

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

Interim Consolidated Financial Statements  
for the periods ended September 30, 2011 and 2010

Interim Consolidated Financial Statements

**BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES**

September 30, 2011 and 2010

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\$ = 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

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**BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES**  
Consolidated Statements of Financial Position  
For the periods ended September 30, 2011 and December 31, 2010  
(In millions of Chilean pesos – MCh\$)

<b>ASSETS</b>	<b>Notes</b>	<b>30/09/2011</b> MCh\$	<b>31/12/2010</b> MCh\$
Cash and deposits in banks	5	2,319,019	2,025,077
Unsettled transactions	5	438,838	203,341
Trading investments		1,374,418	1,293,963
Investments under resale agreements		5,001	13,811
Financial derivative contracts		418,573	172,089
Interbank loans		310,163	93,340
Loans and accounts receivables from costumers, net	6	11,939,524	11,083,448
Available-for-sale investments		2,653,344	3,087,961
Held to maturity investment		75,152	72,457
Investments in other companies		4,770	4,014
Intangibles		26,913	20,407
Property, plant and equipment	7	233,594	235,590
Deferred taxes		397,253	353,102
Other assets		279,962	143,235
<b>TOTAL ASSETS</b>		<u>20,476,524</u>	<u>18,801,835</u>
<b>LIABILITIES</b>			
Deposits and other demand liabilities		3,577,763	4,299,355
Unsettled transactions	5	364,467	146,001
Investments under repurchase agreements		327,661	407,660
Time deposits and other liabilities		10,203,215	8,345,402
Financial derivative contracts		372,393	227,178
Interbank borrowings		828,594	601,527
Debt issued instruments	8	3,237,762	3,362,582
Other financial liabilities	8	22,608	5,514
Current taxes		4,872	92,236
Deferred taxes		88,976	29,504
Provisions	9	321,263	283,661
Other liabilities		100,921	66,036
<b>TOTAL LIABILITIES</b>		<u>19,450,495</u>	<u>17,866,656</u>
<b>EQUITY:</b>			
<b>Attributable to the bank holders</b>			
Capital		278,497	278,497
Reserves		720,685	659,378
Valuation accounts		(369)	(10,460)
Retained earnings:			
From previous year		-	-
Net income for the period		59,146	76,634
Less: Provision for distribution of income to the benefit of the state		(41,352)	(72,705)
		<u>1,016,607</u>	<u>931,344</u>
Non-controlling interests		9,422	3,835
<b>TOTAL EQUITY</b>		<u>1,026,029</u>	<u>935,179</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<u>20,476,524</u>	<u>18,801,835</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 Income

For the periods ended September 30, 2011 and September 30, 2010

(In millions of Chilean pesos – MCh\$)

	<b>30/09/2011</b>	<b>30/09/2010</b>
	MCh\$	MCh\$
Interest income	907,047	684,388
Interest expenses	<u>(449,482)</u>	<u>(307,621)</u>
Net interest income	<u>457,565</u>	<u>376,767</u>
Fees and commission income	150,592	127,306
Fees and commission expense	<u>(28,231)</u>	<u>(20,154)</u>
Net fee and commission income	<u>122,361</u>	<u>107,152</u>
Net (loss) gain from financial operations	52,500	(19,313)
Foreign exchange gain (loss) net	(5,505)	57,788
Other operating revenue	<u>6,581</u>	<u>7,557</u>
Total operating income	633,502	529,951
Provision for loan losses	<u>(162,541)</u>	<u>(91,919)</u>
NET OPERATING PROFIT	<u>470,961</u>	<u>438,032</u>
Staff expenses	(217,594)	(191,437)
Administrative expenses	(107,972)	(85,521)
Depreciation and amortization	(20,540)	(28,897)
Impairment	-	-
Other operating expenses	<u>(6,522)</u>	<u>(30,401)</u>
TOTAL OPERATING EXPENSES	<u>(352,628)</u>	<u>(336,256)</u>
NET OPERATING INCOME	<u>118,333</u>	<u>101,776</u>
Income (loss) from investments in other companies	<u>1,003</u>	<u>516</u>
Income before income taxes	119,336	102,292
Income taxes	<u>(52,096)</u>	<u>(36,336)</u>
NET INCOME FOR THE PERIOD	<u>67,240</u>	<u>65,956</u>
Attributable to:		
Equity holders of the bank	59,146	59,678
Non-controlling interests	<u>8,094</u>	<u>6,278</u>
	<u>67,240</u>	<u>65,956</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 Comprehensive Income  
For the periods ended September 30, 2011 and September 30, 2010  
(In millions of Chilean pesos – MCh\$)

	<b>30/09/2011</b>	<b>30/09/2010</b>
	MCh\$	MCh\$
Net operating profit	470,961	438,032
Total operating expenses	<u>(352,628)</u>	<u>(336,256)</u>
<b>OPERATING INCOME</b>	<u>118,333</u>	<u>101,776</u>
Income (loss) from investments in other companies	<u>1,003</u>	<u>516</u>
Income before income tax	119,336	102,292
Income taxes expense	<u>(52,096)</u>	<u>(36,336)</u>
<b>INCOME FOR THE PERIOD BEFORE COMPREHENSIVE INCOME</b>	<u>67,240</u>	<u>65,956</u>
<b>COMPREHENSIVE INCOME</b>		
Available for sale investment	8,959	(15,250)
Exchange differences in translation of foreign transactions	1,194	(3,494)
Effect cash flow hedge	<u>12,697</u>	<u>1,392</u>
<b>COMPREHENSIVE INCOME BEFORE INCOME TAXES</b>	22,850	(17,352)
Income tax on comprehensive income	<u>(12,759)</u>	<u>8,692</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<u>10,091</u>	<u>(8,660)</u>
<b>CONSOLIDATED COMPREHENSIVE INCOME FOR THE PERIOD</b>	<u>77,331</u>	<u>57,296</u>
Attributable to consolidated income for the period		
Equity holders of the bank	59,146	59,678
Non-controlling interests	<u>8,094</u>	<u>6,278</u>
	<u>67,240</u>	<u>65,956</u>
Attributable to consolidated comprehensive income for the period		
Equity holders of the bank	69,237	51,018
Non-controlling interests	<u>8,094</u>	<u>6,278</u>
	<u>77,331</u>	<u>57,296</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 September 30, 2011 and September 30, 2010  
(In millions of Chilean pesos – MCh\$)

