

Consolidated Financial Statements

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Santiago, Chile

December 31, 2008 and 2007

*Consolidated Financial Statements for the years ended
December 31, 2008 and 2007, and
Independent Auditors' Report*

Consolidated Financial Statements

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

December 31, 2008 and 2007

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Ch\$ = Chilean Pesos
MCh\$ = Millions of Chilean Pesos
US\$ = United States Dollars
MUS\$ = Millions of United States Dollars
UF = Unidad de Fomento (Inflation index-linked units of account)

INDEPENDENT AUDITORS' REPORT

To the Chairman and Members of the Board of Directors of
Banco del Estado de Chile:

We have audited the consolidated balance sheets of Banco del Estado de Chile and subsidiaries (“the Bank”) as of December 31, 2008 and 2007, and the related consolidated statements of income, of comprehensive income, of changes in equity and of cash flows for the years then ended. These financial statements (including the related notes) are the responsibility of the Bank’s Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Chile. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Bank's Management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Banco del Estado de Chile and subsidiaries as at December 31, 2008 and 2007 and the results of their operations, their comprehensive income, the changes in equity and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Chile and regulations of the Superintendency of Banks and Financial Institutions.

As explained in Note 2 to the consolidated financial statements, as of 2008 the Bank changed their presentation of the financial statements, the definition of cash and cash equivalent, adopted a criterion for provisions for distribution of profits to the government of Chile and changed their criterion for determining the provisions for loan losses for loans with similar risk characteristics.

Also on November 9, 2007, the Superintendency of Banks and Financial Institutions issued its “Compendium of Accounting Standards”, which contain the new accounting and reporting standards for Banks that will be applied as of January 1, 2009, considering the transitional standards stipulated for 2009 and 2008 in Chapter E of the compendium.

Our audits also comprehended the translation of Chilean peso amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1 to the financial statements. The translation of the financial statements amounts into US dollars and the translation of the financial statements into English have been made solely for the convenience of readers outside Chile.

January 30, 2009

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Consolidated Balance Sheets

At December 31, 2008 and 2007

(In millions of Chilean pesos - MCh\$ and millions of US dollars - MUS\$)

ASSETS	NOTES	2008	2008	2007
		MUS\$	MCh\$	MCh\$
Cash and banks	4	2,378	1,513,788	1,054,957
Operations in course of collection	4	523	333,064	155,834
Financial investment in trading instrument	5	294	187,059	310,612
Investments purchased under agreement to resell		9	5,958	6,273
Derivative financial instruments	6	899	572,793	218,225
Loans and receivables from banks	11	429	273,027	110,922
Loans and receivables from customers, net	11	14,330	9,120,404	8,534,565
Financial investment available for sale	7	3,999	2,545,341	3,458,147
Financial investment held to maturity	7	268	170,774	202,379
Investments in other companies	8	6	4,025	4,239
Intangibles		25	15,595	9,290
Fixed assets	9	274	174,222	158,903
Current income tax provision	13	71	45,022	-
Deferred income taxes	13	382	242,853	181,921
Other assets	10	280	178,310	119,471
TOTAL ASSETS		24,167	15,382,235	14,525,738
LIABILITIES				
Demand deposit and current accounts		5,020	3,194,867	3,444,087
Operations in course of collection		445	283,533	85,379
Investment sold under agreements to repurchase		560	356,604	970,713
Time deposits and saving accounts		9,948	6,331,499	5,452,515
Derivative financial instruments	6	552	351,470	202,222
Borrowings from financial institutions		983	625,798	267,261
Bond Issuance		5,054	3,216,568	3,183,086
Other financial obligations		16	10,177	15,577
Current income tax provision	13		-	78,164
Deferred income taxes	13	255	162,306	25,815
Accruals	11	76	48,589	63,755
Other liabilities	12	178	113,116	97,702
TOTAL LIABILITIES		23,087	14,694,527	13,886,276
EQUITY				
Attributable to equity holders of the Bank:				
Capital	14	6	4,000	4,000
Reserves	14	1,011	643,098	588,238
Valuation losses		(9)	(5,961)	(11,962)
Retained earnings:				
Retained earnings from prior years	14		-	-
Net income (loss) for the year		74	47,412	57,683
Less: Provision distribution of profits to the government of Chile	11, 14	(4)	(2,371)	-
		1,078	686,178	637,959
Minority interest		2	1,530	1,503
TOTAL EQUITY		1,080	687,708	639,462
TOTAL LIABILITIES AND EQUITY		24,167	15,382,235	14,525,738

The accompanying notes 1 to 23 are an integral part of these consolidated financial statements.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Consolidated Statements of Income

For the years ended December 31, 2008 and 2007

(In millions of Chilean pesos - MCh\$ and millions of US dollars - MUS\$)

	NOTES	2008	2008	2007
		MUS\$	MCh\$	MCh\$
Interest revenue		2,277	1,449,426	1,223,728
Interest expense		(1,503)	(956,439)	(811,760)
Net interest revenue		774	492,987	411,968
Fees and income from services	18	216	137,669	131,079
Expenses from services	18	(23)	(14,897)	(11,914)
Fees and income from services, net		193	122,772	119,165
Trading and investment income	19	546	347,226	43,383
Foreign exchange gain (losses), net		(565)	(359,666)	(5,620)
Other operating revenue	20	93	59,219	14,725
Operating revenue		1,041	662,538	583,621
Provisions for loan losses	11	(203)	(129,309)	(77,689)
NET OPERATING REVENUE		838	533,229	505,932
Personnel salaries and expenses		(366)	(233,065)	(202,753)
Administrative expenses		(169)	(107,709)	(103,646)
Depreciations and amortizations		(39)	(24,569)	(20,961)
Impairment		-	-	-
Other operating expenses	21	(12)	(7,634)	(23,301)
TOTAL OPERATING EXPENSES		(586)	(372,977)	(350,661)
NET OPERATING INCOME		252	160,252	155,271
Income (loss) attributable to investments in other companies	8	1	758	(2,326)
Net loss from price - level restatement	1 d)	(57)	(36,276)	(28,112)
Income before income taxes		196	124,734	124,833
Income taxes	13	(110)	(69,934)	(60,168)
CONSOLIDATED NET INCOME (LOSS) FOR THE YEAR		86	54,800	64,665
Attributable to:				
Equity of the bank		74	47,412	57,683
Minority interest		12	7,388	6,982
		86	54,800	64,665

The accompanying notes 1 to 23 are an integral part of these consolidated financial statements.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2008 and 2007

(In millions of Chilean pesos - MCh\$ and millions of US dollars - MUS\$)

	NOTES	2008	2008	2007
		MUS\$	MCh\$	MCh\$
Net operating revenue		838	533,229	505,932
Total operating expenses		(586)	(372,977)	(350,661)
NET OPERATING INCOME		252	160,252	155,271
Income (loss) attributable to investments in other companies	8	1	758	(2,326)
Net loss from Price-level restatement	1 d)	(57)	(36,276)	(28,112)
Income before income taxes		196	124,734	124,833
Income taxes	13	(110)	(69,934)	(60,168)
NET INCOME FOR THE YEAR BEFORE COMPREHENSIVE INCOME		86	54,800	64,665
OTHER COMPREHENSIVE INCOME				
Financial investment available for sale		5	3,117	(15,051)
Foreign exchange differences		6	3,683	(3,758)
OTHER COMPREHENSIVE INCOME BEFORE INCOME TAX		11	6,800	(18,809)
Income tax		(3)	(1,776)	8,579
OTHER COMPREHENSIVE INCOME FOR THE YEAR		8	5,024	(10,230)
CONSOLIDATED COMPREHENSIVE INCOME NET INCOME FOR THE YEAR		94	59,824	54,435
Attributable to consolidated net income for the year				
Equity of the bank		74	47,412	57,683
Minority interest		12	7,388	6,982
		86	54,800	64,665
Attributable to comprehensive income for the year				
Equity of the bank		82	52,436	47,453
Minority interest		12	7,388	6,982
		94	59,824	54,435

The accompanying notes 1 to 23 are an integral part of these consolidated financial statements.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2008 and 2007

(In millions of Chilean pesos - MCh\$ and millions of US dollars - MUS\$)

	<u>2008</u>	<u>2008</u>	<u>2007</u>
	MUS\$	MCh\$	MCh\$
CASH FLOWS FROM OPERATING ACTIVITIES			
CONSOLIDATED NET INCOME FOR THE YEAR	86	54.800	64.665
Charges (credits) to income that do not represent cash flows:			
Depreciation and amortization	39	24.569	20.961
Provisions and write offs for assets at risk	203	129.309	77.689
Provision for mark to market of non-permanent investments	(326)	(207.494)	(15.229)
(Gain) loss from investments in other companies	(1)	(758)	2.326
Net gain from sales of assets received in lieu of payment		(31)	(82)
Loss on sale of fixed assets		11	92
Write-offs of assets received in lieu of payment	4	2.734	4.172
Net loss from Price-level restatements	57	36.276	28.112
Other charges that do not represent cash flows	86	55.063	26.973
Net change in interest, adjustments and income accrued on assets and liabilities	(98)	(62.633)	(32.023)
Net cash provided by operating activities	50	31.846	177.656
CASH FLOWS FROM INVESTING ACTIVITIES:			
Change in assets affecting cash flows			
Net (increase) in loans and receivables from banks and customers	(2.373)	(1.510.435)	(2.013.216)
Net decrease in investments under agreements to repurchase	638	406.305	343.498
Net (increase) in other investments	(312)	(198.718)	(320.888)
Purchase of fixed assets	(88)	(56.092)	(34.034)
Proceeds from sale of fixed assets	15	9.850	5.021
Investments in other companies		-	(3.386)
Dividends received from investments in companies	1	506	113
Sale of assets received in lieu of payment	(4)	(2.404)	-
Net (increase) in other assets and liabilities	(121)	(77.217)	(55.651)
Net cash used in investing activities	(2.244)	(1.428.205)	(2.078.543)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase (decrease) in demand deposit and current accounts	(116)	(73.657)	508.879
Net increase in time deposits and savings accounts	2.340	1.489.323	783.484
Net increase in other financial obligations		95	31.508
Net (decrease) increase in other obligations from trading papers	(854)	(543.812)	395.719
Decrease in letter of credit obligations	(152)	(96.720)	(587)
(Decrease) increase in other short-term liabilities	(1)	(560)	44.465
(Decrease) in loans obtained from local banks	(17)	(10.732)	(91.558)
Increase (decrease) in loans obtained from foreign banks	627	398.819	(72.394)
Increase (decrease) in loans obtained from Chile's Central Bank	4	2.248	(130.214)
Proceeds from Bond issuance	662	421.236	479.927
Repayment of Bond	(24)	(15.024)	(12.632)
Distribution of prior year profits to the government of Chile	(4)	(2.648)	(2.727)
Net cash provided by financing activities	2.465	1.568.568	1.933.870
EFFECT OF INFLATION ON CASH AND CASH EQUIVALENT	(213)	(135.576)	(116.861)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENT FOR THE YEAR	58	36.633	(83.878)
CASH AND CASH EQUIVALENT AT BEGINNING OF THE YEAR	2.756	1.754.439	1.838.317
CASH AND CASH EQUIVALENT AT END OF THE YEAR	2.814	1.791.072	1.754.439

