



Banco del Estado de Chile

(Santiago, Chile)

US\$5,000,000,000

Medium Term Notes Program

Under this US\$5,000,000,000 Medium-Term Notes Program (the “Program”), Banco del Estado de Chile (“BancoEstado” or the “Bank”), acting directly through its principal office in the Republic of Chile or through its New York Branch, licensed by the State of New York (the “New York Branch” and, in either case, as applicable, the “relevant Issuer” and, collectively, “the Issuers”), may from time to time issue senior unsecured medium term Notes (as defined below). As used in the Program, the terms “we”, “us” and “our” refer to the Bank. The Notes will be (i) in the case of the Bank acting through its New York Branch, offered pursuant to the exemption from registration provided by Section 3(a)(2) (the “3(a)(2) Notes”) of the Securities Act of 1933, as amended (the “Securities Act”), or offered in reliance on the exemption from registration provided by Rule 144A (the “144A Notes”) under the Securities Act (“Rule 144A”) only to qualified institutional buyers (“QIBs”), within the meaning of Rule 144A; and (ii) in the case of the Bank acting directly through its principal office in the Republic of Chile, offered outside the United States to non-U.S. persons (as such term is defined in Rule 904 under the Securities Act (a “non-U.S. person”) pursuant to Regulation S (“Regulation S”) under the Securities Act (the “Regulation S Notes” and, together with the 3(a)(2) Notes and the 144A Notes, the “Notes”), or offered in reliance on the exemption from registration provided by Rule 144A only to QIBs. The Notes will be denominated in any currency agreed between the relevant Issuer and the relevant Dealer (as defined below).

The following terms may apply to the Notes:

- Maturity of at least one year and no more than 30 years from the date of issue;
- May be subject to redemption at the relevant Issuer’s option or require repurchase at your option;
- A fixed interest rate, which may be zero if Notes are issued at a discount from the principal amount due at maturity, or a floating interest rate, or both fixed and floating rate;
- Floating interest rates may include:
 - Treasury Rate • Commercial Paper Rate • Prime Rate
 - EURIBOR • Federal Funds Rate • LIBOR

The final terms of each Note will be specified in the Final Terms (as defined herein). For more information, see “Description of the Notes”.

Each initial and subsequent purchaser of the Notes offered hereby in making its purchase will be deemed to have made certain acknowledgements, representations and agreements intended to restrict the resale or other transfer of such Notes and may in certain circumstances be required to provide confirmation of compliance with such resale or other transfer restrictions below and as set forth in “Important Notices” and “Transfer and Selling Restrictions.”

If the Final Terms in respect of any Notes includes a legend entitled “Prohibition of Sales to EEA and UK Retail Investors”, the Notes are not intended to be offered, sold or otherwise made available and should not be offered, sold or otherwise made available to retail investors in the European Economic Area (“EEA”) or the United Kingdom.

For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “MiFID II”); (ii) a customer within the meaning of Directive (EU) 2016/97 (the “Insurance Distribution Directive”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA or the United Kingdom has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA or the United Kingdom may be unlawful under the PRIIPs Regulation. Prospective investors are referred to the section headed “Important Notices” on page ii of this Prospectus.

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions contemplated herein which are applicable to a particular issuance of Notes will be set out in the relevant Final Terms relating to such Notes.

THE NOTES ARE NOT DEPOSITS. THE NOTES ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENTAL AGENCY OF CHILE, THE UNITED STATES OR ANY OTHER JURISDICTION, AND ARE SUBJECT TO INVESTMENT RISK, INCLUDING THE POSSIBLE LOSS OF PRINCIPAL. THE NOTES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION NOR HAS THE FEDERAL DEPOSIT INSURANCE CORPORATION PASSED ON THE ADEQUACY OR ACCURACY OF THE BASE PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL. THESE OBLIGATIONS ARE SUBORDINATE TO THE CLAIMS OF DEPOSITORS AND OTHER CREDITORS AS MORE FULLY DESCRIBED IN THE BASE PROSPECTUS.

Investing in the Notes involves risks. See “Risk Factors” beginning on page 7.

Application has been made to the Luxembourg Stock Exchange for Notes issued under the Program to be admitted to trading on the Luxembourg Stock Exchange’s Regulated Market and to be listed on the Official List of the Luxembourg Stock Exchange. The Luxembourg Stock Exchange’s Regulated Market is a regulated market for the purposes of the MiFID II. Notes issued under the Program may also be admitted to trading or listed on the exchange regulated market operated by the Luxembourg Stock Exchange, “EuroMTF,” any other or further stock exchange(s) or may not be admitted to trading or listed.

<i>Arranger</i>				
Deutsche Bank				
<i>Dealers</i>				
BBVA	BNP PARIBAS	BNY Mellon Capital Markets, LLC	BofA Securities	Citigroup
Commerzbank	Crédit Agricole CIB	Credit Suisse	Daiwa Capital Markets	Deutsche Bank
Deutsche Bank Securities	Goldman Sachs & Co. LLC	HSBC	Itaú BBA	J.P. Morgan
MUFG	Santander	SMBC Nikko	Standard Chartered Bank	TD Securities
UBS Investment Bank	US Bancorp	Wells Fargo Securities	Zürcher Kantonalbank	

This document comprises a Base Prospectus for the purpose of article 8.2 of the Prospectus Regulation. This Prospectus (the “Prospectus”) will be published in electronic form on the website of the Luxembourg Stock Exchange (www.bourse.lu) and on the Bank’s website <https://www.corporativo.bancoestado.cl/investor-relations/home-investor>. The contents of this website or any other website referenced in this Base Prospectus are not included by reference herein, and have not been scrutinized or approved by the Commission de Surveillance du Secteur Financier.

This Prospectus has been approved by the Commission de Surveillance du Secteur Financier, as competent authority under Regulation (EU) 2017/1129; the Commission de Surveillance du Secteur Financier only approves this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by Regulation (EU) 2017/1129; such approval should not be considered as an endorsement of the quality of the securities that are the subject of this Prospectus; and investors should make their own assessment as to the suitability of investing in the Notes. In approving this Prospectus the Commission de Surveillance du Secteur Financier assumes no responsibility as to the economic and financial soundness of the transaction and the quality or solvency of the Issuers in line with the provisions of article 6(4) of the Luxembourg Law on prospectuses for securities.

The date of this Prospectus is May 18, 2020.

TABLE OF CONTENTS

	<u>Page</u>
RESPONSIBILITY STATEMENT.....	II
IMPORTANT NOTICES	II
U.S. INFORMATION	V
NOTICE TO PERSONS IN THE UNITED KINGDOM.....	V
NOTICE TO PROSPECTIVE INVESTORS IN CHILE	VI
PROHIBITION OF SALES TO EEA RETAIL INVESTORS.....	VII
AVAILABLE INFORMATION	VIII
ENFORCEMENT OF CIVIL LIABILITIES	IX
FORWARD-LOOKING STATEMENTS	X
OVERVIEW OF THE PROGRAM	1
GENERAL DESCRIPTION OF THE PROGRAM	7
RISK FACTORS	10
DOCUMENTS INCORPORATED BY REFERENCE	34
USE OF PROCEEDS	36
PRESENTATION OF FINANCIAL INFORMATION	37
CAPITALIZATION AND INDEBTEDNESS	40
EXCHANGE RATES.....	41
EXCHANGE CONTROLS IN CHILE	43
OVERVIEW OF CONSOLIDATED FINANCIAL INFORMATION.....	44
MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION	48
BUSINESS	95
SELECTED STATISTICAL INFORMATION	117
REGULATION AND SUPERVISION	158
THE BANK.....	177
NEW YORK BRANCH.....	178
SUPERVISION AND REGULATION OF THE NEW YORK BRANCH AND THE BANK IN THE UNITED STATES	179
MANAGEMENT	183
RELATED PARTY TRANSACTIONS.....	191
DESCRIPTION OF THE NOTES.....	193
FORM OF FINAL TERMS.....	234
TAXATION	242
SPECIAL PROVISIONS RELATING TO FOREIGN CURRENCY NOTES.....	257
BOOK ENTRY CLEARANCE SYSTEMS.....	261
TRANSFER AND SELLING RESTRICTIONS.....	265
GENERAL INFORMATION.....	276
PLAN OF DISTRIBUTION.....	278
DOCUMENTS ON DISPLAY.....	279
LEGAL MATTERS	280
INDEPENDENT ACCOUNTANTS.....	281
ANNEX A –PRINCIPAL DIFFERENCES BETWEEN CHILEAN BANKING GAAP AND INTERNATIONAL FINANCIAL REPORTING STANDARDS	282
ANNEX B –PRINCIPAL DIFFERENCES BETWEEN CHILEAN GAAS AND INTERNATIONAL STANDARDS ON AUDITING.....	286
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS.....	287

RESPONSIBILITY STATEMENT

BancoEstado, with its registered office in Santiago, Chile, is solely responsible for the information given in this Prospectus. BancoEstado hereby declares that to the best of its knowledge and belief, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is in accordance with the facts and contains no omission likely to affect its import.

IMPORTANT NOTICES

Copies of Final Terms will be available at the registered office of the Issuers and the specified office set out below of each of the Paying Agents (as defined below) (save that a Final Terms relating to a Note which is neither admitted to trading on a regulated market in the European Economic Area (“EEA”) or in the United Kingdom nor offered in the EEA or in the United Kingdom in circumstances where a prospectus is required to be published under Regulation (EU) 2017/1129 (the “Prospectus Regulation”) will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the relevant Issuer and the relevant Paying Agent as to its holding of Notes and identity). Final Terms will be published on the Luxembourg Stock Exchange’s website at www.bourse.lu.

This Prospectus should be read and understood in conjunction with any supplement hereto. Full information on BancoEstado and any Notes issued under the Program is only available on the basis of the combination of this Prospectus (including any supplement) and the relevant Final Terms.

No person is or has been authorized to give any information or to make any representations, other than those contained in this Prospectus, in connection with the Program or the issue and sale of the Notes and, if given or made, such information or representations must not be relied upon as having been authorized by BancoEstado. Neither the delivery of this Prospectus nor any sale made under the Program shall, under any circumstances, create any implication that the information herein is correct as of any time subsequent to the date hereof.

None of the Dealers, or any of their respective affiliates, makes any representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this Base Prospectus and assumes no responsibility for such information. Nothing contained in this Base Prospectus is, or should be relied upon as, a promise or representation by the Dealers.

Neither this Prospectus nor any other information supplied in connection with the Program or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by either Issuer or any of the Dealers that any recipient of this Prospectus or any recipient of any other information supplied in connection with the Program or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of BancoEstado. Neither this Prospectus nor any other information supplied in connection with the Program or the issue of any Notes constitutes an offer or invitation by or on behalf of either Issuer or any of the Dealers to subscribe for or to purchase any Notes in a jurisdiction in which such offer or invitation would be prohibited.

This Prospectus is valid for a period of twelve months after its date of approval until May 18, 2021. The obligation to supplement a prospectus in the event of significant new factors, material mistakes or material inaccuracies does not apply when a prospectus is no longer valid. Neither the delivery of this Prospectus nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained in the related documents is accurate and complete subsequent to the date hereof or that there has been no adverse change in the financial condition of BancoEstado since such date or that any

other information supplied in connection with the Program is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

For so long as any Notes remain outstanding, BancoEstado will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Prospectus which is capable of affecting the assessment of any Notes, prepare a supplement to this Prospectus or publish a new Prospectus for use in connection with any subsequent issue of Notes.

The Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States of America (the “United States”) or its possessions or to United States persons, except in certain transactions permitted by United States Treasury Regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and the regulations promulgated thereunder.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus or any Final Terms and the offer or sale of Notes may be restricted by law in certain jurisdictions. None of the Issuers or the Dealers represent that this Prospectus may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuers or the Dealers which would permit a public offering of any Notes in any jurisdiction other than each Member State of the EEA or in the United Kingdom as at the date of this Prospectus or distribution of this document in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Notes in the United States, Canada, Chile, the EEA (and, in particular, in France, Italy and the Netherlands), the United Kingdom, Australia, Hong Kong, People’s Republic of China, Korea, Taiwan, Japan, Singapore and Switzerland (see “Transfer and Selling Restrictions” on pages 261-271). In making an investment decision, investors must rely on their own examination of the relevant Issuer and the terms of the Notes being offered, including the merits and risks involved. The Notes have not been approved or disapproved by the United States Securities and Exchange Commission or any other securities commission or other regulatory authority in the United States, nor have the foregoing authorities approved this Prospectus or confirmed the accuracy or the adequacy of the information contained in this Prospectus. Any representation to the contrary is unlawful.

In particular, Notes have not been and will not be registered under the Securities Act and may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons unless the Notes are registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available. See “Description of the Notes—Form of Notes” for a description of the manner in which Notes will be issued. Registered Notes are subject to certain restrictions on transfer (see “Transfer and Selling Restrictions”). Registered Notes may be offered or sold within the United States only to QIBs (as defined under “Description of the Notes—Form of Notes”) in transactions exempt from registration under the Securities Act (see “U.S. Information” below).

Neither this Prospectus nor any Final Terms may be used for the purpose of an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or to any person to whom it is unlawful to make such an offer or solicitation.

Neither this Prospectus nor any Final Terms constitutes an offer or an invitation to subscribe for or purchase any Notes in a jurisdiction in which such offer or invitation would be prohibited and should not be considered as a recommendation or a statement of an opinion (or a report of either of those things) by either Issuer, the Dealers or any of them that any recipient of this Prospectus or any Final Terms should subscribe for or purchase any Notes. Each recipient of this Prospectus or any Final Terms shall be taken to have made its own appraisal of the condition (financial or otherwise) of the relevant Issuer.

None of the Dealers or any Issuer makes any representation to any purchaser of the Notes regarding the legality of its investment under any applicable laws. Any purchaser of the Notes should be able to bear the economic risk of an investment in the Notes for an indefinite period of time.

The Prospectus may only be delivered to potential investors together with all supplements published before such delivery. Any supplement to the Prospectus is available for viewing in electronic form on the website of the Luxembourg Stock Exchange (www.bourse.lu). When using the Prospectus, each Dealer and/or relevant further financial intermediary must make certain that it complies with all applicable laws and regulations in force in the respective jurisdictions.

Amounts payable under the Notes may be calculated by reference to the London Interbank Offered Rate (“LIBOR”) or the Euro Interbank Offered Rate (“EURIBOR”), which are provided by ICE Benchmark Administration Limited and the European Money Markets Institute, respectively.

In the event of an offer being made by a Dealer and/or a further financial intermediary, the Dealer and/or the further financial intermediary shall provide information to investors on the terms and conditions of the Notes at the time of that offer.

Rating

Moody’s Investors Service, Inc. (“Moody’s”) has assigned an A1 long-term and a P-1 short-term issuer credit ratings to the Bank and an A1 rating to the Program. Standard & Poor’s Ratings Service, a division of The McGraw-Hill Companies, Inc. (“Standard & Poor’s”), has assigned an A+ long-term and an A-1 short-term issuer credit ratings to the Bank and an A+ rating to the Program. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by Moody’s and/or Standard & Poor’s.

Moody’s ratings definitions:

- Long-term and Program: Moody’s long-term obligation ratings are opinions of the credit risk or fixed income obligations with an original maturity of one year or more. Obligations rated ‘A’ are considered upper-medium-grade and are subject to lower credit risk.
- Short-term: Issuers (or supporting institutions) rated Prime-1 have a superior ability to repay short-term debt obligations.

Standard & Poor’s ratings definitions:

- Long-term and Program: an obligor or an obligation rated 'A' has strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher-rated categories. The addition of a plus (+) or minus (-) sign to show relative standing within the rating categories.

- Short-term: An obligor rated 'A-1' has strong capacity to meet its financial commitments. It is rated in the highest category by S&P Global Ratings.

As of the date of this Prospectus, these credit rating agencies were not registered in accordance with the Regulation (EC) No. 1060/2009 (as amended or superseded, the “CRA Regulation”) of the European Parliament and of the Council of 16 September 2009 on credit rating agencies nor had the ratings given by these agencies been endorsed by a credit rating agency established in the European Union and registered under the CRA Regulation. The European Securities and Markets Authority publishes on its website (www.esma.europa.eu) a list of credit rating agencies registered in accordance with the CRA Regulation. That list is updated within five working days following the adoption of a decision under Article 16, 17 or 20 CRA Regulation. The European Commission shall publish that updated list in the Official Journal of the European Union within 30 days following such update.

U.S. INFORMATION

The 3(a)(2) Notes are not required to be registered under the Securities Act, and have not been registered under the Securities Act, the state securities laws of any state of the United States or the securities laws of any other jurisdiction.

If 144A Notes are issued pursuant to this Prospectus, the Prospectus will be provided in the United States on a confidential basis to a limited number of QIBs for informational use solely in connection with the consideration of the purchase of the Notes being offered hereby. Its use for any purpose in the United States other than in connection with such 144A Notes issuance is not authorized. It may not be copied or reproduced in whole or in part nor may it be distributed or any of its contents disclosed to anyone other than the prospective investors to whom it is originally submitted.

The 144A Notes may be offered or sold within the United States only to QIBs in transactions exempt from registration under the Securities Act. Each U.S. purchaser of 144A Notes in fully registered form is hereby notified that the offer and sale of any such registered Notes to it may be made in reliance upon the exemption from the registration requirements of the Securities Act provided by Rule 144A under the Securities Act.

Each purchaser or Noteholder represented by a Rule 144A Global Note (as defined under “Registered Notes” below) or any Notes issued in registered form in exchange or substitution therefor (together “Legended Notes”) will be deemed, by its acceptance or purchase of any such Legended Notes, to have made certain representations and agreements intended to restrict the resale or other transfer of such Notes as set out in “Transfer and Selling Restrictions.” Unless otherwise stated, terms used in this paragraph have the meanings given to them in “Description of the Notes—Forms of Notes.”

NOTICE TO PERSONS IN THE UNITED KINGDOM

This communication has not been approved by an authorized person for the purposes of Section 21 of the Financial Services and Markets Act 2000 (the “FSMA”). This communication is only being distributed to and is only directed at (i) persons who are outside the United Kingdom; or (ii) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”); or (iii) persons falling within Articles 49(2)(a) to (d) (“high net worth companies, unincorporated associations, etc.”) of the Order; or (iv) persons to whom an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) in connection with the issue or sale of the Notes may otherwise lawfully be

communicated or caused to be communicated (all such persons together being referred to as “relevant persons”). This communication is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this communication relates is available only to relevant persons and will be engaged in only with relevant persons.

Each Dealer has represented and agreed, and each further Dealer appointed under the Program will be required to represent and agree, that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

NOTICE TO PROSPECTIVE INVESTORS IN CHILE

THE OFFER OF THE NOTES IS SUBJECT TO CMF NORMA DE CARÁCTER GENERAL N° 336 DATED JUNE 27, 2012 (“CMF RULE 336”). THE NOTES BEING OFFERED WILL NOT BE REGISTERED UNDER LAW NO. 18,045 ON SECURITIES MARKET (THE “SECURITIES MARKET ACT”) IN THE SECURITIES REGISTRY (*REGISTRO DE VALORES*) OR IN THE FOREIGN SECURITIES REGISTRY (*REGISTRO DE VALORES EXTRANJEROS*) OF THE *COMISIÓN PARA EL MERCADO FINANCIERO* (THE “COMMISSION FOR THE FINANCIAL MARKET” OR “CMF”) (FORMERLY THE *SUPERINTENDENCIA DE VALORES Y SEGUROS* OR “SVS”) AND, THEREFORE, THE NOTES ARE NOT SUBJECT TO THE SUPERVISION OF THE CMF. AS UNREGISTERED SECURITIES, WE ARE NOT REQUIRED TO DISCLOSE PUBLIC INFORMATION ABOUT THE NOTES IN CHILE. ACCORDINGLY, THE NOTES CANNOT AND WILL NOT BE PUBLICLY OFFERED TO PERSONS IN CHILE, UNLESS THEY ARE REGISTERED IN THE CORRESPONDING SECURITIES REGISTRY. THE NOTES MAY ONLY BE OFFERED IN CHILE IN CIRCUMSTANCES THAT DO NOT CONSTITUTE A “PUBLIC OFFERING” (AS DEFINED UNDER THE SECURITIES MARKET ACT) OR IN COMPLIANCE WITH CMF RULE 336. PURSUANT TO CMF RULE 336, THE NOTES MAY BE PRIVATELY OFFERED IN CHILE TO CERTAIN CHILEAN “QUALIFIED INVESTORS” (WHICH IN TURN ARE FURTHER DESCRIBED IN *NORMA DE CARÁCTER GENERAL* NO. 216, DATED JUNE 12, 2008 AND IN *NORMA DE CARÁCTER GENERAL* NO. 410, DATED JULY 27, 2016, BOTH ISSUED BY THE CMF, SUCH AS BANKS, PENSION FUNDS AND INSURANCE COMPANIES) WHICH ARE REQUIRED TO COMPLY WITH SPECIFIC RESTRICTIONS RELATING TO THE PURCHASE OF THE NOTES.

LA OFERTA DE LOS BONOS SE ACOGE A LA NORMA DE CARÁCTER GENERAL N°336 DE FECHA 27 DE JUNIO DE 2012 DE LA CMF. LOS BONOS OFRECIDOS NO ESTARÁN INSCRITOS BAJO LA LEY N° 18.045 DE MERCADO DE VALORES EN EL REGISTRO DE VALORES O EN EL REGISTRO DE VALORES EXTRANJEROS QUE LLEVA LA CMF, POR LO QUE TALES VALORES NO ESTÁN SUJETOS A LA FISCALIZACIÓN DE ÉSTA. POR TRATARSE DE VALORES NO INSCRITOS, NO EXISTE OBLIGACIÓN POR PARTE DEL EMISOR DE ENTREGAR EN CHILE INFORMACIÓN PÚBLICA RESPECTO DE ESTOS VALORES. LOS BONOS NO PODRÁN SER OBJETO DE OFERTA PÚBLICA EN CHILE MIENTRAS NO SEAN INSCRITOS EN EL REGISTRO DE VALORES CORRESPONDIENTE. LOS BONOS SOLO PODRÁN SER OFRECIDOS EN CHILE EN CIRCUNSTANCIAS QUE NO CONSTITUYAN UNA “OFERTA PÚBLICA” (SEGUN SE DEFINE EN LA LEY N° 18.045 DE MERCADO DE VALORES) O CUMPLIENDO CON LO DISPUESTO EN LA NORMA

DE CARÁCTER GENERAL N°336 DE LA CMF. EN CONFORMIDAD CON LO DISPUESTO POR LA NORMA DE CARÁCTER GENERAL N°336, LOS BONOS PODRÁN SER OFRECIDOS PRIVADAMENTE A CIERTOS “INVERSIONISTAS CALIFICADOS,” IDENTIFICADOS COMO TAL EN DICHA NORMA (Y QUE A SU VEZ ESTÁN DESCRITOS EN LA NORMA DE CARÁCTER GENERAL N°216 DE LA CMF DE FECHA 12 DE JUNIO DE 2008 Y EN LA NORMA DE CARÁCTER GENERAL N°410 DE LA CMF DE FECHA 27 DE JULIO DE 2016, TALES COMO BANCOS, FONDOS DE PENSIONES Y COMPAÑÍAS DE SEGURO), LOS QUE REQUIEREN CUMPLIR CON RESTRICCIONES ESPECÍFICAS EN RELACIÓN A LA COMPRA DE LOS BONOS.

PROHIBITION OF SALES TO EEA AND UNITED KINGDOM RETAIL INVESTORS

Unless the Final Terms in respect of any Notes specifies the “Prohibition of Sales to EEA and UK Retail Investors” as “Not Applicable”, each Dealer has represented and agreed, and each further Dealer appointed under the Program will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by the Prospectus as completed by the Final Terms in relation thereto to any retail investor in the European Economic Area or in the United Kingdom. For the purposes of this provision:

- (a) the expression retail investor means a person who is one (or more) of the following:
 - (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or
 - (ii) a customer within the meaning of Directive (EU) 2016/97 (the Insurance Distribution Directive), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

MIFID II PRODUCT GOVERNANCE / TARGET MARKET

The Final Terms in respect of any Notes may include a legend entitled “MiFID II Product Governance” which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a “distributor”) should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the “MiFID Product Governance Rules”), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

NOTIFICATION UNDER SECTION 309B OF THE SECURITIES AND FUTURES ACT (CHAPTER 289) OF SINGAPORE

Unless otherwise stated in the Final Terms, in connection with Section 309B of the SFA and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the “CMP Regulations 2018”), the issuer has determined the classification of the Notes as prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA

04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

BENCHMARK REGULATION

Interest and/or other amounts payable under the Notes may be calculated by reference to certain reference rates. Any such reference rate may constitute a benchmark for the purposes of Regulation (EU) 2016/1011 (the “Benchmark Regulation”). If any such reference rate does constitute such a benchmark, the relevant Final Terms will indicate whether or not the benchmark is provided by an administrator included in the register of administrators and benchmarks established and maintained by ESMA pursuant to Article 36 (Register of administrators and benchmarks) of the Benchmark Regulation. Transitional provisions in the Benchmark Regulation may have the result that the administrator of a particular benchmark is not required to appear in the register of administrators and benchmarks at the date of the relevant Final Terms. The registration status of any administrator under the Benchmark Regulation is a matter of public record and, save where required by applicable law, the Issuer does not intend to update the relevant Final Terms to reflect any change in the registration status of the administrator.

AVAILABLE INFORMATION

To permit compliance with Rule 144A in connection with any resale or other transfers of Notes that are “restricted securities” within the meaning of the Securities Act, the Issuers have undertaken in the Dealer Agreement dated January 25, 2012, as amended (the “Dealer Agreement”), to furnish, upon the request of a holder of such Notes or any beneficial interest therein, to such holder or to a prospective purchaser designated by him, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if, at the time of the request, the relevant Issuer is neither a reporting company under Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”) nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

ENFORCEMENT OF CIVIL LIABILITIES

BancoEstado is an autonomous state banking enterprise created and organized under the laws of Chile. BancoEstado is 100% owned by the Republic of Chile. Substantially all of the members of the BancoEstado's *Consejo Directivo* (or Board of Directors) and *Comité Ejecutivo* (or Executive Committee) and certain experts named herein reside in Chile, and all or a significant portion of the BancoEstado's assets and the assets of such members of the Board of Directors and Executive Committee, officers and experts are located in Chile. As a result, it may not be possible for investors to effect service of process within the United States upon such persons or against BancoEstado or to enforce against them in United States courts judgments predicated upon the civil liability provisions of the federal securities laws of the United States. BancoEstado has been advised by its Chilean counsel, Claro & Cía., that no treaty exists between the United States and Chile for the reciprocal enforcement of foreign judgments. Chilean courts, however, have enforced judgments rendered in the United States by virtue of the legal principles of reciprocity and comity, subject to the review in Chile of the U.S. judgment in order to ascertain whether certain basic principles of due process and public policy have been respected without reviewing the merits of the subject matter of the case. If a U.S. court grants a final judgment, enforceability of this judgment in Chile will be subject to obtaining the relevant exequatur (*i.e.*, recognition and enforcement of the foreign judgment) according to Chilean civil procedure law in force at that time and, consequently, subject to the satisfaction of certain factors. As of the date of this Prospectus, the most important of these factors are the existence of reciprocity, the absence of a conflicting judgment by a Chilean court relating to the same parties and arising from the same facts and circumstances, the Chilean court's determination that the U.S. courts had jurisdiction, that process was appropriately served on the defendant and that the defendant was afforded a real opportunity to appear before the court and defend its case, and that enforcement would not violate Chilean public policy. Nevertheless, we have been advised by Claro & Cía. that there is doubt as to the enforceability, in original actions in Chilean courts, of liabilities predicated solely upon U.S. federal securities laws and as to the enforceability in Chilean courts of judgments of U.S. courts obtained in actions predicated upon the civil liability provisions of the U.S. federal securities laws.

The Issuers have appointed BancoEstado's New York Branch, presently located at 400 Park Avenue, 14th Floor, New York, New York 10022, as its authorized agent upon which process may be served in any action which may be instituted in any United States federal or state court having subject matter jurisdiction in the Borough of Manhattan, The City of New York, New York arising out of or based upon the Notes or the fiscal agency agreement governing the Notes. See "Description of the Notes."

STABILIZATION

In connection with the issue of any Tranche (as defined below) of Notes under the Program, the Dealer or Dealers (if any) named as the stabilizing manager(s) (or persons acting on behalf of any stabilizing manager(s)) in the applicable Final Terms may, outside Australia (and on a market operated outside Australia) and in accordance with applicable law, over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the stabilizing manager(s) (or persons acting on behalf of a stabilizing manager) will undertake stabilization action. Any stabilization action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilization action or over-allotment must be conducted by the relevant stabilizing manager(s) (or person(s) acting on behalf of any stabilizing manager(s)) in accordance with all applicable laws and rules.

FORWARD-LOOKING STATEMENTS

This Prospectus contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. Examples of these forward-looking statements include statements regarding the intent, belief or current expectations of the Bank, its officers or its management with respect to:

- expectations of revenues, net income (expense), capital expenditures, dividends, capital structure, liquidity, asset portfolios or other financial items or ratios;
- statements of our plans, objectives or goals, including those relating to anticipated trends, competition, regulation and rates;
- statements about our exposure to market risks, including interest rate risk and foreign exchange risks;
- statements about our future economic performance or that of Chile or other countries in which we have investments;
- statements of assumptions underlying these statements.

Words such as “believe,” “could,” “may,” “will,” “anticipate,” “plan,” “expect,” “intend,” “target,” “estimate,” “project,” “potential,” “predict,” “forecast,” “guideline,” “should” and similar expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying these statements.

Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in these forward-looking statements. Factors that could cause actual results to differ materially and adversely, some of which are discussed under “Risk Factors,” include, but are not limited to:

- changes in general economic, business, social, political or other conditions in Chile or changes in general economic or business conditions in Latin America, including social unrest and epidemics;
- changes in capital markets in general that may affect policies or attitudes towards lending to Chile or Chilean companies or securities issued by Chilean companies;
- the monetary and interest rate policies of the *Banco Central de Chile* (the Central Bank of Chile, or the “Central Bank”);
- inflation or deflation;
- unemployment;
- unanticipated increases in financing and other costs or the inability to obtain additional debt financing on attractive terms;
- unanticipated volatility in interest rates;

- volatility in currency exchange rates;
- movements in other rates or prices;
- changes in Chilean and foreign laws and regulations;
- changes in taxes;
- competition, changes in competition and pricing environments;
- our inability to hedge certain risks economically;
- the adequacy of loss allowances or provisions;
- technological changes;
- changes in consumer spending and saving habits;
- successful implementation of new technologies;
- earthquakes, tsunamis and other natural disasters;
- the effects of a pandemic or epidemic and any subsequent mandatory regulatory restrictions or containment measures;
- loss of market share; and
- changes in, or failure to comply with banking regulations.

You are cautioned not to place undue reliance on these forward-looking statements. The forward-looking statements contained in this document speak only as of the date of this Prospectus, and we do not undertake to update any forward-looking statement to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

OVERVIEW OF THE PROGRAM

This overview must be read as an introduction to this Prospectus and any decision to invest in any Notes should be based on a consideration of this Prospectus as a whole, including any documents incorporated by reference. No civil liability will attach to the Responsible Person in any Member State of the European Economic Area in respect of this Overview, including any translation hereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus. Where a claim relating to information contained in this Prospectus is brought before a court in a Member State of the European Economic Area, the plaintiff may, under the national legislation of the Member State where the claim is brought, be required to bear the costs of translating this Prospectus before the legal proceedings are initiated.

Risk Factors

There are certain factors that may affect the ability of the relevant Issuer to fulfill its obligations under Notes issued under the Program. Such factors include liquidity, credit and event risks. In addition, there are certain factors that are material for the purpose of assessing the market risks associated with the Notes issued under the Program, including the structure of a particular issue of Notes and risks related to the market generally. See “Risk Factors” below.

The Notes and the Program

Issuers: Banco del Estado de Chile, acting either directly or through its New York Branch.

LEI (Legal Entity Identifier): 5493004R4EJC0W0XVQ72

Dealers: Deutsche Bank Aktiengesellschaft
Banco Bilbao Vizcaya Argentaria, S.A.
BBVA Securities Inc.
BNP Paribas Securities Corp.
BNY Mellon Capital Markets, LLC
BofA Securities, Inc.
Citigroup Global Markets Inc.
Commerzbank Aktiengesellschaft
Crédit Agricole Corporate and Investment Bank
Credit Suisse Securities (USA) LLC
Daiwa Capital Markets America Inc.
Deutsche Bank Securities Inc.
Goldman Sachs & Co. LLC
HSBC Securities (USA) Inc.
Itau BBA USA Securities, Inc.
J.P. Morgan Securities LLC
MUFG Securities Americas Inc.
Santander Investment Securities Inc.
Standard Chartered Bank
SMBC Nikko Securities America, Inc.
TD Securities (USA) LLC
UBS AG London Branch
UBS Securities LLC
U.S. Bancorp Investments, Inc.
Wells Fargo Securities, LLC
Zürcher Kantonalbank

Notes may also be issued to other dealers and to third parties other than dealers.

**Fiscal Agent, Non-U.S.
Paying Agent, Non-U.S.
Transfer Agent and
Exchange Agent:**

Deutsche Bank AG, London Branch

**Luxembourg Listing
Agent and Registrar:**

Deutsche Bank Luxembourg S.A.

**U.S. Paying Agent,
U.S. Registrar and
U.S. Transfer Agent:**

Deutsche Bank Trust Company Americas

Distribution:

Notes may be distributed (i) pursuant to Section 3(a)(2) of the Securities Act (only in the case of the New York Branch), (ii) to qualified institutional buyers (as defined in Rule 144A under the Securities Act) and (iii) outside the United States to persons other than U.S. persons (as such terms are defined in Regulation S under the Securities Act) (only in the case of the Bank) by way of private or public placement, in each case on a syndicated or non-syndicated basis, subject to the selling restrictions described under “Transfer and Selling Restrictions.”

Specified Currencies:

Subject to any applicable legal or regulatory restrictions, such currencies as may be agreed between the relevant Issuer and the relevant Dealer(s) (as indicated in the applicable Final Terms).

Issue Price:

Notes may be issued at an issue price which is equal to, less than or more than their principal amount (as indicated in the applicable Final Terms).

Maximum Amount:

The aggregate principal amount (or, in the case of Notes issued at a discount from the principal amount, the aggregate initial offering price) of Notes outstanding at any time shall not exceed US\$5,000,000,000 or the approximate equivalent thereof in another currency calculated as at the issue date of the relevant Notes.

Maturities:

Such maturities as may be agreed between the relevant Issuer and the relevant purchaser or Dealer (as indicated in the relevant Final Terms as the stated maturity), subject to such minimum or maximum term as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Issuer or the relevant Specified Currency (as defined herein). Notwithstanding the foregoing, Notes will have a maturity of no less than a year and no more than 30 years following the Original Issue Date (as defined below).

Form of Notes:

Notes issued by the Bank will be issued in either registered or bearer form as specified in the applicable Final Terms. Notes issued by the New York Branch will be issued in registered form.

Each Bearer Note will be represented initially by a temporary global Note, without interest coupons, or a permanent global Note, to be deposited with either a Common Safekeeper (if the global Note is intended to be issued in NGN (as defined below) form) or a Common Depositary (if the global Note is not intended to be issued in NGN form) for Euroclear and Clearstream, Luxembourg, for credit to the account designated by or on behalf of the purchaser thereof. The interests of the beneficial owner or owners in a temporary global Note will be exchangeable after the Exchange Date (as defined under “Description of the Notes—Forms of Notes”) for an interest in a permanent global Note to be held by either a Common Safekeeper (if the permanent global Note is intended to be issued in NGN form) or a Common Depositary (if the permanent global Note is not intended to be issued in NGN form) for Euroclear and Clearstream, Luxembourg, for credit to the account designated by or on behalf of the beneficial owner thereof, or for definitive Bearer Notes or for definitive Registered Notes (as defined below), as provided in the applicable Final Terms. The interests of the beneficial owner or owners in a permanent global Note will be exchangeable for definitive Bearer Notes or for definitive Registered Notes, as provided in the applicable Final Terms.

If specified in the applicable Final Terms, Notes of each Tranche will be in fully registered form (“Registered Notes”). The Registered Notes of each Tranche offered and sold in reliance on Regulation S, which will be sold to non-U.S. persons outside the United States, will initially be represented by a global note in registered form (a “Regulation S Global Note”). Prior to expiry of the distribution compliance period (as defined in Regulation S) applicable to each Tranche of Notes, beneficial interests in a Regulation S Global Note may not be offered or sold to, or for the account or benefit of, a U.S. person save as otherwise provided in the Supplement for Registered Notes and such Regulation S Global Note will bear a legend regarding such restrictions on transfer.

The Registered Notes of each Tranche offered and sold by the New York Branch pursuant to the exemption from registration provided by Section 3(a)(2) of the Securities Act will be represented by a global note in registered form (a “3(a)(2) Global Note”).

The Registered Notes of each Tranche offered and sold in the United States or to U.S. persons in exempt transactions pursuant to Rule 144A may only be offered and sold to “qualified institutional buyers” within the meaning of Rule 144A under the Securities Act. The Registered Notes of each Tranche sold to QIBs will be represented by a global note in registered form (a “Rule 144A Global Note” and, together with a 3(a)(2) Global Note and a Regulation S Global Note, the “Registered Global Notes”).

Fixed Rate Notes:

The relevant Issuer will pay interest on Fixed Rate Notes on the dates and for the interest periods specified in the applicable Final Terms. Fixed interest on Notes will be calculated on the basis of such Fixed Day Count Fraction (as defined under “Description of the Notes—Interest and Interest Rates”) as may be set forth in the applicable Final Terms.

Floating Rate Notes:

The relevant Issuer will pay interest on Floating Rate Notes on the dates and for the interest periods specified in the applicable Final Terms. Each Series of Floating Rate Notes will have one or more interest rate bases as indicated in the applicable Final Terms. Interest on Floating Rate Notes will be calculated on the basis of such Floating Day Count Fraction (as defined under “Description of the Notes—Interest and Interest Rates”) as may be set forth in the applicable Final Terms.

**Interest Period(s) or
Interest Payment Date(s)
for Floating Rate Notes:**

Such period(s) or date(s) as may be indicated in the applicable Final Terms.

Extendible Notes:

Notes may be issued with an Initial Maturity Date which may be extended from time to time upon the election of the holders on specified Election Date(s).

Redemption:

The Final Terms relating to each Tranche of Notes will indicate either that the Notes of that Series cannot be redeemed prior to its stated maturity, or that such Notes will be redeemable for taxation reasons or at the option of the relevant Issuer and/or the Noteholders upon giving not more than 60 nor less than 30 days irrevocable notice to the Noteholders or the relevant Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as contemplated in this Prospectus as are indicated in the applicable Final Terms; *provided, however*, that Notes denominated in currencies other than U.S. Dollars may be subject to different restrictions on redemption as described in “Description of the Notes—Special Provisions Relating to Foreign Currency Notes—Minimum Denominations, Restrictions on Maturities, Repayment, Repurchase and Redemption.”

**Repurchase upon
Change of Control:**

The Final Terms relating to each Tranche of Notes will indicate whether upon the occurrence of a Change of Control (as defined in “Description of the Notes—Repurchase of Notes upon Change of Control”) the relevant Issuer will be required to make an offer to each holder of the Notes of such Tranche to repurchase all of such holder’s Notes prior to their stated maturity date at a price equal to 100% of the principal amount outstanding thereof together with accrued interest; *provided, however*, that Notes denominated in currencies other than U.S. Dollars may be subject to different restrictions on repurchase as set forth under “Special Provisions Relating to Foreign Currency Notes—Minimum Denominations, Restrictions on Maturities, Repayment, Repurchase and Redemption.”

Denomination of Notes:

The minimum denomination of each 3(a)(2) Note will be U.S. \$250,000 (or equivalent thereof in other currencies) and integral multiples of U.S.\$1,000 in excess thereof. 144A Notes and Regulation S Notes may be issued in such denominations as may be agreed between the relevant Issuer and the relevant Dealer(s) and as indicated in the applicable Final Terms. If the Notes are admitted to trading on a European Economic Area or United Kingdom exchange or offered to the public in a Member State of the European Economic Area or in the United Kingdom in circumstances which require the publication of a prospectus under the Prospectus Regulation, the minimum Specified Denomination of the Notes will be Euro 100,000 (or, if the Notes are denominated in a currency other than the Euro, the equivalent amount in such currency) or such higher amount as may be allowed or required from time to time by the relevant Central Bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency.

Taxation:

All payments with respect to the Notes will be made without withholding or deduction for or on account of any taxes or other charges imposed by any governmental authority or agency in the Relevant Taxing Jurisdiction (including for the avoidance of doubt, the Republic of Chile), unless such withholding is required by law, in which case, subject to certain exceptions, we will generally pay additional amounts as may be necessary so that the net amount received by Holders after such withholding or deduction will not be less than the amount that would have been received in the absence of such withholding or deduction. See “Description of the Notes—Payment of Additional Amounts” and “Taxation.”

Status of the Notes:	Each Note will be unsecured and will be a senior debt obligation of the relevant Issuer. Notes will rank <i>pari passu</i> in right of payment with all other unsecured and unsubordinated obligations of the relevant Issuer. See “Description of the Notes—General.”
Rating:	The Notes of each Tranche issued under the Program may be rated or unrated. Where the Notes of a Tranche are rated, such rating (i) will be set out in the Final Terms and (ii) will not necessarily be the same as the rating(s) assigned to the Program. The Final Terms will set out whether the rating agency has been registered within the European Union. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.
Listing and admission to trading:	Each Series of Notes may be listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Luxembourg Stock Exchange’s Regulated Market and/or listed or admitted to trading on or by such other or additional stock exchange(s), competent authority(ies) and/or market(s) or may be unlisted, in each case as specified in the applicable Final Terms. See “Transfer and Selling Restrictions.”
Clearing System:	As specified in the applicable Final Terms.
Governing Law:	New York law.
Selling Restrictions:	<p>The 3(a)(2) Notes are not required to be registered under the Securities Act, and have not been registered under the Securities Act, the state securities laws of any state of the United States or the securities laws of any other jurisdiction.</p> <p>The 144A Notes and Regulation S Notes have not been and will not be registered under the Securities Act and are subject to transfer and selling restrictions. Accordingly, the Notes may not be offered or sold within the United States to, or for the account or benefit of, U.S. persons except in accordance with Rule 144A or outside the United States to non-U.S. persons in accordance with Regulation S under the Securities Act or pursuant to another exemption from the registration requirements of the Securities Act and any state securities laws. In addition, Notes issued in bearer form are subject to U.S. tax law requirements. For a description of certain restrictions on offers, sales and deliveries of Notes in the United States, the European Economic Area, Australia, Canada and certain other jurisdictions. See “Transfer and Selling Restrictions.”</p>
Risk Factors:	Prospective purchasers of the Notes should consider carefully all of the information set forth in this Prospectus or any supplement hereto and, in particular, the information set forth under the caption “Risk Factors” on pages 7 to 30.

Banco del Estado de Chile

We are one of the oldest financial institutions in Chile, with our predecessor starting operations in 1855, and we are wholly owned by the Republic of Chile. As of December 31, 2019, we were also the third largest financial institution in terms of aggregate loans granted in Chile and the largest in terms of the number of customers and geographic coverage (in terms of number of Chilean cities with a branch). As of December 31, 2019, we had total assets, net of allowances for loan losses, of Ch\$43,355.0 billion (US\$57.9 billion), effective net equity (which is a regulatory measure calculated in accordance with the applicable CMF guidance and includes basic capital, subordinated bonds and voluntary reserves) of Ch\$2,912.3 billion (US\$3.9 billion), deposits and other interest-bearing liabilities of Ch\$38,190.8 billion (US\$51.0 billion) and loans outstanding (net of allowances for loan losses) of Ch\$25,450.6 billion (US\$34.0 billion). In 2017,

we had net income for the year of Ch\$132.5 billion (US\$215.5 million), in 2018, we had net income for the year of Ch\$179.3 billion (US\$258.1 million) and in 2019, we had net income for the year of Ch\$182.3 billion (US\$243.5 million). During 2019, our total loans net of allowances increased 7.5%.

The Bank's purpose is to provide banking and financial services aimed at fostering the development of Chile's economic activities. Our goal is to be the bank for all Chileans, combining commercial success with our commitment to provide banking services to clients from all socioeconomic sectors, from the smallest micro-companies to the largest companies in Chile. In keeping with this objective, we have promoted economic development, encouraged saving among the general population and otherwise assisted Chile in its economic and social development.

According to information published by the CMF, as of December 31, 2019, we were the market leader in Chile in residential mortgages (in terms of the number of loans made), passbook savings (in terms of the total amount of deposits) and debit/ATM cards (in terms of transactions and number of cards). Further, according to our estimates, as of December 31, 2019, we were the market leader in higher-education loans. In addition, according to information published by the Santiago Stock Exchange, as of December 31, 2019, our brokerage subsidiary (BancoEstado Corredores de Bolsa S.A.) was the largest broker of securities traded therein in terms of volume traded, and, according to information published by the *Comisión para el Mercado Financiero* (the "Commission for the Financial Markets" or "CMF") (formerly the *Superintendencia de Valores y Seguros* or "SVS"), our insurance brokerage subsidiary (BancoEstado Corredores de Seguros S.A.) was the third largest bank broker of insurance policies in Chile in terms of commissions collected. We are also a provider of depositary services for a large number of Chilean public sector institutions, and maintain the Chilean Treasury's main operating accounts.

We are headquartered in Santiago, Chile. As of December 31, 2019, we had the most extensive network in terms of geographical coverage, of any bank in Chile with 413 branches, 108 special service points, 29,275 remote service points (*CajaVecina*) and 2,304 ATMs located throughout the country. In addition, we had 4,136,332 internet banking users as of October 31, 2019 and a branch in New York to serve corporate and public sector institution clients.

New York Branch

In 2005, we opened our New York Branch to better serve certain cross-border needs of our corporate and public-sector customers. The New York Branch is licensed by the state of New York and had total assets of US\$3.8 billion as of December 31, 2019. The New York Branch offers checking accounts, money market accounts, time deposits, short- and long-term loans, syndicated loans, stand-by letters of credit and currency trading. In addition, the New York Branch offers Yankee CDs and Commercial Papers, which have a short-term rating of A-1 from Standard & Poor's and P-1 from Moody's and a long-term rating of A+ from Standard & Poor's and A1 from Moody's.

GENERAL DESCRIPTION OF THE PROGRAM

General

Under this Program, the Issuers may from time to time issue Notes to one or more of the following Dealers: Deutsche Bank Aktiengesellschaft, Banco Bilbao Vizcaya Argentaria, BBVA Securities Inc., S.A., BNP Paribas Securities Corp., BNY Mellon Capital Markets, LLC, BofA Securities, Inc., Citigroup Global Markets Inc., Commerzbank Aktiengesellschaft, Crédit Agricole Corporate and Investment Bank, Credit Suisse Securities (USA) LLC, Daiwa Capital Markets America Inc., Deutsche Bank Securities Inc., Goldman Sachs & Co. LLC, HSBC Securities (USA) Inc., Itau BBA USA Securities, Inc., J.P. Morgan Securities LLC, MUFG Securities Americas Inc., Santander Investment Securities Inc., Standard Chartered Bank, SMBC Nikko Securities America, Inc., TD Securities (USA) LLC, UBS AG London Branch, UBS Securities LLC, U.S. Bancorp Investments, Inc., Wells Fargo Securities, LLC, Zürcher Kantonalbank and any other Dealer appointed from time to time in accordance with the Dealer Agreement which appointment may be for a specific issue or on an ongoing basis (each a “Dealer” and together the “Dealers”). References in this Prospectus to the “relevant Dealer” shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to purchase such Notes.

Each Series of Notes is issued either in bearer form or in registered form and Notes comprising each such Series will be issued in each case in the nominal amount of the denomination specified (the “Specified Denomination”) in the relevant final terms (the “Final Terms”). The maximum aggregate principal amount of all Notes from time to time outstanding under the Program will not exceed US\$4.5 billion (or its equivalent in other currencies calculated as described in the Dealer Agreement), subject to increase in accordance with the terms of the Dealer Agreement. As of the date hereof, we have issued US\$5,185 million in Notes under the Program.

Notes will be issued by BancoEstado through its head office in Santiago, Chile or through its New York Branch in New York, New York.

Notes may be distributed by way of public offer outside of the EEA (in jurisdictions in which a public offer of the Notes is permitted) or private placement and, in each case, on a syndicated or non-syndicated basis. The method of distribution of each Tranche will be stated in the relevant Final Terms.

Notes will be issued on a continuous basis in tranches (each a “Tranche”), each Tranche consisting of Notes which are identical in all respects (including as to admission to trading and listing). One or more Tranches which are (i) expressed to be consolidated and forming a single series and (ii) identical in all respects (except for different issue dates, interest commencement dates, issue prices and dates for first interest payments) may form a series (“Series”) of Notes. Further Notes may be issued as part of existing Series. The specific terms of each Tranche will be set forth in the applicable Final Terms.

The minimum denomination of each 3(a)(2) Note will be U.S.\$250,000 (or equivalent thereof in other currencies) and integral multiples of U.S.\$1,000 in excess thereof. 144A Notes and Regulation S Notes will be issued in such denominations as may be agreed between the relevant Issuer and the relevant Dealer(s) and as indicated in the applicable Final Terms. If the Notes are admitted to trading on a European Economic Area or United Kingdom exchange or offered to the public in a Member State of the European Economic Area or in the United Kingdom in circumstances which require the publication of a prospectus under the Prospectus Regulation, the minimum Specified Denomination of the Notes will be Euro 100,000 (or, if the Notes are denominated in a currency other than the Euro, the equivalent amount in such currency) or such higher amount as may be allowed or required from time to time by the relevant Central Bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency.

Notes may be issued at an issue price which is at par or at a discount to, or premium over, par, as specified in the applicable Final Terms.

References in this Prospectus to Notes which are intended to be listed (and all related references) shall mean that such Notes have been listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Luxembourg Stock Exchange's Regulated Market. The Luxembourg Stock Exchange's Regulated Market is a regulated market for the purposes of MiFID II. The Program provides that Notes may be listed or admitted to trading on other or further stock exchanges including, but not limited to, the Frankfurt Stock Exchange and the SIX Swiss Exchange, as may be agreed between the relevant Issuer and the relevant Dealer(s) in relation to each issue. The Issuers may also issue unlisted Notes and/or Notes not admitted to trading on any market.

Prospective purchasers of Notes should ensure that they understand the nature of the relevant Notes and the extent of their exposure to risks and that they consider the suitability of the relevant Notes as an investment in the light of their own financial situation. Certain issues of Notes involve a high degree of risk and potential investors should be prepared to sustain a loss of all or part of their investment. It is the responsibility of prospective purchasers to ensure that they have sufficient knowledge, experience and professional advice to make their own legal, financial, tax, accounting and other business evaluation of the merits and risks of investing in the Notes and are not relying on the advice of either Issuer or any Dealer in that regard. See "Risk Factors" on pages 7 to 30.

Bearer Notes will be accepted for clearing through one or more Clearing Systems as specified in the applicable Final Terms. These Clearing Systems may include those operated by Clearstream Banking AG, Frankfurt ("CBF"), Clearstream Banking, société anonyme, Luxembourg ("CBL") and Euroclear Bank SA/NV ("Euroclear").

Registered Notes will either (i) be deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company ("DTC"), (ii) be deposited with a common depository for, and registered in the name of a common nominee of, Euroclear and CBL, (iii) in the case of Registered Notes held under the new safekeeping structure for registered global securities which are intended to constitute eligible collateral for Eurosystem monetary policy and intra-day credit operations ("NSS"), be registered in the name of and delivered to the Common Safekeeper for Euroclear and/or CBL, or (iv) be deposited with a custodian or depository for, and registered in the name of, a nominee of any other clearing system specified for a particular Tranche or Series of Notes, in each case, as specified in the applicable Final Terms. No beneficial owner of an interest in a Registered Note will be able to transfer such interest, except in accordance with the applicable procedures of DTC, Euroclear and CBL, in each case to the extent applicable.

Deutsche Bank AG, London Branch will act as fiscal agent (the "Fiscal Agent"), unless otherwise stated in the applicable Final Terms. Deutsche Bank AG, London Branch (the "Non-U.S. Transfer Agent") and Deutsche Bank Trust Company Americas (the "U.S. Transfer Agent") will act as transfer agents (the "Transfer Agents"), unless otherwise stated in the applicable Final Terms. Deutsche Bank AG, London Branch (the "Non-U.S. Paying Agent"), Deutsche Bank Trust Company Americas (the "U.S. Paying Agent") and other institutions, all as indicated in the applicable Final Terms, will act as paying agents (the "Paying Agents"). Deutsche Bank Luxembourg S.A. will act as Luxembourg listing agent (the "Luxembourg Listing Agent"), unless otherwise stated in the applicable Final Terms. Deutsche Bank Trust Company Americas will act as the U.S. registrar (the "U.S. Registrar") and Deutsche Luxembourg S.A. will act as the Luxembourg registrar (the "Luxembourg Registrar," and, together with the U.S. Registrar, the "Registrars"), unless otherwise stated in the applicable Final Terms. Deutsche Bank AG, London Branch will act as exchange agent ("Exchange Agent"), unless otherwise stated in the applicable Final

Terms. The Fiscal Agent, the Transfer Agents, the Paying Agents, the Listing Agent, the Registrars, the Exchange Agent and the Exchange Rate Agent are hereinafter referred to as the “Agents.”

RISK FACTORS

An investment in the Notes is subject to risks and uncertainties. You should carefully consider the risks described below, in addition to the other information contained in this Prospectus, before deciding whether to purchase the Notes. Realization of any of these risks could have a material adverse effect on our business, financial condition, cash flows and results of operations or could materially and adversely affect the value or liquidity of the Notes and result in the loss of all or part of your investment in the Notes. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially and adversely affect us, which could also result in the loss of all or part of your investment in the Notes.

Risk Factors Related to the Issuers

Risk Factors Related to Our Operations

We are vulnerable to disruptions and volatility in the global financial markets.

The Bank's business is principally focused in Chile, with a small portion of international operations carried out through its New York Branch. The Bank also has relationships with major banks worldwide to accommodate its customers international banking requirements.

Global growth rates for the 2017-2019 period, though higher than 2.9%, are still below pre-2008/2009 global financial crisis averages, in particular for the most advanced economies and for commodity-exporting emerging and developing economies. Global trade and investment have also been growing moderately during this period, whilst trade tensions have increased and global access to financing has tightened. Chile's GDP grew 1.2% in 2017 and 3.9% in 2018. According to the Central Bank of Chile, the Chilean economy is estimated to have grown 1.1% in 2019, with positive growth in the first three quarters of 2019, and a slowdown in growth in the last quarter, mainly due to the outbreak of social protests and unrest in October 2019, which adversely affected Chilean businesses and the economy generally.

According to the Central Bank of Chile and the International Monetary Fund ("IMF"), global economic activity is expected to be slower in 2020 than in 2019, partly due to tariff increase in the United States and China and, to a lesser extent, tighter access to financing. However, these projections are subject to changes based on a number of factors, including a protracted period of global economic, political and social uncertainty, financial tensions, negotiations of post-Brexit arrangements, oil prices' volatility, the effects that the coronavirus might have in the global economy, and other non-economic factors. Negative risks to economic and financial stability include a possible shift toward inward-looking policy platforms and protectionism in the U.S., harsher global financial conditions that could negatively impact the E.U. and emerging market economies, increased geopolitical tensions, and a more severe economic slowdown in China. The occurrence of any of these conditions could have a negative impact on the performance of the Chilean economy and a material adverse effect on our ability to access capital and liquidity on financial terms acceptable to us, if at all. If capital markets financing becomes less available, or becomes excessively expensive, we may be forced to raise the rates we pay on deposits to attract more customers. Any such increase in capital markets funding costs or deposit rates could have a material adverse effect on our interest margins.

Disruptions or periods of volatility in the global financial markets, leading to decreased economic activity in Chile, may have a material adverse effect on our financial condition, results of operations and, in particular, the price of our securities due to the Bank's exposure to the Chilean financial sector.

The novel coronavirus could have an adverse effect on our business and results of operations.

In December 2019, a notice of pneumonia originating from Wuhan, Hubei province (COVID-19, caused by a novel coronavirus) was reported to the World Health Organization, with cases soon confirmed in multiple provinces in China. On March 11, 2020, the World Health Organization characterized the COVID-19 as a pandemic. Beginning March 2020, the Chilean government, the Central Bank, the CMF and the Bank announced a series of measures aimed at mitigating the effects that the COVID-19 might have in the Chilean economy. See “Management’s Discussion and Analysis of Results of Operations and Financial Condition—Chilean Economy—Overview.” The long-term effects on the global economy and the Bank of epidemics and other public health crises, such as the on-going novel coronavirus, are difficult to assess or predict, and may include risks to employee health and safety, as well as reduced economic activity. It is unclear whether these challenges and uncertainties will be contained or resolved, and what effects they may have on the global political and economic conditions in the long term. Additionally, we cannot assure the evolution of the disease in Chile, nor predict any additional restrictions that the Chilean government, the Central Bank, the CMF or other regulator might impose. Any prolonged restrictive measures put in place in order to control an outbreak of contagious disease or other adverse public health development in Chile may have a material and adverse effect on our business and results of operations, including an increase in non-performing loans and past due loans related to, in particular, but not limited to, loans to individuals and small- and micro- companies, which are expected to be mostly affected by the COVID-19 outbreak.

Our trading activities expose us to volatility in market prices, declines in market liquidity or fluctuations in foreign currency exchange rates, which may result in losses that could have a material and adverse effect on our business, financial condition and results of operations.

As part of our treasury operations, we trade currencies and various financial instruments, including debt, fixed income, currency and related derivatives as both agent and principal, and we derive a portion of our non-interest income from trading revenues. We may be exposed to a number of risks related to the variation of market prices in the underlying instruments, a decline in the market liquidity of the related instruments, volatility in market prices, interest rates or foreign currency exchange rates relating to these positions and the risk that the instruments that we use to hedge certain positions do not provide an effective hedge to the risk of those positions. Any losses derived from these exposures could have a material adverse effect on our business, financial condition and results of operations.

From time to time, we enter into derivatives transactions pursuant to our risk management policy that cover varying periods of time and have varying pricing provisions. We are exposed to potential changes in the value of our derivative instruments. We account for these derivatives transactions at fair value. The fair value of these derivatives instruments may increase or decrease. We may incur unrealized losses as a result of the change in value of our derivatives instruments, which could have a material adverse effect on our results of operations.

Increased competition and industry consolidation may adversely affect the results of our operations.

The Chilean market for financial services is highly competitive. We compete with private sector Chilean and non-Chilean banks, and with department stores and large supermarket chains that make consumer loans and sell other financial products to a large portion of the Chilean population. The lower middle- to middle income segments of the Chilean population and the small- and medium-sized corporate segments have become the target markets of several banks and competition in these segments is likely to increase. As a result, net interest margins in these segments are likely to decline. Although demand for financial products and services from individuals and small- and medium-sized companies are projected to grow in the short and medium-term, we cannot assure you that net interest margins will be maintained at their current levels.

We also face competition from other non-bank and non-finance competitors with respect to some of our credit products, such as credit cards, consumer loans and insurance brokerage and from other financial intermediaries who are able to provide larger companies with access to the capital markets as an alternative to bank loans.

The increase in competition within the Chilean banking industry in recent years has led to consolidation in the industry. For example, in 2018, the Bank of Nova Scotia Group purchased 68.19% of BBVA's interest in Banco Bilbao Vizcaya Argentaria, Chile as well as other companies of its Chilean group that are engaged in banking-related activities. See "Business—Competition—Overview." Further consolidation in the industry, which can result in the creation of larger and stronger competitors, may adversely affect our financial condition and results of operations by decreasing the net interest margins we are able to generate. Because we do not offer capital markets financing services, an increase in the prevalence of this method of financing could reduce our market share for corporate financing and adversely affect our results of operations.

Insurance companies as well as mutual associations are allowed to participate and compete with banks in the residential mortgage and credit card businesses, further increasing competition in our industry. Furthermore, under the Decree with Force of Law No. 3 of 1997, as amended (the "General Banking Law") representative offices of non-Chilean banks are now allowed to promote the credit products and services of their headquarters and banks, insurance companies, retailers and other financial institutions are required to inform their customers of the all-in costs of the financial services on standardized terms allowing their customers to compare the cost of the products offered by them, all of which have increased, and may further increase, competition in our industry.

Our exposure to individuals, small and micro companies could lead to higher levels of non-performing loans, past due loans, allowances for loan losses and charge-offs.

The quality of our portfolio of loans to individuals, small and micro companies is dependent to a significant extent on prevailing economic conditions in Chile. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview—Chilean Economy." Small and medium-sized companies and lower-middle to middle income individuals are more likely to be more severely affected by adverse developments in the Chilean economy than large companies and higher income individuals. As a result, lending to small and medium-sized companies and lower-middle to middle income individuals represents a relatively higher degree of risk than lending to other market segments. As part of our business strategy, we seek to increase lending and other services to small and medium-sized companies and lower-middle to middle income individuals. Consequently, we may experience higher levels of past due amounts, which could result in higher allowances for loan losses. See "Selected Statistical Information." For example, as of December 31, 2019, non-performing loans constituted 3.73% of the Bank's total loans, 2.16% of the Bank's commercial loans, 3.15% of the Bank's consumer loans and 5.92% of the Bank's total mortgages loans, a 0.25%, 0.17%, 0.72% and 0.29% increase, respectively, compared to September 30, 2019. This marginal increase in non-performing loans was mainly attributable to the effects that the outbreak of social protests and unrest in Chile since October 2019 have had on the Chilean economy. The adverse effects were partially offset by the Bank's *Estamos Contigo* program, which provided support to over 32,000 micro- and small- entrepreneurs in 2019 by deferring payment of fees, reducing the number of non-performing loans. The medium- and long- term effects of such outbreak in our levels of non-performing loans still remains uncertain. In addition, it is expected that individuals and small- and micro- companies shall be heavily affected by the outbreak of COVID-19. In spite of the measures adopted by the Chilean government, the Central Bank, the CMF and the Bank, the impact of COVID-19 on the Chilean economy as well as the effects of the prolonged restrictive measures put in place in order to control the outbreak in Chile could impact individuals and small- and micro- companies profoundly, which in turn could result in an increase in non-performing loans and past due loans in our retail banking segment.

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Chilean Economy—Overview.”

Our retail banking segment, which includes individuals, small companies and micro companies, represented 61.1% of our loans and account receivables from customers (net of allowances for loan losses) as of December 31, 2019. If the economy and real estate market in Chile experience a significant downturn, this could materially and adversely affect the liquidity, businesses and financial condition of our customers, which may in turn cause us to experience higher levels of past due loans, thereby resulting in higher allowances for loan losses and subsequent write-offs. This may materially and adversely affect our asset quality, results of operations and financial condition.

If we are unable to maintain the quality of our loan portfolio, our financial condition and results of operations may be materially and adversely affected.

As of December 31, 2019, our past due loans were Ch\$299.8 billion, and the ratio of our past due loans to total loans was 1.14%. For additional information on our asset quality, see “Selected Statistical Information—Analysis of Substandard Loans and Amounts Past Due.” We seek to continue to improve our credit risk management policies and procedures. However, we cannot assure you that our credit risk management policies, procedures and systems are free from any deficiency. Failure of credit risk management policies may result in an increase in the level of non-performing loans and adversely affect the quality of our loan portfolio. In addition, the quality of our loan portfolio may also deteriorate due to various other reasons, including factors beyond our control, such as the macroeconomic factors affecting Chile’s economy. If such deterioration were to occur, it could materially adversely affect our financial conditions and results of operations.

Our allowances for impairment losses may not be adequate to cover the future actual losses to our loan portfolio.

As of December 31, 2019, our allowances for loan losses were Ch\$823.0 billion, and the ratio of our allowances for loan losses to total loans was 3.13%. The amount of allowances is based on our current assessment of and expectations concerning various factors affecting the quality of our loan portfolio. These factors include, among other things, our borrowers’ financial condition, repayment abilities and repayment intentions, the realizable value of any collateral, the prospects for support from any guarantor, Chile’s economy, government macroeconomic policies, interest rates and the legal and regulatory environment. As the 2008/2009 global financial crisis demonstrated, many of these factors are beyond our control.

In addition, as these factors evolve, we may recalibrate the models we use to determine the appropriate level of allowance for impairment losses on loans and other assets, which can lead to increased provision expense. If our assessment of and expectations concerning the above mentioned factors differ from actual developments, or if the quality of our loan portfolio deteriorates or the future actual losses exceed our estimates, our allowances for loan losses may not be adequate to cover actual losses and we may need to make additional provisions for loan losses, which may materially and adversely affect our results of operations and financial condition. In this respect, we are permitted to record additional provisions for loan losses for countercyclical or loan concentration reasons if we determine that existing models, although adequate in ordinary circumstances, are unlikely to account for extraordinary circumstances. The recording of these additional provisions may also materially and adversely affect our results of operations and financial condition. The limits for the constitution of additional provisions for loan losses must be approved by our Executive Committee. For further information on additional provisions, including those constituted as of December 31, 2019, see “Management’s Discussion and Analysis of Results of Operations and Financial Condition—Critical Accounting Policies—Allowances for Loan Losses.”

The value of the collateral securing our loans may not be sufficient, and we may be unable to realize the full value of the collateral securing our loan portfolio.

The value of the collateral securing our loan portfolio may significantly fluctuate or decline due to factors beyond our control, including macroeconomic factors affecting Chile's economy. In particular, the real estate market is financially vulnerable in stress scenarios. Our results of operations may be materially affected if such scenarios were to materialize, as real estate represents a significant portion of the collateral securing our residential mortgages loan portfolio. A significant part of our mortgage loans are to low income borrowers, whose ability to repay such loans could be substantially reduced by a decline in Chile's economy, and for which the collateral may be of low or minimal value. As of December 31, 2019, the Chilean government had guaranteed 23.6% of our mortgage loans. Although we are required to update our disclosures on the value of collateral annually, we may not have sufficient recent information on the value of collateral in certain circumstances, such as in the event of unexpected changes in the economy, natural disasters or an infectious disease outbreak (such as COVID-19), which may result in an inaccurate assessment for impairment losses of our loans secured by such collateral. If this were to occur, we may need to make additional provisions for loan losses to cover actual impairment losses of our loans, which may materially and adversely affect our results of operations and financial condition.

Additionally, there are certain provisions under Chilean law No. 19,335 of 1994 that may affect the procedures for foreclosing on or liquidating residential mortgages if the residence in question has been declared as "family property" by a court because it is inhabited by the family of the mortgagor. If any party occupying the real estate files a petition with the court requesting that such real estate be declared family property, we may be delayed from foreclosing on such property.

The effectiveness of our credit risk management is affected by the quality and scope of information available in Chile.

In assessing customers' creditworthiness, we rely largely on the credit information available from our own internal databases, the CMF, Chilean nationwide credit bureaus and other sources. Due to limitations in the availability of information and the developing information infrastructure in Chile, our assessment of the credit risks associated with a particular customer may not be based on complete, accurate or reliable information. In addition, although we have been improving our credit scoring systems to better assess borrowers' credit risk profiles, we cannot assure you that our credit scoring systems collect complete or accurate information reflecting the actual behavior of customers or that their credit risk will be assessed correctly. Without complete, accurate and reliable information, we have to rely on a combination of other publicly available resources and our own internal resources, which may not be accurate or effective. As a result, it could materially adversely affect our ability to manage our credit risk effectively.

Fluctuations in the rate of inflation may affect our results of operations.

The rate of inflation, as measured by changes in the Consumer Price Index (CPI), was 2.3%, 2.6% and 3.0% in 2017, 2018 and 2019, respectively. In January, March, April and May 2017, the monetary policy rate was reduced by the Central Bank by 25 basis points each month to reach 2.5% in May 2017, mainly due to a decrease in the yearly rate of inflation and a deceleration in the Chilean economy. As part of a process to converge to a neutral monetary policy rate, the Central Bank increased the monetary policy rate by 25 basis points to reach 2.75% in October 2018 and by 25 basis points to reach 3.0% in January 2019. During 2019, the Central Bank reduced the monetary policy rate by 125 basis points to reach 1.75%. On March 16 and March 31, 2020, the Central Bank further reduced the monetary policy rate by 75 basis points to reach 1.00% and by 50 basis points to reach 0.50%, respectively, where it stood as of the date of this Prospectus.

High levels of inflation or deflation in Chile could adversely affect the Chilean economy and have an adverse effect on our business, financial condition and results of operations.

The following table sets forth the change in the CPI from 2017 through December 31, 2019:

	% Change from prior period
2017	2.3%
2018	2.6%
2019	3.0%

Source: Central Bank.

Our assets and liabilities are denominated in Chilean pesos, UF and foreign currencies. The UF is revalued in monthly cycles. On each day in the period beginning on the tenth day of any given month through the ninth day of the succeeding month, the nominal peso value of the UF is indexed up (or down in the event of deflation) in order to reflect a proportionate amount of the change in the Chilean Consumer Price Index during the prior calendar month. We record an increase in the peso value of a loan as a result of this indexing as income and a decrease in peso value as a loss.

For more information regarding the UF, see “Selected Statistical Information—Average Consolidated Statement of Financial Position, Income Earned from Interest-Earning Assets and Interest Paid and Accrued on Interest-Bearing Liabilities.”

Although we benefit from inflation in Chile because of the indexing of our loans, due to the current structure of our assets and liabilities (*i.e.*, our inflation-indexed loans exceed our inflation-indexed liabilities), there can be no assurance that our business, financial condition and result of operations in the future will not be adversely affected by changing levels of inflation, including from extended periods of inflation that adversely affect economic growth or periods of deflation.

Our results of operations are affected by interest rate volatility.

Our results of operations depend to a great extent on our net interest income. Net interest income represented 69.4%, 68.3%, and 69.4% of our total operating income for the years ended December 31, 2017, 2018 and 2019, respectively. Changes in market interest rates could affect the interest rates earned on our interest-earning assets differently from the interest rates paid on our interest-bearing liabilities, leading to a reduction in our net interest income or a decrease in customer demand for our loan or deposit products. In addition, increases in interest rates could result in higher debt service obligations for our customers, which could in turn result in higher levels of delinquent loans. Interest rates are highly sensitive to many factors beyond our control, including the reserve policies of the Central Bank, deregulation of the financial sector in Chile, domestic and international economic and political conditions and other factors. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Interest Rates.”

In the current global economic climate, there is a greater degree of uncertainty and unpredictability in the policy decisions and the setting of interest rates by the Central Bank. Any changes in interest rates could adversely affect our business, our future financial performance and the price of our securities.

Liquidity risk may impair our ability to fund our operations and adversely affect our financial condition.

We rely on continuous access to financial markets for short- and long-term financing. An inability on our part to access funds or to access the markets from which we raise funds may put our positions in liquid assets at risk and lead us to be unable to finance our operations adequately. A rising interest rate environment compounds the risk that we will not be able to access funds at favorable rates. These and other factors could result in less favorable credit ratings, higher borrowing costs and less accessible funds. We may be unable to secure additional funding in the capital markets if conditions in these markets, or our credit ratings, were to deteriorate. As an integral part of our liquidity management strategy involves accessing capital markets in order to ensure that a significant portion of our funding matures at a predictable rate, an inability to secure funding at favorable rates in the capital markets could affect the soundness of our liquidity position and have a material adverse effect on our business, financial condition and results of operations.

Since short-term deposits are one of our main sources of funds, a sudden shortage of short-term deposits could cause an increase in costs of funding and an adverse effect on our revenues.

Deposits (which include current accounts and other demand deposits and time deposits and savings accounts) are one of our primary sources of funding, representing 65.1% of our total liabilities as of December 31, 2019. A significant portion of our assets has longer maturities, resulting in a mismatch between the maturities of liabilities and the maturities of assets. If a substantial number of our depositors withdraw their demand deposits or do not roll over their time deposits upon maturity, our liquidity position, results of operations and financial condition may be materially and adversely affected. We cannot assure you that in the event of a sudden or unexpected shortage of funds in the banking system, any money markets in which we operate will be able to maintain levels of funding without incurring high funding costs or the liquidation of certain assets. If this were to happen, our results of operations and financial condition may be materially adversely affected.

Our business is highly dependent on proper functioning and improvement of information technology systems.

Our business is highly dependent on the ability of our information technology systems to accurately process a large number of transactions across numerous and diverse markets and products in a timely manner. The proper functioning of our financial control, risk management, accounting, customer service and other data processing systems is critical to our business and our ability to compete effectively. We have backup data for our key data processing systems that could be used in the event of a catastrophe or a failure of our primary systems, and have established alternative communication networks where available. However, we cannot assure you that our business activities would not be materially disrupted if there were a partial or complete failure of any of these primary information technology systems or communication networks. Such failures could be caused by, among other things, software bugs, computer virus attacks or conversion errors due to system upgrading.

Although we work with our clients, vendors, service providers, counterparties and other third parties to develop secure transmission capabilities and prevent against cyber-attacks, we routinely exchange personal, confidential and proprietary information by electronic means, and we may be the target of attempted cyber-attacks. If we cannot maintain an effective data collection, management and processing system, we may be materially and adversely affected.

Any material disruption or slowdown of our systems could cause information, including data related to customer requests, to be lost or to be delivered to our clients with delays or errors, which could reduce demand for our services and products and could materially and adversely affect us.

In addition, several new regulations are establishing cyber risk and technology risk management rules, data breach report rules, and supervisory process rules, among others. These regulations are quite fragmented in terms of definitions, scope and applicability. A failure to successfully implement all or some of these new global and local regulations, that in some cases may impose severe sanctions, could have a material adverse effect on our operations and financial condition.

Any substantial failure to improve or upgrade information technology systems effectively or on a timely basis could materially and adversely affect our competitiveness, results of operations and financial condition.

Operational problems or errors can have a materially adverse impact on our business, financial condition and results of operations.

We are exposed to many types of operational risks, including the risk of fraud by employees and outsiders, failure to obtain proper internal authorizations, failure to properly document transactions, equipment failures and errors by employees. Fraud or other misconduct by employees or third parties may be difficult to detect and prevent and could subject us to financial losses and sanctions imposed by governmental authorities as well as seriously harm our reputation. Although we maintain a system of operational controls, there can be no assurance that operational problems or errors will not occur and that their occurrence will not have a materially adverse impact on our business, financial condition and results of operations.

Public sector institutions are one of our principal depositors, and a shortage of funds from these institutions could cause an increase in our costs of funding and an adverse effect on our revenues.

We maintain the Chilean Treasury's main operating account and provide depositary services to a large number of public-sector institutions in Chile. As of December 31, 2019, 19.6% of our funding came from public sector institutions in Chile. Factors affecting the financial situation or availability of funds by the Chilean government can materially impact our liquidity position, results of operations and financial condition. We cannot assure you that in the event of a change in the fiscal policies or liquidity position of the Chilean government, we will be able to maintain our levels of funding without incurring higher funding costs or liquidating of certain assets. If this were to happen, our results of operations and financial condition could be materially adversely affected.

Our loan portfolio may not continue to grow at the same rate.

A reversal of the rate of growth of the Chilean economy, a slowdown in the growth of customer demand, an increase in market competition or changes in governmental regulations could adversely affect the rate of growth of our loan portfolio and our risk index and, accordingly, increase our required allowances for loan losses. A deterioration of economic conditions could materially adversely affect the liquidity, businesses and financial condition of our customers as well as lead to a general decline in consumer spending and a rise in unemployment. All of the foregoing could in turn lead to decreased demand for borrowings in general which could lead to a reduction of deposits with the Bank, thus increasing our cost of funding. Past performance of our loan portfolio may not be indicative of future performance.

The growth of our loan portfolio may expose us to increased loan losses.

From December 31, 2017 to December 31, 2019 our aggregate loan portfolio (including loans and accounts receivable from customers and loans and advances to banks) increased by 13.5% in nominal terms to Ch\$26,273.6 billion (US\$35.1 billion), while our consumer loan portfolio grew by 17.2% to Ch\$2,243.7 billion (US\$3.0 billion). The further expansion of our loan portfolio (particularly in the consumer,

small- and mid-sized companies and real estate segments) can be expected to expose us to a higher level of loan losses and require us to establish higher levels of allowances for loan losses.

The legal restrictions on the exposure of Chilean pension funds may affect our access to funding.

Chilean regulations impose restrictions on the share of assets that a Chilean pension fund management company (*administradora de fondos de pensiones*, or “AFPs”) may allocate: (a) per fund (considering all sub-funds within an AFP (A, B, C, D or E)), to deposits in checking accounts and term deposit accounts and in debt securities issued by a single banking institution (or guaranteed by such banking institution), investments not exceeding the value of a multiple set forth by the Central Bank of Chile considering such bank’s equity (*patrimonio*), which shall fluctuate between 0.5 and 1.5 in accordance with article 47 of the D.L. 3,500; (b) per type of sub-fund, to shares of a single banking institution (or guaranteed by such banking institution), investments not exceeding 9.0% of the value of the relevant sub-fund; and (c) per fund (considering all sub-funds), to a single banking institution, investments not exceeding 2.5% of the value of such banking institution’s subscribed shares with a maximum limit equal to 3.0% of the value of such fund (taking into account all sub-funds) managed by AFP multiplied by the concentration factor applicable to the banking institution as set forth in section III.7.1 of the Investment Regime of the Chilean Pension Funds issued by the *Superintendencia de Pensiones* (the “Superintendency of Pensions”). Additionally, each fund managed by an AFP is permitted to make deposits with a bank for an amount not to exceed the equivalent of such bank’s equity. If the exposure of a pension fund managed by an AFP to a single bank exceeds such limit for investments in securities, the AFP for such pension fund is required to reduce the fund’s exposure below the limit within three years.

As of December 31, 2019, the aggregate exposure of AFPs to us was approximately Ch\$1,126 billion (US\$1.50 billion) or 2.5% of their total assets.

Pension funds must also comply with other investment limits. However, revised regulations governing the Chilean capital markets approved in June 2007 (*Reforma al Mercado de Capitales II*, or the “MK2”) relaxed the limits on making investments abroad in order to permit pension funds to further diversify their investment portfolios. As of December 31, 2019, the maximum limit on making investments abroad was 80% and remained unchanged through the date of this Prospectus. As a result, pension funds may change the composition of their portfolios, including reducing their deposits with local banks. As of December 31, 2019, 9.7% of our time deposits were from AFPs.

On November 5, 2012, the Superintendency of Pensions modified the Investment Regime of the Chilean Pension Funds, changing some of the investment limits, which became effective as of January 1, 2013. The investment limit regarding investments by an AFP in a national bank’s instruments was lowered from 11.0% to 9.0%. The investment limit did not impact our positions with AFPs in 2017, 2018 and 2019. In addition, the investment limits applicable to AFP ownership of shares of corporations, bonds from public or private corporations and Chilean or foreign investment funds were lowered. If the exposure of any AFP to us exceeds the regulatory limit, we would need to seek alternative sources of funding, which could be more expensive and, as a consequence, may have a material adverse effect on our business, financial condition and results of operations.

Banking regulations may restrict our operations and thereby adversely affect our financial condition and results of operations.

We are subject to regulation by the CMF and by the Central Bank in the same manner as private banks with regard to all matters, including reserve requirements, interest rates, foreign exchange mismatches and market risks. Pursuant to the General Banking Law, all Chilean banks may, subject to the approval of the CMF, engage in certain businesses in addition to commercial banking depending on the risk

associated with such business and their financial strength. Such additional businesses include securities brokerage, mutual fund management, retirement fund plans, securitization, insurance brokerage, leasing and factoring. There can be no assurance that regulators will not in the future impose more restrictive limitations on the activities of banks, including us. The General Banking Law also applies to the Chilean banking system a modified version of the capital adequacy guidelines issued by the Basel Committee on Banking Regulation and Supervisory Practices and limits the discretion of the CMF to deny new banking licenses.

Our current required minimum effective equity to risk-weighted assets ratio is 8% and we are required to maintain a minimum basic capital of 3% of our total consolidated assets. As of December 31, 2019, our ratio of effective equity to risk-weighted assets was 11.26% and our basic capital was 3.98% of total consolidated assets, net of required allowances for loan losses. See “Management’s Discussion and Analysis of Results of Operations and Financial Condition—Liquidity and Capital Resources—Capital and Reserves.”

Further, in October 2018, Congress enacted legislation introducing significant amendments to the General Banking Law (the “Amendment to the General Banking Law”), which was published in the Official Gazette on January 12, 2019. Pursuant to such legislation, we will also be required to maintain basic capital requirements at or above 4.5% of our risk-weighted assets, net of required allowances for loan losses, and an additional basic capital (*capital básico adicional*) equivalent to 2.5% of our risk-weighted assets, net of required allowances for loan losses, over the required effective net equity (*patrimonio efectivo*). We intend to gradually comply with these new basic capital requirements within a four- or five- year period, as per the applicable requirement, from the date of the issuance of CMF regulation establishing the methods to weigh banks’ assets. The increase in capital requirements may lead to a decrease in our available credit for granting loans in the retail banking and wholesale banking segments, restricting our operations and thereby adversely affecting our financial condition and results of operations. See “Regulation and Supervision—Recent Developments—Amendment to the General Banking Law.”

In Chile, higher capital requirements, heightened disclosure standards and restrictions on certain types of transaction structures have been imposed since the global financial crisis in 2008/2009. In addition, new proposed regulations could require us to inject further capital into our business (restricting our available capital to conduct business), restrict the type or volume of transactions we enter into (that could translate into a decrease in our revenues or to our inability to hedge certain inherent risks, such as currency fluctuations), or set limits on or require the modification of rates or fees that we charge on certain loans or other products (that could decrease our revenues), any of which could lower the return on our investments, assets and equity. We may also face increased compliance costs and limitations on our ability to pursue certain business opportunities. Pursuant to the Amendment to the General Banking Law, the CMF gradually assumed the powers of the Superintendency of Banks (“SBIF”) and it (or other regulators, as applicable) will have 18 months from June 1, 2019 (the date the CMF effectively assumes the SBIF’s powers) to enact all applicable regulation implementing the changes provided for in the Amendment to the General Banking Law. These new regulations could have a material adverse effect on our financial condition or results of operations. See “Regulation and Supervision—Recent Developments.”

Our anti-money laundering and anti-terrorist financing measures may not prevent third parties from using us as a conduit for those activities, which could have a material adverse effect on our business, financial condition and results of operation.

We believe that we are in compliance with applicable anti-money laundering and anti-terrorist financing laws and regulations and we have adopted various policies and procedures, including internal controls and “know-your customer” procedures, aimed at preventing money laundering and terrorist financing. In addition, because we also rely on our correspondent banks having their own appropriate

anti-money laundering and anti-terrorist financing procedures, we use what we believe are commercially reasonable procedures for monitoring our correspondent banks. However, these measures, procedures and compliance may not be entirely effective in preventing third parties from using us (and our correspondent banks) as a conduit for money laundering (including illegal cash operations) or terrorist financing without our (and our correspondent banks') knowledge. Further, emerging technologies, such as cryptocurrencies and blockchain, could limit our ability to track the movement of funds and our ability to comply with the applicable legal requirements depends on our ability to improve detection and reporting capabilities and reduce variation in control processes and oversight accountability.

If we were to be associated with money laundering (including illegal cash operations) or terrorist financing, our reputation could be harmed and we could become subject to fines, sanctions or legal enforcement (including being added to any "blacklists" that would prohibit certain parties from engaging in transactions with us), which could have a material adverse effect on our business, financial condition and results of operation.

We are subject to regulatory inspections and examinations that may result in sanctions, fines or restrictions on our business or other penalties.

We are subject to various inspections, examinations, inquiries, audits and other regulatory requirements by Chilean and U.S. federal and state regulatory authorities. We cannot assure you that we will be able to meet all of the applicable regulatory requirements and guidelines, or that we will not be subject to sanctions, fines, restrictions on our business or other penalties in the future as a result of noncompliance. If sanctions, fines, restrictions on our business or other penalties are imposed on us for failure to comply with applicable requirements, guidelines or regulations, our business, financial condition, results of operations and our reputation and ability to engage in business may be materially and adversely affected.

Any loss of key personnel may materially adversely affect our business.

Our success depends, in large measure, on the skills, experience and efforts of our senior management team and other key personnel. While we believe that we have depth throughout our management team and in all key skill levels of our employees, the loss of the services of key members of our senior management or of employees with critical skills could have a negative effect on our business, financial condition and results of operations. If we are not able to attract or retain highly skilled, talented and committed senior managers or other key personnel, our ability to fully implement our business objectives may be materially adversely affected.

Our insurance coverage may not adequately cover losses resulting from the risks for which we are insured.

We maintain insurance policies for our operations, including insurance for property, our money transport and directors' and officers' liability, as well as insurance against computer crimes and for employee dishonesty and mistakes, theft and fraudulent use of credit cards, central processing and automatic teller errors and our vehicles. Due to the nature of our operations and the nature of the risks that we face, there can be no assurance that the coverage that we maintain is adequate to cover the losses for which we believe we are insured.

We are wholly owned by the Republic of Chile.

We are an autonomous entity wholly owned by the Republic of Chile. Pursuant to our Organic Law, the President of Chile appoints six out of seven of the members of our Board of Directors and all three

members of our Executive Committee (which includes the Chairman and Vice-Chairman of our Board of Directors and our Executive General Manager). The Organic Law and any amendment thereto (including private participation in our ownership) must be approved by the Chilean Congress. Also, the CMF closely regulates and supervises our operations. We cannot assure you that your interests as note holders will always align with those of the Chilean government in its capacity as our owner. Moreover, the Republic of Chile is not a guarantor of the Notes offered hereby.

Furthermore, because one of our missions as a state-owned entity is to foster economic activity in Chile, we engage in a number of lines of business which may be less profitable than other lines of business that we would engage in if we were a private company. See “Management’s Discussion and Analysis of Results of Operations and Financial Condition—Chilean Economy—Overview” for a description of certain measures adopted by the Bank following its mission as a state-owned entity. In the past, all of our lines of business have been profitable. However, we cannot assure you that our current or future lines of business will continue to be profitable.

Our dividend policy is set by the Chilean government.

The President of Chile has the power to set our dividend and therefore may require us to transfer up to 100% of our net income in any year. In each of 2017, 2018 and 2019 we were required to pay a dividend equal to 50.0%, 50.0% and 100.0% of our net income for the prior fiscal year, respectively. If a proposal to retain net income made by our Board of Directors is not approved by the President of Chile, and if we are unable to otherwise finance planned expenditures, our business could be adversely affected. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity.”

We pay taxes to the Chilean government that are additional to the taxes paid by all private Chilean companies.

Like all Chilean companies, we are subject to income tax on our taxable income. As of the date of this Prospectus, the Chilean income tax rate applicable to us is 25%. See “Risk Factors—Risk Factors Related to Chile—Future increases in the corporate tax rate in Chile or additional modifications to the Chilean tax system to finance future social reforms may have a material adverse effect on us”. In addition, as a public sector institution, we are subject to certain additional taxes. Pursuant to Article 2, Decree Law No. 2,398 of 1978, the Chilean government assesses a tax on our taxable income at a rate of 40%. In 2017, 2018 and 2019 we were subject to Ch\$99.2 billion, Ch\$83.3 billion and Ch\$128.9 billion in income taxes on taxable profits and Ch\$147.3 billion, Ch\$120.0 billion and Ch\$189.8 billion in additional taxes under Article 2, Decree Law No. 2,398 of 1978, respectively. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Income Tax Expense”. Changes to the income tax regime to which we are subject could adversely affect our business by reducing our net income. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Current and deferred income taxes” and “Regulation and Supervision—Recent Developments—Chilean Tax Reforms.”

Changes in accounting standards could impact reported earnings.

The accounting standard setters and other regulatory bodies periodically change the financial accounting and reporting standards that govern the preparation of our consolidated financial statements. For example, IFRS 15 was adopted as of January 1, 2018 and established a new model of income recognition. In addition, on January 1, 2019 IFRS 16 was adopted, specifying new standards for recognition, measurement, presentation and disclosure of leases. Changes made to accounting standards can materially impact how we record and report our financial condition and results of operations. In some cases, we could

be required to apply a new or revised standard retroactively, resulting in the restatement of prior period financial statements. Between January and April 2019, the CMF held a consultation process to update the Compendium (as defined below), with the aim of updating certain accounting standards applicable to banks and their subsidiaries. The revised Compendium became effective in January 2020, applying retroactively to January 1, 2019. Among the proposed changes, the revised Compendium provides for (i) an option for banks to converge their accounting standards to IFRS 9, (ii) modifications to the accounting system of standardized financial statements and the disaggregation of certain complementary information included in Chapter C-3 of the Compendium, (iii) modifications to the content of certain notes to the financial statements, in line with IFRIC 23, IFRS 3, IFRS 7, IFRS 9, IFRS 11, IAS 12, IAS 19, IAS 23, IAS 24, IAS 28, IAS 34, and other international accounting standards, (iv) the presentation of a financial report prepared in accordance with the IFRS management commentary practice statement, which shall accompany the financial statements and (v) modifications to the suspension of accrual interest criteria for loans subject to collective assessment. Even though these modifications did not have a material impact on our reported earnings in 2019, we cannot assure you that they will not have a material impact on our future reported earnings.

On May 18, 2017, the IASB published IFRS 17 on insurance contracts. The new standard establishes principles for the recognition, measure, presentation and disclosure of insurance contracts, superseding IFRS 4. IFRS 17 is expected to become effective on January 1, 2021. As of the date of this Prospectus, the impact that this standard may have on our reporting earnings was uncertain.

See Annex A for the principal differences between Chilean Banking GAAP and IFRS.

Risk Factors Related to Chile

Our growth and profitability depend on the level of economic activity in Chile.

A substantial majority of our revenues are derived from our operations in Chile. Accordingly, our financial condition and results of operations are dependent to a significant extent on the level of economic activity in Chile.

Beginning in October 2019, Chile experienced a wave of protests and social unrest, which adversely affected Chilean businesses, our operations and the economy generally. See “Management’s Discussion and Analysis of Results of Operations and Financial Condition—Chilean Economy—Overview.” During the three-month period ended December 31, 2019, our income before income taxes increased 8.8%, compared to a 31.5% increase during the same period in 2018. Further, during the three-month period ended December 31, 2019, our non-performing loans experienced a marginal increase. See “Risk Factors Related to Our Operations—Our exposure to individuals, small and micro companies could lead to higher levels of non-performing loans, past due loans, allowances for loan losses and charge-offs.”

According to data published by the Central Bank, the Chilean economy grew at a real rate of 4.2% in 2013. However, growth decelerated to a real rate of 1.9% in 2014, 2.3% in 2015, 1.7% in 2016 and 1.2% in 2017 due to internal and external economic factors. In 2018, the Chilean economy grew at a real rate of 3.9% and, in 2019, at a real rate of 1.1%.

The Chilean economy has been influenced, to varying degrees, by economic conditions in emerging and developed countries. We cannot assure you that the Chilean economy will continue to grow in the future or that future developments in or affecting the Chilean economy, including further widespread demonstrations in Chile over inequality, the outbreak of global pandemics such as the COVID-19 or further consequences of continuing economic difficulties in emerging and developed markets, including some of

our neighboring countries, will not materially and adversely affect our business, financial condition or results of operations.

Any worsening of the economic situation in the future may lead to a decrease in demand for individual and corporate borrowing, a decrease in demand for financial services and a decrease in credit card spending, which may in turn materially adversely affect our financial condition and results of operations.

Historically, lower economic growth has adversely affected the overall asset quality of the Chilean banking system and our loan portfolio. The table below shows the risk index of the banks comprising the Chilean financial system according to monthly consolidated financial information published by the CMF:

Yearly Period	Risk Index⁽¹⁾
December 31, 2017	2.5%
December 31, 2018	2.5%
December 31, 2019	2.6%

(1) Allowances divided by total loans.

Although economic conditions are different in each country, investors' reactions to economic and political developments in one country may affect the prices of the securities of issuers in other countries, including Chile. In prior years, we have been affected by global financial crises, such as the 2008/2009 crisis. If another global financial crisis occurs or if the economic conditions in some important emerging economies deteriorate significantly, to control the outbreak of COVID-19, it could affect the Chilean economy and have a material adverse effect on our financial condition, results of operations and the price of our securities.

Furthermore, on January 31, 2020, the United Kingdom left the European Union ("Brexit") and entered into a transition period that, unless extended, will end on December 31, 2020. The impact of Brexit on our results of operations is unclear. Brexit may adversely affect the economic conditions in the United Kingdom, the European Union and global markets by reduced growth and increasing volatility. Such volatility and negative economic impact could, in turn, adversely affect the value and trading of our securities.

In addition, our financial condition and results of operations could also be affected by regulatory changes in administrative practices, changes in economic or other policies of the Chilean government or other political or economic developments in or affecting Chile, over which we have no control.

A fluctuation in the Chilean peso could adversely affect our financial condition, results of operations and value of our securities.

Substantially all of our revenues are denominated in Chilean pesos and, as of December 31, 2019, 22.8% of our liabilities were denominated in foreign currencies. As a result, a depreciation in the value of the Chilean peso may result in lower revenues in such foreign currencies, thereby decreasing our ability to satisfy our liabilities denominated in such foreign currencies. In addition, we may suffer losses as a result of an appreciation in the Chilean peso if the value of our foreign-currency denominated assets exceeds that of our foreign-currency denominated liabilities. See "Management's Discussion and Analysis of Results of Operations and Financial Condition—Foreign Currency."

Additionally, any future changes in the value of the Chilean peso against the U.S. dollar will affect the U.S. dollar value of our securities. Our results of operations may be affected by fluctuations in the exchange rates between the Chilean peso and the U.S. dollar despite our policy and the Chilean regulations relating to the general avoidance of material exchange rate exposures. The Chilean peso has been subject to large devaluations and appreciations in the past and could be subject to significant fluctuations in the future. Since the outbreak of social protests and unrest in Chile in October 2019, which adversely affected Chilean businesses and the economy generally, the peso depreciated significantly against the U.S. dollar, reaching Ch\$828.25/US\$1.00 as of November 28, 2019.

The following table shows the value of the Chilean peso relative to the U.S. dollar as reported by the Central Bank at December 31, 2017, 2018 and 2019.

	Exchange Rate (Ch\$)	Period-end Appreciation (Devaluation)
2017	614.75	8.2%
2018	694.77	(13.0)%
2019	748.74	(7.8)%

Source: Central Bank.

Although we seek to hedge our exchange rate risk, past hedging efforts have not insulated us entirely from shifts in market prices, and we can make no assurance that future hedging will protect us fully from currency fluctuations. In the event of a fluctuation of the peso relative to the U.S. dollar, our financial condition and results of operations and our ability to meet our dollar-denominated obligations, including the Notes, could be adversely affected.

Any downgrading of Chile's debt credit rating for domestic and international debt by international credit rating agencies may also affect our ratings, our business, our future financial performance and the value of our Notes.

As of the date of this Prospectus, our credit ratings were the same as the Chilean government's credit ratings, except for S&P's long-term local currency and short-term local currency, which were AA- and A-1+, respectively, for the Chilean government and A+ and A-1, respectively, for BancoEstado. Any future adverse revisions to Chilean sovereign ratings by international rating agencies may adversely affect our ratings, our business, future financial performance and the value of our securities.

The laws and regulations applicable to Chile's banking and capital markets industry continue to evolve and a change in such laws and regulations may materially and adversely affect our business, financial condition and results of operations.

Chilean laws, regulations, policies and interpretations of laws relating to the financial system are continually evolving and changing.

The main purpose of the Amendment to the General Banking Law is to implement Basel III recommendations increasing capital requirements of the banking industry. In addition, the Amendment to the General Banking Law contains amendments to other provisions of the General Banking Law that are independent of these recommendations. Banks are required to comply with these new basic capital requirements within a four- or five- year period, as per the applicable requirement, from the date of the issuance of CMF regulation establishing the methods to weigh banks' assets. The increase in capital requirements may lead to a decrease in our available credit for granting loans in the retail banking and

wholesale banking segments, restricting our operations and thereby adversely affecting our financial condition and results of operations. See “Regulation and Supervision—Recent Developments—Amendment to the General Banking Law.”

We are subject to anti-corruption, anti-bribery, anti-money laundering and other laws and regulations in Chile and any actual or perceived failure to comply with any such laws or regulations could have a material adverse impact on our reputation and results of operations and financial condition.

We are subject to anti-corruption, anti-bribery, anti-money laundering and other laws and regulations and are required to comply with the applicable laws and regulations of Chile. In addition, we are subject to economic sanctions regulations that restrict our dealings with certain sanctioned countries, individuals and entities. There can be no assurance that our internal policies and procedures will be sufficient to prevent or detect all inappropriate practices, fraud or violations of law by our affiliates, employees, directors, officers, partners, agents and service providers or that any such persons will not take actions in violation of our policies and procedures. Any actual or perceived violations by us of anti-bribery and anti-corruption laws or sanctions regulations could have a material adverse effect on our business, reputation, results of operations and financial condition.

The occurrence of natural disasters in the regions where the Bank operates could impair its ability to conduct business effectively and could impact the Bank’s results of operations.

We are exposed to the risk of natural disasters such as earthquakes, tsunamis (such as those that occurred in February 2010) and volcanic eruptions in the regions where we operate. In the event of a natural disaster, unanticipated problems with our disaster recovery systems could have a material adverse impact on our ability to conduct business in the affected region, particularly if those problems affect our computer-based data processing, transmission, storage and retrieval systems and destroy valuable data. In addition, if a significant number of our local employees and managers were unavailable in the event of a disaster, our ability to effectively conduct business could be severely compromised. A natural disaster could damage some of our branches and ATMs, forcing us to close damaged facilities or locations. A natural disaster or multiple catastrophic events could have a material adverse effect on our business in the affected region and could result in substantial volatility in our results of operations for any fiscal quarter or year.

A worsening of labor relations in Chile could adversely affect our business.

As of December 31, 2019, on a consolidated basis we had 14,851 employees, of which 95.1% were unionized. BancoEstado has an agreement with its union and seven of our subsidiaries have agreements with their respective unions. Our current labor agreements have been negotiated every 2 or 3 years. The current labor agreement for our largest union, which covers employees at the Bank, will expire on November 30, 2021. Although as of the date of this Prospectus we enjoyed good relations with our employees and their unions, we cannot assure you that labor relations will continue to be positive or that deterioration in labor relations will not materially and adversely affect our business, financial condition or results of operations.

Future increases in the corporate tax rate in Chile or additional modifications to the Chilean tax system to finance future social reforms may have a material adverse effect on us.

Since the enactment of Law No. 20,780, as amended (the “2014 Tax Reform”), several and substantial amendments have been made to the Chilean income tax system, including increases to corporate and personal income tax rates.

In February 2020, Congress enacted Law No. 21,210 (the “2020 Tax Reform”) eliminating the coexistence of two alternative income tax regimes for large-sized companies created by the 2014 Tax Reform and, effective as of January 1, 2020, such companies were consolidated in a single partially-integrated tax system with a corporate tax rate of 27%. See “Regulation and Supervision—Recent Developments—Chilean Tax Reforms.” Subsidiaries in which the Bank owns less than 100% of capital stock will be taxed under this new single partially-integrated taxation regime.

When the 2014 Tax Reform was effective, the Chilean IRS interpreted that neither of the two alternative income tax regimes included in Article 14 of the Chilean Income Tax Law were applicable to companies wholly-owned by the Chilean State and, thus, such companies were subject to the general 25% first category tax contained in Article 20 of the Chilean Income Tax Law. Pursuant to such interpretation applicable to the Bank, since January 1, 2017, we have been subject to a first category tax rate of 25%. In addition, we are also subject to the additional 40% rate established in Article 2 of Decree-Law No. 2,398 of 1978. Notwithstanding the foregoing, we expect the Chilean IRS to issue a new Circular regulating the changes introduced by the 2020 Tax Reform and we cannot assure you that the Chilean IRS will not change its interpretation of the corporate tax rate applicable to us.

In addition, based on Chile’s current social and political environment after the October 2019 outbreak, the Chilean government may introduce further tax reforms aimed at limiting tax exemptions and/or preferential tax treatments. The 2020 Tax Reform and the Chilean IRS’s interpretation thereto, or the potential approval of future tax reforms, may have other consequences on us, and there can be no assurance that the current tax burden will not be adjusted in the future to finance future social reforms fostered by the Chilean government or to achieve other purposes, which may have a material adverse effect on our business, financial condition and results of operations. See “Regulation and Supervision—Recent Developments—Chilean Tax Reforms.”

Chile has different corporate disclosure and accounting standards than those you may be familiar with in the United States and Chile’s securities laws may not afford you the same protection as U.S. federal securities laws.

The accounting, financial reporting and securities disclosure requirements in Chile differ from those in the United States in some important respects. Accordingly, the information about us available to you will not be the same as the information disclosed by a company required to file reports with the SEC. In addition, although Chilean law imposes restrictions on insider trading and price manipulation, applicable Chilean laws are different from those in the United States, and in certain respects the Chilean securities markets are not as highly regulated and supervised as the U.S. securities markets.

Risk Factors Related to the Notes Generally

The Notes issued under the Program may not be a suitable investment for all investors. Each potential investor in any Series of Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- a. have sufficient knowledge and experience to make a meaningful evaluation of the relevant Series of Notes, the merits and risks of investing in such Series of Notes and the information contained in this Prospectus or any applicable supplement;
- b. have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Series of Notes and the impact such Series of Notes will have on its overall investment portfolio;

- c. have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Series of Notes, including Notes with principal or interest payable in one or more Specified Currencies, or where the Specified Currency for principal or interest payments is different from the potential investor's usual currency for holding investments;
- d. understand thoroughly the terms of the relevant Series of Notes and be familiar with the behavior of any relevant indices and financial markets; and
- e. be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment in the relevant Series of Notes and its ability to bear the applicable risks.

There may be no trading market for the Notes; you may be unable to sell your Notes if a trading market for the Notes does not develop or is not maintained.

Each Series of Notes may constitute a new issue of securities with no established trading market and will not be registered under the Securities Act or any state securities laws and may have no established trading market or trading history. We cannot assure you that an active trading market for any Series of Notes will develop or will be maintained. If a trading market does not develop or is not maintained, holders of any Series of the Notes may experience difficulty in reselling the Notes or may be unable to sell them at all.

The Notes cannot be publicly offered in Chile unless they are registered with the CMF. The definition of a public offering of securities under Chilean law includes both offers directed to the general public and offers directed to a part or specific group thereof. We do not expect to register any Series of Notes with the CMF.

No assurance can be given about the liquidity of any markets that may develop for the Notes, the ability of holders to sell the Notes or the prices at which the Notes could be sold. Because the market for any Series of Notes may not be liquid, you may have to bear the economic risk of an investment in the Notes for an indefinite period of time.

Even if a market for a Series of Notes develops, the liquidity of the market for any Series of Notes will depend on many factors, including the number of holders of such Series of Notes and the interest of securities dealers in making a market for such Series of Notes, and trading prices could be higher or lower than the initial offering price. If an active trading market does not develop, the Notes may trade at a discount from their initial offering price. The price of each Series of Notes will depend on many factors, including prevailing interest rates, general economic conditions, our operating results and the market for similar securities. Declines in the market for debt and equity securities generally may also materially and adversely affect the liquidity of the Notes, independent of our financial performance. See "Description of Notes" and "Transfer and Selling Restrictions."

Market Price Risk

The market price of each Series of Notes depends on various factors, such as changes of interest rate levels, the policy of central banks, overall economic developments, inflation rates or the supply and demand for the relevant type of Note. The market price of each Series of Notes may also be negatively affected by an increase in the Bank's credit spreads (i. e. the difference between yields on the Bank's debt and the yield of government bonds or swap rates of similar maturity). The Bank's credit spreads are mainly based on its perceived creditworthiness but also influenced by other factors such as general market trends as well as supply and demand for such Series of Notes.

Credit ratings may not reflect all risks.

One or more independent credit rating agencies may assign credit ratings to the Notes. Where a Series of Notes is rated, such rating will not necessarily be the same as the rating assigned to the Notes to be issued under the Program. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed herein, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. Any ratings assigned to Notes as at the date of this Prospectus are not indicative of future performance of the Issuer's business or its future creditworthiness.

The Notes are subject to certain transfer restrictions.

The Notes have not been registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States. Therefore, the Notes may be transferred or resold only in a transaction registered under or exempt from the registration requirements of the Securities Act and in compliance with any other applicable securities law. Notes sold in reliance on 3(a)(2) are exempt from registration. 144 A Notes may only be sold to QIBs in reliance on the exemption from registration provided by Rule 144A. Regulation S Notes may only be sold outside the United States to non-U.S. persons pursuant to Regulation S. See "Transfer and Selling Restrictions."

The obligations under the Notes will be subordinated to certain statutory liabilities and the liabilities of our subsidiaries.

Under Chilean bankruptcy law, the obligations under the Notes are subordinated to certain statutory preferences. In the event of a liquidation, such statutory preferences, including, without limitation, claims for salaries, wages, secured obligations, social security, taxes and court fees and expenses, will have preference over any other claims, including claims by any investor in respect of the Notes. In addition, the liabilities of our subsidiaries are structurally senior to the Notes.

Claims made against us may not be enforceable under principles of sovereign immunity.

We are a state-owned company. Because the Republic of Chile is a foreign sovereign, you may not be able to obtain a judgment in a U.S. court against us or any of our subsidiary companies. Under the Notes, subject to certain limitations, we have waived our right to invoke sovereign immunity under the Foreign Sovereign Immunities Act of 1976, as amended. However, you may not be able to enforce a judgment against any of our properties in the United States except under the limited circumstances specified in the Foreign Sovereign Immunities Act. Furthermore, if you obtain a U.S. judgment against us or any of our subsidiaries as a result of our waiver under the Foreign Sovereign Immunities Act, you still might not be able to obtain a judgment in Chile that is based on that U.S. judgment. We also do not know whether Chilean courts would enforce judgments of United States courts based on any civil liability provisions of the federal securities laws of the United States.

Holders of Notes may find it difficult to enforce civil liabilities against us or the members of our Board of Directors and Executive Committee, officers and controlling persons.

We are organized under the laws of Chile and our principal place of business (*domicilio social*) is in Santiago, Chile. Except for the manager of our New York Branch, all of the members of our Board of Directors and Executive Committee, officers and controlling persons reside outside of the United States. In addition, all or a substantial portion of our assets are located outside of the United States. As a result, it may be difficult for holders of Notes to effect service of process within the United States on such persons or to enforce judgments against them, including in any action based on civil liabilities under the U.S. federal

securities laws. Our Chilean counsel has expressed that there is doubt as to the enforceability, in original actions in Chilean courts, of liabilities predicated solely upon U.S. federal securities laws and as to the enforceability in Chilean courts of judgments of U.S. courts obtained in actions predicated upon the civil liability provisions in the U.S. federal securities laws. See “Enforcement of Civil Liabilities.”

Changes in Chilean tax laws could lead to our redeeming the Notes.

Under Chilean tax law, payments of interest or premium, if any, made by us in respect of the Notes to a non-Chilean investor will generally be subject to a Chilean withholding tax assessed at a rate of 4.0% as of the date of this Prospectus. Subject to certain exceptions, we will pay additional amounts so that the amount received by the holder after Chilean withholding tax will equal the amount that would have been received if no such taxes had been applicable. The Notes are redeemable at our option in whole (but not in part), at any time at the principal amount thereof plus accrued and unpaid interest and any additional amounts due thereon if, as a result of changes in the laws or regulations affecting Chilean taxation, we become obligated to pay additional amounts on the Notes based on a rate of withholding or deduction in excess of 4.0%. We are unable to determine whether such increase in withholding tax rate will be presented to or enacted by the Chilean Congress. However, if any such increase were enacted, the Notes would be redeemable at our option. See “Description of the Notes—Redemption Prior to Maturity Solely for Taxation Reasons” and “Taxation—Chilean Tax Considerations.”

We may incur additional indebtedness ranking equally to the Notes or secured indebtedness.

We may issue additional debt that ranks on an equal and ratable basis with the Notes. If we incur any additional debt that ranks on an equal and ratable basis with the Notes, the holders of that debt will be entitled to share ratably with the holders of the Notes in any proceeds distributed in connection with an insolvency, liquidation, reorganization, dissolution or other winding-up of us subject to satisfaction of certain debt limitations. This may have the effect of reducing the amount of proceeds paid to you. We also have the ability to incur collateralized debt and such debt would be effectively senior to the Notes to the extent of such collateral.

An investment in Notes is subject to exchange rate risk and exchange controls could affect Notes denominated in a foreign currency.

An investment in Notes that are denominated in, or the payment of which is to be or may be made in or related to the value of, a currency or composite currency other than the currency of the country in which the purchaser is a resident or the currency in which the purchaser conducts its business or activities (the “home currency”) entails significant risks that are not associated with a similar investment in a security denominated in the home currency. Such risks include the possibility of significant changes in rates of exchange between the home currency and the various foreign currencies (or composite currencies) after the issuance of such Note and the possibility of the imposition or modification of foreign exchange controls by either the U.S. or foreign governments. Such risks generally depend on economic and political events over which we have no control. In recent years, rates of exchange between certain currencies have been highly volatile and such volatility may be expected to continue in the future. Fluctuations in any particular exchange rate that have occurred in the past are not necessarily indicative, however, of fluctuations in such rate that may occur during the term of any Note. Depreciation of the currency in which a Note is denominated against the relevant home currency would result in a decrease in the effective yield of such Note below its coupon rate and, in certain circumstances, could result in a loss to the investor on a home currency basis.

Foreign exchange rates can either be fixed by sovereign governments or float. Exchange rates of most economically developed nations are permitted to fluctuate in value relative to the U.S. Dollar. National

governments, however, rarely voluntarily allow their currencies to float freely in response to economic forces. Governments in fact use a variety of techniques, such as intervention by a country's central bank or imposition of regulatory controls or taxes, to affect the exchange rate of their currencies. Governments may also issue a new currency to replace an existing currency, or alter the exchange rate or relative exchange characteristics by devaluation or revaluation of a currency. Thus, a special risk in purchasing non-home currency denominated Notes is that their home currency equivalent yields could be affected by governmental actions, which could change or interfere with theretofore freely determined currency valuation, fluctuations in response to other market forces, and the movement of currencies across borders. There will be no adjustment or change in the terms of such Notes in the event that exchange rates should become fixed, or in the event of any devaluation or revaluation or imposition of exchange or other regulatory controls or taxes, or in the event of other developments affecting the U.S. Dollar or any applicable Specified Currency.

Governments have imposed from time to time, and may in the future impose, exchange controls which could affect exchange rates as well as the availability of a specified foreign currency at the time of payment of principal and of premium, if any, or interest, if any, on a Note. Even if there are no actual exchange controls, it is possible that the Specified Currency for any particular Note not denominated in U.S. Dollars would not be available at such Note's maturity. In that event, the Issuer would make required payments in U.S. Dollars on the basis of the market exchange rate on the date of such payment, or if such rate of exchange is not then available, on the basis of the market exchange rate as of the most recent practicable date. See "Special Provisions Relating to Foreign Currency Notes—Payments on Foreign Currency Notes."

Particular tax consequences of holding Bearer Notes.

Any potential investor should consult its own independent tax adviser for more information about the tax consequences of acquiring, owning and disposing of Bearer Notes in its particular circumstances. Bearer Notes generally may not be offered or sold in the United States or to United States persons. Unless an exemption applies, a United States person holding a Bearer Note or coupon will not be entitled to deduct any loss on the Bearer Note or coupon and must treat as ordinary income any gain realized on the sale or other disposition of the Bearer Note or coupon.

Risks related to the structure of a particular issue of Notes.

A wide range of Notes may be issued under the Program. Some Notes are complex financial instruments and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the relevant Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact such investment will have on the potential investor's overall investment portfolio. Certain Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common such features:

Notes subject to optional redemption by the Bank.

An optional redemption feature of Notes is likely to limit their market value. During any period when we may elect to redeem Notes, the market value of such Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

We may be expected to redeem Notes when the cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at

an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Variable Rate Notes with a multiplier or other leverage factor.

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Inverse Floating Rate Notes.

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR or EURIBOR. The market values of such Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes. Market volatility in interest rates, which is difficult to anticipate, may therefore have a significant adverse effect on the yield, the market value and/or the liquidity of the Inverse Floating Rate Notes and investors could receive a lower or no interest on such Notes. See also “—*Uncertainty about the future of LIBOR may adversely affect the interest rate on LIBOR-based Floating Rate Notes and therefore the return on, and the value of, such Floating Rate Notes.*”

Fixed Rate Notes.

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Notes.

Fixed/Floating Rate Notes.

Fixed/Floating Rate Notes may bear interest at a rate that we may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Our ability to convert the interest rate will affect the secondary market and the market value of such Notes since we may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If we convert from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Notes may be less favorable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If we convert from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on its Notes and this may have a significant adverse effect on the market value of the Fixed/Floating Rate Notes. See also “—*Uncertainty about the future of LIBOR and EURIBOR may adversely affect the interest rate on LIBOR-based Floating Rate Notes and EURIBOR-based Floating Rate Notes and therefore the return on, and the value of, such Floating Rate Notes.*”

Notes issued at a substantial discount.

The market values of securities issued at a substantial discount from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities. Therefore, holders of

Notes issued at a substantial discount or premium could be exposed to greater losses on their investment than holders of conventional interest-bearing securities.

Uncertainty about the future of LIBOR and EURIBOR may adversely affect the interest rate on LIBOR-based Floating Rate Notes and EURIBOR-based Floating Rate Notes and therefore the return on, and the value of, such Floating Rate Notes.

LIBOR, EURIBOR and other indices which are deemed to be “benchmarks” are the subject of recent international and other regulatory guidance and proposals for reform. Some of these reforms are already effective while others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past, or to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Notes linked to such a “benchmark”.

Specifically, the sustainability of LIBOR has been questioned as a result of the absence of relevant active underlying markets and possible disincentives (including possibly as a result of benchmark reforms) for market participants to continue contributing to such benchmarks. In an announcement on 27 July 2017, the U.K. Financial Conduct Authority (FCA), which is the competent authority for the regulation of benchmarks in the UK, advocated a transition away from reliance on LIBOR to alternative reference rates and stated that it would no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 (the “FCA Announcement”). The FCA Announcement indicated that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021.

Separate work streams are underway in Europe to reform Euro Inter-bank Offered Rate (“EURIBOR”) and to provide a fallback by reference to a euro risk-free rate. On September 13, 2018 the working group on euro risk-free rates recommended Euro Short-term Rate (“ESTER”) as the new risk free rate. ESTER was first published by the European Central Bank on October 2, 2019. In addition, on January 21, 2019, the euro risk-free rate working group published a set of guiding principles for fallback provisions in new euro denominated cash products (including bonds). The guiding principles indicate, among other things, that continuing to reference EURIBOR in relevant contracts may increase the risk to the euro area financial system. In November 2019, the euro risk-free working group published a report with high-level recommendations for fallback provisions in contracts that reference EURIBOR. The working group is also looking at identifying specific fallbacks for EURIBOR based on ESTER.

At this time, the nature and overall timeframe of the transition away from LIBOR or EURIBOR is uncertain and no consensus exists as to what rate or rates may become accepted alternatives to LIBOR or EURIBOR. It is impossible to predict the effect of the transition and any alternative rates on the value of LIBOR-based securities and EURIBOR-based securities, including LIBOR-based Floating Rate Notes and the EURIBOR-based Floating Rate Notes.

In addition, any changes announced by the FCA, ICE Benchmark Administration Limited as the independent administrator of LIBOR or any other successor governance or oversight body, or future changes adopted by such body, in the method pursuant to which the LIBOR rates are determined may result in a sudden or prolonged increase or decrease in the reported LIBOR rates. If that were to occur, the level of interest payments and the value of LIBOR-based Floating Rate Notes may be negatively affected. Under the terms of the Notes, we will have discretion to determine if LIBOR has been discontinued or is no longer an acceptable benchmark, to direct the calculation agent in writing to use the appropriate Alternative Rate (as defined below) and to make related adjustments to the Alternative Rate or the Spread (as defined below) and/or Spread Multiplier (as defined below), as well as the business day convention, Interest Determination Dates (as defined below) and related provisions and definitions, in each case, consistent with market practice and, in certain circumstances, to appoint an independent financial advisor (“IFA”) to determine an

appropriate Alternative Rate and any such adjustments. Our interests in making the foregoing determinations or adjustments may be adverse to the interests of holders of the LIBOR Notes, and any of the foregoing determinations, adjustments or actions by us, the calculation agent or the IFA, or the continuation of a fixed interest rate in certain circumstances, could result in adverse consequences to the applicable interest rate on the LIBOR Notes which could have adverse effects on the returns on, value of and market for the LIBOR Notes. Further, there is no assurance that the characteristics of any Alternative Rate will be similar to LIBOR for deposits in the LIBOR Currency having the particular Index Maturity, or that any Alternative Rate will produce the economic equivalent of LIBOR for deposits in the LIBOR Currency having the particular Index Maturity. See “Description of the Notes—Interest and Interest Rates—Floating Rate Notes—Types of Floating Rate Notes—LIBOR Notes.”

Any of these alternative methods may result in interest payments that are lower than or do not otherwise correlate over time with the payments that would have been made on the LIBOR-based Floating Rate Notes if LIBOR had been available in its current form.

Further, the Benchmark Regulation, which entered into force on January 1, 2018 and applies to “contributors”, “administrators” and “users” of “benchmarks” in the EU, among other things, (i) require benchmark administrators to be authorized (or, if non EU-based, to have satisfied certain “equivalence” conditions in its local jurisdiction, to be “recognized” by the competent authority of the applicable Member State pending an equivalence decision or to be “endorsed” for such purpose by an EU competent authority) and to comply with requirements in relation to the administration of “benchmarks” and (ii) ban the use of “benchmarks” of unauthorized administrators. On 2 July 2019, the Financial Services and Market Authority of Belgium authorized the European Money Markets Institute (EMMI) as the administrator of EURIBOR (as reformed) under the Benchmarks Regulation. This means that EU supervised entities will be able to use EURIBOR as a Benchmarks Regulation compliant benchmark after the end of the Benchmarks Regulation transitional period.

The Benchmark Regulation could have a material impact on Notes linked to a “benchmark” rate or index, such as LIBOR and EURIBOR, including in any of the following circumstances:

- a rate or index which is a “benchmark” could not be used as such if its administrator does not obtain authorization or is based in a non-EU jurisdiction which (subject to applicable transitional provisions) does not satisfy the “equivalence” conditions, is not “recognized” pending such a decision and is not “endorsed” for such purpose. In such event, depending on the particular “benchmark” and the applicable terms of the Notes, the Notes could be de-listed, adjusted, redeemed prior to maturity or otherwise impacted;
- the methodology or other terms of the “benchmark” could be changed in order to comply with the terms of the Benchmark Regulation, and such changes could have the effect of reducing or increasing the rate or level or affecting the volatility of the published rate or level and could lead to adjustments to the terms of the Notes, including calculation agent determination of the rate or level in its discretion; and
- if a LIBOR Event (as defined below) occurs with respect to LIBOR for the applicable index maturity, the interest rate on such series of Notes will thereafter be determined by reference to the applicable Alternative Rate (as defined below). A LIBOR Event includes, among other things, a public statement or publication of information by the regulatory supervisor for the administrator of LIBOR announcing that LIBOR of the applicable index maturity is no longer representative. The interest rate on the relevant series of LIBOR Notes may, therefore, cease to be determined by reference to LIBOR for the applicable index maturity, and instead be determined by reference to the Alternative Rate, even if LIBOR for such index maturity

continues to be published. Such replacement rate may be lower than LIBOR for the applicable index maturity for so long as LIBOR for such index maturity continues to be published, and the return on, value of and market for the relevant series of LIBOR Notes may be adversely affected.

Any of the international, national or other proposals for reform or the general increased regulatory scrutiny of “benchmarks” could increase the costs and risks of administering or otherwise participating in the setting of a “benchmark” and complying with any such regulations or requirements. Such factors may have the effect of discouraging market participants from continuing to administer or contribute to certain “benchmarks”, trigger changes in the rules or methodologies used in certain “benchmarks” or lead to the disappearance of certain “benchmarks”. The disappearance of a “benchmark” or changes in the manner of administration of a “benchmark” could result in adjustment to the terms and conditions of the relevant Notes or other consequences, depending on the specific provisions of the relevant Notes. Any such consequence could have a material adverse effect on the value of and return on any such Notes including adverse U.S. federal income tax consequences for holders of the Notes.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the Benchmarks Regulation reforms or possible cessation or reform of LIBOR and EURIBOR in making any investment decision with respect to the Floating Rate Notes.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents (or parts of the following documents, as applicable) shall be deemed to be incorporated by reference in, and to form part of, this Prospectus:

- the terms and conditions as set out on pages 147 to 180 of the Base Prospectus dated May 13, 2016 (the “2016 Base Prospectus”), relating to the Program under the heading “Description of the Notes” (the “2016 Terms and Conditions”) ([https://dl.bourse.lu/dl?v=SPYavdw6OB/u/Z5o3mcvOTmgIbYk/kf/vf6NJ3uDMkEtC8e0C/HPkE SuwJAYkIw/YK2ecxAuvOafy8MQ3sKD6Yk3VHk1R6RPbjUNsTxXGKYdMDUyUxTARJ56Q LY3UUZ7MjidSDIPSBRNFECPwJ741F+kOmbXab30+ebD7emeH8njVbbbKH7yGRUmbXBzN erpvYRKrLHGCHGkEXj3AjwjsfytBRlf2wb8E8OsCfBI5Nc=\)](https://dl.bourse.lu/dl?v=SPYavdw6OB/u/Z5o3mcvOTmgIbYk/kf/vf6NJ3uDMkEtC8e0C/HPkE SuwJAYkIw/YK2ecxAuvOafy8MQ3sKD6Yk3VHk1R6RPbjUNsTxXGKYdMDUyUxTARJ56Q LY3UUZ7MjidSDIPSBRNFECPwJ741F+kOmbXab30+ebD7emeH8njVbbbKH7yGRUmbXBzN erpvYRKrLHGCHGkEXj3AjwjsfytBRlf2wb8E8OsCfBI5Nc=))).
- the terms and conditions as set out on pages 192 to 230 of the Base Prospectus dated May 11, 2017 (the “2017 Base Prospectus”), relating to the Program under the heading “Description of the Notes” (the “2017 Terms and Conditions”) ([https://dl.bourse.lu/dl?v=YJJIVIMqCB8H0YGnnrzBmOIK8mEIMf/yq1kCNv5MORWD82IScgC 5W3Pa8uEvMpDVU0hiBTRATrhPUuWnZtdqSCQOErr4QPsUtSMA4ruDVTkWhiOOhhx9g0h 51TyRtMpqmjoUiqAx+Ms+nijaWtpak0UUIIDcaYoCnZSgv76axmTY4B/YjhUwsJpbTmcYTt5rK P0TkKOQ6ysmJOJP3ql5TmdbKI0XEqbdu8BU+d+sb6mw=\)](https://dl.bourse.lu/dl?v=YJJIVIMqCB8H0YGnnrzBmOIK8mEIMf/yq1kCNv5MORWD82IScgC 5W3Pa8uEvMpDVU0hiBTRATrhPUuWnZtdqSCQOErr4QPsUtSMA4ruDVTkWhiOOhhx9g0h 51TyRtMpqmjoUiqAx+Ms+nijaWtpak0UUIIDcaYoCnZSgv76axmTY4B/YjhUwsJpbTmcYTt5rK P0TkKOQ6ysmJOJP3ql5TmdbKI0XEqbdu8BU+d+sb6mw=))).
- The terms and conditions as set on pages 183 to 221 of the Base Prospectus dated April 20, 2018 (the “2018 Base Prospectus”), relating to the Program under the heading “Description of the Notes” (the “2018 Terms and Conditions”) ([https://dl.bourse.lu/dl?v=FTmDM+loPiytRxVo7GaxSkd3yT84+SAICzEcVjWhTgBBcp3IP0HQc VuTo+QFCRqcJD1VTz4DzXwFihGb3CK/jhe5Pz3zybXTHiX6ncsTxhQOIOcd6r3tJY4u+8Lh53 S59OX8klh1n1ysTuzB0Ci2RBVPFPRmb27MDYhTJKt2DUg=\)](https://dl.bourse.lu/dl?v=FTmDM+loPiytRxVo7GaxSkd3yT84+SAICzEcVjWhTgBBcp3IP0HQc VuTo+QFCRqcJD1VTz4DzXwFihGb3CK/jhe5Pz3zybXTHiX6ncsTxhQOIOcd6r3tJY4u+8Lh53 S59OX8klh1n1ysTuzB0Ci2RBVPFPRmb27MDYhTJKt2DUg=))).
- The terms and conditions as set on pages 181 to 220 of the Base Prospectus dated April 16, 2019 (the “2019 Base Prospectus”), relating to the Program under the heading “Description of the Notes” (the “2019 Terms and Conditions”) ([https://dl.bourse.lu/dl?v=shvb/zDrSAMRepWaO3oGy9j9fT8ZNUbmPBoUJO2tpCTyFY9t1dSHlr\)](https://dl.bourse.lu/dl?v=shvb/zDrSAMRepWaO3oGy9j9fT8ZNUbmPBoUJO2tpCTyFY9t1dSHlr))

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- The Bank's Unaudited Interim Consolidated Financial Statements as of March 31, 2020 and for the three-month periods ending March 31, 2019 and 2020 (https://www.corporativo.bancoestado.cl/sites/default/files/documentos_archivos/EEFF_Consolidados_Ingl%C3%A9s_al_31032020.pdf).

Interim Consolidated Statements of Financial Position.....	Page 5
Interim Consolidated Statements of Income.....	Page 6
Interim Consolidated Statements of Other Comprehensive Income.....	Page 7
Interim Consolidated Statements of Changes in Equity.....	Page 8
Interim Consolidated Statements of Cash Flows.....	Page 9
Notes to the Interim Consolidated Financial Statements.....	Page 10 to 164

Only the 2016 Terms and Conditions, 2017 Terms and Conditions, 2018 Terms and Conditions and 2019 Terms and Conditions, are herein incorporated by reference, and the non-incorporated parts of the 2016 Base Prospectus, 2017 Base Prospectus, 2018 Base Prospectus and 2019 Base Prospectus are either not relevant for investors or covered elsewhere in this Prospectus and are not incorporated by reference in this Base Prospectus and shall not form part of this Base Prospectus.

Copies of the documents incorporated by reference can be obtained from the specified offices of the Luxembourg listing agent (Deutsche Bank Luxembourg S.A.) and on the website of the Luxembourg Stock Exchange (www.bourse.lu).

Unless specifically incorporated by reference into this Base Prospectus, information contained on the websites referenced in this Base Prospectus does not form part of this Base Prospectus and has not been scrutinized or approved by the Commission de Surveillance du Secteur Financier.

USE OF PROCEEDS

The net proceeds from the sale of each Series of Notes issued under the Program will be used by us for general corporate purposes.

PRESENTATION OF FINANCIAL INFORMATION

General

We are a Chilean bank that maintains its financial books and records in Chilean pesos (“Ch\$”) and prepares its financial statements in accordance with Chilean Banking GAAP as defined below. Chilean Banking GAAP differs in certain significant respects from generally accepted accounting principles in the United States (“U.S. GAAP”) and International Accounting Standards Board (“IFRS”). Therefore, the financial information included in this Prospectus has not been prepared in accordance with IFRS and there may be material differences in the financial information presented herein had IFRS been applied to the historical financial information. We have made no attempt to quantify these differences.

This Prospectus includes our audited consolidated financial statements as of and for the years ended December 31, 2017 and 2018, and as of and for the years ending December 31, 2018 and 2019, which have been prepared under Chilean Banking GAAP (as defined below) and which we refer to as the “Audited Consolidated Financial Statements” or “Financial Statements.” This Prospectus also includes our unaudited condensed consolidated financial statements as of March 31, 2020 and for the three-month periods ending March 31, 2019 and 2020, which have been prepared under Chilean Banking GAAP (as defined below) and which we refer to as the “Unaudited Interim Consolidated Financial Statements”. Our results of operations for the first three months of 2020 are not necessarily indicative of our results of operations for the full year or any other period.

Chilean Banking GAAP

We refer to generally accepted accounting principles in Chile effective January 1, 2009, as supplemented by the applicable rules of the CMF (including the accounting standards stipulated in the Compendium of Accounting Standards issued by the CMF (as supplemented, the “Compendium”)), as “Chilean Banking GAAP.” Our Audited Consolidated Financial Statements and Unaudited Interim Consolidated Financial Statements have been prepared in accordance with Chilean Banking GAAP. The overview of consolidated financial data included herein as of and for the fiscal years ended December 31, 2017, 2018 and 2019 are derived from, and presented on the same basis as in, the Audited Consolidated Financial Statements and should be read together with the Audited Consolidated Financial Statements.

Loans

Unless otherwise specified, all references herein (except in the Audited Consolidated Financial Statements and Unaudited Interim Consolidated Financial Statements) to loans are to loans and financial leases before deduction for loan loss allowance. Non-performing loans includes, among others, loans for which either principal or interest is overdue for more than 90 days, which do not accrue interest except for certain loans where more than 80% of our exposure under the loan is secured. Restructured loans for which no payments are overdue are not ordinarily classified as non-performing loans (for further information, see “Note 1—Allowances for loan losses” to our Audited Consolidated Financial Statement”). Past due loans include, with respect to any loan, only the portion of principal or interest that is overdue for 90 or more days, and do not include the installments of such loan that are not overdue or that are overdue for less than 90 days, unless legal proceedings have been commenced for the entire outstanding balance according to the terms of the loan, in which case the entire loan is considered past due within 90 days of the beginning of such proceedings.

We record our interbank lending portfolio separately from loans and account receivables from customers as loans and advances to banks. Nevertheless, management believes that it is useful to view our

loan assets as a single portfolio and accordingly we have presented these loans as part of our loan portfolio in commercial loans.

