

***BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES***

Interim Consolidated Financial Statements  
for the periods ended March 31, 2011 and 2010.

Interim Consolidated Financial Statements

**BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES**

March 31, 2011 and 2010

**Contents**

- I. Interim Consolidated Statements of Financial Position
- II. Interim Consolidated Statements of Income
- IV. Interim Consolidated Statements of Comprehensive Income
- III. Interim Consolidated Statements of Changes in Equity
- V. Interim Consolidated Statements of Cash Flows
- VI. Notes to the Interim Consolidated Financial Statements

\$ = Chilean Pesos  
MCh\$ = Millions of Chilean Pesos  
US\$ = United States Dollar (US Dollar)  
U.F. = Unidades de Fomento (UF)

# BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

## CONTENT

	<b>Page</b>
Interim Consolidated Statements of Financial Position	3
Interim Consolidated Statements of Income	4
Interim Consolidated Statements of Comprehensive Income	5
Interim Consolidated Statements of Changes in Equity	6
Interim Consolidated Statements of Cash Flows	7
1. General information and significant accounting policies	8
2. Accounting changes	42
3. Significant events	43
4. Operating segment	44
5. Cash and cash equivalent	47
6. Portfolio sales	48
7. Property, plant and equipment	49
8. Issued debt instruments and other financial liabilities	50
9. Additional provisions	50
10. Contingencies and commitments	51
11. Transactions with related parties	56
12. Subsequent events	60

**BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES**

## Consolidated Statements of Financial Position

For the periods ended March 31, 2011 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

<b>ASSETS</b>	<b>Notes</b>	<b>31-03-2011</b>	<b>31-12-2010</b>
		MCh\$	MCh\$
Cash and deposits in banks	5	1,687,624	2,025,077
Unsettled transactions	5	425,276	203,341
Trading investments		1,332,426	1,293,963
Investments under resale agreements		59,852	13,811
Financial derivative contracts		124,609	172,089
Interbank loans		156,213	93,340
Loans and accounts receivables from costumers, net	6	11,418,010	11,083,448
Available-for-sale investments		3,618,484	3,087,961
Held to maturity investment		72,986	72,457
Investments in other companies		4,242	4,014
Intangibles		23,281	20,407
Property, plant and equipment	7	229,331	235,590
Deferred taxes		379,381	353,102
Other assets		154,781	143,235
<b>TOTAL ASSETS</b>		<b><u>19,686,496</u></b>	<b><u>18,801,835</u></b>
<b>LIABILITIES</b>			
Deposits and other demand liabilities		3,655,698	4,299,355
Unsettled transactions	5	401,122	146,001
Investments under repurchase agreements		568,037	407,660
Time deposits and other liabilities		9,415,141	8,345,402
Financial derivative contracts		153,484	227,178
Interbank borrowings		674,037	601,527
Issued debt instruments	8	3,327,923	3,362,582
Other financial liabilities	8	18,803	5,514
Current taxes		106,162	92,236
Deferred taxes		39,389	29,504
Provisions	9	318,187	283,661
Other liabilities		72,994	66,036
<b>TOTAL LIABILITIES</b>		<b><u>18,750,977</u></b>	<b><u>17,866,656</u></b>
<b>EQUITY:</b>			
<b>Attributable to the bank holders</b>			
Capital		278,497	278,497
Reserves		659,378	659,378
Valuation accounts		(12,203)	(10,460)
Retained earnings:			
From previous periods		76,634	-
Net income for the period		18,634	76,634
Less: Provision for distribution of income to the benefit of the state		(90,383)	(72,705)
		<u>930,557</u>	<u>931,344</u>
Non-controlling interests		4,962	3,835
<b>TOTAL EQUITY</b>		<b><u>935,519</u></b>	<b><u>935,179</u></b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b><u>19,686,496</u></b>	<b><u>18,801,835</u></b>

Notes 1 to 12 are an integral part of these interim consolidated financial statements

**BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES**

## Consolidated Statement of Income

For the periods ended March 31, 2011 and March 31, 2010

(In millions of Chilean pesos – MCh\$)

	<b>31-03-2011</b>	<b>31-03-2010</b>
	MCh\$	MCh\$
Interest income	259,207	203,011
Interest expenses	<u>(113,227)</u>	<u>(83,768)</u>
Net interest income	<u>145,980</u>	<u>119,243</u>
Fees and commission income	49,607	40,318
Fees commission expense	<u>(8,685)</u>	<u>(6,186)</u>
Net fee and commission income	<u>40,922</u>	<u>34,132</u>
Net gain from financial operations	24,095	48,872
Foreign exchange gain (loss) net	(10,079)	(28,500)
Other operating revenue	<u>2,178</u>	<u>2,386</u>
Total operating income	203,096	176,133
Provision for loan losses	<u>(34,560)</u>	<u>(39,960)</u>
NET OPERATING PROFIT	<u>168,536</u>	<u>136,173</u>
Personnel salaries	(80,367)	(63,738)
Administrative expenses	(40,339)	(26,313)
Depreciation and amortization	(8,429)	(9,648)
Impairment	-	-
Other operating expenses	<u>(2,386)</u>	<u>(7,009)</u>
TOTAL OPERATING EXPENSES	<u>(131,521)</u>	<u>(106,708)</u>
NET OPERATING INCOME	<u>37,015</u>	<u>29,465</u>
Income (loss) from investments in other companies	<u>275</u>	<u>(94)</u>
Income before income taxes	37,290	29,371
Income taxes	<u>(16,230)</u>	<u>(8,880)</u>
NET INCOME FOR THE PERIOD	<u>21,060</u>	<u>20,491</u>
Attributable to:		
Equity holders of the bank	18,634	18,393
Non-controlling interests	<u>2,426</u>	<u>2,098</u>
	<u>21,060</u>	<u>20,491</u>

Notes 1 to 12 are an integral part of these interim consolidated financial statements

**BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES**

## Consolidated Comprehensive Income

For the periods ended March 31, 2011 and March 31, 2010

(In millions of Chilean pesos – MCh\$)

	<b>31-03-2011</b>	<b>31-03-2010</b>
	MCh\$	MCh\$
Net operating profit	168,536	136,173
Total operating expenses	<u>(131,521)</u>	<u>(106,708)</u>
<b>OPERATING INCOME</b>	<u>37,015</u>	<u>29,465</u>
Income (loss) from investments in other companies	<u>275</u>	<u>(94)</u>
Income before income tax	37,290	29,371
Income taxes expense	<u>(16,230)</u>	<u>(8,880)</u>
<b>INCOME FOR THE PERIOD BEFORE COMPREHENSIVE INCOME</b>	<u>21,060</u>	<u>20,491</u>
<b>COMPREHENSIVE INCOME</b>		
Available for sale investment	(4,906)	5,719
Exchange differences in translation of foreign transactions	(31)	(1,424)
Effect cash flow hedge	<u>39</u>	<u>-</u>
<b>COMPREHENSIVE INCOME BEFORE INCOME TAXES</b>	(4,898)	4,295
Income tax on comprehensive income	<u>3,155</u>	<u>(3,260)</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<u>(1,743)</u>	<u>1,035</u>
<b>CONSOLIDATED COMPREHENSIVE INCOME FOR THE PERIOD</b>	<u>19,317</u>	<u>21,526</u>
Attributable to consolidated income for the period		
Equity holders of the bank	18,634	18,393
Non-controlling interests	<u>2,426</u>	<u>2,098</u>
	<u>21,060</u>	<u>20,491</u>
Attributable to consolidated comprehensive income for the period		
Equity holders of the bank	16,891	19,428
Non-controlling interests	<u>2,426</u>	<u>2,098</u>
	<u>19,317</u>	<u>21,526</u>

Notes 1 to 12 are an integral part of these interim consolidated financial statements.

## BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

### Consolidated Statements of Changes in Equity

For the periods ended March 31, 2011 and March 31, 2010

(In millions of Chilean pesos – MCh\$)

	Valuation accounts						Retained earnings previous year	Income for the period	Provision for distribution of net income for the period	Total attributable to the bank equity holders	Non-controlling interests	Total equity
	Capital	Reserves	Available for sale Investment	Cash flow hedge	Translation difference	Income taxes						
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
Equity as of January 01, 2010	278,497	655,604	1,641	-	(3,223)	(935)	-	51,686	(51,686)	931,584	3,358	934,942
Transfers	-	3,577	-	-	(3,577)	-	51,686	(51,686)	-	-	-	-
Equity effects from Circular No. 3,489 (a)	-	(1,624)	-	-	-	-	-	-	-	(1,624)	-	(1,624)
Dividends paid	-	-	-	-	-	-	-	-	-	-	(817)	(817)
Variation of available for sale investment	-	-	5,719	-	-	(3,260)	-	-	-	2,459	-	2,459
Adjustment for translation difference (NY Branch)	-	-	-	-	(1,424)	-	-	-	-	(1,424)	-	(1,424)
Provision for distribution of minimum income in benefit of the state	-	-	-	-	-	-	-	-	(18,393)	(18,393)	-	(18,393)
Net income for the period	-	-	-	-	-	-	-	18,393	-	18,393	2,098	20,491
<b>Equity as of March 31, 2010</b>	<b>278,497</b>	<b>657,557</b>	<b>7,360</b>	<b>-</b>	<b>(8,224)</b>	<b>(4,195)</b>	<b>51,686</b>	<b>18,393</b>	<b>(70,079)</b>	<b>930,995</b>	<b>4,639</b>	<b>935,634</b>
Equity as of January 01, 2011	278,497	659,378	(4,114)	(7,749)	(5,480)	6,883	-	76,634	(72,705)	931,344	3,835	935,179
Transfers	-	-	-	-	-	-	76,634	(76,634)	-	-	-	-
Dividends paid	-	-	-	-	-	-	-	-	-	-	(1,299)	(1,299)
Variation of available for sale investment	-	-	(4,906)	-	-	2,946	-	-	-	(1,960)	-	(1,960)
Variation of hedge accounting derivatives	-	-	-	39	-	209	-	-	-	248	-	248
Adjustment for translation difference (NY Branch)	-	-	-	-	(31)	-	-	-	-	(31)	-	(31)
Provision for distribution of minimum income in benefit of the state	-	-	-	-	-	-	-	-	(17,678)	(17,678)	-	(17,678)
Net income for the period	-	-	-	-	-	-	-	18,634	-	18,634	2,426	21,060
<b>Equity as of March 31, 2011</b>	<b>278,497</b>	<b>659,378</b>	<b>(9,020)</b>	<b>(7,710)</b>	<b>(5,511)</b>	<b>10,038</b>	<b>76,634</b>	<b>18,634</b>	<b>(90,383)</b>	<b>930,557</b>	<b>4,962</b>	<b>935,519</b>

(a) Debit transfer from deferred taxes to net equity as a result of an accounting change made according to Circular No. 3,489 from the SBIF.

Notes 1 to 12 are an integral part of these interim consolidated financial statements.

**BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES**

## Consolidated Statements of Cash Flows

For the periods ended March 31, 2011 and March 31, 2010

(In millions of Chilean pesos – MCh\$)

	31-03-2011 MCh\$	31-03-2010 MCh\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
NET CONSOLIDATED INCOME FOR THE PERIOD	21,060	20,491
Charges (credits) to income that do not represent cash flow:		
Depreciation and amortization	8,429	9,648
Provisions for loan losses	34,560	39,960
Adjustment to market of trading investments	(23,058)	(19,957)
(Gain) loss from investments in companies	(275)	94
Net gain on sales of assets received in lieu of payment	(1,261)	(783)
(Gain) loss on sale of fixed assets	5	(130)
Write-off of assets received in lieu of payment	53	126
Other charges to income that do not represent cash movements	35,722	16,915
Net income for interest and adjustments	(145,980)	(119,243)
Net income for commission	(40,922)	(34,132)
Changes in assets and liabilities affecting operating flow:		
Increase of trading instruments	(41,619)	(204,520)
(Increase) decrease in loans	(369,122)	141,782
Increase in held to maturity and available for sale investments	(870,864)	(760,346)
Increase in other credit transactions	(62,873)	(3,868)
Decrease in currents accounts	(608,699)	(486,274)
Increase of deposits and loans	1,025,726	351,950
Increase (decrease) in other demand and time liabilities	9,055	(49,575)
Increase of other obligations through brokerage of documents	160,377	71,269
Decrease of obligations in mortgage finance bonds	(49,362)	(52,451)
Decrease of loans obtained from local banks	(14,684)	(401)
Increase (decrease) of loans obtained from foreign banks	87,194	(87,006)
Decrease of loans obtained from the Central Bank	-	(125,231)
Net decrease (increase) of other assets and liabilities	12,680	(19,169)
Commissions received	49,607	40,318
Commissions paid	(8,685)	(6,186)
Interests and indexation received	250,974	215,758
Interests and indexation paid	(114,645)	(78,923)
Net cash flow used in operating activities	<u>(656,607)</u>	<u>(1,139,884)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property, plant and equipment and intangibles assets	(5,518)	(5,646)
Sale of property, plant and equipment and intangibles assets	496	61
Dividends received from investments in companies	-	19
Sale of assets received in lieu of payment	1,730	1,359
Net cash flow (used in) investing activities	<u>(3,292)</u>	<u>(4,207)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Redemption of bonds	(4,511)	(1,454)
Net cash flow (used in) financing activities	<u>(4,511)</u>	<u>(1,454)</u>
NET VARIATION FOR THE PERIOD OF CASH AND CASH EQUIVALENT	(664,410)	(1,145,545)
CASH AND CASH EQUIVALENT AT THE BEGINNING OF PERIOD	<u>2,821,904</u>	<u>3,323,531</u>
CASH AND CASH EQUIVALENT AT THE END OF PERIOD	<u>2,157,494</u>	<u>2,177,986</u>

Notes 1 to 12 are an integral part of these interim consolidated financial statements.