The accompanying notes 1 to 23 are an integral part of these consolidated financial statements.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the years ended December 31, 2008 and 2007

(In millions of Chilean pesos - MCh\$ and millions of US dollars - MUS\$)

	Valuation Accounts					Net income for the year MCh\$	Provision for minimum distribution of profits MCh\$	Total attributable to equity holders MCh\$	Minority interest MCh\$	Total Equity MCh\$	Total Equity MUS\$
	Capital MCh\$	Reserves MCh\$	Investment instruments available for sale MCh\$	Foreign exchange MCh\$	Deferred tax MCh\$						
Balances at 31.12.2006	4,000	454,754	(3,406)	(126)	1,941	50,087	-	507,250	1,231	508,481	-
Prior year net income	-	50,087	-	-	-	(50,087)	-	-	-	-	-
Distributions of profits to the government of Chile	-	(2,504)	-	-	-	-	-	(2,504)	-	(2,504)	-
Price-level restatements	-	37,501	-	-	-	-	-	37,501	149	37,650	-
Provision for distribution of profits to the government of Chile (1)	-	-	-	-	-	-	-	-	-	-	-
Change in financial investment available for sale (2)	-	-	(13,821)	-	7,878	-	-	(5,943)	-	(5,943)	-
Cash flow hedge	-	-	-	-	-	-	-	-	-	-	-
Adjustment for exchange difference NY Branch (3)	-	-	-	(3,451)	-	-	-	(3,451)	-	(3,451)	-
Net income for 2007	-	-	-	-	-	52,969	-	52,969	-	52,969	-
Balances at 31.12.2007	4,000	539,838	(17,227)	(3,577)	9,819	52,969	-	585,822	1,380	587,202	-
Balances at 31.12.2007, price-level restated by 8.9% for purposes of comparison	4,000	588,238	(18,760)	(3,895)	10,693	57,683	-	637,959	1,503	639,462	-
Balances at 31.12.2007	4,000	539,838	(17,227)	(3,577)	9,819	52,969	-	585,822	1,380	587,202	923
Adjustment Circular 3443 (Note 2) profit distribution	-	-	-	-	-	-	(2,648)	(2,648)	-	(2,648)	(4)
Prior year net income	-	52,969	-	-	-	(52,969)	-	-	-	-	-
Distributions of profits to the government of Chile	-	(2,648)	-	-	-	-	2,648	-	-	-	-
Price-level restatements	-	52,939	-	-	-	-	-	52,939	150	53,089	83
Provision for distribution of profits to the government of Chile	-	-	-	-	-	-	(2,371)	(2,371)	-	(2,371)	(4)
Change in financial investment available for sale (2)	-	-	3,117	-	(1,776)	-	-	1,341	-	1,341	2
Cash flow hedge	-	-	-	-	-	-	-	-	-	-	-
Adjustment for exchange difference NY Branch (3)	-	-	-	3,683	-	-	-	3,683	-	3,683	6
2008 net income	-	-	-	-	-	47,412	-	47,412	-	47,412	74
Balances at 31.12.2008	4,000	643,098	(14,110)	106	8,043	47,412	(2,371)	686,178	1,530	687,708	1,080

(1) BancoEstado made a provision for the distribution of profits to the government of Chile totaling 5% of the net income for the year.

(2) This is the mark to market adjustment for the portfolio of financial investment available for sale (Note 1 f).

(3) This is the exchange differences originated by the recording of the investment in the New York Branch (Note 1 p).

The accompanying notes 1 to 23 are an integral part of these consolidated financial statements.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

Note 1 – Significant Accounting Policies

a) Information provided

The consolidated financial statements have been prepared according to accounting standards stipulated by the Superintendency of Banks and Financial Institutions (SBIF). By legal provision, banks must use the accounting principles provided by the SBIF and if anything is not addressed by the SBIF and when it does not conflict with their principles, they must adhere to generally accepted accounting principles, which are the technical standards issued by the Chilean Institute of Accountants.

2007 balances have been price-level restated according to the Consumer Price Index of 8.9%. In order to be able to compare the 2008 and 2007 financial statements, amounts have been regrouped and reclassified, so they differ in terms of presentation from those reported in the prior year.

b) Basis of Consolidation

The consolidated group comprises the Bank and their subsidiaries listed below:

Company	2008			2007		
	Direct	Indirect	Total	Direct	Indirect	Total
BancoEstado S.A. Corredores de Bolsa	99.9996%	-	99.9996%	99.9996%	-	99.9996%
BancoEstado Corredora de Seguros S.A.	50.1000%	-	50.1000%	50.1000%	-	50.1000%
BancoEstado Servicios de Cobranza S.A. (*)	99.9000%	0.1000%	100.0000%	99.9000%	0.1000%	100.0000%
BancoEstado S.A. Administradora General de Fondos (1)	99.9900%	0.0100%	100.0000%	99.9900%	0.0100%	100.0000%
BancoEstado Contacto 24 Horas S.A. (*)	99.9000%	0.1000%	100.0000%	99.9000%	0.1000%	100.0000%
BancoEstado Microempresas S.A. Asesorías Financieras (*)	99.9000%	0.1000%	100.0000%	99.9000%	0.1000%	100.0000%
BancoEstado Capital de Riesgo S.A. (2)	99.9000%	0.1000%	100.0000%	-	-	-
Sociedad de Servicios Transaccionales Caja Vecina S.A. (*)	99.9000%	0.1000%	100.0000%	99.9000%	0.1000%	100.0000%
BancoEstado Centro de Servicios S.A. (*)	99.9000%	0.1000%	100.0000%	99.9000%	0.1000%	100.0000%
Sociedad de Promoción de Productos Bancarios S.A. (3)(*)	99.9000%	0.1000%	100.0000%	-	-	-
BancoEstado - New York Branch (*)	100.0000%	-	100.0000%	100.0000%	-	100.0000%

(*) Companies inspected by the Superintendency of Banks and Financial Institutions. The other Companies are inspected by the Superintendency of Securities and Insurance.

1. On December 3, 2008, Banco del Estado de Chile signed an agreement with BNP Paribas Investment Partners, subsidiary of BNP Paribas (France), for the sale of 4,999 shares of a total of 10,000 shares of their subsidiary Banco Estado S.A. Administradora General de Fondos, equivalent to 49.99% of the Company.

The selling price was 14,000,000 Euros, plus the equivalent of 50% of the equity of the Company at December 31, 2008, plus a contingency payment according to the contract's Earn-Out clause, which will be calculated based on the net income of BancoEstado S.A. Administradora General de Fondos over the next 3 years.

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Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

b) Basis for consolidation (continued)

With the authorization of the Superintendency of Banks and Financial Institutions, the transaction was completed in January, 2009, upon paying the amount agreed to and transferring the shares to the Company. See Note 23 on Subsequent Events.

2. On March 7, 2008, the subsidiary Sociedad de Promoción de Productos Bancarios S.A. was incorporated. Its purpose is to sell products or services of Banco del Estado de Chile and their subsidiaries, or companies supporting their line of business.
3. On May 7, 2008, the subsidiary BancoEstado Capital de Riesgo S.A. (Formerly BancoEstado Administradora de Fondos de Inversión de Capital de Riesgo S.A.) was incorporated. Its purpose is to manage private risk capital investment funds regulated by Law 18,815, supplemented by Law N°20,190.

All significant balances and transactions between the Bank, their subsidiaries and the New York Branch, and between the latter two, have been eliminated in consolidation. The ownership interest of third parties in equity and results of the subsidiaries is Ch\$1,530 million, resulting in a charge to income of Ch\$7,388 million, which are presented in "Minority interest" in the Consolidated Balance Sheet and Consolidated Statement of Income, respectively (in 2007, minority interest was Ch\$1,503 million, resulting in a charge to income of Ch\$6,982 million).

Assets and operating income of the subsidiaries represent 9.0% and 7.7%, respectively, of the total consolidated assets and operating income (9.7% and 7.2% in 2007, respectively).

