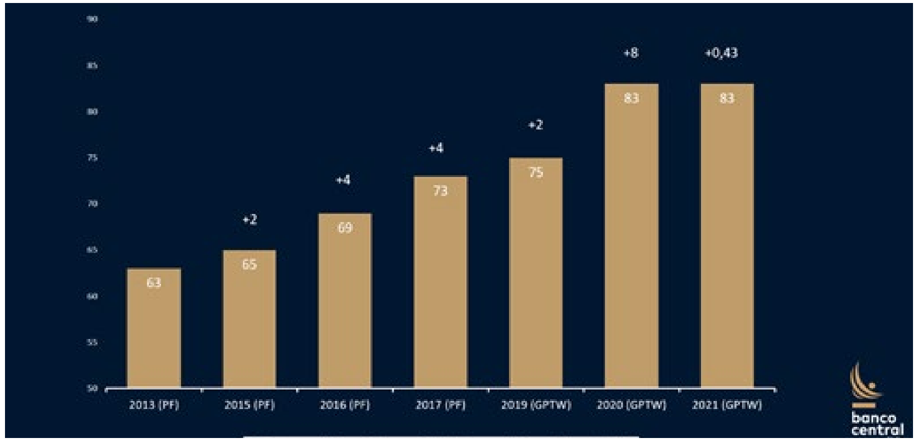
The study had a high level of participation (79%), which demonstrates confidence that opinions will be heard. We are proud of the results, especially considering that many areas have been under a lot of job pressure.

As with previous surveys, the results are fairly even among the different areas that make up the bank, and all the divisions received scores above 75 points. This demonstrates a positive general workplace environment, with practices that are uniformly communicated and perceived. Employee perceptions are similar between economic and noneconomic areas and between women and men.

The variables or questions that support the new work model all received a stronger evaluation. Those tied to innovation, agility, and cooperation among teams showed the most improvement this year, which leaves us well positioned as an organization to face future challenges in scenarios of uncertainty or change.

Evolution of Our Work Climate Results

Evolution of the work Environment in the bank



PF: People First survey **GPTP:** Great Place to Work survey

5.4

Training and Development (Material Topic)

103-1, 103-2, 103-3

Why is it important?

Work team development is a key factor for achieving our objectives. Continual improvement is desirable in terms of both technical capacities and leadership and team management.

How do we manage it?

We have a leadership, mentoring, and development program for roles at different levels of the organization. We also conduct continuous employee performance evaluations to favor their skill development.

Our commitment is to strengthen the value proposition for our employees, that is, to implement a system that allows their comprehensive professional development. This system aims to support employees through various aspects of formation and training. It includes a wide range of workshops, programs, and scholarships for the continuation of studies.

Nuestros principales lineamientos

✔ **Proyecto de gestión de cultura y liderazgo**

5.4.1 2021 Summary

Scholarships in 2021:
International: 9
National: 11
International internships: 3

entoring Program:
27 Mentors
43 Mentees

Training:
Central Academy: 4,425 hours
Leadership Academy: 2,067 hours

Average hours of training in the year: 56.26

Total hours of training as of November 2021: 39,719

Performance Evaluations:
–Senior management: 3
–Area managers: 28
–Other: 630

Individual Development:
Personal development plans: 630

Note: National scholarships were awarded in 2020 and used in 2021. International scholarships were awarded in 2021; there were no active students in the period.

5.4.2 Strengthening of Leadership Roles

The Leadership Academy aims to support our leaders by providing opportunities to develop key skills and share experiences, lessons, and good practices with their peers. In 2021, the Academy focused on issues like the change in the work paradigm, the implementation of the hybrid model, the challenges of innovation, and diversity and inclusion.

These activities were aimed at a total of 163 participants, including executive management, division directors, area managers, group leaders, and department heads.

4 general workshops (3 hours)	4 elective workshops (3 hours)
• New leadership challenges in a hybrid work model • Innovation for new scenarios • Empowering teams to strengthen self-management and productivity • Diversity and inclusion	• Motivational conversations • Strategic vision • Collaborative work • Stress management • Leaders as mentors

5.4.3 Training and Career Development

404-1

Central Academy

In 2021 we launched the Central Academy, a new training program for all Bank employees. The Academy addresses technical and personal skills oriented toward the new work challenges imposed by the pandemic.

Central Academy Programs

Induction	General technical knowledge	Specialized technical knowledge	Development of professio-nal and personal skills	Central Contigo

We organized a total of 37 training activities through the Academy, which covered 80.4% of the current staff and provided a total of 4.425 hours of training.

As a result of this new initiative and the continuity of our other training programs, the average hours of training per person increased 12.69 relative to 2020, to 56.26 hours per person. That represents an increase of 29% over 2020. In total, 39,719 were dedicated to training activities, 11,093 more than the previous year.

Training Hours in 2021

		Employees trained	Total hours	Average hours
SEX	Men	476	25,889	54.39
	Women	230	13,830	60.13
LEVEL	Executive Committee and upper management	37	1,268	34.27
	Department heads	45	2,523	56.07
	Group leaders	74	5,060	68.38
	Professional	439	27,085	61.70
	Technical/Administrative	111	3,783	34.08
TOTAL		**706**	**39,719**	**56.26**

We also have training programs tailored to each unit, which provide specific technical and/or adaptive tools that support the achievement of the objectives associated with each employee's current position. The course content and structure are defined by the areas, to reflect the strategic challenges established in each division. A total of 631 people participated in these training activities (87.9% of our employees).

Strategic Talent Planning

Every year we conduct Strategic Talent Planning, which ensures a systematic review of the main issues related to personnel development at the institutional level. This planning process includes the definition of specific plans for supporting the achievement of strategic objectives through human resources management.

All the Bank's employees have a formal and systematic Individual Development Plan, which offers concrete alternatives for improving professional skills. The plan is developed with the direct manager, who conducts a performance review and intermediate follow-up over the course of the year.

Every professional, supervisor, and manager is placed on a nine-box grid based on their potential and performance, which is then linked to their Individual Development Plan and the different programs available to reinforce their development.

Mentoring Program

To build trust and collaboration between areas and to promote diversity and professional development, we carried out a new round of the Mentoring Program. This leadership development program pairs people who have extensive professional experience (mentors) with less experienced employees (mentees), to support them in achieving their professional objectives and strengthening their behavioral and relational skills.

The 2021version was held virtually, with the participation of 43 mentees and 27 managers in the role of mentors. To chose the mentors, we sent out an invitation to participate voluntarily; in the case of the mentees, we invited high-performance employees to join the program, while ensuring gender parity (50% women and 50% men).

This year, in addition to a focus on gender equity, the program was consolidated as a tool for broadening the organizational vision of both managers and high-potential employees. The program featured the participation of all the divisions of the Bank and people who are in a leadership position for the first time.

In late 2021 we held a closing ceremony for the program, where mentors and mentees shared their experience and evaluated the program, sharing lessons that will be addressed in future versions.

División	Participants		
	Men	Women	Total
Accounting	1	3	4
Legal	4	0	4
Personnel	2	2	4
Monetary Policy Division	8	6	14
Financial Policy Division	4	2	6
Financial Markets Division	6	4	10
Statistics Division	0	5	5
Operations Division	6	2	8
Institutional Affairs Division	2	2	4
Administration and Technology Division	2	4	6
Corporate Risk Division	3	2	5
TOTAL	38	32	70

In 2021, 95% of our staff had a performance evaluation.

Educational Scholarships for Employees

In 2021, a total of 18 employees benefitted from our national and international scholarship program, which allows them to study at top universities around the world.

In the case of international scholarships, a total of nine people were given awards (seven men and two women).

In terms of national scholarships, nine employees started their respective programs in 2022. The grants are for undergraduate and graduate studies that offer our staff the opportunity to acquire the tools they will need to face future work challenges and increasing levels of responsibility, independence, flexibility, and mobility.

5.4.3.1 Performance Evaluation

404-3

The performance evaluation process allows us to define clear goals for our employees, establishing timelines, controls, and feedback for reinforcing their professional development and achieving institutional objectives.

	Women						Men						Total					
	2019		2020		2021		2019		2020		2021		2019		2020		2021	
	N°	%	N°	%	N°	%	N°	%	N°	%	N°	%	N°	%	N°	%	N°	%
Executive Management	1	1%	1	0%	1	0%	2	0%	2	0%	2	0%	3	1%	3	0%	3	0%
Division/Area Managers	8	4%	7	3%	7	3%	24	6%	22	5%	21	5%	32	5%	29	4%	28	4%
Other	185	95%	198	96%	212	96%	376	94%	424	95%	418	95%	561	94%	622	95%	630	95%

Note 1: All staff members who were currently employed on 31 December and who had effectively worked at least six months in 2021 participated in the performance evaluation process. That is, everyone hired before 1 July 2020 who did not have medical leave resulting in less than six months on the job over the course of the year.

Note 2: Executive Management comprises the General Manager, the General Counsel, and the Comptroller and Auditor General.

5.5
Labor Relations

102-41

The Central Bank Labor Union was founded in 1970, and it is still the only employee union at the institution. The union plays an active role in the daily lives of workers, providing broad-ranging support in areas such as legal advice, well-being, collective bargaining, and scholarships for employees' children.

We have continued to work in conjunction with the union to promote the well-being of our employees during the pandemic, both for those whose jobs require them to work in-person and for people working remotely. We have also collaborated on the process of implementing hybrid work and the return to in-person work.

Currently, 90% of contracted employees are members of the union. Moreover, the union approved an agreement to extend its benefits to all Bank employees, under the current Collective Contract between the Union and non-members. The extension of benefits does not apply to Bank management.

Jobs Covered by a Collective Agreement

2019	2020	2021
89%	91%	96%[2]

[2] Coverage includes people who qualify for benefits under the agreement (both unionized and nonunionized, excluding management).

5.6

Supplier Management

102-9; 102-10, 204-1; 414-1

Our relationship with our 873 suppliers, 759 of which are local, is regulated through the Procurement Policy, Expenditure Authorization Procedures, Contracting Rules for the purchase of goods and services, and Supplier Performance Evaluation Guidelines.

For more information on the Central Bank's Suppliers, click here

We have been developing more solid processes in our supplier relations, including tenders that require information on their financial statements, affiliation with occupational safety organizations for employees, years of experience in the industry, the professionals involved, participation in projects similar to the tender, certifications, and so forth. Once these requirements are met, we award the tender to the offer with the lowest total cost.

With regard to other requirements, in terms of sustainability, it is essential that our suppliers do not owe back pay or outstanding social security contributions. Additionally, we are in the process of studying the social criteria and practices used by other companies, to identify elements that we could incorporate into our procurement processes.

Advances on Supplier Evaluation

We published new Supplier Performance Evaluation Guidelines, which incorporate general criteria for assessing the quality of products or services received in accordance with the contract and technical specifications, compliance with contracted dates and timelines, and the quality of service in terms of assistance, availability, support, post-sale service, guarantees, and timely solutions.

	2019	2020	2021
Number of new suppliers	190	304	433
Number of new suppliers examined based on social criteria	4	2	3

In 2021 our supplier database grew 50%, thereby increasing participation and competition in the purchasing process. Furthermore, we incorporated the use of technology in the supplier guarantee process in Ariba and implemented a supplier performance evaluation process. We also opened an alternative payment channel through a second payor bank and established a complaints channel for suppliers.

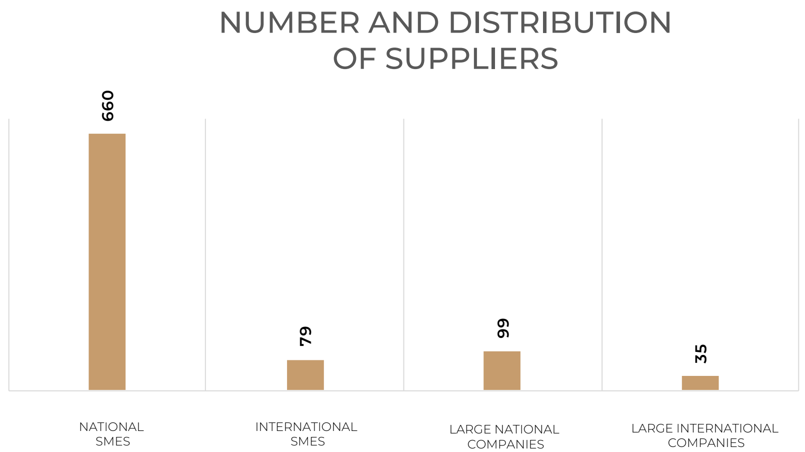
Developments in 2021 include the revision of our Expenditure Authorization Procedures for purchases, contracts, and subcontracting and the creation of new Supplier Performance Evaluation Guidelines.

In this line, we have reinforced compliance with guidelines and the role of control in the Procurement Department and the Purchasing Committee. In particular, we have worked on the direct contracting process to reduce exceptions and ensure compliance with the guidelines. As a result, regular processes now incorporate a prior review by the Purchasing Committee, and authorization has been transferred to the General Manager.

Our Supply Chain

We have a chain of national and international, small, medium, and large companies that provide a wide range of food, security, cleaning, maintenance, infrastructure improvement, computer help desk, and correspondence services.

Number and Distribution of Suppliers



Supplier Payments and Expenditures

The average period of payment to suppliers varies by category:

9.62 days
Large local companies

8.02 days
Local SMEs

The total amount of these payment is as follows:

- **CLP 16,022,117,053 paid to local SME suppliers.**
- **CLP 43,015,354,689 paid to large local companies.**

Supplier Expenditures

	2019	2020	2021
Total expenditure on suppliers	56,543,017,211	63,139,711,651	83,847,455,755
Expenditure on local suppliers	39,297,901,940	40,034,669,599	59,037,471,742

CHAPTER 6: About this Integrated Annual Report

6.1 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 third Integrated Annual Report, which consolidates information on the organization's economic performance and its environmental, social, and governance performance.

The report is prepared annually and covers the period from 01 January to 31 December 2021. There have been no significant changes in the preparation of this report since the last publication, in April 2020. This year, the report does not contain any restatements of information.

This Integrated Annual Report uses the core option of the Global Reporting Initiative (GRI). It was reviewed by an independent external auditing firm, KPMG, 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 184.

Material Topics in 2021

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:

PHASE 1 IDENTIFICATION	PHASE 2 PRIORITIZATION	PHASE 3 VALIDATION
Benchmark of good practices, including three other central banks.	24 online interviews with the Bank's top executives, including the CBC Governor, Deputy Governor, and Board Members.	Validation of the material topics by the General Manager of the Central Bank.
Review of internal CBC material.	Survey of 272 Central Bank employees on sustainability issues.	
Review of external media.	Incorporation of the results of the image and positioning study, which included general, informed, and specialist audiences.	
Review of international finance and sustainability standards and documents	Interviews with four external stakeholder groups on the Bank's materiality.	

The materiality study identified the following material topics for the Central Bank of Chile in 2021:

103-1, 103-2, 103-3

MATERIAL TOPIC	DEFINITION	COVERAGE	RESPONSIBILITY	CONTRIBUTION TO THE SUSTAINABLE DEVELOPMENT GOALS (SDG)
Monitoring the economic and financial effects of climate change	Study the effects of climate change through the constant monitoring of the economic and 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	**• Organization-wide Initiative**	
Sustainable cash cycle	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**	 

MATERIAL TOPIC	DEFINITION	COVERAGE	RESPONSIBILITY	CONTRIBUTION TO THE SUSTAINABLE DEVELOPMENT GOALS (SDG)
Sustainable environmental management	We ensure that our operations are managed under sustainable parameters in terms of energy, waste, and soon also emissions.	Internal with external impact	• **Operations Division**	 
Employee well-being	We ensure that our employees have favorable working conditions and a good work climate, with special concern for their well-being	Internal	• **Personnel Area**	

MATERIAL TOPIC	DEFINITION	COVERAGE	RESPONSIBILITY	CONTRIBUTION TO THE SUSTAINABLE DEVELOPMENT GOALS (SDG)
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 and inclusive team, where everyone feels welcome and can develop without prejudice	Internal	• **Personnel Area**	  
Training and education	We aim to be a challenging place to work, where all our employees can learn and develop in an equal opportunity environment.	Internal	• **Personnel Area**	

6.2 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	22
		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 (28)
		Disclosure 102-7	Scale of organizations	21
		Disclosure 102-8	Information on employees and other workers	153
		Disclosure 102-9	Supply chain	171
		Disclosure 102-10	Significant changes to the organization and its supply chain	23-171
		Disclosure 102-11	Precautionary Principle or approach	No aplica
		Disclosure 102-12	External initiatives	70
		Disclosure 102-13	Membership of associations	70
	Strategy	Disclosure 102-14	Statement from senior decision-makers	6 y 9
		Disclosure 102-15	Key impacts, risks, and opportunities	52
	Ethics and integrity	Disclosure 102-16	Values, principles, standards, and norms of behavior	28-56
		Disclosure 102-17	Mechanisms for advice and concerns about ethics	61
	Governance	Disclosure 102-18	Governance structure	40
		Disclosure 102-19	Delegating authority	48
		Disclosure 102-20	Executive-level responsibility for economic, environmental, and social topics	37-48
		Disclosure 102-22	Composition of the highest governance body and its committees	44
		Disclosure 102-23	Chair of the highest governance body	40
		Disclosure 102-24	Nominating and selecting the highest governance body	40
		Disclosure 102-25	Conflicts of interest	48
		Disclosure 102-26	Role of highest governance body in setting purpose, values, and strategy	37-48
		Disclosure 102-29	Identifying and managing economic, environmental, and social impacts	44
		Disclosure 102-32	Highest governance body's role in sustainability reporting	40

	Stakeholder engagement	Disclosure 102-40	List of stakeholder groups	65
		Disclosure 102-41	Collective bargaining agreements	170
		Disclosure 102-42	Identifying and selecting stakeholder groups	65
		Disclosure 102-43	Approach to stakeholder engagement	65
		Disclosure 102-44	Key topics and concerns raised	65
	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	176
		Disclosure 102-47	List of material topics	176
		Disclosure 102-48	Restatements of information	175
		Disclosure 102-49	Changes in reporting	175
		Disclosure 102-50	Reporting period	4-175
		Disclosure 102-51	Date of most recent report	175
		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	75
		Disclosure 102-55	GRI content index	180
		Disclosure 102-56	External assurance	175-184

MATERIAL TOPIC				
FINANCIAL EDUCATION				
GRI 103: Management Approach 2016	Management approach	Disclosure 103-1	Explanation of the material topic and its boundary	91
		Disclosure 103-2	The management approach and its components	91
		Disclosure 103-3	Evaluation of the management approach	91
Own indicator	Own indicator	CBC1	Participation in climate change dialogues	93
MONITORING THE ECONOMIC AND FINANCIAL EFFECTS OF CLIMATE CHANGE				
GRI 103: Management Approach 2016	Management approach	Disclosure 103-1	Explanation of the material topic and its boundary	91
		Disclosure 103-2	The management approach and its components	91
		Disclosure 103-3	Evaluation of the management approach	91
Own indicator	Own indicator	CBC1	Participation in climate change dialogues	93