## **BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the periods ended March 31, 2011, March 31, 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

### **NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES**

#### **General Information: Background of the Bank and its subsidiaries**

The *Caja de Crédito Hipotecario* was incorporated on August 29, 1855. It was the founder institution that promoted the country's economic development, whose main objective was to provide access to credit to the private sector and people in general and to safeguard their deposits. Subsequently, the *Caja Nacional de Ahorro* was incorporated by law on August 22, 1910, in order to encourage savings, especially in the lower-income sector, and to ensure them safety and profitable savings. Under such law, it was agreed to combine in a single institution all of the saving administering entities in the country under the sponsorship of the Government. In August 1926, as part of the financial needs of the agricultural industry, the *Caja de Crédito Agrario* was set in place to provide financial services to farmers. Based on the same circumstances, but this time as part of the financial needs of the manufacturing industry, the *Instituto de Crédito Industrial* was created in February 1928. These four institutions mentioned above, operated separately until 1953, when year in which, under Law Decree No. 126, published in the Official Gazette on July 24, 1953 the *Banco del Estado de Chile* (hereinafter referred to as “the Bank” or “BancoEstado”) was incorporated, starting operations as such on September 1, 1953.

The purpose of its incorporation was to promote the country's economic activities by providing financial products and services, and in doing so it provides the best quality service to Chilean citizens.

The Organic Law of *Banco del Estado de Chile*, Law Decree No. 2,079 of 1977, establishes that the Bank is an autonomous government company, with its own legal status and equity, with indefinite term, exclusively subject to the supervision of the Superintendency of Banks and Financial Institutions and related with the Government through the Treasury Department. Therefore, Banco del Estado de Chile does not issue shares as it is governed by the previously mentioned Organic Law.

The Bank is governed by its Board of Directors consisting of seven members; where six of them have the exclusive confidence of the President of the Republic, and one representing the employees of the Bank, and is managed by its Executive Committee composed of the Chairman, the Vice Chairman and the Chief Executive Officer.

The headquarters of the Bank are located at Avda. Bernardo O'Higgins No. 1111, Santiago, Chile.

## **BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the periods ended March 31, 2011, March 31, 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

### **NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Banco del Estado de Chile is the parent company of a group of subsidiaries, which are engaged in different lines of business. Consequently, the Bank has to prepare, consolidated financial statements including its subsidiaries and its foreign branch, and its investments in entities supporting its line of business.

The subsidiaries and foreign branch of the Bank are the following:

- BancoEstado S.A. Corredores de Bolsa, a Corporation, incorporated on August 17, 1989, as a stock agency, that became a stock broker on June 10, 1992. On January 19, 1990, it obtained its registration as a stock broker and a stock agency with the Superintendency of Securities and Insurance, under register No. 0137. Its main purpose is the trading of publicly-offered securities on behalf of third parties and for its own account.
- BancoEstado S.A. Administradora General de Fondos, a Corporation, formed on June 23, 1997 and authorized by Resolution No. 272 dated with August 20, 1997, of the Superintendency of Securities and Insurance, whose exclusive purpose was to administer house savings. On April 25, 2003, through Exempt Resolution No. 105, the Superintendency of Securities and Insurance approved the by-laws of *BancoEstado S.A. Administradora de Fondos para la Vivienda*, consisting of changing its corporate name to *BancoEstado S.A. Administradora General de Fondos*, and its purpose was the administration all types of funds referred to in Article No. 220 of Law No.18,045 on Capital Markets. On December 3, 2008, Banco del Estado de Chile entered into a Sale Agreement for the sale of 4,999 shares out of the total of 10,000 shares of this subsidiary with BNP Paribas Investment Partners, equivalent to 49.99% of its equity interest. The sale of its equity interests became effective on January 2, 2009.
- BancoEstado Corredores de Seguros S.A. was incorporated as a limited liability company on August 4, 1999. Its by-laws were modified on September 13, 2004, becoming a closely held corporation. This company is regulated by the Superintendency of Securities and Insurance. Its purpose is the remunerated intermediation of all types of insurance ruled by the Law Decree No. 251 of 1931, with any national insurance entities domiciled in the country and to provide related insurance contracting advisory services.

## **BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the periods ended March 31, 2011, March 31, 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

### **NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

BancoEstado has a strategic alliance with Metlife Chile Inversiones Ltda. for the development of the insurance business, incorporating this company into the ownership of BancoEstado Corredores de Seguros S.A. in a 49.9% of the equity interest. This alliance includes the participation in the management and development of products and businesses.

- BancoEstado Servicios de Cobranza S.A. is a closely held corporation, incorporated on September 9, 1999, and registered at the Superintendency of Banks and Financial Institutions on August 10, 1999 under No. 752. Its exclusive objective is to collect on its own account or on behalf of third parties all types of credit documents, whether through pre-judicial, judicial or extrajudicial means.
- BancoEstado Microempresas S.A. Asesorías Financieras was incorporated on July 23, 1996, and is subject to the regulations of the Superintendency of Banks and Financial Institutions. Its exclusive purpose is to provide support services to the banking business in terms of financial advisories to microenterprises.
- BancoEstado Centro de Servicios S.A. was incorporated on November 13, 2004, with the sole purpose of carrying out legal and operational activities related to those referred to in No. 1 of Article No. 69 of the General Banking Law, except for those related to entering into contracts for checking accounts and deposits operations.
- BancoEstado Contacto 24 Horas S.A. was incorporated on December 13, 2001, its purpose is to provide telemarketing and technical assistance services, information on products and services, etc., by using remote and/or virtual communication means, and in general all services focused on developing and keeping commercial relationships with the customers of BancoEstado and its subsidiaries.
- Sociedad de Servicios Transaccionales Caja Vecina S.A. was created on October 16, 2006. Its sole and exclusive purpose is to carry out all activities related to legal and operational acts referred to in No. 1 of Art. No. 69 of the General Banking Law, except for those related to entering into contracts for checking accounts and deposits operations.
- BancoEstado Capital de Riesgo S.A. is a closely held corporation, incorporated on May 7, 2008. The exclusive purpose of the company is the administration of private venture capital investment funds regulated by Law No. 18,815, and complemented by Law No. 20,190. The Company is registered at the Securities Register of the Superintendency of Securities and Insurance, under No. 1,023. On July 22, 2010 the Superintendency mentioned before, approved the cancellation of this Company in its register.

## **BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the periods ended March 31, 2011, March 31, 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

### **NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- Sociedad de Promoción de Productos Bancarios S.A., is a closely held corporation, incorporated on May 7, 2008. Its sole and exclusive purpose is the promotion of products and services of the Bank and its subsidiaries. This company is subject to the regulations of the Superintendency of Banks and Financial Institutions.
  
- Banco del Estado de Chile Branch New York, whose banking license was issued on July 25, 2005 by the authorities of the State of New York, authorizing Banco del Estado de Chile the opening and operation of a branch in that city. Its operation started on October 5, 2005. Its commercial orientation is towards Chilean customers, corporations, entities and institutions with products and services for foreign trade, such as letters of credit, discounts and payment orders, commercial loans in foreign currencies, exchange operations, risks hedging, etc. The branch fully depends on its parent company.

#### **MAIN ACCOUNTING CRITERIA AND OTHERS:**

##### **a) Accounting period**

These Interim Consolidated Financial Statements (from now on, “Financial Statements”) present the following statements and periods: Consolidated Statement of Financial Position that cover the periods ended March 31, 2011 and December 31, 2010, respectively and the Consolidated Statement of Income, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statements of Cash Flow for the period January 1, to March 31, 2011 and 2010, respectively.

##### **b) Presentation Framework**

The current financial statements for the three months ended on March 31, 2011 have been prepared in accordance with Chapter C-2 in the Compendium of Accounting Rules of the Superintendency of Banks and Financial Institutions (SBIF) and in the International Accounting Regulations Rule N° 34 (“IAS 34”), Intermediate Financial Information. In the event of any discrepancies between the accounting principles and the accounting standards issued by the SBIF (“Compendium of Accounting Standards”), corresponding to the technical regulations issued by the Chilean School of Accountancy A.G., prepared in accordance with the International Financial Reporting Standards (“IFRS”) and agreed by the International Accounting Standards Board (“IASB”) and the accounting criteria issued by the SBIF (Compendium of Accounting Rules), the latter prevails.

## **BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the periods ended March 31, 2011, March 31, 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

### **NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

According to IAS 34, interim financial information is prepared solely to provide an update on the latest complete set of annual consolidated financial statements. Accordingly, it focuses on new activities, events, and circumstances and does not duplicate information previously reported. Consequently, these interim financial statements do not include all the information that would be required by a complete set of annual consolidated financial statements in compliance with international accounting standards and financial information agreed by the IASB. In order to gain a better understanding of the information included in these interim financial statements, these must be read in conjunction with the annual consolidated financial statements of BancoEstado for the year ended as of December 31, 2010.

Therefore, as of March, 2011, the Bank states to comply with all the requirements established in IAS 34.

#### **c) Consolidation criteria**

The interim consolidated financial statements incorporate the statements of the Bank, its subsidiaries and the New York Branch and include the necessary adjustments and reclassifications to the financial statements of its New York Branch and subsidiaries to bring their accounting policies in line with those applied by the Bank, in accordance with the Compendium of Accounting Standards issued by the Superintendency of Banks and Financial Institutions.

Intercompany balances and any unrealized gains or losses from intercompany transactions are eliminated in full during the preparation of the interim consolidated financial statements. As of March 31, 2011 assets, liabilities and the subsidiary's operational incomes represent as a whole 11.4%, 11.9% and 31.1% respectively (8.3%, 8.7% and 25.7% respectively at December 31, 2010), of the consolidated total assets, liabilities and operational incomes. The unrealized earnings that come from transactions with companies whose investment is calculated by the participation method, are eliminated from the investment, according to the percentage of participation in the entity's equity.

## BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the periods ended March 31, 2011, March 31, 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

### NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

The companies in which BancoEstado participates are divided into:

- **Controlled entities and or Subsidiaries**

“Controlled entities” are those companies over which the Bank has the ability to exercise control; ability that, in general, but not only, is presumed to exist when the Bank owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity or, when it owns half or less of the voting power of an entity and has the power to govern the financial and operating policies of the entity under a statute or an agreement. Control is defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The entities over which the Bank has the ability to exercise control, owns a significant participation and which are part of the consolidation of the financial statements at March 31, 2011 and December 31, 2010 are presented in the following table:

Company	Participation					
	March 31, 2011			December 31, 2010		
	Direct	Indirect	Total	Direct	Indirect	Total
BancoEstado S.A. Corredores de Bolsa	99.9996%	-	99.9996%	99.9996%	-	99.9996%
BancoEstado Corredores 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	50.0100%	-	50.0100%	50.0100%	-	50.0100%
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.	99.9000%	0.1000%	100.0000%	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. (*)	99.9000%	0.1000%	100.0000%	99.9000%	0.1000%	100.0000%
BancoEstado - Sucursal New York (*)	100.0000%	-	100.0000%	100.0000%	-	100.0000%

(\*) These entities are regulated by the Superintendency of Banks and Financial Institutions. The remaining companies are regulated by the Superintendency of Securities and Insurances.