For purposes of consolidation, the financial statements of the New York Branch have been converted into Chilean pesos at an exchange rate of Ch\$636.45 per US\$1 at December 31, 2008 (Ch\$496.89 per US\$ 1 at December 31, 2007), according to the regulations stipulated by Technical Bulletin 64 of the Chilean Institute of Accountants regarding valuation of investments abroad in economically stable countries.

c) Interest and indexation

Assets and liabilities include accrued interest and indexation through year-end. However, the Bank has taken the conservative position of discontinuing the accrual of interest and indexation on high-risk or past-due loans.

d) Price-level restatements

Equity, fixed assets, and other non-monetary assets and liabilities have been price-level restated on the basis of variations in the Chilean Consumer Price Index (CPI). These restatements resulted in a net charge to income of Ch\$ 36,276 million (Ch\$ 28,112 million in 2007).

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Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

In order to consolidate the financial statements, all the financial statements (Bank and Subsidiaries) were prepared without applying monetary correction to the income statement accounts.

e) Foreign currency

Foreign currency assets and liabilities have been translated into Chilean pesos at an exchange rate of Ch\$ 636.45 per US\$ 1 at December 31, 2008 (Ch\$ 496.89 per US\$ 1 at December 31, 2007).

The balance of Ch\$359,666 million corresponding to the net loss from foreign exchange recorded in the income statement (net loss of Ch\$5,620 million in 2007) includes the recognition of the effects of exchange rate variations on net assets or liabilities denominated in foreign currency or indexed to the exchange rate and on the results of the foreign exchange transactions of the Bank.

f) Financial investments:

Financial investments are classified and valued as follows:

- Investment in trading instruments:

Investments in trading instruments are securities acquired with a view to generate earnings from the short-term price fluctuation or through brokerage margins, or for which are included in a portfolio dedicated to short-term profits.

Investments in trading instruments are valued at their fair value according to market prices on the closing date of the balance sheet. Profits or losses from adjustments for their valuation at fair value, as well as the income/losses from their trading, are included in the Income Statement under "Trading and investment income". Accrued interest and indexation are also reported in the Income Statement under "Trading and investment income".

Management has classified all of the investments held by subsidiaries as Instruments for trading.

All purchases and sales of Instruments for trading, which must be delivered within the deadline stipulated by market regulations and conventions, are recognized on the date of trading, which is the date on which the commitment is made to purchase or sell the asset. Any other purchase or sale is treated as a forward until it is liquidated.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

- **Investment instruments:**

Investment instruments are classified into two categories: Held to maturity and available for sale. The held to maturity category only includes those instruments for which the Bank has the intent and ability to hold to maturity. The other investment instruments are considered available for sale.

Investment instruments are recognized initially at cost, which includes transaction costs.

Instruments available for sale are subsequently valued at their fair value according to market prices or valuations obtained by using models. Unrealized gains or losses originating in changes in their fair value are recognized in equity accounts. When these investments are sold or impaired, the amount of the adjustments to fair value accumulated in equity is transferred to income and reported under "Trading and investment income".

Held to maturity investments are recorded at their cost plus accrued interest and indexation, less provisions for impairment established when the value of the investment is greater than its recoverable value.

Interest and indexation of held to maturity investments and investments available for sale are included under "Interest revenue".

Investment instruments designated as hedges are accounted for under the appropriate derivative accounting literature.

All purchases and sales of investment instruments to be delivered within the deadline stipulated by market regulations and conventions are recognized on the commitment date, which is the date on which the commitment is made to purchase or sell the asset. Other purchases or sales are treated as derivatives (forwards) until liquidated.

The Bank has evaluated their portfolio classified as held to maturity and available for sale at December 31, 2008 and 2007, in order to determine whether there are any impairment indicators. This evaluation includes economic evaluations, credit ratings of the debt issuers and the intent and ability of Management to hold these investments to maturity. Based on the evaluation performed by Management, these investments have not been deemed impaired.

g) Derivative financial instruments:

Derivative contracts are classified and valued as follows:

Financial derivative contracts, which include forwards in foreign currency and unidades de fomento (inflation index-linked unit of account), interest rate futures, currency and interest rate swaps, currency and interest rate options and other financial derivative instruments are recognized initially in the balance sheet at cost (including transaction costs) and are subsequently valued at their fair value. The fair value is obtained from market quotes, cash flow discount models and option valuation models, as applicable. The derivative contracts are reported as an asset when their fair value is positive, and as a liability when it is negative, under "Derivative Financial Instruments".

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Certain derivatives embedded into other financial instruments are treated as separate derivatives when their risk and nature are not closely related to those of the main contract and therefore not recorded at fair value, with unrealized profits and losses not included in income.

When a derivative contract is signed, it must be designated by the Bank as a derivative Instrument for trading or for hedging purposes.

Any changes in the fair value of financial derivative contracts held for trading are included in the Statement of Income under "Trading and investment income".

If the derivative is classified for hedging, it may be: (1) a hedge for the fair value of existing assets or liabilities or firm commitments, or (2) a hedge for cash flows involving existing assets or liabilities or expected transactions. Hedging for accounting purposes must comply with all of the following conditions: (a) hedging must be formally documented when the instrument is designated as a hedge; (b) hedging is expected to be highly effective; (c) the efficiency of the hedge can be measured reasonably, and (d) hedging is highly effective with regard to the risk hedged, continuously throughout its lifetime.

Certain transactions with derivatives that do not qualify to be recorded as hedging derivatives are treated and reported as derivatives entered into for trading purposes, even though they may provide an effective hedge for managing risk positions. When a derivative hedges exposure to changes in the fair value of existing assets or liabilities, the latter is recorded at its fair value with regard to the specific risk hedged. Earnings or losses from measuring the fair value of both the item hedged and the hedging derivative are recognized within the income statement for the year.

If the item hedged in a fair value hedge is a firm commitment, the changes in the fair value of the commitment with regard to the risk hedged are recorded as assets or liabilities with an effect on the year's income. Earnings or losses from measuring the fair value of the hedging derivative are recognized with an effect on the year's income. When a new asset or liability is acquired as a result of the commitment, the initial recognition of the acquired asset or liability is adjusted to incorporate the mark to market adjustment of the firm commitment recorded in the balance sheet.

When a derivative hedges exposure to changes in the cash flows of existing assets or liabilities, or expected transactions, the effective portion of its changes in fair value is recorded in equity. Any ineffective portion is recognized directly in income for the year. The amounts recorded directly in equity are recorded in results in the same periods in which the assets or liabilities hedged affect the results.

When a fair value interest rate hedge is entered into for a portfolio, and the item hedged is a currency amount instead of specific assets or liabilities, adjustment to fair value of the portfolio is stated in the balance sheet under "Derivative financial instruments", depending on the position of the hedged portfolio at the given moment in time.

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h) Investment purchased under agreements to resell

The Bank enters into agreements to repurchase as a method of financing. In this regard, investments sold subject to a repurchase agreement that are used as a guarantee for the loan are classified under “Financial investment in trading instruments” and “Financial investments available for sale.” The repurchase agreement is classified in liabilities under “Investment sold under agreements to repurchase”, recognizing accrued interest and indexation at year-end.

The Bank also enters into agreements to resell as a method of investment. Financial instruments purchased under this method are included as assets under “Investments purchased under agreement to resell”.

i) Use of estimates

The preparation of the financial statements requires management to make estimates and assumptions that affect the balances reported as assets and liabilities including, the disclosure of contingencies affecting assets and liabilities at the date of the financial statements, and also revenue and expenses for the year. Actual figures may differ from these estimates.

j) Leasing contracts

The finance lease operations consist of lease contracts including a clause whereby the lessee can exercise an option to purchase the leased asset on the date of termination of the contract. These operations are presented as assets net of unaccrued interest and taxes at year-end.

Goods acquired for financial lease operations are presented under “Other assets” at price-level restated purchase cost.

k) Allowance for loan losses

The Bank has established provisions required to cover the asset credit risk, in accordance with the standards and instructions issued by the Superintendency of Banks and Financial Institutions. The assets in general are shown net of such provisions or in the case of loans, as a deduction there from.

The subsidiaries have established provisions on the basis of the specific standards applicable to them and based on a critical analysis of assets at risk.

l) Premises and equipment.

Fixed assets are valued at monetarily corrected cost and shown net of accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets.

m) Factoring operations

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The Bank performs factoring operations with their clients, whereby it receives invoices and other credit papers, with or without liability for the assignor, paying the assignor a percentage of the total amount receivable.

Factored loans are valued at the purchase price. The price difference between the amounts disbursed and the actual value of the receivables is recorded as interest income over the financing period. Borrowers are responsible for payments of the loans if the receivables are not collected.

“Loans and receivables from costumers, net” includes Ch\$ 97,402 million at December 31, 2008 (Ch\$92,161 million in 2007), which is the amount paid in advance to the assignor plus accrued interest net of payments received.

n) Assets received in lieu of payment

Assets received in lieu of payment are presented at the lower of their monetary corrected purchase cost and their appraised valuation, net of regulatory write offs. Regulatory write offs are required by the Superintendency of Banks and Financial Institutions, if the asset is not sold within one year of its reception.

o) Investments in other companies

Investments in companies in which the Bank holds 10% or more ownership interest, or is entitled to appoint a minimum of one member to the Board of Directors or Management, are accounted for under the equity method.

Other minority investments are recorded at monetary corrected initial investment cost.

p) Conversion of the financial statements of the New York Branch

The Bank converts the accounting records of their New York Branch from US dollars into Chilean pesos according to instructions issued by the Superintendency of Banks and Financial Institutions, which are consistent with Technical Bulletin 64, “Recording Permanent Investments Abroad”, issued by the Chilean Institute of Accountants. All amounts of the Statement of Income and the Balance Sheet are converted into Chilean pesos at the exchange rate specified in Note 1 e). According to this standard, investments abroad are price-level restated, reflecting the effect on income, while gains or losses due to Chilean peso-US dollar exchange rate differences are recorded in equity under “Valuation losses”.