	Valuation accounts						Retained earnings previous year MCh\$	Income for the period MCh\$	Provision for distribution of net income for the period MCh\$	Total attributable to the bank equity holders MCh\$	Non-controlling interests MCh\$	Total equity MCh\$
	Capital MCh\$	Reserves MCh\$	Available for sale Investment MCh\$	Cash flow hedge MCh\$	Translation difference MCh\$	Income taxes 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	-	5,300	-	-	-	-	46,386	(51,686)	-	-	-	-
Provision for contingent credits	-	(1,526)	-	-	-	-	-	-	-	(1,526)	-	(1,526)
Dividends paid	-	-	-	-	-	-	(46,386)	-	46,386	-	(1,189)	(1,189)
Variation of available for sale investment	-	-	(15,250)	-	-	8,692	-	-	-	(6,558)	-	(6,558)
Variation of hedge accounting derivatives	-	-	-	1,392	-	-	-	-	-	1,392	-	1,392
Adjustment for translation difference (NY Branch)	-	-	-	-	(3,494)	-	-	-	-	(3,494)	-	(3,494)
Provision for distribution of minimum income in benefit of the state	-	-	-	-	-	-	-	-	(51,318)	(51,318)	-	(51,318)
Net income for the period	-	-	-	-	-	-	-	59,678	-	59,678	6,278	65,956
<b>Equity as of September 30, 2010</b>	<b>278,497</b>	<b>659,378</b>	<b>(13,609)</b>	<b>1,392</b>	<b>(6,717)</b>	<b>7,757</b>	<b>-</b>	<b>59,678</b>	<b>(56,618)</b>	<b>929,758</b>	<b>8,447</b>	<b>938,205</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	-	61,307	-	-	-	-	15,327	(76,634)	-	-	-	-
Dividends paid	-	-	-	-	-	-	(15,327)	-	15,327	-	(2,507)	(2,507)
Variation of available for sale investment	-	-	8,959	-	-	(5,373)	-	-	-	3,586	-	3,586
Variation of hedge accounting derivatives	-	-	-	12,697	-	(7,386)	-	-	-	5,311	-	5,311
Adjustment for translation difference (NY Branch)	-	-	-	-	1,194	-	-	-	-	1,194	-	1,194
Provision for distribution of minimum income in benefit of the state	-	-	-	-	-	-	-	-	16,026	16,026	-	16,026
Net income for the period	-	-	-	-	-	-	-	59,146	-	59,146	8,094	67,240
<b>Equity as of September 30, 2011</b>	<b>278,497</b>	<b>720,685</b>	<b>4,845</b>	<b>4,948</b>	<b>(4,286)</b>	<b>(5,876)</b>	<b>-</b>	<b>59,146</b>	<b>(41,352)</b>	<b>1,016,607</b>	<b>9,422</b>	<b>1,026,029</b>

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 September 30, 2011 and September 30, 2010  
(In millions of Chilean pesos – MCh\$)

	<b>30/09/2011</b>	<b>30/09/2010</b>
	MCh\$	MCh\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
NET CONSOLIDATED INCOME FOR THE PERIOD	67,240	65,956
Charges (credits) to income that do not represent cash flow:		
Depreciation and amortization	20,540	28,897
Provisions for loan losses	162,541	91,919
Adjustment to market of trading investments	(79,122)	37,490
(Gain) loss from investments in companies	(1,003)	(516)
Net gain on sales of assets received in lieu of payment	(1,612)	(102)
(Gain) loss on sale of fixed assets	97	(98)
Write-off of assets received in lieu of payment	153	336
Other charges to income that do not represent cash movements	67,887	74,871
Net income for interest and adjustments	(457,565)	(376,767)
Net income for commission	(122,361)	(107,152)
Changes in assets and liabilities affecting operating flow:		
Increase of trading instruments	(546,028)	(853,394)
Increase in loans	(1,094,310)	(347,389)
Decrease (increase) in held to maturity and available for sale investments	431,922	(640,339)
Increase in other credit transactions	(216,898)	(219,337)
Decrease in current accounts	(752,117)	(418,709)
Increase of deposits and loans	1,869,238	1,412,058
Increase in other demand and time liabilities	32,729	107,131
(Decrease) increase of other obligations through brokerage of documents	(79,999)	89,874
Decrease of obligations in letters of credit	(126,807)	(131,703)
(Decrease) increase of loans obtained from local banks	(12,689)	3,840
Increase (decrease) of loans obtained from foreign banks	239,131	(114,574)
Decrease of loans obtained from the Central Bank	-	(156,076)
Net increase (decrease) of other assets and liabilities	(6,583)	20,240
Commissions received	150,592	127,306
Commissions paid	(28,231)	(20,154)
Interests and adjustments received	907,047	655,053
Interests and adjustments paid	(449,482)	(277,741)
Net cash flow provided by operating activities	<u>(25,690)</u>	<u>(949,080)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of Property, plant and equipment and intangibles	(25,734)	(19,084)
Sale of property, plant and equipment and intangibles	1,251	902
Dividends received from investments in companies	232	637
Sale of assets received in lieu of payment	2,368	859
Net cash flow used in investing activities	<u>(21,883)</u>	<u>(16,686)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Issue of bonds	42,624	63,568
Redemption of bonds	(120,870)	(9,474)
Payment of income in benefit of state of the prior year	(15,327)	(46,386)
Net cash flow (used in) provided by financing activities	<u>(93,573)</u>	<u>7,708</u>
NET VARIATION FOR THE PERIOD OF CASH AND CASH EQUIVALENT	(141,146)	(958,058)
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>2,680,758</u>	<u>2,365,473</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 September 30, 2011 and 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 September 30, 2011 and 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 September 30, 2011 and 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 business.

- 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. On May 3, 2011 the Company was wound up.

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

Notes to the Consolidated Financial Statements

For the periods ended September 30, 2011 and 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 September 30, 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 September 30, 2011 and 2010, respectively.

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

The current financial statements for the nine months ended on September 30, 2011 have been prepared in accordance with Chapter C-2 in the Compendium of Accounting Standards of the Superintendency of Banks and Financial Institutions (SBIF) and in the International Accounting Standards No. 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 Standards), the latter prevails.