- **Entities supporting the line of business and/or associated entities**

The entities supporting the line of business are those over which the Bank has the ability to exercise significant influence, but no control or joint control.

## BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the periods ended March 31, 2011, March 31, 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

### NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following are the companies that support the line of business:

Company	Ownership %	
	31-03-2011	31-12-2010
Administrador Financiero Transantiago S.A.	21.0000%	21.0000%
Sociedad Operadora de la Cámara de Compensación de Pagos de Alto Valor S.A.	10.2300%	10.2300%
Operadora de Tarjetas de Crédito Nexus S.A.	12.9030%	12.9030%
Transbank	8.7188%	8.7188%

The Bank analyzed the valuation method and concluded to maintain the equity method of accounting for all entities supporting the line of business, using as its main criterion the level of significant influence exercised over these companies rather than their ownership interest over the equity of such companies.

#### • Investments in other companies

Investments in other companies correspond to those over which the Bank possesses no control, or for those over which it has no significant influence. The aforementioned investments are presented at their acquisition value.

Between March 31, 2011 and March 31, 2010 there were no changes made to the composition of the entity neither were there changes in property.

The Bank holds no participation in special purpose entities.

#### d) Non-controlling interest

The non-controlling interest represents the portion of the gains or losses and net assets over which the Bank, directly or indirectly, has no ownership. The non-controlling interest is presented separately within the statement of income, and separately from the equity attributable to equity holders of the Bank in the interim consolidated Statement of Financial Position.

#### e) Operating segments

The Bank discloses segment information in accordance with IFRS 8 “Operating Segments”, which establishes the standards to report operating segments and related disclosures for products and services and geographical areas. An operating segment is defined as a component of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing its performance.

## **BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the periods ended March 31, 2011, March 31, 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

### **NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The operating segments of the Bank are determined based on the different business units. These business units generate services subject to risks and performances that are different to another operating segment.

#### **f) Functional and presentational currency**

The Bank and its subsidiaries have defined as their functional currency the Chilean peso, based on:

- It is the currency of the primary economic environment whose competitive forces and regulations determine the prices of the financial services that the Bank and its subsidiaries provide; and
- It is the currency that mainly influences labor and other costs of providing services by the Bank and its subsidiaries to its clients.

The Branch in New York has defined as its functional currency the US dollar. The financial statements of the Branch are translated into Chilean pesos as follows:

- Assets and liabilities are translated at the closing exchange rates at the date of the financial statements.
- The income and expenses and the cash flows, through the application of the exchange rate of accounting representation of the month of the transaction.
- Share capital and other equity components are translated at their historical exchange rates.

The presentation currency for the interim consolidated financial statements is the Chilean peso, expressed in millions of Chilean pesos (MCh\$).

#### **g) Foreign currency transactions**

All balances and transactions in currencies other than the functional currency are considered “foreign currency”.

For the preparation of the financial statements of the Bank and its subsidiaries, monetary assets and liabilities in foreign currencies, are translated into Chilean pesos in accordance with the exchange rates prevailing at the closing dates of the corresponding financial statements. The resulting exchange differences are recognized as profit or loss.



## **BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the periods ended March 31, 2011, March 31, 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

### **NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The exchange differences arising from the translation into Chilean pesos of the financial statements of the New York Branch, are recorded and accumulated in the line item “Valuation accounts – exchange differences” within the Statement of Financial Position until it is transferred to the Statement of Financial Position of the investment, at which point it will be reclassified as profit or loss.

#### **h) Valuation criteria of assets and liabilities**

The measurement criteria of assets and liabilities recorded in the Statement of Financial Position are the following:

- **Assets and liabilities measured at amortized cost**

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization of any difference between the initial amount and the maturity amount, and minus any reduction for impairment or uncollectibility.

For financial assets the amortized cost also includes the amounts of corrections arising from the corresponding impairment.

For financial instruments the part systematically recorded in the accounts of profits and loss is recorded under the effective interest rate method. The effective rate method is determined on the basis of all cash flows estimated for all the concepts in the remaining useful life of a financial instrument.

- **Assets measured at fair value:**

The fair value of an asset or liability is the amount for which an asset could be exchanged and a liability could be settled between knowledgeable, willing parties in an arm’s length transaction. The most objective and habitual reference of the fair value of an asset or liability is the price that would be paid for it in an organized and transparent market (“Quoted price” or “Market price”).

When there is no market price to determine the amount of the fair value for a certain asset or liability, the price established in recent transactions of similar instruments is considered in order to estimate its fair value.

In those cases when it is not possible to determine the fair value of a financial asset or a financial liability, these are measured at amortized cost.

## **BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the periods ended March 31, 2011, March 31, 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

### **NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

In addition, according to Chapter A-2 of the Compendium of Accounting Standards, the banks are not permitted to designate a financial asset or financial liability on initial recognition as one to be measured at fair value in replacement of the general criterion of amortized cost.

The Interim Consolidated Financial Statements have been prepared based on the general criterion of the amortized cost, except for:

- Derivative financial instruments, which have been measured at fair value.
- Assets classified as held for sale are valued at their fair value when it is lower than the carrying amount minus the cost of executing the sale.
- Trading investments are measured at fair value.
- Available-for-sale investments are measured at fair value.

- **Assets valued at acquisition cost**

Acquisition cost is the cost of the transaction for the acquisition of the asset, less any impairment losses it might have suffered.

- i) **Investment instruments:**

Investment instruments are classified into two categories held-to-maturity investments and available-for-sale investments. The held-to-maturity investment category includes only those instruments for which the Bank has the positive intent and ability to hold to maturity. All other investment instruments are categorized as “available-for-sale”.

The investment instruments are initially recognized at cost, including transaction costs.

Subsequent to initial recognition, available-for-sale investments are measured at fair value based on market prices or valuations by using models, less any impairment losses. Gains or losses from changes in fair value are recognized in other comprehensive income and accumulated in the “Available-for-sale investments reserves” within Net Equity. When these investments are sold or determined to be impaired, the cumulative gains or losses previously accumulated in the available-for-sale investments reserves are transferred to income and reported under line item “Net income from financial operations”.

## **BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the periods ended March 31, 2011, March 31, 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

### **NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Held-to-maturity investments are recorded at their cost plus accrued interest and indexation, less any provisions for impairment losses recognized when their carrying amount exceeds their estimated recoverable amount.

Interests on and adjustments to held-to-maturity and available-for-sale investments are included under the line item “Income from Interest and Readjustments”.

Investment instruments designated as hedging instruments are measured using the requirements established for hedge accounting.

All purchases and sales of investment instruments to be delivered within the deadline period established by market regulations and conventions are recognized on the trade date, which is the date on which the commitment is made to purchase or sell the asset.

The Bank has evaluated its held-to-maturity and available-for-sale investments portfolio at March 31, 2011 and December 31, 2010, in order to assess whether there are any impairment indicators. This assessment included economic evaluations, credit ratings of the debt issuers and the intent and ability of management to hold these investments to maturity. Based on such evaluation, no impairment losses have been recognized.

#### **j) Trading investments:**

Trading investments are securities acquired with the purpose of generating earnings from short-term price fluctuation or from brokerage margins, or which form part of a portfolio of a recent actual pattern of short-term profit-taking.

Trading investments are valued at fair value based on market prices at the closing date of the Statement of Financial Position. Gains or losses from changes in the fair value, as well as gains or losses from their trading, are included in the Statement of Income under the line item “Net gain from financial operations”. Accrued interest and indexation are also reported in the Statement of Income under the line item “Net gain from financial transactions”.

Management has designated all of the investments held by its subsidiaries as trading instruments.

## **BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the periods ended March 31, 2011, March 31, 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

### **NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

All purchases and sales of trading investments to be delivered within the deadline period established by market regulations and conventions are recognized on the trade date, which is the date on which the commitment is made to purchase or sale of the asset.

#### **k) Financial derivative contracts:**

Financial derivative contracts including foreign currency and UF forwards, interest rate futures, currency swaps, interest rate and currency options, and other financial derivatives are initially recognized in the Statement of Financial Position at their cost (including transaction costs) and subsequently measured at fair value. The fair value is obtained from market rates, discounted cash flow models and option valuation models, as appropriate. Derivative contracts are presented as an asset when their change in fair value is positive and as a liability when is negative under the line item “Financial derivative contracts” within the assets and liabilities sections.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their risk and characteristics are not clearly related to the host contract and such host contract is not recorded at fair value through profit or loss.

On the inception of a derivative contract, it should be designated by the Bank as a trading derivative or as a hedging instrument for hedge accounting purposes.

Any change in the fair value of financial derivative contracts held for trading are included in the Statement of Income under the line item “Net gain from financial transactions”.

If the derivative is designated as a hedging instrument in a hedge relationship, this may be: (1) a fair value hedge of assets or liabilities or firm commitments, or (2) a hedge of cash flows related to recognized assets or liabilities or expected transactions. A hedging relationship qualifies for hedge accounting if, and only if, all of the following conditions are met: (a) at the inception of the hedge there is formal designation and documentation of the hedging relationship; (b) the hedge is expected to be highly effective; (c) the effectiveness of the hedge can be reliably measured and; (d) the hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

Transactions with derivatives that do not qualify for hedge accounting are recognized and presented as trading derivatives, even if they provide an effective hedge for managing risk positions.

## **BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the periods ended March 31, 2011, March 31, 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

### **NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

When a derivative is designated as a hedging instrument to hedge the exposure to changes in the fair value of a recognized asset or liability, such asset or liability is recorded at its fair value with respect to the specific risk hedged. Gains or losses from valuation of the hedging instrument at its fair value, both the hedged item and the hedge derivative, are recognized in profit or loss.

If the item covered in a fair value hedge is an effective commitment, the changes in the fair value of the commitment in regard to the risk covered are recorded as assets or liabilities with an effect on the income for the year. Gains or losses on the hedged item attributable to the hedged risk adjust the carrying amount of the hedged item and are recognized in profit or loss. 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 Statement of Financial Position.

When a derivative covers the exposure to changes in cash flows of existing assets or liabilities, or expected transactions, the effective portion of changes in the fair value in regard to the risk covered is recorded in the shareholders' equity. Any ineffective portion of the gain or loss on the hedging instrument is recognized in profit or loss.

The accumulated gains or losses recognized in equity are recorded in profit or loss in the same periods in which the hedged assets or liabilities affect profit or loss.

#### **l) Loans and account receivables from customers**

Loans and account receivables from customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which the Bank has no intention to sell immediately or in the near term.

When the Bank is the lessor under a lease agreement and transfers substantially all incidental risks and benefits over the leased asset, the transaction is presented within loans and account receivables from customers.

Loans and account receivables from customers are measured at amortized cost using the effective interest rate method.

#### **m) Interest and adjustment income and expense**

Income and expense from interest and indexation are recognized on an accrual basis using the effective interest rate method.

## **BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the periods ended March 31, 2011, March 31, 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

### **NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

However, when a loan is determined to be impaired, the Bank, on a prudent basis, will pursue to suspend the accrual of interest and indexation on such impaired loans.

#### **n) Fee and commission income and expense**

Fee and commission income and expenses are recognized in the Interim Consolidated Statement of Income based on different criteria according to their nature. The main criteria are:

- Those originated by a specific act are recognized when the specific act has been completed.
- Those arising from transactions or services that are rendered over a period of time, are deferred and recognized over the life, maturity or term covering such transactions or services.
- Those related to financial assets or liabilities are recognized at the moment of their collection.

#### **o) Impairment**

The Bank, its subsidiaries and the New York Branch use the following criteria to assess the impairment of financial and non-financial assets:

- **Financial assets:**

The Bank assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of assets will be impaired when there exists objective evidence that one or more events have had a negative effect in the future cash flow of the asset.

An impairment loss related to financial assets recorded at amortized cost is calculated as the difference between the carrying amount of the asset and the present value of estimated cash flows discounted at the effective interest rate.

An impairment loss in relation to the financial asset available for sale is calculated with reference to its fair value.

Significant financial assets are individually reviewed to determine their impairment. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in profit or loss. Any cumulative loss relating to an available-for-sale financial asset that has been already recognized in other comprehensive income is reclassified from equity to net income as a reclassification adjustment.