KNOWLEDGE AND ADOPTION OF DISRUPTIVE TECHNOLOGIES				
GRI 103: Management Approach 2016	Management approach	Disclosure 103-1	Explanation of the material topic and its boundary	99
		Disclosure 103-2	The management approach and its components	99
		Disclosure 103-3	Evaluation of the management approach	99
Own indicator	Own indicator	CBC3	Main activities of the Technology Observatory	102
SUSTAINABLE CASH MANAGEMENT				
GRI 103: Management Approach 2016	Management approach	Disclosure 103-1	Explanation of the material topic and its boundary	139
		Disclosure 103-2	The management approach and its components	139
		Disclosure 103-3	Evaluation of the management approach	139
Own indicator	Own indicator	CBC4	Disposal method for withdrawn banknotes and coins	140

SUSTAINABLE ENVIRONMENTAL MANAGEMENT				
GRI 103: Management Approach 2016	Management Approach	Disclosure 103-1	Explanation of the material topic and its boundary	143
		Disclosure 103-2	The management approach and its components	143
		Disclosure 103-3	Evaluation of the management approach	143
GRI 302: Energía 2016	Energy	Disclosure 302-1	Energy consumption within the organization	147
		Disclosure 302-2	Energy intensity	147
GRI 306: Effluents and Waste 2020	Effluents and Waste	Disclosure 306-3	Waste generated	149
		Disclosure 306-4	Waste not destined for disposal	149
		Disclosure 306-5	Waste destined for disposal	149

DIVERSITY AND INCLUSION				
GRI 103: Management Approach 2016	Management approach	Disclosure 103-1	Explanation of the material topic and its boundary	155
		Disclosure 103-2	The management approach and its components	155
		Disclosure 103-3	Evaluation of the management approach	155
GRI 405: Diversity and Equal Opportunity 2016	Diversity and equal opportunity	Disclosure 405-11	Diversity of governance bodies and employees	155
		Disclosure 405-2	Ratio of basic salary and remuneration of women to men	155
EMPLOYEE WELL-BEING				
GRI 103: Management Approach 2016	Management approach	Disclosure 103-1	Explanation of the material topic and its boundary	161–177
		Disclosure 103-2	The management approach and its components	161–177
		Disclosure 103-3	Evaluation of the management approach	161–177
Own indicator	Own indicator	CBC5	Work climate	163
TRAINING AND EDUCATION				
GRI 103: Management Approach 2016	Management approach	Disclosure 103-1	Explanation of the material topic and its boundary	164-177
		Disclosure 103-2	The management approach and its components	164-177
		Disclosure 103-3	Evaluation of the management approach	164-177
GRI 404: Training and education 2016	Training and education	Disclosure 404-1	Average hours of training per year per employee	166
		Disclosure 404-3	Percentage of employees receiving regular performance and career development reviews	169
OTHER INDICATORS				
GRI 204: Procurement Practices 2016	Procurement practices	Disclosure 204-1	Proportion of spending on local suppliers	171
GRI 414: Supplier Social Assessment 2016	Supplier social assessment	Disclosure 414-1	New suppliers that were screened using social criteria	171

6.3 External Assurance

102-56

Independent Accountant's Report
2021 Integrated Report of Central Bank of Chile

To
The President and Directors
Central Bank of Chile

We have conducted a limited review of the contents and data related to GRI and own indicators disclosed in the 2021 Integrated Report of Central Bank of Chile as of December 31, 2021.

Management of Central Bank of Chile is responsible for the preparation of the Report. Additionally, Management of Central Bank of Chile is responsible for the contents, assertions, scope definition and the management and control of information systems which provided the information reported.

We conducted our review in accordance with the ISAE 3000 standards and the attestation engagement standards issued by the Colegio de Contadores de Chile A.G. A review is less in scope than an examination, the objective of which is to express and opinion on the "2021 Integrated Report of Central Bank of Chile" Accordingly, we do not express such opinion.

Contents and data disclosed in the "2021 Integrated Report of Central Bank of Chile" were reviewed considering the criteria established in the Global Reporting Initiative (GRI) Reporting Standard as well as Central Bank of Chile's internal guidelines, which are summarized as follows:

- Determine that contents and data presented in the 2021 Integrated Report of Central Bank of Chile are duly supported with sufficient evidence.
- Determine that Central Bank of Chile has prepared the contents and data disclosed in the 2021 Integrated Report of Central Bank of Chile, in accordance with the Principles on Content and Quality as established by the GRI Standard and its internal guidelines.
- Confirm the core option stated by Central Bank of Chile in the 2021 Integrated Report of Central Bank of Chile, in accordance with the GRI Standard.

Our procedures considered making inquiries of the Management and Business Units of Central Bank of Chile involved in the process of developing the report, as well as performing other analytical procedures and tests, described below:

- Interviews with Central Bank of Chile's key personnel, in order to assess the preparation process of the contents and data disclosed in the 2021 Integrated Report, content definition and information systems used.
- Verification of contents and data disclosed in the 2021 Integrated Report of Central Bank of Chile through supporting documentation provided by Central Bank of Chile
- Analysis of the collection process and the quality control of contents and data disclosed in the 2021 Integrated Report of Central Bank of Chile
- Verification of data reliability using analytical procedures, testing on a sample basis and the review of recalculations.
- Interviews by video-conference with those responsible for the process for preparing the 2021 Integrated Report of Central Bank of Chile
- Review of the wording of the 2021 Integrated Report of Central Bank of Chile

Based on the procedures performed, nothing came to our attention that caused us to believe that:

- Contents and data disclosed in the 2021 Integrated Report of Central Bank of Chile are not duly supported with sufficient evidence.
- Contents and data disclosed in the 2021 Integrated Report of Central Bank of Chile have not been prepared in accordance with the Principles on Content and Quality as established by the GRI Standard and Central Bank of Chile's internal guidelines.
- The 2021 Integrated Report of Central Bank of Chile does not comply with the core option stated by Central Bank of Chile in accordance with the GRI Standard.

Very truly yours,

KPMG SpA

Karin Eggers G.
Partner

Santiago, April 26, 2022

Chapter 7: Appendixes

Appendix 1: Central Bank of Chile's Balance

Balance Sheet Levels and Structure[1]

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 2021, especially in the first half, the Bank continued to implement the special measures to support the flow of credit, ensure the correct transmission of monetary policy, and contain financial market volatility. In particular, the following measures were implemented:

i. The third phase of the Conditional Financing Facility for Increased Loans (FCIC-3), in place through September 2021, for a total amount of CLP 7.1 trillion.

ii. The CC-VP program (simultaneous spot purchase and forward sale of bank bonds), a measure implemented to preserve financial market stability and the efficiency of the price-setting process in the context of the third pension fund and annuity withdrawal.

iii. Gradual reserve replenishment and expansion program, aimed at strengthening the country's international liquidity position by an announced total of USD 12.0 billion, through daily purchases of USD 40 million, which was suspended on 13 October 2021 with a total purchase of USD 7.44 billion.

As a consequence of the implementation of these programs, the size of the balance sheet, measured in pesos, grew 33% in 12 months or, in GDP terms, from 29.6% in December 2020 to 32.8% in December 2021.

The composition of the balance sheet also changed. At year-end 2021, 55.3% of assets were international reserves, versus 47% in December 2020. The growth of international reserves is explained, in part, by the international reserve purchase program, as well as the higher valuation of assets expressed in local currency, due to the appreciation of the currencies that make up the reserves against the peso. Assets denominated in local currency also increased, albeit at a lower rate, due to the commercial banks' use of the Conditional Financing Facility for Increased Loans (FCIC-3).

[1] The balance sheet is prepared in accordance with International Financial Reporting Standards (IFRS). See the Financial Statements (note 2(a)).

At the same time, the composition of liabilities on the balance sheet also changed. In particular, the monetary base decreased as a share of liabilities, from 49.5% to 28.4%, while the share of Central Bank notes and policy instruments (debt) increased from 34.5% in 2020 to 56.7% at year-end 2021. This change in the composition of liabilities is largely explained by an increase in Central Bank discount notes (PDBC) in order to drain excess liquidity from the economy. The contraction in the monetary base, in turn, reflects the fact that the commercial banks largely preferred to use short-term CBC securities (PDBC) to constitute their additional reserve requirement, rather than peso deposits.

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. On the asset side, at year-end 2021, assets denominated in foreign currency again exceeded liabilities 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, although the level is still lower than before 2020.

On the liability side, the increase in PDBCs and the reduction of the monetary base caused an increase in balance sheet exposure to rising interest rates, specifically the MPR. As the cost of the Bank's liabilities increased, largely due to the MPR hikes starting in July, the differential between the return on assets and the liabilities that finance them turned negative (starting in October).

Tabla 1.1
Central Bank Balance Sheet
(billions of pesos and % of GDP, on 31 December of each year)

Rate of Return (%) (1)

	2020		2021		2020		2021	
	Balance	%GDP(2)	Balance	%GDP(2)	Interest	Δ value	Interest	Δ value
Assets	**59.339**	**29,6**	**78.870**	**32,8**	**0,7**	**0,6**	**0,9**	**8,0**
International reserves	27,881	13,9	43.643	18,1	0,5	-0,1	0,9	15,3
Other assets with public sector	322	0,2	351	0,1	0,0	2,7	0,0	10,7
Monetary policy instruments (3)	59	0,0	0	0,0	1,2	0,3	2,4	0,0
Investments in local assets (4)	8,756	0,0	5.591	2,3	2,2	0,0	2,2	3,7
Credit to financial institutions (5)	22,044	0,0	28.963	12,0	0,5	0,0	0,5	0,0
Other	277	0,1	323	0,1	0,4	98,5	0,9	-45,5
Liabilities	**61,077**	**30.5**	**75,619**	**31.4**	**0.4**	**1.8**	**0.8**	**0.2**
Monetary base	30,256	15.1	21,456	8.9	0.0	0.0	0.1	0.0
Monetary policy notes (6)	21,052	10.5	42,840	17.8	0.9	1.1	1.2	0.1
Other monetary policy liabilities (7)	7,564	3.8	4,549	1.9	0.3	0.5	0.8	0.0
Current accts. and bank reserves in foreign currency	1,267	0.6	3,641	1.5	0.0	0.0	0.0	0.0
Treasury and other public sector deposits	0	0.0	0	0.0	8.6	0.0	9.2	0.0
Otros	939	0.5	3,132	1.3	0.3	59.7	4.8	6.8
Equity	**–1,739**	**–0.9**	**3,252**	**1.4**				
Opening capital	–1,760		–2,247					
Other reserves (10)	509		–165					
Net result	–487		5,664					
Nonfinancial result	–84		–128					
Net interest (8)	112		298					
Changes in value (9)	–515		5,494					
Capital contributions	0		0					

(1) Implied rates calculated from accounting records of the flow of income/expense (losses/gains from interest or changes in value) over average annual stocks or balances of asset and liability line items.
(2) Assets and liabilities as a share of annual GDP at current prices.
(3) Includes loans to banks guaranteed with risk-free documents (repos), liquidity lines in national currency and swaps.
(4) Includes investments in bank bonds, time deposits, and CC-VP.
(5) Includes LCL credit lines, FCIC-1 and FCIC-2 (FOGAPE and OCNB), and FCIC-3.
(6) Includes PDBC, BCP, PRC, ZERO UF, and BCU.
(7) Short-term remunerated bank deposits in domestic and foreign currency. Foreign currency deposits, except daily deposits, guarantee credits in domestic currency (note 3).
(8) Interest rate differential between assets and liabilities.
(9) Includes price-level restatements in domestic currency and the effect of exchange rate fluctuations on assets and liabilities in foreign currency
(10) See the Statement of Changes in Equity in the 2021 Financial Statements.
Source: Central Bank of Chile.

Evolution of Assets and Liabilities

Measured in pesos, total assets increased by CLP 19.532 trillion. As a share of GDP, assets grew from 29.6% to 32.8% between 2020 and 2021 (table 1.1). International reserves increased CLP 15.763 trillion, due to the combined effect of international reserve purchases of CLP 5.526 trillion, gains associated with the depreciation of the peso of CLP 5.536 trillion, an increase in IMF special drawing rights (SDRs) of CLP 2.073 trillion, and income from interest, sales, and net commissions of CLP 243 billion, as well as an increase in the cash portfolio of CLP 2.385 trillion. Additionally, the use of the FCIC-3 credit line by the commercial banks, for a total of CLP 7.100 trillion, also had an effect on the size of the balance sheet. These increases were partially offset by a reduction in investments in local assets of CLP 3.166 trillion, due to the maturing of bank bonds (CLP 394 billion) and time deposits (CLP 209 billion), losses associated with market valuation (CLP 408 billion), and the maturing of CC-VP operations (CLP 2.155 trillion) from the outstanding balance on operations conducted in the context of the second pension fund withdrawal.

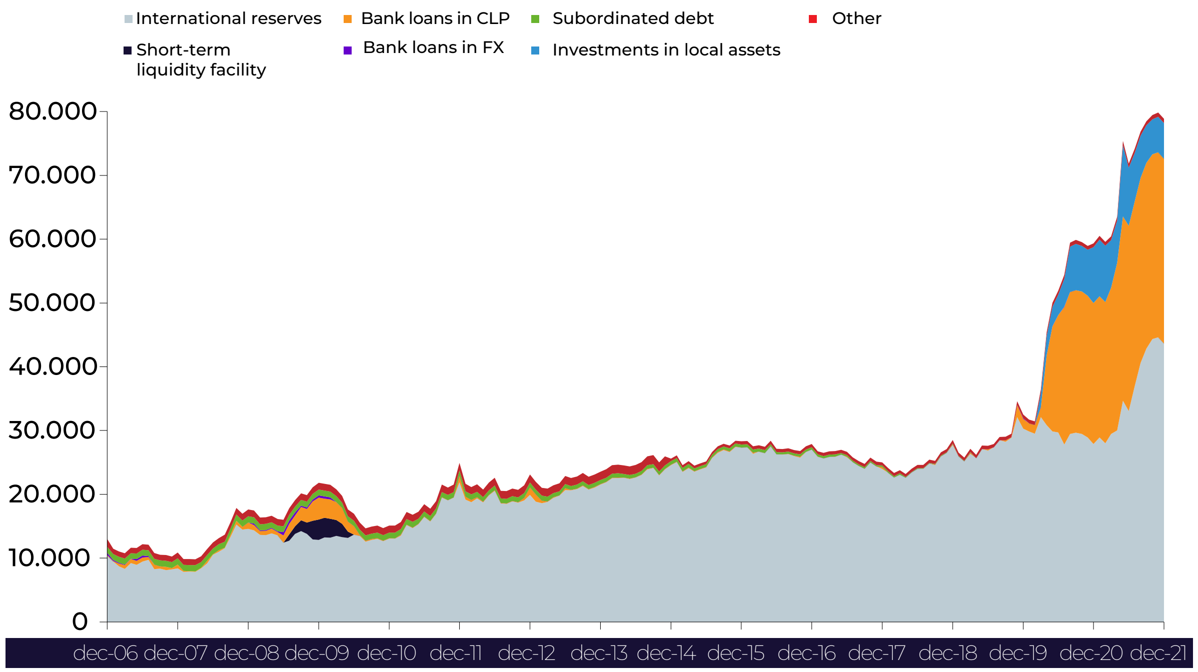
Liabilities, excluding equity, increased CLP 14.541 trillion in 2021, in relative terms reaching 31.4% of GDP (versus 30.5% in 2020). The largest increase was in monetary policy notes, which grew CLP 21.789 trillion, mainly due to the increase in PDBCs of CLP 22.258 trillion and a reduction in long-term debt of CLP 469 billion. The monetary base contracted CLP 8.800 trillion, primarily due to the reduction in balances held in the banks' additional reserve accounts and current accounts of CLP 12.663 trillion, offset by an increase in cash of CLP 3.863 trillion. Additionally, other monetary policy liabilities (standing deposit facility) decreased by CLP 3.014 trillion. The significant increase in the PDBC stock served to drain excess liquidity from the economy.

Finally, current accounts and additional reserves in foreign currency increased CLP 2.374 trillion due to an increase in deposits by the commercial banks.

[2] Commercial banks' deposits at the Central Bank, usually overnight.

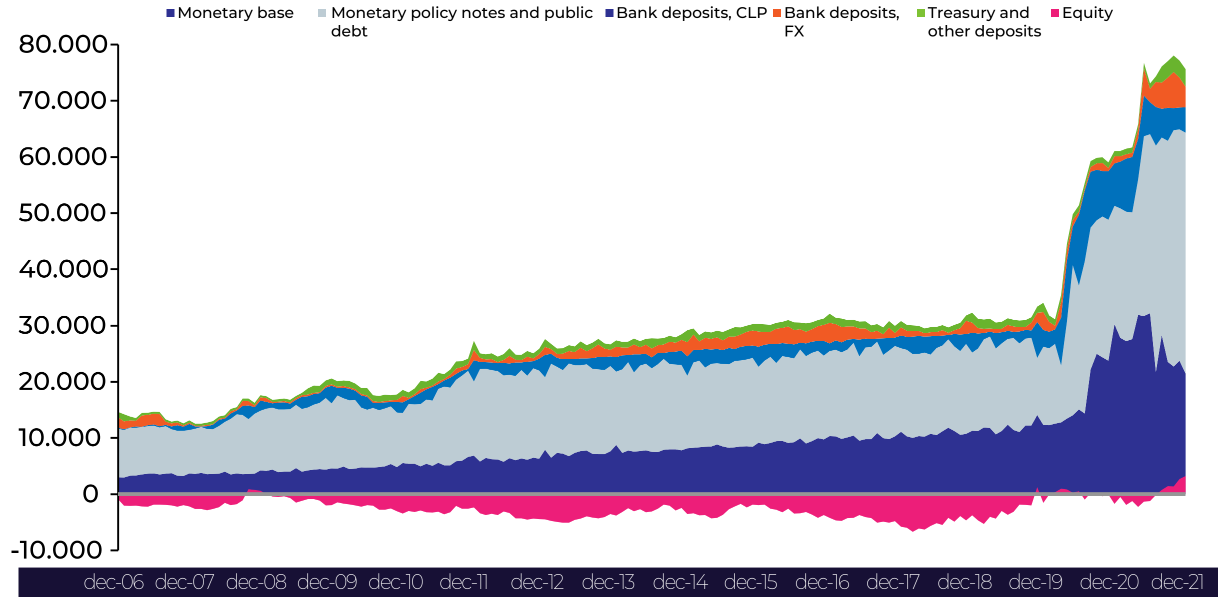
At year-end, the Bank had positive equity of CLP 3.252 trillion, reflecting an opening equity balance of CLP –2.247 trillion, a decrease in other reserves of CLP –165 billion, and net income in 2021 of CLP 5.664 trillion. The latter was explained by gains of CLP 5.494 trillion deriving from changes in the value of assets and liabilities (mainly due to exchange rate fluctuations), net interest income of CLP 298 billion, and nonfinancial costs of CLP 128 billion, mostly personnel and administrative expenses and currency issuance and distribution costs.