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

Notes to the Consolidated Financial Statements

For the periods ended September 30, 2011 and 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 September 30, 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 September 30, 2011 assets, liabilities and the subsidiary's operational incomes represent as a whole 11.3%, 11.8% and 32.4% 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 September 30, 2011 and 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 September 30, 2011 and December 31, 2010 are presented in the following table:

Company	Ownership					
	September 30, 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%
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 September 30, 2011 and 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:

<b>Company</b>	<b>Ownership %</b>	
	<b>30/09/2011</b>	<b>31/12/2010</b>
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 September 30, 2011 and September 30, 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 September 30, 2011 and 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 presentation 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.

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.



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

Notes to the Consolidated Financial Statements

For the periods ended September 30, 2011 and 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

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

#### **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.

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.

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

Notes to the Consolidated Financial Statements

For the periods ended September 30, 2011 and 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

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

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”.

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.

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

Notes to the Consolidated Financial Statements

For the periods ended September 30, 2011 and 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 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 September 30, 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.

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.

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

Notes to the Consolidated Financial Statements

For the periods ended September 30, 2011 and 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

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

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.

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.

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

Notes to the Consolidated Financial Statements

For the periods ended September 30, 2011 and 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

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

#### **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 short-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.

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.

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

Notes to the Consolidated Financial Statements

For the periods ended September 30, 2011 and 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

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

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.

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.

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

Notes to the Consolidated Financial Statements

For the periods ended September 30, 2011 and 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

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

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.

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 September 30, 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 September 30, 2011 and 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 September 30, 2011 and 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 models established by the SBIF for the determination of provisions are summarized as follows:

- **Allowance for individual assessment:**

In accordance with chapter B1 of the SBIF's Compendium Accounting Standards Digest (hereinafter CNC Chapter B1), the individual assessment of debtors is necessary when dealing with clients which, because of their size, complexity or exposure level, need to be known and analyzed in detail.

- **Criteria of commercial portfolio rating with individual analysis:**

The following criteria of risk rating are applied to commercial debtors subject to individual analysis; and are based on the principles established in SBIF's CNC Chapter B1.

The analysis for the rating should be mainly based on both creditworthiness and the financial characteristics inherent of the debtor, taking as referential information the credit quality of the group it belongs to.

## BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the periods ended September 30, 2011 and 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

### Debtor portfolio with normal risk

The portfolio with normal risk includes those debtors whose creditworthiness allows them to fulfill their obligations and commitments and this condition, according to the assessment of their economic-financial position, is not perceived to change. Therefore, it corresponds to debtors without substantial risks, whose creditworthiness allows them to cover obligations in the terms and conditions agreed and which will continue being satisfactory in dealing with unfavorable business, economic and financial situations.

The likelihood of default and expected loss in each category is as follows:

Portfolio	Category	Likelihood of default (%)	Loss due default (%)	Expected loss (% allowance)
Normal Portfolio	A1	0.04	90.00	0.03600
	A2	0.10	82.50	0.08250
	A3	0.25	87.50	0.21875
	A4	2.00	87.50	1.75000
	A5	4.75	90.00	4.27500
	A6	10.00	90.00	9.00000

### Substandard portfolio

The Substandard Portfolio includes those debtors with financial difficulties or significant worsening in their creditworthiness and over which there are reasonable doubts about the total reimbursement of principal and interests in the terms contractually agreed, showing little room to fulfill their financial obligations in the short term.

This portfolio also includes those debtors which lately (in the last twelve months) have shown delinquencies exceeding 30 days, a poor payment performance with the Bank or with third parties (delinquency during the years for significant amounts outstanding below 90 days).

The likelihood of default and expected loss in each category area as follows:

Portfolio	Category	Likelihood of default (%)	Loss due default (%)	Expected loss (% allowance)
Substandar Portfolio	B1	15.00	92.50	13.87500
	B2	22.00	92.50	20.35000
	B3	33.00	97.50	32.17500
	B4	45.00	97.50	43.87500

## BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the periods ended September 30, 2011 and 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

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

#### Allowance on portfolio under normal or substandard compliance

To determine the amount of provisions that should be made for the portfolios under normal or substandard compliance, banks must previously estimate the exposure affecting provisions which the respective loss percentages will be applied on (expressed in decimals), which comprise the default likelihood (PI) and loss derived from default (PDI) established for the category within which the debtor and/or its qualified guarantor fall, as appropriate.

The exposure subject to provisions corresponds to loans plus contingent credits, less the amounts that would be recovered via execution of guarantees, as set forth in number 4.1 of CNC Chapter B1 of the SBIF. Likewise, loans are understood as the book value of the loans and accounts receivable of the respective debtor, while contingent credits are understood as the value resulting from applying the regulations contained in No. 3 of SBIF's CNC Chapter B-3.

To the purposes of calculation the following should be considered:

$$\text{Provision}_{\text{debtor}} = (\text{ESP} - \text{GE}) \times (\text{PI}_{\text{debtor}} / 100) \times (\text{PDI}_{\text{debtor}} / 100) + \text{Eax}(\text{PI}_{\text{endorsement}} / 100) \times (\text{PDI}_{\text{endorsement}} / 100)$$

Where:

ESP	=	Exposure subject to provisions
GE	=	Guaranteed exposure
ESP	=	(Loans + Contingent Loans) – Financial or actual guarantees.

However, the Bank must maintain a minimum provision of 0.50% over the Normal Portfolio's loans and contingent loans.

#### Non-performing portfolio

This portfolio includes those debtors with loans outstanding for more than 90 days or which are under collection procedures and whose payment source is supported in the guarantees put up. The present value of recoveries that might be obtained by exerting the collection actions can be also considered, net of the related expenses, if there is a supporting report from the legal department available.

Any recovery through judicial procedures, which is duly supported with a report from the Bank's legal department where the effectiveness of collection is determined, is considered to be "actual background". This must be free of any lien or preferred creditors, leading to an actual payment flow.

## BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

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In addition, those debtors who have shown a negative past performance in the Bank or Financial System are considered as non-performing, such as: social security and tax infringement, protested documents pending clarifications, debt past due in the Financial System (SF), write-offs in the aforementioned system, etc., as well as debtors under default or showing an arrangement with creditors to avoid bankruptcy.

The categories for debtors with non-performing loans are six, and each of them is associated with a range of expected loss relating to commercial loans and commercial leasing operations of the client as a whole; consequently, it is necessary to determine the guarantee coverage. It should be mentioned that all contingent loans must be considered, since they are rated as non-performing loans.