Effect of Rounding

Certain figures included in this Prospectus have been rounded for ease of presentation. Percentage figures included in this Prospectus have not in all cases been calculated on the basis of such rounded figures but on the basis of such amounts prior to rounding. For this reason, certain percentage amounts in this Prospectus may vary from those obtained by performing the same calculations using the figures in the Audited Consolidated Financial Statements. Certain other amounts that appear in this Prospectus may not sum due to rounding.

Economic and Market Data

In this Prospectus, unless otherwise indicated, all macroeconomic data related to the Chilean economy is based on information published by the Central Bank, and all market share and other data related to the Chilean financial system is based on information published by the CMF and our analysis of such information.

Facts, forecasts and statistics in this document relating to Chile, Chile's economy and the Chilean banking industry, including market share information, are derived from various official and other publicly available sources that we generally believe to be reliable. However, we cannot guarantee the quality and reliability of such official and other sources of materials. In addition, these facts, forecasts and statistics have not been independently verified by us and, therefore, we make no representation as to the accuracy of such facts, forecasts and statistics, which may not be consistent with other information compiled within or outside of Chile and may not be complete or up to date. We have taken reasonable care in reproducing or extracting the information from such sources. However, because of possibly flawed or ineffective methodologies underlying the published information or discrepancies between the published information and market practice and other problems, these facts, forecasts or statistics may be inaccurate and may not be comparable from period to period or to facts, forecasts or statistics produced for other economies, and you should not unduly rely upon them.

Currency

In this Prospectus, references to "\$," "US\$," "U.S. dollars" and "dollars" are to United States dollars, references to "pesos" or "Ch\$" are to Chilean pesos, the legal currency of Chile, and references to "UF" are to "*Unidades de Fomento*." The *Unidad de Fomento* (UF) is a unit of account which is linked to, and which is adjusted daily to reflect changes in, the Consumer Price Index ("CPI"). Further, all references to "€," "EUR," or "Euro" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended. Percentages and certain dollar and peso amounts contained herein have been rounded for ease of presentation. Unless otherwise indicated, the exchange rate used to translate peso amounts appearing in this Prospectus into dollars is the Observed Exchange Rate for December 31, 2019, reported on January 2, 2020, which was Ch\$748.74 per US\$1.00. The reported Observed Exchange Rate is based on transactions by banks on the prior banking day. These translations should not be construed as representations that the peso amounts actually represent such dollar amounts or could be converted into dollars at the rates indicated or at any other rate. See "Exchange Rates."

The translation of amounts expressed in constant or nominal pesos as of a certain date to the then prevailing exchange rate may result in presentation of dollar amounts different from the dollar amounts that

would have been obtained by translating constant or nominal pesos as of a different date to the exchange rate prevailing on such different date.

Miscellaneous

As used in this Prospectus, the term “billion” means one thousand million (1,000,000,000).

The Bank is required by Chilean law to publish interim financial information with its notes on April 30, July 31 and October 30 of each year for the fiscal quarters ending March 31, June 30 and September 30 of each year, respectively. Exceptionally, if the Bank is unable to gather all information necessary to finalize its interim financial information with its notes prior to such dates, the Bank is required to at least publish its statement of financial position, statement of income for the period and statement of other comprehensive income for the period within such dates and the full interim financial information with its notes on May 15, August 15 and November 15 of each year for the fiscal quarters ending March 31, June 30 and September 30 of each year, respectively. Interim financial information is available on the Bank’s website <https://www.corporativo.bancoestado.cl/investor-relations/home-investor>. Information contained on, or accessible through, our website is not incorporated by reference in, and shall not be considered part of, this Prospectus.

CAPITALIZATION AND INDEBTEDNESS

In November 2019 and in April 2020, the Chilean Congress enacted legislation authorizing, in each case, a US\$500 million capital contribution to the Bank. See “Management Discussion and Analysis of Results of Operations and Financial Condition—Liquidity and Capital Resources—Sources of Liquidity” and “Management’s Discussion and Analysis of Results of Operations and Financial Condition—Chilean Economy—Overview.”

The following table sets forth our capitalization as of December 31, 2019. There has been no material change in our capitalization since December 31, 2019, other than as set forth in our Unaudited Interim Consolidated Financial Statements. For additional information, see our Financial Statements and Unaudited Interim Consolidated Financial Statements included elsewhere in this Prospectus.

	As of December 31, 2019⁽¹⁾			
	(in millions of nominal Ch\$)		(in millions of US\$)⁽²⁾	
Indebtedness				
Deposits ⁽³⁾	Ch\$	27,047,435	US\$	36,123.9
Repurchase agreements and securities loans		924,775		1,235.1
Obligations with banks		1,744,835		2,330.4
Debt instruments issued:				
Letters of credits (mortgage finance bonds)		597,226		797.6
Subordinated bonds		998,072		1,333.0
Ordinary (Senior) bonds		6,768,636		9,040.0
Notes		-		-
Other financial obligations		25,562		34.1
Lease obligations		84,260		112.5
Financial derivative contracts		1,324,832		1,769.4
Total Indebtedness		39,515,633		52,776.2
Capitalization				
Issued Capital and reserves		1,847,642		2,467.7
Valuation accounts		(44,845)		(59.9)
Retained earnings		-		-
Non-controlling interests		9,011		12.0
Total equity		1,811,808		2,419.8
Total capitalization	Ch\$	41,327,441	US\$	55,196.0

(1) Totals in this tables may differ from the sum of the individual items due to rounding.

(2) U.S. dollar amounts have been translated into Chilean pesos, and Chilean peso amounts have been translated into U.S. dollars, at the Observed Exchange Rate of Ch\$748.74 = US\$1.00 as of December 31, 2019, published by the Central Bank on January 2, 2020.

(3) Includes current accounts and other demand deposits and time deposits and savings accounts.

EXCHANGE RATES

Chile has two currency markets, the Formal Exchange Market (*Mercado Cambiario Formal*) and the Informal Exchange Market (*Mercado Cambiario Informal*). The Formal Exchange Market is comprised of banks and other entities authorized by the Central Bank. The Informal Exchange Market is comprised of entities that are not expressly authorized to operate in the Formal Exchange Market, such as certain foreign exchange houses and travel agencies, among others. Current regulations require that the Central Bank be informed of certain foreign exchange transactions. The Central Bank is empowered to require that certain purchases and sales of foreign currencies be carried out on the Formal Exchange Market. Both the Formal and Informal Exchange Markets are driven by free market forces. Current regulations require that the Central Bank be informed of certain transactions and that they be effected through the Formal Exchange Market.

The *dólar observado* (the “Observed Exchange Rate”), which is reported by the Central Bank and published daily in the *Diario Oficial* (Official Gazette), is computed by taking the weighted average exchange rate of the previous business day’s transactions in the Formal Exchange Market. Nevertheless, the Central Bank may intervene by buying or selling foreign currency on the Formal Exchange Market to attempt to maintain the Observed Exchange Rate within a desired range.

The Informal Exchange Market reflects transactions carried out at an informal exchange rate (the “Informal Exchange Rate”). There are no limits imposed on the extent to which the rate of exchange in the Informal Exchange Market can fluctuate above or below the Observed Exchange Rate. In recent years, the variation between the Observed Exchange Rate and the Informal Exchange Rate has not been significant. Even though the Central Bank is authorized to carry out its transactions at the Observed Exchange Rate, it often uses spot rates instead. Many other banks carry out foreign exchange transactions at spot rates as well.

The Federal Reserve Bank of New York does not report a noon buying rate for Chilean pesos.

As of January 2, 2020, the Observed Exchange Rate was Ch\$748.74 = US\$1.00.

The following table sets forth for each of the last five years and through March 31, 2020, the annual low, high, average and year-end Observed Exchange Rates for dollars as reported by the Central Bank. No representation is made that the Chilean peso or the dollar amounts referred to herein actually represent, could have been or could be converted into dollars or Chilean pesos, as the case may be, at the rates indicated, at any particular rate or at all.

Observed Exchange Rates (Ch\$ per US\$)				
<u>Year</u>	<u>Low</u>	<u>High</u>	<u>Average⁽¹⁾</u>	<u>Period-end⁽²⁾</u>
2015	597.10	715.66	654.66	710.16
2016	645.22	730.31	676.67	669.47
2017	614.75	679.05	649.11	614.75
2018	588.28	698.56	640.62	694.77
2019	649.22	828.25	702.85	748.74
<u>Month</u>				
October 2019	709.71	735.05	721.34	735.05
November 2019	736.66	828.25	780.38	812.13
December 2019	744.62	804.29	767.22	748.74
January 2020	754.16	799.11	774.94	799.11
February 2020	776.99	818.32	797.34	818.32
March 2020	809.81	867.83	840.91	852.03

(1) The average of monthly average rates during the year-long periods and the daily average for the monthly periods. The yearly or monthly average rate is calculated as the average of the exchange rates on the last day of each month during the period.

(2) As reported by the Central Bank the first business day following the last day of the period.

Source: Central Bank.

EXCHANGE CONTROLS IN CHILE

The Central Bank is the entity responsible for monetary policies and exchange controls in Chile. Chilean banking institutions, when acting as issuers, are authorized to offer securities internationally provided they comply with, among other things, the provisions of Chapter XIII of the Compendium of Foreign Exchange Regulations of the Central Bank (the “Foreign Exchange Compendium”).

Pursuant to the provisions of Chapter XIII of the Foreign Exchange Compendium, it is not necessary to seek the Central Bank’s prior approval to issue the Notes. The Central Bank only requires the submission of (i) certain annexes containing the financial terms and conditions of the Notes not later than the business day following the date on which any proceeds from the Notes are remitted to Chile, or the first ten days of the month following the issuance of the Notes if the proceeds are used abroad; provided that the Bank may submit the annexes prior to the remittance of the proceeds to Chile or their use abroad, (ii) filings reporting to the Central Bank that a payment has been made on the Notes shall be carried out on the date such payment is made if proceeds are being remitted from Chile or within the first ten calendar days of the month following such payment, if payment is being made with proceeds the bank has abroad, and (iii) any amendment to the annexes referred to in this section, which amendment shall be submitted to the Central Bank within the first ten calendar days of the month following the formalization of such amendment.

Under Chapter XIII of the Foreign Exchange Compendium, payments and remittances of funds from Chile are governed by the rules in effect at the time the payment or remittance is made. Therefore, any change made to Chilean laws and regulations after the date hereof will affect foreign investors who have acquired the Notes. We cannot assure you that further Central Bank regulations or legislative changes to the current foreign exchange control regime in Chile will not restrict or prevent us from acquiring U.S. dollars or that further restrictions applicable to us will not affect our ability to remit U.S. dollars for payment of interest or principal on the Notes.

The above is a summary of the Central Bank’s regulations with respect to the issuance of debt securities by banking entities, including the Notes, as in force and effect as of the date of this Prospectus. We cannot assure you that restrictions will not be imposed in the future, nor can there be any assessment of the duration or impact of such restrictions if imposed. This summary does not purport to be complete and is qualified in its entirety by reference to the provisions of Chapter XIII of the Foreign Exchange Compendium, a copy of which is available from us upon request.

OVERVIEW OF CONSOLIDATED FINANCIAL INFORMATION

The following consolidated financial and operating information should be read in conjunction with, and is qualified in its entirety by reference to, our Audited Consolidated Financial Statements and the information in the “Presentation of Financial Information,” “Management’s Discussion and Analysis Results of Operations and Financial Conditions” and “Selected Statistical Information” sections appearing in this Prospectus.

Our financial statements are prepared in accordance with Chilean Banking GAAP.

Our consolidated financial statements as of and for the year ended December 31, 2019 have been audited by KPMG Auditores y Consultores SpA., independent auditors. Their address is Isidora Goyenechea 3520, Floor 2nd, Las Condes, Santiago, Chile, and they are registered under number 9 in the Official Register of Auditors of the CMF.

Our consolidated financial statements as of and for the years ended December 31, 2017 and 2018 have been audited by Deloitte Auditores y Consultores Limitada, independent auditors. Their address is Rosario Norte 407, Las Condes, Santiago, Chile, and they are registered under number 001 in the Official Register of Auditors of the Commission for the Financial Markets and under number 005 in the CMF.

KPMG Auditores y Consultores SpA. and Deloitte Auditores y Consultores Ltda. conducted their audits in accordance with Auditing Standards Generally Accepted in Chile (Chilean GAAS). Those standards require auditors to plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

Under Chilean GAAS, an audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, KPMG Auditores y Consultores SpA. and Deloitte Auditores y Consultores Ltda. express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

See Annex B for the principal differences between Chilean GAAS and International Standards on Auditing.

The tables below present summary consolidated financial information derived from our Audited Consolidated Financial Statements and operating information as of and for the years ended December 31 2017, 2018 and 2019.

	As of and for the year ended December 31,							
	2017		2018		2019		2019	
	(in millions of nominal Ch\$, except for percentages, ratios and operating data)						(in millions of US\$) ⁽¹⁾	
Income Statement Data:								
Net interest income	Ch\$	886,313	Ch\$	993,952	Ch\$	1,120,006	US\$	1,495.9

	As of and for the year ended December 31,							
	2017		2018		2019		2019	
	(in millions of nominal Ch\$, except for percentages, ratios and operating data)						(in millions of US\$) ⁽¹⁾	
Net fee and commissions								
income		260,316		305,877		331,157		442.3
Other income, net ⁽²⁾		97,321		108,373		84,404		112.7
Provision for loan losses		(185,849)		(232,047)		(320,396)		(427.9)
Operating expenses ⁽³⁾		(781,487)		(820,134)		(853,128)		(1,139.4)
Income before income taxes		276,614		356,021		362,043		483.5
Income tax expense		(144,117)		(176,684)		(179,708)		(240.0)
Net income for the year		132,497		179,337		182,335		243.5
Attributable to Equity holders of the Bank		120,501		165,951		167,019		223.1
Attributable to non-controlling interest ⁽⁴⁾	Ch\$	11,996	Ch\$	13,386	Ch\$	15,316	US\$	20.5

**Consolidated Statement of
Financial Position Data:**

Cash and due from banks	Ch\$ 4,781,085	Ch\$ 4,354,391	Ch\$ 3,972,444	US\$ 5,305.5
Financial investments ⁽⁵⁾	7,859,980	8,559,874	9,485,800	12,669.0
Loans and advances to banks and loans and account receivables from customers	23,140,689	24,566,789	26,273,621	35,090.4
Allowances for loan losses ⁽⁶⁾	(684,546)	(697,869)	(823,028)	(1,099.2)
Financial derivative contracts (assets) ⁽⁷⁾ ..	675,191	808,201	1,477,626	1,973.5
Other assets ⁽⁸⁾	2,117,837	2,630,143	2,968,513	3,964.7
Total assets	37,890,236	40,221,529	43,354,976	57,903.9
Current accounts and other demand deposits ⁽⁹⁾	26,033,153	26,687,785	27,047,435	36,123.9
Other interest-bearing liabilities ⁽¹⁰⁾	8,196,903	9,377,459	11,143,366	14,882.8
Financial derivative contracts (liabilities) ⁽⁷⁾	734,677	762,955	1,324,832	1,769.4
Total equity ⁽¹¹⁾	1,654,457	1,713,584	1,811,808	2,419.8
Attributable to equity holders of the Bank ⁽¹²⁾	Ch\$ 1,645,625	Ch\$ 1,704,190	Ch\$ 1,802,797	US\$ 2,407.8

Ratios:

Profitability and performance:

Net interest margin ⁽¹³⁾	3.01%	3.21%	3.34%	-
Return on average total assets ⁽¹⁴⁾	0.37%	0.47%	0.45%	-
Return on average equity ⁽¹⁵⁾	8.23%	10.69%	10.37%	-

Capital:

Average equity as a percentage of average total assets ⁽¹⁶⁾	4.50%	4.44%	4.36%	-
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Credit Quality:

Allowances for loan losses as percentage of total loans ⁽¹⁷⁾	2.96%	2.84%	3.13%	-
Past due loans as a percentage of total loans ⁽¹⁸⁾	0.88%	1.05%	1.14%	-

Operating Ratios:

Total operating expenses / total operating income ⁽¹⁹⁾	63.93%	59.75%	57.85%	-
Total operating expenses /average total assets ⁽²⁰⁾	2.28%	2.30%	2.31%	-

Other Data:

Inflation rate ⁽²¹⁾	2.3%	2.6%	3.0%	-
Appreciation (depreciation) (Ch\$/US\$) at period end ⁽²¹⁾	8.2%	(13.0)%	(7.8)%	-
Number of employees at period end	14,978	14,899	14,851	-
Number of branches and other non-ATM facilities at period end ⁽²²⁾ ...	22,664	25,923	29,796	-

⁽¹⁾ U.S. dollar amounts have been translated into Chilean pesos, and Chilean peso amounts have been translated into U.S. dollars, at the Observed Exchange Rate of Ch\$748.74 = US\$1.00 as of December 31, 2019, published by the Central Bank on January 2, 2020.

⁽²⁾ Other income, net is the sum of other operating income, other operating expenses, net foreign exchange gain (loss), net income (expense) from financial operations and income from investments in associates.

⁽³⁾ Operating expenses is the sum of personnel salaries and expenses, administrative expenses, depreciation and amortization and impairment.

- (4) Net income attributable to non-controlling shareholders in our consolidated subsidiaries. BNP Paribas Asset Management owns 49.99% of BancoEstado S.A. Administradora General de Fondos, a Chilean subsidiary of MetLife Inc. owns 49.9% of BancoEstado Corredores de Seguros S.A. and SumUp owns 9.9% of Red Global S.A.
- (5) Includes financial assets held for trading, repurchase agreements and securities loans, financial investments available for sale and financial investments held to maturity.
- (6) Includes allowances with regards to loans and advances to banks and loans and account receivables from customers.
- (7) Derivative contracts are valued at fair value and classified as a separate line item on our consolidated statement of financial position. See “Note 1—Valuation criteria of assets and liabilities” to our Audited Consolidated Financial Statements.
- (8) Includes transactions in the course of collection, investments in associates, intangible assets, property plant and equipment, current taxes, deferred taxes, right-of-use assets and other assets.
- (9) Includes current accounts and other demand deposits and time deposits and savings accounts.
- (10) Includes repurchase agreements and securities loans, obligations with banks, debt instruments issued and other financial obligations.
- (11) Total equity includes equity attributable to equity holders of the Bank plus non-controlling interest. Equity is calculated according to the guidelines established in Circular No. 3,410 issued by the CMF (formerly, the Superintendency of Banks). According to this format, equity must include non-controlling interest. In the Bank’s case, its provision for dividends are determined in accordance with the Bank’s Accounting Policy. See “Note 1—Distribution of net income to the Government” to our Audited Consolidated Financial Statements.
- (12) Equity attributable to the Bank is calculated according to the guidelines established in Circular No. 3,410 issued by the CMF (formerly, the Superintendency of Banks). The main difference between “equity attributable to equity holders of the Bank” and “total equity” is that “equity attributable to equity holders of the Bank” does not include the provision for mandatory dividends for non-controlling interests, nor the portion of equity attributable to non-controlling interests, while “total equity” does.
- (13) Net interest income divided by average interest-earning assets. Average interest-earning assets are calculated as follows: first, average interest-earning assets is calculated for each month of the relevant calendar year as the average of the month-end balance of interest-earning assets for such month and the immediately preceding month; second, the twelve monthly averages are summed and divided by twelve.
- (14) Net income divided by average total assets. Average total assets is calculated as follows: first, average total assets is calculated for each month of the relevant calendar year as the average of the month-end balance of total assets for such month and the immediately preceding month; second the twelve monthly averages are summed and divided by twelve.
- (15) Net income divided by average equity. Average equity is calculated as follows: first, average equity is calculated for each month of the relevant calendar year as the average of the month-end balance of equity for such month and the immediately preceding month; second, the twelve monthly averages are summed and divided by twelve.
- (16) Calculated using total equity including non-controlling interest.
- (17) Total loans exclude contingent loans.
- (18) Past due loans are loans with principal or interest overdue for 90 or more days, and do not include the installments of such loans that are not overdue or that are overdue for less than 90 days, unless legal proceedings have been commenced for the entire outstanding balance of the loan, in which case the entire loan is considered past due within 90 days of the beginning of the proceedings. Total loans exclude contingent loans.
- (19) Equal to total operating expenses divided by total operating income. Total operating expenses is the sum of personnel salaries and expenses, administrative expenses, depreciation and amortization, impairment and other operating expenses. Total operating income is the sum of net interest income, fees and income from services, net foreign exchange gain (loss), net income (expense) from financial operations and other operating income.
- (20) Total operating expenses is the sum of personnel salaries and expenses, administrative expenses, depreciation and amortization, impairment and other operating expenses.
- (21) Based on information published by the Central Bank. Annual inflation rates are calculated based on change in the *Índice de Precios al Consumidor* (Consumer Price Index, or “CPI”) at December 31 of each year.
- (22) Includes branches, *ServiEstado* (service points) and *CajaVecina* (remote service points).

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Introduction

The following discussion should be read in conjunction with our Audited Consolidated Financial Statements and the sections entitled “Overview of Consolidated Financial Information,” “Selected Statistical Information” and “Presentation of Financial Information” included elsewhere herein. Our financial statements are prepared in accordance with Chilean Banking GAAP. Certain amounts (including percentage amounts) that appear herein have been rounded for ease of presentation. Percentage figures included herein have not in all cases been calculated on the basis of such rounded figures but on the basis of such amounts prior to rounding. For this reason, certain percentage amounts may vary from those obtained by performing the same calculations using the figures in our Financial Statements. Certain other amounts may not sum due to rounding.

Overview

As described below, changes in interest rates and the rates of inflation as well as economic and political factors affecting Chile have an important impact on our financial performance. See “Selected Statistical Information—Loan Portfolio” for a description of risk characteristics associated with each type of loan in our loan portfolio.

Chilean Economy

Overview

Substantially all of our operations and customers are located in Chile. Accordingly, our financial condition and results of operations are substantially dependent upon economic conditions prevailing in Chile.

In 2017, the Chilean economy grew by 1.2%. This slow economic growth was primarily due to a contraction of gross fixed capital investment and lower activity in the non-mining sectors. The rate of unemployment reached 6.4% in the last quarter of 2017, mainly due to a large yearly increase in labor supply during the period. In addition, in 2017, the annual inflation rate reached 2.3%, below the Central Bank's target of 3.0%. The Chilean banking system's loan supply grew 2.9% in real terms in 2017, reflecting a general slowdown in internal economic activity.

In 2018, the Chilean economy grew by 3.9%, with positive growth in the first half of 2018, and a slowdown in growth in the second half of 2018, mainly due to a decrease in copper and other minerals production and a decrease in output in the manufacturing sector. For the three month period ended December 31, 2018, the unemployment rate was 6.7%, mainly due to a large yearly increase in labor supply during the year. In addition, in 2018, the annual inflation rate reached 2.6%, below the Central Bank's target of 3.0%. The Chilean banking system's loan supply grew 8.9% in real terms in 2018, reflecting the positive performance of the Chilean economy.

In 2019, the Chilean economy grew by 1.1%, with positive growth in the first three quarters of 2019, and a contraction in the fourth quarter of 2019, mainly due to widespread demonstrations over inequality in Santiago and other cities of the country, as described below. For the three month period ended December 31, 2019, the unemployment rate was 7.0%, mainly due to an increase in labor force that exceeded the increase in employed workers during the year. In addition, in 2019, the annual inflation rate reached 3.0%, consistent with the Central Bank's target. The Chilean banking system's loan supply grew

7.1% in real terms in 2019, reflecting the positive performance of the Chilean economy during the first nine months of the year.

Beginning in October 2019, Chile experienced a wave of protests and social unrest. These protests were initially sparked by the Chilean government's announcement of an increase in subway fares in Santiago but have since evolved to express broader concerns over inequality. In response to such protests and related violence, the Chilean government suspended the increase in subway fares and declared a state of emergency and imposed a nighttime curfew in the greater Santiago region and other cities, which were in place for nine days and ended on October 28, 2019.

During the course of the demonstrations, several of our branches and ATMs suffered damages caused by vandalism, with 15 of our branches and 210 of our ATMs becoming inoperative.

Following consultations in the Chilean Congress with members of the opposition, on October 22, 2019, the President announced a series of measures to address social demands (the "Social Agenda"), including (i) increases in government-subsidized pensions; (ii) new insurance programs to cover severe illnesses and related medications; (iii) a guaranteed minimum monthly income for wage earners of Ch\$350,000, with any difference between such guaranteed minimum monthly income and the minimum monthly wage (Ch\$301,000) to be borne by the Chilean government; (iv) the reversal of a previously announced 9.2% price increase in regulated energy distribution tariffs and a mechanism to stabilize such tariffs and defer price increases to distribution companies temporarily; and (v) the 2020 Tax Reform which included, among others, (a) the elimination of the attributed-income tax system and the consolidation of a single partially-integrated tax system for large companies, with a corporate tax rate of 27%, (b) the creation of a new special tax regime for small- and medium-sized companies, with a corporate tax rate of 25% that can be fully integrated with final taxes, (c) the gradual elimination of tax refunds that Chilean holding companies were able to claim for corporate taxes paid by their Chilean subsidiaries as a result of the absorption of holding companies' tax losses with dividends received from such subsidiaries, (d) an increase of the maximum tax bracket to 40% for the personal income tax applicable to resident individuals, (e) the application of Value Added Tax ("VAT") to foreign digital services that are used in Chile and (f) stricter requirements for private investment funds to benefit from preferential tax treatment. In addition, the President announced initiatives to reduce the number of members of the Chilean Congress, limitations to their reelection and a reduction to their salaries and those of the highest-paid civil servants. A number of the foregoing measures have been enacted as laws, while others are subject of parliamentary discussions. On October 28, 2019, the President replaced eight ministers of his cabinet.

On November 15, 2019, representatives of Chile's leading political parties entered into an agreement to hold a referendum on April 26, 2020 on whether the Chilean Constitution should be replaced and, in that case, whether the new constitution should be drafted by a special constitutional convention comprised of (i) 172 members of which half will be members of the Chilean Congress and half will be citizens elected for that task, or (ii) citizens elected for that task only. In either case, the citizens members of the special constitutional convention will be elected in October 2020 and the special constitutional convention is expected to deliver a final draft of the new constitution within a period of nine months, which can be further extended up to a total of twelve months from the date on which the convention holds its first meeting. The political parties that signed the agreement pledged their commitment to vote in favor of a constitutional amendment that would allow for the agreed referendum process to be implemented. According to a constitutional amendment adopted on December 23, 2019, if a majority of voters elect to replace the Chilean Constitution at the April 2020 referendum, the final draft of the new constitution will be submitted to a further public referendum for its approval by a two thirds majority vote, in the second half of 2021.

On November 20, 2019, as part of the deliberations relating to the Chilean budget law for 2020, the Chilean government and the Senate agreed to introduce a series of measures, including: (i) a 50% increase in government-subsidized pensions for elderly citizens over 80 years of age effective from January 2020; a 30% increase in government-subsidized pensions for elderly citizens aged 75 to 79 effective from January 2020 and rising to 50% by January 2021; a 25% increase in government-subsidized pensions for elderly citizens aged under 75 effective as of January 2020, rising to 40% by January 2021 and 50% by January 2022; (ii) a 50% reduction in public transportation fares for elderly citizens over 65 years of age; (iii) an increase in the per capita expenditure for the Primary Health Care Services (*Atención Primaria de Salud*); (iv) an online platform for the purchase of medication at the price determined by National Supply Warehouse (*Central Nacional de Abastecimiento*) and (v) an exemption from customs taxes for the import of donated organs. A number of the foregoing measures have been enacted as laws, while others are subject of parliamentary discussions. Furthermore, the 2020 Budget Law allocates expenditures to fund the rescheduling of student loans as well as the forbearance of penalty interest and related collection expenses.

In December 2019, the Minister of Finance announced the Employment Protection and Economic Recovery Plan (the “Recovery Plan”), aimed at supporting economic recovery by strengthening employment protection, boosting public investment, supporting small- and medium sized companies and the reconstruction of urban infrastructure following widespread demonstrations that took place in Chile from October to December 2019. The total cost of the Recovery Plan is expected to amount to U.S.\$5.5 billion.

Within this context, in November 2019, the Bank launched its *Estamos Contigo* (We are with you) program, which provided support to micro- and small- entrepreneurs by deferring payment of fees and funding at a preferential rate. As of December 31, 2019, Ch\$101,000 million credit facilities were granted to over 32,000 micro- and small-companies under the *Estamos Contigo* program. In addition, under this program, BancoEstado provided deferrals of mortgage loans repayments at no additional interest to 53,988 retail customers.

On January 15, 2020, the President announced a scheme of comprehensive reforms aimed at improving the Chilean pension system. If the Chilean Congress approves the proposed reforms, Chile’s reformed pension system would be funded through a combination of contributions from the state, employers and workers. Pursuant to the proposed reforms, which are to be implemented gradually, an additional 3% contribution from employers will complement workers’ contributions to their retirement fund (*Ahorro Previsional Personal*). In addition, a further 3% additional contribution (comprising a 2.8% contribution to the state-administered Collective and Solidary Retirement Fund (*Fondo de Ahorro Colectivo y Solidario*) and a 0.2% contribution to finance dependency insurance policies) will be borne by employers, with state support. The funds collected through this further 3% contribution will be used to provide financial support to current and future retirees, particularly benefitting women, middle-class-income citizens and dependent elderly citizens. The proposed additional contributions, would be managed by an autonomous public institution and be in addition to the current 10% contribution, which will remain under the management of private pension fund managers (AFPs).

If the proposed reform is approved by the Chilean Congress, male retirees who have made contributions for a minimum of twelve years will have their pensions increased, on a monthly basis, by UF2 (approximately Ch\$56,620 as of December 31, 2019), and female retirees who have made contributions for a minimum of eight years will have their pensions increased, on a monthly basis, by UF2.5 (approximately Ch\$70,775 as of December 31, 2019). Such changes will result in an average 20% pension increase for male citizens, benefitting more than 500,000 retirees, and an average 32% pension increase for female citizens, benefitting more than 350,000 retirees.

The following table sets forth annualized real GDP growth on a quarterly basis and quarterly inflation rates and average real interest rates for the last three years.

	2017					2018					2019				
	1 st Quarte r	2 nd Quarte r	3 rd Quar ter	4 th Quar ter	Year	1 st Quar ter	2 nd Quar ter	3 rd Quar ter	4 th Quarte r	Year	1 st Quarte r	2 nd Quar ter	3 rd Quar ter	4 th Quarte r	Year
Real GDP growth ⁽¹⁾	(0.4)%	0.5%	1.9%	2.6%	1.2%	4.5%	5.3%	2.8%	3.3%	3.9%	1.4%	1.8%	3.4%	(2.1)%	1.1%
Inflation rate	4.7%	(0.1)%	1.2%	3.3%	2.3%	2.9%	2.8%	3.5%	1.0%	2.6%	2.5%	3.7%	1.7%	4.1%	3.0%
Average 30-day Interbank Loan Rate.....	3.23%	2.69%	2.52%	2.52%	2.74%	2.51%	2.51%	2.52%	2.71%	2.56%	2.92%	2.88%	2.37%	1.83%	2.50%

⁽¹⁾ Preliminary estimation for the year 2019.

Source: Central Bank and Chilean National Institute of Statistics.

The Central Bank of Chile's monthly indicator of economic activity (IMACEC) showed a 5.8% decline from September to October 2019, a 0.6% increase from October to November 2019, a 4.0% increase from November to December 2019, a 1.4% increase from December to January 2020 and a 0.6% increase from January to February 2020.

In March 2020, the Imacec decreased by 3.5%, mainly due to a 4.0% decrease in the non-mining Imacec, in turn, driven by the COVID-19 outbreak and the measures taken by the government to mitigate the spread of the virus.

In April and May 2020, following the COVID-19 outbreak (as described below), the Chilean Central Bank and the Chilean Budget Office revised downwards their GDP forecasts for the Chilean economy. Pursuant to such forecasts, the Chilean economy is expected to contract in 2020, and to revert to GDP growth in 2021 and 2022. In addition, the Chilean Budget Office projects an increase in the Chilean structural deficit in 2020, 2021 and 2022. While these forecasts for the Chilean economy might have been reasonable when formulated, actual outcomes depend on future events. Accordingly, we can give no assurance that economic results will not differ materially from the information set forth above.

On March 19, 2020, the President announced a series of extraordinary economic relief measures aimed at protecting health, salaries and employment in light of the COVID-19 outbreak and its impact on the global economy (the "Coronavirus Plan"), which are subject to Congressional approval. The total cost of the Coronavirus Plan is expected to be US\$11.75 billion and includes the following measures: (i) a 2% increase in public health expenditures; (ii) a guarantee on the payment of salaries (to be borne by the Unemployment Solidarity Fund (*Fondo de Cesantia Solidario*)) to employees that, due to the COVID-19 emergency, must stay at home and are unable to work remotely; (iii) the immediate discussion in Congress of an employment protection act (the "Unemployment Protection Act"), which provides for a reduction in workday hours and the use of funds from the Unemployment Solidarity Fund to offset the corresponding wage reductions; (iv) subsidies amounting to US\$130 million, to be granted to approximately 2 million informal sector employees; (v) the establishment of a US\$100 million solidarity fund to attend social emergencies derived from a decrease in micro-enterprises' sales; (vi) a three-month suspension of suspension of provisional monthly payments (PPM) of corporate income tax; (vii) a three-month postponement in VAT payments by companies with monthly sales under UF350,000 (US\$11.8 million as of March 19, 2020); (viii) a deferral until July 2020 on the payment of 2019 income tax by small- and medium-sized companies; (ix) a deferral in the payment of workers' contributions by companies with monthly sales under UF350,000 or by individuals with properties valued under Ch\$133 million; (x) a reduction to 0% in the stamp tax rate for a six-month period; (xi) relief measures on overdue tax payments, including flexible repayment facilities and a temporary stay in collections; (xii) a right to deduct corporate costs associated to COVID-19; (xiii) the payment in cash of all outstanding invoices issued to the Chilean

government and pending payment and the payment of all invoices issued to the Chilean government in the future within 30 days; and (xiv) a US\$500 million capital contribution to BancoEstado to expand its lending operations.

On March 30, Congress enacted legislation providing for a Ch\$50,000 bonus to those families and small- and medium- enterprises that will be most affected by the COVID-19 outbreak. In addition, on March 31, 2020, Congress enacted the Unemployment Protection Act. As of the date of this Base Prospectus, the remaining measures announced by the President on March 19, 2020 were under Congressional discussion.

In addition, in March 2020, in light of the US\$500 million capitalization announcement described above, the Bank introduced a series of extraordinary measures based on the extension of the *Estamos Contigo* (We are with you) program, including (i) a deferral of up to six installments on UF denominated mortgage loans with no additional interest for individuals and micro- and small- enterprises, (ii) a deferral of three installments at a 0% interest rate for consumer credits (extending their original maturities), and the refinancing of consumer loans, credit cards and home credit lines at preferential rates for individuals, (iii) the refinancing of commercial loans with up to a six-month grace period at a preferential rate for micro- and small- enterprises, (iv) a deferral of up to six monthly installments on commercial credits at costs of fund for micro- and small- enterprises (extending their original maturities), (v) working capital financing for businesses (both clients and non-clients) at a preferential rate and, in the case of micro- and small-enterprises, with up to a six-month grace period, and (vi) access to deferred payments and refinancing on a needs basis for medium- and large- enterprises.

On March 22, 2020, the Chilean government imposed a nighttime curfew to reduce the number of COVID-19 infections. Further, a mandatory quarantine was imposed beginning March 26, 2020 covering seven municipalities of the Santiago region, affecting approximately 1.3 million people. The measure has been extended to other municipalities since then. Beginning May 15, 2020, the mandatory quarantine was extended to thirty-two municipalities of the Santiago region, six additional neighboring municipalities and in the Tarapacá region in the north of Chile. As of the date of this Base Prospectus, the government maintains a dynamic mandatory quarantine system in effect, focusing on entire districts or sections, based on a formula that combines factors such as new cases per capita in the area, size of the elderly population and access to medical care, among others.

On March 23, 2020, the CMF adopted additional measures to ensure greater flexibility for the financial system in the context of the COVID-19 pandemic, including: (i) an authorization for banks to reschedule the payment of up to three mortgage loans' installments without additional credit provisions; (ii) an authorization for banks to extend up to six months the maturity of consumer and small and medium-sized enterprises loans, which shall not be considered as a renegotiation for provisioning purposes; (iii) an authorization for banks to use mortgage guarantees' surpluses to secure credits for small- and medium-sized enterprises; (iv) an 18-month extension on the period in which banks may sell goods received as payment in kind; and (v) a modification to the treatment of the cash amount that banks must post as collateral for the variation margin of bilaterally cleared derivative transactions, allowing for the value of the derivative to be offset against the amount pledged as collateral.

In addition, on March 23, 2020, the Central Bank announced a series of measures aimed at providing liquidity to the Chilean economy and support credit, including a credit facility (Conditional Credit Facility for Incremental Placements) for banking entities to continue financing and refinancing loans to households and companies, especially those that do not have access to the capital market. To access this credit facility, banking entities have to pledge: (i) their holdings of Central Bank or Chilean Treasury bonds; (ii) fixed interest notes held (except for subordinated or non-maturing securities); or (iii) other securities registered with the CMF that meet the Central Banks' risk conditions. Additionally, the Central Bank announced the relaxation of liquidity requirements for banking entities. For this purpose, the Compendium

of Financial Rules will be modified to expressly consider that in situations of national emergency or other serious exceptional circumstances, the Council of the Central Bank may, at its sole discretion, relax or suspend the application of the existing liquidity limits.

On April 8, 2020, the President announced a second stage of the Coronavirus Plan. The total cost of the Coronavirus Plan (including this second stage) is expected to be up to US\$24.0 billion and includes the following measures: (i) the creation of a US\$2.0 billion fund to provide greater benefits and create more jobs for vulnerable individuals, especially aimed to benefit 2.6 million informal workers without unemployment insurance; and (ii) support to small and medium-sized enterprises and business in financial distress through lines of credit guaranteed by the Chilean government, covering 85% of the loan and in an aggregate amount of up to US\$24 billion. These financing will be for a period of up to 48 months, with a grace period of up to six more months, and may equal as much as three months of a company's sales.

On April 8, 2020, the Central Bank announced a series of complementary measures aimed at providing liquidity to the Chilean economy and support credit, particularly to companies that have seen their cash flows severely affected as a result of the COVID-19 outbreak. In addition, the Central Bank announced an extension of financial services offered by the Central Bank to non-banking entities, aimed at ensuring the continuity of their payment obligations. Further, an additional line of credit will be available under the Conditional Credit Facility for Incremental Placements for a total aggregate amount of US\$ 24 billion, providing loans at the monetary policy rate (0.50%) to those banking entities that provide lines of credit guaranteed by the Chilean government pursuant to the measures announced by the President (as described above).

Further, the Chilean government and the Central Bank announced their intention to send a bill proposal to Congress authorizing the Central Bank to offer financial services, such as access to current accounts and liquidity facilities, to non-banking entities, including savings and credit cooperatives, central counterparty entities, securities clearing houses and high value payment systems, provided that these entities comply with the regulations and supervision standards applicable to the provision of these services.

Following the announcement on April 8, 2020, on April 12, 2020, the President announced the framework of terms and conditions for the management of credit lines guaranteed by the Chilean government aimed at facilitating companies' access to working capital loans. In April 2020, Congress enacted legislation approving this framework and the capitalization of the Bank announced on March 19, 2020. This framework allows guarantees for new loans of up to US\$24 billion and complement the capitalization of the small businesses guarantee fund ("FOGAPE Fund"), for an amount of US\$3 billion. This framework has been coordinated with complementary actions by the Central Bank and the CMF. The central elements of the framework are: (i) credit lines for working capital for an amount equal to as much as three months of a company's sales for companies with annual sales of up to 1 million UF; (ii) financings will be for a period of up to 48 months, with a grace period of up to six more months; (iii) loans will have a maximum interest rate of the monetary policy rate *plus* 3% (as of the date of this Base Prospectus, the current real interest rate is equivalent to 0%); (iv) banks shall offer this credit line in a massive, expeditious and standardized way to reach the expected 1.3 million potential beneficiaries with weekly reports from the Banks on applications and approvals to monitor compliance with this commitment and the transparency of the process; (v) for entities requesting these credit lines, banks will postpone any repayments of other pre-existing loans for at least 6 months, in order to relieve the financial burden; (vi) basic eligibility criteria the client has not filed for insolvency proceedings, and is not delinquent on loan payments for more than 30 days as of March 30, 2020, or as of October 30, 2019 for companies with sales below UF25,000.

On May 12, 2020, the Central Bank announced it had requested a US\$23.8 billion, two-year flexible credit line from the IMF, which would increase by more than 60% the availability of immediately accessible liquidity from international sources for the Central Bank. This line of credit is not subject to the

conditionality of traditional IMF adjustment programs for countries facing a balance-of-payments crisis and is part of the Central Bank's strategy to strengthen its financing options given the risk of increased or prolonged adverse economic conditions resulting from the COVID-19 outbreak. As of the date of this Base Prospectus, this credit line was pending approval by the IMF's Board.

Inflation

Chile has experienced high levels of inflation in the past, which have significantly affected our financial condition and results of operations. During 2017, the annual headline and core inflation rates decreased to 2.3% and 1.9% respectively, primarily due to lower price increases in services and housing which were partially offset by the average increase in the price of fuel, energy, and fresh fruits and vegetables. During 2018, the annual headline and core inflation rates increased to 2.6% and 2.3% respectively, primarily due to increased volatility in the prices of certain goods and services that comprise the CPI basket and the depreciation of the Chilean peso vis-à-vis the U.S. dollar, which was partially offset by a decrease in the price of fuel. During 2019, the annual headline and core inflation rates increased to 3.0% and 2.5% respectively, primarily due to the depreciation of the Chilean peso vis-à-vis the U.S. dollar, which was partially offset by a contraction in economic growth observed in the fourth quarter of 2019 due to the wave of protests and social unrest described above. In January and February 2020, the rate of inflation stood at 0.6% and 0.4%, respectively. See “—Overview.”

The annual base for calculating the CPI and the goods and services that comprise the CPI basket is updated every five years. The most recent update took place in February 2019, whereby the *Instituto Nacional de Estadísticas* (the National Statistics Institute) amended the annual base to 2018 and made minor adjustments to the list of goods and services comprising the CPI basket to take into account prevailing digital trends.

Our results of operations reflect the effect of inflation in the following ways:

- a substantial portion of our assets and liabilities are denominated in UF. The UF is a unit of account, the peso value of which is indexed daily to reflect inflation recorded in the previous month. The net increase or decrease in the nominal peso value of our UF-denominated assets and liabilities is reflected as income or loss in our income statement, and
- the rates of interest earned and paid on peso-denominated assets and liabilities reflect to a certain degree inflation and expectations regarding inflation.

The Audited Consolidated Financial Statements and the statistical information as of and for the years ended December 31, 2017, 2018 and 2019 set forth in “Selected Statistical Information,” are stated in nominal pesos. See “Presentation of Financial Information.”

UF-denominated Assets and Liabilities. The UF is revalued in monthly cycles. On every day in the period beginning on the tenth day of the current month through the ninth day of the succeeding month, the nominal peso value of the UF is indexed up (or down in the event of deflation) to reflect that day's pro rata amount of the prior calendar month's change in the CPI. One UF was equal to Ch\$26,798.14, Ch\$27,565.79 and Ch\$28,309.94 as of December 31, 2017, 2018 and 2019, respectively. The effect of any changes in the nominal peso value of our UF-denominated assets and liabilities is reflected in our results of operations as income (or a loss, in the event of deflation) in net interest and indexation revenue. See Note 27 to our Audited Consolidated Financial Statements. Our net interest and indexation revenue will be positively affected by an inflationary environment to the extent that our UF-denominated assets exceed our UF-denominated liabilities. Our net interest and indexation revenue will be negatively affected by inflation in any period in which our UF-denominated liabilities exceed our UF-denominated assets. Our UF-

denominated assets exceeded our UF-denominated liabilities by Ch\$5,413.1 billion and Ch\$6,938.7 billion and Ch\$6,974.9 billion during the years ended December 31, 2017, 2018 and 2019, respectively. See “Selected Statistical Information.”

Financial Accounting in Hyperinflationary Economies. Accounting for hyperinflation is applied only for entities whose functional currency is that of a hyperinflationary economy (defined as an economy experiencing 100 percentage points of inflation for three years). Since our functional currency is the Chilean peso and Chile did not meet the criteria for the hyperinflation in 2017, 2018 and 2019 we were not required to apply hyperinflationary accounting.

Peso-denominated Assets and Liabilities. Rates of interest prevailing in Chile during any period reflect, in significant part, the rate of inflation during the period and expectations of future inflation. The responsiveness to such prevailing rates on our peso-denominated interest earning assets and interest bearing liabilities varies. See “—Interest Rates.” We maintain a substantial amount of non-interest bearing peso-denominated demand deposits. The ratio of such deposits to average interest-bearing liabilities was 28.9%, 30.2% and 31.4% during the years ended December 31, 2017, 2018 and 2019, respectively. Because such deposits are not sensitive to inflation any decline in the rate of inflation adversely affects our net interest margin on assets funded with such deposits and any increase in the rate of inflation increases the net interest margin on such assets.

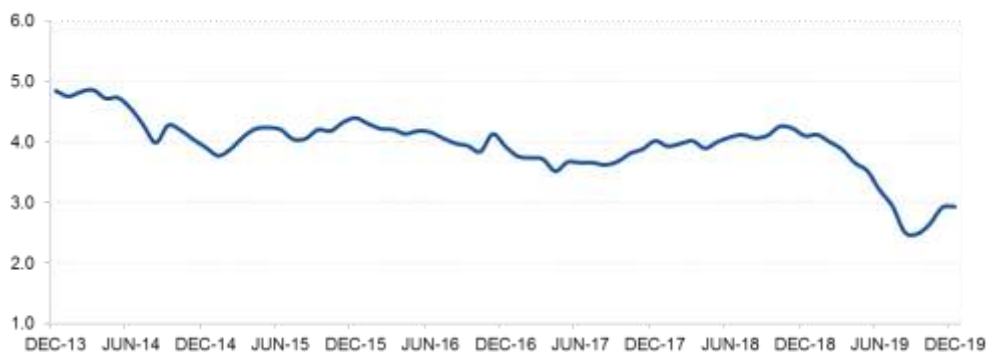
Interest Rates

The following graphs set forth trends in representative short- and long-term Chilean interest rates from December 31, 2016 to December 31, 2019 (short-term interest rates are represented by the interbank interest rate and long-term interest rates are represented by the rate for five-year Central Bank peso bonds).

Interbank interest rate
(annual rate, percent)



Five-year Central Bank Ch\$ Bonds
(yearly rate, in %)



In January, March, April and May 2017, the monetary policy rate was reduced by the Central Bank by 25 basis points each month, to reach 2.5% in May 2017, mainly due to a decrease in the yearly rate of inflation and a deceleration in the Chilean economy. As part of a process to converge to a neutral monetary policy rate, the Central Bank increased the monetary policy rate by 25 basis points to reach 2.75% in October 2018 and by 25 basis points to reach 3.0% in January 2019. During 2019, the Central Bank reduced the monetary policy rate by 125 basis points to reach 1.75%.

On March 16 and March 31, 2020, following the outbreak of the COVID-19 and its potential impact on sales and cash flows of affected companies, particularly for small and medium-sized enterprises, the Central Bank reduced the monetary policy rate by 75 basis points to reach 1.00% and by 50 basis points to reach 0.50%, respectively, where it stood as of the date of this Prospectus. In addition, the Central Bank implemented a set of additional measures to ensure the normal functioning of credit markets and the effective transmission of the increased monetary stimulus. See “—Foreign Exchange Rates.”

To mitigate the effect of fluctuations in interest rates on our investment portfolio, we have attempted to match interest earning assets and interest bearing liabilities. Higher interest rates, lower growth in GDP and the continued effects of the global crisis may adversely affect the growth and quality of our investment portfolio.

Interest rates earned and paid on our assets and liabilities reflect, to a certain degree, inflation and expectations regarding inflation as well as shifts in short-term rates related to the Central Bank’s monetary policies. The Central Bank manages overnight interbank interest rates based on its objective of keeping the

annual inflation rate within the range of 2% and 4% during any 24-month period. Because our liabilities generally reprice faster than our assets, changes in the rate of inflation or short-term rates in the economy are reflected in the rates of interest we pay on our liabilities before such changes are reflected in the rates of interest we earn on our assets. Accordingly, our net interest margin on assets and liabilities tends to be adversely affected in the short term by increases in inflation or short-term rates and to benefit in the short term from decreases in inflation or short-term rates, although the existence of non-interest bearing peso-denominated demand deposits tends to mitigate both effects. In addition, because our peso-denominated liabilities have relatively short repricing periods, they are generally more responsive to changes in inflation or short-term rates than our UF-denominated liabilities. As a result, during periods of rising and volatile inflation, customers may switch funds from UF-denominated deposits to more expensive peso-denominated deposits, thereby adversely affecting our net interest margin.

Foreign Exchange Rates

Changes in the value of the Chilean peso against the U.S. dollar could adversely affect our financial condition and results of operations. The Chilean peso has been subject to significant fluctuation in the past and may be subject to significant fluctuations in the future. This volatility in the exchange rate has been highly correlated with the evolution of copper prices and the country's balance of payments, particularly in recent years. In 2017, the Chilean Peso appreciated by 8.2% to Ch\$614.75 per US\$1.00, mainly due to the average increase in both spot and future copper prices. In 2018, the Chilean Peso depreciated 13.0% to Ch\$694.77 per US\$1.00, mainly due to the global appreciation of the U.S. dollar and a decrease in both spot and future copper prices.

In 2019, the Chilean Peso depreciated 7.8% to Ch\$748.74 per US\$1.00.

Since the outbreak of social protests and unrest in October 2019, which adversely affected Chilean businesses and the economy generally, the peso depreciated significantly against the U.S. dollar, reaching Ch\$828.25/US\$1.00 as of November 28, 2019. To mitigate the pressure on the currency, on November 28, 2019, the Central Bank adopted a series of monetary counter-measures, including: (i) the commencement of swaps auctions; (ii) a program of repurchase transactions; (iii) the suspension of the issuance of Central Bank's discountable promissory notes (until December 8, 2019); (iv) an offer to repurchase securities of the Central Bank, available to all financial institutions authorized to operate in the *Sistema de Operaciones de Mercado Abierto* (Open Market Operations System, or "SOMA"); (v) foreign currency sales at spot prices for up to US\$10,000 million; and (vi) sales of exchange hedging instruments for up to US\$10,000 million. Subsequently, the Central Bank adopted further measures to increase the frequency of the transactions mentioned in (i) and (ii) above and increased the range of financial instruments it would accept as guarantees for such transactions. Measure (vi) was announced on November 28, 2019, and is expected to continue until May 29, 2020.

During the months of February and March 2020, the global economy, including the Chilean economy, suffered pullbacks due to the still unpredicted effects of COVID-19 and a decrease of oil prices globally, which led to a depreciation of the peso against the U.S. dollar, reaching Ch\$867.83/US\$1.00 as of March 19, 2020. See "Risk Factors—The novel coronavirus could have an adverse effect on our business operations." On March 16 and March 31, 2020, following the outbreak of the COVID-19 and its potential impact on sales and cash flows of affected companies, particularly for small and medium-sized enterprises, the Central Bank reduced the monetary policy rate by 75 basis points to reach 1.00% and by 50 basis points to reach 0.50%, respectively, where it stood as of the date of this Prospectus. In addition, the Central Bank implemented a set of additional measures to ensure the normal functioning of credit markets and the effective transmission of the increased monetary stimulus, including (i) granting a conditional funding facility ("CFF") to banking entities, (ii) the inclusion of corporate bonds as eligible collateral for all effective liquidity operations in pesos, including the CFF, (iii) the establishment of a banking bond purchase

program for participants of the SOMA, in a UF amount equivalent to up to US\$5.5 billion, (iv) the extension of the foreign currency sale program described above until January 9, 2021.

A portion of our assets and liabilities is denominated in foreign currencies, principally the U.S. dollar. In the year ended December 31, 2017, average foreign currency-denominated liabilities exceeded average foreign currency-denominated assets by Ch\$1,392.1 billion. In the year ended December 31, 2018, average foreign currency-denominated liabilities exceeded average foreign currency-denominated assets by Ch\$1,997.7 billion. In the year ended December 31, 2019, average foreign currency-denominated liabilities exceeded average foreign currency-denominated assets by Ch\$2,925.9 billion. Because such assets and liabilities, as well as interest earned or paid on such assets and liabilities, and gains (losses) realized upon the sale of such assets, are translated to pesos in preparing our Audited Consolidated Financial Statements, our income may be affected by changes in the value of the peso with respect to foreign currencies (principally the U.S. dollar). See “Exchange Rates” and “—Net Foreign Exchange Gain (Loss).” Our policy is to maintain the balances of our foreign currency-denominated assets and liabilities matched and for that purpose we use derivatives to hedge our foreign exchange positions. See “—Asset and Liability Management—Exchange Rate Sensitivity.”

Contingent Loans

Contingent loans are off-balance sheet assets that consist of unfunded letters of credit, guarantees, performance bonds and other unfunded commitments. Chilean banks charge their customers a fee for contingent loans as well as interest for the periods of the contingent loans. Accordingly, we treat contingent loans as interest earning assets. As a result of this treatment, the comparatively low rates of interest earned on these assets have a distorting effect on the average interest rate earned on total interest earning assets. See “Selected Statistical Information—Average Consolidated Statement of Financial Positions, Income Earned from Interest Earning Assets and Interest Paid and Accrued on Interest Bearing Liabilities.” As of December 31, 2017, we had Ch\$4,537.5 billion in contingent loans (gross) and Ch\$4,494.8 billion in contingent loans (net). As of December 31, 2018, we had Ch\$4,660.7 billion in contingent loans (gross) and Ch\$4,605.4 billion in contingent loans (net). As of December 31, 2019, we had Ch\$4,445.8 billion in contingent loans (gross) and Ch\$4,397.3 billion in contingent loans (net).

Critical Accounting Policies

In preparing our consolidated financial statements, we use estimates and assumptions to account for certain assets, liabilities, revenues, expenses and other transactions. The consolidated financial statements include various estimates and assumptions, including but not limited to the adequacy of allowances for loan losses, estimates of the fair value of certain financial instruments, the selection of useful lives of certain assets and the valuation and recoverability of deferred tax assets. We evaluate these estimates and judgments on an ongoing basis. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results in future periods could differ from those estimates and assumptions, and if these differences were significant enough, our reported results of operations would be affected materially.

Note 1 to our Audited Consolidated Financial Statements contains a summary of our significant accounting policies. We believe that the following policies involve the most critical judgments by management or the highest degree of complexity that currently affect our financial condition and results of operations:

Financial Investments

Financial investments are classified and valued as follows:

Investments in instruments held for trading. Investments in instruments held for trading are securities acquired with a view to generate earnings from the short-term price fluctuation or through brokerage margins, or that are included in a portfolio dedicated to short-term profits. In accordance with the Chilean regulations, investments in trading instruments are valued daily at their fair value according to market prices. Profits or losses from adjustments for their valuation at fair value, as well as the income or losses from their trading, are included in the income statement under “Net income (expense) from financial operations.” Accrued interest and indexation are also reported in the income statement under “Net income (expense) from financial operations.” All purchases and sales of instruments held for trading, which must be delivered within the deadline stipulated by market regulations and conventions, are recognized on the date of trading, which is the date on which the commitment is made to purchase or sell the asset. Management has classified all of the investments held by subsidiaries as instruments held for trading.

Held to Maturity and Available for Sale Instruments. Investment instruments that are not for trading are classified into two categories: held to maturity and available for sale. The held to maturity category only includes those instruments which we intend and are able to hold until maturity. The other investment instruments are considered available for sale.

As of December 31, 2019, 81.9% of our investment instruments were classified as available for sale, 17.9% were classified as held for trading and 0.2% were classified as held to maturity.

Investments available for sale are valued at their fair value according to market prices or valuations obtained by using financial models. Unrealized gains or losses arising from changes in their fair value are recognized in equity accounts, net of deferred taxes. When these investments are sold or impaired, the amount of the adjustments to fair value accumulated in equity is transferred to income and reported under “Net income (expense) from financial operations.”

Financial investments held to maturity are recorded at their cost plus accrued interest and indexation, less allowances for impairment established when the value of the investment exceeds its recoverable value. Interest and indexation of financial investments held to maturity and financial investments available for sale are included under “Interest income.” Investment instruments as hedges are accounted for under the rules applicable to derivatives.

All purchases and sales of investment instruments to be delivered within the deadline stipulated by market regulations and conventions are recognized on the commitment date, which is the date on which the commitment is made to purchase or sell the asset. We regularly review our held to maturity portfolio to determine whether any of these assets are impaired. This assessment includes the evaluation of economic indicators, credit ratings, and the intent and ability of management to hold these investments to maturity. As of December 31, 2019, no impairment losses were recognized in any of the assets included in our held to maturity and available for sale portfolio.

Financial Derivative Contracts

Derivative contracts include forwards in foreign currency and UF, interest rate futures, currency and interest rate swaps, currency and interest rate options, and other derivative instruments. These instruments are recognized initially in the consolidated statement of financial position at cost (including transaction costs) and are subsequently valued at their fair value. The fair value is obtained from market quotes, cash flow discount models and option valuation models, as applicable. Financial derivatives are reported on the consolidated statement of financial position as an asset when their fair value is positive and as a liability when their fair value is negative, under “Financial Derivative Contracts.” Certain derivatives embedded into other financial instruments are treated as separate derivatives when their risk and

characteristics are not clearly related to those of the host contract and therefore are recorded at fair value, with the change in their fair value being recognized through profit or loss.

Derivative contracts must be designated at signing as a derivative instrument for trading or for hedging purposes. Derivatives that are classified for hedging must be (1) a hedge for the fair value of existing assets or liabilities or firm commitments or (2) a hedge for cash flows involving existing assets or liabilities or forecast transactions or (3) a hedge on net investment in foreign business. In addition, to qualify as a derivative for hedging purposes, the derivative financial instrument (a) must be formally documented when designated as a hedge, (b) be expected to be highly effective at the time the derivative transaction is entered into, (c) must be able to be reliably measured and (d) must be expected to be highly effective with regard to the risk hedged continuously throughout its lifetime. Any derivative financial instruments that do not meet these criteria are designated for trading purposes, though they may otherwise be effective for risk management purposes.

Any changes in the fair value of derivative financial instruments held for trading are included in the income statement under “Net income (expense) from financial operations.”

When a derivative financial instrument hedges exposure to changes in the fair value of existing assets or liabilities, the asset or liability is recorded at its fair value with regard to the specific risk hedged. Earnings or losses from measuring the fair value are recognized in the income statement. If the item hedged in a fair value hedge is a firm commitment, the changes in the fair value of the commitment with regard to the risk hedged are recorded in the income statement. Earnings or losses from measuring the fair value of the hedging derivative are also recognized in the income statement. When a new asset or liability is acquired as a result of the firm 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 consolidated statement of financial position. When a derivative financial instrument hedges exposure to the changes in cash flows (cash flow hedge) of existing assets or liabilities or from expected transactions, the effective portion of its change in fair value is recorded in equity, net of income taxes. Any ineffective portion is recognized in the income statement. The amounts recorded directly in equity are reclassified to income in the same periods in which the assets or liabilities hedged affect the results. When a fair value interest rate hedge is entered into for a portfolio and the item hedged is a currency amount instead of one or more specific assets or liabilities, adjustment to the fair value of the portfolio is recorded in the consolidated statement of financial position under “Derivative contracts” based on the position of the hedged portfolio at the given moment in time.

Allowances for Loan Losses

We have established allowances to cover expected loan losses in accordance with regulations issued by the CMF. Under these regulations, allowances for loans losses are established based on (1) an individual assessment of the loan –depending on its amount, complexity or exposure level, and (2) a collective assessment of the loan –used to analyze a large number of operations whose individual amounts are low, generally involving small businesses or individuals.

Loans are divided into: (1) consumer loans (including loans granted to individuals for the purpose of financing the acquisition of consumer goods or payment of services); (2) residential mortgage loans (including loans granted to individuals for the acquisition, construction or repair of residential real estate, in which the value of the property covers at least 100% of the amount of the loan); and (3) commercial loans (includes all loans other than consumer loans and residential mortgage loans). Under the regulations, each Chilean bank is permitted to develop its own internal model for determining the appropriate level of allowances for consumer loans, although the CMF reviews this model and the adequacy of provisions periodically. Regarding residential mortgage and commercial loans, the CMF established standard models,

effective as of January 1, 2016 and July 1, 2019, respectively. As a consequence, allowances for loan losses are not fully comparable among banks who internally modeled their allowances for loan losses before that date and those who used the standard model from January 1, 2016 onwards. We record our assets net of allowances. See Note 10.c to our Audited Consolidated Financial Statements. In the case of contingent credits, we record provisions under liabilities as “Provisions.” See Note 20 to our Audited Consolidated Financial Statements.

On December 30, 2014, the CMF issued Circular No. 3,573 (which was modified by Circular No. 3,584, issued on June 22, 2015 Circular No. 3,588, issued on September 25, 2015, Circular No. 3,621, issued on March 15, 2017, Circular 3,638, issued on July 6, 2018, Circular 3,645, issued on January 11, 2019 and Circular 3,647, issued on January 31, 2019) establishing amendments to the norms regulating the interpretation of the Provisions for Credit Risk found in Chapters B-1, B-2 and E of the regulation of Accounting Standards, which became effective as of January 2016. Circular No. 3,638, which became effective on July 1, 2019, establishes the standard method to determine allowances for loan losses in the collective assessment of the commercial portfolio. The amendments seek to ensure the adequacy of the provisions requiring banks to present credit risk in their loan portfolios, and guidelines encouraging best practices in evaluation and risk management. The application of Circular No. 3,573 and its amendments did not have a material impact on our results of operations for the years ended December 31, 2017, 2018 and 2019.

The most relevant amendments introduced under the circulars discussed above are the following:

- *Standard method for residential mortgage loans provisions.* Circular No. 3,573 provides that the standard method for residential mortgage provisions established in Section 3.1 of Chapter B-1 of the regulation of Accounting Standards were to be effective as of January 1, 2016. Such standardized method clarifies both the procedure for overdue payments and the loan guarantee relationship (loan-to-value) for debtors. Moreover, in case a debtor has more than one housing loan with the same bank and a breach is verified for any of such loans, all of such debtor’s loans shall be assigned to the default portfolio;
- *Defaulted portfolios.* Circular No. 3,573 also introduced certain conditions to supplement the guidelines relating to defaulted portfolios for loans subject to individual assessment, including those procedures to be followed to remove a specific debtor from said portfolio. Similar provisions were introduced to group portfolios;
- *Substitution of a debtor’s credit rating for the credit rating of its guarantor.* Circular No. 3,621 introduced modifications to the guidelines to determine provisions relating to credits secured by a *Fondo de Garantía de Infraestructura Escolar* (Guarantee Fund for School Infrastructure), created by Law No. 20,845, by which the credit risk of a debtor borrowing for purposes of acquiring infrastructure for an educational institution is substituted for that of the Guarantee Fund for School Infrastructure (A1 category).
- *Standard method in the collective assessment of the commercial portfolio provisions.* Circular No. 3,638 introduced modifications to determine allowances for loan losses in the collective assessment of the commercial portfolio. Banks shall consider one of the three standard methods provided for in such circular, which differ based on the nature of the loan: commercial leasing, student loans or other commercial loans.
 - in the method applicable to commercial leasing, the relevant risk factors to be considered are the delay in payment, the type of assets leased, and the difference at the close of each month between the current value of each transaction and the value of the leased assets.

- in the method applicable to student loans, the relevant risk factors to be considered are the delay in payment, the loan type and its enforceability. If the loan was granted pursuant to Law No. 20,027, the Chilean government may be considered as guarantor of 90% of the outstanding amount under such loan.
- in the method applicable to other commercial loans, the relevant risk factors to be considered are delay in payment, the existence of guarantees and the ratio of the amounts loaned (including stand-by loans) over amounts guaranteed. Guarantees must meet certain requirements regarding preference and valuation.

Further, Circular No. 3,638 provides that the use of these models in no case exempts banks of their obligation to have their own methodologies of provisions for loan losses. Provisions should be made based on the higher value between the respective standard method described above and each bank's internal method.

On September 3, 2015, the CMF issued Circular Letter No. 3,586 which amended certain rules applicable to the delivery of background information to be provided by banking institutions regarding the financial position of their subsidiaries not regulated by the CMF and requesting that the submission of such subsidiaries' interim financial statements be prepared in accordance with each banking institution internal rules.

On February 18, 2016, the CMF issued Circular No. 3,601, which sets forth the obligations of banks to report losses related to operational risk events. Banks must submit, on a monthly basis, supplemental information quantifying operational risks and identifying exposures, in accordance with the Basel guidelines. Circular No. 3,601 became effective as of March 31, 2016.

On March 29, 2016, the CMF issued Circular No. 3,604, which modified from 50% to 35% the percentage used to calculate allowances for loan losses for non-defaulting debtors of revolving credit facilities. The application of Circular No. 3,604 resulted in a one-time non-recurring gain for the Bank totaling Ch\$2.9 billion for the year ended December 31, 2016. Circular No. 3,604 amended Chapter B-3 "*Contingent Loans*" of the Compendium of Accounting Standards and became effective in May 2016.

For additional information on changes to accounting standards, see Note 2 to our Audited Consolidated Financial Statements.

Chapter B-1 of the Compendium requires that allowances for loan losses on commercial loans set on an individual risk assessment basis be classified in three different portfolios, as follows:

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 risk, whose creditworthiness allows them to cover obligations under the terms and conditions agreed and which will continue being satisfactory in dealing with unfavorable business, economic and financial situations. The credit risk categories comprised by this portfolio, with its corresponding level of required allowances, are the following:

Type of Portfolio	Debtor's category	Probability of Default (%)	Loss Given 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

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, evidencing reduced capacity to fulfill their financial obligations in the short term. This portfolio also includes those debtors which, in the last twelve months, have shown delinquencies or a poor payment performance with the Bank or with third parties for a period of 30 to 90 days for significant amounts outstanding. The risk categories and required allowances under each of them are the following:

Type of Portfolio	Debtor's category	Probability of Default (%)	Loss Given Default (%)	Expected Loss (%)
Substandard 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

The **Non-Performing Portfolio** includes those debtors with a deteriorated or non-existent creditworthiness, those likely to be declared in bankruptcy, those requiring a mandatory debt breach of their financial obligations and those with loans overdue for more than 90 days or which are under collection procedures and whose repayment is secured by a guarantee or collateral. The risk categories and allowances required under this portfolio are:

Type of Portfolio	Classification	Estimated Range of Loss	Allowance
Non-Performing Portfolio	C1	Up to 3%	2%
	C2	More than 3% and up to 20%	10%
	C3	More than 20% and up to 30%	25%
	C4	More than 30% and up to 50%	40%
	C5	More than 50% and up to 80%	65%
	C6	More than 80%	90%

In addition to the above, the Bank must keep a minimum provision percentage of 0.5% over allocations and contingent credits of the normal portfolio, which is accounted for as a “minimum provision adjustment” within the item Provisions for Contingent Loans (net). Circular No. 3,638 clarifies that this requirement has to be met for banks considered (i) individually, (ii) on a consolidated basis with their Chilean subsidiaries, and (iii) on a consolidated basis with all of their subsidiaries and foreign branches.

Allowances for loan losses under the regulations issued by the CMF are deducted from outstanding loans on our consolidated statement of financial position in calculating “Loans and accounts receivable from customers, net” and are deducted in the income statement under “Provisions for loan losses.” As of December 31, 2017, 2018 and 2019 our aggregate allowances for loan losses of consumer, commercial (excluding loans and advances to banks) and mortgage loans was Ch\$683.2 billion, Ch\$694.5 billion and

Ch\$819.2 billion respectively, our allowances for loan losses and advances to banks losses was Ch\$1.3 billion, Ch\$3.3 billion and Ch\$3.8 billion respectively, and we recognized in our consolidated statement of income Ch\$185.8 billion, Ch\$232.0 billion and Ch\$320.4 billion respectively, in provisions for loan losses.

In addition to allowances for loan losses under the regulations issued by the CMF, which are calculated based on the application of portfolio assessment models, we may establish additional provisions for the purpose of safeguarding against unpredictable economic fluctuations that might affect the macroeconomic environment or the situation of a specific economic sector, in accordance with our policies. See Note 20 to our Audited Consolidated Financial Statements as of and for the year ended December 31, 2019. Within these additional provisions we contemplate a countercyclical mechanism of accumulation of provisions in the commercial, consumer and mortgage portfolio in order to safeguard against recessionary periods. We also consider additional provisions in our mortgage loan portfolio due to its relevance in terms of portfolio concentration.

In January 2014, our Executive Committee resolved to set the limit for the constitution of additional provisions between 0% and 2.5% of risk-weighted assets.

As of December 31, 2019, we maintained additional provisions for an aggregate amount equal to Ch\$503.4 million, equivalent to 1.95% of credit risk-weighted assets. The effect of these additional provisions is recorded under "Provisions for loan losses" in our Audited Consolidated Financial Statements as of December 31, 2019. The regulations applicable to allowances for loan losses have changed over time. Therefore, we apply the regulations applicable to the period covered by a set of financial statements. Although the level of detail in the statutory loan category schedules limits management's discretion regarding the category to which a given loan should correspond, our management is required to make estimates and judgments about inherently subjective matters in determining the classification of individual loans and such classification affects the determination of allowances for loan losses. The allowance for loan losses requires us to make estimates and, consequently, we regularly evaluate our allowance for loan losses by taking into consideration factors such as changes in the nature and volume of our loan portfolio, trends in forecasted portfolio credit quality and economic conditions that may affect our borrowers' ability to pay. Increases in our allowances for loan losses are recognized in the line item "Provisions for loan losses" in our income statement. Loans are charged off when management determines that the loan or a portion thereof is uncollectible or as CMF regulations require.

We nevertheless consider the accounting estimates related to allowances for loan losses to be "critical accounting estimates" because: (1) they are highly susceptible to change from period to period because our assumptions about the risk of loss used to classify our loans are updated for recent performance experience which may increase or decrease the risk index that is used to determine our global allowance, (2) our specific allowances are also updated to reflect recent performance which may result in an increase or decrease in our specific allowances, (3) it requires management to make estimates and assumptions about loan classification and the related estimated probable loss, if any, and (4) any significant difference between our estimated losses (as reflected in the specific and general allowances) as of the consolidated statement of financial position date and our actual losses will require us to adjust our allowances for loan losses that may result in additional provisions for loan losses in future periods, which could have a significant impact on our future net income and/or financial condition.

Chilean banks are required to provide to the CMF detailed information regarding their loan portfolio on a monthly basis. The CMF examines and evaluates each financial institution taking into account its (i) credit risk management processes and global management of the credit processes; (ii) financial risk management and operations of its treasury; (iii) administration of operational risk; (iv) administration of risks and foreign exposure and control over investments in corporations; (v) prevention of money laundering and terrorism financing; (vi) business strategy and capital management; (vii) customer

service quality management and information transparency; and (viii) internal auditing management and the role of the auditing committee. Pursuant to this evaluation, banks are classified as falling into one of the following four categories:

- i. In compliance: Banks that are in full compliance with best management practices and sound management principles.
- ii. In material compliance: Banks that are in material compliance with best management practices and sound management principles, with limited weaknesses in specific procedures having been identified by the CMF.
- iii. Unsatisfactory compliance: Banks that are not in reasonable compliance with best management practices and sound management principles. The CMF identifies weaknesses in specific procedures, some of which are relevant weaknesses which ought to be remedied as soon as practicable.
- iv. Non-compliance. Banks that are not in material compliance with best management practices and sound management principles and are mandatorily required to remedy identified weaknesses.

Impairment

The Bank, the New York Branch and the Bank's subsidiaries use the following criteria to assess the impairment of financial and non-financial assets, should any exist:

Financial assets. Financial assets are evaluated at each reporting date to determine whether there is objective evidence of impairment. A financial asset or group of assets will be impaired if there is objective evidence that one or more events have had a negative effect on future cash flows of the asset.

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

An impairment loss in relation to an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are individually reviewed to determine their impairment (individual assessment). The remaining financial assets are evaluated collectively in groups that share similar credit risk characteristics (collective assessment).

All impairment losses are recognized in profit or loss. Any impairment loss related to an available-for-sale financial asset previously recognized in equity is transferred to income.

An impairment loss can only be reversed if it can be related objectively to an event occurring after the impairment loss was recognized. Reversal of impairment losses related to financial assets recorded at amortized cost and those classified as available for sale are recorded in profit or loss with the exception of equity instruments.

Non-financial assets (excluding goodwill). 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, which is its fair value less cost of sales or its value in use, whichever is greater.

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.

Interest revenue and expenses

Interest revenue and expenses 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 suspend accrual of interest and inflation-indexing income, and recognize them in the accounting books and records when they are received. For a definition of "impaired portfolio" see Note 1.u.3) to our Audited Consolidated Financial Statements.

In accordance with the criteria established by the CMF, suspension occurs in the following cases:

1. Clients subject to individual assessment:
 - Loans classified in categories C5 and C6: accrual is suspended immediately when classified in these impaired portfolios.
 - Loans classified in categories C3 and C4: accrual is suspended after having been in these impaired portfolios for three months.
2. Clients subject to collective assessment:
 - Loans with less than 80% real guarantees: accrual is suspended when payment of the loan or one of its installments has been overdue for six months.

Notwithstanding the above, in the case of clients subject to individual assessment, recognition of income from accrual of interest and inflation-indexing can be maintained for loans that are being paid normally and which correspond to obligations whose cash flows are considered to be separable, as can occur in the case of project financing.

Income and expenses from fees and commissions

Income and expenses from fees and commissions are recognized in the Consolidated Statements of Income based on different criteria, depending on their nature. The most significant categories of fee income and expenses and their related criteria for recognition are:

- Those originating from specific actions, which are recognized when the action that generates them is fulfilled.

- Those originating from transactions or services that are rendered over a period of time, which are recognized over the life, maturity or term covering such transactions or services.
- Those related to financial assets or liabilities' collection or settlement, which are recognized at the time of their collection or settlement.

Current and deferred income taxes

The Bank and its subsidiaries recognize corporate income tax expenses as of the end of each reporting period in accordance with applicable tax regulations.

Additionally, because the Bank is wholly-owned by the Republic of Chile, it is subject to a first category tax rate of 25%; in addition, we are also subject to the additional 40% tax rate established in section 2 of the Decree-Law No. 2,398 of 1978. However, this may change due to potential interpretations of the 2020 Tax Reform by the Chilean IRS. See “Risk Factors—Risk Factors Related to Chile—Future increases in the corporate tax rate in Chile or additional modifications to the Chilean tax system to finance future social reforms may have a material adverse effect on us” and “Regulation and Supervision—Recent Developments—Chilean Tax Reforms.” Subsidiaries in which the Bank owns less than 100% of capital stock will be taxed under the single partially-integrated taxation regime established by the 2020 Tax Reform.

The effects of deferred taxes on temporary differences between the tax balance sheet and the consolidated statement of financial position are recorded in accordance with IAS 12.

The Bank and its subsidiaries recognize, when applicable, deferred tax liabilities for the future estimate of tax effects attributable to differences between the carrying amounts of liabilities and their tax values. Deferred tax liabilities are measured on the basis of the tax rate, which according to current tax legislation must be applied in the year in which the deferred tax liabilities are realized or settled. Future effects of changes in tax legislation or in tax rates are recognized in deferred taxes as of the date in which the law approving those changes is enacted or substantially enacted.

Results of Operations for the Years Ended December 31, 2017, 2018 and 2019

This section presents consolidated and other financial and operating information as of and for the years ended December 31, 2017, 2018 and 2019. This information should be read in conjunction with, and is qualified in its entirety by reference to our Audited Consolidated Financial Statements and the section “Selected Statistical Information” appearing elsewhere in this Prospectus.

	For the Year Ended December 31,			
	2017	2018	2019	2019
				(in millions of US\$) ⁽¹⁾
	(in millions of nominal Ch\$)			
Income Statement Data:				
Net interest income	886,313	993,952	1,120,006	1,495.9
Net fee and commission income	260,316	305,877	331,157	442.3
Net income (expense) from financial operations ..	155,499	115,519	149,506	199.7
Net foreign exchange (loss) gain	(34,937)	20,671	(3,323)	(4.4)
Other operating income	9,025	18,964	17,018	22.7
Total operating income	1,276,216	1,454,983	1,614,364	2,156.19
Provisions for loan losses	(185,849)	(232,047)	(320,396)	(427.9)
Operating income, net	1,090,367	1,222,936	1,293,968	1,728.2
Total operating expenses	(815,822)	(869,424)	(933,966)	(1,247.4)
Net operating income	274,545	353,512	360,002	480.8
Income from investment in associates	2,069	2,509	2,041	2.7
Income before income taxes	276,614	356,021	362,043	483.5
Income tax expense	(144,117)	(176,684)	(179,708)	(240.0)
Net income for the year	132,497	179,337	182,335	243.5
Attributable to equity holders of the Bank	120,501	165,951	167,019	223.1
Attributable to non-controlling interest	11,996	13,386	15,316	20.5

(1) U.S. dollar amounts have been translated into Chilean pesos, and Chilean peso amounts have been translated into U.S. dollars, at the Observed Exchange Rate of Ch\$748.74 = US\$1.00 as of December 31, 2019, published by the Central Bank on January 2, 2020.

Net interest income

The largest component of operating revenue is income from our lending activities, which is recorded in our income statement as net interest income. Net interest income includes both income and expenses from the payment and accrual of interest on our assets and liabilities and income and expenses from the indexation of our UF-denominated assets and liabilities. Under Chilean law, banks are authorized to earn interest income on loans that are adjustable for the effects of inflation. Most banks, including us, charge an interest rate that includes an estimate of future inflation. In addition, the peso-denominated value of our assets and liabilities that are denominated in UF fluctuates as the UF is adjusted based on inflation. In the case of assets, these fluctuations are recorded as income (for increases in the peso-denominated value) and losses (for decreases in the peso-denominated value). In the case of liabilities, these fluctuations are recorded as losses (for increases in the peso-denominated value) and income (for decreases in the peso-denominated value).

	For the Year Ended December 31,			% Change	
	2017	2018	2019	2017/2018	2018/2019
	(in millions of nominal Ch\$)				
Interest income.....	1,650,145	1,925,315	2,062,291	16.7%	7.1%
Interest expense.....	(763,832)	(931,363)	(942,285)	21.9%	1.2%
Net interest income ..	886,313	993,952	1,120,006	12.1%	12.7%

Net interest income increased by 12.7% in 2019, from Ch\$993.9 billion in 2018 to Ch\$1,120.0 billion in 2019, mainly due to an increase in interest-earning assets held by the Bank.

Net interest income increased by 12.1% in 2018, to Ch\$994.0 billion from Ch\$886.3 billion in 2017, mainly due to an increase in interest-earning assets held by the Bank.

Net fee and commission income

We earn commissions primarily from collection and payment services provided to third parties, insurance premiums, savings and checking accounts and credit card fees.

	For the Year Ended December 31,			% Change	
	2017	2018	2019	2017/2018	2018/2019
	(in millions of nominal Ch\$)				
Commissions for collections and payments	Ch\$ 133,035	Ch\$ 154,923	Ch\$ 170,588	16.5%	10.1%
Checking accounts and lines of credit	66,468	75,843	89,264	14.1%	17.7%
Credit, debit and ATM cards	63,710	78,280	91,232	22.9%	16.5%
Asset management	17,241	19,626	21,870	13.8%	11.4%
Letters of credit (mortgage finance bonds)	9,463	10,078	12,073	6.5%	19.8%
Insurance brokerage	33,905	38,763	41,405	14.3%	6.8%
Custody and brokerage services ...	(13,149)	(13,768)	(16,063)	4.7%	16.7%
Office banking.....	(38,724)	(43,652)	(50,277)	12.7%	15.2%
Other fees	(11,633)	(14,216)	(28,935)	22.2%	103.5%
Net fee and commission income	Ch\$ 260,316	Ch\$ 305,877	Ch\$ 331,157	17.5%	8.3%

Net fee and commission income increased by 8.3% in 2019 as compared to 2018, from Ch\$305.9 billion to Ch\$331.2 billion, primarily due to an increase in fees earned from a growing number of transactions with debit and credit cards, associated to an increase in the number of services that clients can pay with their *CuentaRut* debit cards, and an increase in the administration of checking accounts, lines of credit and electronic transactions.

Net fee and commission income increased by 17.5% in 2018 as compared to 2017 from Ch\$260.3 billion to Ch\$305.9 billion, primarily due to an increase in fees earned from collection and payment services attributable to an increase in commercial and consumer loans, the number of electronic transactions and the use of checking accounts and debit and credit cards.

Net income from financial operations

We record gains and losses from adjustments in the fair value of, as well as gains and losses on the sale of, our investments in instruments held for trading. In addition, we record income or losses from changes in the fair value of our derivative contracts portfolio. We also record proceeds from the sale of assets held in our “available for sale” portfolio. See “—Critical Accounting Policies—Financial Investments” and “—Critical Accounting Policies—Derivative Contracts.”

	For the Year Ended December 31,			% Change	
	2017	2018	2019	2017/2018	2018/2019
	(in millions of nominal Ch\$)				
Trading portfolio	69,501	60,506	65,141	(12.9)%	7.7%
Derivative contracts	62,411	29,747	32,987	(52.3)%	10.9%
Gain on portfolio available for sale	6,373	885	21,184	(86.1)%	2293.7%
Other	17,214	24,381	30,194	41.6%	23.8%
Net income from financial operations	Ch\$ 155,499	Ch\$ 115,519	Ch\$ 149,506	(25.7)%	29.4%

Net income (expense) from financial operations increased by 29.4% from a gain of Ch\$115.5 billion in 2018 to a gain of Ch\$149.5 billion in 2019, primarily due to an increase in net income derived from our available for sale and trading portfolios driven by lower interest rates in the market.

Net income (expense) from financial operations decreased by 25.7% from a gain of Ch\$155.5 billion in 2017 to a gain of Ch\$115.5 billion in 2018, primarily due to a decrease in gains from the sale of investments and a decrease in the fair value of our portfolio of financial derivatives as a result of the depreciation of the Chilean peso vis-à-vis the U.S. dollar.

Net foreign exchange gain (loss)

Net foreign exchange gain (loss) is the result of exchange rate differences and foreign currency adjustments. Exchange rate differences occur when our foreign currency-denominated assets and liabilities are mismatched and the exchange rate fluctuates. Because such assets and liabilities, as well as interest earned or paid on such assets and liabilities, and gains and losses realized upon the sale of such assets, are translated to Chilean pesos in preparing our financial statements, our reported income is affected by fluctuations in the value of the Chilean peso relative to foreign currencies. Foreign currency adjustments occur when our assets or liabilities, while denominated in Chilean pesos, are indexed to exchange rates. An appreciation of the currency to which these assets and liabilities are indexed results in gains in the case of assets and losses in the case of liabilities, whereas a depreciation of the currency to which these assets and liabilities are indexed results in losses in the case of assets and gains in the case of liabilities. In addition, derivative contracts with a foreign exchange component serve as hedges of foreign exchange positions. Therefore, net foreign exchange gain (loss) should be analyzed in conjunction with “Derivatives contracts” included in the net income (expense) from financial operations above.

	For the Year Ended December 31,			% Change	
	2017	2018	2019	2017/2018	2018/2019
	(in millions of nominal Ch\$)				
Exchange differences:					
Gain (loss) on foreign exchange differences	(4,412)	(319,961)	(278,639)	7,152.1%	(12.9)%
Gain (loss) on exchange differences	84,630	9,610	4,579	(88.6)%	(52.4)%
Subtotal	80,218	(310,351)	(274,060)	(486.9)%	(11.7)%
Foreign currency indexing ...	—	—	—	—	—
Gain (loss) on assets indexed in foreign currency .	(8,375)	10,638	6,418	(227.0)%	(39.7)%
Gain (loss) on liabilities indexed in foreign currency..	—	—	—	—	—
Subtotal	(8,375)	10,638	6,418	(227.0)%	(39.7)%
Net hedging income	(106,780)	320,384	264,319	(400.0)%	(17.5)%
Net foreign exchange gain (loss)	Ch\$ (34,937)	Ch\$ 20,671	Ch\$ (3,323)	159.2%	(116.1)%

Net foreign exchange losses reached Ch\$3.3 billion in 2019, as compared to net foreign exchange gains of Ch\$20.7 billion in 2018, primarily due to losses resulting from the effect that the depreciation of the Chilean peso vis-à-vis the US dollar had on our hedge accounting. These net foreign exchange losses were partially offset by gains from financial operations. See “—Net income (expense) from financial operations.”

Net foreign exchange gains increased to Ch\$20.7 billion in 2018, as compared to net foreign exchange losses of Ch\$34.9 billion in 2017, primarily due to gains resulting from the effect that the depreciation of the Chilean peso vis-à-vis the US dollar had on our hedge accounting, which was partially offset by losses accruing from our foreign exchange positions derived from such depreciation.

Other operating income

Other operating income includes revenues from the sale of fixed assets, investments in subsidiaries, the release of additional provisions for loan losses, and other miscellaneous forms of revenue.

	For the Year Ended December 31,			% Change	
	2017	2018	2019	2017/2018	2018/2019
	(in millions of nominal Ch\$)				
Income from assets received in lieu of payment	Ch\$ 210	Ch\$ 155	287	(26.2)%	85.2%
Release of provisions for contingencies	191	–	1,804	(100.0)%	–
Gain on sales of property, plant and equipment	44	532	1,083	1,109.1%	103.6%
Gain on sale from participation in company	–	7,347	–	7,347.0%	(100.0)%
Income other than interest and fees for lease agreements	208	457	2,097	119.7%	358.9%
Income from sales over foreclosed assets	2,087	3,300	3,697	58.1%	12.0%
Other revenues	6,285	7,173	8,050	14.1%	12.2%
Other operating income	Ch\$ 9,025	Ch\$ 18,964	Ch\$ 17,018	110.1%	(10.3)%

Other operating income decreased by 10.3% in 2019 as compared to 2018, from Ch\$19.0 billion to Ch\$17.0 billion, mainly as a result of non-recurring income generated in 2018 due to the sale of participations in a non-related company, which decrease was partially offset by a release in provisions related to country risk and an increase in gains on sales of property, plant and equipment.

Other operating income increased by 110.1% in 2018, as compared to 2017, from Ch\$9.0 billion to Ch\$19.0 billion, which was primarily attributable to non-recurring income due to the sale of participations in a non-related company and an increase in income from sales over foreclosed assets (mainly due to an increase in the level of overdue loans).

Provisions for loan losses

Chilean Banks are required to maintain allowances to cover possible credit losses based on regulations issued by the CMF. See “—Critical Accounting Policies—Allowances for Loan Losses.” The allowances we record are derived from management’s classification of our portfolio according to our model for expected losses or, in the case of commercial loans to certain clients, management’s estimate of the probability of default. See “—Critical Accounting Policies—Allowances for Loan Losses.” The amount of provisions for loan losses recognized in income in any period consists of net provisions for loan losses established for expected loan losses, net provisions made with respect to real estate acquired upon foreclosure and charge-offs against income (equal to the portion of loans charged off that is not allocated to a maintained reserve at the time of charge-off).

	For the Year Ended December 31,			% Change	
	2017	2018	2019	2017/2018	2018/2019
	(in millions of nominal Ch\$)				
Loans and advances to banks	Ch\$ (436)	Ch\$ (1,671)	Ch\$ (197)	283.3%	(88.2)%
Loans and account receivables from customers					
Commercial loans	(120,816)	(112,465)	(164,753)	(6.9)%	46.5%
Mortgage loans	37,580	(3,116)	(3,470)	(108.3)%	11.4%
Consumer loans	(99,794)	(102,779)	(159,025)	3.0%	54.7%
Contingent loans	(2,383)	(12,016)	7,049	404.2%	(158.7)%
Provisions for loan losses.....	Ch\$ (185,849)	Ch\$ (232,047)	Ch\$ (320,396)	24.9%	38.1%

Our provisions for loan losses increased by 38.1% to Ch\$320.4 billion in 2019, compared to Ch\$232.0 billion in 2018, mainly due to an increase in the participation of loans to micro- and small companies (which require higher provisions) within our commercial loans portfolio and an increase in the volume of consumer loans, which was partially offset by the release of allowances for contingent loan losses.

Our provisions for loan losses increased by 24.9% to Ch\$232.0 billion in 2018, compared to Ch\$185.8 billion in 2017, mainly due to an increase in our regulatory provisions for contingent loans attributable to an increase in contingent loans, and a decrease in the amount of releases of allowances for mortgage loans losses in 2018 compared to the amount released in 2017 following the regulations implemented by CMF in 2016 in Circulars N° 3,584 and N°3,573, as described below.

Total operating expenses

	For the Year Ended December 31,			% Change	
	2017	2018	2019	2017/2018	2018/2019
	(in millions of nominal Ch\$)				
Personnel salaries and expenses .	Ch\$ (420,065)	Ch\$ (436,969)	Ch\$ (460,007)	4.0%	5.3%
Administrative expenses	(279,880)	(276,615)	(258,685)	(1.2)%	(6.5)%
Depreciation and amortization ...	(81,542)	(106,550)	(134,436)	30.7%	26.2%
Subtotal personnel, administrative, and depreciation and amortization expenses	(781,487)	(820,134)	(853,128)	4.9%	4.0%
Other operating expenses	(34,335)	(49,290)	(80,838)	43.6%	64.0%
Total operating expenses.....	Ch\$ (815,822)	Ch\$ (869,424)	Ch\$ (933,966)	6.6%	7.4%
Efficiency Ratio ⁽¹⁾	61.23%	56.37%	52.85%	—	—

(1) Ratio of personnel salaries and expenses, administrative expenses, and depreciation and amortization expenses over total operating income. Total operating income is the sum of net interest income, fees and income from services, net foreign exchange gain (loss), net income (expense) from financial operations and other operating income.

Total operating expenses increased by 7.4% to Ch\$934.0 billion in 2019 from Ch\$869.4 billion in 2018, mainly due to an increase in personnel and depreciation and amortization expenses, as described below.

Total operating expenses increased by 6.6% to Ch\$869.4 billion in 2018 from Ch\$815.8 billion in 2017, mainly due to an increase in personnel and depreciation and amortization expenses, as described below.

Personnel, salaries and expenses increased by 5.3% to Ch\$460.0 billion in 2019 from Ch\$437.0 billion in 2018, mainly due to an increase in wages as a result of inflation adjustments.

Personnel expenses increased by 4.0% to Ch\$437.0 billion in 2018, from Ch\$420.1 billion in 2017, primarily due to an increase in salaries to compensate for inflation and a slight increase in the number of our employees.

Administrative expenses decreased by 6.5% to Ch\$259.0 billion in 2019 from Ch\$276.6 billion in 2018, mainly as a result of the adoption of IFRS 16 in January 1, 2019, which specified new accounting standards for the recognition, measurement, presentation and disclosure of leases (see Note 1.gg).a) to our Audited Consolidated Financial Statements), and to a lesser extent, due to a reduction in outsourced services' expenses.

Administrative expenses decreased by 1.2% to Ch\$276.6 billion in 2018, from Ch\$279.9 billion in 2017, primarily due to a reduction in outsourced services' expenses attributable to a change in the provider of armored transportation.

Depreciation and amortization expenses increased by 26.2% to Ch\$134.4 billion in 2019 from Ch\$106.6 billion in 2018, primarily as a result of the incorporation of new technologies in our operating systems and the adoption of IFRS 16, which specified new standards for recognition, measurement, presentation and disclosure of leases.

Depreciation and amortization expenses increased by 30.7% to Ch\$106.6 billion in 2018, from Ch\$81.5 billion in 2017, primarily as a result of the incorporation of new technologies in our operating systems.

Our other operating expenses increased by 64.0% to Ch\$80.8 billion in 2019, from Ch\$49.3 billion in 2018, primarily due to expenses in connection with software development and related employee training courses.

Our other operating expenses increased by 43.6% to Ch\$49.3 billion in 2018, from Ch\$34.3 billion in 2017, primarily due to an increase in provisions for contingencies associated with the closing of certain of our branches and fraud committed in the use of our services and, to a lesser extent, to an increase in provisions for country risk, mainly as a result of an increase in our loans with maturity exceeding six months, which, unlike our loans maturing within six months, require us to constitute provisions for country risk.

	For the Year Ended December 31,			% Change	
	2017	2018	2019	2017/2018	2018/2019
	(in millions of nominal Ch\$)				
Provisions and expenses from assets received in lieu of payment	Ch\$ (2,049)	Ch\$ (2,561)	Ch\$ (4,141)	25.0%	61.7%
Provisions for contingencies ...	(7,617)	(16,671)	(8,107)	118.9%	(51.4)%
Other expenses.....	(24,669)	(30,058)	(68,590)	21.8%	128.2%
Other operating expenses	Ch\$ (34,335)	Ch\$ (49,290)	Ch\$ (80,838)	43.6%	64.0%

Income from investment in associates

	For the Year Ended December 31,			% Change	
	2017	2018	2019	2017/2018	2018/2019
	(in millions of nominal Ch\$)				
Income (loss) from investment in other companies	Ch\$ 2,069	Ch\$ 2,509	Ch\$ 2,041	21.3%	(18.7)%

Our income from investment in associates decreased by 18.7% to Ch\$2.0 billion in 2019, compared to an income of Ch\$2.5 billion in 2018, primarily due to a decrease in the net income of Operadora de Tarjetas de Créditos Nexus S.A. and Administrador Financiero Transantiago S.A., which was primarily driven by an increase in fixed costs and a decrease in other income, respectively.

We recorded income from investment in associates of Ch\$2.5 billion in 2018, compared to income of Ch\$2.1 billion in 2017. These earnings were primarily generated from our investments in Transbank S.A. and Administrador Financiero Transantiago S.A.

Income tax expense

As of the date of this Prospectus, we pay the following types of income taxes:

- Income tax, which is regularly assessed on net taxable profits; the Chilean income tax rate was 24% for income earned in 2016, 25% for income earned from 2017 and 25% for income earned from 2018 onwards;
- Article 2, Decree Law No. 2,398 of 1978 tax, which is applicable to us and other Chilean state-owned enterprises and is assessed on net taxable profits at a rate of 40%; and
- Article 21 of Decree Law 824 of 1974 unitary tax (*Impuesto Único Artículo 21*), which is a penalty tax assessed on disbursements claimed as tax deductible expenses but rejected by the Chilean IRS, at a rate of 40%.

Income tax expense consisted of the following items during 2016, 2017 and 2018:

	For the Year Ended December 31,			% Change	
	2017	2018	2019	2017/2018	2018/2019
	(in millions of nominal Ch\$)				
Income taxes, tax rate (24%/25%/25%).....	Ch\$ 99,197	Ch\$ 83,251	Ch\$ 128,885	(16.1)%	54.8%
Article No. 2, D.L. No. 2,398 tax (40%).....	147,261	120,028	189,822	(18.5)%	58.1%
First category sole tax	—	—	—	—	—
Credit (Charge) for deferred taxes:					
Generation and reversal of temporary differences	(104,694)	(29,373)	(139,298)	(71.9)%	374.2%
Tax (loss) benefit from prior years	2,247	2,666	216	18.6%	(91.9)%
Taxes from disallowed expenses article No. 21	121	154	111	27.3%	(27.9)%
Others	(15)	(42)	(28)	180.0%	(33.3)%
Income tax expenses	Ch\$ 144,117	Ch\$ 176,684	Ch\$ 179,708	22.6%	1.7%

Our income tax expenses increased by 1.7% to Ch\$179.7 billion in 2019, from Ch\$176.7 billion in 2018, mainly due to an increase in our income before income taxes.

Our income tax expenses increased by 22.6% to Ch\$176.7 billion in 2018, from Ch\$144.1 billion in 2017, mainly due to a decrease in credit for deferred taxes. On the one hand, the reversal of temporary differences from Ch\$104.7 billion in 2017 to Ch\$29.4 billion in 2018 increased our income tax expenses directly. On the other hand, and to a lesser extent, its decrease reduced our taxable income and, indirectly, our income tax expenses.

The following table shows the reconciliation of our income tax charges to our effective tax rate:

	For the Year Ended December 31,			
	2017		2018	
			(in millions of nominal Ch\$)	
	Effective tax rate ⁽¹⁾	(in millions of nominal Ch\$)	Effective tax rate ⁽¹⁾	(in millions of nominal Ch\$)
Effective tax rate and income tax expense ⁽²⁾	52.1%	144,117	49.7%	176,684
				179,708

(1) Income tax expense or benefit as a percentage of income before income taxes.

(2) See Note 15.c) to our Audited Consolidated Financial Statements.

Net income for the year

	For the Year Ended December 31,			% Change	
	2017	2018	2019	2017/2018	2018/2019
	(in millions of nominal Ch\$)				
Net income for the year	Ch\$ 132,497	Ch\$ 179,337	Ch\$ 182,335	35.4%	1.7%

Our net income increased by 1.7% to Ch\$182.3 billion in 2019, from Ch\$179.3 billion in 2018, as a result of an increase in interest-earning assets held by the Bank and an increase in net income from our available for sale portfolio.

Our net income increased by 35.4% to Ch\$179.3 billion in 2018, from Ch\$132.5 billion in 2017, mainly as a result of an increase in interest income due to a growth in our loans portfolio and an increase in commissions for card services and commissions for collections and payments.

Liquidity and Capital Resources

Sources of Liquidity

Our liquidity depends primarily upon our permanent policy of maintaining a relatively high ratio of liquid assets over total assets, which is reflected in our large portfolio of financial investments (with a maturity of no longer than one year and accounted for at their market value) issued by the Central Bank and in the high proportion of deposits that we have historically maintained in our portfolio relative to our total loan portfolio.

The following table sets forth our consolidated and risk-weighted assets and regulatory capital as of December 31, 2018 and 2019:

	Consolidated Assets		Risk-Weighted Assets	
	December 31, 2018	December 31, 2019	December 31, 2018	December 31, 2019
	(in millions of nominal Ch\$)			
Cash and due from banks	Ch\$ 4,354,391	Ch\$ 3,972,444	—	—
Transactions in the course of collection ..	369,632	167,010	157,525	57,447
Financial assets held for trading	2,192,921	1,676,531	481,329	378,825
Repurchase agreements and securities loans	337,027	144,806	337,027	144,806
Financial derivative contracts	808,201	1,477,626	720,822	886,120
Loans and advances to banks, net	628,908	457,003	627,654	457,003
Loans and accounts receivable from customers, net	23,240,012	24,993,590	19,139,784	20,624,793
Financial investments available for sale ..	6,008,764	7,646,814	786,574	716,085
Financial investments held to maturity ...	21,162	17,649	2,116	1,765
Investments in associates	16,174	18,257	16,175	18,258
Intangible assets	198,308	136,051	198,308	136,051
Property, plant and equipment	385,285	347,674	385,285	347,674
Right-of-use asset under lease arrangements	—	98,015	—	98,015
Current taxes	4,271	1,387	427	139
Deferred taxes	850,689	992,478	85,069	99,248
Other assets	805,784	1,207,641	805,784	552,498
Off-Balance Sheet Assets				
Contingent loans ⁽¹⁾	2,411,722	2,307,282	1,406,964	1,350,345
Total Risk Weighted Assets			Ch\$ 25,150,843	Ch\$ 25,869,072

(1) Contingent loans have been adjusted to include only those contingent loans off-balance sheet which are subject to risk-weighting.

For the purposes of calculating basic capital and effective equity, total consolidated assets amounted to Ch\$42,633.3 billion and Ch\$45,662.3 billion as of December 31, 2018 and 2019, respectively.

		December 31, 2018	December 31, 2019	December 31, 2018	December 31, 2019
		(in millions of nominal Ch\$)		(as a % of consolidated assets)	
Basic capital.....	Ch\$	1,704,191	Ch\$ 1,802,797	3.99%	3.98%
		December 31, 2018	December 31, 2019	December 31, 2018	December 31, 2019
		(in millions of nominal Ch\$)		(as a % of risk-weighted assets)	
Effective equity	Ch\$	2,795,780	Ch\$ 2,912,309	11.12%	11.26%

Capital and Reserves. As of the date of this Prospectus, we had regulatory capital in excess of the minimum requirement under the current Chilean regulations. According to the General Banking Law, a bank must have effective equity of at least 8% of its risk weighted assets, net of required loan loss allowances, and paid in capital and reserves, net of investments in subsidiaries of at least 3% of its total assets, net of required loan loss allowances. For these purposes, the effective equity of a bank is the sum of (1) its basic capital, (2) the sum of the bonds issued by such bank with no maturity date and its preferred shares, valued at their placement price, up to a third of the bank's basic capital (3) subordinated bonds issued by such bank valued at their issue price for an amount of up to 50% of its basic capital; provided that the value of the subordinated bonds shall decrease by 20% for each year that elapses during the period commencing six years prior to their maturity, and (4) its voluntary allowances for loan losses, for an amount of up to 1.25% of its risk weighted assets, net of required loan loss allowances. The sum of a bank's basic capital, the bonds issued by such bank with no maturity date and its preferred shares cannot be less than 6% of its risk-weighted assets, net of required allowances for loan losses. We do not have goodwill, but if we did, this value must be deducted from effective equity. When calculating risk-weighted assets, we also include off-balance sheet contingent loans. For purposes of weighing the risk of a bank's assets, the General Banking Law considers five different categories of assets, based on the type of borrower, the availability of funds, the nature of the assets and the existence of collateral securing such assets. As of December 31, 2019, our effective equity was 11.26% of our risk-weighted assets and our basic capital was 3.98% of total consolidated assets, net of required allowances for loan loss.

Further, pursuant to the Amendment to the General Banking Law, we will also be required to maintain basic capital requirements at or above 4.5% of our risk-weighted assets, net of required allowances for loan losses, and an additional basic capital (*capital básico adicional*) equivalent to 2.5% of our risk-weighted assets, net of required allowances for loan losses, over the required effective net equity (*patrimonio efectivo*). We shall gradually comply with these new basic capital requirements within a four- or five- year period, as per the applicable requirement, from the date of the issuance of CMF regulation establishing the methods to weigh banks' assets. See "Regulation and Supervision—Recent Developments—Amendment to the General Banking Law."

In, 2014 and 2015, the Chilean government made capital contributions to us totaling the equivalent of US\$450 million so that we could expand our lending operations while maintaining the required effective equity and basic capital ratios. On November 19, 2019, the Chilean Congress enacted legislation authorizing a US\$500 million capital contribution to the Bank. We received a first tranche of such capital contribution equal to US\$250 million on November 29, 2019, and the remaining amount on January 27, 2020. Further, in April 2020, the Chilean Congress enacted legislation authorizing an additional US\$500 million capital contribution to the Bank (see "Capitalization and Indebtedness" and "Management's Discussion and Analysis of Results of Operations and Financial Condition—Chilean Economy—Overview"). In addition, under Chilean law, we are required to distribute all of our net income to the Chilean government unless the

President of Chile, upon a proposal from the Bank and a recommendation by the CMF, decides that all or a portion of our net income should be capitalized. In each of 2017 and 2018, we were allowed to retain 50.0% of our net income earned in 2016 and 2017, respectively. In 2019, we were required to pay a dividend equal to 100.0% of our net income earned in 2018.

As of December 31, 2017, 2018 and 2019, we had reserves of Ch\$1,015.6 billion, Ch\$1,075.9 billion and Ch\$1,071.4 billion, respectively, as measured and disclosed under Chilean Banking GAAP.

For information on our capital and reserves requirements and expected modifications in connection therewith, see “Regulation and Supervision—Reserve Requirements” and “Regulation and Supervision—Minimum Capital.”

Financial Investments. The following table sets forth our financial assets held for trading as of December 31, 2018 and 2019:

	December 31, 2018	December 31, 2019
	(in millions of	nominal Ch\$)
Instruments of the State and the Central Bank:		
Instruments of the Central Bank.....	40,038	22,030
Bonds and promissory notes of the Chilean Treasury	74,895	85,417
Other government instruments	—	—
<i>Subtotal</i>	114,933	107,447
Instruments from other local institutions:		
Instruments from other local banks	2,005,185	1,498,502
Bonds and commercial papers from companies	—	15,236
Other instruments issued locally	15,293	42,942
<i>Subtotal</i>	2,020,478	1,556,680
Investments in mutual funds:		
Funds managed by related entities	57,510	12,404
Funds managed by third parties.....	—	—
<i>Subtotal</i>	57,510	12,404
Financial assets held for trading	2,192,921	1,676,531

Our financial assets held for trading decreased by 23.5% during 2019, from Ch\$2.193 billion as of December 31, 2018 to Ch\$1.677 billion as of December 31, 2019, mainly as a result of the sale of financial assets driven by lower interest rates in the market.

The following table sets forth our financial investments designated as available for sale as of December 31, 2018 and 2019.

	December 31, 2018	December 31, 2019
	(in millions of nominal Ch\$)	
From the Chilean Government and the Central Bank:		
Instruments of the Central Bank	2,746,971	4,348,247
Bonds and promissory notes of the Chilean Treasury	134,847	179,725
Other government instruments	—	—
<i>Subtotal</i>	<u>2,881,818</u>	<u>4,527,972</u>
Other instruments issued locally:		
Instruments from other local banks	2,129,119	2,845,506
Bonds and commercial papers from companies	7,304	—
Other instruments issued locally	30,470	6,993
<i>Subtotal</i>	<u>2,166,893</u>	<u>2,852,499</u>
Other instruments issued abroad:		
Instruments from foreign governments or central banks	25,800	—
Other instruments issued abroad	934,253	266,343
<i>Subtotal</i>	<u>960,053</u>	<u>266,343</u>
Financial investments available for sale	<u>6,008,764</u>	<u>7,646,814</u>

The following table sets forth our financial investments designated as held-to-maturity as of December 31, 2018 and 2019.

	December 31, 2018	December 31, 2019
	(in millions of nominal Ch\$)	
From the Chilean Government and the Central Bank and other instruments issued locally:		
Instruments of the Central Bank.....	—	—
Bonds and promissory notes of the Chilean Treasury	—	—
Other government instruments	—	—
Other instruments issued locally	—	—
<i>Subtotal</i>	<u>—</u>	<u>—</u>
Other instruments issued abroad:		
Instruments from foreign governments or central banks.....	—	—
Other instruments issued abroad	—	—
<i>Subtotal</i>	<u>—</u>	<u>—</u>
Investments not quoted on active markets:		
Bonds and promissory notes of the Chilean Treasury	20,942	17,487
Bonds and commercial papers from companies	—	—
Other instruments	220	162
<i>Subtotal</i>	<u>21,162</u>	<u>17,649</u>
Financial investments held to maturity	<u>21,162</u>	<u>17,649</u>

Sources of Funding

As a financial institution, our principal obligations and future commitments to make payments under contracts derive from our sources of funding. Our sources of funding consist primarily of current accounts and other demand deposit, transactions in the course of payment, repurchase agreements and securities loans, savings accounts and time deposits, derivative contracts, obligations with banks and debt issued instruments. We use these sources of funding, as well as other sources of liquidity, to fund our commercial, consumer, and to a lesser extent, mortgage loans.

We also issue letters of credit (mortgage finance bonds), which are UF-denominated general unsecured obligations with payment terms matched to the related mortgage loans, bearing interest at a spread below the interest rate applicable to such mortgage loans. As of December 31, 2018 and 2019, 5.4% and 4.2%, respectively, of our residential mortgage loans were funded through letters of credit (mortgage finance bonds). Letters of credit bonds (mortgage finance bonds) are traditionally placed with institutions that seek long-term fixed-income investments, such as pension funds, mutual funds and insurance companies. As of December 31, 2018 and 2019, we had Ch\$651.3 billion and Ch\$597.2 billion, respectively, of letters of credit (mortgage finance bonds) outstanding.

In addition, we have also issued ordinary and subordinated bonds in the Chilean market. As of December 31, 2018, we had Ch\$5,606.8 billion of ordinary (senior) bonds outstanding and Ch\$973.2 billion of subordinated bonds outstanding. As of December 31, 2019, we had Ch\$6,768.6 billion of ordinary (senior) bonds outstanding and Ch\$998.1 billion of subordinated bonds outstanding. These bonds are denominated in UF and they accrue a fixed-rate of interest based on a spread over the interest rate offered on Central Bank securities of a similar duration.

In January 2018, we issued and placed notes in the international markets for an aggregate principal amount of US\$500,000,000. These notes will mature on January 8, 2021, and accrue interest at a rate of 2.668% per annum payable on a semiannual basis.

In January 2018, we issued and placed notes in the international markets for an aggregate principal amount of AUD40,000,000 (US\$31.8 million using the exchange rate as of the issuance date of such notes). These notes will mature on January 24, 2030, and accrue interest at a rate of 3.90% per annum payable on an annual basis.

In May 2018, we issued and placed notes in the international markets for an aggregate principal amount of JPY 13,000,000,000. These notes will mature on May 23, 2028, and accrue interest at a rate of 0.58% per annum payable on an annual basis.

In May 2018, we issued and placed notes in the international markets for an aggregate principal amount of HKD 600,000,000. These notes will mature on May 29, 2033, and accrue interest at a rate of 3.600% per annum payable on an annual basis.

In July 2018, we issued and placed notes in the international markets for an aggregate principal amount of COP150,000,000,000. These notes will mature on July 5, 2028, and accrue interest at a rate of 7.00% per annum payable on an annual basis.

In July 2018, we issued and placed notes in the international markets for an aggregate principal amount of COP150,000,000,000. These notes will mature on July 19, 2028, and accrue interest at a rate of 7.00% per annum payable on an annual basis.

In October 2018, we issued and placed notes in the international markets for an aggregate principal amount of HKD 720,000,000. These notes will mature on October 26 2028, and accrue interest at a rate of 3.93% per annum payable on an annual basis.

In November 2018, we issued and placed notes in the international markets for an aggregate principal amount of AUD40,000,000. These notes will mature on November 20, 2030, and accrue interest at a rate of 4.133% per annum payable on an annual basis.

In December 2018, we issued and placed notes in the international markets for an aggregate principal amount of CHF125,000,000. These notes will mature on December 4, 2024, and accrue interest at a rate of 0.6925% per annum payable on an annual basis.

In January 2019, we issued and placed notes in the international markets for an aggregate principal amount of EUR44,000,000. These notes will mature on January 28, 2025, and accrue interest at a rate of 1.169% per annum payable on an annual basis.

In May 2019, we issued and placed notes in the international markets for an aggregate principal amount of USD100,000,000. These notes will mature on May 31, 2029, and accrue interest at a rate of 3.322% per annum payable on an annual basis.

In June 2019, we issued and placed notes in the international markets for an aggregate principal amount of CHF150,000,000. These notes will mature on June 6, 2025, and accrue interest at a rate of 0.240% per annum payable on an annual basis.

In July 2019, we issued and placed notes in the international markets for an aggregate principal amount of AUD285,000,000. These notes will mature on July 9, 2029, and accrue interest at a rate of 2.62% per annum payable on a semi-annual basis.

In October 2019, we issued and placed notes in the international markets for an aggregate principal amount of CHF100,000,000. These notes will mature on October 4, 2027, and accrue interest at a rate of 0.01% per annum payable on an annual basis.

In October 2019, we issued and placed notes in the international markets for an aggregate principal amount of AUD50,000,000. These notes will mature on October 16, 2034, and accrue interest at a rate of 2.75% per annum payable on a semi-annual basis.

In January 2020, we issued and placed notes in the international markets for an aggregate principal amount of USD 750,000,000. These notes will mature on January 9, 2020, and accrue interest at a rate of 2.704% per annum payable on a semi-annual basis.

In January 2020, we issued and placed notes in the international markets for an aggregate principal amount of AUD80,000,000. These notes will mature on January 23, 2030, and accrue interest at a rate of 2.58% per annum payable on a semi-annual basis.

In February 2020, we issued and placed notes in the international markets for an aggregate principal amount of AUD60,000,000. These notes will mature on February 21, 2040, and accrue interest at a rate of 3.12% per annum payable on an annual basis.

In March 2020, we issued and placed notes in the international markets for an principal amount of AUD50,000,000. These notes will mature on March 13, 2040, and accrue interest at a rate of 2.80% per annum payable on an annual basis.

As of December 31, 2019, savings and time deposits accounted for 40.9% of our funding, current accounts and other demand deposits accounted for 26.9% of our funding and letters of credit (mortgage finance notes) accounted for 1.5% of our funding, with the balance made up primarily of bank financing, repurchase agreements and capital. For additional information concerning the principal categories of our funding sources, see “Selected Statistical Information—Distribution of Assets, Liabilities and Equity.” For a description of our liquidity policy and how we manage liquidity risk, see “—Assets and Liability Management.”

Deposits. The following table sets forth our deposits as of December 31, 2018 and 2019.

	December 31, 2018	December 31, 2019
	(in millions of nominal Ch\$)	
Current accounts and other demand deposits		
Current accounts	6,223,816	7,060,428
Other	3,315,700	3,558,549
<i>Subtotal</i>	9,539,516	10,618,977
Time deposits and savings accounts:		
Time deposits	12,241,902	11,333,140
Savings accounts	4,419,345	4,836,471
Other	487,022	258,847
<i>Subtotal</i>	17,148,269	16,428,458
Deposits	26,687,785	27,047,435

Debt instruments issued. The following table sets forth our obligations under debt instruments issued as of December 31, 2018 and 2019.

	December 31, 2018	December 31, 2019
	(in millions of nominal Ch\$)	
Letters of credit (mortgage finance bonds)	651,328	597,226
Ordinary (Senior) bonds	5,606,845	6,768,636
Subordinated bonds	973,237	998,072
Debt instruments issued	7,231,410	8,363,934

Repurchase agreements and securities loans. The following table sets forth our repurchase agreements and securities loans as of December 31, 2018 and 2019.

	December 31, 2018	December 31, 2019
	(in millions of	nominal Ch\$)
Instruments of the State and the Central Bank:		
Instruments of the Central Bank.....	229,014	138,271
Bonds and promissory notes of the Chilean Treasury	—	—
Other government instruments	—	—
Subtotal	229,014	138,271
Other instruments issued locally:		
Instruments from other local banks	591,835	771,323
Bonds and commercial papers from companies	—	15,181
Other instruments issued locally	—	—
Subtotal	591,835	786,504
Repurchase agreements and securities loans	820,849	924,775

Derivative contracts. The following table sets forth the fair value of our derivative contracts as of December 31, 2018 and 2019.

	December 31, 2018	December 31, 2019
	(in millions of nominal Ch\$)	
Hedging derivatives for investment abroad		
Forwards	28,280	16,336
Swaps	74,732	129,456
Subtotal	103,012	145,792
Trading derivatives:		
Forwards	274,542	463,796
Swaps	385,372	715,128
Call options.....	28	116
Put options.....	1	—
Subtotal	659,943	1,179,040
Financial derivative contracts	762,955	1,324,832

Our derivative contracts (liabilities) increased by 73.6% during 2019, from Ch\$763.0 billion as of December 31, 2018 to Ch\$1,324.8 billion as of December 31, 2019, mainly as a result of an increase in the use of derivatives to hedge our exposure to foreign currency, interest rate and inflation risk driven by lower interest rates in the market and the depreciation of the Chilean peso vis-à-vis the U.S. dollar.

Obligations with banks. The following table sets forth our bank debt and other obligations to banks as of December 31, 2018 and 2019.

	December 31, 2018	December 31, 2019
	(in millions of nominal Ch\$)	
Central Bank	—	—
Chilean financial institutions	1,900	—
Foreign financial institutions	1,306,003	1,744,835
Obligations with banks	1,307,903	1,744,835

Other financial obligations. The following table sets forth our other financial obligations as of December 31, 2018 and 2019.

	December 31, 2018	December 31, 2019
	(in millions of nominal Ch\$)	
Other financial obligations	17,297	25,562

Our other financial obligations consist primarily of transactions in the course of collection with the Central Bank or foreign banks, other financial obligations and other liabilities.

Cash Flow

	For the year ended December 31,					
	2017		2018		2019	
	(in millions of nominal Ch\$)					
Net cash flow (used in) provided by operating activities.....	Ch\$	892,806	Ch\$	(667,122)	Ch\$	(309,845)
Net cash flow used in investing activities.....		(147,068)		(154,903)		(63,374)
Net cash flow provided by financing activities.....		166,215		702,659		812,966
Net variation for the period of cash and cash equivalents	Ch\$	911,953	Ch\$	(119,366)	Ch\$	439,747

Our net cash flow used in operating activities decreased from Ch\$667.1 billion in 2018 to Ch\$309.8 billion in 2019, mainly due to an increase in cash flows generated by the sale of trading instruments, an increase in current accounts and loans from foreign banks. Further, our net cash flow used in investing activities decreased from Ch\$154.9 billion in 2018 to Ch\$63.4 billion in 2019, primarily due to a decrease in purchases of property, plant and equipment and intangible assets. Our net cash flow provided by financing activities increased from Ch\$702.7 billion in 2018 to Ch\$813.0 billion in 2019, mainly attributable to a capital contribution equal to US\$250 million the Bank received on November 29, 2019 and

a decrease in repayments of bonds. Our cash position increased from Ch\$6,834.9 billion as of December 31, 2018 to Ch\$7,285.1 billion as of December 31, 2019.

In 2018, we used Ch\$667.1 billion in operating activities, mainly due to an increase in our loans to customers, a lower growth in our time deposits and bank fundraising and the repayment of loans obtained from foreign and local banks. In 2018, we used Ch\$154.9 billion in investing activities, primarily in investments in fixed assets and intangible assets. In financing activities, we generated Ch\$702.7 billion mainly attributable to the issuance of bonds. The net result of these changes was that our cash position decreased from Ch\$6,936.3 billion as of December 31, 2017, to Ch\$6,834.9 billion as of December 31, 2018.

Off-Balance Sheet Arrangements

As of December 31, 2018 and 2019 we had Ch\$4,660.7 and Ch\$4,445.8 billion of contingent loans, respectively. These assets were not included in our consolidated statement of financial position on these dates. We did not have any off balance sheet arrangements other than those disclosed in our consolidated statement of financial position as of December 31, 2018 and 2019.

Asset and Liability Management

The purpose of asset and liability management is to maximize our net income, margin and return on assets in the medium to long term and to position our consolidated statement of financial position in light of interest rate, liquidity and, to a lesser extent, foreign exchange risks and our competitive advantage in the local markets and within the limitations of Chilean banking regulations that generally prohibit banks from maintaining substantial asset/liability mismatches and our own policies. We have a high degree of liquidity due to our large deposit base relative to our loan portfolio. Therefore our overall goal is to deploy unused cash at all times, which results in exposure to interest rate, liquidity and, to a lesser extent, foreign exchange risk.

The policies of the Bank related to the administration of assets and liabilities are developed by the Assets and Liabilities Committee (CAPA). This committee has ten members. Two of the members are part of the Executive Committee of the Bank (the Chief Executive Officer (CEO) and either the Chairman or the Vice-Chairman of the Executive committee of the Bank.) The other members of CAPA are the Chief Financial Officer who serves as Chairman of CAPA, the General Credit Manager, the Manager of Corporate Risk Management, the Planning and Studies Manager, the Retail Banking Division Manager, the International Business Manager, the Financial Business and Markets Manager and the Assets and Liabilities Manager. This committee is responsible for the global management of our assets and liabilities, with a special emphasis on financial policies. This committee has an advisory role in determining policies related to consolidated statement of financial position and capital management, liquidity risk, credit risk and market risk. The committee is also in charge of determining strategies, monitoring, and analysis with respect to profitability and objective risk.

The Financial Business Committee is responsible for supervising our finance business, including credit approval and approval for financial institutions and operations, up to a specific level, under the supervision of the Chief Financial Officer, the funding of business lines under the auspices of the Executive Committee, and the approval of new financial products that we use. This committee includes the following members: the Chief Financial Officer, the Assets and Liabilities Manager, the Financial Business and Markets Manager, the International Business Manager, the Market and International Risk Manager, and a Legal Counselor (without voting right).

Interest Rate Sensitivity

We seek to manage our assets and liabilities to reduce the potential adverse impact on net interest income that might result from changes in interest rates. Interest rate sensitivity is the relationship between market interest rates and net interest income due to the repricing of assets and liabilities. Our investment decision-making for any given period takes into account not only the rates of return and their underlying degree of risk, but also liquidity requirements, including minimum cash reserves, mandatory liquidity ratios, withdrawal and maturity of deposits and additional demand for funds. The pricing structure is matched when an equal amount of assets and liabilities reprice at a given date. A positive gap (an excess of assets over liabilities maturing or repricing in a given period) denotes asset sensitivity and normally means that a decline in interest rates would have a negative effect on net interest income while an increase in interest rates would have a positive effect on interest income. For a discussion of recent movements in interest rates, see “—Chilean Economy—Interest Rates.” The Bank has both assets and liabilities that bear interest at a rate that is a spread over the rate of change in the UF. Demand deposit liabilities neither carry interest nor are adjusted for the change in the UF. Therefore, although the Bank has a positive gap, it is substantially protected from changes in interest rates.

Interest earned on assets and interest paid and accrued on liabilities reflects, to a certain extent, actual and expected inflation and the current and expected short- and long-term interest rates. The Central Bank manages overnight interbank interest rates based on its objective of keeping the annual inflation rate within the range of 2% and 4% during any 24-month period. Given that liabilities are repriced sooner than assets, changes in short-term interest rates and inflation are reflected in the interest paid and accrued on liabilities before they are reflected in interest earned on assets. Therefore, decreases in the short-term interest rate generally result in increased net interest margins, and increases in the short-term interest rate generally result in decreased net interest margins. On the other hand, increases in long-term interest rates generally result in increased net interest margins, whereas decreases in long-term interest rates generally result in decreased net interest margins.

The following table shows the maturity of our assets and liabilities as of December 31, 2019.

	As of December 31, 2019						
	(in millions of nominal Ch\$)						
	Up to 30 days	31-90 days	91-180 days	181-365 days	1-3 years	Over 3 years	Total
Interest-earning assets:							
Financial assets held for trading	450,697	136,151	64,029	789,092	151,783	84,779	1,676,531
Financial investments available for sale	3,216,771	611,234	1,293,501	1,560,545	808,302	156,461	7,646,814
Financial investments held to maturity	419	7,978	1,899	5,034	1,834	485	17,649
Repurchase agreements and securities loans	135,949	8,857	—	—	—	—	144,806
Loans and advances to banks .	165,259	291,744	—	—	—	—	457,003
Loan and account receivables from customers.....	1,313,794	1,462,983	1,983,099	2,180,268	4,632,185	13,421,261	24,993,590
Total interest-earning assets	5,282,889	2,518,947	3,342,528	4,534,939	5,594,104	13,662,986	34,936,393
Interest-bearing liabilities:							
Deposits	20,153,467	3,631,999	2,444,573	557,540	229,017	30,839	27,047,435
Repurchase agreements and securities loans	805,935	118,840	—	—	—	—	924,775
Obligations with banks.....	167,752	475,855	284,745	642,345	99,374	74,404	1,744,835
Debt instruments issued	333,958	65,853	34,146	599,023	1,847,994	5,482,960	8,363,934
Other financial obligations..	22,514	3,048	—	—	—	—	25,562
Lease obligations	888	1,706	2,505	5,136	19,533	54,492	84,260
Total interest-bearing liabilities.....	21,484,514	4,297,301	2,765,969	1,804,044	2,196,278	5,642,695	38,190,801
Asset/liability gap	(16,201,625)	(1,778,354)	576,559	2,730,895	3,397,826	8,020,291	(3,254,408)
Cumulative gap	(16,201,625)	(17,979,979)	(17,403,420)	(14,672,525)	(11,274,699)	(3,254,408)	

Exchange Rate Sensitivity

The Chilean peso floats freely against the U.S. dollar in the local market. As of December 31, 2019, 14.7% of our assets and 22.8% of our liabilities were denominated in foreign currency, principally the U.S. dollar. We manage this foreign currency exposure primarily through the use of financial derivatives, thereby avoiding the need to maintain significant positions in foreign currencies that could affect our financial results. Historically, we have maintained a policy of minimizing exchange rate risks, and we have established a consolidated Value-At-Risk (VAR) limit for these positions of US\$1,400,000 and a “Stop-Loss” of Ch\$300 million for a 15-day period and Ch\$130 million for one day.

Given that our foreign currency-denominated assets, liabilities and income are denominated in foreign currency and converted into Chilean pesos for presentation in our financial statements, their values change based on exchange rate fluctuations (principally, the fluctuation of the U.S. dollar). Changes in the peso value of our foreign currency-denominated assets, liabilities and income (other than derivatives for trading) are reflected as exchange rate income or loss in our financial statements. Changes in the value of foreign exchange derivatives for trading are determined on a mark-to-market basis and the net change is reflected as Net income (expense) from financial operations. For a discussion of recent movements in exchange rates, see “—Chilean Economy—Foreign Exchange Rates.”

The following table shows our consolidated statement of financial position by currency as of December 31, 2019:

As of December 31, 2019 (in millions of nominal Ch\$)				
	Total	CH\$	UF⁽¹⁾	Other
Cash and deposits in banks.....	3,972,444	1,817,163	—	2,155,281
Transactions in the course of collection	167,010	111,701	—	55,309
Financial assets held for trading	1,676,531	1,394,300	282,154	77
Repurchase agreements and securities	144,806	144,806	—	—
Financial derivatives contracts	1,477,626	1,475,388	—	2,238
Loans and advances to banks	457,003	—	—	457,003
Loans and account receivables from customers, net of allowances for loan losses	24,993,590	7,728,181	14,620,691	2,644,718
Investment instruments	7,664,463	7,025,202	365,925	273,336
Other assets	2,801,503	1,955,701	51,153	794,649
Total assets	43,354,976	21,652,442	15,319,923	6,382,611
Demand deposits and other demand.....	10,618,977	10,301,983	20	316,974
Transactions in the course of collection	126,169	27,719	—	98,450
Repurchase agreements and securities loans	924,775	879,569	—	45,206
Time deposits and savings accounts.....	16,428,458	9,537,990	3,032,823	3,857,645
Financial derivatives contracts	1,324,832	1,319,592	—	5,240
Obligations with banks.....	1,744,835	—	—	1,744,835
Debt instruments issued	8,363,934	142,666	5,291,814	2,929,454
Other financial obligations	25,562	21,325	—	4,237
Other liabilities	1,985,626	1,485,674	20,346	479,606
Total liabilities	41,543,168	23,716,518	8,345,003	9,481,647

(1) UF amounts have been converted into Chilean pesos at the conversion rate as of December 31, 2019 (Ch\$28,309.94 per UF).

Consolidated Market Risk in Trading Portfolio (Value at Risk)

We have a policy of maintaining our trading portfolio within the Value-at-Risk (VAR) limits we have established. We have developed our own proprietary models for determining VAR. The table below presents our daily average VAR, and the high and low VAR, for the year ended December 31, 2018 and 2019.

Consolidated Trading Portfolio	Year Ended December 31, 2018	Year Ended December 31, 2019
	(in millions of nominal Ch\$)	
High	Ch\$ 2,018	Ch\$ 2,105
Low	996	951
Average	1,346	1,510

Consolidated Market Risk in Available-for-sale Portfolio (Value at Risk)

The General Financial Manager is responsible for the administration of the consolidated risk of the available-for-sale portfolio in accordance with the policies established by the Executive Committee and the limits established our market risk department. These limits are monitored and controlled on a daily basis

by the market risk department, which manages interest rate and inflation-indexing risk generated by the maturing or repricing of, or other changes in our assets and liabilities. The market risk department creates models to determine the level of interest rate risk and potential loss that could result from adverse economic conditions. The results of these models are reported on a quarterly basis to the Assets and Liabilities Committee.

The Executive Committee has established a policy that limits the annual maximum potential loss in the market value of our available-for-sale portfolio which was reduced from UF 210,000 in 2014 to UF 160,000 in 2015 and was increased to UF 190,000 on January 26, 2016. In 2018, the limit amounted to Ch\$5,238 million and was not exceeded. In 2019, the limit amounted to Ch\$5,379 million and was not exceeded. On average, the potential loss equaled Ch\$1,524 million in 2017, Ch\$1,491 million in 2018 and Ch\$2,442 million in 2019.

The following table presents the average, maximum and minimum “maximum potential loss” in the market value of our available-for-sale portfolio for the years ended December 31, 2018 and 2019.

Available for Sale Portfolio	Year Ended December 31, 2018	Year Ended December 31, 2019
	(in millions of nominal Ch\$)	
High	Ch\$ 1,716	Ch\$ 3,384
Low	1,240	1,371
Average	1,491	2,442

Volume Limitations

To limit our exposure to inflation risk, we limit the gap between inflation-adjustable assets and liabilities. As of and effective December 31, 2018, this limit was Ch\$4,000 billion (approximately US\$5.8 billion). As of and effective December 31, 2019, this limit was Ch\$4,200 billion (approximately US\$5.6 billion). The following table sets forth the average, maximum and minimum gap between inflation-adjusted assets and liabilities for the year ended December 31, 2018 and 2019:

Inflation-Adjusted Asset/Liability Gap	Year Ended December 31, 2018	Year Ended December 31, 2019
	(in millions of nominal Ch\$)	
High	Ch\$ 3,861,389	Ch\$ 3,914,710
Low	2,003,241	3,189,345
Average	2,832,952	3,536,551

Liquidity Management

Our general policy is to manage our liquidity conservatively, maintaining a minimum level of liquidity adequate to meet our operational needs while complying with applicable laws and regulations. The minimum required amount of liquidity is determined by the reserve requirements established by the Central Bank. Under these regulations, the total amount of our liabilities due within 30 days cannot exceed the total amount of our assets maturing within 30 days by an amount that is more than our basic capital. In addition, the total amount of our liabilities due within 90 days cannot exceed the total amount of our assets maturing within 90 days by an amount that is more than two times our basic capital. These limits are applied to all liabilities and assets, regardless of currency.