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q) Income tax provision and deferred taxes

The provision for income tax has been calculated according to current legal provisions.

The effects of deferred taxes arising from temporary differences between the tax and the book basis are recorded on an accrual basis in conformity with Technical Bulletins 60, 69, 71 and 73 of the Chilean Institute of Accountants.

r) Personnel benefits

The annual cost of vacations and benefits for personnel are recognized on the accrual basis.

The Bank has contemplated in its union contract, a Personnel Retirement Plan which includes benefits to encourage the early retirement of personnel who meet certain characteristics. As such, it has recorded provisions related to the number of employees covered by the Plan.

s) Intangibles

The intangible assets held by the Bank are mainly investments in software, which are in service and amortized within no more than 6 years.

t) Cash and cash equivalent

According to specific provisions applicable to financial institutions, the Bank has classified as cash and cash equivalent, the balance of "Cash and banks", plus (less) the net balance of "Operations in course of collection" shown in the Balance Sheet, plus highly liquid Instruments designated as trading and available for sale with an insignificant risk of any change in value, whose maturity is not more than three months after the date of acquisition and repurchase agreement. It also includes investments in closed-end mutual funds, which are presented together with "Financial investments in trading instrument" in the Balance Sheet. The statement of cash flows has been prepared using the indirect method.

u) Distribution of profits to the government of Chile

At December 31, 2008, the Bank recognized a liability for the portion of net income to be distributed in accordance with their policy of distributing profits to the government of Chile.

v) Convenience translation into U.S. dollars

The financial statements are stated in Chilean pesos, the currency of the country in which the Bank is incorporated and operates. The translations of Chilean peso amounts into U.S. dollar amounts are included solely for the convenience of readers in the United States of America and have been made at the rate of \$636.45 to \$1 U.S., the approximate free rate of exchange at December 31, 2008. Such translation should not be construed as a representation that the Chilean pesos amounts could be converted into U.S. dollars at that or any other rate.

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Note 2 – Accounting Changes

The Superintendency of Banks and Financial Institutions (SBIF), together with other Chilean superintendencies and regulatory agencies, agreed to an alignment plan with International Financial Reporting Standards (IFRS) in order to internationalize the financial reporting models for public companies in Chile. As part of this strategic plan, through Circular 3,410 of November 9, 2007, subsequently supplemented by Circular 3,443 of August 21, 2008, the SBIF issued its “Compendium of Accounting Standards”, which contain the new accounting and reporting standards for the finance industry that will be applied as of January 1, 2009, considering the transitional standards stipulated in Chapter E of the compendium. The main impacts arising from the application of these new accounting standards are described below:

a) Accounting changes made in 2008:

- Circular No. 3443 of the SBIF amended the transitional provisions contained in Chapter E of the “Compendium of Accounting Standards”, requiring the application in 2008 of new formats for presenting the financial statements, which stipulate the general disclosure and presentation criteria applicable to the annual financial statements, and changed the definition of “Cash and cash equivalent”. For comparative purposes, the balances at December 31, 2007 have been regrouped and reclassified, but not adjusted, so the financial statements presented for this period differs from that of those reported in the prior year.

The same regulations also stipulate the application of the new provision criterion for distributing profits as of 2008, which consists of accruing the income for the year to be distributed to the government of Chile in compliance with the Banco del Estado de Chile Law, or according to their profit distribution policies. This change in criterion did not have an effect on the results of the Bank; however, this application caused a reclassification of equity accounts relating to the distribution of 2007 profits, with a retrospective effect as of January 1, 2008.

- During 2008, the Bank made changes to their criterion for determining the provision for loan losses for group loans with similar risk characteristics, using “expected loss models” as of December 31, 2008. Previously, the group loan provisions were calculated using models based on the attributes of the debtors and payment behavior. Application of this new methodology resulted in a larger charge to income in 2008 of approximately Ch\$21,080 million.

b) Standards to apply as of 2009:

The Compendium of Standards also stipulated that, as of January 1, 2009, banks need to adopt the new accounting standards stipulated by the SBIF. By legal provision, banks must use the accounting principles provided by the SBIF and if everything is not addressed by the SBIF and when it does not conflict with their principles, they must adhere to generally accepted accounting principles, which are the technical standards issued by the

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Chilean Institute of Accountants, that are in line with the international accounting and financial information standards agreed to by the International Accounting Standards Board (IASB). If there are any discrepancies between the accounting principles and the accounting standards issued by the SBIF (“Compendium of Accounting Standards”), the latter will prevail.

Under the new accounting standards, the 2009 consolidated financial statements of the Bank shall include, for purposes of comparison, a consolidated balance sheet at December 31, 2008 and consolidated statement of income for the year then ended, prepared in conformity with the new accounting standards, which will be different to those presented here. As a result of applying these new accounting standards, adjustments will be made to the equity accounts of the Bank at January 1, 2009; the determination of the Bank’s results for future years will also be affected.

As a result of the above, the Bank completed a plan for making the transition to the new accounting standards. This plan includes, among other aspects, analyses of the differences in accounting principles, selection of the accounting policies to be applied in those cases where alternative treatments are allowed, and an evaluation of the changes to procedures and information systems.

At the date of these consolidated financial statements, the Bank is in the process of preparing the information needed to estimate, with reasonable objectivity, to what extent the 2008 balance sheet and income statement will differ from those prepared by applying the accounting principles contained in the Compendium of Accounting Standards effective at December 31, 2009, for their inclusion in the respective 2009 financial statements.

Note 3 - Relevant Events

At December 31, 2008, the following significant events influenced the operations of the Bank and have been recorded:

a) Appointment of Executive General Manager

On March 7, 2008, Mr. Pablo Piñera Echenique assumed the position of Executive General Manager of the Bank.

b) Appointment of Directors to the Board of Directors and Vice-Presidency of the Bank

In September, 2008, Mr. Jorge Marshall Rivera resigned as Director and Vice-President of the Bank. On the same date, Jessica López Saffie was appointed as a Director to the Board of Directors and as Vice-President of the Bank.

In January, 2009, the Government appointed Víctor Barrueto and Juan Carlos Méndez as new members of the Board of Directors, replacing Álvaro Erazo and Nicolás Eyzaguirre, who left the Bank in January and December, 2008, respectively.

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c) Issuance of bank bonds

- **Subordinated Bond Issuance**

In May, 2008, the Bank issued subordinated bonds for 2.0 million UF (Inflation indexed units of account) maturing after 25 years and with a 4.0% per annum issue rate and payment of interest every six-months, and a five-year grace period for the capital (six-monthly amortization starting in the sixth year).

- **Bank Bond Issuance**

In 2008, the Bank issued bank bonds as follows:

Series	Type	Amount in millions UF	Rate of issue	Term in years	Month offered
G	Bank	4.0	3.75%	5.00	January 2008
H	Bank	4.0	3.48%	10.00	January 2008
J2	Bank	3.0	4.18%	10.00	August 2008
J4	Bank	2.0	4.45%	20.00	October 2008

d) Sale of ownership interest in subsidiary

On December 3, 2008, Banco del Estado de Chile signed an agreement with BNP Paribas Investment Partners, subsidiary of BNP Paribas (France), for the sale of 4,999 shares of a total of 10,000 shares of their subsidiary Banco Estado S.A. Administradora General de Fondos, equivalent to 49.99% of the Company.

The selling price was 14,000,000 Euros, plus the equivalent of 50% of the equity of the Company at December 31, 2008, plus a contingency payment according to the contract's Earn-Out clause, which will be calculated based on the net income of BancoEstado S.A. Administradora General de Fondos over the next 3 years.

With the authorization of the Superintendency of Banks and Financial Institutions, the transaction was completed in January, 2009, by transferring the Company's shares. See Note 23 on Subsequent Events.

e) Extraordinary capital contribution

The Official Gazette published on January 2, 2009, Law N°20,318, which authorizes the President of the Republic of Chile to make an extraordinary capital contribution to the Banco del Estado de Chile of up to 500 million US dollars, subject to a favorable report by the Superintendency of Banks and Financial Institutions. The contribution may be made in one or more transfers during the twelve months after publication of above mentioned Law.

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Note 4 – Cash and banks

a) At December 31, 2008 and 2007, details of balances included in cash and cash equivalent are as follows:

	At December		
	2008 MUS\$	2008 MCh\$	2007 MCh\$
Cash and banks			
Cash	274	174,499	166,340
Deposits in Chile's Central Bank	1,558	991,477	395,849
Deposits in local banks		146	702
Deposits abroad	546	347,666	492,066
Sub-total cash and banks	2,378	1,513,788	1,054,957
Operations in course of collection, net	78	49,531	70,455
High liquidity financial instruments	349	221,795	622,754
Repurchase agreements	9	5,958	6,273
Subtotal	436	277,284	699,482
Total cash and cash equivalent	2,814	1,791,072	1,754,439

The level of available funds and deposits in Chile's Central Bank relate to monthly average cash reserve requirements that the Bank must meet.

b) Operations in course of collection

Operations in course of collection correspond to transactions in which the settlement will only increase or decrease the funds in Chile's Central Bank or in foreign banks, normally within 12 or 24 working hours after each year-end. Details are as follows:

	At December 31		
	2008 MUS\$	2008 MCh\$	2007 MCh\$
Assets			
Notes to other banks (clearing)	95	60,721	54,462
Funds receivable	428	272,343	101,372
Subtotal assets	523	333,064	155,834
Liabilities			
Funds payable	445	283,533	85,379
Subtotal liabilities	445	283,533	85,379
Operations in course of collection net	78	49,531	70,455

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Note 5 – Financial investment in trading instrument

At December 31, 2008 and 2007, details of trading instruments are as follows:

	At December 31		
	2008	2008	2007
	MUS\$	MCh\$	MCh\$
Chilean Central Bank and Government Securities			
Chilean Central Bank securities	88	56,252	74,209
Chilean Treasury bonds	-	-	2,049
Other Government securities	-	-	1
Subtotal	88	56,252	76,259
Other financial instruments			
Promissory notes related to deposits in local banks	-	-	224,671
Chilean mortgage finance banks	-	-	-
Chilean financial institutions bonds	-	-	-
Chilean Corporate bonds	-	-	-
Other locally issued instruments	200	127,140	3,318
Investments in mutual funds	6	3,667	6,364
Foreign and government instruments	-	-	-
Other foreign investments	-	-	-
Subtotal	206	130,807	234,353
Total	294	187,059	310,612

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December 31, 2008 and 2007

Note 6 – Derivative Financial Instruments

At December 31, 2008 and 2007, the Bank had entered into the following trading derivatives:

		At December 31, 2008						
		Notional amount of contract with final maturity			Assets		Fair value Liabilities	
		Less than 3 months	Between 3 months and one year	More than one year	MUS\$	MCh\$	MUS\$	MCh\$
		MCh\$	MCh\$	MCh\$				
Derivatives held for hedging purposes	Cash flow (f) or fair value hedge (FV)							
Foreign currency forwards		-	-	-	-	-	-	-
Interest rate swaps		-	-	-	-	-	-	-
Foreign Currency swaps		-	-	-	-	-	-	-
Foreign Currency and interest rate		-	-	-	-	-	-	-
Foreign Currency call options		-	-	-	-	-	-	-
Interest rate call options		-	-	-	-	-	-	-
Foreign Currency put options		-	-	-	-	-	-	-
Interest rate put options		-	-	-	-	-	-	-
Interest rate futures		-	-	-	-	-	-	-
Total assets (liabilities) from derivatives held for hedging		-	-	-	-	-	-	-
Derivatives held for trading								
Foreign Currency forwards		936,324	3,211,611	741,499	797	507,542	461	293,248
Interest rate forwards		-	-	-	-	-	-	4
Interest rate swaps		248,694	618,863	1,690,083	89	56,888	87	55,292
Foreign Currency and interest rate		1	6	2,922	13	8,363	4	2,914
Foreign Currency call options		-	-	-	-	-	-	-
Interest rate call options		-	-	-	-	-	-	12
Foreign Currency put options		-	-	-	-	-	-	-
Interest rate put options		-	-	-	-	-	-	-
Interest rate futures		-	-	-	-	-	-	-
Total assets (liabilities) from derivatives held for trading		1,185,019	3,830,480	2,434,504	899	572,793	552	351,470
Total assets (liabilities) from financial derivatives		1,185,019	3,830,480	2,434,504	899	572,793	552	351,470

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Note 6 – Derivative Financial Instruments (continued)

		At December 31, 2007			Fair value	
		Notional amount of contract with final maturity			Assets	Liabilities
		Less than 3 months MCh\$	Between 3 months and one year MCh\$	More than one year MCh\$	MCh\$	MCh\$
Derivatives held for hedging purposes	Cash flow (f) or fair value hedge (FV)					
Foreign currency forwards		-	-	-	-	-
Interest rate swaps		-	-	-	-	-
Foreign Currency swaps		-	-	-	-	-
Foreign Currency and interest rate		-	-	-	-	-
Foreign Currency call options		-	-	-	-	-
Interest rate call options		-	-	-	-	-
Foreign Currency put options		-	-	-	-	-
Interest rate put options		-	-	-	-	-
Interest rate futures		-	-	-	-	-
Total assets (liabilities) from derivatives held for hedging		-	-	-	-	-
Derivatives held for trading						
Foreign Currency forwards		4,635,470	4,256,450	602,690	113,015	118,290
Interest rate forwards		-	-	-	-	-
Interest rate swaps		844,836	2,045,834	5,489,184	105,210	83,921
Foreign Currency swaps		-	-	-	-	-
Foreign Currency and interest rate		-	-	-	-	-
Foreign Currency call options		-	-	-	-	-
Interest rate call options		-	-	-	-	11
Foreign Currency put options		-	-	-	-	-
Interest rate put options		-	-	-	-	-
Interest rate futures		-	-	-	-	-
Total assets (liabilities) from derivatives held for trading		5,480,306	6,302,284	6,091,874	218,225	202,222
Total assets (liabilities) from financial derivatives		5,480,306	6,302,284	6,091,874	218,225	202,222

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Note 7 – Investment instruments

At December 31, 2008 and 2007, the detail of investments available for sale and held to maturity are as follows:

Investments available for sale	At December 31,		
	2008 MUS\$	2008 MCh\$	2007 MCh\$
Chilean, Central Bank and Government securities			
Chilean Central Bank securities	657	417,950	1,162,833
Treasury bonds	12	7,976	65,638
Other Government securities		-	13,616
Subtotal	669	425,926	1,242,087
Other financial instruments			
Promissory notes related to deposits in local banks	2,998	1,908,119	2,017,070
Chilean Mortgage finance bonds	-	-	-
Chilean finance institutions bonds	-	-	-
Chilean Corporate bonds	26	16,381	14,431
Other instruments issued locally	-	-	-
Foreign government central bank instruments	16	10,547	-
Other foreign instruments	290	184,368	184,559
Subtotal	3,330	2,119,415	2,216,060
Total	3,999	2,545,341	3,458,147
Investments held to maturity			
	At December 31,		
	2008 MUS\$	2008 MCh\$	2007 MCh\$
Chilean, Central Bank and Government securities			
Chilean Central Bank securities	-	-	-
Treasury bonds	135	86,009	102,629
Other Government securities	1	769	3,228
Subtotal	136	86,778	105,857
Other financial instruments			
Promissory notes related to deposits in local banks	-	-	-
Chilean Mortgage finance bonds	-	-	-
Chilean Finance institutions bonds	65	41,480	54,617
Chilean Corporate bonds	5	3,028	5,331
Other instruments issued locally	-	-	-
Foreign government central bank instruments	11	7,293	-
Other foreign instruments	51	32,195	36,574
Subtotal	132	83,996	96,522
Total	268	170,774	202,379

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Note 7 – Investment instruments (continued)

Government and Chilean Central Bank securities include instruments sold under agreement to resell to clients and financial institutions for Ch\$ 194,492 million and Ch\$ 329,278 million at December 31, 2008 and 2007, respectively. “Other financial instruments” include instruments sold under agreement to repurchase from clients and financial institutions for Ch\$ 84,086 million and Ch\$ 400,268 million at December 31, 2008 and 2007, respectively. The repurchase agreements have an average maturity of 21 days at year-end (24 days in 2007).

At December 31, 2008 and 2007, the portfolio of financial investment available for sale included a net unrealized loss of Ch\$ 14,110 million and Ch\$ 18,760 million, respectively, which is recorded as a valuation adjustment in equity.

Note 8 – Investments in Other Companies

At December 31, 2008 and 2007, the Bank had investments of Ch\$ 4,025 million (Ch\$ 4,239 million in 2007) in other companies, as follows:

Company	Bank's ownership interest		Company's Shareholders' equity			Investment					
	2008	2007	2008	2008	2007	Investment			Income		
	%	%	MUS\$	MCh\$	MCh\$	2008	2008	2007	2008	2008	2007
Transbank S.A.	8.7188	8.7188	11	6,794	6,153	1	592	537	-	138	82
Operadora de Tarjetas de Créditos Nexus S.A.	12.9030	12.9030	6	4,106	5,095	1	530	657	-	104	127
Sociedad Operadora de la Cámara de Compensación de Pagos de Alto Valor S.A.	11.5200	11.5200	6	3,613	3,960	1	416	456	-	65	53
Bolsa de Comercio de Santiago	2.0833	2.0833	29	18,630	17,828	-	395	372	-	107	117
Bolsa Electrónica de Chile	2.5000	2.5000	6	4,022	3,732	-	100	93	-	7	4
Administrador Financiero Transantiago S.A.	21.0000	21.0000	4	2,843	4,468	1	597	938	1	189	(2,865)
Subtotal						4	2,630	3,053	1	610	(2,482)
Shares or rights in other companies						2	1,395	1,186	-	148	156
Total						6	4,025	4,239	1	758	(2,326)

Note 9 – Fixed Assets

At December 31, 2008 and 2007, the main categories of fixed assets, net of their respective accumulated depreciation, are as follows:

	MUS\$	2008 MCh\$	2007 MCh\$
Land and buildings	175	111,557	110,160
Furniture and fixtures	21	13,021	9,411
Computer equipment and others	43	27,652	31,097
Other	35	21,992	8,235
Total	274	174,222	158,903

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December 31, 2008 and 2007

Note 10 – Other Assets

At December 31, 2008 and 2007, “Other assets” was comprised of the following:

	2008	December 31	
	MUS\$	2008	2007
		MCh\$	MCh\$
Assets acquired for leasing			
Total assets acquired for leasing	45	28,586	36,161
Assets received in lieu of payment or awarded:			
Assets received in lieu of payment	-	-	174
Assets awarded through public auction	2	1,293	1,576
Provisions for assets received in lieu of payment	0	(33)	(47)
Total assets received in lieu of payment or awarded	2	1,260	1,703
Other assets:			
Cash security deposits	-	62	64
VAT credit	4	2,462	1,943
Prepaid expenses	39	25,159	4,665
Fixed assets for sale	-	7	143
Services Center Security Box	-	-	2,526
Debt receivable from the Treasury	35	22,032	20,458
Accounts due from support companies	39	25,007	11,438
Pending operations	38	23,967	16,979
Materials	2	1,496	1,493
Commissions receivable	9	6,080	6,385
Sundry accounts	57	36,040	4,424
Other assets	10	6,152	11,089
Total other assets	233	148,464	81,607
TOTAL OTHER ASSETS	280	178,310	119,471

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Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

Note 11 - Provisions

The details of provisions are as follows:

a) Allowance for loan losses

At December 31, 2008 and 2007, provisions for credit risk are as follows.