## **BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the periods ended March 31, 2011, March 31, 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

### **NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The reversal of an impairment loss occurs only if it can be objectively related to an event occurring after the impairment was recognized. In the case of financial assets carried at amortized cost and those debt instruments classified as available-for-sale, the reversal of impairment losses is recognized in the statement of income.

#### **• Non-financial assets**

The carrying amount of non-financial assets, excluding investment properties and deferred taxes, is regularly reviewed to determine whether there is any indication that the asset may be impaired. If any such indication exists, the Bank estimates the recoverable amount of the asset.

Impairment losses recognized in prior periods are assessed at the end of each reporting period to determine whether there is an indication that such loss may no longer exist or may have decreased. An impairment loss is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. The increased carrying amount of an asset attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized for the asset in prior years.

#### **p) Investments in associates**

The associated entities, which correspond to the entities supporting the bank's line of business, are valued using the equity method (Note 1 c).

#### **q) Intangible assets**

The intangible assets held by the Bank correspond mainly to investments in software.

Software acquired separately is measured at cost less accumulated amortization and accumulated impairment losses.

Internally developed software is recognized as an asset when the Bank is able to demonstrate its intention and ability to complete its development and use it internally to generate future economic benefits, and the cost of completing its development can be measured reliably. The capitalization of costs on internally-developed software includes all direct costs attributable to the development of the software, and is amortized over their useful life.

## **BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the periods ended March 31, 2011, March 31, 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

### **NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Amortization is recognized on a straight-line basis over their estimated useful lives. The average estimated useful life of the software is 3 years.

Research and evaluation alternative technologies costs are recognized as expenses in the period in which they are incurred.

#### **r) Property, plant and equipment**

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses.

The cost includes expenses directly attributable to the acquisition of such assets. The cost of assets in the course of construction includes the cost of raw materials and direct labor, and any other expenses directly related to the process of getting the asset ready to be used.

When part of an item of property, plant and equipment has a different useful life, such part is recorded as a separate item (significant components of property, plant and equipment).

Depreciation is recognized on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives, unless there is reasonable certainty that the Bank will obtain ownership by the end of the lease term.

At March 31, 2011 and December 31, 2010, the Bank applied the following useful lives for the depreciation of its property, plant and equipment:

- Buildings 80 years
- Equipment and facilities 5 to 10 years
- Furniture and fixture 3 years

Depreciation, useful lives and residual values are calculated at each reporting date.

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. If changes are observed, the useful lives of the assets are adjusted and the depreciation is corrected.

Repair and maintenance costs are recognized in the moment at which the work is carried out.



## **BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the periods ended March 31, 2011, March 31, 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

### **NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **s) Leases**

- **Operating leases**

When the Bank, its subsidiaries or the New York Branch act as lessees and the contract qualifies as an operating lease, the total payments are recorded in operating income.

Upon termination of the contract period of the operating lease, any payment related to fines of the contract required by the lessor is recorded in expenses for the period on which such contract ended.

- **Financial leases – Lease contracts**

Finance lease operations consist of lease arrangement whereby the lessee has the option to purchase the leased asset at the end of the lease term. The sum of the present value of the minimum lease payments that will be received from the lessee plus the purchase option is recognized as a financing to third parties and, therefore, is presented in the item loans and accounts receivable from customers.

Goods acquired for finance lease operations are presented under “Other assets” at acquisition cost.

#### **t) Cash and cash equivalents**

The Bank has used the indirect method in preparing its Statement of Cash Flow, whereby the net income of the Bank is adjusted for the effects of transactions of a non-cash nature, any deferrals of accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

In accordance with specific requirements applicable to financial institutions, the Bank and its subsidiaries have considered as cash and cash equivalents the balance of “Cash and banks”, plus (less) the net balance of line item unsettled transactions presented in the Statement of Financial Position, plus highly liquid trading and available-for-sale investments and repurchase agreements that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, whose maturity is three months or less from the date of acquisition. It also includes investments in fixed income mutual funds, which are presented within trading investments in the Statement of Financial Position.

## **BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the periods ended March 31, 2011, March 31, 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

### **NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

For the preparation of the Statement of Cash Flows, following concepts are considered:

- a) **Cash flows:** Inflows or outflows of cash and cash equivalents, where cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, such as: deposits with the Chilean Central Bank, local banks and foreign banks.
- b) **Operating activities:** Are the principal revenue-producing activities of the Bank and other activities that are not investing or financing activities.
- c) **Investing activities:** The acquisition or disposal of long-term assets and other investments not included in cash equivalents.
- d) **Financing activities:** Are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity and that are not operating or investing activities.
- u) **Allowance for loan losses**

The provisions required to cover the loan portfolio risk have been recognized according to the rules of the SBIF. The carrying amount of the financial assets are reduced by the allowance directly for all financial assets with the exception of loans and accounts receivable from customers where the carrying amount is reduced through the use of a allowance for loan losses account. In the case of contingent loans, the corresponding allowances are recorded as liabilities.

The risk models established by the SBIF to determine the allowance for loan losses are summarized as follows:

- **Allowance for individual risk assessment**

The individual assessment of debtors is performed when such debtors are companies that due to their size, complexity or level of exposure require more precise and detail understanding. The individual analysis assigns a risk category to each debtor and its corresponding loans based on the following risk factors:

- Industry or sector
- Owners and management
- Financial condition and creditworthiness
- Payment behavior

## **BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the periods ended March 31, 2011, March 31, 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

### **NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Once the analysis is completed, each debtor and loan is classified into one of the following categories:

#### Normal risk portfolio:

- Categories A1, A2 and A3 correspond to debtors whose creditworthiness is sufficient to cover their liabilities according to the terms agreed upon and with no apparent credit risk.
- Category B corresponds to debtors whose creditworthiness is sufficient to cover their liabilities under the terms agreed upon but with certain level of credit risk.

#### Higher than normal risk portfolio:

Categories C1, C2, C3, C4, D1 and D2 correspond to debtors whose creditworthiness is insufficient under foreseen scenarios.

To determine the allowance on debtors categorized as A1, A2, A3 and B, the Bank uses the allowance percentages levels approved by its Executive Committee, that have been determined based on detailed historical statistical studies which are reviewed on an annual basis, as follows:

Category	Allowance %
A1	0
A2	0
A3	0.5
B	1

## BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the periods ended March 31, 2011, March 31, 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

For debtors categorized as C1, C2, C3, C4, D1 and D2, the allowance percentage levels determined under current bank regulations are as follows:

Category	Estimated loss range	Allowance %
C1	Up to 3%	2
C2	More than 3% up to 19%	10
C3	More than 19% up to 29%	25
C4	More than 29% up to 49%	40
D1	More than 49% up to 79%	65
D2	More than 79%	90

- **Allowance for collective risk assessment:**

Collective assessment is used for a large number of debtors whose exposure is not individually significant. Normally such debtors are individuals or small companies. For the collective assessment, the Bank uses models based on the debtors and their loan's estimated default probabilities.

Under a collective assessment, the allowances are determined based on the expected loss by using the models.

- **Impaired loan portfolio:**

The impaired loan portfolio includes those loans on which there is concrete evidence that debtors will default by failing to make any of the contractual payments - regardless of the possibility of collecting the amounts due from collaterals - through the exercise of legal collection actions or by agreeing different conditions.

Based on the above, the Bank will maintain these loans in the impaired loan portfolio until it observes a recovery of debtor's payment capacity or behavior; otherwise it will write them off.

The Bank treats each customer as a whole, for the purposes of classifying it in the normal portfolio or in the impaired portfolio (carry-forward by ID Number) for those customers that are part of the group portfolio, with the exception of the mortgage loans when the client has other impairing products apart from this one.

## **BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the periods ended March 31, 2011, March 31, 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

### **NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- **Charge-off of loans:**

The charge-offs of loans and accounts receivable are performed based on due, past due and outstanding installments. The deadline period charge-offs is considered from the beginning of the default, i.e., a charge-off shall be performed when the default period of an installment or portion of a loan exceeds each corresponding deadline period for charge-offs as indicated in table below:

<b>Type of loan</b>	<b>Period</b>
Consumer loans with or without actual collateral	6 months
Other transactions without collateral	24 months
Commercial loans with collateral	36 months
Mortgages loans used for housing	48 months
Leasing of consumer goods	6 months
Other non-real estate leasing operations	12 months
Real estate leasing (commercial and mortgages)	36 months

- **Recovery of previously charged-off loans**

Recovery of previously charged-off loans is recognized as income and is presented as a deduction of the provisions for loan losses within the Consolidated Statement of Income.

- **Additional provisions:**

Additional provisions may be recorded for those that derive from the application of the portfolio evaluation models, with the purpose of safeguarding the macroeconomic environment or the situation of a specific economic sector against unpredictable economic fluctuations, in accordance with the Bank's policies (note 9).

## **BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the periods ended March 31, 2011, March 31, 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

### **NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **v) Provisions and contingent liabilities**

Provisions are liabilities of uncertain timing and amount. These provisions are recognized in the Statement of Financial Position when the Bank has:

- A present obligation as a result of past events and,
- At the date of the financial statements it is probable that the Bank will use an outflow of resources to settle the obligation and a reliable estimate can be made of the amount of the obligation.

A contingent liability is any possible obligation that arises from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events that are not wholly within the control of the Bank, its subsidiaries and the New York Branch

#### **w) Employee benefits**

##### **1. Compensated vacation absences**

The annual cost for vacation absences and employee benefits is recognized on an accrual basis.

##### **2. Short-term benefits**

The Bank provides to its employees an annual bonus plan based on the achievement of certain objectives and goals, and which consists of a specific number or portion of monthly salaries; such bonuses are accrued based on the expected amount that will be paid.

The Bank has also agreed with its employee, based on union contracts, a lump sum compensation payment for completion of the collective bargaining process. Such compensation is recorded as “Other assets” and is amortized over term of the collective bargaining agreement.

##### **3. Long-term benefits**

The Bank recognized provisions for long-term employee benefits pursuant to the existence of present obligations derived from the collective agreements. Such obligations give rise to the recognition of provisions which are determined by using actuarial assumptions including as variables the employee turnover rate, future increases in salaries and the probability of using this benefit, considering a nominal discount rate of 3.73%.

## **BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the periods ended March 31, 2011, March 31, 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

### **NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **x) Income tax and deferred taxes:**

The Bank and its subsidiaries have recognized their income tax expense at the end of each reporting period, based on applicable tax regulations.

Additionally, due to the fact that the bank is treated as a public sector institution, it is subject to a tax credit in accordance with Article No. 2 of the decreed law No. 2,398 of 1978 that corresponds to a rate of 40%.

Deferred taxes are recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the calculation of the taxable income are recognized in accordance with IAS 12.

The Bank and its subsidiaries recognize, as appropriate, deferred tax liabilities for taxable temporary differences between carrying amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are measured at the tax rate that, according to tax regulations, is expected to be applied in the year in which the liability is settled or the asset realized. The effects of changes in tax laws or in tax rates are recognized on deferred taxes at the date on which the tax law or tax rates are enacted.

Law No. 20,455, published in the Diario Oficial on July 31, 2010, established that the category 1 income tax rate of the companies will be increased, from the current rate of 17%, to 20% for the financial year 2011, to 18.5% for the financial year 2012 and then back to 17% for the financial year 2013 and there onwards.

#### **y) Investments under resale and repurchase agreements:**

The Bank, its subsidiaries and the New York Branch enter into resale and repurchase agreements as a method of financing. In this regard, investments sold under repurchase agreements are classified as trading investments or available-for-sale investments. The repurchase agreement is classified in the line item “Investments under repurchase agreements” within liabilities, recognizing accrued interest and indexation at year end.

The Bank, its subsidiaries and the New York Branch also enter into resale agreements as a method of investing. Financial instruments purchased under resale agreements are included in the line item “Investments under resale agreements” within assets.

## **BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the periods ended March 31, 2011, March 31, 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

### **NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **z) Factoring transactions:**

The Bank performs factoring transactions, with or without guarantees, with its customers, whereby it pays to the transferors a cash consideration in exchange for the rights to cash collected from invoices and other commercial papers.

Factoring receivables are valued at cash consideration paid for the receivables. The difference between the cash consideration paid and the face value of the receivables is recognized as interest income by using the effective interest method over the financing period. The transferor has payment obligation on the receivables.