The CMF has authorized us to manage our liquidity based on an adjusted model. Under this adjusted model, we adjust the maturity of the following assets and liabilities that, in practical terms, have a different term than as set forth contractually, or that are demand accounts for retail clients: savings accounts, checking accounts for public sector institutions, deposit accounts, credit cards, lines of credit, impaired loan portfolio, derivatives, renewable loans and our investment portfolio. Giving effect to the adjusted model, as of December 31, 2019, we were in compliance with the following consolidated liquidity limits:

	Liabilities minus Assets		
	Limit	Adjusted Base - % of Limit Used⁽¹⁾	In Compliance?
Maturing within 30 days, all currencies.....	1x Basic Capital	8.34%	Yes
Maturing within 30 days, foreign currency	1x Basic Capital	(43.64)%	Yes
Maturing within 90 days, all currencies.....	2x Basic Capital	74.95%	Yes

(1) A negative percentage means that assets exceed liabilities.

Derivatives

From time to time, we enter into foreign exchange forward contracts and interest rate swap contracts as part of our asset and liability management. We use derivatives primarily as a hedging tool. Derivatives are recognized initially in the consolidated statement of financial position at cost (including transaction costs) and are subsequently valued at their fair value, and unrealized losses or gains are recorded in our results of operations. Chilean banks generally record the market value of derivatives. A derivative instrument classified as a trading instrument is required to be marked-to-market on a daily basis and gains or losses from the mark-to-market are recognized on the income statement.

The CMF recognizes three types of hedge accounting: (i) cash flow hedges, (ii) fair value hedges and (iii) hedging of foreign investments.

When a derivative financial instrument hedges exposure to changes in the fair value of existing assets or liabilities, the asset or liability is recorded at its fair value with regard to the specific risk hedged. Earnings or losses from measuring the fair value are recognized in the income statement. If the item hedged in a fair value hedge is a firm commitment, the changes in the fair value of the commitment with regard to the risk hedged are recorded in the income statement. Earnings or losses from measuring the fair value of the hedging derivative are also recognized in the income statement. When a new asset or liability is acquired as a result of the firm 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 consolidated statement of financial position. When a derivative financial instrument hedges exposure to the changes in cash flows (cash flow hedges) of existing assets or liabilities or from expected transactions, the effective portion of its changes in fair value is recorded in equity. Any ineffective portion is recognized in the income statement. The amounts recorded directly in equity are recorded in results in the same periods in which the assets or liabilities hedged affect the results. When a fair value interest rate hedge is entered into for a portfolio and the item hedged is a currency amount instead of one or more specific assets or liabilities, adjustment to the fair value of the portfolio is recorded in the consolidated statement of financial position under “Derivative contracts” based on the position of the hedged portfolio at the given moment in time.

We classify the majority of our derivative instruments as trading instruments. Nevertheless, nearly all of our derivative instruments are intended to cover risks. We use derivatives to hedge our exposure to foreign currency, interest rate and inflation risk.

As of December 31, 2019, we maintained a notional amount of US\$219.6 million in forward purchases of U.S. dollars classified as hedging instruments for foreign investments for the purpose of hedging the foreign exchange risk of our investment in our New York branch.

The following tables set forth our derivative portfolio as of December 31, 2018 and 2019.

As of December 31, 2018	Notional amounts			Fair Value	
	(in millions of nominal Ch\$)			Assets	Liabilities
	Within 3 months	After 3 months but within one year	After one year		
Fair value hedge derivatives:					
Forwards	—	—	—	—	—
Swaps	—	—	908,563	3,277	20,038
Call options	—	—	—	—	—
Put options	—	—	—	—	—
Futures	—	—	—	—	—
Other	—	—	—	—	—
<i>Subtotal</i>	—	—	908,563	3,277	20,038
Trading derivatives:					
Forwards	10,929,534	5,600,875	1,495,280	272,524	274,542
Swaps	1,730,790	3,163,700	15,475,217	413,575	385,372
Call options	—	—	—	—	28
Put options	—	—	—	—	1
Futures	—	—	—	—	—
Other	—	—	—	—	—
<i>Subtotal</i>	12,660,324	8,764,575	16,970,497	686,099	659,943
Net investment in foreign operation hedging derivatives:					
Forwards	232,539	—	—	—	28,280
Other	—	—	—	—	—
<i>Subtotal</i>	232,539	—	—	—	28,280
Cash flow hedging derivatives:					
Swaps	215,418	428,713	2,366,979	118,825	54,694
<i>Subtotal</i>	215,418	428,713	2,366,979	118,825	54,694
Total	13,108,281	9,193,288	20,246,039	808,201	762,955

As of December 31, 2019	Notional amounts			Fair Value	
	(in millions of nominal Ch\$)			Assets	Liabilities
	Within 3 months	After 3 months but within one year	After one year		
Fair value hedge derivatives:					
Forwards	—	—	—	—	—
Swaps.....	—	—	1,023,931	9,131	74,097
Call options.....	—	—	—	—	—
Put options	—	—	—	—	—
Futures	—	—	—	—	—
Other	—	—	—	—	—
Subtotal.....	—	—	1,023,931	9,131	74,097
Trading derivatives:					
Forwards	13,954,763	6,991,317	1,470,999	506,697	463,796
Swaps.....	2,978,971	5,421,463	28,057,767	724,512	715,128
Call options.....	—	—	—	—	116
Put options	—	—	—	—	—
Futures	—	—	—	—	—
Other	—	—	—	—	—
Subtotal.....	16,933,734	12,412,780	29,528,766	1,231,209	1,179,040
Net investment in foreign operation hedging derivatives:					
Forwards	164,423	—	—	65	16,336
Other	—	—	—	—	—
Subtotal.....	164,423	—	—	65	16,336
Cash flow hedging derivatives:					
Swaps.....	370,516	574,284	2,410,509	237,221	55,359
Subtotal.....	370,516	574,284	2,410,509	237,221	55,359
Total.....	17,468,673	12,987,064	32,963,206	1,477,626	1,324,832

Capital Expenditures

During the years ended December 31, 2017, 2018 and 2019, we made gross investments mainly in infrastructure and information technology valued at Ch\$142.5 billion, Ch\$159.7 billion and Ch\$70.9 billion, respectively.

Disclosure of Liabilities

The following table summarizes our financial liabilities as of December 31, 2019.

Payments due by Period					
(in millions of nominal Ch\$)					
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Deposits	22,210,964	21,951,097	229,027	572	30,268
Repurchase agreements and securities loans.....	924,775	924,775	—	—	—
Financial derivative contracts	1,324,832	419,062	402,343	153,301	350,126
Obligations with banks	1,744,835	1,570,697	99,734	16,534	57,870
Debt instruments issued	8,363,934	1,032,980	1,847,994	1,077,262	4,405,698
Other financial obligations ...	25,562	25,562	—	—	—
Total	34,594,902	25,924,173	2,579,098	1,247,669	4,843,962

In addition, we had Ch\$6,948.3 billion of other liabilities as of December 31, 2019, which included savings accounts, transactions in the course of payment, accounts payable and various other liabilities.

BUSINESS

Introduction

We are one of the oldest financial institutions in Chile, with our predecessor starting operations in 1855, and we are wholly owned by the Republic of Chile. We are also the third largest financial institution in terms of aggregate loans granted in Chile and the largest in terms of the number of customers and geographic coverage (in terms of number of Chilean cities with a branch) as of December 31, 2019. Further, as of December 31, 2019, we had total assets, net of allowances for loan losses, of Ch\$43,355.0 billion (US\$57.90 billion), effective equity (which is a regulatory measure calculated in accordance with the prevailing CMF rules and includes basic capital, subordinated bonds and voluntary reserves) of Ch\$2,912.3 billion (US\$3.89 billion), deposits and other interest bearing liabilities of Ch\$38,190.8 billion (US\$51.01 billion) and loans outstanding (net of allowances for loan losses) of Ch\$25,450.6 billion (US\$33.99 billion). In 2017, we had net income for the year of Ch\$132.5 billion (US\$215.53 million), in 2018 we had net income for the year of Ch\$179.3 billion (US\$258.1 million) and in 2019, we had net income for the year of Ch\$182.3 billion (US\$243.5 million). In 2019, our total loans net of allowances increased 6.6%.

The Bank's purpose is to provide banking and financial services aimed at fostering the development of Chile's economic activities. Our goal is to be the bank for all Chileans, combining commercial success with our commitment to provide banking services to clients from all socioeconomic sectors, from the smallest micro-companies to the largest companies in Chile. In keeping with this objective, we have promoted economic development, encouraged saving among the general population and otherwise assisted Chile in its economic and social development.

According to information published by the CMF as of December 31, 2019, we were the market leader in Chile in residential mortgages (in terms of the number of loans made), passbook savings (in terms of the total amount of deposits) and debit/ATM cards (in terms of transactions and number of cards). Further, according to our estimates, as of December 31, 2019, we were the market leader in higher-education loans. In addition, according to information published by the Santiago Stock Exchange, as of December 31, 2019, our brokerage subsidiary (BancoEstado Corredores de Bolsa S.A.) was the largest broker of securities traded therein in terms of volume traded, and according to information published by the CMF, our insurance brokerage subsidiary (BancoEstado Corredores de Seguros S.A.) was the third largest bank broker of insurance policies in Chile in terms of commissions collected. We are also a provider of depositary services for a large number of Chilean public sector institutions, and maintain the Chilean Treasury's main operating accounts.

We are headquartered in Santiago, Chile and have the most extensive network in terms of geographical coverage, of any bank in Chile with 413 branches, 108 special service points, 29,275 remote service points (*CajaVecina*) and 2,304 ATMs located throughout the country as of December 31, 2019. In addition, we had we had 4,136,332 internet banking users as of October 31, 2019 and a branch in New York to serve corporate and public sector institution clients.

State Ownership

We are the successor to several state-owned financial institutions operating since 1855 and are wholly owned by the Republic of Chile. Our Organic Law entitles the President of Chile to appoint six of the seven members of our Board of Directors and all three members of our Executive Committee (which includes the Chairman and Vice-Chairman of our Board of Directors and our Executive General Manager). Pursuant to the Organic Law, we operate as an autonomous entity and, like privately-owned commercial banks in Chile, we are subject to the supervision of the CMF and the regulations of the Central Bank. See "Regulation and Supervision."

Our statutory mandate is to provide banking and financial services with the aim of developing national economic activity. In order to encourage the growth of personal savings, we operate branches and service points in many remote locations that are not currently served by our competitors. We have developed a series of products, such as the *CuentaRut* card (a card easily accessible by Chilean customers and with relatively few requirements), the *CajaVecina* (remote service points which serve some of the most underserved and remote locations in Chile) and other banking services to extend the reach of banking services to underserved populations. We also have a subsidiary, BancoEstado Microempresas S.A. Asesorías Financieras, designed to serve the business needs of micro-companies.

While we can offer depositary and other banking services to the public sector, we are prohibited by the Chilean Constitution from lending to the Chilean government, any of its instrumentalities or any state-owned enterprises. We are, however, permitted to lend to employees of such instrumentalities or enterprises.

Recent History

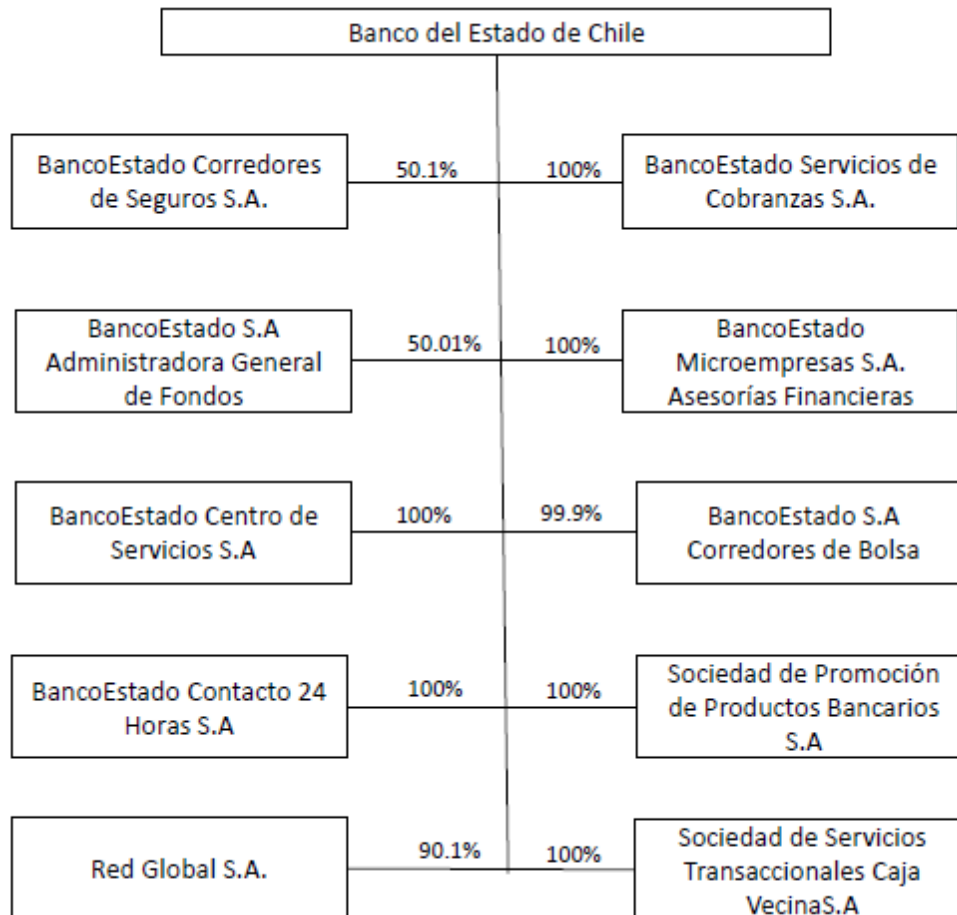
- From 1996 to 2000, we consolidated the successes of the modernization project, increasing our economic and social effectiveness, improving customer services and expanding our branch network by 45%.
- In 2000, we changed our marketing name from Banco del Estado de Chile to BancoEstado.
- In 2002, we interconnected our ATMs with the Redbanc network, which had 2,446 ATMs in its Chilean network as of December 31, 2018.
- In 2004, MetLife Chile Inversiones Limitada purchased a 49.9% stake in our insurance brokerage subsidiary BancoEstado Corredores de Seguros S.A.
- In 2005, we opened our New York Branch to provide enhanced access to global markets for our corporate and public sector institution clients.
- In 2009, the Chilean government increased our capital by US\$500 million to contribute to our compliance with Basel capital requirements as we expanded our lending operations.
- In 2009, we sold a 49.99% stake in our fund management subsidiary, BancoEstado S.A. Administradora General de Fondos, to BNP Paribas Asset Management, thereby combining our efforts with one of the world's largest mutual fund administrators to enhance our customers' access to international investments.
- In 2010, we became a leading provider of online banking services. According to the CMF, between December 2009 and December 2010 the number of customers who used our website for online banking services increased by 46%.
- In 2012, according to the ratings from Moody's, Standard & Poor's and Fitch for that period, BancoEstado was one of the best rated banks in Latin America.
- In 2012, BancoEstado received the *Pro Pyme* seal in recognition of its support of small-sized companies (*pequeñas empresas*).
- In 2012, the Bank reached its goal of issuing and administering 5,000,000 *CuentaRut* accounts. See "Business—Products and Services—Credit and Debit Cards".

- In 2013, BancoEstado became the first Chilean bank to issue a corporate bond in the Japanese market.
- In 2014, the Chilean government increased our capital by US\$450 million to support the growth of loans to small and medium enterprises and mortgage loans. See “Management’s Discussion and Analysis of Results of Operations and Financial Condition—Liquidity and Capital Resources—Capital and Reserves.”
- In 2014, BancoEstado provided more than 7,000,000 *CuentaRut* accounts and more than 1,000,000 mortgage loans, reaching the highest number of *CuentaRut* accounts and mortgage loans in its history.
- In 2015, our bank correspondents (*Cajas Vecinas*) reached a landmark of 16,504 units.
- In 2016, BancoEstado issued woman and microfinance bonds, becoming the first Chilean financial institution to issue thematic Social Responsible Investment (SRI) bonds in the Asian Market.
- In 2016, BancoEstado entered into an agreement with the German bank Kreditanstalt für Wiederaufbau (KfW) to foster the development of the Chilean green housing sector through the granting of low-interest rate mortgage loans conditioned upon customers purchasing with such funds housing in respect of which energy efficiency certifications were received.
- In 2017, our clients accessing our mobile banking facilities through BancoEstado’s banking app and BancoEstado’s web page for mobile devices reached 1.1 million and 1.6 million, respectively.
- In 2018, BancoEstado became the first financial institution to issue an Environmental, Social and Governance (ESG) investing instrument in the local market.
- In 2018, we had 11,555 clients using the *Compraquí* system, reflecting Red Global S.A.’s contribution to financial inclusion in Chile by supporting businesses outside the city of Santiago and small businesses generally.
- In 2019, we consolidated our position as leading supporters of Chilean public policies, assisting the Chilean government with the implementation of the Recovery Plan and Social Agenda. See “Management’s Discussion and Analysis of Results of Operations and Financial Condition—Chilean Economy—Overview.”
- In 2019, BancoEstado entered into a voluntary agreement with the Chilean government, regulators and representatives from the financial private sector aimed at promoting financial stability while furthering Chile’s environmental commitment (*Acuerdo Verde*) and began granting green consumer loans for citizens to use the proceeds to implement measures to reduce energy consumption in their homes.

As of the date of this Prospectus, we are one of the best-known banking institutions in Chile, with over 13.9 million customers. We are a leader in a number of segments of the Chilean market, including mortgages, student loans, debit cards, deposit accounts and micro business lending. We have the largest branch and ATM network in terms of geographical coverage, with locations in every Chilean *comuna* (346 municipalities).

Organization

The following is our organizational chart as of the date of this Prospectus.



We have the following subsidiaries:

- BancoEstado S.A. Administradora General de Fondos, which is our fund administration business;
- BancoEstado Centro de Servicios S.A., which manages our ServiEstado (service points);
- BancoEstado Contacto 24 Horas S.A., which provides e-banking and telephone banking services to our customers;
- BancoEstado S.A. Corredores de Bolsa, which is our brokerage business;
- BancoEstado Corredores de Seguros S.A., which is our insurance brokerage business;
- BancoEstado Microempresas S.A. Asesorías Financieras, which is our micro-companies financial advisory business;

- BancoEstado Servicios de Cobranzas S.A., which provides collection services for our delinquent loans;
- Sociedad de Promoción de Productos Bancarios S.A., which provides marketing services;
- Sociedad de Servicios Transaccionales CajaVecina S.A., which manages our remote service points (*CajaVecina*); and
- Red Global S.A., which provides a network for portable electronic readers of debit and credit cards and operates through the “Compraquí” trademark.

We own 100% of each of our subsidiaries except for BancoEstado S.A. Corredores de Bolsa, in which we own more than a 99.9% stake, BancoEstado S.A. Administradora General de Fondos, in which we sold a 49.99% stake to BNP Paribas Asset Management in 2009, BancoEstado Corredores de Seguros S.A., in which we sold a 49.9% stake to MetLife Chile Inversiones Limitada in 2004 and Red Global S.A., in which SumUp owns a 9.9% stake.

Segments

We divide our clients into the following segments:

Retail Banking, which includes the following:

- Individuals —We have approximately 13.9 million individual clients, of whom approximately 13.2 million are active clients (i.e., who have an outstanding balance with us). We are the market leader in the individual banking sub-segment in terms of number of clients. We further divide this sub-segment into the following categories of customer groups: (i) Children (customers under 18 years old), (ii) High Relationship Senior Citizen (customers more than 65 years old with more than Ch\$400,000 but less than Ch\$3 million in monthly income), (iii) Emerging Senior Citizen (customers more than 65 years old with less than Ch\$400,000 in monthly income), (iv) High Income Customer (customers over 18 years old with more than Ch\$3 million in monthly income), (v) Growing High Relationship Customer (customers between 18 and 35 years old with more than Ch\$600,000 but less than Ch\$3 million in monthly income), (vi) Classic High Relationship Customer (customers between 35 and 65 years old with more than Ch\$600,000 but less than Ch\$3 million in monthly income), (vii) Base Emerging Customer (customers between 25 and 65 years old with less than Ch\$200,000 in monthly income), (viii) Student (customers between 18 and 25 years of age with no salary information), (ix) Young Active Customer (customers between 18 and 25 years of age with reported monthly income lower than Ch\$600,000), (x) Growing Emerging Customer (customers between 25 and 35 years old with more than Ch\$200,000 but less than Ch\$600,000 in monthly income), (xi) Classic Emerging Customer (customers between 35 and 65 years old with more than Ch\$200,000 but less than Ch\$600,000 in monthly income), and (xii) No Salary Information Customer (customers between 18 and 65 years old with no salary information).
- Micro-companies —Consists of financial services to entrepreneurs with businesses that have less than UF3,600 (approximately Ch\$101.9 million as of December 31, 2019) in annual revenues. We have approximately 706,186 micro-companies clients and in 2019, our loans to micro-companies clients amounted to Ch\$1,100.2 billion.

- Small companies —Consists of businesses with annual revenues less than ranging from UF3,600 to UF70,000 (approximately Ch\$101.9 million to Ch\$1,982 million as of December 31, 2019). We have approximately 27,283 small business clients as of December 31, 2019. According to our estimates, our loans to these clients represent 10.5% of the total loans provided by Chilean banks to small companies as of December 31, 2019.

Wholesale Banking, which includes the following:

- Large-sized companies —Consists of businesses with more than UF70,000 in annual revenues (approximately Ch\$1,982 million as of December 31, 2019). We have approximately 3,308 large-sized companies clients that are operating with credit as of December 31, 2019. According to our estimates, our loans to these clients represent 12.8% of the total loans provided by Chilean banks to medium-sized companies as of December 31, 2019.
- Institutions —Includes Chilean national, regional and municipal institutions. We provide banking services to a large number of Chilean public sector institutions, ranging from the National Treasury, which keeps its main operating accounts with us, to the armed forces, to small municipalities. BancoEstado regards itself as the market leader in the public sector institutions segment.

Treasury and International, which includes our New York Branch and our proprietary trading operations. For more information on our New York Branch, see “—Branches and Other Offices and Access Points—International Operations.”

Other, which includes our corporate operations or operations that cannot be attributed to any other segment or that affect the entire bank.

The following tables present our revenues, as well as other financial information, by segment for the years ended December 31, 2017, 2018 and 2019:

For the Year Ended December 31, 2019								
	Retail Banking		Wholesale Banking		Treasury and International		Other	
	(in millions of nominal Ch\$)	% of Total	(in millions of nominal Ch\$)	% of Total	(in millions of nominal Ch\$)	% of Total	(in millions of nominal Ch\$)	% of Total
Net interest income..	Ch\$ 694,030	62.0%	Ch\$ 236,980	21.2%	Ch\$ 127,241	11.4%	Ch\$ 61,755	5.4%
Net fees and commissions income.....	263,640	79.6%	51,561	15.6%	2,350	0.7%	13,606	4.1%
Net income (expense) from financial operations	15,110	10.1%	8,535	5.7%	125,861	84.2%	-	-
Net foreign exchange gain (loss).....	10,078	(303.3)%	4,287	(129.0)%	(17,691)	532.4%	3	(0.1)%
Other operating income.....	398	2.3%	149	0.9%	2	-	16,469	96.8%
Total operating income.....	983,256	60.9%	301,512	18.7%	237,763	14.7%	91,833	5.7%
Provisions for loan losses	(242,844)	75.8%	(64,550)	20.1%	1,038	(0.3)%	(14,040)	4.4%
Operating income, net	Ch\$ 740,412	57.2%	Ch\$ 236,962	18.3%	Ch\$ 238,801	18.5%	Ch\$ 77,793	6.0%

For the Year Ended December 31, 2018

	Retail Banking		Wholesale Banking		Treasury and International		Other	
	(in millions of nominal Ch\$)	% of Total	(in millions of nominal Ch\$)	% of Total	(in millions of nominal Ch\$)	% of Total	(in millions of nominal Ch\$)	% of Total
Net interest income..	Ch\$633,387	63.7%	Ch\$222,234	22.4%	Ch\$ 64,800	6.5%	Ch\$ 73,531	7.4%
Net fees and commissions income	363,653	118.9%	56,278	18.4%	1,591	0.5%	(115,645)	(37.8)%
Net income (expense) from financial operations	11,621	10.1%	8,086	7.0%	95,812	82.9%	—	—
Net foreign exchange gain (loss)	7,803	37.7%	4,423	21.4%	8,439	40.9%	6	—
Other operating income	1,908	10.1%	142	0.7%	1	—	16,913	89.2%
Total operating income	1,018,372	70.0%	291,163	20.0%	170,643	11.7%	(25,195)	(1.7)%
Provisions for loan losses	(170,806)	73.6%	(23,657)	10.2%	(1,982)	0.9%	(35,602)	15.3%
Net operating profit	Ch\$847,566	69.3%	Ch\$267,506	21.9%	Ch\$168,661	13.8%	Ch\$(60,797)	(5.0)%

For the Year Ended December 31, 2017

	Retail Banking		Wholesale Banking		Treasury and International		Other	
	(in millions of nominal Ch\$)	% of Total	(in millions of nominal Ch\$)	% of Total	(in millions of nominal Ch\$)	% of Total	(in millions of nominal Ch\$)	% of Total
Net interest income	Ch\$ 556,306	62.8%	Ch\$ 221,491	25.0%	Ch\$ 32,827	3.7%	Ch\$ 75,689	8.5%
Net fees and commissions income	288,319	110.8%	44,875	17.2%	1,768	0.7%	(74,646)	(28.7)%
Net income (expense) from financial operations	10,361	6.7%	9,930	6.4%	134,831	86.7%	377	0.2%
Net foreign exchange gain (loss)	5,700	(16.3)%	4,272	(12.2)%	(44,916)	128.5%	7	—
Other operating income	675	7.5%	209	2.3%	1	—	8,140	90.2%
Total operating income	861,361	67.5%	280,777	22.0%	124,511	9.8%	9,567	0.7%
Provisions for loan losses	(161,293)	86.8%	(27,763)	14.9%	(197)	0.1%	3,404	(1.8)%
Net operating profit ...	Ch\$ 700,068	64.2%	Ch\$ 253,014	23.2%	Ch\$ 124,314	11.4%	Ch\$ 12,971	1.2%

Products & Services

Loans

We classify our loans into three categories: consumer loans (such as personal loans, credit cards, auto loans and education loans), mortgage loans (including both home purchase and home equity loans secured by a mortgage on a residence) and commercial loans (including business loans, foreign trade loans and other business credit products).

The following table presents our loans and account receivables from customers (net of allowances for loan losses) by segment as of December 31, 2017, 2018 and 2019 which excludes loans and advances to banks.

	As of December 31,					
	2017		2018		2019	
	(in millions of nominal Ch\$)	% of Total Loans	(in millions of nominal Ch\$)	% of Total Loans	(in millions of nominal Ch\$)	% of Total Loans
Segment:						
Retail banking	Ch\$ 13,235,357	60.6%	Ch\$ 14,383,433	61.9%	Ch\$ 15,275,669	61.1%
Wholesale banking....	8,602,903	39.4%	8,836,601	38.0%	9,697,892	38.8%
Treasury and						
International	9,976	–	19,943	0.1%	20,025	0.1%
Other	25	–	35	–	4	–
Total	Ch\$ 21,848,261	100.0%	Ch\$ 23,240,012	100.0%	Ch\$ 24,993,590	100.0%

The following table presents our loans and account receivables from customers (net of allowances for loan losses) by type of loan; including by the principal economic sector of the borrower's business for commercial loans; as of December 31, 2017, 2018 and 2019.

	As of December 31,					
	2017		2018		2019	
	(in millions of nominal Ch\$)	% of Total Loans	(in millions of nominal Ch\$)	% of Total Loans	(in millions of nominal Ch\$)	% of Total Loans
Commercial Loans:						
Manufacturing	Ch\$ 870,383	3.8%	Ch\$ 975,663	4.0%	Ch\$ 689,724	2.6%
Mining	481,477	2.1%	325,143	1.3%	609,544	2.3%
Electricity, Gas and					733,055	2.8%
Water supply	660,523	2.9%	811,123	3.3%		
Agriculture and cattle-					783,553	3.0%
rising	589,782	2.5%	686,155	2.8%		
Forestry	102,163	0.4%	74,264	0.3%	183,318	0.7%
Fishing	72,725	0.3%	68,533	0.3%	61,596	0.2%
Transport	863,739	3.7%	815,481	3.3%	1,118,784	4.3%
Telecommunications ..	171,377	0.7%	167,766	0.7%	143,697	0.5%
Construction	1,685,362	7.3%	1,778,109	7.2%	1,967,538	7.5%
Commerce ⁽¹⁾	2,776,390	12.0%	2,632,982	10.7%	2,644,826	10.1%
Services	3,168,351	13.7%	3,478,133	14.2%	3,826,075	14.6%
Others	988,363	4.3%	1,043,956	4.2%	1,088,951	4.2%
Commercial Loans	12,430,635	53.7%	12,857,308	52.3%	13,850,661	52.8%
Mortgage Loans	8,851,862	38.3%	9,593,676	39.1%	10,179,298	38.7%
Consumer Loans	1,858,192	8.0%	2,115,805	8.6%	2,243,662	8.5%
Total Loans	Ch\$ 23,140,689	100.0%	Ch\$ 24,566,789	100.0%	Ch\$ 26,273,621	100.0%

(1) Includes loans and advances to banks, which represented, 21.9% and 24.0% and 17.4% of "Commerce" as of December 31, 2017, 2018 and 2019, respectively.

Commercial Loans. We engage in diverse commercial lending activities that encompass all sizes of business and sectors of the Chilean economy other than public sector institutions. We offer commercial loans in Chilean pesos, UF or foreign currencies (principally the U.S. dollar) depending on the needs of our clients, and we offer loans from our Chilean branches as well as our New York Branch. We offer traditional secured and unsecured loans, factoring programs, financial leasing, foreign trade credit and other credit products to our commercial customers. We have sought to compete effectively, in terms of rates and customer service, with private commercial banks in the area of lending to large companies. According to information published by the CMF, as of December 31, 2019, we were ranked fifth in Chile in commercial loans in terms of loan balances outstanding. We have also focused on capturing the lending market directed toward micro- and small enterprises. In 2019, our loans to micro-companies clients amounted to Ch\$1,100.2 billion. According to our estimates, our loans to small business clients represent 11.71% of the total number of loans (per volume, not value) provided by Chilean banks to all small business clients as of December 31, 2019. We are also the administrator of the *Fondo de Garantía Para Pequeños Empresarios* (Guarantee Fund for Small companies, or “FOGAPE”), which is a state fund that provides loan guarantees to businesses with annual sales of up to UF350,000 during the preceding year or up to US\$16.7 million on average during the two preceding years in the case of exporters. Further, commercial loans constituted 51.0% of our loan portfolio before allowances as of December 31, 2019.

The following table presents our loan portfolio in commercial loans (before allowances) by type of loan as of December 31, 2017, 2018 and 2019.

	As of December 31,					
	2017		2018		2019	
	(in millions of nominal Ch\$)	% of Total Loans	(in millions of nominal Ch\$)	% of Total Loans	(in millions of nominal Ch\$)	% of Total Loans
Type of Loan:						
Commercial Loans ⁽¹⁾	Ch\$ 9,477,158	76.1%	Ch\$ 9,900,964	77.0%	Ch\$ 10,432,060	75.2%
Foreign Trade Loans	890,437	7.2%	736,692	5.7%	1,007,876	7.3%
Amounts receivable, checking accounts.....	95,585	0.8%	39,681	0.3%	146,803	1.1%
Factoring operations.....	366,904	3.0%	541,260	4.2%	568,501	4.1%
Leasing operations	772,723	6.2%	783,895	6.1%	825,760	6.0%
Student Loans	821,504	6.6%	848,112	6.6%	862,388	6.2%
Other credits and account receivables....	6,324	0.1%	6,704	0.1%	7,273	0.1%
Total.....	Ch\$ 12,430,635	100.0%	Ch\$12,857,308	100.0%	Ch\$ 13,850,661	100.0%

(1) Includes loans and advances to banks.

Mortgage Loans. We are the largest mortgage lender in Chile by number of loans with 773,943 loans as of December 31, 2019 and we rank second by total volume. Almost all of our mortgage loans are denominated in UF and are therefore adjusted based on inflation.

Approximately 23.6% of our mortgage loans were obtained by customers through a program subsidized by the Chilean government to provide guarantees for mortgages as of December 31, 2019. Pursuant to law, all of our mortgage borrowers are required to have life and fire insurance, and, in addition, we require mortgage borrowers to have insurance against earthquake damage unless they opt out of it, which has resulted in 99.1% of the homes in our loan portfolio as of December 31, 2019 being insured against this type of damage. We fund 4.2% of our mortgage loans by issuing letters of credit (mortgage finance bonds), which have payment terms that are matched with respect to maturity and payments of principal and interest to the terms of the related mortgage loans. The letters of credit (mortgage finance

bonds) are structured to reduce our exposure to interest rate fluctuations and inflation on our mortgage loan portfolio. Mortgage loans constituted approximately 38.3% of our loan portfolio as of December 31, 2017, 39.1% as of December 31, 2018 and 38.7% as of December 31, 2019.

Consumer Loans. We offer loans to consumers to finance the purchase of consumer goods for personal use, such as automobiles and household appliances, as well as educational activities. Our consumer loans are made in both nominal and inflation-adjusted Chilean pesos, are generally unsecured, and have maturities ranging from four to eight years. Consumer loans constituted 8.0% of our loan portfolio as of December 31, 2017, 8.6% as of December 31, 2018 and 8.5% as of December 31, 2019.

Credit and Debit Cards

We offer BancoEstado-branded Visa and Mastercards to consumers. We also offer BancoEstado-branded corporate Mastercards to businesses. Our credit cards are subject to financing charges and semi-annual and monthly fees. As of December 31, 2019, we had approximately 1,092,652 credit card accounts open, representing approximately 6.4% of the market by number of clients, ranking us seventh in the Chilean market. Between December 31, 2018 and December 31, 2019, our credit card business decreased by 1.2% by number of clients. This decrease was mainly due to the closing of those credit cards that had been unused for six or more months.

We also offer the *CuentaRut* card to our customers. The *CuentaRut* card is a debit card available to all Chileans who have a valid Chilean identity card and that are at least 12 years old in the case of women or 14 years old in the case of men. Holders of the *CuentaRut* can have their salaries, benefits paid by the government and other amounts, deposited directly into an account linked to the card. The holder can then use the card to make purchases at stores or pay bills on-line.

On October 9, 2019, BancoEstado acquired 79,577 shares of Operadora de Tarjetas de Crédito Nexus S.A. from Banco Santander, increasing our total stake to 14.81%.

Deposits

We have traditionally been a leader in deposit taking in Chile, ranked first in terms of number of clients and first in terms of volume of deposits.

As of December 31, 2019, individual deposits represented 28.7% of total deposits, a substantial portion of which are in the form of savings accounts. Traditionally these accounts, as a percentage of total deposits, have been very stable. We also have significant amounts of time deposits from private sector clients, from micro-companies to corporate clients.

As of December 31, 2019, deposit accounts for public sector institution customers had an aggregate balance of Ch\$1,813 billion, which represented 18.6% of our total deposits at that date. We are entitled to utilize these funds in the same manner as funds held in our other demand accounts.

As of December 31, 2019, we had US\$2,222 million of outstanding Yankee CDs and Commercial Papers, in the aggregate, offered through our New York Branch, which had an average term of 78 days and a weighted average rate of 2.0%. The major customers for Yankee CDs and Commercial Papers are American institutional investors and some Latin American banks and central banks.

According to the General Banking Law and the regulations issued by the CMF and the Central Bank, we must hold, in a special technical reserve, 100% of the amount by which all deposits and obligations payable on demand, except for obligations with other banks, exceed 2.5 times our effective net

equity. This technical reserve must be calculated daily, and may be kept in local or foreign currency in Chile, in deposits held in a special account with the Central Bank, in foreign currency deposits with the Central Bank, in overnight deposits with the Central Bank, and other documents issued by the Central Bank or the Chilean Treasury.

The following table sets forth a breakdown of our deposits by type as of December 31, 2017, 2018 and 2019.

	As of December 31,					
	2017		2018		2019	
	(in millions of nominal Ch\$)	% of Total Deposits	(in millions of nominal Ch\$)	% of Total Deposits	(in millions of nominal Ch\$)	% of Total Deposits
Current accounts and other demand deposits	Ch\$ 9,024,024	34.7%	Ch\$ 9,539,516	35.7%	Ch\$ 10,618,977	39.2%
Savings accounts	4,122,645	15.8%	4,419,345	16.6%	4,836,471	17.9%
Time deposits	12,591,416	48.4%	12,241,902	45.9%	11,333,140	41.9%
Other time liabilities	295,068	1.1%	487,022	1.8%	258,847	1.0%
Total	Ch\$26,033,153	100.0%	Ch\$26,687,785	100.0%	Ch\$ 27,047,435	100.0%

The following table sets forth a breakdown of our deposits by segment as of December 31, 2017, 2018 and 2019.

	As of December 31,					
	2017		2018		2019	
	(in millions of nominal Ch\$)	% of Total Deposits	(in millions of nominal Ch\$)	% of Total Deposits	(in millions of nominal Ch\$)	% of Total Deposits
Segment:						
Retail Banking	Ch\$ 9,339,280	35.9%	Ch\$ 10,447,889	39.1%	Ch\$ 11,502,560	42.5%
Wholesale Banking	9,738,059	37.3%	9,929,739	37.2%	9,828,630	36.4%
Treasury and International	6,656,123	25.6%	5,783,121	21.7%	5,325,171	19.7%
Other	299,691	1.2%	527,036	2.0%	391,074	1.4%
Total	Ch\$ 26,033,153	100.0%	Ch\$ 26,687,785	100.0%	Ch\$ 27,047,435	100.0%

Mutual Funds

We sell mutual funds and provide fund management services through our subsidiary BancoEstado S.A. Administradora General de Fondos (“BAGF”). We own 50.01% of BAGF and the other 49.99% is owned by BNP Paribas Asset Management, which purchased the stake in 2009. BAGF offers customers short-, medium- and long-term investment options. BAGF, acting through our branches has broad access to the individual client segment, and through its partnership with BNP Paribas Asset Management, allows Chileans to own local or international financial investment products. We reach a large portion of our mutual fund clients through cross selling efforts in our branches. For the year ended December 31, 2017, 2018 and 2019, BAGF generated Ch\$16.6 billion (US\$27.0 million), Ch\$18.9 billion (US\$27.2 million) and Ch\$21.1 billion (US\$28.2 million) in operational revenues, respectively.

Brokerage

We offer brokerage and custody services to our deposit and lending clients through our subsidiary BancoEstado S.A. Corredores de Bolsa (“BCB”). BCB has become one of the three most important participants in the Chilean financial intermediation market, and is the largest broker of securities traded in the Santiago Stock Exchange. For the years ended December 31, 2017, 2018 and 2019, BCB produced Ch\$10.8 billion (US\$17.5 million), Ch\$10.3 billion (US\$14.8 million) and Ch\$14.0 billion (US\$18.7 million) in operational revenues, respectively.

Insurance

We offer insurance through our brokerage subsidiary BancoEstado S.A. Corredores de Seguros (“BCS”). We own 50.1% of BCS and the other 49.9% is owned by MetLife Chile Inversiones Limitada, which acquired its interest in 2004. We sell life, health and homeowner’s insurance policies to consumers and health, liability and agricultural insurance to micro- and small companies. As of the December 31, 2019, we were the fourth largest broker of insurance policies in Chile, in terms of insurance premiums collected. We reach a large portion of our insurance clients through cross selling efforts, particularly by offering mandatory and voluntary life and homeowners insurance policies to our mortgage customers. For the years ended December 31, 2017, 2018 and 2019, BCS generated Ch\$29.2 billion (US\$47.5 million), Ch\$30.2 billion (US\$43.5 million) and Ch\$34.1 billion (US\$45.5 million) in operational revenues, respectively.

We also own minority stakes in the following companies:

Company	% Owned at December 31, 2019	Line of Business
Transbank S.A.....	8.7188%	Credit card management
Operadora de Tarjetas de Créditos Nexus S.A.....	14.8149%	Credit card management
Sociedad Operadora de la Cámara de Compensación de Pagos de Alto Valor S.A. (Combanc S.A.).....	15.0021%	Payments & clearing house operator
Administrador Financiero Transantiago S.A.	21.0000%	Manages financial operations of Santiago transportation system
IMERC-OTC S.A.	14.5958%	Derivatives/ clearing house and repository system

Branches and Other Offices and Access Points

As of December 31, 2019, we had the most extensive network of any bank in Chile in terms of geographical coverage, with 413 branches, 108 special service points, 29,275 remote service points (*CajaVecina*) and 2,304 branded ATMs located throughout the country. In addition, we had 4,136,332 million internet banking users as of October 31, 2019, and a branch in New York to serve corporate and public sector institution clients. Our branch or *CajaVecina* remote service points are present in all municipalities in Chile and, as of December 31, 2019, our branch or *CajaVecina* was the only banking service provider available in 266 of such municipalities. We also offer the CuentaRut and an internet website that makes e-banking available to all of our customers.

- Our branches are traditional full service bank branches, where customers can make deposits, withdraw funds, request loans, make payments, and utilize any of the other financial services we provide.

- Our service points, or *ServiEstado*, are “electronic branches” where customers have access to all of the services provided by a traditional bank branch except for the ability to enter into bank account and loan contracts.
- Our remote service points (*CajaVecina*) are operated by a large network of small private stores associated with the Bank, and are located in communities that lack other banking options, whether because of distance, connectivity, difficult access or low income levels. *CajaVecina* offer customers the ability to deposit and withdraw money, transfer money, or pay loans, and allow our clients to avoid traveling long distances for basic financial services. *CajaVecina* are located in commercial establishments, which provide those establishments with increased foot traffic as well as a small commission. In 2017 we increased the number of *CajaVecina* locations by 15.0%, in 2018 we increased the number of *CajaVecina* locations by 14.7% and in 2019 we increased the number of *CajaVecina* locations by 15.3%.
- Our ATM network is one of the largest in Chile. As of December 31, 2019, when combined with the Redbanc network, our customers have access to over 2,304 ATMs in Chile.
- *CuentaRut* is a debit card that is available to any Chilean woman over 12 years old and any Chilean man over 14 years old with a valid identity card. It can be used to access bank accounts and pay for services and products; but does not provide credit to its holders. It can also be used to pay for public transportation in Santiago. The *CuentaRut* card operates over the Redcompra network.
- Our customers can access basic banking services via our website www.bancoestado.cl. The number of customers registered to use our internet banking services increased by 10.5% in 2018, from 3,778,463 as of December 31, 2017 to 4,175,261 as of December 31, 2018 and decreased by 0.9% in the ten month period ended October 31, 2019, from 4,175,261 as of December 31, 2018 to 4,136,332 as of October 31, 2019. Further, the number of internet banking transactions and transactions carried through cell phone applications reflected no significant variation between 2017 and 2018 and increased 113.5% in 2019, from 923 million in 2018 to 2,057 million in 2019.

The tables below shows the number of our branches, special service points, remote service points (*CajaVecina*) and branded ATMs across Chile's regions at the dates indicated.

Region	Branches			Special Service Points		
	At December 31,			At December 31,		
	2017	2018	2019	2017	2018	2019
Arica and Parinacota	5	5	5	3	3	3
Tarapacá.....	7	7	7	3	3	3
Atacama	10	10	10	3	3	3
Antofagasta	15	15	15	3	3	3
Valparaíso	46	46	45	13	13	13
Metropolitana de Santiago	127	129	124	46	46	46
Coquimbo.....	21	21	21	4	4	5
Bernardo O'Higgins.....	29	29	29	5	4	4
Maule	24	26	28	5	5	5
Araucanía.....	29	30	30	4	4	4
BíoBío.....	46	36	36	10	7	7
Los Ríos	13	13	13	2	2	2
Los Lagos.....	28	28	28	5	5	5
Aysen	4	5	5	1	1	1
Magallanes	5	5	5	1	1	1
Ñuble.....	-	11	12	-	3	3
Total.....	409	416	413	108	107	108

Region	<i>CajaVecina</i>			<i>ATMs</i>		
	At December 31,			At December 31,		
	2017	2018	2019	2017	2018	2019
Arica and Parinacota	523	608	748	26	29	23
Tarapacá.....	438	548	666	40	40	39
Atacama	596	712	860	46	47	47
Antofagasta	594	774	917	73	74	69
Valparaíso	2,181	2,580	2,959	289	288	276
Metropolitana de Santiago	5,690	6,378	7,142	938	928	827
Coquimbo.....	1,535	1,690	1,901	105	108	104
Bernardo O'Higgins.....	1,630	1,850	2,135	135	134	133
Maule	2,156	2,476	2,866	145	144	143
Araucanía.....	1,392	1,583	1,849	134	133	133
BíoBío.....	2,863	2,338	2,726	251	206	198
Los Ríos	535	668	791	74	70	68
Los Lagos.....	1,508	1,695	1,947	134	135	131
Aysen	280	331	401	16	17	18
Magallanes	226	253	286	36	37	37
Ñuble.....	-	916	1,081	-	56	58
Total	22,147	25,400	29,275	2,442	2,446	2,304

International Operations

In 2005, we opened our New York Branch to better serve certain cross border needs of our corporate and public sector customers. The New York Branch is licensed by the state of New York, and had total assets of US\$3.8 billion as of December 31, 2019. The New York Branch offers checking accounts, money market accounts, time deposits, short- and long-term loans, syndicated loans, stand-by letters of credit and currency trading. In addition, the New York Branch offers Yankee CDs and Commercial Papers, which have a short-term rating of A-1 from Standard & Poor's and P-1 from Moody's and a long-term rating of A+ from Standard & Poor's and A1 from Moody's.

Outside of the New York Branch, we generally facilitate international transactions for our customers through our correspondent banking relationships with major banks worldwide through which we arrange funds transfers on behalf of our customers.

Industry

Overview

As of December 31, 2019, the Chilean banking system was composed of 18 financial institutions, which together had Ch\$189,872 billion in loans (net of allowances) and Ch\$152,221 billion in deposits, according to the CMF. As of December 31, 2019, approximately 56.6% of outstanding loans in Chile were to businesses, 42.3% were to individuals (14.0% for consumption and 28.3% were mortgages), and 1.2% were to banks. At December 31, 2019, Chilean banks had allowances equal to approximately 2.6% of their outstanding loans. Non-performing loans constituted approximately 2.1% of outstanding consolidated loans as of December 31, 2019, representing a 9.0% increase from its balance as of December 31, 2018. At December 31, 2019, 50.0% of the banks in the Chilean financial system had a ratio of equity to risk-adjusted assets of 15.0% or lower, 16.7% had a ratio of 15% to 20%, and 33.3% had a ratio of 20% or higher.

Competition

Overview

Since 1990, the Chilean banking system has undergone a process of consolidation and an opening of the market to new entrants. As part of this consolidation, some of the most important mergers that have occurred in the last years include:

From 1996 through 1999, Banco Santander de España acquired control of Banco Osorno y la Union, Banco O'Higgins and Financiera Fusa, forming Banco Santander Chile. Following the international merger of Banco Santander de España and Banco Central Hispano in 1999, the CMF allowed the merger of Banco Santander Chile and Banco Santiago. Banco Santander Chile was the largest bank in Chile in terms of loans (before allowances and excluding loans and advances to banks) as of December 31, 2017, 2018 and 2019, with a 18.7%, 18.2% and 18.0 % market share, respectively.

In 2001, the Luksic group, which at the time controlled Banco Edwards, gained control of Banco de Chile and, with the prior authorization of the CMF, merged the two banks in 2002. Later, in January 2008, Citibank Chile was also merged into Banco de Chile. As a consequence of these mergers, Citibank has a significant indirect participation in the equity of Banco de Chile. Banco de Chile was the second largest bank in Chile in terms of loans (before allowances and excluding loans and advances to banks) as of December 31, 2017, 2018 and 2019, with a 17.2%, 17.0% and 16.5 % market share, respectively.

In 2004, Banco de Crédito e Inversiones, or BCI, acquired 99.9% of Banco Conosur. BCI was the fourth largest bank in Chile in terms of loans (before allowances and excluding loans and advances to banks) as of December 31, 2017, 2018, and 2019, with a 13.6%, a 13.8% and a 14.0% market share, respectively.

In April 2016, Banco Itaú merged with Corpbanca. As of the date of this Prospectus, Itaú-Corpbanca was the third largest foreign bank in terms of loans operating in Chile.

In September 2018, Scotiabank Chile merged with Banco Bilbao Vizcaya Argentaria Chile. As of the date of this Prospectus, Scotiabank Chile-BBVA Chile was the second largest foreign bank in terms of loans operating in Chile.

In September 2019, Banco de Crédito e Inversiones announced the acquisition of a third bank in the United States, Executive National Bank, and began operating in Peru through a new subsidiary, Banco BCI Peru. As of the date of this Prospectus, BCI was the largest domestically-owned bank in terms of loans operating in Chile and the largest in terms of deposits (when taking into account its foreign subsidiaries).

Among private banks, which accounted for approximately 85.8% of loans and 80.6% of deposits in Chile as of December 31, 2019, approximately 42.8% of loans and 41.6% of deposits are held by foreign-owned banks, which have traditionally been important participants in the Chilean financial system. The domestically-owned private banking sector is dominated by Banco de Chile and BCI which, as of December 31, 2019, together had a market share of 30.6% in terms of loans and 29.3% in terms of deposits. Banco Santander Chile, Itaú-Corpbanca and Scotiabank Chile-BBVA Chile, the three largest foreign banks operating in Chile, together had a market share of 42.0% in terms of loans and 37.3% in terms of deposits.

As of December 31, 2019, we had the third largest market share in Chile in terms of loans and we held the largest share in terms of deposits in Chile. As of that date, we had outstanding loans (before allowances) of Ch\$25,813 billion (US\$34,475 million), representing 14.2% of the loan market, and Ch\$27,047 billion (US\$36,124 million) in deposits, representing 19.4% of the deposit market.

We face competition from non-bank competitors (principally department stores and large supermarket chains) with respect to some of our credit products, such as credit cards, consumer loans and insurance brokerage. In addition, some department stores have banks, which accounted for 2.6% of total loans outstanding (before allowances) as of December 31, 2019. We also face increasing competition from other financial intermediaries who are able to provide larger companies with access to the capital markets as an alternative to bank loans. We believe that the Chilean capital markets are still developing and that regulatory limitations on such activities may make traditional bank financing a more desirable alternative for certain of our customers.

The following table sets forth certain statistics for the Chilean financial system as of December 31, 2019.

	Assets		Loans⁽¹⁾		Deposits		Basic Capital	
	Amount	Share	Amount	Share	Amount	Share	Amount	Share
	(in billions of nominal Ch\$, except percentages)							
Domestically owned private-sector banks.....	109,206	39.4%	73,338	40.4%	55,241	39.7%	9,236	42.5%
Foreign-owned banks	118,218	42.6%	77,720	42.8%	53,943	38.7%	9,786	45.0%
BancoEstado.....	43,355	15.6%	25,813	14.2%	27,047	19.4%	1,812	8.3%
Department store banks	6,499	2.3%	4,806	2.6%	3,047	2.2%	1,001	4.1%
Total	277,277	100%	181,677	100%	139,278	100%	21,834	100%

(1) Before allowances. Excludes loans and advances to banks.

Source: CMF.

Loans

As of December 31, 2019, our loans and account receivables from customers (before allowances for loan losses) were Ch\$25,812.8 billion (US\$34.5 billion). These amounts were the third largest among Chilean banks. Our portfolio represented 14.2% of the market for loans in the Chilean financial system (comprising all banks) as of such date. Our loan portfolio grew 5.0% from December 31, 2018 to December 31, 2019, compared to an average market growth rate of 7.1% during the same period.

The following tables set forth our market shares in terms of loans granted in Chile (excluding loans and advances to banks) and the five private-sector banks with the largest market shares as of December 31 in each of the last three years.

	As of December 31,		
	2017	2018	2019
Banco Santander Chile.....	18.7%	18.2%	18.0%
Banco de Chile.....	17.2%	17.0%	16.5%
BancoEstado	15.3%	14.8%	14.2%
Banco de Crédito e Inversiones	15.7%	13.8%	14.1%
Scotiabank Chile-BBVA Chile ⁽¹⁾	7.1%	13.7%	14.0%
Itaú-Corpbanca.....	10.8%	10.1%	10.1%
Others.....	17.3%	12.3%	13.1%

(1) Scotiabank Chile and BBVA Chile merged in September 2018. Information for 2017 presented in this table corresponds to BBVA Chile. Information for 2018 and 2019 corresponds to the merged Scotiabank Chile-BBVA Chile entity.

Source: CMF

In the consumer credit market, department store banks offer loans mainly to low- and middle-income consumers and accounted for 9.4%, 15.9% and 15.8% of the total consumer loans as of December 31, 2017, 2018 and 2019, respectively. Banco Santander Chile had a market share of 20.8% and Banco de Chile had a market share of 17.0% in terms of consumer loans as of December 31, 2019, compared to our 8.4% market share. Our consumer credit business grew by 3.3% from December 31, 2018 to December 31, 2019, while our competitors' consumer credit business grew by 4.4% during the same period.

As of December 31, 2019, BancoEstado had the second largest share of the mortgage loan market in the Chilean banking sector. As of that date, our total mortgage loans of Ch\$10,179.3 billion (before allowances), represented 19.1% of the total market. During 2017, 2018 and 2019, BancoEstado's mortgage loan portfolio grew at an average annual rate of 8.0%, 5.4% and 3.3%, respectively.

In terms of credit quality, the Bank had a risk index of 3.17% as of December 31, 2019. The financial system's past due loans index stood at 0.9% as of December 31, 2019, reflecting no significant variation when compared to December 31, 2018. Our ratio of past due loans to total loans reached 1.14% as of December 31, 2019 compared to a ratio of 1.05% as of December 31, 2018.

Deposits

We held total deposits of Ch\$27,047 billion (US\$36,124 million) as of December 31, 2019. Such amount represented 19.4% of the market for deposits at that date, ranking us first in Chile.

The following tables set forth our market shares in terms of total deposits in Chile and the five private-sector banks with the largest market shares as of December 31 in each of the last three years.

	As of December 31,		
	2017	2018	2019
BancoEstado	22.0%	21.0%	19.4%
Banco Santander Chile.....	16.6%	17.1%	16.9%
Banco de Chile.....	16.0%	15.9%	15.9%
Banco de Crédito e Inversiones	13.0%	13.1%	13.4%
Scotiabank Chile-BBVA Chile ⁽¹⁾	5.9%	11.7%	11.5%
Itaú-Corpbanca.....	8.7%	8.3%	9.0%
Others.....	17.8%	12.9%	13.9%

(1) Scotiabank Chile and BBVA Chile merged in September 2018. Information for 2017 presented in this table corresponds to BBVA Chile. Information for 2018 and 2019 corresponds to the merged Scotiabank Chile-BBVA Chile entity.

Source: CMF

The Bank has historically been the leading depository for savings accounts from lower- and middle-income individuals, due in large part to its extensive branch network (including 29,275 remote service points (*CajaVecina*)) in remote or economically underdeveloped areas in Chile), its reputation throughout Chile and its role in assisting the government of Chile in fulfilling certain economic and social development objectives. As of December 31, 2019, BancoEstado had issued approximately 16.0 million of term savings accounts. These term savings accounts accounted for approximately 94.0% of the number of term savings accounts in Chile at that date.

Employees

The following table shows the breakdown of full-time employees of the Bank (excluding those from its welfare servicing unit) as of December 31, 2017, 2018 and 2019.

	As of December 31,		
	2017	2018	2019
Main office.....	4,053	4,414	4,283
Branches.....	6,209	5,680	5,614
Subsidiaries.....	4,716	4,805	4,954
Total employees	14,978	14,899	14,851

Bank employees are represented by a bank union, *Sindicato de Trabajadores del Banco del Estado de Chile*, in which membership is optional. Employees at our subsidiaries BancoEstado S.A. Administradora General de Fondos, BancoEstado Servicios de Cobranzas S.A., BancoEstado Centro de Servicios S.A., BancoEstado Contacto 24 Horas S.A., BancoEstado Corredores de Seguros S.A., BancoEstado Corredores de Bolsa S.A and BancoEstado Microempresas S.A. Asesorías Financieras are represented by an affiliate-specific union. Employees of our subsidiaries Sociedad de Promoción de Productos Bancarios S.A., Sociedad de Servicios Transaccionales CajaVecina S.A. and Red Global S.A. are not represented by a union. As of December 31, 2019, 95.1% of our and our subsidiaries' employees

were union members. The Bank has not experienced any significant work stoppages in the last ten years and considers relations with its employees to be good. According to the Organic Law, one representative of the employees in the bank has the right to sit in the Board of Directors.

Chilean law protects the right of our employees to bargain collectively and to vote for strike in case the negotiation process is not leading to favorable results.

On April 1, 2017, a significant Chilean regulatory labor reform on unions and collective bargaining procedures became effective. Among other things, the labor reform provides that: (i) the general description of anti-union conduct will no longer require proof of intent on the party incurring in such conduct (except for conducts which include subjective elements in its legal description). Fines for anti-union conduct were increased. Therefore, as a general rule, if an employer has engaged in any anti-union conduct, regardless of intent, it may be subject to increased fines, in addition to other applicable existing sanctions; (ii) certain employees that were not entitled to engage into collective bargaining procedures under the previous regime are now entitled to such procedures; (iii) each collective bargaining procedure is subject to a minimum negotiation threshold, to be generally identical to the provisions set forth in the collective bargaining agreement in effect at the time of such negotiation, and certain other amendments to the collective bargaining procedure were introduced; (iv) replacements during a strike, whether external or internal, including reassignments of positions within the active personnel, are forbidden; nonetheless, minimum services and emergency teams may agree to protect the employer's facilities, prevent accidents, provide public utility services, attend the population's basic necessities and prevent sanitary or environmental damage during a strike; (v) the employer is no longer able to unilaterally extend the benefits of a collective bargaining agreement to non-unionized employees, being mandatory to obtain the union's and the beneficiary's written consent to partially or totally extend such benefits; (vi) employees affiliating to a union within five days after the filing of a union's project will automatically become a part of such bargaining process, whereas, the possibility of solely adhering to the union's project without becoming part of the bargaining process was abolished; (vii) employers are required to provide to the union the company's financial information periodically and also detailed financial information during the collective bargaining process; unions are also entitled to request payroll information regarding both unionized and non-unionized employees; (viii) for companies with a certain threshold percentage of union representation, unions and employees may negotiate and agree to special conditions on matters such as a special distribution of the working schedule, and remote working, among others; (ix) intercompany unions are allowed to initiate collective bargaining processes, and the employer will be required to negotiate, provided they fulfill certain prerequisites; (x) unions are the only employee-representative organisms entitled to engage in collective bargaining; groups of employees specially organized for this sole purpose are no longer recognized in the law; and (xi) the maximum term of each collective bargaining agreement is reduced from four to three years.

The following chart shows the status of our and our subsidiaries' collective bargaining agreements.

Entity	Term of Agreement	Expiration
BancoEstado.....	2 years	November 30, 2021
BancoEstado S.A. Administradora General de Fondos	3 years	December 31, 2020
BancoEstado Servicios de Cobranzas S.A.....	3 years	September 30, 2022
BancoEstado Centro de Servicios S.A.....	3 years	December 7, 2022
BancoEstado Contacto 24 Horas S.A.	3 years	January 31, 2023
BancoEstado Corredores de Seguros S.A.....	3 years	November 30, 2021
BancoEstado Corredores de Bolsa S.A.....	3 years	November 30, 2020
BancoEstado Microempresas S.A. Asesorías Financieras	3 years	September 12, 2021

The Bank does not maintain any pension or retirement programs for its employees. Under Decree-Law 3,500, which privatized the Chilean social security system, the Bank is required to deduct from

employees' monthly wages a contribution to a personal pension fund owned by each employee, managed by pension fund management companies (known in Chile as *Administradoras de Fondos de Pensiones* ("AFPs")) selected by the employees. AFPs are legal entities that manage pension funds and are the registered shareholders of shares acquired with pension fund monies. As a general principle, AFPs are required to provide returns on the pension funds they manage that approximate the average return of all pension funds. If a given fund's performance falls below a specified range, it must provide the difference to its pension investors. Compulsory contribution, which as of the date of this Prospectus amounted to approximately 10% of monthly taxable income (up to a maximum of approximately Ch\$2.2 million, or US\$2,781 per month), included the costs of life insurance and disability insurance coverage. Our statutory social security obligation is fully discharged by the deduction and delivery to the corresponding AFPs of monthly contributions on behalf of the respective employees.

From time to time, the Bank offers a voluntary retirement program to workers who have been with the Bank for a certain number of years through a number of economic incentives. In 2018, 5 employees left the Bank under a voluntary retirement program. In 2019, 193 employees left the Bank under a voluntary retirement program.

Legal Proceedings

The Bank is subject to certain claims and is a party to certain legal proceedings incidental to the normal course of its business. The Bank does not believe that liabilities related to such claims and proceedings are likely to have, in the aggregate, a material adverse effect on our financial condition or results of operations.

Description of Property

Our headquarters are located at Avenida Libertador Bernardo O'Higgins No. 1111, Santiago, Chile. The headquarters are approximately 1,000,000 square feet in area and are owned by us. As of December 31, 2019, our network consisted of 413 branches, 108 special service points and 29,275 remote service points (*CajaVecina*). As of December 31, 2019, the Bank owned 236 properties, all of which were used as branches, and rented 120 properties, all of them were used as branches. Additionally, the bank holds 57 properties which have been loaned to it at no cost.

All of our remote service points (*CajaVecina*) were located in commercial establishments owned by third parties. Our branch network is located in each of the regions of Chile and in Santiago, Chile's capital and largest city.

SELECTED STATISTICAL INFORMATION

The following information should be read in connection with, and is qualified in its entirety by reference to, our Audited Consolidated Financial Statements and the section entitled “Management’s Discussion and Analysis of Results of Operations and Financial Condition” appearing elsewhere in this Prospectus.

Average Consolidated Statement of Financial Position, Income Earned from Interest-Earning Assets and Interest Paid and Accrued on Interest-Bearing Liabilities

The average balances for interest-earning assets and interest-bearing liabilities, including interest and readjustments received and paid, have been calculated on the basis of monthly balances for us on a consolidated basis. Such average balances are presented in Chilean pesos, in UF and in foreign currencies (principally U.S. dollars).

The nominal interest rate has been calculated by dividing the amount of interest and principal readjustment due to changes in the UF index (gain or loss) during the period by the related average balance, both amounts expressed in constant pesos. The nominal rates calculated for each period have been converted into real rates using the following formulas:

$$Rp = ((1+Np) / (1+I)) - 1$$

$$Rd = (((1+Nd) * (1+D)) / (1+I)) - 1$$

Where:

Rp = real average rate for peso-denominated assets and liabilities (in Ch\$ and UF) for the period;

Rd = real average rate for foreign currency-denominated assets and liabilities for the period;

Np = nominal average rate for peso-denominated assets and liabilities for the period;

Nd = nominal average rate for foreign currency-denominated assets and liabilities for the period;

D = devaluation (appreciation) rate of the Chilean peso to the U.S. dollar for the period; and

I = inflation rate in Chile for the period (based on the variation of the CPI).

The real interest rate can be negative for a portfolio of peso-denominated loans when the inflation rate for the period is higher than the average nominal rate of the loan portfolio for the same period. A similar effect could occur for a portfolio of foreign currency denominated loans when the inflation rate for the period is higher than the sum of the devaluation (appreciation) rate for the period and the corresponding average nominal rate of the portfolio.

The formula for the average real rate for foreign currency denominated assets and liabilities (Rd) reflects a gain or loss in purchasing power caused by the difference between the devaluation (appreciation) rate of the Chilean peso and the inflation rate in Chile during the period. The following example illustrates the calculation of the real interest rate for a dollar-denominated asset bearing a nominal annual interest rate

of 10.0% ($N_d = 0.10$), assuming a 5.0% annual devaluation rate ($D = 0.05$) and a 12.0% annual inflation rate ($I = 0.12$):

$$R_d = (((1 + 0.10) * (1 + 0.05)) / (1 + 0.12)) - 1 = 3.125\% \text{ per year}$$

In the example, since the inflation rate was higher than the devaluation rate, the real rate is lower than the nominal rate in dollars. If, for example, the annual devaluation rate were 15.0%, using the same numbers, the real rate in Chilean pesos would be 12.9%, which is higher than the nominal rate in U.S. dollars. Using the same numbers, if the annual inflation rate were greater than 15.5%, the real rate would be negative.

The foreign exchange gains or losses on foreign currency-denominated assets and liabilities have not been included in interest income or expense. Similarly, interest on investments does not include trading gains or losses on these investments. Non-performing loans, defined as such under categories C3, C4, C5, and C6, consist of non-accrual loans and restructured loans for which interest is not recognized. See “Management’s Discussion and Analysis of Results of Operations and Financial Condition—Critical Accounting Policies—Interest revenue and expenses.” Interest is not recognized during periods in which loans are past due except for certain loans where 80% or more of our exposure under the loan is secured. However, interest received on past due loans includes interest on such loans from the original maturity date. Non-performing loans that are overdue for 90 days or less have been included in each of the various categories of loans, and therefore affect the various averages. Non-performing loans that are overdue for 90 days or more are shown as a separate category of loans (“Past due loans”). Interest and/or indexation readjustments received on all non-performing U.S. dollar-denominated loans during the periods are included as interest revenue. However, all peso-denominated loans that are classified as non-performing do not accrue interest or indexation adjustments as interest revenue.

Included in interbank deposits are checking accounts maintained in the Central Bank and foreign banks. Such assets have a distorting effect on the average interest rate earned on total interest-earning assets because currently balances maintained in Chilean peso amounts do not earn interest, and the only balances held in a foreign currency that earn interest are those maintained in U.S. dollars, but these only earn interest on the amounts that are legally required to be held for liquidity purposes. Additionally, this account includes interest earned by overnight investments. Consequently, the average interest earned on such assets is comparatively low. We maintain these deposits in these accounts to comply with statutory requirements and to facilitate international business, rather than to earn income.

Distribution of Assets, Liabilities and Equity

	Year Ended December 31,											
	2017				2018				2019			
	Average balance	Interest earned	Average real rate	Average nominal rate	Average balance	Interest earned	Average real rate	Average nominal rate	Average balance	Interest earned	Average real rate	Average nominal rate
	(in millions of nominal Ch\$, except percentages)											
Assets												
<i>Interest earning assets</i>												
<i>Deposits in Central Bank</i>												
Ch\$	838,434	17,611	0.7%	2.1%	851,896	20,028	(0.5)%	2.4%	709,679	7,731	(1.7)%	1.1%
UF	—	—	—	—	—	—	—	—	—	—	—	—
Foreign currency .	1,318,404	22,750	6.6%	1.7%	507,326	36,873	(5.1)%	7.3%	532,306	41,867	0.1%	7.9%
Subtotal	2,156,838	40,361	4.3%	1.9%	1,359,222	56,901	(2.2)%	4.2%	1,241,985	49,598	(0.9)%	4.0%
<i>Loans and advances to banks</i>												
Ch\$	179,669	5,611	1.7%	3.1%	29,043	2,092	4.3%	7.2%	—	543	—	—
UF	—	—	—	—	—	—	—	—	—	—	—	—
Foreign currency .	413,591	8,139	6.8%	2.0%	542,516	15,140	(9.1)%	2.8%	677,899	21,762	(4.2)%	3.2%
Subtotal	593,260	13,750	5.3%	2.3%	571,559	17,232	(8.4)%	3.0%	677,899	22,305	(4.2)%	3.2%
<i>Financial investments</i>												
Ch\$	3,631,239	115,960	1.8%	3.2%	4,765,462	135,246	—	2.8%	5,392,760	152,407	—	2.8%
UF	195,482	6,345	1.8%	3.2%	182,358	7,050	1.0%	3.9%	319,587	11,506	0.8%	3.6%
Foreign currency .	968,833	14,623	6.4%	1.5%	824,140	20,049	(9.4)%	2.4%	851,252	24,933	(4.5)%	2.9%
Subtotal	4,795,554	136,928	2.7%	2.9%	5,771,960	162,345	(1.3)%	2.8%	6,563,599	188,846	(0.5)%	2.9%
<i>Commercial loan</i>												
Ch\$	5,806,880	413,409	5.7%	7.1%	5,801,798	419,161	4.3%	7.2%	5,951,792	434,853	4.4%	7.3%
UF	3,529,945	180,885	3.7%	5.1%	3,853,851	229,755	3.1%	6.0%	4,321,567	244,443	2.8%	5.7%
Foreign currency .	2,056,357	50,611	7.4%	2.5%	2,192,647	66,708	(8.8)%	3.0%	2,280,679	77,078	(4.1)%	3.4%
Subtotal	11,393,182	644,905	5.4%	5.7%	11,848,296	715,624	1.5%	6.0%	12,554,038	756,374	2.3%	6.0%
<i>Mortgage loans</i>												
Ch\$	2,853	199	5.5%	7.0%	2,874	195	3.9%	6.8%	2,535	172	3.9%	6.8%
UF	8,450,421	517,449	4.7%	6.1%	9,216,245	656,687	4.2%	7.1%	9,887,826	683,593	4.0%	6.9%
Foreign currency .	—	—	—	—	—	—	—	—	—	—	—	—
Subtotal	8,453,274	517,648	4.7%	6.1%	9,219,119	656,882	4.2%	7.1%	9,890,361	683,765	4.0%	6.9%
<i>Consumer loans</i>												
Ch\$	1,747,091	272,159	14.0%	15.6%	1,947,449	303,760	12.4%	15.6%	2,208,321	350,797	12.7%	15.9%
UF	4	—	(1.4)%	—	2	—	(2.7)%	—	—	—	—	—
Foreign currency .	4,725	—	4.8%	—	5,989	—	(11.5)%	—	7,935	—	(7.2)%	—
Subtotal	1,751,820	272,159	14.0%	15.5%	1,953,440	303,760	12.3%	15.6%	2,216,256	350,797	12.6%	15.8%

	Year Ended December 31,											
	2017				2018				2019			
	Average balance	Interest earned	Average real rate	Average nominal rate	Average balance	Interest earned	Average real rate	Average nominal rate	Average balance	Interest earned	Average real rate	Average nominal rate
	(in millions of nominal Ch\$, except percentages)											
Repurchase agreements and securities loans												
Ch\$.....	184,582	24,332	11.6%	13.2%	227,734	21,593	6.5%	9.5%	118,511	17,203	11.4%	14.5%
UF.....	—	—	—	—	—	—	—	—	—	—	—	—
Foreign currency .	1,057	12	6.0%	1.1%	—	—	—	—	—	—	—	—
Subtotal	185,639	24,344	11.6%	13.1%	227,734	21,593	6.5%	9.5%	118,511	17,203	11.4%	14.5%
Derivatives												
Ch\$.....	80,861	341	(0.9)%	0.4%	44,106	(8,899)	(22.4)%	(20.2)%	151,462	(7,148)	(7.3)%	(4.7)%
UF.....	—	—	—	—	—	—	—	—	—	—	—	—
Foreign currency .	1,613	(291)	(14.1)%	(18.0)%	2,323	(123)	(16.2)%	(5.3)%	900	551	49.6%	61.2%
Subtotal	82,474	50	(1.2)%	0.1%	46,429	(9,022)	(22.1)%	(19.4)%	152,362	(6,597)	(7.0)%	(4.3)%
Right-of-use assets												
Ch\$.....	—	—	—	—	—	—	—	—	106,690	—	(2.7)%	—
UF.....	—	—	—	—	—	—	—	—	—	—	—	—
Foreign currency .	—	—	—	—	—	—	—	—	607	—	(7.2)%	—
Subtotal	—	—	—	—	—	—	—	—	107,297	—	(2.7)%	—
Total interest earning assets												
Ch\$.....	12,471,609	849,622	5.4%	6.8%	13,670,362	893,176	3.6%	6.5%	14,641,750	956,558	3.6%	6.5%
UF.....	12,175,852	704,679	4.3%	5.8%	13,252,457	893,492	3.8%	6.7%	14,528,980	939,542	3.6%	6.5%
Foreign currency .	4,764,580	95,844	6.9%	2.0%	4,074,941	138,647	(8.5)%	3.4%	4,351,578	166,191	(3.7)%	3.8%
Total	29,412,041	1,650,145	5.2%	5.6%	30,997,760	1,925,315	2.1%	6.2%	33,522,308	2,062,291	2.7%	6.2%
Non-interest earning assets												
Cash												
Ch\$.....	564,754	—	—	—	600,721	—	—	—	628,992	—	—	—
UF.....	1,371	—	—	—	273	—	—	—	111	—	—	—
Foreign currency .	1,374,865	—	—	—	1,518,010	—	—	—	1,194,124	—	—	—
Subtotal	1,940,990	—	—	—	2,119,004	—	—	—	1,823,227	—	—	—
Allowances for loan losses												
Ch\$.....	(644,750)	—	—	—	(684,662)	—	—	—	(735,161)	—	—	—
UF.....	—	—	—	—	—	—	—	—	—	—	—	—
Foreign currency .	(15,070)	—	—	—	(6,552)	—	—	—	(6,518)	—	—	—
Subtotal	(659,820)	—	—	—	(691,214)	—	—	—	(741,679)	—	—	—
Property plant and equipment												
Ch\$.....	495,824	—	—	—	541,913	—	—	—	533,318	—	—	—
UF.....	—	—	—	—	—	—	—	—	—	—	—	—

Year Ended December 31,

	2017				2018				2019			
	Average balance	Interest earned	Average real rate	Average nominal rate	Average balance	Interest earned	Average real rate	Average nominal rate	Average balance	Interest earned	Average real rate	Average nominal rate
	(in millions of nominal Ch\$, except percentages)											
Foreign currency .	940	—			819	—			205	—		
Subtotal	496,764	—			542,732	—			533,523	—		
Derivatives												
Ch\$	450,009	—			694,988	—			939,267	—		
UF	—	—			—	—			—	—		
Foreign currency	806	—			3,255	—			2,129	—		
Subtotal	450,815	—			698,243	—			941,396	—		
Financial investments trading												
Ch\$	1,980,723	—			1,830,920	—			1,561,063	—		
UF	148,701	—		—	262,586	—			342,782	—		
Foreign currency .	26,121	—		—	6,177	—			4,277	—		
Subtotal	2,155,545	—			2,099,683	—			1,908,122	—		
Other assets												
Ch\$	1,527,135	—			1,323,637	—			1,478,762	—		
UF	10,685	—			72,841	—			70,079	—		
Foreign currency .	451,480	—			599,205	—			809,869	—		
Subtotal	1,989,300	—			1,995,683	—			2,358,710	—		
Total non-interest earning assets												
Ch\$	4,373,695	—			4,307,517	—			4,406,241	—		
UF	160,757	—			335,700	—			412,972	—		
Foreign currency .	1,839,142	—			2,120,914	—			2,004,086	—		
Total	6,373,594	—			6,764,131	—			6,823,299	—		
Total assets												
Ch\$	16,845,304	849,622	3.6%	5.0%	17,977,879	893,176	2.1%	5.0%	19,047,991	956,558	2.2%	5.0%
UF	12,336,609	704,679	4.3%	5.7%	13,588,156	893,492	3.7%	6.6%	14,941,952	939,542	3.4%	6.3%
Foreign currency .	6,603,722	95,844	6.3%	1.5%	6,195,855	138,647	(9.5)%	2.2%	6,355,664	166,191	(4.8)%	2.6%
Total	Ch\$ 35,785,635	Ch\$ 1,650,145	4.3%	4.6%	Ch\$ 37,761,890	Ch\$1,925,315	0.8%	5.1%	40,345,607	2,062,291	1.5%	5.1%

Year Ended December 31,												
2017				2018				2019				
Average balance	Interest paid and accrued	Average balance	Interest paid and accrued	Average balance	Interest paid and accrued	Average real rate	Average nominal rate	Average balance	Interest paid and accrued	Average real rate	Average nominal rate	
(in millions of nominal Ch\$, except percentages)												
Liabilities and net equity												
Interest bearing liabilities												
Savings accounts												
Ch\$.....	1,667,114	48,930	1.5%	2.9%	1,813,010	45,606	(0.3)%	2.5%	1,970,517	41,716	(0.7)%	2.1%
UF	2,359,456	41,449	0.4%	1.8%	2,479,983	69,844	—	2.8%	2,647,720	69,210	(0.2)%	2.6%
Foreign currency	—	—	—	—	—	—	—	—	—	—	—	—
Subtotal.....	4,026,570	90,379	0.9%	2.2%	4,292,993	115,450	(0.1)%	2.7%	4,618,237	110,926	(0.4)%	2.4%
Time deposits												
Ch\$.....	6,884,675	228,404	1.9%	3.3%	7,717,979	226,155	0.1%	2.9%	7,316,779	198,418	(0.1)%	2.7%
UF	955,622	32,992	2.0%	3.5%	390,896	15,330	1.1%	3.9%	343,774	12,437	0.8%	3.6%
Foreign currency	4,390,774	51,640	6.0%	1.2%	4,294,695	88,130	(9.7)%	2.1%	4,497,159	113,010	(4.9)%	2.5%
Subtotal.....	12,231,071	313,036	3.4%	2.6%	12,403,570	329,615	(3.3)%	2.7%	12,157,712	323,865	(1.9)%	2.7%
Repurchase agreements												
Ch\$.....	695,105	22,764	1.9%	3.3%	664,679	21,035	0.3%	3.2%	657,552	20,592	0.3%	3.1%
UF	—	—	—	—	—	—	—	—	—	—	—	—
Foreign currency	8,189	47	5.4%	0.6%	7,165	206	(9.0)%	2.9%	9,877	353	(3.9)%	3.6%
Subtotal.....	703,294	22,811	1.9%	3.2%	671,844	21,241	0.2%	3.2%	667,429	20,945	0.2%	3.1%
Letters of credit (mortgage finance bonds)												
Ch\$	—	—	—	—	—	—	—	—	—	—	—	—
UF	769,998	53,721	5.5%	7.0%	683,166	56,879	5.4%	8.3%	625,013	48,891	4.9%	7.8%
Foreign currency	—	—	—	—	—	—	—	—	—	—	—	—
Subtotal.....	769,998	53,721	5.5%	7.0%	683,166	56,879	5.4%	8.3%	625,013	48,891	4.9%	7.8%
Bonds												
Ch\$.....	34,519	—	(1.4)%	—	135,374	—	(2.7)%	—	144,463	—	(2.7)%	—
UF	3,605,795	174,785	3.4%	4.8%	4,140,590	240,707	2.9%	5.8%	4,443,178	243,011	2.6%	5.5%
Foreign currency	1,833,912	43,348	7.3%	2.4%	1,936,212	49,987	(9.2)%	2.6%	2,547,418	64,567	(4.9)%	2.5%
Subtotal.....	5,474,226	218,134	4.7%	4.0%	6,212,176	290,694	(1.0)%	4.7%	7,135,059	307,578	(0.2)%	4.3%

Year Ended December 31,												
2017				2018				2019				
Average balance	Interest paid and accrued	Average balance	Interest paid and accrued	Average balance	Interest paid and accrued	Average real rate	Average nominal rate	Average balance	Interest paid and accrued	Average real rate	Average nominal rate	
(in millions of nominal Ch\$, except percentages)												
<i>Liabilities under lease arrangements</i>												
Ch\$.....	—	—	—	—	—	—	—	86,829	1,773	(0.7)%	2.0%	
UF	—	—	—	—	—	—	—	—	—	—	—	—
Foreign currency	—	—	—	—	—	—	—	—	—	—	—	—
Subtotal.....	—	—	—	—	—	—	—	86,829	1,773	(0.7)%	2.0%	
<i>Other interest bearing liabilities⁽¹⁾</i>												
Ch\$.....	14,391	14,544	98.3%	101.1%	27,710	16,326	54.6%	58.9%	69,226	21,715	27.8%	31.4%
UF	—	—	—	—	—	—	—	—	3	—	—	—
Foreign currency	1,148,257	19,027	6.5%	1.7%	1,342,864	31,400	(9.5)%	2.3%	1,438,669	37,188	(4.8)%	2.6%
Subtotal.....	1,162,648	33,571	7.6%	2.9%	1,370,574	47,726	(8.2)%	3.5%	1,507,895	58,906	(3.3)%	3.9%
<i>Derivatives</i>												
Ch\$.....	110,506	32,468	27.6%	29.4%	148,520	70,060	43.1%	47.2%	147,840	69,015	42.7%	46.7%
UF	—	—	—	—	—	—	—	—	—	—	—	—
Foreign currency	280	(288)	(102.9)%	(102.8)%	820	(302)	(44.1)%	(36.8)%	258	386	131.4%	149.4%
Subtotal.....	110,786	32,180	27.3%	29.0%	149,340	69,758	42.6%	46.7%	148,098	69,401	42.9%	46.9%
<i>Total interest bearing liabilities</i>												
Ch\$.....	9,406,310	347,110	2.3%	3.7%	10,507,272	379,182	0.8%	3.6%	10,393,206	353,229	0.6%	3.4%
UF	7,690,871	302,947	2.5%	3.9%	7,694,635	382,760	2.1%	5.0%	8,059,685	373,552	1.8%	4.6%
Foreign currency	7,381,412	113,775	6.4%	1.5%	7,581,756	169,421	(9.5)%	2.2%	8,493,381	215,504	(4.9)%	2.5%
Total.....	24,478,593	763,832	3.6%	3.1%	25,783,663	931,363	(1.8)%	3.6%	26,946,272	942,285	(0.8)%	3.5%

Year Ended December 31,											
2017				2018				2019			
Average balance	Interest paid and accrued	Average real rate	Average nominal rate	Average balance	Interest paid and accrued	Average real rate	Average nominal rate	Average balance	Interest paid and accrued	Average real rate	Average nominal rate
(in millions of nominal Ch\$, except percentages)											
<i>Non-interest bearing liabilities</i>											
<i>Demand Deposits</i>											
Ch\$.....	7,068,880	–		7,783,598	–			8,468,401	–		
UF ...	601	–		214	–			19	–		
Foreign currency	389,540	–		281,395	–			313,375	–		
Subtotal	7,459,021	–		8,065,207	–			8,781,795	–		
<i>Derivatives</i>											
Ch\$.....	396,734	–		657,830	–			880,452	–		
UF ...	–	–		–	–			–	–		
Foreign currency	363	–		1,680	–			4,734	–		
Subtotal	397,097	–		659,510	–			885,186	–		
<i>Other provisions</i>											
Ch\$	730,110	–		722,295	–			822,717	–		
UF ...	–	–		–	–			–	–		
Foreign currency	5,761	–		5,338	–			3,982	–		
Subtotal	735,871	–		727,633	–			826,699	–		
<i>Other non-interest bearing liabilities</i>											
Ch\$	865,207	–		508,722	–			659,923	–		
UF ...	21,778	–		20,796	–			20,687	–		
Foreign currency	218,794	–		319,381	–			466,055	–		
Subtotal	1,105,779	–		848,899	–			1,146,665	–		
<i>Equity attributable to equity holders of the Bank</i>											
Ch\$.....	1,609,274	–		1,676,978	–			1,758,990	–		
UF	–	–		–	–			–	–		
Foreign currency	–	–		–	–			–	–		
Subtotal	1,609,274	–		1,676,978	–			1,758,990	–		
<i>Total non-interest bearing liabilities and equity attributable to equity holders of the Bank</i>											
Ch\$.....	10,670,205	–		11,349,423	–			12,590,483	–		
UF	22,379	–		21,010	–			20,706	–		
Foreign currency	614,458	–		607,794	–			788,146	–		
Total	11,307,042	–		11,978,227	–			13,399,335	–		

	Year Ended December 31,											
	2017				2018				2019			
	Average balance	Interest paid and accrued	Average real rate	Average nominal rate	Average balance	Interest paid and accrued	Average real rate	Average nominal rate	Average balance	Interest paid and accrued	Average real rate	Average nominal rate
	(in millions of nominal Ch\$, except percentages)											
Total liabilities and equity attributable to equity holders of the Bank												
Ch\$.....	20,076,515	347,110	0.3%	1.7%	21,856,695	379,182	(1.1)%	1.7%	22,983,689	353,229	(1.2)%	1.5%
UF	7,713,250	302,947	2.5%	3.9%	7,715,645	382,760	2.1%	5.0%	8,080,391	373,552	1.8%	4.6%
Foreign currency	7,995,870	113,775	6.3%	1.4%	8,189,550	169,421	(9.7)%	2.1%	9,281,527	215,504	(5.1)%	2.3%
Total.....	Ch\$ 35,785,635	Ch\$ 763,832	2.1%	2.1%	Ch\$ 37,761,890	Ch\$ 931,363	(2.3)%	2.5%	40,345,607	942,285	(1.5)%	2.3%

(1) Other interest bearing liabilities include foreign borrowings, subordinated bonds, bonds and borrowings from domestic financial institutions.

Interest Earning Assets and Net Interest Margin

The following table sets forth, by currency of denomination, the levels of average interest-earning assets and net interest earned by the bank, and illustrates the comparative margins obtained, for each of the years indicated in the table.

	Year Ended December 31,		
	2017	2018	2019
	(in millions of nominal Ch\$, except for percentages)		
Total average interest earning assets			
Ch\$	Ch\$ 12,471,610	Ch\$ 13,670,362	Ch\$ 14,641,749
UF.....	12,175,852	13,252,457	14,528,980
Foreign currency.....	4,764,579	4,074,941	4,351,579
Total	29,412,041	30,997,760	33,522,308
Net interest earned⁽¹⁾			
Ch\$	502,512	513,994	603,329
UF.....	401,732	510,732	565,990
Foreign currency.....	(17,931)	(30,774)	(49,313)
Total	Ch\$ 886,313	Ch\$ 993,952	Ch\$ 1,120,006
Net interest margin, nominal basis⁽²⁾			
Ch\$	4.0%	3.8%	4.1%
UF.....	3.3%	3.9%	3.9%
Foreign currency.....	(0.4)%	(0.8)%	(1.1)%
Total.....	3.0%	3.2%	3.3%

(1) Net interest earned is defined as interest revenue earned less interest expense incurred.

(2) Net interest margin, nominal basis is defined as net interest earned divided by average interest earning assets.

Changes in Net interest income—Volume and Rate Analysis

The following tables compare, by currency of denomination, changes in our interest revenue and interest expense between changes in the average volume of interest-earning assets and interest-bearing liabilities and changes in their respective nominal interest rates between 2017 and 2018 and between 2018 and 2019. Volume and rate variances have been calculated based on movements in average balances over the period and changes in nominal interest rates on average interest-earning assets and average interest-bearing liabilities.

	Increase (Decrease) from 2017 to 2018 due to changes in			Net change From 2017 to 2018
	Volume	Rate	Rate and Volume	
	(in millions of nominal Ch\$)			
Assets				
<i>Interest earning assets</i>				
<i>Deposits in Central Bank</i>				
Ch\$	Ch\$ 283	Ch\$ 2,100	Ch\$ 34	Ch\$ 2,417
UF	—	—	—	—
Foreign currency	(13,996)	73,073	(44,954)	14,123
Subtotal	(13,713)	75,173	(44,920)	16,540
<i>Loans and advances to banks</i>				
Ch\$	(4,704)	7,331	(6,146)	(3,519)
UF	—	—	—	—
Foreign currency	2,537	3,403	1,061	7,001
Subtotal	(2,167)	10,734	(5,085)	3,482
<i>Financial investments</i>				
Ch\$	36,220	(12,904)	(4,030)	19,286
UF	(426)	1,212	(81)	705
Foreign currency	(2,184)	8,946	(1,336)	5,426
Subtotal	33,610	(2,746)	(5,447)	25,417
<i>Commercial loans</i>				
Ch\$	(362)	6,119	(5)	5,752
UF	16,598	29,560	2,712	48,870
Foreign currency	3,354	11,951	792	16,097
Subtotal	19,590	47,630	3,499	70,719
<i>Mortgage loans</i>				
Ch\$	1	(5)	—	(4)
UF	46,894	84,671	7,673	139,238
Foreign currency	—	—	—	—
Subtotal	46,895	84,666	7,673	139,234
<i>Consumer loans</i>				
Ch\$	31,211	350	40	31,601
UF	—	—	—	—
Foreign currency	—	—	—	—
Subtotal	31,211	350	40	31,601
<i>Repurchase agreements and securities loans</i>				
Ch\$	5,689	(6,831)	(1,597)	(2,739)
UF	—	—	—	—
Foreign currency	(12)	(12)	12	(12)
Subtotal	5,677	(6,843)	(1,585)	(2,751)
<i>Derivatives</i>				
Ch\$	(155)	(16,656)	7,571	(9,240)
UF	—	—	—	—
Foreign currency	(128)	206	90	168
Subtotal	(283)	(16,450)	7,661	(9,072)
<i>Total interest earning assets</i>				
Ch\$	68,183	(20,496)	(4,133)	43,554
UF	63,066	115,443	10,304	188,813
Foreign currency	(10,429)	97,567	(44,335)	42,803
Total	Ch\$ 120,820	Ch\$ 192,514	Ch\$ (38,164)	Ch\$ 275,170

	Increase (Decrease) from 2017 to 2018 due to changes in					Net change from 2017 to 2018		
	Volume		Rate and Volume					
			Rate					
(in millions of nominal Ch\$)								
Liabilities								
<i>Interest bearing liabilities</i>								
<i>Savings accounts</i>								
Ch\$	Ch\$	4,282	Ch\$	(6,994)	Ch\$	(612)	Ch\$	(3,324)
UF		2,117		25,001		1,277		28,395
Foreign currency		—		—		—		—
Subtotal		6,399		18,007		665		25,071
<i>Time deposits</i>								
Ch\$		27,645		(26,667)		(3,228)		(2,249)
UF		(19,497)		4,485		(2,650)		(17,662)
Foreign currency		(1,129)		38,462		(842)		36,490
Subtotal		7,019		16,280		(6,720)		16,579
<i>Repurchase agreements</i>								
Ch\$		(996)		(766)		34		(1,729)
UF		—		—		—		—
Foreign currency		(6)		188		(24)		159
Subtotal		(1,002)		(578)		10		(1,570)
<i>Letters of credit (mortgage finance bonds)</i>								
Ch\$		—		—		—		—
UF		(6,058)		10,387		(1,171)		3,158
Foreign currency		—		—		—		—
Subtotal		(6,058)		10,387		(1,171)		3,158
<i>Bonds</i>								
Ch\$		—		—		—		—
UF		25,923		34,833		5,166		65,922
Foreign currency		2,418		3,997		223		6,638
Subtotal		28,341		38,830		5,389		72,560
<i>Other interest bearing liabilities⁽¹⁾</i>								
Ch\$		13,460		(6,065)		(5,613)		1,782
UF		—		—		—		—
Foreign currency		3,225		7,823		1,325		12,373
Subtotal		16,685		1,758		(4,288)		14,155
<i>Derivatives</i>								
Ch\$		11,169		19,660		6,763		37,592
UF		—		—		—		—
Foreign currency		(555)		185		356		(14)
Subtotal		10,614		19,845		7,119		37,578
<i>Total interest bearing liabilities</i>								
Ch\$		55,560		(20,832)		(2,656)		32,072
UF		2,485		74,706		2,622		79,813
Foreign currency		3,953		50,655		1,038		55,646
Total	Ch\$	61,998		104,529	Ch\$	1,004	Ch\$	167,531

(1) Other interest bearing liabilities primarily include foreign borrowings, subordinated bonds, bonds and borrowings from domestic financial institutions.

	Increase (Decrease) from 2018 to 2019 due to changes in						Net change from 2018 to 2019	
	Volume		Rate		Rate and Volume			
	(in millions of nominal Ch\$)							
Assets								
Interest earning assets								
Deposits in Central Bank								
Ch\$	Ch\$	(3,343)	Ch\$	(10,748)	Ch\$	1,794	Ch\$	(12,297)
UF		–		–		–		–
Foreign currency		1,816		3,029		149		4,994
Subtotal		(1,527)		(7,719)		1,943		(7,303)
Loans and advances to banks								
Ch\$		(2,092)		(2,092)		2,092		(1,549)
UF		–		–		–		–
Foreign currency		3,778		2,276		568		6,622
Subtotal		1,686		184		2,660		5,073
Financial investments								
Ch\$		17,803		(567)		(75)		17,161
UF		5,305		(485)		(365)		4,456
Foreign currency		660		4,090		135		4,884
Subtotal		23,768		3,038		(305)		26,501
Commercial loans								
Ch\$		10,837		4,733		122		15,692
UF		27,884		(11,768)		(1,428)		14,688
Foreign currency		2,678		7,395		297		10,370
Subtotal		41,399		360		(1,009)		40,750
Mortgage loans								
Ch\$		(23)		–		–		(23)
UF		47,852		(19,524)		(1,423)		26,906
Foreign currency		–		–		–		–
Subtotal		47,829		(19,524)		(1,423)		(26,883)
Consumer loans								
Ch\$		40,690		5,597		750		47,037
UF		–		–		–		–
Foreign currency		–		–		–		–
Subtotal		40,690		5,597		750		47,037
Repurchase agreements and securities loans								
Ch\$		(10,356)		11,465		(5,499)		(4,390)
UF		–		–		–		–
Foreign currency		–		–		–		–
Subtotal		(10,356)		11,465		(5,499)		(4,390)
Derivatives								
Ch\$		(21,660)		6,817		16,594		1,751
UF		–		–		–		–
Foreign currency		75		1,545		(946)		674
Subtotal		(21,585)		8,362		15,648		2,425
Total interest earning assets								
Ch\$		31,856		15,205		15,778		63,382
UF		81,041		(31,777)		(3,216)		46,050
Foreign currency		9,007		18,335		203		27,544
Total	Ch\$	121,904	Ch\$	1,763	Ch\$	12,765	Ch\$	136,976

	Increase (Decrease) from 2018 to 2019 due to changes in						Net change from 2018 to 2019
	Volume		Rate		Rate and Volume		
	(in millions of nominal Ch\$)						
Liabilities							
<i>Interest bearing liabilities</i>							
<i>Savings accounts</i>							
Ch\$	Ch\$	3,962	Ch\$	(7,224)	Ch\$	(628)	Ch\$ (3,890)
UF		4,724		(5,019)		(339)	(634)
Foreign currency		—		—		—	—
Subtotal		8,686		(12,243)		(967)	(4,524)
<i>Time deposits</i>							
Ch\$		(11,756)		(16,857)		876	(27,737)
UF		(1,848)		(1,188)		143	(2,893)
Foreign currency		4,155		19,792		933	24,880
Subtotal		(9,449)		1,747		1,952	(5,750)
<i>Repurchase agreements</i>							
Ch\$		(226)		(220)		2	(443)
UF		—		—		—	—
Foreign currency		78		50		19	147
Subtotal		(148)		(170)		21	(296)
<i>Letters of credit (mortgage finance bonds)</i>							
Ch\$		—		—		—	—
UF		(4,842)		(3,439)		293	(7,988)
Foreign currency		—		—		—	—
Subtotal		(4,842)		(3,439)		293	(7,988)
<i>Bonds</i>							
Ch\$		—		—		—	—
UF		17,591		(14,245)		(1,041)	2,304
Foreign currency		15,779		(912)		(288)	14,580
Subtotal		33,370		(15,157)		(1,329)	16,884
<i>Liabilities under lease arrangements</i>							
Ch\$		—		—		1,773	1,773
UF		—		—		—	—
Foreign currency		—		—		—	—
Subtotal		—		—		1,773	1,773
<i>Other interest bearing liabilities⁽¹⁾</i>							
Ch\$		24,460		(7,634)		(11,437)	5,389
UF		—		—		—	3
Foreign currency		2,240		3,312		236	5,788
Subtotal		26,700		(4,322)		(11,201)	11,180
<i>Derivatives</i>							
Ch\$		(321)		(727)		3	(1,045)
UF		—		—		—	—
Foreign currency		207		1,526		(1,045)	688
Subtotal		(114)		799		(1,042)	(357)
<i>Total interest bearing liabilities</i>							
Ch\$		16,119		(32,662)		(9,411)	(25,953)
UF		15,625		(23,891)		(944)	(9,208)
Foreign currency		22,459		23,768		(145)	46,083
Total	Ch\$	54,203		(32,785)	Ch\$	(10,500)	Ch\$ 10,922

(1) Other interest bearing liabilities primarily include foreign borrowings, subordinated bonds, bonds and borrowings from domestic financial institutions.

Investment Portfolio

The following table sets forth our investments in Chilean government and corporate securities and certain other financial investments as of the dates indicated. Financial investments that have a secondary market and an original maturity of more than one year are carried at market value. All other financial investments are carried at acquisition cost, plus accrued interest and UF indexation adjustments, as applicable. In accordance with rules of the CMF, we do not hold any equity securities.

Financial assets held for trading

	At December 31,					
	2017		2018		2019	
	(in millions of nominal Ch\$, except for rate data)					
Instruments of the state and the Central Bank						
Instruments of the Central Bank.....	Ch\$	48,295	Ch\$	40,038	Ch\$	22,030
Bonds and promissory notes of the Chilean Treasury.....		18,583		74,895		85,417
Other government instruments		—		—		—
Subtotal		66,878		114,933		107,447
Instruments from other local institutions						
Instruments from other local banks		2,161,726		2,005,185		1,498,502
Bonds and commercial papers from companies		—		—		15,236
Other instruments issued locally		30,973		15,293		42,942
Subtotal		2,192,699		2,020,478		1,556,680
Investments in mutual funds						
Funds managed by related entities		51,727		57,510		12,404
Funds managed by third parties.....		—		—		—
Subtotal		51,727		57,510		12,404
Total.....	Ch\$	2,311,304	Ch\$	2,192,921	Ch\$	1,676,531

Financial investments available for sale

	At December 31,			Weighted Average Nominal Rate at December 31,
	2017	2018	2019	2019 ⁽¹⁾
	(in millions of nominal Ch\$, except for rate data)			
From the Chilean Government and the Central Bank				
Instruments of the Central Bank	Ch \$2,087,999	Ch \$2,746,971	Ch \$4,348,247	0.54%
Bonds and promissory notes of the Chilean Treasury.....	277,610	134,847	179,725	1.68%
Other government instruments	—	—	—	—
Subtotal.....	2,365,609	2,881,818	4,527,972	0.59%
Other instruments issued locally				
Instruments from other local banks	2,430,610	2,129,119	2,845,506	3.46%
Bonds and commercial papers from companies	7,048	7,304	—	—
Other instruments issued locally.....	—	30,470	6,993	7.37%
Subtotal.....	2,437,658	2,166,893	2,852,499	3.47%
Other instruments issued abroad				
Instruments from foreign governments or central banks.....	—	25,800	—	—
Other instruments issued abroad.....	397,368	934,253	266,343	10.40%
Subtotal.....	397,368	960,053	266,343	10.40%
Total.....	Ch\$ 5,200,635	Ch\$ 6,008,764	Ch\$ 7,646,814	2.00%

- (1) The weighted average nominal rate noted above for the available for sale portfolio is based on the contractual terms in force for the times remaining to maturity on the existing portfolio as of December 31, 2019. Due to the management by the Bank of its exposure to market risk as described in Note 35 to the 2019 financials included herein, actual rates may vary.

Financial investments held to maturity

	At December 31,			Weighted Average Nominal Rate at December 31,
	2017	2018	2019	2019
(in millions of nominal Ch\$, except for rate data)				
From the Chilean Government and the Central Bank				
Instruments of the state and the Central Bank	Ch\$ —	Ch\$ —	Ch\$ —	Ch\$ —
Bonds and promissory notes of the Chilean Treasury	—	—	—	—
Other government instruments ..	—	—	—	—
Subtotal	—	—	—	—
Other instruments issued locally				
Instruments from other local banks	—	—	—	—
Bonds and commercial papers from companies	—	—	—	—
Other instruments issued locally	—	—	—	—
Subtotal	—	—	—	—
Other instruments issued abroad				
Instruments from foreign government or central banks	—	—	—	—
Other instruments issued abroad	—	—	—	—
Subtotal	—	—	—	—
Investments not quoted in active markets				
Bonds and promissory notes of the Chilean Treasury	24,816	20,942	17,487	0.07%
Bonds and commercial papers from companies	—	—	—	—
Other instruments	225	220	162	0.51%
Subtotal	25,041	21,162	17,649	0.07%
Total	Ch\$ 25,041	Ch\$ 21,162	Ch\$ 17,649	0.07%

As of December 31, 2019, financial instruments issued by the Central Bank and Chilean Treasury were the only financial instruments we held whose aggregate book value exceeded 10% of our equity attributable to equity holders of the Bank. The value of such investments as of December 31, 2019 is as follows:

Issuer	Carrying Value	Market Value
	(in millions of nominal Ch\$)	
Central Bank.....	Ch\$ 4,367,587	Ch\$ 4,370,277
Chilean Treasury	Ch\$ 281,608	Ch\$ 282,629

The following table sets forth an analysis of our investments as of December 31, 2019, by time remaining to maturity and rates (as defined below footnotes (1) and (2)) of such investments:

	Within one year	Rate ⁽¹⁾	After one year but within five years	Rate ⁽¹⁾	After five years	Rate ⁽¹⁾	Total	Rate ⁽¹⁾
	(in millions of nominal Ch\$)							
Financial assets held for trading								
Instruments of the State and the Central Bank:								
Instruments of the Central Bank	Ch\$ —	—	Ch\$ 22,030	0.04%	Ch\$ —	—	Ch\$ 22,030	0.04%
Bonds and promissory notes of the Chilean Treasury	748	0.01%	62,202	0.88%	22,467	0.32%	85,417	1.21%
Other government instruments	—	—	—	—	—	—	—	—
Subtotal	748	0.01%	84,232	0.92%	22,467	0.32%	107,447	0.97%
Instruments from other local institutions:								
Instruments from other local banks	1,371,607	0.50%	96,378	0.06%	30,517	0.01%	1,498,502	0.57%
Bonds and commercial papers from companies	12,268	1.25%	2,968	0.37%	—	—	15,236	1.62%
Other instruments issued locally	42,942	0.21%	—	—	—	—	42,942	0.21%
Subtotal	1,426,817	1.96%	99,346	0.43%	30,517	0.01%	1,556,680	0.57%
Investments in mutual funds:								
Funds managed by related companies	12,404	(0.09)%	—	—	—	—	12,404	(0.09)%
Funds managed by third parties	—	—	—	—	—	—	—	—
Subtotal	12,404	(0.09)%	—	—	—	—	12,404	(0.09)%
Total financial assets held for trading	Ch\$ 1,439,969	1.94%	Ch\$ 183,578	0.65%	Ch\$ 52,984	0.14%	Ch\$ 1,676,531	0.59%
Financial investments available for sale:								
From the Chilean Government and the Central Bank								
Instruments of the Central Bank	Ch\$ 4,067,121	0.50%	Ch\$ 281,126	0.04%	—	—	4,348,247	0.54%
Bonds and promissory notes of the Chilean Treasury	39,141	0.36%	112,683	1.06%	27,901	0.26%	179,725	1.68%
Other government instrument	—	—	—	—	—	—	—	—
Subtotal	4,106,262	0.86%	393,809	1.10%	27,901	0.26%	4,527,972	0.59%

Other instruments issued locally:

Instruments from other local banks	2,393,526	2.88%	449,264	0.58%	2,716	—	2,845,506	3.46%
Bonds and commercial papers from companies	—	—	—	—	—	—	—	—
Other instruments issued locally	—	—	6,993	7.37%	—	—	6,993	7.37%
Subtotal	2,393,526	2.88%	456,257	7.95%	2,716	—	2,852,499	3.47%

Other instruments issued abroad:

Instruments from foreign governments or central banks	—	—	—	—	—	—	—	—
Other instruments issued abroad	182,263	7.05%	84,080	3.36%	—	—	266,343	10.41%
Subtotal	182,263	7.05%	84,080	3.36%	—	—	266,343	10.41%

Total financial investments available for Sale	Ch\$ 6,682,051	1.75%	Ch\$ 934,146	4.65%	Ch\$ 30,617	0.24%	Ch\$ 7,646,814	2.00%
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Financial investments held to maturity:

From the Chilean Government and the Central Bank

Instruments of the Central Bank	—	—	—	—	—	—	—	—
Bonds or promissory notes of the Chilean Treasury	—	—	—	—	—	—	—	—
Other government instruments	—	—	—	—	—	—	—	—
Subtotal	—	—	—	—	—	—	—	—

Other instruments issued locally

Instruments from other local banks	—	—	—	—	—	—	—	—
Bonds and commercial papers from companies	—	—	—	—	—	—	—	—
Other instruments issued locally	—	—	—	—	—	—	—	—
Subtotal	—	—	—	—	—	—	—	—

Other instruments issued abroad

Instruments from foreign government	—	—	—	—	—	—	—	—
Other instruments issued abroad	—	—	—	—	—	—	—	—
Subtotal	—	—	—	—	—	—	—	—

Investments not quoted in active markets

Bonds or promissory notes of the Chilean Treasury	15,208	—	1,734	0.05%	545	0.02%	17,487	0.07%
Bonds and commercial papers from companies	—	—	—	—	—	—	—	—
Other instruments	122	0.38%	40	0.13%	—	—	162	0.51%
Subtotal	15,330	0.38%	1,774	0.18%	545	0.02%	17,649	0.07%
Total financial investments held to maturity	15,330	0.38%	1,774	0.18%	545	0.02%	17,649	0.07%
Total financial investments..	Ch\$ 8,137,350	1.78%	Ch\$ 1,119,498	3.99%	Ch\$ 84,146	0.18%	Ch\$ 9,340,994	1.75%

(1) The rates noted above for the available for sale portfolio are based on the contractual terms in force for the times remaining to maturity on the existing portfolio as of December 31, 2019.
N/A = Not Available

Loan Portfolio

The following tables analyze our total loans by type of loan. All loan amounts stated below are before deduction of allowances for loan losses. Total loans reflect our loan portfolio, including past due principal and interest amounts.

	December 31,					
	2017		2018		2019	
	(in millions of nominal Ch\$)	% of Loans	(in millions of nominal Ch\$)	% of Loans	(in millions of nominal Ch\$)	% of Loans
Commercial loans	Ch\$11,821,416	51.1%	Ch\$ 12,225,066	49.7%	Ch\$13,389,855	51.0%
Mortgage loans	8,851,862	38.3%	9,593,676	39.1%	10,179,298	38.7%
Consumer loans	1,858,192	8.0%	2,115,805	8.6%	2,243,662	8.5%
Loans and advances to banks.....	609,219	2.6%	632,242	2.6%	460,806	1.8%
Total.....	Ch\$23,140,689	100.0%	Ch\$24,566,789	100.0%	Ch\$26,273,621	100.0%

The loan categories are as follows:

Commercial loans

Commercial loans are long-term and short-term loans, including checking overdraft lines for companies granted in Chilean pesos, inflation linked, U.S. dollar-linked or denominated in U.S. dollars. The interest on these loans is fixed or variable and is used primarily to finance working capital or investments. General commercial loans also include factoring operations.

Foreign trade loans are fixed rate, short-term loans made in foreign currencies (principally U.S. dollars) to finance imports and exports.

Mortgage loans funded by letters of credit (mortgage finance bonds) mainly include mortgage loans (fixed and variable rate) that are inflation-indexed long-term loans with monthly payments of principal and interest secured by a real property mortgage. These are financed by issuing letters of credit (mortgage finance bonds).

Factoring operations mainly include short-term loans to companies with a fixed monthly nominal rate backed by a company invoice.

Leasing contracts are agreements for the financial leasing of capital equipment and other property, whereby a lessor grants to a lessee a purchase option on certain leased assets.

Other outstanding loans include other loans and accounts payable.

Mortgage loans

Draft loans mainly include mortgage loans (fixed and variable rate) that are inflation-indexed long-term loans with monthly payments of principal and interest secured by a real property mortgage. These loans can be endorsed to a third party and are financed by our general borrowings.

Residential mortgage loans funded by letters of credit (mortgage finance bonds) are inflation-indexed, fixed or variable rate, long-term loans with monthly payments of principal and interest secured by a real property mortgage that are financed with letters of credit (mortgage finance bonds).

Residential mortgage loans funded by letters of credit (mortgage finance bonds) cannot be more than 80% of the lower of the purchase price or the appraised value of the mortgaged property; otherwise, such loans are classified as commercial loans. Letters of credit (mortgage finance bonds) are general unsecured obligations in respect of which we are liable for all principal and interest accrued thereon. In addition, if the issuer of a letter of credit (mortgage finance bond) becomes insolvent, the General Banking Law's liquidation procedures provide that these types of mortgage loans with their corresponding letters of credit (mortgage finance bonds) are to be auctioned as a unit and the acquirer must continue paying the letters of credit (mortgage finance bonds) under the same conditions as the original issuer.

Other mortgage mutual loans mainly include mortgage loans (fixed and variable rate) that are inflation-indexed long-term loans with monthly payments of principal and interest secured by a real property mortgage. These are financed by our general borrowings.

Consumer loans

Installment consumer loans are loans to individuals, granted in Chilean pesos, generally on a fixed rate nominal basis, to finance the purchase of consumer goods or to pay for services.

Consumer loans through lines of credit are checking overdraft lines to individuals, granted in Chilean pesos, generally on a fixed rate nominal basis and linked to an individual's checking account.

Credit card loans include credit card balances subject to nominal fixed rate interest charges.

Consumer leasing contracts are agreements for the financial leasing of automobiles and other property to individuals.

Non-client loans

Loans and advances to banks are fixed rate, short-term loans to financial institutions that operate in Chile.

Maturity of Loans as of December 31, 2019

The following table sets forth an analysis by type and time remaining to maturity of our loans at December 31, 2019:

	Due 1 year or less		Due after 1 year but within 5 years		Due after 5 years	Balance as of December 31, 2019
			(in millions of nominal Ch\$)			
Commercial loans.....	Ch\$	5,288,494	Ch\$	5,137,444	Ch\$ 2,963,917	Ch\$ 13,389,855
Consumer loans		923,617		1,243,496	76,549	2,243,662
Mortgage loans		728,033		2,094,626	7,356,639	10,179,298
Loans and advances to banks		457,003		3,803	-	460,806
Total loans	Ch\$	7,397,147	Ch\$	8,479,369	Ch\$ 10,397,105	Ch\$ 26,273,621

The following table presents interest to be earned on outstanding loans due after one year based on the interest rate as of December 31, 2019, not including contingent loans:

	As of December 31, 2019	
	(in millions of nominal Ch\$)	
Variable rate		
Ch\$	Ch\$	—
UF.....		—
Foreign currency		—
Subtotal		—
Fixed rate		
Ch\$	Ch\$	3,983,762
UF.....		12,703,022
Foreign currency		568,579
Subtotal		17,255,362
Total	Ch\$	17,255,362

Characteristics of the portfolio

The following table sets forth, at the dates indicated, an analysis of our loan portfolio based on the borrower's principal economic activity. Loans to individuals for business purposes are allocated to their respective economic activity. The table does not reflect outstanding contingent loans.

	As of December 31,					
	2017		2018		2019	
	(in millions of nominal Ch\$)	% of Total Loans	(in millions of nominal Ch\$)	% of Total Loans	(in millions of nominal Ch\$)	% of Total Loans
Commercial Loans:						
Manufacturing.....	Ch\$870,383	3.8%	Ch\$ 975,663	4.0%	Ch\$689,724	2.6%
Mining	481,477	2.1%	325,143	1.3%	609,544	2.3%
Electricity, Gas and Water supply.....	660,523	2.9%	811,123	3.3%	733,055	2.8%
Agriculture and cattle-rising	589,782	2.5%	686,155	2.8%	783,553	3.0%
Forestry	102,163	0.4%	74,264	0.3%	183,318	0.7%
Fishing	72,725	0.3%	68,533	0.3%	61,596	0.2%
Transport.....	863,739	3.7%	815,481	3.3%	1,118,784	4.3%
Telecommunications	171,377	0.7%	167,766	0.7%	143,697	0.5%
Construction.....	1,685,362	7.3%	1,778,109	7.2%	1,967,538	7.5%
Commerce ⁽¹⁾	2,776,390	12.0%	2,632,982	10.7%	2,644,826	10.1%
Services.....	3,168,351	13.7%	3,478,133	14.2%	3,826,075	14.6%
Others	988,363	4.3%	1,043,956	4.2%	1,088,951	4.2%
<i>Subtotal Commercial Loans.....</i>	<i>12,430,635</i>	<i>53.7%</i>	<i>12,857,308</i>	<i>52.3%</i>	<i>13,850,661</i>	<i>52.8%</i>
Mortgage Loans	8,851,862	38.3%	9,593,676	39.1%	10,179,298	38.7%
Consumer Loans	1,858,192	8.0%	2,115,805	8.6%	2,243,662	8.5%
Total Loans.....	Ch\$23,140,689	100.0%	Ch\$24,566,789	100.0%	Ch\$26,273,621	100.0%

(1) Includes loans and advances to banks.

Foreign Country Exposure

Our cross-border outstanding loans are principally trade-related. These loans include loans to foreign financial institutions and foreign corporations, some of which are guaranteed by their Chilean parent company. The table below lists the total amounts outstanding by borrowers in foreign countries where the amounts outstanding constitute more than 1% of our total assets at the end of the last three years, and thus does not include foreign trade-related loans to domestic borrowers.

	As of December 31,					
	2017		2018		2019	
	(in millions of nominal Ch\$)					
Argentina	Ch\$	18	Ch\$	21	Ch\$	28
Brazil.....		—		—		19,019
Cayman Islands.....		—		—		—
Colombia.....		27,790		50,237		63,285
Cuba.....		—		—		—
Mexico		—		54,891		—
Peru		—		21,016		—
Panama.....		29,090		62,254		11,403
Italy		37		33		35
Spain		2,093		4,840		19,974
Portugal.....		194		—		—
Israel		17		—		28
Total.....	Ch\$	59,239	Ch\$	193,292	Ch\$	113,772

We also maintain deposits abroad, as needed to conduct our foreign trade transactions and manage liquidity. The table below lists the largest amounts of foreign deposits by country at the end of the past three years.

	As of December 31,					
	2017		2018		2019	
	(in millions of nominal Ch\$)					
Australia.....	Ch\$	315	Ch\$	684	Ch\$	212
Belgium		224		288		310
Canada		279		288		113
Denmark		116		25		13
France		6,131		11,464		1,446
Germany		1,442		1,071		1,592
Holland		—		—		—
Italy		—		—		—
Japan		2,641		1,845		1,160
Norway		64		505		990
Spain		1,048		1,486		783
Switzerland		438		394		590
United Kingdom		2,617		764		3,126
United States		1,256,575		1,192,287		1,375,104
Sweden		168		232		165
Other		125		374		402
Total	Ch\$	1,272,183	Ch\$	1,211,707	Ch\$	1,386,006

Credit Review Process

Corporate Loans

The Corporate Risk Department is in charge of managing our credit review process. No loan may be approved without the signature of the appropriate credit committee (in the case of loans equal to or greater than UF500,000) or without the signature of at least two authorized persons (in the case of loans for less than UF1,000,000).

The table below indicates the committee or managerial level for loan approvals.

Approval By	Permanent Members	Global Debt (UF)	Without Guarantee. Three Years Maximum Period. Up to UF	Without Guarantee. Fifteen Years Maximum Period. Up to UF	Maximum Loss (UF)
EXECUTIVE COMMITTEE	<ul style="list-style-type: none"> Chairman Vice Chairman Executive General Manager 	No Limits other than those in Articles 84 and 85 of the General Banking Law			
SENIOR CREDIT COMMITTEE 1	<ul style="list-style-type: none"> General Credit Manager Corporate Risk Manager 	750,000			10,000
SENIOR CREDIT COMMITTEE 2	<ul style="list-style-type: none"> Corporate and Institutional Banking Manager or Corporate Banking Head Corporate Risk Admission Manager or Credit Normalization Deputy Manager or Agronomic Risk Manager. 	350,000			5,000
SIGNATURE CONCURRENCE 1 COMMITTEE	<ul style="list-style-type: none"> Corporate Banking Manager or Realtor and Construction Manager or Large Business Deputy Manager or Corporate Banking Deputy Manager or Metropolitan Area Corporate Deputy Manager or Region Corporate Deputy Manager or Institutional Banking Deputy Manager Risk Analysis Deputy Manager or Corporate Risk Admission Deputy Manager or Corporate Risk Deputy Manager or Corporate Risk Department Head or Risk Control Deputy Manager or Corporate Risk Group Chief 	120,000	60,000	120,000	–
SIGNATURE CONCURRENCE 2 COMMITTEE	<ul style="list-style-type: none"> Respective Department Head 	60,000	30,000	60,000	–
	<ul style="list-style-type: none"> Risk Analysis Deputy Manager or Corporate Risk Admission Deputy Manager or Corporate Risk Deputy Manager or Corporate Risk Department Head or Credit Normalization Deputy Manager or Risk Control Deputy Manager or Corporate Risk Head of Department 				
SIGNATURE CONCURRENCE 3 COMMITTEE	<ul style="list-style-type: none"> Respective Department Head 	30,000	15,000	30,000	–
	<ul style="list-style-type: none"> Corporate Risk Head of Department 				
DEPARTMENT AREA 1 COMMITTEE	<ul style="list-style-type: none"> Corporate Banking Manager Respective Department Head 	20,000	10,000	20,000	–
DEPARTMENT AREA 2 COMMITTEE	<ul style="list-style-type: none"> Corporate Banking Deputy Manager or Metropolitan Area Corporate Deputy Manager or Region Corporate Deputy Manager Respective Head of Department 	10,000	5,000	10,000	–
DEPARTMENT AREA 3 COMMITTEE	<ul style="list-style-type: none"> Respective Head of Department Account Executive 	4,000	1,200	4,000	–
FACTORING COMMITTEE	<ul style="list-style-type: none"> Factoring Manager Risk Factoring and Leasing Department Chief 	10,000	–	–	–
LEASING COMMITTEE	<ul style="list-style-type: none"> Leasing Manager Risk Factoring and Leasing Department Chief 	10,000	–	–	–

We follow a well-defined system of credit origination and management for corporate loans. The commercial evaluation of making, extending, renegotiating a credit facility follows various stages of this system and can be summarized as follows:

- Initiation.** In this stage, the borrower makes the initial contact with us through a relationship manager. The relationship manager checks all necessary basic information (i.e., legal, commercial and financial) in order to determine whether to proceed with the borrower. If the decision is favorable, the relationship manager requests additional business and financial information from the borrower so that he/she may conduct a more thorough evaluation.

- **Evaluation.** If the relationship manager feels inclined to provide a loan after analyzing the additional information from the borrower, he/she requests input from our legal department and the corporate risk department.
 - Legal Department: The legal department issues a report that covers all the legal aspects related to the borrower and, when necessary, with respect to the transaction.
 - Corporate Risk Department: The corporate risk department issues a credit report which contains a financial summary of the borrower, a description of the business under consideration, key risk elements of the borrower (risk report), the risk analysis of the proposed transaction (risk opinion), the current rating assigned to the customer, and a recommendation of credit exposure.
- **Negotiation.** Based on all of the analysis conducted, the relationship manager defines the product and specific terms that the bank is willing to offer and negotiates with the prospective borrower.
- **Commercial Approval.** Once the relationship manager and the prospective borrower have agreed to terms and conditions of the credit facility, the relationship manager must present the credit to the appropriate credit committee in a standard presentation format.

Operational Approval. If the credit receives approval from the applicable credit committee, it must also be reviewed and approved by the credit control department prior to disbursement in order to ensure that all requirements have been met.

Loan Administration and Follow-up. A relationship manager is required to maintain contact with the borrower throughout the life of the loan(s) in order to anticipate any problems that may affect the borrower. In order to capture early deterioration signals, our risk analysts use our Loan Tracking System that allows early detection of risk factors that might affect the payment behavior of the customer in the short term.

Consumer and Mortgage Loans

We follow a standardized process for evaluating consumer and mortgage loan applications. We ask our clients for their income, family situation and employment, conduct a credit check and identify the loan structure. Subsequently, we ask our clients for a checklist of documents, including documentary proof of their income. Loan applications are then forwarded to a credit committee, which approves or rejects them based on a comprehensive review of the application. Once loans are approved, our credit management team continues to maintain contact with the borrower throughout the life of the loan.

Classification of Loans

Guidelines for Provision Levels for Commercial Loans in Effect Prior to January 1, 2015

Individual Assessment

In accordance with Circular 3,246 issued by the CMF, which became effective on January 1, 2004, the models and methods used to classify our loan portfolio must follow the following guiding principles, which have been established by the CMF and approved by our Executive Committee. In 2006, these models were improved and various changes introduced. Since then, our internal provisioning models have focused on non-performance, and we have also introduced statistical models that take into account a borrower's credit history and indebtedness levels. These statistical models replaced prior group ratings that determined loan loss allowances based only on non-performance.

An individual analysis of the borrower is necessary if the borrower is a large or complex business, or one to which the Bank has no previous exposure. Models based on the individual analysis of borrowers require that the Bank assign a risk category level to each borrower and its respective loans.

Large or Complex Businesses. Each borrower and loan must be classified to the following normal risk or above normal risk category levels:

Categories A1, A2 and A3: Borrowers with payment capacity sufficient to cover their loan obligations. They have no apparent credit risk and their payment capacity is not affected by unfavorable business, economic or financial situations.

Category B: Borrowers with payment capacity sufficient to cover their loan obligations. While they present some risk, their payment capacity is not affected by unfavorable business, economic or financial situations.

Categories C1, C2, C3, C4, D1 or D2: These borrowers have insufficient payment capacity to cover their loan obligations under normal circumstances.

For loans in categories A1, A2, A3 or B, the regulations provide that our Executive Committee is authorized to determine the levels of required allowances. Our Executive Committee has established the following levels of required allowances for loans classified as A1, A2, A3 and B:

Category	Allowance
A1	0.0%
A2	0.0%
A3	0.5%
B	1.0%

For loans in categories C1, C2, C3, C4, C5 or C6, the CMF requires us to have the following levels of allowances:

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

Retail and Middle-Market Customers. Prior to 2007, we calculated only individual allowances using a methodology that was based on repayment behavior matrices. The principal factor used by this methodology to determine loan loss allowances was the past-due amount a client had with us and/or with the financial system and other indications of impairment such as restructurings. We analyzed past-due amounts of individual clients using this methodology and then grouped them by type of loan (consumer, commercial or mortgage). The following tables set forth the amount of allowances we were required to reserve depending on the category of the loan:

Commercial Loans:

Category	Description	Allowance
A	Current on all loans	0%
B	More than 30 but less than 90 days overdue without other indications of impairment	1%
C1	More than 30 but less than 90 days overdue with other indications of impairment	2%
C2-D2	More than 90 days overdue	10%-90%

The allowances for loans that were classified in category C2 or lower were determined based on the amount of guarantee or collateral securing the loan.

Mortgage Loans

Category	Description	Allowance
A	Current on all loans	0%
B	1 to 180 days overdue	1%
B-	More than 180 days overdue	20%

The allowances for loans in categories A and B were increased if there were other indications of impairment. Clients whose loans had been restructured remained in the same category as before the restructuring unless there were further payment problems.

Consumer Loans

Category	Description	Allowance
A	Current on all loans	0%
B	1 to 30 days overdue	1%
B-	30 to 60 days overdue	20%
C	60 to 90 days overdue	60%
D	More than 90 days overdue	90%

The allowances for loans in categories A and B were increased if there were other indications of impairment. Clients whose loans had been restructured remained in the same category as before the restructuring unless there were further payment problems.

In 2008, we began transitioning our methodology for calculating allowances to a methodology based on statistical models in anticipation of the adoption of new loan loss allowance regulations in 2009. Beginning January 1, 2009, the Compendium required us to use a new methodology for calculating loan loss allowances, including the use of statistical models for collective and individual assessments. Collective assessment is used for a large number of debtors whose exposure is not individually significant. Usually, such debtors are individuals or small companies. For its collective assessment, we use internal models to determine allowances for loan losses which are based on the characteristics of the borrower, the outstanding amounts of their loans and their loan's estimated default probabilities (statistical scoring).

The new statistical probability model for loan loss allowances uses the following formula:

$$EL = PD \times EXP \times LGD$$

EL = Expected Loss

PD = Probability of Default

EXP = Exposure at Default

LGD = Loss Given Default

EL = Expected Loss: how much could be lost in the event a debtor does not perform the obligations under the loan.

PD = Probability of Default: expressed as a percentage, indicates the probability that a debtor will default next year. This percentage is associated with the internal rating we give to each debtor, which is determined by analyzing parameters such as debt servicing capacity (including, usually, projected cash flows), the company's financial history, the solvency and capacity of shareholders and management, and projections for the economic sector in which it operates. The internal rating can be different from ratings obtained from external third parties. Most of our credit products have two models for determining PD, one for loans that are current and the other for past-due loans. The model used for loans that are current is utilized when the loans are current at the time the loan loss allowance is calculated.

EXP = Exposure at Default: the value of commercial loans without discounting the value of guarantees or collateral.

LGD = Loss Given Default: the effective loss rate for debtors in the same segment, which is determined statistically based on the historical effective losses for the Bank for each segment. We have several models that we use to calculate LGD, including models that evaluate the amount of a losses that we would expect to realize between the loan becoming past-due and the time when we charge-off the amount overdue, and the amount of losses we would expect to realize at the time of charge-off. In the case of losses at the time of charge-off, we further separate models for loans with guarantees and/or security and loans that are unsecured and that have no third-party guarantee.

The determination of each of these variables is based on statistical models and estimations using our own internally produced information.

Guidelines for Provision Levels for Commercial Loans in Effect since January 1, 2015

On December 30, 2014, Circular No. 3,573 was issued, modifying Chapters B-1 and B-2 of the Compendium, which were further amended by Circulars No. 3,584, 3,588, 3,598, 3,638 and 3,645 issued on June 22, September 25, December 24, 2015, July 6, 2018 and January 11, 2019, respectively. Chapter B-3 was modified by Circular No. 3,588, issued on September 25, 2015 and further amended by Circular No. 3,604, issued on March 29, 2016. Chapter C-1 of the Compendium was modified by Circular No. 3,548, issued on March 19, 2013 and further amended by Circular No. 3,645, issued on January 11, 2019. Chapters A-2, B-1 and C-3 were modified by Circular No. 3,645, issued on January 11, 2019. All of these Chapters of the Compendium set forth how we must classify and analyze the types of loans covered by such Chapters,

on an individual basis. For further information, see “Note 1 —c) Regulations issued by the Comisión para el Mercado Financiero” to our Audited Consolidated Financial Statements.”

Under these guidelines, we are required to classify our commercial loans under one of the following categories:

- “Normal Loans” or loans classified in categories A1 through A6 correspond to 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.
- “Substandard Loans” or loans classified in categories B1 through B4 correspond to debtors with financial difficulties or significant worsening in the creditworthiness and over which there are reasonable doubts about the total reimbursement of principal and interests in the terms contractually agreed, evidencing reduced capacity to fulfill their financial obligations in the short-term.
- “Non-Performing Loans” or loans classified in categories C1 through C6 correspond to debtors with loans in arrears for more than 90 days or which are under collection procedures and whose repayment is secured by a guarantee or collateral.

For normal and substandard loans, expected loss has been set in accordance with CMF standards, as set forth in the following table:

Type of Loans	Category	Expected Loss
Normal loans	A1	0.03600%
	A2	0.08250%
	A3	0.21875%
	A4	1.75000%
	A5	4.27500%
	A6	9.00000%
Substandard loans	B1	13.8750%
	B2	20.3500%
	B3	32.1750%
	B4	43.8750%

In addition, we are required to individually assign a specific classification and corresponding allowances level to each debtor. Accordingly, we determine the amount of loan loss allowance on a case-by-case basis. In determining provisions on an individual basis for our normal and substandard loans, we must use the following formula established by the CMF:

$$\text{Provision} = (\text{ESP} - \text{GE}) * (\text{PD}_{\text{debtor}}/100) * (\text{LGD}_{\text{debtor}}/100) + \text{GE} * (\text{PD}_{\text{guarantor}}/100) * (\text{LGD}_{\text{guarantor}}/100)$$

ESP = Exposure subject to allowances

PD = Probability of default

GE = Guaranteed exposure

LGD = Loss Given Default

However, regardless of the results obtained from the equation above, since July 2010 normal loans (including contingent loans) must be assigned a minimum provision level of 0.5%. On July 6, 2018, the CMF issued Circular No. 3,638 clarifying that this minimum provision requirement has to be met for banks

considered (i) individually, (ii) on a consolidated basis with their Chilean subsidiaries, and (iii) on a consolidated basis with all of their subsidiaries and foreign branches. See “Management’s Discussion and Analysis of Results of Operations and Financial Condition—Critical Accounting Policies—Allowances for Loan Losses.”

For non-performing loans, expected loss has been set in accordance with CMF standards, as set forth in the following table:

Category	Estimated Loss Range	Allowance
C1	Up to 3 %	2%
C2	More than 3% up to 20%	10%
C3	More than 20% up to 30%	25%
C4	More than 30% up to 50%	40%
C5	More than 50% up to 80%	65%
C6	More than 80%	90%

For these loans the expected loss must be calculated pursuant to the following formula:

$$EL = (TE - Rec) / TE$$

$$Provision = TE * PP \%$$

EL = Estimated Loss

TE = Total Exposure

Rec= Recoverable amount based on estimates of collateral value and collection efforts

PP = Provision Percentage

Models Based on Collective Assessment

Collective assessment is used for a large number of debtors whose exposure is not individually significant. Usually, such debtors are individuals or small companies. For its collective assessment, we use internal models to determine provisions which are based on the characteristics of the borrower, the outstanding amounts of their loans and their loan’s estimated default probabilities (statistical scoring).

Circular No. 3,598, issued on December 24, 2015, established that to make collective assessment of allowances for loan losses, the collectively-assessed debtors have to be homogeneous in terms of type of debtors and terms and conditions included in the applicable loans, aiming at establishing the group’s payment behavior and credit repayment capacity based on technical guidelines.

Circular No. 3,638, which became effective on July 1, 2019, provides that to determine allowances for loan losses in their commercial portfolio, banks must consider one of the three standard methods provided for in the circular, which differ based on the nature of the loan: commercial leasing, student loans or other commercial loans. See “Management’s Discussion and Analysis of Results of Operations and Financial Condition—Critical Accounting Policies—Allowances for Loan Losses.”