Figure 1.1
Central Bank of Chile Assets (Balances)
(CLP MM)



Note: The short-term liquidity facility was one of the measures implemented by the CBC during the crisis in 2009.

Figure 1.2
Central Bank of Chile Liabilities (Balances)
(CLP MM)



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 2021, the average nominal spot rate on assets (1.08%) was lower than the average nominal spot rate on liabilities (2.40%), which reflects the current and future short-term rate of return (in contrast to the average rate during the year in table 1.1). On the asset side, investment in bank bonds, with a higher yield than the MPR, contributed to raising the average rate. On the liability side, the average rate was mainly influenced by the rate on debt placements (PDBC) in line with the MPR (rising) and, to a lesser extent, by the monetary base, whose components—with the exception of additional reserves (reserva técnica)—do not earn interest, both of which contributed to reducing the average rate on liabilities (Table 1.2).

Table 1.2
Income and Expense Structure
(balance on 31 December 2021, in CLP MM, interest rate in %, maturity in years)

Assets	Amount	Average rate	Average duration
International reserves	43.643	0.97	2.6
FCIC-LCL	28.964	0.50	2.1
Bank bonds (1)	5.591	4.97	1.9
Total assets	**78.198**	**1.08**	**2.38**
Liabilities	**Amount**	**Average issue rate**	**Average duration**
PDBC	42.257	3,49	0,0
BCP	172	6,00	0,5
BCU (1)	408	7,50	1,1
Other deposits and oblig. (2)	4.549	3,35	0,0
Cash in circulation (3)	18.667	0,00	0,0
Banks' additional reserve deposits (3)	820	2,93	0,0
Fin. inst. current accounts (2)	3.641	0,00	0,0
Total liabilities	**70.514**	**2.40**	**0.03**

(1) Considers a nominal rate equivalent to average expected inflation in 2021 (from the December 2021 IPOM) and a duration adjustment factor of 0.5 in the case of UF-denominated bonds.
(2) Standing deposit facility.
(3) Components of the monetary base.

Source: Central Bank of Chile.

In 2021, there was a positive differential of 0.1% between the effective interest rate earned on assets (0,9%) and effective rate paid on liabilities (0.8%) (table 1.1). In the context of this measure, international reserves contributed 0.46% to the return, a larger contribution than last year due to their larger share of total assets. Investments in local assets contributed 0.23% to the return, which represents a smaller contribution than last year. On the liability side, the share of interest paid increased, mainly due to the higher debt issue costs from PDBCs, in line with the 350 basis point increase in the MPR over the course of the year. Thus, the average interest rate paid and earned, associated with the cost of monetary policy notes and total liabilities, was 0.6%.

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 (8.0%), mainly explained by accounting gains deriving from the depreciation of the peso against the currencies that make up the reserve portfolio (7.8%) and, to a lesser extent, the restatement of investments in national UF-indexed bonds (which account for 96% of total national bonds) (0.38%).

The change in the value of liabilities was also positive (0.2%), mainly due to nonfinancial expenses associated with personnel and administrative expenses and cash in circulation.

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 2021, of the total personnel and administrative expenses, personnel costs represented 68.0%; administrative expenses, 31.5%; and retirement benefits, 0.5%.

Table 1.3
PERSONNEL, ADMINISTRATIVE, AND OTHER EXPENSES
(2021 CLP MM) (1)

Assets	2017	2018	2019	2020	2021
Personnel expenses	41.552	41.221	45.163	44.174	43.760
Administrative expenses	20.546	20.427	22.566	20.178	20.247
Provision for post-employment benefits	2.159	2.048	1.589	1.331	345
Other expenses (income)	2.356	4.478	2.267	1.408	6.011
Total	**66.613**	**68.174**	**71.584**	**67.091**	**70.363**

(1) The average CPI was used to updated older figures to 2021 pesos (base year: 2018).

Personnel Expenses

Personnel expenditures decreased 0.9% between 2020 and 2021, due to the employee compensation and well-being programs. In 2021, the total staff decreased to 723 people, (733 in 2020). Professionals accounted for 83% of the total staff as of December 2021.

Administrative Expenses

Administrative costs increased 0.3% in 2021. This was mainly due to an increase 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.

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.[3]

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.

[3] 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.

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, types 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 2021.

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

TABLE 1a: BENCHMARK STRUCTURE OF THE INVESTMENT PORTFOLIO

(values on 31 December 2021)

		Type	%Portfolio	% Sub-port-folio	Duration (months)	Benchmark index
Liquidity	USD	Nominal	60,0	100,0	32,2	Bloomberg-Barclays Global Aggregate-Treasury Bond Index (Unhedged) (3)
	Total		60,0	100,0	32,2	
Diversification	USD	Nominal	6,0	15,0	32,2	Bloomberg-Barclays Global Aggregate-Treasury Bond Index (Unhedged) (3) Bloomberg-Barclays Global Inflation Linked Index (Unhedged) (4)
		Indexed	11,0	27,5	28,4	
		Total	17,0	42,5	29,7	
	CNY	Nominal	8,0	20,0	29,9	
	EUR (1)	Indexed	5,0	12,5	31,3	
	GBP	Indexed	4,0	10,0	32,8	
	AUD	Nominal	3,0	7,5	37,2	
	KRW (2)	Nominal	3,0	7,5	30,5	
	Total		40,0	100,0	30,9	
Total			**100,0**		**31,7**	

(1) Only instruments from Germany, Spain, and France.
(2) Only instruments issued by the Treasury of South Korea (ticker KTB).
(3) Issues in the 1–5 year maturity tranche.
(4) Issues in the 1–10 year maturity tranche.
Source: Central Bank of Chile.

The liquidity portfolio represents 60% 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 five 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 40% of the investment portfolio, and its benchmark is composed of nominal sovereign bonds with a residual maturity of one to five years and inflation-linked sovereign bonds with a residual maturity of one to ten years. The nominal share of the diversification portfolio (50%) is made up of instruments denominated in Chinese yuan (20.0%), U.S. dollars (15.0%), Australian dollars (7.5%), and South Korean won del Sur (7.5%); while the inflation-indexed share (50%) is denominated in U.S. dollars (27.5%), euros (12.5%), and pounds sterling (10.0%). The target duration of this portfolio is 31 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, 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 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.

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

[4] 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.

Benchmark Structure of the Cash Portfolio

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

Portfolio Performance in 2020

On 31 December, the investment portfolio stood at USD 42.8178 billion, while the cash portfolio held USD 4.3091 billion. Taking the sum of these two portfolios plus other assets (USD 4.202,9 billion), total international reserves closed the year at USD 51.3298 billion.

This balance was USD 12.1298 billion higher than at year-end 2020. This growth is explained by increases in the investment portfolio of USD 6.7993 billion, the cash portfolio of USD 2.5277 billion, and the other assets portfolio of USD 2.8029 billion.

The increase in the value of the investment portfolio is mainly due to the influx of dollars from the international reserve replenishment and expansion program, which implied a portfolio contribution of USD 7.440 billion while the program was in effect. This was partially offset by net losses of USD 93.5 million, mainly attributable to the depreciation of the currencies that make up the reserve portfolio against the U.S. dollar; and net withdrawals of USD 642.0 million in connection to IMF operations. In the case of the cash portfolio, the increase is explained by an increase in foreign currency deposits denominated in U.S. dollars, held at the CBC by commercial banks and the Treasury. Finally, the increase in the other assets portfolio mainly derives from an allocation of special drawing rights to Chile by the IMF, totaling SDG 1.672, which materialized in August 2021.

Of the internally managed investment portfolio (USD 41.6184 billion), 97.36% was invested in sovereign risk, 1.55% in supranational risk, and 0.12% in agency risk. Bank exposure (which includes deposits and currency operations) was less than 0.97%. Relative to year-end 2020, there was a slight decrease in exposure to sovereign risk and an increase primarily in exposure to bank risk.

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[5] Excluding the externally managed resources, other assets, and the cash portfolio.
[6] Supranational institutions are multilateral financial institutions, whose articles of agreement are signed by the governments of two or more countries.
[7] Agencies are financial institutions with a specific purpose, which are fully or partially backed by the governments of their respective countries.

Sovereign risk includes investments in the United States of America (76.69%), China (7.38%), United Kingdom (4.14%), Republic of South Korea (3.07%), France (3.00%), Australia (1.71%), Germany (1.62%), Spain (1.22%), Japan (0.25%), Saudi Arabia (0.24%), United Arab Emirates (0.20%), Poland (0.16%), Canada (0.10%), Qatar (0.06%), Israel (0.06%), Denmark (0.04%), and Sweden (0.03%). Supranational risk is made up issues by the European Investment Bank (23.65%), New Development Bank BRICS (19.80%), Nordic Investment Bank (11.14%), Bank for International Settlements (10.83%), Asian Development Bank (10.47%), Asian Infrastructure Investment (8.48%), Inter-American Development Bank (4.33%), International Finance Corporation (2.47%), International Development Association (2.29%), Inter-American Investment Corporation (2.19%), Council of Europe Development Bank (1.73%), International Bank for Reconstruction and Development (1.33%), and African Development Bank (1.30%). Agency risk is concentrated in one issue from Landwirtschaftliche Rentenbank of Germany (0.07% of the total portfolio) and one issue from Korea Development Bank of South Korea (0.03% of the total portfolio).

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

TABLE 2a: COMPOSITION OF INTERNATIONAL RESERVES

(millions of USD)

		2020		2021	
PORTFOLIO	CURRENCY	DEC.	%	DEC.	%
Investment Portfolio		**36,018.5**	**91.9**	**42.817,8**	**83,4**
Currencies and deposits	U.S. Dollar	41.4	0.1	9,2	0,0
	Euro	0.3	0.0	0,4	0,0
	Canadian dollar	0.1	0.0	0,0	0,0
	Australian dollar	3.3	0.0	0,1	0,0
	Other	30.5	0.1	32,0	0,1
Valores	U.S. Dollar	18,636.9	47,5	32.919,7	64,1
	Euro	3,909.4	10,0	2.147,8	4,2
	Canadian dollar	3,262.3	8,3	0,0	0,0
	Australian dollar	3,240.0	8,3	1.297,6	2,5
	Other	6,894.3	17,6	6.411,0	12,5
Totales	U.S. Dollar	18,678.2	47,6	32.928,9	64,2
	Euro	3,909.7	10,0	2.148,2	4,2
	Canadian dollar	3,262.4	8,3	0,0	0,0
	Australian dollar	3,243.4	8,3	1.297,6	2,5
	Other	6,924.8	17,7	6.443,0	12,6
Cash Portfolio		**1,781.4**	**4,5**	**4.309,1**	**8,4**
Currencies and deposits	Dólar de EE.UU.	1,781.4	4,5	4.309,1	8,4
Other Assets Portfolio		**1,400.1**	**3,6**	**4.202,9**	**8,2**
Monetary gold	Other	14.9	0,0	14,3	0,0
IMF SDRs	Other	691.8	1,8	3.502,4	6,8
IMF reserve position	Other	693.4	1,8	684,9	1,3
Currencies and deposits	U.S. Dollar	0.0	0,0	1,3	0,0
Total International Reserves		**39,200.0**	**100,0**	**51.329,8**	**100,0**
	U.S. Dollar	20,459.6	52,2	37.239,3	72,5
	Euro	3,909.7	10,0	2.148,2	4,2
	Canadian dollar	3,262.4	8,3	0,0	0,0
	Australian dollar	3,243.4	8,3	1.297,6	2,5
	Other	8,324.9	21,2	10.644,6	20,7

TABLE 2b
INVESTMENT PORTFOLIO: INVESTMENTS BY CURRENCY (1)
(percent on 31 December 2021)

Currency	Share (2)
U.S. dollar	76.9
Chinese renminbi	8.1
Euro	5.0
Pound sterling	4.0
Australian dollar	3.0
South Korean won	3.0
Other (3)	0.0
Total	**100.0**

(1) Excluding the cash and other assets portfolios.
(2) The share includes currency forwards.
(3) Includes JPY, CHF, PLN, MYR, NZD, CAD, NOK, SGD, DKK, SEK, and CZK.
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 60% 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).

TABLE 3: COMPOSITION OF INTERNATIONAL RESERVES BY CREDIT RISK (1) (2) (3) (4)
(percent on 31 December 2021)

TYPE OF CREDIT RISK	CREDIT RATING							
	AAA	AA+	AA	AA-	A+	A	A-	TOTAL
Sovereign	71.1	0.1	5.4	3.9	6.9	0.2	1.2	88.79
Bank	1.1	0.0	1.5	2.5	2.0	2.2	0.3	9.65
Supranational	1.5	0.0	0.0	0.0	0.0	0.0	0.0	1.46
Agency	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.10
Total	**73.7**	**0.1**	**6.9**	**6.5**	**8.9**	**2.4**	**1.5**	**100.0**

(1) Bank risk is related to investment in banks' financial instruments (deposits). Sovereign risk is related to investment in instruments from sovereign states (bills, nominal bonds). Agency risk is associated with investment in instruments from German government agencies (bills, nominal bonds). Supranational risk is associated with investment in instruments from an official multilateral issuer (deposits, bills, and nominal bonds).
(2) For sovereign risk, the credit rating corresponds to the average rating from Fitch, Moody's, Standard and Poor's, and Dominion Bond Rating Service.
(3) For agency, bank, and supranational risk, the credit rating corresponds to the average rating from Fitch, Moody's and Standard and Poor's.
(4) Including the cash portfolio; excluding the other assets portfolio.
Source: Central Bank of Chile.

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

TABLE 4
(millions of USD)

Financial Institutions with Outstanding Deposits on 31.Dec.2021		
AAA, AA+, AA, AA-	Bank for International Settlements	
	J.P. Morgan Chase Bank N.A.	
	Royal Bank of Canada	
	The Toronto Dominion Bank	
	Category average	**597**
A+, A, A-	Citibank N.A.	
	Banco Bilbao Vizcaya Argentaria S.A.	
	Banco Santander	
	Bank of China	
	Bred Banque Populaire	
	Danske Bank A/S	
	Landesbank Baden Württemberg	
	Raiffeisen Schweiz Genossenschaft	
	Sumitomo Mitsui Banking Corporation	
	Category average	**188**

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

TABLE 5. ELIGIBLE BANKS AND PERMISSIBLE LIMITS AS OF 31.DEC.2021
(millions of USD and months)

Country	Bank	Amount	Duration
Germany	Bayerische Landesbank	150	1
Germany	DekaBank Deutsche Girozentrale	500	3
Germany	DZ BANK AG Deutsche Zentral-Genossenschaftsbank	700	9
Germany	Goldman Sachs Bank Europe SE	500	3
Germany	J.P Morgan AG	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
Canadá	Bank of Montreal	700	9
Canadá	Canadian Imperial Bank of Commerce	700	9
Canadá	National Bank of Canada	500	3
Canadá	Royal Bank of Canada	700	9
Canadá	The Bank of Nova Scotia	700	9
Canadá	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
South Korea	Standard Chartered Bank Korea Limited	500	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
United States	Bank of America NA	700	9
United States	BNY Mellon National Association	500	9
United States	Citibank NA	500	3
United States	Comerica Bank	150	1
United States	Goldman Sachs Bank USA	500	3
United States	HSBC Bank USA NA	700	9
United States	J.P. Morgan Chase Bank NA	700	9
United States	Keybank National Association	150	1
United States	PNC Bank NA	500	3
United States	State Street Bank & Trust Company	700	9
United States	The Bank of New York Mellon	700	9
United States	The Northern Trust Company	700	9
United States	U.S. Bank NA	700	9
United States	Wells Fargo Bank, NA	700	9
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	500	3
France	Natixis S.A.	500	3
France	Société Générale	500	3
Netherlands	ABN AMRO Bank NV	500	3

Netherlands	Coöperatieve Rabobank UA	500	3
Netherlands	ING Bank NV	700	9
United Kingdom	NV Bank Nederlandse Gemeenten	1000	12
United Kingdom	Bank of Scotland Plc	500	3
United Kingdom	Barclays Bank Plc	500	3
United Kingdom	Goldman Sachs International Bank	250	3
United Kingdom	HSBC Bank Plc	500	3
United Kingdom	Lloyds Bank Plc	500	3
United Kingdom	Lloyds Bank Corporate Markets Plc	500	3
United Kingdom	Merrill Lynch International	500	3
United Kingdom	Natwest Markets Plc	500	3
United Kingdom	Santander UK PLC	500	3
Israel	Standard Chartered Bank	500	3
Japan	Bank Hapoalim B.M.	500	3
Japan	Mizuho Bank Ltd.	500	3
Japan	Mitsubishi UFJ Trust and Banking Corporation	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
Norway	The Shizuoka Bank Ltd.	150	1
Singapore	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	Raiffeisen Schweiz Genossenschaft	250	3
Switzerland	UBS AG	700	9
Switzerland	Zürcher Kantonalbank	1000	12

Source: Central Bank of Chile.