#### **aa) Assets received in lieu of payment:**

Assets received in lieu of payment are recognized at the lower of initial carrying amount and net realizable value, less any write-offs regulatory. Write-offs are required by the Superintendency of Banks and Financial Institutions if the asset has not been sold within one year from its receipt.

#### **bb) Derecognition of financial assets and liabilities:**

The accounting treatment of transfers of financial assets depends on the extent and the manner in which the risks and rewards associated with the financial assets are transferred to third parties:

1. If the Bank transfers substantially all the risks and rewards of ownership of the financial asset to third parties, as in the case of unconditional sales of financial assets, sales under repurchase agreements at fair value at the date of repurchase, sales of financial assets with a purchased call option or written put option deeply out of the money, utilization of assets in which the transferor does not retain subordinated debt nor grants any credit enhancement to the transferee, and other similar cases, the Bank derecognizes the financial asset and separately recognize as assets or liabilities any rights and obligations created or retained in the transfer.



## **BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the periods ended March 31, 2011, March 31, 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

### **NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

2. If the Bank retains substantially all the risks and rewards of ownership of the financial asset, as in the case of sales of financial assets under repurchase agreements to repurchase at a fixed price or at the sale price plus interest, lending agreement securities under which the borrower undertakes to return the same or similar assets, and other similar cases, the Bank continues to recognize the transferred asset in its entirety and continue recording using the same criteria before the transferred. Conversely, is recognized:
  - A financial liability for an amount equivalent to the consideration received that is subsequently measured at amortized cost.
  - Any income on the transferred asset and any expenses incurred on the new financial liability.
3. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset— as in the case of sales of financial assets with a purchased call option or written put option that is not deeply in or out of the money, securitization of assets in which the transferor retains a subordinated debt or other types of credit enhancement for a portion of the transferred asset, and other similar cases— the Bank determines whether it has retained control of the financial asset. In this case:
  - If the transferring entity does not retain the control of the transferred financial asset: then it is eliminated from the Statement of Financial Position and any withheld right or obligation is recognized or created as a consequence of the transfer.
  - If the assigning entity maintains the control of the transferred financial asset: then it continues recognizing the asset in the Statement of Financial Position for an equal amount to its exposure to the changes of value it might experience and recognize a financial liability associated to the transferred financial asset. The net amount of the transferred asset and the associated liability will be the amortized cost of the withheld rights and obligations, if the transferred asset is measured by its amortized cost, or the fair value of the withheld rights and obligations, if the transferred asset is measured by its fair value.

Accordingly, financial assets are only derecognized from the Statement of Financial Position when, and only when, the contractual rights to the cash flows from the financial asset expire; or when it transfers the financial assets and substantially all the risks and rewards of ownership of the assets to third parties. Similarly, financial liabilities are derecognized from the Statement of Financial Position when, and only when, the obligations are discharged, cancelled or they have expired.

## **BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the periods ended March 31, 2011, March 31, 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

### **NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **cc) Use of estimates and judgments:**

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

The significant estimates and assumptions are reviewed by Bank Management on an ongoing basis in order to quantify certain assets, liabilities, income, expenses and uncertainties. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any other affected future period.

In particular, the information regarding the critical accounting judgments and key sources of estimation of uncertainties in the application of the accounting policies that have the most significant effect on the amounts recognized in the financial statements, are described as concepts or used primarily in the following items:

- Useful lives of property, plant and equipment and of intangible assets.
- Assumptions used in the actuarial valuations of the long term employee benefits obligations.
- Contingencies and commitments.
- Impairment losses of certain assets.
- Assets and liabilities at fair value.
- Current taxes and deferred taxes

#### **dd) Non-current assets held for sale:**

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. Immediately before the initial classification of the assets (or disposal group) as held for sale, the carrying amounts of the asset (or all the assets and liabilities in the group) are measured in accordance with the accounting policies of the Bank. From that moment on, the assets (or disposal group) are measured at the lower of carrying amount and fair value less costs to sell. The deferred assets, the assets in benefit of the employees and the investment property that continue being evaluated as per the accounting policies of the Bank. Impairment losses for any initial or subsequent write-down of the asset (or disposal group) classified as held for sale are recognized in net income. Gains for any subsequent increase are not recognized if they are in excess of the cumulative impairment loss that has been recognized.

## **BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the periods ended March 31, 2011, March 31, 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

### **NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **ee) Distribution to the Government of net income:**

As of March 31, 2011 and December 31, 2010, the Bank has recognized a liability for the portion of the net income to be distributed to the Government in accordance with its policy. For such purpose, the Bank recognized a provision against a supplementary equity reserve account.

This policy establishes that, in order to determine the provision for the distribution of net income, it shall consider the greater of the moving average of net income distribution for the past three years, taken from the corresponding Decrees of the Treasury Department, and the income distributed in the prior year.

#### **ff) Consolidated Statement of Changes in Equity:**

The Interim Consolidated Statement of Changes in Equity presents the reconciliation between the initial and final equity balance at period end, and includes the following items:

- a) Adjustment due to changes in the accounting policies.
- b) Net income (loss) for the period; and
- c) Other changes to equity that corresponds to those items recognized in equity, such as the distribution of net income, capital increases, provision for distribution of net income to the Government, dividends paid and any other increases or decreases in equity.

#### **gg) Consolidated Statement of Comprehensive Income:**

This component of the interim consolidated financial statements presents all income and expenses generated by the Bank during a period as a result of its activities, and all other income and expenses recognized directly in equity.

The detail of the information included in the Interim Consolidated Statement of Comprehensive Income is as follows:

- a) Consolidated net income (loss) for the period.
- b) Net income and expenses temporarily recognized in equity as “valuation accounts”.
- c) The income tax effect of items a) and b), except for the translation difference arising from translating the financial statements of foreign transactions.
- d) The total comprehensive income, calculated as the sum of a), b) and c), presenting separately the amounts attributable to equity holders of the Bank and non-controlling interest.

## **BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the periods ended March 31, 2011, March 31, 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

### **NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **hh) Comparative information:**

The information contained in these financial statements corresponding to the year 2010 is presented exclusively for comparative purposes with the relevant information relating to the three months up to March 31, 2011.

#### **ii) Seasonality or cyclicity of interim operations**

Due to the business activities of the Bank, the New Branch and subsidiaries, transactions do not have a seasonal or cyclical character. Therefore, no specific breakdown is included in the accompanying explanatory notes to the interim consolidated financial statements corresponding to the three month period ended March 31, 2011.

#### **jj) Relative importance**

The relative importance in the preparation of the interim financial statements has been considered to determine the information to be disclosed regarding the different entries of the financial statements and any other matter, in compliance with IAS 34.

#### **kk) Restructuring costs**

As of March 31, 2011 and December 31, 2010, the Bank, its subsidiaries and the New York Branch have not incurred any restructuring expenses.

#### **ll) Correction of errors:**

As of March 31, 2011, the Bank, its subsidiaries and the New York Branch have not made any adjustments due to correction of errors.

#### **mm) Compliance of commitments:**

As of March 31, 2011, the Bank, its subsidiaries and the New York Branch had complied with all agreements.

## BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the periods ended March 31, 2011, March 31, 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

### NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### nn) New pronouncements:

a) In these financial statements, the following Regulations and Interpretations have been adopted:

<b>IFRIC Amendments</b>	<b>Mandatory application date</b>
Revised IAS 24, Breakdown of related parties	Annual periods beginning on or after January 1, 2011.
Revised IAS 32, Classification of Emission Rights	Annual periods beginning on or after February 1, 2010.
Improvements to IFRS May 2010 – set of amendments to seven International Financial Reporting Standards	Annual periods beginning on or after January 1, 2011.

<b>New Interpretations</b>	<b>Mandatory application date</b>
IFRIC 19, Extinguishing financial liabilities with equity instruments	Annual periods beginning on or after July 1, 2010.

<b>Amendments and Interpretations</b>	<b>Mandatory application date</b>
IFRIC 14 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	Annual periods beginning on or after January 1, 2011.

#### Amendment to IAS 24, Disclosure of Related Parties

On November 4, 2009, the IASB announced modifications to IAS 24, Disclosure of Related Parties. The modified standard simplifies disclosure requirements for entities that are controlled, jointly controlled or significantly influenced by a government entity (known as government-related entities) and clarifies the definition of a related entity. The revised standard is to be applied for years that begin on or after January 1, 2011. A retrospective application is required. Therefore, in the first year of application, the disclosure for the comparative period needs to be presented, the advanced application of this standard is permitted, either the whole standard or partial exemption for government-related entities. If an entity applies, the whole Standard or the partial exemption for the period beginning January 1, 2011, this information must be revealed. The Bank is not linked to a government entity, and therefore the revelation exemptions do not apply. One should make sure that it is actually an entity that is independent of the state, with its own equity in accordance with Article No. 1 of the Organic Law of the Banco del Estado Chile and that the address corresponds to the Council of Directors and the Management of the Executive Committee, in agreement with the Title II of the aforesaid law, with no existing dominant entities.

## **BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the periods ended March 31, 2011, March 31, 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

### **NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **Amendment to IAS 32, Financial Instruments: Presentation**

On October 8, 2009, the IASB announced modifications to IAS 32, Financial Instruments: Presentation, titled the Classification of the Issuing of Rights. In accordance with the modifications, the rights, opinions and warrants that in some way or another comply with the definition of paragraph 11 of IAS 3 issued in order to acquire a fixed number of equity instruments that themselves do not derive from an entity for a fixed amount in any currency are classified as equity instruments as long as the offer is carried out pro-rate for all the current proprietors from the same class of equity instruments that do not derive from the entity. The modification is applicable to all annual periods beginning on or after February 1, 2010, allowing the application in advance. The management does not believe that these modifications have had an effect on the accounting policies for the period.

#### **Improvements to IFRS -2010**

On May 6, 2010, the IASB published improvements to IFRS 2010, comprising modifications to 7 standards. This is the third set of modifications published under the process of annual improvements, which were considered necessary but not urgent. The modifications are effective for annual periods starting on or after July 1, 2010 and for annual periods starting on or after January 1, 2011. Management assesses that these modifications did not have an impact on accounting policies of the Group during the period.

#### **IFRIC 19, Extinguishing of Financial Liabilities with Equity Instruments**

On November 26, 2009, the International Financial Reporting Interpretations Committee (IFRIC) issued IFRIC 19, Elimination of Financial Liabilities with Equity Instruments. This interpretation acts as a guide on how for the settlement account of financial liabilities by issuing equity instruments. The interpretation concluded that the issuing of equity instruments in order to statements an obligation is equivalent to consideration paid. The consideration should be measured at the fair value of the issued equity instrument, unless the fair value is not easily determinable, in which case, the equity instrument should be measured at the market value of the liability being settled. The management does not believe that these modifications have had an effect on the accounting policies for the period.

## BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the periods ended March 31, 2011, March 31, 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

### NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Amendment IFRIC 14, IAS 19 – The limit of Specified Benefit Assets, requirements relating to minimum funding and its interaction.**

During December, 2009, IFRIC issued Prepayment of a Requirement for Minimum funding, modifications to IFRIC 14, IAS 19 – The limit of a specified benefit asset, requirements of minimum funding and its interaction. The modifications have been carried out in order to correct an unintended consequence of IFRIC 14 in which it is prohibited for entities, in some circumstances, to recognize payment of minimum fund contributions as an asset. The management does not believe that these modifications have had an effect on the accounting policies for the period.

- b) The following new regulations and interpretations have been issued with application dates in the future. The new regulations and accounting announcements issued by the IASB will be applied on their respective dates unless the SBIF declares otherwise:

<b>New IFRS</b>	<b>Mandatory application date</b>
IFRS 9, Financial Instruments	Annual periods beginning on or after January 1, 2013.

<b>Amendments to IFRS</b>	<b>Mandatory application date</b>
IFRS 1 (Revised), First time adoption of the International Financial Reporting Standards – (i) Elimination of fixed dates for those adopting the regulation for the first time - (ii) Severe Hyperinflation	Annual periods beginning on or after July 1, 2011.
IAS 12, Deferred Taxes – Recuperation of underlying assets	Annual periods beginning on or after January 1, 2012.
IFRS 7, Financial Instrument Revelations – Disclosures – Transfer of Financial Assets	Annual periods beginning on or after July 1, 2011.