Analysis of Substandard Loans and Amounts Past Due

The following tables provide statistical data regarding the classification of our loans at the end of each of the last three years. As discussed above, our risk analysis system requires that loans to all customers be evaluated and classified, including past due and contingent loans:

Category	As of December 31, 2017		
	Loans and advances to banks	Loans and accounts receivables from customers	Total
	(in millions of nominal Ch\$)		
<i>Individual:</i>			
A1.....	Ch\$ 12,002	Ch\$ 361,873	Ch\$ 373,875
A2.....	119,401	1,310,330	1,429,731
A3.....	453,020	1,939,728	2,392,748
A4.....	24,796	1,920,215	1,945,011
A5.....	–	1,463,287	1,463,287
A6.....	–	1,278,365	1,278,365
B1.....	–	246,542	246,542
B2.....	–	57,766	57,766
Impaired portfolio.....	–	171,196	171,196
<i>Group:</i>			
Normal.....	–	12,296,256	12,296,256
Impaired.....	–	1,485,912	1,485,912
Total.....	Ch\$ 609,219	Ch\$ 22,531,470	Ch\$ 23,140,689

Category	As of December 31, 2018		
	Loans and advances to banks	Loans and accounts receivables from customers	Total
	(in millions of nominal Ch\$)		
<i>Individual:</i>			
A1.....	Ch\$ -	189,174	Ch\$ 189,174
A2.....	41	1,328,206	1,328,247
A3.....	117,111	2,196,066	2,313,177
A4.....	515,090	1,923,905	2,438,995
A5.....	-	1,523,811	1,523,811
A6.....	-	1,240,649	1,240,649
B1.....	-	292,026	292,026
B2.....	-	114,979	114,979
Impaired portfolio.....	-	205,238	205,238
<i>Group:</i>			
Normal.....	-	13,261,227	13,261,227
Impaired.....	-	1,659,266	1,659,266
Total.....	Ch\$ 632,242	Ch\$ 23,934,547	Ch\$ 24,566,789

Category	As of December 31, 2019				
	Loans and advances to banks		Loans and accounts receivables from customers		Total
	(in millions of nominal Ch\$)				
<i>Individual:</i>					
A1.....	Ch\$	1,219	Ch\$	200,455	Ch\$ 201,674
A2.....		2,266		1,460,117	1,462,383
A3.....		274,432		2,213,269	2,487,701
A4.....		182,889		2,106,583	2,289,472
A5.....		—		1,862,456	1,862,456
A6.....		—		1,443,290	1,443,290
B1.....		—		345,562	345,562
B2.....		—		149,260	149,260
Impaired portfolio.....		—		245,431	245,431
<i>Group:</i>					
Normal.....		—		13,903,062	13,903,062
Impaired.....		—		1,883,330	1,883,330
Total.....	Ch\$	460,806	Ch\$	25,812,815	Ch\$ 26,273,621

Classification of Loan Portfolio Based on the Borrower's Payment Performance

Accrued interest and UF indexation adjustments from overdue loans are recognized only when, and to the extent, received. Non-performing loans, under categories C3, C4, C5, and C6, include loans as to which either principal or interest is overdue, and which do not accrue interest except for certain loans where more than 80% of our exposure under the loan is secured. See "Management's Discussion and Analysis of Results of Operations and Financial Condition—Critical Accounting Policies—Interest revenue and expenses." Restructured loans as to which payments are not overdue are not ordinarily classified as non-performing loans. Notwithstanding the foregoing, those loans that were restructured with overdue for 60 or more days and with all the installments after the restructuring up to date are classified as impaired loans. Past due loans include, with respect to any loan, only the portion of principal or interest that is overdue for 90 or more days, and do not include the installments of such loan that are not overdue or that are overdue for less than 90 days, unless legal proceedings have been commenced for the entire outstanding balance according to the terms of the loan, in which case the entire loan is considered past due within 90 days of the beginning of such proceedings.

The term for charging-off loans must now be calculated from the beginning of arrears. Once the applicable term is reached, the entire loan must now be charged-off (not just the portion in arrears). The following is a table showing the principal types of loans and their respective terms for mandatory charge-offs as stipulated by the new accounting standards:

Loan	Term
Consumer loans	6 months
Other loans without collateral.....	24 months
Commercial loans with collateral	36 months
Residential mortgage loans.....	48 months

We may write off any loan (commercial or consumer) before the first installment becomes overdue only in accordance with special procedures established by the CMF. In certain circumstances we must write off an overdue loan (commercial or consumer) sooner than the terms set forth above. Loans are written off

against the loan loss reserve to the extent of any required allowances for such loans; the remainder of such loans is written off against income.

In general, legal collection proceedings are commenced with respect to consumer loans once they are overdue for 90 days and, with respect to mortgage loans, once they are past due for 180 days. Legal collection proceedings are always commenced within one year of such loans becoming past due, unless we determine that the size of the past due amount does not warrant such proceedings. In addition, the majority of our commercial loans are short-term, with single payments at maturity.

The following tables set forth as of December 31 of each of the last three years the amounts that are current as to payments of principal and interest and the amounts overdue:

	Total Loans		
	As of December 31,		
	2017	2018	2019
	(in millions of nominal Ch\$)		
Current.....	Ch\$ 22,765,965	Ch\$ 24,079,133	Ch\$ 25,744,935
Overdue 1-29 days	116,389	175,322	156,690
Overdue 30-89 days.....	54,465	54,558	72,171
Overdue 90 days or more ("past due")	203,870	257,776	299,825
Total loans	Ch\$23,140,689	Ch\$ 24,566,789	Ch\$ 26,273,621
Overdue loans expressed as a percentage of total loans	1.62%	1.99%	2.01%
Past due loans as a percentage of total loans	0.88%	1.05%	1.14%

We suspend the accrual of interest on any loan when there is a high risk of non-recoverability. The amount of interest that would have been recorded on overdue loans if they had been accruing interest was Ch\$104,000 million for the year ended December 31, 2019.

Loans included in the previous table, which have been restructured and accrue no interest, are as follows:

	Total Loans		
	As of December 31,		
	2017	2018	2019
	(in millions of nominal Ch\$)		
Ch\$.....	Ch\$ 61,506	Ch\$ 33,258	Ch\$ 41,316
Foreign Currency	—	—	—
UF	54,484	41,736	39,471
Total loans.....	Ch\$ 115,990	Ch\$ 74,994	Ch\$ 80,787

In addition, other loans that have been restructured, mainly through the extension of their maturities, and that accrue interest are as follows:

	Total Loans		
	As of December 31,		
	2017	2018	2019
	(in millions of nominal Ch\$)		
Total other restructured loans.....	Ch\$ 768,899	Ch\$ 890,107	Ch\$ 960,330

Analysis of Substandard Loans and Amounts Past Due

The following table analyzes our substandard loans, past due loans and allowances for loan losses existing at the dates indicated. In particular, all of the restructured loans are included in total loans and only a small proportion of these loans are substandard or past due, with the majority being classified in the normal category.

	Total Loans		
	As of December 31,		
	2017	2018	2019
	(in millions of nominal Ch\$, except for percentages)		
Total loans.....	Ch\$ 23,140,689	Ch\$ 24,566,789	Ch\$ 26,273,621
Substandard loans	807,049	937,818	1,068,103
Substandard loans as a percentage of total loans	3.49%	3.82%	4.07%
Amounts past due			
To the extent secured ⁽¹⁾	127,630	173,857	188,298
To the extent unsecured.....	76,240	83,919	111,527
Total amount past due	Ch\$ 203,870	Ch\$ 257,776	Ch\$ 299,825
Amounts past due as a percentage of			
total loans.....	0.88%	1.05%	1.14%
To the extent secured ⁽¹⁾	0.55%	0.71%	0.72%
To the extent unsecured.....	0.33%	0.34%	0.42%
Allowances for loans losses as a percentage of:			
Total loans	2.96%	2.84%	3.13%
Total amounts past due.....	335.78%	270.73%	274.50%
Total amounts past due-unsecured ..	897.88%	831.60%	737.96%

(1) Security generally consists of mortgages on real estate, pledges of marketable securities, letters of credit or cash.

Analysis of Allowances for Loan Losses

The following tables analyzes our allowances for loan losses and changes in the allowances attributable to charge-offs, new allowances and provisions released:

	As of December 31,		
	2017	2018	2019
	(in millions of nominal Ch\$, except for percentages)		
Allowances for loan losses at beginning of period ...	Ch\$ 627,779	Ch\$ 684,546	Ch\$ 697,869
Write-offs	(189,886)	(236,125)	(263,900)
Allowances established	346,030	343,867	451,826
Allowances released	(99,377)	(94,419)	(62,767)
Allowances for loan losses at end of period	Ch\$ 684,546	Ch\$ 697,869	Ch\$ 823,028
Ratio of write-offs to average loans	(0.9)%	(1.0)%	(1.0)%
Allowances for loan losses at end of period as a percentage of total loans	3.0%	2.8%	3.1%

Our policy with respect to charge-offs follows the regulations established by the CMF. Under these regulations, (i) secured or unsecured consumer loans must be written off not more than six months after the loan is overdue, (ii) other unsecured loans, or parts thereof, must be written off not more than 24 months after the loan is overdue, (iii) other secured loans must be written off within 36 months after the loan is overdue and (iv) mortgage loans must be written off within 48 months after the loan is overdue.

The following table presents detailed information on write-offs and shows the charge-offs breakdown by loan category:

	As of December 31,		
	2017	2018	2019
	(in millions of nominal Ch\$, except for percentages)		
Commercial loans	Ch\$ (72,543)	Ch\$ (98,477)	Ch\$(105,554)
Mortgage loans	(13,054)	(16,939)	(22,162)
Consumer loans	(104,289)	(120,709)	(136,184)
Total	Ch\$(189,886)	Ch\$(236,125)	Ch\$(263,900)

Loan recoveries by type of loan are shown in the table below:

	As of December 31,		
	2017	2018	2019
	(in millions of nominal Ch\$, except for percentages)		
Commercial loans	Ch\$ 17,579	Ch\$ 25,221	Ch\$ 31,055
Mortgage loans	22,038	18,761	18,391
Consumer loans	25,083	24,717	26,640
Subtotal	64,700	68,699	76,086
Contingent loans	—	—	—
Total	Ch\$ 64,700	Ch\$ 68,699	Ch\$ 76,086

Allocation of Allowances for Loan Losses

The following tables set forth, as of December 31 of each of the last three years, the proportions of our required allowances for loan losses attributable to our commercial, consumer and residential mortgage loans, category at each such date.

2019				
	Allowance amount ⁽¹⁾	Allowance amount as a percentage of loans in category	Allowance amount as a percentage of total loans	Loans in category as percentage of total loans ⁽²⁾
Commercial loans	443,046	3.3%	1.7%	51.0%
Mortgage loans	166,909	1.6%	0.6%	38.7%
Consumer loans	209,270	9.3%	0.8%	8.5%
Subtotal	819,225	3.2%	3.1%	98.2%
Loans and advances to banks	3,803	0.8%	—	1.8%
Total allowances	823,028	3.1%	3.1%	100.0%

(1) In millions of nominal Ch\$.

(2) Based on our loan classification.

2018				
	Allowance amount ⁽¹⁾	Allowance amount as a percentage of loans in category	Allowance amount as a percentage of total loans	Loans in category as percentage of total loans ⁽²⁾
Commercial loans	352,373	2.9%	1.4%	49.7%
Mortgage loans	163,521	1.7%	0.7%	39.1%
Consumer loans	178,641	8.4%	0.7%	8.6%
Subtotal	694,535	2.9%	2.8%	97.4%
Loans and advances to banks	3,334	0.5%	—	2.6%
Total allowances	697,869	2.8%	2.8%	100.0%

(1) In millions of nominal Ch\$.

(2) Based on our loan classification.

2017				
	Allowance amount ⁽¹⁾	Allowance amount as a percentage of loans in category	Allowance amount as a percentage of total loans	Loans in category as percentage of total loans ⁽²⁾
Commercial loans	351,879	3.0%	1.5%	51.1%
Mortgage loans	156,477	1.8%	0.7%	38.3%
Consumer loans	174,853	9.4%	0.8%	8.0%
Subtotal	683,209	3.0%	3.0%	97.4%
Loans and advances to banks	1,337	0.2%	—	2.6%
Total allowances	684,546	3.0%	3.0%	100.0%

(1) In millions of nominal Ch\$.

(2) Based on our loan classification.

Composition of Deposits and Other Commitments

The following tables set forth the composition of our deposits and similar commitments at December 31, 2017, 2018 and 2019. See “—Average Consolidated Statement of Financial Positions, Income Earned on Interest Earning Assets and Interest Paid and Accrued on Interest Bearing Liabilities” for the average rate paid on each of the following deposit categories.

	December 31,					
	2017		2018		2019	
	(in millions of nominal Ch\$)					
Current Accounts and Other						
Demand Deposits:						
Current accounts	Ch\$	6,210,263	Ch\$	6,223,816	Ch\$	7,060,428
Other demand deposits and obligations		1,902,307		2,212,062		2,504,351
Deposits for legal consignments		404,731		406,369		410,484
Other demand obligations		506,723		697,269		643,714
Total current accounts and other demand deposits		9,024,024		9,539,516		10,618,977
Time Deposits and Savings						
Accounts:						
Savings accounts		4,122,645		4,419,345		4,836,471
Time deposits		12,591,416		12,241,902		11,333,140
Other time creditor balances		295,068		487,022		258,847
Total current accounts and other time deposits		17,009,129		17,148,269		16,428,458
Total deposits	Ch\$	26,033,153	Ch\$	26,687,785	Ch\$	27,047,435

Maturity of Deposits

The following table sets forth information regarding the currency and maturity of our deposits at December 31, 2019, expressed in percentages. UF-denominated deposits are similar to Chilean peso-denominated deposits in all respects, except that the principal is readjusted periodically based on variations in the Chilean Consumer Price Index.

	Ch\$	UF	Foreign Currency	Total
Demand deposits	51.93%	—	8.07%	39.64%
Savings accounts	10.43%	91.49%	—	18.05%
Time deposits:				
Maturing within three months	25.60%	5.92%	68.78%	29.71%
Maturing after three but within six months	8.48%	0.51%	17.23%	8.86%
Maturing after six but within 12 months	1.87%	0.18%	4.48%	2.06%
Maturing after 12 months	1.69%	1.90%	1.44%	1.68%
Total time deposits	37.64%	8.51%	91.93%	42.31%
Total deposits	100.00%	100.00%	100.00%	100.00%

The following table sets forth information regarding the currency and maturity of deposits in excess of US\$100,000 at December 31, 2019:

	Ch\$	UF	Foreign Currency	Total
		(in millions of nominal Ch\$)		
Time deposit				
Maturing within three months	Ch\$ 2,474,585	Ch\$ 164,014	Ch\$3,581,644	Ch\$6,220,242
Maturing after three but within six months ...	1,391,421	67,594	773,697	2,232,712
Maturing after six but within 12 months	1,157,015	25,017	196,349	1,378,381
Maturing after 12 months	217,033	76,588	52,595	346,216
Total time deposits.....	Ch\$ 5,240,054	Ch\$ 333,212	Ch\$ 4,604,285	Ch\$ 10,177,551

Return on Equity and Assets

	Year Ended December 31,		
	2017	2018	2019
	(in millions of nominal Ch\$, except for percentages)		
Net income for the year	Ch\$ 132,497	Ch\$ 179,337	Ch\$ 182,335
Average total assets	35,785,635	37,761,890	40,345,607
Average equity	1,609,274	1,676,978	1,758,990
Equity	Ch\$ 1,654,457	Ch\$ 1,713,584	Ch\$ 1,811,808
Net income as a percentage of:			
Average total assets	0.37%	0.47%	0.45%
Average equity	8.23%	10.69%	10.37%
Cash dividends paid ⁽¹⁾	Ch\$ 73,545	Ch\$ 60,250.50	Ch\$ 165,951
Dividends paid ⁽²⁾	45.97%	45.47%	92.54%
Average equity and average total assets	0.35%	0.45%	0.43%

(1) Cash dividends are stated in the year they were approved by the President of Chile upon the proposal of the Board of Directors.

(2) Determined as a ratio between the dividends approved by the President of Chile upon proposal of the Board of Directors and income for the year before they were declared.

Short-term Borrowings

For the year ended December 31,

	2017		2018		2019	
	Weighted Average Nominal		Weighted Average Nominal		Weighted Average Nominal	
	Amount	Interest Rate	Amount	Interest Rate	Amount	Interest Rate
	(in millions of nominal Ch\$, except for rate data)					
Investments sold under agreements to repurchase:						
Total balance at period-end.....	Ch\$592,523	3.24%	Ch\$ 820,849	3.16%	Ch\$924,775	3.14%
Annual average	703,294		671,844		667,429	
Maximum monthly balance	851,216		950,203		924,775	
Borrowings from domestic financial institutions:						
Total balance at period-end.....	2,864	20.47%	1,900	0.08%	—	0.03%
Annual average	625		13,282		54,591	
Maximum monthly balance	2,864		157,000		207,234	
Foreign interbank borrowings:						
Total balance at period-end.....	1,393,749	1.66%	1,295,013	2.36%	1,731,341	2.75%
Annual average	1,125,773		1,325,547		1,410,065	
Maximum monthly balance	1,393,749		1,544,975		1,966,657	
Foreign trade borrowings:						
Total balance at period-end.....	12,932	1.35%	10,990	4.86%	13,494	5.82%
Annual average	11,606		12,496		16,951	
Maximum monthly balance	14,578		17,180		51,985	
Other obligations:						
Total balance at period-end.....	28,825	3.19%	17,297	2.01%	25,562	5.61%
Annual average	24,645		19,250		26,288	
Maximum monthly balance	39,690		30,128		50,208	
Total short-term borrowings .	Ch\$2,030,893		Ch\$2,146,049		Ch\$2,695,172	

REGULATION AND SUPERVISION

The principal authorities that regulate financial institutions in Chile are the Commission for the Financial Markets and the Central Bank. As a state-owned banking enterprise created by law, BancoEstado is subject to the Organic Law. In addition, like any other Chilean bank, the Bank is also subject to the General Banking Law and, to the extent not inconsistent therewith, the *Ley de Sociedades Anónimas* No. 18,046 and the *Reglamento de Sociedades Anónimas* (collectively, the “Corporations Act”).

The modern Chilean banking system dates from 1925 and has been characterized by periods of substantial regulation and state intervention, as well as periods of deregulation. The most recent period of deregulation commenced in 1975 and culminated in the adoption of the General Banking Law. This Act, amended most recently in January 2019, has expanded the businesses allowed to banks, including underwriting new issues of certain debt securities and the creation of subsidiaries to engage in activities related to banking such as brokerage, equity underwriting, investment advisory and mutual fund services, administration of investment funds, factoring, securitization and financial leasing services.

The Organic Law

We have been established under the Organic Law as an autonomous state-owned banking enterprise with an indefinite life. Therefore, we do not issue shares. We are authorized to engage, directly or through our subsidiaries, in all activities, operations and investments authorized by the Chilean constitution, the Organic Law, the General Banking Law and laws applicable to privately-owned Chilean banks. The Organic Law permits us to conduct our operations through branches or agencies established in our sole discretion within or outside Chile. In addition, while we are generally prohibited from acquiring shares of any entity, we may acquire shares of foreign banks or international entities with the prior consent of the Central Bank.

The Organic Law also specifies certain matters relating to our management and personnel, including for example the number of members and the proper functions of our Board of Directors and the Executive Committee. See “Management.”

The Central Bank

The Central Bank of Chile is an autonomous legal entity created by the Chilean constitution. It is subject to the Chilean constitution and its own *ley orgánica constitucional*, or Central Bank Act and, to the extent applicable and not inconsistent, to the laws and regulations applicable to the private sector. It is governed and administered by a board composed of five members appointed by the President of Chile subject to the approval of the Senate.

The legal purpose of the Central Bank is to maintain the stability of the Chilean peso and the orderly functioning of Chile’s internal and external payment systems. The Central Bank’s principal regulatory responsibilities include setting reserve requirements, regulating the money supply, establishing regulations and guidelines regarding the financial system and the capital markets, the Formal Exchange Market and banks’ deposit-taking activities, and operating as a lender of last resort.

The Commission for the Financial Market

On February 23, 2017, Law. No. 21,000 introduced significant changes to the Chilean financial regulation system by replacing the regulator for securities and insurances headed by the SVS with the CMF. The SVS was dissolved on January 15, 2018. The CMF is constituted as a collegiate entity governed by a five-member board and has stronger supervisory powers than the SVS.

Among the most significant features and authorities assumed by the CMF when replacing the SVS are the following:

- (i) an investigation unit, led by prosecutors, with similar powers to modern administrative prosecution systems;
- (ii) the power to authorize the above-referenced prosecutors in the context of an investigation or a punitive procedure, to request information regarding banking operations, including all operations subject to banking secrecy or reserve, certain parties, provided that such information is considered indispensable for the detection of violations to the rules that govern people or companies monitored by the CMF, criminal offences under relevant legislation. Furthermore, the CMF may authorize the prosecutor to comply with requests made pursuant to an international enforcement agencies, provided that this has been established on an international information exchange convention subscribed by the CMF;
- (iii) the power to appoint a credit-rating agency to conduct risk assessments on the entities subject to the CMF's regulation;
- (iv) the power to authorize the prosecutor, in qualified and severe circumstances, to request law enforcement institutions to take intrusive measures, such as the interception of communications, search and seizure, among others;
- (v) a self-regulation committee for the purpose of creating rules in accordance with good corporate government practices, ensure its compliance and resolve differences among the members or between a member and its clients, among other functions;
- (vi) an administrative procedure between the CMF and those individuals investigated for infractions to the regulation overseen by the CMF, contemplating a simplified procedure for mirror breaches; and
- (vii) a leniency system, promoting self-denouncement.

Further, pursuant to the Amendment to the General Banking Law, the Commission for the Financial Markets gradually assumed all the powers previously held by the SBIF, including the oversight of banks and financial institutions. See "Regulation and Supervision—Recent Developments—Amendment to the General Banking Law."

The CMF has the exclusive right to authorize the creation of new banks and has broad powers to interpret and enforce legal and regulatory requirements. Furthermore, in case of non-compliance with the applicable legal and regulatory requirements, the CMF is authorized to impose sanctions, including fines payable by the directors, managers and employees of a bank as well as by the bank itself. In extreme cases, it can, by special resolution, appoint a provisional administrator to manage a bank with the prior approval of the board of the Central Bank. Its approval is also required for any amendment to a privately-owned bank's *estatutos* (bylaws) or increase in its capital. Since we are governed by the Organic Law rather than *estatutos*, any change to our legal structure would require the approval of the Chilean Congress rather than the CMF. However, increases in our capital made by the capitalization of net income are subject to approval by a Supreme Decree with the prior favorable report of the CMF. Other capital increases would require an act of the Chilean Congress.

The CMF examines all banks from time to time, generally at least once a year. Banks also are required to submit their financial statements monthly to the CMF, and a bank's financial statements are

published four times a year in any newspaper with countrywide coverage. In addition, banks are required to provide extensive information regarding their operations at various periodic intervals to the CMF. Financial statements as of June 30 and December 31 of any given year must be audited. A bank's semi-annual and annual consolidated statement of financial position and the related opinion of its independent auditors must also be submitted for review by the CMF. Additionally, the CMF may instruct banks to publish such information that, in its opinion, is necessary to be disclosed to the public.

Any person wishing to acquire, directly or indirectly, 10.0% or more of the share capital of a bank must obtain the prior approval of the CMF. Without such approval, the holder will not have the right to vote such shares. The CMF may only refuse to grant its approval if the petitioner does not meet certain requirements established in Article 28 of the General Banking Law.

According to Article 35 *bis* of the General Banking Law, as amended, the prior authorization of the CMF, is required for:

- the merger of two or more banks;
- the acquisition of all or a substantial portion of a bank's assets and liabilities by another bank;
- the control by the same person, or controlling group, of two or more banks; or
- a substantial increase in market control that will lead the acquiring bank (or the resulting group of banks) to become systemically important.

The CMF has issued certain disclosure requirements for shareholders and depositaries of ADSs, all of which do not apply to the Bank.

Limitations on Types of Activities

Chilean banks can conduct only those activities permitted under the General Banking Law. As of the date of this Prospectus, banks are permitted, among other things, to maintain checking accounts for their customers, make loans, accept deposits, issue bonds, engage in international exchange operations, perform specially entrusted activities (*comisiones de confianza*) and, subject to certain limitations, make investments and perform financial services related to banking. Bank's investments are restricted to real estate and physical assets for their own use, gold, foreign exchange and debt securities. Through subsidiaries, Chilean banks may also engage in securities brokerage services, mutual fund management, factoring, securitization and leasing activities. Subject to certain limitations and the prior approval of the CMF and the Central Bank, Chilean banks may own majority or minority interests in foreign banks.

Deposit Insurance

The Chilean Government guarantees certain time deposits, savings accounts and certain securities held by individuals. This guarantee is subject to a maximum of UF200 (or approximately Ch\$5.7 million or US\$7,562.02 as of December 31, 2019) per person for each calendar year.

Reserve Requirements

Deposits are subject to a reserve requirement of 9.0% for all demand deposits and obligations that are payable on demand, and 3.6% for time deposits and deposits in savings accounts in any currency of any term, judicially ordained deposits, and any other deposit (*captación*) for a term of up to one year. The

Central Bank has statutory authority to increase these percentages up to 40% for demand deposits and up to 20% for time deposits, to implement monetary policy.

According to the General Banking Law and the regulations issued by the CMF and the Central Bank, Chilean banks must maintain a technical reserve of 100% of all deposits in current accounts and deposits and obligations a bank has acquired in its financial business that are payable on demand, except for obligations with other banks, whenever such deposits and obligations exceed 2.5 times their total effective equity. This technical reserve must be calculated daily, and may be kept in local or foreign currency in Chile, in deposits held in a special account with the Central Bank, in foreign currency deposits with the Central Bank, in overnight deposits with the Central Bank, and in other documents issued by the Central Bank or the Chilean Treasury. A bank is not required to maintain the reserves described in the preceding paragraph for deposits and obligations subject to this technical reserve.

Minimum Capital

Under the General Banking Law, a bank must have a minimum of UF800,000 of paid-in capital and reserves (or approximately Ch\$22.65 billion or US\$30.2 million as of December 31, 2019). However, the application of these rules to the Bank is limited since its authorized capital is established in the Organic Law, and may be increased by the capitalization of our net income with a Supreme Decree issued by the President of Chile following a prior favorable report of the CMF. Other capital increases would require an act of the Chilean Congress.

Capital Adequacy Requirements

The General Banking Law, as amended, applies to the Chilean banking system a modified version of the capital adequacy guidelines issued by the Basel Committee. It provides that the capital and reserves of a bank (“basic capital”) cannot be less than 3% of its total assets, net of required loan loss allowances (*provisiones exigidas*), and its “effective equity” cannot be less than 8% of its risk-weighted assets net of required allowances (*provisiones exigidas*). For these purposes, the effective equity of a bank is the sum of (1) its basic capital, (2) the sum of the bonds issued by such bank with no maturity date and its preferred shares, valued at their placement price, up to a third of the bank’s basic capital (3) subordinated bonds issued by such bank valued at their issue price for an amount of up to 50% of its basic capital; provided that the value of the subordinated bonds shall decrease by 20% for each year that elapses during the period commencing six years prior to their maturity, and (4) its voluntary allowances for loan losses, for an amount of up to 1.25% of its risk weighted assets, net of required loan loss allowances. The sum of a bank’s basic capital, the bonds issued by such bank with no maturity date and its preferred shares cannot be less than 6% of its risk-weighted assets, net of required allowances for loan losses. We do not have goodwill, but if we did, this value must be deducted from effective equity. When calculating risk-weighted assets, we also include off-balance sheet contingent loans. For purposes of weighing the risk of a bank’s assets, the General Banking Law considers five different categories of assets, based on the type of borrower, the availability of funds, the nature of the assets and the existence of collateral securing such assets.

Further, pursuant to the Amendment to the General Banking Law, we will also be required to maintain basic capital requirements at or above 4.5% of our risk-weighted assets, net of required allowances for loan losses, and an additional basic capital (*capital básico adicional*) equivalent to 2.5% of our risk-weighted assets, net of required allowances for loan losses, over the required effective net equity (*patrimonio efectivo*). We intend to gradually comply with these new basic capital requirements within a four- or five- year period, as per the applicable requirement, from the date of the issuance of CMF regulation establishing the methods to weigh banks’ assets. See “Regulation and Supervision—Recent Developments—Amendment to the General Banking Law.”

From January to March 2020, the CMF initiated a consultation process relating to the regulations for the implementation and supervision of banking institutions' compliance with basic capital and additional basic capital requirements and the circumstances under which a bank may use its countercyclical capital reserves. See "Regulation and Supervision—Recent Developments—Amendment to the General Banking Law."

Lending Limits

Under the General Banking Law, Chilean banks, including the Bank, are subject to certain lending limits, including the following:

- (i) a bank may not extend to any one individual or entity (or group of related entities), directly or indirectly, credit in an amount that exceeds 10% of the bank's effective equity, or in an amount that exceeds 30% of its effective equity if the excess over 10% is secured by corporeal assets (whether real estate or chattel) with a value equal to or higher than such excess, or by certain other collateral specified in the General Banking Law. In the case of financing of infrastructure projects built through the concession mechanism, the 10% ceiling for credits is raised to 15% if secured by a pledge over the concession, or if granted by two or more banks or finance companies which have executed a credit agreement with the builder or holder of the concession;
- (ii) a bank may not extend loans to another financial institution in an aggregate amount exceeding 30% of its effective equity;
- (iii) a bank may not, directly or indirectly, grant a loan whose purpose is to allow an entity or individual to acquire or pay for shares of the lender bank;
- (iv) a bank may not lend, directly or indirectly, to a director or any other person who generally has the power to act on behalf of the bank, or to certain related parties of the same; and
- (v) a bank may not grant loans to related parties (including holders of more than 1% of its shares) on more favorable terms than those generally offered to non-related parties. The aggregate of such loans to the same group of related persons may not exceed 10% of the bank's effective equity, or in an amount that exceeds 30% of its effective equity if the excess over 10% is secured by movable or immovable assets, bill of exchange pledges or promissory notes with an aggregate value equal to or higher than such excess, or by certain other collateral specified in the General Banking Law. The definitions of "related" and "group" for these purposes are determined by the CMF.

To determine the lending limits with respect to a particular person, the obligations undertaken by partnerships in which the relevant person is an unlimited partner or by companies of any nature in which such person has more than 50% of their capital or receives more than 50% of their profits, will be accounted as obligations of such person. Likewise, if the participation of the relevant person in a company is higher than 2% but not higher than 50% of its capital, then the obligations of such company will be accounted as obligations of such person in proportion to its actual participation. Finally, when there is a plurality of debtors of the same obligation, then the obligation will be deemed joint and several with respect to each and all of the debtors, unless expressly undertaken in other terms.

Classification of Banks and Loan Portfolios

Solvency and Management

Chilean banks are classified into categories I through V based upon their solvency and management ratings. This classification is confidential.

Category I: This category is reserved for financial institutions that have been rated level A in terms of solvency and management.

Category II: This category is reserved for financial institutions that have been rated (1) level A in terms of solvency and level B in terms of management, (2) level B in terms of solvency and level A in terms of management, or (3) level B in terms of solvency and level B in terms of management.

Category III: This category is reserved for financial institutions that have been rated (1) level B in terms of solvency and level B in terms of management for two or more consecutive review periods, (2) level A in terms of solvency and level C in terms of management, or (3) level B in terms of solvency and level C in terms of management.

Category IV: This category is reserved for financial institutions that are rated level A or B in terms of solvency and have been rated level C in terms of management for two or more consecutive review periods.

Category V: This category is reserved for financial institutions that have been rated level C in terms of solvency, irrespective of their management rating level.

A bank's solvency rating is determined by its effective equity (after deducting accumulated losses during the financial year) to risk-weighted assets ratio. Pursuant to the Amendment to the General Banking Law, those banks that meet the requirements on basic capital, effective equity and additional basic capital will be classified as "A" banks; those that meet the requirements on basic capital and effective equity, but not the additional basic capital requirements, will be classified as "B" banks; and those banks that do not meet effective equity and basic capital requirements will be classified as "C" banks.

With respect to a bank's management rating, level A banks are those that are not rated as level B or C. Level B banks display some weakness in internal controls, information systems, response to risk, private risk rating or ability to manage contingency scenarios. Level C banks display significant deficiencies in internal controls, information systems, response to risk, private risk rating or ability to manage contingency scenarios.

Credit Management and Loan Portfolios

Chilean banks are required to provide to the CMF detailed information regarding their loan portfolio on a monthly basis. The CMF examines and evaluates each financial institution taking into account its (i) credit risk management processes and global management of the credit processes; (ii) financial risk management and operations of its treasury; (iii) administration of operational risk; (iv) administration of risks and foreign exposure and control over investments in corporations; (v) prevention of money laundering and terrorism financing; (vi) business strategy and capital management; (vii) customer service quality management and information transparency; and (viii) internal auditing management and the role of the auditing committee. Pursuant to this evaluation, banks are classified as falling into one of the following four categories:

- i. In compliance: Banks that are in full compliance with best management practices and sound management principles.
- ii. In material compliance: Banks that are in material compliance with best management practices and sound management principles, with limited weaknesses in specific procedures having been identified by the CMF.
- iii. Unsatisfactory compliance: Banks that are not in reasonable compliance with best management practices and sound management principles. The CMF identifies weaknesses in specific procedures, some of which are relevant weaknesses which ought to be remedied as soon as practicable.
- iv. Non-compliance: Banks that are not in material compliance with best management practices and sound management principles and are mandatorily required to remedy identified weaknesses.

Under the classifications effective since January 1, 2004, loans are divided into: (i) consumer loans (including loans granted to individuals for the purpose of financing the acquisition of consumer goods or payment of services); (ii) residential mortgage loans (including loans granted to individuals for the acquisition, construction or repair of residential real estate, in which the value of the property covers at least 100% of the amount of the loan); and (iii) commercial loans (includes all loans other than consumer loans and residential mortgage loans).

In accordance with Chilean regulations, the models and methods used to classify the loan portfolio of a bank must follow certain guiding principles, which have been established by the CMF and approved by its board of directors, or, in our case, our Executive Committee. Since 2006, we have internal provisioning models that focus on non-performance, as well as statistical models that take into account a borrower's credit history and indebtedness levels. Except in the case of mortgage and commercial loans for collective assessment that use a standard model, collective ratings that determine loan loss allowances based only on non-performance are being phased out and replaced by statistical scoring systems.

Circular No. 3,598, issued on December 24, 2015, established that to make a collective assessment of allowances for loan losses, the collectively-assessed debtors have to be homogeneous in terms of type of debtors and terms and conditions included in the applicable loans, aiming to establish the group's payment behavior and credit repayment capacity based on technical guidelines.

Circular No. 3,638, which became effective on July 1, 2019, provides that to determine allowances for loan losses in their commercial portfolio, banks must consider one of the three standard methods provided for in such circular, which differ based on the nature of the loan: commercial leasing, student loans or other commercial loans. See "Management's Discussion and Analysis of Results of Operations and Financial Condition—Critical Accounting Policies—Allowances for Loan Losses."

With respect to borrowers and loans, an individual analysis of the borrower is necessary if the borrower is a large or complex business, or one to which the Bank has no previous exposure. Models based on the individual analysis of borrowers require that the Bank assign a risk category level to each borrower and its respective loans.

Upon completion of this analysis, and under the new rules for the calculation of provisions in effect as of January 1, 2011 (Chapter B1 of the Compendium), each borrower and loan must be classified in the normal risk (Categories A1, A2, A3, A4, A5, A6), Substandard Portfolio (Categories B1, B2, B3, B4), or Non-performing portfolio (Categories C1, C2, C3, C4, C5, C6). 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 Substandard Portfolio includes those debtors with financial difficulties or significant worsening in their creditworthiness and over which there are reasonable doubts about the total repayment of principal and interests on the terms contractually agreed, showing little room to fulfill their financial obligations in the short term. Finally, the Non-Performing Portfolio includes those debtors with a deteriorated or non-existent creditworthiness, those likely to be declared in bankruptcy, those requiring a mandatory debt restructure in order to avoid breach of their financial obligations and those with loans outstanding for more than 90 days or which are under collection procedures and whose payment source is supported by the guarantees provided.

Provisioning Requirements for Consumer Lending

Pursuant to provisioning requirements for consumer lending established by the CMF, a bank must revise the credit rating of all loans made to a particular borrower if the bank renegotiates any loan with that borrower. In addition, a bank must classify all consumer loans of a single borrower according to the borrower's worst-rated loan. Finally, a bank must establish and abide by more stringent follow-up procedures relating to a borrower's consumer loans with other financial institutions. A bank, for example, must automatically review a borrower's rating when the borrower's records display a non-performing loan or other kind of negative credit behavior in the databases of the CMF or a private information service, even if the borrower is not in default vis-à-vis the bank.

Capital Markets

Under the General Banking Law, banks in Chile may only purchase, sell, place or underwrite and act as paying agent with respect to certain debt securities. Likewise, banks in Chile may place and underwrite certain equity securities of companies in connection with an initial public offering. Pursuant to the Organic Law, we may not acquire shares of another company unless we acquire them as payment on a loan or in a foreclosure procedure.

In 2010, the *Reforma al Mercado de Capitales III* (also known as MK3) introduced, among other things, the possibility for non-Chilean banks with representative offices in Chile to promote the credit products of their headquarters directly.

Subsidiaries and Affiliated Companies

Banks are authorized to create subsidiaries to engage in (i) brokerage of securities, (ii) management of mutual funds, investment funds, offshore funds, housing funds or all the foregoing, (iii) insurance brokerage, (iv) leasing operations, (v) factoring operations, (vi) securitization, (vii) financial advisory, (viii) custody and transportation of funds, (ix) provision of other financial services authorized by the CMF, (x) real estate commercialization, (xi) social security advisory and (xii) real estate operations. These subsidiaries are regulated by the CMF except for the cases referred to in (i), (ii), (iii) and (vi) in which the CMF may request information but the entities are regulated by the CMF or, with respect to social security, by the Superintendency of Pensions. As of the date of this Prospectus, banks are not authorized to create or engage in the business of insurance companies (other than brokers) and pension funds or health insurance administrators.

Banks may also create and participate in companies exclusively destined to the carrying out of activities in support of the main banking operations, such as credit card or debit card operators.

Financial Institutions with Economic Difficulties

Chilean banks may not be declared bankrupt, except when undergoing voluntary liquidation. The General Banking Law provides that if certain specified adverse circumstances exist at any bank that adversely affect its financial condition, its board of directors must correct the situation within 30 days from the date of receipt of the relevant financial statements. If the board is unable to do so, it must call an extraordinary special shareholders' meeting to increase the capital of the bank by the amount necessary to return the bank to financial stability. If the shareholders reject the capital increase, if it is not effected within the term agreed on at the meeting or if the CMF does not approve the board's proposal, the bank will be barred from increasing its loan portfolio beyond that stated in the financial statements presented to the board and from making any further investments in any instrument other than in instruments issued by the Central Bank. In such a case, or in the event that the board of directors of a bank determines that such bank may be unable to make timely payment in respect of its obligations or if a bank is under the provisional administration of the CMF, the General Banking Law provides that the bank may receive a three-year term loan from another bank. The terms and conditions of such a loan must be approved by the directors of both banks, as well as by the CMF, but need not be submitted to the borrowing or lending banks' shareholders for their approval. In any event, a creditor bank cannot grant interbank loans to an insolvent bank in an amount exceeding 25% of the creditor bank's effective equity. This requirement is in addition to the general requirement provided for in CMF Circular No. 3,634, which establishes that interbank loans (guaranteed or not) cannot exceed 25% of the creditor bank's effective equity. Further, pursuant to the Amendment to the General Banking Law, the CMF may limit interbank loans granted by a bank that is considered as systemically important to 20% of its effective equity. Interbank loans are considered part of the creditor bank's basic capital.

Upon liquidity or solvency problems, the bank must immediately notify the CMF and submit a regularization plan if the deficit remains during a 5-day period. In case such plan is not submitted or is rejected by the CMF, an inspector or ad hoc manager (*administrador provisional*) may be appointed by the CMF. While the first of these officers can only block certain actions by a bank's management, the latter completely replaces the board of directors and the general manager and assumes all of its powers. Pursuant to the Amendment to the General Banking Law, a bank may not reach a reorganization agreement with creditors (*convenios*) in insolvency scenarios; therefore, if the regularization plan and/or the ad hoc manager's recovery efforts fail, the CMF will, with the approval of the Central Bank, revoke the relevant bank's authorization to exist (*autorización de existencia*), force it to liquidate and appoint a liquidator. See “—Dissolution and Liquidation of Banks.”

As a state-owned bank, increases in our capital made by the capitalization of net income are subject to approval by a Supreme Decree with the prior favorable report of the CMF. Other capital increases would require a law by the Chilean Congress.

Dissolution and Liquidation of Banks

The CMF may establish that a bank should be liquidated for the benefit of its depositors or other creditors when the bank does not have the necessary solvency to continue its operations. In such case, the CMF must revoke the bank's authorization to exist (*autorización de existencia*) and order its mandatory liquidation, subject to agreement by the Central Bank. The CMF must also revoke the bank's authorization to exist (*autorización de existencia*) if a reorganization plan and/or the ad hoc manager's recovery efforts fail. The resolution by the CMF, which must be approved by the Central Bank, must state the reason for ordering the liquidation and must name a liquidator, unless the CMF itself assumes this responsibility. When a liquidation is declared, all checking accounts, other demand deposits received in the ordinary course of business, other deposits unconditionally payable immediately or within 30 days, and any other deposits and receipts payable within 10 days are required to be paid by using existing funds of the bank, its deposits

with the Central Bank or its investments in instruments that represent its reserves. If these funds are insufficient to pay these obligations, the liquidator may seize the rest of the bank's assets, as necessary. If necessary, the Central Bank will loan the bank the funds necessary to pay these obligations. Any such loans are preferential to any claims of other creditors of the bank under liquidation.

Because we were created and are governed by the Organic Law, the applicability to the Bank of the procedures described above under “—Financial Institutions with Economic Difficulties” and “Dissolution and Liquidation of Banks” is not entirely certain. Were such procedures deemed to apply to the Bank, however, they would have to be modified to take into account our special status as a state-owned banking enterprise. For example, since we were created by law, our dissolution would have to be accomplished through further legislative action.

Other Legal Restrictions

Foreign Financial Investments

Under current Chilean banking regulations, banks may invest in certain foreign currency securities and may grant loans to foreign individuals and entities. With respect to foreign equity securities, banks in Chile may only invest in equity securities of foreign banks and certain other foreign companies in which Chilean banks would be able to invest if those companies were incorporated in Chile. Banks in Chile may only invest in foreign debt securities traded in formal secondary markets (as defined in the Central Bank regulations). Such debt securities shall qualify as (i) securities issued or guaranteed by foreign sovereign states or their central banks or other foreign or international financial entities, and (ii) bonds issued by foreign companies.

With respect to loans granted to foreign entities and individuals a bank may grant commercial loans in dollars: (i) to finance Chilean exports or imports, (ii) to finance foreign trade operations amongst third countries, or (iii) to entities who are either (A) subsidiaries or branches of Chilean companies located abroad, or (B) companies listed on foreign stock exchanges operating in countries with a risk rating not lower than BB-.

Notwithstanding the foregoing, in the event that the sum of a bank's (i) investments in foreign securities rated below the ratings indicated in Table 1 below and equal to or exceeding the ratings indicated in Table 2 below; and (ii) loans granted to entities resident abroad other than those entities described in (A) or (B) above, exceeds 20% of the relevant bank's effective net equity (or 30% for banks with a risk-weighted assets to effective net equity ratio equal to or exceeding 10%), such excess is subject to a 100% mandatory reserve requirement.

Table 1⁽¹⁾

Rating Agency	<u>Short-Term</u>	<u>Long-Term</u>
Moody's	P2	Baa3
Standard & Poor's	A2	BBB-
Fitch Rating Service	F2	BBB-
Dominion Bond Rating Service	R2	BBB (low)

(1) In the case that a short-term security has no rating, the requirement will be deemed fulfilled if the same issuer has current long-term securities complying with the conditions of Table 1 and provided that the referred short- and long-term securities have similar guarantees, preferences or privileges or other legal condition having a favorable effect on the potential payment of the obligation.

Table 2⁽²⁾

<u>Rating Agency</u>	<u>Short-Term</u>	<u>Long-Term</u>
Moody's	P2	Ba3
Standard & Poor's	A2	BB-
Fitch Rating Service	F2	BB-
Dominion Bond Rating Service	R2	BB (low)

- (2) In the case that a short-term security has no rating, or is rated as P-3, A-3, F3 or R-3, the requirement will be deemed fulfilled if the same issuer has current long-term securities complying with the conditions of Table 2 and provided that the referred short- and long-term securities have similar guarantees, preferences or privileges or other legal condition having a favorable effect on the potential payment of the obligation.

Table 3⁽³⁾

<u>Rating Agency</u>	<u>Short-Term</u>	<u>Long-Term</u>
Moody's	P1	Aa3
Standard & Poor's	A1+	AA-
Fitch Rating Service	F1+	AA-
Dominion Bond Rating Service	R1(high)	AA (low)

- (3) In the case that a short-term security has no rating, the requirement will be deemed fulfilled if the same issuer has current long-term securities complying with the conditions of Table 3 and provided that the referred short- and long-term securities have similar guarantees, preferences or privileges or other legal condition having a favorable effect on the potential payment of the obligation.

Further, in the event that the sum of the investments of a bank in the type of foreign securities referred in Tables 1 and 2 above and of all loans granted to foreign individuals and entities (other than loans granted to finance Chilean exports or imports) exceeds 70% of such bank's effective net equity, the excess is subject to a 100% mandatory reserve requirement. However, Banks may invest abroad in securities with a rating equal to or higher than the ones indicated in Table 3 above for an additional amount equivalent to 70% of such bank's effective net equity, without being subject to the aforementioned reserve requirement.

Loans to the Chilean State

Pursuant to Article 63, No. 9 of the Chilean Constitution, we are prohibited from lending to the Chilean State, its enterprises or its instrumentalities, but we may render guarantees to them.

Chilean bankruptcy considerations –bankruptcy laws

The Chilean Congress approved a new Bankruptcy Act on October 29, 2013, which was published in the Official Gazette on January 9, 2014 and became into effect on October 9, 2014. The new Bankruptcy Act eliminates the distinction between merchant and other debtors, and eliminated the classification of bankruptcies as negligent or fraudulent, while modifying the Chilean Criminal Code in order to recognize certain criminal offences related to the conduct of the business of the debtor prior to the declaration of its bankruptcy, among other changes.

Under the new Bankruptcy Act, there are two types of proceedings: liquidation proceedings, which are very similar to existing bankruptcy proceedings but headed by a liquidator rather than a *síndico*, and reorganization proceedings. Reorganization proceedings are more oriented toward the continuation of the debtor's business and, therefore, allow the debtor to seek protection of the courts ("Insolvency Protection") for a term of 30 days, as from the date on which the reorganization proceeding commenced, during which, among other effects, it cannot be put into liquidation proceedings, its assets cannot be foreclosed, the agreements entered into by it cannot be unilaterally terminated by the other party, the maturity of the

indebtedness of the debtor cannot be accelerated or the securities granted by the debtor cannot be enforced by the creditor based on the debtor's insolvency. In case a creditor breaches this provision, its credit shall rank junior and will be paid after all the other debts of the debtor. This 30-day term could be extended for 30 or 60 days if supported by creditors representing 30% or 50% of the debtors' unrelated liabilities, respectively.

Pursuant to the provisions of the new Bankruptcy Act, it is now possible for a debtor to commence a reorganization procedure not only through a court process, but also through an out of court composition with its creditors, which may then be approved by the court through a simple process. Also, it is now possible for the debtor and its creditors to agree on a reorganization proposal with different conditions for different categories of creditors (e.g., secured and unsecured), which must be expressly approved by the remaining creditors.

The new Bankruptcy Act additionally allows the debtor under Insolvency Protection to contract debt to finance its operations (up to 20% of the debt it had at the commencement of the procedure), which will rank senior with respect to the existing creditors (except for a few statutory preferences which will remain in force) in case the reorganization agreement is not approved and the judge orders the liquidation of the company.

The new Bankruptcy Act amends claw-back period rules such that, generally, any transfer, encumbrance or other transaction executed or granted by the debtor during the term of two years prior to the commencement of the reorganization or liquidation proceedings, may be rendered ineffective if it is proved before the court that such transfer, encumbrance or transaction (i) was entered with the counterparty knowledge of the debtor's poor business condition; and (ii) caused damages to the bankruptcy estate or that has affected the parity that shall exist among creditors (e.g., that the transaction has not been entered into under terms and conditions similar to those prevalent in the market at the time of its execution).

Notwithstanding the above, the new Bankruptcy Act maintains certain specific cases in which any transfer, encumbrance or other transaction executed or granted during the term of a year prior to the commencement of the insolvency proceedings (extendable to two years in certain events) is deemed ineffective, based on objective grounds, such as pre-payments, payments on terms different than as originally agreed by the parties and the creation of security interests to guarantee pre-existing obligations.

Finally, the new Bankruptcy Act regulated for the first time cross-border insolvency issues, allowing the recognition in Chile of foreign bankruptcy or liquidation proceedings.

Automatic Teller Machines

In March 2015 and November 2017, the CMF issued Circulars No. 3,578 and No. 3,627, regulating the adequate functioning of ATMs. Pursuant to these regulations, banks are responsible for the due operation of their ATMs network, which includes cash availability, periodic maintenance, network monitoring and solution of incidents. Further, each bank must keep its ATMs available for transactions at least 95% of a certain predefined time specific to each ATM, calculated on the basis of a formula as provided in the regulation. Circular No. 3,578 also imposes a duty to comply with legal requirements related to security of the ATMs and transport of securities. These regulations did not have a material effect on our results of operations during 2016, 2017 and 2018.

Stress Tests

On July 31, 2015, the CMF issued Circular No. 3,585 entitled "Liquidity Management and Evaluation", according to which banks must perform certain stress tests at least once every three months,

unless the CMF requires a different frequency for such tests. The stress tests will take into account the relevant bank's dimensions, assets and liabilities, and the nature and complexity of the relevant bank's operations.

The results obtained from these tests will be evaluated by an independent unit within the Bank different than the one responsible for its design and development. In addition, these results will allow the management of the relevant bank to identify emerging risks and liquidity vulnerabilities, in order to implement the corresponding correction plans. Further, the results of these stress tests will be submitted to the CMF for review.

Obligations Secured with Mortgage or Pledge without Conveyance

On September 25, 2015, the *Ley de Protección de los Derechos de los Consumidores* (the "Chilean Consumer Protection Act") and the Pledge without Conveyance Act (which was regulated by the MK2) were further amended to include several new provisions regarding the release and cancellation of existing mortgages or pledges without conveyance. According to the amendments, once an obligation secured with any existing mortgage or pledges without conveyance has been terminated, the relevant creditor shall grant *ex officio* the release of such pledge without conveyance, pay the related expenses, and register the release with the relevant public registry within no more than 45 days from the date the secured obligation has been terminated. The relevant creditor shall further inform the debtor of such proceedings within the term established by law.

Amendments to Deposit Entity's Regulation

On October 26, 2016, Law No. 20,956 was published, amending Law No. 18,876 related to the incorporation and operation of private depositaries and custodians of securities.

The most relevant amendments introduced under this law allow:

- a) the creation of liens or other property rights over securities deposited with a depositary;
- b) the creation, amendment or release of liens over deposited securities by electronic communication between the relevant parties or by messenger systems enabled by the depositary.
- c) the creation of pledges over securities listed in book-entry systems (global securities), regulated by a framework agreement entered between the depositary and the depositor. Notices in relation to said pledge can be via an electronic communication to the depositary, who will register the relevant change on the book-entry system.
- d) the creation of liens or other property rights in authorized financial compensation and liquidation systems, through a request filed by the manager of such system.

Consumer Protection

On September 13, 2018, Law No. 21,081 was published in the Official Gazette amending the Chilean Consumer Protection Act to increase from 750 Monthly Tax Units (*Unidad Tributaria Mensual* or "UTM") to 1,500 UTM the maximum fine that financial services providers have to pay if they breach rules related to the delivery of financial services or pre-formulated standard contract. Further, the law increases from 50 UTM to 300 UTM the general fine for breaches of those provisions of the Chilean Consumer Protection Act that do not provide for a specific fine amount. These amendments came into effect on March 14, 2019.

Money Laundering Enforcement

The Chilean Anti-Money Laundering Act (the “AML Act”) and the Chilean Financial Analysis Unit (the “FAU”) requires banks, among other persons, to register with the FAU and implement Anti-Money Laundering (“AML”) and Combatting Terrorist Financing (“CFT”) programs and policies.

- (i) pursuant to applicable FAU regulations, banks should report the FAU any suspicious transactions or activities (“STRs”) it may become aware of in the ordinary course of business. STRs are defined by the AML Act as any act, operation or transaction (whether individually, jointly or contextually considered) that, in accordance with the uses and customs of the relevant activity, is considered unusual or devoid of apparent economic or legal justification and/or could constitute a criminal offense under local CTF laws and/or is carried out by an individual or entity listed in the United Nations Security Council sanctions list. The Amendment to the General Banking Law introduced additional rules relating to bank secrecy to facilitate the access to certain information by the FAU and the Internal Revenue Service.
- (ii) banks must maintain special records of all cash transactions exceeding US\$10,000 or its Chilean peso equivalent, for at least five years.

Under AML regulations, banks should also:

- (i) appoint a compliance officer a compliance officer to implement “know your customer” due diligence and other related internal controls;
- (ii) keep customer records to analyze client activity conducted with or from jurisdictions that are considered “non-cooperating or tax havens”;
- (iii) implement enhanced due diligence controls for transactions involving Politically Exposed Persons (“PEPs”), together with the adoption of (i) measures and/or procedures to identify prospective PEP clients, (ii) procedures to enter into transactions with PEPs.

Failure to comply with the AML Act and the FAU general instructions could led to administrative liability for banks and their legal representatives and directors.

With regard to Chilean banks the CMF has also provided guidelines for banks to set up AML and CFT (Combating Financing of Terrorism) prevention systems applicable to their ordinary business, which should address the volume and complexity of their transactions including their local and/or international affiliates and supporting entities. Such prevention systems shall also at least include (i) “know your customer” policies; (ii) a manual of policies and procedures; (iii) the appointment of compliance officers; and (iv) the use of available technology to develop automatic red-flag systems to identify and detect unusual operations.

Periodic Reporting to Congress

We are required by law to report once a year to the Finance Commission of the Chamber of Deputies and the Special Mixed Commission on the Public Budget with regard to the activities and development of the Bank. Likewise, we must inform the same commissions twice a year on the operations and activities developed in connection with the FOGAPE.

Constitutional Protection on Personal Data

On June 5, 2018, the Chilean Congress enacted Law 21,096 amending Article 19, section 4 of the Chilean constitution, by virtue of which a provision safeguarding the personal data of all citizens was included. This amendment assures “the protection of personal data.” Due to the location of this provision within the body of the Chilean constitution, any person is entitled to file a protective action before a Court of Appeals requesting that it take all necessary measures to reestablish the infringed right and guarantee the protection of its personal data.

Recent Developments

Chilean Tax Reforms

In February 2020, Congress enacted the 2020 Tax Reform including several amendments to the Chilean tax system. Among these amendments, the 2020 Tax Reform provides for (i) the elimination, effective as of January 1, 2020, of the attributed-income tax system and the consolidation of a single partially-integrated tax system for large companies, with a corporate tax rate of 27%, (ii) the creation of a new special tax regime for small- and medium-sized companies, with a corporate tax rate of 25% that can be fully integrated with final taxes, (iii) the gradual elimination of tax refunds that Chilean holding companies were able to claim for corporate taxes paid by their Chilean subsidiaries as a result of the absorption of holding companies’ tax losses with dividends received from such subsidiaries, (iv) an increase of the maximum tax bracket to 40% for the personal income tax applicable to resident individuals, (v) the application of VAT to foreign digital services that are used in Chile and (vi) stricter requirements for private investment funds to benefit from preferential tax treatment.

In addition, based on Chile’s current social and political environment after the October 2019 outbreak, the Chilean government may introduce further tax reforms aimed at limiting tax exemptions and/or preferential tax treatments

See “Risk Factors—Risk Factors Related to Chile—Future increases in the corporate tax rate in Chile or additional modifications to the Chilean tax system to finance future social reforms may have a material adverse effect on us.”

Modifications to risk-weighted assets, credit equivalents and credit limits applicable to derivative instruments

On March 9, 2018, the CMF issued Circular No. 3,634, adopting certain recommendation of the Basel Committee, such as the introduction of modifications to risk-weighted assets, credit equivalents and credit limits applicable to derivative instruments cleared and settled through an *Entidad de Contraparte Central* (Central Counterparty Entity or “ECC”). The main modifications set forth by Circular No. 3,634 are:

(i) the creation of an intermediate category to classify the credit equivalent of derivative instruments cleared and settled through an ECC, when these entities are irrevocably constituted as creditors and debtors of the rights and obligations arising from such transactions. The risk-weight for these assets will be equal to 2%;

(ii) the reclassification of derivative instruments whose underlying is the UF from the category “contracts over foreign currencies” to the category of “interest rate contracts” for purposes of the determination of the credit equivalent; and

(iii) for purposes of determining the interbank credit limit, it considers operations on derivative instruments negotiated between banks incorporated in Chile, including branches of foreign banks, even if such transactions are subsequently compensated and settled through an ECC.

Data Protection Legislation

On February 28, 2020, the Chilean Congress enacted Law No. 21,214, amending Law 19,628 (as amended, the “DPL”) that regulates the data processing in Chile, to bar banking entities from disclosing information related to debt contracted by individuals to finance education, preventing such debtors from being included in defaulting debtors' databases due to their failure to repay such debt.

As of the date of this Base Prospectus, new proposed legislation to amend the DPL is being discussed in Congress. The proposed legislation has been molded after the EU General Data Protection Regulation and intends to introduce (i) principles that regulate data processing, reinforcing data subjects' rights; (ii) specific regulations for under-aged individuals' personal data processing; (iii) regulation of international transfers of personal data, adoption of security measures and breach prevention models, together with the establishment of reporting obligations concerning security breaches; and (iv) the establishment of a data protection authority with powers to monitor and sanction violations of the DPL, with fines of up to UTM10,000 (approximately US\$580,000) and the application of precautionary measures such as the suspension of data processing activities.

Short-term Liquidity Coverage Ratio requirement

On August 2, 2018, following Basel III recommendations, the Central Bank included new short-term liquidity coverage ratio (“LCR”) requirements applicable to Chilean banks in Chapter III.B.2.1 of the Compendium. Pursuant to these requirements, Chilean banks are required to have a minimum short-term LCR equal to 60% as of January 1 of 2019, which will be increased gradually to 70%, 80%, 90% and 100% as of January 1, 2020, 2021, 2022 and 2023, respectively.

Amendment to the General Banking Law

In October 2018, Congress enacted the Amendment to the General Banking Law, which was published in the Official Gazette on January 12, 2019. The main purpose of the bill is to implement Basel III recommendations increasing capital requirements of the banking industry. In addition, the Amendment to the General Banking Law contains amendments to other provisions of the General Banking Law that are independent of these recommendations. The most significant amendments introduced are:

(i) a strengthening of banking supervision by the replacement of the SBIF with the CMF. See “Regulation and Supervision—The Commission for the Financial Market”;

(ii) a strengthening of risk-based capital requirements in accordance with Basel III, which strengthening takes into account risks relating to counterparties as well as market and operational risks. In particular, the Amendment to the General Banking Law establishes obligations on banks to enhance their provisions on capital to protect themselves from future shocks, such as:

a. increasing basic capital requirements to at least (A) 4.5% of a bank's risk-weighted assets, and (B) 3% of a bank's total assets, in each case, net of required allowances for loan losses; and

b. the obligation to maintain an additional basic capital (*capital básico adicional*) equivalent to 2.5% of its risk-weighted assets (net of required allowances for loan losses) over the required effective net equity (*patrimonio efectivo*).

From January to March 2020, the CMF initiated a consultation process relating to the regulations for the implementation and supervision of banking institutions' compliance with basic capital and additional basic capital requirements and the circumstances under which a bank may use its countercyclical capital reserves.

(iii) a reclassification of banks based on their solvency rating. Those banks that meet the requirements on basic capital, effective equity and additional basic capital will be classified as "A" banks; those that meet the requirements on basic capital and effective equity, but not the additional basic capital requirements, will be classified as "B" banks; and those banks that do not meet effective equity and basic capital requirements will be classified as "C" banks.

(iv) the granting of new discretionary powers to the CMF, such as the authority to (a) determine new rules to weigh a bank's assets and approve each bank's model to weigh its assets, in each case, together with the Central Bank's approval; (b) determine requirements for the issuance and consideration as regulatory capital of Tier 1 additional instruments, such as preferred shares and perpetual bonds; (c) impose further capital requirements in accordance with Basel III (in addition to those described above) and (d) require banks to prepare balance sheets as of certain dates, which shall be prepared by external auditors if so required by the CMF;

(v) incorporation of the concept of banks of systemic importance (too big to fail), granting powers to the CMF to require more capital (up to an additional 1%-3.5% of common equity over risk weighed assets, net of required allowances for loan losses, and up to additional 2% of common equity over total assets, net of required allowances for loan losses), as well as reserves requirements to guarantee liquidity and restrictions on certain operations, among other requirements. Further, banks will be required to obtain authorization from the CMF prior to a merger or acquisition that would lead to the acquiring bank (or the resulting group of banks), becoming systemically important;

(vi) new rules on banks' recovery and liquidation. Upon liquidity or solvency problems, the bank shall immediately notify the CMF and submit a regularization plan if the deficit remains during a 5-day period. In case such plan is not submitted or is rejected by the CMF, an inspector or ad hoc manager (administrador provisional) may be appointed by the CMF. While the first of these officers can only block certain actions by a bank's management, the latter completely replaces the board of directors and assumes all of its powers. Further, the Amendment to the General Banking Law eliminates the possibility to reach a reorganization agreement with creditors (*convenios*) in insolvency scenarios; therefore, if the regularization plan and/or the ad hoc manager's recovery efforts fail, the CMF will, with the approval of the Central Bank, revoke the relevant bank's authorization to exist (*autorización de existencia*), declare it in forced liquidation and appoint a liquidator;

(vii) an extension on the maximum tenor of interbank loans granted to banks that had to undertake measures for early regularization (*medidas para la regularización temprana*), from two to three years; provided, however, that the terms and conditions of such loans are approved by the CMF and that interbank loans, in the aggregate, do not exceed 25% of the creditor bank's effective equity. This requirement will be in addition to the general requirement provided for in CMF Circular No. 3,634, which establishes that interbank loans (guaranteed or not) cannot exceed 25% of the creditor bank's effective equity. Further, pursuant to the Amendment to the General Banking Law, the CMF may limit interbank loans granted by a bank that is considered as systemically important to 20% of its effective equity. Interbank loans will be considered part of the creditor bank's basic capital;

(viii) limits to 30% of a bank's effective equity the amounts that a bank may lend to affiliated persons or entities;

(ix) strengthening of the corporate governance of the supervisory body;

(x) changes in Chilean government guarantees on time deposits, eliminating such guarantees' coverage limit of up to 90% of the aggregate amount of certain time deposits and increasing from 120 UF to 200 UF their maximum coverage per person for each calendar year. See "Regulation and Supervision—Deposit Insurance";

(xi) the imposition of additional rules relating to bank secrecy to facilitate the access to certain information by the FAU and the Internal Revenue Service; and

(xii) an increase in deposit guarantees by Chile.

The CMF will have 18 months from June 1, 2019 to enact all applicable regulation implementing the changes provided for in the Amendment to the General Banking Law.

From August 2019 to September 2019, the CMF held a consultation process to establish the criteria to identify systemically important banks and to determine the corresponding application of strengthened requirements to these institutions, in line with the requirements of the General Banking Law. The CMF expects to indicate which banks have been identified as systemically important and the requirements applicable to them beginning in March 2021.

From September to October 2019, the CMF held a consultation process to establish the methodology to determine operational risk-weighted assets in banking institutions, in line with the requirements of the General Banking Law. Operational risk is the risk of loss due to the inadequacy or failure in processes, employees and/or internal systems or due to external events. The new methodology is expected to become effective as of December 1, 2020.

From November 2019 to January 2020, the CMF held a consultation process relating to the methodology to calculate banking entities' regulatory capital, in line with the requirements of the General Banking Law. The measures put forth by the CMF include a government guarantee of most of BancoEstado's net deferred taxes, mainly given the additional 40% tax rate BancoEstado is required to pay as a state-owned entity. The government guarantee contemplated in the CMF's suggested measures must be approved by the Ministry of Finance and regulated further to make it operational. These measures are expected to become effective as of December 1, 2020.

On January 27, 2020, the CMF initiated a consultation process to establish a standardized methodology to determine banking institution's risk-weighted assets for credit risk analysis purposes, in line with the requirements of Article 65 of the General Banking Law. This revised methodology is more sensitive to credit risk than the prior methodology, as it takes into account the nature of the counterparty and different risk factors. In addition, the measures suggested by the CMF allow banking institutions to use their own methodologies to determine risk-weighted assets, setting limits, requirements and other conditions that each bank must follow, including minimum floors to the risk parameters considered by each bank. Banks need CMF approval to use its internal methodology instead of the standardized methodology. The term for the submission of comments expired on April 15, 2020 and the measures are expected to become effective as of December 1, 2020.

On March 30, 2020, due to the outbreak of COVID-19, the CMF, in coordination with the Central Bank, decided to postpone the implementation of Basel III requirements for one year and to maintain the current general regulatory framework for banks' capital requirements until December 2021. In addition, the CMF announced, among others matters, that (i) it will issue new regulations setting forth the standard methodology to calculate the credit, market and operational risks, which are expected to become effective

by December 1, 2020; (ii) such regulations will provide, temporarily, that banks' market and operational risk weighted assets shall be equal to zero until December 1, 2021 and that until such date, the calculation of credit risk weighted assets will remain unchanged; (iii) the first basic capital increase determination that the CMF will impose to banks of systemic importance is expected to be made in March 2021; and (iv) the obligation to maintain additional basic capital will be equal to 0.625% on December 1, 2021 and will be increased progressively during a 4-year term at a ratio of 0.625% per year until reaching 2.5% on December 1, 2024. Further, the CMF called on banks to make certain efforts, which the CMF expects will result in a higher capitalization of profits for 2019 and future years, and that they use released resources to support the local economy and its clients.

On April 3, 2020, the CMF initiated two consultation processes to (i) update the methodology to measure basic capital and total assets for purpose of calculating the 3% basic capital to total assets ratio (leverage) requirement included in the General Banking Law, in line with Basel III guidelines, and (ii) establish minimum requirements and conditions to consider hybrid instruments issued by banking entities (i.e., preferred equity, perpetual bonds or subordinated bonds) as AT1 or AT2 capital. The term for the submission of comments to these two measures expires on May 29, 2020 and the measures are expected to become effective as of December 1, 2020.

Credit and Debit Card Fraud

In March 2020, Congress enacted legislation increasing the responsibilities of banking entities in cases of debit and credit card fraud. In particular, the legislation provides that banking entities shall return the amount relating to the fraud within (i) 5 working days from the date the card holder informs the bank of a fraud involving an amount of up to UF35 (equivalent to Ch\$1 million) or (ii) 7 working days from the date the card holder informs the bank of such fraud in the case of a fraud involving an amount of more than UF35. Card holders have up to 120 days from the date the fraud occurs to report such fraud. As of the date of this Base Prospectus, the law was pending publication of its entry into force.

THE BANK

We are a state-owned financial institution (wholly owned by the Republic of Chile) that operates as an autonomous entity governed by its organic law, which was enacted on July 24, 1953 and, as of the date of this Prospectus, was contained in Decree Law No. 2,079 dated December 16, 1977, published in the Official Gazette on January 18, 1978 (as amended, the “Organic Law”). We are one of the oldest financial institutions in Chile, with our predecessor starting operations in 1855. We are also the third largest financial institution in terms of aggregate loans granted in Chile and the largest in terms of the number of customers and geographic coverage (in terms of number of Chilean cities with a branch) as of December 31, 2019. Our origins trace to the mergers of the Caja Nacional de Ahorros, the Caja de Crédito Agrario, the Caja de Crédito Hipotecario and the Instituto de Crédito Industrial. We are domiciled in Chile. Our registration number with the CMF is 012 and our tax identification number (known as the *Rol Único Tributario*, or “RUT” in Chile) is 97.030.000-7. Our principal office is located at Avenida Bernardo O’Higgins 1111, Santiago, Chile. Our main telephone number is +562 2-970-7000 and our website is www.bancoestado.cl. Information contained on, or accessible through, our website is not incorporated by reference in, and shall not be considered part of, this Prospectus.

NEW YORK BRANCH

On November 4, 2005, we opened our New York Branch to better serve certain cross-border needs of our corporate and public-sector customers. The New York Branch has been approved by the Board of Governors of the Federal Reserve System of the United States of America as a branch office of a foreign banking organization since June 20, 2005, and has been duly licensed by the New York State Department of Financial Services since July 25, 2005. The New York Branch's employer identification number is 98-0437721. As of December 31, 2019, the New York Branch had total assets of US\$3.8 billion, a 35.9% decreased as compared to 2018, mainly due to a decision by our headquarters to reduce the New York Branch's balance. The New York Branch offers checking accounts, money market accounts, time deposits, short- and long-term loans, syndicated loans, stand-by letters of credit and currency trading. In addition, the New York Branch offers Yankee CDs and Commercial Papers, which have a short-term rating of A-1 from Standard & Poor's and P-1 from Moody's and a long-term rating of A+ from Standard & Poor's and A1 from Moody's. The New York Branch is domiciled in the State of New York, United States of America and its principal office is located at 400 Park Avenue, 14th Floor, New York, New York 10022 and its telephone number is (212) 920-3200.

SUPERVISION AND REGULATION OF THE NEW YORK BRANCH AND THE BANK IN THE UNITED STATES

The New York Branch is licensed by the Superintendent of the Department of Financial Services (the “Superintendent”) under the New York Banking Law (the “NYBL”) to conduct a commercial banking business. The New York Branch is examined by the Department of Financial Services and the U.S. Board of Governors of the Federal Reserve System (the “Federal Reserve Board”), and is subject to banking laws and regulations applicable to a foreign bank operating a New York branch office.

Under the NYBL and regulations adopted by the Department of Financial Services, the New York Branch is required to maintain eligible high-quality assets with banks in the State of New York up to a maximum of US\$100 million as long as the New York Branch remains designated as “well-rated” by the Superintendent. Should the New York Branch cease to be “well-rated” by the Superintendent, the New York Branch may need to maintain substantial additional amounts of eligible high-quality assets with banks in the State of New York. Under the NYBL, the Superintendent is also authorized to establish an asset maintenance requirement for a New York branch of a foreign bank. At present, the Superintendent has not set such a positive requirement, although specific asset maintenance requirements may be imposed upon individual branches on a case-by-case basis. The Superintendent has not prescribed such a requirement for the New York Branch.

The NYBL authorizes the Superintendent to take possession of the business and property of a foreign bank’s New York branch under certain circumstances generally involving violation of law, conduct of business in an unauthorized or unsafe manner, capital impairment, suspension of payment of obligations, initiation of liquidation proceedings against the foreign bank, or reason to doubt the foreign bank’s ability to pay in full the claims of its depositors and other creditors. In liquidating or dealing with the branch’s business after taking possession, the Superintendent will accept for payment out of the branch’s assets only the claims of creditors unaffiliated with the foreign bank that arose out of transactions with the branch (without prejudice to the rights of the holders of such claims to be satisfied out of other assets of the foreign bank). After such claims are paid, the Superintendent would turn over any remaining assets to the foreign bank or to its duly appointed liquidator or receiver.

The New York Branch is generally subject under the NYBL to the same single borrower (or issuer) lending and investment limits applicable to a New York State-chartered bank, except that for the New York Branch such limits, which are expressed as a percentage of capital, are based on the Bank’s worldwide capital.

In addition to being subject to New York laws and regulations, the New York Branch is also subject to U.S. federal regulation by reason of conducting banking activities in the United States, primarily under the International Banking Act of 1978, as amended (the “IBA”). Under the IBA, the New York Branch is subject to reporting and examination requirements of the Federal Reserve Board (in its capacity as the Bank’s U.S. “umbrella supervisor”) similar to those imposed on state-chartered banks that are members of the Federal Reserve System. As a U.S. branch of a foreign bank, the New York Branch is subject to reserve requirements on deposits, and is no longer subject to restrictions on the payment of interest on demand deposits pursuant to regulations of the Federal Reserve Board, which were repealed in July 2011.

The New York Branch’s deposits and other note obligations are not permitted to be, and are not, insured by the Federal Deposit Insurance Corporation (“FDIC”). In general, under the IBA, the New York Branch is not permitted to accept or maintain domestic retail deposits or their note equivalent having a balance of less than US\$250,000. The New York Branch may not engage as principal in any type of activity that is not permissible for a federally licensed branch of a foreign bank unless the Federal Reserve Board has determined that such activity is consistent with sound banking practice. The New York Branch must

also comply with the same single borrower (or issuer) lending and investment limits applicable to national banks. The lending limits applicable to the New York Branch take into account credit exposures from derivative transactions, securities borrowing and lending transactions, and repurchase and reverse repurchase agreements. These limits are based on the foreign bank's worldwide capital. In addition, regulations that the U.S. Financial Stability Oversight Council (the "FSOC") or other regulators may adopt could affect the nature of the activities which the New York Branch may conduct, and may impose restrictions and limitations on the conduct of such activities.

In addition, the Federal Reserve Board may terminate the activities of a U.S. branch of a foreign bank if it finds that the foreign bank is not subject to comprehensive supervision on a consolidated basis in its home country, or if there is reasonable cause to believe that such foreign bank (or an affiliate) has violated the law or engaged in an unsafe or unsound banking practice in the United States, and, as a result, continued operation of the branch would be inconsistent with the public interest and the purposes of federal banking laws, or for a foreign bank that presents a risk to the stability of the United States financial system, the home country of the foreign bank has not adopted, or made demonstrable progress toward adopting, an appropriate system of financial regulation to mitigate such risk. If the Federal Reserve Board were to use this authority to close the New York Branch, creditors of the New York Branch would have recourse against the Bank's non-U.S. branches, unless the Superintendent or other regulatory authorities were to make alternative arrangements for the payment of the liabilities of the New York Branch.

The Bank Holding Company Act of 1956, as amended (the "BHCA"), imposes significant restrictions on the Bank's U.S. non-banking operations and on the Bank's world-wide holdings of equity in companies operating in the United States. Under the Gramm-Leach-Bliley Act (the "GLBA"), which significantly modified these restrictions, qualifying bank holding companies and foreign banks that became "financial holding companies" were permitted to engage through nonbank subsidiaries in a broad range of nonbanking activities in the United States, including insurance, securities, merchant banking and other financial activities, in each case subject to regulatory requirements and limitations. The GLBA does not authorize banks or their affiliates to engage in commercial activities that are not financial in nature, and does not affect or enlarge the permitted activities of the New York Branch. At this time the Bank has not elected to become, and therefore is not, a financial holding company as defined in the GLBA. As a result, the Bank's nonbanking financial activities in the United States are generally limited to those that the Federal Reserve Board has determined to be "closely related to banking" under the BHCA.

The Bank is also required to obtain the prior approval of the Federal Reserve Board before acquiring, directly or indirectly, the ownership or control of more than 5% of any class of voting securities of any U.S. bank, bank holding company or certain other types of U.S. depository institution or depository institution holding company. Under federal banking law and regulations issued by the Federal Reserve Board, the New York Branch is also restricted from engaging in certain "tying" arrangements involving products and services.

The GLBA and the regulations issued thereunder contain a number of other provisions that affect the Bank's U.S. banking operations. One such provision relates to the financial privacy of consumers. In addition, the so-called "push-out" provisions of the GLBA narrow the exclusion of banks (including the New York Branch) from the definitions of "broker" and "dealer" under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). As a result, the New York Branch is restricted from engaging in securities activities that would require it to be registered as a broker-dealer with the SEC under the Exchange Act. The Bank would need to conduct such securities activities through a registered U.S. broker-dealer affiliate.

On July 21, 2010, the United States enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"), which provides a broad framework for significant regulatory changes that

extends to almost every area of U.S. financial regulation. While most of the rulemakings required by Dodd-Frank have been completed, the full implementation of Dodd-Frank involves ongoing detailed rulemaking and other regulatory initiatives by different U.S. regulators, including the Department of the Treasury, the Federal Reserve Board, the FDIC, the Office of the Comptroller of the Currency, the SEC, the Commodity Futures Trading Commission, the FSOC, and the Consumer Financial Protection Bureau. Any future regulatory reform could result in additional costs or limit or restrict the way we conduct our business.

Among other things, Dodd-Frank limits the ability of banking entities to sponsor or invest in private equity or hedge funds or to engage in certain types of proprietary trading in the United States unrelated to serving clients (the so called “Volcker Rule”). The five U.S. regulators with authority for rulemaking issued final regulations to implement the Volcker Rule in 2013 and finalized amendments to simplify and tailor compliance requirements related to the Volcker Rule in September and October 2019. The Volcker Rule does not have, and we do not anticipate that, in the future, it will have, a significant impact on our business activities.

Dodd-Frank also provides U.S. regulators with tools to impose greater capital, leverage and liquidity requirements and other prudential standards, particularly for financial institutions that pose significant systemic risk to the U.S. economy. However, in imposing heightened capital, leverage, liquidity, risk management and other enhanced prudential standards on non-U.S. banks, the Federal Reserve Board is directed to take into account the principle of national treatment and equality of competitive opportunity, and the extent to which the foreign bank is subject to comparable home country standards.

On May 24, 2018, the United States enacted the Economic Growth, Regulatory Relief, and Consumer Protection Act (the “Relief Act”) which adopts certain limited amendments to Dodd-Frank as well as certain other targeted modifications to other regulatory requirements. The Relief Act preserves the fundamental elements of the Dodd-Frank regulatory framework, including the enhanced prudential standards, but generally increases the asset threshold for their application from \$50 billion to \$250 billion. The Relief Act took effect immediately for bank holding companies and foreign banking organizations with under \$100 billion in total consolidated assets, such as the Bank. Accordingly, the Bank is no longer subject under Dodd-Frank to enhanced prudential standards with respect to stress testing, risk management, capital, liquidity, and resolution planning. The Relief Act did not eliminate the requirement that the Federal Reserve Board promulgate regulations requiring bank holding companies and foreign banking organizations with \$50 billion or more in total consolidated assets, such as the Bank, to establish a risk committee.

Dodd-Frank continues to provide for an extensive framework for the regulation of over-the-counter (“OTC”) derivatives, including mandatory clearing, exchange trading and transaction reporting of certain OTC derivatives, as well as rules regarding the registration of swap dealers and major swap participants, and related capital, margin, business conduct, recordkeeping, reporting and other requirements applicable to such entities. Dodd-Frank also includes “push-out” provisions that significantly limit or prohibit certain structured finance swaps entered into by the U.S. branches of non-U.S. banks. Dodd-Frank also requires broader regulation of hedge funds and private equity funds, and imposes new requirements with respect to asset securitization activities.

Dodd-Frank also expands the extraterritorial jurisdiction of U.S. courts over actions brought by the SEC or the United States with respect to violations of the antifraud provisions in the Securities Act of 1933, the Exchange Act and the Investment Advisers Act of 1940.

A major focus of U.S. policy and regulation relating to financial institutions has been to combat money laundering and terrorist financing and to ensure compliance with U.S. country, territory, and individual economic sanctions. U.S. economic sanctions are administered by the U.S. Office of Foreign Asset Control (“OFAC”). U.S. regulations applicable to the Bank (including the New York Branch) impose

obligations to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing, to verify the identity of their customers, report suspicious transactions and implement due diligence procedures for certain accounts. Failure of the Bank (including the New York Branch) to maintain and implement adequate programs to combat money laundering and terrorist financing, and to comply with U.S. economic sanctions, could have serious legal and reputational consequences.

The Bank provides financial services in several jurisdictions, which may from time to time include countries in which U.S. banks are prohibited from conducting business due to restrictions imposed by OFAC. The Bank does not believe its business activities with counterparties in, or directly relating to, such countries are material to its business. Such activities represented a very small part of the Bank's total assets and total revenues as of, and for the year ended, December 31, 2019.

MANAGEMENT

Executive Committee

The Organic Law provides that the senior management of the Bank shall be conducted by an Executive Committee made up of the Chairman, Vice-Chairman and Executive General Manager of the Bank. The current members of the Executive Committee are Arturo Tagle Quiroz (Chairman), Pablo Correa (Vice-Chairman) and Juan Cooper (Executive General Manager). Our General Counsel attends meetings of the Executive Committee but does not vote.

According to the Organic Law, the powers of the Executive Committee extend to all matters concerning the management and operation of the Bank. In this context the Executive Committee may agree, execute and deliver any act or agreement aimed to the satisfaction of the Bank's purpose and it is specially entrusted with:

- fixing the terms and conditions for the various transactions entered into by the Bank, such as guarantees, maximum amounts and interest rates, in accordance with the legal provisions governing the matter;
- ensuring compliance with its resolutions, rules and instructions;
- approving the annual budget for investments and expenditures, any amendments thereto, the financial statements and annual report;
- reporting to the Board of Directors annually on the Bank's operation and performance;
- approving the investment, purchase and sale of real estate, securities or other personal property;
- approving credit applications and other operations, the obtaining of domestic or foreign loans and the granting of bonds, collateral and other forms of securities;
- appointing senior management and reviewing the reports from the Executive General Manager and other senior management; and
- providing general instructions to management and personnel regarding our efficient and successful operation.

In managing the Bank, the Executive Committee is required to follow applicable laws and regulations, the policies and regulations issued by monetary authorities, and instructions of the Board of Directors and the Commission for the Financial Markets.

Board of Directors

The Bank's Board of Directors oversees the Bank's policies and operations and is in charge of its oversight (*dirección superior*). Pursuant to the Organic Law, the Board of Directors is formed by seven members, six of the members being appointed by the President of Chile and one member being elected by the Bank's employees. Employees are also entitled to elect an alternate member to the board. In addition, our General Counsel attends meetings of the Board of Directors but does not vote. The Chairman of the Bank is the Chairman of the Board of Directors and of the Executive Committee.

The duties of the Board of Directors include the following:

- setting the general policy of the Bank, establishing the general rules applicable to its transactions;
- issuing the Bank's internal regulations;
- approving the compensation system of the Bank's personnel;
- creating or eliminating branches in Chile or abroad;
- deciding on issues submitted to it by the Executive Committee;
- exercising the high-level supervision and control of the Bank by periodically reviewing its operations and activities;
- approving the annual report and financial results and reporting to the President of Chile on the Bank's operations and development; and
- proposing to the President of Chile the allocation of our net income at the end of each financial year.

The members of our Board of Directors are:

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Year Appointed</u>
Arturo Tagle.....	61	Chairman of the Board of Directors of the Bank and of the Executive Committee	2018
Pablo Correa.....	43	Vice-Chairman of the Board of Directors of the Bank and of the Executive Committee	2018
Paola Assael.....	51	Member	2018
Edmundo Eluchans	70	Member	2018
Susana Jiménez	51	Member	2019
Roberto Palumbo	70	Member	2018
Edith Signé.....	53	Member (Employee Representative)	2014
Jaime Soto.....	49	Alternate Member (Employee Representative)	2018

Arturo Tagle is the Chairman of our Board of Directors and of the Executive Committee, and was appointed to this position in 2018. Mr. Tagle has a degree in Commercial Engineering from the Pontificia Universidad Católica de Chile and a master's degree in Business Management from the University of Chicago. Mr. Tagle served at Banco de Chile from 1995 to 2017, where he was appointed General Manager from 2010 to 2016 and General Manager of the Sociedad Matriz del Banco de Chile from 1996 to 2017. Mr. Tagle also served as General Manager of the Asociación de Bancos e Instituciones Financieras (Banks and Financial Institutions Association). Prior to that, Mr. Tagle served at the CMF's Directorate of Studies, where he reached the position of Director. Mr. Tagle also served as Vice-President of the Directive Board of the *Instituto Inacap* (National Institute for Training) and as Director of Confuturo Compañía de Seguros de Vida. Mr. Tagle was a finance professor at the Pontificia Universidad Católica de Chile and at the Universidad Gabriela Mistral. Mr. Tagle is 61 years old.

Pablo Correa is the Vice-Chairman of our Board of Directors and of the Executive Committee, and was appointed to this position in April 2018. Mr. Correa holds a bachelor's degree in Business Administration and a master's degree in Economics from Pontificia Universidad de Católica de Chile, a master's degree in Public Administration and International Development from Harvard University, a master's degree in history from the Universidad del Desarrollo and a master's degree in liberal arts from the Universidad Adolfo Ibáñez. Before joining BancoEstado, Mr. Correa held the positions of Chief Economist at Banco Santander, Coordinator of Capital Markets and Advisor at the Ministry of Finance, Senior Economist at the Banco Central de Chile and Director at Essbio Utility Co. Mr. Correa is also a founding partner of Denk Consultores. He has also been professor of Macroeconomics at the Pontificia Universidad Católica de Chile and the Universidad de Chile. Mr. Correa is 43 years old.

Paola Assael is a member of our Board of Directors, and was appointed to this position in April 2018. Ms. Assael holds a bachelor's degree in Business Administration and a master's degree in Economics from the Pontificia Universidad Católica de Chile, as well as a master's degree in Marketing Research from the University of Georgia. She is a founding partner of Black & White, a consultancy company specialized in price and product optimization. She also served as a partner at EY Consultores (former Ernst & Young). Prior to that, Ms. Assael held the position of Manager of Competitive Intelligence at CMR Falabella, Advisor to the Chairman of Banco Central, and Strategic Planning Manager to Sebastian Piñera during 1997 to 2002. Ms. Assael was also professor of several courses at the Pontificia Universidad Católica de Chile. Ms. Assael is 51 years old.

Edmundo Eluchans is a member of our Board of Directors, and was appointed to this position in April 2018. Mr. Eluchans holds a law degree from the Pontificia Universidad Católica de Chile. Before joining our Board, Mr. Eluchans served in Congress as Representative for Districts corresponding to the districts of Algarrobo, Cartagena, Casablanca, El Quisco, El Tabo, San Antonio and Santo Domingo in 2005 and of Concón and Viña del Mar in 2009. Mr. Eluchans is partner at Eluchans Estudio de Abogados. Mr. Eluchans is 70 years old.

Susana Jiménez is a member of our Board of Directors, and was appointed to this position in June 2019. Mrs. Jiménez holds a degree in Commercial Engineering and a Master's Degree in Economics from the Pontificia Universidad Católica de Chile. Before joining our Board, Mrs. Jiménez was the Chilean Minister of Energy from 2018 to June 2019. Between 2010 and 2018, she served as Senior Economist and Deputy Director of the research center of Libertad y Desarrollo (Freedom and Development), a private research entity; as Associate Economist in the consulting firm P. Rojas y Asociados from 2002 to 2009; and as Chief Researcher at the consulting firm Zahler & Co. from 2000 to 2002. Further, from 2014 to 2018, she was a member of the board of Sociedad Chilena de Políticas Públicas; a member of the Consejo Consultivo de la Comisión Nacional de Energía y el Comité de Precio de Referencia del Cobre (National Energy Committee Consulting Council and Reference Copper Price Committee) in 2017; and a member of the Consejo Consultivo del Ministerio del Medio Ambiente (Ministry of Environment Consulting Committee) from 2014 to 2016. Mrs. Jiménez was also professor of Economics at the Pontificia Universidad Católica de Chile. Mrs. Jiménez is 51 years old.

Roberto Palumbo is a member of our Board of Directors, and was appointed to this position in April 2018. Mr. Palumbo holds a law degree from the Pontificia Universidad Católica de Chile. Before joining our Board, Mr. Palumbo was General Manager of Impresora Ograma; director of Banco Concepción and Edelnor; General Manager of the Santa Raquel construction company, Vice President of the Association of Printers, General Counsel of Sofofa and a member of the board of directors of Hípica Nacional. Currently, Mr. Palumbo is an alternate member of the board of Minería Amanecer. He held the position of Vice Chairman at BancoEstado in 2010. Mr. Palumbo is 70 years old.

Edith Signé has served as Employee Representative on our Board of Directors since September 2014. Edith is a preschool teacher with a degree from the Universidad Metropolitana de Ciencias de la Educación (UMCE, former Instituto Pedagógico, Universidad de Chile). Ms. Signé Rodríguez has also received a degree in Financial Engineering from the Instituto de Estudios Bancarios Guillermo Subercaseaux, an MA in Human Resource Management and Management Skills from the Institute for Executive Development Chile (IEDE), a diploma in Public Management and Women's Studies from the Instituto de Asuntos Públicos, Universidad de Chile and a diploma in Trade Union Studies and Management from the Facultad de Economía y Negocios, Universidad de Chile. Ms. Signé Rodríguez has worked at BancoEstado branches and central offices since 1995. Her first appointment was at the Bank's Ahumada branch, and she later served in both the Corporate Financial Department and the Institutional Banking Department. Ms. Signé Rodríguez also served as an advisor in the Human Resources Department and as a commercial advisor to the Metropolitan and Northern divisions, as well as to the Controller's Office. Ms. Signé Rodríguez was director of the Banco del Estado's National Workers' Union between 2004 and 2006, and the Union's Secretary General from 2006 to 2010, a post which she held again from 2012 to 2014. Ms. Signé Rodríguez is 53 years old.

Jaime Soto was elected as Alternate Employee Representative of our Board of Directors in August 2018. Mr. Soto joined the Bank in 1989. His first appointment was at the Quinta Normal branch. He later served as cashier at the Ahumada branch and at the headquarters' treasury. In 1997, Mr. Soto began working at the Operational Management Department in the implementations of projects. In 2001, Mr. Soto was appointed Head of Operations of the Santo Domingo office and later of the Paseo Huérfanos office, where he served until 2009. Since then, Mr. Soto served as Administrative Chief at the Bandera office and Administrative Cashier Chief and Administrative Chief of the Bank's headquarters. Mr. Soto is 49 years old.

Audit Committee

The Audit Committee is composed of three members appointed by the Board of Directors and two members appointed by the Executive Committee. Each of the Board of Directors and the Executive Committee is required to designate a member of the Audit Committee who is "technically qualified" and independent from the management and direction of the Bank. In addition, the Chief Executive Officer, the General Counsel and the Comptroller may participate in the Audit Committee without voting rights. The current members of the Audit Committee are Roberto Palumbo (President), Pablo Correa, Paola Assael and Guillermo Ramírez (independent) and Gustavo Favre Dominguez (independent). Guillermo Ramírez, former Superintendent of Banks, and Gustavo Favre Dominguez, former member of the Auditing and Compliance Committee of the Central Bank's Council, were appointed independent member by the Executive Committee and by the Board of Directors, respectively.

Executive Officers and Key Management

The Bank's executive officers and key management are:

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Year Appointed</u>
Juan Cooper	59	Executive General Manager and member of the Executive Committee	2018
Isabel Margarita Cabello	48	General Counsel	2018
Pedro Bolados	62	Corporate Comptroller	2009
Andrés Heusser	61	General Credit Manager	2018
Julio Guzmán	66	Chief Financial Officer	2018
Victoria Martínez	63	General Administration Manager	2008

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Year Appointed</u>
Marcelo García	44	Operations and Systems Manager	2019
Óscar González	64	Planning and Studies Manager	2000
Eduardo de Las Heras	56	Manager of Corporate Risk Management	2006
Alvaro del Barrio	52	Corporate Compliance Officer	2010

Juan Cooper has been our Executive General Manager and member of the Executive Committee since April 2018. Mr. Cooper holds a bachelor's degree in Business Administration from the Universidad de Chile and a master's degree in Business Administration from the Pontificia Universidad Católica de Chile. He has over 30 years of experience working in the banking sector, where he served as General Manager at CrediChile for 14 years, General Manager at the Banco Santander Life Insurance Company and Retail Divisional Manager at Banco Santiago. Mr. Cooper also served as member of the board of directors of Socofin S.A and of Banchile Corredores Seguros Limitada and of the Banking Committee of the Association of Banks and Financial Institutions. Mr. Cooper is 59 years old.

Isabel Margarita Cabello has been our General Counsel since October 2018. Ms. Cabello holds a Lawyer's degree from the Pontificia Universidad Católica and a master's degree in Business Law from the Universidad Adolfo Ibáñez. She has extensive knowledge in banking, insurance, capital markets, corporate governance and financing industry laws and regulations. Before assuming this position at BancoEstado, Ms. Cabello served as Manager of Legal Matters and Collections of Banco Falabella, as Attesting Minister in BancoEstado, Coordinating Lawyer of Grupo Corporativo y Finanzas and Director of BancoEstado Corredores de Bolsa. Ms. Cabello is 48 years old.

Pedro Bolados has been our Corporate Comptroller since August 2009. Mr. Bolados worked as Corporate Risk Manager for Antofagasta Minerals in 2009. Mr. Bolados was Corporate Comptroller of Banco de Chile from 2002 to 2008 as a result of the merger with Banco de A. Edwards, where Mr. Bolados previously held the same position since 1994. Mr. Bolados previously worked for Citibank from 1985 to 1994 in a variety of positions, culminating with Corporate Audit Vice President in Latin America. He holds a degree in auditing accounting from the Universidad de Chile and an executive master's degree in Business Administration from the Pontificia Universidad Católica de Chile. Currently, Mr. Bolados is serving as a member of the Surveillance Committee of the Central Securities Depositary (DCV). Mr. Bolados is 62 years old.

Andrés Heusser has been our General Credit Manager since September 2018. Mr. Heusser holds a Commercial Engineering degree and a master's degree in Business Management from the Universidad Adolfo Ibáñez. He has more than 39 years of experience and 23 years holding positions within the Chilean financial system. Mr. Heusser served as Divisional Manager of Empresas del Banco Santander during 19 years, where he gain extensive knowledge of the wholesale, real state, leasing, factoring and foreign trade sectors. Further, Mr. Heusser served as General Manager of General and Life Insurances, also within Banco Santander, and as President of the Board of Directors of Santander Asset Management S.A. In addition, Mr. Heusser was Vice-President of the Board of Directors of Redbanc and Director of Transbank S.A. Mr. Heusser is 61 years old.

Julio Guzmán has been our Chief Financial Officer since June 2018. Mr. Guzman holds a bachelor's degree in Business Administration from the Pontificia Universidad Católica de Chile. Prior to joining BancoEstado, Mr. Guzmán was General Manager of Banco Edwards, Manager at the Corporate, Infrastructure and International Divisions in Banco de Chile, member of the board of directors of Empresa de Servicios Sanitarios de Los Lagos (ESSAL SA), Director at Inmobiliaria Altas Cumbres, General Manager at Indiver S.A, Director at Administradora de Activos Financieros S.A. (ACFIN) and lately Director at Banco Consorcio, where he also acted as president of the audit committee and member of the

credit committee. Mr. Guzmán was also professor of several courses at the Industrial Engineering master's degree program of the Pontificia Universidad Católica de Chile. Mr. Guzmán is 66 years old.

Victoria Martínez has been General Administration Manager since 2008. Ms. Martínez has a degree in business from the Universidad de Chile and a specialization in occupational psychology from the Pontificia Universidad Católica de Chile. Ms. Martínez has previously served as General Administration Manager and Branch and Distance Banking manager until 2008, and has worked in our brokerage and fund management affiliates. Before her work at BancoEstado, Ms. Martínez worked as General Manager of AFP Futuro, Development Manager at AFP Protección, Commercial Manager at AFP Libertador, and was an employee at the Ministry of Transport and Telecommunications. Ms. Martínez is 63 years old.

Marcelo García has been our Operations and Systems Manager since March 2019. Mr. García has a degree in electronic civil engineering with a specialization in digital systems from the Universidad Federico Santa María and a certificate on innovation and entrepreneurship from the Stanford Graduate School of Business. Mr. García has vast experience in the management of operations, technology and systems, having served as Engineering and Software Development Manager, Technology Manager and Operations and Technology Manager at Motorola, Microsoft Corporation and BanChile Inversiones, respectively. Mr. García is 44 years old.

Óscar González has been Planning and Comptroller Manager since 2000. Mr. González has a degree in industrial engineering from the Universidad de Chile. Prior to becoming Planning and Comptroller Manager, Mr. González worked as General Manager of our collections affiliate. Before his service with BancoEstado, Mr. González was Risk Control Manager at CorpGroup, Director of Supervision at the CMF and Assistant Planning and Studies Manager at Banco Osorno y La Unión. Mr. González is 64 years old.

Eduardo de Las Heras has been Manager of Corporate Risk Management since 2006. Mr. de Las Heras has a degree in industrial engineering from the Pontificia Universidad Católica de Chile. Prior to 2006, Mr. de Las Heras was Personal, Micro and Small Business Risk Manager at BancoEstado. Before joining BancoEstado, Mr. de Las Heras was Assistant Manager and Manager of Business and Personal Credit at Banco de A. Edwards, Director of Credit at Banco HNS and Director of CDRS S.A. Mr. de Las Heras has also served as the Vice President of the Risk Committee of the Association of Banks and Financial Institutions and of Baned Servicios Financieros. Mr. de Las Heras is 56 years old.

Alvaro del Barrio has been our Corporate Compliance Officer since February 2010. Mr. del Barrio has a degree in law from the Pontificia Universidad Católica de Chile and has also studied economics at the Universidad de Chile. Before joining BancoEstado, Mr. del Barrio was the head of the Legal Department of the Financial Analysis Unit of the Ministry of Finance. Prior to the Ministry of Finance, Mr. del Barrio was President of the GAFISUD Law Group and also represented Chile at the OAS Interamerican Commission Drug Abuse Control Commission and the Organization of Economic Cooperation and Development. Mr. del Barrio is 52 years old.

Business Address

The business address of our Board of Directors, Executive Committee, Audit Committee and Executive Officers and Key Management is Banco del Estado de Chile, Avenida Bernardo O'Higgins 1111, Santiago, Chile.

Compensation

For the year ended December 31, 2019, the aggregate amount of compensation paid by us to all of the members of our Board of Directors was Ch\$759 million, including attendance fees and monthly

stipends. For the year ended December 31, 2019 the aggregate amount of compensation paid by us to all of our executive officers and key management was Ch\$3,913 million.

The total compensation for the members of our Board of Directors, Executive Committee and Key Management for the year ending December 31, 2017, 2018 and 2019 was Ch\$4,662 million, Ch\$5,049 million and Ch\$4,672 million, respectively.

Employees

As of December 31, 2019, on a consolidated basis, we and our subsidiaries had 14,851 employees, 9,897 of whom worked at the Bank and 4,954 of whom worked at our subsidiaries.

All of our employees have health and life insurance.

As of the date of this Prospectus, we enjoyed good relations with our employees and their unions, and, as required by our Organic Law, labor has a representative on the Board of Directors. See “Risk Factors—A Worsening of Labor Relations in Chile Could Impact Our Business.” As of December 31, 2019, 95.1% of our employees were unionized. See “Business—Employees.” The following chart summarizes the number of employees employed by us.

	At December 31,		
	2017	2018	2019
Employees			
Bank.....	10,262	10,123	9,897
<i>Subsidiaries:</i>			
BancoEstado S.A. Corredores de Bolsa.....	59	56	52
BancoEstado Corredores de Seguros S.A.....	128	124	120
BancoEstado S.A. Administradora General de Fondos.....	71	73	75
BancoEstado Microempresas S.A. Asesorías Financieras.....	1,246	1,251	1,242
BancoEstado Servicios de Cobranzas S.A.....	670	701	787
BancoEstado Centro de Servicios, S.A.....	1,675	1,594	1,616
BancoEstado Contacto 24 Horas S.A.	798	897	951
Sociedad de Servicios Transaccionales CajaVecina S.A.....	62	63	60
Sociedad de Promoción de Productos Bancarios S.A.....	7	-	-
Red Global S.A.	-	17	51
<i>Subtotal Subsidiaries</i>	4,716	4,776	4,954
Total	14,978	14,899	14,851
<i>Union</i>	12,424	13,847	14,128
<i>%Union</i>	82.9%	92.9%	95.1%
<i>Non-Union</i>	2,554	1,052	723
<i>%Non-Union</i>	17.1%	7.1%	4.9%

Shareholding

We are 100% owned by the Republic of Chile and our capital is not divided into shares or any other form of capital participation. Accordingly, no officer or member of our Board of Directors owns any of our capital stock.

Material Contracts

As of the date of this Prospectus, there were no material contracts that are reasonably likely to have a material effect on the Bank.

Conflicts of Interest

There are no potential conflicts of interest between any duties to the bank by any of the members of either the Board of Directors or management in respect of their private or other duties.

RELATED PARTY TRANSACTIONS

General

In the ordinary course of our business, we engage in a variety of transactions with certain of our affiliates and related parties. The Corporations Act requires that our transactions with related parties be on an arms' length basis or on similar terms to those customarily prevailing in the market. We are required to compare the terms of any such transaction to those prevailing in the market at the date the transaction is entered into. Directors of companies that violate this provision are personally liable for losses resulting from such violations. Under the General Banking Law, transaction between a bank and its affiliates are subject to certain additional restrictions. See "Regulation and Supervision—Lending Limits."

Under the Corporations Act, a "related transaction" is deemed to be any operation between the corporation and (i) one or more related persons under Article 100 of the Securities Market Act (see below), (ii) a director, manager, administrator, principal officer or liquidator of the corporation, by him/herself or on behalf of persons other than the corporation, or their respective spouses or blood or marriage relatives to the second degree, (iii) an entity of which any of the persons indicated in the previous numeral is the direct or indirect owner of ten percent or more of its capital or a director, manager or officer, (iv) a person or entity determined by the by-laws of the corporation or the board committee, and (v) an entity in which a director, manager, administrator, principal officer or liquidator of the corporation, has acted in any of those capacities during the immediately previous 18 months.

Article 100 of the Securities Market Act provides that the following persons are related to a company: (i) the other entities of the business conglomerate to which the company belongs, (ii) parents, subsidiaries and equity-method investors and investees of the company, (iii) all directors, managers, officers and liquidators of the company, and their spouses or blood relatives to the second degree, or any entity controlled, directly or indirectly, by any of the referred individuals, (iv) any person that, by him/herself or with other persons under a joint action agreement, may appoint at least one member of the management of the company or controls 10 percent or more of the capital or voting capital of a stock company, and (v) other entities or persons determined as such by the CMF.

A public corporation may only enter into a related transaction when its aim is to contribute to the corporate well-being, its conditions are consistent with the price, terms and conditions prevailing in the market and the corporation has followed the procedure indicated in the Corporations Act. The procedure to approve a related transaction can be summarized as follows: (i) the directors, managers, administrators, principal officers and liquidators involved in the potential transaction must give notice thereof to the board (these persons are obligated to disclose their interest in the transaction and their reasons to justify the convenience of the transaction for the corporation, both of which must be informed to the public), (ii) the absolute majority of the board – excluding any director involved in the transaction – must approve the transaction, (iii) the approval given by the board must be informed to the next shareholders' meeting, (iv) if the directors involved in the transaction form the majority of the board, the transaction may only be approved by the unanimity of the remaining directors or by two thirds of the issued voting shares in the corporation in an extraordinary shareholders' meeting, and (v) where the approval of the shareholders' meeting is required, the board will request an independent appraiser to submit to the shareholders the conclusions regarding the conditions of the transaction.

These rules are not applicable to non-material transactions in terms of amounts involved; customary transactions included in the ordinary course of business of the corporation, according to the policies approved by the board, which must be consistent with the corporate purpose of the corporation, and transactions with another entity of which the corporation owns at least 95% of its shares or rights.

Non-compliance with these rules does not invalidate the transaction but the persons involved will be obligated to transfer the benefit accrued thereby from the transaction to the corporation and are liable for the potential damages suffered by the corporation. These rules apply to all public corporations and to their subsidiaries, regardless of their corporate type. As of the date of this Prospectus, we were in compliance with these rules.

As of December 31, 2017, 2018 and 2019, loans (before allowances) to related parties totaled Ch\$11.5 billion (US\$18.8 million), Ch\$35.89 billion (US\$51.7 million) and Ch\$19.4 billion (US\$26.0 million), respectively. As of December 31, 2017, we had contingent loans and other loan commitments to related parties of Ch\$31.0 billion (US\$50.4 million). As of December 31, 2018, we had contingent loans and other loan commitments to related parties of Ch\$29.5 billion (US\$42.5 million). As of December 31, 2019, we had contingent loans to related parties of Ch\$30.1 billion (US\$40.2 million). As of December 31, 2017, 2018 and 2019, we had no other related party receivables.

During 2017, 2018 and 2019, we had the following income (expenses) from services provided to (by) related parties:

	Year ended December 31,					
	2017		2018		2019	
	Income	Expense	Income	Expense	Income	Expense
	(in millions of nominal Ch\$)					
Interest and inflation-indexing income (expenses).....	Ch\$ 1,777	Ch\$ (299)	Ch\$ 3,495	Ch\$ (870)	Ch\$ 3,427	Ch\$ (1,554)
Income (expenses) from commissions and services	174	—	282	—	356	—
Exchange differences	10	—	29	—	32	—
Expenses from operational support	—	(1,402)	—	(1,627)	—	(1,238)
Other expenses	—	(51)	—	(56)	—	(164)
Totals.....	Ch\$ 1,961	Ch\$ (1,752)	Ch\$ 3,806	Ch\$ (2,553)	Ch\$ 3,815	Ch\$ (2,956)

DESCRIPTION OF THE NOTES

General

The Notes will be (i) in the case of the Bank acting through its New York Branch, offered pursuant to the exemption from registration provided by Section 3(a)(2) of the Securities Act of 1933, or offered in reliance on the exemption from registration provided by Rule 144A only to QIBs; and (ii) in the case of the Bank acting directly through its principal office in the Republic of Chile, offered outside the United States to non-U.S. persons pursuant to Regulation S, or offered in reliance on the exemption from registration provided by Rule 144A only to QIBs. The Issuers may issue and have outstanding from time to time up to US\$3.5 billion principal amount in the aggregate of Medium-Term Notes (the “Notes”) under this Program. The minimum Specified Denomination of the 3(a)(2) Notes will be US\$250,000 (or equivalent thereof in other currencies) and integral multiples of US\$1,000 in excess thereof. If the Notes are admitted to trading on a European Economic Area or United Kingdom exchange or offered to the public in a Member State of the European Economic Area or in the United Kingdom in circumstances which require the publication of a prospectus under the Prospectus Regulation, the minimum Specified Denomination of the Notes will be Euro 100,000 (or, if the Notes are denominated in a currency other than the Euro, the equivalent amount in such currency) or such higher amount as may be allowed or required from time to time by the relevant Central Bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency. The Notes will have the terms described below, including, as described below, the terms specified in the Final Terms of the applicable Series of Notes, except that references below to interest payments and interest-related information do not apply to certain OID Notes (as defined in “Taxation”).

The Notes are to be issued under a Fiscal and Paying Agency Agreement dated as of January 25, 2012, as amended, among the Issuers, Deutsche Bank AG, London Branch, as fiscal agent (in such capacity, the “Fiscal Agent”), paying agent and transfer agent, Deutsche Bank Trust Company Americas, as U.S. paying agent, U.S. registrar and U.S. transfer agent, Deutsche Bank Luxembourg S.A., as the Luxembourg listing agent and registrar, and the other paying agents and transfer agents named therein, as further amended and supplemented from time to time (the “Fiscal Agency Agreement”), in registered or bearer form as specified in the applicable Final Terms. The following description of certain provisions of the Fiscal Agency Agreement do not purport to be complete, and are subject to, and are qualified in their entirety by reference to, all the provisions of the Fiscal Agency Agreement, including the definitions therein of certain terms.

The Issuers may, from time to time, re-open one or more Series of Notes and issue Additional Notes (as defined below in “Additional Notes”) with the same terms (including maturity and interest payment terms but excluding original issue date and offering price) as Notes issued on an earlier date; provided that a Series of Notes may not comprise both Notes in bearer form and Notes in registered form. After such Additional Notes are issued they will be fungible with the previously issued Notes if specified in the applicable Final Terms, provided further that if the Additional Notes are not fungible with the earlier Notes for United States federal income tax purposes, the Additional Notes will have a separate CUSIP number. Each such Series may contain one or more tranches of Notes (each, a “Tranche”) having identical terms, including the original issue date and the offering price; provided that a Tranche of Notes may not comprise both Notes in bearer form and Notes in registered form.

Each Note will be unsecured and will be a senior debt obligation that will rank *pari passu* in right of payment with all other unsecured and unsubordinated obligations of the Issuer thereof.

The Final Terms relating to a Tranche of Notes issued by either of the Issuers will describe the following terms: (i) the name of the relevant Issuer; (ii) the currency or composite currency in which the Notes of such Tranche will be denominated (each such currency or composite currency, a “Specified

Currency”) and, if other than the Specified Currency, the currency or composite currency in which payments of principal, premium, if any, and interest, if any, on the Notes of such Series will be made (the “Payment Currency”) and, if the Specified Currency or Payment Currency is other than U.S. Dollars, certain other terms relating to such Notes (a “Foreign Currency Note”) and such Specified Currency or Payment Currency; (iii) whether such Notes are Fixed Rate Notes or Floating Rate Notes (including whether such Notes are Regular Floating Rate Notes, Floating Rate/Fixed Rate Notes or Inverse Floating Rate Notes, each as defined below); (iv) the price at which such Notes will be issued (the “Issue Price”); (v) the date on which such Notes will be issued (the “Original Issue Date”); (vi) the date on which such Notes will mature, which date will be no less than one year and no more than thirty years following the Original Issue Date; (vii) if such Notes are Fixed Rate Notes, the rate per annum at which such Notes will bear interest, if any; (viii) if such Notes are Floating Rate Notes, the base rate (the “Base Rate”), the initial interest rate (the “Initial Interest Rate”), the minimum interest rate (the “Minimum Interest Rate”) (provided that if no Minimum Interest Rate is specified or if indicated that the Minimum Interest Rate is “not applicable,” the Minimum Interest Rate shall be zero), the maximum interest rate (the “Maximum Interest Rate”), the Interest Payment Dates, the period to maturity of the instrument, obligation or index with respect to which the calculation agent will calculate the interest rate basis or bases (the “Index Maturity”), the Spread and/or Spread Multiplier (all as defined below), if any; (ix) whether such Notes may be redeemed at the option of the relevant Issuer, or repaid at the option of the holder, prior to its stated maturity as described under “Optional Redemption” and “Repayment at the Noteholders’ Option; Repurchase” below, including, in the case of any OID Notes, the information necessary to determine the amount due upon redemption or repayment; (x) whether such Notes will be subject to repurchase upon a Change of Control as described under “Repurchase of Notes upon a Change of Control” below; and (xi) if such Notes are Additional Notes (as defined below), a description of the original issue date and aggregate principal amount of the prior Tranche of Notes having terms (other than the original issue date and offering price) identical to such Additional Notes. In addition, each Final Terms with respect to a Tranche of Notes will identify the Dealer(s) participating in the distribution of such Notes. See “Plan of Distribution.” Each Final Terms relating to Notes will be in, or substantially in, the relevant forms included under “Form of Final Terms” below.

Any relevant tax consequences associated with the terms of the Notes which have not been described under “Taxation—United States Federal Income Taxation” below will be described in a supplement to this Prospectus, as applicable.

If any Notes are to be issued as Foreign Currency Notes, the applicable Final Terms will specify the currency or currencies, which may be composite currencies, in which the purchase price of such Notes are to be paid by the purchaser, and the currency or currencies, which may be composite currencies, in which the principal at maturity or earlier redemption, premium, if any, and interest, if any, with respect to such Notes may be paid, if applicable. See “Special Provisions Relating to Foreign Currency Notes.”

Subject to such additional restrictions as are described under “Special Provisions Relating to Foreign Currency Notes,” Notes of each Tranche will mature on a day specified in the applicable Final Terms, as selected by the initial purchaser and agreed to by the relevant Issuer. Notwithstanding the foregoing, Notes will have a maturity of no less than one year and no more than thirty years following the Original Issue Date of such Notes. In the event that such maturity date of any Notes or any date fixed for redemption or repayment of any Notes (collectively, the “Maturity Date”) is not a Business Day (as defined below), principal and interest payable at maturity or upon such redemption or repayment will be paid on the next succeeding Business Day with the same effect as if such Business Day were the Maturity Date. No interest shall accrue for the period from and after the Maturity Date to such next succeeding Business Day. All Notes will be entitled to payment of the outstanding principal amount on their final maturity date.

“Business Day” means, unless otherwise specified in the applicable Final Terms, any day other than a Saturday or Sunday or any other day on which banking institutions are generally authorized or obligated by law or regulation to close in (i) the principal financial center of the country of the currency in which the Notes are denominated (if the Note is denominated in a Specified Currency other than Euro) and (ii) any additional financial center specified in the applicable Final Terms (as the case may be); *provided, however*, that with respect to Notes denominated in Euro, such day is a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System is open.

Forms of Notes

Bearer Notes

If specified in the applicable Final Terms, Notes of a Tranche (other than any Notes issued by the New York Branch) will be in bearer form (“Bearer Notes”) and will initially be represented by one or more temporary global Notes or permanent global Notes, without interest coupons attached and, in the case of definitive Notes, will be serially numbered and will:

(i) if any such global Note is intended to be issued in new global note form (“NGN”), as stated in the applicable Final Terms, be delivered to a common safekeeper (the “Common Safekeeper”) for Euroclear Bank SA/NV as operator of the Euroclear System (“Euroclear”) and Clearstream Banking, société anonyme (“Clearstream, Luxembourg”) (each an “ICSD” and together the “ICSDs”):

(a) *records of the ICSDs.* The principal amount and/or number of each Note represented by the global Note shall be the amount from time to time entered in the records of both ICSDs, *provided, however*, that the aggregate principal amount of Notes represented by a global Note shall be as set forth on the face of such note. The records of the ICSDs (which expression means the records that each ICSD holds for its customers which reflect the amount of such customer’s interest in the Notes) shall be conclusive evidence of the principal amount and/or number of each Note represented by the global Note and, for these purposes, a statement (which statement shall be made available to the bearer upon request) issued by an ICSD stating the principal amount and/or number of Notes so represented at any time shall be conclusive evidence of the records of the relevant ICSD at that time;

(b) on any redemption or payment of an installment or interest being made in respect of, or purchase and cancellation of, any of the Notes represented by such global Note the Issuer shall procure that details of any redemption, payment, or purchase and cancellation (as the case may be) in respect of the global Note shall be entered pro rata in the records of the ICSDs and, upon any such entry being made, the principal amount and/or number of the Notes recorded in the records of the ICSDs and represented by the global Note shall be reduced by the aggregate principal amount and/or number of the Notes so redeemed or purchased and cancelled or by the aggregate amount of such installment so paid; and

(ii) if any such global Note is to be issued in classic global note form (“CGN”), be delivered to a common depositary (the “Common Depositary”) for Euroclear and Clearstream, Luxembourg or any other recognized or agreed clearing system.

Bearer Notes in definitive form will be issued with coupons attached. Except as set out below, title to Bearer Notes and any coupons will pass by delivery. The Issuer, the Fiscal Agent and any Paying Agent

(as defined below) may deem and treat the bearer of any Bearer Note or coupon as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any global Note, without prejudice to the provisions set out in the next succeeding sentence. For so long as any of the Notes are represented by a global Note, each person who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes except in the case of manifest error) shall be treated by the Issuer, the Fiscal Agent and any Paying Agent as the holder of such principal amount of such Notes for all purposes other than with respect to the payment of principal or interest on the Notes, the right to which shall be vested, as against the Issuer, the Fiscal Agent and any Paying Agent solely in the bearer of the relevant global Note in accordance with and subject to its terms (and the expressions “Noteholder” and “Holder of Notes” and related expressions shall be construed accordingly). Notes which are represented by a global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear or of Clearstream, Luxembourg, as the case may be.

References herein to “Bearer Notes” shall, except where otherwise indicated, include interests in a temporary or permanent global Note as well as definitive Notes and any coupons attached thereto.

The applicable Final Terms will specify whether (i) United States Treasury Regulation §1.163-5(c)(2)(i)(C) (or a successor rule or, pursuant to published guidance, a rule identical to such rule), (the “TEFRA C Rules”), (ii) United States Treasury Regulation §1.163-5(c)(2)(i)(D) (or a successor rule or, pursuant to published guidance, a rule identical to such rule) (the “TEFRA D Rules”) or (iii) if the Notes do not have a maturity of more than 365 days (including unilateral rights to roll over or extend), neither the TEFRA C Rules nor the TEFRA D Rules, is applicable to the Notes. If so specified in the applicable Final Terms, in the case of a Bearer Note to which the TEFRA D Rules have not been specified to apply, the Bearer Notes may be represented upon issue by one or more permanent global Notes.

Each Bearer Note having a maturity of more than 365 days (including unilateral rights to roll over or extend) and interest coupons pertaining to such Note, if any, will bear the following legend: “Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in sections 165(j) and 1287(a) of the Internal Revenue Code.”

In general, Bearer Notes that are subject to the TEFRA C Rules or the TEFRA D Rules may not be offered, sold or delivered within the United States or to United States persons. In particular, if the applicable Final Terms specify that the TEFRA D Rules apply, the Bearer Notes may not be delivered, offered, sold or resold, directly or indirectly, in connection with their original issuance or during the Restricted Period (as defined below), in the United States (as defined below) or to or for the account of any United States person (as defined below), other than to certain persons as provided under United States Treasury Regulations. An offer or sale will be considered to be made to a person within the United States if the offeror or seller has an address within the United States for the offeree or purchaser with respect to the offer or sale. The Bearer Notes may only be presented for payment outside the United States to the Non-U.S. Paying Agent (as defined below). In addition, any underwriters, agents and dealers will represent that they have procedures reasonably designed to ensure that their employees or agents who are directly engaged in selling Bearer Notes are aware of the restrictions on the offering, sale, resale or delivery of Bearer Notes.

As used herein, “United States” means the United States (including the States and the District of Columbia), its territories and its possessions. “United States person” means (i) a citizen or resident of the United States, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States, any state thereof or the District of Columbia or (iii) an estate or a trust the income of which

is subject to U.S. federal income taxation regardless of its source. “Restricted Period” with respect to each Tranche of Notes means the period which begins on the earlier of the settlement date (or the date on which the Issuer receives the proceeds of the sale of Bearer Notes of such Tranche), or the first date on which the Bearer Notes of such Tranche are offered to persons other than the Dealers, and which ends 40 days after the settlement date (or the date on which the Issuer receives the proceeds of the sale of such Bearer Notes); provided that with respect to a Bearer Note held as part of an unsold allotment or subscription, any offer or sale of such Bearer Note by the Issuer or any Dealer shall be deemed to be during the Restricted Period. An “Ownership Certificate” is a certificate (in a form to be provided), signed or sent by the beneficial owner of the relevant Bearer Note or by a financial institution or clearing organization through which the beneficial owner holds the Bearer Note providing certification that the beneficial owner is not a United States person or person who has purchased for resale to any United States person as required by United States Treasury Regulations.

Unless otherwise specified in the applicable Final Terms, each Bearer Note will be represented initially by a temporary global Note, without interest coupons, which will (a) if the temporary global Note is intended to be issued in NGN form, as stated in the applicable Final Terms, be delivered on or prior to the Original Issue Date of the Tranche of Notes to a Common Safekeeper for Euroclear and Clearstream, Luxembourg or (b) if the temporary global Note is to be issued in CGN form, be delivered on or prior to the Original Issue Date of the Tranche of Notes to a Common Depositary for Euroclear and Clearstream, Luxembourg, or any other recognized or agreed clearing system in the case of a temporary global Note issued in CGN form. Upon deposit of each such temporary global Note, Euroclear or Clearstream, Luxembourg, as the case may be, will credit each subscriber with a principal amount of Notes equal to the principal amount thereof for which it has subscribed and paid. The interests of the beneficial owner or owners in a temporary global Note will be exchangeable after the expiration of the Restricted Period (the “Exchange Date”) for an interest in a permanent global Note which will (a) if the permanent global Note is intended to be issued in NGN form, as stated in the applicable Final Terms, be delivered to a Common Safekeeper for Euroclear and Clearstream, Luxembourg or (b) if the permanent global Note is not intended to be issued in NGN form, be delivered to a Common Depositary for Euroclear and Clearstream, Luxembourg, for credit to the account designated by or on behalf of the beneficial owner thereof, or for definitive Bearer Notes or definitive Registered Notes, as provided in the applicable Final Terms; *provided, however*, that such exchange will be made only upon receipt of Ownership Certificates in the case of Bearer Notes to which the TEFRA D Rules have been specified to apply.

If so specified in the applicable Final Terms, in the case of a Bearer Note to which the TEFRA D Rules have not been specified to apply, the Bearer Notes may be represented upon issue by one or more permanent global Notes.

Registered Notes

If specified in the applicable Final Terms, Notes of a Tranche will be in fully registered form (“Registered Notes”). The Registered Notes of each Tranche offered and sold in reliance on Regulation S, which will be sold to non-U.S. persons outside the United States, will be represented by a global note in registered form (a “Regulation S Global Note”). Prior to expiry of the distribution compliance period (as defined in Regulation S) applicable to each Tranche of Notes, beneficial interests in a Regulation S Global Note may not be offered or sold to, or for the account or benefit of, a U.S. person and such Regulation S Global Note will bear a legend regarding such restrictions on transfer.

The Registered Notes of each Tranche offered and sold by the New York Branch pursuant to the exemption from registration provided by Section 3(a)(2) of the Securities Act will be represented by a global Note in registered form (a “3(a)(2) Global Note”).

The Registered Notes of each Tranche offered and sold in the United States or to U.S. persons in exempt transactions pursuant to Rule 144A may only be offered and sold to “qualified institutional buyers” within the meaning of Rule 144A under the Securities Act. The Registered Notes of each Tranche sold to QIBs will be represented by a global note in registered form (a “Rule 144A Global Note” and, together with a 3(a)(2) Global Note and a Regulation S Global Note, the “Registered Global Notes”).

Registered Global Notes will either (i) be deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company (“DTC”), (ii) be deposited with a common depository for, and registered in the name of a common nominee of, Euroclear and Clearstream, Luxembourg, (iii) in the case of Registered Global Notes held under the new safekeeping structure for registered global securities which are intended to constitute eligible collateral for Eurosystem monetary policy and intra-day credit operations (“NSS”), be registered in the name of and delivered to the Common Safekeeper for Euroclear and/or Clearstream, Luxembourg, or (iv) be deposited with a custodian or depository for, and registered in the name of, a nominee of any other clearing system specified for a particular Tranche or Series of Notes, in each case, as specified in the applicable Final Terms (and in either case the “Register”). Persons holding beneficial interests in Registered Global Notes will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Notes in fully registered form.

The Rule 144A Global Note will be subject to certain restrictions on transfer set forth therein and will bear a legend regarding such restrictions.

Payments of principal, interest and any other amount in respect of the Registered Global Notes will be made to the person shown on the Register as the registered holder of the Registered Global Notes. None of the Issuers, any Paying Agent or any Registrar (as defined below) will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Registered Notes in definitive form will be made to the persons shown on the Register on the relevant Record Date (as defined below) immediately preceding the due date for payment in the manner provided in that paragraph.

Interests in a Registered Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Registered Notes without interest coupons, receipts or talons attached only upon the occurrence of an Exchange Event. For these purposes, “Exchange Event” means that (i) in the case of Notes registered in the name of a nominee for DTC, either DTC has notified the relevant Issuer that it is unwilling or unable to continue to act as depository for the Notes and no alternative clearing system is available or DTC has ceased to constitute a clearing agency registered under the Exchange Act, (ii) in the case of Notes registered in the name of a nominee for a common depository for Euroclear and Clearstream, Luxembourg, the relevant Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of fourteen days (other than by reason of holiday, statutory or otherwise) or have announced an intention to permanently cease business or have in fact done so and, in any such case, no successor clearing system is available or (iii) the relevant Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the Registered Global Note in definitive form.

In the event of the occurrence of an Exchange Event, DTC, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Registered Global Note) may give notice to the Registrar requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the relevant Issuer may also give notice to the relevant Registrar requesting

exchange. Any such exchange shall occur not later than ten days after the date of receipt of the first relevant notice by the relevant Registrar.

Exchange and Transfer of Notes

A temporary global Note will be exchangeable in whole but not in part for definitive Bearer Notes (i) if Euroclear and/or Clearstream, Luxembourg or any other agreed clearing system, as applicable, has informed the Issuer that it has or they have, as the case may be, ceased or will cease to act as the clearing system(s) in respect of the relevant temporary global Note or, (ii) if required by law; but only, in each case, in the case of Bearer Notes to which the TEFRA D Rules have been specified to apply, on or after the Exchange Date and upon delivery of Ownership Certificates. No definitive Bearer Note will be delivered in or to the United States, or to a United States person, except as specifically provided by applicable United States Treasury Regulations. In the event that the relevant temporary global Note is not, in the case of (i) or (ii) above, duly exchanged for definitive Bearer Notes then the terms of such temporary global Note provide for relevant account holders with Euroclear and Clearstream, Luxembourg and any other agreed clearing system, as applicable, to be able to enforce against the Issuer all rights which they would have had if they had been holding definitive Bearer Notes of the relevant value at the time of such event. Payments by the Issuer to the relevant account holders will be considered as payments to the relevant Noteholder and operate as full and final discharge to the relevant Issuer in this respect.

A permanent global Note will be exchangeable in whole but not in part for definitive Bearer Notes (i) if Euroclear and/or Clearstream, Luxembourg or any other agreed clearing system, as applicable, has informed the Issuer that it has or they have, as the case may be, ceased or will cease to act as the clearing system(s) in respect of the relevant permanent global Note or, (ii) if an Event of Default occurs, unless such event is remedied within seven days of its occurrence. In order to make such request the holder must, not less than 45 days before the date on which delivery of definitive Bearer Notes is required, deposit the relevant permanent global Note with the Non-U.S. Paying Agent (as defined below) at its specified office outside the United States for the purposes of the Notes with the form of exchange notice endorsed thereon duly completed. No definitive Bearer Note will be delivered in or to the United States, or to a United States person, except as specifically provided by applicable United States Treasury Regulations. In the event that the relevant permanent global Note is not, in the case of (i) or (ii) above, duly exchanged for definitive Bearer Notes then the terms of such permanent global Note provide for relevant account holders with Euroclear and Clearstream, Luxembourg and any other agreed clearing system, as applicable, to be able to enforce against the Issuer all rights which they would have had if they had been holding definitive Bearer Notes of the relevant value at the time of such event. Payments by the Issuer to the relevant account holders will be considered as payments to the relevant Noteholder and operate as full and final discharge to the relevant Issuer in this respect.

If specified in the applicable Final Terms, and subject to the terms of the Fiscal Agency Agreement, definitive Bearer Notes (along with all unmatured coupons, and all matured coupons, if any, in default) will be exchangeable at the option of the holder into Registered Notes of any authorized denominations of like tenor and in an equal aggregate principal amount, in accordance with the provisions of the Fiscal Agency Agreement at the office of the relevant Registrar or at the office of the Non-U.S. Transfer Agent outside the United States designated by the Issuer for such purpose. See “Registrar and Transfer Agents” below. Definitive Bearer Notes surrendered in exchange for Registered Notes after the close of business at any such office (i) on or after any record date for the payment of interest (a “Regular Record Date”) on a Registered Note on an Interest Payment Date (as defined below) and before the close of business at such office on the date prior to the relevant Interest Payment Date, or (ii) on or after any record date to be established for the payment of defaulted interest on a Registered Note (“Special Record Date”) and before the opening of business at such office on the related proposed date for payment of defaulted interest, shall be surrendered without the coupon relating to such date for payment of interest. Definitive Bearer Notes

will be exchangeable for definitive Bearer Notes in other authorized denominations, in an equal aggregate principal amount, in accordance with the provisions of the Fiscal Agency Agreement and at the offices of the Non-U.S. Paying Agent outside the United States appointed by the Issuer for such purpose. See “Registrar and Transfer Agents” below.

Registered Notes will be exchangeable for Registered Notes in other authorized denominations, in an equal aggregate principal amount upon surrender of any such Notes to be exchanged at the offices of the relevant Registrar or any transfer agent designated by the relevant Issuer for such purpose. Registered Notes will not be exchangeable for Bearer Notes. Registered Notes may be presented for registration of transfer at the offices of the relevant Registrar or any transfer agent designated by the relevant Issuer and for such purpose. See “Registrar and Transfer Agents” below. No service charge will be made for any registration of transfer or exchange of Notes but the relevant Issuer may require payment of a sum sufficient to cover any transfer taxes payable in connection therewith. Except as described above, Bearer Notes and any coupons appertaining thereto will be transferable by delivery. See “Form of Notes—Bearer Notes” above.

The Issuers shall not be required (i) to register the transfer of or exchange Notes to be redeemed for a period of fifteen calendar days preceding the first publication of the relevant notice of redemption, or if Registered Notes are outstanding and there is no publication, the mailing of the relevant notice of redemption, (ii) to register the transfer of or exchange any Registered Note selected for redemption or surrendered for optional repayment, in whole or in part, except the unredeemed or unpaid portion of any such Registered Note being redeemed or repaid, as the case may be, in part, (iii) to exchange any Bearer Note selected for redemption or surrendered for optional repayment, except that such Bearer Note may be exchanged for a Registered Note of like tenor, provided that such Registered Note shall be simultaneously surrendered for redemption or repayment, as the case may be, or (iv) to register transfer of or exchange any Notes surrendered for optional repayment, in whole or in part.

Payments and Paying Agents

Pursuant to the Fiscal Agency Agreement, the Issuers have initially designated Deutsche Bank AG, London Branch as its non-U.S. Paying agent (in such capacity, and including any successor non-U.S. paying agent appointed thereunder, the “Non-U.S. Paying Agent”) and Deutsche Bank Trust Company Americas as its U.S. paying agent for Notes sold within the United States (in such capacity and including any successor U.S. paying agent appointed thereunder, the “U.S. Paying Agent,” and together with the Non-U.S. Paying Agent and any other paying agents appointed by the Issuers, the “Paying Agents”).