TABLE 6
Intermediaries Used in 2021

Intermediaries		
ABN Amro Bank N.V., Amsterdam	*Credit Suisse Securities (USA) LLC, New York*	*National Bank of Canada Financial Inc., New York*
Agricultural Bank of China	*Daiwa Capital Markets America Inc.*	*National Bank of Canada, Montreal*
Amherst Pierpont Securities LLC	*Danske Markets Inc.*	*Natixis, Paris*
ANZ Securities Inc., New York	*DBS Bank Ltd, Seoul*	*NatWest Markets Plc*
Australia & New Zealand Banking Group Limited, Melbourne	*Deutsche Bank AG, London*	*Nomura International Plc, London*
Australia and New Zealand Banking Group Ltd., New York	*Deutsche Bank Securities Inc.*	*Nomura Securities International Inc., New York*
Banco Bilbao Vizcaya Argentaria S.A., Madrid	*DZ Bank AG Deutsche Zentral Genossenschaftsbank, Frankfurt*	*Oversea-Chinese Banking Corp. Ltd., London*
Banco Santander S.A., Madrid	*First Abu Dhabi Bank*	*Oversea-Chinese Banking Corp. Ltd., New York*
Bank For International Settlements, Basle	*First Abu Dhabi Bank, London*	*RBC Capital Markets LLC*
Bank of China (Hong Kong) Limited	*Goldman Sachs Bank, USA*	*RBS Securities Inc., Greenwich*
Bank of Nova Scotia, Canada	*Goldman Sachs International*	*Royal Bank of Canada Europe Limited, London*
Bank of Nova Scotia, New York Agency	*Goldman, Sachs & Co. LLC*	*Royal Bank of Canada, Toronto*
Barclays Bank Plc	*HSBC Bank PLC, London*	*Scotia Capital (USA) Inc.*
Barclays Capital Inc.	*HSBC BANK USA N.A., New York.*	*Societe Generale, New York*
BBVA Securities Inc	*HSBC Securities (USA) Inc., New York*	*Societe Generale, Paris*
BMO Capital Markets Corp.	*Industrial and Commercial Bank of China*	*Standard Chartered Bank, London*
Bnp Paribas	*ING Bank N.V., Seoul*	*Standard Chartered Bank Korea Limited*
BNP Paribas Securities Corp., New York	*J.P. Morgan Chase Bank N.A., New York*	*Standard Chartered Bank, New York*
BOFA Securities Inc.	*J.P. Morgan Securities LLC., New York*	*State Street Bank & Trust Company, Boston*
Bred Banque Populaire, Paris	*Jefferies International Ltd, London*	*Sumitomo Mitsui Banking Corporation, New York*
Canadian Imperial Bank of Commerce, Toronto	*Jefferies LLC*	*Svenska Handelsbanken AB, New York*
China Construction Bank Corporation	*JP Morgan Securities PLC*	*TD Securities (USA) LLC.*
CIBC World Markets Corp.	*JPmorgan Chase Bank N.A., London*	*The Bank of New York Mellon, New York*
Citibank N.A., New York	*JPMorgan Chase Bank N.A., Seoul*	*The Toronto Dominion Bank, Toronto*
Citigroup Global Markets Inc., New York	*Landesbank Baden Wurttemberg, New York*	*UBS AG, London*
Citigroup Global Markets Limited, London	*Landesbank Baden Wurttemberg, Stuttgart*	*UBS AG, Stamford*
Commonwealth Bank of Australia, New York	*Lloyds Bank Corporate Markets Plc*	*UBS Securities LLC, New York*
Commonwealth Bank of Australia, Sydney	*Merrill Lynch International*	*Wells Fargo Bank N.A., San Francisco*
Credit Agricole Corporate and Investment Bank, London	*Mizuho Securities USA LLC*	*Wells Fargo Securities LLC*
Credit Agricole Corporate and Investment Bank, New York	*Morgan Stanley & Co. International Plc, London*	*Westpac Banking Corporation, Sydney*
Credit Agricole Corporate and Investment Bank, New York	*Morgan Stanley & Co. LLC.*	*Zurcher Kantonalbank Zurich*
Credit Agricole Corporate and Investment Bank, PARIS	*MUFG Securities Americas Inc.*	
Credit Agricole Corporate and Investment Bank, Seoul	*National Australia Bank Ltd, London*	
	National Australia Bank Ltd, Melbourne	

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.

In 2021, the average daily value at risk (VaR) of the internally managed investment portfolio was 2.94% (3.92% in 2020). The average tracking error was 8.5 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 2021, the total return on reserve management was 0.58% 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 –0.13%, which is lower than the local currency return because of the negative exchange rate effect deriving from measuring the reserve returns using the U.S. dollar as the base currency (the dollar appreciated against the basket of investment currencies in the period). The return differential relative to the benchmark structure was –9.3 basis points (table 7).

TABLE 7

Absolute Returns on International Reserves and the Benchmark (1) (2) (3) (percent)

	Currency of origin			U.S. dollars		
Period	Int. Res.	BMK	Differential (3)	Int.Res.	BMK	Differential (3)
2021	0.58	0.52	0.06	-0.13	-0.04	-0.09
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	**1.62**	**1.67**	**-0.05**	**0.92**	**1.01**	**-0.09**

(1) Excluding monetary gold, special drawing rights, IMF reserve position, reciprocal credit agreements, and other reserve assets.
(2) Starting in 2014, the return is measured in currency of origin, which does not incorporate appreciations or depreciations of the currencies in the portfolio. In contrast, prior to that year, the return in currency of origin was approximated using a foreign exchange measure based on the basket of currencies in the benchmark, which is equivalent to the return in currency of origin for investments that replicate the benchmark.
(3) There were significant benchmark adjustments in 2012, 2019, and 2021. The returns listed in the table do not take into account the associated waiver periods.
Source: Central Bank of Chile.

[22] The VaR is based on a parametric model with an annualized daily horizon, a confidence level of 95% and a decay factor of 0.94.

External Portfolio Management Program

At year-end 2021, a portion of the investment portfolio was managed by two external managers: Allianz Global Investors and BNP Paribas Asset Management. The firms were brought on in November 2021, with a mandate of USD 600 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 of the international reserve portfolio, and to facilitate the transference of knowledge, technology, and international best practices in portfolio management.

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 2021, this program generated income for the Bank equivalent to 0.56 basis points of the total internally managed investment portfolio.

Appendix 3: Sovereign Wealth Fund Management (ESSF and PRF)

As fiscal agent, the Central Bank of Chile (CBC) manages part of the Economic and Social Stabilization Fund (ESSF) and the Pension Reserve Fund (PRF) 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 Decrees N° 1,618 of 2012 and N°334 of 2020), 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 sovereign wealth fund 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 that is managed internally by the CBC, the benchmark portfolio is made up of the following asset classes:[9] treasury bills, sovereign bonds, and inflation-linked sovereign bonds (table 1). The treasury bill portfolio uses 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

TABLE 1
Benchmark for ESSF Portfolio Managed by the CBC
(percent)

Asset class	Share
Treasury bills and sovereign bonds	96.3
Inflation-linked sovereign bonds	3.7

Source: Finance Ministry.

[9] The ESSF benchmark was updated on 01 October, eliminating the bank deposit benchmark and maintaining eligibility of these instruments only for cash management, with a limit of 5% of the value of the portfolio. In the case of external portfolio management, the equity mandate was eliminated.

In the case of the PRF, the CBC manages part of the long-term investment portfolio, in accordance with the PRF investment policies. In the first half, the CBC also managed a short-term investment portfolio, created in October 2020, from which all the funds were withdrawn on 08 June 2021. 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 was by ICE Bank of America Merrill Lynch; while Bloomberg Barclays indexes were used for U.S. sovereign bonds (table 2).

TABLE 2
Benchmark for PRF Portfolio Managed by the CBC
(percent)

Asset Class	Share
Portafolio de Inversión de Largo Plazo	
Sovereign bonds and other government-related assets	70.8
Inflation-linked sovereign bonds	16.7
U.S. agency MBS	12.5
Short-term investment portfolio	
U.S. Treasury notes	93.0
U.S. sovereign bonds	7.0

Source: Finance Ministry.

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

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[10] of 50 basis points for the ESSF and the internally managed long-term PRF portfolio and 30 basis points for the delegated PRF portfolio (U.S. agency MBS)[11].

The short-term PRF had a limit of +/– 0.5 year deviation of the actual portfolio duration 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 4 and 5).

Structure of Fiscal Portfolios

At year-end 2021, the market value of the ESSF and PRF portfolios managed directly by the fiscal agent was USD 2.4567 billion and USD 3.4670 billion [12], respectively, which is invested in line with the benchmark composition established in the current investment guidelines (table 3).

TABLE 3
Portafolios Gestionados por el BCCh (al 31 de diciembre de 2021; millones de dólares)

Portfolio / Asset class	Market Value (1)						
	ESSF	EUR	JPY	CHF	Other (2)	Total	Percent of total
Bank / Treasury bills and sovereign bonds							
Inflation-linked sovereign bonds	993.7	640.1	529.6	201.4	n/a	2.364.8	96.3
Total	65.1	26.8	n/a	n/a	n/a	91.9	3.7
Total		**666.9**	**529.6**	**201.4**	**n/a**	**2.456.7**	**100.0**
PRF							
Sovereign bonds and government-related assets	697.8	613.4	451.2	7.4	681.3	2.451.1	70.7
Inflation-linked sovereign bonds	222,8	117,7	17,3	n/a	220,2	578,0	16,7
U.S. agency MBS	437,9	n/a	n/a	n/a	n/a	437,9	12,6
Total		**731,0**	**468,6**	**7,4**	**901,5**	**3.467,0**	**100,0**

[10] Tracking errors are calculated in annual terms.
[11] PAdditionally, 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.
[12] The market value of the ESSR on 31 December 2021 was USD 2.4572 billion, of which USD 2.4567 billion was managed by the Bank. The market value of the PRF at year-end 2021 was USD 7.472,9 billion, of which USD 3.4670 billion was managed by the Bank (internal: USD 3.0291 billion; delegated: USD 437.9 million), while USD 4.0059 billion was managed by external portfolio managers supervised directly by the Finance Ministry, under equity, corporate bond, and high-yield bond mandates.

Portafolio	Tracking error ex ante (pb)	Presupuesto de riesgo (pb) (3)
ESSF	2,0	50,0
Internal PRF	9,0	50,0
External PRF delegated by the CBC (4)	2,0	30,0

(1) Includes currency forwards.
(2) Includes the Canadian dollar, Australian dollar, pound sterling, and other currencies.
(3) Daily risk budget.
(4) Additionally, for the delegated PRF portfolio, the average monthly tracking error cannot exceed 20 basis points.
Source: J.P. Morgan N.A.

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 2021, the ESSF resources managed by the Bank generated an absolute return measured in U.S. dollars of –5.74%, with a differential return of –4.7 basis points relative to the benchmark performance. The PRF resources managed internally by the Bank generated an absolute return measured in U.S. dollars of –4.00%, which implies a positive differential return of 12.9 basis points relative to the benchmark performance.[13] For both portfolios, most of the absolute return is explained by the appreciation of the U.S. dollar.

The short-term PRF was in effect in the first half of 2021. In that period, it recorded an absolute return of 0.03% and a differential return of 0.02 basis points.

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 01 January to 31 December 2021, the Finance Ministry set the annual fee at USD 1,139,517 for the ESSF and USD 1,405,412 for the PRF [14]. 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 2.2 and 3.5 points—for the ESSF and PRF, respectively—of the average market value of the resources directly managed by the Bank in 2021in its role as fiscal agent.

TABLE 4
FINANCIAL INSTITUTIONS WITH OUTSTANDING DEPOSITS
(31 December 2021)

INSTITUTION
Bank of Nova Scotia, Canada
The Toronto Dominion Bank, Toronto

Source: J.P. Morgan N.A.

[13] 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 2021 was –3.64% and 10.3 basis points.
[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 include other costs, such as those associated with external portfolio management and custody

TABLE 5

Intermediaries Used By The Fiscal Agent In 2021

Intermediaries		
ABN Amro Bank N.V., Amsterdam	Daiwa Capital Markets America Inc.	National Bank of Canada, Montreal
Agricultural Bank of China	Danske Markets Inc.	Natixis, Paris
Amherst Pierpont Securities LLC	DBS Bank Ltd, Seoul	NatWest Markets Plc
ANZ Securities Inc., New York	Deutsche Bank AG, London	Nomura International Plc, London
Australia & New Zealand Banking Group Limited, Melbourne	DZ Bank AG Deutsche Zentral Genossenschaftsbank, Frankfurt	Nomura Securities International Inc., New York
Australia and New Zealand Banking Group Ltd., New York	First Abu Dhabi Bank	Oversea-Chinese Banking Corp. Ltd., London
Banco Bilbao Vizcaya Argentaria S.A., Madrid	First Abu Dhabi Bank, London	Oversea-Chinese Banking Corp. Ltd., New York
Banco Santander S.A., Madrid	Goldman Sachs Bank, USA	RBC Capital Markets LLC
Bank For International Settlements, Basle	Goldman Sachs International	RBS Securities Inc., Greenwich
Bank of China (Hong Kong) Limited	Goldman, Sachs & Co. LLC	Royal Bank of Canada Europe Limited, London
Bank of Nova Scotia, Canada	Goldman, Sachs & Co. LLC	Royal Bank of Canada, Toronto
Bank of Nova Scotia, New York Agency	HSBC Bank PLC, London	Scotia Capital (USA) Inc.
Barclays Bank Plc	HSBC BANK USA N.A., New York.	Societe Generale, New York
Barclays Capital Inc.	HSBC Securities (USA) Inc., New York	Societe Generale, Paris
BBVA Securities Inc	Industrial and Commercial Bank of China	Standard Chartered Bank, London
BMO Capital Markets Corp.	ING Bank N.V., Seoul	Standard Chartered Bank Korea Limited
Bnp Paribas	J.P. Morgan Chase Bank N.A., New York	Standard Chartered Bank, New York
BNP Paribas Securities Corp., New York	J.P. Morgan Securities LLC., New York	State Street Bank & Trust Company, Boston
BOFA Securities Inc.	Jefferies International Ltd, London	Sumitomo Mitsui Banking Corporation, New York
Bred Banque Populaire, Paris	Jefferies LLC	Svenska Handelsbanken AB, New York
Canadian Imperial Bank of Commerce, Toronto	JP Morgan Securities PLC	TD Securities (USA) LLC.
China Construction Bank Corporation	JPmorgan Chase Bank N.A., London	The Bank of New York Mellon, New York
CIBC World Markets Corp.	JPMorgan Chase Bank N.A., Seoul	The Toronto Dominion Bank, Toronto
Citibank N.A., New York	Landesbank Baden Wurttemberg, New York	UBS AG, London
Citigroup Global Markets Inc., New York	Landesbank Baden Wurttemberg, Stuttgart	UBS AG, Stamford
Citigroup Global Markets Limited, London	Lloyds Bank Corporate Markets Plc	UBS Securities LLC, New York
Commonwealth Bank of Australia, New York	Merrill Lynch International	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.	Zurcher Kantonalbank Zurich
Credit Agricole Corporate and Investment Bank, New York	MUFG Securities Americas Inc.	
Credit Agricole Corporate and Investment Bank, PARIS	National Australia Bank Ltd, London	
Credit Agricole Corporate and Investment Bank, Seoul	National Australia Bank Ltd, Melbourne	
Credit Suisse Securities (USA) LLC, New York	National Bank of Canada Financial Inc., New York	

Fuente: Banco Central de Chile

CHAPTER 8: Financial Statements

31 December 2021 and 2020

STATEMENT OF FINANCIAL POSITION
31 December 2021 and 2020

ACTIVOS	NOTA	2021 CLP MM	2020 CLP MM
Foreign assets		**43,894,717.2**	**28,094,427.1**
Reserve assets:	**7a**	**43,643,187.4**	**27,880,595.7**
Cash	6	814,332.1	530,286.8
Investment portfolio	7c	39,256,421.6	26,354,405.2
Monetary gold	7d	12,181.7	10,607.8
Special drawing rights (SDR)	7e	2,977,925.0	492,017.4
IMF reserve position	7f	582,304.5	493,161.8
Other assets		22.5	116.7
Other foreign assets:		**251,529.8**	**213,831.4**
IDB shares and contributions	8a	111,875.6	93,584.7
Bank for International Settlements (BIS) shares	8b	103,504.5	88,942.2
IMF Flexible Credit Line Commission	8c	36,149.7	31,304.5
Domestic assets		**34,975,627.6**	**31,244,403.8**
Domestic loans and investments:		**34,553,720.4**	**30,858,836.4**
Loans to banks and financial institutions	9a	28,963,155.0	22,102,728.7
Domestic investment portfolio	9b	5,590,565.4	8,756,107.7
Operations under specific legal regulations:		**350,802.7**	**321,988.1**
Treasury transfers (Law N°18,401)	10a	350,802.7	321,988.1
Other asset accounts:		**71,104.5**	**63,579.3**
Property, plant, and intangible equipment	11 - 12	52,424.6	49,408.7
Other assets	13	18,679.9	14,170.6
Total assets		**78,870,344.8**	**59,338,830.9**

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

STATEMENT OF FINANCIAL POSITION (continued)

31 December 2021 and 2020

LIABILITIES AND EQUITY	NOTA	2021 MM$	2020 MM$
Foreign liabilities	14	**3,090,179.5**	**916,337.4**
Accounts with international organizations		72,417.0	58,528.9
SDR allocations		3,017,605.8	857,803.1
Reciprocal credit agreements		4.0	3.4
Deposits from central banks		152.7	2.0
Domestic liabilities		**72.528.390,6**	**60.161.014,1**
Monetary base	15	**21.456.306,0**	**30.256.436,5**
Banknotes and coins in circulation		18.666.832,0	14.804.078,7
Deposits from financial institutions (NC)		1.969.303,2	3.442.191,0
Additional reserve deposits (reserva técnica)		820.170,8	12.010.166,8
Deposits and obligations	16	**8.213.062,7**	**8.830.317,7**
Deposits and obligations with the Treasury		136,8	155,0
Other deposits and obligations		8.212.925,9	8.830.162,7
Securities issued by the Central Bank of Chile	17	**42.840.420,9**	**21.051.586,0**
Central Bank discount notes (PDBC)		42.257.128,4	19.998.910,2
Central Bank bonds in pesos (BCP)		171.593,3	459.965,0
Central Bank bonds in UF (BCU)		409.616,3	584.051,3
Indexed coupons (CERO) in UF		-	2.861,5
Indexed notes payable in coupons (PRC)		2.075,1	5.790,2
Other		7,8	7,8
Other liability accounts		**18,601.0**	**22,673.9**
Provisions	18	18,552.6	22,631.6
Other liabilities		48.4	42.3
Equity		**3,251,774.7**	**(1,738,520.6)**
Capital	19	(2,247,211.7)	(1,760,235.6)
Other reserves		(165,169.1)	508,691.1
Retained earnings		5,664,155.5	(486,976.1)
Total liabilities and equity		**78,870,344.8**	**59,338,830.9**

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

STATEMENT OF COMPREHENSIVE INCOME

31 December 2021 and 2020

	NOTE	2021 CLP MM	2020 CLP MM
Net gain from international reserves	20	**229,503.8**	**506,118.5**
Interest income (expense):		**(68,572.0)**	**157,401.0**
Interest income		205,870.6	157,410.3
Interest expense		(274,442.6)	(9.3)
Fee and commission income (expense):		**129.4**	**(1,977.0)**
Income from fees and commissions		2,083.2	383.5
Expense from fees and commissions		(1,953.8)	(2,360.5)
Income from sale of investments:		**299,293.5**	**344,995.2**
Income from sale of investments		299,293.5	344,995.2
Other income (expense):		**(1,347.1)**	**5,699.3**
Derivative operations		620.1	1,363.6
Other		(1,967.2)	4,335.7
Net gain (loss) from other foreign operations	21	**(85,854.1)**	**(45,618.7)**
Interest expense:		**(919.3)**	**(1,721.9)**
Interest expense		(919.3)	(1,721.9)
Other income (expense):		**(84,934.8)**	**(43,896.8)**
IMF Flexible Credit Line commission		(86,759.2)	(43,826.3)
Bank for International Payments (BIS) dividend		1,889.1	—
Otros		(64.7)	(70.5)
Net gain (loss) from domestic operations	22	**112,710.5**	**(492,058.6)**
Interest and indexation income (expense):		**83,884.3**	**(49,810.6)**
Interest and indexation income		598,416.7	207,665.0
Interest and indexation expense		(514,532.4)	(257,475.6)
Other income (expense):		**28,826.2**	**(442,248.0)**
Derivative operations		—	(213,407.4)
Early redemption of issued bonds		—	(198,050.3)
Other		28,826.2	(30,790.3)
Net gain (loss) from FX operations:	23	**5,536,208.2**	**(371,401.9)**
Net gain (loss) from FX operations		5,536,208.2	(371,401.9)