### Allowance on non-performing portfolio

To the purposes of making the provisions, the use of provision percentages that must be applied over the amount of the exposure is stipulated, which corresponds to the amount of loans and contingent loans held by the same debtor. To apply this percentage, an expected loss rate should be previously estimated, by deducting the amount from the exposure to amounts recoverable via execution of guarantees and, deducting also the present value of the recoveries that can be obtained exerting collection actions, net of related expenses, if a supporting report from the legal department is available. This loss rate should be included within one of the six categories defined according to the range of losses actually expected by the Bank for all the operations of a same debtor.

These categories and their loss range as estimated by the Bank, and the provision percentages which should be ultimately applied on the amounts of exposures, are those shown in the following table:

Portfolio	Category	Expected loss	Allowance (%)
Non performing portfolio	C1	Over 0 up to 3%	2
	C2	Over 3% up to 20%	10
	C3	Over 20% up to 30%	25
	C4	Over 30% up to 50%	40
	C5	Over 50% up to 80%	65
	C6	Over 80%	90

To the purpose of its calculation, the following should be considered:

$$\text{Expected Loss Rate} = (E-R)/E$$

$$\text{Allowance} = E \times (PP/100)$$

## BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

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Where:

E = Amount of the Exposure

R = Recoverable Amount

PP = Provision Percentage (as per category within the Expected Loss Rate must fall)

- **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 client as a whole, to the purpose of classifying that client either under normal portfolio, or impaired portfolio (carry forward by taxpayer number), for those clients pertaining to the group portfolios, provided this rule is not applied to mortgage loans when there is impairment in client's products other than this product.

- **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:

Type of loan	Period
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

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

- **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). Within the additional provisions an anti-cyclical mechanism of provision accumulation is considered in the commercial, consumer and mortgage portfolio, to take shelter from eventual economic downturn periods.

**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**

- Compensated vacation absences

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

- 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.

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

- 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 real annual rate of 3.09%.

#### **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 decree 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.

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### **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.
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.



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

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

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.

#### **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.

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

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

- 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.

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

As of September 30, 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 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.

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

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

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.

#### **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 nine months up to September 30, 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 nine month period ended September 30, 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 September 30, 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 September 30, 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 September 30, 2011, the Bank, its subsidiaries and the New York Branch had complied with all agreements.

## BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

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### 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>IFRS Amendments</b>	<b>Mandatory application date</b>
IAS 24, Breakdown of related parties	Annual periods beginning on or after January 1, 2011.
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**

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### **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 32 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.

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### 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:

New IFRS	Mandatory application date
IFRS 9, Financial Instruments	Annual periods beginning on or after January 1, 2013.
IFRS 10, Consolidated Financial Statement	Annual periods beginning on or after January 1, 2013.
IFRS 11, Joint arrangements	Annual periods beginning on or after January 1, 2013.
IFRS 12, Disclosure of interest in Other Entities	Annual periods beginning on or after January 1, 2013.
IFRS 13, Fair value measurement	Annual periods beginning on or after January 1, 2013.

Amendments to IFRS	Mandatory application date
IAS 1, Presentation of Financial Statements – Presentation of components of Other Comprehensive Income	Annual periods beginning on or after July 1, 2012.
IAS 12, Deferred Taxes – Recuperation of underlying assets	Annual periods beginning on or after January 1, 2012.
IAS 19, Employee Benefits	Annual periods beginning on or after January 1, 2013.
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.
IFRS 7, Financial Instrument Revelations – Disclosures – Transfer of Financial Assets	Annual periods beginning on or after July 1, 2011.

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### **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.

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

#### **IFRS 10, Consolidated Financial Statements**

On May 12, 2011, the IASB issued IFRS 10, Consolidated Financial Statements, which replaces NIC 27, Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities. The purpose of IFRS 10 is to have a single basis of consolidation for all entities; regardless of the nature of the investment, the basis is control. The definition of control includes three elements: power over an investment, exposure or rights to variable returns on investment and the ability to use the power over the investment to affect the investor's returns. IFRS 10 provides detailed application guidance for the principle of control in a number of situations, including branch relationships and possession of potential voting rights. An investor should reassess whether it controls an investment if there is a change in facts and circumstances. IFRS 10 replaces those sections of NIC 27 which address when and how an investor should prepare Consolidated Financial Statements and replaces SIC-12 in full. The effective date for application of IFRS 10 is January 1, 2013, but its early adoption is permitted under certain circumstances.

Management believes that this new standard will be adopted in the Bank's financial statements for the period starting on January 1, 2013. The Banks' Management is in processes of assessing the impact of this standard.

#### **IFRS 11, Joint Arrangements**

On May 12, 2011, the IASB issued IFRS 11, Joint Arrangements, which replaces IAS 31, Interests in Joint Ventures and SIC-13, Jointly Controlled Entities. IFRS 11 classifies joint arrangements, either as joint operations (combination of the existing concepts of jointly controlled assets and jointly controlled operations) or joint ventures (equivalent to the existing concept of a jointly controlled entity). A joint operation is a joint arrangement where the parties that have joint control have rights to assets and obligations for the liabilities. A joint venture is a joint arrangement where the parties which have joint control of the arrangement have right to the net assets of the arrangement. IFRS 11 requires the use of the equity value to account for the interests in joint ventures, thus eliminating the method of proportionate consolidation. The effective date for application of IFRS 11 is January 1, 2013; its early adoption is permitted under certain circumstances.

Management believes that this new standard will be adopted in the Bank's financial statements for the period starting on January 1, 2013. The Banks' Management is in processes of assessing the impact of this standard.



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(In millions of Chilean pesos – MCh\$)

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

#### **IFRS 12, Disclosure of Interests in Other Entities**

On May 12, 2011, the IASB issued IFRS 12, Disclosure of Interests in Other Entities, which requires further disclosures relating to interests in subsidiaries, joint ventures, associates and unconsolidated structured entities. IFRS 12 establishes disclosure objectives and specifies minimum disclosures that an entity should provide to fulfill these objectives. An entity must disclose information which enables the users of its Financial Statements to assess the nature and risks associated with its interests in other entities and the effects of these interests on its Financial Statements. The requirements of disclosure are extensive and represent an effort that might require gather the necessary information. The effective date for application of IFRS 12 is January 1, 2013; however, entities are allowed to add any of the new disclosures to their financial statements before that date.

Management believes that this new standard will be adopted in the Bank's financial statements for the period starting on January 1, 2013. The Bank's Management is in processes of assessing the impact of this standard.