Principal and premium, if any, and interest, if any, payable on a Bearer Note represented by a temporary global Note or any portion thereof in respect of an Interest Payment Date will be paid in the Specified Currency (unless otherwise specified in the applicable Final Terms) by the Non-U.S. Paying Agent to each of Euroclear and Clearstream, Luxembourg, as the case may be, with respect to that portion of such temporary global Note held for its account (upon presentation to the Non-U.S. Paying Agent of the temporary global Note, if the temporary global Note is not issued in NGN form) and, in the case of a Note to which the TEFRA D Rules have been specified to apply, upon delivery of an Ownership Certificate signed by Euroclear or Clearstream, Luxembourg, as the case may be, dated no earlier than such Interest Payment Date, which certificate must be based on Ownership Certificates provided to Euroclear or Clearstream, Luxembourg, as the case may be, by its member organizations. Each of Euroclear and Clearstream, Luxembourg, as the case may be, will in such circumstances credit any principal and interest received by it in respect of such temporary global Note or any portion thereof to the accounts of the beneficial owners thereof.

Principal and premium, if any, and interest, if any, payable on a Bearer Note represented by a permanent global Note in respect of an Interest Payment Date will be paid in the Specified Currency (unless otherwise specified in the applicable Final Terms) by the Non-U.S. Paying Agent to each of Euroclear and Clearstream, Luxembourg, as the case may be, with respect to that portion of such permanent global Note held for its account (upon presentation to the Non-U.S. Paying Agent of the permanent global Note if the permanent global Note is not issued in NGN form). Each of Euroclear and Clearstream, Luxembourg will in such circumstances credit any principal and interest received by it in respect of such permanent global Note to the respective accounts of the beneficial owners of such permanent global Note at maturity, redemption or repayment or on such Interest Payment Date, as the case may be. If a Registered Note is issued in exchange for a permanent global Note after the close of business at the office or agency where such exchange occurs (a) on or after any Regular Record Date and before the opening of business at such office or agency on the relevant Interest Payment Date, or (b) on or after any Special Record Date and before the opening of business at such office or agency on the related proposed date for payment of defaulted interest, any interest or defaulted interest, as the case may be, will not be payable on such Interest Payment Date or proposed date for payment, as the case may be, in respect of such Registered Note, but will be payable on such Interest Payment Date or proposed date for payment, as the case may be, only to Euroclear and Clearstream, Luxembourg, and Euroclear and Clearstream, Luxembourg will in such circumstances credit any such interest to the account of the beneficial owner of such permanent global Note on such Regular Record Date or Special Record Date, as the case may be. Payment of principal and of premium, if any, and any interest due at maturity, redemption or repayment (in the event, with respect to payment of interest, that any such maturity date or redemption or repayment date is other than an Interest Payment Date) in respect of any permanent global Note will be made to Euroclear and Clearstream, Luxembourg in immediately available funds.

Payments of principal and of premium, if any, and interest on definitive Bearer Notes will be made in immediately available funds in the Specified Currency (unless otherwise provided in the applicable Final Terms), subject to any applicable laws and regulations, only against presentation and surrender of such Note and any coupons at the offices of the Non-U.S. Paying Agent outside the United States or, at the option of the holder, by check or by wire transfer of immediately available funds to an account maintained by the payee with a bank located outside the United States if appropriate wire instructions have been received by the Non-U.S. Paying Agent not less than 10 calendar days prior to an applicable payment date. No payment with respect to any Bearer Note will be made at any office or agency of the Issuers in the United States or by check mailed to any address in the United States, or by wire transfer to an account maintained with a bank located in the United States, except as may be permitted under United States federal tax laws and regulations then in effect. Notwithstanding the foregoing, payments of principal and of premium, if any, and interest on Bearer Notes denominated and payable in U.S. Dollars will be made at the office of the paying agent of the relevant Issuer, in the Borough of Manhattan, The City of New York, if and only if (i) payment of the full amount thereof in U.S. Dollars at all offices or agencies outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions and (ii) such paying agent in the Borough of Manhattan, The City of New York, under applicable law and regulations, would be able to make such payment.

Payment of principal and of premium, if any, and interest on Registered Notes at maturity or upon redemption or repayment will be made in immediately available funds in the Specified Currency (unless otherwise provided in the applicable Final Terms) against presentation of such Note at the office of the relevant Paying Agent. Payment of interest on Registered Notes will be made to the person in whose name such Note is registered at the close of business on the Regular Record Date next preceding the Interest Payment Date either by check mailed to the address of the person entitled thereto as such address shall appear in the security register or by wire transfer to an account selected by the person entitled thereto if appropriate wire instructions have been received by the relevant Paying Agent not less than 10 calendar days prior to the applicable payment date; *provided, however*, that (i) if the relevant Issuer fails to pay such

interest on such Interest Payment Date, such defaulted interest will be paid to the person in whose name such Note is registered at the close of business on the Special Record Date and (ii) interest payable at maturity, redemption or repayment will be payable to the person to whom principal shall be payable. The first payment of interest on any Registered Note originally issued between a Regular Record Date and an Interest Payment Date will be made on the Interest Payment Date following the next succeeding Regular Record Date to the registered owner on such next Regular Record Date.

Payments of principal, interest and any other amount in respect of the Registered Notes will, in the absence of provision to the contrary, be made to the person shown on the Register on the relevant Record Date (as defined below) as the registered holder of the Registered Notes. None of the Issuers, any Paying and Transfer Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests. Payments of interest in respect of Registered Notes shall be made to the person shown on the Register at the close of business on the:

- (i) 15th calendar day prior to the Entitlement date, in the case of (a) all definitive Registered Notes and (b) non-U.S. dollar denominated global Registered Notes deposited with DTC; and
- (ii) on the Business Day prior to the Entitlement date, in the case of all other global Registered Notes,

(any such day in respect of a particular Series of Notes, the “Record Date”).

So long as any Notes are listed and/or admitted to trading on or by any stock exchange, competent authority and/or market, there will at all times be a Paying Agent with a specified office in each location, if any, required by the rules and regulations of the relevant stock exchange(s), competent authority(ies) and/or market(s) on or by which such Notes are listed and/or admitted to trading. So long as any Notes are listed and/or admitted to trading on or by any stock exchange, competent authority and/or market and the rules of such exchange, competent authority and/or market so require, the relevant Issuer will notify the holders of its Notes in the manner specified under “Notices” below in the event that such Issuer appoints a Paying Agent with respect to such Notes other than the Paying Agents designated as such in this Prospectus or in the applicable Final Terms

All moneys paid by the Issuers to any Paying Agent for the payment of any amounts payable on any Notes which remain unclaimed at the end of three years after such amounts shall have become due and payable shall be repaid to the Issuers and the holders of the Notes shall thereafter look only to the Issuers for payment. The Notes shall become void unless presented for payment within a period of ten years (in the case of principal) and five years (in the case of interest) after the Relevant Date therefor.

“Entitlement” is defined to include any distribution of cash or securities, being the payment due date, as determined by the terms and conditions, for cash or the settlement date for securities.

“Relevant Date” means the date on which such payment first becomes due, except that, if the full amount of moneys payable has not been duly received by the Fiscal Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the holders of the Notes as described under “Notices” below.

Registrar and Transfer Agents

Pursuant to the Fiscal Agency Agreement, the Issuers have initially designated Deutsche Bank Trust Company Americas as U.S. registrar in respect of the 3(a)(2) Global Notes, the Rule 144A Global Notes and also the Regulation S Global Notes which are deposited with a custodian for, and registered in the name of a nominee of, DTC (in such capacity and including any successor U.S. registrar appointed thereunder, the “U.S. Registrar”). Additionally, the Issuers have initially designated Deutsche Bank Luxembourg S.A., as Luxembourg registrar in respect of the Regulation S Global Notes which are deposited with a common depository for, and registered in the name of a common nominee of Euroclear, Clearstream or any other clearing system (in such capacity and including any successor Luxembourg registrar appointed thereunder, the “Luxembourg Registrar,” and, together with the U.S. Registrar and any other registrar appointed by the Issuers, the “Registrars”). The Issuers have initially designated Deutsche Bank AG, London Branch as non-U.S. transfer agent in respect of the Notes (in such capacity and including any successor non-U.S. transfer agent appointed thereunder, the “Non-U.S. Transfer Agent”). Additionally, the Issuers have initially designated Deutsche Bank Trust Company Americas as U.S. transfer agent in respect of the Notes (in such capacity and including any successor U.S. transfer agent in respect of the Notes, the “U.S. Transfer Agent” and, together with the Non-U.S. Transfer Agent and any other transfer agent appointed by the Issuers, the “Transfer Agents”). For so long as any Notes are listed and/or admitted to trading on or by any stock exchange, competent authority and/or market, the Issuers will maintain a Transfer Agent with a specified office in each location required by the rules and regulations of the relevant stock exchange, competent authority and/or market. Any initial designation by the Issuers of the Registrar or a Transfer Agent may be rescinded at any time. The Issuers may at any time designate additional Transfer Agents with respect to the Notes. So long as any Notes are listed and/or admitted to trading on or by any stock exchange, competent authority and/or market and the rules of such exchange, competent authority and/or market so require, the relevant Issuer will notify the holders of its Notes in the manner specified under “Notices” below in the event that such Issuer appoints a Registrar or Transfer Agent with respect to such Notes other than the Registrar and Transfer Agents designated as such in this Prospectus or in the applicable Final Terms.

Optional Redemption

Each applicable Final Terms will indicate either that the relevant Tranche of Notes of a Series cannot be redeemed prior to maturity (other than as provided under “Redemption Prior to Maturity Solely for Taxation Reasons” below) or that the Notes will be redeemable at the option of the Issuer, and such Final Terms shall specify the price at which such Notes are to be redeemed (which price shall in no event be less than 100% of the outstanding principal amount of the Notes to be redeemed), including but not limited to, any “Make-Whole Amount” (the “Optional Redemption Price”) and the relevant date upon which such Notes will be so redeemed (each such date, an “Issuer Optional Redemption Date”); *provided, however*, that Notes denominated in currencies other than U.S. Dollars may be subject to different restrictions on redemption as set forth under “Special Provisions Relating to Foreign Currency Notes—Minimum Denominations, Restrictions on Maturities, Repayment, Repurchase and Redemption” herein. Notice of any redemption to holders of Bearer Notes shall be published as described under “Notices” below once in each of three successive calendar weeks, the first publication to be not less than 30 nor more than 60 calendar days prior to the Issuer Optional Redemption Date. Notice of redemption to holders of Registered Notes shall be provided as described under “Notices” below at least 30 calendar days and not more than 60 calendar days prior to the Issuer Optional Redemption Date.

Optional Redemption with a Make-Whole Amount

If the applicable Final Terms indicate that the Tranche of U.S. dollar-denominated Notes of a Series are redeemable by the relevant Issuer at any time, at its option, at an Optional Redemption Price equal to

the principal amount of the Notes plus a Make-Whole Amount, which will be calculated by the person specified in the Final Terms, the following shall apply to such Tranche of Notes:

The relevant Tranche of Notes will be redeemable by the relevant Issuer prior to maturity in whole, but not in part, on the Issuer Optional Redemption Date at an Optional Redemption Price equal to the greater of (i) 100% of the principal amount thereof, and (ii) the sum of the present values of the Remaining Scheduled Payments of principal and interest on the Notes to be redeemed (exclusive of interest accrued to the applicable Issuer Optional Redemption Date) discounted to that Issuer Optional Redemption Date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus a spread to be indicated in the applicable Final Terms (the “Make-Whole Premium”); plus, in the case of both clause (i) and clause (ii) above, accrued and unpaid interest, and additional amounts, if any.

Notwithstanding the foregoing, installments of interest on the Notes to be redeemed that are due and payable on or prior to an Issuer Optional Redemption Date will be payable to the holders of those Notes registered as such at the close of business on the relevant Record Dates according to the terms and provisions of the Fiscal and Paying Agency Agreement.

In connection with such optional redemption with a Make-Whole Amount, the following defined terms apply:

“Comparable Treasury Issue” means the United States Treasury security or securities selected by the Independent Investment Banker as having an actual or interpolated maturity comparable to the remaining term of the Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate Notes of comparable maturity to the remaining term of the Notes.

“Comparable Treasury Price” means, with respect to any redemption date, (A) the average of the Reference Treasury Dealer Quotations for that Issuer Optional Redemption Date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or (B) if the Independent Investment Banker for the Notes obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

“Independent Investment Banker” means one of the Reference Treasury Dealers appointed by the relevant Issuer to act as the “Independent Investment Banker.”

“Reference Treasury Dealer” means each of the entities named in the applicable Final Terms and their respective successors and two other nationally recognized investment banking firms that are Primary Treasury Dealers specified from time to time by us; provided, that if any of the foregoing shall cease to be a primary U.S. Government securities dealer in the United States of America (a “Primary Treasury Dealer”), the relevant Issuer shall substitute therefor another nationally recognized investment banking firm that is a Primary Treasury Dealer.

“Reference Treasury Dealer Quotation” means, with respect to each Reference Treasury Dealer and any Issuer Optional Redemption Date, the average, as determined by the Independent Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Investment Banker by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the third Business Day preceding that Issuer Optional Redemption Date.

“Remaining Scheduled Payments” means, with respect to each Note to be redeemed, the remaining scheduled payments of the principal thereof and interest thereon that would be due after the related Issuer Optional Redemption Date but for such redemption; provided, that, if that Issuer Optional Redemption Date is not an Interest Payment Date with respect to such Notes, the amount of the next succeeding scheduled interest payment thereon will be reduced by the amount of interest accrued thereon to that Issuer Optional Redemption Date.

“Treasury Rate” means, with respect to any Issuer Optional Redemption Date, the rate per annum equal to the semi-annual equivalent yield to maturity (computed as of the third Business Day immediately preceding that redemption date) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for that Issuer Optional Redemption Date.

On and after any Issuer Optional Redemption Date, interest will cease to accrue on the Notes called for redemption.

Repayment at the Noteholders’ Option; Repurchase

If applicable, the Final Terms applicable to the Notes of a Tranche will indicate that such Notes will be repayable at the option of the holder on a date or dates specified prior to their stated maturity date (such option, “Optional Repayment” and each such date, a “Noteholder Optional Redemption Date”) and, unless otherwise specified in the applicable Final Terms, at a price equal to 100% of the principal amount outstanding thereof, together with accrued interest to, but not including, the relevant Noteholder Optional Redemption Date; *provided, however*, that Notes denominated in currencies other than U.S. Dollars may be subject to different restrictions on repayment as set forth under “Special Provisions Relating to Foreign Currency Notes—Minimum Denominations, Restrictions on Maturities, Repayment and Redemption” herein. If no Noteholder Optional Redemption Date is included with respect to a Note, such Note will not be repayable at the option of the holder prior to its maturity.

In order for such a Note to be repaid, and unless provided otherwise in the applicable Final Terms, the relevant Paying Agent must receive at least 10 but not more than 60 calendar days prior to the Noteholder Optional Redemption Date, (i) the Note with the form entitled “Option to Elect Repayment” on the reverse of the Note duly completed or (ii) a telegram, facsimile transmission or letter from a commercial bank or trust company in Western Europe or the United States which must set forth the name of the holder of the Note (in the case of a Registered Note only), the principal amount of the Note, the principal amount of the Note to be repaid, the certificate number or a description of the tenor and terms of the Note, a statement that the option to elect repayment is being exercised thereby and a guarantee that the Note to be repaid, together with the duly completed form entitled “Option to Elect Repayment” on the reverse of the Note, will be received by the Paying Agent not later than the fifth Business Day after the date of such telegram, facsimile transmission or letter; *provided, however*, that such telegram, facsimile transmission or letter from a commercial bank or trust company in Western Europe or the United States shall only be effective in such case if such Note and form duly completed are received by the relevant Paying Agent by such fifth Business Day. In the case of Global Notes, holders who wish to tender their Notes will be required to comply with the operating procedures for the relevant clearing system where such Notes are deposited. Exercise of the repayment option by the holder of a Note will be irrevocable. The repayment option may be exercised by the holder of a Note for less than the entire principal amount of the Note but, in that event, the principal amount of the Note remaining outstanding after repayment must be an authorized denomination. Partial redemption with respect to Notes in NGN form will be reflected in the records of Euroclear and Clearstream, Luxembourg as either pool factor (whereby a percentage reduction is applied to the nominal amount) or reduction in nominal amount, at their discretion.

The Issuers may at any time purchase Notes at any price in the open market or otherwise. Notes purchased by the Issuers will be surrendered to the Fiscal Agent for cancellation.

Repurchase of Notes upon a Change of Control

If applicable, the Final Terms applicable to the Notes of a Tranche will indicate that upon the occurrence of a Change of Control (as defined below), unless the optional redemption described under “Optional Redemption” above has been exercised by the relevant Issuer with respect to such Tranche of Notes, the relevant Issuer will be required to make an offer to each holder of the Notes of such Tranche to repurchase all or any part (equal to Euro 100,000 or any integral multiple of Euro 1,000 thereof, or if the Notes are denominated in a currency other than the Euro, the equivalent amount in such currency) of such holder’s Notes, at such holder’s option, prior to their stated maturity date (such offer, “Change of Control Offer”) at a price equal to 100% of the principal amount outstanding thereof, together with accrued interest to, but not including, the relevant Change of Control Payment Date (as defined below) (the “Change of Control Payment”), unless otherwise specified in the applicable Final Terms and subject to the right of the holders of the Notes on the relevant Record Date to receive interest due on the relevant Interest Payment Date; *provided, however*, that Notes denominated in currencies other than U.S. Dollars may be subject to different restrictions on repurchase as set forth under “Special Provisions Relating to Foreign Currency Notes—Minimum Denominations, Restrictions on Maturities, Repayment, Repurchase and Redemption” herein.

Within 30 days following the date upon which the Change of Control occurred, or, at the option of the relevant Issuer, prior to any Change of Control but after public announcement of the transaction(s) constituting or that may constitute such Change of Control, a notice will be mailed to holders of Notes of a Tranche which contain this provision in the Final Terms (each, a “Change of Control Notice”) by the relevant Issuer through the Fiscal Agent and the relevant Paying Agents describing the transaction(s) constituting or that may constitute such Change of Control and making the Change of Control Offer to repurchase all such Notes on the date specified in the Change of Control Notice, which date will be no earlier than 30 days and no later than 60 days from the date such notice is mailed or, if the notice is mailed prior to the Change of Control, no earlier than 30 days and no later than 60 days from the date on which the Change of Control with respect to the Notes occurs (the “Change of Control Payment Date”). On and after any Change of Control Payment Date, interest will cease to accrue on the Notes called for redemption.

Any Change of Control Offer made prior to the occurrence of a Change of Control but after public announcement thereof will be contingent upon consummation of such Change of Control on or prior to the Change of Control Payment Date.

In order for Notes tendered by the holders thereof to be repurchased pursuant to the Change of Control Offer, and unless provided otherwise in the applicable Final Terms, the relevant Paying Agent must receive at least 10 calendar days but not more than 60 calendar days prior to Change of Control Payment Date, (i) the Notes with the form entitled “Option to Elect Repurchase” on the reverse of the Notes duly completed or (ii) a telegram, facsimile transmission or letter from a commercial bank or trust company in Western Europe or the United States which must set forth the name of the holder of the Note (in the case of a Registered Note only), the principal amount of the Note, the principal amount of the Note to be repurchased, the certificate number or a description of the tenor and terms of the Note, a statement that the option to elect repurchase is being exercised thereby and a guarantee that the Note to be repurchased, together with the duly completed form entitled “Option to Elect Repurchase” on the reverse of the Note, will be received by the Paying Agent not later than the fifth Business Day after the date of such telegram, facsimile transmission or letter; *provided, however*, that such telegram, facsimile transmission or letter from a commercial bank or trust company in Western Europe or the United States shall only be effective in such case if such Note and form duly completed are received by the relevant Paying Agent by such fifth Business

Day. In the case of Global Notes, holders who wish to tender their Notes will be required to comply with the operating procedures for the relevant clearing system where such Notes are deposited. Acceptance of the Change of Control Offer by the holder of a Note will be irrevocable. The Change of Control Offer may be accepted by the holder of a Note in respect of less than the entire principal amount of the Note but, in that event, the principal amount of the Note remaining outstanding after repurchase must be an authorized denomination. Partial repurchase with respect to Notes in NGN form will be reflected in the records of Euroclear and Clearstream, Luxembourg as a reduction in nominal amount.

On the Change of Control Payment Date, the relevant Issuer shall, to the extent lawful:

- (i) accept for payment all Notes or portions of Notes properly tendered pursuant to the Change of Control Offer;
- (ii) deposit with the relevant Paying Agents an amount equal to the Change of Control Payment in respect of all Notes or portions of Notes properly tendered; and
- (iii) deliver or cause to be delivered to the Fiscal Agent the Notes properly accepted together with an officers' certificate stating the aggregate principal amount of Notes or portions of Notes being repurchased.

The relevant Issuer shall publicly announce the results of the Change of Control Offer on or as soon as possible after the Change of Control Payment Date.

For purposes of this section "Repurchase of Notes upon a Change of Control," the following capitalized terms have the following meanings:

"Capital Stock" means, with respect to any person, any and all shares of stock of a corporation, partnership interests or other equivalent interests (however designated, whether voting or non-voting) in such person's equity, entitling the holder to receive a share of the profits and losses, and a distribution of assets, after liabilities, of such person.

"Change of Control" means the occurrence of any of the following:

- (i) the Republic of Chile ceases to (a) be the beneficial owner (as defined in Rules 13d-3 and 13d-5 under the Exchange Act), directly or indirectly, of at least 50% of the outstanding Capital Stock of BancoEstado or (b) possess, directly or indirectly, the power to direct or cause the direction of BancoEstado's management and policies, whether through the ownership of voting securities, by contract or otherwise;
- (ii) the direct or indirect sale, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of BancoEstado's assets and the assets of its subsidiaries, taken as a whole, to one or more persons (as defined in Section 13(d)(3) of the Exchange Act), other than to BancoEstado or one of its subsidiaries; or
- (iii) the adoption of a plan relating to the liquidation or dissolution of BancoEstado.

Except as described above, the Fiscal Agency Agreement does not contain provisions permitting holders of the Notes to require the Issuers to purchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction.

The Issuers will not be required to make a Change of Control Offer if a third party makes such Change of Control Offer in the manner, at the time and otherwise in compliance with the requirements for Change of Control Offer required to be made by the Issuers and the third party properly completes such Change of Control Offer and repurchases all Notes properly tendered pursuant to such Change of Control Offer.

The Issuers will not repurchase any Notes if on the Change of Control Payment Date an event of default under the Fiscal Agency Agreement has occurred and is continuing, other than a default in the payment of the Change of Control Payment upon a Change of Control.

The Issuers will comply in all material respects with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent those laws and regulations are applicable to the Change of Control Offer. To the extent that the provisions of any such securities laws or regulations conflict with the provisions of the Fiscal Agency Agreement applicable to the Change of Control Offer, those securities laws and regulations shall prevail and the Issuers will not be deemed to have breached their obligations under the Fiscal Agency Agreement or the Notes as a consequence of compliance with such securities laws and regulations.

Redemption Prior to Maturity Solely for Taxation Reasons

The relevant Issuer may at its election, subject to applicable law, redeem any Series of the Notes in whole, but not in part, upon giving not less than 30 nor more than 60 days' notice to the holders of the Notes of such Series, at their principal amount outstanding, plus additional amounts, if any, together with accrued but unpaid interest to the date fixed for redemption, if:

- (i) the relevant Issuer certifies to the Fiscal Agent and any relevant Paying Agent immediately prior to the giving of such notice that the relevant Issuer has or will become obligated to pay additional amounts with respect to each such Series of Notes in excess of the additional amounts payable in respect of the 4.0% Chilean withholding tax currently imposed on payments of interest on each such Series of Notes as a result of any change in or amendment to the laws or regulations of the Republic of Chile or any political subdivision or governmental authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment occurs after the date of issuance of each such Series of Notes; and

- (ii) such obligation cannot be avoided by the relevant Issuer taking reasonable measures available to such Issuer;

provided, however, that no such notice of redemption shall be given earlier than 60 days prior to the earliest date on which the relevant Issuer would be obligated to pay such additional amounts if a payment in respect of any such Series of Notes were then due. For the avoidance of doubt, a change in the jurisdiction of the Paying Agents shall be considered a reasonable measure.

Before giving notice of redemption, the relevant Issuer shall deliver to the Fiscal Agent and any relevant Paying Agents an officers' certificate stating that the relevant Issuer is entitled to effect such redemption in accordance with the terms set forth in the Fiscal Agency Agreement and setting forth in reasonable detail a statement of the facts relating thereto. The statement will be accompanied by a written opinion of counsel to the effect, among other things, that:

- (i) the relevant Issuer has become obligated to pay the additional amounts as a result of a change or amendment described above;

(ii) the relevant Issuer cannot avoid payment of the additional amounts by taking reasonable measures available to such Issuer; and

(iii) all governmental approvals necessary for the relevant Issuer to effect the redemption have been obtained and are in full force and effect or specifying any such necessary approvals that as of the date of such opinion have not been obtained.

Interest and Interest Rates

General

Each Note will bear interest at either:

(a) a fixed rate; or

(b) a floating rate determined by reference to an interest rate basis, which may be adjusted by a Spread and/or Spread Multiplier (as defined below). Any Floating Rate Note may also have either or both of the following:

(i) a maximum interest rate limitation, or ceiling, on the rate at which interest may accrue during any interest period; and

(ii) a minimum interest rate limitation, or floor, on the rate at which interest may accrue during any interest period, provided that if no minimum interest rate is specified or if the Final Terms indicate that the minimum interest rate is “not applicable,” then the minimum interest rate shall be zero.

The applicable Final Terms will designate:

(a) a fixed rate per annum, in which case such Notes will be “Fixed Rate Notes”; or

(b) one or more of the following interest rate bases as applicable to such Notes, in which case such Notes will be “Floating Rate Notes”:

(i) the Commercial Paper Rate, in which case such Notes will be “Commercial Paper Rate Notes”;

(ii) the Federal Funds Rate, in which case such Notes will be “Federal Funds Rate Notes”;

(iii) LIBOR, in which case such Notes will be “LIBOR Notes”;

(iv) EURIBOR, in which case such Notes will be “EURIBOR Notes”;

(v) the Treasury Rate, in which case such Notes will be “Treasury Rate Notes”;

or

(vi) the Prime Rate, in which case such Notes will be “Prime Rate Notes”.

Each Note will bear interest from its date of issue or from the most recent date to which interest on such Note has been paid or duly provided for, at the annual rate, or at a rate determined pursuant to an

interest rate formula, stated therein. Interest will accrue on a Note until the principal thereof is paid or made available for payment.

Interest will be payable on each Interest Payment Date and at maturity or on redemption or repayment, if any, except for:

(a) certain OID Notes; and

(b) Notes originally issued between a Regular Record Date and an Interest Payment Date.

The first payment of interest on any Registered Note originally issued between a Regular Record Date and an Interest Payment Date will be made on the Interest Payment Date following the next succeeding Regular Record Date. Such interest will be payable by the relevant Issuer to the registered owner on such next Regular Record Date. The Issuers may vary the interest rates and interest rate formula from time to time, but no such change will affect any Note theretofore issued or which the Issuers have agreed to issue.

Interest will be payable on a Registered Note on each Interest Payment Date to the person in whose name such Note is registered at the close of business on the Regular Record Date next preceding the Interest Payment Date; *provided, however*, that:

(a) if the relevant Issuer fails to pay such interest on such Interest Payment Date, such defaulted interest will be paid to the person in whose name such Registered Note is registered at the close of business on the record date to be established for the payment of defaulted interest; and

(b) interest payable at maturity, redemption or repayment will be payable to the person to whom principal shall be payable.

Unless otherwise specified in the applicable Final Terms:

(a) for Fixed Rate Notes, the Interest Payment Dates and any Regular Record Dates shall be as described below under “Fixed Rate Notes”; and

(b) for Floating Rate Notes:

(i) the Interest Payment Dates shall be as indicated in the applicable Final Terms and in such Note; and

(ii) any Regular Record Date will be the calendar day (whether or not a Business Day) next preceding each Interest Payment Date.

“LIBOR” means the London Inter-bank Offered Rate for deposits in a specified currency.

“Spread” means the number of basis points expressed as a percentage (one basis point equals one-hundredth of a percentage point) that the calculation agent will add or subtract from the related Interest Rate Basis or Bases applicable to a Floating Rate Note.

“Spread Multiplier” means the percentage of the related Interest Rate Basis or Bases applicable to a Floating Rate Note by which the calculation agent will multiply such Interest Rate Basis or Bases to determine the applicable interest rate on such Floating Rate Note.

Fixed Rate Notes

General. Each Fixed Rate Note will bear interest at the annual rate specified in the Note and in the applicable Final Terms (the “Fixed Rate of Interest”). Interest on the Fixed Rate Notes will be paid on the dates specified in the applicable Final Terms (each, a “Fixed Interest Payment Date”). The Regular Record Dates for Fixed Rate Notes in registered form will be on the dates specified in the applicable Final Terms. In the event that any Fixed Interest Payment Date or Maturity Date for any Fixed Rate Note is not a Business Day, interest on such Fixed Rate Note will be paid on the next succeeding Business Day without additional interest, unless otherwise specified in the applicable Final Terms. If interest is required to be calculated for a period other than a Fixed Interest Period (as defined below), such interest shall be calculated by applying the Fixed Rate of Interest to each Specified Denomination of the Notes of such Series, multiplying such sum by the applicable Fixed Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards, or otherwise in accordance with applicable market convention.

Day Count Fraction. “Fixed Day Count Fraction” means:

(1) in the case of Notes denominated in a currency other than U.S. Dollars, “Actual/Actual (ICMA)” meaning:

(a) in the case of Notes where the number of days in the relevant period from (and including) the most recent Fixed Interest Payment Date (or, if none, the interest commencement date (the “Interest Commencement Date”) (as specified in the applicable Final Terms)) to (but excluding) the relevant payment date (the “Calculation Period”) is equal to or shorter than the Determination Period (as defined below) during which the Calculation Period ends, the number of days in such Calculation Period divided by the product of (1) the number of days in such Determination Period and (2) the number of determination dates (each, a “Determination Date”) (as specified in the applicable Final Terms) that would occur in one calendar year; or

(b) in the case of Notes where the Calculation Period is longer than the Determination Period during which the Calculation Period ends, the sum of:

(i) the number of days in such Calculation Period falling in the Determination Period in which the Calculation Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; and

(ii) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

(2) in the case of Notes denominated in U.S. Dollars “30/360,” meaning the number of days in the period from and including the most recent Fixed Interest Payment Date (or, if none, the Interest Commencement Date (as specified in the applicable Final Terms)) to but excluding the relevant payment date (such number of days being calculated on the basis of a year of 360 days with twelve 30-day months) divided by 360.

Where:

“Determination Period” means the period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date (as specified in the applicable Final Terms) or the final Fixed Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date).

“Fixed Interest Period” means the period from (and including) a Fixed Interest Payment Date (or, if none, the Interest Commencement Date (as specified in the applicable Final Terms)) to (but excluding) the next (or first) Fixed Interest Payment Date.

“sub-unit” means, with respect to any currency other than Euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to Euro, means one cent.

Floating Rate Notes

General. Floating Rate Notes generally will be issued as described below. Each applicable Final Terms will specify the following terms with respect to which such Floating Rate Note is being delivered:

(a) whether such Floating Rate Note is a Regular Floating Rate Note, a Floating Rate/Fixed Rate Note or an Inverse Floating Rate Note, each as defined below;

(b) the Interest Rate Basis or Bases, Initial Interest Rate, Interest Reset Dates, Interest Reset Period, Regular Record Dates (if any) and Interest Payment Dates;

(c) the Index Maturity;

(d) the Spread and/or Spread Multiplier, if any;

(e) the maximum interest rate and minimum interest rate, if any (provided that if no minimum interest rate is specified or if the Final Terms indicate that the minimum interest rate is “not applicable,” then the minimum interest rate shall be zero); and

(f) the Designated LIBOR Currency, if one or more of the specified Interest Rate Bases is LIBOR.

The Issuers may change the Spread, Spread Multiplier, Index Maturity and other variable terms of the Floating Rate Notes from time to time. However, no such change will affect any Floating Rate Note theretofore issued or which the Issuers have agreed to issue.

The interest rate in effect on each day shall be:

(a) if such day is an Interest Reset Date, the interest rate determined on the Interest Determination Date immediately preceding such Interest Reset Date; or

(b) if such day is not an Interest Reset Date, the interest rate determined on the Interest Determination Date immediately preceding the next preceding Interest Reset Date.

Regular Floating Rate Note; Floating Rate/Fixed Rate Note; Inverse Floating Rate Note

The Interest Rate Basis applicable to each Regular Floating Rate Note, Floating Rate/Fixed Rate Note and Inverse Floating Rate Note may be subject to a Spread or Spread Multiplier, provided that the interest rate on an Inverse Floating Rate Note will not be less than zero.

Regular Floating Rate Note. A Regular Floating Rate Note will bear interest at the rate determined by reference to the applicable Interest Rate Basis. The rate at which interest shall be payable shall be reset as of each Interest Reset Date commencing on the Initial Interest Reset Date. However:

(a) the interest rate in effect for the period from the Original Issue Date to the Initial Interest Reset Date will be the Initial Interest Rate; and

(b) the interest rate in effect for the ten calendar days immediately prior to a Maturity Date shall be that in effect on the tenth calendar day preceding such Maturity Date, unless otherwise specified in the applicable Final Terms.

Floating Rate/Fixed Rate Note. A Floating Rate/Fixed Rate Note will initially bear interest at the rate determined by reference to the applicable Interest Rate Basis. The rate at which interest shall be payable shall be reset as of each Interest Reset Date commencing on the Initial Interest Reset Date. However:

(a) the interest rate in effect for the period from the Original Issue Date to the Initial Interest Reset Date will be the Initial Interest Rate;

(b) the interest rate in effect for the ten calendar days immediately prior to the fixed rate commencement date shall be that in effect on the tenth calendar day preceding the fixed rate commencement date, unless otherwise specified in the applicable Final Terms; and

(c) the interest rate in effect commencing on, and including, the fixed rate commencement date to the Maturity Date shall be the Fixed Interest Rate, if such rate is specified in the applicable Final Terms, or if no such Fixed Interest Rate is so specified and the Floating Rate/Fixed Rate Note is still outstanding on such day, the interest rate in effect thereon on the day immediately preceding the fixed rate commencement date.

Inverse Floating Rate Note. An Inverse Floating Rate Note will bear interest equal to the Fixed Interest Rate specified in the related Final Terms minus the rate determined by reference to the Interest Rate Basis. The rate at which interest is payable shall be reset as of each Interest Reset Date commencing on the Initial Interest Reset Date. However:

(a) the interest rate in effect for the period from the Original Issue Date to the Initial Interest Reset Date will be the Initial Interest Rate; and

(b) the interest rate in effect for the ten calendar days immediately prior to a Maturity Date shall be that in effect on the tenth calendar day preceding such Maturity Date, unless otherwise specified in the applicable Final Terms.

Interest Rate Bases

Each Floating Rate Note will have one or more of the following interest rate bases, as specified in the Final Terms:

- (a) the Commercial Paper Rate;
- (b) the Federal Funds Rate;
- (c) LIBOR;
- (d) EURIBOR;
- (e) the Treasury Rate;
- (f) the Prime Rate; or
- (g) the lowest of two or more Interest Rate Bases.

Date of Interest Rate Change

The interest rate on each Floating Rate Note may be reset daily, weekly, monthly, quarterly, semi-annually or annually, as specified in the applicable Final Terms (this period is the “Interest Reset Period” and the first day of each Interest Reset Period is the “Interest Reset Date”).

If an Interest Reset Date for any Floating Rate Note falls on a day that is not a Business Day, it will be postponed to the following Business Day, except that if that Business Day is in the next calendar month, the Interest Reset Date will be the immediately preceding Business Day.

How Interest Is Calculated

General. The Issuers will appoint a calculation agent to calculate interest rates on the Floating Rate Notes. The applicable Final Terms will specify the entity acting as calculation agent for each Series of Floating Rate Notes. Floating Rate Notes will accrue interest from and including the original issue date or the last date to which the relevant Issuer has paid or provided for interest to, but excluding, the applicable Interest Payment Date, as described below, or the Maturity Date, as the case may be. However, in the case of Registered Notes that are Floating Rate Notes on which the interest rate is reset daily or weekly, each interest payment will include interest accrued from and including the date of issue or from but excluding the last Regular Record Date on which, unless otherwise specified in the applicable Final Terms, interest has been paid, through and including the Regular Record Date next preceding the applicable Interest Payment Date, and provided further that the interest payments on Floating Rate Notes made on the Maturity Date will include interest accrued to but excluding such Maturity Date.

Day Count Fraction. The amount of interest (the “Interest Amount”) payable on any Series of Floating Rate Notes shall be calculated with respect to each Specified Denomination of such Floating Rate Notes of such Series for the relevant Interest Reset Period. Each Interest Amount shall be calculated by applying the relevant Interest Rate Basis, Spread and/or Spread Multiplier to each Specified Denomination and multiplying such sum by the applicable Floating Day Count Fraction.

“Floating Day Count Fraction” means, in respect of the calculation of the Interest Amount for any Interest Reset Period:

(a) if “Actual/Actual” or “Actual/Actual (ISDA)” is specified in the applicable Final Terms, the actual number of days in the Interest Reset Period divided by 365 (or, if any portion of that Interest Reset Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Reset Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Reset Period falling in a non-leap year divided by 365);

(b) if “Actual/365 (Fixed)” is specified in the applicable Final Terms, the actual number of days in the Interest Reset Period divided by 365;

(c) if “Actual/360” is specified in the applicable Final Terms, the actual number of days in the Interest Reset Period divided by 360;

(d) if “30/360,” “360/360” or “Bond Basis” is specified in the applicable Final Terms, the number of days in the Interest Reset Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

“Y1” is the year, expressed as a number, in which the first day of the Interest Reset Period falls;

“Y2” is the year, expressed as a number, in which the day immediately following the last day of the Interest Reset Period falls;

“M1” is the calendar month, expressed as a number, in which the first day of the Interest Reset Period falls;

“M2” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Reset Period falls;

“D1” is the first calendar day, expressed as a number, of the Interest Reset Period, unless such number is 31, in which case D1 will be 30; and

“D2” is the calendar day, expressed as a number, immediately following the last day included in the Interest Reset Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30;

(e) if “30E/360” or “Eurobond Basis” is specified in the applicable Final Terms, the number of days in the Interest Reset Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

“Y1” is the year, expressed as a number, in which the first day of the Interest Reset Period falls;

“Y2” is the year, expressed as a number, in which the day immediately following the last day of the Interest Reset Period falls;

“M1” is the calendar month, expressed as a number, in which the first day of the Interest Reset Period falls;

“M2” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Reset Period falls;

“D1” is the first calendar day, expressed as a number, of the Interest Reset Period, unless such number would be 31, in which case D1 will be 30; and

“D2” is the calendar day, expressed as a number, immediately following the last day included in the Interest Reset Period, unless such number would be 31, in which case D2 will be 30; and

(f) if “30E/360 (ISDA)” is specified in the applicable Final Terms, the number of days in the Interest Reset Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

“Y1” is the year, expressed as a number, in which the first day of the Interest Reset Period falls;

“Y2” is the year, expressed as a number, in which the day immediately following the last day of the Interest Reset Period falls;

“M1” is the calendar month, expressed as a number, in which the first day of the Interest Reset Period falls;

“M2” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Reset Period falls;

“D1” is the first calendar day, expressed as a number, of the Interest Reset Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

“D2” is the calendar day, expressed as a number, immediately following the last day included in the Interest Reset Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D2 will be 30.

Unless otherwise specified in the applicable Final Terms, the Day Count Fraction in respect of the calculation of the Interest Amount on any Floating Rate Note will (a) in the case of a Note denominated in U.S. Dollars be Actual/360 or (b) in the case of a Note denominated in any other Specified Currency, be Actual/Actual. Notes for which the interest rate may be calculated with reference to two or more Interest Rate Bases will be calculated in each period by selecting one such Interest Rate Basis for such period. For these calculations, the interest rate in effect on any Interest Reset Date will be the new reset rate.

The calculation agent will round all percentages resulting from any calculation of the rate of interest on a Floating Rate Note to the nearest 1/100,000 of 1% (0.0000001), with five one-millionths of a percentage point rounded upward (e.g., 9.876545% (or 0.09876545) would be rounded to 9.87655% (or 0.0987655)) and the calculation agent will round all currency amounts used in or resulting from any calculation to the nearest one-hundredth of a unit (with 0.005 of a unit being rounded upward).

The calculation agent will promptly, and no later than the fourth Business Day, notify the Fiscal Agent and the relevant Issuer of each determination of the interest rate. The calculation agent will also notify the relevant stock exchange, competent authority and/or market (in the case of Notes that are listed or admitted to trading on or by a stock exchange, competent authority and/or market) and the relevant Paying Agents of the interest rate, the interest amount, the interest period and the Interest Payment Date related to each Interest Reset Date as soon as such information is available, and no later than the first Business Day of the relevant interest period. The relevant Paying Agents will make such information available to the holders of Notes. The Fiscal Agent will, upon the request of the holder of any Floating Rate Note, provide the interest rate then in effect and, if determined, the interest rate which will become effective as a result of a determination made with respect to the most recent Interest Determination Date relating to such Note.

So long as any Notes are listed on or by any exchange, competent authority and/or market and the rules of such exchange(s), competent authority(ies) and/or market(s) so require, the relevant Issuer shall maintain a calculation agent for the Notes, and the relevant Issuer will notify the holders of the Notes in the manner specified under “Notices” below in the event that such Issuer appoints a calculation agent with respect to the Notes other than the calculation agent designated as such in the applicable Final Terms.

When Interest Is Paid

The relevant Issuer will pay interest on Floating Rate Notes on the dates specified in the applicable Final Terms. Each such date upon which the relevant Issuer is required to pay interest is an “Interest Payment Date.” The relevant Issuer will also pay interest on the relevant Floating Rate Notes at the Maturity Date.

If an Interest Payment Date (other than the Maturity Date) for a Floating Rate Note falls on a day that is not a Business Day, the relevant Issuer will postpone payment of interest to the following Business Day at which time such Issuer will pay additional interest that has accrued up to but excluding such following Business Day, except that if that Business Day would fall in the next calendar month, the Interest Payment Date will be the immediately preceding Business Day.

If the Maturity Date for a Floating Rate Note falls on a day that is not a Business Day, the relevant Issuer will make the payment on the next Business Day, without additional interest.

Date of Interest Rate Determination

The interest rate for each Interest Reset Period commencing on the Interest Reset Date will be the rate determined on the relevant Interest Determination Date for such Interest Reset Date for the relevant type of Floating Rate Note, as set forth in the relevant Final Terms.

Types of Floating Rate Notes

Commercial Paper Rate Notes

Each Commercial Paper Rate Note will bear interest at a specified rate that will be reset periodically based on the Commercial Paper Rate and any Spread and/or Spread Multiplier.

“Commercial Paper Rate” means, with respect to any Interest Determination Date, the Money Market Yield of the rate on that Interest Determination Date for commercial paper having the specified Index Maturity as published in H.15 under the heading “Commercial Paper Nonfinancial.”

“H.15” means the publication entitled “Statistical Release H.15, Selected Interest Rates,” or any successor publication published by the Board of Governors of the United States Federal Reserve System.

“H.15 Daily Update” means the daily update of H.15, available through the world-wide-web site of the Board of Governors of the United States Federal Reserve System at <http://www.federalreserve.gov/releases/h15>, or any successor service.

The following procedures will apply if the rate cannot be set as described above:

(a) If the rate is not published in H.15 prior to 3:00 p.m., New York City time, on the Interest Determination Date, then the Commercial Paper Rate will be the Money Market Yield of the rate for commercial paper having the specified Index Maturity as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying such rate, under the caption “Commercial Paper Nonfinancial.”

(b) If the rate is not published in H.15, H.15 Daily Update or another recognized electronic source by 3:00 p.m., New York City time, on the Interest Determination Date, the Commercial Paper Rate will be the Money Market Yield of the average for the offered rates, as of 11:00 a.m., New York City time, on that Interest Determination Date, of three leading dealers of commercial paper in The City of New York selected by the calculation agent for commercial paper having the specified Index Maturity placed for an industrial issuer whose bond rating is “AA,” or the equivalent, by a nationally recognized rating agency.

(c) If fewer than three dealers are providing quotes, the rate will be the same as the rate used in the prior interest period.

“Money Market Yield” means a yield (expressed as a percentage) calculated in accordance with the following formula:

$$\text{Money Market Yield} = \frac{D \times 360}{360 - (D \times M)} \times 100$$

where “D” refers to the applicable per annum rate for commercial paper quoted on a bank discount basis and expressed as a decimal, and “M” refers to the actual number of days in the period for which interest is being calculated.

Federal Funds Rate Notes

Each Federal Funds Rate Note will bear interest at a specified rate that will be reset periodically based on the Federal Funds Rate and any Spread and/or Spread Multiplier.

“Federal Funds Rate” means, with respect to any Interest Determination Date, unless otherwise specified in any applicable Final Terms, the rate on specified dates for federal funds published in H.15 prior to 11:00 a.m., New York City time, under the heading “Federal Funds Effective,” as such rate is displayed on Reuters Screen FEDFUNDS1 Page (or any other pages as may replace such pages on such service).

The following procedures will apply if the rate cannot be set as described above:

(a) If the rate does not appear on Reuters Screen FEDFUNDS1 Page (or any other pages as may replace such pages on such service) or is not published in H.15 prior to 11:00 a.m., New York City time, on the Interest Determination Date, then the Federal Funds Rate will be the rate on such Interest Determination Date published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying such rate, under the caption “Federal Funds (Effective).”

(b) If the rate does not appear on Reuters Screen FEDFUNDS1 Page (or any other pages as may replace such pages on such service) or is not published in H.15, H.15 Daily Update or another recognized electronic source by 3:00 p.m., New York City time, on the Interest Determination Date, the Federal Funds Rate will be the average of the rates, as of 11:00 a.m., New York City time, on that Interest Determination Date, for the last transaction in overnight federal funds arranged by three leading brokers of federal funds transactions in The City of New York selected by the calculation agent.

(c) If fewer than three brokers are providing quotes, the rate will be the same as the rate used in the prior interest period.

LIBOR Notes

Each LIBOR Note will bear interest at a specified rate that will be reset periodically based on LIBOR and any Spread and/or Spread Multiplier.

With respect to any Interest Determination Date, the calculation agent will determine LIBOR as follows:

(a) If at least two offered rates appear on the Designated LIBOR Page, the average of the offered rates for deposits in the Designated LIBOR Currency having the specified Index Maturity beginning on the relevant Interest Reset Date, that appear on the Designated LIBOR Page as of 11:00 a.m., London time, on that Interest Determination Date; or

(b) If fewer than two offered rates appear on the Designated LIBOR Page, the rate for deposits in the London interbank market in the Designated LIBOR Currency having the specified Index Maturity beginning on the relevant Interest Reset Date, that appears on the Designated LIBOR Page as of 11:00 a.m., London time, on that Interest Determination Date.

(c) If no rate appears on the Designated LIBOR Page, LIBOR for that Interest Determination Date will be determined based on the rates on that Interest Determination Date at approximately 11:00 a.m., London time, at which deposits on that date in the Designated LIBOR Currency for the period of the specified Index Maturity beginning on the relevant Interest Reset Date are offered to prime banks in the London interbank market by four major banks (one of which may be an affiliate of the calculation agent) in that market selected by the Issuer and identified to the calculation agent, and in a Representative Amount. The calculation agent will request the principal London office of each of these banks to quote its rate. If the calculation agent receives at least two quotations, LIBOR will be the average of those quotations.

(d) If the calculation agent receives fewer than two quotations, LIBOR will be the average of the rates quoted at approximately 11:00 a.m., New York City time, on the Interest Determination Date by three major banks (one of which may be an affiliate of the calculation agent) in the Principal Financial Center selected by the Issuer and identified to the calculation agent. The rates will be for loans in the Designated LIBOR Currency to leading European banks having the specified Index Maturity beginning on the relevant Interest Reset Date and in a Representative Amount.

(e) If fewer than three banks provide quotes, but a LIBOR Event (as defined below) has not occurred, LIBOR for the upcoming interest period to which the Interest Determination Date relates shall be LIBOR as in effect for the current interest period; *provided, however*, that for a Fixed/Floating Rate Note, if there was no preceding Interest Reset Date, the rate of LIBOR will be equal to LIBOR for deposits in the Designated LIBOR Currency having the particular Index Maturity that was last available on the Designated LIBOR Page as determined by the calculation agent.

(f) Notwithstanding paragraphs (a) to (e) above, if the Issuer, in its sole discretion, determines that LIBOR for deposits in the Designated LIBOR Currency having the particular Index Maturity has been permanently discontinued or is no longer viewed as an acceptable benchmark for securities like the LIBOR Notes and the Issuer has notified the calculation agent in writing of such determination (a “LIBOR Event”), the calculation agent will use, as directed by the Issuer in writing, as a substitute for LIBOR (the “Alternative Rate”) for each future Interest Determination Date, the alternative reference rate selected by the central bank, reserve bank, monetary authority or any similar institution (including any committee or working group thereof) in the Principal Financial Center, that is consistent with market practice regarding a substitute for LIBOR. As part of such substitution, the calculation agent will, as directed by us in writing, make such adjustments to the Alternative Rate or the Spread and/or Spread Multiplier, as well as the business day convention, Interest Determination Dates and related provisions and definitions (“Adjustments”), in each case that are consistent with market practice for the use of such Alternative Rate. For each of the foregoing determinations, the Issuer may, in its sole discretion, appoint an IFA to make such determinations and the decision of the IFA will be binding on us, the calculation agent, the Fiscal Agent and the holders of the LIBOR Notes. Notwithstanding the foregoing, if the Issuer determines in its sole discretion that there is no alternative reference rate selected by the central bank, reserve bank, monetary authority or any similar institution (including any committee or working group thereof) in the Principal Financial Center, that is consistent with market practice regarding a substitute for LIBOR for deposits in the Designated LIBOR Currency having the particular Index Maturity, the Issuer may, in its sole discretion, appoint an IFA to determine an appropriate Alternative Rate and any Adjustments, and the decision of the IFA will be binding on the Issuer, the calculation agent, the Fiscal Agent and the holders of the LIBOR Notes. If a LIBOR Event has occurred, but for any reason an Alternative Rate has not been determined or the Issuer determines, in its sole discretion, that there is no such market practice for

the use of such Alternative Rate (and, in each case, an IFA has not determined an appropriate Alternative Rate and Adjustments or an IFA has not been appointed), LIBOR for the upcoming interest period to which the Interest Determination Date relates shall be LIBOR as in effect for the current interest period; *provided, however*, that, with respect to a Fixed/Floating Rate Note, if this sentence is applicable to the first Interest Determination Date related to the floating rate period, the rate of LIBOR will be equal to LIBOR for deposits in the Designated LIBOR Currency having the particular Index Maturity that was last available on the Designated LIBOR Page, as determined by the calculation agent.

“Designated LIBOR Currency” means the currency (including composite currencies and Euro) specified in the Final Terms as to which LIBOR shall be calculated. If no such currency is specified in the Final Terms, the Designated LIBOR Currency shall be U.S. Dollars.

“Designated LIBOR Page” means Capital Markets Report Screen LIBOR01 of Reuters (or such other page as may replace the Reuters Capital Markets Report Screen LIBOR01 on that service, or such other service as may be nominated as the information vendor, for the purpose of displaying rates or prices comparable to the London Interbank Offered rate for U.S. dollar deposits).

“Principal Financial Center” means, the capital city of the country to which the Designated LIBOR Currency relates, or London if the Designated LIBOR Currency is the Euro; *provided, however*, that with respect to U.S. dollars, Australian dollars, Canadian dollars, South African rand and Swiss francs, the “Principal Financial Center” shall be The City of New York, Sydney, Toronto, Johannesburg and Zurich, respectively.

The establishment of LIBOR for each interest period by the calculation agent (including, for the avoidance of doubt, at the Issuer’s direction in the case of paragraph (f) above) or IFA, as applicable, shall (in the absence of manifest error) be final and binding on the Issuer, the calculation agent, the Fiscal Agent and the holders of the LIBOR Notes. For the avoidance of doubt, any adjustments made pursuant to paragraph (f) above shall not be subject to the vote or consent of the holders of the LIBOR Notes, and the Issuer and the applicable Fiscal Agent may, without the vote or consent of the holders of the affected LIBOR Notes, amend or supplement the Fiscal Agency Agreement or the affected LIBOR Notes to implement the terms of paragraph (f).

Notwithstanding any other provision herein, if in the calculation agent’s opinion, or in the opinion of the other party responsible for the calculation of LIBOR as specified in the relevant Final Terms, as applicable, there is any uncertainty between two or more alternative courses of action in making any determination or calculation, the calculation agent shall promptly notify the Issuer thereof and the Issuer shall direct the calculation agent, as applicable, in writing as to which alternative course of action to adopt. If the calculation agent, as applicable, is not promptly provided with such direction, or is otherwise unable to make such calculation or determination for any reason, it shall notify the Issuer thereof and the calculation agent, as applicable, shall be under no obligation to make such calculation or determination and shall not incur any liability for not doing so.

Notwithstanding any other provision herein, neither the calculation agent, the Fiscal Agent or the Paying Agent shall be obliged to concur with the Issuer, in respect of any changes made which, in the sole opinion of the calculation agent, the Fiscal Agent or the Paying Agent (as applicable), would have the effect of (i) exposing the calculation agent, the Fiscal Agent or the Paying Agent (as applicable) to any liability against which it has not been indemnified and/or secured and/or prefunded to its satisfaction or (ii) increasing the obligations or duties, or decreasing the rights or protections, of the calculation agent, the Fiscal Agent or the Paying Agent (as applicable) in the Fiscal and Paying Agency Agreement and/or the term and conditions of the Notes.

EURIBOR Notes

Each EURIBOR Note will bear interest at a specified rate that will be reset periodically based on EURIBOR and any Spread and/or Spread Multiplier.

“EURIBOR” means the European Interbank Offered Rate and, with respect to each Interest Determination Date, the rate for deposits in Euro having the Index Maturity beginning on the relevant Interest Reset Date that appears on the Designated EURIBOR Page as of 11:00 a.m., Brussels time, on that Interest Determination Date.

The following procedures will apply if the rate cannot be set as described above:

(a) If such rate does not appear on the Designated EURIBOR Page as of 11:00 a.m., Brussels time, on the related Interest Determination Date, then the Issuer will request the principal offices of four major banks (one of which may be an affiliate of the calculation agent) in the Euro-zone selected by the Issuer and identified to the calculation agent, to provide such bank’s offered quotation to prime banks in the Euro-zone interbank market for deposits in Euro having the Index Maturity beginning on the relevant Interest Reset Date as of 11:00 a.m., Brussels time, on such Interest Determination Date and in a Representative Amount. If at least two quotations are provided, EURIBOR for that date will be the average (if necessary rounded upwards) of the quotations.

(b) If fewer than two quotations are provided, EURIBOR will be the average (if necessary rounded upwards) of the rates quoted by major banks (which may include an affiliate of the calculation agent) in the Euro-zone, selected by the Issuer, at approximately 11:00 a.m., Brussels time, on the Interest Determination Date for loans in Euro to leading European banks for a period of time corresponding to the Index Maturity beginning on the relevant Interest Reset Date and in a Representative Amount.

(c) If no rates are quoted by major banks, the rate will be the same as the rate used for the prior interest period.

“Designated EURIBOR Page” means Capital Markets Report Screen EURIBOR01 of Reuters, or any other page as may replace such page on such service.

Notwithstanding any other provision herein, if in the calculation agent’s opinion, or in the opinion of the other party responsible for the calculation of EURIBOR as specified in the relevant Final Terms, as applicable, there is any uncertainty between two or more alternative courses of action in making any determination or calculation, the calculation agent shall promptly notify the Issuer thereof and the Issuer shall direct the calculation agent, as applicable, in writing as to which alternative course of action to adopt. If the calculation agent, as applicable, is not promptly provided with such direction, or is otherwise unable to make such calculation or determination for any reason, it shall notify the Issuer thereof and the calculation agent, as applicable, shall be under no obligation to make such calculation or determination and shall not incur any liability for not doing so.

Notwithstanding any other provision herein, neither the calculation agent, the Fiscal Agent or the Paying Agent shall be obliged to concur with the Issuer, in respect of any changes made which, in the sole opinion of the calculation agent, the Fiscal Agent or the Paying Agent (as applicable), would have the effect of (i) exposing the calculation agent, the Fiscal Agent or the Paying Agent (as applicable) to any liability against which it has not been indemnified and/or secured and/or prefunded to its satisfaction or (ii) increasing the obligations or duties, or decreasing the rights or protections, of the calculation agent, the

Fiscal Agent or the Paying Agent (as applicable) in the Fiscal and Paying Agency Agreement and/or the term and conditions of the Notes.

Treasury Rate Notes

Each Treasury Rate Note will bear interest at a specified rate that will be revised periodically based on the Treasury Rate and any Spread and/or Spread Multiplier.

“Treasury Rate” means, with respect to any Interest Determination Date, the rate for the most recent auction of direct obligations of the United States (“Treasury bills”) having the specified Index Maturity as it appears under the caption “INVEST RATE” on either Reuters Screen USAUCTION10 Page or Reuters Screen USAUCTION11 Page (or any other pages as may replace such pages on such service).

The following procedures will apply if the rate cannot be set as described above:

(a) If the rate is not so published by 3:00 p.m., New York City time, on the Interest Determination Date, the rate will be the auction average rate for such Treasury bills (expressed as a bond equivalent, on the basis of a year of 365 or 366 days as applicable, and applied on a daily basis) for such auction as otherwise announced by the U.S. Department of the Treasury.

(b) If the results of the auction of Treasury bills are not so published by 3:00 p.m., New York City time, on the Interest Determination Date, or if no such auction is held, the Treasury Rate will be the rate (expressed as a bond equivalent on the basis of a year of 365 or 366 days, as applicable, and applied on a daily basis) on such Interest Determination Date of such Treasury bills having the specified Index Maturity as published in H.15 under the caption “U.S. Government Securities/Treasury Bills/Auction high.”

(c) If such rate is not so published in H.15 by 3:00 p.m., New York City time, on the related Interest Determination Date, the rate on such Interest Determination Date of such Treasury bills will be as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying such rate, under the caption “U.S. Government Securities/Treasury Bills/Auction high.”

(d) If such rate is not yet published in H.15, H.15 Daily Update or another recognized electronic source, then the Treasury Rate will be a yield to maturity (expressed as a bond equivalent on the basis of a year of 365 or 366 days, as applicable, and applied on a daily basis) of the average of the secondary market bid rates as of approximately 3:30 p.m., New York City time, on the Interest Determination Date, of three leading primary U.S. government securities dealers in The City of New York selected by the calculation agent for the issue of Treasury bills with a remaining maturity closest to the specified Index Maturity.

(e) If fewer than three dealers are providing quotes, the rate will be the same as the rate used in the prior interest period.

Prime Rate Notes

Each Prime Rate Note will bear interest at a specified rate that will be reset periodically based on the Prime Rate and any Spread and/or Spread Multiplier.

“Prime Rate” means, with respect to any Interest Determination Date, unless otherwise specified in any applicable Final Terms, the rate set forth on that Interest Determination Date in H.15 under the heading “Bank Prime Loan.”

The following procedures will apply if the rate cannot be set as described above:

(a) If the rate is not published in H.15 by 3:00 p.m., New York City time, on the Interest Determination Date, then the Prime Rate will be the rate as published on such Interest Determination Date in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying such rate under the caption “Bank Prime Loan.”

(b) If the rate is not published in H.15, H.15 Daily Update or another recognized electronic source by 3:00 p.m., New York City time, on the Interest Determination Date, then the Prime Rate will be the average (rounded upwards, if necessary, to the next higher one-hundred thousandth of a percentage point) of the rates publicly announced by each bank on the Reuters Screen USPRIME1 Page as its prime rate or base lending rate for that Interest Determination Date.

(c) If fewer than four, but more than one, rates appear on the Reuters Screen USPRIME1 Page, the Prime Rate will be the average of the prime rates (quoted on the basis of the actual number of days in the year divided by a 360-day year) as of the close of business on the Interest Determination Date by four major money center banks in The City of New York selected by the issuer.

(d) If fewer than two rates appear, the Prime Rate will be determined based on the rates furnished in The City of New York by the appropriate number of substitute banks or trust companies organized and doing business under the laws of the United States, or any State thereof, having total equity capital of at least US\$500 million and being subject to supervision or examination by a Federal or State authority, as selected by the issuer.

(e) If no banks are providing quotes, the rate will be the same as the rate used for the prior interest period.

Extendible Notes

Notes may be issued with an initial maturity date (the “Initial Maturity Date”) which may be extended from time to time upon the election of the holders on specified dates (each, an “Election Date”) up to a final maturity date (the “Final Maturity Date”) as set forth in the applicable Final Terms (“Extendible Notes”). Certain tax considerations associated with an investment in Extendible Notes, the manner in which holders may elect to extend the Notes and such other terms and conditions as may apply to such issue will be addressed in a supplement to this Prospectus. The Final Terms relating to each issue of Extendible Notes will set forth the terms of such Notes, including the Initial Maturity Date, the Final Maturity Date and the Election Dates.

Additional Notes

The Issuers may issue Notes from time to time having terms identical to a prior Tranche of Notes except for the original issue date and the offering price (“Additional Notes”). Any such Additional Notes that are Regulation S Global Notes will be issued in the form of a temporary global Note which will be exchangeable for a beneficial interest in a permanent global Note on or after the Exchange Date specified in the applicable Final Terms relating to such Additional Notes. Additional Notes may be issued prior to or after the Exchange Date relating to such prior Tranche of Notes of the same Series. Only in the case of

Bearer Notes, in the event Additional Notes are issued prior to the Exchange Date for the prior Tranche, the Exchange Date relating to such prior Tranche shall be moved to a date not earlier than 40 calendar days after the original issue date of the related Additional Notes; *provided, however*, in no event shall the Exchange Date for a Tranche of Notes be extended to a date more than 160 calendar days after such Tranche was issued. Once any Additional Notes have been issued, whether 3(a)(2) Global Notes, Regulation S Global Notes or Rule 144A Global Notes, such Additional Notes together with each prior and subsequent Tranche of Notes of the same Series, shall constitute one and the same Series of Notes for all purposes; *provided, however*, that in the case of Regulation S Global Notes, or Notes to which the TEFRA D Rules apply, such consolidation of Additional Notes issued after the Exchange Date will occur only following the exchange of interests in the temporary global Note for interests in the permanent global Note upon receipt of Ownership Certificates described below; and provided further that if the Additional Notes are not fungible with the earlier Notes for United States federal income tax purposes, the Additional Notes will have a separate CUSIP number. The Final Terms relating to any Additional Notes will set forth matters related to the issuance, exchange and transfer of Additional Notes, including identifying the prior Tranche of Notes, their original issue date and aggregate principal amount. Any Additional Notes that are Bearer Notes will be subject to the same restrictions as are set forth under “Description of the Notes—Forms of Notes—Bearer Notes.”

Covenants

The Issuers have agreed to restrictions on their activities for the benefit of holders of each Series of Notes. The following restrictions will apply separately to each Series of Notes:

Consolidation, Merger, Sale or Conveyance

The Issuers may not consolidate with or merge into any other corporation or convey or transfer its properties and assets substantially as an entirety to any person, unless:

(i) the corporation formed by such consolidation or into which the Issuers are merged or the person which acquires by conveyance or transfer the properties and assets of the Issuers substantially as an entirety shall be a corporation organized and existing under the laws of the Republic of Chile and shall expressly assume, by a supplement to the Fiscal Agency Agreement, executed and delivered to the Fiscal Agent, in form satisfactory to the Fiscal Agent, the due and punctual payment of the principal of (and premium, if any) and interest on all the outstanding Notes and the performance of every covenant of the Fiscal Agency Agreement on the part of the Issuers to be performed or observed;

(ii) immediately after giving effect to such transaction, no Event of Default, and no event which, after notice or lapse of time or both would become an Event of Default, shall have happened and be continuing; and

(iii) the Issuers shall have delivered to the Fiscal Agent an officers’ certificate and an opinion of counsel, each stating that such consolidation, merger, conveyance or transfer and such supplement to the Fiscal Agency Agreement comply with the foregoing provisions relating to such transaction and all conditions precedent in the Fiscal Agency Agreement relating to such a transaction have been complied with. In case of any such consolidation, merger, conveyance or transfer such successor corporation will succeed to and be substituted for the Issuers as obligors on each Series of Notes with the same effect as if it had issued such Series of Notes. Upon the assumption of its obligations by any such successor corporation in such circumstances subject to certain exceptions, the Issuers will be discharged from all obligations under the Notes and the Fiscal Agency Agreement.

Periodic Reports

The Fiscal Agency Agreement provides that if the Issuers are not required to file with the Securities and Exchange Commission information, documents, or reports pursuant to Section 13 or Section 15(d) of the Exchange Act, then the Issuers shall make available, upon request, to any holder of the Notes, any owner of a beneficial interest in any Note or any prospective purchaser designated by a holder or owner of a beneficial interest in any Note, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

Events of Default

An “Event of Default,” with respect to each Series of Notes is defined in the Fiscal Agency Agreement as:

(i) The relevant Issuer’s default in the payment of any principal of any of the Notes of such Series (including Additional Amounts), when due and payable, whether at maturity or otherwise; or

(ii) The relevant Issuer’s default in the payment of any interest or any Additional Amounts when due and payable on any of the Notes of such Series and the continuance of such default for a period of 30 days; or

(iii) The relevant Issuer’s default in the performance or observance of any other term, covenant, warranty, or obligation in respect of the Notes of such Series or the Fiscal Agency Agreement, not otherwise expressly defined as an Event of Default in (i) or (ii) above, and the continuance of such default for more than 60 days after written notice of such default has been given to the Issuer by the Fiscal Agent on behalf of the Noteholders, or the holders of at least 25% in aggregate principal amount of the Notes of such Series outstanding specifying such default or breach and requiring it to be remedied and stating that such notice is a “Notice of Default”; or

(iv) If any of the Issuers’ Indebtedness (as defined below) or that of their subsidiaries becomes due and repayable prematurely by reason of an event of default (however described) or either of the Issuers or any of their subsidiaries fails to make any payment in respect of any Indebtedness on the due date for such payment or within any originally applicable grace period or any security given by either of the Issuers or any of their subsidiaries for any Indebtedness becomes enforceable and steps are taken to enforce the same or if either of the Issuers or any of their subsidiaries default in making any payment when due (or within any originally applicable grace period in respect thereof) under any guarantee and/or indemnity given by either of the Issuers or such subsidiaries (as the case may be) in relation to any Indebtedness of any other person, provided that no such event as aforesaid shall constitute an Event of Default unless such Indebtedness either alone or when aggregated with other Indebtedness in respect of which one or more of the events mentioned in this paragraph (iv) has occurred shall amount to at least US\$40,000,000 (or its equivalent in any other currency on the basis of the middle spot rate for any relevant currency against the U.S. dollar as quoted by any leading bank on the day on which this paragraph operates); or

(v) The entry of an order for relief against either of the Issuers under any Bankruptcy Law by a court or regulatory entity having jurisdiction in the premises or a decree or order by a court or regulatory entity having jurisdiction in the premises adjudging either of the Issuers as bankrupt or insolvent under any other applicable law, or the entry of a decree or order approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or

in respect of either of the Issuers under any Bankruptcy Law, or appointing a receiver, liquidator, assignee, trustee, sequestrator (or other similar official under any Bankruptcy Law, including a “*síndico*”) of either of the Issuers or of any substantial part of their property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order unstayed and in effect for a period of 60 consecutive days; or

(vi) The consent by either of the Issuers to the institution of bankruptcy or insolvency proceedings against them, or the filing by either of them of a petition or answer or consent seeking reorganization or relief under any Bankruptcy Law, or the consent by either of them to the filing of any such petition or to the appointment of a custodian, receiver, liquidator, assignee, trustee, sequestrator (or other similar official under any Bankruptcy Law, including a “*síndico*”) of either of the Issuers or of any substantial part of their property, or the making by either of them of an assignment for the benefit of creditors, or the admission by either of them in writing of their inability to pay their debts generally as they become due, or the taking of corporate action by either of the Issuers in furtherance of any such action.

The term “Bankruptcy Law” as used in this Section means (i) articles 120 et seq. of the Chilean Banking Law (D.F.L. 3 of 1997, as amended), (ii) the Chilean “Ley de Quiebras” (Law No. 18,175, as amended) or (iii) any other applicable law that amends, supplements or supersedes the Chilean Banking Law and/or the Ley de Quiebras, and any applicable bankruptcy, insolvency, reorganization or other similar law of any applicable jurisdiction.

For purposes of the above, “Indebtedness” means (i) money borrowed and premiums and accrued interest in respect thereof, (ii) liabilities under or in respect of any acceptance or credit and (iii) the principal and premium (if any) and accrued interest in respect of any bonds, notes, debentures, debenture stock, loan stock, certificates of deposit or other securities whether issued for cash or in whole or in part for a consideration other than cash.

The Fiscal Agency Agreement provides that:

(i) If an Event of Default with respect to any Series of Notes described in paragraph (i), (ii), (iii) and (iv) above occurs and is continuing with respect to the Notes of any Series, then and in each and every such case, unless the principal of all the Notes of such Series shall have already become due and payable, either the Fiscal Agent or the holders of not less than 25% in aggregate principal amount of the Notes of such Series then outstanding hereunder (each such Series acting as a separate class), by notice in writing to the Issuers (and to the Fiscal Agent if given by holders), may declare the principal amount of all the Notes of such Series then outstanding and all accrued interest thereon to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Fiscal Agency Agreement or in the Notes of such Series contained to the contrary notwithstanding.

(ii) If an Event of Default with respect to any Series of Notes described in paragraph (v) or (vi) above occurs and is continuing, then the principal amount of the Notes then outstanding and all accrued interest thereon, if any, shall, without any notice to the Issuers or any other act on the part of the Fiscal Agent or any holder of the Notes, become and be immediately due and payable, anything in the Chilean Banking Law, the Fiscal Agency Agreement or in the Notes contained to the contrary notwithstanding.

The Fiscal Agency Agreement provides that Notes owned by either of the Issuers or any of their affiliates shall not be deemed to be outstanding for purposes of, among others, declaring the acceleration of the Notes provided in (i) above. Upon the satisfaction by us of certain conditions, the declaration

described in clause (i) of this paragraph may be annulled by the holders of a majority of the total principal amount of the Notes of such Series then outstanding. Past defaults, other than non-payment of principal, interest and compliance with certain covenants, may be waived by the holders of a majority of the total principal amount of the Notes of such Series outstanding.

Payment of Additional Amounts

The Issuers are required to make all payments in respect of each Series of Notes free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, fines, penalties, assessments or other governmental charges (or interest on those taxes, duties, fines, penalties, assessments or other governmental charges) (collectively, “Taxes”) imposed, levied, collected, withheld or assessed by, within or on behalf of any Relevant Taxing Jurisdiction, unless such withholding or deduction is required by law. In that event the relevant Issuer will pay to the Holders of such Series of Notes, or the relevant Paying Agent, as the case may be, such additional amounts as may be necessary to ensure that the net amounts received by the Holders of such Series of Notes or the relevant Paying Agent after such withholding or deduction shall not be less than the amounts of principal, interest and premium, if any, which would have been received in respect of such Series of Notes in the absence of such withholding or deduction, except that no such additional amounts shall be payable:

- (i) in the case of applicable Taxes which are deducted or withheld by a Paying Agent, if the payment could have been made by another Paying Agent without such deduction or withholding, or any applicable Taxes payable otherwise than by deduction or withholding, if receiving payment from such different Paying Agent does not require such Holder or beneficial owner to undertake any action or impose any obligation that is materially more onerous to such Holder or beneficial owner than would have been required if the payment had been received from the original Paying Agent;

- (ii) in the case of any payment to a Holder that is a fiduciary or partnership or a person other than the sole beneficial owner of any such payment, to the extent that a beneficiary or settlor with respect to such fiduciary, a member of such a partnership or the beneficial owner of the payment would not have been entitled to the additional amounts had the beneficiary, settlor, member or beneficial owner been the Holder;

- (iii) in the case of payments for which presentation of such Note is required, in respect of any Note presented for payment more than 30 days after the later of:

- (a) the date on which such payment first became due, and

- (b) if the full amount payable has not been received in the place of payment by the relevant Paying Agent on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the Holders by the relevant Paying Agent;

except to the extent that the Holder would have been entitled to such additional amounts on presenting such Note for payment on the last day of such period of 30 days;

- (iv) in respect of any Note held by or on behalf of a Holder or beneficial owner who is liable for Taxes imposed in respect of such Note by reason of such Holder or beneficial owner having some present or former direct or indirect connection with the Relevant Taxing Jurisdiction imposing such tax, other than the mere holding of such Note or the receipt of payments or the enforcement of rights in respect thereto;

(v) in respect of any Registered Note held by or on behalf of a Holder or beneficial owner who is liable for Taxes imposed in respect of such Note by reason of such Holder's or beneficial owner's failure to comply with any certification, identification, information, documentation, or other reporting requirement concerning its nationality, residence, identity or connection with the Relevant Taxing Jurisdiction, if:

(a) compliance is required by the Relevant Taxing Jurisdiction as a precondition to relief or exemption from the Tax,

(b) Holders are able to comply with those requirements without undue hardship, and

(c) the relevant Issuer has given Holders of the Notes written notice of such requirement at least 30 days prior to the first payment date in respect to which such requirement is applicable;

(vi) in respect of any estate, inheritance, gift, or similar tax, assessment or governmental charge;

(vii) in the case of any Tax imposed by the United States (or any political subdivision or governmental authority thereof having power to tax) that would not have been imposed but for a failure by the Holder or beneficial owner (or any financial institution through which the Holder or beneficial owner holds the Note or through which payment on the Note is made) to enter into or to comply with any applicable certification, documentation, information or other reporting requirement or agreement concerning accounts maintained by the Holder or beneficial owner (or any such financial institution) or concerning ownership of the Holder or beneficial owner, or any substantially similar requirement or agreement; or

(viii) in respect of any combination of (i) through (vii) above.

As used in this section, a "Holder" shall mean, (a) with respect to any Registered Note, the person in whose name at the time such Registered Note is registered on the Register or (b) with respect to any Bearer Note, the bearer thereof.

References to principal, interest, premium or other amounts payable in respect of any Series of Notes also refer to any additional amounts that may be payable. Refunds, if any, of taxes with respect to which the relevant Issuer pays additional amounts are for such Issuer's account.

The Issuers will pay when due any present or future stamp, transfer, court or documentary taxes or any other excise or property taxes, charges or similar levies which arise in any jurisdiction from the initial execution, delivery or registration of each Series of Notes or any other document or instrument relating thereto, excluding any such taxes, charges or similar levies imposed by any jurisdiction outside of the Republic of Chile or the United States and except as described in the Fiscal Agency Agreement with respect to transfer or exchange of the Notes.

"Relevant Taxing Jurisdiction" means the Republic of Chile (or any political subdivision or governmental authority thereof or therein having power to tax) and, in the case of Notes issued by the New York Branch, the United States (or any political subdivision or governmental authority thereof having power to tax) or any other jurisdiction from or through which the Issuers make any payment under a Series of Notes (or any political subdivision or governmental authority thereof or therein having power to tax).

Modification of Fiscal Agency Agreement and Notes

The Fiscal Agency Agreement may be amended by the Issuers and the Fiscal Agent, without the consent of the holder of any Note of a Series for the purposes, among others, of curing any ambiguity, or of correcting or supplementing any defective or inconsistent provisions contained therein or to effect any assumption of the Issuers' obligations thereunder and under the Notes of a Series under the circumstances described under "Consolidation, Merger, Sale or Conveyance" above or in any other manner which the Issuers and the Fiscal Agent may deem necessary or desirable and which will not adversely affect the interests of the holders of Notes of a Series outstanding on the date of such amendment. Nothing in the Fiscal Agency Agreement prevents the Issuers and the Fiscal Agent from amending the Fiscal Agency Agreement in such a manner as to only have a prospective effect on Notes issued on or after the date of such amendment.

Modifications and amendments to the Fiscal Agency Agreement, to the terms and conditions of the Notes of a Series may also be made, and future compliance therewith or past default by the Issuers may be waived, by holders of a majority in aggregate principal amount of the Notes of such Series (or, in each case, such lesser amount as shall have acted at a meeting of holders of such Notes, as described below), *provided, however*, that no such modification or amendment to the Fiscal Agency Agreement, to the terms and conditions of the Notes of a Series may, without the consent of the holders of each Note of such Series affected thereby, among other things, (a) change the stated maturity of the principal of any Note of such Series or extend the time for payment of interest or Additional Amounts thereon; (b) reduce the principal amount of any Note of such Series or reduce the amount of interest or Additional Amounts payable thereon or the amount payable thereon in the event of redemption or acceleration (or in the case of OID Notes, change the amount that would be due and payable upon an acceleration thereof); (c) change the currency of payment of principal of or any other amounts payable on any Note of such Series; (d) impair the right to institute suit for the enforcement of any such payment on or with respect to any Note of such Series; (e) reduce the above-stated percentage of the principal amount of Notes of such Series, the consent of whose holders is necessary to modify or amend the Fiscal Agency Agreement, the terms and conditions of the Notes or reduce the percentage of Notes of such Series required for the taking of action or the quorum required at any such meeting of holders of Notes of such Series; or (f) modify the foregoing requirements to reduce the percentage of outstanding Notes of such Series necessary to waive any future compliance or past default. The persons entitled to vote a majority in principal amount of the Notes of a Series outstanding shall constitute a quorum at a meeting of Noteholders of such Series except as hereinafter provided. In the absence of such a quorum, a meeting of Noteholders called by the Issuers shall be adjourned for a period of not less than 10 days, and in the absence of a quorum at any such adjourned meeting, the meeting shall be further adjourned for another period of not less than 10 days, at which further adjourned meeting persons entitled to vote 25% in principal amount of Notes of a Series at the time outstanding shall constitute a quorum. Except for modifications or amendments in (a) to (f) above which require the consent of the holders of each Note of such series affected thereby, any modifications, amendments or waivers to the Fiscal Agency Agreement, the terms and conditions of the Notes of a Series at a meeting of Noteholders require a favorable vote of holders of the lesser of (i) a majority in principal amount of the outstanding Notes of such Series or (ii) 75% of the principal amount of Notes of such Series represented and voting at the meeting. Any such modifications, amendments or waivers will be conclusive and binding on all holders of Notes of such Series, whether or not they have given such consent or were present at such meeting and whether or not notation of such modifications, amendments or waivers is made upon the Notes, and on all future holders of Notes of such Series. Any instruments given by or on behalf of any holder of a Note of a Series in connection with any consent to any such modification, amendment or waiver will be irrevocable once given and will be conclusive and binding on all subsequent holders of such Note.

Replacement of Notes and Coupons

Any Notes or coupons that become mutilated, destroyed, lost or stolen or are apparently destroyed, lost or stolen will be replaced by the relevant Issuer at the expense of the holder upon delivery of the Notes or coupons or satisfactory evidence of the destruction, loss or theft thereof to such Issuer and the Fiscal Agent. In each case, an indemnity satisfactory to the relevant Issuer and the Fiscal Agent may be required at the expense of the holder of such Note or coupon before a replacement Note or coupon will be issued. For so long as the Notes are listed or admitted to trading on or by any other stock exchange, competent authority and/or market and the rules of such stock exchange(s), competent authority(ies) and/or market(s) so require, a noteholder shall be able to obtain a replacement Note or coupon at the offices of the paying agent located in each location required by the rules and regulations of such stock exchange(s), competent authority(ies) and/or market(s).

Applicable Law

The Fiscal Agency Agreement and the Notes will be governed by, and construed in accordance with, the laws of the State of New York, United States of America.

Notices

All notices concerning the Notes shall be published on the Luxembourg Stock Exchange's website, www.bourse.lu, if and for so long as the Notes are listed on the Official List and admitted to trading on a market of the Luxembourg Stock Exchange and for so long as the rules of the Luxembourg Stock Exchange so require. Any notice so given will be deemed to have been validly given on the date of such publication (or, if published more than once, on the date of the first such publication).

Notices to holders of Registered Notes will also be given by mailing such notices to each holder by first class mail, postage prepaid, at the respective address of each holder as that address appears upon the books of the relevant Registrar.

So long as no definitive Bearer Notes are in issue in respect of a particular Series, each such notice may, so long as the global Note(s) for such Series is or are held in its or their entirety on behalf of Euroclear and Clearstream, Luxembourg, and/or another clearance system, as the case may be, and the Notes for such Series are not listed and/or admitted to trading on a stock exchange, competent authority and/or market, or if so listed or admitted to trading, for so long as the relevant stock exchange, competent authority and/or market so permits, be substituted for the delivery of the relevant notice to Euroclear, Clearstream, Luxembourg and/or such other clearance system for communication by them to the holders of the Notes. Any such notice shall be deemed to have been given to the holders of the Notes on the seventh day after the day on which the said notice was given to Euroclear, Clearstream, Luxembourg and/or such other clearance system.

Notices to be given by a Noteholder shall be in writing and given by lodging the same, together with the related Note or Notes, with the Fiscal Agent. While any Notes are represented by a global Note, such notice may be given by a Noteholder to the Fiscal Agent via Euroclear, Clearstream, Luxembourg, and/or such other clearance system, as the case may be, in such manner as the Fiscal Agent and Euroclear, Clearstream, Luxembourg and/or such other clearance system may approve for this purpose.

If the Notes are no longer listed on the Official List and admitted to trading on a market of the Luxembourg Stock Exchange, unless otherwise indicated, notices to holders of Bearer Notes will be valid if published (i) in a leading daily English language newspaper with general circulation in Europe, or (iii) so

long as the Notes are listed on any other securities exchange, such newspaper or website as the rules of such exchange may require.

Consent to Service

The Issuers have designated BancoEstado's New York Branch, presently located at 400 Park Avenue, 14th Floor, New York, New York 10022, as authorized agent for service of process in any legal action or proceeding arising out of or relating to the Fiscal Agency Agreement or the Notes brought in any federal or state court in the Borough of Manhattan, the City of New York, State of New York.

Consent to Jurisdiction

(a) The Issuers irrevocably consent to the nonexclusive jurisdiction of any court of the State of New York or any United States Federal court sitting, in each case, in the Borough of Manhattan, The City of New York, New York, United States of America, and any appellate court from any thereof, and waive any immunity from the jurisdiction of such courts over any suit, action or proceeding that may be brought by the Fiscal Agent or a holder in connection with the Fiscal Agency Agreement or the Notes. The Issuers irrevocably waive, to the fullest extent permitted by law, any objection to any suit, action or proceeding that may be brought in connection with the Fiscal Agency Agreement or the Notes in such courts on the grounds of venue or on the ground that any such suit, action or proceeding has been brought in an inconvenient forum. The Issuers agree that final judgment in any such suit, action or proceeding brought in such court shall be conclusive and binding upon the Issuers and may be enforced in any court to the jurisdiction of which the Issuers are subject by a suit upon such judgment; provided that service of process is effected upon the Issuers in the manner provided by the Fiscal Agency Agreement. Notwithstanding the foregoing, any suit, action or proceeding brought in connection with the Fiscal Agency Agreement or the Notes against the Issuers may be instituted in any competent court in the Republic of Chile.

(b) The Issuers agree that service of all writs, process and summonses in any suit, action or proceeding brought in connection with the Fiscal Agency Agreement or the Notes against the Issuers in any court of the State of New York or any United States Federal court sitting, in each case, in the Borough of Manhattan, The City of New York, may be made upon BancoEstado's New York Branch, presently located at 400 Park Avenue, 14th Floor, New York, New York 10022 and that such appointment of its New York Branch as authorized agent shall be irrevocable so long as any of the Notes remain outstanding (or until the irrevocable appointment by the Issuers of a successor in The City of New York as their authorized agent for such purpose and the acceptance of such appointment by such successor).

(c) Nothing in this Section shall affect the right of any party to serve legal process in any other manner permitted by law or affect the right of any party to bring any action or proceeding against any other party or its property in the courts of other jurisdictions.

Judgment Currency

The Issuers agree, to the fullest extent that it may effectively do so under applicable law, that (a) if for the purpose of obtaining judgment in any court it is necessary to convert the sum due in respect of the principal of, or premium or interest, if any, on the Notes of any Series (the "Required Currency") into a currency in which a judgment will be rendered (the "Judgment Currency"), the rate of exchange used shall be the rate at which, in accordance with normal banking procedures, the Fiscal Agent could purchase the Required Currency with the Judgment Currency and (b) its obligations under the Fiscal Agency Agreement

to make payments in the Required Currency (i) shall not be discharged or satisfied by any tender, or any recovery pursuant to any judgment (whether or not entered in accordance with subsection (a)), in any currency other than the Required Currency, except to the extent that such tender or recovery shall result in the actual receipt, by the payee, of the full amount of the Required Currency expressed to be payable in respect of such payments, (ii) shall be enforceable as an alternative or additional cause of action for the purpose of recovering in the Required Currency the amount, if any, by which such actual receipt shall fall short of the full amount of the Required Currency so expressed to be payable and (iii) shall not be affected by judgment being obtained for any other sum due under the Fiscal Agency Agreement.

FORM OF FINAL TERMS

[PROHIBITION OF SALES TO EEA AND UNITED KINGDOM RETAIL INVESTORS - The Notes, are not intended to be offered, sold or otherwise made available to and, should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“EEA”) or in the United Kingdom. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “MiFID II”); (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the “Insurance Distribution Directive”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA or in the United Kingdom has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA or the United Kingdom may be unlawful under the PRIIPs Regulation.]

[MiFID II product governance / Professional investors and ECPs only target market – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in [Directive 2014/65/EU (as amended, “MiFID II”)] [MiFID II]; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a “distributor” should take into consideration the manufacturer[’s/s’] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer[’s/s’] target market assessment) and determining appropriate distribution channels.]

[In connection with Section 309B of the SFA and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the “CMP Regulations 2018”), the issuer has determined the classification of the Notes as prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).]

FINAL TERMS

BASE PROSPECTUS

Dated May 18, 2020

Dated [●]

[Banco del Estado de Chile][Banco del Estado de Chile, acting through its New York Branch] (the “Issuer”)

Issue of Medium Term Notes

[Reopening of] [●]% [Fixed Rate][Floating Rate] Notes Due [●]

Part A Contractual Terms

This document constitutes the Final Terms of the Notes described herein for the purposes of Article 8.4 of the Prospectus Regulation and must be read in conjunction with the base prospectus dated [May] [●], 2020 (excluding the terms and conditions incorporated by reference therein under the section “Documents Incorporated by Reference”)[, together with the supplement(s) thereto dated [●]] ([collectively,]the “Base Prospectus”). Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus has been, and these Final Terms will be, published on the website of the Luxembourg Stock Exchange (www.bourse.lu).

[The following alternative language applies if the first Tranche of an issue which is being increased was issued under a Base Prospectus with an earlier date]

This document constitutes the Final Terms of the Notes described herein for the purposes of Article 8.4 of the Prospectus Regulation and must be read in conjunction with the base prospectus dated [May] [●], 2020 [, together with the supplement(s) thereto dated [●]] ([collectively,]the “Base Prospectus”), save in respect of the terms and conditions of the Notes as set forth under the section “Description of the Notes” which are extracted from the Base Prospectus dated [May 8, 2015]/[May 13, 2016]/[May 11, 2017]/[April 20, 2018]/[April 16, 2019]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus has been, and these Final Terms will be, published on the website of the Luxembourg Stock Exchange (www.bourse.lu).

1. General Information:

- (i) Series Number: [●]
- (ii) Tranche Number: [●] *(if fungible with an existing Series, provide details of that Series, including the date on which the Notes become fungible)*
- (iii) Trade Date: [●]
- (iv) Settlement Date (Original Issue Date): [●]
- (v) Maturity Date: [●]
- (vi) Specified Currency: [●]
- (vii) Currency of Payment: [●]
- (viii) Principal Amount (in Specified Currency): [●]
- (ix) Price to Public (Issue Price): [●]
- (x) Dealer’s Discount or Commission: [●]
- (xi) Specified Denomination: [●]
- (xii) Initial Exchange Rate [●][Not applicable]
- (xiii) Exchange Rate Agent [Deutsche Bank AG, London Branch][●][Not applicable]

2. Payment of Additional Amounts: [Applicable/Not applicable]

3. Authorization/Approval

- (i) Date Board approval for issuance of Notes obtained: [●] [and [●] respectively][Not applicable]

4. Fixed Rate Notes Only Interest Rate: [Applicable / Not applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*

(ii) Fixed Interest Rate Per Annum:	[●]
(iii) Interest Period:	[Annual] [Semi-Annual] [Quarterly] [Monthly] [Other]
(iv) Fixed Interest Payment Dates:	Each [●], commencing [●]
(v) Day Count Fraction:	[30/360] [Actual/Actual (ICMA)]
(vi) Regular Record Dates (if any):	[The 15 th calendar day prior to each Interest Payment Date] [The business day prior to each Interest Payment Date] [relevant only to Registered Notes][Not applicable]
(vii) Determination Dates:	[Each [●]][Not applicable]
(viii) Interest Commencement Date:	[●][Not applicable]
(ix) Business day Convention:	[Following Business Day Convention][Modified Following Business Day Convention][Preceding Business Day Convention][Modified Preceding Business Day Convention][Other]
(x) Business Day:	[<i>Relevant jurisdictions to be included</i>]
5. Floating Rate Notes Only Interest Rate:	[Applicable / Not applicable] (<i>If not applicable, delete the remaining subparagraphs of this paragraph</i>)
(i) Interest Calculation:	[Regular Floating Rate] [Floating Rate/Fixed Rate] [Inverse Floating Rate]
(ii) Interest Rate Basis:	[Commercial Paper Rate] [Federal Funds Rate] [LIBOR] [EURIBOR] [Treasury Rate] [Prime Rate]
(iii) Spread (Plus or Minus):	[plus/minus [●]%]
(iv) Spread Multiplier:	[●]
(v) Index Maturity:	[●] Months
(vi) Designated LIBOR Currency:	[●]
(vii) Maximum Interest Rate:	[●]
(viii) Minimum Interest Rate:	[●]
(ix) Interest Period:	[Daily, Monthly, Quarterly, Semi-annually, Other]
(x) Interest Payment Date:	Each [list interest payment dates]
(xi) Initial Interest Rate Per Annum:	To be determined [●] Business Days prior to the Original Issue Date based upon [interest rate basis plus/minus the spread amount]
(xii) Interest Reset Periods and Dates:	[Daily/monthly/quarterly/semi-annually] on each Interest Payment Date
(xiii) Interest Determination Date:	[●] Business Days prior to each Interest Reset Date
(xiv) Regular Record Dates (if any):	[The 15 th calendar day prior to each Interest Payment Date] [The business day prior to each Interest Payment Date] [relevant only to Registered Notes] [Not applicable]

- (xv) Day Count Fraction: [Actual/Actual] [Actual/Actual (ISDA)]
[Actual/365 (Fixed)] [Actual/360] [30/360]
[360/360] [Bond Basis] [30E/360] [Eurobond
Basis] [30E/360 (ISDA)]
- (xvi) Business day Convention: [Following Business Day Convention][Modified
Following Business Day Convention][Preceding
Business Day Convention][Modified Preceding
Business Day Convention][Other]
- (xvii) Business Day: [Relevant jurisdictions to be included]
- (xviii) Calculation Agent: [●]

6. Floating Rate Notes Only - Details of Benchmark: [[specify benchmark] is provided by [administrator
legal name] [appears]/[does not appear] in the
register of administrators and benchmarks
established and maintained by ESMA pursuant to
Article 36 of Regulation (EU) 2016/1011, as
amended]/[As far as ADB is aware, as at the date
hereof, the [specify benchmark] does not fall within
the scope of Regulation (EU) 2016/1011, as
amended]/[Not Applicable]

7. Repayment, Redemption and Repurchase:

- (i) Issuer Optional Redemption Date: [●]
- (ii) Noteholder Optional Redemption Date: [●]
- (iii) Redemption Price: [Make-Whole Redemption] [Applicable/Not
Applicable] [Agent calculating the Make-Whole
Amount] [Names of Reference Treasury Dealers]
- (iv) Calculation Agent: [Fiscal Agent] [Other]
- (v) Optional Repayment: [Applicable/Not applicable]
- (vi) Repurchase upon Change of Control: [Applicable/Not applicable]

8. Extendible Notes:

- (i) Initial Maturity Date: [●]
- (ii) Election Date: [●]
- (iii) Final Maturity Date: [●]

9. Form of Notes:

- (i) Temporary global Note to permanent
global Note [Applicable] [Not applicable]
- (ii) Temporary global Note [Applicable] [Not applicable]
- (iii) Permanent global Note [Applicable] [Not applicable]
- (iv) Bearer Note available [Applicable] [Not applicable]
- (v) Registered Notes available [Applicable] [Not applicable]
- (vi) New global Note [Applicable] [Not applicable]
- (vii) Exchange of temporary global Notes into
definitive Bearer Notes: [Not applicable][Specify Exchange Date]
- (viii) Exchange of permanent global Notes
into definitive Bearer Notes: [Not applicable] [Specify Exchange Date]

- (ix) Exchange of definitive Bearer Notes into Registered Notes: [Not applicable] [Specify Exchange Date]
- (x) Exchange of Registered Notes into Registered Notes in other authorized denominations: [Not applicable] [Specify Exchange Date]
- (xi) Offer period during which subsequent resale or final placement of the Notes by Dealers and/ or further financial intermediaries can be made: [Not applicable] [Specify offer period]
- 10. U.S. Selling Restrictions:** [Rule 144A restrictions on transfers and Regulation S Compliance Category 2]; [TEFRA C/TEFRA D/TEFRA not applicable]
- 11. Distribution:** [Section 3(a)(2)/Rule 144A/Regulation S]
- 12. Managers:**
- (i) The Notes are being purchased[, on a several and not joint basis,] by the following financial institutions (each a “Manager” and collectively, the “Managers”) in the respective amounts set forth next to the name of each Manager pursuant to a Terms Agreement between Issuer and the Managers dated [●], executed under the Dealer Agreement. To the extent that any of the Managers are not named as Dealers in the Dealer Agreement, Banco del Estado de Chile has appointed them as Dealers thereunder for this transaction pursuant to the relevant Terms Agreement.
- [Deutsche Bank Aktiengesellschaft]: [●]
[Banco Bilbao Vizcaya Argentaria, S.A.]: [●]
[BBVA Securities Inc.]: [●]
[BNP Paribas Securities Corp.]: [●]
[BNY Mellon Capital Markets, LLC]: [●]
[BofA Securities, Inc.]: [●]
[Citigroup Global Markets Inc.]: [●]
[Commerzbank Aktiengesellschaft]: [●]
[Crédit Agricole Corporate and Investment Bank]: [●]
[Credit Suisse Securities (USA) LLC]: [●]
[Daiwa Capital Markets America Inc.]: [●]
[Deutsche Bank Securities Inc.]: [●]
[Goldman Sachs & Co. LLC]: [●]
[HSBC Securities (USA) Inc.]: [●]
[Itau BBA USA Securities, Inc.]: [●]
[J.P. Morgan Securities LLC]: [●]
[MUFG Securities Americas Inc.]: [●]
[Santander Investment Securities Inc.]: [●]
[Standard Chartered Bank]: [●]
[SMBC Nikko Securities America, Inc.]: [●]
[TD Securities (USA) LLC]: [●]
[UBS AG London Branch]: [●]
[UBS Securities LLC]: [●]
[U.S. Bancorp Investments, Inc.]: [●]
[Wells Fargo Securities, LLC]: [●]
[Zürcher Kantonalbank]: [●]
Total: [●]
[●][Not applicable]
- (ii) Stabilizing manager(s)

Part B Other Information

1. Admissions to Listing and Trading:

(i) Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to listing on the Official List of the Luxembourg Stock Exchange.

(ii) Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the Regulated Market of the Luxembourg Stock Exchange.

[(iii) Other admissions to listing and trading (including, but not limited to, the EuroMTF market of the Luxembourg Stock Exchange) to be specified if applicable]

(i) Other listing: [Not applicable] [EuroMTF] [specify other exchange]

2. Ratings:

The Notes to be issued [have been][are expected to be] rated:

(i) Moody's: [●][Not applicable]

(ii) Standard & Poor's: [●][Not applicable]

(iii) Fitch: [●][Not applicable]

3. Interests of Natural and Legal Persons Involved in the Issue:

[●]/[Save as discussed below, so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer.

The Dealer and its affiliates have engaged, and/or may in the future engage, in investment banking and/or commercial banking transactions with, and/or may perform other services for, the Issuer and its affiliates in the ordinary course of business. The Dealer has received, or may in the future receive, customary fees and commissions for these transactions.

In addition, in the ordinary course of their business activities, the Dealer and its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for its own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or its affiliates. If the Dealer or its affiliates have a lending relationship with the Issuer, the Dealer or its affiliates routinely hedge, and the Dealer or its affiliates may hedge, their credit exposure to the Issuer consistent with their customary risk management policies. Typically, the Dealer and its affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the Issuer's securities, including potentially the Notes to be offered by the Issuer under the MTN Program. Any such credit default swaps or short positions could adversely affect future trading prices of the Notes. The Dealer and its affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.]

4. Estimated Total Expenses of the Admission to Trading:

- (i) Estimated total expenses related to the admission to trading: [●]

Fixed Rate Notes only Yield:

5.

Indication of yield as of the Original Issue [●][Not applicable]

Date:

- (i)

Operational Information:

6.

- (i) ISIN: [●]
- (ii) CUSIP: [●]
- (iii) Common Code: [●]
- (iv) Book-entry Clearing Systems: [Euroclear Bank SA/NV][Clearstream Banking, *société anonyme*][Depository Trust Company]
- (v) Names and addresses of additional Paying Agent(s) (if any): [Not applicable] [●]
- (vi) Prohibition of Sales to EEA and UK Retail Investors: [Applicable/Not Applicable]
- (vii) Intended to be held in a manner which would allow Eurosystem eligibility: (If the Notes clearly do not constitute "packaged" products, "Not Applicable" should be specified. If the Notes may constitute "packaged" products and no KID will be prepared, "Applicable" should be specified.) [Yes. Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper [(and registered in the name of a nominee of one of the ICSDs acting as common safekeeper)] [include this text for registered notes] and does not necessarily mean that the Notes will be recognized as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the European Central Bank (ECB) being satisfied that Eurosystem eligibility criteria have been met.]/ [No. Whilst the designation is specified as "no" at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper [(and registered in the name of a nominee of one of the ICSDs acting as common safekeeper)] [include this text for registered notes]. Note that this does not necessarily mean that the Notes will then be recognized as eligible collateral for Eurosystem monetary policy and intra day credit operations by the

Eurosystem at any time during their life. Such recognition will depend upon the European Central Bank (ECB) being satisfied that Eurosystem eligibility criteria have been met.]]

TAXATION

The following discussion summarizes certain U.S. federal income tax considerations, Luxembourg tax considerations and Chilean tax considerations (and certain EU and United Kingdom related tax consequences) that may be relevant to you if you invest in the Notes. This summary does not describe all of the tax considerations that may be relevant to you or your situation, particularly if you are subject to special tax rules. You should consult your tax advisors about the specific tax consequences of acquiring, holding and disposing of the Notes, including the relevance to your particular situation of the considerations discussed below, as well as of state, local and other tax laws.

Chilean Tax Considerations

The following is a general summary of certain consequences under Chilean tax law, as in effect as of the date of this Prospectus, of an investment in the Notes made by a Foreign Holder (as defined below). The summary which follows does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of Notes by a Foreign Holder and does not purport to deal with the tax consequences applicable to all categories of investors, some of which may be subject to special rules. Holders of Notes are advised to consult their own tax advisors concerning the Chilean and other tax consequences of the ownership of the Notes.

The summary that follows is based on Chilean law, as in effect on the date of this Prospectus, as well as regulations, rulings and decisions of Chile available on or before such date and now in effect. All of the foregoing is subject to any changes in these or other laws occurring after such date, possibly with retroactive effect. Under Chilean law, provisions contained in statutes such as tax rates applicable to foreign investors, the computation of taxable income for Chilean purposes and the manner in which Chilean taxes are imposed and collected may be amended only by another law. In addition, the Chilean tax authorities enact rulings and regulations of either general or specific application and interpret the provisions of the Chilean Income Tax Law. Chilean tax may not be assessed retroactively against taxpayers who act in good faith relying on such rulings, regulations and interpretations, but Chilean tax authorities may change their rulings, regulations and interpretations in the future.

In 2010, the United States and Chile signed an income tax treaty that will enter into force once the treaty is ratified by both countries. As of the date of this Prospectus, only Chile had ratified the income tax treaty, thus, there was no applicable income tax treaty in effect between the United States and Chile. There can be no assurance that the treaty will be ratified by the United States. The following summary assumes that there is no applicable income tax treaty in effect between the United States and Chile.

For purposes of this summary, the term “Foreign Holder” means a beneficial owner of a Note that is either (i) in the case of an individual, a person who is not resident or domiciled in Chile (for purposes of Chilean taxation, (a) an individual is resident in Chile if he or she has remained in Chile, uninterrupted or not, for a period or periods that in total exceed 183 days within any twelve month period, and (b) an individual is domiciled in Chile if he or she resides in Chile with the actual or presumptive intent of staying in Chile (such intention to be evidenced by circumstances such as the acceptance of employment in Chile or the relocation of one’s family to Chile)); or (ii) in the case of a legal entity, a legal entity that is not organized under the laws of Chile, unless the Notes are assigned to a branch or a permanent establishment of such entity in Chile.

Payments of interest or premium

Under the *Ley sobre Impuesto a la Renta* (the “Chilean Income Tax Law”), payments of interest or premium, if any, made to a Foreign Holder in respect of the Notes will generally be subject to a Chilean

withholding tax at the rate of 4% as of the date of this Prospectus. We have agreed, subject to specific exceptions and limitations, to pay certain additional amounts in respect of the Chilean withholding taxes mentioned above in order that the interest or premium the holder receives, net of such taxes, equals the amount which would have been received in the absence of such withholding taxes. See "Description of the Notes—Payment of Additional Amounts."

Payments of principal

Under existing Chilean law and regulations, a Foreign Holder will not be subject to any Chilean taxes in respect of payments of principal made by us with respect to the Notes.

Capital gains

The Chilean Income Tax Law provides that a Foreign Holder is subject to Chilean income tax on his Chilean source income. For this purpose, Chilean source income means earnings from activities performed in Chile or from the sale, disposition or other transactions in connection with assets or goods located in Chile.

The Chilean Income Tax Law expressly states that Notes and other private or public securities issued in Chile by taxpayers domiciled, resident or established in Chile will be deemed to be located in Chile. Accordingly, capital gains obtained by a Foreign Holder arising from the sale of Notes issued in Chile by an entity domiciled in Chile would be taxed in Chile, given that it will be considered as Chilean source income. Because the Notes are issued outside of Chile, any capital gain realized by a Foreign Holder on the sale or other disposition of Notes issued abroad will not be subject to Chilean income taxes.

Gift and Inheritance Tax

A Foreign Holder (other than a Chilean national) will not be liable for estate, gift, inheritance or similar taxes with respect to its holdings unless Notes held by a Foreign Holder are either deemed located in Chile at the time of such Foreign Holder's death, or, if the Notes are not deemed located in Chile at the time of a Foreign Holder's death, if such Notes were purchased or acquired with cash obtained from Chilean sources.

Stamp Tax

The issuance of the Notes is subject to a maximum 0.8% stamp tax, which will be payable by us. In case the stamp tax is not paid when due, inflation adjustments, interest and fines would apply. Until such tax (and any penalty) is paid, Chilean courts will not enforce any action brought with respect to the Notes. Stamp Tax may be exempted for a six-month period under the Coronavirus Plan. See "Management's Discussion and Analysis of Results of Operations and Financial Condition—Chilean Economy—Overview." We have agreed, subject to specific exceptions and limitations, to pay any present or future stamp, court or documentary taxes, charges or levies that arise in the Republic of Chile from the execution, delivery, enforcement or registration of the Notes or any other document or instrument in relation thereto and we have agreed to indemnify holders of Notes for any such taxes, charges or similar levies paid by holders. See "Description of the Notes—Payment of Additional Amounts."

United States Federal Income Taxation

The following is a summary of certain U.S. federal income tax considerations that may be relevant to a beneficial owner of a Note (for purposes of this section, a "Noteholder" or a "holder"). For purposes of this summary, a "U.S. holder" means a citizen or resident of the United States or a domestic corporation

or a holder that is otherwise subject to U.S. federal income taxation on a net income basis in respect of the Note. A “non-U.S. holder” means a holder that is not a U.S. holder, and the term “United States” means the United States of America, including the fifty states and the District of Columbia, but excluding its territories and possessions. This summary is based on laws, regulations, rulings and decisions now in effect, all of which are subject to change, possibly with retroactive effect. This summary deals only with holders that will hold Notes as capital assets; it may not address all of the U.S. federal income tax considerations that may be relevant to a beneficial owner of Notes; and it does not address tax considerations applicable to investors that may be subject to special tax rules, such as affiliates of the Bank, banks and other financial institutions, tax-exempt entities, insurance companies, dealers in securities or currencies, entities taxed as partnerships and partners therein, traders in securities electing to mark to market, persons that will hold Notes as a position in a “straddle” or conversion transaction, or as part of a “synthetic security” or other integrated financial transaction, or U.S. holders that have a “functional currency” other than the U.S. dollar. This discussion applies only to Notes that are classified as indebtedness for U.S. federal income tax purposes (the applicable Final Terms will identify Notes that are not classified as indebtedness for U.S. federal income tax purposes). This summary deals only with the ownership and disposition of Registered Notes, and does not address Bearer Notes, which generally may not be offered or sold in the United States. Further, this summary does not address the alternative minimum tax, the Medicare tax on net investment income or other aspects of U.S. federal income or state and local taxation that may be relevant to a holder in light of such holder’s particular circumstances, or the possible applicability of U.S. federal gift or estate tax laws. Finally, this discussion does not apply to every type of Registered Note that may be issued under the Program, including certain Floating Rate Notes, Extendible Notes and Foreign Currency Notes for which the specified currency is a composite currency. In particular, this discussion does not address the tax consequences of any Notes that are treated under applicable Treasury regulations as providing for contingent payments and subject to special rules thereunder. Additional material U.S. federal income tax consequences of such Notes will be addressed in a supplement to this Prospectus, as applicable.

Prospective investors should consult their own tax advisors to determine the tax consequences to them of acquiring, owning and disposing of Notes, including the application to their particular situation of the U.S. federal income tax considerations discussed below, as well as the application of state, local, foreign or other tax laws.

U.S. Holders

U.S. holders that use an accrual method of accounting for tax purposes (“accrual-basis holder”) generally are required to include certain amounts in income no later than the time such amounts are reflected on certain financial statements (the “book/tax conformity rule”). The application of the book/tax conformity rule thus may require the accrual of income earlier than would be the case under the general tax rules described below. It is not entirely clear to what types of income the book/tax conformity rule applies, or, in some cases, how the rule is to be applied if it is applicable. However, recently released U.S. Treasury proposed regulations generally would exclude, among other items, original issue discount (“OID”) and market discount (in either case, whether or not *de minimis*) from the applicability of the book/tax conformity rule. Although the proposed U.S. Treasury regulations generally will not be effective until taxable years beginning after the date on which they are issued in final form, taxpayers generally are permitted to elect to rely on their provisions currently. Accrual method holders should consult with their tax advisors regarding the potential applicability of the book/tax conformity rule to their particular situation.

Payments of Interest and Additional Amounts

Payments of “qualified stated interest” (as defined below under “—Original Issue Discount”) and any Additional Amounts (*i.e.*, without reduction for Chilean withholding taxes), but excluding any pre-

issuance accrued interest, will be taxable to a U.S. holder as ordinary interest income at the time that such payments are accrued or are received (in accordance with the U.S. holder's method of tax accounting).

If a U.S. holder uses the cash method of tax accounting and receives payments of interest pursuant to the terms of a Note in a currency other than U.S. dollars (a "foreign currency"), the amount of interest income the U.S. holder will realize will be the U.S. dollar value of the foreign currency payment based on the exchange rate in effect on the date the U.S. holder receives the payment, regardless of whether the U.S. holder converts the payment into U.S. dollars. If the U.S. holder is an accrual-basis U.S. holder, the amount of interest income the U.S. holder will realize will be based on the average exchange rate in effect during the interest accrual period (or with respect to an interest accrual period that spans two taxable years, on the average exchange rate for the partial period within the taxable year). Alternatively, as an accrual-basis U.S. holder, the U.S. holder may elect to translate all interest income on foreign currency-denominated Notes at the spot rate on the last day of the accrual period (or the last day of the taxable year, in the case of an accrual period that spans more than one taxable year) or on the date that the U.S. holder receives the interest payment if that date is within five business days of the end of the accrual period. If the U.S. holder makes this election, the U.S. holder must apply it consistently to all debt instruments from year to year and cannot change the election without the consent of the U.S. Internal Revenue Service (the "IRS"). If a U.S. holder uses the accrual method of accounting for tax purposes, the U.S. holder will recognize foreign currency gain or loss on the receipt of a foreign currency interest payment if the exchange rate in effect on the date the payment is received differs from the rate applicable to a previous accrual of that interest income. This foreign currency gain or loss will be treated as ordinary income or loss, but generally will not be treated as an adjustment to interest income received on the Note.

Chilean withholding taxes paid by the Bank at the appropriate rate applicable to the U.S. holder will be treated as foreign income taxes eligible for credit against such U.S. holder's U.S. federal income tax liability, subject to generally applicable limitations and conditions, or, at the election of such U.S. holder, for deduction in computing such U.S. holder's taxable income (provided that the U.S. holder elects to deduct, rather than credit, all foreign income taxes paid or accrued for the relevant taxable year). Payments of interest on the Notes will be treated as foreign source income with respect to Notes issued by the Bank, and will generally be treated as passive category income for the purposes of calculating the U.S. holder's foreign tax credit limitation. Payments of interest on Notes issued by the New York Branch, on the other hand, will generally be treated as U.S. source income for the purposes of calculating the U.S. holder's foreign tax credit limitation. Consequently, a U.S. holder may not be able to credit the Chilean tax withheld from payments of interest on Notes issued by the New York Branch against such holder's federal income tax liability unless such holder has sufficient other income that is treated as derived from foreign sources. The rules relating to foreign tax credits and the timing thereof are complex. U.S. holders should consult their own tax advisors regarding the application of the foreign tax credit rules to their investment in, and disposition of, the Notes.

Purchase, Sale and Retirement of Notes

A U.S. holder's tax basis in a Note generally will equal the cost of such Note to such U.S. holder, increased by any amounts includible in income by the U.S. holder as OID and market discount, and reduced by any amortized premium (as described below) and any payments other than payments of qualified stated interest made on such Note. The amount of any subsequent adjustments to a U.S. holder's tax basis in a Note in respect of OID will be determined in the manner described under "—Original Issue Discount" below. If a U.S. holder purchases a Note that is denominated in a foreign currency, the cost to the U.S. holder (and therefore generally the U.S. holder's initial tax basis) will be the U.S. dollar value of the foreign currency purchase price on the date of purchase calculated at the exchange rate in effect on that date. If the foreign currency Note is traded on an established securities market and the U.S. holder is a cash-basis taxpayer (or if the U.S. holder is an accrual-basis taxpayer that makes a special election), the U.S. holder

will determine the U.S. dollar value of the cost of the Note by translating the amount of the foreign currency that the U.S. holder paid for the Note at the spot rate of exchange on the settlement date of the purchase. The amount of any subsequent adjustments to the U.S. holder's tax basis in a Note in respect of foreign currency-denominated OID, market discount and premium will be determined in the manner described below. If the U.S. holder converts U.S. dollars into a foreign currency and then immediately uses that foreign currency to purchase a Note, the U.S. holder generally will not have any taxable gain or loss as a result of the conversion or purchase.

Upon the sale, exchange or retirement of a Note, a U.S. holder generally will recognize gain or loss equal to the difference between the amount realized on the sale, exchange or retirement (less any accrued qualified stated interest, which will be taxable as such) and the U.S. holder's tax basis in such Note. If the U.S. holder sells or exchanges a Note for a foreign currency, or receives foreign currency on the retirement of a Note, the amount the U.S. holder will realize for U.S. tax purposes generally will be the dollar value of the foreign currency that the U.S. holder receives calculated at the exchange rate in effect on the date the foreign currency Note is disposed of or retired. If a U.S. holder disposes of a foreign currency Note that is traded on an established securities market and the U.S. holder is a cash-basis U.S. holder (or if the U.S. holder is an accrual-basis holder that makes a special election), the U.S. holder will determine the U.S. dollar value of the amount realized by translating the amount at the spot rate of exchange on the settlement date of the sale, exchange or retirement.

The special election available to an accrual-basis U.S. holder in respect of the purchase and sale of foreign currency Notes traded on an established securities market, which is discussed in the two preceding paragraphs, must be applied consistently to all debt instruments from year to year and cannot be changed without the consent of the IRS.

Except as discussed below with respect to market discount, Short-Term Notes (as defined below) and foreign currency gain or loss, the gain or loss that a U.S. holder recognizes on the sale, exchange or retirement of a Note generally will be capital gain or loss. The gain or loss on the sale, exchange or retirement of a Note will be long-term capital gain or loss if the U.S. holder has held the Note for more than one year on the date of disposition. Long-term capital gains recognized by an individual U.S. holder generally are subject to tax at a lower rate than short-term capital gains or ordinary income. The ability of U.S. holders to offset capital losses against income is limited.

Despite the foregoing, the gain or loss that a U.S. holder recognizes on the sale, exchange or retirement of a foreign currency Note generally will be treated as ordinary income or loss to the extent that the gain or loss is attributable to changes in exchange rates during the period in which the U.S. holder held the Note. This foreign currency gain or loss will not be treated as an adjustment to interest income that the U.S. holder receives on the Note.

Any gain or loss that a U.S. holder recognizes on the sale, exchange, redemption or retirement of a Note generally will be treated as U.S. source gain or loss. Prospective investors should consult their own tax advisors as to the U.S. tax and foreign tax credit implications of such sale, redemption, retirement or other taxable disposition of a Note.

Original Issue Discount

Notes with a term greater than one year may be issued with OID for U.S. federal income tax purposes. If an Issuer issues Notes at a discount from their stated redemption price at maturity, and such discount is equal to or more than a *de minimis amount* (the product of one-fourth of one percent (0.25%) of the stated redemption price at maturity of the Notes and the number of full years to their maturity), the Notes will be "OID Notes." The difference between the issue price and the stated redemption price at

maturity of the Notes will be the “OID.” The “issue price” of the Notes will be the first price at which a substantial amount of the Notes is sold to the public (i.e., excluding sales of Notes to underwriters, placement agents, wholesalers, or similar persons). The “stated redemption price at maturity” will include all payments under the Notes other than payments of qualified stated interest (as defined below).

U.S. holders of OID Notes generally will be subject to the special tax accounting rules for obligations issued with OID provided by the U.S. Internal Revenue Code of 1986, as amended (the “Code”), and certain regulations promulgated thereunder (the “OID Regulations”). U.S. holders of such Notes should be aware that, as described in greater detail below, they generally must include OID in ordinary gross income for U.S. federal income tax purposes as it accrues, in advance of the receipt of cash attributable to that income.

In general, each U.S. holder of an OID Note, regardless of whether such U.S. holder uses the cash or the accrual method of tax accounting, will be required to include in ordinary gross income the sum of the “daily portions” of OID on the Note for all days during the taxable year that the U.S. holder owns the Note. The daily portions of OID on an OID Note are determined by allocating to each day in any accrual period a ratable portion of the OID allocable to that accrual period. Accrual periods may be any length and may vary in length over the term of an OID Note, provided that no accrual period is longer than one year and each scheduled payment of principal or interest occurs on either the final day or the first day of an accrual period. In the case of an initial U.S. holder, the amount of OID on an OID Note allocable to each accrual period is determined by (a) multiplying the “adjusted issue price” (as defined below) of the OID Note at the beginning of the accrual period by the “yield to maturity” of such Note (appropriately adjusted to reflect the length of the accrual period) and (b) subtracting from that product the amount (if any) of qualified stated interest (as defined below) allocable to that accrual period. The “yield to maturity” of a Note is the discount rate that causes the present value of all payments on the Note as of its original issue date to equal the issue price of such Note. The “adjusted issue price” of an OID Note at the beginning of any accrual period will generally be the sum of its issue price (generally including accrued interest, if any) and the amount of OID allocable to all prior accrual periods, reduced by the amount of all payments other than payments of qualified stated interest (if any) made with respect to such Note in all prior accrual periods. The term “qualified stated interest” generally means stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually during the entire term of an OID Note at a single fixed rate of interest or, subject to certain conditions, based on one or more interest indices. As a result of this “constant-yield” method of including OID in income, the amounts includible in income by a U.S. holder in respect of an OID Note denominated in U.S. dollars generally are lesser in the early years and greater in the later years than the amounts that would be includible on a straight-line basis. If a Note provides for a scheduled accrual period that is longer than one year (for example, as a result of a long initial period on a Note that provided for interest that generally is paid on an annual basis), then stated interest on the Note will not qualify as “qualified stated interest” under the applicable Treasury regulations. As a result, the Note would be an OID Note.

A U.S. holder generally may make an election, which may not be revoked without the consent of the IRS, to include in its income its entire return on a Note (i.e., the excess of all remaining payments to be received on the Note, including payments of qualified stated interest, over the amount paid by such U.S. holder for such Note) under the constant-yield method described above. For Notes purchased at a premium or bearing market discount in the hands of the U.S. holder, the U.S. holder making such election will also be deemed to have made the election (discussed below in “—Premium and Market Discount”) to amortize premium or to accrue market discount in income currently on a constant-yield basis.

In the case of an OID Note that is also a foreign currency Note, a U.S. holder should determine the U.S. dollar amount includible as OID for each accrual period by (i) calculating the amount of OID allocable to each accrual period in the foreign currency using the constant-yield method described above and (ii)

translating that foreign currency amount at the average exchange rate in effect during that accrual period (or, with respect to an interest accrual period that spans two taxable years, at the average exchange rate for each partial period). Alternatively, a U.S. holder may translate the foreign currency amount at the spot rate of exchange on the last day of the accrual period (or the last day of the taxable year, for an accrual period that spans two taxable years) or at the spot rate of exchange on the date of receipt, if that date is within five business days of the last day of the accrual period, provided that the U.S. holder has made the election described above under “Payments of Interest.” Because exchange rates may fluctuate, if a U.S. holder is the holder of an OID Note that is also a foreign currency Note, the U.S. holder may recognize a different amount of OID income in each accrual period than would be the case if the U.S. holder were the holder of an otherwise similar OID Note denominated in U.S. dollars. Upon the receipt of an amount attributable to OID (whether in connection with a payment of an amount that is not qualified stated interest or the sale or retirement of the OID Note), the U.S. holder will recognize ordinary income or loss measured by the difference between the amount received (translated into U.S. dollars at the exchange rate in effect on the date of receipt or on the date of disposition of the OID Note, as the case may be) and the amount accrued (using the exchange rate applicable to such previous accrual).

All payments on an OID Note (other than payments of qualified stated interest) will generally be viewed first as payments of previously accrued OID (to the extent thereof, with payments attributed first to the earliest-accrued OID), and then as payments of principal.

A subsequent U.S. holder of an OID Note that purchases the Note at a cost less than its remaining redemption amount, or an initial U.S. holder that purchases an OID Note at a price other than the Note’s issue price, also generally will be required to include in gross income the daily portions of OID, calculated as described above. However, if the U.S. holder acquires the OID Note at a price greater than its adjusted issue price, such U.S. holder is required to reduce its periodic inclusions of OID income to reflect the premium paid over the adjusted issue price.

Floating Rate Notes generally will be treated as “variable rate debt instruments” under the OID Regulations. Accordingly, the stated interest on a Floating Rate Note generally will be treated as “qualified stated interest,” and such a Note will not have OID solely as a result of the fact that it provides for interest at a variable rate. However, if a Floating Rate Note is an OID Note, both the “yield to maturity” and “qualified stated interest” generally will be determined for these purposes as though the OID Note will bear interest in all periods at a fixed rate generally equal to the rate that would be applicable to the interest payments on the Note on its date of issue or, in the case of certain Floating Rate Notes, the rate that reflects the yield that is reasonably expected for the Note. Additional rules may apply if interest on a Floating Rate Note is based on more than one interest index. If a Floating Rate Note does not qualify as a “variable rate debt instrument,” such Note may be subject to special rules (the “Contingent Payment Regulations”) that govern the tax treatment of debt obligations that provide for contingent payments (“Contingent Debt Obligations”). A detailed description of the tax considerations relevant to U.S. holders of any such Notes will be provided in a supplement to this Prospectus, as applicable.

OID accrued with respect to an OID Note will be treated as foreign source income with respect to OID Notes issued by the Bank, and should generally be treated as passive category income for the purposes of calculating the U.S. holder’s foreign tax credit limitation. The limitation on foreign taxes eligible for the U.S. foreign tax credit is calculated separately with respect to specific classes of income. The rules relating to foreign tax credits and the timing thereof are complex. U.S. holders should consult their own tax advisors regarding the application of the foreign tax credit rules to their investment in, and disposition of, the Notes.

If certain of the Notes are subject to special redemption, repayment or step up or step down interest rate features, as indicated in the applicable Final Terms, such Notes (particularly OID Notes) may be subject to special rules that differ from the general rules discussed above. Purchasers of Notes with such features

should carefully examine the applicable Final Terms and should consult their own tax advisors with respect to such Notes since the tax consequences with respect to such features, and especially with respect to OID, will depend, in part, on the particular terms of the purchased Notes. OID accrued with respect to an OID Note generally will be treated as U.S. source income with respect to OID Notes issued by the New York Branch.

Premium and Market Discount

A U.S. holder of a Note that purchases the Note at a cost greater than its remaining redemption amount will be considered to have purchased the Note at a premium, and may elect to amortize such premium (as an offset to interest income), using a constant-yield method, over the remaining term of the Note. The “remaining redemption amount” for a Note is the total of all future payments to be made on the Note other than payments of qualified stated interest. Such election, once made, generally applies to all bonds held or subsequently acquired by the U.S. holder on or after the first taxable year to which the election applies and may not be revoked without the consent of the IRS. A U.S. holder that elects to amortize such premium must reduce its tax basis in a Note by the amount of the premium amortized during its holding period. OID Notes purchased at a premium will not be subject to the OID rules described above. In the case of premium on a foreign currency Note, a U.S. holder should calculate the amortization of the premium in the foreign currency. Premium amortization deductions attributable to a period reduce interest income in respect of that period, and therefore are translated into U.S. dollars at the rate that the U.S. holder uses for interest payments in respect of that period. Exchange gain or loss will be realized with respect to amortized premium on a foreign currency Note based on the difference between the exchange rate computed on the date or dates the premium is amortized against interest payments on the Note and the exchange rate on the date the holder acquired the Note. With respect to a U.S. holder that does not elect to amortize bond premium, the amount of bond premium will be included in the U.S. holder’s tax basis when the Note matures or is disposed of by the U.S. holder. Therefore, a U.S. holder that does not elect to amortize such premium and that holds the Note to maturity generally will be required to treat the premium as capital loss when the Note matures. The deduction of capital losses is subject to limitations.

If a U.S. holder of a Note purchases the Note at a price that is lower than its remaining redemption amount, or in the case of an OID Note, a price that is lower than its adjusted issue price, by at least 0.25% of its remaining redemption amount multiplied by the number of remaining whole years to maturity, the Note will be considered to have “market discount” in the hands of such U.S. holder. In such case, gain realized by the U.S. holder on the disposition of the Note generally will be treated as ordinary income to the extent of the market discount that accrued on the Note while held by the U.S. holder and that has not already been included in income by the U.S. holder. In addition, the U.S. holder could be required to defer the deduction of a portion of the interest paid on any indebtedness incurred or maintained to purchase or carry the Note. In general terms, market discount on a Note will be treated as accruing ratably over the term of the Note, or, at the election of the holder, under a constant-yield method. Market discount on a foreign currency Note will be accrued by a U.S. holder in the foreign currency. The amount includible in income by a U.S. holder in respect of such accrued market discount will be the U.S. dollar value of the amount accrued, generally calculated at the exchange rate in effect on the date that the Note is disposed of by the U.S. holder.

A U.S. holder may elect to include market discount in income on a current basis as it accrues (on either a ratable or constant-yield basis), in lieu of treating a portion of any gain realized on a sale of a Note as ordinary income. If a U.S. holder elects to include market discount on a current basis, the interest deduction deferral rule described above will not apply. Any accrued market discount on a foreign currency Note that is currently includible in income will be translated into U.S. dollars at the average exchange rate for the accrual period (or portion thereof within the U.S. holder’s taxable year). Any such election, if made,

applies to all market discount bonds acquired by the taxpayer on or after the first day of the first taxable year to which such election applies and is revocable only with the consent of the IRS.

Short-Term Notes

The rules set forth above will also generally apply to Notes having maturities of not more than one year (“Short-Term Notes”), but with certain modifications.

First, the OID Regulations treat none of the interest on a Short-Term Note as qualified stated interest. Thus, all Short-Term Notes will be OID Notes. OID will be treated as accruing on a Short-Term Note ratably or, at the election of a U.S. holder, under a constant-yield method.

Second, a U.S. holder of a Short-Term Note that uses the cash method of tax accounting will generally not be required to include OID in income on a current basis. Such a U.S. holder may not be allowed to deduct all of the interest paid or accrued on any indebtedness incurred or maintained to purchase or carry such Note until the maturity of the Note or its earlier disposition in a taxable transaction. In addition, such a U.S. holder will be required to treat any gain realized on a sale, exchange or retirement of the Note as ordinary income to the extent such gain does not exceed the OID accrued with respect to the Note during the period the U.S. holder held the Note. Notwithstanding the foregoing, a cash-basis U.S. holder of a Short-Term Note may elect to accrue OID into income on a current basis (in which case the limitation on the deductibility of interest described above will not apply). A U.S. holder using the accrual method of tax accounting and certain cash-basis U.S. holders generally will be required to include OID on a Short-Term Note in income on a current basis.

Third, any U.S. holder (whether cash- or accrual-basis) of a Short-Term Note can elect to accrue the “acquisition discount,” if any, with respect to the Note on a current basis. If such an election is made, the OID rules will not apply to the Note. Acquisition discount is the excess of the remaining redemption amount of the Note at the time of acquisition over the purchase price. Acquisition discount will be treated as accruing ratably or, at the election of the U.S. holder, under a constant-yield method based on daily compounding.

Finally, the market discount rules will not apply to a Short-Term Note.

Information Reporting and Backup Withholding

Information returns will be required to be filed with the IRS with respect to payments made to certain U.S. holders of Notes. In addition, certain U.S. holders may be subject to backup withholding in respect of such payments if they do not provide their taxpayer identification numbers to the relevant payor. The amount of any backup withholding from a payment to a U.S. holder will be allowed as a credit against the U.S. holder’s U.S. federal income tax liability and may entitle the U.S. holder to a refund, provided that the required information is timely furnished to the IRS in the manner required. Certain U.S. holders are not subject to information reporting or backup withholding. U.S. holders should consult their tax advisors as to their qualification for exemption from information reporting and/or backup withholding.

Information with Respect to Foreign Financial Assets

Certain U.S. holders that own “specified foreign financial assets” with an aggregate value in excess of U.S. \$50,000 on the last day of the taxable year or U.S. \$75,000 at any time during the taxable year are generally required to file an information statement along with their tax returns, currently on Form 8938, with respect to such assets. “Specified foreign financial assets” include any financial accounts held at a non-United States financial institution, as well as securities issued by a non-United States issuer (which would include Notes issued by the Bank) that are not held in accounts maintained by financial institutions. Regulations extend this reporting requirement to certain entities that are treated as formed or availed of to hold direct or indirect interests in specified foreign financial assets based on certain objective criteria. Higher reporting thresholds apply to certain individuals living abroad and to certain married individuals. U.S. holders who fail to report the required information could be subject to substantial penalties. In addition, the statute of limitations for assessment of tax would be suspended, in whole or part. Prospective investors should consult their own tax advisors concerning the application of these rules to their investment in Notes, including the application of the rules to their particular circumstances.

Reportable Transactions

A United States taxpayer that participates in a “reportable transaction” will be required to disclose its participation to the IRS. Under the relevant rules, if the Notes are denominated in a foreign currency, a U.S. holder may be required to treat a foreign currency exchange loss from the Notes as a reportable transaction if this loss exceeds the relevant threshold in the regulations (\$50,000 in a single taxable year, if the U.S. holder is an individual or trust, or higher amounts for other non-individual U.S. holders), and to disclose its investment by filing Form 8886 with the IRS. Prospective purchasers are urged to consult their tax advisors regarding the application of these rules.

Non-U.S. Holders

Payments of Interest

Payments of interest made to non-U.S. holders on the Notes issued by the Bank generally will not be subject to withholding of U.S. federal income tax, and payments of interest on Notes issued by the New York Branch generally will not be subject to withholding of U.S. federal income tax provided that (1) such holder does not actually or constructively own 10% or more of the total combined voting power of all classes of stock of the Bank entitled to vote and is not a controlled foreign corporation related to the Bank through stock ownership, and (2) the beneficial owner provides a statement signed under penalties of perjury that includes its name and address and certifies that it is a non-U.S. holder in compliance with applicable requirements.

Purchase, Sale and Retirement of Notes

Gain or loss realized by a non-U.S. holder on the sale or other taxable disposition of a Note will generally not be subject to U.S. federal income tax, unless the non-U.S. holder is an individual who is present in the United States for 183 days or more in the taxable year of the disposition and certain other conditions are met.