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

STATEMENT OF COMPREHENSIVE INCOME
31 December 2021 and 2020

	NOTE	2021 CLP MM	2020 CLP MM
Currency issuance, distribution, and processing costs:	24	**(58,050.1)**	**(19,830.3)**
Currency issuance, distribution, and processing costs		(58,050.1)	(19,830.3)
Personnel and administrative expenses:		**(64,351.6)**	**(62,838.0)**
Personnel expenses		(43,759.8)	(42,260.6)
Administrative expenses		(20,247.3)	(19,303.8)
Post-employment benefit costs	18	(344.5)	(1,273.6)
Other income (expense):		**(6,011.2)**	**(1,347.1)**
Depreciation and amortization	11-12	(3,673.0)	(3,983.3)
Taxes and contributions		(792.3)	(739.6)
Other		(1,545.9)	3,375.8
Profit (loss) for the year		**5,664,155.5**	**(486,976.1)**
Other comprehensive income		**(673,860.2)**	**311,215.5**
Other comprehensive income that will not be reclassified to profit or loss:		**10,239.8**	**6,311.5**
Fair value adjustments to equity instruments		7,728.5	8,217.7
Actuarial gains (losses) on post-employment benefit provision		2,511.3	(1,906.2)
Other comprehensive income that will be reclassified to profit or loss		**(684,100.0)**	**304,904.0**
Fair value adjustments to debt instruments		(684,100.0)	304,904.0
Total profit (loss) for the year		**4,990,295.3**	**(175,760.6)**

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 2021 and 2020

	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 01 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					
Profit (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)**
Balance on 01 January 2021	**(1,760,235.6)**	**(2,130.1)**	**510,821.2**	**(486,976.1)**	**(1,738,520.6)**
Total comprehensive income in the year:					
Profit for the year	—	—	—	5,664,155.5	5,664,155.5
Other comprehensive income	—	2,511.3	(676,371.5)	—	(673,860.2)
Total comprehensive income in the year	—	**2,511.3**	**(676,371.5)**	**5,664,155.5**	**4,990,295.3**
Capitalization of 2020 income	(486,976.1)	—	—	486,976.1	—
Balance on 31 December 2021	**(2,247,211.7)**	**381.2**	**165,550.3**	**5,664,155.5**	**3,251,774.7**

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 2021 and 2020

	NOTE	2021 CLP MM	2020 CLP MM
Cash flows from operating activities			
International reserves:		**(6,483,121.9)**	**2,952,587.2**
Investment portfolio		(6,792,684.4)	2,476,693.6
Interest and commissions received on reserves		310,119.2	475,989.7
Interest paid on foreign operations		—	(9.6)
Taxes paid on reserve investments		(546.4)	(75.1)
(Payments) receipts from reciprocal credit agreements		(10.3)	(11.4)
Domestic assets:		**(3,809,938.8)**	**(28,933,474.2)**
(Disbursements) from loans to banks and financial institutions		(6,853,967.4)	(20,544,438.7)
Interest and indexation received from loans to banks and financial institutions		136,502.6	77,097.5
Domestic investment portfolio		2,744,946.2	(8,545,026.8)
Interest and indexation received from domestic investment portfolio		162,579.8	78,893.8
Domestic liabilities:		**7,048,460.5**	**22,448,003.0**
Placement (redemption) of issued bonds		21,776,477.9	7,437,218.6
Interest and indexation paid on issued bonds		(413,563.9)	(686,900.3)
Increase (decrease) from deposits and obligations in NC		(15,679,259.2)	18,422,254.9
Interest and indexation paid on deposits and obligations		(86,351.3)	(35,496.5)
Increase (decrease) from deposits and obligations in FX		1,451,157.0	(2,689,073.7)
Other cash flows:		**(91.989,9)**	**(134.446,7)**
Payment for goods and services		(118,531.8)	(90,409.7)
Net cash inflows (outflows) from currency arbitrage		18,665.6	(45,041.3)
Fiscal agency fees and other income		4,686.9	3,448.0
Flows with international organizations		3,189.4	(2,443.7)
Net cash inflows (outflows) from operating activities		**(3,336,590.1)**	**(3,667,330.7)**

Las notas adjuntas números 1 al 30 forman parte integral de estos estados financieros.

STATEMENT OF CASH FLOWS (continued)
for the years ended on 31 December 2021 and 2020

	NOTE	2021 MM$	2020 MM$
Cash flows from investing activities:			
Outflows, IMF		(435,535.8)	(193,852.7)
Dividends received, Bank for International Settlements (BIS)	8b	1,669.4	
Proceeds from sale of property, plant, and equipment		—	3.0
Purchase of property, plant, and equipment	11	(7,959.6)	(6,322.9)
Purchase of intangible assets	12	(45.4)	(292.4)
Net cash inflows (outflows) from investing activities		**(441,847.6)**	**(200,465.0)**
Cash flows from financing activities:			
Net increase in banknotes and coins in circulation	15	3,862,753.3	4,050,289.0
Net cash inflows (outflows) from financing activities		**3,862,753.3**	**4,050,289.0**
Change in cash and cash equivalents in the year		**84,315.6**	**182,493.3**
Exchange rate effect		199,756.3	(29,575.1)
Cash and cash equivalents on 01 January		530,375.5	377,457.3
Cash and cash equivalents on 31 December	6	**814,447.4**	**530,375.5**

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

NOTES TO THE FINANCIAL STATEMENTS
31 December 2021 and 2020

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 (IASB).

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 numeral VII of Chapter I 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, as reported by an internationally recognized market price supplier, which are always based on the closing observed U.S. dollar exchange rate. At year-end 2021, the exchange rates reported by BGN (Bloomberg Generic) on 31 December via Data License (London close at 16:00 hours) were used. At year-end 2020, the rates reported by Reuters (WM Company) (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.

(e) Statement of cash flows

	2021 CLP	2020 CLP
U.S. DOLLAR	850.25	711.24
EURO	966.73	870.23
AUSTRALIAN DOLLAR	617.62	548.88
CANADIAN DOLLAR	1,150.56	972.30
POUND STERLING	133.77	108.76
CHINESE YUAN	0.71	0.65
SOUTH KOREAN WON	1,212.40	1,049.90

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 maintains a securities lending program was maintained with the Bank's international reserve custodians. This program consists in the lending (overnight or up to 95 days) 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 value 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.

(x) Repo operations in the local market

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.

(xi) Special measures deriving from the COVID-19 health contingency

Since 2020, the Bank has implemented a series of special measures to inject liquidity into the economy and contain market volatility, which has implied recording unconventional operations on its financial statements. The accounting criteria applicable to these operations are as follows:

Liquidity lines:
Conditional Financing Facility for Increased Loans (FCIC) and the Liquidity Credit Line (LCL): Financial assets that are subsequently measured at amortized cost using the effective interest method and recorded under the heading Loans to banks and financial institutions. The objective of the FCIC and LCL is to provide a funding line for banks, with resources and incentives for them to continue financing and refinancing households and firms in the context of the pandemic.

Purchase of bank fixed-income securities to contain financial market volatility and intensify the monetary stimulus.

Purchase of bank bonds and time deposits: Financial assets that are subsequently measured at fair value through other comprehensive income and recorded under the heading Domestic investment portfolio.

Spot purchase and forward sale (CC-VP) of bank bonds: Financial assets that are subsequently measured at amortized cost using the effective interest method and recorded under the heading Domestic investment portfolio.

Details on the balances of these operations are provided in Note 9: Domestic loans and investments.

(g) 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.

(h) 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.

(i) 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 2021 and 2020 were calculated using the following useful life estimates:

	AÑOS	
	2021	2020
BUILDINGS	50 a 80	50 a 80
INSTALLATIONS	10 a 20	10 a 20
FURNITURE AND OTHER EQUIPMENT	3 a 10	3 a 10
COMPUTER EQUIPMENT	3 a 5	3 a 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.

(j) 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.

(k) 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.

(l) 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 financial 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 over 30 days past due.

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

- It is not probable that the borrower or issuer will pay or meet their credit obligations in full, without actions by the Bank to recover the amount, such as the performance of the 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	($)
· PD:	Probability of default	(%)
· LGD:	Loss given default	(%)
· EAD:	Exposure at default	($)

These model concepts are explained in Note 5 (b-5), and credit exposures are shown in the tables in Note 5 (b-3).

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.

(m) Employee benefits

Short-term benefits

Short-term employee benefits are recognized as an expense when the related service is provided on an accrual basis. 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 2021 and 2020, 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, considering average turnover in the last four years.

- Wage growth rate: The wage growth rate, calculated as the composite average annual growth rate of nominal wages in the last year, was 5.47% (4.53% for 2020).

- Discount rate: The Bank uses the nominal ten-year rate BCP bond rate on the calculation date, which was 5.6% (2.80% for 2020).

(n) 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.

(o) 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, with the exception of 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. In the event the commission is associated with an event that occurs or accrues only once, it is recognized at that time.

- 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.

(p) 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(i) Property, plant, and equipment and intangible assets: Estimation of useful life, depreciation or amortization, and residual value.
- Note 2(m) 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.
- Note 10(b) Central Savings and Loan Fund and the National Savings and Loan Association.

(q) New accounting pronouncements

Amendments (effective application in 2021)		Date of mandatory application
IFRS 9, IAS 39, IFRS 7, IFRS 16	Interest rate benchmark reform—Phase 2	1 January 2021
IFRS 16	Covid-19-related rent concessions beyond 30 June 2021	1 April 2021

The Bank has evaluated the impact of the new accounting pronouncements and concluded that they do not affect the accounting records of the Bank's current operations.

Applicable amendments (after 2021)		Date of mandatory application
IAS 16	Property, plant, and equipment: Decisions that are predetermined before the period of use	1 January 2022
IAS 37	Onerous Contracts—Cost of Fulfilling a Contract	1 January 2022
IAS 8	Definition of accounting estimates	1 January 2023
IAS 1,	Disclosure of accounting policies	1 January 2023

The Bank has conducted a preliminary analysis of each applicable amendment and has concluded that they do not affect the accounting records of the Bank's current or future operations.

NOTE 3: CHANGES IN ACCOUNTING POLICIES

The accounting policies described in these financial statements, for the year ended on 31 December 2021, are consistent with the application of accounting policies for the year ended on 31 December 2020.

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).

The fair value and hierarchy level of domestic instruments that are measured at fair value on a recurring basis are shown in Note 9(b).

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)	2021 BOOK VALUE (a)	2021 FAIR VALUE (b)	2021 DIFFERENCE (b-a)	2020 BOOK VALUE (a)	2020 FAIR VALUE (b)	2020 DIFFERENCE (b-a)
International reserves	43,643,187.4	43,643,187.4	—	27,880,595.7	27,880,595.7	—
Other foreign assets	251,529.8	251,529.8	—	213,831.4	213,831.4	—
Loans to banks	28,963,155.0	26,179,420.3	(2,783,734.7)	22,102,728.7	21,884,270.1	(218,458.6)
Domestic investment portfolio	5,590,565.4	5,590,565.4	—	8,756,107.7	8,756,107.7	—
Treasury transfers	350,802.7	277,574.3	(73,228.4)	321,988.1	308,066.7	(13,921.4)
Other asset accounts	71,104.5	71,104.5	—	63,579.3	63,579.3	—
Total assets	**78,870,344.8**	**76,013,381.7**	**(2,856,963.1)**	**59,338,830.9**	**59,106,450.9**	**(232,380.0)**
Foreign liabilities	3,090,179.5	3,090,179.5	—	916,337.4	916,337.4	—
Monetary base	21,456,306.0	21,456,306.0	—	30,256,436.5	30,256,436.5	—
Other deposits and obligations	8,212,925.9	8,212,925.9	—	8,830,162.7	8,830,162.7	—
Obligations with the Treasury	136.8	136.8	—	155.0	155.0	—
Securities issued	42,840,420.9	42,844,978.0	4,557.1	21,051,586.0	21,120,786.7	69,200.7
Other liability accounts	18,601.0	18,601.0	—	22,673.9	22,673.9	—
Total liabilities	**75,618,570.1**	**75,623,127.2**	**4,557.1**	**61,077,351.5**	**61,146,552.2**	**69,200.7**
Net equity	**3,251,774.7**	**390,254.5**	**(2,861,520.2)**	**(1,738,520.6)**	**(2,040,101.3)**	**(301,580.7)**

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, 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, with a maximum maturity of (a) FCIC-One: March 2024; and (b) FCIC-Two: July 2024 (FOGAPE) or July 2022 (NBL); and (c) FCIC-Three: July 2024. These loans can be prepaid at any time, but prepayment is unlikely given that the prevailing rate for these instruments in 2020 and was 0.5% in annual terms.

The fair value measurement of these loan operations is based on the present value method, using market rates on Central Bank and Treasury bullet bonds in pesos (BCP and BTP) with maturity dates around March 2022, March 2024, and June 2024. The discount rate used in this exercise was as follows: FCIC-One: 5.48%; LCL: 4.31%; NBL-FCIC-2: 4.52%; FOGAPE-FCIC-2 and FCIC-3: 5.77% (in 2020: FCIC-One and FOGAPE-FCIC-2: 0.95%; and LCL and NBL-FCIC-2: 0.30%).

• 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 with a maturity data in 2041 (2.40% for 2021 and 0.63% for 2020).

• 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.

In 2021, in particular in the first half, the Bank continued implementing special measures to support the flow of credit, with the objective of mitigating the effects of the economic and financial stress caused by the persistence of the COVID-19 pandemic, through the third phase of the Conditional Financing Facility for Increased Loans (FCIC). The Bank also implemented measures to preserve financial market stability and the efficiency of the price-setting process in the context of the third pension fund and annuity withdrawal, via the spot purchase and forward sale of bank bonds (the CC-VP program). Finally, starting in January 2021, a gradual international reserve replenishment and expansion program was implemented to strengthen the country's international liquidity position by an announced target of US$12.00 billion; the program was suspended early in October 2021, resulting in the purchase of a total accumulated amount of US$7.44 billion.

The implementation of the FCIC-3 and the international reserve purchase program had the effect of increasing the size of the Bank's balance sheet, which was equivalent to 33.7% of GDP at year-end 2021, versus 29.6% at year-end 2020. These measures, combined with the measures implemented in 2020, also changed the structure of the balance sheet, where local assets accounted for 44.3% of total assets at year-end 2021 (52.7% in 2020). In addition to an increase in the recorded value of domestic assets and liabilities, there was an increase in equity due primarily to gains from exchange rate fluctuations, as a result of the depreciation of the peso against the currencies that make up the international reserves (mainly the U.S. dollar). Finally, the asset-liability rate differential turned negative again starting in October, due to the increase in the monetary policy rate (MPR) and its effect on short-term debt rates (PDBC).

[1] GDP expressed in national curency; 2021 forecast assumes real GDP growth of 11% and average inflation of 4.5%.

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, following approval by the Corporate Risk Division. In the case of local asset purchases in 2021, the Corporate Risk Division, 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, a task that is also conducted independently by the Financial Risk Department in the Corporate Risk Division; and the Operations and Payment Systems Area records, processes, and settles the operations, as well as managing the transactional systems in which they are carried out.

The Corporate Risk Division identifies, assesses, measures, and monitors the Bank's risks, defining, reviewing, and periodically updating the models and methodologies for ensuring the proper management of those risks. Within the Corporate Risk Division, the Financial Risk Department calculates the financial risks associated with the strategies implemented by the money desks in their financial operations with the Bank's assets and liabilities and acts as a technical counterpart in managing the risks inherent in those operations. 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 the local currency, while in the case of local asset investments, the main market risk is associated with the volatility of local interest rates and changes in the Unidad de Fomento (UF), an inflation-indexed unit of account used in Chile. In the case of liabilities, the greatest impact arises from fluctuations in the UF, which affects a portion of long-term debt (although the impact on the Bank's balance sheet has declined due to the reduction of the liability portfolio), and from changes in the MPR, which affects the valuation of short-term debt.

The market risk of the international investment portfolio is largely determined by the benchmark (reference index). The benchmark was updated in early 2021, increasing the share of USD, lengthening portfolio duration by a year, increasing exposure to inflation-indexed bonds, and eliminating investments denominated in Canadian dollars (CAD).

Table 5.1 shows the global benchmark allocation of the reserves at year-end 2021 and 2020.

2021		
CURRENCY	INVESTMENT PORTFOLIO	
	SHARE (%)	CURRENCY
USD	77%	3.1
CNY	8%	2.6
EUR	5%	5.7
GBP	4%	5.6
AUD	3%	3.1
KRW	3%	2.8
Total	100%	3.2

2020		
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

In the case of the local currency investment portfolio, there is no established benchmark, and the portfolio is not actively managed. At year-end 2021, 46.4% of the portfolio had been purchased under the program whose objective was to contain market volatility, 48.2% under the program whose objective was to intensify the monetary stimulus, and 5.4% under the coupon reinvestment program; this compares with shares at year-end 2020 of 52.0%, 48.0%, and 0.0% respectively.

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 2021.

2021 CLP MM	U.S. dollar (USD)	Yuan (CNY)	Euro (EUR)	Pound sterling (GBP)	Australian dollar (AUD)	Korean won (KRW)	Other foreign currencies	Chilean peso (CLP)	Total
International reserves	31,662,738.1	2,945,344.0	1,826,491.0	1,453,329.1	1,103,321.8	1,078,043.4	3,573,920.0	—	43,643,187.4
Other foreign assets	111,875.6	—	—	—	—	—	139,654.2	—	251,529.8
Domestic loans and investments	—	—	—	—	—	—	—	34,553,720.4	34,553,720.4
Operations under specific legal regulations	—	—	—	—	—	—	—	350,802.7	350,802.7
Other asset accounts	94.3	—	5,741.3	—	—	—	—	65,268.9	71,104.5
Total assets	**31,774,708.0**	**2,945,344.0**	**1,832,232.3**	**1,453,329.1**	**1,103,321.8**	**1,078,043.4**	**3,713,574.2**	**34,969,792.0**	**78,870,344.8**
Foreign liabilities	(67,888.8)	—	—	—	—	—	(3,017,605.8)	(4,684.9)	(3,090,179.5)
Monetary base	—	—	—	—	—	—	—	(21,456,306.0)	(21,456,306.0)
Deposits and obligations	(3,672,617.1)	—	(288.1)	(12.8)	—	—	(242.4)	(4,539,902.3)	(8,213,062.7
Securities issued	—	—	—	—	—	—	—	(42,840,420.9)	(42,840,420.9
Other liability accounts	—	—	—	—	—	—	—	(18,601.0)	(18,601.0)
Total liabilities	**(3,740,505.9)**	**—**	**(288.1)**	**(12.8)**	**—**	**—**	**(3,017,848.2)**	**(68,859,915.1)**	**(75,618,570.1)**
Net currency position	28,034,202.1	2,945,344.0	1,831,944.2	1,453,316.3	1,103,321.8	1,078,043.4	695,726.0	(33,890,123.1)	3,251,774.7
Percent foreign currency	75%	8%	5%	4%	3%	3%	2%		

Table 5.3 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)	Dólar canadie (CAD)	Yuan (CNY)	Libra esterlina (GBP)	Other fo-reign 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	—	—	—	—	—	61,626.9	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	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%		

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.