	At December 31, 2008						
	Owed by banks	Credits and accounts due from clients			Contingent loans	TOTAL	TOTAL
		Commercial loans	Mortgage loans	Consumer loans			
MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MUS\$	
Provisions and write-offs							
- Individual provisions	(4,066)	(11,173)	-	-	-	(15,239)	
- Group provisions	-	(34,438)	(38,297)	(62,238)	(2,039)	(137,012)	
Net result from provisions	(4,066)	(45,611)	(38,297)	(62,238)	(2,039)	(152,251)	
Recovery of written-off assets	-	9,340	1,053	12,549	-	22,942	
Net result	(4,066)	(36,271)	(37,244)	(49,689)	(2,039)	(129,309)	

	At December 31, 2007						
	Owed by banks	Credits and accounts due from banks			Contingent loans	TOTAL	TOTAL
		Commercial loans	Mortgage loans	Consumer loans			
MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$		
Provisions and write-offs							
- Individual provisions	-	(3,121)	-	-	-	(3,121)	
- Group provisions	-	(34,878)	(18,784)	(47,124)	-	(100,786)	
Net result from provisions	-	(37,999)	(18,784)	(47,124)	-	(103,907)	
Recovery of written-off assets	-	11,023	2,726	12,469	-	26,218	
Net result	-	(26,976)	(16,058)	(34,655)	-	(77,689)	

(Note: Charges to income or net expenses in parenthesis)

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

Note 11 – Provisions (continued)

At December 31, 2008 and 2007, provisions for credit risk of assets at risk are as follows:

	At December 31, 2008			
	Assets before	Allowances for	Net	Net
	allowances	loan losses	assets	assets
	MCh\$	MCh\$	MCh\$	MUS\$
Loans and receivables from customers:				
- Commercial loans	4,345,529	95,080	4,250,449	6,679
- Mortgage loans	4,007,918	58,012	3,949,906	6,206
- Consumer loans	969,142	49,093	920,049	1,445
Total	9,322,589	202,185	9,120,404	14,330
Due from banks	277,094	4,067	273,027	429
	At December 31, 2007			
	Assets before	Allowances for	Net	
	allowances	loan losses	assets	
	MCh\$	MCh\$	MCh\$	
Loans and receivables from customers:				
- Commercial loans	3,999,646	77,317	3,922,329	-
- Mortgage loans	3,707,191	31,754	3,675,437	-
- Consumer loans	973,383	36,584	936,799	-
Total	8,680,220	145,655	8,534,565	-
Due from banks	110,922	0	110,922	-

During 2008, the Bank made changes to their provisioning model for group loan with similar characteristics, adopting “expected loss models” instead of using models based on the attributes of the debtors and payment behavior.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

Note 11 – Provisions (continued)

b) Other provisions

Provisions presented in liabilities are as follows:

	At December 31		
	2008 MUS\$	2008 MCh\$	2007 MCh\$
Provisions for personnel benefits:			
Provisions for severance indemnities associated with early retirement plan	15	9,652	-
Provisions for other personnel benefits	11	7,500	9,390
Provisions for vacations	26	16,386	16,263
Total provisions for benefits and remunerations	52	33,538	25,653
Provisions for contingent credit risks:			
Guarantees	1	307	299
Letters of credit	-	189	318
Performance bonds	2	1,545	815
Total provisions for contingent credit risks	3	2,041	1,432
Provisions for contingencies:			
Provisions for country risk	1	390	21
Additional provisions for loans	9	6,000	30,492
Other provisions for contingencies	7	4,249	6,157
Total provisions for contingencies	17	10,639	36,670
Provisions for profit distribution to the Government of Chile (*)	4	2,371	-
TOTAL PROVISIONS	76	48,589	63,755

(*) As specified in Note 2 a), the provision for distributing dividends was effective as of January 1, 2008.

Note 12 – Other Liabilities

At December 31, 2008 and 2007, the balances of “Other liabilities” are as follows:

	2008 MUS\$	2008 MCh\$	2007 MCh\$
Accounts and notes payable	75	47,894	54,270
Unearned income	2	1,554	211
Pending operations	70	44,215	22,981
Provisions for payments of insurance premiums	18	11,373	7,712
Other liabilities	13	8,080	12,528
Total	178	113,116	97,702

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

Note 13 - Taxes**a) Current income tax provision**

At each year-end, the Bank and their subsidiaries have established the necessary Provision for Income Taxes, which are calculated based on current tax laws reflecting a net asset of Ch\$45,022 million in 2008 (liabilities of Ch\$78,164 million in 2007). Such provision is stated net of current refundable taxes (payable), as detailed below:

	At December 31		
	2008	2008	2007
	MUS\$	MCh\$	MCh\$
Income tax (17%)	(6)	(4,159)	(34,486)
Tax Article 2 Statutory Decree N°2,398 (40%)	(6)	(3,652)	(73,413)
First category single tax	(3)	(2,261)	(753)
Single tax Article 21		(12)	(13)
Less:			
Monthly Provisional Payments	84	53,607	28,350
Credit for training expenses	-	212	190
Other	2	1,287	1,961
Total refundable taxes (payable)	71	45,022	(78,164)

b) Income tax

The income tax expense for the periods from January 1 to December 31, 2008 and 2007 is as follows:

	At December 31		
	2008	2008	2007
	MUS\$	MCh\$	MCh\$
Income tax expenses:			
Income tax (17%)	(6)	(4.159)	(34.486)
Tax Article 2 Statutory Decree N°2,398 (40%)	(6)	(3.652)	(73.413)
First category single tax	(4)	(2.261)	(753)
Credit (charge) for deferred taxes:			
Deferred taxes for the year	(95)	(60.670)	48.463
Subtotal	(111)	(70.742)	(60.189)
Article 21 tax	-	(12)	(13)
Monthly Provisional Payments for Accumulated Losses Article 31 paragraph 3	-	-	-
Other	1	820	34
Net charge to income for income tax	(110)	(69.934)	(60.168)

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

Note 13 – Taxes (continued)**c) Effective tax rate**

The reconciliation between the enacted income tax rate and the effective income tax rate used in calculating the tax expense at December 31, 2008 and 2007, is as follows:

	<u>2008</u>			<u>2007</u>	
	<u>Tax rate</u>			<u>Tax rate</u>	
	<u>%</u>	<u>MUS\$</u>	<u>MCh\$</u>	<u>%</u>	<u>MCh\$</u>
Income before tax	57%	112	71,098	57%	71,155
Permanent differences	(1%)	(2)	(1,176)	(9%)	(11,000)
Additions or deductions			-		-
Single tax	-	-	12	-	13
Effective tax rate and income tax expense	56%	110	69,934	48%	60,168

The effective income tax rate for 2008 and 2007 is 56% and 48%, respectively.

d) Effect of deferred taxes on Equity

The summary of the effect of deferred taxes on equity during the periods from January 1 to December 31, 2008 and 2007 is as follows:

	<u>At December 31</u>		
	<u>2008</u>	<u>2007</u>	
	<u>MUS\$</u>	<u>MCh\$</u>	<u>MCh\$</u>
DEFERRED TAX ASSETS			
Financial investments available for sale	13	8,043	10,693
Total charge to equity	13	8,043	10,693

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

Note 13 – Taxes (continued)

e) Effects of deferred taxes on income

During 2008 and 2007, the Bank has recorded the effects of deferred taxes in their financial statements in accordance with Technical Bulletins of the Chilean Institute of Accountants.

The effects of deferred taxes on assets, liabilities and results due to temporary differences are as follows:

	At December 31, 2008				At December 31, 2007			
	Assets (1)	Liabilities	Net	Net	Historical	Assets (1)	Liabilities	Net
	MCh\$	MCh\$	MCh\$	MUS\$	MCh\$	MCh\$	MCh\$	MCh\$
Concepts:								
Allowance for loan losses	99,962	-	99,962	157	66,411	72,321	-	72,321
Suspended interest and indexation	85,630	-	85,630	135	51,129	55,680	-	55,680
Other provisions	13,889	-	13,889	22	24,137	26,617	-	26,617
Tax losses	11,876	-	11,876	19	-	113	-	113
Provision for vacations	9,151	-	9,151	14	7,632	8,611	-	8,611
Others	14,302	-	14,302	22	7,130	7,886	-	7,886
Leasing (net)	-	(13,542)	(13,542)	(21)	(3,436)	-	(3,742)	(3,742)
Accelerated depreciation fixed assets	-	(293)	(293)	-	(138)	-	(351)	(351)
Mark to market on investments	-	(126,980)	(126,980)	(200)	(8,011)	-	(8,724)	(8,724)
Other	-	(21,491)	(21,491)	(34)	(12,089)	-	(12,998)	(12,998)
Total assets (liabilities) net	234,810	(162,306)	72,504	114	132,765	171,228	(25,815)	145,413

- (1) Does not include the effect of deferred taxes of Ch\$ 8,043 million (Ch\$ 10,693 million in 2007) recorded in equity that relate to the market value adjustment for investments available for sale.

Note 14 – Equity

Capital requirements

In accordance with the Chilean General Banking Law, the Bank maintains a minimum 8% effective equity/Risk-weighted consolidated assets ratio, net of required provisions, and a minimum 3% Basic Capital/Total Consolidated Assets ratio, net of required provisions. As such, the effective equity is calculated based on the Capital and Reserves or the Basic Capital, with the following adjustments: a) Subordinated bonds with a ceiling of 50% of the Basic Capital and additional provisions are included. b) Assets corresponding to goodwill and investments in companies not consolidated are not included.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

Assets are weighted according to their risk category, to which a risk percentage is assigned depending on the amount of capital needed to support each of the assets. Five risk categories are applied (0%, 10%, 20%, 60% and 100%). For example, cash, deposits in other banks and financial instruments issued by Chile's Central Bank have 0% risk, which means that, under current regulations, no capital is needed to back up these assets. Fixed assets that have a 100% risk, means that a minimum capital equivalent of 8% of the amount of such assets needs to be maintained.