## **BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the periods ended March 31, 2011, March 31, 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

### **NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **IFRS 9, Financial Instruments**

On November 12, 2009, the IASB released IFRS 9, Financial Instruments. This standard introduces new requirements for the classification and measurement of financial assets and is applicable to all annual periods ending on or after January 1, 2013, allowing advanced application. IFRS 9 emphasizes how an entity should classify and value its financial assets. All financial assets need to be categorized as a whole based on the business model of the entity for the management of financial assets and the characteristics of the contractual cash flows of the assets. The financial assets are valued either at their amortized cost or at their fair value. Only financial assets that are classified as valued at their amortized cost will be tested for impairment. On October 28, 2010, the IASB published a revised version of IFRS 9, Financial Instruments. The revised standard still requires the classification and valuation of financial assets that was published in November 2009, but adds guidelines for the classification and valuation of financial assets. As part of the restructuring of IFRS 9, the IASB has copied also the guidelines on the reversal of financial asset recognition and the guidelines their implementation related from IAS 39 to IFRS 9. These new guidelines conclude the first phase of the IASB project to replace IAS 39. The other phases, impairment and hedge accounting have not yet been finalized.

The guidelines included in IFRS 9 regarding the classification and valuations of financial assets have not changed from those presented in IAS 39. Financial assets will continue being valued at their amortized cost or fair value with changes being recorded in the statement of income. The concept of splitting incorporated derivatives in a contract of a financial asset has not changed either. Financial liabilities kept for trade will continue being valued at their fair value with the subsequent changes to the statement of income and all financial assets will be valued at their amortized cost unless the option of fair value using the criteria currently applicable as per IAS 39.

However, there are two main differences between IAS 39 and IFRS 9:

- The presentation of the changes in fair value attributable to the credit risk of a liability, and
- The elimination of the exemption for the cost of liability derivatives being settled by the issue of equity instruments that have not been traded.

In accordance with the rules laid out by the Supervisory Body for Banks and Financial Institutions, this rule will not be applied in advance, however, it will be adopted as of January 1, 2013. Management is in the process of evaluating the impact of this regulation.



## **BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the periods ended March 31, 2011, March 31, 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

### **NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **Amendment to IFRS 1, First time adoption of the International Financial Reporting Standards**

On December 20, 2010, the IASB published certain modifications to IFRS 1, specifically:

**(i) Elimination of Fixed Dates for those adopting for the first time** – These modifications provide help for those adopting IFRS for the first time, replacing the prospective application date for the ‘derecognition’ of financial assets and liabilities from ‘January 1, 2004’ with ‘the IFRS transition date’. This way, those adopting IFRS for the first time will not be required to apply the ‘derecognition’ requirements of IAS 39 retrospectively at a previous date. It also gives those adopting IFRS for the first time the freedom to recalculate profits and losses of ‘day 1’ from transactions that took place before the IFRS transition date.

**(ii) Severe Hyperinflation** – These modifications provide guidelines for entities whose functional currency is classified as hyperinflationary, allowing them to measure at the transition date all their assets and liabilities held before the date of normalization of the functional currency adjustment at fair value on the IFRS transition date and to use this fair value as the attributed cost for these assets and liabilities in the Statements of Financial Position under the IFRS rules from the very beginning. The entities that use this exemption should describe their circumstances of how and why their functional currency suffered severe hyperinflation and the circumstances that brought these conditions to an end.

The application of these modifications will be mandatory for annual periods that begin on or after July 1, 2011. Applications in advance are allowed. Management estimates that these modifications will have no effect on the Financial Statements as the bank is not adopting IFRS for the first time.

## **BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the periods ended March 31, 2011, March 31, 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

### **NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **Amendment of IAS 12, Income Tax**

On December 20, 2010, the IASB published Deferred Taxes: Recuperation of the Underlying Asset – Modifications made to IAS 12. The modifications establish an exemption to the main principal of IAS 12 in that the valuation of assets and liabilities for deferred taxes should reflect the tax implications that will follow the way in which the entity hopes to recover the book value of an asset at its book value. More specifically, the exemption applies to assets and liabilities of deferred taxes that originate from investment properties valued using the fair value method of IAS 40, and to instrument properties acquired via a range of deals, if subsequently measured using the fair value model from IAS 40. The modification introduces a presumption that the current value of the instrument property will be recovered at the moment it is sold, except when the instrument property is subject to depreciation and is part of a business model whose objective is to substantially consume all long term economic benefits rather than to sell. These modifications should be applied retrospectively requiring all assets and liabilities for deferred taxes within the scope of the modifications are presented retrospectively, including those that had been initially recognized through business combinations. The mandatory application date of these applications is for the period beginning on or after January 1, 2012. Applications in advance are allowed. Management is in the process of evaluating the potential impacts that the adoption of these regulation may bring.

#### **Amendment to IFRS 7, Financial Instruments: Disclosures**

On October 7, 2010, the IASB issued Disclosures – Transfer of Financial Assets (Modifications to IFRS 7 Financial Instruments) which increases the disclosure requirements for transactions that involve the transfer of financial assets. These modifications are aimed at providing greater transparency over the exposure to risk of transactions where a financial asset is transferred but the grantor retains a certain ongoing level of exposure (referred to as ‘continuous involvement’) to the asset. The modifications also stipulate that when the transfers of financial assets have not been uniformly distributed throughout the period (or in other words, when the transfers occur close to the close of the reporting period) that these details are also disclosed. These modifications are applicable for the annual periods that begin on or after July 1, 2011. Applications in advance for these modifications are allowed. Disclosures are not required for any of the periods that begin before the initial date that the modifications are brought into force. Management is in the process of evaluating the potential impacts that the adoption of these regulation may bring.

## **BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the periods ended March 31, 2011, March 31, 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

### **NOTE 2 – ACCOUNTING CHANGES**

In August 2010, the Circular No. 3,503 was issued detailing certain modifications for provisions and impaired portfolio included in chapters B-1, B-2, B-3 and C-1. These modifications were brought into force as of January 1, 2011, except for the regulations relating to additional provisions contained in No. 9 of chapter B-1, which became current from the release date of the circular. Additionally, Manager's Letter N°9 dated December 21, 2010, specifying that adjustments as a consequence of the application of the new modifications brought into force as of January 1, 2011, can be carried out within the first three months of 2011. However, there is nothing stopping entities from fully or partially recognizing collateral in advance, increasing provisions, temporarily as surcharges, then releasing them into the Statement Income of that financial year. On December 31, 2010, the bank opted to partially go ahead with the recognition of these changes, which included registering the non cyclical additional surcharges. The effects of the recognition of these changes provoked a net charge of deferred taxes of MCh\$ 9,273 in the Consolidated Statement of Income. The amount for March 31, 2011 corresponds to net deferred taxes of MCh\$ 11,823.

During the three months ended March 31, 2011, there have been no significant accounting changes that affect the presentation of these financial statements.

## **BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the periods ended March 31, 2011, March 31, 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

### **NOTE 3 – SIGNIFICANT EVENTS**

#### **a) Designation of General Manager and changes to the Board of Directors in the subsidiary BancoEstado S.A Administradora General de Fondos**

On January 27, 2011, the board of directors of BancoEstado S.A Administradora General de Fondos, appointed Pablo Mayorga Vásquez as General Manager as of April 1, 2011. At the same time, Miguel Gerardo Howlin was appointed as Substitute General Manager, a role that he will fulfill between March 1 and March 31, 2011.

On January 27, 2011, the board of directors of BancoEstado S.A Administradora General de Fondos, accepted the resignation of Pablo Mayorga Vásquez and Francois Mouzay from the board of directors. At the same time, Dominique Lienart was accepted to join the board of directors as of the same date.

On March 15, 2011 during an ordinary shareholders' meeting, the company's director's were reinitiated, resulting in the Board being comprised of: Juan José Ruiz González, Eduardo Javier de las Heras Val, Sebastián del Campo Edwards, Max Diulius, Carlos A. Curi and Cécile Besse Advani, and their respective substitute directors, Oscar González Narbona, Gustavo Villagrán Manquilef, María Dolores Peralta Rubio, Pascal Biville, Dominique Lienart and Martial Hervé Paul Godet. After March 21, 2011, the Board of Directors appointed Mr. Juan José Ruiz González as President and Max Diulius as vice-president.

#### **b) Agreement to dissolve the subsidiary Banco Estado Administradora de Capital de Riesgo S.A.**

On January 27, 2011, the Council of Directors of the Bank, approved the authorization from the Executive Committee as agreed on January 19, 2011, to buy the assets of the subsidiary Banco Estado Administradora de Capital de Riesgo S.A, from its current holder, Banco Estado S.A Corredores de Bolsa, with a view to dissolving the subsidiary Banco Estado Administradora de Capital de Riesgo S.A.

#### **c) Renewal of the Board of Directors in the subsidiary BancoEstado Corredores de Seguros S.A.**

On January 27, 2011, the company's entire Board of Directors was approved at a general shareholders' meeting, and is comprised of: Juan Carlos Méndez González, Carlos Martabif Scaff, Pablo Iacobelli del Río, José Miguel Saavedra Flores and their respective substitute directors Victoria Martínez Ocamica, Paulina Miranda Valenzuela, Fernando Lara Silva and Javier Allard Soto.

## **BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the periods ended March 31, 2011, March 31, 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

### **NOTE 4 – OPERATING SEGMENT**

#### **Segment criteria:**

The segment information is structured according to the different lines of business of the Bank, which are based on its organizational structure, the products and services it offers and the customers' segments for which they are intended.

The segment information that is provided is based on the monthly reports extracted from information provided for management reporting purposes.

The structure of such information is designed as if each line of business were treated as an autonomous business, as such the financial performance net of interest and ordinary income of the lines of business, is calculated by applying to their corresponding volumes of monthly average assets and liabilities, differences between the contractual income or expense and the transfer prices for assets and liabilities, as appropriate. These transfer prices are in line with the current valid market interest rates.

#### **Segments:**

The Bank focused its activities on the following major lines of business:

**Wholesale Banking**, includes middle market, corporations and public sector institutions.

**Retail Banking**, includes individuals, micro-enterprises and small business.

**Treasury and International**, includes financial management and international business through our New York Branch and our proprietary trading operation.

**Other Segments**, includes corporate, where assets, liabilities, income and expense, as appropriate, cannot be clearly allocated to any line of business or segment, or that are the results of decisions affecting the Bank as a whole. Also assigned to this group are the reconciliation entries that arise when comparing the result of integrating the financial statements of the different lines of business (which are prepared with performance criteria) with the consolidated financial statements.

## BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the periods ended March 31, 2011, March 31, 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

### NOTE 4 – OPERATING SEGMENT (Continued)

Results by segment as of March 31, 2011 and 2010 are the following:

a) Income	March 31, 2011					March 31, 2010				
	Wholesale banking MCh\$	Retail banking MCh\$	Treasury and international MCh\$	Others MCh\$	Total MCh\$	Wholesale banking MCh\$	Retail banking MCh\$	Treasury and international MCh\$	Others MCh\$	Total MCh\$
Net interest and indexation income	37,680	85,794	10,120	12,386	145,980	20,888	75,097	15,902	7,356	119,243
Net fee and commission income	8,354	32,196	1,967	(1,595)	40,922	7,261	26,182	185	504	34,132
Net income from financial operations	1,002	-	23,093	-	24,095	1,090	3,140	44,642	-	48,872
Foreign exchange income (expense), net	770	700	(11,549)	-	(10,079)	669	706	(29,875)	-	(28,500)
Other operating income	18	470	-	1,690	2,178	31	116	-	2,239	2,386
Total operating income	47,824	119,160	23,631	12,481	203,096	29,939	105,241	30,854	10,099	176,133
Provisions for loan losses	(8,752)	(12,991)	(3,070)	(9,747)	(34,560)	(2,741)	(38,896)	1,437	240	(39,960)
Net operating income	39,072	106,169	20,561	2,734	168,536	27,198	66,345	32,291	10,339	136,173
Operating expenses					(129,135)					(99,699)
Other operating expenses					(2,386)					(7,009)
Total operating expenses					(131,521)					(106,708)
Operating income					37,015					29,465
Income (loss) from investments in other companies					275					(94)
Income before income tax					37,290					29,371

## BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the periods ended March 31, 2011, March 31, 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

### NOTE 4 – OPERATING SEGMENT (Continued)

The statements of financial position by segment as of March 31, 2011 and December 31, 2010 are the following:

	March 31, 2011					December 31, 2010			
	Wholesale banking MCh\$	Retail banking MCh\$	Treasury and international MCh\$	Others MCh\$	Total MCh\$	Wholesale banking MCh\$	Retail banking MCh\$	Treasury and international MCh\$	Others MCh\$
<b>ASSETS</b>									
Cash and deposits in banks	-	-	1,687,624	-	1,687,624	-	-	2,025,077	-
Unsettled transactions	-	-	425,276	-	425,276	-	-	203,341	-
Trading investments	8,800	-	1,323,626	-	1,332,426	-	-	1,293,963	-
Loans and accounts receivables from customers, net	4,740,322	6,674,235	118	3,335	11,418,010	4,464,993	6,618,302	73	80
Available for sale investments	48,040	-	3,570,444	-	3,618,484	30,424	-	3,057,537	-
Other assets	61,306	1	352,353	791,016	1,204,676	41,185	2	310,510	756,348
<b>TOTAL ASSETS</b>	<b>4,858,468</b>	<b>6,674,236</b>	<b>7,359,441</b>	<b>794,351</b>	<b>19,686,496</b>	<b>4,536,602</b>	<b>6,618,304</b>	<b>6,890,501</b>	<b>756,428</b>
<b>LIABILITIES</b>									
Deposits and other demands liabilities	2,582,047	855,470	34,421	183,760	3,655,698	3,200,723	890,131	41,321	167,180
Unsettled transactions	-	-	401,122	-	401,122	-	-	146,001	-
Time deposits and other liabilities	4,724,903	3,160,494	1,529,744	-	9,415,141	3,469,364	3,041,113	1,833,323	1,602
Interbank borrowings	-	-	674,037	-	674,037	-	-	601,527	-
Debt issued instruments	-	-	3,327,923	-	3,327,923	-	-	3,368,096	-
Other liabilities	544,504	9,054	206,340	517,158	1,277,056	472,515	6,912	158,106	468,742
<b>TOTAL LIABILITIES</b>	<b>7,851,454</b>	<b>4,025,018</b>	<b>6,173,587</b>	<b>700,918</b>	<b>18,750,977</b>	<b>7,142,602</b>	<b>3,938,156</b>	<b>6,148,374</b>	<b>637,524</b>
<b>EQUITY</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>935,519</b>	<b>935,519</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>935,179</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>7,851,454</b>	<b>4,025,018</b>	<b>6,173,587</b>	<b>1,636,437</b>	<b>19,686,496</b>	<b>7,142,602</b>	<b>3,938,156</b>	<b>6,148,374</b>	<b>1,572,703</b>

## BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the periods ended March 31, 2011, March 31, 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

### NOTE 5 – CASH AND CASH EQUIVALENTS

- a) The details of cash and cash equivalent balances and their reconciliation with the statement of cash flows at each period are as follows:

	<b>31-03-2011</b>	<b>31-12-2010</b>
	MCh\$	MCh\$
<b>Cash and bank deposits</b>		
Cash	246,157	253,580
Deposits in the Chilean Central Bank	104,372	1,024,877
Deposits in domestic banks	354	280
Deposits foreign	<u>1,336,741</u>	<u>746,340</u>
Subtotal cash and deposits in banks	<u>1,687,624</u>	<u>2,025,077</u>
Unsettled transactions	24,154	57,340
High liquidity financial instruments (1)	385,864	725,676
Repurchase contracts (2)	<u>59,852</u>	<u>13,811</u>
Total cash and cash equivalents	<u><u>2,157,494</u></u>	<u><u>2,821,904</u></u>

(1) Corresponds to trading and investment instruments subject to low risk of significant change in value, whose maturity period does not exceed 90 days after the acquisition date.

(2) Corresponds to repurchase agreement in identical situation as the one established in the paragraph above.

The Bank holds as part of its cash and deposits at the Chilean Central Bank, balances that are not available for its use, amounting to MCh\$ 248,983 and MCh\$ 251,906 at March 31, 2011 and December 31, 2010, respectively.

The level of cash funds and amounts held in deposits at the Chilean Central Bank correspond to a regulated mandatory requirement to maintain monthly average cash reserves.



**BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the periods ended March 31, 2011, March 31, 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

**NOTE 5 – CASH AND CASH EQUIVALENTS (Continued)****b) Unsettled transactions**

Unsettled transactions correspond to those transactions in which only the settlement remains pending, which will increase or decrease the funds in Chilean Central Bank or in foreign banks, normally within the next 12 or 24 business hours. At March 31, 2011 and December 31, 2010, these unsettled transactions are as follows:

	<b>31-03-2011</b>	<b>31-12-2010</b>
	MCh\$	MCh\$
<b>Assets:</b>		
Outstanding notes from other banks (clearing)	28,816	29,585
Funds receivable	<u>396,460</u>	<u>173,756</u>
Subtotal assets	<u>425,276</u>	<u>203,341</u>
<b>Liabilities:</b>		
Funds payable	<u>401,122</u>	<u>146,001</u>
Subtotal liabilities	<u>401,122</u>	<u>146,001</u>
Unsettled transaction, net	<u><u>24,154</u></u>	<u><u>57,340</u></u>

**NOTE 6 – PORTFOLIO SALES**

As of March 31, 2011 BancoEstado had not made any credit portfolio sales. At December 31, 2010 BancoEstado sold part of the portfolio of University Credits with State Guarantee (UCSG) as part of the public bidding process for awarding the Financing and Administration Service for Higher Education Studies Law No. 20027. The bid model open to the financial institutions is explained in the corresponding bid terms, which allow selling a percentage of the portfolio to third parties. Regarding the sold portfolio, BancoEstado transferred substantially all risks and rewards associated with the portfolio, maintaining only the administration service of the portfolio that considers the generation of new credits and the collection of the installments of credits. The detail of the credits sold is as follows:

	<b>No. transactions</b>	<b>Par value MCh\$</b>	<b>Sales value MCh\$</b>	<b>Release of provisions MCh\$</b>	<b>Gain on sale MCh\$</b>
UCSG portfolio	<u>18,874</u>	<u>27,053</u>	<u>37,349</u>	<u>(1,095)</u>	<u>11,391</u>

**BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the periods ended March 31, 2011, March 31, 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

**NOTE 7 – PROPERTY, PLANT AND EQUIPMENT**

The detail and movement of fixed assets as of March 31, 2011 and December 31, 2010 are set forth in the following tables:

<b>March 31, 2011</b>	<b>Land and buildings</b>	<b>Equipment</b>	<b>Other</b>	<b>Total</b>
	MCh\$	MCh\$	MCh\$	MCh\$
<b>Cost</b>				
Balances at January 1, 2011	196,088	60,764	52,511	309,363
Additions	-	125	5,284	5,409
Withdrawals / Disposals	-	(17)	(479)	(496)
Transfers	665	17,006	(23,085)	(5,414)
Other	-	-	(349)	(349)
Subtotal	196,753	77,878	33,882	308,513
Accumulated depreciation	(14,185)	(53,890)	(11,107)	(79,182)
Impairment	-	-	-	-
Balances at March 31, 2011	<u>182,568</u>	<u>23,988</u>	<u>22,775</u>	<u>229,331</u>
<b>December 31, 2010</b>	<b>Land and buildings</b>	<b>Equipment</b>	<b>Other</b>	<b>Total</b>
	MCh\$	MCh\$	MCh\$	MCh\$
<b>Cost</b>				
Balances at January 1, 2010	194,495	54,955	27,959	277,409
Additions	1,649	5,964	24,557	32,170
Withdrawals / Disposals	(56)	(155)	(65)	(276)
Transfers	-	-	-	-
Other	-	-	60	60
Subtotal	196,088	60,764	52,511	309,363
Accumulated depreciation	(13,442)	(49,536)	(10,424)	(73,402)
Impairment	(371)	-	-	(371)
Balances at December 31, 2010	<u>182,275</u>	<u>11,228</u>	<u>42,087</u>	<u>235,590</u>

**BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the periods ended March 31, 2011, March 31, 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

**NOTE 8 – ISSUED DEBT INSTRUMENTS AND FINANCIAL LIABILITIES**

As of March 31, 2011 and December 31, 2010, the detail of issued debt instruments and other financial liabilities is as follows:

	<b>31-03-2011</b>	<b>31-12-2010</b>
	MCh\$	MCh\$
<b>Other financial obligations</b>		
Bonds payable	-	-
Other obligations in the country	18,803	5,514
Borrowings abroad	-	-
	<u>18,803</u>	<u>5,514</u>
<b>Debt issued instruments</b>		
Mortgage finance bonds	1,539,309	1,588,671
Senior bonds	1,317,136	1,301,112
Subordinated bonds	471,478	472,799
	<u>3,327,923</u>	<u>3,362,582</u>
<b>Total</b>	<u>3,346,726</u>	<u>3,368,096</u>

**NOTE 9 – ADDITIONAL PROVISIONS**

The additional provisions are designed to cover any costs incurred during the normal course of business. As of March 31, 2011 and December 31, 2010 movements in additional provisions were as follows:

	MCh\$
Balance at January 1, 2010	37,000
Provisions set-up (credit)	54,562
Provision application (debit)	-
	<u>91,562</u>
Balance at December 31, 2010	<u>91,562</u>
Balance at January 1, 2011	91,562
Provisions set-up (credit)	6,000
Provision application (debit)	(22,556)
	<u>75,006</u>
Balance at March 31, 2011	<u>75,006</u>

**BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the periods ended March 31, 2011, March 31, 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

**NOTE 10 – COMMITMENTS AND CONTINGENCIES**

a) Commitments and responsibilities recorded in memorandum accounts:

The Bank, its subsidiaries and the New York Branch hold in memorandum accounts the following balances related to commitments or responsibilities arising from its normal line of business:

	<b>31-03-2011</b>	<b>31-12-2010</b>
	MCh\$	MCh\$
<b>Contingent loans</b>		
Guarantees and deposits		
Guarantees and deposits in local currency	-	-
Guarantees and deposits in foreign currency	92,499	89,042
Confirmed foreign letters of credit	13,762	8,238
Issued documented letters of credit	51,563	63,640
Performance bonds	281,592	270,281
Interbank letters of credit	-	-
Immediately available lines of credit	543,927	459,861
Amount of committed credits and not placed	-	-
Other credit commitments	-	-
Credits for higher education Law No. 20,027	290,809	262,973
Others	158,897	216,299
Other contingent credits	-	-
<b>Operations on account of third parties</b>		
Collections:		
Foreign collections	8,361	6,175
Local collections	50,701	32,563
Placement or sale of financial instruments		
Placement of securities for public bid	-	-
Sale of mortgage finance bonds of bank operations	-	-
Sale of other instruments	-	-
Financial assets transferred to and managed by the Bank:		
Assets assigned to Insurance Companies	-	-
Securitized assets	-	-
Other assets assigned to third parties	-	-
Third party resources managed by the Bank:		
Financial assets administrated on behalf of third parties	433,842	493,372
Other assets administrated on behalf of third parties	-	-
Financial assets acquired for itself	-	-
Other assets acquired for itself	-	-
<b>Securities held in custody</b>		
Securities held in custody of the Bank	1,524,747	1,766,115
Securities held in custody deposited in another entity	989,419	1,221,371
Securities issued by the Bank:		
Promissory notes of time deposits	2,821,242	1,731,375
Mortgage finance bonds for sale	9,996	9,996
Other documents	-	-
<b>Commitments</b>		
Guarantees for underwriting operations	-	-
Commitments for assets purchase	-	-
<b>Total</b>	<b><u>7,271,357</u></b>	<b><u>6,631,301</u></b>

**BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the periods ended March 31, 2011, March 31, 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

**NOTE 10 – COMMITMENTS AND CONTINGENCIES (Continued)****b) Legal proceedings:**

## b.1.) Normal legal contingencies of the industry

As at the date of these financial statements there are several legal proceedings that have been filed against the Bank and its subsidiaries, in relation to normal operations of their businesses activities. According to Management, and based on the advice of its legal advisors, it is deemed that approximately 10% of these proceedings could lead to losses not contemplated by the Bank, New York branch and its subsidiaries. At March 31, 2011 and December 31, 2010, the Bank, New York branch and its subsidiaries have recognized provisions for these concepts amounting to MCh\$ 4,199 and MCh\$ 4,341, respectively, which are included in the line item Provisions. The following is a summary of the lawsuits and provisions per type:

TYPE	31-03-2011		31-12-2010	
	No.	Provision amount MCh\$	No.	Provision amount MCh\$
Labor	76	1,162	77	1,281
Civil	264	3,037	265	3,060
Total	340	4,199	342	4,341

## b.2.) Significant contingencies due to lawsuits at Courts of Justice

At March 31, 2011 and December 31, 2010, the Bank and New York branch and its Subsidiaries do not have any contingencies for significant lawsuits.