As a measure of interest rate risk sensitivity, at year-end 2021 the duration of the international reserve portfolio was 31.3 months, while the duration of the local bond portfolio was 22.7 months. Thus, the duration of the total fixed-income asset portfolio was 30.2 months.

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 allows investment in 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.

International reserves

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.

		2021 MM$	2020 MM$
Amount*		39,256,421.6	26,354,405.2
Duration	Portfolio	31.3	21.8
Months	Deviation	(1.1)	(0.5)
Currency composition %	US$	78.7%	53.3%
	EUR	4.7%	10.6%
	Other	16.6%	36.1%
*VaR*** internal investment portfolio	VaR Absolute %	3.2%	5.1%
	VaR Amount USD	70,382.1	93,289.1
	Tracking Error (bp)	5.6	1.2
*VaR*** internal investment portfolio, Blackrock	VaR Absolute %	-	5.3%
	VaR Amount USD	-	-
	Tracking Error (bp)	-	15.8
*VaR*** internal investment portfolio, Amundi	VaR Absolute %	-	5.7%
	VaR Amount USD	-	-
	Tracking Error (bp)	-	42.4
*VaR*** and TE external investment portfolio, BNP	VaR Absolute %	2.9%	-
	VaR USD M	917.8	-
	Tracking Error (bp)	25.1	-
*VaR*** and TE external investment portfolio, Allianz	VaR Absolute %	3.2%	-
	VaR USD M	995.4	-
	Tracking Error (bp)	9.4	-

* 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 and government rates. A variance-covariance matrix is defined for the factors using a data window of 75 days, with an exponential decay factor of 0.94. The VaR is presented with an 95% confidence level. The VaR and TE are measured in U.S. dollars and are presented relative to the investment portfolio. At year-end 2021, the risk budget for the internal and external investment portfolio was a monthly average of 40 basis points, which cannot exceed 50 basis points at any given time. The BNP and Allianz external investment portfolios began operating in November 2021, so there are no data for 2020.
bp: basis points.

Local asset investment portfolio (special measures)

At year-end 2021, the local asset investment portfolio is made up entirely of directly purchased bank bonds, whereas at year-end 2020 it also included bank bonds acquired through the spot purchase and forward sale (CC-VP) program, and directly purchased 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 and changes in the UF.

The market risk of the bank bond portfolio is monitored daily, based on indicators such as the daily market valuation of the bonds, their duration (interest rate risk), their currency composition, and the interest rate structure by currency.

The impact of the local asset portfolio's performance on the Bank's income and the associated financial risks on the Bank's balance sheet are monitored monthly and reported to the Board quarterly.

Table 5.5 presents the different market risk measures that are monitored.

		2021 MM$	2020 MM$
Amount	Bank bond portfolio	5,590,565.4	6,392,133.7
	CC-VP portfolio		2,154,987.3
	TD portfolio		208,986.7
	Total	5,590,565.4	8,756,107.7
Duration (months)	Bank bond portfolio	22,7	57,3
	CC-VP portfolio	-	0,2
	TD portfolio	-	2,7
	Total	22,7	41,9
DV01* (CLP MM)	Bank bond portfolio**	1,057.1	1,450.3
	CC-VP portfolio	-	0.3
	TD portfolio	-	0.5
	Total	1,057.1	1,451.1
Currency composition(%)	Bank bond portfolio, UF	96.5%	96.3%
	Bank bond portfolio, CLP	3.5%	3.7%
	Total	100%	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	0.0%	100.0%

***DV01 is a measure of a portfolio's interest rate risk in the event of a one-basis-point change in the interest rate, its impact on price, and therefore on the value of the portfolio (in absolute terms).**
**** The duration of the UF-denominated bond portfolio is adjusted by a factor of 0.5.**

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 Unidad de Fomento (UF).

The market risk indicators that are monitored include the duration and currency in which debt securities are issued.

In 2021, the long-term debt portfolio decreased CLP 469,383.3 million, mainly due to the expiration of BCP and BCU bonds. In the case of short-term debt, the increase of CLP 22,258,218.2 million was essentially explained by issues oriented toward draining excess liquidity originating from the special measures implemented by the Bank, the pension fund withdrawals, and the business and household support programs implemented by the government, such as the IFE and FOGAPE.

Table 5.6 Structure and risk of the Central Bank of Chile’s debt portfolio, 31 December 2021.

INSTRUMENT, BY ISSUE	CLP MM	% UF	DURATION (MONTHS)
Short-term	42,257,128.4	-	0.4
Long-term	583,292.5	70.6%	10.7
Total	**42,840,420.9**	**1.0%**	**0.5**

*For %UF and Duration (months), the total is a weighted average.

Table 5.7 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

*For %UF and Duration (months), the total is a weighted average.

(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 2021.

CREDIT RATING	TYPE OF CREDIT RISK				
	AGENCY	BANK	SOVEREIGN	SUPRANATIONAL	TOTAL
AAA	0.1%	0.0%	77.9%	1.6%	79.6%
AA+, AA, AA-	0.0%	0.0%	10.3%	0.0%	10.3%
A+, A	0.0%	1.0%	9.1%	0.0%	10.1%
BBB+, BBB	0.0%	0.0%	0.0%	0.0%	0.0%
Total	**0.1%**	**1.0%**	**97.3%**	**1.6%**	**100%**

Table 5.9 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 5.10 Investment portfolio composition by geographic concentration, 31 December 2021.

COUNTRY	TYPE OF CREDIT RISK				
	AGENCY	BANK	SOVEREIGN	SUPRANATIONAL	TOTAL
United States	0.0%	0.0%	74.4%	0.0%	74.4%
China	0.0%	1.0%	7.2%	0.0%	8.2%
United Kingdom	0.0%	0.0%	4.0%	0.0%	4.0%
South Korea	0.0%	0.0%	3.0%	0.0%	3.0%
France	0.0%	0.0%	2.9%	0.0%	2.9%
Other	0.1%	0.0%	5.8%	1.6%	7.5%
Total	**0.1%**	**1.0%**	**97.3%**	**1.6%**	**100.0%**

Table 5.11 Investment portfolio composition by geographic concentration, 31 December 2020.

Country	TYPE OF CREDIT RISK				
	AGENCY	BANK	SOVEREIGN	SUPRANATIONAL	TOTAL
United States	0.0%	0.0%	50.8%	0.0%	50.8%
China	0.0%	0.0%	8.8%	0.0%	8.8%
United Kingdom	0.0%	0.0%	8.4%	0.0%	8.4%
South Korea	0.0%	0.0%	8.1%	0.0%	8.1%
France	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%**

b-2. Credit risk: Local asset investments (special measures)

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. Additionally, the debt must have a credit rating of AAA, AA, or A. Finally, 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 2021, only the bank bond portfolio was in effect, with a value of CLP 5,590,565.4 million.

Table 5.12 Domestic investment portfolio composition by credit risk, 31 December 2021.

CREDIT RATING	TYPE OF CREDIT RISK			
	TIME DEPOSITS (TD)	BANK BONDS (BB)	BANK BONDS	TOTAL
AAA	0.0%	64.2%	0.0%	64.2%
AA+, AA, AA-	0.0%	33.7%	0.0%	33.7%
A+, A	0.0%	2.1%	0.0%	2.1%
Total	**0.0%**	**100%**	**0.0%**	**100%**

Table 5.13 Domestic investment portfolio composition by credit risk, 31 December 2020.

CREDIT RATING	TYPE OF CREDIT RISK			
	TIME DEPOSITS (TD)	BANK BONDS (BB)	BANK BONDS	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%**

Table 5.14 Domestic investment portfolio composition by issuer concentration, 31 December 2021.

EMISOR	CONCENTRACIÓN POR EMISOR BANCARIO			
	TIME DEPOSITS (TD)	BANK BONDS (BB)	BANK BONDS	TOTAL
ISSUER 1	-	14.4%	-	14.4%
ISSUER 2	-	16.5%	-	16.5%
ISSUER 3	-	10.7%	-	10.7%
ISSUER 4	-	15.1%	-	15.1%
ISSUER 5	-	9.9%	-	9.9%
ISSUER 6	-	7.5%	-	7.5%
ISSUER 7	-	6.4%	-	6.4%
ISSUER 8	-	5.9%	-	5.9%
ISSUER 9	-	6.4%	-	6.4%
ISSUER 10	-	4.2%	-	4.2%
ISSUER 11	-	1.3%	-	1.3%
ISSUER 12	-	0.8%	-	0.8%
ISSUER 13	-	0.9%	-	0.9%
TOTAL	**-**	**100%**	**-**	**100.0%**

Table 5.15 Domestic investment portfolio composition by issuer concentration, 31 December 2020

ISSUER	CONCENTRATION BY BANK ISSUER			
	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, FCIC-2, and FCIC-3) 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 for the FCIC, 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. On 01 March 2021, eligibility was expanded to include loans with a rating of A5 and A6 provided they are backed by some sort of state guarantee.

(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 (all three phases). Pledged loans rated A5 and A6 must be backed by some sort of state guarantee (FOGAPE and/or state guarantees granted through CORFO), and the total amount of these classes cannot exceed the equivalent amount effectively disbursed by each financial institution with a charge to the FCIC-3.

(f) Each bank must comply with the following concentration rule: the total pledged loans of a given final debtor (identified by their 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). The financial conditions of the pledged collateral and the associated credit were monitored daily.

At year-end 2021, the total amount of credit granted through the LCL was CLP 3,919,469.1 million; through the FCIC (FCIC-1, FCIC-2, and FCIC-3), $25,046,597.6 million. The value of collateral on FCIC operations, considering discounts from haircuts on the interest rates and margins on the value, was CLP 25,586,412.2 million, and the equivalent reserve limit for the LCL was CLP 6,075,406.3 million.
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Table 5.16 Composition of loans to financial institutions by line or facility, 31 December 2021

CONCENTRATION BY BANK CREDIT RATING (CLP MM)					
CREDIT RATING	LCL	FCIC-1*	FCIC-2*	FCIC-3*	TOTAL
AAA	3.184.236,7	10.433.397,6	3.380.000,0	5.146.500,0	22.144.134,3
AA	673.157,9	3.012.200,0	293.600,0	1.375.000,0	5.353.957,9
AA-	36.141,0	664.600,0	-	527.300,0	1.228.041,0
A+	25.933,5	140.600,0	22.200,0	51.200,0	239.933,5
Total	**3.919.469,1**	**14.250.797,6**	**3.695.800,0**	**7.100.000,0**	**28.966.066,7**

*Includes FCIC repo operations.

The amount of impairment provisions recognized at the close of the financial statements is disclosed in Note 9.

Table 5.17 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 FCIC repo operations.

The amount of impairment provisions recognized at the close of the financial statements is disclosed in Note 9.

Table 5.18 Exposure of FCIC operations, 31 December 2021 and 2020.

CLOSING AMOUNT	2021 CLP MM	2020 CLP MM
GROSS EXPOSURE	**25.046.597,6**	**16.797.400,0**
COLLATERAL*:		
Central Bank bonds (BCP, BCU, PDBC)	(539.302,3)	(14,980.0)
Treasury bonds (BTP y BTU)	(6.850.814,5)	(4,828,144.0)
Bank deposits	(1.512.814,6)	(1,075,097.0)
Bank bonds	(873.776,9)	(623,187.0)
Corporate bonds	(185.611,1)	(104,774.0)
Mortgage bonds	(9.726,1)	-
Commercial paper	-	(205,821.7)
Securitized bonds	(5.676,1)	(2,447.6)
Bank loans	(15.608.690,6)	(10,395,155.3)
EXPOSICIÓN NETA	**(539.814,6)**	**(452,206.6)**

*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 5.19 Exposure of FCIC operations by collateral type and risk rating, 31 December 2021 and 2020.

CLOSING AMOUNT	2021 CLP MM	2020 CLP MM
Gross exposure	**25,046,597.6**	**16,797,400.00**
Collateral—Securities:	**(9,977,721.5)**	**(6,854,451.3)**
Sovereign (Treasury and CBC)	(7,390,116.8)	(4,843,123.7)
AAA	(1,581,449.7)	(1,209,663.2)
AA+, AA, AA–	(845,727.0)	(742,875.1)
A+, A, A–	(131,439.9)	(24,160.8)
BBB+, BBB, BBB–	(28,988.1)	(34,628.5)
Collateral—Bank loans:	**(15,608,690.6)**	**(10,395,155.3)**
A1	(245,236.4)	(229,346.3)
A2	(4,237,367.1)	(2,723,374.0)
A3	(6,281,966.7)	(4,484,258.1)
A4	(4,553,224.4)	(2,958,176.9)
A5	(186,749.6)	-
A6	(104,146.5)	-
Net exposure	**(539,814.6)**	**(452,206.6**

b-4. Credit risk: Open market operations

El riesgo de crédito asociado con las operaciones de mercado abierto y facilidades que proveen liquidez al sistema financiero 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 2021 total operations in the standing liquidity facility (FPL) were CLP 12,174,502.5 million, while repo liquidity injection in pesos was CLP 11,000.0 million. The average exposure in 2021 was CLP $33,354.9 million in the FPL and CLP 22,282.5 1 million in repos, collateralized with Central Bank securities, Treasury securities, bank bonds, and corporate bonds.

Tables 5.20 and 5.21 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 5.20 Average exposure of the FPL in 2021 and 2020.

	AVERAGE AMOUNT CLP MM	
	2021	**2020**
GROSS EXPOSURE	33.354,9	3.303,5
COLLATERAL*:		
PDBC (CENTRAL BANK OF CHILE)	(4,444.1)	(97.0)
BONDS (CENTRAL BANK OF CHILE)	(1,572.6)	(574.3)
BTP BONDS (TREASURY OF CHILE)	(27,210.2)	(2,716.6)
CORPORATE BONDS	(124.6)	(0.6)
BANK DEPOSITS	(24.4)	-
NET EXPOSURE	**(21.0)**	**(85.0)**

*All collateral is at fair value (market value).

Table 5.21 Average exposure of repo operations in 2021 and 2020.

	AVERAGE AMOUNT CLP MM	
	2021	2020
GROSS EXPOSURE	**33,354.9**	**3,303.5**
COLLATERAL*:		
PDBC (CENTRAL BANK OF CHILE)	-	(10,670.7)
BONDS (CENTRAL BANK OF CHILE)	-	(18,037.5)
BTP BONDS (TREASURY OF CHILE)	(1,536.2)	(137,072.1)
BANK BONDS	(3,056.0)	(72,990.3)
BANK DEPOSITS	-	(258,162.6)
CORPORATE BONDS	(18,325.2)	(193,793.2)
SECURITIZED BONDS	-	(12,154.5)
MORTGAGE BONDS	-	(28,412.1)
COMMERCIAL PAPER	-	(542.4)
NET EXPOSURE	**(634.9)**	**(13,052.3)**

*All collateral is at fair value (market value).

Table 5.22 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. No swaps were conducted in 2021.

Table 5.22 Average exposure of swap operations in 2021 and 2020.

	AVERAGE AMOUNT CLP MM	
	2021	2020
GROSS EXPOSURE	-	101,513.7
COLLATERAL *	–	
CASH	-	(101,899.8)
NET EXPOSURE	-	(386.1)

*Las garantías se encuentran a su valor razonable (valor de mercado).

Additionally, in 2020 the Bank recorded forward sales of dollars associated with the extraordinary measures to support liquidity management in foreign currency. No dollar forwards were conducted in 2021.

Table 5.23 presents the credit risk exposure of dollar forwards through settlement risk.

Table 5.23 Average exposure of forward sales in 2021 and 2020.

	AVERAGE AMOUNT USD M	
	2021	2020
GROSS EXPOSURE	-	2,728,415.3
NET EXPOSURE FROM SETTLEMENT	-	6,499.5

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=PD*LGD*EAD, where

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

Probability of default (PD) is an estimate of the probability of default over a given time horizon, and it is estimated at a specific point in time. The calculation of the PD for a horizon of up to one year is based on the method developed by Bloomberg for corporate (DRSK) and sovereign (SRSK) entities, using financial, macroeconomic, and credit performance variables. To calculate the PD for horizons of 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 (EAD) 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 (collateral).

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) Step 1: Expected credit losses in 12 months. This step estimates the losses that could materialize as a result of events occurring in the next 12 months.

(b) Step 2: Expected credit losses over the life of the asset. This step is applied when there is a significant increase in credit risk since the initial recognition.

(c) Step 3: Credit-impaired financial assets. In this step, the loss estimate is the same as in the previous step, but it takes into account any new information that may since have become available.

The criteria for assessing a significant change in credit risk are as follows: substantial changes in the credit risk indicators (a two-notch downgrade in a single calendar year), interest rates, or financial conditions of the instruments, in market indicators such as duration, prices, bond spreads, CDS, domestic credit indicators, regulatory changes, modification of guarantees, etc.

Table 5.24 Risk ranking and description.

RANKING	RATING*	INVESTMENT GRADE
1	AAA a BBB-	*Investment Grade*
2	BB a CCC	*Standard Monitoring*

* Average rating from Standard and Poor's, Moody´s, and Fitch.

Table 5.25 Credit risk and expected credit loss provision, 31 December 2021.

	AMORTIZED COST MM$			FVOCI MM$		
	Step 1	Step 2	Step 3	Step 1	Step 2	Step 3
(a) International reserves:						
(Investment portfolio)						
Grade 1: Investment grade	2,971,565.	-	-	36,286,789.7	-	-
Grade 2: Standard monitoring	-	-	-	-	-	-
Gross amount	**2,971,565.8**	**-**	**-**	**36,286,789.7**	**-**	**-**
Loss provision*	(596.8)	-	-	(15,660.3)	-	-
Book value	**2,970,969.0**	**-**	**-**	**36,286,789.7**	**-**	**-**

* 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 MM$			FVOCI MM$		
	STEP 1	STEP 2	STEP 3	STEP 1	STEP 2	STEP 3
(a) Domestic assets:						
(Domestic loans and Operations under specific legal regulations)						
Grade 1: Investment grade	29,319,680.7	-	-	5,590,565.4	-	-
Grade 2: Standard monitoring	-	-	-	-	-	-
Gross amount	29,319,680.7	-	-	5,590,565.4	-	-
Loss provision*	(5,723.0)	-	-	(6,090.4)	-	-
Book value	**29,313,957.7**	**-**	**-**	**5,590,565.4**	**-**	**-**

* The loss provision for instruments classified as FVOCI is recorded directly in Other comprehensive income (OCI) (the book value of the assets is not reduced).