All derivative instruments traded over the counter are considered in calculating assets at risk by using a conversion factor on notional values, thereby obtaining the amount of exposure to credit risk (or credit equivalent). Off-balance sheet contingent credits are also considered as a "credit equivalent" for weighting.

The levels of Basic Capital and Effective Equity at 2008 and 2007 year-ends are as follows:

	31 de diciembre de		
	2008	2007 (*)	
	MUS\$	MCh\$	MCh\$
Basic capital	1,078	686,178	637,959
Total assets	24,813	15,792,123	15,003,774
Percentage	4.35%	4.35%	4.25%
Effective equity	1,617	1,028,852	927,960
Risk-weighted asset	14,941	9,508,888	8,462,577
Percentage	10.82%	10.82%	10.97%

(*) In order to maintain a comparable information base, the 2007 basic capital/effective equity ratio has been stated according to the new presentation as specified in note 2 a) to the Financial Statements. The ratio determined under the standards prior to the changes made was 3.87% and 10.78% for the Basic Capital and Effective Equity ceiling, respectively, as follows:

	December 31, 2007 (*)
	MCh\$
Basic capital	580,277
Total assets	15,003,774
Percentage	3.87%
Effective equity	912,259
Risk-weighted asset	8,462,577
Percentage	10.78%

As specified in Note 3 e), Law N°20,318 was published on January 2, 2009. This Law enables an extraordinary capital contribution of up to US\$500 million to be made to the Bank under the conditions specified in the Law, in one or more transfers during the twelve months after publication of the law, subject to a favorable report by the Superintendency of Banks and Financial Institutions.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

The financial assets and their risk weighting are shown below:

	Consolidated Assets			Risk-Weighted Assets		
	2008 MUS\$	2008 MCh\$	2007 MCh\$	2008 MUS\$	2008 MCh\$	2007 MCh\$
Balance sheet assets (net of provision)						
Cash and banks	2,378	1,513,788	1,054,957	-	-	-
Operations in course of collection	523	333,064	155,834	309	196,942	34,960
Financial investment in trading instruments	294	187,059	310,612	43	27,372	47,054
Investments purchase under agreements to resell	9	5,958	6,273	65	41,302	29,248
Derivative financial instruments	899	572,793	218,225	616	391,985	87,944
Loans and receivables from banks	429	273,027	110,922	176	111,707	9,512
Loans and receivables from customers, net	14,330	9,120,404	8,534,565	11,784	7,499,728	7,102,560
Financial Investment available for sale	3,999	2,545,341	3,458,147	922	587,016	565,425
Financial Investment held to maturity	268	170,774	202,379	78	49,861	56,617
Investments in other companies	6	4,025	4,239	16	10,022	8,789
Intangibles	25	15,595	9,290	24	15,530	8,959
Fixed assets	274	174,222	158,903	271	172,143	156,795
Current income tax provision	71	45,022	-	8	4,905	0
Deferred income taxes	382	242,853	181,921	38	24,257	18,106
Other assets	280	178,310	119,471	275	175,056	123,682
Off-balance sheet assets						
Contingent loans				316	201,062	212,926
Total risk-weighted assets				<u>14,941</u>	<u>9,508,888</u>	<u>8,462,577</u>

Distribution of 2007 profits:

According to Supreme Decree N°614 of May 2, 2008 by the Ministry of the Treasury, Ch\$2,648 million of the Ch\$ 52,969 million profits in 2007 was distributed to the Government of Chile (in 2007 Ch\$ 2,504 million of the 2006 profits of Ch\$ 50,087 million were distributed to the Government of Chile). The remaining Ch\$50,321 million (Ch\$ 47,583 million in 2007) were allocated to the Bank's reserves. The above figures are stated in historical amounts.

Monetary correction of capital:

The amount of the monetary correction of paid-in capital is presented in Reserves, since, according to the Bank's Charter, authorized capital may only be increased by Supreme Decree.

2008 net income

The net income of Banco del Estado de Chile for 2008 was Ch\$ 47,412 million. The President of the Republic of Chile may, subject to a proposal by the Bank's Board of Directors, allocate all or part of the year's net income to the Government of Chile, as provided for in the Bank's Charter.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

Note 15 – Maturities of Assets and Liabilities

a) Maturity of loans and other financial assets

The main financial assets grouped according to their remaining terms, including accrued interest at December 31, 2008, are below. Financial investments in trading or available for sale instruments are included at their fair value within the terms during which they may be sold.

	December 31, 2008				TOTAL MCh\$	TOTAL MU\$
	Up to one year	More than one year up to three years	More than three years up to six years	More than six years		
	MCh\$	MCh\$	MCh\$	MCh\$		
Financial investment in trading instrument	187,059	-	-	-	187,059	294
Investments purchased under agreement to resell	5,958	-	-	-	5,958	9
Derivative financial instruments	534,899	24,551	12,970	373	572,793	899
Loans and receivables from banks	276,265	-	-	-	276,265	434
Loans and receivables from customers (1)	2,455,616	1,509,264	1,468,342	3,639,913	9,073,135	14,255
Financial Investment available for sale	2,347,830	108,995	37,695	50,821	2,545,341	3,999
Financial Investment held to maturity	47,774	76,534	26,111	20,355	170,774	268

	December 31, 2007				TOTAL MCh\$
	Up to one year	More than one year up to three years	More than three years up to six years	More than six years	
	MCh\$	MCh\$	MCh\$	MCh\$	
Financial investment in trading instrument	310,612	-	-	-	310,612
Investments purchased under agreement to resell	6,273	-	-	-	6,273
Derivative financial instruments	139,435	51,407	25,892	1,491	218,225
Loans and receivables from banks	110,922	-	-	-	110,922
Loans and receivables from customers (1)	2,290,990	368,726	1,433,706	3,440,592	7,534,014
Financial Investment available for sale	2,776,344	235,262	170,227	276,314	3,458,147
Financial Investment held to maturity	59,019	98,250	26,023	19,087	202,379

(*) Excludes amounts whose maturity date has already expired.

(1) The amounts in “Loans and receivables from banks” and “Loans and receivables from customers” are gross of provisions.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

b) Maturity of financial liabilities

At December 31, 2008 and 2007, financial liabilities, grouped according to their remaining terms, including accrued interest, are as follows:

	December 31, 2008					TOTAL MUSS
	Up to one year	More than one year up to three years	More than three years up to six years	More than six years	TOTAL	
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	
Investments sold under agreements to resell	356.604	-	-	-	356.604	560
Time deposits and savings accounts (*)	3.533.703	555.455	138.495	1.244	4.228.897	6.644
Derivative financial instruments	321.515	15.517	14.427	11	351.470	552
Borrowings from financial institutions	625.798	-	-	-	625.798	983
Bond issuance	279.106	635.001	628.168	1.674.293	3.216.568	5.054

	December 31, 2007					TOTAL MCh\$
	Up to one year	More than one year up to three years	More than three years up to six years	More than six years	TOTAL	
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	
Repurchase agreements and security loans	970,713	-	-	-	970,713	
Time deposits and savings (*)	4,016,652	613,030	165,158	1,182	4,796,022	
Derivative financial instruments	140,044	36,578	24,234	1,366	202,222	
Bank borrowings	267,261	-	-	-	267,261	
Bond issuance	283,886	421,815	762,435	1,714,950	3,183,086	

(*) Excludes liabilities and savings accounts.

Note 16 – Transactions with Related Parties

In accordance with the General Banking Law in Chile and Chilean Superintendency of Banks and Financial Institution regulations, related parties are considered to be any individual or company directly or indirectly involved in the Bank's ownership or management.

a) Loans to related parties

At December 31, 2008 and 2007, loans to related parties are as follows:

	Current loans		Past - due		Total			Guarantees (*)		
	2008 MM\$	2007 MM\$	2008 MM\$	2007 MM\$	2008 MUSS	2007 MM\$	2007 MM\$	2008 MM\$	2007 MM\$	2007 MM\$
Operating companies	401	24,818	-	-	1	401	24,818	-	-	-
Individuals (**)	1,986	1,612	-	-	3	1,986	1,612	3	1,944	1,581
Total	<u>2,387</u>	<u>26,430</u>	<u>-</u>	<u>-</u>	<u>4</u>	<u>2,387</u>	<u>26,430</u>	<u>3</u>	<u>1,944</u>	<u>1,581</u>

(*) Includes only those guarantees that are admitted by article 84 of the General Banking Law for the purposes of establishing the individual credit limits defined by the Law. The guarantees are valued in accordance with the instructions from the Superintendency of Banks and Financial Institutions.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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(**) Includes only those loans to individuals whose outstanding balances are not less than the equivalent of UF 3,000. The UF is a unit of account that is indexed to the changes in the consumer price level.

b) Other transactions with related parties

In 2008 and 2007, the Bank entered into the following transactions with related parties for amounts of over UF1,000:

Companies	Expenses		Income	
	2008 MUS\$	2007 MCh\$	2008 MCh\$	2007 MCh\$
Nexus S.A.				
- Computer Support Advisory Services	6	3,975	2,797	-
Transbank				
- Credit Card Administrator	1	575	458	-
Sistema Nacional de Comunicaciones Financieras S.A.				
- Financial communications	-	-	319	-
Televisión Nacional de Chile				
- Advertising	-	-	537	-
Fundación Asistencial y de Salud				
- Office rentals	-	117	98	-
Subtotal	<u>7</u>	<u>4,667</u>	<u>4,209</u>	<u>-</u>
Operations less than or equal to U.F. 1,000				
- Advertising and others	-	14	-	-
- Income from rentals	-	-	-	502
Total	<u><u>7</u></u>	<u><u>4,681</u></u>	<u><u>4,209</u></u>	<u><u>502</u></u>
			<u><u>502</u></u>	<u><u>434</u></u>

In the opinion of Management, all these transactions with related parties were performed at normal market prices at the date of completion.