#### **IFRS 13, Fair Value Measurement**

On May 12, 2011, the IASB issued IFRS 13, Fair Value Measurement, which establishes only one source of guidance for fair value measurement under IFRS. This standard applies both to financial assets and non-financial assets measured at fair value. The fair value is defined as "The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date" (that is, an exit price). IFRS 13 is effective for annual periods begun on or after January 1, 2013, its early adoption is permitted, and applies prospectively from the beginning of the annual period in which is adopted.

Management believes that this new standard will be adopted in the Bank's financial statements for the period starting on January 1, 2013. The Bank's Management is in processes of assessing the impact of this standard.

#### **Amendment IAS 1, Presentation of Financial Statements**

On June 16, 2011, the IASB published Presentation of the Components of Other Comprehensive Income (amendments to IAS 1). The amendments retain the option of presenting an Income Statement and a Statement of Comprehensive Income either in a single statement or in two consecutive separate statements. The components of other comprehensive income are required to be grouped in those that will be and those that will not be subsequently reclassified to profit and loss. The tax on other comprehensive income is required to be allocated over that same basis. Measurement and recognition of the profit and loss component and other comprehensive income are not affected by the amendments, which are applicable for reporting periods starting on or after July 1, 2012; early adoption is permitted.

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

Notes to the Consolidated Financial Statements

For the periods ended September 30, 2011 and 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

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

Management believes that this new standard will be adopted in the Bank's financial statements for the period starting on January 1, 2012. The Bank's Management is in processes of assessing the impact of this standard.

#### **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 IAS 19, Employee Benefits**

On June 16, 2011, the IASB published amendments to IAS 19, Employee Benefits, which change the accounting for the defined benefit plans and termination benefits. The amendments require the recognition of the changes in the obligation for defined benefits and in the assets of the plan when those changes occur, eliminating the 'corridor' approach and accelerating the recognition of the costs of past services.

The changes in the plan's defined benefit obligation and assets are disaggregated in three components: service costs, net interest over the net liabilities (assets) for defined benefits and re-measurement of net liabilities (assets) for defined benefits.

The net interest is calculated using a rate of return for high quality corporate bonds. This could be less than the rate currently used to calculate the expected return on the plan's assets, resulting in a decrease in the income for the year. The amendments are effective for annual periods starting on or after January 1, 2013; early adoption is permitted. The retrospective application is required with certain exceptions.

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

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

Management believes that this new standard will be adopted in the Bank's financial statements for the period starting on January 1, 2013. The Bank's Management is in processes of assessing the impact of this standard.

#### **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.

#### **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 near 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.

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

Notes to the Consolidated Financial Statements

For the periods ended September 30, 2011 and 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

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

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.

### **NOTE 2 – ACCOUNTING CHANGES**

In August 2010, the Circular No. 3,503 was issued by SBIF, 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 No. 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 September 30, 2011 corresponds to net deferred taxes of MCh\$ 11,823.

During the nine months ended September 30, 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

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### **NOTE 3 – SIGNIFICANT EVENTS**

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

During the one hundredth sixty second Board meeting held on January 27, 2011, Pablo Mayorga Vásquez resigned to his position as the Company's director to hold the position of General Manager from April 1, 2011. These changes were approved by the Board meeting. Given the necessity of appointing the Company's General Manager for the period from March 1, 2011 to March 31, 2011, the Board meeting unanimously agreed to appoint Mr. Miguel Gerardo Howlin as acting General Manager for that period.

The tenth fourth annual Shareholder meeting held on March 15, 2011 agreed, among other things, the renewal of the Board, which remained as follows:

Titular director	Deputy directors
- Juan José Ruiz González	- Oscar González Narbona
- Eduardo Javier de las Heras Val	- Gustavo Villagrán Maquilef
- Sebastián del Campo Edwards	- María Dolores Peralta Rubio
- Max Diulus	- Pascal Biville
- Carlos A. Curi	- Dominique Lienart
- Cécile Besse Advani	- Martial Hervé Paul Godet

During the one hundredth sixty fourth Board meeting held on March 21, 2011, the positions of Chairman and Vice-president of the Company's Board were renewed, with Mr. Juan José Ruiz González and Mr. Max Diulus being selected, respectively.

During the Board meeting held on April 20, 2011, the Company's Board has made the following decisions concerning its composition:

- 1) The resignation of Mr. Sebastián del Campo Edwards to the Board of Directors has been accepted.
- 2) The resignation of Mr. Eduardo Javier de las Heras Val to the Board of Directors has been accepted.
- 3) Mr. Juan Carlos Méndez González and Jorge Rodríguez Grossi are appointed as substituting directors.
- 4) The resignation of Ms. María Dolores Peralta Rubio and Mr. Gustavo Villagrán Manquilef to the position of Deputy Director has been accepted.

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

Notes to the Consolidated Financial Statements

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The extraordinary shareholder meeting held on, Tuesday, May 24, 2011 in Santiago proceeded to the overall renewal of the Board of Directors, which remained as follows:

Titular director	Deputy directors
- Juan José Ruiz González	- Oscar González Narbona
- Juan Carlos Méndez González	- Eduardo de las Heras Val
- Jorge Rodríguez Grossi	- Sebastián del Campo Edwards
- Max Diulius	- Pascal Biville
- Carlos A. Curi	- Dominique Lienart
- Cécile Besse Advani	- Martial Hervé Paul Godet

During the Board meeting held on May 30, 2011, the positions of Chairman and Vice-president of the Company's Board were renewed, with Mr. Juan Carlos Méndez González being selected as Chairman and Mr. Max Diulius as Vicepresident; the substitutes are Mr. Javier de las Heras Val and Mr. Pascal Biville, respectively.

### **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. On May 3, 2011 the Company was wound up.

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

On April 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.

### **d) Issue of subordinated bond**

During June 2011, the Bank issued a 30-year subordinate bond amounting to UF 2 million , at a 3.76% issue rate per annum, with semi-annually interest payments, and a 25-year grace period for the principal.

### **e) Profit distribution of BancoEstado for 2010**

Through Res. No.38 dated August 26, 2011 of the Treasury Department and as set forth in D.L. No.2,079 of 1978 BancoEstado was authorized to capitalize MCh\$61,307 and allocate the sum of MCh\$15,327 in benefit of the State, corresponding to 20% of net profits produced in year 2010.