Table 5.26 Credit risk and expected credit loss provision, 31 December 2020.

	AMORTIZED COST MM$			FVOCI 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 MM$			FVOCI MM$		
	STEP 1	STEP 2	STEP 3	STEP 1	STEP 2	STEP 3
(a) 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**	**-**	**-**	**6,601,120.4**	**-**	**-**

* 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).

(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, as well as overnight and weekend transactions, representing 74.9% of the internally managed investment portfolio at year-end 2021 (54.3% at year-end 2020).

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, which could potentially be settled, although the Bank is not the asset manager for this type of instrument.

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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 in either facility 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 notes or rolling them over in the primary market at market prices. 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 5.27 Debt security auctions by the Central Bank of Chile as of 31 December 2021.

INSTRUMENT	SCHEDULED AMOUNT (CLP MM)	DEMAND	AWARDS	AUCTION RATE	MARKET RATE	SPREAD (BP)
PDBC	694,600,000.00	155.6%	100.3%	1.24%	1.31%	(7.0)

Table 5.28 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)

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 unforeseen 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 Division 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 processes related to financial instrument management manages and controls its own operational risks. However, the Operational Risk Department, in the Corporate Risk Division, leads, ensures, coordinates, and collaborates on the identification, analysis, evaluation, and treatment of operational risks in the Bank units, through an annual risk self-assessment and strategic projects, thereby safeguarding the application of the risk vision and tolerance level established by the Board. This control strategy includes ranking the level of inherent and residual risks in the Bank's processes, based on an established risk assessment methodology, in order to identify the processes with the highest degree of risk for their prioritization and monitoring. Additionally, the department works with the business units to identify, analyze, and monitor the Bank's critical services and resources, in accordance with the business continuity management model, thereby establishing, developing, and maintaining business continuity plans, in conjunction with the business units, in order to guarantee the operational continuity of critical activities in the event of disruptive incidents and/or events.

The Office of the Comptroller and Auditor General, 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 various issues related to governance, risk 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:

	2021 MM$	2020 MM$
FOREIGN CORRESPONDENT BANKS (*)	787,148.3	479,227.1
CURRENT ACCOUNTS OF EXTERNAL PORTFOLIO MANAGERS (*)	26,046.3	50,105.5
FOREIGN CURRENCY DEPOSITS (*)	1,137.5	954.2
TOTAL CASH IN RESERVE ASSETS	814,332.1	530,286.8
DOMESTIC CORRESPONDENT BANKS (**)	115.3	88.7
TOTAL CASH AND CASH EQUIVALENTS (***)	814,447.4	530,375.5

(*) Included under Cash on the statement of financial position.
(**) Included under Other assets, under the heading Domestic assets.
(***) There are no restrictions on the use of the headings included under cash and cash equivalents.

The distribution of cash and cash equivalents by currency at each year-end was as follows:

	2021 MM$	2020 MM$
UNITED STATES DOLLAR	786,665.7	505,966.0
EURO	328.0	221.2
AUSTRALIAN DOLLAR	70.4	2,355.2
POUND STERLING	214.7	1,817.8
CHINESE YUAN	22,295.6	16,340.2
SOUTH KOREAN WON	3,271.0	310.0
OTHER CURRENCIES	1,486.7	3,276.4
TOTAL CASH IN RESERVE ASSETS	**814,332.1**	**530,286.8**
CHILEAN PESO	115.3	88.7
TOTAL DOMESTIC CORRESPONDENT BANKS	**115.3**	**88.7**
TOTAL CASH AND CASH EQUIVALENTS	**814,447.4**	**530,375.5**

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 (SDRs):** 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.

- **International Monetary Fund (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:

	2021 MM$	2020 MM$
Cash	814,332.1	530,286.8
INVESTMENT PORTFOLIO:		
FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	36,286,789.7	25,573,747.7
AMORTIZED COST	2,970,969.0	778,188.6
FAIR VALUE THROUGH PROFIT OR LOSS	(1,337.1)	2,468.9
MONETARY GOLD	12,181.7	10,607.8
SPECIAL DRAWING RIGHTS (SDR)	2,977,925.0	492,017.4
IMF RESERVE POSITION	582,304.5	493,161.8
OTHER ASSETS	22.5	116.7
TOTAL	**43,643,187.4**	**27,880,595.7**

The distribution of foreign exchange reserve assets by investment currency at each year-end was as follows:

	2021 CLP MM	2020 CLP MM
UNITED STATES DOLLAR	31,662,737.8	14,551,716.5
EURO	1,826,490.9	2,780,748.8
AUSTRALIAN DOLLAR	1,103,321.8	2,306,801.4
POUND STERLING	1,453,329.2	2,054,877.4
CHINESE YUAN	2,945,344.0	2,067,224.3
SOUTH KOREAN WON	1,078,043.4	766,277.8
OTHER CURRENCIES	3,573,920.3	3,352,949.5
TOTAL	43,643,187.4	27,880,595.7

	2021 CLP MM	2020 CLP MM
Cash	957,8	745,6
INVESTMENT PORTFOLIO:		
FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	42,677.8	35,956.5
AMORTIZED COST	3,494.2	1,094.1
FAIR VALUE THROUGH PROFIT OR LOSS	(1.6)	3.5
MONETARY GOLD	14,3	14,9
SPECIAL DRAWING RIGHTS (SDR)	3.502,4	691,8
IMF RESERVE POSITION	684,9	693,4
OTHER ASSETS	-	0,2
TOTAL	51,329.8	39,200.0

The distribution of foreign exchange reserve assets by investment currency at each year-end was as follows:

	2021 CLP MM	2020 CLP MM
UNITED STATES DOLLAR	37,239.3	20,459.6
EURO	2,148.2	3,909.7
AUSTRALIAN DOLLAR	1,297.6	3,243.4
POUND STERLING	1,709.3	2,889.1
CHINESE YUAN	3,464.1	2,906.5
SOUTH KOREAN WON	1,267.9	1,077.4
OTHER CURRENCIES	4,203.4	4,714.3
TOTAL	51,329.8	39,200.0

(c) Investment portfolio by asset class

	FAIR VALUE HIERARCHY	2021 CLP MM	2020 CLP MM
Fair value through other comprehensive income:			
Internally managed portfolio:			
Nominal notes and bonds	Nivel 1	28,194,271.6	22,057,153.0
Inflation-linked bonds	Nivel 1	7,099,572.9	2,722,742.0
Externally managed portfolio:			
Treasury notes	Nivel 1	-	62,486.3
Nominal notes and bonds	Nivel 1	992,945.2	623,052.8
Inflation-linked bonds	Nivel 1	-	108,313.6
Subtotal		**36,286,789.7**	**25,573,747.7**
Amortized cost:			
Internally managed portfolio:			
Time deposits *		764,127.2	790,395.1
Overnight deposits *		2,121,975.7	71.1
Commercial paper *		84,902.5	-
Accounts receivable (payable) trade date (net)		(1,294.9)	586.0
Securities lending fees		357.0	49.4
Externally managed portfolio:			
Accounts receivable (payable) trade date (net)		825,0	(11.085,1)
Collateral, net position		76,5	(1.827,9)
Subtotal		**2.970.969,0**	**778.188,6**
Fair value through profit or loss:			
Internally managed portfolio:			
Derivatives, net position	Nivel 2	(1,218.1)	(44.4)
Externally managed portfolio:			
Derivatives, net position	Nivel 2	(119.0)	2,513.3
Subtotal		**(1,337.1)**	**2,468.9**
Total		**39,256,421.6**	**26,354,405.2**

* The amount of impairment provisions recognized at the close of the financial statements is disclosed in Note 5 (b-5).

(d) Monetary gold

At year-end 2021, monetary gold amounted to US$14.3 million (US$14.9 million in 2020) equivalent to 7,940 fine troy ounces valued at US$1,804.5 per ounce (US$1,878.5 in 2020). There was no change in the quantity of troy ounces relative to 2020.

	2021 CLP MM	2020 CLP MM
Monetary gold	12,181.7	10,607.8
TOTAL	**12,181.7**	**10,607.8**

(e) Special drawing rights (SDR)

At year-end 2021, the balance in the special drawing rights account was SDR 2,456,223,172.0, of which SDR 224,675.0, equivalent to CLP 272.4 million, was from interest. In August 2021, the IMF issued an allocation of special drawing rights, which in the case of Chile (0.37% quota) was SDR 1,672.0 million, with an equal increase in both assets and liabilities.

	2021 CLP MM	2020 CLP MM
IMF SDRs	2,977,925.0	492,017.4
TOTAL	**2,977,925.0**	**492,017.4**

(f) International Monetary Fund (IMF) reserve position

At each year-end, the IMF reserve position was as follows:

	2021 CLP MM	2020 CLP MM
IMF QUOTA SUBSCRIPTION	2,114,833.2	1,831,411.6
NEW ARRANGEMENTS TO BORROW (NAB)	19,685.1	31,119.3
DEPOSITS (ACCOUNTS N° 1 AND 2)	(1,552,213.8)	(1,369,369.1)
TOTAL	**582,304.5**	**493,161.8**

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 2021, 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:

	2021 CLP MM	2019 CLP MM
IDB shares and contributions	111,875.6	93,584.7
TOTAL	**111,875.6**	**93,584.7**

(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.

	2021 CLP MM	2020 CLP MM
OPENING BALANCE	88,942.2	79,874.2
FAIR VALUE ADJUSTMENT	7,728.5	8,217.7
SDR VALUATION INCREASE	6,833.8	850.3
CLOSING BALANCE	**103,504.5**	**88,942.2**

In 2021, dividends of USD 2.2 million were received, which were recognized directly through profit (the BIS did not distribute dividends in 2020).

The Bank calculates the fair value (level 3) based on its percentage ownership of BIS equity, using the discounted net asset value method, which discounts the shares' net asset value by 30%. This follows the methodology applied by the BIS for the last repurchase of shares issued in 1970.

(c) IMF Flexible Credit Line commission

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 increased 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.

	2021 CLP MM	2020 CLP MM
Opening balance	31,304.5	75,130.8
Second commission payment	86,759.2	-
Amortization in the period	(86,759.2)	(43,826.3)
Increase in SDR valuation	4,845.2	-
Closing balance	**36,149.7**	**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:

	2021 CLP MM CAPITAL	INTEREST	IMPAIRMENT PROVISION	TOTAL
Repurchase agreements (FCIC repos)	9,906,337.6	275.2	-	9,906,612.8
Conditional Financing Facility for Increased Loans (FCIC)	15,140,260.0	420.5	-	15,140,680.5
Liquidity Credit Line (LCL)	3,919,469.1	108.9	(3,716.3)	3,915,861.7
Total	**28,966,066.7**	**804.6**	**(3,716.3)**	**28,963,155.0**

	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	**22,112,046.4**	**696.4**	**(10,014.1)**	**22,102,728.7**

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.

(b) Domestic investment portfolio

	Fair value hierarchy	2021 CLP MM	2020 CLP MM
Fair value through other comprehensive income:			
Bank bonds	Level 1	5,590,565.4	6,392,133.7
Certificates of deposits	Level 1	-	208.986,7
Subtotal		**5,590,565.4**	**6,601,120.4**
Amortized cost:			
Spot purchase–forward sale (CC-VP)		-	2,154,987.3
Subtotal		-	**2,154,987.3**
Total		**5,590,565.4**	**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 Central 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:

	2021 MM$	2020 MM$
Treasury transfers Law N°18,401	352,809.5	330,936.2
Impairment provision	(2,006.8)	(8,948.1)
CLOSING BALANCE	**350,802.7**	**321,988.1**

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 2021 amounted to CLP 352,809.5 million (excluding the impairment provision), equivalent to UF11.4 million (CLP 330,936.2 million in 2020, 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. The decree allows the Treasury to make the payment in 2022, without establishing a specific date.

	2021 MM$	2020 MM$
Opening balance	321,988.1	319,349.1
Indexation adjustment in the period	21,873.3	8,656.2
Reduction/(increase) in impairment in the period	6,941.3	(6,017.2)
CLOSING BALANCE	**350,802.7**	**321,988.1**

(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 a 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 sense, 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 2021, 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 1,704,869.4 million. (CLP 1,522,781.7 million in 2020), 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 96.972,4 million (CLP 92.758,0 million in 2020), 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

	2021 CLP MM	2020 CLP MM
PROPERTY, PLANT, AND EQUIPMENT (GROSS)	76,131.5	69,391.2
ACCUMULATED DEPRECIATION	(25,339.7)	(22,797.7)
PROPERTY, PLANT, AND EQUIPMENT (NET)	50,791.8	46,593.5

Reconciliation of the carrying amount of property, plant, and equipment

	CLP					
	BALANCE ON 31.DEC.20	ADDITIONS	DISPO-SALS	DEPRECIATION	TRANSFERS	BALANCE ON 31.DEC.21
REAL ESTATE AND INSTALLATIONS	27,096.0	41.1	-	(44.2)	-	27,092.9
FURNITURE AND EQUIPMENT	9,362.0	3,146.1	(951.5)	(2,734.6)	676.2	9,498.2
TRANSPORT MATERIAL	122.3	-	(5.3)	(25.7)	-	91.3
WORKS IN PROGRESS	10,013.2	4,772.4	-	-	(676.2)	14,109.4
TOTAL	**46,593.5**	**7,959.6**	**(956.8)**	**(2,804.5)**	**-**	**50,791.8**

On 31 December 2021 and 2020, the item Depreciation and amortization on the statement of comprehensive income included CLP 2,804.5 million and CLP 2,661.1 million, respectively, for depreciation. In 2021 and 2020, there were no recognized losses due to impairment.

Operating leases

On 31 December 2021 and 2020, 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: INTANGIBLES

	2021 CLP MM	2020 CLP MM
INTANGIBLE ASSETS (GROSS)	8,499.4	8,813.3
ACCUMULATED AMORTIZATION	(6,866.6)	(5,998.1)
INTANGIBLE ASSETS (NET)	**1,632.8**	**2,815.2**

Reconciliation of the carrying amount of intangible assets

	CLP MM				
	BALANCE ON 31.DEC.20	ADDITIONS	AMORTIZA-TION	TRANSFERS	BALANCE ON 31.DEC.21
Computer programs	2,455.9	-	(868.5)	-	1,587.4
Computer programs under development	359.3	45.4	-	-	45.4
TOTAL	**2,815.2**	**45.4**	**(868.5)**	**-**	**1,632.8**

On 31 December 2021 and 2020, the item Depreciation and amortization on the statement of comprehensive income included CLP 868,5 million and CLP 1.322,2 million, respectively, for straight-line amortization. In 2021 and 2020, there were no recognized losses due to impairment.

NOTE 13: OTHER ASSETS

This item is made up of the following assets:

	2021 MM$	2020 MM$
ARTISTIC AND/OR CULTURAL HERITAGE ASSETS	5,283.0	5,281.4
ADVANCE ON CONTRACTS	6,263.7	2,433.5
PREPAYMENT OF EXPENSES	214.4	253.6
CASH	115.3	88.7
OTHER DOMESTIC ASSETS	6,773.5	6,113.4
TOTAL	**18,679.9**	**14,170.6**

(a) Reconciliation of the carrying amount of artistic and/or cultural heritage assets

	2021 MM$	2020 MM$
BANKNOTE AND COIN COLLECTION	3,636.8	3,635.2
WORKS OF ART	1,646.2	1,646.2
TOTAL	**5,283.0**	**5,281.4**

NOTE 14: FOREIGN LIABILITIES

This heading includes the following items:

	2021 CLP MM	2020 CLP MM
ACCOUNTS WITH INTERNATIONAL ORGANIZATIONS	72,417.0	58,528.9
SDR ALLOCATIONS	3,017,605.8	857,803.1
RECIPROCAL CREDIT AGREEMENTS	4.0	3.4
DEPOSITS FROM CENTRAL BANKS	152.7	2.0
TOTAL	**3,090,179.5**	**916,337.4**

(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.

La composición de este rubro es la siguiente:

This item is composed of the following:

	2021 CLP MM	2020 CLP MM
IDB PROMISSORY NOTE DEBT	67,884.8	56,786.1
INTER-AMERICAN DEVELOPMENT BANK (IDB)	3,483.6	785.8
INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA)	901.1	901.1
MULTILATERAL INVESTMENT GUARANTEE AGENCY (MIGA)	32.9	32.9
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (IBRD)	114.6	23.0
TOTAL	**72.417,0**	**58.528,9**

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 interest 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 2,488,724,680.0 (equivalent to CLP 3,017,329.8 million) allocated to Chile, of which SDR 227,664.0 (equivalent to CLP 276.0 million) corresponded to interest. In August 2021, the IMF issued an allocation of special drawing rights, which in the case of Chile (0.37% quota) was SDR 1,672.0 million, with an equal increase in both the asset and the liability.

(b) 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.

(c) 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:

	2021 CLP MM	2020 CLP MM
CURRENT ACCOUNTS IN NATIONAL CURRENCY	152.7	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.

The monetary base breaks down as follows:

	2021 CLP MM	2020 CLP MM
BANKNOTES AND COINS IN CIRCULATION	18,666,832.0	14,804,078.7
DEPOSITS FROM FINANCIAL INSTITUTIONS	1,969,303.2	3,442,191.0
ADDITIONAL RESERVE DEPOSITS (RESERVA TÉCNICA)	820,170.8	12,010,166.8
TOTAL	**21,456,306.0**	**30,256,436.5**

(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.

	2021 MM$	2020 MM$
OPENING BALANCE, 01-JAN-2021	14,804,078.7	10,753,789.7
NET ISSUE	3,862,753.3	4,050,289.0
CLOSING BALANCE, 31-DEC-2021	**18,666,832.0**	**14,804,078.7**

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	2021 CLP MM	2020 CLP MM	COIN DENOMINATION	2021	2020
$ 20.000	9,668,097.4	7,576,924.3	$ 10,000	348.5	348.4
$ 10.000	7,084,483.5	5,349,250.9	$ 2,000	99.2	98.6
$ 5.000	786,355.4	770,232.6	$ 500	258,853.5	239,511.2
$ 2.000	237,323.9	244,133.1	$ 100	170,179.1	159,265.7
$ 1.000	343,914.2	350,581.3	$ 50	33,181.0	32,334.1
$ 500	4,704.7	4,706.7	$ 10	63,565.8	60,963.1
Varios	251.3	252.9	$ 5	10,711.1	10,712.4
			$ 1	4,690.9	4,691.1
			OTHER	72.4	72.3
TOTAL	**18,125,130.4**	**14,296,081.8**	**TOTAL**	**541,701.6**	**507,996.9**

(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 2021, the amount deposited in the additional reserve account was CLP 820,170.8 million; in 2020, CLP 12,010,166.8 million.