## c) Guarantees given for transactions

	31-03-2011 MCh\$	31-12-2010 MCh\$
Financial assets in guarantee CCLV, Bolsa de Comercio de Santiago	3,464	5,259
Shares in guarantee for the Bolsa de Comercio de Santiago for simultaneous transactions	9,754	6,083
Total	13,218	11,342

## **BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the periods ended March 31, 2011, March 31, 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

### **NOTE 10 – COMMITMENTS AND CONTINGENCIES (Continued)**

#### **Banco Estado Corredores de Seguros S.A.**

- **Transaction Guarantee and Third Party Insurance**

In accordance with Article No. 58 of Law Decree No. 251, at March 31, 2011 the company held a guarantee covering any possible damages that might affect it as a result of infringing the law, regulations and complementary standards regulating insurance brokers, especially when such non-compliance arises from actions, errors and omissions of the broker, its agents, proxies or dependent employees participating in the brokerage.

Guarantee information is as follows:

Account	:	3738337
Amount	:	U.F. 60,000
Issuer	:	BancoEstado
Purpose	:	Guarantee any present and future creditors that it may have pursuant to its Insurance Brokerage Operations and for the exclusive purpose of being used under the terms of Article No. 58 of Law Decree No. 251 of 1931.
Validity	:	Until April 14, 2011.

#### **BancoEstado S.A. Corredora de Bolsa S.A.**

- **Operational guarantees**

In order to comply with the obligation of guarantees for transactions established in Article No. 30 of Law No. 18,045, the Company has taken out an insurance with Compañía de Seguros de Crédito Continental S.A. N° 210101923, for UF 20,000 valid from April 22, 2010 to April 22, 2012, being representative of the guarantee amount for the Bolsa de Comercio de Santiago.

The Company has provided a first priority pledge on its ownership share in the Santiago Stock Exchange in order to guarantee faithful, timely performance of its obligations towards that institution; it has also provided a second priority pledge made out to each and every one of the Stock Brokers, in order to guarantee its obligations towards them.

BancoEstado S.A. Corredores de Bolsa has an insurance policy No. 0020058287 for its brokers with Chartis Chile Compañía de Seguros Generales S.A. The amount insured is US\$10,000,000 expiring on January 31, 2012.

## BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the periods ended March 31, 2011, March 31, 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

### NOTE 10 – COMMITMENTS AND CONTINGENCIES (Continued)

#### BancoEstado S.A. Administradora General de Fondos

##### Operational guarantees

In compliance with requirements of Articles No. 226 and No. 227 of Law No. 18,045, Banco del Estado de Chile has been designated as representative of the beneficiaries of the guarantees it has given. The Performance Bonds taken out are the following:

	Currency	Amount	Start date	Maturity date
Fondo para la Vivienda Solidez BECH	UF	10,000.00	11-01-2011	10-01-2012
Fondo Mutuo Corporativo BancoEstado	UF	105,226.94	11-01-2011	10-01-2012
Fondo Mutuo Solvente BancoEstado	UF	89,027.59	11-01-2011	10-01-2012
Fondo Mutuo Compromiso BancoEstado	UF	27,541.94	11-01-2011	10-01-2012
Fondo Mutuo Conveniencia BancoEstado	UF	14,752.98	11-01-2011	10-01-2012
Fondo Mutuo Protección BancoEstado	UF	22,687.09	11-01-2011	10-01-2012
Fondo Mutuo BancoEstado Acciones Nacionales	UF	15,668.28	11-01-2011	10-01-2012
F.M. BancoEstado Garantizado Doble Oportunidad	UF	10,000.00	10-01-2011	06-11-2011
F.M. BancoEstado BNP Paribas Renta Emergentes	UF	10,000.00	10-01-2011	10-01-2012
F.M. BancoEstado BNP Paribas Renta Desarrollada	UF	10,000.00	10-01-2011	10-01-2012
F.M. BancoEstado BNP Paribas Acciones Desarrollada	UF	10,000.00	10-01-2011	10-01-2012
F.M. BancoEstado BNP Paribas Acciones Mas Renta Bicentenario	UF	10,000.00	10-01-2011	10-01-2012
Fondo Mutuo BancoEstado Perfil Dinamico A	UF	10,000.00	10-01-2011	10-01-2012
Fondo Mutuo BancoEstado Perfil Tradicional C	UF	10,000.00	10-01-2011	10-01-2012
Fondo Mutuo BancoEstado Perfil Moderado E	UF	10,000.00	10-01-2011	10-01-2012
F.M.Garantizado Doble Oportunidad	MCh\$	15,140	23-03-2011	06-11-2011

##### d) Credit and contingent liabilities

To satisfy the needs of the customers, the Bank acquired several irrevocable commitments and contingent liabilities, although these obligations could not be recognized in the Statements of Financial Position, these contain credit risks and are therefore part of the global risk Bank, as indicated in a) of this note.

**BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the periods ended March 31, 2011, March 31, 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

**NOTE 10 – COMMITMENTS AND CONTINGENCIES (Continued)**

The table below shows credit amounts granted by the Bank provision set up for the credit risk assumed.

	31-03-2011	31-12-2010
	MCh\$	MCh\$
Guarantees and deposits	92,499	89,042
Letter of credit	65,325	71,878
Performance bonds	281,592	270,281
Amounts available for users of credit cards	543,927	459,861
Amount of committed credits and not placed	114,098	117,932
Credits for higher education Law No. 20,027	290,809	262,973
Others	44,799	98,367
Provisions established	(20,171)	(2,769)
Total	<u>1,412,878</u>	<u>1,367,565</u>



## BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the periods ended March 31, 2011, March 31, 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

### NOTE 11 – TRANSACTIONS WITH RELATED PARTIES

In accordance with the General Banking Law in Chile and SBIF instructions, individuals and companies that are related, directly or indirectly, to the Bank's owners or management are considered related parties.

a) The group's entities:

Company	31-03-2011			31-12-2010		
	Direct	Indirect	Total	Direct	Indirect	Total
BancoEstado S.A. Corredores de Bolsa	99.9996%	-	99.9996%	99.9996%	-	99.9996%
BancoEstado Corredores 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	50.0100%	-	50.0100%	50.0100%	-	50.0100%
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.	99.9000%	0.1000%	100.0000%	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.	99.9000%	0.1000%	100.0000%	99.9000%	0.1000%	100.0000%
BancoEstado - New York Branch	100.0000%	-	100.0000%	100.0000%	-	100.0000%

b) Loans with related parties:

The following table details the loans and accounts receivable, contingent loans, and trading and investment instruments, in relation to the related parties:

	31-03-2011			31-12-2010		
	Productive companies	Investment companies	Natural persons	Productive companies	Investment companies	Natural persons
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
<b>Loans and accounts receivable</b>						
Commercial loans	35,799	1	311	70	389	314
Mortgage loans	-	-	4,036	-	-	4,249
Consumer loans	-	-	131	-	-	170
<b>Gross loans</b>	<b>35,799</b>	<b>1</b>	<b>4,478</b>	<b>70</b>	<b>389</b>	<b>4,733</b>
Allowance for loan losses	(30)	-	(21)	(1)	(4)	(24)
<b>Loans – net</b>	<b>35,769</b>	<b>1</b>	<b>4,457</b>	<b>69</b>	<b>385</b>	<b>4,709</b>
<b>Contingent credits:</b>						
Total contingent credits	45,500	8,772	89	25,803	8,387	33
Allowances for contingent loans	(102)	(27)	(1)	(23)	(3)	-
<b>Contingent loans, net</b>	<b>45,398</b>	<b>8,745</b>	<b>88</b>	<b>25,780</b>	<b>8,384</b>	<b>33</b>
<b>Acquired instruments:</b>						
For negotiation	-	-	-	-	-	-
For investment	-	-	-	-	-	-

**BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the periods ended March 31, 2011, March 31, 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

**NOTE 11 – TRANSACTIONS WITH RELATED PARTIES (Continued)**

## c) Other assets and liabilities with related parties

	31-03-2011	31-12-2010
	MCh\$	MCh\$
<b>Assets</b>		
Financial derivative contracts	-	-
Other assets	-	-
<b>Liabilities</b>		
Financial derivative contracts	-	-
Demand deposits	49,997	1,300
Time deposits and other loans	36,808	42,534
Other liabilities	-	-

## d) Results of transactions with related parties

Type of revenue or expense	31-03-2011		31-12-2010	
	<u>Income</u>	<u>Expense</u>	<u>Income</u>	<u>Expense</u>
	MCh\$	MCh\$	MCh\$	MCh\$
Interest income and expenses	671	(416)	-	(16)
Income and expenses from commissions and services	26	-	-	-
Income and loss for negotiation	-	-	-	-
Income and loss for other financial transactions	-	-	-	-
Exchange differences	4	-	42	(1)
Expenses from operational support	-	(153)	-	(163)
Other income and expenses	-	-	-	-
Total	<u>701</u>	<u>(569)</u>	<u>42</u>	<u>(180)</u>

**BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the periods ended March 31, 2011, March 31, 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

**NOTE 11 – TRANSACTIONS WITH RELATED PARTIES (Continued)**

## e) Contracts with related parties

<b>Related company</b>	<b>31-03-2011 Type of Contract</b>	<b>31-12-2010 Type of Contract</b>
1) Contracts over UF 1.000		
Isapre Fundación	Lease of Office	Lease of Office
Operadora de Tarjetas de Crédito Nexus S. A.	Computer Support	Computer Support
Transbank S. A.	Computer Support	Computer Support
Soc. Op. Cam. Comp. Pago A Valor.	Compensation chamber service	Compensation chamber service
Gestación Consultores	Advisory services and projects	Advisory services and projects
2) Contracts less than UF 1.000		
Operadora de Tarjetas de Crédito Nexus S. A.	Service of inserts	Service of inserts
Operadora de Tarjetas de Crédito Nexus S. A.	Service of checkbooks	Service of checkbooks
Fundación Asistencial y de Salud	Office lease	Office lease
Transbank S. A.	Transport of securities	Transport of securities

## f) Payments to the Board of Directors and key management personnel

As of March 31, 2011 and 2010, remuneration received by key management personnel correspond to the following categories:

	<b>31-03-2011 MCh\$</b>	<b>31-03-2010 MCh\$</b>
Short-term payments to employees	702	732
Post-retirement payments	-	-
Other long-term renderings	-	-
Indemnities for cease of contract	26	-
Share-based payment	-	-
<b>Total</b>	<b>728</b>	<b>732</b>

**BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the periods ended March 31, 2011, March 31, 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

**NOTE 11 – TRANSACTIONS WITH RELATED PARTIES (Continued)**

## g) Key management personnel

As of March 31, 2011 and December 31, 2010, key management personnel of the Bank are as follows:

<b>Position</b>	<b>31-03-2011 No. of executives</b>	<b>31-12-2010 No. of executives</b>
Chairman	1	1
Vice-President	1	1
Director	4	4
Labor Director	2	2
General Manager	1	1
Chief Attorney	1	1
Controller	1	1
Area managers	7	7
General Managers of Subsidiaries	7	7
	<hr/>	<hr/>
Total	<u>25</u>	<u>25</u>

## h) Transactions with key management personnel

The Bank performed the following transactions with key management personnels in the 3months ended March 31, 2011 and 2010

	<b>31-03-2011 Income of key executives</b>	<b>31-03-2010 Income of key executives</b>
	<hr/> MCh\$	<hr/> MCh\$
Credit cards and other services	-	-
Mortgages	-	-
Guarantees	-	-
Mortgage credits	-	-
Others	9	7
	<hr/>	<hr/>
<b>Total</b>	<u>9</u>	<u>7</u>

**BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the periods ended March 31, 2011, March 31, 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

**NOTE 12 - SUBSEQUENT EVENTS**

Between April 1, 2010 and the date of issue of these financial statements (April 29, 2011), no subsequent events have occurred that might significantly affect their interpretation.

**CARLOS MARTABIT SCAFF**  
Chief Financial Officer

**PABLO PIÑERA ECHENIQUE**  
Executive General Manager

**MARCOS GAINZA ARAGONES**  
Management and Accounting Manager

**OSCAR GONZALEZ NARBONA**  
Planning and Management Control Manager