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

Notes to the Consolidated Financial Statements

For the periods ended September 30, 2011 and 2010 and December 31, 2010

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### **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

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(In millions of Chilean pesos – MCh\$)

### NOTE 4 – OPERATING SEGMENT (Continued)

Results by segment as of September 30, 2011 and 2010 are the following:

Income	September 30, 2011					September 30, 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\$
<b>Net interest income</b>	130,098	275,308	16,975	35,184	457,565	72,735	234,534	43,148	26,350	376,767
Net fee and commission income	20,139	102,540	6,776	(7,094)	122,361	21,992	83,015	1,992	153	107,152
Net income from financial operations	6,392	2	46,106	-	52,500	3,175	3,198	(25,686)	-	(19,313)
Foreign exchange income (expense), net	2,120	1,926	(9,556)	5	(5,505)	1,853	1,961	53,968	6	57,788
Other operating income	140	1,408	-	5,033	6,581	130	1,626	-	5,801	7,557
<b>Total operating income</b>	158,889	381,184	60,301	33,128	633,502	99,885	324,334	73,422	32,310	529,951
Provisions for loan losses	(20,338)	(59,946)	3,993	(86,250)	(162,541)	(10,673)	(79,500)	913	(2,659)	(91,919)
<b>Net operating income</b>	138,551	321,238	64,294	(53,122)	470,961	89,212	244,834	74,335	29,651	438,032
Operating expenses					(346,106)					(305,855)
Other operating expenses					(6,522)					(30,401)
<b>Total operating expenses</b>					(352,628)					(336,256)
<b>Operating income</b>					118,333					101,776
Income (loss) from investments in other companies					1,003					516
<b>Income before income tax</b>					119,336					102,292



## BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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### NOTE 4 – OPERATING SEGMENT (Continued)

The statements of financial position by segment as of September 30, 2011 and December 31, 2010 are the following:

	September 30, 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\$	Total MCh\$
<b>ASSETS</b>										
Cash and deposits in banks	-	-	2,319,019	-	2,319,019	-	-	2,025,077	-	2,025,077
Unsettled transactions	-	-	438,838	-	438,838	-	-	203,341	-	203,341
Trading investments	-	-	1,374,418	-	1,374,418	-	-	1,293,963	-	1,293,963
Loans and accounts receivables from customers, net	5,022,449	6,916,998	-	77	11,939,524	4,464,993	6,618,302	73	80	11,083,448
Available for sale investments	23,429	-	2,629,915	-	2,653,344	30,424	-	3,057,537	-	3,087,961
Other assets	122,517	5,003	681,370	942,491	1,751,381	41,185	2	310,510	756,348	1,108,045
<b>TOTAL ASSETS</b>	<b>5,168,395</b>	<b>6,922,001</b>	<b>7,443,560</b>	<b>942,568</b>	<b>20,476,524</b>	<b>4,536,602</b>	<b>6,618,304</b>	<b>6,890,501</b>	<b>756,428</b>	<b>18,801,835</b>
<b>LIABILITIES</b>										
Deposits and other demands liabilities	2,444,279	906,427	37,371	189,686	3,577,763	3,200,723	890,131	41,321	167,180	4,299,355
Unsettled transactions	-	-	364,467	-	364,467	-	-	146,001	-	146,001
Time deposits and other liabilities	4,432,914	3,391,773	2,325,152	53,376	10,203,215	3,469,364	3,041,113	1,833,323	1,602	8,345,402
Interbank borrowings	-	-	828,594	-	828,594	-	-	601,527	-	601,527
Debt issued instruments	-	-	3,237,762	-	3,237,762	-	-	3,368,096	-	3,368,096
Other liabilities	411,299	20,631	307,646	499,118	1,238,694	472,515	6,912	158,106	468,742	1,106,275
<b>TOTAL LIABILITIES</b>	<b>7,288,492</b>	<b>4,318,831</b>	<b>7,100,992</b>	<b>742,180</b>	<b>19,450,495</b>	<b>7,142,602</b>	<b>3,938,156</b>	<b>6,148,374</b>	<b>637,524</b>	<b>17,866,656</b>
<b>EQUITY</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,026,029</b>	<b>1,026,029</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>935,179</b>	<b>935,179</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>7,288,492</b>	<b>4,318,831</b>	<b>7,100,992</b>	<b>1,768,209</b>	<b>20,476,524</b>	<b>7,142,602</b>	<b>3,938,156</b>	<b>6,148,374</b>	<b>1,572,703</b>	<b>18,801,835</b>

## BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

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### 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>30/09/2011</b>	<b>31/12/2010</b>
	MCh\$	MCh\$
<b>Cash and bank deposits</b>		
Cash	231,370	253,580
Deposits in the Chilean Central Bank	193,913	1,024,877
Deposits in domestic banks	800	280
Deposits foreign	<u>1,892,936</u>	<u>746,340</u>
<b>Subtotal cash and deposits in banks</b>	<u>2,319,019</u>	<u>2,025,077</u>
Unsettled transactions	74,371	57,340
High liquidity financial instruments (1)	282,367	725,676
Repurchase contracts (2)	<u>5,001</u>	<u>13,811</u>
<b>Total cash and cash equivalents</b>	<u><u>2,680,758</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\$ 253,622 and MCh\$ 251,906 at September 30, 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**

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**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 September 30, 2011 and December 31, 2010, these unsettled transactions are as follows:

	<b>30/09/2011</b>	<b>31/12/2010</b>
	MCh\$	MCh\$
<b>Assets:</b>		
Outstanding notes from other banks (clearing)	51,286	29,585
Funds receivable	387,552	173,756
	<u>438,838</u>	<u>203,341</u>
<b>Subtotal assets</b>		
<b>Liabilities:</b>		
Funds payable	364,467	146,001
	<u>364,467</u>	<u>146,001</u>
<b>Subtotal liabilities</b>		
<b>Operations with settlement ongoing, net</b>	<u>74,371</u>	<u>57,340</u>

**NOTE 6 – PORTFOLIO SALES**

As of September 30, 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. 20,027. 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>December 31, 2010</b>	<b>N°</b>	<b>Par</b>	<b>Sales</b>	<b>Release of</b>	<b>Gain</b>
	<b>transactions</b>	<b>value</b>	<b>value</b>	<b>provisions</b>	<b>on sale</b>
		MCh\$	MCh\$	MCh\$	MCh\$
UCSG portfolio	18.574	27.053	37.349	(1.095)	11.391
Others	-	-	-	-	-
<b>Total</b>	<u>18.574</u>	<u>27.053</u>	<u>37.349</u>	<u>(1.095)</u>	<u>11.391</u>

**BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES**

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

The detail and movement of fixed assets as of September 30, 2011 and December 31, 2010 are set forth in the following tables:

<b>September 30, 2011</b>	<b>Land and buildings MCh\$</b>	<b>Equipment MCh\$</b>	<b>Other MCh\$</b>	<b>Total MCh\$</b>
<b>Cost</b>				
Balances at January 1, 2011	195,710	67,122	46,160	308,992
Additions	71	441	24,826	25,338
Withdrawals / Disposals	(491)	(55)	(705)	(1,251)
Transfers	3,270	17,151	(33,494)	(13,073)
Other	-	-	54	54
<b>Subtotal</b>	<u>198,560</u>	<u>84,659</u>	<u>36,841</u>	<u>320,060</u>
<b>Accumulated depreciation Impairment</b>	<u>(15,818)</u>	<u>(58,478)</u>	<u>(12,170)</u>	<u>(86,466)</u>
<b>Balances at September 30, 2011</b>	<u><u>182,742</u></u>	<u><u>26,181</u></u>	<u><u>24,671</u></u>	<u><u>233,594</u></u>
<b>December 31, 2010</b>	<b>Land and buildings MCh\$</b>	<b>Equipment MCh\$</b>	<b>Other MCh\$</b>	<b>Total MCh\$</b>
<b>Cost</b>				
Balances at January 1, 2010	194,117	61,313	21,608	277,038
Additions	1,649	5,964	24,557	32,170
Withdrawals / Disposals	(56)	(155)	(65)	(276)
Transfers	-	-	-	-
Other	-	-	60	60
<b>Subtotal</b>	<u>195,710</u>	<u>67,122</u>	<u>46,160</u>	<u>308,992</u>
<b>Accumulated depreciation Impairment</b>	<u>(13,442)</u>	<u>(49,536)</u>	<u>(10,424)</u>	<u>(73,402)</u>
<b>Balances at December 31, 2010</b>	<u><u>182,268</u></u>	<u><u>17,586</u></u>	<u><u>35,736</u></u>	<u><u>235,590</u></u>

**BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES**

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

As of September 30, 2011 and December 31, 2010, the detail of issued debt instruments and other financial liabilities is as follows:

	<b>30/09/2011</b>	<b>31/12/2010</b>
	MCh\$	MCh\$
<b>Other financial obligations</b>		
Bonds payable	-	-
Other obligations in the country	22,608	5,514
Borrowings abroad	-	-
	<u>22,608</u>	<u>5,514</u>
<b>Total</b>	<u>22,608</u>	<u>5,514</u>
<b>Debt issued instruments</b>		
Mortgage finance bonds	1,468,029	1,588,671
Senior bonds	1,247,943	1,301,112
Subordinated bonds	521,790	472,799
	<u>3,237,762</u>	<u>3,362,582</u>
<b>Total</b>	<u>3,237,762</u>	<u>3,362,582</u>
<b>Total</b>	<u><u>3,260,370</u></u>	<u><u>3,368,096</u></u>

**NOTE 9 – ADDITIONAL PROVISIONS**

The additional provisions are designed to cover any costs incurred during the normal course of business. As of September 30, 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><u>91,562</u></u>
Balance at January 1, 2011	91,562
Provisions set-up (credit)	84,351
Provision application (debit)	(22,557)
	<u>153,356</u>
Balance at September 30, 2011	<u><u>153,356</u></u>

**BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the periods ended September 30, 2011 and 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

**NOTE 10 – CONTINGENCIES AND COMMITMENTS**

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>30/09/2011</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	87,057	89,042
Confirmed foreign letters of credit	36,436	8,238
Issued documented letters of credit	72,835	63,640
Performance bonds	341,855	270,281
Interbank letters of credit	-	-
Immediately available lines of credit	545,067	459,861
Amount of committed credits and not placed	-	-
Other credit commitments	-	-
Credits for higher education Law No. 20,027	266,553	262,973
Others	112,808	216,299
Other contingent credits	-	-
<b>Operations on account of third parties</b>		
Collections:		
Foreign collections	9,648	6,175
Local collections	44,693	32,563
Placement or sale of financial instruments		
Placement of securities for public bid	-	-
Sale of letters of credit 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	446,049	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	1,692,255	1,766,115
Securities held in custody deposited in another entity	2,517,207	1,221,371
Securities issued by the Bank:		
Promissory notes of time deposits	2,248,184	1,731,375
Letters of credit for sale	-	9,996
Other documents	-	-
<b>Commitments</b>		
Guarantees for underwriting operations	-	-
Commitments for assets purchase	-	-
<b>Total</b>	<b><u>8,420,647</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 September 30, 2011 and 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

**NOTE 10 – CONTINGENCIES AND COMMITMENTS (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 September 30, 2011 and December 31, 2010, the Bank, New York branch and its subsidiaries have recognized provisions for these concepts amounting to MCh\$ 5,276 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	30/09/2011		31/12/2010	
	Nr.	Provision amount MCh\$	Nr.	Provision amount MCh\$
Labor	68	1,572	77	1,281
Civil	306	3,704	265	3,060
<b>Total</b>	<b>374</b>	<b>5,276</b>	<b>342</b>	<b>4,341</b>

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

At September 30, 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

	30/09/2011 MCh\$	31/12/2010 MCh\$
Financial assets in guarantee CCLV, Santiago Stock Exchange	4,225	5,259
Shares in guarantee for the Santiago Stock Exchange	12,136	6,083
<b>Total</b>	<b>16,361</b>	<b>11,342</b>

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

Notes to the Consolidated Financial Statements

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(In millions of Chilean pesos – MCh\$)

### **NOTE 10 – CONTINGENCIES AND COMMITMENTS (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 September 30, 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	:	4590544
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, 2012.