Information Reporting and Backup Withholding

Information returns may be required to be filed and backup withholding may apply with respect to payments on the Notes. Non-U.S. holders may be required to comply with applicable certification

procedures to establish that they are not United States persons in order to avoid the application of such information reporting requirements and backup withholding.

Foreign Account Tax Compliance Act

Under the U.S. Foreign Account Tax Compliance rules (“FATCA”), U.S. withholding tax at a rate of 30% (i) will be imposed on payments made on Notes issued by the New York Branch and (ii) could be imposed on all or a portion of “foreign passthru payments” (a term not yet defined) made on certain Notes issued by the Bank, in each case if the holder is not FATCA compliant, or holds its Notes through a “foreign financial institution” that is not FATCA compliant. In order to be treated as FATCA compliant, a holder must provide an applicable financial institution certain documentation (usually an IRS Form W-8BEN or W-8BEN-E) containing information about its identity, its FATCA status, and if required, its direct and indirect U.S. owners, and this information may be reported to the relevant tax authorities, including the IRS. An intergovernmental agreement between the United States and an applicable foreign country, or future U.S. Treasury regulations, may modify these requirements. Pursuant to a “grandfathering rule,” the withholding tax described above in clause (ii) would only apply to Notes that are issued or materially modified on or after the applicable “grandfathering date”, and such withholding would apply only for payments made more than two years after the issuance of final U.S. Treasury regulations defining the term “foreign passthru payment”. If an amount of, or in respect of, U.S. withholding were to be deducted or withheld from interest or other payments on the Notes as a result of an investor’s failure to comply with these rules, neither the Issuers nor any paying agent nor any other person would pursuant to the Final Terms be required to pay Additional Amounts with respect to any Notes as a result of the deduction or such withholding. Holders should consult their own tax advisors on how these rules may apply to payments they receive under the Notes.

Luxembourg Taxation

The following is a summary of certain material Luxembourg tax consequences of purchasing, owning and disposing of the Notes. It does not purport to be a complete analysis of all possible tax situations that may be relevant to a decision to purchase, own or deposit the Notes. It is included herein solely for preliminary information purposes and is not intended to be, nor should it be construed to be, legal or tax advice. Prospective purchasers of the Notes should consult their own tax advisers as to the applicable tax consequences of the ownership of the Notes, based on their particular circumstances. The following description of Luxembourg tax law is based upon the Luxembourg law and regulations as in effect and as interpreted by the Luxembourg tax authorities on the date of this Prospectus and is subject to any amendments in law (or in interpretation) later introduced, whether or not on a retroactive basis.

Please be aware that the residence concept used under the respective headings below applies for Luxembourg income tax assessment purposes only. Any reference in the present section to a tax, duty, levy impost or other charge or withholding of a similar nature refers to Luxembourg tax laws and/or concepts only. Also, please note that a reference to Luxembourg income tax encompasses corporate income tax (*impôt sur le revenu des collectivités*), municipal business tax (*impôt commercial communal*), a solidarity surcharge (*contribution au fonds pour l’emploi*) and personal income tax (*impôt sur le revenu des personnes physiques*) generally. Corporate taxpayers may further be subject to net worth tax (*impôt sur la fortune*), as well as other duties, levies or taxes. Corporate income tax, municipal business tax, as well as the solidarity surcharge invariably apply to most corporate taxpayers resident of Luxembourg for tax purposes. Individual taxpayers are generally subject to personal income tax, and the solidarity surcharge. Under certain circumstances, where an individual taxpayer acts in the course of the management of a professional or business undertaking, municipal business tax may apply as well.

Withholding Tax

Non-resident Noteholder

Under current Luxembourg tax laws, there is no withholding tax on payments of interest (including accrued but unpaid interest) made to a Luxembourg non-resident Noteholder. There is also no Luxembourg withholding tax, upon repayment of the principal, sale, refund, redemption or exchange of the Notes.

Resident Noteholder

Under current Luxembourg tax laws and subject to the application of the amended Luxembourg law dated December 23, 2005 (the “December 2005 Law”) there is no withholding tax on interest (paid or accrued) and other payments (e.g., repayment of principal) made by the Issuer (or its paying agent, if any) to Luxembourg resident Noteholders.

According to the December 2005 Law, a 20% withholding tax is levied on payments of interest or similar income made by Luxembourg paying agents to (or for the benefit of) Luxembourg resident individual Noteholders or to certain foreign residual entities securing the interest for such Luxembourg resident individual Noteholders. This withholding tax also applies on accrued interest received upon sale, disposal, redemption or repurchase of the Notes. Such withholding tax is in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth who does not hold the Notes as business assets. Responsibility for the withholding of tax in application of the December 2005 Law is assumed by the Luxembourg paying agent within the meaning of the December 2005 Law.

Luxembourg resident individuals acting in the course of the management of their private wealth, who are the beneficial owners of payments of interest or similar income made by a paying agent established outside Luxembourg in a Member State of the European Union or the European Economic Area may opt for a final 20% levy. In such case, the 20% levy is calculated on the same amounts as for the payments made by Luxembourg paying agents. The option for the 20% final levy must cover all interest payments made by paying agents to the beneficial owner during the entire civil year. The Luxembourg resident individual who is the beneficial owner of the interest is responsible for the declaration and the payment of the 20% final levy.

Taxation of the Noteholders

Tax Residence

A Noteholder will not become resident, or be deemed to be resident, in Luxembourg by reason only of the holding of these Notes or the execution, performance, delivery and/or enforcement of the Notes.

Income Tax

For the purposes of this paragraph, a disposal may include a sale, an exchange, a contribution, a redemption and any other kind of transfer of the Notes.

Non-Resident Noteholders

A non-resident Noteholder, who has neither a permanent establishment nor a permanent representative in Luxembourg to which or to whom the Notes are attributable, is not liable for any

Luxembourg income tax on interest received or accrued on the Notes, or on capital gains realized on the disposal of the Notes.

A non-resident Noteholder who has a permanent establishment or a permanent representative in Luxembourg to which or to whom the Notes are attributable, must include any interest accrued or received, as well as any gain realized on the disposal of the Notes, in his/her taxable income for Luxembourg tax assessment purposes.

Resident Noteholders

An individual Noteholder acting in the course of the management of his/her private wealth is subject to Luxembourg income tax in respect of interest received, redemption premiums or issue discounts under the Notes except if a withholding tax has been levied by the Luxembourg paying agent on such payments or, in case of a non-resident paying agent, if such individual has opted for the 20% final levy, in accordance with the December 2005 Law.

Under Luxembourg domestic tax law, gains realized upon the disposal of the Notes by an individual Noteholder, who is a resident of Luxembourg for tax purposes and who acts in the course of the management of his/her private wealth, on the disposal of the Notes are not subject to Luxembourg income tax, provided the disposal takes place more than six months after the acquisition of the Notes. An individual Noteholder, who acts in the course of the management of his/her private wealth and who is a resident of Luxembourg for tax purposes, has further to include the portion of the gains realized on the Notes corresponding to accrued but unpaid income in respect of the Notes in his/her taxable income, insofar as the accrued but unpaid interest is indicated separately in the agreement.

Luxembourg resident individual Noteholders, acting in the course of the management of a professional or business undertaking to which the Notes are attributable, have to include interest received or accrued and gains realized on the sale or disposal of the Notes, in any form whatsoever, in their taxable income for Luxembourg income tax assessment purposes. Taxable gains are determined as being the difference between the sale, repurchase or redemption price (including accrued but unpaid interest) and the lower of the cost or book value of the Notes sold or redeemed.

Luxembourg resident corporate Noteholders must include any interest received or accrued, as well as any gain realized on the disposal of the Notes, in their taxable income for Luxembourg income tax assessment purposes. Taxable gains are determined as being the difference between the sale, repurchase or redemption price (including accrued but unpaid interest) and the lower of the cost or book value of the Notes sold or redeemed.

Luxembourg resident corporate Noteholders benefiting from a special tax regime, such as (i) undertakings for collective investment governed by the amended law of December 17, 2010 relating to undertakings for collective investment, (ii) specialized investment funds governed by the amended law of February 13, 2007, (iii) family wealth management companies governed by the amended law of May 11, 2007, or (iv) reserved alternative investment funds treated as a specialized investment fund for Luxembourg tax purposes and governed by the amended law of July 23, 2016 are exempt from income tax in Luxembourg. Interest, paid or accrued on the Notes, as well as gains realized thereon, are thus not subject to Luxembourg income taxes in their hands.

Net Wealth Tax

Luxembourg resident Noteholders, as well as non-resident Noteholders who have a permanent establishment or a permanent representative in Luxembourg to which the Notes are attributable, are subject

to Luxembourg net wealth tax on such Notes, except if the Noteholder is (i) a resident or non-resident individual taxpayer, (ii) an undertaking for collective investment subject to the amended law of December 17, 2010 relating to undertakings for collective investment, (iii) a securitization company governed by the amended law of March 22, 2004 on securitization, (iv) a company governed by the amended law of June 15, 2004 on venture capital vehicles, (v) a specialized investment fund governed by the amended law of February 13, 2007, (vi) a family wealth management company governed by the amended law of May 11, 2007, or (vii) a professional pension institution governed by the amended law dated July 13, 2005 or (viii) a reserved alternative investment fund governed by the amended law of July 23, 2016.

However, (i) a securitization company governed by the amended law of March 22, 2004 on securitization, (ii) a company governed by the amended law of June 15, 2004 on venture capital vehicles, (iii) a professional pension institution governed by the amended law of July 13, 2005 and (iv) an opaque reserved alternative investment fund treated as a venture capital vehicle for Luxembourg tax purposes and governed by the amended law of July 23, 2016 remain subject to a minimum net wealth tax.

Other taxes

Where an individual Noteholder is a resident of Luxembourg for inheritance tax purposes at the time of his/her death, the Notes are included in his/her taxable base for inheritance tax purposes. However, no estate or inheritance taxes are levied on the transfer of the Notes, upon death of a Noteholder, in cases where the deceased was not a resident of Luxembourg for inheritance tax purposes. Gift tax may be due on a gifting or the donation of the Notes, if the gift is recorded in a Luxembourg notarial deed or otherwise registered in Luxembourg.

There is no Luxembourg registration tax, stamp duty or any other similar tax or duty payable in Luxembourg by the Noteholders as a consequence of the issuance of the Notes, nor will any of these taxes be payable as a consequence of a subsequent transfer or redemption of the Notes, unless the documents relating to the Notes are voluntarily registered in Luxembourg.

The Proposed Financial Transaction Tax

The European Commission has published a proposal (the “Commission’s Proposal”) for a Directive for a common financial transaction tax (“FTT”) in Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia and Spain (the “participating Member States”). However, Estonia has since stated that it will not participate.

The Commission’s Proposal has very broad scope and could, if introduced in its current form, apply to certain dealings in the Notes in certain circumstances.

Under the Commission’s Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, “established” in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

The FTT remains subject to negotiation between the participating Member States and the legality of the proposal is uncertain. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate and/or certain of the participating Member States may decide to withdraw.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

United Kingdom Provision of Information Requirements

The comments below are of a general nature and are based on current United Kingdom (“UK”) tax law as applied in England and published practice of HM Revenue & Customs (“HMRC”), the UK tax authorities. Such law may be repealed, revoked or modified and such practice may not bind HMRC and/or may change (in each case, possibly with retrospective effect), resulting in UK tax consequences different from those discussed below. The comments below deal only with UK rules relating to information that may need to be provided to HMRC in connection with the Notes. They do not deal with any other UK tax consequences of acquiring, owning or disposing of the Notes. Each prospective investor should seek advice based on its particular circumstances from an independent tax adviser.

Information relating to the Notes may be required to be provided to HMRC in certain circumstances pursuant to certain domestic and international reporting and transparency regimes. This may include (but is not limited to) information relating to the value of the Notes, amounts paid or credited with respect to the Notes, details of the holders or the beneficial owners of the Notes (or the persons for whom the Notes are held), details of the persons who exercise control over entities that are, or are treated as, holders of the Notes, details of the persons to whom payments derived from the Notes are or may be paid and information and documents in connection with transactions relating to the Notes. Information may be required to be provided by, amongst others, the Issuer, the holders of the Notes, persons by or through whom payments derived from the Notes are made or credited or who receive such payments (or who would be entitled to receive such payments if they were made), persons who effect or are a party to transactions relating to the Notes on behalf of others and certain registrars or administrators. Accordingly, in order to enable these requirements to be met, holders of the Notes may be required to provide information to the Issuer or to other persons. In certain circumstances, the information obtained by HMRC may be exchanged with tax authorities in other countries.

SPECIAL PROVISIONS RELATING TO FOREIGN CURRENCY NOTES

General

Unless specified in the applicable Final Terms that the following provisions are not applicable or as otherwise specified in a supplement to this Prospectus, the following provisions shall apply to Foreign Currency Notes which are in addition to, and to the extent inconsistent therewith replace, the description of general terms and provisions of the Notes set forth elsewhere in this Prospectus.

Payments on Foreign Currency Notes

Purchasers are required to pay for the Notes in the currency specified in the applicable Final Terms. In certain jurisdictions, there may be limited facilities for conversion of home currencies into foreign currencies, and vice versa. In addition, in certain jurisdictions, many banks may not offer foreign currency denominated checking or savings account facilities.

Payment of principal, premium, if any, and interest, if any, on each Note will be made in immediately available funds in the Specified Currency unless the applicable Final Terms specify a different Payment Currency and except as provided under “Changing the Specified Currency of Foreign Currency Notes” below. If the Payment Currency differs from the Specified Currency, the applicable Final Terms will specify the initial exchange rate as quoted by the Exchange Rate Agent (the “Initial Exchange Rate”).

Unless otherwise specified in the applicable Final Terms, a holder of the equivalent of US\$1,000,000 or more aggregate principal amount of a definitive Registered Note denominated in a Specified Currency other than U.S. Dollars may elect subsequent to the issuance thereof that future payments be converted, or not be converted, as the case may be, at the Market Exchange Rate to U.S. Dollars by transmitting a written request for such payments to the relevant Paying Agent on or prior to the Regular Record Date or at least 16 days prior to maturity or earlier repurchase, redemption or repayment, as the case may be. Such request shall include appropriate payment instructions and shall be in writing (mail or hand delivered) or by cable, telex or facsimile transmission. A holder may elect to receive all future payments of principal, premium, if any, and interest in either the Specified Currency or in U.S. Dollars, as specified in the written request, and need not file a separate election for each payment. Such election will remain in effect until revoked by a subsequent election made in the manner and at the times prescribed in this paragraph. Owners of beneficial interests in permanent global Notes or holders of definitive Bearer Notes should contact their broker or nominee to determine whether and how an election to receive payment in either U.S. Dollars or the Specified Currency may be made.

The “Market Exchange Rate” means, as of any time of determination, which shall be two business days prior to payment date, the Specified Currencies (other than U.S. Dollars) to U.S. Dollars exchange rate as quoted by the Exchange Rate Agent for similar client driven orders.

All determinations made by the Exchange Rate Agent shall be at its sole discretion and, in the absence of manifest error, shall be conclusive for all purposes and binding on holders of the Notes and the Exchange Rate Agent shall have no liability therefor. Under no circumstances shall BancoEstado bear any responsibility for losses incurred by a holder due to fluctuations in the Market Exchange Rate.

Specific information about the Specified Currency in which a particular Foreign Currency Note is denominated will be set forth in the applicable Final Terms. Any information therein concerning exchange rates is furnished as a matter of information only and should not be regarded as indicative of the range of or trends in fluctuations in currency exchange rates that may occur in the future.

Minimum Denominations, Restrictions on Maturities, Repayment, Repurchase and Redemption

General. Notes denominated in Specified Currencies other than U.S. Dollars shall have such minimum denominations and be subject to such restrictions on maturities, repayment, repurchase and redemption as are set forth below or as are set forth in the applicable Final Terms in the event different restrictions on minimum denominations, maturities, repayment, repurchase and redemption may be permitted or required from time to time by any relevant central bank or equivalent governmental body, however designated, or by such laws or regulations as are applicable to the Notes or the Specified Currency. Certain restrictions related to the distribution of Notes denominated in Specified Currencies other than U.S. Dollars are set forth under “Plan of Distribution” in this Prospectus. Any other restrictions applicable to Notes denominated in Specified Currencies other than U.S. Dollars will be set forth in the applicable Final Terms relating to such Notes.

Minimum Denominations. The 3(a)(2) Notes will be issued in minimum denominations of US\$250,000 (or equivalent thereof in other currencies) and integral multiples of US\$1,000 in excess thereof. Unless permitted by then current laws, regulations and directives, 144A Notes and Regulation S Notes (including such Notes denominated in Sterling) in respect of which the issue proceeds are received by the relevant Issuer in the United Kingdom and which have a maturity of less than one year will only be issued if (a) the redemption or repurchase value of each such Note is not less than £100,000 as determined at the time of issuance or an amount of equivalent value denominated wholly or partly in a currency other than Sterling, (b) no part of any Note may be transferred unless the redemption or repurchase value of that part is not less than £100,000, or such an equivalent amount, and (c) such Notes are issued to a limited class of professional investors, unless the relevant Note(s) can be issued and sold without contravention of section 19 of the Financial Services and Markets Act 2000 (“FSMA”). See “Plan of Distribution.”

Restrictions on Maturities, Repayment, Repurchase and Redemption. All Notes (irrespective of the Specified Currency in which they are denominated) will comply with applicable legal, regulatory and/or central bank requirements in respect of minimum required maturities and limitations on redemption or repurchase by the relevant Issuer or holder of such Note.

Redenomination

The relevant Issuer may, without the consent of holders of Notes denominated in a Specified Currency of a member state of the European Union, which on or after the issue date of such Notes participates in the European Economic and Monetary Union, on giving at least 30 days’ prior notice (the “Redenomination Notice”) to the holders of such Notes and on prior notice to the Fiscal Agent, and Euroclear, Clearstream, Luxembourg and/or any other relevant clearing system, elect that, with effect from the date specified in the Redenomination Notice (the “Redenomination Date”), such Notes shall be redenominated in Euro.

The election will have effect as follows:

(a) the Notes shall be deemed to be redenominated into Euro in the denomination of €0.01 with a nominal amount for each Note equal to the nominal amount of that Note in the Specified Currency, converted into Euro at the Established Rate (defined below); provided that, if the relevant Issuer determines after consultation with the Fiscal Agent that the then market practice in respect of the redenomination into Euro of internationally offered securities is different from the provisions specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the relevant Issuer shall promptly notify the holders of Notes, any stock exchange on which the Notes may be listed, the Fiscal Agent and the relevant Paying Agents of such deemed amendments;

(b) save to the extent that an Exchange Notice (defined below) has been given in accordance with paragraph (d) below, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate nominal amount of Notes presented (or, as the case may be, in respect of which coupons are presented) for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest €0.01;

(c) if definitive Notes are required to be issued after the Redenomination Date, they shall be issued, subject to compliance with all applicable laws and regulations, at the expense of the relevant Issuer in the denominations of €1,000, €10,000, €100,000 and (but only to the extent of any remaining amounts less than €1,000 or such smaller denominations as the relevant Paying Agent may approve) €0.01 and such other denominations as the relevant Issuer shall determine and notify to the Noteholders;

(d) if issued prior to the Redenomination Date, all unmatured coupons denominated in the Specified Currency (whether or not attached to the Notes) will become void with effect from the date on which the relevant Issuer gives notice (the “Exchange Notice”) that replacement Euro denominated Notes and coupons are available for exchange (provided that such securities are so available) and no payments will be made in respect of them. The payment obligations contained in any Notes so issued will also become void on that date although such Notes will continue to constitute valid exchange obligations of the relevant Issuer. New Euro denominated Notes and coupons, if any, will be issued in exchange for Notes and coupons, if any, denominated in the Specified Currency in such manner as the relevant Paying Agent may specify and as shall be notified to the holders of Notes in the Exchange Notice. No Exchange Notice may be given less than 15 days prior to any date for payment of principal or interest on the Notes;

(e) after the Redenomination Date, all payments in respect of the Notes and the coupons, if any, including payments of interest in respect of periods commencing before the Redenomination Date, will be made solely in Euro as though references in the Notes to the Specified Currency were to Euro. Payments will be made in Euro by credit or transfer to a Euro account outside the United States (or any other account to which Euro may be credited or transferred) specified by the payee or, at the option of the payee, by a Euro check mailed to an address outside the United States;

(f) if the Notes are Fixed Rate Notes and interest for any period ending on or after the Redenomination Date is required to be calculated for a period ending other than on an Interest Payment Date, it will be calculated by applying the Fixed Interest Rate to each Specified Denomination, multiplying such sum by the applicable Fixed Day Count Fraction specified in the applicable Final Terms, and rounding the resultant figure to the nearest sub unit of the relevant Specified Currency, half of any such sub unit being rounded upwards or otherwise in accordance with applicable market convention;

(g) if the Notes are Floating Rate Notes, the applicable Final Terms will specify any relevant changes to the provisions relating to interest; and

(h) such other changes shall be made as the relevant Issuer may decide, after consultation with the relevant Paying Agent and the calculation agent (if applicable), and as may be specified in the Redenomination Notice, to conform them to conventions then applicable to instruments denominated in Euro.

“Established Rate” means the rate for the conversion of the Specified Currency (including compliance with rules relating to rounding in accordance with applicable European Union regulations) into Euro established by the Council of European Union pursuant to Article 109L(4) of the treaty establishing the European Communities, as amended by the Treaty on European Union.

“sub unit” means, with respect to any Specified Currency other than Euro, the lowest amount of such Specified Currency that is available as legal tender in the country of such Specified Currency and, with respect to Euro, means one cent.

Changing the Specified Currency of Foreign Currency Notes

Payments of principal, premium, if any, and interest, if any, on any Note denominated in a Specified Currency other than U.S. Dollars shall be made in U.S. Dollars if, on any payment date, such Specified Currency (a) is unavailable due to imposition of exchange controls or other circumstances beyond the relevant Issuer’s control or (b) is no longer used by the government of the country issuing such Specified Currency or for the settlement of transactions by public institutions in that country or within the international banking community. Such payments shall be made in U.S. Dollars on such payment date and on all subsequent payment dates until such Specified Currency is again available or so used as determined by the relevant Issuer.

Amounts so payable on any such date in such Specified Currency shall be converted into U.S. Dollars at a rate determined by the Exchange Rate Agent (as defined below) on the basis of the most recently available Market Exchange Rate or as otherwise indicated in the applicable Final Terms. Deutsche Bank AG, London Branch will act as exchange rate agent (“Exchange Rate Agent”), unless otherwise stated in the applicable Final Terms. Any payment required to be made on Foreign Currency Notes denominated in a Specified Currency that is instead made in U.S. Dollars under the circumstances described above will not constitute a default of any obligation of the relevant Issuer under such Notes.

The provisions of the two preceding paragraphs shall not apply in the event of the introduction in the country issuing any Specified Currency of the Euro pursuant to the entry of such country into European Economic and Monetary Union. In such an event, payments of principal, premium, if any, and interest, if any, on any Note denominated in any such Specified Currency shall be effected in Euro at such time as is required by, and otherwise in conformity with, legally applicable measures adopted with reference to such country’s entry into the European Economic and Monetary Union.

BOOK ENTRY CLEARANCE SYSTEMS

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear, CBL or CBF (together, the “Clearing Systems”) in effect as of the date of this Prospectus. The information in this section concerning the Clearing Systems has been obtained from sources that BancoEstado believes to be reliable, but neither BancoEstado nor any Dealer takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. Neither BancoEstado nor any other party to the Fiscal Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Book-entry Systems

DTC

DTC has advised BancoEstado that it is a limited purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to section 17A of the Exchange Act. DTC holds securities that its participants (“Participants”) deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations (“Direct Participants”). DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and Financial Industry Regulatory Authority, Inc. Access to the DTC System is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”).

Under the rules, regulations and procedures creating and affecting DTC and its operations (the “Rules”), DTC makes book-entry transfers of Registered Notes among Direct Participants on whose behalf it acts with respect to Notes accepted into DTC’s book-entry settlement system (“DTC Notes”) as described below and receives and transmits distributions of principal and interest on DTC Notes. The Rules are on file with the Securities and Exchange Commission. Direct Participants and Indirect Participants with which beneficial owners of DTC Notes (“Owners”) have accounts with respect to the DTC Notes similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their respective Owners. Accordingly, although Owners who hold DTC Notes through Direct Participants or Indirect Participants will not possess Registered Notes, the Rules, by virtue of the requirements described above, provide a mechanism by which Direct Participants will receive payments and will be able to transfer their interest in respect of the DTC Notes.

Purchases of DTC Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Notes on DTC’s records. The ownership interest of each actual purchaser of each DTC Note (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participant’s records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the DTC Notes are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners.

Beneficial Owners will not receive certificates representing their ownership interests in DTC Notes, except in the event that use of the book-entry system for the DTC Notes is discontinued.

To facilitate subsequent transfers, all DTC Notes deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of DTC Notes with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the DTC Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such DTC Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the DTC Notes within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to DTC Notes. Under its usual procedures, DTC mails an Omnibus Proxy to the relevant Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the DTC Notes will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the due date for payment in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the due date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC or the relevant Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the relevant Issuer, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

Under certain circumstances, including if there is an Event of Default under the Notes, DTC will exchange the DTC Notes for definitive Registered Notes, which it will distribute to its Participants in accordance with their proportionate entitlements and which, if representing interests in a Rule 144A Global Note, will be legended as set forth under "Transfer and Selling Restrictions."

Since DTC may only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, any Owner desiring to pledge DTC Notes to persons or entities that do not participate in DTC, or otherwise take actions with respect to such DTC Notes, will be required to withdraw its Registered Notes from DTC as described below.

Euroclear, CBL and CBF

Euroclear, CBL and CBF each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account

holders. Euroclear, CBL and CBF provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear, CBL and CBF also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear, CBL and CBF have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear, CBL and CBF customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear, CBL and CBF is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

Other Clearing Systems

The applicable Final Terms will specify any other clearing system(s) to be used in connection with any Series of Notes that are different from, or in addition to, the Clearing Systems.

Book-entry Ownership of and Payments in respect of DTC Notes

The relevant Issuer may apply to DTC in order to have any Tranche of Notes represented by a Registered Global Note accepted in its book-entry settlement system. Upon the issue of any such Registered Global Note, DTC or its custodian will credit, on its internal book-entry system, the respective principal amounts of the individual beneficial interests represented by such Registered Global Note to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Dealer. Ownership of beneficial interests in such a Registered Global Note will be limited to Direct Participants or Indirect Participants, including, in the case of any Regulation S Global Note, the respective depositories of Euroclear and CBL. Ownership of beneficial interests in a Registered Global Note accepted by DTC will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to the interests of Direct Participants) and the records of Direct Participants (with respect to interests of Indirect Participants).

Payments in U.S. dollars of principal and interest in respect of a Registered Global Note accepted by DTC will be made to the order of DTC or its nominee as the registered holder of such Note. In the case of any payment in a currency other than U.S. dollars, payment will be made to the Exchange Agent on behalf of DTC or its nominee and the Exchange Agent will (in accordance with instructions received by it) remit all or a portion of such payment for credit directly to the beneficial holders of interests in the Registered Global Note in the currency in which such payment was made and/or cause all or a portion of such payment to be converted into U.S. dollars and credited to the applicable Participants' account.

The Issuers expect DTC to credit accounts of Direct Participants on the applicable payment date in accordance with their respective holdings as shown in the records of DTC unless DTC has reason to believe that it will not receive payment on such payment date. The Issuers also expect that payments by Participants to beneficial owners of Notes will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers, and will be the responsibility of such Participant and not the responsibility of DTC, the relevant Paying Agent, the relevant Registrar or BancoEstado. Payment of principal, premium, if any, and interest, if any, on Notes to DTC is the responsibility of the relevant Issuer.

Transfers of Notes Represented by Registered Global Notes

Transfers of any interests in Notes represented by a Registered Global Note within DTC, Euroclear and CBL will be effected in accordance with the customary rules and operating procedures of the relevant

clearing system. The laws in some States within the United States require that certain persons take physical delivery of notes in definitive form. Consequently, the ability to transfer Notes represented by a Registered Global Note to such persons may depend upon the ability to exchange such Notes for Notes in definitive form. However, as discussed above, such exchanges will generally not be available. Similarly, because DTC can only act on behalf of Direct Participants in the DTC system who in turn act on behalf of Indirect Participants, the ability of a person having an interest in Notes represented by a Registered Global Note accepted by DTC to pledge such Notes to persons or entities that do not participate in the DTC system or otherwise to take action in respect of such Notes may depend upon the ability to exchange such Notes for Notes in definitive form. The ability of any holder of Notes represented by a Registered Global Note accepted by DTC to resell, pledge or otherwise transfer such Notes may be impaired if the proposed transferee of such Notes is not eligible to hold such Notes through a direct or indirect participant in the DTC system.

Subject to compliance with the transfer restrictions applicable to the Registered Notes described under “Transfer and Selling Restrictions,” cross-market transfers between DTC, on the one hand, and directly or indirectly through CBL or Euroclear accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the relevant Registrar, the relevant Paying Agent and any custodian (“Custodian”) with whom the relevant Registered Global Notes have been deposited.

On or after the Original Issue Date for any Series, transfers of Notes of such Series between accountholders in CBL and Euroclear and transfers of Notes of such Series between participants in DTC will generally have a settlement date two business days after the trade date (T+2). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in CBL or Euroclear and DTC participants will need to have an agreed settlement date between the parties to such transfer. Transfers of interests in the relevant Registered Global Notes will be effected through the relevant Registrar, the relevant Paying Agent and the Custodian receiving instructions (and, where appropriate, certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. In the case of cross-market transfers, settlement between Euroclear or CBL accountholders and DTC participants cannot be made on a delivery versus payment basis. The notes will be delivered on a free delivery basis and arrangements for payment must be made separately. However, in the case of transfers within DTC or within Euroclear or CBL, transfers can be made on a delivery versus payment basis.

DTC, CBL and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Notes among participants and accountholders of DTC, CBL and Euroclear. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of BancoEstado, the Agents nor any Dealer will be responsible for any performance by DTC, CBL or Euroclear or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Notes represented by Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial interests.

TRANSFER AND SELLING RESTRICTIONS

The Dealers have, in the Dealer Agreement, agreed with the Issuers a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under “Description of the Notes.” In the Dealer Agreement, the Issuers have agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Program and the issue of Notes under the Program and to indemnify the Dealers certain liabilities incurred by them in connection therewith.

Transfer Restrictions

As a result of the following restrictions, purchasers of Notes in the United States are advised to consult legal counsel prior to making any purchase, offer, sale, resale or other transfer of such Notes. Each purchaser of Registered Notes or person wishing to transfer an interest from one Registered Note to another or from global to definitive form or vice versa, will be required to acknowledge, represent and agree as follows (terms used in this paragraph that are defined in Rule 144A or in Regulation S are used herein as defined therein):

(a) that either: (i) it is a QIB, purchasing (or holding) the Notes for its own account or for the account of one or more QIBs and it is aware that any sale to it is being made in reliance on Rule 144A or (ii) it is outside the United States and is not a U.S. person;

(b) that the Notes are being offered and sold in a transaction not involving a public offering in the United States within the meaning of the Securities Act, and that the Notes have not been and will not be registered under the Securities Act or any other applicable U.S. State securities laws and may not be offered, sold, pledged or otherwise transferred within the United States or to, or for the account or benefit of, U.S. persons except as set forth below;

(c) that, unless it holds an interest in a Regulation S Global Note, the applicable distribution compliance period has elapsed and it is a person located outside the United States or is not a U.S. person, if in the future it decides to resell, pledge or otherwise transfer the Notes or any beneficial interests in the Notes, it will do so only (i) to the relevant Issuer or any affiliate thereof, (ii) inside the United States to a person whom the seller reasonably believes is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A and which takes delivery in the form of an interest in the Rule 144A Global Note, (iii) outside the United States in compliance with Rule 903 or Rule 904 under the Securities Act, (iv) pursuant to another available exemption from registration under the Securities Act or (v) pursuant to an effective registration statement under the Securities Act, in each case in accordance with all applicable U.S. State securities laws;

(d) it will, and will require each subsequent holder to, notify any purchaser of the Notes from it of the resale restrictions referred to in paragraph (c) above, if then applicable;

(e) that Notes initially offered in the United States to QIBs will be represented by one or more Rule 144A Global Notes, and that Notes offered outside the United States in reliance on Regulation S will be represented by one or more Regulation S Global Notes;

(f) that the Notes, other than the Regulation S Global Notes, will bear a legend to the following effect unless otherwise agreed to by the relevant Issuer:

“THIS NOTE HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR WITH ANY SECURITIES REGULATORY

AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (A) REPRESENTS THAT IT IS A “QUALIFIED INSTITUTIONAL BUYER” (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) PURCHASING THE NOTES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS; (B) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THE NOTES EXCEPT IN ACCORDANCE WITH THE FISCAL AGENCY AGREEMENT AND OTHER THAN (1) TO THE ISSUER OR ANY AFFILIATE THEREOF, (2) INSIDE THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT, (3) OUTSIDE THE UNITED STATES IN COMPLIANCE WITH RULE 903 OR RULE 904 UNDER THE SECURITIES ACT, (4) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND ANY OTHER JURISDICTION; AND (C) IT AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS NOTE IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144A UNDER THE SECURITIES ACT FOR RESALE OF THIS NOTE. THIS LEGEND CAN ONLY BE REMOVED AT THE OPTION OF THE ISSUER.

THIS NOTE AND RELATED DOCUMENTATION (INCLUDING, WITHOUT LIMITATION, THE FISCAL AGENCY AGREEMENT REFERRED TO HEREIN) MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME, WITHOUT THE CONSENT OF, BUT UPON NOTICE TO, THE HOLDERS OF SUCH NOTES SENT TO THEIR REGISTERED ADDRESSES, TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR REALES AND OTHER TRANSFERS OF THIS NOTE TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO REALES OR OTHER TRANSFERS OF RESTRICTED NOTES GENERALLY. THE HOLDER OF THIS NOTE SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING ON THE HOLDER HEREOF AND ALL FUTURE HOLDERS OF THIS NOTE AND ANY NOTES ISSUED IN EXCHANGE OR SUBSTITUTION THEREFOR, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON).”;

(g) if it is outside the United States and is not a U.S. person, that if it should resell or otherwise transfer the Notes prior to the expiration of the 40-day distribution compliance period which commences upon completion of distribution of all the Notes of the Tranche of which the Notes being resold or otherwise transferred forms a part of the offering and the closing date with respect to the original issuance of the Notes), it will do so only (i) outside the United States in compliance with Rule 903 or 904 under the Securities Act and (ii) in accordance with all applicable U.S. State securities laws; and it acknowledges that the Regulation S Global Notes will bear a legend to the following effect unless otherwise agreed to by the relevant Issuer:

“THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S.

PERSONS EXCEPT IN ACCORDANCE WITH THE FISCAL AGENCY AGREEMENT AND PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT. THIS LEGEND SHALL CEASE TO APPLY UPON THE EXPIRY OF THE PERIOD OF FORTY DAYS AFTER THE COMPLETION OF THE DISTRIBUTION OF ALL THE NOTES OF THE TRANCHE OF WHICH THIS NOTE FORMS PART.”; and

(h) that the relevant Issuer and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of such acknowledgements, representations or agreements made by it are no longer accurate, it shall promptly notify the relevant Issuer; and if it is acquiring any Notes as a fiduciary or agent for one or more accounts it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

No sale of Legended Notes in the United States to any one purchaser will be for less than US\$100,000 (or its foreign currency equivalent) principal amount and no Legended Note will be issued in connection with such a sale in a smaller principal amount. If the purchaser is a non-bank fiduciary acting on behalf of others, each person for whom it is acting must purchase at least US\$100,000 (or its foreign currency equivalent) of Registered Notes.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

In connection with any Notes which are offered or sold outside the United States in reliance on the safe harbor from the registration requirements of the Securities Act provided under Regulation S (“Regulation S Notes”), each Dealer has represented and agreed, and each further Dealer appointed under the Program will be required to represent and agree, that it will not offer, sell or deliver such Regulation S Notes (a) as part of their distribution at any time or (b) otherwise until forty days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Regulation S Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Program will be required to agree, that it will send to each dealer to which it sells any Regulation S Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Regulation S Notes within the United States or to, or for the account or benefit of, U.S. persons.

Until forty days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Dealers, directly or through their respective U.S. broker dealer affiliates, may arrange for the resale of Notes to QIBs pursuant to Rule 144A and each such purchaser of Notes is hereby notified that the Dealers may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A. The minimum aggregate principal amount of Notes which may be purchased by a QIB pursuant to Rule 144A is US\$100,000 (or the approximate equivalent thereof in any other Specified Currency). To the extent that BancoEstado is not subject to or does not comply with the reporting requirements of section 13

or 15(d) of the Exchange Act or the information furnishing requirements of Rule 12g3-2(b) thereunder, BancoEstado has agreed to furnish to holders of Notes and to prospective purchasers designated by such holders, upon request, such information as may be required by Rule 144A(d)(4) so long as the Notes are considered “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act.

Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by United States Treasury Regulations. Terms used in this paragraph have the meanings given to them by the Code and regulations thereunder.

The applicable Final Terms will specify whether the TEFRA C Rules or the TEFRA D Rules are applicable to the Bearer Notes, or whether neither the TEFRA C Rules nor the TEFRA D Rules are applicable.

In the case of Bearer Notes to which the TEFRA D Rules have been specified to apply, the Notes may not be delivered, offered, sold or resold, directly or indirectly, in connection with their original issuance or during the Restricted Period in the United States to or for the account of any United States person, other than to certain persons as provided under United States Treasury Regulations. An offer or sale will be considered to be made to a person within the United States if the offeror or seller has an address within the United States for the offeree or purchaser with respect to the offer or sale. In addition, each Dealer has represented and agreed (and each further Dealer appointed under the Program will be required to represent and agree) that:

(a) except to the extent permitted under the TEFRA D Rules, (i) it has not offered or sold, and during the Restricted Period will not offer or sell, Bearer Notes to a person who is within the United States or to a United States person, and (ii) such Dealer has not delivered and will not deliver within the United States definitive Bearer Notes that are sold during the Restricted Period;

(b) it has and throughout the Restricted Period will have in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Bearer Notes are aware that such Notes may not be offered or sold during the restricted period to a person who is within the United States or to a United States person, except as permitted by the TEFRA D Rules;

(c) if such Dealer is a United States person, it represents that it is acquiring the Bearer Notes for purposes of resale in connection with their original issuance and, if such Dealer retains Bearer Notes for its own account, it will only do so in accordance with the requirements of United States Treasury Regulation §1.163-5(c)(2)(i)(D)(6); and

(d) with respect to each affiliate (if any) that acquires from such Dealer Bearer Notes for the purposes of offering or selling such Notes during the restricted period, such Dealer either (i) represents and agrees on behalf of such affiliate (if any) to the effect set forth in sub-paragraphs (a), (b) and (c) of this paragraph or (ii) agrees that it will obtain from such affiliate (if any) for the benefit of the relevant Issuer the representations and agreements contained in sub-paragraphs (a), (b) and (c) of this paragraph.

Where the TEFRA C Rules are specified in the applicable Final Terms as being applicable to any Tranche of Bearer Notes, such Notes must be issued and delivered outside the United States in connection with their original issuance. Accordingly, each Dealer has represented and agreed (and each additional Dealer appointed under the Program will be required to represent and agree) in respect of such Notes that it has not offered, sold or delivered, and will not offer, sell or deliver, directly or indirectly, any such Notes within the United States in connection with the original issuance. Further, each Dealer has represented and agreed (and each further Dealer appointed under the Program will be required to represent and agree) in

connection with the original issuance of such Bearer Notes, that it has not communicated, and will not communicate, directly or indirectly, with a prospective purchaser if such Dealer or such purchaser is within the United States or its possessions and will not otherwise involve the U.S. office of such Dealer in the offer and sale of Notes.

Each Dealer has agreed, and each further Dealer appointed under the Program will be required to agree, that it has not entered and will not enter into any contractual arrangements with respect to the distribution or delivery of Notes except with its affiliates (if any) or with the prior written consent of the relevant Issuer.

Each Bearer Note having a maturity of more than 365 days (including unilateral rights to roll over or extend) and interest coupons pertaining to such Note, if any, will bear the following legend: “Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in sections 165(j) and 1287(a) of the Internal Revenue Code.”

Canada

Notes may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws. Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Prospectus (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser’s province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser’s province or territory for particulars of these rights or consult with a legal advisor. Pursuant to section 3A.3 of National Instrument 33-105 Underwriting Conflicts (“NI 33-105”), the dealers are not required to comply with the disclosure requirements of NI 33 105 regarding underwriter conflicts of interest in connection with any offering of Notes.

Chile

THE OFFER OF THE NOTES IS SUBJECT TO CMF RULE 336. THE NOTES OFFERED WILL NOT BE REGISTERED UNDER THE SECURITIES MARKET ACT IN THE SECURITIES REGISTRY (*REGISTRO DE VALORES*) OR IN THE FOREIGN SECURITIES REGISTRY (*REGISTRO DE VALORES EXTRANJEROS*) OF THE CMF AND, THEREFORE, THE NOTES ARE NOT SUBJECT TO THE SUPERVISION OF THE CMF. AS UNREGISTERED SECURITIES, WE ARE NOT REQUIRED TO DISCLOSE PUBLIC INFORMATION ABOUT THE NOTES IN CHILE. ACCORDINGLY, THE NOTES CANNOT AND WILL NOT BE PUBLICLY OFFERED TO PERSONS IN CHILE UNLESS THEY ARE REGISTERED IN THE CORRESPONDING SECURITIES REGISTRY. THE NOTES MAY ONLY BE OFFERED IN CHILE IN CIRCUMSTANCES THAT DO NOT CONSTITUTE A “PUBLIC OFFERING” (AS DEFINED UNDER THE SECURITIES MARKET ACT) OR IN COMPLIANCE WITH CMF RULE 336. PURSUANT TO CMF RULE 336, THE NOTES MAY BE PRIVATELY OFFERED IN CHILE TO CERTAIN “QUALIFIED INVESTORS” IDENTIFIED AS SUCH THEREIN (WHICH IN TURN ARE FURTHER DESCRIBED IN *NORMA DE CARÁCTER GENERAL* NO. 216, DATED JUNE 12, 2008 AND IN *NORMA DE CARÁCTER GENERAL* NO. 410, DATED JULY 27, 2016, BOTH ISSUED BY THE CMF, SUCH AS BANKS, PENSION FUNDS AND INSURANCE COMPANIES), WHICH ARE REQUIRED TO COMPLY WITH SPECIFIC RESTRICTIONS RELATING TO THE PURCHASE OF THE NOTES.

LA OFERTA DE LOS BONOS SE ACOGE A LA NORMA DE CARÁCTER GENERAL N°336 DE FECHA 27 DE JUNIO DE 2012 DE LA CMF. LOS BONOS QUE SE OFRECEN NO ESTARÁN INSCRITOS BAJO LA LEY DE MERCADO DE VALORES EN EL REGISTRO DE VALORES O EN EL REGISTRO DE VALORES EXTRANJEROS QUE LLEVA LA CMF, POR LO QUE TALES VALORES NO ESTÁN SUJETOS A LA FISCALIZACIÓN DE ÉSTA. POR TRATARSE DE VALORES NO INSCRITOS, NO EXISTE OBLIGACIÓN POR PARTE DEL EMISOR DE ENTREGAR EN CHILE INFORMACIÓN PÚBLICA RESPECTO DE ESTOS VALORES. LOS BONOS NO PODRÁN SER OBJETO DE OFERTA PÚBLICA EN CHILE MIENTRAS NO SEAN INSCRITOS EN EL REGISTRO DE VALORES CORRESPONDIENTE. LOS BONOS SOLO PODRÁN SER OFRECIDOS EN CHILE EN CIRCUNSTANCIAS QUE NO CONSTITUYAN UNA “OFERTA PÚBLICA” (SEGUN SE DEFINE EN LA LEY N° 18.045 DE MERCADO DE VALORES) O CUMPLIENDO CON LO DISPUESTO EN LA NORMA DE CARÁCTER GENERAL N°336 DE LA CMF. EN CONFORMIDAD CON LO DISPUESTO POR LA NORMA DE CARÁCTER GENERAL N°336, LOS BONOS PODRÁN SER OFRECIDOS PRIVADAMENTE A CIERTOS “INVERSIONISTAS CALIFICADOS,” IDENTIFICADOS COMO TAL EN DICHA NORMA (Y QUE A SU VEZ ESTÁN DESCRITOS EN LA NORMA DE CARÁCTER GENERAL N°216 DE LA CMF DE FECHA 12 DE JUNIO DE 2008 Y EN LA NORMA DE CARÁCTER GENERAL N°410 DE LA CMF DE FECHA 27 DE JULIO DE 2016, TALES COMO BANCOS, FONDOS DE PENSIONES Y COMPAÑÍAS DE SEGURO), LOS QUE REQUIEREN CUMPLIR CON RESTRICCIONES ESPECÍFICAS EN RELACIÓN A LA COMPRA DE LOS BONOS.

Prohibition of sales to EEA and UK Retail Investors

Unless the Final Terms in respect of any Notes specifies “Prohibition of Sales to EEA and UK Retail Investors” as “Not Applicable”, each Dealer has represented and agreed, and each further Dealer appointed under the Program will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by the Base Prospectus as completed by the Final Terms in relation thereto to any retail investor in the European Economic Area or in the United Kingdom. For the purposes of this provision:

- (a) the expression “retail investor” means a person who is one (or more) of the following:
 - (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “MiFID II”);
 - (ii) a customer within the meaning of Directive (EU) 2016/97 (the “Insurance Distribution Directive”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
 - (iii) not a qualified investor as defined in the Prospectus Regulation.

Consequently, no key information document required by Regulation (EU) No. 1286/2014 (as amended, the “PRIIPs Regulation”) for offering or selling the relevant Notes or otherwise making them available to retail investors in the EEA or in the United Kingdom would be prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA or in the United Kingdom may be unlawful under the PRIIPs Regulation.

France

Each of the Dealers and the relevant Issuer has represented and agreed, and each further Dealer appointed under the Program will be required to represent and agree, that:

- (a) offer to the public in France:

it has only made and will only make an offer of Notes to the public (*offre au public*) in France in the period (i) beginning (A) when a prospectus in relation to those Notes has been approved by the *Autorité des marchés financiers* (“AMF”), on the date of such publication or (B) when a prospectus has been approved by the competent authority of another Member State of the European Economic Area which has implemented the EU Directive 2003/71/EC, on the date of notification of such approval to the AMF and (ii) ending at the latest on the date which is twelve months after the date of approval of such prospectus – all in accordance with Articles L.412-1 and L.621-8 of the French Code monétaire et financier and the Règlement général of the AMF; or

- (b) private placement in France:

in connection with their initial distribution, it has not offered or sold, and will not offer or sell, directly or indirectly, Notes to the public in France and it has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France this Prospectus, the relevant Final Terms or any other offering material relating to the Notes and such offers, sales and distributions have been and will be made in France only to (i) provider of investment services relating to portfolio management for the account of third parties, and/or (ii) qualified investors (*investisseurs qualifiés*), other than individuals, all as defined in, and in accordance with, articles L.411-1, L.411-2 and D.411-1 to D.411-3 of the French *Code monétaire et financier*.

This Prospectus has not been submitted to the clearance procedure of the AMF.

Italy

To the extent that the offering of the Notes has not been registered pursuant to Italian securities legislation and, therefore, no Notes may be offered, sold or delivered, nor may copies of this Prospectus or of any other document relating to the Notes be distributed in the Republic of Italy, except:

- (a) to qualified investors (*investitori qualificati*) as defined in Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended (the “Financial Services Act”) and Article 34-ter, first paragraph, letter b) of CONSOB Regulation No. 11971 of 14 May 1999, as amended from time to time (“Regulation No. 11971”); or

- (b) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Article 34-ter of Regulation No. 11971.

Any offer, sale or delivery of the Notes or distribution of copies of this Prospectus or any other document relating to the Notes in the Republic of Italy under (a) or (b) above must be:

- (i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 16190 of 29 October 2007 (as amended from time to time) and Legislative Decree No. 385 of 1 September 1993, as amended (the “Banking Act”); and

(ii) in compliance with Article 129 of the Banking Act, as amended, and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the Bank of Italy may request information on the issue or the offer of securities in the Republic of Italy; and

(iii) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or any other Italian authority.

Please note that in accordance with Article 100-bis of the Financial Services Act, where no exemption from the rules on public offerings applies under (a) and (b) above, the subsequent distribution of the Notes on the secondary market in Italy must be made in compliance with the public offer and the prospectus requirement rules provided under the Financial Services Act and Regulation No. 11971. Failure to comply with such rules may result in the sale of such Notes being declared null and void and in the liability of the intermediary transferring the financial instruments for any damages suffered by the investors.

The Netherlands

Each Dealer has represented and agreed, and each further Dealer will be required to represent and agree, that any Notes with a maturity of less than twelve months and a denomination of less than Euro 50,000 will only be offered in the Netherlands to professional market parties as defined in the Financial Supervision Act and the decrees issued pursuant thereto.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Law No. 25 of 1948, as amended; the “Financial Instruments and Exchange Act”) and each Dealer has agreed and each further Dealer appointed under the Program will be required to agree that it has not offered or sold and it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Control Act (Law No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and any other applicable laws, regulations and ministerial guidelines of Japan.

Singapore

The Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, the Notes were not offered or sold or caused to be made the subject of an invitation for subscription or purchase and will not be offered or sold or caused to be made the subject of an invitation for subscription or purchase, and this prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase of the Notes, has not been circulated or distributed, nor will it be circulated or distributed, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the “SFA”) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except: (a) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;; (b) where no consideration is or will be given for the transfer; or (c) where the transfer is by operation of law, or (d) as specified in Section 276(7) of the SFA.

In connection with Section 309B of the 'SFA and the Capital Markets Products (the "CMP") Regulations 2018, unless otherwise specified before an offer of Notes, the Notes are prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in Monetary Authority of Singapore Notice SFA 04-N12: Notice on the Sale of Investment Products and Monetary Authority of Singapore Notice FAA-N16: Notice on Recommendations on Investment Products).

Hong Kong

Each Dealer has represented and agreed that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (i) to persons whose ordinary business is to buy or sell shares or debentures (whether as principal or agent); or (ii) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (iii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

People's Republic of China

The Notes may not be offered or sold directly or indirectly within the People's Republic of China ("PRC"). This Prospectus or any information contained herein does not constitute an offer to sell or the solicitation of an offer to buy any securities in the PRC. This Prospectus, any information contained herein or the Notes have not been, and will not be, submitted to, approved by, verified by or registered with any relevant governmental authorities in the PRC and thus may not be supplied to the public in the PRC or used in connection with any offer for the subscription or sale of the Notes in the PRC. The Notes may only be invested in by PRC investors that are authorized to engage in the investment in the Notes of the type being offered or sold. Investors are responsible for obtaining all relevant governmental approvals, verifications, licenses or registrations (if any) from all relevant PRC governmental authorities, including, but not limited

to, the State Administration of Foreign Exchange, the China Securities Regulatory Commission, the China Banking Regulatory Commission, the China Insurance Regulatory Commission and/or other relevant regulatory bodies, and complying with all relevant PRC regulations, including, but not limited to, any relevant foreign exchange regulations and/or overseas investment regulations.

Korea

The Notes will not be offered, sold or delivered, directly or indirectly, in Korea, or to, or for the account or benefit of, any resident of Korea (as defined in the Foreign Exchange Transaction Law of Korea), except as otherwise permitted by applicable Korean laws and regulations.

Taiwan

The Notes will not be registered with the Financial Supervisory Commission of Taiwan pursuant to relevant securities laws and regulations and the Notes may not be sold, issued or offered within Taiwan through a public offering or in a circumstance which constitutes an offer within the meaning of the Securities and Exchange Act of Taiwan requiring registration or approval of the Financial Supervisory Commission of Taiwan. No person or entity in Taiwan has been authorized to offer, sell, give advice regarding or otherwise intermediate the offering and sale of the Notes in Taiwan.

Australia

No prospectus or other disclosure document (as defined by the Corporations Act 2001 of Australia (the “Australian Corporations Act”)) in relation to the Program or any Notes has been, or will be, lodged with the Australian Securities and Investments Commission (“ASIC”).

Each Dealer has represented and agreed that unless the applicable Final Terms (or a supplement to this Prospectus) otherwise provides, it:

(a) has not made offers or invited applications (directly or indirectly), and will not make offers or invite applications, for the issue, sale or purchase of the Notes in Australia (including an offer or invitation which is received by a person in Australia); and

(b) has not distributed or published, and will not distribute or publish, this Prospectus, any Supplement, any other prospectus, any disclosure document, advertisement or other offering material relating to the Notes in Australia,

unless:

(i) the offeree is a “wholesale client” within the meaning of section 761G(4) of the Australian Corporations Act;

(ii) the aggregate consideration payable by each offeree is at least A\$500,000 (or its equivalent in any alternative currency but, in either case, disregarding moneys lent by the offeror or its associates) or the offer or invitation otherwise does not require disclosure to investors in accordance with Parts 6D.2 or 7.9 of the Australian Corporations Act;

(iii) such action complies with all applicable laws, regulations and directives (including, without limitation, the licensing requirements of Chapter 7 of the Australian Corporations Act); and

(iv) such action does not require any document to be lodged with ASIC.

Section 708(19) of the Australian Corporations Act provides that an offer of debentures for issue or sale does not need disclosure to investors under Part 6D.2 of the Australian Corporations Act if the relevant Issuer is an Australian ADI (as defined in the Australian Corporations Act). As at the date of this Prospectus, BancoEstado is an Australian ADI for the purposes of the Australian Corporations Act.

Switzerland

The Dealers have agreed, and each further dealer appointed under the Program will be required to agree, that it will comply with any laws, regulations or guidelines in Switzerland from time to time, including, but not limited to, any regulations made by the Swiss Federal Banking Commission and/or the Swiss National Bank (if any) in relation to the offer, sale, delivery or transfer of the Notes or the distribution of any offering material in Switzerland in respect of such Notes.

General

Each Dealer has represented and agreed and each further Dealer appointed under the Program will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuers nor any of the other Dealers shall have any responsibility therefor.

None of the Issuers and the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with such other additional restrictions as the relevant Issuer and the relevant Dealer shall agree and as shall be set out in the applicable Final Terms.

GENERAL INFORMATION

Clearing Systems

The relevant Final Terms will specify which clearing system or systems (including CBF, DTC, CBL and/or Euroclear) has/have accepted the relevant Notes for clearance and provide any further appropriate information.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium; the address of CBL is Clearstream Banking, 42 Avenue JF Kennedy, L-2967, Luxembourg; the address of CBF is Clearstream Banking AG, Frankfurt, Neue Börsenstrasse 1, 60487 Frankfurt, Germany; and the address of DTC is 55 Water Street, New York, NY 10041.

Authorization

The establishment of the Program and the issue of Notes thereunder have been duly authorized by the Executive Committee of the Bank by virtue of resolutions No. 1,085, No. 43, No. 1,026, No. 304, No. 1335 and No. 0148 dated December 6, 2011, January 17, 2012, September 11, 2012, March 17, 2015, October 25, 2017, June 26, 2018, January 22, 2019 and February 4, 2020, respectively.

The Bank has obtained or will obtain from time to time all necessary consents, approvals and authorizations in connection with the issue and performance of its obligations under the Notes.

Statement of no Material Adverse Change

Save as disclosed under (i) “Management’s Discussion and Analysis of Results of Operations and Financial Condition—Chilean Economy” “—Overview”, “—Interest Rates” and “—Foreign Exchange Rates” on pages 51 to 58 of this Base Prospectus; and (ii) “Regulation and Supervision—Recent Developments—Amendment to the General Banking Law” on pages 173 to 176, there has been no material adverse change in the prospects of the Bank since December 31, 2019.

Significant Change in the Bank’s Financial Position and Financial Performance

There has been no significant change in the financial position or financial performance of the Bank since March 31, 2020.

Litigation

We are not involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened) relating to claims or amounts which may have or have had during the 12 months prior to the date of this Prospectus a material adverse effect on our financial position and our subsidiaries taken as a whole.

Listing and Admission to Trading Information

Application has been made to list Notes to be issued under the Program on the Official List of the Luxembourg Stock Exchange and to admit the Notes to trading on the Regulated Market of the Luxembourg Stock Exchange.

The Program provides that Notes may be admitted to trading or listed, as the case may be, on “EuroMTF,” such other or further stock exchange(s) or markets as may be agreed between the Issuers and

the relevant Dealer. The Issuers may also issue unlisted Notes and/or Notes not admitted to trading on any market.

Undertaking

The Issuers have undertaken, in connection with the listing of the Notes, that if, while its Notes are outstanding and listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Regulated Market of the Luxembourg Stock Exchange there is any significant new factor, material mistake or inaccuracy relating to information included in this Prospectus which is capable of affecting the assessment of any Notes, to prepare a supplement to this Prospectus or publish a new Prospectus for use in connection with any subsequent issue of Notes to be listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Regulated Market of the Luxembourg Stock Exchange.

The Issuers will, at the offices of the Paying Agents, provide, free of charge, a copy of this Prospectus according to the rules of the Luxembourg Stock Exchange.

PLAN OF DISTRIBUTION

In connection with an offering of the Notes, one or more Dealers designated as Managers in the relevant Final Terms will initially propose to offer the Notes for resale at the issue price that appears in the relevant Final Terms. After the initial offering, the relevant Managers may change the offering price and any other selling terms. Managers may offer and sell Notes through certain of their affiliates.

In connection with an offering of the Notes, Managers may engage in transactions that stabilize, maintain or otherwise affect the price of the Notes. Specifically, Managers may overallocate any offering, creating a syndicate short position. Managers may bid for and purchase Notes in the open market to cover such syndicate short position or to stabilize the price of the Notes. These activities may stabilize or maintain the market price of the Notes above independent market levels. Managers are not required to engage in these activities, and (if commenced) may end these activities at any time.

Some of the Managers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Issuer and its affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

In addition, in the ordinary course of their business activities, the Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or its affiliates. If any of the Managers or their affiliates have a lending relationship with the Issuer, certain of those Managers or their affiliates routinely hedge, and certain other of those Managers or their affiliates may hedge, their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the Issuer's securities, including potentially the Notes to be offered by the Issuer under the Program. Any such credit default swaps or short positions could adversely affect future trading prices of the Notes. Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Each of the Managers acknowledges and agrees that the relevant Issuer will not be passporting this Prospectus into any European Economic Area Member State in connection with the offering of the Notes.

DOCUMENTS ON DISPLAY

So long as Notes are capable of being issued under the Program, copies of the following documents will be available from the registered office of the Issuers, from the specified office of the Fiscal Agent for the time being in London and from the specified office of the Luxembourg listing agent (Deutsche Bank Luxembourg S.A.):

- (a) the articles of association (with an English translation where applicable) of the Bank;
- (b) the Bank's Audited Consolidated Financial Statements as of and for fiscal years ended December 31, 2019 and 2018 and as of and for the fiscal years ended December 31, 2018 and 2017 and Unaudited Interim Consolidated Financial Statements as of March 31, 2020 and for the three-month periods ending March 31, 2019 and 2020;
- (c) the Dealer Agreement, the Fiscal Agency Agreement, and the forms of the Notes;
- (d) a copy of this Prospectus;
- (e) any future supplements to this Prospectus and Final Terms (save that a Final Terms relating to a Note which is neither admitted to trading on a regulated market in the European Economic Area or in the United Kingdom nor offered in the European Economic Area or in the United Kingdom in circumstances where a prospectus is required to be published under the Prospectus Regulation will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the relevant Paying Agent as to its holding of Notes and identity) to this Prospectus and any other documents incorporated herein or therein by reference; and
- (f) in the case of each issue of Notes admitted to trading on the Regulated Market of the Luxembourg Stock Exchange subscribed pursuant to a terms agreement, the terms agreement (or equivalent document).

LEGAL MATTERS

The validity of the Notes will be passed upon for BancoEstado by Cleary Gottlieb Steen & Hamilton LLP, New York, New York, United States counsel to BancoEstado, and by Claro & Cía., Santiago, Chile, local counsel to BancoEstado.

Certain legal matters will be passed upon for the dealers by Davis Polk & Wardwell LLP, New York, New York, as to U.S. law, and by Carey y Cía. Ltda., as to Chilean law. Cleary Gottlieb Steen & Hamilton LLP may rely without independent investigation as to all matters of Chilean law on Claro & Cía., local counsel to BancoEstado, and Claro & Cía. may rely without independent investigation as to all matters of United States law on Cleary Gottlieb Steen & Hamilton LLP.

INDEPENDENT ACCOUNTANTS

The consolidated financial statements of Banco del Estado de Chile and its subsidiaries as of and for the years ended December 31, 2017 and 2018 included in this Base Prospectus have been audited by Deloitte Auditores y Consultores Ltda., independent auditors, as stated in their report appearing herein, which report expresses an unqualified opinion and includes explanatory paragraphs: 1) relating to the translation of Chilean peso amounts into U.S. dollar amounts and 2) referring to the convenience translation of the financial statements included herein from Spanish to English. Deloitte Auditores y Consultores Ltda., independent auditors, are a member of the Colegio de Contadores de Chile A.G. (Chilean Institute of Accountants).

The consolidated financial statements of Banco del Estado de Chile and its subsidiaries as of and for the year ended December 31, 2019, included in this Base Prospectus have been audited by KPMG Auditores y Consultores SpA., independent auditors, as stated in their report appearing herein, which report expresses an unqualified opinion and includes explanatory paragraphs relating to the translation of Chilean peso amounts into U.S. dollar amounts. KPMG Auditores y Consultores SpA., is a member of the Colegio de Contadores de Chile A.G. (Chilean Institute of Accountants).

ANNEX A – PRINCIPAL DIFFERENCES BETWEEN CHILEAN BANKING GAAP AND INTERNATIONAL FINANCIAL REPORTING STANDARDS

The *Comisión para el Mercado Financiero* (the “Commission for the Financial Markets” or “CMF”), together with other Chilean regulatory bodies, agreed to a plan of convergence with IFRS for companies in Chile. As a result, on November 9, 2007, the Commission for the Financial Markets issued its Compendium of Accounting Standards, which contains accounting formats and reporting standards and policies for the banking industry consistent with IFRS. The Commission for the Financial Markets supplemented the Compendium of Accounting Standards on August 21, 2008.

Pursuant to the instructions of the Commission for the Financial Markets that accompanied the Compendium of Accounting Standards, effective January 1, 2008, Chilean banks were required to adopt new accounting standards, which are more consistent with IFRS. In all matters not provided for in the Compendium of Accounting Standards and that are not contrary to the instructions of the Commission for the Financial Markets, banks must apply IFRS.

Chilean Banking GAAP differs in certain respects with International Financial Reporting Standards (‘IFRS’). Because the Bank prepares its consolidated financial statements in conformity with the accounting standards and instructions set forth by the CMF, we have not quantified the effect of these differences; further, the differences listed below include only standards that were effective on December 31, 2019 and do not include standards that will become effective on future dates. We have not presented disclosure differences, because we have not prepared a quantitative reconciliation. The principal differences that should be considered by an investor are the following:

a) Classification and measurement of financial instruments

In accordance with Chilean Banking GAAP, financial instruments are initially measured at their fair value. Subsequent measurement depends on the financial instrument’s category. Some categories are measured at their amortized cost, and some at their fair value. The Bank classifies its financial instruments in three categories: (i) held-to-maturity investments, which are measured at their amortized cost; (ii) held-for-trading, which are measured at their fair value, with changes in fair value accounted for as profit or loss in our income statement and (iii) available-for-sale financial assets, which are measured at their fair value. The unrealized variations in an available-for-sale financial instrument’s fair value are accounted for in other comprehensive income. No business models are required.

In accordance with IFRS, entities are required to recognize a financial asset or a financial liability in their statement of financial position when it becomes a party to the contractual provisions of the instrument. When an entity first recognizes a financial asset, IFRS requires it to classify such financial asset based on the entity’s business model for managing the asset and the asset’s contractual cash flow characteristics, as follows:

- Amortized cost: financial assets are measured at amortized cost if both of the following conditions are met:
 - The asset is held in a business model whose objective is to hold assets in order to collect contractual cash flows; and
 - The contractual terms of the financial asset give rise on specified dates to cash flows corresponding solely to payments of principal and interest on the principal amount outstanding.

- Fair value through other comprehensive income: financial assets are classified and measured at their fair value through other comprehensive income if they are held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
- Fair value through profit or loss: financial assets that are not held in one of the two business models mentioned above are measured at their fair value, with changes in fair value accounted for as profit or loss in the income statement.

See section on designation of irrevocable options below.

b) Provisions for loan losses

The determination of provisions for loan losses is performed based on guidance provided by the CMF. Since these calculations do not represent an internally developed best estimate, which takes into consideration prior experience, information about debtor profiles and the appraisal of accounts receivables in light of the current economic environment, the accounting treatment for provisions for loan losses is not in accordance with IFRS in 2017 through 2019.

Banks in Chile are also permitted to set up additional provisions (based on a policy previously approved by the board of directors) as a countercyclical mechanism or for loan concentration purposes for the purpose of safeguarding against unpredictable economic fluctuations, specific industry sector exposure and credit risk concentration, among others. The additional provisions should always be based on general provisions on commercial, mortgage or consumer loans, or on identified segments of commercial, mortgage or consumer loans.

In relation to the impairment of financial assets, IFRS requires an expected loss model. The expected loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, no objective evidence of a credit loss event is required in order to recognize impairment.

Specifically, IFRS 9 requires an entity to recognize a loss allowance for expected credit losses on:

- 1) Debt investments measured subsequently at amortized cost or at fair value through other comprehensive income;
- 2) Lease receivables;
- 3) Trade receivables and contract assets: and
- 4) Financial guarantee contracts to which the impairment requirements of IFRS 9 apply.

In particular, IFRS 9 requires an entity to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the entity is required to measure the loss allowance for that financial instrument at an amount equal to 12-month ECL. IFRS 9 also requires a simplified approach for measuring the loss

allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances.

c) Derivative and hedging accounting

In accordance with Chilean Banking GAAP, financial instruments that have an embedded derivative that should, but which is not possible to, be valued separately are to be included in the category of instruments held-for-trading and should be measured at their fair value, with changes in fair value accounted for as profit or loss in the income statement .

In accordance with IFRS, an entity can elect to designate a financial liability in the scope of IFRS 9 as at fair value through profit or loss (even though the instrument would not meet the definition of held for trading). This option is available as noted under the section below detailing irrevocable options for hybrid financial liabilities (which include embedded derivatives).

In accordance with Chilean Banking GAAP, variations in the fair value hedge related to an asset, liability or an unrecognized firm commitment could be due to a change in interest rates for fixed rate loans, foreign currency, equity and commodity prices. Any profits or losses on both hedging instrument and hedged item shall be accounted for as profit or loss in the income statement in each accounting period.

In accordance with IFRS, if the hedged item is an equity instrument accounted for at its fair value through other comprehensive income, any variation in the fair value of the hedging instrument should also be accounted for in other comprehensive income with no subsequent reclassification. Dividend income is recognized in profit or loss.

d) Suspension of Income Recognition on Accrual Basis

In accordance with Chilean Banking GAAP, financial institutions must suspend recognition of income on an accrual basis in their statements of income for certain loans included in the impaired portfolio. IFRS does not allow the suspension of accrual of interest on financial assets for which an impairment loss has been determined.

e) Charge-offs and Account Receivables

The Chilean Banking GAAP requires companies to establish certain deadlines for the charge-off of loans and account receivables. Under IFRS, a charge-off due to impairment would be recorded when the entity has no reasonable expectation of collection all or a portion of a financial asset.

f) Assets Received in Lieu of Payment

The Chilean Banking GAAP requires that the initial value of assets received in lieu of payment be the value agreed to with a debtor as a result of the loan settlement or the value awarded in an auction, as applicable. These assets are required to be written off one year after their acquisition if the assets have not been previously disposed of.

IFRS requires that assets received in lieu of payment be initially accounted for at its fair value. Subsequently, asset valuation depends on the classification provided by the entity for that type of asset. No deadline is established for charging-off an asset.

g) Designations of irrevocable options of financial instruments

According to Chilean Banking GAAP, banks are not permitted to designate a financial asset or liability as one to be measured at fair value in replacement of the general criterion of amortized cost (“fair value option”).

According to IFRS, an entity may, on initial recognition:

- make an irrevocable election for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income; and
- irrevocably designate a debt investment that meets the amortized cost or fair value through other comprehensive income criteria as measured at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch.

A financial liability may be designated as at fair value through profit or loss upon initial recognition only in one of the following circumstances:

- If it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities, or recognizing the gains and losses on them, on different bases (commonly referred to as an “accounting mismatch”);
- If a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity’s key management personnel;
- In the case of a hybrid financial liability containing one or more embedded derivatives, an entity may designate the entire hybrid contract as a financial liability as at fair value through profit or loss unless:
 - The embedded derivative does not significantly modify the cash flows that otherwise would be required by the contract, or:
 - It is clear with little or no analysis when a similar hybrid instrument is first considered that separation of the embedded derivative is prohibited under the standards.

ANNEX B – PRINCIPAL DIFFERENCES BETWEEN CHILEAN GAAS AND INTERNATIONAL STANDARDS ON AUDITING

The audits to the financial statements for banks in Chile are performed in accordance with General Accepted Auditing Standards in Chile (Chilean GAAS) issued by the Colegio de Contadores de Chile A.G. (Chilean Institute of Accountants). The International Auditing Standards (ISAs) are issued by the International Auditing and Assurance Standards Board (IAASB) and are used for banks in the European Union (EU) countries in accordance with Regulation (EU) 537/2014. In general terms, both sets of standards are similar in several aspects that auditors are required to consider to perform their audits to financial statements.

The principal differences between Chilean GAAS and ISAs are the following:

1. **Approach:** While Chilean GAAS follows an approach based on standards rather than based on principles, ISAs are based on principles rather than on specific standards.
2. **Audit Report:** Under Chilean GAAS, key audit matters are not required to be described on the audit report to the financial statements, which are required to be described under ISAs.
3. **Group Reporting and Use of another auditor:** Under Chilean GAAS, when there is more than one firm auditing a group of companies, the principal auditor for the group is not required to assume responsibilities for the whole group of companies and can limit its scope, referencing the other auditors in the audit report. Under ISAs, the principal auditor is responsible for the entire group of companies reported upon and cannot reference another auditor's report.
4. **Going concern considerations:** Under Chilean GAAS, the period of assessment as to the ability of the entity to continue as a going concern is one year from the date of the statement of financial position. Under ISAs, the period of assessment as to the ability of the entity to continue as a going concern is considered to be minimally one year but is not limited to one year from the date of the statement of financial position.
5. **Internal control over financial reporting:** Under Chilean GAAS, if internal control deficiencies are communicated orally to the company's management, they must be documented in writing. Under ISAs, it is recommended that internal control deficiencies be communicated in writing to the company's management; however, if these are communicated orally, it is not required to document them in writing.

In addition, under Chilean GAAS internal controls issues are classified in three categories: a) material weakness; b) significant deficiency; and c) deficiency. Under ISAs, internal controls issues are classified in two categories: a) significant deficiency; and b) deficiency.
6. **Documentation and retention of working papers:** Chilean GAAS requires working papers to be retained for six years, compared to five years required by ISAs.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	<u>Page</u>
Consolidated Financial Statements of Banco del Estado de Chile and Subsidiaries for the Years ended December 31, 2019 and 2018	
Independent Auditors' Report	F-5
Consolidated Statements of Financial Position	F-7
Consolidated Statements of Income	F-8
Consolidated Statements of Comprehensive Income	F-9
Consolidated Statements of Changes in Equity.....	F-10
Consolidated Statements of Cash Flows	F-11
Notes to the Consolidated Financial Statements	F-12
	<u>Page</u>
Consolidated Financial Statements of Banco del Estado de Chile and Subsidiaries for the Years ended December 31, 2018 and 2017	
Independent Auditors' Report	F-178
Consolidated Statements of Financial Position	F-180
Consolidated Statements of Income	F-181
Consolidated Statements of Comprehensive Income	F-182
Consolidated Statements of Changes in Equity.....	F-183
Consolidated Statements of Cash Flows	F-184
Notes to the Consolidated Financial Statements	F-185



BancoEstado®
CHILE

Consolidated Financial Statements

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

Santiago, Chile

As of December 31, 2019 and 2018

Consolidated Financial Statements

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

December 31, 2019 and 2018

Contents

- I. Independent Auditor's Report
- II Consolidated Statements of Financial Position
- III Consolidated Statements of Income
- III. Consolidated Statements of Other Comprehensive Income
- IV. Consolidated Statements of Changes in Equity
- V. Consolidated Statements of Cash Flows
- VI. Notes to the Consolidated Financial Statements

Ch\$ = Chilean pesos
MCh\$ = Millions of Chilean pesos
US\$ = United States dollars
U.F. = Unidad de Fomento (inflation-adjusted units)
UTA = Annual Tax Unit
JPY = Japanese yen
€ = Euro
CHF = Swiss franc
AUD = Australian dollar
HKD = Hong Kong dollar
COP = Colombian pesos

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

CONTENTS

	Page
Independent Auditor's Report.....	5
Consolidated Statements of Financial Position.....	7
Consolidated Statements of Income.....	8
Consolidated Statements of Other Comprehensive Income.....	9
Consolidated Statements of Changes in Equity.....	10
Consolidated Statements of Cash Flows.....	11
Notes to the Consolidated Financial Statements:	
Note 1 - General information and significant accounting policies.....	12
Note 2 - Changes in accounting policies.....	60
Note 3 - Significant events.....	60
Note 4 - Operating segments.....	69
Note 5 - Cash and cash equivalents.....	72
Note 6 - Financial assets held for trading.....	74
Note 7 - Repurchase agreements and securities loans.....	75
Note 8 - Financial derivative contracts.....	77
Note 9 - Loans and advances to banks.....	86
Note 10 - Loans and accounts receivables from customers.....	87
Note 11 - Financial investments.....	92
Note 12 - Investments in other companies.....	93
Note 13 - Intangible assets.....	94
Note 14 - Property, plant and equipment; right-of-use asset and liabilities under lease arrangements	96
Note 15 - Current and deferred income taxes.....	101
Note 16 - Other assets.....	106
Note 17 - Deposits and other demand obligations and time deposits.....	108
Note 18 - Obligations with banks.....	109
Note 19 - Debt instruments issued and other financial obligations.....	111
Note 20 - Provisions.....	114
Note 21 - Other liabilities.....	116
Note 22 - Contingencies and commitments.....	117
Note 23 - Equity.....	123
Note 24 - Interest and indexation income and expenses.....	127
Note 25 - Fees and commission income and expenses.....	128
Note 26 - Net income from financial operations.....	129
Note 27 - Net foreign exchange gain or loss.....	129
Note 28 - Provision for loan losses.....	130
Note 29 - Personnel salaries and expenses.....	131
Note 30 - Administrative expenses.....	135
Note 31 - Depreciation, amortization and impairment.....	136

	Page
Note 32 - Other operating income and expenses.....	137
Note 33 - Transactions with related parties.....	139
Note 34 - Assets and liabilities at fair value.....	143
Note 35 - Risk management.....	150
Note 36 - Maturity of assets and liabilities.....	169
Note 37 - Subsequent events.....	171



Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of Banco del Estado de Chile and its Subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2019 and the related consolidated statements of income, other comprehensive income, changes in equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the accounting standards and instructions issued by the Financial Market Commission; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Auditing Standards Generally Accepted in Chile. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Banco del Estado de Chile and its Subsidiaries as of December 31, 2019, and the results of their operations and their cash flows for the year then ended in accordance with accounting standards and instructions issued by the Financial Market Commission.

Other matters – Predecessor Auditor

The accompanying consolidated financial statements of Banco del Estado de Chile and its Subsidiaries as of December 31, 2018 and for the year then ended were audited by other auditors whose report thereon dated February 26, 2019, expressed an unmodified opinion on those consolidated financial statements.

Other matters – Currency Translation

The translation of Chilean Peso amounts into US dollar amounts has been made in conformity with the basis stated in Note 1b) to the consolidated financial statements for the convenience of readers outside of Chile.



Ernesto Guzman

Santiago (Chile), February 27, 2020

KPMG SpA

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Consolidated Statements of Financial Position

As of December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



	Notes	12/31/2019 MUS\$	12/31/2019 MCh\$	12/31/2018 MCh\$
ASSETS				
Cash and due from banks	5	5,306	3,972,444	4,354,391
Transactions in the course of collection	5	223	167,010	369,632
Financial assets held for trading	6	2,239	1,676,531	2,192,921
Repurchase agreements and securities loans	7	193	144,806	337,027
Financial derivative contracts	8	1,973	1,477,626	808,201
Loans and advances to banks, net	9	610	457,003	628,908
Loans and accounts receivable from customers, net	10	33,381	24,993,590	23,240,012
Financial investments available for sale	11	10,213	7,646,814	6,008,764
Financial investments held to maturity	11	24	17,649	21,162
Investments in associates	12	24	18,257	16,174
Intangible assets	13	182	136,051	198,308
Property, plant and equipment	14	464	347,674	385,285
Right-of-use assets	14	131	98,015	-
Current taxes	15	2	1,387	4,271
Deferred taxes	15	1,326	992,478	850,689
Other assets	16	1,613	1,207,641	805,784
TOTAL ASSETS		57,904	43,354,976	40,221,529
LIABILITIES				
Current accounts and other demand deposits	17	14,182	10,618,977	9,539,516
Transactions in the course of payment	5	169	126,169	352,913
Repurchase agreements and securities loans	7	1,235	924,775	820,849
Time deposits and savings account	17	21,941	16,428,458	17,148,269
Financial derivative contracts	8	1,769	1,324,832	762,955
Obligations with banks	18	2,330	1,744,835	1,307,903
Debt instruments issued	19	11,171	8,363,934	7,231,410
Other financial obligations	19	34	25,562	17,297
Lease obligations	14	113	84,260	-
Current taxes	15	271	202,536	43,570
Deferred taxes	15	-	-	26
Provisions	20	1,176	880,466	774,729
Other liabilities	21	1,093	818,364	508,508
TOTAL LIABILITIES		55,484	41,543,168	38,507,945
EQUITY				
Attributable to equity holders of the bank:				
Issued capital	23	1,037	776,207	574,632
Reserves		1,431	1,071,435	1,075,885
Valuation accounts		(60)	(44,845)	(29,302)
Retained earnings:				
Net income for the year	23	223	167,019	165,951
Less: Provision for distribution of income to the benefit of the state		(223)	(167,019)	(82,976)
Total attributable to equity holders of the bank		2,408	1,802,797	1,704,190
Non-controlling interest	23	12	9,011	9,394
TOTAL EQUITY		2,420	1,811,808	1,713,584
TOTAL LIABILITIES AND EQUITY		57,904	43,354,976	40,221,529

The accompanying notes 1 to 37 are an integral part of these Consolidated Financial Statements.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Consolidated Statements of Income

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



	Notes	12/31/2019 MUS\$	12/31/2019 MCh\$	12/31/2018 MCh\$
Interest income	24	2,754	2,062,291	1,925,315
Interest expense	24	(1,258)	(942,285)	(931,363)
Net interest income		1,496	1,120,006	993,952
Fees and commission income	25	704	527,308	473,507
Fees and commission expense	25	(262)	(196,151)	(167,630)
Net fee and commission income		442	331,157	305,877
Net income from financial operations	26	200	149,506	115,519
Net foreign exchange (loss) gain	27	(4)	(3,323)	20,671
Other operating income	32	22	17,018	18,964
Total operating income		2,156	1,614,364	1,454,983
Provision for loan losses	28	(428)	(320,396)	(232,047)
OPERATING INCOME, NET		1,728	1,293,968	1,222,936
Personnel salaries and expenses	29	(614)	(460,007)	(436,969)
Administrative expenses	30	(345)	(258,685)	(276,615)
Depreciation and amortization	31	(180)	(134,436)	(106,550)
Impairment	31	-	-	-
Other operating expenses	32	(108)	(80,838)	(49,290)
Total operating expenses		(1,247)	(933,966)	(869,424)
NET OPERATING INCOME		481	360,002	353,512
Income from investments in associates	12	3	2,041	2,509
Income before income taxes		484	362,043	356,021
Income tax expense	15	(240)	(179,708)	(176,684)
NET INCOME FOR THE YEAR		244	182,335	179,337
Attributable to:				
Equity holders of the bank		223	167,019	165,951
Non-controlling interest	23	21	15,316	13,386
		244	182,335	179,337

The accompanying notes 1 to 37 are an integral part of these Consolidated Financial Statements.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Consolidated Statements of Other Comprehensive Income

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



	Notes	12/31/2019 MUS\$	12/31/2019 MCh\$	12/31/2018 MCh\$
NET INCOME FOR THE YEAR		244	182,335	179,337
OTHER COMPREHENSIVE INCOME (LOSS) THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS				
Mark to market adjustments on available-for-sale financial assets		9	6,899	907
Exchange differences on translation foreign operations	23	(3)	(2,133)	(256)
Mark to market adjustments on cash flow hedging instruments		(61)	(45,359)	(69,914)
Subtotal – other comprehensive income (loss) which may be reclassified to profit or loss		(55)	(40,593)	(69,263)
Income tax relating to other comprehensive income that may be reclassified to profit or loss		34	25,050	44,850
Total other comprehensive income (loss) that may be reclassified to profit or loss		(21)	(15,543)	(24,413)
OTHER COMPREHENSIVE INCOME (LOSS) THAT WILL NOT BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS				
Actuarial results on employee benefit plan		(17)	(12,714)	12
Subtotal - other comprehensive (loss) income which will not be reclassified to profit or loss		(17)	(12,714)	12
Income tax effect relating to other comprehensive income which will not be reclassified to profit or loss		11	8,264	(8)
Total other comprehensive (loss) income which will not be reclassified to profit or loss		(6)	(4,450)	4
TOTAL OTHER COMPREHENSIVE LOSS		(27)	(19,993)	(24,409)
CONSOLIDATED COMPREHENSIVE INCOME FOR THE YEAR		217	162,342	154,928
Attributable to:				
Equity holders of the bank		196	147,026	141,542
Non-controlling interest	23	21	15,316	13,386
		217	162,342	154,928

The accompanying notes 1 to 37 are an integral part of these Consolidated Financial Statements.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Consolidated Statements of Changes in Equity
For the years ended December 31, 2019 and 2018
(In millions of Chilean pesos - MCh\$)



	Reserves			Valuation accounts									
	Issued capital	Other reserves not derived from profits	Reserves derived from profits	Financial investments available for sale	Cash flow hedge	Exchange differences on translation foreign operation	Income tax effect	Prior year's retained earnings	Income for the period	Provision for distribution of net income for the year	Total attributable to equity holders of the bank	Non-controlling interest	Total equity
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
Equity as of 01/01/2018 MCh\$	574,632	(2,165)	1,017,796	536	(11,364)	(1,155)	7,094	-	120,501	(60,250)	1,645,625	8,832	1,654,457
Transfers	-	-	120,501	-	-	-	-	-	(120,501)	-	-	-	-
Dividends paid	-	-	(60,251)	-	-	-	-	-	-	-	(60,251)	(5,391)	(65,642)
Mark to market adjustments on available-for-sale financial assets	-	-	-	907	-	-	(594)	-	-	-	313	-	313
Mark to market adjustments on cash flow hedging instruments	-	-	-	-	(69,914)	-	45,444	-	-	-	(24,470)	-	(24,470)
Exchange difference on translation foreign operation	-	-	-	-	-	(256)	-	-	-	-	(256)	-	(256)
Actuarial loss on employee benefit plan	-	4	-	-	-	-	-	-	-	-	4	(6)	(2)
Provision for mandatory dividends	-	-	-	-	-	-	-	-	-	(22,726)	(22,726)	(7,427)	(30,153)
Net income for the year	-	-	-	-	-	-	-	-	165,951	-	165,951	13,386	179,337
Equity as of 12/31/2018 MCh\$	574,632	(2,161)	1,078,046	1,443	(81,278)	(1,411)	51,944	-	165,951	(82,976)	1,704,190	9,394	1,713,584
Equity as of 01/01/2019 MCh\$	574,632	(2,161)	1,078,046	1,443	(81,278)	(1,411)	51,944	-	165,951	(82,976)	1,704,190	9,394	1,713,584
Transfers	-	-	165,951	-	-	-	-	-	(165,951)	-	-	-	-
Dividends paid	-	-	(165,951)	-	-	-	-	-	-	-	(165,951)	(6,074)	(172,025)
Capital contribution	201,575	-	-	-	-	-	-	-	-	-	201,575	-	201,575
Mark to market adjustments on available-for-sale financial assets	-	-	-	6,899	-	-	(4,433)	-	-	-	2,466	-	2,466
Mark to market adjustments on cash flow hedging instruments	-	-	-	-	(45,359)	-	29,483	-	-	-	(15,876)	-	(15,876)
Exchange difference on translation foreign operation	-	-	-	-	-	(2,133)	-	-	-	-	(2,133)	-	(2,133)
Actuarial loss on employee benefit plan	-	(4,450)	-	-	-	-	-	-	-	-	(4,450)	10	(4,440)
Provision for mandatory dividends	-	-	-	-	-	-	-	-	-	(84,043)	(84,043)	(9,635)	(93,678)
Net income for the year	-	-	-	-	-	-	-	-	167,019	-	167,019	15,316	182,335
Equity as of 12/31/2019 MCh\$	776,207	(6,611)	1,078,046	8,342	(126,637)	(3,544)	76,994	-	167,019	(167,019)	1,802,797	9,011	1,811,808
Equity as of 12/31/2019 MUS\$	1,037	(9)	1,440	11	(169)	(5)	103	-	223	(223)	2,408	12	2,420

The accompanying notes 1 to 37 are an integral part of these Consolidated Financial Statements.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



	Notes	12/31/2019 MUS\$	12/31/2019 MCh\$	12/31/2018 MCh\$
CASH FLOWS USED IN OPERATING ACTIVITIES:				
Net income for the year		244	182,335	179,337
Charges (credits) to income that do not represent cash flows:				
Depreciation and amortization	31	180	134,436	106,550
Impairment of assets		-	-	-
Provision for loan losses		530	396,482	300,744
Mark to market of financial assets held-for-trading		(280)	(209,280)	(242,688)
Income from investment in associates	12	(3)	(2,041)	(2,509)
Net gain on sale for assets received in lieu of payment		(4)	(2,977)	(3,093)
Net gain on sale of property, plant and equipment		(1)	(1,065)	(528)
Write-off of assets received in lieu of payment	32	4	3,055	2,258
Other charges to income that do not represent cash movements		115	86,008	202,741
Accrued interest and inflation indexation income		(146)	(109,438)	(114,312)
Changes in assets and liabilities affecting operating cash flows:				
Decrease of trading instruments		2,162	1,618,414	635,705
Increase in loan portfolio		(2,183)	(1,634,537)	(1,623,798)
Increase in held-to-maturity and available-for-sale financial investments		(2,770)	(2,073,974)	(804,250)
Decrease (increase) in other credit transactions		230	171,905	(21,026)
Increase in current accounts		1,117	836,612	13,553
(Decrease) increase of deposits and fundraising		(571)	(427,522)	448,895
(Decrease) increase in other demand and time liabilities		(66)	(49,440)	192,184
Increase of other obligations through brokerage of documents		139	103,926	228,326
Decrease of obligations in letters of credit		(72)	(54,102)	(71,833)
Decrease of loans obtained from local banks		(3)	(1,900)	(964)
Increase (decrease) of loans obtained from foreign banks		586	438,832	(100,678)
Decrease of other assets and liabilities		(751)	(562,197)	(617,755)
Received interest and inflation - indexation		2,591	1,940,978	1,771,307
Paid interest and inflation - indexation		(1,243)	(930,409)	(891,668)
Payment of low value and/or short term leases		(3)	(1,936)	-
Payment of interest on leases		(2)	(1,773)	-
Payment of income tax		(214)	(160,237)	(253,620)
Net cash flows used in operating activities		(414)	(309,845)	(667,122)
CASH FLOWS USED IN INVESTING ACTIVITIES:				
Purchase of property, plant and equipment and intangible assets		(95)	(70,935)	(159,662)
Sale of property, plant and equipment and intangible assets		-	369	18
Purchases of investments in associates		-	(338)	(2)
Dividends received from investments in companies		1	467	339
Sale of assets received in lieu of payment		9	7,063	4,404
Net cash flow used in investing activities		(85)	(63,374)	(154,903)
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES:				
Increase in equity	23	269	201,575	-
Issue of bonds	19	1,521	1,139,133	1,244,289
Repayment of bonds	19	(451)	(338,133)	(469,306)
Payment of mandatory dividends in benefit of the state	23	(221)	(165,951)	(60,251)
Payment of mandatory dividends of non-controlling interest		(18)	(13,492)	(12,073)
Capital payments for leases		(14)	(10,166)	-
Net cash flows provided by financing activities		1,086	812,966	702,659
NET VARIATION FOR THE PERIOD OF CASH AND CASH EQUIVALENTS		587	439,747	(119,366)
Effect of exchange rate changes		14	10,499	17,878
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	5	9,128	6,834,854	6,936,342
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	5	9,729	7,285,100	6,834,854

The accompanying notes 1 to 37 are an integral part of these Consolidated Financial Statements.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



NOTE 1 - GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES

General Information - Background of the Bank and Subsidiaries

The Caja de Crédito Hipotecario was established on August 29, 1855. It was the founding institution that promoted the country's economic development, whose main objective was to provide access to credit to the productive sector and to the public in general and to safeguard their deposits. Subsequently, Caja Nacional de Ahorro was established by Law No. 2,356, on August 22, 1910, in order to encourage savings, especially in the lower-income sector, and to ensure safe and profitable savings. Under such law, it was agreed to combine in a single institution all of the saving entities in Chile under the sponsorship of the Government. Needs in Chile, especially in the agricultural sector led to the creation of the Caja de Crédito Agrario, in August 1926, in order to provide financial services to a wide range of farmers. For similar purposes, but this time pursuant to the manufacturing industry, the Instituto de Crédito Industrial was established in February 1928. The four institutions mentioned above, operated separately until 1953 when Banco del Estado de Chile (hereinafter referred to as "the Bank" or "BancoEstado") was established by Decree in Force of Law (D.F.L.) No. 126, published in the Official Gazette on July 24, 1953, and began operating on September 1, 1953.

The purpose of its creation was to promote development of domestic economic activities by providing financial products and services, and in doing so provide the best quality service to Chilean citizens.

The Organic Law of Banco del Estado de Chile, Law Decree No. 2,079 of 1978, establishes that the Bank is an autonomous company of the Chilean Government, with its own legal status and equity, of indefinite duration, exclusively subject to the oversight of the Comisión para el Mercado Financiero (formerly - Superintendencia de Bancos e Instituciones Financieras - SBIF - see Note 3 - Significant events) and related to the Government through the Ministerio de Hacienda. Accordingly, BancoEstado does not have issued 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 trust of the President of the Republic, and one is a representative of the Bank's employees. It is managed by an Executive Committee formed by the Chairman, Vice-chairman and Chief Executive Officer.

The Bank's headquarters are located at Av. Libertador Bernardo O'Higgins No. 1,111, Santiago, Chile.

The Consolidated Financial Statements of BancoEstado for the year ended December 31, 2019 were approved by the Executive Committee on February 18, 2020 and by the Audit Committee and Board of Directors on February 27, 2020.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



NOTE 1 - GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

BancoEstado is the parent company of a group of subsidiaries which are engaged in several lines of business. Consequently, the Bank is obligated to prepare its own annual stand-alone accounts and consolidated annual accounts which include its Subsidiaries, 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 is a privately-held shareholders' corporation, incorporated on August 17, 1989, as a Stock Agency, that became a Stockbroker on June 10, 1992. On January 19, 1990, it obtained its registration as a Stockbroker and a Stock Agency with the Comisión para el Mercado Financiero under registry No. 0137. It is engaged in the trading of publicly-offered securities on behalf of third parties and on its own.

BancoEstado S.A. Corredores de Bolsa is located at Bandera No. 76, offices 601 and 602; Santiago, Chile.

This company is considered a Subsidiary of BancoEstado, because the Bank owns voting right shares representing 99.9996% of its equity as of December 31, 2019 and 2018, maintaining control over the operations of BancoEstado S.A. Corredores de Bolsa.

BancoEstado S.A. Corredores de Bolsa holds non-controlling interests in the following companies:

Entity name	No. of share	Ownership	Valuation of the investment	Dividends Received		
				12/31/2019	12/31/2018	12/31/2018
				MUS\$	MCh\$	MCh\$
BancoEstado Microempresas S.A. Asesorías Financieras (*)	436	0.1000%	Equity Method	-	1	1
BancoEstado Servicios de Cobranza S.A. (*)	10	0.1000%	Equity Method	-	-	-

(*) Entities that are a part of the consolidated BancoEstado Group.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



NOTE 1 - GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

- BancoEstado S.A. Administradora General de Fondos is a privately-held shareholders' corporation established on June 23, 1997 and authorized by Resolution No. 272 dated August 20, 1997 issued by the Comisión para el Mercado Financiero, engaged in the management of home savings. On April 25, 2003 through Exempt Resolution No. 105, the Comisión para el Mercado Financiero approved the by-laws of BancoEstado S.A. Administradora de Fondos para la Vivienda, which changed its name to BancoEstado S.A. Administradora General de Fondos, and is engaged in the management of third party resources, in accordance with Law No. 20,712 or by the law that replaces or complements it, being able to perform all complementary activities to its line of business as authorized by the Comisión para el Mercado Financiero. On December 3, 2008, BancoEstado 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 Asset Management, equivalent to 49.99% of its equity interest. The sale of its equity interests became effective on January 2, 2009. Currently, the Company has under its administration 18 mutual funds (see Note 22, letter c)).

BancoEstado S.A. Administradora General de Fondos is located at Nueva York No. 33, 7th floor, Santiago, Chile.

This company is considered a Subsidiary of BancoEstado, because the Bank owns voting right shares representing 50.01% of its equity as of December 31, 2019 and 2018, maintaining control over the operations of BancoEstado S.A. Administradora General de Fondos.

- BancoEstado Corredores de Seguros S.A. was established as a limited liability company on August 4, 1999. Its by-laws were amended on September 13, 2004, becoming a privately held shareholders' corporation. This Company is under the oversight of the Comisión para el Mercado Financiero. It is engaged in receiving fees for brokerage of all types of insurance ruled by Decree in Force of Law No. 251 of 1931, with any domestic insurance company domiciled in Chile and providing advisory services related to engaging insurance policies.

BancoEstado has a strategic alliance with Metlife Chile Inversiones Ltda. for the development of the insurance business and incorporated Metlife Chile Inversiones Ltda. as a shareholder of BancoEstado Corredores de Seguros S.A. with interest of 49.9% of equity. This alliance includes participation in management and development of products and businesses.

BancoEstado Corredores de Seguros S.A. is located at Amunátegui No. 232, 6th floor, Santiago, Chile.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



NOTE 1 - GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

This company is considered a Subsidiary of BancoEstado, because the Bank owns voting right shares representing 50.10% of its equity as of December 31, 2019 and 2018, maintaining control over the operations of BancoEstado Corredores de Seguros S.A.

- BancoEstado Servicios de Cobranza S.A., is a privately held company established on September 9, 1999, and registered with the Comisión para el Mercado Financiero on August 10, 1999 under No. 752. It is exclusively engaged in the collection of credit documents on its own or on behalf of third parties, whether through pre-judicial, judicial or extrajudicial means.

BancoEstado Servicios de Cobranza S.A. is located at San Diego No. 81, 6th floor, Santiago, Chile and is subject to the oversight of the aforementioned Commission.

This company is considered a Subsidiary of BancoEstado, because the Bank owns voting right shares representing 99.9% of its equity as of December 31, 2019 and 2018, maintaining control over the operations of BancoEstado Servicios de Cobranza S.A. and the latter has full dependence on BancoEstado.

BancoEstado Servicios de Cobranzas S.A. holds non-controlling interests in the following companies:

Entity name	No. of shares	Ownership	Valuation of the investment	Dividends Received		
				12/31/2019		12/31/2018
				MUS\$	MCh\$	MCh\$
BancoEstado Contacto 24 Horas S.A. (*)	10	0.1000%	Equity Method	-	-	-
BancoEstado Centro de Servicios S.A. (*)	518,749	0.1000%	Equity Method	-	-	-

(*) Entities that are a part of the consolidated BancoEstado Group.

- BancoEstado Microempresas S.A. Asesorías Financieras was incorporated on July 23, 1996, and is subject to the oversight of the Comisión para el Mercado Financiero. It is exclusively engaged in the provision of support services to the banking business in terms of financial advisory to microenterprises.

BancoEstado Microempresas S.A. Asesorías Financieras is located at Bandera No. 84, 8th floor, Santiago, Chile.

This company is considered a Subsidiary of BancoEstado, because the Bank owns voting right shares representing 99.9% of its equity as of December 31, 2019 and 2018, maintaining control over the operations of BancoEstado Microempresas S.A. Asesorías Financieras.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



NOTE 1 - GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

- BancoEstado Centro de Servicios S.A. was incorporated on November 13, 2004, and is subject to the oversight of the Comisión para el Mercado Financiero. It is exclusively engaged in carrying out all the legal activities, acts and transactions related to No. 1 of Article No. 69 of the General Banking Law, except for those related to entering into contracts for current accounts and deposit transactions. Its main purpose is to provide cash support services to the banking business.

BancoEstado Centro de Servicios S.A. is located at Nueva York No. 9, office 301, Santiago, Chile.

This company is considered a Subsidiary of BancoEstado, because the Bank owns voting right shares representing 99.9% of its equity as of December 31, 2019 and 2018, maintaining control over the operations of BancoEstado Centro de Servicios S.A.

BancoEstado Centro de Servicios S.A. holds non-controlling interests in the following company:

Entity name	No. of share	Ownership	Valuation of the investment	Dividends Received		
				12/31/2019	12/31/2018	
				MUS\$	MCh\$	MCh\$
Sociedad de Servicios Transaccionales Caja Vecina S.A. (*)	30	0.1506%	Equity Method	-	2	4

(*) An entity that is a part of the consolidated BancoEstado Group.

- BancoEstado Contacto 24 Horas S.A. was incorporated on December 13, 2001, and is subject to the oversight of the Comisión para el Mercado Financiero. It is engaged in the provision, via remote and/or virtual communication, telemarketing and technical support services, and general product and service information aimed at developing and maintaining business relations with customers from BancoEstado and its Subsidiaries.

BancoEstado Contacto 24 Horas S.A. is located at Nueva York No. 80, 11th floor, Santiago, Chile.

This company is considered a Subsidiary of BancoEstado, because the Bank owns voting right shares representing 99.9% of its equity as of December 31, 2019 and 2018, maintaining control over the operations of BancoEstado Contacto 24 Horas S.A.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



NOTE 1 - GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Sociedad de Servicios Transaccionales Caja Vecina S.A. was incorporated on October 19, 2006 and is subject to the oversight of the Comisión para el Mercado Financiero. It is exclusively engaged in the provision of services to its shareholders, other banks, Subsidiaries, and banking support companies so that they can perform, with their customers and the general public, all the activities, judicial acts and operations, which, by using cash, magnetic cards or any other technological device linked to those referred to in No. 1 and 8 of Article No. 69 of the General Banking Law, except for entering into contracts for current accounts and deposit operations. To comply with such purpose, the company will try to generate a positive impact on the community, the people linked to the company, and the environment.

Sociedad de Servicios Transaccionales Caja Vecina S.A. is located at Moneda No. 856, 2th floor, Santiago, Chile.

This company is considered a Subsidiary of BancoEstado, because the Bank owns voting right shares representing 99.85% of its equity as of December 31, 2019 and 2018, maintaining control over the operations of Sociedad de Servicios Transaccionales Caja Vecina S.A.

- Sociedad de Promoción de Productos Bancarios S.A. through its dissolution (see Note 3, letter t)) was a privately-held shareholders' company, incorporated on May 7, 2008. It was exclusively engaged in the promotion of the products and services of the Bank and its Subsidiaries. The Company was under the oversight of the Comisión para el Mercado Financiero.

Sociedad de Promoción de Productos Bancarios S.A. was located at Avenida Libertador Bernardo O'Higgins No. 1,111, Santiago, Chile.

This company was considered a Subsidiary of BancoEstado, because the Bank owned voting right shares representing 99.83% of its equity as of December 31, 2018, having control over the operations of Sociedad de Promoción de Productos Bancarios S.A.

- Red Global S.A. is a privately-held shareholders' corporation incorporated on February 21, 2017, upon authorization of such incorporation by the Comisión para el Mercado Financiero on January 23, 2017 and under the oversight of such regulating agency. It is exclusively engaged in the operation of cards or equivalent electronic devices and other complementary, associated or related activities.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



NOTE 1 - GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

BancoEstado has entered into an agreement with Sumup Limited to develop and operate this business, in which Red Global S.A. has a shareholding interest of 9.9% of equity.

Red Global S.A. is located at Moneda No. 1,140, 6th floor, office 601, Santiago, Chile.

This company is considered a Subsidiary of BancoEstado, because the Bank owns voting right shares representing 90.10% of its equity as of December 31, 2019 and 2018, maintaining control over the operations of Red Global S.A.

- BancoEstado New York Branch, whose banking license was issued on July 25, 2005, by the authorities of the State of New York, authorized BancoEstado to open and operate a branch in the city of New York, the United States of America. The Branch commenced its operations on October 5, 2005. Its commercial orientation is preferably 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, risk hedging, among others. The Branch fully depends on its Parent. This branch is regulated and under the oversight of the Comisión para el Mercado Financiero, the State of New York and the Federal Reserve of the United States.

The Branch is located at 400 Park Avenue, 14th floor, New York, the United States.

The following tables show a summary of the financial position of the companies in which BancoEstado holds interests (*):

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



NOTE 1 - GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

December 31, 2019

Entities	Assets		Liabilities		Net income		Retained earnings (losses)		Cash and cash equivalent	
	MUS\$	MCh\$	MUS\$	MCh\$	MUS\$	MCh\$	MUS\$	MCh\$	MUS\$	MCh\$
BancoEstado S.A. Corredores de Bolsa	912	682,710	790	591,235	10	7,406	103	77,408	28	20,974
BancoEstado S.A. Administradora General de Fondos	21	15,668	9	6,481	15	11,000	1	822	12	8,986
BancoEstado Corredores de Seguros S.A.	63	47,531	53	39,717	27	20,175	4	3,343	14	10,183
BancoEstado Servicios de Cobranzas S.A.	11	8,251	9	6,812	(1)	(600)	-	341	1	699
BancoEstado Microempresas S.A. Asesorías Financieras	26	19,470	21	15,403	1	747	3	2,528	5	3,514
BancoEstado Centro de Servicios S.A.	65	48,523	63	46,911	(3)	(2,164)	(4)	(3,208)	3	2,478
BancoEstado Contacto 24 Horas S.A.	5	4,030	4	2,770	-	(217)	1	699	-	222
Sociedad de Servicios Transaccionales Caja Vecina S.A.	12	9,016	6	4,848	3	2,062	-	-	7	5,081
Red Global S.A.	15	11,309	8	6,053	(3)	(2,529)	(2)	(1,849)	4	2,768

December 31, 2018

Entities	Assets		Liabilities		Net income		Retained earnings (losses)		Cash and cash equivalent	
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
BancoEstado S.A. Corredores de Bolsa	692,782	608,720	4,301	73,107	996					
BancoEstado S.A. Administradora General de Fondos	26,287	18,077	9,601	822	17,399					
BancoEstado Corredores de Seguros S.A.	43,834	34,778	17,418	8,095	4,752					
BancoEstado Servicios de Cobranzas S.A.	5,573	3,533	226	341	1,843					
BancoEstado Microempresas S.A. Asesorías Financieras	10,372	6,750	733	2,529	3,430					
BancoEstado Centro de Servicios S.A.	39,650	35,874	143	(3,352)	1,405					
BancoEstado Contacto 24 Horas S.A.	2,516	1,039	425	273	1,131					
Sociedad de Servicios Transaccionales Caja Vecina S.A.	7,091	3,633	1,352	-	3,396					
Sociedad de Promoción de Productos Bancarios S.A.	628	17	(2)	(8)	3					
Red Global S.A.	8,896	1,112	(1,068)	(781)	5,294					

(*) For further information on the above-mentioned companies, please, refer to the Financial Statements of each company, available on the web site of BancoEstado www.bancoestado.cl.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



NOTE 1 - GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant accounting policies and others

a) Accounting period covered:

The Consolidated Financial Statements (hereinafter the “Financial Statements”) comprise the Consolidated Statements of Financial Position as of December 31, 2019 and 2018, and the related Consolidated Statements of Income, Consolidated Statements of Other Comprehensive Income, Consolidated Statements of Changes in Equity and Consolidated Statements of Cash Flows for the years ended December 31, 2019 and 2018.

b) Basis of preparation:

The General Banking Law in its Article No. 2, empowers the Comisión para el Mercado Financiero (Chilean Financial Market Commission) to provide general accounting standards to the entities subject to its oversight. In addition, the Public Company Act requires compliance with generally accepted accounting principles.

In accordance with the aforementioned legal provisions, Banks must use the criteria required by the Comisión para el Mercado Financiero in its Compendium of Accounting Standards and for all those aspects not covered therein, provided that it does not contravene its instructions, generally accepted accounting principles should be used, which relate to International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). Should any discrepancy exist between generally accepted accounting principles and the accounting standards issued by the Comisión para el Mercado Financiero, the latter shall prevail.

The Notes to the Consolidated Financial Statements contain additional information to that presented in the Consolidated Statements of Financial Position, Consolidated Statements of Income, Consolidated Statements of Other Comprehensive Income, Consolidated Statements of Changes in Equity and Consolidated Statements of Cash Flows. Such notes provide narrative descriptions or the disaggregation of such Financial Statements in a clear, relevant, reliable and comparable manner.

This report as of December 31, 2019, contains translations of certain Chilean peso amounts into U.S. dollars at specified rates solely for the convenience of the reader. These translations should not be construed as representations that such Chilean peso amounts actually represent such U.S. dollar amounts, were converted from U.S. dollar amounts at the rate indicated in preparing our Consolidated Financial Statements or could be converted into U.S. dollars amounts at the rate indicated or any particular rate at all. Unless otherwise indicated, such U.S. dollar amounts have been translated from Chilean pesos based on the exchange rate of Ch\$ 748.74 per US\$ 1.00 as of December 31, 2019.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



NOTE 1 - GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Basis of preparation of the Consolidated Financial Statements:

The Consolidated Financial Statements comprise the preparation of the Financial Statements of the Bank, New York Branch and Subsidiaries, and include the adjustments and reclassifications required to provide consistent accounting policies and valuation criteria applied by the Bank, in accordance with the standards established in the Compendium of Accounting Standards issued by the Comisión para el Mercado Financiero.

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the Consolidated Financial Statements. As of December 31, 2019, the assets and liabilities and results of operations of the Subsidiaries represent in aggregate 6.86%, 7.14% and 17.36%, respectively (8.84%, 9.21% and 14.89%, respectively as of December 31, 2018), of consolidated total assets, liabilities and results of operations. Unrealized gains and/or losses arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Company's interest in the equity of the investee.

The companies in which BancoEstado holds interests are divided into:

- **Controlled entities and/or Subsidiaries**

“Controlled” entities are those over which the Bank has the ability to exercise control, in accordance with IFRS 10; this ability is exercised when the Bank has the right to variable returns from its participation in the entity, and has the ability to influence those returns through its power over them.

The entities (hereinafter jointly referred to as “Subsidiaries”) and the foreign branch over which the Bank has the ability to exercise control, and are part of the Consolidated Financial Statements as of December 31, 2019 and 2018, are the following:

Taxpayer ID	Company and/or foreign branch	Ownership					
		December 31, 2019			December 31, 2018		
		Direct	Indirect	Total	Direct	Indirect	Total
96,564,330-3	BancoEstado S.A. Corredores de Bolsa	99.9996%	-	99.9996%	99.9996%	-	99.9996%
77,330,030-5	BancoEstado Corredores de Seguros S.A.	50.1000%	-	50.1000%	50.1000%	-	50.1000%
96,900,150-0	BancoEstado Servicios de Cobranza S.A. (*)	99.9000%	0.1000%	100.0000%	99.9000%	0.1000%	100.0000%
96,836,390-5	BancoEstado S.A. Administradora General de Fondos	50.0100%	-	50.0100%	50.0100%	-	50.0100%
96,979,620-1	BancoEstado Contacto 24 Horas S.A. (*)	99.9000%	0.1000%	100.0000%	99.9000%	0.1000%	100.0000%
96,781,620-5	BancoEstado Microempresas S.A. Asesorías Financieras (*)	99.9000%	0.1000%	100.0000%	99.9000%	0.1000%	100.0000%
76,727,730-K	Sociedad de Servicios Transaccionales Caja Vecina S.A. (*)	99.8494%	0.1506%	100.0000%	99.8494%	0.1506%	100.0000%
99,578,880-2	BancoEstado Centro de Servicios S.A. (*)	99.9000%	0.1000%	100.0000%	99.9000%	0.1000%	100.0000%
76,015,414-8	Sociedad de Promoción de Productos Bancarios S.A. (*) (**)	-	-	-	99.8334%	0.1666%	100.0000%
76,693,183-9	Red Global S.A. (*)	90.1000%	-	90.1000%	90.1000%	-	90.1000%
-	BancoEstado - Sucursal New York (*)	100.0000%	-	100.0000%	100.0000%	-	100.0000%

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



NOTE 1 - GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

- (*) Beginning on June 1, 2019, these Companies were subject to the oversight of the Comisión para el Mercado Financiero. The other companies were subject to the oversight of such Commission prior to such date, from January 15, 2018. The New York Branch is also under the oversight of the State of New York and the US Federal Reserve.
- (**) On April 29, 2019, the Comisión para el Mercado Financiero authorized the dissolution of this company by virtue of letter No. 91916350 (see Note 3, letter c)).

• Entities supporting the line of business and/or associates:

Entities supporting the line of business are those entities where the Bank has significant influence, but no control or joint control.

The entities supporting the Bank's line of business are detailed as follows:

Company	Ownership %	
	12/31/2019	12/31/2018
Administrador Financiero Transantiago S.A.	21.0000%	21.0000%
Sociedad Operadora de la Cámara de Compensación de Pagos de Alto Valor S.A.	15.0021%	15.0021%
Operadora de Tarjetas de Crédito Nexus S.A.	14.8149%	12.9030%
Transbank S.A.	8.7188%	8.7188%
Servicios de Infraestructura de Mercado OTC S.A.	14.5958%	14.5958%

The Bank analyzed the valuation method and opted to continue the application of the equity method to account for all entities supporting the line of business, using as the main criterion for using the equity method the level of significant influence exercised over these companies through its involvement in the Board rather than its ownership percentage in such companies.

The business support entities are privately-held shareholders' corporations that do not trade their shares in a stock exchange, and are intended to improve the ease of the performance of operating activities with associated banks, and are considered permanent investments.

• Investments in other companies:

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

As of December 31, 2019 and 2018, there have been no changes in the Bank's structure or changes in ownership.

The Bank has no interest in structured entities.

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

d) Non-controlling interests:

Non-controlling interests represent the portion of losses and gains and net assets, which the Bank does not own directly or indirectly. The non-controlling interest is presented separately within the Consolidated Statements of Income, and in the equity in the Consolidated Statements of Financial Position, presented separately from the equity attributable to the owners of the Bank.

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 for which separate financial information is available, that is used regularly by the chief decision maker to decide how to allocate resources and to evaluate performance.

The Bank’s operating segments are determined based on the different business units. These business units generate services subject to risks and yields different from those of other segments. The detail of the operating segments is presented in Note 4 to the Consolidated Financial Statements.

f) Functional and presentation currency:

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

- It is the currency of the main economic environment whose competitive forces and regulations mainly determine the prices for the financial services provided by the Bank and its Subsidiaries.
- It is the currency that mainly has an influence on the payroll costs and other costs required to provide the services the Bank and its Subsidiaries provide to its customers.

The New York Branch has defined its functional currency as the United States dollars. Balances in the Branch’s Financial Statements are translated into Chilean pesos as follows:

- Assets and liabilities are converted at the exchange rate, as of the closing date of the Financial Statements.
- Revenue, expenses, and cash flows are converted applying the exchange rate prevailing in the month in which the transaction occurs.
- Equity accounts use the historical exchange rates.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



NOTE 1 - GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

The presentation currency for the Consolidated Financial Statements is Chilean peso, expressed in millions of Chilean pesos (MCh\$).

g) Foreign currency transactions:

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

For the preparation of the Consolidated Financial Statements of the Bank and its Subsidiaries, assets and liabilities in foreign currencies are translated into Chilean pesos using exchange rates as of the closing date of the respective Consolidated Financial Statements obtained from the Central bank of Chile, which is considered by the Bank as the significant market exchange rate at such closing date. Gains or losses generated are directly recorded in profit or loss in the item “Net foreign exchange (loss) gain” in the statement of profit or loss.

Differences arising from the conversion of balances into the functional currency of the New York Branch to Chilean pesos are recorded in “Valuation accounts - Exchange differences on translation foreign operation” in the Consolidated Statements of Changes in Equity.

As of December 31, 2019 and 2018, the exchange rate in force are as follows:

	12.31.2019 Ch\$	12.31.2018 Ch\$
United States Dollar (US\$)	748.74	694.77
Unidad de Fomento (U.F.)	28,309.94	27,565.79

h) Assets and liabilities measurement criteria:

Criteria for measuring assets and liabilities recorded in the accompanying Consolidated Statements of Financial Position are as follows:

- **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 accumulated amortization related to any difference between the initial amount and the repayment amount at the maturity date, minus impairment, where applicable.

For financial assets, amortized cost also includes adjustments to their carrying amount arising from any impairment loss.

NOTE 1 - GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

The effective interest method is a method of calculating the amortized cost of an asset or financial liability and allocating the financial income or expense throughout the relevant period. The effective interest rate is the discount rate that exactly matches the estimated cash flows receivable or payable (including all commissions and interest points paid or received by the parties to the contract making up the effective interest rate, as well as also transaction costs and any other premium or discount) throughout the expected useful life of the financial instrument or, when appropriate, over a shorter period of time, with respect to net carrying amount of the financial asset or liability initially recognized.

- **Assets and liabilities measured at fair value:**

Fair value is understood as the price that would be received for selling an asset or paid for transferring a liability in an orderly transaction between market participants on the measurement date. Fair value most objective and usual reference of an asset or liability is the price that someone would pay for it in a well-organized and transparent market (“Quoted price” or “Market price”).

When no market price exists to determine the fair value for a given asset or liability, the fair value is that established for recent transactions for instruments with similar features.

For cases where determining fair value of a financial asset or financial liability is not possible, this is measured at amortized cost.

In addition, in accordance with Chapter A-2 of the Compendium of Accounting Standards, banks are not permitted to designate financial assets or financial liabilities at their fair value replacing the general amortized cost criterion (“Fair value option.”)

The Consolidated Financial Statements have been prepared based on amortized cost except for:

- Derivative financial instruments, which are measured at their fair value.
- Assets classified as held for sale are measured at fair value when it is lower than the carrying amount minus the costs to sell.
- Securities held for trading, which are measured at fair value.
- Available for sale investment securities are measured at fair value.
- Loans designated as hedged items.
- Investments in other companies measured at fair value.

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

- **Assets measured at acquisition cost:**

Acquisition cost is understood as the transaction cost of the acquisition of the asset less the impairment losses that have occurred, if any.

i) Financial investments:

Investment securities are classified in two categories: held-to-maturity investments and available-for-sale investments. Held-to-maturity investments include only securities that the Bank has the ability and intent to hold to maturity. All other investment securities are classified as available for sale.

Financial securities are initially recognized at fair value, including transaction costs.

Available-for-sale investments are subsequently measured at their fair value according to market prices or measurements obtained from the use of models, less impairment losses. Unrealized gains or losses generated by the change in their fair value are recognized with a debit or credit to equity accounts. Changes in fair value are recognized directly in equity until the investment is sold or impaired, in that case, accumulated gains and losses previously recorded in the equity are recognized in the Consolidated Statements of Income in the caption "Net income from financial operations."

Investments held to maturity are recognized at their cost plus accrued interest and indexation minus the allowances for impairment losses accrued when the amount recognized is higher than the estimated recoverable amount.

Interests and adjustments in investments held-to-maturity and available for sale securities are included under the caption "Interest income" in the Consolidated Statements of Income.

Investment securities that are subject to accounting hedges are adjusted using the hedge accounting rules.

Purchases and sales of investment securities that must be delivered within the term established by market regulations or conventions are recognized on the trade date in which the purchase or sale of the asset is committed.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



NOTE 1 - GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

j) Trading securities:

Securities held for trading correspond to financial assets acquired for the purpose of generating profits from price fluctuations at short-term or through margins from their brokerage or at amounts that are included in a portfolio for short-term gain taking.

Trading securities are measured at fair value according to the market prices at the closing date of the Consolidated Statements of Financial Position.

Gains or losses resulting from their adjustment to fair value, as well as gains and losses from trading activities (sale of securities) are included within the caption "Net income from financial operations" in the Consolidated Statements of Income. Accrued interest and adjustments are also recognized in the Consolidated Statements of Income in the caption "Net income from financial operations."

All purchases and sales of securities held for trading that must be delivered within the term established by market regulations or conventions are recognized on the trade date in which the purchase or sale of the asset is committed.

k) Financial derivative contracts:

Derivative instruments that include foreign currencies, Unidades de Fomento (inflation-adjusted units), interest rate forwards, currency and interest rate swaps, currency and interest rate options and other derivatives are initially recognized in the Consolidated Statements of Financial Position at their fair value (including the transaction costs) and subsequently measured also at their fair value. Fair value is obtained from market quotes, discounted cash flow models and measurements models for options, as appropriate. Derivative contracts are stated as an asset when their fair value is positive and as a liability when it is negative, in the caption "Financial derivative contracts", as applicable.

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

Certain derivatives embedded in other instruments are treated as separate derivatives when their characteristics and risks are not closely related to those of the host contract and it is recorded at fair value with the related unrealized gains or losses included in profit or loss.

At the date of entering into a derivative contract, it is to be designated by the Bank as a derivative instrument held for trading or for hedge accounting purposes.

Changes in the fair value of derivative financial contracts held for trading are recognized in the caption “Net income from financial operations” in the Consolidated Statements of Income.

If the derivative instrument is classified for hedging purposes, it may be: (1) a fair value hedge of existing assets or liabilities or firm commitments, (2) a cash flow hedge related to existing assets or liabilities or forecasted transactions, or (3) hedge of a net investment in a foreign business.

A hedging relationship for hedge accounting must meet all the following conditions: (a) at the start of the hedging relationship, the hedging relationship has been formally documented; (b) the hedge is expected to be highly effective; (c) the effectiveness of the hedge may be measured fairly (d) the hedge is highly effective with respect to the risk hedged on a continuous basis throughout the hedging relationship.

Certain derivative transactions that do not qualify to be recorded as hedging derivatives are treated and reported as derivatives held for trading, even though they provide an effective hedge for managing risk positions.

When a derivative hedges the exposure to changes in the fair value of an existing asset or liability, such asset or liability is recorded at its fair value with respect to the specific risk hedged. Gains or losses from measuring the fair value of both the hedged item and the hedging derivative are recognized with an effect on profit or loss.

If the hedged item in a fair value hedge is a firm commitment, the changes in the fair value of the firm commitment attributable to the hedged risk are recognized as an asset or liability with an effect on profit or loss for the year. Gains or losses from the changes in the fair value of the hedging derivative are recognized in profit or loss for the year. When an asset is acquired or a liability assumed as a result of the commitment, the initial recognition of the asset acquired or liability assumed is adjusted to include the accumulated effect of the measurement at fair value of the firm commitment that was recognized.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



NOTE 1 - GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

When a derivative hedges exposure to changes in cash flows from existing assets or liabilities or expected transactions, the effective portion of changes in the fair value with respect to the risk hedged is recognized in equity. Any ineffective portion is directly recognized in profit or loss for the year.

Amounts recorded directly in equity for the effective portion of cash flow hedges are recorded in profit or loss in the same periods in which the assets or liabilities hedged have an effect on profit or loss for the year.

The hedge on a net investment in a foreign business is accounted for in a manner similar to cash flow hedges.

l) Loans and advances:

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

When the Bank is the lessor in a lease contract and substantially transfers all risks and rewards incidental to the leased asset, such transaction is presented as a lease transaction under loans and advances to customers.

Loans are initially valued at cost, plus incremental transaction costs and are subsequently measured at their amortized cost using the effective interest method, except when the Bank defines certain loans as hedged items, which are measured at fair value through profit or loss, as described in letter k) of this note.

m) Interest and indexation income and expenses:

Interest and indexation income and expense are recognized based on their accrual period at the effective rate. As indicated in the Compendium of Accounting Standards issued by the Comisión para el Mercado Financiero, when a loan is determined to be impaired, the Bank has followed the criterion of suspending the accrual of interest and adjustments, which are recognized when received.

In accordance with the criteria established by the Comisión para el Mercado Financiero suspension occurs in the following cases:

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

Loans with individual assessment:

- Loans classified in categories C5 and C6: Accrual is suspended only because of being recorded in the impaired portfolio.
- Loans classified in categories C3 and C4: The accrual is suspended because of being in the impaired portfolio for three months.

Loans under collective assessment:

- Loans with collateral lower than 80%: The accrual is suspended when the loan or one of its payments becomes six months past due.

However, for loans subject to an individual assessment, revenue from the accrual of interests and adjustments can still be recognized for loans paid regularly that represent liabilities with independent cash flows; e.g., the financing of projects.

n) Fee and commission income and expenses:

Fee and commission income and expense are recognized in the consolidated profit or loss with different criteria according to their nature. The most significant criteria are the following:

- Those originating from specific actions, which are recognized when the action that generates them is performed.
- Income and expense arising from long-term transactions or services, which are recognized throughout the life, period or term of such transactions or services.
- Those related to financial assets or financial liabilities recognized at the time of their collection.

o) Impairment:

The Bank, the New York Branch and Subsidiaries use the following criteria to assess the impairment of their assets, if any:

- **Financial assets:**

At each reporting date, the Bank assesses whether there is objective evidence that financial assets are impaired. A financial asset or group of assets are impaired if objective evidence exists as a result of one or more events occurring after the initial recognition of the asset, and that such loss event has had a negative impact on the future cash flows from such asset.

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

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future payments discounted at the asset's original effective interest rate.

An impairment loss related to an available-for-sale financial asset is calculated on the basis of its fair value.

Individually significant financial assets are subject to an individual examination to determine their impairment (individual assessment). The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics (collective assessment).

All impairment losses are recognized in profit or loss. Accumulated impairment losses on available-for-sale financial assets previously recognized in equity are reclassified to profit or loss.

An impairment loss is reversed only to the extent that it objectively relates to an event occurred after the impairment loss has been recognized. For financial assets recognized at amortized cost and available-for-sale debt securities the reversal is recognized in profit or loss.

- **Non-financial assets:**

The carrying amounts of non-financial assets, except for investment property and deferred taxes, are reviewed regularly to determine whether there is any indication of impairment. Should such indications exist, then the recoverable amount of the asset is estimated, which is the greater of its value in use and its fair value less costs to sell.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed when and only when, there has been a change in the estimates used to determine the recoverable value of the asset, since the last impairment loss was recognized. The carrying amount of an asset, increased after the 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 periods.

NOTE 1 - GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

p) Investments in associates:

Associates, which correspond to entities that support the Bank's line of business, are valued at cost using the equity method (Note 1 c)), which consists of determining the investment value according to the percentages paid when equity was acquired. The carrying amount will vary to recognize the portion is held on the associate's profit or loss at each year. Income on these investments is recognized on an accrual basis.

q) Intangible assets:

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

Computer software acquired by the Bank is measured at its cost less accumulated amortization and accumulated impairment losses.

Expenses incurred for computer software developed internally are recognized as an asset when the Bank is able to demonstrate its intent 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 of computer software developed internally includes all direct costs attributable to the development of the software and is amortized based on its useful life.

Amortization is recognized on a straight-line basis in profit or loss on the basis of amortization considering the estimated useful lives of computer programs from the date in which they are available for use. The average estimated useful life of software is 3 years.

Expenses incurred in research and evaluation of technological alternatives, are recognized as an expense in the year in which they are incurred.

r) Property, plant and equipment:

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of such assets. The cost of assets under construction includes the cost of materials and direct labor, and any other costs directly attributable to bringing the assets to a working condition for their intended use.

When parts of an item of property, plant or equipment have different useful lives, they are accounted for as separate items (major components of a "Property, plant and equipment").

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



NOTE 1 - GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation is recognized in the Consolidated Statements of Income for the year 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 it is certain that the Bank will become the owner at the end of the lease term.

As of December 31, 2019 and 2018, the Bank applied in average the following estimated useful lives for depreciation of assets:

- | | |
|----------------------------|---------------|
| - Buildings | 80 years |
| - Equipment and facilities | 5 to 10 years |
| - Fixtures and fittings | 3 years |

Depreciation, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

The estimated useful lives of items of property, plant and equipment are reviewed at the end of the reporting period in order to detect any significant changes. If changes are observed in the useful lives of the assets, they are adjusted and depreciation is corrected in the current year and any future year affected.

Maintenance and repair costs are debited to profit or loss when they occur.

s) Lease operations:

It is a mean to accessing assets, obtaining financing and reducing the exposure of an entity to the risk of ownership of the assets. The Bank maintains lease operations where it acts as lessor and lessee.

When operating as a lessee, the Bank recognizes a right-of-use asset and a lease liability at the commencement of the lease term. The right-of-use asset is initially measured at cost, which includes the initial amount of the lease liability adjusted for any lease payment made at the commencement date, plus the initial direct costs incurred and an estimate of the costs to dismantle and remove the underlying asset or to restore the underlying asset or the site where it is located, less the lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the initial date through the end of the useful life of the right-of-use asset or the end of the lease term. The lives of the right-of-use assets are determined on the basis of the useful life assigned which are directly related to the term of the contract. In addition, the right-of-use asset is periodically subject to impairment losses, if any, and is adjusted for certain measurement of lease liabilities.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



NOTE 1 - GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

The monthly variation of the U.F. for contracts established in said monetary unit must be treated as a new measurement, therefore, the readjustment modifies the value of the lease liability and in parallel, the amount of the asset must be adjusted for the right to use leased assets for this purpose.

As a counterpart, a liability is recognized that reflects the obligation incurred for future payments that must be made for the leased asset. The obligation is representative of discounted future flows, using an interest rate that is determined based on the BCU (rate of the bonds of the Banco Central de Chile in Unidades de Fomento) plus a spread equivalent to the cost over the mentioned rate, of the issuance of high-quality bonds or business obligations.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimation of the amount expected to be paid under a residual value guarantee, or if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option.

If the liability is remeasured as abovementioned, an adjustment is made corresponding to the carrying amount of the right-of-use asset, or it is recognized in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

In certain occasions, the lease involves assets that are of low value or for a short term, in these cases, the Bank has the option to recognize it directly in operating income for the year.

When it acts as lessor or subleases certain assets, the Bank records such income in operating income for the year.

When the Bank acts as a lessor of finance lease transactions, which consist of lease contracts containing a clause that gives the lessee an option to purchase the leased asset at the end of it. The sum of the current values of the installments that they will receive from the lessee plus the purchase option, is recorded as a financing to third parties, and presented under "Loans and accounts receivable from customers", at present value and the asset is derecognized.

The assets acquired for finance lease transactions are presented under "Other assets" at the purchase value.

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

t) Cash and cash equivalents:

The Bank uses the indirect method for the preparation of the Consolidated Statements of Cash Flows, which starting from the Bank's consolidated profit or loss for the year includes non-cash transactions, as well as income and expenses associated with cash flows from operating, financing or investing activities.

In accordance with the specific provisions applicable to financial institutions, the Bank and its subsidiaries consider as cash and cash equivalents the balance of "Cash and due from banks", plus (minus) the net balance of "Transactions in the course" as shown in the Consolidated Statements of Financial Position, plus highly-liquid "Financial assets held for trading" and "Financial investments available for sale" with insignificant risk of a change in value, whose maturity does not exceed three months from the date of acquisition, and "Repurchase agreements and securities loans". It also includes investments in fixed income mutual funds, included under "Financial assets held for trading" in the Consolidated Statements of Financial Position.

The preparation of the Consolidated Statements of Cash Flows considers the following concepts:

- a) Operating activities:** are the principal revenue-producing activities usually conducted by the Bank and other activities that are not investing or financing activities.
- b) Investing activities:** are the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents.
- c) Financing activities:** are activities that result in changes in the size and composition of the contributed equity and of liabilities that are not part of operating or investing activities.

u) Provision for loan losses:

The allowances required to cover the risk of credit losses have been established following the standards issued by the Comisión para el Mercado Financiero. Assets are recorded net of such allowances, showing the deduction in the caption Loans and advances to customers. In the case of contingent loans, allowances are recognized in liabilities under "Provisions".

The models established by the Comisión para el Mercado Financiero for determining allowances are summarized as follows:

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

u.1) Allowances for individual assessment:

In accordance with Chapter B-1 of the Compendium of Accounting Standards issued by the Comisión para el Mercado Financiero the individual assessment of debtors is required when dealing with clients that due to their size, complexity or exposure level, need to be known and analyzed in detail.

- **Rating criteria of commercial portfolio with individual analysis:**

The following risk rating criteria are applied to commercial debtors subject to individual analysis, and are based on the principles established in Chapter B-1 of the Compendium of Accounting Standards issued by the Comisión para el Mercado Financiero.

The analysis for the rating should be mainly based on the debtor's payment capacity and inherent financial characteristics, taking the credit quality of the group to which it belongs as reference information.