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	2020 CLP MM
DEPOSITS AND OBLIGATIONS WITH THE TREASURY	136.8	155.0
OTHER DEPOSITS AND OBLIGATIONS	8,212,925.9	8,830,162.7
TOTAL	**8,213,062.7**	**8,830,317.7**

(a) The item Deposits and obligations with the Treasury includes:

	2021 CLP MM	2020 CLP MM
CURRENT ACCOUNTS HELD BY THE TREASURY	136.8	155.0
TOTAL	**136.8**	**155.0**

(b) The item Other deposits and obligations includes:

	2021 CLP MM	2020 CLP MM
STANDING DEPOSIT FACILITY IN LOCAL CURRENCY (FPD)	4,549,147.5	7,563,605.0
BANK CURRENT ACCOUNTS IN FOREIGN CURRENCY	2,524,603.8	982,377.7
SHORT-TERM FOREIGN CURRENCY DEPOSITS BY BANKS	1,116,378.3	273,116.2
OTHER	22,796.3	11,063.8
TOTAL	**8,212,925.9**	**8,830,162.7**

NOTE 17: SECURITIES ISSUED BY THE CBC

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 on the date of the financial statements.

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 latter matured in November 2021.

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 2021 and 2020, Central Bank securities recorded the following maturities:

	CLP MM					
	Up to 90 days	91 to 180 days	181 days to 1 year	Over 1 year to 3 years	Over 3 years	TOTAL 2021
CENTRAL BANK DISCOUNT NOTES (PDBC)	42,086,428.4	49,384.0	121,316.0	-	-	42,257,128.4
PESO-DENOMINATED CENTRAL BANK BONDS (BCP)	112,533.8	-	-	59,059.5	-	171,593.3
UF-DENOMINATED CENTRAL BANK BONDS (BCU)	143,835.5	-	124,554.5	71,032.0	70,194.3	409,616.3
UF-DENOMINATED INDEXED COUPONS (CERO)	-	-	-	-	-	-
INDEXED NOTES PAYABLE IN COUPONS (PRC)	375.1	524.2	1,175.8	-	-	2,075.1
OTHER	7.8	-	-	-	-	7.8
TOTAL	42,343,180.6	49,908.2	247,046.3	130,091.5	70,194.3	42,840,420.9

	CLP MM					
	HASTA 90 DÍAS	91 A 180 DÍAS	181 DÍAS A 1 AÑO	MÁS DE 1 AÑO A 3 AÑOS	A MÁS DE 3 AÑOS	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

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:

	2021 CLP MM	2020 CLP MM
SEVERANCE INDEMNITY	11.174,0	13.672,5
SPECIAL INDEMNITY AND AGREED DEPOSIT FOR RETIREMENT PLAN (RES.1651)	509,5	1.919,7
SUBTOTAL PROVISION FOR SEVERANCE INDEMNITY	**11.683,5**	**15.592,2**
BENEFITS TO FORMER ASSOC. RETIRED EMPLOYEES AND PENSION BENEFICIARIES	1,920.6	2,372.2
RETIREMENT HEALTH PLAN BENEFITS	7.9	9.4
PENDING ACCRUED VACATION TIME FOR PERSONNEL	4,466.1	4,118.8
SPECIAL INDEMNITY (RES. 572-05-961226)	0.3	0.3
INCENTIVE ALLOCATION	453.9	511.3
DEATH BENEFIT ALLOCATION	20.3	27.4
SUBTOTAL OTHER PROVISIONS	**6,869.1**	**7,039.4**
TOTAL	**18,552.6**	**22,631.6**

	2021 CLP MM	2020 CLP MM
MOVEMENTS IN SEVERANCE INDEMNITY PROVISIONS (*):		
CURRENT VALUE OF LIABILITIES ON 01 JANUARY	15,592.2	13,536.0
SERVICE COSTS IN THE CURRENT PERIOD	(570.9)	959.2
INTEREST COSTS	873.2	379.0
BENEFITS PAID IN THE CURRENT PERIOD	(1,693.1)	(568.7)
ACTUARIAL (GAINS) LOSSES	(2,517.9)	1,286.7
BALANCE ON 31 DECEMBER	**11,683.5**	**15,592.2**

(*) 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.

	2021 CLP MM	2020 CLP MM
TOTAL POST-EMPLOYMENT BENEFIT PROVISIONS EXPENSE:		
SERVICE COSTS IN THE CURRENT PERIOD	(663.,6)	829.5
INTEREST COSTS	1,008.1	444.1
TOTAL	**344.5**	**1,273.6**

On 31 December 2021, 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	SCENARY 1	SCENARY 2
DISCOUNT INTEREST RATE (–1%, +1%)	5.60%	4.60%	6.60%
EFFECT ON SEVERANCE INDEMNITY PROVISIONS (CLP MM)	11,683.5	12,069.9	10,405.3
EFFECT ON SEVERANCE INDEMNITY PROVISIONS (%)	-	3.31%	–10.94%

CALCULATION OF PROBABLE SEVERANCE INDEMNITY PAYMENTS			2021 CLP MM
SHORT-TERM PROVISIONS FOR SEVERANCE INDEMNITY (UP TO ONE YEAR)			1,180.0
LONG-TERM PROVISIONS FOR SEVERANCE INDEMNITY (OVER ONE YEAR)			10,503.5
TOTAL			**11,683.5**

NOTE 19: CAPITAL

(a) Capital

Article 5 of the Central Bank's Basic Constitutional Act established initial capital of CLP 500,000 million, which on 31 December 2021 corresponds to CLP 2,874,757.6 million (31 December 2020: CLP 2,694,243.3 million) 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 2021, the Central Bank had negative equity of CLP 3,251,774.7 million (negative equity of CLP 1,738,520.6 million on 31 December 2020), mainly due to the effects of exchange rate fluctuations on foreign currency assets.

(a) 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 2021, the negative capital revaluation from price-level restatement, recognized in memorandum accounts, was a negative CLP 239,547.3 million (negative CLP 81,193.4 million in 2020), resulting in an adjusted capital at year-end of negative CLP 3,814,880.4 million (negative CLP 3.088,356.9 million in 2020). 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 2021 there were no capital contributions by the Treasury.

	Capital on 31 Dec 2021, before price-level restatement CLP MM	Capital revaluation in memorandum accounts CLP MM	Total capital on 31 Dec 2021 with price-level restatement CLP MM
Balance on 31 December 2021	(3,575,333.1) (*) 6.7%	(239,547.3)	(3,814,880.4)

(*) Capital on 31 December 2020 adjusted for price-level restatement plus earnings in the year.

With capitalizable income of CLP 5,664,155.5 million in 2021, the initial capital to be revalued through price-level restatement in 2022 is CLP 1,025,482.5 million.

NOTE 20: NET GAIN FROM INTERNATIONAL RESERVES

The net gain generated by international reserves, at year-end of each year, breaks down as follows:

	2021 CLP MM	2020 CLP MM
INTEREST INCOME AND EXPENSE:		
INTEREST INCOME	205,870.6	157,410.3
INVESTMENTS MEASURED AT FVOCI (EFFECTIVE RATE)	185,058.6	145,703.6
INVESTMENTS MEASURED AT AMORTIZED COST (EFFECTIVE RATE)	20,812.0	11,571.7
INVESTMENTS MEASURED AT FVTPL (COUPON RATE)	-	135.0
INTEREST EXPENSE	(274,442.6)	(9.3)
AMORTIZED COST (EFFECTIVE RATE)	(0.3)	(9.3)
INVESTMENTS MEASURED AT FVOCI (EFFECTIVE RATE)	(274,442.3)	-
SUBTOTAL	**(68,572.0)**	**157,401.0**
FEE AND COMMISSION INCOME AND EXPENSE:		
FEE AND COMMISSION INCOME	2,083.2	383.5
SECURITIES LENDING FEES (*)	2,083.2	383.5
FEE AND COMMISSION EXPENSE	(1,953.8)	(2,360.5)
CURRENT ACCOUNT OPERATING EXPENSES	(644.5)	(121.7)
SECURITIES CUSTODY FEES	(932.9)	(1,790.7)
EXTERNAL PORTFOLIO MANAGEMENT FEES	(376.4)	(448.1)
SUBTOTAL	**129.4**	**(1,977.0)**
INCOME FROM SALE OF INVESTMENTS:		
SALE OF INVESTMENTS MEASURED AT FVOCI	299,293.5	344,755.0
SALE OF INVESTMENTS MEASURED AT FVTPL	-	240.2
SUBTOTAL	**299,293.5**	**344,995.2**
OTHER INCOME (EXPENSE):		
DERIVATIVES	620.1	1,363.6
OTHER:		
FAIR VALUE OF INVESTMENTS THROUGH PROFIT OR LOSS (FVTPL)	-	1,374.2
IMPAIRMENT	(1,278.2)	3,640.2
TAXES	(689.0)	(678.7)
SUBTOTAL	**(1,347.1)**	**5,699.3**
TOTAL	**229,503.8**	**506,118.5**

(*) At year-end 2021 and 2020, the value of securities on loan (par value) represented 13% and 4% of total reserves (CLP 5,520,150.4 million in 2021 and CLP 1,233,362.8 million in 2020). 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:

	2021 CLP MM	2020 CLP MM
INTEREST EXPENSE	(919.3)	(1,721.9)
SDR ALLOCATIONS	(919.3)	(1,721.9)
OTHER INCOME (EXPENSE)	(84.934,8)	(43,896.8)
COMMISSION ON IMF FLEXIBLE CREDIT LINE	(86.759,2)	(43,826.3)
BIS DIVIDENDS	1.889,1	-
OTHER		
FISCAL AGENCY OPERATING EXPENSES	(64.7)	(70.5)
TOTAL	**(85,854.1)**	**(45,618.7)**

NOTE 22: NET LOSS FROM DOMESTIC OPERATIONS

The net loss from domestic transactions, at year-end of each year, breaks down as follows:

	2021 CLP MM	2020 CLP MM
INTEREST AND INDEXATION INCOME AND EXPENSE:		
INTEREST AND INDEXATION INCOME:	598,416.7	207,665.0
DOMESTIC LOANS	576,543.4	199,008.7
OPERATIONS UNDER SPECIFIC LEGAL REGULATIONS	21,873.3	8,656.3
INTEREST AND INDEXATION EXPENSE:	(514,532.4)	(257,475.6)
SECURITIES ISSUED	(427,334.6)	(222,302.7)
DEPOSITS AND OBLIGATIONS	(87,197.8)	(35,172.9)
SUBTOTAL	**83,884.3**	**(49,810.6)**
OTHER NET INCOME AND EXPENSE:		
DERIVATIVE OPERATIONS	-	(213.407,4)
EARLY REDEMPTION OF SECURITIES ISSUED	-	(198.050,3)
OTHER:		
COMMISSIONS	3,865.8	3,052.7
IMPAIRMENT	24,960.4	(33,843.0)
SUBTOTAL	**28,826.2**	**(442,248.0)**
TOTAL	**112,710.5**	**(492,058.6)**

NOTE 23: NET GAIN (LOSS) FROM FOREIGN EXCHANGE OPERATIONS

Banknote and coin issuance, distribution, and processing costs at year-end of each year break down as follows:

	2021 CLP MM	2020 CLP MM
UNITED STATES DOLLAR	9,634,138.9	(156,997.3)
EURO	(1,039,133.1)	(30,471.0)
AUSTRALIAN DOLLAR	(1,193,374.1)	(23,726.9)
POUND STERLING	(662,382.8)	(3,234.4)
CHINESE YUAN	775,238.5	(83,510.9)
SOUTH KOREAN WON	313,469.8	(24,592.3)
OTHER CURRENCIES	(2,291,749.0)	(51,132.5)
SUBTOTAL NET FOREIGN EXCHANGE (LOSS) GAIN	**5,536,208.2**	**(373,665.3)**
OTHER	-	2,263.4
TOTAL	**5,536,208.2**	**(371,401.9)**

NOTE 24: CURRENCY ISSUANCE, DISTRIBUTION, AND PROCESSING COSTS

La composición de los costos por concepto de emisión y distribución del circulante al cierre de cada ejercicio es la siguiente:

	2021 CLP MM	2020 CLP MM
BANKNOTES	(31,167.9)	(11,886.4)
COINS	(24,258.3)	(4,354.5)
DISTRIBUTION AND PROCESSING	(2,623.9)	(3,589.4)
TOTAL	**(58,050.1)**	**(19,830.3)**

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.

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 N° 13,196 ("Copper Reserve Law"), under the provisions of Law N° 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 N° 524, dated 30 March 2020, the Bank submitted the final statement of accounts for this fiscal agency, which was approved through Joint Resolution N° 6, of 29 April 2020, by the Ministries of Finance and National Defense.

Article 102 of the aforementioned Law N° 21,174, which establishes a new funding mechanism for strategic national defense, considered the creation of a new Strategic Contingency Fund (SCF). The fourth paragraph of the article 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 N° 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°1,815 of 2021, from the Finance Ministry.

(b) PRF performance guidelines: Ordinary Letter N°1,838 of 2020, from the Finance Ministry.

(c) SCF performance guidelines: Ordinary Letter N°1,321, of 2020, amended by Ordinary Letter N°1,518 of 2021, both from the Finance Ministry. In 2021, there were no contributions to this fund.

(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 2021 was a CLP 1,673.2 million (CLP 1,662.8 million in 2020).

NOTE 29: MATERIAL EVENTS

(a) Measures adopted by the Bank and material events in the period:

(a)-1 Foreign exchange market

In January 2021, the Bank launched a program to gradually replenish and expand its international reserves, in order to strengthen the country's international liquidity position in preparation for the termination of the IMF Flexible Credit Line in 2022.

The program considered foreign currency purchases totaling USD 12.0 billion. Of that amount, USD 2.55 billion was to replenish the reserves used in the intervention plan executed in December 2019 and January 2020, while the remainder was necessary to increase reserves to around 18% of GDP. This program was to be implemented over a period of 15 months, so as to coincide with the exit from the FCL, through daily purchases of US$40 million via competitive auctions.

At its Monetary Policy Meeting in October 2021, the Central Bank Board decided to suspend the reserve accumulation program initiated in January of that year, in virtue of the recent evolution of the financial market and the current level of the international reserves. In total, the bank purchased USD 7.44 billion between 18 January and 13 October 2021, equivalent to 62% of the initial target.

(a)-2 Monetary policy rate and banking sector loans

· On the monetary side, the Board raised the MPR from its effective lower bound to 4.0% in the second half of 2021.

· In March 2021, the bank opened the third phase of the Conditional Financing Facility for Increased Loans (FCIC-3) for up to USD 10.0 billion, equivalent to the unused balance of the two previous phases (FCIC-1 and FCIC-2). This new phase was oriented toward deepening and extending the facility to contribute to the flow of commercial credit, in view of the prolongation of the health crisis and the need to support the economic reactivation process. This measure served to complement the FOGAPE-Reactivation program as a response to the current financial needs of businesses.

· Reactivation of measures to contain potential increases in market volatility due to the third pension fund withdrawal from the pension fund management system, using the CC-VP Program of spot sales and forward purchases of bank bonds aimed at open market entities.

(a)-3 Other measures and/or material events

On 23 August 2021, the International Monetary Fund (IMF) issued an allocation of special drawing rights (SDRs) equivalent to USD 650.0 billion in total. SDRs are an international reserve asset issued by the IMF, which complement the member countries' official reserves.

The additional liquidity provided by the SDR allocation, the largest since the creation of the IMF, aims to bolster international confidence and strengthen the resilience of the world economy, in the context of the COVID-19 pandemic. This allocation is expected to help lower-income countries in particular.

The USD 650.0 billion was allocated proportionally to IMF members based on their quota share in the organization. In the case of Chile (0.37% quota), the allocation received was SDR 1.672 billion, equivalent to USD 2.371 billion at the exchange rate on that date.

(b) Through Resolution N° 2385-01 of 8 April 2021, the Central Bank Board renewed the appointment of Mr. Ramiro Mendoza Zúñiga as member and Chairman of the Audit and Compliance Committee for a period of three years, starting on 12 April 2021.

(c) Through Resolution N° 2385-02 of 8 April 2021, the Central Bank Board renewed the appointment of Mr. Ricardo Budinich Diez to the Audit and Compliance Committee for a period of three years, starting on 12 April 2021.

(d) Through Resolution N° 2405-02 of 24 June, the Central Bank Board appointed Mr. Beltrán de Ramón Acevedo to the position of General Manager, effective 1 July 2021.

(e) Through Executive Decree N° 1888, issued by the Finance Ministry on 22 October 2021, the President of the Republic of Chile appointed Mr. Mario Marcel Cullell as Governor of the Central Bank of Chile from 12 December 2021 to 24 December 2025, which coincides with the end of his term as Member of the Board of the Central Bank of Chile.

(f) Through Executive Decree N° 2188, issued by the Finance Ministry on 3 December 2021, Mr. Luis Felipe Céspedes Cifuentes was appointed to the Board of the Central Bank of Chile, effective 7 February 2022, for a ten-year term, to replace Mr. Joaquin Vial Ruiz-Tagle, the outgoing Deputy Governor of the Central Bank of Chile.

(g) On 20 January 2022, The Governor of the Central Bank of Chile, Mario Marcel, submitted his resignation from the position of Governor and Board Member of the Central Bank of Chile to the President of the Republic, Sebastián Piñera.

NOTE 30: SUBSEQUENT EVENTS

In the opinion of the Management of the Central Bank of Chile, the following events that occurred between 31 December 2021 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 observed peso-dollar exchange rate on 24 January 2022 was CLP 799.23, which represents a decrease of CLP 51.02 relative to the exchange rate used for the closure of the accounts on 31 December 2021. This would represent a reduction in the Bank's equity of CLP 1,673,433.3 million.

The peso-euro exchange rate on 24 January 2022 was CLP 906.88, which represents a decrease of CLP 59.85 relative to the exchange rate on 31 December 2021. This would represent a reduction in the Bank's equity of CLP 105,850.2 million.

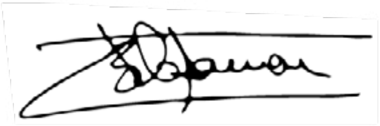
The total decrease in the Bank's equity due to the appreciation of the peso against the U.S. dollar and the euro on 24 January 2022 could be CLP 1,779,283.5 million.

(b) Approval of the financial statements

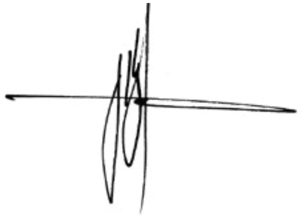
The financial statements for the year ended on 31 December 2021 were presented by the General Manager to the Central Bank Board on 27 January 2022, and they were approved for publication at Board Meeting N°2451 on the same date.

(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.



BELTRÁN DE RAMÓN ACEVEDO
General Manager



JUAN CARLOS SALAZAR TAPIA
General Accountant

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Auditor General

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