#### **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. No. 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 September 30, 2011 and 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

### NOTE 10 – CONTINGENCIES AND COMMITMENTS (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	11/1/2011	10/1/2012
Fondo Mutuo Corporativo BancoEstado	UF	105,226.94	11/1/2011	10/1/2012
Fondo Mutuo Solvente BancoEstado	UF	89,027.59	11/1/2011	10/1/2012
Fondo Mutuo Compromiso BancoEstado	UF	27,541.94	11/1/2011	10/1/2012
Fondo Mutuo Conveniencia BancoEstado	UF	14,752.98	11/1/2011	10/1/2012
Fondo Mutuo Protección BancoEstado	UF	22,687.09	11/1/2011	10/1/2012
Fondo Mutuo BancoEstado Acciones Nacionales	UF	15,668.28	11/1/2011	10/1/2012
F.M. BancoEstado Garantizado Doble Oportunidad	UF	10,000.00	10/1/2011	6/11/2011
F.M. BancoEstado BNP Paribas Renta Emergentes	UF	10,000.00	10/1/2011	10/1/2012
F.M. BancoEstado BNP Paribas Renta Desarrollada	UF	10,000.00	10/1/2011	10/1/2012
F.M. BancoEstado BNP Paribas Acciones Emergentes	UF	10,000.00	10/1/2011	10/1/2012
F.M. BancoEstado BNP Paribas Acciones Desarrollada	UF	10,000.00	10/1/2011	10/1/2012
F.M. BancoEstado BNP Paribas Acciones Mas Renta Bicentenario	UF	10,000.00	10/1/2011	10/1/2012
Fondo Mutuo BancoEstado Perfil Dinamico A	UF	10,000.00	8/2/2011	10/1/2012
Fondo Mutuo BancoEstado Perfil Tradicional C	UF	10,000.00	8/2/2011	10/1/2012
Fondo Mutuo BancoEstado Perfil Moderado E	UF	10,000.00	8/2/2011	10/1/2012
F.M.Garantizado Doble Oportunidad	MCh\$	14,725	3/8/2011	6/11/2011

##### 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 September 30, 2011 and 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

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

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

	<b>30/09/2011</b>	<b>31/12/2010</b>
	MCh\$	MCh\$
Guarantees and deposits	87.057	89.042
Document letter of credit	109.271	71.878
Performance bonds	341.855	270.281
Amounts available for users of credit cards	545.067	459.861
Amount of committed credits and not placed	67.648	117.932
Credits for higher education Law No. 20,027	266.553	262.973
Others	45.160	98.367
Provisions established	<u>(16.951)</u>	<u>(2.769)</u>
Total	<u>1.445.660</u>	<u>1.367.565</u>

## BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the periods ended September 30, 2011 and 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	30/09/2011			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%
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:

	30/09/2011			31/12/2010		
	Productive companies MCh\$	Investment companies MCh\$	Natural persons MCh\$	Productive companies MCh\$	Investment companies MCh\$	Natural persons MCh\$
<b>Loans and accounts receivable</b>						
Commercial loans	21,909	2	301	70	389	314
Mortgage loans	-	-	4,119	-	-	4,249
Consumer loans	-	-	305	-	-	170
<b>Gross loans</b>	<b>21,909</b>	<b>2</b>	<b>4,725</b>	<b>70</b>	<b>389</b>	<b>4,733</b>
Allowance for loan losses	(16)	-	(31)	(1)	(4)	(24)
<b>Loans – net</b>	<b>21,893</b>	<b>2</b>	<b>4,694</b>	<b>69</b>	<b>385</b>	<b>4,709</b>
<b>Contingent credits:</b>						
Total contingent credits	33,514	8,767	36	25,803	8,387	33
Allowances for contingent loans	(109)	(27)	-	(23)	(3)	-
<b>Contingent loans, net</b>	<b>33,405</b>	<b>8,740</b>	<b>36</b>	<b>25,780</b>	<b>8,384</b>	<b>33</b>

**BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

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

## c) Other assets and liabilities with related parties

	<b>30/09/2011</b>	<b>31/12/2010</b>
	MCh\$	MCh\$
<b>Assets</b>		
Financial derivative contracts	-	-
Other assets	17	-
<b>Liabilities</b>		
Financial derivative contracts	-	-
Demand deposits	51,876	1,300
Time deposits and other loans	774,648	42,534
Other liabilities	-	-

## d) Results of transactions with related parties

<b>Type of revenue or expense</b>	<b>30/09/2011</b>		<b>30/09/2010</b>	
	<u>Income</u>	<u>Expense</u>	<u>Income</u>	<u>Expense</u>
	MCh\$	MCh\$	MCh\$	MCh\$
Interest income and expenses	2,639	(807)	805	(182)
Income and expenses from commissions and services	170	-	70	-
Income and loss for negotiation	-	-	-	-
Income and loss for other financial transactions	-	-	-	-
Exchange differences	30	-	32	-
Expenses from operational support	-	(565)	42	(493)
Other income and expenses	-	-	-	-
<b>Total</b>	<u>2,839</u>	<u>(1,372)</u>	<u>949</u>	<u>(675)</u>

**BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the periods ended September 30, 2011 and 2010 and December 31, 2010

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

## e) Contracts with related parties

<b>Related company</b>	<b>30/09/2011 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
Gestión 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 September 30, 2011 and 2010, remuneration received by key management personnel correspond to the following categories:

	<b>30/09/2011 MCh\$</b>	<b>30/09/2010 MCh\$</b>
Short-term payments to employees	2,361	2,160
Post-retirement payments	-	-
Other long-term renderings	-	-
Indemnities for cease of contract	26	66
Share-based payment	-	-
<b>Total</b>	<b>2,387</b>	<b>2,226</b>

**BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

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

g) Key management personnel and their related

As of September 30, 2011 and December 31, 2010, key management personnel of the Bank are as follows:

<b>Position</b>	<b>30/09/2011 Nr. of executives</b>	<b>31/12/2010 Nr. 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	6	7
General Managers of Subsidiaries	9	7
	<hr/>	<hr/>
Total	<u>26</u>	<u>25</u>

h) Transactions with key management personnel and their related

As of September 30, 2011 and 2010, the Bank performed the following transactions with key management personnels and their related and the effects are as follow:

	<b>30/09/2011 Income of key executives MCh\$</b>	<b>30/09/2010 Income of key executives MCh\$</b>
Credit cards and other services	5	-
Mortgages	-	-
Guarantees	-	-
Mortgage credits	17	38
Loans	1,289	-
Others	53	-
	<hr/>	<hr/>
Total	<u>1,364</u>	<u>38</u>

**BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the periods ended September 30, 2011 and 2010 and December 31, 2010

(In millions of Chilean pesos – MCh\$)

**NOTE 12 - SUBSEQUENT EVENTS**

Between October 1, 2011 and the date of issue of these financial statements (October 28, 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 GAÍNZA ARAGONÉS**  
Management and Accounting Manager

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