Regular Performance Portfolio

The regular performance portfolio includes debtors whose payment capacity allows them to fulfill their obligations and commitments and it is not perceived that this condition will change based on the assessment of their economic-financial position. Therefore, correspond to debtors without substantial risks, whose payment capacity allows them to cover obligations under the agreed terms and which would continue being satisfactory in spite of unfavorable business, economic and financial situations.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)

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

The probability of default and expected loss in each category of the regular performance portfolio is as follows:

Type of portfolio	Debtor category	Probability of default %	Loss given 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 debtors with financial difficulties or a significant deterioration of their ability to pay and debtors on which reasonable doubt exists as to the repayment of principal and interest under the contractual terms agreed, showing low margins to meet their short-term financial obligations.

This portfolio also includes debtors, which lately (in the last twelve months) have shown delinquency (payments overdue) in excess of thirty days, show poor payment behavior with the Bank and with third parties (payments overdue during the year for significant amounts outstanding for less than 90 days).

The probability of default and expected loss in each category of the substandard portfolio is as follows:

Type of portfolio	Debtor category	Probability of default %	Loss given default %	Expected loss (allowance %)
Substandard 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 years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



NOTE 1 - GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for regular and substandard performance portfolio

To determine the amount of the allowances that should be established for portfolios with regular and substandard performance, banks should first estimate the exposure subject to provisions, to which the respective loss percentages will be applied (expressed in decimals), which comprise the probability of default (PD) and loss given default (LGD) established for the category within which the debtor and/or its qualified co-debtor is included, as applicable.

The exposure subject to provisions corresponds to placements plus contingent loans less amounts that would be recovered by means of executing guarantees, as stated in No. 4.1 of Chapter B-1 of the Compendium of Accounting Standards issued by the Comisión para el Mercado Financiero. Likewise, a placement is the carrying amount of loans and receivables of the corresponding debtor, whereas contingent loans are the value resulting from applying the regulations contained in No. 3 of Chapter B-3 of the Compendium of Accounting Standards issued by the Comisión para el Mercado Financiero.

The following should be considered for calculation purposes:

$$\text{Provision}_{\text{debtor}} = (E - GE) * (PD_{\text{debtor}} / 100) * (LGD_{\text{debtor}} / 100) + GE * (PD_{\text{co-debtor}} / 100) * (LGD_{\text{co-debtor}} / 100)$$

Where:

E = Exposure subject to provisions (Placements + contingent loans) - Guarantee (financial or actual).

GE = Guaranteed exposure.

PD = Probability of default.

L = Loss given default.

Notwithstanding the above-mentioned, the Bank should keep a minimum provision percentage required of 0.50% on placements and contingent loans from the Regular Portfolio.

Non-performing portfolio

Default portfolio: this includes debtors and their loans whose recovery is remote due to impairment or no payment capacity. This portfolio includes debtors who have stop paying to its creditors (in default) or with clear signs that they will not continue paying, debtors that require the forced restructuring of their debt and debtors with payments of interest or principal past due for 90 or more days. This portfolio is formed by debtors from the C1 to the C6 categories in the classification scale established below and all credits, including 100% of the contingent loan amounts held by those same debtors.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)

**NOTE 1 - GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)****Allowance for non-performing portfolio**

For the purpose of establishing the allowance, there are percentages that must be applied to the amount of the exposure which corresponds to the sum of loans and contingent loans held by the same debtor. To apply this percentage, an expected loss rate should first be estimated by deducting from the amount of the exposure the amounts recoverable through execution of financial and actual guarantees supporting the operations, as established in letters b) and c) of No. 4.1 Chapter B-1 of the Compendium of Accounting Standards issued by the Comisión para el Mercado Financiero and of leased assets stated in No. 4.2 of the same Chapter and, in case there is concrete information to justify it, also deducting the present value of recoveries that can be obtained exerting collection actions, net of the associated expenses.

This loss rate should be included in one of the six categories defined according to the range of losses actually expected by the Bank for all the operations of the same debtor.

These categories and their loss range as estimated by the Bank and the allowances percentages that should ultimately be applied on the amounts of exposure for the non-performing portfolio are those indicated in the following table:

Type of portfolio	Debtor category	Range of expected loss	Allowances (%)
Non-performing	C1	More than 0 up to 3%	2
	C2	More than 3 % up to 20%	10
	C3	More than 20% up to 30%	25
	C4	More than 30% up to 50%	40
	C5	More than 50% up to 80%	65
	C6	More than 80%	90

The following should be considered for calculation purposes:

$$\text{Expected loss rate} = (E - R) / E$$

$$\text{Allowance} = E * (AP/100)$$

Where:

E = Amount of the exposure.

R = Recoverable amount.

AP = Allowance percentage (as per category where the expected loss rate should be included).

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



NOTE 1 - GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

u.2) Allowances for collective assessment:

Collective assessment is used to analyze a large number of operations whose individual amounts are low, generally involving individuals or small businesses. For this purpose the Bank uses internal models for the commercial and consumer portfolio, based on probability of default of debtors and characteristics of their loans. For such purposes, the Bank uses the maximum allowance obtained by comparing the standard models to the internal models, in accordance with Chapter B-1 of the Compendium of Accounting Standards issued by the Comisión para el Mercado Financiero.

Within this context, for consumption and commercial portfolios (except for lease credits, for which the Company applies the standard model) the Company applies the internal model.

In the case of the mortgage portfolio, the Bank uses a standard model established in Chapter B-1 of the Compendium of Accounting Standards issued by the Comisión para el Mercado Financiero.

Allowances for collectively assessed consumer and commercial portfolios (except lease portfolio) (internal model)

Allowances for collectively assessed consumer and commercial portfolios are determined as follows:

Operating status		Expected loss calculation
Normal Portfolio	Origin	$EL = E * (1-EG) * PD * LGD_{\text{Past-due} \rightarrow \text{Write-off}} * LGD_{\text{Write-off}} + E * EG * PD_{\text{Co-debtor}} + LGD_{\text{Co-debtor}}$
	Overdue 1	
Non-performing Portfolio	Overdue 2	
	Overdue 3	
Non-performing Portfolio	Origin	$EL = E * (1-EG) * PD * LGD_{\text{Overdue}} * LGD_{\text{Past-due} \rightarrow \text{Write-off}} * LGD_{\text{Write-off}} + E * EG * PD_{\text{Co-debtor}} + LGD_{\text{Co-debtor}}$ Recoveries before the portfolio is overdue exist
	Overdue 1	
	Overdue 2	
Non-performing Portfolio	Overdue 3	
	Past overdue	$EL = E * (1-EG) * PD * LGD_{\text{Past-due} \rightarrow \text{Write-off}} * LGD_{\text{Write-off}} + E * EG * PD_{\text{Co-debtor}} + LGD_{\text{Co-debtor}}$

Where:

EL	= Expected loss.
E	= Amount of the exposure.
EG	= Portion of the operation covered by co-debtor as a percentage.
PD	= Probability of default.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)

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

LGD _{overdue}	=	Loss given default of operation if overdue.
LGD _{past due->write off}	=	Loss given default before write-off.
LGD _{write off}	=	Loss give default based after being written off.
PD _{co-debtor}	=	Co-debtor, probability of default.
PD _{co-debtor}	=	Co-debtor, loss given default.

Allowances for collectively assessed mortgage portfolio

For the collectively assessed mortgage portfolio, allowances are determined by using the standard method. The applicable allowance factor, represented by the expected loss (EL) on the amount of mortgage loans for housing will depend on the number of days of payment overdue of each loan and the relationship between the amount of outstanding principal for each loan and the value of the mortgage collateral (PVG) covering it, as shown in the following table:

Allowance factors applied according to days of payment overdue and PVG						
PVG = Amount of outstanding principal of the loan / value of the mortgage collateral						
Section PVG	Days overdue at the end of the month	0	1 - 29	30 - 59	60 - 89	Non - performing portfolio
PVG <= 40%	PD (%)	1.0916	21.3407	46.0536	75.1614	100.0000
	LGD (%)	0.0225	0.0441	0.0482	0.0482	0.0537
	EL (%)	0.0002	0.0094	0.0222	0.0362	0.0537
40% < PVG <= 80%	PD (%)	1.9158	27.4332	52.0824	78.9511	100.0000
	LGD (%)	2.1955	2.8233	2.9192	2.9192	3.0413
	EL (%)	0.0421	0.7745	1.5204	2.3047	3.0413
80% < PVG <= 90%	PD (%)	2.5150	27.9300	52.5800	79.6952	100.0000
	LGD (%)	21.5527	21.6600	21.9200	22.1331	22.2310
	EL (%)	0.5421	6.0496	11.5255	17.6390	22.2310
PVG > 90%	PD (%)	2.7400	28.4300	53.0800	80.3677	100.0000
	LGD (%)	27.2000	29.0300	29.5900	30.1558	30.2436
	EL (%)	0.7453	8.2532	15.7064	24.2355	30.2436

If such debtor has more than one mortgage loan with the Bank and one of them presents loans with payments overdue more than 90 days (“past due”), for purposes of determining the allowances percentage applicable, all loans will be allocated to the last delinquency tranche in the previous table and the allowances for each of the loans shall be calculated according to the respective percentages of PVG.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)

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

In the case of mortgage loans linked to housing programs and guaranteed by the State of Chile, provided they have contracted the insurance provided by the latter, the provisioning rate may be weighted by a factor of loss mitigation (MP), which depends on the PVG percentage and the price of the residence in the deed of sale (V). MP factors to be applied to the appropriate provision rate, are presented in the following table:

MP Factor of mitigation of loan losses with state guarantee.		
<i>Section PVG</i>	<i>Section V: Housing value on agreement (UF)</i>	
	V ≤ 1,000	1,000 < V ≤ 2,000
PVG ≤ 40%	100%	
40% < PVG ≤ 80%		
80% < PVG ≤ 90%	95%	96%
PVG > 90%	84%	89%

Allowances for collectively assessed lease credits portfolio

For the collectively assessed lease credit portfolio, allowances are determined by using the standard method. The allowance factor should be applied on the current value of commercial lease operations (including the purchase option) and it will depend on the days overdue of each operation, the type of leased asset and the relationship at the end of the month, between the current value of each operation and the value of the leased asset (PVB), as indicated in the following tables:

Probability of default (PD) applicable as per the days overdue and type of asset (%)		
Days overdue of the operation at the end of the month	Type of asset	
	Mortgage	Commercial
0	0.79	1.61
1-29	7.94	12.02
30-59	28.76	40.88
60-89	58.76	69.38
Non-performing portfolio	100.00	100.00

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)

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

Loss given Default (LGD) applicable as per PVB tranche and type of asset (%)		
PVB = Current value of the operation /leased asset value		
PVB Tranche	Mortgage	Commercial
PVB ≤ 40%	0.05	18.20
40% < PVB ≤ 50%	0.05	57.00
50% < PVB ≤ 80%	5.10	68.40
80% < PVB ≤ 90%	23.20	75.10
PVB > 90%	36.20	78.90

The determination of the PVB relation will be performed considering the appraisal value, expressed in U.F. for real estate and in Chilean pesos for movable property recorded at the time the related credit is granted, considering potential situations that may be producing temporary increases in the asset prices.

Allowances for collectively assessed non-performing portfolio

The non-performing portfolio includes all placements and 100% of the amount of contingent loans, of the debtors that at the end of a month present overdue equal to or exceeding 90 days in the payment of interest or principal of a credit. It also includes debtors to whom a credit has been granted to replace an operation that was more than 60 days overdue on payment, as well as those debtors who have undergone forced restructuring or partial debt forgiveness.

The following may be excluded from the non-performing portfolio: a) mortgage loans for housing, exceeding 90 days past due, unless the debtor has another loan of the same type with more than 90 days past due; and, b) loans to finance higher education of Law No. 20,027, which do not present the non-performing conditions detailed in Circular No. 3,454 of December 10, 2008, issued by the Comisión para el Mercado Financiero.

All loans of the debtor shall be maintained in the non-performing portfolio until an improvement of its capacity or positive conduct of payment is observed, without prejudice to proceed to the write offs of each particular loan that meets the condition established in Title II of Chapter B-2. To remove a debtor from the non-performing portfolio, once the circumstances by which it was classified in such portfolio as per current standards, the following conditions should be met in a copulative manner:

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)

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

- i) No obligation of the debtor presents a payment overdue exceeding 30 calendar days.
- ii) No new refinancing loans have been given to pay obligations.
- iii) At least one of the payments includes principal payment.
- iv) If the debtor has partial credit payments for a period less than six months, it has already made two payments.
- v) If the debtor is required to pay monthly fees for one or more credits, four consecutive installments have been paid.
- vi) The debtor has no payments overdue according to the information published by the Comisión para el Mercado Financiero, except for insignificant amounts.

The condition of number iii) does not apply to the case of debtors who only have loans to finance higher education in accordance with Law No. 20,027.

u.3) Impaired portfolio:

The Impaired Portfolio includes the following assets, as indicated in Chapter B-1:

- a) For debtors subject to individual assessment, this includes the Non-performing Portfolio and should be classified in categories B3 and B4 of the Substandard Portfolio.
- b) These debtors subject to collective assessment includes all credits of the Non-performing Portfolio.

u.4) Loan write-off:

Loans and accounts receivable are written-off based on due, past due and outstanding installments. The timeframe for the write-off is the point at which the first installment or portion of loan becomes past due to the end of the respective deadline period noted below:

<u>Type of loan</u>	<u>Term</u>
Secured/Unsecured consumer loans	6 months
Other unsecured operations	24 months
Secured commercial loans	36 months
Residential Mortgage loans	48 months
Consumption lease operations	6 months
Other non-real estate lease operations	12 months
Real estate leases (commercial or housing)	36 months

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



NOTE 1 - GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

u.5) Recovery of loans written-off:

Recoveries of previously written-off loans are recognized directly in income under “Provision for loan losses”, netted against provision expense for the year.

u.6) Additional allowances:

In addition to the allowance for loan losses, the Bank may establish additional allowances to those derived from the application of portfolio assessment models, for the purpose of safeguarding against unpredictable economic fluctuations that might affect the macroeconomic environment or the situation of a specific economic sector, in accordance with the Bank’s policies (Note 20). Within the additional provisions the Bank contemplates a countercyclical mechanism of accumulation of provisions in the commercial, consumer and mortgage portfolios, to safeguard against any periods of recession and also considers additional provisions for concentration of the mortgage and commercial portfolios.

The limits for establishing additional provisions set by BancoEstado range between 0% and 2.5% of risk-weighted assets. As of December 31, 2019, the Bank maintains additional provisions for an equivalent to 1.95% of risk-weighted assets (1.94% as of December 31, 2018), see Note 20 letter e).

v) Provisions and contingent liabilities:

Provisions are liabilities of uncertain timing or amount. A provision is recognized in the Consolidated Statements of Financial Position when and only when:

- A real obligation arising from past events and,
- It is probable that at the reporting date an outflow of economic benefits will be required to settle the obligation and the obligation can be estimated reliably.

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

NOTE 1 - GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

w) Employee benefits:

- **Accrued vacations:**

The annual cost of employee vacations and other employee benefits is recognized on an accrual basis.

- **Short-term benefits:**

The Bank considers an annual incentive plan for its employees that is based on individual goal compliance, which comprise a fixed amount or a portion of the monthly salary, and this bonus is accrued for on the basis of the estimated amount for distribution.

The Bank has agreed with its workers in the collective bargaining agreement of 2019 a bonus, which is amortized over the term of the collective bargaining agreement and the unamortized portion is recorded under "Other assets" in the item "Prepayments." For such employees who at the date of these Financial Statements are no longer providing services to the Bank, the Bank recognizes the balance of the negotiation bonus against profit or loss for the year.

- **Long-term benefits:**

The Bank has made provisions for long-term benefits to its employees due to the existence of obligations arising from the collective bargaining agreement. Such obligations result in provisions that are calculated using actuarial assumptions including variables such as the rate of staff turnover, salary increases, mortality tables and the probability of using this benefit. BancoEstado has no defined contribution plans.

x) Income tax and deferred taxes:

The Bank and its subsidiaries have recognized a corporate income tax expense at each reporting date, in conformity with the current tax dispositions.

Additionally, as the Bank is treated as a state-owned company, it is subject to a tax in accordance with Article No. 2 of Decree Law No. 2,398 dated 1978, that corresponds to an additional rate of 40%.

The effects of deferred taxes on temporary differences, between the tax values set out by the Income Tax Law and the Consolidated Statements of Financial Position, are recorded in accordance with IAS 12.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



NOTE 1 - GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Bank and its subsidiaries recognize, when appropriate, deferred tax assets/liabilities from future estimates of tax effects from differences between the carrying value and tax basis of assets and/or liabilities

Deferred tax assets/liabilities are measured, in accordance with current Chilean tax legislation, at the tax rates that are expected to be applied in the year in which the asset and/or liability are realized or settle. Future effects from changes in tax legislation or income tax rate are recognized in deferred tax starting from the date in which the law approving such changes is enacted or substantially enacted.

On September 26, 2014 Law No. 20,780 was enacted, which establishes a “Tax Reform which changes the Income Tax system and introduces several modifications to the tax system”, and was published in the Official Gazette on September 29, 2014. In addition, on July 14, 2016, the Chilean Internal Revenue Service (SII) issued Circular No. 49, “Instructions on amendments incorporated by Law No. 20,780” which states that they are excluded from any of the Taxation regimes of Article No. 14, since BancoEstado is a company which is fully owned by the State of Chile and all of its income is subject to taxation established in Article No. 2 of the Decree Law No. 2,398. In addition, it instructs that the Corporate Tax rate of these companies will be 25% from the year 2017. For this reason, BancoEstado has calculated its taxes using a 25% plus 40% rate (65%) as of 2017. For subsidiaries, there is no 100% ownership interest, so taxes have been calculated using a 27% rate for 2018 and thereafter.

At the end of 2017, the Tax Cuts and Jobs Act of 2017 (US Tax Reform) was passed in the United States. This tax reform decreased the federal tax rate from 35% to 21%. As a result, the New York Branch analyzed its deferred tax assets and liabilities, finding no differences and effects to be recognized in the Consolidated Financial Statements.

On January 8, 2018, the Comisión para el Mercado Financiero issued a Letter to Management supplementing instructions about current taxes and deferred taxes in accordance with IAS 12 within the framework of the Compendium of Accounting Standards for Banks. Such Letter instructs on the presentation of current taxes and deferred taxes in the Statement of Financial Position.

y) Transactions with agreements:

The Bank, New York Branch and Subsidiaries enter into sales with repurchase agreements as a method of financing. Investments that are sold subject to a repurchase obligation and used as loan guarantee are classified within its respective caption “Financial assets held for trading” or “Financial investments available for sale”. The repurchase obligation is classified under “Repurchase agreements and securities loans”, recognizing interest and inflation-indexation accrued at the closing date.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



NOTE 1 - GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Bank, New York Branch and its Subsidiaries also enter into resale agreement operations as a method of investing. Financial instruments purchased under resale agreements are included as assets under “Repurchase agreements and securities loans” recognizing interest and readjustments accrued as of the closing date.

z) Factoring transactions:

The Bank performs factoring transactions with its customers, whereby it receives invoices and other commercial papers representing receivables, with or without recourse to the transferor, paying the transferor a percentage of the total amounts receivable from the debtor for the transferred documents.

Factoring receivables are valued at the acquisition value of credits. The price difference from the transfer is accrued as interest income by using the effective interest method over the financing period. The transferor is responsible for paying the credits.

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 regulatory write-offs. Write-offs are required by the Comisión para el Mercado Financiero if the asset has not been sold within one year from its reception.

bb) Derecognition of financial assets and financial liabilities:

The Bank, New York Branch and Subsidiaries derecognize a financial asset from their Statements of Financial Position when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial asset that is created or retained by the Bank is recognized as a separate asset or liability.

When the Bank transfers a financial asset, it evaluates to what extent it retains the risks and benefits inherent to ownership. In this case:

- (a) If the risks and rewards inherent to ownership of the financial asset are substantially transferred, it is derecognized and any rights or obligations created or retained due to the transfer will be separately recognized as assets or liabilities.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



NOTE 1 - GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

- (b) If the risks and rewards inherent to ownership of a financial asset are substantially retained, it will continue to be recognized.
- (c) If all the risks and benefits inherent to ownership of the financial asset are not substantially transferred or retained, it shall determine whether it has retained control over the financial asset. In this case:
 - i) If it has not retained control, it will derecognize the financial asset and shall separately recognize, as an asset or liability, any right or obligation created or retained due to the transfer.
 - ii) If it has retained control, it shall continue recognizing the financial asset in the Statements of Financial Position in an amount equal to the exposure to changes in value that it might experience and recognizes a financial liability associated with the financial asset transferred.

The Bank eliminates a financial liability (or part of it) from its Consolidated Statements of Financial Position when, and only when, it has been extinguished, i.e. when the obligation specified in the corresponding contract has been paid, cancelled or expired.

cc) Use of estimates and judgments:

The preparation of the Consolidated Financial Statements requires Management to perform judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis by Management in order to quantify some assets, liabilities, revenues, expenses and uncertainties. Revisions to accounting estimates are recognized in the year in which the estimate is revised and any future periods affected.

The Bank has established allowances to cover loan losses, in accordance with regulations issued by the Comisión para el Mercado Financiero. These regulations require banks to regularly evaluate factors such as changes in the nature and size of the loan portfolio, trends in the portfolio, credit quality and economic conditions that may affect the debtor's ability to pay in order to estimate allowances. Net increases in allowances for credit risk are presented as "Provision for loan losses" in the Consolidated Statements of Financial Position.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



NOTE 1 - GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans are written off when contractual rights over cash flows expire, however, in the case of Loans and receivables from customers, the Bank will write them off in accordance with Title II of Chapter B-2, "Impaired and written off credits" of the Compendium of Accounting Standards issued by the Comisión para el Mercado Financiero. Write-offs are recorded as a reduction in provision for credit risk.

Particularly, the information about significant areas of estimation of uncertainty and critical judgments in the applying accounting policies that have most significant effect on amounts recognized in the Consolidated Financial Statements, are described in the following notes:

- Valuation of financial and derivative instruments (Notes 6, 8 and 11).
- The useful lives of property, plant and equipment, intangible assets and right-of-use asset (Notes 13 and 14).
- Current tax and deferred taxes (Note 15).
- Provisions (Note 20).
- Contingencies and commitments (Note 22).
- Provision for loan losses (Note 28).
- Assumptions used in the actuarial calculation of liabilities and commitments for personnel benefits and other obligations (Note 29).
- Impairment losses of certain assets (Note 31).
- Assets and liabilities at fair value (Note 34).

During the year ended December 31, 2019, there have been no significant changes in estimates performed in comparison with the 2018 year-end other than those indicated in these Consolidated Financial Statements.

dd) Non-current assets held for sale:

Non-current assets (or disposal groups including assets and liabilities) expected to be recovered principally from sale rather than continuing use are classified as held for sale. Immediately before this initial classification of the asset (or disposal group) as held for sale, the carrying amounts of the asset (or all the assets and liabilities in the group) are re measured in accordance with the Bank's accounting policies. Starting from that date, assets (or disposal groups) are measured at the lower of their carrying value and fair value less costs to sell. Deferred tax assets, assets of employee benefits and investment properties continue to be evaluated according to the Bank's accounting policies. Impairment losses in the initial classification as assets held for sale and subsequent gains and losses subsequent to the revaluation, are recognized in profit or loss for the year. Gains are not recognized if they exceed any accumulated loss.

NOTE 1 - GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

ee) Distribution of net income as tax benefit:

As of December 31, 2019 and 2018, the Bank has recognized a liability for the portion of net income to be distributed to the State of Chile in accordance with its dividend distribution policy. For this purpose, it establishes a provision against a supplementary equity reserve account.

The aforementioned policy states that in order to determine the provision for the distribution of net income to the State of Chile, it shall consider the average distribution of net income for the last three years (established from the decrees issued by the Ministerio de Hacienda) or that of the last year should it be greater. In accordance with the above, the provision percentage used for distribution of net income for the year was 100% as of December 31, 2019 (50% as of December 31, 2018), see Note 23 b).

ff) Consolidated Statements of Other Comprehensive Income for the year:

This Financial Statement includes income and expenses generated by the Bank during the year as a result of its activities, and all other income and expenses recognized directly in equity are separately disclosed.

The items included in these Financial Statements is detailed as follows:

- a) Consolidated income for the year.
- b) Net amount of income and expenses temporarily recognized in equity as “Valuation accounts.”
- c) Income tax and deferred taxes originated in item b), as appropriate, except for adjustment for exchange rate differences and hedging derivative for foreign investment.
- d) The net amount of income and expenses recognized in equity as “Other reserves not derived from profits”.
- e) Adjustments for IAS 19 actuarial calculation that are not reversed to income, net of deferred taxes.
- f) Total consolidated income and expenses recognized and calculated as the total of the preceding letters, showing separately the amount allocated to the Parent and non-controlling interest.

gg) New accounting pronouncements (IFRS, Interpretations of the IFRS Interpretations Committee and Regulation issued by the Comisión para el Mercado Financiero):

The new standards, improvements, and amendments to the IFRS, as well as the interpretations that have been applied to these Consolidated Financial Statements or issued during the year are detailed below:

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)

**NOTE 1 - GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)****a) New pronouncements, improvements and amendments to standards issued and adopted during the current year:****New standards**

		Date of obligatory application
IFRS 16	Leases	January 1, 2019

Impact of the application of IFRS 16 “Leases”

BancoEstado has chosen to apply the modified retrospective approach. Therefore, it has not restated comparative financial information; instead it will record, for accounting purposes, from January 1, 2019, a right-of-use asset and a liability under lease arrangements for an estimated amount of MCh\$ 96,551; which was calculated by discounting the future lease cash flows at the present value of the financing rate.

Improvements and amendments to standards

		Date of obligatory application
IFRIC 23	Uncertainty over income tax treatments	January 1, 2019
IFRS 9	Financial Instruments	January 1, 2019
IAS 28	Investments in Associates and Joint Ventures	January 1, 2019
IFRS 3 and IFRS 11	Business Combinations and Joint Arrangements	January 1, 2019
IAS 12	Income Taxes	January 1, 2019
IAS 23	Borrowing Costs	January 1, 2019
IAS 19	Employee Benefits	January 1, 2019

The mentioned improvements and amendments to standards have no impact on these Consolidated Financial Statements.

b) New pronouncements, improvements and amendments to standards issued but not yet adopted:

At the date of these Consolidated Financial Statements, these standards are not yet in effect and have not been early applied:

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



NOTE 1 - GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

New standards

		Date of obligatory application
IFRS 17	Insurance Contracts	January 1, 2021

IFRS 17 “Insurance Contracts”

On May 18, 2017, the IASB published IFRS 17 *Insurance Contracts*. The new Standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 *Insurance contracts*.

IFRS 17 outlines a General Model, which is amended for insurance contracts with direct participation features, described as the “Variable Fee Approach”. The General Model is simplified if certain criteria are met by measuring the liability for remaining coverage using the “Premium Allocation Approach”.

The General Model will use current assumptions to estimate the amount, timing and uncertainty of future cash flows and it will explicitly measure the cost of that uncertainty; it takes into account market interest rates and the impact of policyholders’ options and guarantees.

It is probable that the implementation of this Standard generates significant changes to the entity’s processes and systems, and will require significant coordination among many business functions, including finance, actuarial and IT.

IFRS 17 is effective for annual periods beginning on or after January 1, 2021 with earlier application permitted if IFRS 9 and IFRS 15 have been adopted. However, the International Accounting Standards Board confirmed in the meeting held in April 2019, its tentative decision to differ the effective application date to January 1, 2021, which will be subject to the assessment by the Oversight Committee of the due process, as well as the other amendments proposed corresponding to:

- Excluding the changes related to the time value of money and the financial risks of the adjustment to the contractual service margin.
- Amending paragraphs B96 (d) and B97 (a) of IFRS 17 to address the disaggregation of changes in the risk adjustment for non-financial risk.
- Amending paragraph B118 of IFRS 17 to clarify that an entity may interrupt the use of risk mitigation option on a group of insurance contracts only if the eligibility criteria for such group is no longer applied.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



NOTE 1 - GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Clarification of the definition of an investment component.
- Amending paragraph 11 (b) of IFRS 17 to ensure that it is applied to investment contracts with discretionary participation features.
- Amending paragraphs 48 (a) and 50 (b) of IFRS 17 to adjust the loss component for changes in the risk adjustment for non-financial risk.
- Amending to paragraph B128 of IFRS 17 to clarify that changes in the measurement of a group of insurance contracts generated by changes in the underlying items should be treated as changes in investments for the purposes of IFRS 17, i.e., as changes related to the time value of money or assumptions associated with financial risk.

For the purpose of the transition requirements, the date of initial application is the start of the annual reporting period in which the entity first applies the Standard and the transition date is the beginning of the period immediately preceding the date of initial application.

BancoEstado is assessing the impact that this standard may have on its Consolidated Financial Statements.

Improvements and amendments to standards

		Date of obligatory application
IAS 28 and IFRS 10	Investments in Associates and Joint Ventures and Consolidated Financial Statements	Application deferred indefinitely
IFRS 3	Business Combinations	January 1, 2020
IAS 1 and IAS 8	Presentation of Financial Statements and Accounting Policies, Changes in Accounting Estimates and Errors	January 1, 2020
	Conceptual Framework in IFRS for Financial Reporting	January 1, 2020
IAS 39, IFRS 7 and IFRS 9	Financial Instruments: Recognition and Measurement, Financial Instruments: Disclosures, Financial Instruments.	January 1, 2020

IAS 28 “Investments in Associates and Joint Ventures” and IFRS 10 “Consolidated Financial Statements”

On September 11, 2014, the IASB published “*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*” (Amendments to IFRS 10 and IAS 28). The amendments to IFRS 10 and IAS 28 address instances where a sale or contribution of assets between an investor and its associate or joint venture exists. Specifically, the amendments require that the gain or loss resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, to be recognized in the parent’s profit or loss only to the extent of the unrelated investors’ interests in that associate or joint

NOTE 1 - GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

venture.

Similarly, gains and losses resulting from the remeasurement at fair value of investments held in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has not been yet established by the IASB; however, early application of the amendments is permitted.

According to Management, these amendments would have no impact on the Consolidated Financial Statements of the Bank.

IFRS 3 “Business Combinations”

On October 22, 2018, the IASB published “*Definition of a Business (Amendments to IFRS 3)*” aimed at resolving difficulties that arise when an entity determines whether it has acquired a Business or a group of assets.

The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. If a preparer chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process.

These amendments are solely changes to Appendix A *Defined terms*, the application guidance and illustrative examples in IFRS 3 with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as the acquisition of an asset. Such amendments:

- Clarify that, to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output;
- Specify the definitions of a business and outputs by focusing on goods and services provided to customers and removing the reference to an ability to reduce costs;
- Add guidance and illustrative examples to help entities assess whether a substantive process have been acquired;

NOTE 1 - GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

- Remove the assessment of whether market participants are capable of replacing any missing input or processes and continuing to produce outputs; and
- Add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020, and to asset acquisitions that occur on or after the beginning of that period. Earlier application is permitted.

BancoEstado is assessing the impact that these interpretations may have on its Consolidated Financial Statements.

IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”

On October 31, 2018, the IASB issued “*Definition of Material*” (Amendments to IAS 1 and IAS 8) to clarify the definition of “material” and align the definition used in the Conceptual Framework and the standards themselves.

The changes relate to a revised definition of “material” which is quoted below from the final amendments: “*Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose Financial Statements make on the basis of those Financial Statements, which provide financial information about a specific reporting entity.*”

Three new aspects of the new definition should especially be noted:

Obscuring: The existing definition only focused on omitting or misstating information, however, the Board concluded that obscuring material information with information that can be omitted can have a similar effect. Although the term obscuring is new in the definition, it was already part of IAS 1 (IAS 1.30A).

Could reasonably be expected to influence: The existing definition referred to ‘could influence’ which the Board believed that might be understood as requiring too much information as almost anything ‘could’ influence the decisions of some users even if the possibility is remote.

Primary users: The existing definition referred only to ‘users’ which again the Board believed that might be understood too broadly as requiring to consider all possible users of Financial Statements when deciding what information to disclose.

NOTE 1 - GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

The new definition of material and the accompanying explanatory paragraphs are contained in IAS 1 *“Presentation of Financial Statements”*. The definition of material in IAS 8 *“Accounting Policies, Changes in Accounting Estimates and Errors”* has been replaced with a reference to IAS 1.

Amendments are effective for annual periods beginning on or after January 1, 2020. Earlier application is permitted.

BancoEstado is assessing the impact that these interpretations may have on its Consolidated Financial Statements.

“Conceptual Framework for Financial Reporting”

On March 29, 2018, the IASB issued a revision of its Conceptual Framework for Financial Reporting (hereinafter the “Conceptual Framework.”) The Conceptual Framework is not a standard, and none of the concepts prevails over any standard or any of the requirements of a standard. The main purpose of the Conceptual Framework is to assist the IASB when developing International Financial Reporting Standards. The Conceptual Framework also assists Financial Statement preparers in developing consistent accounting policies, if there is no similar or specific applicable standard to address a particular issue. The new Conceptual Framework has an introduction, eight chapters and a glossary. Five of the chapters are new, or have been substantially amended.

The new Conceptual Framework:

- Introduces a new definition of an asset focused on rights and a new definition of a liability that is likely to be broader than the replaced definition, but it does not change the distinction between a liability and an equity instrument.
- Removes references to the expected flows of economic benefits from the definition of assets and liabilities. This reduces the obstacles for identifying whether an asset or a liability exists and emphasizes more on reflecting uncertainty in the measurement, recognizing a liability if an entity has no practical ability to avoid it. This could lead to the recognition of certain liabilities in the Statement of Financial Position prior to that required currently.
- Analyzes historical cost and present value measurements, and provides certain guidance on the considerations that the IASB would include in selecting a measurement basis for a specific asset or liability.
- Establishes that the main measure of financial performance is net income or loss, and that only under exceptional circumstances the IASB will use the other comprehensive income and only for income or expenses arising from a change in the present value of an asset or liability.
- Note that an entity will derecognize an asset from the balance sheet when it loses the control over all or a part of such asset; i.e., the approach is no longer focused on the transfer of the risks and rewards.
- Analyzes uncertainty, derecognition, unit of account, reporting entity and combined Financial Statements.

NOTE 1 - GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

The new Conceptual Framework is effective immediately from its issuance on March 29, 2018.

Additionally, the IASB published a separate document “Updating References to the Conceptual Framework”, which contains the related amendments to the Standards affected so that they now refer to the new Conceptual Framework. The amendments are effective for annual periods beginning on or after January 1, 2020, and early adoption permitted.

BancoEstado is assessing the impact that these interpretations may have on its Consolidated Financial Statements.

IAS 39, “Financial Instruments: Recognition and Measurement”, IFRS 7 “Financial Instruments: Disclosures” and IFRS 9 “Financial Instruments”

In September 2019, the IASB issued amendments to IAS 39, IFRS 7 and IFRS 9 to address uncertainties related to the current reform on the InterBank Offered Rate (IBOR).

The amendments address aspects affecting the financial information during the period prior the IBOR reform, which are applicable to hedging transactions directly affected by the uncertainties related to the IBOR reform. As part of the main amendments, the entities affected by the IBOR reform will consider the following:

- The entities will assume that the interest rate reference index applied to hedged cash flows is not modified as a result of the IBOR reform when assessing whether future cash flows are highly probable. In addition, for discontinued hedging, the same assumption is applied to determine whether hedged future cash flows are expected to occur.
- The entities will assess whether the economic relationship between the hedged item and the hedge instrument exists based on the interest rate reference index applied to the hedged item, and the hedge instrument is not modified as a result of the IBOR reform.
- The entities will not interrupt a hedge transaction during the period of uncertainty arising from the IBOR reform solely because the actual results of the hedge are not within the range of 80-125 percent.
- The entities will apply the identifiable criteria separately only at the commencement of the hedge relationship. A similar exception is also provided for hedged items where the reallocation is regular, i.e., macro hedges.

The amendment is effective for annual periods beginning on or after January 1, 2020. Early application is permitted.

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

BancoEstado is assessing the impact that these interpretations may have on its Consolidated Financial Statements.

c) Regulations issued by the Comisión para el Mercado Financiero

Circular No. 3,638:

On July 6, 2018, the Comisión para el Mercado Financiero issued Circular No. 3,638, establishing the standard methods for provisions for commercial loans in the collective portfolio that the banks should use for commercial lease operations, loans for students, and other commercial loans, as applicable.

This establishes that under no circumstances, the use of these models relieves bank institutions of their responsibility to have their own methodologies to determine provisions that are sufficient to safeguard credit risk of each of their portfolios, and the determination of provisions should be made considering the higher of the related standard method and the internal method of each institution.

Additionally, the Circular establishes that standard methods to determine provisions for loans in the commercial collective portfolio will be mandatory from July 1, 2019, and the accounting effects of its first application should be recognized in the Consolidated Financial Statements of Income. The application of these new collective models for commercial loans resulted in provisions of MCh\$ 229 recognized in the Statement of Financial Position.

Circular No. 3,645:

On January 11, 2019, the Comisión para el Mercado Financiero issued Circular No. 3,645, which clarifies how banks should apply the criteria defined in IFRS 16, supplementing and amending Chapters A-2, B-1, C-1 and C-3 of the Compendium of Accounting Standards.

Circular No. 2,243 on the Update of the Compendium of Accounting Standards:

During January 2019, the Comisión para el Mercado Financiero, issued a draft on the update of the Compendium of Accounting Standards for banks. Amendments introduced for public comment purposes relate to a necessary update of the accounting criteria because of several amendments to IFRS and the requirement for aligning such particular accounting provisions defined by the Comisión para el Mercado Financiero. This draft on the update was available for public comment purposes until April 18, 2019, and is currently waiting for the resolution of the Comisión para el Mercado Financiero with respect to the final standard.

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

On December 20, 2019, the Comisión para el Mercado Financiero issued Circular No. 2,243 through which it communicated the full update of the Compendium of Accounting Standards. As indicated, the objective of the Commission for issuing such Circular is to pursue greater convergence with IFRS, and also to improve financial information disclosures, to make a contribution towards financial stability and transparency of the banking system.

NOTE 2 - CHANGES IN ACCOUNTING POLICIES

- On January 1, 2019, the Bank adopted IFRS 16 “Leases”, resulting in the recognition of a leased right-of-use asset and a lease liability of MCh\$ 96,551, net, which was obtained discounting future lease cash flows to the financing rate at present value. As of December 31, 2019, the Bank holds right-of-use assets leased of MCh\$ 98,015 and lease liabilities of MCh\$ 84,260.
- On July 1, 2019, Circular No. 3,638, became effective, resulting in the Bank applying new credit risk models for its group business portfolio, the related effect amounted to MCh\$ 229 in 2019.
- The Bank recorded no other significant changes in accounting policies that may affect the interpretation of these Consolidated Financial Statements.

NOTE 3 - SIGNIFICANT EVENTS

a) Issuance of Law No. 21,130:

On January 12, 2019, Law No. 21,130 was issued, updating bank regulations, granting special duties and powers to the Comisión para el Mercado Financiero in the banking sector.

b) Income remittance, BancoEstado New York Branch:

On January 14, 2019, as approved by the Bank’s Assets and Liabilities Committee, BancoEstado New York Branch is instructed to send the income remittance generated during 2018 of US\$ 13,136,572.20 on February 5, 2019.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



NOTE 3 - SIGNIFICANT EVENTS (Continued)

c) **Authorization for the acquisition of ownership in the Subsidiary Sociedad de Promoción de Productos Bancarios S.A.:**

On March 28, 2019, the Board of Directors approved the acquisition of 10 shares of the Subsidiary Sociedad de Promoción de Productos Bancarios S.A. by the Bank from its Subsidiary Sociedad de Servicios Transaccionales CajaVecina S.A. On April 29, 2019, the SBIF (currently the Comisión para el Mercado Financiero) authorized the dissolution of such company in accordance with Letter No. 91916350.

d) **General Ordinary Meeting of the Shareholders of Subsidiary BancoEstado S.A. Administradora General de Fondos:**

On March 29, 2019, the twenty-second general Ordinary Meeting of the Shareholders of BancoEstado S.A. Administradora General de Fondos was held, which approved the annual report, balance sheet and Financial Statements of the entity for the year 2018. In addition, unanimous agreement was reached for the distribution and payment of a final dividend equivalent to 100% of the net profits for the year 2018, amounting to a total of MCh\$ 9,601.

The Meeting also agreed to renew the Board of the Company as per the following detail:

Director

Pablo Correa González
Leopoldo Quintano Hartard
Andrés Heusser Risopatrón
Carlos Alberto Curi
Vincent Trouillard-Perrot
Luca Restuccia

Alternate Director

Victoria Martínez Ocamica
Marcelo Hiriart Vergara
Victor Coddou Braga
Pascal Biville
Luiz Di Nizo Sorge
Arnaud Schwebel

e) **Payment of dividends by the Subsidiary BancoEstado Corredores de Seguros S.A.:**

On April 15, 2019, the Subsidiary BancoEstado Corredores de Seguros S.A. paid a provisional dividend to the shareholders as agreed at the 172th Ordinary General Shareholders' Meeting held on December 26, 2018.

f) **General Ordinary Meeting of Shareholders of Subsidiary BancoEstado Microempresas S.A. Asesorías Financieras:**

The twenty-third General Ordinary Shareholders' Meeting was held on April 18, 2019, in which the entity's annual report, balance sheet and Financial Statements for the year ended December 31, 2018 were approved; and a total renewal of the Board of Directors was agreed, appointing Mr. Pablo Correa González, Mr. Jonás Preller Roldán and Mr. Marcelo Hiriart Vergara as members of the Board for the next two-year statutory period; and the distribution and payment of a dividend debited to net income

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



NOTE 3 - SIGNIFICANT EVENTS (Continued)

for 2018 of MCh\$ 733 were unanimously agreed upon. With respect to the appointment of external auditors, the shareholders agreed to summon shareholders at the earliest opportunity to an Extraordinary Meeting to assess and define external audit services.

g) General Ordinary Meeting of Shareholders in the line of business supporting entity Sociedad de Servicios Transaccionales CajaVecina S.A.:

The Thirteenth General Ordinary Shareholders' Meeting was held on April 22, 2019, in which the entity's balance sheet and Financial Statements for the year ended December 31, 2018 were approved; for profits, the distribution and payment of dividends to shareholders for May 30, 2019 was agreed upon; and a total renewal of the Board of Directors was agreed, appointing Mr. Emilio Vélez Hormazábal, Mr. Arturo Barrios Almarza and Mr. Gunther Wyss Ortega as members of the Board for the next three-year statutory period; the appointment of external auditors for 2019 is pending until the shareholders hold the next Extraordinary Shareholders' Meeting; and the newspaper "La Nación" was selected for publishing notices and matters that should be issued.

h) General Ordinary Meeting of Shareholders in the line of business supporting entity BancoEstado Centro de Servicios S.A.:

The Fifteenth General Ordinary Shareholders' Meeting was held on April 23, 2019, in which the entity's balance sheet and Financial Statements for the year ended December 31, 2018 were approved; a total renewal of the Board of Directors was agreed, appointing Mrs. Victoria Martínez Ocamica, Mr. Gunther Wyss Ortega and Mr. Marcelo García Nanning as members of the Board for the next three-year statutory period; the appointment of external auditors for 2019 is until the shareholders hold the next Extraordinary Shareholders' Meeting; and the newspaper "La Nación" was selected for publishing notices and matters that should be issued.

i) Appointment of external auditors for BancoEstado Group:

On April 23, 2019, through Agreement No. 436, the Executive Committee awarded the External Audit Services for the Bank, its Subsidiaries and the New York Branch, for the years ended December 31, 2019 and December 31, 2020 to KPMG Auditores Consultores Limitada.

j) General Ordinary Meeting of Shareholders at the Subsidiary BancoEstado Corredores de Seguros S.A.:

The Fifteenth General Ordinary Shareholders' Meeting was held on April 24, 2019. At this meeting the entity's annual report, balance sheet and Financial Statements for the year 2018 were approved, and the distribution and payment of a final dividend to the shareholders debited to net income for the year 2018 for MCh\$ 17,419 were unanimously agreed upon. Likewise, KPMG Auditores Consultores Limitada was appointed as the external audit firm to examine the Bank's accounting records, inventories, balance sheet and other Financial Statements for 2019. The newspaper Diario Financiero was selected for publishing notices and matters that should be issued.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
For the years ended December 31, 2019 and 2018
(In millions of Chilean pesos - MCh\$)



NOTE 3 - SIGNIFICANT EVENTS (Continued)

The Meeting also agreed to renew the Board of the Company as per the following detail:

Directors

Leopoldo Quintano Hartard
Gabriela Blu Salcedo
Pablo Iacobelli Del Río
José Miguel Saavedra Florez

Alternate Directors

Gonzalo Collarte Toboada
Álvaro Larraín Fierro
Cristián Eyzaguirre Court
Patricia Silberman Veszpremi

k) General Ordinary Meeting of Shareholders in the line of business supporting entity Red Global S.A.:

The Third General Ordinary Shareholders' Meeting was held on April 26, 2019, in which the entity's balance sheet and Financial Statements for the year ended December 31, 2018 were approved. Additionally, Mr. Rodrigo Collado Lizama, Mr. Óscar González Narbona, Mr. Igor Marchesini Ferreira, Mrs. María Dolores Peralta Rubio and Mrs. Marta Jancso Acuña Ocamica were appointed as directors for the next two-year statutory period. Likewise, KPMG Auditores Consultores Limitada was appointed as the external audit firm to examine the Bank's accounting records, inventories, balance sheet and other Financial Statements for 2019; and the newspaper "La Nación" was selected for publishing notices and matters that should be issued.

Mr. Rodrigo Collado Lizama was appointed as Chairman of the Board and Mrs. María Dolores Peralta Rubio as Vice-Chairwoman.

l) General Ordinary Meeting of Shareholders in the line of business supporting entity BancoEstado Contacto 24 Horas S.A.:

The General Ordinary Shareholders' Meeting was held on April 29, 2019, in which the entity's balance sheet and Financial Statements for the year ended December 31, 2018 were approved; a total renewal of the Board of Directors was agreed, appointing Mrs. Claudia Andrea Hernández Soto-Aguilar, Mrs. María Dolores Peralta Rubio and Mr. Arturo José Tagle Quiroz as members of the Board for the next two-year statutory period. KPMG Auditores Consultores Limitada was appointed as the external audit firm to examine the Bank's accounting records, inventories, balance sheet and other Financial Statements for 2019; and the newspaper "La Nación" was selected for publishing notices and matters that should be issued.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



NOTE 3 - SIGNIFICANT EVENTS (Continued)

m) General Ordinary Meeting of Shareholders at the Subsidiary BancoEstado S.A. Corredores de Bolsa.:

The Thirtieth General Ordinary Shareholders' Meeting was held on April 30, 2019, in which the entity's annual report, balance sheet and Financial Statements for 2018 were approved. The Board agreed not to distribute profits obtained in 2018, which amounted to MCh\$ 4,301.6 in order to withhold them indefinitely until it is agreed at the related Shareholders' Meeting to distribute them as dividends.

At the meeting, the shareholders agreed to renew the Board of Directors for a three-year period, appointing Mr. Carlos Martabit Scaff, Mr. Óscar González Narbona and Mr. Álvaro Larraín Fierro as its members.

With respect to the appointment of external auditors, KPMG Auditores Consultores Limitada was appointed as the external audit firm to examine the Bank's accounting records, inventories, balance sheet and other Financial Statements for 2019.

n) General Ordinary Meeting of Shareholders at the Subsidiary BancoEstado Servicios de Cobranza S.A.:

The Nineteenth General Ordinary Shareholders' Meeting was held on April 30, 2019, in which the entity's balance sheet and Financial Statements for the year ended December 31, 2018 were approved; a total renewal of the Board of Directors was agreed, appointing Mr. Eduardo de las Heras Val, Mr. Juan Cooper Álvarez and Mr. Alejandro Romero Saccani as members of the Board for the next two-year statutory period. KPMG Auditores Consultores Limitada was appointed as the external audit firm to examine the Bank's accounting records, inventories, balance sheet and other Financial Statements for 2019; and the newspaper "Diario Financiero" was selected for publishing notices and matters that should be issued.

Additionally, the shareholders agreed to distribute dividends of MCh\$ 226, which were fully paid on June 19, 2019.

Mr. Eduardo de las Heras Val was appointed as Chairman of the Board.

o) The Comisión para el Mercado Financiero assumes the duties of the Superintendencia de Bancos e Instituciones Financieras:

On May 2, 2019, the Ministerio de Hacienda issued the Decree in Force of Law No. 2, which established that on June 1, 2019, the Comisión para el Mercado Financiero would assume the duties of the Superintendencia de Bancos e Instituciones Financieras, replacing it.

p) Authorization of Red Global S.A. as payment card operator:

On May 2, 2019, the Comisión para el Mercado Financiero authorized Red Global S.A. to operate as payment card operator, registering it in the Payment Card Operator Single Registry maintained by the regulator.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



NOTE 3 - SIGNIFICANT EVENTS (Continued)

q) Extraordinary Meeting of Shareholders in the line of business supporting entity Sociedad de Servicios Transaccionales CajaVecina S.A.:

An Extraordinary Shareholders' Meeting was held on May 6, 2019, in which KPMG Auditores Consultores Limitada was appointed as the external audit firm to examine the Bank's accounting records, inventories, balance sheet and other Financial Statements for 2019.

r) Extraordinary Meeting of Shareholders in the Subsidiary BancoEstado Microempresas S.A. Asesorías Financieras.:

An Extraordinary Shareholders' Meeting was held on May 7, 2019, in which KPMG Auditores Consultores Limitada was appointed as the external audit firm to examine the Bank's accounting records, inventories, balance sheet and other Financial Statements for 2019.

s) Extraordinary Meeting of Shareholders in the line of business supporting entity BancoEstado Centro de Servicios S.A.:

The Sixth Extraordinary Shareholders' Meeting was held on May 13, 2019, in which KPMG Auditores Consultores Limitada was appointed as the external audit firm to examine the Bank's accounting records, inventories, balance sheet and other Financial Statements for 2019.

t) Dissolution of the line of business supporting entity Sociedad de Promoción de Productos Bancarios S.A.:

On May 23, 2019, BancoEstado acquired 10 shares of the Subsidiary Sociedad de Promoción de Productos Bancarios S.A. from its Subsidiary Sociedad de Servicios Transaccionales CajaVecina S.A., which amounted to Ch\$ 1,020,510. Consequently, all shares were acquired by a single entity, resulting in the dissolution of Sociedad de Promoción de Productos Bancarios S.A. At the Extraordinary Shareholders' Meeting held on June 5, 2019, the dissolution of the Subsidiary was recorded, filing such minute with the Trade Registry of Santiago on June 25, 2019, and publishing it in the Official Gazette on June 26, 2019.

u) Extraordinary Meeting of Shareholders in the Subsidiary BancoEstado S.A. Administradora General de Fondos.:

An Extraordinary Shareholders' Meeting was held on June 5, 2019, in which KPMG Auditores Consultores Limitada was appointed as the external audit firm to examine the Bank's accounting records, inventories, balance sheet and other Financial Statements for 2019.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



NOTE 3 - SIGNIFICANT EVENTS (Continued)

v) Appointment of Director of BancoEstado:

On June 24, 2019, the President of the Republic of Chile, Mr. Sebastián Piñera, appointed Mrs. Susana Jiménez as Director in BancoEstado's Board of Directors.

w) Change in the Board of Directors in the line of business supporting entity Red Global S.A.:

At the seventieth Ordinary Board of Directors' Meeting held on July 4, 2019, Mr. Óscar González Narbona and Mrs. Marta Jancso Acuña resigned to their positions as Directors, and Mr. Ángel Rebolledo Lemus and Mrs. Gabriela Blu Salcedo were appointed as their replacements. Accordingly, from that date, the Company's Board of Directors comprised Mr. Rodrigo Collado Lizama and Mr. Ángel Rebolledo Lemus as Chairman and Vice-Chairman, respectively, and Mr. Igor Marchesini Ferreira and Mrs. María Dolores Peralta Rubio and Mrs. Gabriela Blu Salcedo as Board Members.

x) Subscription of new Collective Bargaining Agreement at BancoEstado:

On July 25, 2019, a new Collective Bargaining Agreement was entered into between the Bank's Management and National Workers Union, which is effective for 26 months starting from October 1, 2019.

y) General Ordinary Meeting in the Subsidiary BancoEstado Corredores de Seguros S.A.:

On July 30, 2019, the General Manager of BancoEstado Corredores de Seguros S.A., Mr. Cristian Wolleter Valderrama resigned effective from the same date. Accordingly, in the Ordinary Board of Directors' Meeting No. 179, held on July 31, 2019, the shareholders agreed to appoint as Interim General Manager to Mr. Joaquín Alejandro Alegría Volmar, currently in the position of Commercial Manager, who complies with the requirements of Article No. 58 of the Insurance Law (Decree Law No. 251 of 1931).

z) Extraordinary Meeting of Shareholders in the Subsidiary BancoEstado Corredores de Seguros S.A.:

On July 31, 2019, at the Company's Seventh Extraordinary Shareholders' Meeting, it was agreed to revoke all the current members of the Board of Directors and to appoint the new Directors and Alternate Directors, who will maintain their position until the next Ordinary Shareholders' Meeting.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
For the years ended December 31, 2019 and 2018
(In millions of Chilean pesos - MCh\$)



NOTE 3 - SIGNIFICANT EVENTS (Continued)

The Board of Directors is composed as follows:

Directors	Alternate Directors
Cristian Wolleter Valderrama	Gonzalo Collarte Taboada
Pablo Iacobelli del Río	Gabriela Blu Salcedo
Leopoldo Quintano Hartard	Cristian Eyzaguirre Court
José Miguel Saavedra Florez	Patricia Silberman Veszpremi

aa) Extraordinary Board of Directors' meeting held on the Subsidiary Red Global S.A.:

On August 14, 2019, the second extraordinary Board of Directors' meeting was held, in which Mr. Carlos Schaaf Raposo resigned to his position as the Company's General Manager starting from August 16, 2019. As a replacement, the Board of Directors appointed Mr. José Joaquín Urrutia Mery as Acting General Manager.

bb) Purchase of shares of Nexus by BancoEstado:

On October 9, 2019, BancoEstado acquired 79,577 shares of Operadora de Tarjetas de Crédito Nexus from Banco Santander for MCh\$ 336.

cc) Payment of dividend in the Subsidiary BancoEstado Corredores de Seguros S.A.:

On October 14, 2019, the company paid a dividend declared to its shareholders as agreed at the Fifteenth General Ordinary Shareholders' Meeting of April 24, 2019.

dd) Appointment of General Manager at the Subsidiary BancoEstado Corredores de Seguros S.A.:

On October 30, 2019, the hundred and eighty second ordinary Board of Directors' meeting of this company was held, where Mr. Rodrigo Della Maggiora was appointed as the new General Manager starting from November 4, 2019.

ee) Distribution and payments of net income of BancoEstado for 2018 allocated for Government benefit:

On November 5, 2019, the Ministerio de Hacienda decided to send for processing a Supreme Decree which allocates for Government benefit MCh\$ 165,951 related to 100% of net profit for 2018. On November 27, 2019, such payment was sent to the Tesorería General de la República.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



NOTE 3 - SIGNIFICANT EVENTS (Continued)

ff) Extraordinary capital contribution:

The Official Gazette dated November 28, 2019, published Law No. 21,187, which empowers the Ministerio de Hacienda, through one or more decrees issued via executive order, to perform an extraordinary capital contribution to Banco del Estado de Chile for up to 500 million United States dollars, on the condition of previously obtaining a favorable opinion from the Comisión para el Mercado Financiero. The contribution could be performed through one or more transfers during the six months subsequent to the enactment of the aforementioned law.

As per the Decree issued by the Ministerio de Hacienda, the contribution will be made through two deposits of 250 million United States dollars each.

gg) Receipt of the first extraordinary capital contribution:

On November 29, 2019, the Ministerio de Hacienda transferred a portion of the extraordinary capital contribution, sending 250 million United States dollars of the 500 million United States dollars committed, equivalent to MCh\$ 201,575.

hh) Remittance of utility BancoEstado New York Branch:

On December 10, 2019, as approved by the BancoEstado Executive Committee, it is in BancoEstado New York Branch with a remittance of accumulated profits, corresponding to the sum of US\$ 123,706,424.26.

NOTE 4 - OPERATING SEGMENTS

Segmentation criteria:

Segment information is defined according to the different lines of business of the Bank, which are based on its organizational structure, products and services offered and the customer segments for which they are intended.

The structure of this management information is designed as if each line of business was treated as an autonomous business. The Bank obtains most of its income from interest, inflation adjustments and commissions, subtracting provisions and expenses. As such, the financial performance of each segment is calculated by applying the following criteria:

- a) The net interest margin on loans and deposits is measured at an individual transaction level and relates to the difference between the effective rate of the customer and the internal transfer pricing established based on the term and currency of each operation;
- b) Net commission income, net income from financial operations, net foreign exchange gain and other operating income are distributed to each functional area and allocated to segments using different allocation criteria, for which specific indicators are defined for different concepts; and
- c) Operating expenses and taxes are managed at corporate level and are not allocated to segments.

Transfer pricing between operating segments are accounted for at market values as if any transaction with third parties is conducted.

Segments:

The Bank focuses its activities on the following reporting segments:

Wholesale Banking, which comprises large companies, medium sized companies and institutions.

Retail Banking, which includes individuals, small companies and micro companies.

Treasury and International, which represents financial and foreign businesses.

Other, this group comprises corporate concepts, where the assets, liabilities, income and expenses, where applicable, that cannot be clearly attributed to any of the lines of business or segments or which are the result of decisions affecting the Bank as a whole.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



NOTE 4 - OPERATING SEGMENTS (Continued)

As of December 31, 2019 and 2018, segment information is detailed as follows:

	December 31, 2019						December 31, 2018				
	Wholesale Banking MCh\$	Retail Banking MCh\$	Treasury and International MCh\$	Other MCh\$	Total		Wholesale Banking MCh\$	Retail Banking MCh\$	Treasury and International MCh\$	Other MCh\$	Total MCh\$
					MCh\$	MUS\$					
Net interest income	236,980	694,030	127,241	61,755	1,120,006	1,496	222,234	633,387	64,800	73,531	993,952
Net fee and commission income	51,561	263,640	2,350	13,606	331,157	442	56,278	363,653	1,591	(115,645)	305,877
Net income from financial operations	8,535	15,110	125,861	-	149,506	200	8,086	11,621	95,812	-	115,519
Net foreign exchange (loss) gain	4,287	10,078	(17,691)	3	(3,323)	(4)	4,423	7,803	8,439	6	20,671
Other operating income	149	398	2	16,469	17,018	22	142	1,908	1	16,913	18,964
Total operating income	301,512	983,256	237,763	91,833	1,614,364	2,156	291,163	1,018,372	170,643	(25,195)	1,454,983
Provision for loan losses	(64,550)	(242,844)	1,038	(14,040)	(320,396)	(428)	(23,657)	(170,806)	(1,982)	(35,602)	(232,047)
Operating income, net	236,962	740,412	238,801	77,793	1,293,968	1,728	267,506	847,566	168,661	(60,797)	1,222,936
Operating expense					(853,128)	(1,139)					(820,134)
Other operating expenses					(80,838)	(108)					(49,290)
Total operating expenses					(933,966)	(1,247)					(869,424)
Net operating income					360,002	481					353,512
Income from investments in associates					2,041	3					2,509
Income before income taxes					362,043	484					356,021

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



NOTE 4 - OPERATING SEGMENTS (Continued)

As of December 31, 2019 and 2018, the Consolidated Statements of Financial Position by segment are detailed as follows:

	December 31, 2019						December 31, 2018					
	Wholesale Banking	Retail Banking	Treasury and International	Others	Total		Wholesale Banking	Retail Banking	Treasury and International	Others	Total	
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MUS\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	
ASSETS												
Cash and due from banks	-	-	3,972,444	-	3,972,444	5,306	-	-	4,354,391	-	4,354,391	
Transactions in the course of collection	-	-	167,010	-	167,010	223	-	-	369,632	-	369,632	
Financial assets held for trading	-	-	1,676,531	-	1,676,531	2,239	-	-	2,192,921	-	2,192,921	
Loans and accounts receivable from customers, net	9,697,892	15,275,669	20,025	4	24,993,590	33,381	8,836,601	14,383,433	19,943	35	23,240,012	
Financial investments available for sale	14,034	-	7,632,780	-	7,646,814	10,213	37,076	-	5,971,688	-	6,008,764	
Other assets	632,800	232	1,464,052	2,801,503	4,898,587	6,542	402,203	67	1,393,028	2,260,511	4,055,809	
TOTAL ASSETS	10,344,726	15,275,901	14,932,842	2,801,507	43,354,976	57,904	9,275,880	14,383,500	14,301,603	2,260,546	40,221,529	
LIABILITIES												
Current accounts and other demand deposits	6,182,104	3,976,682	69,573	390,618	10,618,977	14,182	5,522,631	3,426,185	63,747	526,953	9,539,516	
Transactions in the course of payment	-	-	126,169	-	126,169	169	-	-	352,913	-	352,913	
Time deposits and savings account	3,646,526	7,525,878	5,255,598	456	16,428,458	21,941	4,407,108	7,021,704	5,719,374	83	17,148,269	
Obligations with banks	124,000	-	1,620,835	-	1,744,835	2,330	-	-	1,307,903	-	1,307,903	
Debt instruments issued	-	-	8,363,934	-	8,363,934	11,171	-	-	7,231,410	-	7,231,410	
Other liabilities	902,089	10,655	1,410,937	1,937,114	4,260,795	5,691	818,704	10,453	827,249	1,271,528	2,927,934	
TOTAL LIABILITIES	10,854,719	11,513,215	16,847,046	2,328,188	41,543,168	55,484	10,748,443	10,458,342	15,502,596	1,798,564	38,507,945	
EQUITY	-	-	-	1,811,808	1,811,808	2,420	-	-	-	1,713,584	1,713,584	
TOTAL LIABILITIES AND EQUITY	10,854,719	11,513,215	16,847,046	4,139,996	43,354,976	57,904	10,748,443	10,458,342	15,502,596	3,512,148	40,221,529	

The “Other” item includes the following concepts: a) Assets: Repurchase agreements and securities loans, Financial derivative contracts, Loans and advances to banks, Financial investments held to maturity, Investments in associates, Intangible assets, Property, plant and equipment, Right-of-use assets, Current taxes, Deferred taxes and Other assets; b) Liabilities: Repurchase agreements and securities loans, Financial derivative contracts, Other financial obligations, Lease obligations, Current taxes, Deferred taxes, Provisions and Other liabilities.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)

**NOTE 5 - CASH AND CASH EQUIVALENTS**

a) As of December 31, 2019 and 2018, balances included in cash and cash equivalents are detailed as follows:

	12/31/2019		12/31/2018
	MUS\$	MCh\$	MCh\$
Cash and due from banks			
Cash	763	571,061	646,047
Deposits in the Chilean Central Bank	2,664	1,994,836	2,490,188
Deposits in domestic banks	28	20,527	6,450
Foreign deposits	1,851	1,386,020	1,211,706
Subtotal Cash and due from banks	5,306	3,972,444	4,354,391
Transactions in the course of collection net	54	40,841	16,719
Highly liquid financial instruments (*)	4,176	3,127,009	2,126,717
Repurchase agreements (*)	193	144,806	337,027
Total Cash and cash equivalents	9,729	7,285,100	6,834,854

(*) Relates to financial investments held for trading, financial investments securities available for sale and repurchase agreements with little risk of change in value, the mature term of which does not exceed 3 months from the acquisition date. The detail is as follows:

Highly liquid financial instruments	12/31/2019		12/31/2018
	MUS\$	MCh\$	MCh\$
Financial assets held for trading			
Fixed time deposits in national currency	7	5,081	12,364
Fixed time deposits resetable	-	-	14,429
Bonds of other banks	-	255	-
Mutual funds	17	12,404	57,510
Subtotal Financial assets held for trading	24	17,740	84,303
Financial investments available for sale			
Fixed time deposits	15	11,606	-
Promissory note - Central Bank	4,079	3,053,990	2,032,114
Treasury bonds	47	35,091	10,300
Other Bank bonds	11	8,582	-
Subtotal Financial investments available for sale	4,152	3,109,269	2,042,414
Total	4,176	3,127,009	2,126,717

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)

**NOTE 5 - CASH AND CASH EQUIVALENTS (Continued)**

As of December 31, 2019 and 2018, the Bank records balances of MCh\$ 696,589 and MCh\$ 826,478, respectively, related to mandatory reserves, as part of its cash and deposits in Banco Central de Chile (the Central Bank of Chile).

The level of funds in cash and in Banco Central de Chile relates to reserve regulations that the Bank has to keep as an average in monthly periods.

b) Operations pending settlement

Operations pending settlement relate to transactions the settlement of which will increase or decrease cash in Banco Central de Chile or in foreign banks, usually within the following 12 or 48 business hours. As of December 31, 2019 and 2018, such operations are detailed as follows:

	<u>12/31/2019</u>		<u>12/31/2018</u>
	<u>MUS\$</u>	<u>MCh\$</u>	<u>MCh\$</u>
Assets:			
Outstanding notes from other Banks (clearing)	66	49,534	51,393
Accounts receivables	<u>157</u>	<u>117,476</u>	<u>318,239</u>
Subtotal assets	<u>223</u>	<u>167,010</u>	<u>369,632</u>
Liabilities:			
Accounts payables	<u>169</u>	<u>126,169</u>	<u>352,913</u>
Subtotal liabilities	<u>169</u>	<u>126,169</u>	<u>352,913</u>
Net balances in the course of collection	<u>54</u>	<u>40,841</u>	<u>16,719</u>

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)

**NOTE 6 - FINANCIAL ASSETS HELD FOR TRADING**

As of December 31, 2019 and 2018, instruments designated as financial investments held for trading are detailed as follows:

	12/31/2019		12/31/2018
	MUS\$	MCh\$	MCh\$
Instruments issued by the Chilean Government and Central Bank of Chile:	143	107,447	114,933
Instruments issued by the Central Bank of Chile	29	22,030	40,038
Bonds and promissory notes issued by Chilean Treasury	114	85,417	74,895
Other government instruments	-	-	-
Instruments issued by other local institutions:	2,079	1,556,680	2,020,478
Instruments from other local banks	2,001	1,498,502	2,005,185
Bonds and commercial papers from companies	20	15,236	-
Other instruments issued locally	58	42,942	15,293
Instruments issued by foreign institutions:	-	-	-
Instruments from foreign governments or central banks	-	-	-
Other instruments issued abroad	-	-	-
Investments in Mutual Funds:	17	12,404	57,510
Funds managed by related entities	17	12,404	57,510
Funds managed by third parties	-	-	-
Total	2,239	1,676,531	2,192,921

As of December 31, 2019 and 2018, instruments issued by the Government and Banco Central de Chile include securities sold under repurchase agreements to customers and financial institutions. As of December 31, 2019, securities sold under repurchase agreements amounted to MCh\$ 718 (MCh\$ 1,127 as of December 31, 2018).

As of December 31, 2019, Instruments issued by other domestic institutions include securities sold under repurchase agreements to customers and financial institutions of MCh\$ 546,788 (MCh\$ 474,614 as of December 31, 2018).

As of December 31, 2019 and 2018, repurchase agreements mature on an average at 8 and 17 days, respectively.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



NOTE 7 - REPURCHASE AGREEMENTS AND SECURITIES LOANS

- a) The Bank purchases financial instruments agreeing to resell them in the future at a fixed price. As of December 31, 2019 and 2018, instruments purchased under resale agreements are detailed as follows:

	Rights under resale agreements								
	12/31/2019					12/31/2018			
	From 1 day to 3 months MCh\$	More than 3 months to 1 year MCh\$	More than 1 year MCh\$	Total MCh\$	MUS\$	From 1 day to 3 months MCh\$	More than 3 months to 1 year MCh\$	More than 1 year MCh\$	Total MCh\$
Instruments issued by the Chilean Government and Central Bank of Chile:									
Instruments issued by the Central Bank of Chile	-	-	-	-	-	248	-	-	248
Bonds and promissory notes issued by the Chilean Treasury	-	-	-	-	-	-	-	-	-
Other government instruments	-	-	-	-	-	-	-	-	-
Other instruments issued locally:									
Instruments from other local banks	75,344	-	-	75,344	100	322,542	-	-	322,542
Bonds and commercial papers from companies	69,462	-	-	69,462	93	14,237	-	-	14,237
Other instruments issued locally	-	-	-	-	-	-	-	-	-
Other instruments issued abroad:									
Instruments from governments or central banks	-	-	-	-	-	-	-	-	-
Other instruments issued abroad	-	-	-	-	-	-	-	-	-
Investments in Mutual Funds:									
Funds managed by related entities	-	-	-	-	-	-	-	-	-
Funds managed by third parties	-	-	-	-	-	-	-	-	-
Total	144,806	-	-	144,806	193	337,027	-	-	337,027

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



NOTE 7 - REPURCHASE AGREEMENTS AND SECURITIES LOANS (Continued)

- b) The Bank obtains funds from selling financial instruments and agreeing to purchase them on future dates plus interest at a rate determined previously. As of December 31, 2019 and 2018, obligations related to instruments sold under repurchase agreements are detailed as follows:

	Obligations under repurchase agreements							
	12/31/2019				12/31/2018			
	From 1 day to 3 months	More than 3 months to 1 year	More than 1 year	Total	From 1 day to 3 months	More than 3 months to 1 year	More than 1 year	Total
	MCh\$	MCh\$	MCh\$	MCh\$ MUS\$	MCh\$	MCh\$	MCh\$	MCh\$
Instruments issued by the Chilean Government and Central Bank of Chile:								
Instruments of the Chilean Central Bank	138,271	-	-	138,271 185	229,014	-	-	229,014
Bonds and promissory notes of the Chilean Treasury	-	-	-	- -	-	-	-	-
Other government instruments	-	-	-	- -	-	-	-	-
Other instruments issued locally:								
Instruments from other local banks	771,323	-	-	771,323 1,030	564,827	27,008	-	591,835
Bonds and commercial papers from companies	15,181	-	-	15,181 20	-	-	-	-
Other instruments issued locally	-	-	-	- -	-	-	-	-
Other instruments issued abroad:								
Instruments from foreign governments or central banks	-	-	-	- -	-	-	-	-
Other instruments issued abroad	-	-	-	- -	-	-	-	-
Investments in Mutual Funds:								
Funds managed by related entities	-	-	-	- -	-	-	-	-
Funds managed by third parties	-	-	-	- -	-	-	-	-
Total	924,775	-	-	924,775 1,235	793,841	27,008	-	820,849

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



NOTE 8 - FINANCIAL DERIVATIVE CONTRACTS

As of December 31, 2019 and 2018, the Bank has the following derivative instrument portfolio:

12/31/2019	Notional amount of contracts with final maturity						Fair Value			
	Up to 1 month	More than 1 up to 3 months	More than 3 up to 6 months	More than 6 up to 12 months	More than 1 up to 3 years	More than 3 up to 5 years	Assets		Liabilities	
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MUS\$	MCh\$	MUS\$	MCh\$
Fair value hedge derivatives:										
Forwards	-	-	-	-	-	-	-	-	-	-
Swaps	-	-	-	-	172,768	131,016	12	9,131	99	74,097
Call options	-	-	-	-	-	-	-	-	-	-
Put options	-	-	-	-	-	-	-	-	-	-
Futures	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-
Subtotal	-	-	-	-	172,768	131,016	12	9,131	99	74,097
Trading Derivatives:										
Forwards	8,004,686	5,950,077	3,594,402	3,396,915	1,414,379	-	677	506,697	619	463,796
Swaps	572,779	2,406,192	890,243	4,531,220	15,900,365	3,936,218	967	724,512	955	715,128
Call options	-	-	-	-	-	-	-	-	-	116
Put options	-	-	-	-	-	-	-	-	-	-
Futures	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-
Subtotal	8,577,465	8,356,269	4,484,645	7,928,135	17,314,744	3,936,218	1,644	1,231,209	1,574	1,179,040
Net investment in foreign operation hedging derivatives:										
Forwards	149,748	14,675	-	-	-	-	-	65	22	16,336
Subtotal	149,748	14,675	-	-	-	-	-	65	22	16,336
Cash flow hedging derivatives:										
Swaps	318,104	52,412	74,874	499,410	814,766	96,726	317	237,221	74	55,359
Subtotal	318,104	52,412	74,874	499,410	814,766	96,726	317	237,221	74	55,359
Total	9,045,317	8,423,356	4,559,519	8,427,545	18,302,278	4,163,960	1,973	1,477,626	1,769	1,324,832

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
For the years ended December 31, 2019 and 2018
(In millions of Chilean pesos - MCh\$)


NOTE 8 - FINANCIAL DERIVATIVE CONTRACTS (Continued)

12/31/2018	Notional amount of contracts with final maturity						Fair Value	
	Up to 1 month	More than 1 up to 3 months	More than 3 up to 6 months	More than 6 up to 12 months	More than 1 up to 3 years	More than 3 up to 5 years	More than 5 years	
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	Assets MCh\$
								Liabilities MCh\$
Fair value hedge derivatives:								
Forwards	-	-	-	-	-	-	-	-
Swaps	-	-	-	-	76,026	210,275	622,262	3,277
Call options	-	-	-	-	-	-	-	-
Put options	-	-	-	-	-	-	-	-
Futures	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-
Subtotal	-	-	-	-	76,026	210,275	622,262	3,277
Trading Derivatives:								
Forwards	6,524,482	4,405,052	2,941,077	2,659,798	1,494,824	456	-	272,524
Swaps	255,861	1,474,929	1,495,162	1,668,538	5,835,496	4,657,416	4,982,305	413,575
Call options	-	-	-	-	-	-	-	-
Put options	-	-	-	-	-	-	-	-
Futures	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-
Subtotal	6,780,343	5,879,981	4,436,239	4,328,336	7,330,320	4,657,872	4,982,305	686,099
Net investment in foreign operation hedging derivatives:								
Forwards	224,897	7,642	-	-	-	-	-	-
Subtotal	224,897	7,642	-	-	-	-	-	-
Cash flow hedging derivatives:								
Swaps	50,023	165,395	165,395	263,318	924,499	397,864	1,044,616	118,825
Subtotal	50,023	165,395	165,395	263,318	924,499	397,864	1,044,616	118,825
Total	7,055,263	6,053,018	4,601,634	4,591,654	8,330,845	5,266,011	6,649,183	808,201
								762,955

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)

**NOTE 8 - FINANCIAL DERIVATIVE CONTRACTS (Continued)****Types of derivatives:**

Derivative transactions are intended for the following purposes: provide solutions for the Bank's risk management and negotiation with customers; manage the Bank's internal risks, and matching the Bank's positions.

The Bank is able to enter into the following derivative contracts:

1) Hedging derivatives mainly intended to manage volatility in the Consolidated Statements of Financial Position.

As of December 31, 2019, the Bank held the following hedging derivatives:

i) Hedge of a net investment in a foreign operation

BancoEstado Casa Matriz, whose functional currency is Chilean peso, holds an investment in a foreign operation related to the New York Branch, in the United States. As a result of its accounting treatment, this position generates changes in the Parent Bank's equity, because fluctuations in the exchange rate should be recognized in its Financial Statements. Accordingly, the Bank entered into a hedge of a net investment in a foreign operation for a contract notional amount of MCh\$ 164,423, with a maturity of three months, considering a negative net fair value of MCh\$ 16,271 (notional amount of MCh\$ 232,539 and a negative net fair value of MCh\$ 28,280 as of December 31, 2018) in order to hedge the currency risk from such investment. As of December 31, 2019 and 2018, the issued capital of the New York Branch amounts to MCh\$ 104,449.

	Notional amount at December 31, 2019							Total	
	Up to 1 month	More than 1 up to 3 months	More than 3 up to 6 months	More than 6 up to 12 months	More than 1 up to 3 years	More than 3 up to 5 years	More than 5 years		
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MUS\$
Hedged item (assets)									
Investment New York Branch	149,748	14,675	-	-	-	-	-	164,423	220
Hedging instrument									
Forward hedging	(149,748)	(14,675)	-	-	-	-	-	(164,423)	(220)
Total	-	-	-	-	-	-	-	-	-

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)

**NOTE 8 - FINANCIAL DERIVATIVE CONTRACTS (Continued)**

	Notional amount at December 31, 2018						Total
	Up to 1	More than	More than	More than	More than	More than	
	month	1 up to 3	3 up to 6	6 up to 12	1 up to 3	3 up to 5	
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
Hedged item (assets)							
Investment New York Branch	224,897	7,642	-	-	-	-	232,539
Hedging instrument							
Forward hedging	(224,897)	(7,642)	-	-	-	-	(232,539)
Total	-	-	-	-	-	-	-

ii) Cash flow hedge

The Bank uses Cross Currency Swap (CCS) derivative instruments to hedge two risks: those associated with the placement of bonds in foreign operations and those related to assets denominated in U.F. and US\$.

Hedged Risk 1: Bonds in foreign currency (FC).

The volatility of cash flows consisting of principal plus interests (payable by the Bank) denominated in FC, and settled in Chilean pesos arising from the issuance of debt securities.

Hedged Risk 2: Assets denominated in U.F. and US\$.

The volatility of expected cash flows (receivable by the Bank) denominated in U.F. and settled in Chilean pesos arising from contractual agreements. These projected cash flows arise from different risk sources, although all of them are subject to cash flow risk because of variances in U.F. The volatility of expected cash flows (receivable by the Bank) denominated in US\$, is indexed at LIBOR US\$ 6 month rate, which exposes the Bank to resetting or repricing risk due to the volatility of such rate.

Considering that indicated above, hedge risk 2 has been defined as a portion of the total exposure of such cash flows projected in U.F. and US\$, where the hedged portion solely relates to the portion impacted by variances in the value of U.F. and the exchange rate for US\$ (references available in paragraph AG99F of IAS 39).

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



NOTE 8 - FINANCIAL DERIVATIVE CONTRACTS (Continued)

This strategy covers different risks with a single hedging instrument as permitted by paragraph 76 of IAS 39.

Cash flow hedges are recorded as follows: a portion of the gain or loss on the hedging instrument determined to be an effective hedge, is recognized in equity. Unrealized gains and losses generated by derivatives comprising the hedging instrument in such strategy of cash flows hedge have been recognized with a debit to Equity amounting to MCh\$ 15,876, net of deferred taxes (debit of MCh\$ 24,470 as of December 31, 2018).

As of December 31, 2019 and 2018, the Bank records no ineffectiveness in cash flows hedges because both the hedged item and the hedged object mirror each other, implying that all variances in value attributable to rate and adjustment components are fully netted.

Cash flows of the underlying assets portfolio denominated in U.F. and cash flows of the liability portion of the hedging derivative instrument are presented as follows:

		12/31/2019							
		Up to 1 month	More than 1 up to 3 months	More than 3 up to 6 months	More than 6 up to 12 months	More than 1 up to 3 years	More than 3 up to 5 years	More than 5 years	Total
		MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MUS\$
Hedged item (assets)									
Loans UF		2,547,945	-	-	1,908,958	3,717,171	2,770,078	4,590,548	15,534,700 20,748
Hedging instrument									
Cross Currency Swap UF		(2,547,945)	-	-	(1,908,958)	(3,717,171)	(2,770,078)	(4,590,548)	(15,534,700) (20,748)
Total		-	-	-	-	-	-	-	-
		12/31/2018							
		Up to 1 month	More than 1 up to 3 months	More than 3 up to 6 months	More than 6 up to 12 months	More than 1 up to 3 years	More than 3 up to 5 years	More than 5 years	Total
		MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	
Hedged item (assets)									
Loans UF		-	-	2,018,074	-	4,770,456	1,886,068	3,210,754	11,885,352
Hedging instrument									
Cross Currency Swap UF		-	-	(2,018,074)	-	(4,770,456)	(1,886,068)	(3,210,754)	(11,885,352)
Total		-	-	-	-	-	-	-	-

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



NOTE 8 - FINANCIAL DERIVATIVE CONTRACTS (Continued)

Cash flows of bonds issued abroad, subject to this hedge, and cash flows of the asset portion of the hedging derivative instrument are presented as follows:

	12/31/2019							Total	
	Up to 1 month	More than 1 up to 3 months	More than 3 up to 6 months	More than 6 up to 12 months	More than 1 up to 3 years	More than 3 up to 5 years	More than 5 years		
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MUS\$
Hedged item (liabilities)									
Corporate bonds in FC	(222,036)	(9,221)	(14,999)	(411,858)	(835,024)	(156,669)	(1,611,600)	(3,261,407)	(4,356)
Hedging instrument									
Cross Currency Swap FC	222,036	9,221	14,999	411,858	835,024	156,669	1,611,600	3,261,407	4,356
Total	-	-	-	-	-	-	-	-	-
	12/31/2018							Total	
	Up to 1 month	More than 1 up to 3 months	More than 3 up to 6 months	More than 6 up to 12 months	More than 1 up to 3 years	More than 3 up to 5 years	More than 5 years		
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	
Hedged item (liabilities)									
Corporate bonds in FC	(5,904)	(8,587)	(12,151)	(31,916)	(986,014)	(395,086)	(1,119,127)	(2,558,785)	
Hedging instrument									
Cross Currency Swap FC	5,904	8,587	12,151	31,916	986,014	395,086	1,119,127	2,558,785	
Total	-	-	-	-	-	-	-	-	

iii) Fair value hedge

The Bank uses Swap to hedge its exposure to changes in fair value of the item hedged attributable to interest rate.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)

**NOTE 8 - FINANCIAL DERIVATIVE CONTRACTS (Continued)**

The detail in nominal values of items and instruments under fair value hedging is the following:

	<u>12/31/2019</u>		<u>12/31/2018</u>
	MUS\$	MCh\$	MCh\$
Hedged item (notional value)			
Corporate bonds in FC	333	248,463	250,516
Mortgage loans	857	642,022	519,385
Commercial loans	178	133,446	138,662
Total	<u>1,368</u>	<u>1,023,931</u>	<u>908,563</u>
 Hedging instrument (notional value)			
Swap	<u>1,368</u>	<u>1,023,931</u>	<u>908,563</u>
Total	<u>1,368</u>	<u>1,023,931</u>	<u>908,563</u>

To mitigate the exposure to interest rate of certain commercial and mortgage portfolio loans, the Bank has established a hedging strategy resulting in the variabilization of such assets through engaging a Swap.

BancoEstado holds instruments classified as available for sale; consequently, the structure of the Consolidated Statements of Financial Position is impacted by the volatility that such investments generate on the Bank's equity. To mitigate such impact, BancoEstado engages derivative contracts under fair value hedges, which have an effect on the Bank's net income, through which it will be able to reallocate the effect on equity to net income, generating a neutral effect on net income, resulting in a stable position for the Bank's equity.

The table below shows cash flows of the mortgage loan portfolio denominated in U.F. and cash flows of the liability portion of the hedging derivative instrument:

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)


NOTE 8 - FINANCIAL DERIVATIVE CONTRACTS (Continued)

	12/31/2019							Total	
	Up to 1 month	More than 1 up to 3 months	More than 3 up to 6 months	More than 6 up to 12 months	More than 1 up to 3 years	More than 3 up to 5 years	More than 5 years		
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MUS\$
Hedged item (assets)									
Mortgage loans UF	3,187	6,374	9,561	19,121	76,484	73,297	453,998	642,022	857
Hedging instrument									
Interest rate swap	(3,187)	(6,374)	(9,561)	(19,121)	(76,484)	(73,297)	(453,998)	(642,022)	(857)
Total	-	-	-	-	-	-	-	-	-
	12/31/2018							Total	
	Up to 1 month	More than 1 up to 3 months	More than 3 up to 6 months	More than 6 up to 12 months	More than 1 up to 3 years	More than 3 up to 5 years	More than 5 years		
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	
Hedged item (assets)									
Mortgage loans UF	2,529	5,058	7,586	15,173	60,691	58,162	370,186	519,385	
Hedging instrument									
Interest rate swap	(2,529)	(5,058)	(7,586)	(15,173)	(60,691)	(58,162)	(370,186)	(519,385)	
Total	-	-	-	-	-	-	-	-	

The table below shows cash flows of the commercial loan portfolio and cash flows of the liability portion of the hedging derivative instrument:

	12/31/2019							Total	
	Up to 1 month	More than 1 up to 3 months	More than 3 up to 6 months	More than 6 up to 12 months	More than 1 up to 3 years	More than 3 up to 5 years	More than 5 years		
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MUS\$
Hedged item									
Commercial loans	2,548	-	6,412	-	46,988	77,498	-	133,446	178
Hedging instrument									
Swap	(2,548)	-	(6,412)	-	(46,988)	(77,498)	-	(133,446)	(178)
Total	-	-	-	-	-	-	-	-	-

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)

**NOTE 8 - FINANCIAL DERIVATIVE CONTRACTS (Continued)**

	12/31/2018						
	Up to 1 month	More than 1 up to 3 months	More than 3 up to 6 months	More than 6 up to 12 months	More than 1 up to 3 years	More than 3 up to 5 years	Total
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
Hedged item							
Commercial loans	2,481	-	6,243	-	46,827	83,111	138,662
Hedging instrument							
Swap	(2,481)	-	(6,243)	-	(46,827)	(83,111)	(138,662)
Total	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

The valuation adjustment for macro-hedge contracts to the hedged mortgage loan portfolio is presented as follows:

	12/31/2019		12/31/2018
	MUS\$	MCh\$	MCh\$
Assets			
Fair value adjustments for Macro-Hedge contracts	<u>83</u>	<u>61,985</u>	<u>8,620</u>
Liabilities			
Fair value adjustments for Macro-Hedge contracts	<u>-</u>	<u>-</u>	<u>-</u>

2) Trading derivatives are mainly intended to generate income at short-term leveraging from margins and fluctuations in rate prices and currencies in the market. Gains and/or losses resulting from operations with these instruments are recognized in net income for the year.

The different types of trading derivatives currently engaged by the Bank include the following:

Forwards, where a future transaction is agreed upon, generating an enforceable right and obligation on the agreed upon date. The two main categories are currency forwards and rate forwards (FRA).

Swaps, where more than one right and more than one obligation, are assumed for each transaction. As stated, it relates to an exchange of a series of rights and obligations. There are two main categories, cross currency swaps (CCS) and interest rate swaps (SPC).

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)

**NOTE 9 - LOANS AND ADVANCES TO BANKS**

a) As of December 31, 2019 and 2018, “Loans and advances to banks” are detailed as follows:

	<u>12/31/2019</u>		<u>12/31/2018</u>
	MUS\$	MCh\$	MCh\$
Local banks			
Loans and advances to banks	-	-	-
Deposits in the Chilean Central Bank, not available	-	-	-
Non-transferable notes of the Chilean Central Bank	-	-	-
Other credit balances with the Chilean Central Bank	-	-	-
Interbank loans	-	-	1,596
Overdrafts in checking accounts	-	-	-
Non-transferable deposits in local banks	-	-	-
Other credit balances with local banks	-	-	-
Allowances for loan losses with local banks	-	-	(247)
Foreign banks			
Loans to foreign banks	615	460,806	630,646
Overdrafts in checking accounts	-	-	-
Non-transferable deposits in foreign banks	-	-	-
Other credit balances with foreign banks	-	-	-
Allowances for loan losses with foreign banks	(5)	(3,803)	(3,087)
Total	610	457,003	628,908

b) For each year, provisions and allowances for loans owed by banks are detailed as follows:

	<u>12/31/2019</u>				<u>12/31/2018</u>		
	<u>Local banks</u>	<u>Foreign banks</u>	<u>Total</u>		<u>Local banks</u>	<u>Foreign banks</u>	<u>Total</u>
	MCh\$	MCh\$	MCh\$	MUS\$	MCh\$	MCh\$	MCh\$
Details							
Balance as of January 1,	247	3,087	3,334	4	232	1,105	1,337
Transfer	-	-	-	-	-	-	-
Write-off	-	-	-	-	-	-	-
Allowances established	3	3,587	3,590	5	557	3,388	3,945
Allowances released	(251)	(3,142)	(3,393)	(4)	(566)	(1,708)	(2,274)
Impairment	-	-	-	-	-	-	-
Reversal of impairment	-	-	-	-	-	-	-
Exchange differences	1	271	272	-	24	302	326
Total	-	3,803	3,803	5	247	3,087	3,334

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



NOTE 10 - LOANS AND ACCOUNTS RECEIVABLE FROM CUSTOMERS

a) Loans and receivables from customers:

As of December 31, 2019, the loan portfolio is detailed as follows:

	Assets before allowances			Allowances established			Net assets	
	Portfolio without impairment	Impaired portfolio	Total	Individual allowances	Collective allowances	Total		
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MUS\$
Commercial loans								
Commercial loans	9,489,374	481,880	9,971,254	181,950	121,935	303,885	9,667,369	12,912
Foreign trade loans	990,064	17,812	1,007,876	45,428	1,498	46,926	960,950	1,283
Amounts receivable, checking accounts	140,119	6,684	146,803	1,608	5,083	6,691	140,112	187
Factoring operations	564,479	4,022	568,501	6,343	794	7,137	561,364	750
Student loans	787,388	75,000	862,388	-	51,885	51,885	810,503	1,083
Leasing operations	787,200	38,560	825,760	19,537	4,002	23,539	802,221	1,071
Other credits and accounts receivable	3,499	3,774	7,273	2,356	627	2,983	4,290	6
Subtotal	12,762,123	627,732	13,389,855	257,222	185,824	443,046	12,946,809	17,292
Mortgage loans								
Loans with mortgage finance bonds	353,181	78,697	431,878	-	4,367	4,367	427,511	571
Endorsable mortgage mutual loans	471,355	108,623	579,978	-	4,646	4,646	575,332	768
Other credits with mortgages	8,099,152	1,024,642	9,123,794	-	156,336	156,336	8,967,458	11,977
Other credits and accounts receivable	31,162	12,486	43,648	-	1,560	1,560	42,088	56
Subtotal	8,954,850	1,224,448	10,179,298	-	166,909	166,909	10,012,389	13,372
Consumer loans								
Consumer loans in installments	1,553,901	241,315	1,795,216	-	165,071	165,071	1,630,145	2,177
Amounts receivable, checking accounts	89,645	11,343	100,988	-	11,361	11,361	89,627	120
Credit card balances	323,535	23,923	347,458	-	32,838	32,838	314,620	420
Other credits and accounts receivable	-	-	-	-	-	-	-	-
Subtotal	1,967,081	276,581	2,243,662	-	209,270	209,270	2,034,392	2,717
Total	23,684,054	2,128,761	25,812,815	257,222	562,003	819,225	24,993,590	33,381

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)


NOTE 10 - LOANS AND ACCOUNTS RECEIVABLE FROM CUSTOMERS (Continued)

As of December 31, 2018, the loan portfolio is detailed as follows:

	Assets before allowances			Allowances established			Net assets
	Portfolio without impairment MCh\$	Impaired portfolio MCh\$	Total MCh\$	Individual allowances MCh\$	Collective allowances MCh\$	Total MCh\$	
Commercial loans							
Commercial loans	8,862,074	406,648	9,268,722	133,597	100,525	234,122	9,034,600
Foreign trade loans	727,491	9,201	736,692	37,528	1,520	39,048	697,644
Amounts receivable, checking accounts	35,527	4,154	39,681	1,107	2,756	3,863	35,818
Factoring operations	539,115	2,145	541,260	4,704	926	5,630	535,630
Student loans	774,826	73,286	848,112	-	46,860	46,860	801,252
Leasing operations	751,699	32,196	783,895	16,564	3,204	19,768	764,127
Other credits and accounts receivable	2,973	3,731	6,704	2,720	362	3,082	3,622
Subtotal	11,693,705	531,361	12,225,066	196,220	156,153	352,373	11,872,693
Mortgage loans							
Loans with mortgage finance bonds	430,231	90,947	521,178	-	5,439	5,439	515,739
Endorsable mortgage mutual loans	511,433	117,979	629,412	-	5,461	5,461	623,951
Other credits with mortgages	7,503,567	893,319	8,396,886	-	150,937	150,937	8,245,949
Other credits and accounts receivable	33,244	12,956	46,200	-	1,684	1,684	44,516
Subtotal	8,478,475	1,115,201	9,593,676	-	163,521	163,521	9,430,155
Consumer loans							
Consumer loans in installments	1,493,950	192,220	1,686,170	-	144,173	144,173	1,541,997
Amounts receivable, checking accounts	113,372	9,700	123,072	-	9,743	9,743	113,329
Credit card balances	290,541	16,022	306,563	-	24,725	24,725	281,838
Other credits and accounts receivable	-	-	-	-	-	-	-
Subtotal	1,897,863	217,942	2,115,805	-	178,641	178,641	1,937,164
Total	22,070,043	1,864,504	23,934,547	196,220	498,315	694,535	23,240,012

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)

**NOTE 10 - LOANS AND ACCOUNTS RECEIVABLE FROM CUSTOMERS (Continued)**

Guarantees assumed by the Bank to secure the collection of rights reflected in its loan portfolio correspond to collateral, such as mortgages and pledges.

As of December 31, 2019 and 2018, the fair value of guarantees (mortgage and pledges) received correspond to 114% and 117% of hedged assets, respectively.

As of December 31, 2019 and 2018, the fair value of the mortgage guarantees received corresponds to 265% and 267% of the mortgage loans balance receivable, respectively.

The Bank provides financing to its customers to acquire movable assets and real estate through finance leases agreements included in this caption. As of December 31, 2019, MCh\$ 317,578 (MCh\$ 311,399 as of December 31, 2018), correspond to finance leases on movable assets and MCh\$ 508,182 (MCh\$ 472,496 as of December 31, 2018), to finance leases on real estate property.

As of December 31, 2019, the Bank has obtained assets, such as real estate totaling MCh\$ 5,655 (MCh\$ 4,313 as of December 31, 2018), through the execution of guarantees.

b) Characteristics of the portfolio:

As of December 31, 2019 and 2018, the detail of portfolio before allowances according to the customer economic activity is as follows:

	Local credits		Foreign credits		Total			12/31/2019 %	12/31/2018 %
	12/31/2019	12/31/2018	12/31/2019	12/31/2018	12/31/2019	12/31/2018	12/31/2018		
	MCh\$	MCh\$	MCh\$	MCh\$	MUS\$	MCh\$	MCh\$		
Commercial loans									
Manufacturing	668,846	975,663	20,878	-	921	689,724	975,663	2.7%	4.1%
Mining	533,129	321,718	76,415	3,425	814	609,544	325,143	2.4%	1.3%
Electricity, gas and water supply	727,392	811,123	5,663	-	979	733,055	811,123	2.9%	3.4%
Agriculture and cattle-raising	779,750	686,155	3,803	-	1,046	783,553	686,155	3.0%	2.9%
Forestry	183,318	74,264	-	-	245	183,318	74,264	0.7%	0.3%
Fishing	61,596	68,533	-	-	82	61,596	68,533	0.3%	0.3%
Transport	1,118,784	809,728	-	5,753	1,494	1,118,784	815,481	4.3%	3.4%
Telecommunications	143,697	167,766	-	-	192	143,697	167,766	0.6%	0.7%
Construction	1,967,538	1,778,109	-	-	2,628	1,967,538	1,778,109	7.6%	7.4%
Retail	2,151,580	1,999,721	32,440	1,019	2,917	2,184,020	2,000,740	8.5%	8.4%
Services	3,826,075	3,478,133	-	-	5,110	3,826,075	3,478,133	14.8%	14.5%
Others	1,088,951	1,043,956	-	-	1,455	1,088,951	1,043,956	4.1%	4.4%
Subtotal	13,250,656	12,214,869	139,199	10,197	17,883	13,389,855	12,225,066	51.9%	51.1%
Mortgage loans	10,179,298	9,593,676	-	-	13,595	10,179,298	9,593,676	39.4%	40.1%
Consumer loans	2,243,662	2,115,805	-	-	2,997	2,243,662	2,115,805	8.7%	8.8%
Total	25,673,616	23,924,350	139,199	10,197	34,475	25,812,815	23,934,547	100.0%	100.0%

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)

**NOTE 10 - LOANS AND ACCOUNTS RECEIVABLE FROM CUSTOMERS (Continued)****c) Allowances:**

As of December 31, 2019 and 2018, movements of allowances are detailed as follows:

	12/31/2019				12/31/2018		
	Individual	Collective	Total		Individual	Collective	Total
	Allowances	Allowances	MCh\$	MUS\$	Allowances	Allowances	MCh\$
	MCh\$	MCh\$			MCh\$	MCh\$	
Balances at January 1,	196,220	498,315	694,535	928	194,238	488,971	683,209
Allowances released due to write - offs							
Commercial loans	(15,252)	(90,302)	(105,554)	(141)	(11,240)	(87,237)	(98,477)
Mortgage loans	-	(22,162)	(22,162)	(30)	-	(16,939)	(16,939)
Consumer loans	-	(136,184)	(136,184)	(182)	-	(120,709)	(120,709)
Total Allowances released due to write - offs	(15,252)	(248,648)	(263,900)	(353)	(11,240)	(224,885)	(236,125)
Allowances established	105,649	342,587	448,236	599	69,421	270,501	339,922
Allowances released	(29,689)	(30,213)	(59,902)	(80)	(56,091)	(36,272)	(92,363)
Exchange differences	294	(38)	256	-	(108)	-	(108)
Total	257,222	562,003	819,225	1,094	196,220	498,315	694,535

In addition to these allowances for credit risk, the Bank maintains provisions for country risk and provisions to hedge transactions conducted abroad, provisions for contingent credit risk, as well as additional provisions agreed by the Board of Directors which are recorded within liabilities under the caption "Provisions" (Note 20).

d) Portfolio sales:

As of December 31, 2019 and 2018, BancoEstado sold new transactions and new payroll credits as part of the portfolio of State Guaranteed University Loans ("CUGE") in the framework of the public bid on the Financing and Administration Service for Higher Education Studies Law No. 20,027. The bid model open to financial institutions is included in the respective tender documents, and allows the selling of a percentage of the portfolio to third parties. For the sold portfolio, BancoEstado partially transferred all the risks and benefits associated with that portfolio, maintaining only its administration service, which considers the generation of new loans and collection of loan installments. Loans sold are detailed as follows:

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)


NOTE 10 - LOANS AND ACCOUNTS RECEIVABLE FROM CUSTOMERS (Continued)
Sales at December 31, 2019

	Number of transactions	Par value MCh\$	Sale value MCh\$	Allowances released MCh\$	Financial income recognized MCh\$	Payment received in advance MCh\$ (*)
Bid lists	6,035	9,437	8,800	(496)	(141)	724
New loans based on prior years list	20,816	51,905	51,129	(776)	-	18,119
Others (**)	-	-	-	-	15,218	90,788
Total	26,851	61,342	59,929	(1,272)	15,077	109,631
Total MUS\$		82	80	(2)	20	146

Sales at December 31, 2018

	Number of transactions	Par value MCh\$	Sale value MCh\$	Allowances release MCh\$	Financial income recognized MCh\$	Payment received in advance MCh\$ (*)
Bid lists	19,454	32,460	29,657	(1,485)	(1,318)	5,085
New loans based on prior years list	23,068	54,200	53,134	(1,066)	-	19,279
Others (**)	-	-	-	-	12,816	81,642
Total	42,522	86,660	82,791	(2,551)	11,498	106,006

(*) Payments received in advance is reflected in “Other liabilities” under unearned income, and is recorded in income over the deferral period, recognizing the equivalent of the effective rate of these operations, according to IAS 39.

(**) As of December 31, 2019, the Company recognized MCh\$ 15,218 (MCh\$ 12,816 as of December 31, 2018) in profit or loss, reflected in caption “Net income from financial operations” in the Consolidated Statements of Income, as detailed below:

Portfolio sales	Balance 12/31/2017 MCh\$	Income received in advance 2018 MCh\$	Annual amortization 2018 MCh\$	Balance 12/31/2018 MCh\$	Income received in advance 2019 MCh\$	Period amortization 2019 MCh\$	Balance 12/31/2019 MCh\$	MUS\$
Year 2012	7,556	-	(1,536)	6,020	-	(1,536)	4,484	6
Year 2013	12,752	-	(2,125)	10,627	-	(2,125)	8,502	11
Year 2014	13,330	-	(1,961)	11,369	-	(1,961)	9,408	12
Year 2015	18,191	-	(2,317)	15,874	-	(2,317)	13,557	18
Year 2016	19,867	-	(2,222)	17,645	-	(2,222)	15,423	21
Year 2017	22,762	-	(2,291)	20,471	-	(2,291)	18,180	24
Year 2018	-	24,364	(364)	24,000	-	(2,436)	21,564	29
Year 2019	-	-	-	-	18,843	(330)	18,513	25
Totals	94,458	24,364	(12,816)	106,006	18,843	(15,218)	109,631	146

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
For the years ended December 31, 2019 and 2018
(In millions of Chilean pesos - MCh\$)



NOTE 11 - FINANCIAL INVESTMENTS

As of December 31, 2019 and 2018, the detail of instruments designated as available-for-sale and held-to-maturity securities is as follows:

	12/31/2019				12/31/2018		
	Available for sale MCh\$	Held to maturity MCh\$	Total		Available for sale MCh\$	Held to maturity MCh\$	Total MCh\$
Investments quoted in active markets:							
From the Chilean Government and the Central Bank of Chile:							
Instruments of the Central Bank of Chile	4,348,247	-	4,348,247	5,808	2,746,971	-	2,746,971
Bonds and promissory notes issued by the Chilean Treasury	179,725	-	179,725	240	134,847	-	134,847
Other government instruments	-	-	-	-	-	-	-
Other instruments issued locally:							
Instruments from other local banks	2,845,506	-	2,845,506	3,800	2,129,119	-	2,129,119
Bonds and commercial papers from companies	-	-	-	-	7,304	-	7,304
Other instruments issued locally	6,993	-	6,993	9	30,470	-	30,470
Other instruments issued abroad:							
Instruments from foreign governments or central banks	-	-	-	-	25,800	-	25,800
Other instruments issued abroad	266,343	-	266,343	356	934,253	-	934,253
Provision for impairment	-	-	-	-	-	-	-
Subtotal	<u>7,646,814</u>	<u>-</u>	<u>7,646,814</u>	<u>10,213</u>	<u>6,008,764</u>	<u>-</u>	<u>6,008,764</u>
Investments not quoted in active markets:							
Bonds and promissory notes issued by the Chilean Treasury	-	17,487	17,487	24	-	20,942	20,942
Bonds and commercial papers from companies	-	-	-	-	-	-	-
Other instruments	-	162	162	-	-	220	220
Provision for impairment	-	-	-	-	-	-	-
Subtotal	<u>-</u>	<u>17,649</u>	<u>17,649</u>	<u>24</u>	<u>-</u>	<u>21,162</u>	<u>21,162</u>
Total	<u>7,646,814</u>	<u>17,649</u>	<u>7,664,463</u>	<u>10,237</u>	<u>6,008,764</u>	<u>21,162</u>	<u>6,029,926</u>

As of December 31, 2019, and 2018, securities exist issued by the Central Bank of Chile sold as repurchase agreement to customer and financial institutions for an amount of MCh\$ 138,279 and MCh\$ 229,052, respectively.

As of December 31, 2019 and 2018, securities issued locally include instruments sold with repurchase agreement to customers and financial institutions of MCh\$ 264,203 and MCh\$ 71,647, respectively.

As of December 31, 2019 and 2018, repurchase agreements have an average expiration of 20 and 6 days, respectively.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



NOTE 12 - INVESTMENTS IN OTHER COMPANIES

a) As of December 31, 2019 and 2018, the main investments in other companies are as follows:

	Ownership %	12/31/2019						Ownership %	12/31/2018			
		Equity		Total investment		Net income			Equity		Total investment	Net income
		MUS\$	MCh\$	MUS\$	MCh\$	MUS\$	MCh\$		MCh\$	MCh\$	MCh\$	MCh\$
Investments valued at the equity method:												
Administrador Financiero Transantiago S.A.	21.0000	26	19,174	5	4,027	1	409	21.0000	17,978	3,776	611	
Sociedad Operadora de la Cámara de Compensación de Pagos de Alto Valor S.A.	15.0021	8	6,290	1	944	-	29	15.0021	6,106	916	57	
Operadora de Tarjetas de Créditos Nexus S.A.	14.8149	24	17,675	3	2,618	-	2	12.9030	16,805	2,168	368	
Transbank S.A.	8.7188	110	82,667	10	7,207	2	1,169	8.7188	69,358	6,047	1,087	
Servicios de Infraestructura de Mercado OTC S.A.	14.5958	17	12,470	3	1,820	-	70	14.5958	11,952	1,744	66	
Subtotal entities supporting the line of business				22	16,616	3	1,679			14,651	2,189	
Investments valued at market value:												
Banco Latinoamericano de Comercio Exterior S.A. (Bladex)				2	1,641	-	362			1,523	320	
Subtotal other companies				2	1,641	-	362			1,523	320	
Total				24	18,257	3	2,041			16,174	2,509	

b) Movements of investments in other companies recorded during 2019 and 2018 are as follows:

	12/31/2019		12/31/2018
	MUS\$	MCh\$	MCh\$
Initial carrying amount	22	16,174	13,882
Capitalization	-	231	262
Acquisition of investment in associates	-	338	2
Shares of profit	3	2,041	2,509
Dividends received	-	(362)	(320)
Mandatory dividends provision	(1)	(290)	(336)
Exchange difference of shares of Banco Latinoamericano de Exportaciones S.A.	-	118	175
Others	-	7	-
Total	24	18,257	16,174

c) As of December 31, 2019 and 2018, no impairment has been identified for these types of investments.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
For the years ended December 31, 2019 and 2018
(In millions of Chilean pesos - MCh\$)



NOTE 13 - INTANGIBLE ASSETS

a) As of December 31, 2019 and 2018, this caption is composed of the following:

Item	Average estimated useful life	Years of remaining amortization	12/31/2019				12/31/2018
			Gross balance	Accumulated amortization and impairment	Net balance		Net balance
			MCh\$	MCh\$	MCh\$	MUS\$	MCh\$
Intangible assets acquired independently	3	1.4	105,214	(26,716)	78,498	105	83,082
Internally-generated intangible assets	3	1.4	178,385	(120,832)	57,553	77	115,226
Total			283,599	(147,548)	136,051	182	198,308

b) Movements in intangible assets recorded during the years ended December 31, 2019 and 2018 are as follows:

	Intangible Assets Acquired independently	Internally-generated intangible assets	Total	
	MCh\$	MCh\$	MCh\$	MUS\$
Gross Balance				
Balance at January 1, 2018	114,009	299,701	413,710	
Purchases	41,214	80,761	121,975	
Disposals	(43,464)	(185,963)	(229,427)	
Impairment	-	-	-	
Transferred assets (*)	(8,531)	(17,826)	(26,357)	
Others	-	5	5	
Balances at December 31, 2018	103,228	176,678	279,906	
Balance at January 1, 2019	103,228	176,678	279,906	374
Purchases	5,333	35,334	40,667	55
Disposals	(4)	-	(4)	-
Impairment	-	-	-	-
Transferred assets (*)	156	1,569	1,725	2
Others	(3,499)	(35,196)	(38,695)	(52)
Balances at December 31, 2019	105,214	178,385	283,599	379

(*) Corresponds to reclassification for the year between Property, plant and equipment, intangible assets and lease right-of-use assets.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)


NOTE 13 - INTANGIBLE ASSETS (Continued)

	Intangible Assets Acquired independently MCh\$	Internally- generated intangible assets MCh\$	Total	
			MCh\$	MUS\$
Accumulated amortization and impairment				
Balance at January 1, 2018	(42,125)	(203,601)	(245,726)	
Amortization for the year	(21,132)	(43,114)	(64,246)	
Impairment loss	-	-	-	
Withdrawals / disposals	43,009	185,263	228,272	
Other changes in the carrying amount of the year	102	-	102	
Balances at December 31, 2018	(20,146)	(61,452)	(81,598)	
Balance at January 1, 2019	(20,146)	(61,452)	(81,598)	(109)
Amortization for the period	(7,862)	(72,349)	(80,211)	(107)
Impairment loss	-	-	-	-
Withdrawals / disposals	6	16	22	-
Other changes in the carrying amount of the period	1,286	12,953	14,239	19
Balances at December 31, 2019	(26,716)	(120,832)	(147,548)	(197)

- c) As of December 31, 2019 and 2018, the Bank records commitments to acquire intangible assets, which are detailed as follows:

Details	Committed amount		
	12/31/2019		12/31/2018
	MUS\$	MCh\$	MCh\$
Service Management Projects	-	-	-
Development Projects	8	6,080	5,634
Total	8	6,080	5,634

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)

**NOTE 14 - PROPERTY, PLANT AND EQUIPMENT; RIGHT-OF-USE ASSET AND LIABILITIES UNDER LEASE ARRANGEMENTS****a) Property, plant and equipment**

a.1) As of December 31, 2019 and 2018, the detail of property, plant and equipment is as follows:

Item	12/31/2019		12/31/2018
	MUS\$	MCh\$	MCh\$
Gross Balance	839	628,093	645,785
Accumulated depreciation	(375)	(280,419)	(260,500)
Net balance	464	347,674	385,285

a.2) As of December 31, 2019 and 2018, movements and composition of property, plant and equipment are as follows:

	Property and plant	Equipment	Others	Total	
	MCh\$	MCh\$	MCh\$	MCh\$	MUS\$
Gross balance					
Balance as of January 1, 2018	248,879	192,667	148,017	589,563	
Additions	2,450	6,199	29,037	37,686	
Withdrawals / disposals	(380)	(6,016)	(1,353)	(7,749)	
Transfers (*)	1,112	31,011	(5,766)	26,357	
Others	270	61	(403)	(72)	
Balances at December 31, 2018	252,331	223,922	169,532	645,785	
Balance as of January 1, 2019	252,331	223,922	169,532	645,785	863
Additions	514	2,451	27,274	30,239	40
Withdrawals / disposals	(4,798)	(4,410)	(3,424)	(12,632)	(17)
Transfers (*)	1,760	3,052	(5,398)	(586)	(1)
Reclasification (**)	(34,171)	-	-	(34,171)	(45)
Others	(216)	47	(373)	(542)	(1)
Balances at December 31, 2019	215,420	225,062	187,611	628,093	839

(*) Corresponds to the reclassification for the year between Property, plant and equipment and intangible assets and lease right-of-use assets.

(**) Corresponds to the accounting reclassification of Improvements in leased assets from Property, plant and equipment to lease right-of-use assets, as a result of applying IFRS 16.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)

**NOTE 14 - PROPERTY, PLANT AND EQUIPMENT; RIGHT-OF-USE ASSET AND LIABILITIES UNDER LEASE ARRANGEMENTS (Continued)**

	<u>Property and plant</u> MCh\$	<u>Equipment</u> MCh\$	<u>Others</u> MCh\$	<u>Total</u> MCh\$	MUS\$
Accumulated depreciation					
Balance as of January 1, 2018	(36,840)	(144,748)	(42,944)	(224,532)	
Depreciation	(5,534)	(22,851)	(13,919)	(42,304)	
Withdrawals / disposals	234	4,944	1,217	6,395	
Others	(27)	(46)	14	(59)	
Balances at December 31, 2018	<u>(42,167)</u>	<u>(162,701)</u>	<u>(55,632)</u>	<u>(260,500)</u>	
Balance as of January 1, 2019	(42,167)	(162,701)	(55,632)	(260,500)	(348)
Depreciation	(3,220)	(22,580)	(15,349)	(41,149)	(55)
Withdrawals / disposals	1,133	2,457	1,689	5,279	7
Reclasificación (**)	15,175	-	-	15,175	20
Others	-	478	298	776	1
Balances at December 31, 2019	<u>(29,079)</u>	<u>(182,346)</u>	<u>(68,994)</u>	<u>(280,419)</u>	<u>(375)</u>

a.3) As of December 31, 2019 and 2018, the Bank and its Subsidiaries have finance lease contracts. Information on future payments is broken down as follows:

Real estate	Future payments of financial lease			Total	
	<u>Up to 1 year</u> MCh\$	<u>From 1 to 5 Years</u> MCh\$	<u>More than 5 years</u> MCh\$	<u>MCh\$</u>	<u>MUS\$</u>
As of December 31, 2019	1,354	5,415	16,379	23,148	31
As of December 31, 2018	1,318	5,273	17,249	23,840	

Future payments for finance leases include deferred interest of MCh\$ 5,917 as of December 31, 2019 and MCh\$ 6,378 as of December 31, 2018.

The assets that the Bank holds in financial leases, are presented as part of "Property and plant" and "Other" for MCh\$ 13,094 and MCh\$ 3,649 of the total of the respective classes, in net terms, as of December 31, 2019 (MCh\$ 13,203 and MCh\$ 4,106 as of December 31, 2018, respectively).

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)

**NOTE 14 - PROPERTY, PLANT AND EQUIPMENT; RIGHT-OF-USE ASSET AND LIABILITIES UNDER LEASE ARRANGEMENTS (Continued)**

Furthermore, lease assets acquired to be delivered under finance leases at December 31, 2019 amount to MCh\$ 89,849 (MCh\$ 134,582 at December 31, 2018), and they are classified as “Other assets.”

b) Lease right-of-use assets and lease contracts obligations

For the application of IFRS 16, BancoEstado opted for not restating the comparative Financial Statements, where the asset value is adjusted to the liability, generating no effects on equity after the first application.

b.1) As of December 31, 2019, the detail of lease right-of-use asset is as follows:

Item	12/31/2019	
	MUS\$	MCh\$
Gross Balance	168	125,812
Accumulated depreciation	(37)	(27,797)
Net balance	131	98,015

b.2) As of December 31, 2019, the composition and movements of lease right-of-use asset are as follows:

	12/31/2019			
	Land and buildings	Leasehold improvements	Total	
	MCh\$	MCh\$	MCh\$	MUS\$
Gross balance				
Balance as of January 1, 2019	96,551	-	96,551	129
Additions	-	29	29	-
Withdrawals / disposals	(2,367)	(1,453)	(3,820)	(5)
Transfers (*)	-	(1,139)	(1,139)	(1)
Reclasification	-	34,171	34,171	45
Others	(54)	74	20	-
Balances at December 31, 2019	94,130	31,682	125,812	168

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)

**NOTE 14 - PROPERTY, PLANT AND EQUIPMENT; RIGHT-OF-USE ASSET AND LIABILITIES UNDER LEASE ARRANGEMENTS (Continued)**

- (*) Corresponds to reclassification for the year between Property, plant and equipment, lease right-of-use assets and intangible assets.
- (**) Corresponds to the accounting reclassification of Improvements in leased assets from Property, plant and equipment to Lease right-of-use asset, as a result of applying IFRS 16.

	Land and buildings	Leasehold improvements	Total	
	MCh\$	MCh\$	MCh\$	MUS\$
Accumulated depreciation				
Balance as of January 1, 2019	-	-	-	-
Depreciation	(11,139)	(1,937)	(13,076)	(18)
Withdrawals / disposals	82	772	854	1
Reclasification	-	(15,175)	(15,175)	(20)
Others	155	(555)	(400)	-
Balances at December 31, 2019	(10,902)	(16,895)	(27,797)	(37)

b.3) As of December 31, 2019, the composition and movements of lease contracts obligations are as follows:

	12/31/2019	
	MUS\$	MCh\$
Lease obligations		
Balance as of January 1, 2019	129	96,551
Interest	3	1,773
Payment of leasing installments	(16)	(11,939)
Contract contracts	(3)	(2,239)
Others	-	114
Net balance	113	84,260

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)

**NOTE 14 - PROPERTY, PLANT AND EQUIPMENT; RIGHT-OF-USE ASSET AND LIABILITIES UNDER LEASE ARRANGEMENTS (Continued)**

b.4) As of December 31, 2019, the detail of future cash flows from lease contract obligations is as follows:

	Maturity of Lease obligations								
As of December 31, 2019	Up to 1 year	From 1 and	From 2 and 3	From 3 and	From 4 and 5	More than	Total		
	MCh\$	2 years MCh\$	years MCh\$	4 years MCh\$	years MCh\$	5 years MCh\$	MCh\$	MUS\$	
Cash flows	10,235	9,899	9,634	9,472	8,715	36,305	84,260	113	

b.5) As of December 31, 2019, the detail of expenses for short-term and low cost lease contract obligations is as follows:

Item	12/31/2019	
	MUS\$	MCh\$
Payment of short-term leases	2	1,727
Payment of low-value leases	-	209
Total	2	1,936

b.6) As of December 31, 2019, the detail of revenue from lease contracts is as follows:

Item	12/31/2019	
	MUS\$	MCh\$
Revenue from lease contracts	3	2,097
Total	3	2,097

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)

**NOTE 15 - CURRENT AND DEFERRED INCOME TAXES****a) Current taxes:**

As of December 31, 2019 and 2018, the Bank has recorded corporate income tax of MCh\$ 318,707 and MCh\$ 203,279 with debit to income, respectively, which considers 40% additional tax in accordance with D.L. No. 2,398. The detail of this provision net of monthly provisional income tax payments and other credits, is as follows:

	12/31/2019				12/31/2018	
	Asset		Liabilities		Asset	Liabilities
	MUS\$	MCh\$	MUS\$	MCh\$	MCh\$	MCh\$
Income tax	-	(86)	(172)	(128,799)	(8,262)	(74,989)
Article No. 2 D.L. No. 2,398	-	-	(254)	(189,822)	-	(120,028)
Non-deductible expenses under article No. 21	-	(68)	-	(43)	(151)	(3)
Income tax on equity (*)	-	-	41	30,797	-	42,728
Less:						
Monthly provisional payments	1	732	111	82,822	9,079	106,824
Credit for training expenses	-	235	2	1,856	553	1,885
Credit for purchase of property, and equipment	-	-	-	-	159	-
Others	1	574	1	653	2,893	13
Total	2	1,387	(271)	(202,536)	4,271	(43,570)

(*) Corresponds to corporate income tax of the Income Tax Law and Article No. 2 of D.L. No. 2,398, credited or debited to equity for the concept of the fair value of derivatives, which is part of the income tax liability.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)

**NOTE 15 - CURRENT AND DEFERRED INCOME TAXES (Continued)****b) Tax effect on income:**

Tax expense for the years between January 1 and December 31, 2019 and 2018 is detailed as follows:

	12/31/2019		12/31/2018
	MUS\$	MCh\$	MCh\$
Income tax expenses			
Income tax	(172)	(128,885)	(83,251)
Article No. 2 D.L. No. 2,398	(254)	(189,822)	(120,028)
First category sole tax	-	-	-
Credit (charge) for deferred taxes:			
Generation and reversal of temporary differences	186	139,298	29,373
Tax (loss) benefit from prior years	-	(216)	(2,666)
Subtotal	(240)	(179,625)	(176,572)
Taxes from disallowed expenses Article No. 21	-	(111)	(154)
Other	-	28	42
Net charge to income for income tax	(240)	(179,708)	(176,684)

c) Reconciliation of effective tax rate:

The reconciliation between the income tax rate to the effective rate applied in determining the tax expense as of December 31, 2019 and 2018 is as follows:

	12/31/2019			12/31/2018	
	Tax rate %	Amount		Tax rate %	Amount MCh\$
		MCh\$	MUS\$		
Income before taxes	65.0%	235,328	314	65.0%	231,414
Permanent differences	(15.3%)	(55,509)	(74)	(15.3%)	(54,576)
Additions or deductions:					
One-off tax (non-deductible expenses)	-	(111)	-	-	(154)
Non-deductible expenses (financial and non-taxable expenses)	-	-	-	-	-
Incentives of taxes not recognized in the statement of income	-	-	-	-	-
Tax incentives not recognized in the statement of income	-	-	-	-	-
Investments in companies	-	-	-	-	-
Other	-	-	-	-	-
Effective tax rate and income tax expense	49.7%	179,708	240	49.7%	176,684

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)


NOTE 15 - CURRENT AND DEFERRED INCOME TAXES (Continued)
d) Effect of deferred taxes on equity:

Deferred taxes recognized with a charge (credit) to equity as of December 31, 2019 and 2018, respectively, are detailed as follows:

	12/31/2019						12/31/2018		
	Assets		Liabilities		Net		Assets	Liabilities	Net
	MUS\$	MCh\$	MUS\$	MCh\$	MUS\$	MCh\$	MCh\$	MCh\$	MCh\$
Available-for-sale financial investments	-	-	(7)	(5,320)	(7)	(5,320)	-	(887)	(887)
Cash flow hedge	5	3,769	-	-	5	3,769	5,083	-	5,083
Employee benefit plans	20	14,666	-	-	20	14,666	6,402	-	6,402
Total debit (credit) in equity	25	18,435	(7)	(5,320)	18	13,115	11,485	(887)	10,598

e) Deferred tax effect:

As of December 31, 2019 and 2018, the accumulated effects of deferred taxes are detailed as follows:

Item	12/31/2019						12/31/2018		
	Assets		Liabilities		Net		Assets	Liabilities	Net
	MUS\$	MCh\$	MUS\$	MCh\$	MUS\$	MCh\$	MCh\$	MCh\$	MCh\$
Provisions for loan losses	593	443,782	-	-	593	443,782	393,284	-	393,284
Accrued vacation	27	20,153	-	-	27	20,153	19,893	53	19,946
Provisions associated with employees	39	29,090	-	-	39	29,090	17,250	-	17,250
Severance indemnity	56	41,669	-	-	56	41,669	41,499	-	41,499
Tax loss (*)	6	4,747	-	-	6	4,747	1,760	-	1,760
Suspended interest and indexation	124	92,962	-	-	124	92,962	81,691	-	81,691
Other provisions	494	369,739	-	-	494	369,739	367,173	-	367,173
Bond placement premiums	123	92,412	-	-	123	92,412	65,979	-	65,979
Intangible assets	(105)	(78,285)	-	-	(105)	(78,285)	(117,671)	-	(117,671)
Property, plant and equipment, net	(30)	(22,498)	-	-	(30)	(22,498)	(23,988)	-	(23,988)
Fair value	(49)	(36,849)	-	-	(49)	(36,849)	(24,497)	-	(24,497)
Lease operations, net	(24)	(17,869)	-	-	(24)	(17,869)	(42,376)	-	(42,376)
Other provisions	72	53,425	-	-	72	53,425	70,692	(79)	70,613
Total net tax	1,326	992,478	-	-	1,326	992,478	850,689	(26)	850,663

(*) The Bank and Subsidiaries has recognized deferred taxes on tax losses, as they have no expiration date and Management believes that there will be sufficient future taxable income to allow the use of the respective tax credit. The New York Branch has not recognized deferred taxes in its standalone balance sheet, since Management is uncertain about the generation of future taxable income that would enable it to use this benefit in the near future.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)

**NOTE 15 - CURRENT AND DEFERRED INCOME TAXES (Continued)****f) Tax provisions and write-offs**

By virtue of Joint Circular No. 47 issued by the Chilean Internal Revenue Service and No. 3,478 issued by the Comisión para el Mercado Financiero on August 18, 2009, movements and effects arising from the application of Article No. 31 and No. 4 of the Income Tax Law, are detailed below.

As of December 31, 2019, tax provisions and write-offs are detailed as follows:

A. Loans and accounts receivable from customers, and loans and advance to banks	(*) Financial value of assets		Tax value of assets		
	Total	Total	Past-due portfolio with guarantee	Past-due portfolio without guarantee	
Loans as of December 31, 2019	MCh\$	MUS\$	MCh\$	MCh\$	
Loans and accounts receivable from customers and loans and advance to banks	12,275,541	16,555	12,395,351	36,118	89,523
Consumer	2,243,662	2,997	2,243,700	1,951	19,199
Mortgage	10,179,298	13,626	10,202,346	153,034	-
B. Provisions for loan losses from past-due portfolio	Balance at 01.01.2019	Write-off against provisions	Provisions established	Provisions Released	Balance at 12.31.2019
	MCh\$	MCh\$	MCh\$	MCh\$	MUS\$ MCh\$
Commercial	74,432	(43,622)	78,442	(19,730)	120 89,522
Consumer	13,405	(9,916)	19,198	(3,489)	26 19,198
Mortgage	-	-	-	-	- -
C. Direct write-offs and recoveries	MCh\$				
Direct write-offs Art. 31 No.4 section 2	206,394				
Forgiveness (renegotiation)/ release of provisions	-				
Recoveries or renegotiations loans written-off	-				
D. Application of Art. 31 No. 4 sections 1 and 3	MCh\$				
(Other write-offs/forgiveness)					
Write-off section 1	-				
Forgiveness (impaired loans)	-				

(*) Comprises BancoEstado's stand-alone balances only (not considering factoring operations and finance lease agreements), i.e., it does not include the Subsidiaries and the New York Branch.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)

**NOTE 15 - CURRENT AND DEFERRED INCOME TAXES (Continued)**

A. Loans and accounts receivable from customers, and loans and advance to banks	(*) Financial value of assets	Tax value of assets			
		Total	Past-due portfolio with guarantee	Past-due portfolio without guarantee	
Loans as of December 31, 2018	MCh\$	MCh\$	MCh\$	MCh\$	
Loans and accounts receivable from customers and loans and advance to banks	11,476,226	11,579,588	30,962	74,432	
Consumer	2,115,805	2,115,874	1,451	13,405	
Mortgage	9,593,676	9,615,884	137,526	-	
B. Provisions for loan losses from past-due portfolio	Balance at 01.01.2018 MCh\$	Write-off against provisions MCh\$	Provisions established MCh\$	Provisions Released MCh\$	Balance at 12.31.2018 MCh\$
Commercial	67,598	(39,470)	63,274	(16,970)	74,432
Consumer	12,178	(9,233)	13,404	(2,944)	13,405
Mortgage	-	-	-	-	-
C. Direct write-offs and recoveries	MCh\$				
Direct write-offs Art. 31 No.4 section 2	182,367				
Forgiveness (renegotiation)/ release of provisions	-				
Recoveries or renegotiations loans written-off	-				
D. Application of Art. 31 No. 4 sections 1 and 3	MCh\$				
(Other write-offs/forgiveness)					
Write-off section 1	-				
Forgiveness (impaired loans)	-				

(*) Comprises BancoEstado's stand-alone balances only (not considering factoring operations and finance lease agreements), i.e., it does not include the Subsidiaries and the New York Branch.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)

**NOTE 16 - OTHER ASSETS**

a) As of December 31, 2019 and 2018, "Other assets" are detailed as follows:

	<u>12/31/2019</u>		<u>12/31/2018</u>
	MUS\$	MCh\$	MCh\$
Leased assets (*)	120	89,849	134,582
Assets received in lieu of payment	3	2,084	3,012
Assets received in lieu of payment	-	-	-
Assets received in settlement of loans in court auction	3	2,112	3,045
Provisions for assets received in lieu of payment (**)	-	(28)	(33)
Other assets	1,490	1,115,708	668,190
Money deposits in guarantee	-	337	295
Value added tax	10	7,301	8,108
Prepaid expenses	61	45,703	17,926
Property, plant and equipment for sale (***)	2	1,507	388
Valuation adjustments for Macro-Hedges	83	61,985	8,620
Debts receivable from the government	27	20,087	16,452
Outstanding operations	29	21,651	6,487
Guarantee deposit (Credit Support Annex)	493	368,960	324,691
Supplies	2	1,212	2,112
Commissions receivable	8	5,688	5,772
Assets in transit	-	-	-
Sundry accounts	18	13,418	12,363
Leasing assets in transit	41	30,760	23,170
Other receivables	32	23,992	20,101
Advance payment to providers	1	562	944
Commissions receivable (Cash agreement)	-	140	62
Financial instruments in guarantee	20	15,436	9,788
Guarantee deposits (COMDER)	3	2,237	2,375
COMDER Margin Account - Currency cash	11	8,723	-
Guarantee deposits (Clearing contracts)	567	424,561	196,537
Other assets	82	61,448	11,999
Total	1,613	1,207,641	805,784

(*) Corresponds to property, plant and equipment available to be delivered under financial leases.

(**) The recording of provisions over assets received or awarded in lieu of payments are recorded as indicated in the Compendium of Accounting Standards Chapter B-5 No. 3, which implies recognizing a provision for the difference between the initial value plus additions and realizable value, when the former is greater.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)

**NOTE 16 - OTHER ASSETS (Continued)**

(***) Non-current assets held for sale that are presented in “Other assets” are real estate, which is presented in the “Items of PPE for Sale” account.