Note 17 – Contingencies and Commitments

a) Lawsuits and legal proceedings

At December 31, 2008 and 2007, the Bank and their subsidiaries are named in legal proceedings arising from the normal course of operations. Provisions have been made at year end for contingency losses, based on the estimates made by the Bank's legal counsel. The amount accrued at December 31, 2008 is Ch\$ 4,249 million (Ch\$ 5,850 million in 2007), and it is included in Note 11 b), in "Other provisions for contingency".

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

b) Contingent loans

The table below displays the amount of credit granted by the Bank and the amount of the provisions recorded for the credit risk assumed:

	At December 31		
	2008	2007	
	MUS\$	MCh\$	MCh\$
Guarantees	91	57,937	86,241
Letters of credit from abroad	5	3,337	25,764
Letters of credit	42	26,800	59,757
Performance bonds	394	250,688	195,107
Amounts available on lines of credit	624	397,013	436,214
Other credit commitments	304	193,578	334,030
Total	1,460	929,353	1,137,113
Provision for contingent loans	(3)	(2,041)	(1,432)

c) Responsibilities

The Bank maintains the following responsibilities arising from operations:

	At December 31		
	2008	2007	
	MUS\$	MCh\$	MCh\$
Securities held in custody	261	166,379	214,683
Notes receivable	78	49,499	52,477
Third party resources managed by the bank	-	-	-
Other	-	-	-
Total	339	215,878	267,160

d) Guarantees:

	At December 31		
	2008	2007	
	MUS\$	MCh\$	MCh\$
Assets furnished as guarantees	3	2,146	1,961

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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Banco Estado Corredores de Seguros S.A.

- **Transaction guarantees**

In compliance with Article 58 of Statutory Decree 251 of 1931 and Circular 1,160 from the Superintendency of Securities and Insurance, an insurance policy has been taken out with Chilena Consolidada Seguros Generales S.A. for UF 500 (500 inflation index-linked units of account), expiring on April 14, 2009.

- **Third party guarantee**

The Company has taken out a professional third party insurance policy for its insurance brokers with Chilena Consolidada Seguros Generales S.A. for UF 60,000, expiring on April 14, 2009

BancoEstado S.A. Corredores de Bolsa

- **Transaction guarantees**

In order to comply with the obligation to furnish a guarantee for the transactions stipulated in article 30 of Law 18,045, the Company has taken out an insurance policy with Compañía de Seguros de Crédito Continental S.A. No. 208103312, for UF 20,000 (UF = inflation index-linked unit of account) in effect from April 22, 2008 to April 22, 2010, with the representative of the guarantee's beneficiaries being the Santiago Stock Exchange.

The Company has furnished a security interest on their ownership shares in the Santiago Stock Exchange in order to guarantee faithful, timely performance of their obligations towards that institution; it has also furnished a security interest made out to each and every one of the Stock Brokers, in order to guarantee their obligations towards them.

For Insurance for brokers, BancoEstado S.A. Corredores de Bolsa has taken out an insurance policy No. 0020049108 for employee trustworthiness with La Interamericana Compañía de Seguros Generales S.A.. The amount insured is US\$ 10,000,000 and it is originally valid through January 31, 2009, but has been renewed through January 31, 2010.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

Note 18 – Fees and income from services

Fees and income from services and related expenses are as follows:

	For the years ended		
	December 31		
	2008	2007	
MUS\$	MCh\$	MCh\$	
Fees and income from services			
Commissions on lines of credit and overdrafts	8	5,355	5,998
Commissions on sureties and letters of credit	4	2,480	2,352
Commissions on credit card services	19	12,312	9,904
Commissions on account management	34	21,290	19,895
Commissions on collections and payments	86	54,701	56,084
Commissions on security brokerage and management	8	5,198	5,016
Commissions on investments in mutual funds or others	-	276	415
Fees for selling insurance	35	22,085	20,415
Other fees for services rendered	20	12,526	9,415
Other commissions earned	2	1,446	1,585
Total income for commissions and services	216	137,669	131,079
Expenses from services			
Fees for credit card transactions	7	4,539	3,241
Commissions on security operations	1	835	512
Redbanc interconnection	14	8,729	7,246
Other commissions	1	794	915
Total commission expenses	23	14,897	11,914
Net commission income	193	122,772	119,165

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

Note 19 – Net income from operations

The net income from operations are as follows:

	For the years ended		
	December 31		
	2008	2007	
	MUS\$	MCh\$	MCh\$
Financial investment in trading instrument:			
Interest and indexation	18	11,365	21,814
Mark to market adjustments	1	599	(603)
Gain on sale	8	4,860	5,393
Loss on sale	(8)	(4,860)	(3,616)
Income from investments in mutual funds	1	662	1,248
Total financial investment in trading instrument	20	12,626	24,236
Derivatives for trading:			
Income from derivative financial instruments	2189	1,393,141	421,783
Loss from derivative financial instruments	(1,630)	(1,037,738)	(413,282)
Total derivatives for trading	559	355,403	8,501
Sale of financial investment available for sale			
Gain on sale	8	4,822	4,834
Loss on sale	(64)	(40,458)	(217)
Total sale of financial investment available for sale	(56)	(35,636)	4,617
Net income of other operations			
Purchase of letters of credit issued by the Bank	-	82	1,067
Other income	16	10,326	5,356
Other expenses	-	(3)	(378)
Total net income from other operations	16	10,405	6,045
Income (loss) on sale of loan portfolio	7	4,428	(16)
Total net income from Financial operations	546	347,226	43,383

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

Note 20 – Other operating income

Details of other operating income are as follows:

	For the years ended		
	December 31		
	2008	2007	
MUS\$	MCh\$	MCh\$	
Income from assets received in payment			
Gain on sale of assets received in lieu of payment	-	31	82
Other income	-	25	73
Total income from assets received in lieu of payment	-	56	155
Provisions for contingencies			
Provisions for country risk	-	-	-
Special provisions for credits abroad	-	-	-
Additional provisions for loans	35	22,000	-
Other provisions for contingencies	2	1,000	-
Total provisions for contingencies	37	23,000	0
Other income:			
Gain on sale of fixed asset	-	16	27
Gain on sale of ownership interest in companies	-	-	-
Insurance company reimbursements	-	-	-
PET income	22	14,072	-
Sale of real estate awarded	6	3,662	4,865
Realized contingent price on sale of shares	21	13,300	4,429
Le Mans bankruptcy	-	-	452
Sale of Mastercard shares	-	-	580
Property rentals	1	649	574
Gain on sale of recovered assets	-	211	932
Recovery of BAF /INDAP and other subsidies	1	916	525
New basic housing allocation subsidy	-	59	360
Recovery of sundry write-offs	-	145	9
Income from payment adjustments	1	430	189
Other income	4	2,703	1,628
Total other income	56	36,163	14,570
Total Other Operating Income	93	59,219	14,725

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

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December 31, 2008 and 2007

Note 21 – Other operating expenses

Details of other operating expenses are as follows:

	For the years ended		
	December 31		
	2008		2007
	MUS\$	MCh\$	MCh\$
Provisions and expenses for assets received in payment			
Provisions for assets received in lieu of payment	-	-	216
Write-off of assets received in lieu of payment	3	2,200	4,048
Maintenance expenses of assets received in lieu of payment	1	403	513
Total provisions and expenses for assets received in payment	4	2,603	4,777
Provisions for contingencies:			
Provisions for country risk	1	371	8
Special provisions for credits abroad	-	-	-
Additional provisions for loans	-	-	11,979
Other provisions for contingencies	-	-	-
Total provisions for contingencies	1	371	11,987
Other expenses:			
Loss on sale of fixed asset	-	27	51
Loss on sale of ownership interest in companies	-	-	-
Restructuring cost	-	-	-
Write-off of assets recovered in leasing	1	534	123
Adjustment of payment or collection from prior year	2	1,654	1,856
Sundry write-offs	2	1,305	1,540
Portfolio risk (VAR)		-	1,130
Other expenses	2	1,140	1,837
Total other expenses	7	4,660	6,537
Total Other Operating Expenses	12	7,634	23,301

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

Note 22 - Board of Director Fees and Expenses

During 2008 and 2007, the following relates to the stipends of the members of the Board of Directors which are charged to income.

Concept	2008		2007
	MUS\$	MCh\$	MCh\$
Fees	-	115	145
Entertainment expenses	-	19	13
Per diem allowances	-	24	25
Total	-	158	183

Note 23 - Subsequent Events

- a) On January 2, 2009 the sale of the shares of their subsidiary Banco Estado S.A. Administradora General de Fondos to BNP Paribas Investment Partners was completed, after the Superintendency of Banks and Financial Institutions had approved the clauses of the “Stock Purchase Agreement, between Banco del Estado de Chile and BNP PAM Group”.
- b) There are no other subsequent events from December 31, 2008 to January 30, 2009 that could have a significant effect on the Bank’s financial statements.

CARLOS MARTABIT SCAFF
Chief Financial Officer

PABLO PIÑERA ECHENIQUE
Chief Executive Officer

MARCOS GAÍNZA ARAGONÉS
Administration and Accounting Manager

OSCAR GONZÁLEZ NARBONA
Planning and Studies Manager