These properties are assets available for sale, and their sale is considered to be highly likely. The sale of most assets is expected to be completed within one year after the date on which the asset was classified as “Items of PPE for sale and/or Asset recovered from lease transactions available for sale.”

b) The movement in the provision for assets received in lieu of payment or awarded during 2019 and 2018, is detailed as follows:

Provisions on assets received in payment or adjudicated	12/31/2019		12/31/2018
	MUS\$	MCh\$	MCh\$
Balance as of January 1,	-	33	26
Provision established	1	1,007	275
Use of provisions	(1)	(1,007)	(261)
Provision released	-	(5)	(7)
Total	-	28	33

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)

**NOTE 17 - DEPOSITS AND OTHER DEMAND OBLIGATIONS AND TIME DEPOSITS**

As of December 31, 2019 and 2018, the detail of Deposits and Other Demand Liabilities is as follow:

a) Current accounts and other demand deposits	12/31/2019		12/31/2018
	MUS\$	MCh\$	MCh\$
Current accounts	9,430	7,060,428	6,223,816
Other deposits and call accounts	3,345	2,504,351	2,212,062
Deposits from judicial appropriation	548	410,484	406,369
On demand guarantees	18	13,431	12,838
Collections made to be paid	312	233,341	378,670
Payments from sales of financial instruments	-	269	5
Export proceeds to be paid	-	85	202
Payment pending of authorization	31	23,233	20,880
Payments on account of credits to be paid	43	32,512	11,582
Frozen balances article No. 156 of the General Banking Law	15	11,521	11,955
Past-due time deposits	9	6,659	6,464
Past-due bond coupons and bills of exchange	-	47	32
Other demand liabilities	431	322,616	254,641
Total	14,182	10,618,977	9,539,516

b) Time deposits and other term liabilities	12/31/2019		12/31/2018
	MUS\$	MCh\$	MCh\$
Time deposits	15,136	11,333,140	12,241,902
Saving accounts	6,459	4,836,471	4,419,345
Other	346	258,847	487,022
Total	21,941	16,428,458	17,148,269

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
For the years ended December 31, 2019 and 2018
(In millions of Chilean pesos - MCh\$)



NOTE 18 - OBLIGATIONS WITH BANKS

As of December 31, 2019 and 2018, the detail of obligations with banks is as follows:

	12/31/2019		12/31/2018
	MUS\$	MCh\$	MCh\$
Borrowings issued by Local Financial Institutions:			
Banco de la Nación Argentina	-	-	1,900
Subtotal	-	-	1,900
Borrowings issued by Financial Institutions and the Chilean Central Bank:			
Other obligations with the Chilean Central Bank	-	-	-
Subtotal	-	-	-
Borrowings issued by Foreign Financial Institutions:			
Agricultural Bank of China, The	2	1,504	19
Akbank T.A.S.	-	-	233
Axis Bank Limited	-	211	-
Banco Comercial Portugues	-	101	-
Banco de Sabadell S.A.	-	192	26
Banca Nazionale del Lavoro S.P.A.	-	-	213
Banco Bilbao Vizcaya Argentaria	-	12	298
Banco do Brasil S.A.	-	-	910
Banco Santander S.A.	-	31	-
Banco Santander (Brasil) S.A.	-	41	180
Bank of Aland PLC	-	195	-
Bank of China	1	628	420
Bank of Communications Co. Ltd	-	-	135
Bank of India	-	42	190
Bank of Taiwan	-	-	13
Bank of Tokyo Mitsubishi UFJ, Ltd	1	798	1,224
Canara Bank	-	-	148
China Citic Bank	-	78	207
China Construction Bank Corporation	-	145	1,286
Citibank, N.A.	-	32	10
Citibank, N.A. Sri Lanka	-	205	-
Commercial Bank of Ceylon PLC	1	322	89
Credit Agricole CIB	-	170	-
Denizbank A.S.	-	-	310
Hong Kong Shanghai Banking Corp. Ltd	-	20	1,230
HSBC Bank (China) Company Limited	-	-	16
Hua Nan Commercial Bank, Ltd.	-	-	36
Hua Xia Bank	-	108	-
Industrial and Commercial Bank of	-	-	316
Industrial Bank of Korea	-	-	102
Industrial Comercial Bank of China	1	520	141
ITAU Unibanco S/A	-	-	1,050
JP Morgan Chase Bank NA	1	646	153
Kbc Bank NV	-	227	7
Keb Hana Bank	1	376	130
Rabobank Nederland	-	-	141
Shinhan Bank	-	-	254
Standard Chartered Bank (Hong Kong)	1	956	-
Standard Chartered Bank (Pakistan)	-	158	-
State Bank of India	1	632	151
Unicredit Bank AG (Hypovereinsbank)	1	248	576
Unicredit SPA	-	168	309
Wells Fargo Bank, N.A.	2	1,418	195
Zuercher Kantonalbank	4	3,008	-
Other	1	302	272
Subtotal	18	13,494	10,990

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)

**NOTE 18 - OBLIGATIONS WITH BANKS (Continued)**

As of December 31, 2019 and 2018, the detail of obligations with banks is as follows:

	<u>12/31/2019</u>		<u>12/31/2018</u>
	<u>MUS\$</u>	<u>MCh\$</u>	<u>MCh\$</u>
Borrowings abroad:			
Banco Bilbao Vizcaya Argentaria	57	42,735	-
Bank of America N.A	105	78,683	93,898
Banco Latinoamericano de exp	56	41,936	-
Bank of nova Scotia Toronto	85	63,682	20,886
Caixa D'estalvis I Pensions	25	18,737	-
Citibank N.A.	100	75,160	34,774
Corporación Andina de Fomento	45	33,769	-
DNB NOR Bank ASA	13	9,761	-
DNB NOR Bank Noruega	33	24,565	-
ING Bank N.V.	-	-	13,897
JP Morgan Chase Bank	342	256,379	139,189
Kfw Bankengruppe	37	27,697	42,494
Kreditanstalt Fur Wiederaufba	127	94,823	97,741
Mizuho Corporate Bank Ltd	190	142,450	125,122
Sumitomo Mitsui Banking Corpo	480	359,097	315,003
The Bank of Nova Scotia	155	116,154	146,107
The Toronto Dominion Bank	75	56,233	6,954
Wells Fargo Bank N.A.	270	202,322	173,828
Wells Fargo Bank N.A. USA	40	29,986	-
Zuercher Kantonalbank	77	57,172	85,120
Subtotal	<u>2,312</u>	<u>1,731,341</u>	<u>1,295,013</u>
Total	<u>2,330</u>	<u>1,744,835</u>	<u>1,307,903</u>

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)

**NOTE 19 - DEBT INSTRUMENTS ISSUED AND OTHER FINANCIAL OBLIGATIONS**

As of December 31, 2019 and 2018, debt instruments issued and other financial obligations are detailed as follows:

	<u>12/31/2019</u>		<u>12/31/2018</u>
	<u>MUS\$</u>	<u>MCh\$</u>	<u>MCh\$</u>
Debt instruments issued:			
Letters of credit	798	597,226	651,328
Ordinary bonds	9,040	6,768,636	5,606,845
Subordinated bonds	1,333	998,072	973,237
Subtotal	<u>11,171</u>	<u>8,363,934</u>	<u>7,231,410</u>
Other Financial Obligations:			
Obligations public sector	-	-	-
Other local obligations	34	25,562	17,297
Borrowings abroad	-	-	-
Subtotal	<u>34</u>	<u>25,562</u>	<u>17,297</u>
Total	<u>11,205</u>	<u>8,389,496</u>	<u>7,248,707</u>

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
For the years ended December 31, 2019 and 2018
(In millions of Chilean pesos - MCh\$)


**NOTE 19 - DEBT INSTRUMENTS ISSUED AND OTHER FINANCIAL OBLIGATIONS
(Continued)**

As of December 31, 2019 and 2018, ordinary and subordinated bonds present the following movements:

		12/31/2019		12/31/2018
		MUS\$	MCh\$	MCh\$
Balance as of January 1,		8,788	6,580,082	5,442,849
Issuances:				
U.F. Ordinary Bonds:				
	BESTS40317	-	-	80,769
	BESTS80517	-	-	80,901
	BESTT10617	112	83,670	-
	BESTT20617	111	83,426	-
	BESTT30617	112	83,511	-
	BESTT40617	-	-	54,232
	BESTT50617	-	-	54,384
	BESTT60817	111	83,460	-
	BESTT70817	110	82,661	-
	BESTT80817	-	-	81,361
	BESTT90817	-	-	54,117
	BESTX10418	111	83,484	-
	BESTX20518	112	83,562	-
	BESTX90518	113	84,861	-
Subordinated Bonds				
	UESTP11115	-	-	54,891
	UESTP20916	-	-	54,942
	UESTY40919	38	28,201	-
Ch\$ Ordinary Bonds:				
	BESTU30717	-	-	50,802
Foreign currency Ordinary Bonds:				
	Euro	45	33,462	-
	CHF	236	176,684	83,495
	US\$	95	70,786	303,020
	AUD	214	160,423	38,952
	Yen	-	-	73,452
	HKD	-	-	110,886
	COP	-	-	68,085
Commercial Paper				
	US\$	1	942	-
Total issuances		1,521	1,139,133	1,244,289
Maturities:				
U.F. Ordinary Bonds:				
	BESTA30400	(7)	(5,029)	(4,612)
	BESTJ20708	-	-	(81,501)
	BESTJ31008	-	-	(136,796)
	BESTJ50109	(184)	(137,829)	-
	BESTK10713	-	-	(81,501)
	BESTK30114	(110)	(82,697)	-
	BESTK50714	(112)	(83,727)	-
Foreign currency Ordinary Bonds:				
	Yen	-	-	(138,099)
U.F. Subordinated Bonds:				
	UEST-A0799	(9)	(6,902)	(6,304)
	UEST-B0603	(6)	(4,511)	(4,198)
	UEST-C0405	(9)	(6,536)	(6,110)
	UEST-D0106	(3)	(2,460)	(2,290)
	UEST-E0806	(4)	(3,010)	(2,804)
	UEST-F0207	(4)	(3,118)	(2,918)
	UEST-I0308	(3)	(2,314)	(2,173)
Total maturities		(451)	(338,133)	(469,306)
Others		515	385,626	362,250
Total		10,373	7,766,708	6,580,082

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)


**NOTE 19 - DEBT INSTRUMENTS ISSUED AND OTHER FINANCIAL OBLIGATIONS
(Continued)**

As of December 31, 2019 and 2018, the detail of bonds issued and placed is as follows:

December 31, 2019							
Currency	Amount Placed in Currency of Origin	Amount of Bonds	Up to 10 years	More than 10 to 20 years	More than 20 years	Total	
			MCh\$	MCh\$	MCh\$	MCh\$	MUS\$
Unidad de Fomento	126,000,000	50	3,046,568	147,808	499,053	3,693,429	4,933
Chilean peso	150,000,000,000	3	153,046	-	-	153,046	204
U.S. dollar	1,700,000,000	5	1,286,833	-	-	1,286,833	1,719
Yen	79,000,000,000	5	542,763	-	-	542,763	725
Euro	299,000,000	6	81,607	169,559	-	251,166	335
Swiss franc	475,000,000	4	365,145	-	-	365,145	488
Australian dollar	525,000,000	5	207,672	68,628	-	276,300	369
Hong Kong dollar	1,320,000,000	2	69,157	58,656	-	127,813	171
Colombian peso	300,000,000,000	2	71,205	-	-	71,205	95
Commercial Paper USD	1,249,419	2	936	-	-	936	1
Subtotal Ordinary bonds		84	5,824,932	444,651	499,053	6,768,636	9,040
Unidad de Fomento	41,500,000	18	288,481	279,328	430,263	998,072	1,333
Subtotal Subordinated bonds		18	288,481	279,328	430,263	998,072	1,333
Total		102	6,113,413	723,979	929,316	7,766,708	10,373

December 31, 2018						
Currency	Amount Placed in Currency of Origin	Amount of Bonds	Up to 10 years	More than 10 to 20 years	More than 20 years	Total
			MCh\$	MCh\$	MCh\$	MCh\$
Unidad de Fomento	113,000,000	45	2,518,022	199,474	487,014	3,204,510
Chilean peso	150,000,000,000	3	153,449	-	-	153,449
U.S. dollar	1,600,000,000	4	1,116,627	-	-	1,116,627
Yen	79,000,000,000	5	495,674	-	-	495,674
Euro	255,000,000	5	42,121	160,304	-	202,425
Swiss franc	225,000,000	2	157,927	-	-	157,927
Australian dollar	190,000,000	3	53,830	39,628	-	93,458
Hong Kong dollar	1,320,000,000	2	63,698	54,072	-	117,770
Colombian peso	300,000,000,000	2	65,005	-	-	65,005
Commercial Paper USD	-	-	-	-	-	-
Subtotal Ordinary bonds		71	4,666,353	453,478	487,014	5,606,845
Unidad de Fomento	40,500,000	17	270,007	283,494	419,736	973,237
Subtotal Subordinated bonds		17	270,007	283,494	419,736	973,237
Total		88	4,936,360	736,972	906,750	6,580,082

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)

**NOTE 20 - PROVISIONS**

As of December 31, 2019 and 2018, the detail of “Provisions” is as follows:

a) Provisions

	12/31/2019		12/31/2018
	MUS\$	MCh\$	MCh\$
Employee benefits and remunerations provision	196	146,823	127,289
Provision for dividends (tax benefits)	223	167,019	82,976
Credit risk on contingent loans provision	65	48,511	55,305
Provisions for contingencies (*)	690	516,991	506,233
Country risk provisions	2	1,122	2,926
Total	1,176	880,466	774,729

(*) Includes additional provisions in the amount of MCh\$ 503,405, as of December 31, 2019 (MCh\$ 488,405 as of December 31, 2018).

b) As of December 31, 2019 and 2018, the movement of provisions is detailed as follows:

	Employee benefits and salaries MCh\$	Contingent loan risk MCh\$	Provisions for contingencies MCh\$	Other provisions MCh\$	Total	
					MCh\$	MUS\$
Balances at January 1, 2019	127,289	55,305	506,233	85,902	774,729	1,035
Provisions established	71,471	15,677	49,746	241,932	378,826	506
Use of provisions	(41,860)	-	(35,692)	-	(77,552)	(104)
Provisions released	(10,077)	(22,726)	(3,296)	(159,693)	(195,792)	(261)
Other movements	-	255	-	-	255	-
December 31, 2019	146,823	48,511	516,991	168,141	880,466	1,176
Balances at January 1, 2018	124,917	42,710	460,968	61,148	689,743	
Provisions established	46,024	33,704	59,141	85,665	224,534	
Application of provisions	(33,658)	-	(10,876)	(60,250)	(104,784)	
Provisions released	(9,994)	(21,688)	(3,000)	(661)	(35,343)	
Other movements	-	579	-	-	579	
December 31, 2018	127,289	55,305	506,233	85,902	774,729	

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)

**NOTE 20 - PROVISIONS (Continued)**

- c) As of December 31, 2019 and 2018, the detail of provisions for employee payroll and benefits is as follows:

	12/31/2019		12/31/2018
	MUS\$	MCh\$	MCh\$
Severance indemnity provision	117	87,550	73,917
Provision for other employee benefits	34	25,306	19,813
Vacation provision	45	33,967	33,559
Total	196	146,823	127,289

- d) As of December 31, 2019 and 2018, the detail of the provision for severance indemnities (Note 29) is as follows:

	12/31/2019		12/31/2018
	MUS\$	MCh\$	MCh\$
Present value of liabilities at beginning of year	99	73,917	70,280
Increase in provision	45	33,671	12,714
Advanced payments	-	-	-
Use of provisions	(17)	(12,981)	(7,565)
Provisions released	(10)	(7,057)	(1,512)
Others	-	-	-
Total	117	87,550	73,917

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)

**NOTE 20 - PROVISIONS (Continued)**

e) Additional provisions

Additional provisions (included under the concept of provisions for contingencies) are established to cover countercyclical adverse effects on the Bank's businesses and concentration risks, in accordance with the criteria approved by the Bank's Executive Committee, as described in Note 1 u.6). As of December 31, 2019 and 2018, movements of additional provisions are detailed as follows:

	<u>12/31/2019</u>		<u>12/31/2018</u>
	MUS\$	MCh\$	MCh\$
Balance as of January 1,	652	488,405	448,905
Provision established	27	20,000	42,500
Provisions released	(7)	(5,000)	(3,000)
Closing balance	672	503,405	488,405

NOTE 21 - OTHER LIABILITIES

As of December 31, 2019 and 2018, "Other liabilities" are detailed as follows:

	<u>12/31/2019</u>		<u>12/31/2018</u>
	MUS\$	MCh\$	MCh\$
Accounts and notes payable	203	152,015	109,913
Agreed-upon dividends payable	13	9,634	7,428
Unearned income	160	119,890	116,756
Outstanding operations	29	22,096	6,567
Provisions for payment of leasing insurance premiums	9	6,532	5,717
Provisions for other payment leases	2	1,453	127
Guarantee deposit (Credit Support Annex)	134	100,032	28,625
Various creditor accounts	3	2,499	55,240
Guarantee deposits (COMDER)	5	3,903	-
Guarantee deposits (Clearing contracts)	518	387,549	167,053
Other liabilities	17	12,761	11,082
Total	1,093	818,364	508,508

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)

**NOTE 22 - CONTINGENCIES AND COMMITMENTS****a) Commitments and responsibilities recorded in sheet memorandum accounts:**

The Bank, its New York Branch and Subsidiaries, hold the following balances related to commitments and responsibilities arising from its normal line of business:

	12/31/2019		12/31/2018
	MUS\$	MCh\$	MCh\$
Contingent Loans			
Guarantee and deposits:			
Guarantees and deposits in local currency	605	453,058	295,117
Guarantees and deposits in foreign currency	149	111,285	200,442
Confirmed foreign letters of credit	109	81,969	107,946
Issued documented letters of credit	68	50,583	61,044
Performance bonds	1,790	1,340,587	1,405,574
Interbank letters of credit	-	-	-
Immediately available revolving credit facilities	2,127	1,592,668	1,558,860
Amount of committed credits and not placed	-	-	-
Other credit commitments:			
Credits for higher education Law No. 20,027	455	341,013	428,797
Others	634	474,662	602,901
Other contingent credits	-	-	-
Operations by third parties			
Collections:			
Foreign collections	45	33,909	33,944
Local collections	110	82,246	91,348
Placement or sale of financial instruments:			
Placement of securities for public bid	-	-	-
Sale of letters of credit of bank operations	-	-	-
Sales 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 administered on behalf of third parties	1,121	839,374	596,373
Other assets administered on behalf of third parties	-	-	-
Financial assets acquired	-	-	-
Other assets acquired	-	-	-
Security held in custody			
Securities held in custody of the bank	861	644,676	1,276,721
Securities held in custody deposited in another entity	17	12,378	3,409,866
Securities issued by the bank:			
Promissory notes of time deposits	5,757	4,310,522	4,216,277
Letters of credit for sale	3,716	2,782,114	7,185
Other documents	-	-	-
Commitment			
Guarantees for underwriting operations	-	-	-
Commitments for asset purchases	-	-	-
Total	17,564	13,151,044	14,292,395

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)

**NOTE 22 - CONTINGENCIES AND COMMITMENTS (Continued)****b) Lawsuits and legal proceedings:****b.1) Normal legal contingencies of the industry:**

As of the date of issuance of these Consolidated Financial Statements, there are several legal proceedings that have been filed against the Bank, its New York Branch and its Subsidiaries in relation to normal operations in its line of business. According to Management and based on the opinion of its legal advisors, the Bank has recorded the provisions it deems appropriate to cover losses for the Bank, New York Branch and Subsidiaries. As of December 31, 2019 and 2018, the Bank and its Subsidiaries have provisions for this concept that amount to MCh\$ 5,569 and MCh\$ 3,069, respectively, which form part of "Provisions" in the Consolidated Statements of Financial Position. Lawsuits and provisions by type are detailed as follows:

TYPE	12/31/2019			12/31/2018	
	No. of cases	Provision Amount		No. of cases	Provision Amount
		MUS\$	MCh\$		MCh\$
Labor	38	2	1,983	32	878
Civil	504	5	3,586	362	2,191
Total	542	7	5,569	394	3,069

b.2) Significant lawsuit contingencies in court:

As of December 31, 2019, BancoEstado is being sued in the Court for the Defense of Free Competition by the Banks BICE, Security, Internacional, Scotiabank and BBVA, Case Numbers C-323-2017, C-324-2017, C-325-2017, C-327-2017 and C-331-2017, respectively, currently all grouped under Case Number C-323-2017. The first three lawsuits were filed on July 12, 2017, and Scotiabank's on August 21, 2017 and BBVA's on October 19, 2017.

The possible amount of the Banco BICE lawsuit is 11,000 UTA (MCh\$ 6,176) and that of each of the other banks is 10,000 UTA (MCh\$ 5,614 or MCh\$ 5,592, depending on the month in which the lawsuit was filed). Currently the lawsuit is still in progress, in test stage.

Provision of 0.1% of the possible fine has been made for the previous mentioned proceedings.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)

**NOTE 22 - CONTINGENCIES AND COMMITMENTS (Continued)****c) Guarantees granted for operations:**

As of December 31, 2019 and 2018, “Guarantees granted for operations” are detailed as follows:

	12/31/2019		12/31/2018
	MUS\$	MCh\$	MCh\$
Financial assets in guarantee CCLV, Bolsa de Comercio	21	15,436	9,788
Shares in guarantee for the Bolsa de Comercio de Santiago	55	41,086	13,524
Own portfolio shares	2	1,750	1,750
Total	78	58,272	25,062

BancoEstado Corredores de Seguros S.A.:

- Guarantees on transactions and third-party liability:**

As set forth in Article No. 58, letter D of Decree in Force of Law No. 251, as of December 31, 2019, the Subsidiary BancoEstado Corredores de Seguros S.A. holds a performance bond that hedges it against possible damages resulting from breaches of the law, regulations and supplementary standards that regulate insurance brokers, and especially when non-compliance originates from acts, errors and omissions by the broker, its representatives, assignees or dependents involved in the brokerage.

Guarantee information is as follows:

Number	:	11501085.
Amount	:	U.F. 60,000.
Issuer	:	BancoEstado.
Purpose	:	To guarantee any present or 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 D.F.L. No. 251 dated 1931.
Effective	:	Through April 14, 2020.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



NOTE 22 - CONTINGENCIES AND COMMITMENTS (Continued)

BancoEstado S.A. Corredores de Bolsa:

- **Operating guarantees:**

In order to comply with the obligation of transaction guarantees established in Article No. 30 of Law No. 18,045, Subsidiary BancoEstado S.A. Corredores de Bolsa has purchased insurance policy No. 1188 from HDI Seguros Magallanes for a value of U.F. 20,000, valid from April 22, 2018, to April 22, 2020, with Santiago Stock Exchange as the representative of the beneficiaries of the guarantee.

BancoEstado S.A. Corredores de Bolsa has established a first priority pledge on its share of Bolsa de Comercio de Santiago - Bolsa de Valores, in order to guarantee faithful and timely performance of its obligations owed to that institution. In addition, it has established a second priority pledge in favor of all stockbrokers to secure its obligations with them.

Regarding the Comprehensive Insurance for brokers, BancoEstado S.A. Corredores de Bolsa has purchased one insurance policy No. 43778, for an amount of US\$ 20,000,000, with Orion Seguros Generales S.A., it is valid until January 31, 2020.

On August 31, 2018, BancoEstado S.A. Corredores de Bolsa contracted a guarantee in pesos issued by BancoEstado, No. 11127392, for an amount of Ch\$ 2,000,000, to ensure compliance with the contract and payment of labor and social obligations, brokerage service for the sale of shares and other securities, of Fisco de Chile - Ministerio de Bienes Nacionales. It is valid until December 17, 2021.

On February 15, 2017, BancoEstado S.A. Corredores de Bolsa contracted a guarantee in U.F. issued by Banco Santander Chile, No. 6883, for an amount of U.F. 15,500, to guarantee CORFO faithful performance of the CORFO portfolio, committees and fund management contract and payment of all its labor and social security obligations regarding the contracting party's workers, effective until February 14, 2022.

On December 26, 2018, and in compliance with the requirements established by the Comisión para el Mercado Financiero in general standard No. 363 for the registration of third-party portfolio managers, the company took out a performance bond in U.F. issued by BancoEstado, No. 11128253, U.F. 454,000, it is valid until December 30, 2019.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



NOTE 22 - CONTINGENCIES AND COMMITMENTS (Continued)

On December 29, 2017, BancoEstado S.A. Corredores de Bolsa contracted a performance bond in Chilean pesos issued by Banco Santander Chile, No. 3033, for Ch\$ 5,026,000, to guarantee the fund faithful performance of the contract for the provision of services involving the deposit, custody and collection of securities and payment of all of the labor and social security obligations with regard to the contracting party's workers. It is valid until June 30, 2023.

On December 29, 2017, BancoEstado S.A. Corredores de Bolsa contracted a performance bond in Chilean pesos issued by Banco Santander Chile, No. 3034, for Ch\$ 20,926,000, to guarantee CORFO faithful performance of the contract for the provision of services involving the deposit, custody and collection of securities and payment of all the labor and social security obligations regarding the contracting party's workers. It is valid until June 30, 2023.

On April 8, 2019, BancoEstado S.A. Corredores de Bolsa contracted a guarantee in U.F. issued by BancoEstado, No. 11501156, for an amount of U.F. 10,500, to ensure compliance of contract No. 1836, SOMA with Banco Central de Chile. It is valid until April 20, 2020.

On April 17, 2019, BancoEstado S.A. Corredores de Bolsa contracted a guarantee in Chilean pesos issued by BancoEstado, No. 11501234, for an amount of Ch\$ 50,000,000, to guarantee faithful, timely and proper performance of the contractual obligations of the "Investment Portfolio Management" contract. It is valid until April 20, 2020.

On December 27, 2019, by virtue of the requirements established by the CMF in its General Standard No. 363 for the registration of Third Party Portfolio Managers, the Company took out a performance bond in U.F. issued by BancoEstado, No. 12093589, amounting to U.F. 460,000, which is effective through December 30, 2020.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)

**NOTE 22 - CONTINGENCIES AND COMMITMENTS (Continued)****BancoEstado S.A. Administradora General de Fondos:**

- **Operating guarantees:**

In compliance with Articles No. 226 and No. 227 of Law No. 18,045, Subsidiary BancoEstado S.A. Administradora General de Fondos, designated BancoEstado as representative of the beneficiaries of the guarantees it has established. The guarantee deposits established are detailed as follows:

	Currency	Amount	Start date	Maturity date
Fondo Mutuo Solvente BancoEstado	UF	527,133.25	1/9/2020	1/10/2021
Fondo Mutuo Compromiso BancoEstado	UF	96,085.94	1/9/2020	1/10/2021
Fondo Mutuo Conveniencia BancoEstado	UF	176,277.33	1/9/2020	1/10/2021
Fondo Mutuo BancoEstado Renta Futura	UF	12,364.51	1/9/2020	1/10/2021
Fondo Mutuo Protección BancoEstado	UF	196,320.53	1/9/2020	1/10/2021
Fondo Mutuo BancoEstado Acciones Nacionales	UF	10,000.00	1/9/2020	1/10/2021
Fondo Mutuo BancoEstado BNP Paribas Renta Emergente	UF	10,000.00	1/9/2020	1/10/2021
Fondo Mutuo BancoEstado BNP Paribas Acciones Desarrolladas	UF	10,000.00	1/9/2020	1/10/2021
Fondo Mutuo BancoEstado BNP Paribas Más Renta Bicentenario	UF	38,617.02	1/9/2020	1/10/2021
Fondo Mutuo BancoEstado Perfil A	UF	10,000.00	1/9/2020	1/10/2021
Fondo Mutuo BancoEstado Perfil C	UF	10,000.00	1/9/2020	1/10/2021
Fondo Mutuo BancoEstado Perfil E	UF	15,161.45	1/9/2020	1/10/2021
Fondo Mutuo BancoEstado Dólar Disponible	UF	10,000.00	1/9/2020	1/10/2021
Fondo Mutuo BancoEstado Ahorro Corto Plazo	UF	10,509.30	1/9/2020	1/10/2021
Fondo Mutuo BancoEstado Mi Futuro Moderado	UF	10,000.00	1/9/2020	1/10/2021
Fondo Mutuo BancoEstado Mi Futuro Accesible	UF	10,000.00	1/9/2020	1/10/2021
Fondo Mutuo BancoEstado Mi Futuro Conservador	UF	10,000.00	1/9/2020	1/10/2021
Fondo Mutuo BancoEstado Mi Futuro Decidido	UF	10,000.00	1/9/2020	1/10/2021

Red Global S.A.:

- **Operating guarantees:**

On January 31, 2019, Red Global S.A. contracted a guarantee issued by BancoEstado, for an amount of U.F. 24,421, to guarantee faithful performance of the contractual obligations between Red Global S.A. and Transbank. It is valid until January 31, 2020.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)

**NOTE 22 - CONTINGENCIES AND COMMITMENTS (Continued)****d) Contingent loans and liabilities:**

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

The table below shows the contractual amounts of transactions that oblige the Bank to grant credits and the amount of the allowances accounts for credit risk assumed:

	12/31/2019		12/31/2018
	MUS\$	MCh\$	MCh\$
Guarantees and deposits	754	564,343	495,559
Document-letter of credit	177	132,552	168,990
Performance bonds	1,790	1,340,587	1,405,574
Amounts available for users of credit card	2,127	1,592,668	1,558,860
Amount of committed credits	634	474,662	602,901
Credits for higher education Law No. 20,027	455	341,013	428,797
Provisions established	(65)	(48,511)	(55,305)
Total	5,872	4,397,314	4,605,376

NOTE 23 - EQUITY**a) Share capital**

BancoEstado is governed by the Organic Law of Banco del Estado de Chile D.L. No. 2,079 dated 1978, which in its Title I, Articles No. 1 and No. 4 establish the following:

Article 1: Banco del Estado de Chile is an autonomously state-owned company with its own legal status and equity, with an indefinite term, submitted exclusively to the supervision of the Comisión para el Mercado Financiero and related with the Government through the Ministerio de Hacienda.

Article 4: The Bank's authorized original capital is Ch\$ 4,000,000,000 (four billion Chilean pesos) and will be paid with the funds that it currently has accounted for as capital and reserves in local currency. If those funds are not sufficient to complete the authorized capital, it will be completed with a charge to revaluations or net income produced in future years.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



NOTE 23 - EQUITY (Continued)

This capital can be increased by supreme decree, with a prior favorable report from the Comisión para el Mercado Financiero.

Law No. 20,318 was published on January 2, 2009 and permits the Bank to make an extraordinary capital contribution of US\$ 500 million under the conditions indicated in the mentioned Law. In 2009 this additional capital was completed for the equivalent of MCh\$ 274,497 leaving current capital at MCh\$ 278,497.

On November 8, 2014, Law No. 20,792 as published allowed an extraordinary capital contribution to the Bank of up to US\$ 450 million under the conditions indicated in the aforementioned law. In 2014, part of this additional capital contribution (US\$ 250 million) was received equivalent to MCh\$ 153,975. In November 2015 the balance of the capital contribution (US\$ 200 million) was received, equivalent to MCh\$ 142,160, leaving the current capital at MCh\$ 574,632.

On November 28, 2019, Law No. 21,187 was published that allowed performing an extraordinary capital contribution to the Bank for up to US\$ 500 million under the conditions established in the aforementioned law. On November 29, 2019, a part of this additional capital contribution (US\$ 250 million) was received equivalent to MCh\$ 201,575, leaving the current capital in the amount of MCh\$ 776,207.

As of the date of these Financial Statements, the Bank is yet to receive the second part of the additional capital contribution (US\$ 250 million), which date should not be after May 20, 2020.

b) Distribution of net income:

Net income for 2018:

The 2018 net income of BancoEstado attributable to the ownership of the Bank amounted to MCh\$ 165,951. His Excellency the President of the Republic could, upon proposal of the Board of Directors of the Bank, allocate all or a portion of the income for the year to government benefit, as established in the Organic Law of BancoEstado.

BancoEstado constituted a provision for distribution of the minimum income to government benefit equivalent to 50.0% of the income for the year, as established in its accounting policies.

On November 5, 2019, the Ministerio de Hacienda decided to request the processing of a Supreme Decree intended to allocate to government benefit MCh\$ 165,951, equivalent to 100% of net income for 2018. On November 27, 2019, such payment was sent to the Tesorería General de la República.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)

**NOTE 23 - EQUITY (Continued)****Net income for 2019:**

The 2019 net income of BancoEstado attributable to the ownership of the Bank amounted to MCh\$ 167,019. His Excellency the President of the Republic could, upon proposal of the Board of Directors of the Bank, allocate all or a portion of the income for the year to government benefit, as established in the Organic Law of BancoEstado.

BancoEstado constituted a provision for distribution of the minimum income to government benefit equivalent to 100.0% of the income for the year, as established in its accounting policies.

c) Reserves:

Corresponds to balances that mainly come from the capitalization of net income from previous years, adjustments from the first-time adoption of the International Financial Reporting Standards, in accordance with the Comisión para el Mercado Financiero, in its Compendium of Accounting Standards, and the Instructions concerning what is to be recognized in reserves. Additionally, actuarial gains and losses are recognized in reserves in accordance with IAS 19.

d) Other comprehensive income:

They consist of the following concepts:

- Financial investments available for sale, which corresponds to the mark to market adjustments, until the investment is sold/disposed of or there is a need to make provisions for impairment. This information is presented net of taxes.
- Cash flow hedge, the effect on equity of a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability. They are presented net of income tax and deferred taxes, as applicable, according to the instructions of Law No. 20,544 of 2011.
- Foreign currency exchange difference corresponds to the effect of translating the Financial Statements of the New York Branch, whose functional currency is the United States dollars, to the functional currency of the Bank's parent company, in Chilean pesos.

As of December 31, 2019 and 2018, the reconciliation of this caption, as a separate component of equity is as follows:

	12/31/2019		12/31/2018
	MUS\$	MCh\$	MCh\$
Balance as of January 1,	(2)	(1,411)	(1,155)
Net exchange differences on translation foreign operation	(3)	(2,133)	(256)
Total	(5)	(3,544)	(1,411)

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)

**NOTE 23 - EQUITY (Continued)****e) Non-controlling interest:**

Non-controlling interest balances as of December 31, 2019 and 2018, for consolidated companies included in equity are detailed as follows:

	12/31/2019		12/31/2018
	MUS\$	MCh\$	MCh\$
Non-controlling interest in BancoEstado Corredora de Seguros S.A.			
MetLife Chile Inversiones Limitada (49.90%)	5	3,899	4,519
Non-controlling interest in BancoEstado S.A. Administradora General de Fondos			
BNP Paribas Investment Partners (49.99%)	6	4,592	4,104
Non-controlling interest in Red Global S.A.			
Sumup Limited (9.90%)	1	520	771
Total non-controlling interests	12	9,011	9,394

The share of profit of non-controlling interests as of December 31, 2019 and 2018 are detailed as follows:

	12/31/2019		12/31/2018
	MUS\$	MCh\$	MCh\$
Non-controlling interest in BancoEstado Corredora de Seguros S.A.			
MetLife Chile Inversiones Limitada (49.90%)	14	10,068	8,692
Non-controlling interest in BancoEstado S.A. Administradora General de Fondos			
BNP Paribas Investment Partners (49.99%)	7	5,498	4,800
Non-controlling interest in Red Global S.A.			
Sumup Limited (9.90%)	-	(250)	(106)
Total non-controlling interests	21	15,316	13,386

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)


NOTE 24 - INTEREST AND INDEXATION INCOME AND EXPENSES

- a) For the years ended December 31, 2019 and 2018, the detail of “Interest and indexation income”, is as follows:

	For the years ended December 31,					
	2019				2018	
	Interest MCh\$	Inflation- Indexation MCh\$	Total MCh\$ MUS\$		Interest MCh\$	Total MCh\$
Normal Portfolio						
Repurchase agreements	17,203	-	17,203	23	21,593	21,593
Loans to banks	22,305	-	22,305	30	17,232	17,232
Commercial loans	640,907	113,094	754,001	1,007	608,587	713,274
Mortgage loans	414,811	261,465	676,276	903	392,783	650,162
Consumer loans	348,283	-	348,283	465	301,813	301,813
Investment instruments	180,186	8,660	188,846	252	157,562	162,345
Hedging income	-	(6,597)	(6,597)	(9)	-	(9,022)
Other interest and indexation income	49,598	1,322	50,920	68	56,901	58,947
Subtotal	1,673,293	377,944	2,051,237	2,739	1,556,471	1,916,344
Impaired Portfolio						
Recovery of interest and indexation						
Commercial loans	2,012	361	2,373	3	2,232	2,350
Mortgage loans	4,241	1,926	6,167	8	3,270	4,674
Consumer loans	2,514	-	2,514	4	1,947	1,947
Investment instruments	-	-	-	-	-	-
Hedging income	-	-	-	-	-	-
Other interest and indexation income	-	-	-	-	-	-
Subtotal	8,767	2,287	11,054	15	7,449	8,971
Total interest and indexation income	1,682,060	380,231	2,062,291	2,754	1,563,920	1,925,315

	For the years ended December 31,					
	2019				2018	
	Interest MCh\$	Inflation- Indexation MCh\$	Total MCh\$ MUS\$		Interest MCh\$	Total MCh\$
Impaired portfolio with						
Suspended interest						
Commercial loans	89,300	31,253	120,553	161	75,095	103,878
Mortgage loans	14,676	8,372	23,048	31	14,108	22,207
Consumer loans	24	13	37	-	34	69
Investment instruments	-	-	-	-	-	-
Total	104,000	39,638	143,638	192	89,237	126,154

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)


NOTE 24 - INTEREST AND INDEXATION INCOME AND EXPENSES (Continued)

b) For the years ended December 31, 2019 and 2018, the detail of “Interest and indexation expenses”, is as follows:

Concept	For the years ended December 31,						
	2019				2018		
	Expenses				Expenses		
	Interest MCh\$	Inflation- Indexation MCh\$	Total MCh\$	MUS\$	Interest MCh\$	Inflation- Indexation MCh\$	Total MCh\$
Demand deposits	17,668	1	17,669	24	15,381	44	15,425
Repurchase agreements	20,945	-	20,945	28	21,241	-	21,241
Time and demand deposits	362,446	72,345	434,791	581	370,799	74,266	445,065
Liabilities with banks	39,760	-	39,760	53	31,901	-	31,901
Issued debt instruments	220,585	135,884	356,469	476	211,661	135,912	347,573
Lease agreements	1,773	-	1,773	2	-	-	-
Hedging income	69,401	-	69,401	93	69,758	-	69,758
Other interest and indexation expenses	1,475	2	1,477	1	386	14	400
Total interest and inflation- indexation expenses	734,053	208,232	942,285	1,258	721,127	210,236	931,363

NOTE 25 - FEES AND COMMISSION INCOME AND EXPENSES

For the years ended December 31, 2019 and 2018, the detail of “Fees and commissions”, is as follows:

Concept	12/31/2019		12/31/2018
	MUS\$	MCh\$	MCh\$
a) Fees and commission income			
Commissions for lines of credit and overdraft	3	2,160	2,226
Commissions for guarantees and letters of credit	16	12,073	10,078
Commission for card services	202	150,821	128,049
Commissions for account management	116	87,104	73,617
Commissions for collections and payments	228	170,588	154,923
Commissions for trading and management of securities	14	10,544	9,696
Commissions for investments in mutual funds and others	29	21,870	19,626
Compensations for trading of insurance policies	55	41,405	38,763
Other compensations for services rendered	36	26,767	32,913
Other commissions earned	5	3,976	3,616
Total fees and commission income	704	527,308	473,507
b) Fees and commission expense			
Fees for card operation services	80	59,589	49,769
Commissions for operation of securities	35	26,607	23,464
Commissions for interbank transactions	89	66,642	62,681
Commissions for using ATMs	7	5,327	5,306
Commissions CCA	36	26,641	19,692
Other commissions paid	15	11,345	6,718
Total fees and commission expense	262	196,151	167,630

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)

**NOTE 26 - NET INCOME FROM FINANCIAL OPERATIONS**

The gain or loss on financial transactions for the years ended December 31, 2019 and 2018 is detailed as follows:

	<u>12/31/2019</u>		<u>12/31/2018</u>
	MUS\$	MCh\$	MCh\$
Trading portfolio	87	65,141	60,506
Derivative contracts	44	32,987	29,747
Portfolio available for sale	29	21,184	885
Sale of loan portfolio	20	15,077	12,828
Gain on factoring operations	16	12,091	9,801
Others	4	3,026	1,752
Net income from financial operations	200	149,506	115,519

NOTE 27 - NET FOREIGN EXCHANGE GAIN OR LOSS

For the years ended December 31, 2019 and 2018, the detail of “Net foreign exchange gain or loss”, is as follows:

	<u>12/31/2019</u>		<u>12/31/2018</u>
	MUS\$	MCh\$	MCh\$
Exchange difference			
Gain on exchange difference	6	4,579	9,610
Loss on exchange difference	(372)	(278,639)	(319,961)
Subtotal	(366)	(274,060)	(310,351)
Indexed in foreign currency			
Gain (loss) on for assets indexed in foreign currency	9	6,418	10,638
Gain (loss) on for liabilities indexed in foreign currency	-	-	-
Subtotal	9	6,418	10,638
Hedging income			
Gain (loss) on asset hedging	-	-	-
Gain (loss) on liability hedging	353	264,319	320,384
Subtotal	353	264,319	320,384
Net foreign exchange (loss) gain	(4)	(3,323)	20,671

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



NOTE 28 - PROVISION FOR LOAN LOSSES

Movements recorded in 2019 and 2018, changes recorded in net income related to allowances and impairment are detailed as follows:

12/31/2019	Loans and advance to banks MCh\$	Loans and accounts receivable from customers			Contingent credits MCh\$	Total	
		Commercial loans MCh\$	Mortgages loans MCh\$	Consumer loans MCh\$		MCh\$	MUS\$
Provisioning							
- Individual provisions	(3,590)	(105,649)	-	-	(12,114)	(121,353)	(162)
- Collective provisions	-	(128,553)	(33,894)	(180,140)	(3,563)	(346,150)	(462)
- Additional provisions	-	(2,000)	-	(18,000)	-	(20,000)	(27)
Provisions established	(3,590)	(236,202)	(33,894)	(198,140)	(15,677)	(487,503)	(651)
Release of provisions							
- Individual provisions	3,393	29,689	-	-	19,143	52,225	70
- Collective provisions	-	10,705	7,033	12,475	3,583	33,796	45
- Additional provisions	-	-	5,000	-	-	5,000	6
Provisions released	3,393	40,394	12,033	12,475	22,726	91,021	121
Recovery of written-off assets	-	31,055	18,391	26,640	-	76,086	102
Provision for loan losses	(197)	(164,753)	(3,470)	(159,025)	7,049	(320,396)	(428)
12/31/2018	Loans and advance to banks MCh\$	Loans and accounts receivable from customers			Contingent credits MCh\$	Total	
		Commercial loans MCh\$	Mortgages loans MCh\$	Consumer loans MCh\$		MCh\$	
Provisioning							
- Individual provisions	(3,945)	(69,421)	-	-	(29,478)	(102,844)	
- Collective provisions	-	(104,601)	(28,707)	(137,193)	(4,226)	(274,727)	
- Additional provisions	-	(39,500)	-	(3,000)	-	(42,500)	
Provisions established	(3,945)	(213,522)	(28,707)	(140,193)	(33,704)	(420,071)	
Release of provisions							
- Individual provisions	2,274	56,091	-	-	17,619	75,984	
- Collective provisions	-	19,745	3,830	12,697	4,069	40,341	
- Additional provisions	-	-	3,000	-	-	3,000	
Provisions released	2,274	75,836	6,830	12,697	21,688	119,325	
Recovery of written-off assets	-	25,221	18,761	24,717	-	68,699	
Provision for loan losses	(1,671)	(112,465)	(3,116)	(102,779)	(12,016)	(232,047)	

In Management's opinion, allowances made for credit risk and impairment losses cover all possible losses that may arise from not recovering assets according to the background information analyzed by the Bank, New York Branch and Subsidiaries.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)

**NOTE 29 - PERSONNEL SALARIES AND EXPENSES**

- a) For the years ended December 31, 2019 and 2018, “Personnel salaries and expenses” is detailed as follows:

	12/31/2019		12/31/2018
	MUS\$	MCh\$	MCh\$
Personnel salaries	454	340,170	332,110
Bonuses or other benefits	63	46,931	41,458
Severance indemnity	26	19,336	13,423
Training expenses	3	2,199	2,633
Welfare expenses	34	25,889	24,628
Other personnel expenses	34	25,482	22,717
Total	614	460,007	436,969

- b) Employee benefits plans:

As of December 31, 2019 and 2018, the Bank and Subsidiaries maintain the following employee benefits:

Accrued vacations:

The annual cost of employee vacations and employee benefits is recognized on an accrual basis.

Short-term benefits:

The existence of short-term benefits (current expense) is primarily based on incentives for meeting commercial objectives and achieving operational efficiency. These benefits are:

- Individual performance bonus: Each employee is granted an amount of money based on the fulfillment of the Bank’s objectives, the individual’s goals and the employee’s salary.
- Corporate bonus: Defines a percentage of the Bank’s monthly payroll to be distributed equally to all the Bank’s employees. It is based on the fulfillment of commercial objectives and operational efficiency.

NOTE 29 - PERSONNEL SALARIES AND EXPENSES (Continued)**Long-term benefits:**

Long-term benefits correspond to those benefits granted by the Bank according to Law and/or the existence of obligations derived from the current Collective Bargaining Agreement.

The methodology used to determine the provision for all employees uses actuarial assumptions that consider variables such as turnover rates, mortality rates, salary increases, probability of the use of the benefit according to the valuation method referred to as Valuation Method of Accrued Benefits or Accrued Cost of the Benefit. This methodology is established in IAS 19.

The benefits are the following:

- Years of service: Applies to all of the Company's employees. The Bank estimates that employees will continue to work until their retirement age (67 years for men and women) and therefore constitutes provisions according to the probability of resignation, death, dismissal and retirement during the employees' professional life at the Bank. The benefits are determined according to current legal regulations and the Union Contract.
- Prizes for years of service: Applies to all of the Company's employees. This prize for years with the Company grants a percentage of salary to each milestone, including 10, 15, 20, 25, 30, 35, 40 and 45 years of service.
- Retirement savings: Applies to all of the Company's employees with indefinite-duration contracts who joined the company after August 14, 1981 and are not affiliated to the unemployment insurance established by Law No. 19,728. This benefit establishes a retirement savings program in the form of self-insurance, in order to provide a salary plus bonus of a maximum of U.F. 90 for each 36 months of contribution to the program.
- Retirement savings 2.0: The program is aimed at:
 - Employees with an indefinite duration contract at October 1, 2019, who, having paid contributions into an unemployment insurance, have ceased to pay contributions into such insurance, because they have completed 11 years of contributions in the company, as provided for in Article No. 9 of Law No. 19,728; and
 - The employees paying contributions into the unemployment insurance, who, during the term of the collective bargaining agreement (October 1, 2019 to November 30, 2021), complete the 11 years of contributions paid into the mentioned insurance in the company, as stipulated in Article No. 9 of Law No. 19,728.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



NOTE 29 - PERSONNEL SALARIES AND EXPENSES (Continued)

This benefit is a means of encouraging employees to save for their pension via a voluntary and shared savings program, which will contribute a wage plus bonus with a cap of U.F. 90 for every 36 months of actual, continuous contributions paid into that program.

- Additional benefits for retirement plan: Applies to all of the Company's employees included in the plan established by the collective bargaining agreement. It is an early and voluntary retirement plan for all workers between 55 and 60 years; and between 58 and 64 years whose compensation increases by a percentage according to age range and the hiring date. The benefits that can be provisioned refer to healthcare plans and life insurance for a period of 24 months, as well as education scholarships during the current school year (preschool, elementary school, high school and university) for school-aged children.

Actuarial Assumptions:

The actuarial assumptions used to calculate the abovementioned long-term commitments according to IFRS are the following:

- Mortality and disability: Uses the RV-2014 Mortality Chart of the Comisión para el Mercado Financiero.
- Turnover rates (resignations and company's needs): Calculated based on the historical values registered in BancoEstado and subsidiaries, which records events which occurred between 2012 and 2016.
- Discount rate: Determined based on BCU (bond rate of the Central Bank of Chile in Unidades de Fomento) at 5, 10 and 20 years plus a spread equivalent to the cost over the mentioned rate, of bond issuances or high-quality corporate bonds. As of December 31, 2019 and 2018, the annual real discount rates used are 0.15%, 0.80% and 0.88%, respectively (1.76%, 2.00% and 2.45%, as of December 31, 2018).
- Salary increase: Historical estimates of an annual rate of 2.24%, as calculated based on increases recorded between years 2015 and 2017.
- Retirement age: According to determinations by the Administration, 67 years for men and women.

The prepayment of employee benefits does not exist in the practice of the organization.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)

**NOTE 29 - PERSONNEL SALARIES AND EXPENSES (Continued)**

As of December 31, 2019 and 2018, the movements in actuarial provisions are as follows:

	Indemnity for years of service MCh\$	Prizes for years of service MCh\$	Retirement savings MCh\$	Total MCh\$ MUS\$	
Initial value of obligation at January 1, 2018	52,608	12,632	5,040	70,280	
Benefits paid during the year	(1,500)	(1,571)	(176)	(3,247)	
Services cost during current year	1,933	70	56	2,059	
Interest cost	2,864	689	274	3,827	
Actuarial profits and losses (*)					
Assumptions	61	(532)	(54)	(525)	
Experience	(822)	1,542	803	1,523	
Obligation as of December 31, 2018	55,144	12,830	5,943	73,917	
Initial value of obligation at January 1, 2019	55,144	12,830	5,943	73,917	99
Benefits paid during the year	(4,481)	(1,892)	(873)	(7,246)	(10)
Services cost during current year	1,326	144	76	1,546	2
Interest cost	2,633	613	283	3,529	5
Actuarial profits and losses (*)					
Assumptions	12,341	1,688	1,697	15,726	21
Experience	(2,565)	1,500	1,143	78	-
Obligation as of December 31, 2019	64,398	14,883	8,269	87,550	117

(*) For employee benefits, the Bank recorded in the Consolidated Statements of Other Comprehensive Income and the Consolidated Statements of Changes in Equity, a debit of MCh\$ 4,450 net of deferred taxes as of December 31, 2019 (credit of MCh\$ 4 as for December 31, 2018, net of deferred taxes), due to the application of IAS 19.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)

**NOTE 30 - ADMINISTRATIVE EXPENSES**

For the years ended December 31, 2019 and 2018, “Administrative expenses” are detailed as follows:

	12/31/2019		12/31/2018
	MUS\$	MCh\$	MCh\$
Administrative expenses	126	94,315	105,945
Maintenance and repair of property, plant, equipment	11	8,393	8,264
Office rentals	-	-	14,625
Equipment rentals	-	-	820
Insurance premiums	6	4,227	4,771
Office supplies	8	6,071	8,398
IT and communication expenses	32	24,225	20,942
Lighting, heating and other services	9	6,923	6,970
Securities services	17	12,686	10,892
Employees’ representation expenses and travel costs	6	4,427	5,847
Court and notary costs	-	294	180
Other services	4	2,640	3,178
Fees for audit of financial statements	1	498	954
Fines applied by agencies	-	21	24
Short-term leases	2	1,727	-
Low value leases	-	209	-
Other property rentals	10	7,147	8,972
Other administrative expenses	20	14,827	11,108
Subcontracted services	180	134,566	139,120
Rendering of services paid to companies	135	100,905	98,178
External personnel expenses	7	4,968	7,594
Administration and maintenance of automatic teller machines	36	26,885	22,686
Others	2	1,808	10,662
Board of Directors’ expenses	-	282	259
Directors’ remunerations	-	275	249
Other expenses of the Board of Directors	-	7	10
Advertising	12	9,454	11,020
Taxes, property tax and contributions	27	20,068	20,271
Property taxes	3	2,401	2,488
Licenses	2	1,319	1,348
Other taxes	7	5,397	6,190
Contributions to CMF	15	10,951	10,245
Total	345	258,685	276,615

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)


NOTE 31 - DEPRECIATION, AMORTIZATION AND IMPAIRMENT

- a) For the years ended December 31, 2019 and 2018, amounts corresponding to debit to income for depreciation, amortization and impairment are detailed as follows:

	<u>12/31/2019</u>		<u>12/31/2018</u>
	<u>MUS\$</u>	<u>MCh\$</u>	<u>MCh\$</u>
Depreciation and amortization			
Depreciation of property, premises and equipment	55	41,149	42,304
Impairment of property, premises and equipment	-	-	-
Amortization of intangible assets	107	80,211	64,246
Depreciation of right-of-use Assets	18	13,076	-
Impairment	-	-	-
Total	<u>180</u>	<u>134,436</u>	<u>106,550</u>

- b) The reconciliation between carrying amounts as of January 1 and the balance as of December 31, 2019 and 2018 is as follows:

Concept	Depreciation, amortization and impairment								
	12/31/2019					12/31/2018			
	Property, plant and equipment	Intangible assets	Right-of-use Assets	Total		Property, plant and equipment	Intangible assets	Right-of-use Assets	Total
	MCh\$	MCh\$	MCh\$	MCh\$	MUS\$	MCh\$	MCh\$	MCh\$	MCh\$
Balances as of January 1,	260,500	81,598	-	342,098	457	224,532	245,726	-	470,258
Charges for depreciation, amortization and impairment for the year	41,149	80,211	13,076	134,436	180	42,304	64,246	-	106,550
Withdrawals / disposals	(5,279)	(22)	(854)	(6,155)	(8)	(6,395)	(228,272)	-	(234,667)
Reclassification	(15,175)	-	15,175	-	-	-	-	-	-
Other	(776)	(14,239)	400	(14,615)	(20)	59	(102)	-	(43)
Balances rollforward as of	280,419	147,548	27,797	455,764	609	260,500	81,598	-	342,098

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)

**NOTE 32 - OTHER OPERATING INCOME AND EXPENSES**

a) Other operating income:

For the years ended December 31, 2019 and 2018, "Other operating income" is detailed as follows:

Concept	12/31/2019		12/31/2018
	MUS\$	MCh\$	MCh\$
Income from assets received in lieu of payment			
Gain on sale of assets received in lieu of payment	-	287	155
Other income	-	-	-
Subtotal	-	287	155
Release of provisions for contingencies			
Country risk provision	2	1,804	-
Special provisions for credits abroad	-	-	-
Additional provisions for loans	-	-	-
Other provisions for contingency	-	-	-
Subtotal	2	1,804	-
Other income			
Gain on sale of property, plant and equipment	1	1,083	532
Gain on sale from participation in company	-	-	7,347
Income other than interest and fees for lease agreements	3	2,097	457
Income from communications received - swift system	-	316	295
Regulatory compliance credit	2	1,160	212
Income from sales over foreclosed assets	5	3,697	3,300
Assignment of clients to external appraisers	1	423	376
Insurance reimbursement	-	379	358
Property rental	-	-	-
Expenses recovery	-	238	262
Subsidy from new basic housing	-	152	45
Several recoveries	5	3,586	3,456
Income from payment adjustment	1	407	185
Fines to suppliers	1	789	354
Other income	1	600	1,630
Subtotal	20	14,927	18,809
Total	22	17,018	18,964

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)

**NOTE 32 - OTHER OPERATING INCOME AND EXPENSES (Continued)**

b) Other operating expenses:

For the years of 2019 and 2018, “Other operating expenses” is detailed as follows:

	12/31/2019		12/31/2018
	MUS\$	MCh\$	MCh\$
Provisions and expenses from assets received in lieu of payment			
Provisions for assets received in lieu of payment	1	1,007	275
Write-offs of assets received in lieu of payment	4	3,055	2,258
Maintenance expenses of assets received in lieu of payment	-	79	28
Subtotal	5	4,141	2,561
Provisions for contingencies			
Provisions for country risk	-	-	2,028
Other contingency provisions	11	8,107	14,643
Subtotal	11	8,107	16,671
Other expenses			
Loss on sale of plant, property and equipment	-	18	4
Corrections of credit cards	9	6,737	2,998
Adjustment of payment or collection from prior year	-	289	994
Various write offs	38	28,450	3,388
Insurance premiums payments	-	-	1
Expenses from renegotiation of mortgage loan portfolio	-	131	97
Losses from failures in systems and processes	2	1,156	1,610
Losses from theft and robbery	7	5,197	1,143
Losses from operational fraud	17	12,699	7,141
Losses due to customer complaints	1	1,013	234
Credit card reward program	3	1,898	3,942
Loss to damage to assets	9	6,926	1,046
Interest and inflation-indexation lease operations	2	1,101	1,132
Technology services received	2	1,727	1,193
Other expenses	2	1,248	5,135
Subtotal	92	68,590	30,058
Total	108	80,838	49,290

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



NOTE 33 - TRANSACTIONS WITH RELATED PARTIES

In accordance with the provisions of the General Banking Law and the instructions set forth by the Comisión para el Mercado Financiero, individuals or legal entities are considered to be associated when they are involved in the ownership or management of the institution directly or indirectly through third parties.

a) Group entities (consolidated in these Financial Statements)

Company and/or foreign branch	12/31/2019			12/31/2018		
	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%
Sociedad de Servicios Transaccionales Caja Vecina S.A.	99.8494%	0.1506%	100.0000%	99.8494%	0.1506%	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.	-	-	-	99.8334%	0.1666%	100.0000%
Red Global S.A.	90.1000%	-	90.1000%	90.1000%	-	90.1000%
BancoEstado - Sucursal New York	100.0000%	-	100.0000%	100.0000%	-	100.0000%

b) Related party loans

Loans and receivables, contingent loans and assets related to instruments held for trading and held for investment with related parties are detailed as follows:

	12/31/2019						12/31/2018		
	Productive Companies		Investment Companies		Natural Persons		Productive Companies	Investment Companies	Natural Persons
	MUS\$	MCh\$	MUS\$	MCh\$	MUS\$	MCh\$	MCh\$	MCh\$	MCh\$
Loans and receivables									
Commercial loans	7	5,318	-	221	3	2,220	23,252	274	1,674
Mortgage loans	-	-	-	-	14	10,218	-	-	9,112
Consumer loans	-	-	-	-	2	1,457	-	-	1,579
Gross loans	<u>7</u>	<u>5,318</u>	<u>-</u>	<u>221</u>	<u>19</u>	<u>13,895</u>	<u>23,252</u>	<u>274</u>	<u>12,365</u>
Allowance for loan losses	-	(43)	-	-	-	(57)	(107)	-	(58)
Loans, net	<u>7</u>	<u>5,275</u>	<u>-</u>	<u>221</u>	<u>19</u>	<u>13,838</u>	<u>23,145</u>	<u>274</u>	<u>12,307</u>
Contingent credits:									
Total contingent credits	-	245	39	28,915	1	1,016	27	28,878	675
Allowance for contingent loans	-	(1)	-	(75)	-	(5)	-	(74)	(3)
Contingent loans, net	<u>-</u>	<u>244</u>	<u>39</u>	<u>28,840</u>	<u>1</u>	<u>1,011</u>	<u>27</u>	<u>28,804</u>	<u>672</u>
Acquired instruments:									
For negotiation	-	-	-	-	-	-	-	-	-
For investment	-	-	-	-	-	-	-	-	-

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)

**NOTE 33 - TRANSACTIONS WITH RELATED PARTIES (Continued)**

c) Other assets and liabilities with related parties

	12/31/2019		12/31/2018
	MUS\$	MCh\$	MCh\$
Assets			
Other Assets	-	19	199
Liabilities			
Demand deposits	179	134,041	50,260
Deposits and other loans	290	216,827	168,875
Other liabilities	-	64	47

d) Income or expenses from transaction with related parties

Type of income or expense	12/31/2019				12/31/2018	
	Income		Expenses		Income	Expenses
	MUS\$	MCh\$	MUS\$	MCh\$	MCh\$	MCh\$
Interest and inflation-indexation income (expense)	5	3,427	(2)	(1,554)	3,495	(870)
Income (expense) from commissions and services	-	356	-	-	282	-
Income (loss) from trading	-	-	-	-	-	-
Income (loss) from other financial transactions	-	-	-	-	-	-
Exchange differences	-	32	-	-	29	-
Expenses from operational support	-	-	(2)	(1,238)	-	(1,627)
Other expenses	-	-	-	(164)	-	(56)
Total	5	3,815	(4)	(2,956)	3,806	(2,553)

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)

**NOTE 33 - TRANSACTIONS WITH RELATED PARTIES (Continued)**

e) Contracts with related parties

Related parties	12/31/2019	12/31/2018
	Type of Contract	Type of Contract
1) Contracts over UF 1,000		
Operadora de Tarjetas de Crédito Nexus S.A.	Back office services	Back office services
Sociedad Operadora Camara Compensación Pago Alto Valor S.A.	Compensation chamber service	Compensation chamber service
Transbank S.A.	-	Commission fee
Isapre Fundación	Lease of office	Lease of office
2) Contracts less than UF 1,000		
Transbank S.A.	Commission fee	-
Fundación Asistencial y de Salud	Lease of office	Lease of office

f) Payments to the Board of Directors and key management employees

For the years ended December 31, 2019 and 2018, remuneration received by key Management employees is detailed as follows:

	12/31/2019		12/31/2018
	MUS\$	MCh\$	MCh\$
Short term benefits to employees	6	4,538	4,557
Staff severance indemnities	-	134	492
Total	6	4,672	5,049

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)

**NOTE 33 - TRANSACTIONS WITH RELATED PARTIES (Continued)**

g) Key employees

As of December 31, 2019 and 2018, the Bank's key personnel is composed of the following:

	<u>12/31/2019</u>	<u>12/31/2018</u>
Position	Number of executives	Number of executives
Chairman	1	1
Vice President	1	1
Director	4	3
Labor Director	2	2
General Manager	1	1
Chief Attorney	1	1
Controller	1	1
Area Managers	11	10
General Managers of Subsidiaries	9	9
Total	31	29

h) Transactions with key employees and their related parties

For the years ended December 31, 2019 and 2018, the Bank has performed transactions with key employees and their related parties, whose results are detailed as follows:

	<u>12/31/2019</u>	<u>12/31/2018</u>
	Amounts of transactions of key executives and related parties	Amounts of transactions of executives and related parties
	MUS\$	MCh\$
Credit cards and other services	2	1,226
Loans	-	64
Mortgage loans	-	9
Others	-	41
Total	2	1,331

NOTE 34 - ASSETS AND LIABILITIES AT FAIR VALUE

The fair value is the price that would be received for selling an asset or paid for transferring a liability in an orderly transaction between market participants on the measurement date. For financial instruments with no market prices available, fair values have been calculated using current values and other valuation techniques. Such techniques are significantly affected by the assumptions adopted, including discount rates. In this respect, the fair value estimates of certain financial assets and liabilities may not be justified compared to independent markets and, in several cases, may not be performed in the immediate allocation.

In addition, fair value estimates presented below are not intended to estimate gains generated by the Bank's business or future business activities and; accordingly do not represent the Bank's value as a going concern.

Fair value estimate methods for financial instruments are detailed as follows:

a) Cash and deposits in banks:

The carrying amount of cash and bank deposits approximates its fair value due to its short-term nature.

b) Transactions in the course of collection (assets and liabilities):

The carrying amount of transactions subject to foreign currency exchange approximates its estimated value due to its short-term nature.

c) Financial investments and bonds issued:

The estimated fair value of financial instruments was determined using market values or quoted prices in the financial instrument market with similar characteristics.

d) Loans and receivables from customers, loans and advances to banks, deposits and other obligations, letters of credit issued, repurchase agreements and securities loans and other debts:

The fair values of these financial instruments are estimated using the analysis of discounted cash flows, derived from the settlement of contractual cash flows for each of them, at a market discount rate, which considers credit risk, when applicable.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



NOTE 34 - ASSETS AND LIABILITIES AT FAIR VALUE (Continued)

e) Financial derivative contracts:

The fair value of derivatives represents the estimated amount that the Bank, New York Branch and Subsidiaries expect to receive or pay to rescind the contracts and agreements, keeping in mind current interest rates and prices. Regarding the fair value of derivatives the Bank performs contrast price adjustment and adjustments for counterparty credit risk. In the case of contrast price adjustments (Bid/Ask) the Bank uses market information and incorporates it in the rate curves when making the assessment. For counterparty credit risk adjustments the Bank applies the criteria defined by the Compendium of Accounting Standards issued by the Comisión para el Mercado Financiero for the “regular and substandard” portfolios, it takes the counterparty exposure and applies the expected loss factor over the fair value and this adjustment is recorded as a reduction in the fair value with effect in the Consolidated Statements of Income.

As of December 31, 2019 and 2018, the estimated fair value of these financial instruments is detailed as follows:

	12/31/2019						12/31/2018		
	Carrying amount		Estimated fair value		Difference		Carrying amount	Estimated fair value	Difference
	MUS\$	MCh\$	MUS\$	MCh\$	MUS\$	MCh\$	MCh\$	MCh\$	MCh\$
Assets									
Cash and due from banks	5,306	3,972,444	5,306	3,972,444	-	-	4,354,391	4,354,391	-
Transactions in the course of collection	223	167,010	223	167,010	-	-	369,632	369,632	-
Financial assets held for trading	2,239	1,676,531	2,239	1,676,531	-	-	2,192,921	2,192,921	-
Repurchase agreements and securities loans	193	144,806	193	144,775	-	(31)	337,027	336,953	(74)
Financial derivative contracts	1,973	1,477,626	1,973	1,477,626	-	-	808,201	808,201	-
Loans and advances to banks, net	610	457,003	604	452,549	(6)	(4,454)	628,908	720,956	92,048
Loans and accounts receivable from customers, net	33,381	24,993,590	42,244	31,629,634	8,863	6,636,044	23,240,012	27,614,592	4,374,580
Financial investments available for sale	10,213	7,646,814	10,213	7,646,814	-	-	6,008,764	6,008,764	-
Financial investments held to maturity	24	17,649	24	18,044	-	395	21,162	18,720	(2,442)
Total	54,162	40,553,473	63,019	47,185,427	8,857	6,631,954	37,961,018	42,425,130	4,464,112
Liabilities									
Current accounts and other demand deposits	14,182	10,618,977	14,182	10,618,977	-	-	9,539,516	9,539,516	-
Transactions in the course of payment	169	126,169	169	126,169	-	-	352,913	352,913	-
Repurchase agreements and securities loans	1,235	924,775	1,235	924,323	-	452	820,849	820,162	687
Times deposits and savings account	21,941	16,428,458	21,446	16,057,306	495	371,152	17,148,269	16,820,222	328,047
Financial derivative contracts	1,769	1,324,832	1,769	1,324,832	-	-	762,955	762,955	-
Obligations with banks	2,330	1,744,835	2,491	1,865,433	(161)	(120,598)	1,307,903	1,324,907	(17,004)
Debt instruments issued	11,171	8,363,934	11,159	8,355,297	12	8,637	7,231,410	6,607,667	623,743
Other financial obligations	34	25,562	25	18,883	9	6,679	17,297	13,804	3,493
Total	52,831	39,557,542	52,476	39,291,220	355	266,322	37,181,112	36,242,146	938,966

“Loans and advances to banks” and “Loans and accounts receivables from customers” are valued using market rates, subtracting credit risk provisions, if applicable.

NOTE 34 - ASSETS AND LIABILITIES AT FAIR VALUE (Continued)**Determining fair value and hierarchy**

IFRS 13 establishes a fair value hierarchy, which prioritizes the valuation techniques used to measure fair value. The hierarchy gives top priority to unadjusted prices quoted in active markets for identical assets and liabilities (level 1 measurements) and the lowest priority to measurements that include significant unobservable inputs (level 3 measurements). The three levels of fair value hierarchy are detailed as follows:

- Level 1: fair value measurements using quoted prices (unadjusted) in active markets for identical assets and liabilities, for which the Bank has the ability to access at the measurement date. For these instruments there are observable market prices (internal rate of return, stock price, etc.), so no assumptions are needed to value.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These categories include:
 - a) Quoted prices for identical or similar assets in markets that are not active.
 - b) Quoted prices for identical or similar assets or liabilities in markets that are not active.
 - c) Inputs other than the quoted prices that are observable for the asset or liability.
 - d) Inputs corroborated by the market.

The assets and liabilities classified in this level, correspond to financial instruments whose rates or quoted prices are obtained from market prices with the application of a model.

- Level 3: unobservable inputs for the asset or liability.

In this case, BancoEstado applies models recognized and validated in the financial industry to value financial instruments. With regard to debt instruments (IRF) and financial brokerage instruments (IIF), these are valued, applying the model developed by DICTUC S.A., a subsidiary of Pontificia Universidad Católica de Chile, which consists of valuing instruments in the portfolio with actual transaction prices. Should there be no prices for a specific instrument, the price reference model is applied, based on all information available on transactions for the day and all historical information recorded in the Santiago Stock Exchange.

For derivative instruments, the methodology applied relate to currency rate factors obtained from valid market sources modelled using a 6-factor Svensson model, from which the daily periodic rate curve for each currency, term and market where the Bank operates, is obtained.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)


NOTE 34 - ASSETS AND LIABILITIES AT FAIR VALUE (Continued)

The table below shows assets and liabilities measured at fair value as of December 31, 2019 and 2018:

	12/31/2019							
	Fair value measurements							
	Total		Prices in active for identical assets (level 1)		Other significant observable input (level 2)		Significant unobservable inputs (level 3)	
	MUS\$	MCh\$	MUS\$	MCh\$	MUS\$	MCh\$	MUS\$	MCh\$
Assets								
Financial assets held for trading	2,239	1,676,531	642	480,751	1,597	1,195,780	-	-
Financial derivative contracts	1,973	1,477,626	-	-	1,973	1,477,626	-	-
Financial investments available for sale	10,213	7,646,814	4,356	3,261,264	5,857	4,385,550	-	-
Total	14,425	10,800,971	4,998	3,742,015	9,427	7,058,956	-	-
Liabilities								
Financial derivative contracts	1,769	1,324,832	-	-	1,769	1,324,832	-	-
Total	1,769	1,324,832	-	-	1,769	1,324,832	-	-

	12/31/2018			
	Fair value measurements			
	Total	Prices in active markets for identical (level 1)	Other significant observable input (level 2)	Significant unobservable inputs (level 3)
	MCh\$	MCh\$	MCh\$	MCh\$
Assets				
Financial assets held for trading	2,192,921	783,071	1,409,850	-
Financial derivative contracts	808,201	-	808,201	-
Financial investments available for sale	6,008,764	1,547,808	4,460,956	-
Total	9,009,886	2,330,879	6,679,007	-
Liabilities				
Financial derivative contracts	762,955	-	762,955	-
Total	762,955	-	762,955	-

For the years ended December 31, 2019 and 2018, the Bank performed transfers between the fair value 1 and 2 hierarchy levels. For transfers to Level 1, the Bank considered the prices generated from market transactions for identical assets, not requiring the use of assumptions for their valuation. Transfers to Level 2 relate to instruments valued considering market information instead of market transactions, because the information was not available at the measurement date.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



NOTE 34 - ASSETS AND LIABILITIES AT FAIR VALUE (Continued)

The transfers of levels are detailed as follows:

Assets

Level 1

	Financial assets held for trading	Financial derivative contracts	Financial investments available for sale	Total
	MCh\$	MCh\$	MCh\$	MCh\$
Balance as of January 01, 2019	783,071	-	1,547,808	2,330,879
Changes in level 1 (*)	(329,447)	-	1,711,175	1,381,728
Transfers of levels:				
- From level 2	31,468	-	107,739	139,207
- To level 2	(4,341)	-	(105,458)	(109,799)
Balance as of December 31, 2019 MCh\$	480,751	-	3,261,264	3,742,015
Balance as of December 31, 2019 MUS\$	642	-	4,356	4,998
Balance as of January 01, 2018	515,296	-	1,023,304	1,538,600
Changes in level 1 (*)	237,674	-	528,640	766,314
Transfers of levels:				
- From level 2	30,933	-	26,038	56,971
- To level 2	(832)	-	(30,174)	(31,006)
Balance as of December 31, 2018 MCh\$	783,071	-	1,547,808	2,330,879

Level 2

	Financial assets held for trading	Financial derivative contracts	Financial investments available for sale	Total
	MCh\$	MCh\$	MCh\$	MCh\$
Balance as of January 01, 2019	1,409,850	808,201	4,460,956	6,679,007
Changes in level 2 (*)	(186,943)	669,425	(73,125)	409,357
Transfers of levels:				
- From level 1	4,341	-	105,458	109,799
- To level 1	(31,468)	-	(107,739)	(139,207)
Balance as of December 31, 2019 MCh\$	1,195,780	1,477,626	4,385,550	7,058,956
Balance as of December 31, 2019 MUS\$	1,597	1,973	5,857	9,427
Balance as of January 01, 2018	1,796,008	675,191	4,177,331	6,648,530
Changes in level 2 (*)	(356,057)	133,010	279,489	56,442
Transfers of levels:				
- From level 1	832	-	30,174	31,006
- To level 1	(30,933)	-	(26,038)	(56,971)
Balance as of December 31, 2018 MCh\$	1,409,850	808,201	4,460,956	6,679,007

(*) Variations are generated from maturities, purchase and sale of instruments and changes in their fair value.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)

**NOTE 34 - ASSETS AND LIABILITIES AT FAIR VALUE (Continued)****Liabilities****Level 2**

	Financial derivative contracts	Total
	MCh\$	MCh\$
Balance as of January 01, 2019	762,955	762,955
Changes in level 2 (*)	561,877	561,877
Transfers of levels:		
- From level 1	-	-
- To level 1	-	-
Balance as of December 31, 2019 MCh\$	1,324,832	1,324,832
Balance as of December 31, 2019 MUS\$	1,769	1,769
Balance as of January 01, 2018	734,677	734,677
Changes in level 2 (*)	28,278	28,278
Transfers of levels:		
- From level 1	-	-
- To level 1	-	-
Balance as of December 31, 2018 MCh\$	762,955	762,955

(*) Variations are generated from maturities, purchase and sale of instruments and changes in their fair value.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)

**NOTE 34 - ASSETS AND LIABILITIES AT FAIR VALUE (Continued)****Offsetting of financial assets and liabilities:**

BancoEstado enters into financial derivative transactions with counterparties located abroad, using the ISDA (International Swaps and Derivatives Association, Inc.) Master Agreement documentation under the current legal jurisdiction of New York, USA, or London, England. The legal framework in these jurisdictions, together with the documentation referred to above, entitles the Bank to accelerate the maturity of transactions and then offset their net value in event of default by the respective counterparty. In addition, BancoEstado has negotiated a supplementary appendix (Credit Support Annex, CSA) with certain counterparties, which considers an additional credit mitigant, which involves paying margins on a certain threshold or limit range of the net value of transactions; and other clauses.

The detail of contracts eligible for offsetting is as follows:

	Fair Value in balance sheet	ISDA CONTRACTS		CONTRACTS WITH ISDA AND CSA		Net financial guarantees	Net fair value	
		Negative Fair Value Contracts with right to compensation	Positive Fair Value Contracts with right to compensation	Negative Fair Value Contracts with credit mitigator	Positive Fair Value Contracts with credit mitigator		MCh\$	MUS\$
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MUS\$
Assets for financial derivative contracts as of December 31, 2019	1,477,626	(209,141)	300,355	(1,029,753)	849,760	268,928	1,388,691	1,855
Assets for financial derivative contracts as of December 31, 2018	808,201	(203,717)	217,548	(701,924)	404,279	296,066	809,780	

NOTE 35 - RISK MANAGEMENT

Introduction:

The main purpose of risk management is to ensure the long-term stability and sustainability of the businesses conducted by BancoEstado. This is achieved through the application of credit policies aligned with the Bank's commercial development strategy, ensuring the existence of a sound evaluation, approval and own risk management processes for bank operations in accordance with corporate governance management practices established by BancoEstado.

The credit process is carried out with effective counterparties in all the Bank's commercial segments, under a collective decisions scheme. In this sense, Corporate Risk Management is performed independently from the commercial areas and comprises managing the credit, market and liquidity risks faced by BancoEstado in its businesses and also makes proposals on policies, methodologies and procedures to be applied in such management.

Therefore, the achievements in complying with the mission assigned to BancoEstado have been optimizing the risk-return ratio, adding value to the entity.

Risk management structure:

In relation to the policies, methodologies, procedures manuals, contingency plans and limit structures, there is an allocation of specific responsibilities related to risk management, which detail is the following:

Executive Committee: approves policies and methodologies, and establishes exposure limits for these risks, which are reviewed at least once a year.

Financial Business Committee: responsible for assigning the limits defined by the Executive Committee and Management and managing the financial business.

Assets and Liabilities Committee: responsible for managing and controlling the Branch's assets and liabilities.

Credit and Financial Risk Committee: responsible for overseeing that the Bank and its Subsidiaries' activities are aligned with the level of acceptable risk appetite to execute the business strategy in the credit and financial segments.

Operating and Technology Risk Committee: responsible for overseeing that the Bank and its Subsidiaries' activities are aligned with the level of acceptable risk appetite to execute the business strategy for the operating and technology management.

Internal Audit: responsible for ensuring compliance with the policies, limits and standards regulating the banking business.

NOTE 35 - RISK MANAGEMENT (Continued)

Main risks affecting the Bank:

1) Credit risk:

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

Exposure to credit risks is centrally managed incorporating both the Bank, its Subsidiaries and New York Branch through regular analyses of the ability of debtors and potential debtors to meet their payments in conformity with contractual terms of loans. This exposure is mitigated by obtaining real and personal guarantees. However, a portion of these loans are unguaranteed, e.g., consumer loans granted to natural persons.

The Bank has specialized areas segmented by company size and type of exposure, which are actively involved in all stages of the loan process, from the risk assessment and approval of loans (through the respective committees), to the monitoring and follow-up of customers, and managing the regularization and follow-up of the critical portfolio for financially-impaired debtors, establishing clear policies, powers and processes for the wholesale and retail segments.

The risk assessment in the wholesale banking segment is carried out on a case-by-case basis for debtors with individual assessment who represent 98% of this portfolio, through rating the debtor in the risk categories defined in Chapter B-1 of the Compendium of Accounting Standards issued by the Comisión para el Mercado Financiero. The remaining customers are collectively provisioned; such assessment is based on probability of default models.

The approval process in the retail banking segments is performed through different degrees of automation, with scoring tools for the Retail Segment, and assessment guidelines for Small Companies.

In order to determine provisions in the retail banking segment, the Bank uses the maximum provision obtained between the comparison of the standard and internal models based on the probability of default, which consider behavior information, collection procedures, and mitigating actions, in accordance with the provisions of Chapter B-1 of the Compendium of Accounting Standards issued by the Comisión para el Mercado Financiero. These models are presented by product and by customer and are applied to all operations in the collectively evaluated portfolio, which allows for a global and integrated view of credit risk management.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



NOTE 35 - RISK MANAGEMENT (Continued)

In addition, the Bank keeps strict control over open positions in derivative instruments traded directly with counterparties. Credit risk is limited to the fair value of the contracts favorable to the Bank (asset position), which only represents a small fraction of the notional amounts of those instruments. This exposure to credit risk is managed as part of limits for loans to costumers and potential exposures to market fluctuations.

With respect to contingent commitments, the Bank operates with different instruments that, although exposed to credit risk, are not shown in the Consolidated Statements of Financial Position: collateral and security bonds, documentary letters of credit, bank guarantee certificates and commitments to grant credits.

Collateral and security bonds represent an irrevocable payment obligation. If a secured customer does not meet its obligations with third parties secured by the Bank, the Bank will make the related payments; so that, these operations represent the same exposure to credit risk as an ordinary loan.

Documentary letters of credit are commitments documented by the Bank on behalf of the client that are guaranteed by shipped goods to which they relate and, accordingly, have lower risk than direct indebtedness. Bank guarantee certificates correspond to contingent commitments that are effective only if the client does not comply with the realization of agreed works with a third party and guaranteed by them.

Note that the Bank accrues provisions to safeguard against potential losses in respect to the exposure of these contingent loans, duly weighted in accordance with the provisions of Chapter B-3 of the Compendium of Accounting Standards issued by the Comisión para el Mercado Financiero.

With respect to financial instruments, the Bank measures the probability of default of issuers using internal and external ratings such as risk rating agencies that are independent from the Bank.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)

**NOTE 35 - RISK MANAGEMENT (Continued)****Maximum credit risk exposure:**

The following table shows the maximum exposure to credit risk for the different components of the Consolidated Statements of Financial Position, including derivatives, these do not consider collaterals or other credit improvements.

	Note	12/31/2019				12/31/2018	
		Exposure maximum gross		Exposure maximum net		Exposure maximum gross	Exposure maximum net
		MUS\$	MCh\$	MUS\$	MCh\$	MCh\$	MCh\$
Repurchase agreements and securities loans	7	193	144,806	-	-	337,027	-
Financial derivative contracts	8	1,973	1,477,626	1,973	1,477,626	808,201	808,201
Loans and advances to banks	9	615	460,806	610	457,003	632,242	628,908
Loans and accounts receivable from customers	10	34,475	25,812,815	33,381	24,993,590	23,934,547	23,240,012
Financial investments available for sale	11	10,213	7,646,814	10,213	7,646,814	6,008,764	6,008,764
Financial investments held to maturity	11	24	17,649	24	17,649	21,162	21,162
Other assets (*)	16	67	49,767	67	49,767	42,325	42,325
Contingent credits	22	5,937	4,445,825	5,872	4,397,314	4,660,681	4,605,376
Total		53,497	40,056,108	52,140	39,039,763	36,444,949	35,354,748

For further detail on the maximum exposure to credit risk and the concentration for each type of financial instrument, see the respective notes.

(*) Corresponds to debts receivable from the government, commissions receivable and other receivables.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)

**NOTE 35 - RISK MANAGEMENT (Continued)**

The detail of the credit risk concentration of financial assets per industry is as follows:

	12/31/2019				12/31/2018	
	Maximum exposure		Maximum exposure		Maximum exposure	Maximum exposure
	gross		net		gross	net
	MUS\$	MCh\$	MUS\$	MCh\$	MCh\$	MCh\$
Commercial Assets						
Manufacturing	962	720,057	929	695,215	1,009,579	989,171
Mining	814	609,616	795	595,185	325,654	310,453
Electricity, gas and water supply	1,017	761,797	966	723,658	815,581	789,393
Agriculture and cattle raising	1,050	786,354	996	745,934	686,650	657,686
Forestry	245	183,318	236	176,423	81,570	74,498
Fishing	83	62,126	76	56,647	68,949	62,346
Transport	1,714	1,283,070	1,639	1,227,273	913,155	866,258
Telecommunications	192	143,728	189	141,767	167,766	165,330
Construction	2,651	1,984,825	2,611	1,954,974	1,830,438	1,806,586
Retail	2,960	2,216,568	2,830	2,118,856	2,056,332	1,987,233
Services	17,759	13,297,031	17,460	13,072,822	11,032,746	10,633,416
Others	7,458	5,584,658	7,324	5,484,228	5,747,048	5,645,059
Subtotal	36,905	27,633,148	36,051	26,992,982	24,735,468	23,987,429
Mortgage and consumer assets						
Mortgage	13,595	10,179,298	13,372	10,012,389	9,593,676	9,430,155
Consumer	2,997	2,243,662	2,717	2,034,392	2,115,805	1,937,164
Subtotal	16,592	12,422,960	16,089	12,046,781	11,709,481	11,367,319
Total	53,497	40,056,108	52,140	39,039,763	36,444,949	35,354,748

The risk categories for the individual portfolio are described in Note 1 letter u.1). Additional provisions made by BancoEstado are described in Note 1 letter u.6).

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



NOTE 35 - RISK MANAGEMENT (Continued)

Loan quality by class of financial asset

Quality of loans described in conformity with the Compendium of Accounting Standards issued by the Comisión para el Mercado Financiero, are detailed as follows:

12/31/2019	INDIVIDUAL									COLLECTIVE			
	A1 MCh\$	A2 MCh\$	A3 MCh\$	A4 MCh\$	A5 MCh\$	A6 MCh\$	B1 MCh\$	B2 MCh\$	Impaired portfolio MCh\$	Normal MCh\$	Impaired MCh\$	Total MCh\$	Total MUS\$
Loans and advances to banks	1,219	2,266	274,432	182,889	-	-	-	-	-	-	-	460,806	615
Loans and accounts receivable from customers	200,455	1,460,117	2,213,269	2,106,583	1,862,456	1,443,290	345,562	149,260	245,431	13,903,062	1,883,330	25,812,815	34,475
Total	201,674	1,462,383	2,487,701	2,289,472	1,862,456	1,443,290	345,562	149,260	245,431	13,903,062	1,883,330	26,273,621	35,090

12/31/2018	INDIVIDUAL									COLLECTIVE			
	A1 MCh\$	A2 MCh\$	A3 MCh\$	A4 MCh\$	A5 MCh\$	A6 MCh\$	B1 MCh\$	B2 MCh\$	Impaired portfolio MCh\$	Normal MCh\$	Impaired MCh\$	Total MCh\$	
Loans and advances to banks	-	41	117,111	515,090	-	-	-	-	-	-	-	632,242	
Loans and accounts receivable from customers	189,174	1,328,206	2,196,066	1,923,905	1,523,811	1,240,649	292,026	114,979	205,238	13,261,227	1,659,266	23,934,547	
Total	189,174	1,328,247	2,313,177	2,438,995	1,523,811	1,240,649	292,026	114,979	205,238	13,261,227	1,659,266	24,566,789	

Note: The amounts are presented gross.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)

**NOTE 35 - RISK MANAGEMENT (Continued)**

The analysis of assets past due but not impaired by type of financial asset is as follows:

Tranches:

Overdue 1 : 1 to 29 days

Overdue 2 : 30 to 59 days

Overdue 3 : 60 to 89 days

12/31/2019	Overdue 1 MCh\$	Overdue 2 MCh\$	Overdue 3 MCh\$	Total	
				MCh\$	MUS\$
Loans and advances to banks	-	-	-	-	-
Commercial loans	103,405	12,548	2,629	118,582	158
Mortgage loans	2,704	1,057	366	4,127	6
Consumer loans	4,098	1,601	5,112	10,811	14
Total	110,207	15,206	8,107	133,520	178

12/31/2018	Overdue 1 MCh\$	Overdue 2 MCh\$	Overdue 3 MCh\$	Total MCh\$
Loans and advances to banks	-	-	-	-
Commercial loans	135,313	6,638	1,614	143,565
Mortgage loans	2,751	997	358	4,106
Consumer loans	6,061	2,339	3,924	12,324
Total	144,125	9,974	5,896	159,995

Note: The amounts are presented gross.

As of December 31, 2019, the fair value of guarantees on impaired loans amounts to MCh\$ 41,949 for the individual portfolio and MCh\$ 670,245 for the collective portfolio (MCh\$ 32,820 and MCh\$ 622,281, respectively as of December 31, 2018).

In order to mitigate the credit risk, the Bank actively uses different types of guarantees such as: mortgages, bonds, co-debtors and bonds and leased assets. In relation to the guarantees required for financial transactions, particularly agreements, which present credit risk, the underlying asset is considered as guarantee, which usually correspond to commercial paper issued by the Chilean Government.

NOTE 35 - RISK MANAGEMENT (Continued)

Note that as of December 31, 2019 and 2018, the coverage of provisions and guarantees over the impaired portfolio is 91% and 90%, respectively. The difference with respect to the total corresponds to expected recoveries using collection actions. For this purpose, the Bank has considered the guarantees adjusted to the historical recovery values obtained by BancoEstado.

2) Liquidity risk:

Liquidity risk is the risk that the Bank will encounter difficulties in meeting obligations associated with its financial liabilities. BancoEstado is exposed to cash requirements on a daily basis from current and savings account withdrawals, payments of term deposits, payments of guarantees, disbursements for derivative transactions, among others.

The limits established to control liquidity are detailed as follows:

- (i) Mismatches up to 30 days for all currencies, up to once basic capital;
- (ii) Mismatches up to 30 days for foreign currencies, up to once basic capital.
- (iii) Mismatches up to 90 days for all currencies, twice basic capital.

Considering the nature of its operations, the Bank uses an adjusted methodology to measure its mismatches and comply with regulatory limits. Such methodology allows considering that a portion of demand deposits, time deposits and deposits in savings accounts of retail customers, tend to be held by the Bank for relatively longer periods than, contractual deposits, which is a behavior that the Bank models reliably. The detail by maturity of assets and liabilities is presented in Note 36.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



NOTE 35 - RISK MANAGEMENT (Continued)

As of December 31, 2019 and 2018, the exchange rates of assets, liabilities and contingent credits is as follows:

12/31/2019	US\$ MCh\$	Euro MCh\$	Yen MCh\$	Pounds MCh\$	Others MCh\$	Pesos MCh\$	UF MCh\$	Total MCh\$	MUS\$
Assets									
Cash and due from banks	2,136,855	12,452	1,160	2,317	2,497	1,817,163	-	3,972,444	5,306
Transactions in the course of collection	44,045	2,458	-	4,413	4,393	111,701	-	167,010	223
Financial assets held for trading	77	-	-	-	-	1,394,300	282,154	1,676,531	2,239
Repurchase agreements and securities loans	-	-	-	-	-	144,806	-	144,806	193
Financial derivative contracts	2,238	-	-	-	-	1,475,388	-	1,477,626	1,973
Loans and advances to banks, net	457,003	-	-	-	-	-	-	457,003	610
Loans and accounts receivable from customers, net	2,539,881	20,213	547	12	84,065	7,728,181	14,620,691	24,993,590	33,381
Investment securities	273,336	-	-	-	-	7,025,202	365,925	7,664,463	10,237
Other assets	773,278	5,841	43	740	14,747	1,955,701	51,153	2,801,503	3,742
Total assets	6,226,713	40,964	1,750	7,482	105,702	21,652,442	15,319,923	43,354,976	57,904
Liabilities									
Current accounts and other demand deposits	306,980	8,418	16	1,181	379	10,301,983	20	10,618,977	14,182
Transactions in the course of payment	86,627	2,013	2	4,646	5,162	27,719	-	126,169	169
Repurchase agreements and securities loans	44,103	-	-	198	905	879,569	-	924,775	1,235
Time deposits and savings accounts	3,850,596	7,049	-	-	-	9,537,990	3,032,823	16,428,458	21,941
Financial derivative contracts	5,240	-	-	-	-	1,319,592	-	1,324,832	1,769
Obligations with banks	1,644,500	96,780	547	-	3,008	-	-	1,744,835	2,330
Debt instruments issued	1,286,525	252,668	543,806	-	846,455	142,666	5,291,814	8,363,934	11,171
Other financial obligations	4,237	-	-	-	-	21,325	-	25,562	34
Other liabilities	478,466	13	43	740	344	1,485,674	20,346	1,985,626	2,653
Total liabilities	7,707,274	366,941	544,414	6,765	856,253	23,716,518	8,345,003	41,543,168	55,484
Net assets (liabilities)	(1,480,561)	(325,977)	(542,664)	717	(750,551)	(2,064,076)	6,974,920	1,811,808	2,420
Contingent credits	552,389	13,086	303	200	96	2,981,368	898,383	4,445,825	5,937
Net position of assets (liabilities)	(928,172)	(312,891)	(542,361)	917	(750,455)	917,292	7,873,303	6,257,633	8,357

The analysis of maturity of assets and liabilities is included in Note 36.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



NOTE 35 - RISK MANAGEMENT (Continued)

12/31/2018	US\$ MCh\$	Euro MCh\$	Yen MCh\$	Pounds MCh\$	Others MCh\$	Pesos MCh\$	UF MCh\$	Total MCh\$
Assets								
Cash and due from banks	2,828,683	21,862	1,844	430	2,505	1,499,067	-	4,354,391
Transactions in the course of collection	147,296	8,274	2,941	348	1,896	208,877	-	369,632
Financial assets held for trading	1,609	-	-	-	-	1,432,494	758,818	2,192,921
Repurchase agreements and securities loans	-	-	-	-	-	337,027	-	337,027
Financial derivative contracts	4,567	-	-	-	-	803,634	-	808,201
Loans and advances to banks, net	628,908	-	-	-	-	-	-	628,908
Loans and accounts receivable from customers, net	2,260,456	13,769	1,787	8	84,384	7,239,019	13,640,589	23,240,012
Investment securities	997,827	-	-	-	-	4,741,777	290,322	6,029,926
Other assets	471,513	739	-	-	17,796	1,713,432	57,031	2,260,511
Total assets	7,340,859	44,644	6,572	786	106,581	17,975,327	14,746,760	40,221,529
Liabilities								
Current accounts and other demand deposits	320,831	12,049	16	148	1,069	9,205,392	11	9,539,516
Transactions in the course of payment	144,438	15,717	-	347	892	191,519	-	352,913
Repurchase agreements and securities loans	4,868	-	-	51	221	815,709	-	820,849
Time deposits and savings accounts	5,121,933	4,605	-	-	-	9,059,733	2,961,998	17,148,269
Financial derivative contracts	3,232	-	-	-	-	759,723	-	762,955
Obligations with banks	1,205,690	99,122	1,191	-	-	1,900	-	1,307,903
Debt instruments issued	1,122,306	203,759	497,118	-	436,695	146,175	4,825,357	7,231,410
Other financial obligations	1,419	-	-	-	-	15,878	-	17,297
Other liabilities	176,621	2	-	-	125	1,129,432	20,653	1,326,833
Total liabilities	8,101,338	335,254	498,325	546	439,002	21,325,461	7,808,019	38,507,945
Net assets (liabilities)	(760,479)	(290,610)	(491,753)	240	(332,421)	(3,350,134)	6,938,741	1,713,584
Contingent credits	678,358	14,820	141	247	-	3,285,680	681,435	4,660,681
Net position of assets (liabilities)	(82,121)	(275,790)	(491,612)	487	(332,421)	(64,454)	7,620,176	6,374,265

The analysis of maturity of assets and liabilities is included in Note 36.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



NOTE 35 - RISK MANAGEMENT (Continued)

3) Market risk:

The risk that the fair value or future cash flows of a financial instrument could fluctuate as result of changes in market prices.

BancoEstado has defined losses due to changes in interest rates, exchange rates and market prices that affect the fair value of its positions as market risk. This definition considers all levels of BancoEstado and incorporates internationally-accepted methodologies, validated by different regulatory and accounting oversight entities.

With respect to the main market risk components, the Bank's most significant risk source relates to asset positions in adjustable local currency and, when analyzing risk components by product, the most significant risk source relates to mortgage loans whose average term is approximately 13 years.

Conscious of the importance of appropriate administration and market risk management to achieve its strategic objectives, BancoEstado, Subsidiaries and New York Branch have a corporate policy for administration and control which establishes general guidelines necessary to maintain a level of market risk limited to the limits defined for the financial business sector.

Banco Central de Chile establishes a regulatory limit for the sum of interest rate risk in trading positions and currency risk. The Bank must observe these limits constantly and report weekly to the Comisión para el Mercado Financiero about its positions at risk and compliance with those limits. Also, on a monthly basis, the Bank should report on its consolidated risk exposure with its Subsidiaries and the New York Branch to the Comisión para el Mercado Financiero. The regulatory limit provides that effective equity must be sufficient to cover 8% of assets weighted for credit and market risk.

In addition BancoEstado uses regulatory models to manage its risks through recognized models and methodologies such as the Value at Risk (VaR) model with one-day horizons and a 99% level of reliance, used to measure market risks and credit risk of derivative instruments.

The application of VaR as management and risk measurement tool also incorporates market price sensitivity analysis for currencies, interest rates and price indexes.

NOTE 35 - RISK MANAGEMENT (Continued)

Results of measuring these risk management instruments are reported to the Bank's senior management on a daily basis. The Bank has financial risk management systems developed by external suppliers, and others developed in-house. The reporting structure includes daily reports showing an exhaustive monitoring and control of market risk exposures.

As of December 31, 2019 and 2018, the consolidated exposure to interest rate risk of trading positions of BancoEstado and its Subsidiaries, using the methodology established in Chapter III B-2 of the Summary of Financial Standards issued by the Banco Central de Chile amounted to US\$ 148 million and US\$ 96 million, respectively. Currency risk amounted to US\$ 33 million and US\$ 11 million, respectively.

The VaR, applied with a 99% confidence level, is calculated and reported to the relevant areas on a daily basis, and shows the potential loss that would arise if the current positions remain unchanged during a business day.

This measure is subject to retrospective testing that allow identifying that actual daily losses do not exceed the VaR over three times every 100 days. Results are monitored to validate the model's assumptions and hypothesis and the appropriateness of risk parameters and factors used for VaR calculation.

Because the VaR is an integral part of the Bank's market risk control, the VaR maximum exposure limits to market risks are established by the Executive Committee both for trading and investment operations.

4) Operational risk and technological risk:

In its Comprehensive operational and technological risk management model, the Bank adopts the following definitions:

Operational risk

Operational risk is the risk of loss to which the Bank is exposed due to inadequate or failed internal processes, errors arising from its personnel or internal systems, or external events. This definition includes legal risk, but excludes strategic risk, and the risk to the image and reputation, as framed in the proposal by the Basel Committee.

NOTE 35 - RISK MANAGEMENT (Continued)

Technological risk

This risk relates to the availability, confidentiality and completeness of the Bank's information assets, arising from a technological vulnerability, a threat, or in managing/using technology.

Information security

It relates to all activities aimed at safeguarding the completeness, confidentiality and availability of the information, and of the assets associated with its treatment, regardless of how they are stored (including physical security, technological security and cybersecurity).

Cybersecurity

It relates to the set of actions designed for protecting the information stored in the cyberspace, as well as the infrastructure supporting such information. Their purpose is to avoid or to mitigate the adverse effects of inherent risks and threats on information security and on the entity's business continuity.

Roles and responsibilities in the comprehensive management of operational and technological risks

Conscious of the importance of properly managing these risks to achieve its strategic objectives, BancoEstado established a Corporate Policy to comprehensively managing its operational and technological risks, establishing the general guidelines and responsibilities related to the operational and technological risk structure in accordance with current regulations and standards, in order to maintain acceptable risk levels for the Bank and contribute to the compliance with the Bank's strategic guidelines.

The policy allocates specific responsibilities related to the management of operational and technological risks, which are:

- The Executive Committee is responsible for approving the Comprehensive policy for managing operational and technological risks at BancoEstado, as well as for the management strategy; it approves the structure and responsibilities for managing operational and technological risks, approves the outsourcing of services, according to its matrix of attributions, and approves internal models (methods) for assessing operational and technological risks.

NOTE 35 - RISK MANAGEMENT (Continued)

- The Risk Committee is responsible for reviewing and proposing risk policies, recognize the existing risks and exposure levels (limits), and performing the global follow-up of risks and their progress at corporate level. In addition, the Committee has to become aware of regulatory changes and propose action plans if required, as well as validating internal risk assessment models (development, application and performance guidelines), analyzing risk plans and budgets, performing the follow-up of compliance with indications made by the Comisión para el Mercado Financiero and monitor the progress of the possible action plans, on matters related to operational and technological risks, and matters related to any event for which the Committee's judgment is required. With respect to operational risks, the Committee assesses the performance of the technological platform and the events occurred. The Committee is responsible that the development of methodologies and tools for managing operational and technological risks is aligned with the leading market practices. Finally, it is responsible for the review and approval of the methodologies for managing operational and technological risks in: Processes, Business Continuity, Outsourced Services and Information Security.
- Process Managers are the main risk managers, in charge of continuously managing, identifying and assessing the operational and technological risk of processes, grouping all management aspects, i.e.: Processes, Business Continuity, Information Security and Outsourcing of Services.
- Contract Managers are the personnel responsible for being involved, within the scope of its powers, from the authorization to the execution of the activities related to outsourcing an activity, based on the delegation of duties provided by the respective process manager (managing, monitoring, coordinating and executing all actions required to fully comply with the contract or purchase order, ultimately for complying with internal and external requirements).
- The Operational and Technological Risk Department is responsible for ensuring the implementation and operation of the operational and technological risk management model at BancoEstado.
- The Information Security Officer is responsible for defining and monitoring the information security strategy, implementing and maintaining the regulatory and governance framework for Information Security, maintaining contact with external organizations on matters related to information security, reporting to the Executive General Manager on any significant issue associated with information security; promoting, overseeing and monitoring action plans concerning the main activities related to information security; generating a training and education program on matters related to information security; identifying, classifying and assessing the risks associated with the Bank's critical information assets, and monitoring the significant risks related to information security, in order to ensure compliance with the internal regulatory framework.

NOTE 35 - RISK MANAGEMENT (Continued)

- The Internal Audit department is responsible for auditing the design and compliance with the Comprehensive Policy on Operational and Technological Risks at the different areas of the Bank and the Corporate Risk Management department. This area also audits the operational risk management process and assesses the effectiveness of the controls established to mitigate such risks.

BancoEstado manages its risks through a model that considers the impact that they may have on the Bank, the likelihood of occurrence of identified risk events, and the effectiveness of controls. For the most critical risks identified, which above tolerated levels, the Bank established action plans to allow their mitigation.

In addition, BancoEstado has integrated the monitoring of operational and technological risks to its normal activities, and has increased the development of indicators providing warnings of risk increase and future losses. The Bank also has an operational loss database. This allows obtaining knowledge on and quantifying risks, having a favorable impact on the Bank's ongoing improvement processes.

BancoEstado has also established controls to guarantee information security, mainly focused on safeguarding information confidentiality, integrity and availability, also including its associated assets, regardless of how it is presented. Accordingly, the Bank has made efforts to classify the information into the different levels of protection required, which are subject to a risk analysis, which allows the Bank to prevent/mitigate the materialization of risks above the accepted levels. In addition, the Bank has made special emphasis on managing Cybersecurity risks.

Under the business continuity scope, the Bank has defined five scenarios which could prevent it from complying with all or part of its obligations. Accordingly, it has developed a formal methodology which considers as part of its processes assessing the impact and significance of its services and products, through specific tools; defining strategies related to prevention, containment and recovery; as well as periodic tests of such strategies. Likewise, the Bank is currently implementing its first primary self-contained TIER 3 certified Data Center, which meets high global standards, apart from the implementation of a supporting data center with the same certifications, from which in the short term 2 Data Centers will become available, which will enable the Bank to provide services using a strong technological infrastructure, which means, among other aspects, that BancoEstado's technological services are widely available, which will benefit the Bank's daily activities as well as the customer experience on digital channels.

With respect to the management of operational and technological risks, and the outsourcing of services, the Bank established policies, standards and procedures, as well as an environment which allows identifying, assessing, managing, mitigating, monitoring and reporting the most significant related risks, in conformity with the provisions included in Chapter 20-7 of the Updated Summary of Standards (RAN) issued by the Comisión para el Mercado Financiero.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



NOTE 35 - RISK MANAGEMENT (Continued)

In an effort to raise awareness within the organization with respect to operational and technological risks, BancoEstado issues notices and provides training and education programs to allow each member of the organization absorb and understand its functions, the responsibilities on managing such risks, with a special focus on matters related to information security and cybersecurity; these activities also extend to customers, suppliers and subsidiaries.

For the generation of new products and/or relevant services, new products are subjected to a risk analysis prior to their implementation, in order to prevent incorporating risks beyond acceptable levels.

In the field of communicating operational events, BancoEstado has defined a process in order to report on operating events affecting or compromising the business continuity, funds or resources of the Bank and/or of its customers, the quality of service or the Bank's reputation, according to provisions established in Chapter 20-8 of the Updated Summary of Standards (RAN) issued by the Comisión para el Mercado Financiero.

In the field of Information security management and cybersecurity, BancoEstado established a strategy to face threats based on prevention, monitoring and response.

As prevention, the specialist areas provide protection against both domestic and international threats before the attacks occur. In the human factor, both the Bank's employees and its customers are made aware through an ongoing training and education program. Additionally, security measures, such as restricting USB ports, blocking public e-mails and social networks have been implemented.

With respect to detection and monitoring, the Bank has 24/7 monitoring tools that allow it to detect, alert and record attack attempts.

Lastly, as a Response strategy, the Bank has a "Cybersecurity Event Response Team" and a "Response Plan for Cybersecurity Events" in order to detect, investigate and implement actions to mitigate the impact of such events, as well as safeguarding the confidentiality, availability and completeness of critical information assets. Additionally, it reports on information security events to other entities, allowing them to adopt the necessary measures for detecting, responding and recovering their services, thus reducing the probability that negative impacts spread throughout the system.

Hedge accounting

BancoEstado uses accounting hedges to manage risks of changes in fair value and cash flows, to which risk it is exposed when performing its businesses. Derivative instruments are used to hedge against changes in the value of the assets and liabilities in the balance sheet.

NOTE 35 - RISK MANAGEMENT (Continued)

The treatment of this type of instrument is regulated in accordance with IAS 39. Market Risk Management is responsible for designing and validating the effectiveness of the hedges. The results of the hedges are reporting to the Assets and Liabilities Committee. As of December 31, 2019, the Bank maintained notional amounts in cash flow hedges amounting to MCh\$ 3,355,309 (MCh\$ 3,011,110 as of December 31, 2018) of net investments on foreign businesses amounting to MCh\$ 164,423 (MCh\$ 232,539 as of December 31, 2018) and fair value of MCh\$ 1,023,931 (MCh\$ 908,563 as of December 31, 2018). For further detail see Note 8.

Capital requirements

- a) In accordance with the General Banking Law, the Bank should maintain a minimum ratio of effective equity to risk-weighted consolidated assets of 8%, net of provisions required, and a minimum ratio of basic capital to total consolidated assets of 3%, net of provision required. For these purposes, effective equity is based on the Capital and Reserve or the Basic Capital including the following adjustments:
 - a. Subordinated bonds are added up to 50% of that basic capital and,
 - b. Less the balance of assets corresponding to goodwill or premiums paid and investments in other companies which are not part of the consolidation.
 - c. Additional provisions are added up to 1.25% of its risk-weighted assets.

Assets are weighted according to risk categories, which are assigned a risk percentage according to the capital necessary to support each one of those assets. 5 risk categories are applied (0%, 10%, 20%, 60% and 100%). For example, cash, deposits in other Banks and financial instruments issued by the Banco Central de Chile, have a 0% risk, which means that, according to current regulations, no capital is necessary to support these assets. Property, plant and equipment have a 100% risk, which means that the minimal capital required shall be equivalent to 8% of these assets.

All derivative instruments traded through over-the-counter transactions are considered for the determination of risk assets with a conversion factor over notional values, to derive in the amount of the exposure to credit risk (or “credit equivalent”). Off-balance sheet contingent credits are also considered to be “credit equivalents”.

As of December 31, 2019 and 2018, the ratio of consolidated totals and consolidated risk-weighted assets is as follows:

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)


NOTE 35 - RISK MANAGEMENT (Continued)

	12/31/2019				12/31/2018	
	Consolidated assets		Risk weighted Assets		Consolidated assets	Risk weighted Assets
	MUS\$	MCh\$	MUS\$	MCh\$	MCh\$	MCh\$
Assets of balance sheet (net of provisions)						
Cash and due from banks	5,306	3,972,444	-	-	4,354,391	-
Transactions in the course of collection	223	167,010	77	57,447	369,632	157,525
Financial assets held for trading	2,239	1,676,531	506	378,825	2,192,921	481,329
Repurchase agreements and securities loans	193	144,806	193	144,806	337,027	337,027
Financial derivative contracts	1,973	1,477,626	1,183	886,120	808,201	720,822
Loans and advances to banks, net	610	457,003	610	457,003	628,908	627,654
Loans and accounts receivable from customers, net	33,381	24,993,590	27,546	20,624,793	23,240,012	19,139,784
Financial investments available for sale	10,213	7,646,814	956	716,085	6,008,764	786,574
Financial investments held to maturity	24	17,649	2	1,765	21,162	2,116
Investments in associates	24	18,257	24	18,258	16,174	16,175
Intangible assets	182	136,051	182	136,051	198,308	198,308
Property, premises and equipment	464	347,674	464	347,674	385,285	385,285
Right-of-use Assets	131	98,015	131	98,015	-	-
Current taxes	2	1,387	-	139	4,271	427
Deferred taxes	1,326	992,478	133	99,248	850,689	85,069
Other assets	1,613	1,207,641	738	552,498	805,784	805,784
Off balance sheet assets						
Contingent loans	3,082	2,307,282	1,803	1,350,345	2,411,722	1,406,964
Total risk weighted assets			34,548	25,869,072		25,150,843

For the purposes of calculating the capital sufficiency indicators, in accordance with Chapter 12-1 of the Updated Summary of Standards issued by the Comisión para el Mercado Financiero total consolidated assets amount to MCh\$ 45,284,408 as of December 31, 2019, and MCh\$ 42,696,279 as of December 31, 2018.

	12/31/2019			12/31/2018	
	MUS\$	MCh\$	Ratio %	MCh\$	Ratio %
Basic capital	2,408	1,802,797	3.98%	1,704,191	3.99%
Effective equity	3,890	2,912,309	11.26%	2,795,780	11.12%

b) At the closing date of these Consolidated Financial Statements as of December 31, 2019 and 2018, the Bank considers the following information related to capital management:

- 1) The standards pursuant to basic capital, effective equity and risk-weighted assets, detailed in No. 66 and No. 67 of the General Banking Law, which regulates the minimum own resources that local credit institutions should maintain at consolidated level, and particularly establishing that the effective equity of a bank cannot be less than 8% of its risk-weighted assets, net of provisions required, whereas its basic capital should be equal to or higher than 3% of its total assets, net of provisions required.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



NOTE 35 - RISK MANAGEMENT (Continued)

- 2) Accordingly, the Bank's policy has been the permanent and strict compliance with the aforementioned regulatory requirements related to capital, in accordance with the underlying credit risks assumed in its activity and the environment in which it operates, aiming at achieving the maximum efficiency in such area. In addition, the Bank has maintained sufficient capital and sufficient resources which allow it to adequately face potential economic and/or financial shocks in order to ensure institutional solvency and public confidence on an ongoing basis.
- 3) Due to its nature of state-owned company, the Bank has no access to external capital sources. Accordingly, the sources of its equity growth arise exclusively from the capitalization of net income for the year, and potential extraordinary capital contributions, which require the enactment of a law.
- 4) During 2019 MCh\$ 165,951 was paid as dividend on tax benefit.
- 5) The Bank considers as capital that attributable to equity holders of the Bank, as recorded in the Consolidated Statement of Financial Position.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



NOTE 36 - MATURITY OF ASSETS AND LIABILITIES

As of December 31, 2019, the maturity of assets and liabilities is detailed as follows:

	Up to 30 Days MCh\$	From 31 to 90 days MCh\$	From 91 to 180 days MCh\$	From 181 and 365 days MCh\$	From 1 and 3 years MCh\$	More than 3 years MCh\$	Total	
							MCh\$	MUS\$
Assets								
Cash and due from banks	3,972,444	-	-	-	-	-	3,972,444	5,306
Transactions in the course of collection	167,010	-	-	-	-	-	167,010	223
Financial assets held for trading	450,697	136,151	64,029	789,092	151,783	84,779	1,676,531	2,239
Repurchase agreements and securities loans	135,949	8,857	-	-	-	-	144,806	193
Financial derivative contracts	158,878	119,815	85,854	147,861	475,561	489,657	1,477,626	1,973
Loans and advances to banks, net	165,259	291,744	-	-	-	-	457,003	610
Loans and accounts receivable from customers, net	1,313,794	1,462,983	1,983,099	2,180,268	4,632,185	13,421,261	24,993,590	33,381
Financial investments available for sale	3,216,771	611,234	1,293,501	1,560,545	808,302	156,461	7,646,814	10,213
Financial investments held to maturity	419	7,978	1,899	5,034	1,834	485	17,649	24
Total assets	9,581,221	2,638,762	3,428,382	4,682,800	6,069,665	14,152,643	40,553,473	54,162
Liabilities								
Current accounts and other demand deposits	10,618,977	-	-	-	-	-	10,618,977	14,182
Transactions in the course of payment	126,169	-	-	-	-	-	126,169	169
Repurchase agreements and securities loans	805,935	118,840	-	-	-	-	924,775	1,235
Time deposits and savings account	9,534,490	3,631,999	2,444,573	557,540	229,017	30,839	16,428,458	21,941
Financial derivative contracts	161,594	87,381	83,948	86,139	402,343	503,427	1,324,832	1,769
Obligations with banks	167,752	475,855	284,745	642,345	99,734	74,404	1,744,835	2,330
Debt instruments issued	333,958	65,853	34,146	599,023	1,847,994	5,482,960	8,363,934	11,171
Other financial obligations	22,514	3,048	-	-	-	-	25,562	34
Lease obligations	888	1,706	2,505	5,136	19,533	54,492	84,260	113
Other liabilities	746,272	3,132	4,698	9,395	4,042	50,825	818,364	1,093
Total liabilities	22,518,549	4,387,814	2,854,615	1,899,578	2,602,663	6,196,947	40,460,166	54,037

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)

**NOTE 36 - MATURITY OF ASSETS AND LIABILITIES (Continued)**

As of December 31, 2018, the maturity of assets and liabilities is detailed as follows:

	Up to 30 Days MCh\$	From 31 to 90 days MCh\$	From 91 to 180 days MCh\$	From 181 and 365 days MCh\$	From 1 and 3 years MCh\$	More than 3 years MCh\$	Total MCh\$
Assets							
Cash and due from banks	4,354,391	-	-	-	-	-	4,354,391
Transactions in the course of collection	369,632	-	-	-	-	-	369,632
Financial assets held for trading	357,438	327,801	1,135,882	231,232	80,107	60,461	2,192,921
Repurchase agreements and securities loans	334,394	2,633	-	-	-	-	337,027
Financial derivative contracts	51,780	47,108	122,546	49,008	232,170	305,589	808,201
Loans and advances to banks, net	627,746	-	1,162	-	-	-	628,908
Loans and accounts receivable from customers, net	1,146,784	1,482,229	1,459,901	1,893,279	4,586,649	12,671,170	23,240,012
Financial investments available for sale	2,350,076	1,231,222	1,043,280	794,754	443,880	145,552	6,008,764
Financial investments held to maturity	580	308	11,788	5,230	2,179	1,077	21,162
Total assets	9,592,821	3,091,301	3,774,559	2,973,503	5,344,985	13,183,849	37,961,018
Liabilities							
Current accounts and other demand deposits	9,539,516	-	-	-	-	-	9,539,516
Transactions in the course of payment	352,913	-	-	-	-	-	352,913
Repurchase agreements and securities loans	706,416	87,425	27,008	-	-	-	820,849
Time deposits and savings account	8,694,668	3,947,635	2,653,321	1,526,927	296,094	29,624	17,148,269
Financial derivative contracts	73,022	51,539	118,061	38,695	187,297	294,341	762,955
Obligations with banks	459,867	27,811	289,343	364,680	112,049	54,153	1,307,903
Debt instruments issued	251,312	7,839	34,590	154,598	1,698,721	5,084,350	7,231,410
Other financial obligations	15,889	-	1,408	-	-	-	17,297
Other liabilities	422,452	2,697	4,045	8,090	4,538	66,686	508,508
Total liabilities	20,516,055	4,124,946	3,127,776	2,092,990	2,298,699	5,529,154	37,689,620

NOTE 37 - SUBSEQUENT EVENTS**- Placement of bond abroad by BancoEstado:**

On January 6, 2020, the Bank placed a bond abroad of US\$ 750,000,000, with a remaining term of 5 years, with capital maturing on January 9, 2025, at an annual issuance rate of 2.704%, with semi-annual interest payments beginning on July 9, 2020.

- Amendment to the by-laws of BancoEstado Centro de Servicios S.A.:

On January 8, 2020, the Comisión para el Mercado Financiero authorized the Bank to amend its by-laws to increase its share capital to MCh\$ 2,600, as per letter No. 92000623.

- Placement of bond abroad by BancoEstado:

On January 13, 2020, the Bank placed a bond abroad of AUD 80 million, with a remaining term of 10 years, with capital maturing on January 23, 2030, at an annual issuance rate of 2.58%, with annual interest payments beginning on January 23, 2021.

- Extraordinary Shareholders' Meeting in company that supports the Bank's line of business BancoEstado Centro de Servicios S.A.:

At the Extraordinary Shareholders' Meeting held on January 14, 2020 in which the reform to the by-laws was approved, consistent with the capital increase of the Company of MCh\$ 2,600, with the publication of the summary of the related minute in the Official Gazette and the registration in the Trade Register of Santiago currently in process.

- Reception of the second extraordinary capital contribution:

On January 27, 2020, the Ministerio de Hacienda transferred the second extraordinary capital contribution, delivering US\$ 250 million, out of the US\$ 500 million committed, equivalent to MCh\$ 194,130.

- Renewal of comprehensive insurance policy for BancoEstado S.A. Corredores de Bolsa:

On January 31, 2020, BancoEstado S.A. Corredores de Bolsa, renewed the Comprehensive Insurance policy entered into with Orion Seguros Generales, for an insured amount of US\$ 20,000,000, effective through January 31, 2021.

- Performance bond of Red Global S.A.:

On January 31, 2020, Red Global S.A., contracted a guarantee issued by BancoEstado for U.F. 27,578, to ensure compliance with the contract between Red Global S.A. and Transbank S.A., it is valid until January 31, 2021.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(In millions of Chilean pesos - MCh\$)



NOTE 37 - SUBSEQUENT EVENTS (Continued)

- Placement of bank bonds of BancoEstado:

On February 4, 2020, the Bank placed a bank bond for U.F. 3.0 million, with a remaining term of 9 years, with a maturity of capital on February 1, 2029, at an annual issuance rate of 3.00%, with a bi-annual interest payments and payment of principal in one installment at the maturity date.

- Placement of bank bonds of BancoEstado:

On February 4, 2020, the Bank placed a bank bond for U.F. 3.0 million, with a remaining term of 9 years and 2 months, with a maturity of capital on April 1, 2029, at an annual issuance rate of 3.00%, with a bi-annual interest payment and payment of principal in one installment at the maturity date.

- Bonus placement abroad BancoEstado:

On February 13, 2020, the Bank placed a bond abroad of AUD 60 million, with a remaining term of 20 years, with capital maturing on February 21, 2040, at an annual issuance rate of 3.12% with annual interest payment beginning on February 21, 2021.

- Between January 1 and February 27, 2020, the date of issuance of these Consolidated Financial Statements, there have been no other subsequent events that might significantly affect the amounts presented in the Bank's Consolidated Financial Statements.

INGRID GARAFULIC EBERL
Accounting Manager

ÓSCAR GONZÁLEZ NARBONA
Planning and Management Control Manager

JUAN COOPER ÁLVAREZ
Chief Executive Officer

BANCO DEL ESTADO DE CHILE

Consolidated Financial Statements for the years
ended December 31, 2018 and 2017
and independent auditor's report



BancoEstado[®]
CHILE

Consolidated Financial Statements

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Santiago, Chile

December 31, 2018 and 2017

Consolidated Financial Statements

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

As of and for the years ended December 31, 2018 and 2017

(Translation of Consolidated Financial Statements originally issued in Spanish- See Note 1b))

Contents

- I. Independent Auditors' Report
- II. Consolidated Statements of Financial Position
- III. Consolidated Statements of Income
- IV. Consolidated Statements of Comprehensive Income
- V. Consolidated Statements of Changes in Equity
- VI. Consolidated Statements of Cash Flows
- VII. Notes to the Consolidated Financial Statements

Ch\$	=	Chilean Pesos
MCh\$	=	Millions of Chilean Pesos
US\$	=	United States Dollar (US Dollar)
U.F.	=	Unidad de Fomento (U.F.). The U.F. is a peso-dominated inflation-indexed monetary unit. The U.F. rate is set daily in advance, based on the change in the Consumer Price Index (CPI) of the previous month
UTA	=	Unidad Tributaria Anual
JPY	=	Japanese Yen
€	=	Euro
CHF	=	Swiss Franc
AUD	=	Australian Dollar
HKD	=	Hong Kong Dollar
COP	=	Colombian Peso

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

TABLE OF CONTENTS

	Page
Independent Auditors' Report.....	1
Consolidated Statements of Financial Position.....	3
Consolidated Statements of Income.....	4
Consolidated Statements of Comprehensive Income.....	5
Consolidated Statements of Changes in Equity.....	6
Consolidated Statements of Cash Flows.....	7
Notes to the Consolidated Financial Statements:	
Note 1 - General information and summary of significant accounting policies.....	8
Note 2 - Accounting changes.....	56
Note 3 - Relevant events.....	56
Note 4 - Operating segments.....	72
Note 5 - Cash and cash equivalents.....	75
Note 6 - Financial assets held for trading.....	77
Note 7 - Repurchase agreements and securities loans.....	78
Note 8 - Financial derivative contracts.....	80
Note 9 - Loans and advances to banks.....	89
Note 10 - Loans and accounts receivable from customers.....	90
Note 11 - Financial investments.....	95
Note 12 - Investments in associates.....	96
Note 13 - Intangible assets.....	97
Note 14 - Property, plant and equipment.....	99
Note 15 - Current and deferred income taxes.....	101
Note 16 - Other assets.....	106
Note 17 - Deposits and other demand obligations and time deposits.....	108
Note 18 - Obligations with banks.....	109
Note 19 - Debt instruments issued and other financial obligations.....	111
Note 20 - Provisions.....	117
Note 21 - Other liabilities.....	119
Note 22 - Contingencies and commitments.....	120
Note 23 - Equity.....	126
Note 24 - Interest income and expenses.....	130
Note 25 - Fees and commission income.....	131
Note 26 - Net income from financial operations.....	132
Note 27 - Net foreign exchange gain (loss).....	132
Note 28 - Provision for loan losses.....	133
Note 29 - Personnel salaries and expenses.....	134
Note 30 - Administrative expenses.....	138
Note 31 - Depreciation, amortization and impairment.....	139

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES**TABLE OF CONTENTS**

	Page
Note 32 - Other operating income and expenses.....	140
Note 33 - Transactions with related parties.....	142
Note 34 - Assets and liabilities at fair value.....	146
Note 35 - Risk management.....	153
Note 36 - Maturity of assets and liabilities.....	175
Note 37 - Subsequent events.....	177

INDEPENDENT AUDITORS' REPORT

To the Chairman and executive advisors of
Banco del Estado de Chile

We have audited the accompanying consolidated financial statements of Banco del Estado de Chile and subsidiaries ("the Bank"), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Accounting Standards and Instructions issued by the Superintendency of Banks and Financial Institutions; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statements, that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Chile. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Banco del Estado de Chile and subsidiaries as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended, in accordance with Accounting Standards and Instructions issued by the Superintendency of Banks and Financial Institutions.

Other matters

Our audit also comprehended the translation of Chilean Peso amounts into US dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1b) to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Chile.

The accompanying consolidated financial statements have been translated into English for the convenience of readers outside Chile.

A handwritten signature in black ink that reads "Deloitte". The signature is stylized, with the 'D' being large and the letters following it being more compact. There is a small dot at the end of the signature.

February 26, 2019
Santiago, Chile

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Consolidated Statements of Financial Position

As of December 31, 2018 and 2017

(In millions of Chilean Pesos - MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

	Notes	12/31/2018 MUS\$ (*)	12/31/2018 MCh\$	12/31/2017 MCh\$
ASSETS				
Cash and due from banks	5	6,267	4,354,391	4,781,085
Transactions in the course of collection	5	532	369,632	186,484
Financial assets held for trading	6	3,156	2,192,921	2,311,304
Repurchase agreements and securities loans	7	485	337,027	323,000
Financial derivative contracts	8	1,163	808,201	675,191
Loans and advances to banks, net	9	905	628,908	607,882
Loans and accounts receivable from customers, net	10	33,450	23,240,012	21,848,261
Financial investments available for sale	11	8,649	6,008,764	5,200,635
Financial investments held to maturity	11	31	21,162	25,041
Investments in associates	12	23	16,174	13,882
Intangible assets	13	285	198,308	167,984
Property, plant and equipment	14	555	385,285	365,031
Current taxes	15	6	4,271	2,788
Deferred taxes	15	1,225	850,689	819,205
Other assets	16	1,160	805,784	562,463
TOTAL ASSETS		57,892	40,221,529	37,890,236
LIABILITIES				
Current accounts and other demand deposits	17	13,730	9,539,516	9,024,024
Transactions in the course of payment	5	508	352,913	101,578
Repurchase agreements and securities loans	7	1,181	820,849	592,523
Time deposits and savings account	17	24,682	17,148,269	17,009,129
Financial derivative contracts	8	1,098	762,955	734,677
Obligations with banks	18	1,883	1,307,903	1,409,545
Debt instruments issued	19	10,408	7,231,410	6,166,010
Other financial obligations	19	25	17,297	28,825
Current taxes	15	63	43,570	142,468
Deferred taxes	15	-	26	29
Provisions	20	1,115	774,729	689,743
Other liabilities	21	732	508,508	337,228
TOTAL LIABILITIES		55,425	38,507,945	36,235,779
EQUITY				
Attributable to equity holders of the bank:				
Issued capital	23	827	574,632	574,632
Reserves		1,549	1,075,885	1,015,631
Valuation accounts		(42)	(29,302)	(4,889)
Retained earnings:				
Net income for the year	23	239	165,951	120,501
Less: Provision for distribution of income to the benefit of the state		(119)	(82,976)	(60,250)
Total attributable to equity holders of the bank		2,454	1,704,190	1,645,625
Non-controlling interest	23	13	9,394	8,832
TOTAL EQUITY		2,467	1,713,584	1,654,457
TOTAL LIABILITIES AND EQUITY		57,892	40,221,529	37,890,236

(*) See Note 1b)

The accompanying notes 1 to 37 are an integral part of these Consolidated Financial Statements.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Consolidated Statements of Income

For the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos - MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

	Notes	12/31/2018 MUS\$ (*)	12/31/2018 MCh\$	12/31/2017 MCh\$
Interest income	24	2,771	1,925,315	1,650,145
Interest expense	24	(1,340)	(931,363)	(763,832)
Net interest income		1,431	993,952	886,313
Fees and commission income	25	681	473,507	403,313
Fees and commission expense	25	(241)	(167,630)	(142,997)
Net fee and commission income		440	305,877	260,316
Net income from financial operations	26	166	115,519	155,499
Net foreign exchange gain (loss)	27	30	20,671	(34,937)
Other operating income	32	27	18,964	9,025
Total operating income		2,094	1,454,983	1,276,216
Provision for loan losses	28	(334)	(232,047)	(185,849)
OPERATING INCOME, NET		1,760	1,222,936	1,090,367
Personnel salaries and expenses	29	(629)	(436,969)	(420,065)
Administrative expenses	30	(398)	(276,615)	(279,880)
Depreciation and amortization	31	(153)	(106,550)	(81,542)
Impairment	31	-	-	-
Other operating expenses	32	(71)	(49,290)	(34,335)
Total operating expenses		(1,251)	(869,424)	(815,822)
NET OPERATING INCOME		509	353,512	274,545
Income from investments in associates	12	4	2,509	2,069
Income before income taxes		513	356,021	276,614
Income tax expense	15	(254)	(176,684)	(144,117)
NET INCOME FOR THE YEAR		259	179,337	132,497
Attributable to:				
Equity holders of the bank		239	165,951	120,501
Non-controlling interest	23	20	13,386	11,996
		259	179,337	132,497

(*) See Note 1b)

The accompanying notes 1 to 37 are an integral part of these Consolidated Financial Statements.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos - MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

	Notes	12/31/2018 MUS\$ (*)	12/31/2018 MCh\$	12/31/2017 MCh\$
NET INCOME FOR THE YEAR		259	179,337	132,497
OTHER COMPREHENSIVE INCOME (LOSS) THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS				
Mark to market adjustments on available-for-sale financial assets		1	907	(7,513)
Exchange differences on translation foreign operations	23	-	(256)	(174)
Mark to market adjustments on cash flow hedging instruments		(101)	(69,914)	3,231
Subtotal – other comprehensive income (loss) which may be reclassified to profit or loss		(100)	(69,263)	(4,456)
Income tax relating to other comprehensive income that may be reclassified to profit or loss		64	44,850	2,297
Total other comprehensive income (loss) that may be reclassified to profit or loss		(36)	(24,413)	(2,159)
OTHER COMPREHENSIVE INCOME (LOSS) THAT WILL NOT BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS				
Transfer to reserves financial instruments available for sale		-	-	1,286
Actuarial results on employee benefit plan	29	-	12	(3,936)
Subtotal - other comprehensive (loss) income which will not be reclassified to profit or loss		-	12	(2,650)
Income tax effect relating to other comprehensive income which will not be reclassified to profit or loss		-	(8)	2,439
Total other comprehensive (loss) income which will not be reclassified to profit or loss		-	4	(211)
TOTAL OTHER COMPREHENSIVE LOSS		(36)	(24,409)	(2,370)
CONSOLIDATED COMPREHENSIVE INCOME FOR THE YEAR		223	154,928	130,127
Attributable to:				
Equity holders of the bank		204	141,542	118,131
Non-controlling interest	23	19	13,386	11,996
		223	154,928	130,127

(*) See Note 1b)

The accompanying notes 1 to 37 are an integral part of these Consolidated Financial Statements

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos - MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

	Reserves		Valuation accounts				Income tax effect	Income for the year	Provision for distribution of net income for the year	Total attributable to equity holders of the bank	Non-controlling interest	Total equity
	Issued capital	Other reserves not derived from profits	Reserves derived from profits	Financial investments available for sale	Cash flow hedge	Exchange differences on translation foreign operation						
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
Opening equity as of January 1, 2017	574,632	(1,954)	944,251	8,049	(14,595)	(981)	4,797	147,090	(95,879)	1,565,410	7,451	1,572,861
Transfers	-	-	147,090	-	-	-	-	(147,090)	-	-	-	-
Dividends paid	-	-	(73,545)	-	-	-	-	-	-	(73,545)	(4,885)	(78,430)
Capital contribution	-	-	-	-	-	-	-	-	-	-	954	954
Mark to market adjustments on available-for-sale financial assets	-	-	-	(7,513)	-	-	4,224	-	-	(3,289)	-	(3,289)
Variation in equity of subsidiaries	-	1,286	-	-	-	-	-	-	-	1,286	-	1,286
Mark to market adjustments on cash flow hedging instruments	-	-	-	-	3,231	-	(1,927)	-	-	1,304	-	1,304
Exchange difference on translation foreign operation	-	-	-	-	-	(174)	-	-	-	(174)	-	(174)
Actuarial loss on employee benefit plan	-	(1,497)	-	-	-	-	-	-	-	(1,497)	(1)	(1,498)
Provision for mandatory dividends	-	-	-	-	-	-	-	-	35,629	35,629	(6,683)	28,946
Net income for the year	-	-	-	-	-	-	-	120,501	-	120,501	11,996	132,497
Equity as of 12/31/2017 MCh\$	574,632	(2,165)	1,017,796	536	(11,364)	(1,155)	7,094	120,501	(60,250)	1,645,625	8,832	1,654,457
Opening equity as of January 1, 2018	574,632	(2,165)	1,017,796	536	(11,364)	(1,155)	7,094	120,501	(60,250)	1,645,625	8,832	1,654,457
Transfers	-	-	120,501	-	-	-	-	(120,501)	-	-	-	-
Dividends paid	-	-	(60,251)	-	-	-	-	-	-	(60,251)	(5,391)	(65,642)
Mark to market adjustments on available-for-sale financial assets	-	-	-	907	-	-	(594)	-	-	313	-	313
Mark to market adjustments on cash flow hedging instruments	-	-	-	-	(69,914)	-	45,444	-	-	(24,470)	-	(24,470)
Exchange difference on translation foreign operation	-	-	-	-	-	(256)	-	-	-	(256)	-	(256)
Actuarial loss on employee benefit plan	-	4	-	-	-	-	-	-	-	4	(6)	(2)
Provision for mandatory dividends	-	-	-	-	-	-	-	-	(22,726)	(22,726)	(7,427)	(30,153)
Net income for the year	-	-	-	-	-	-	-	165,951	-	165,951	13,386	179,337
Equity as of 12/31/2018 MCh\$	574,632	(2,161)	1,078,046	1,443	(81,278)	(1,411)	51,944	165,951	(82,976)	1,704,190	9,394	1,713,584
Equity as of 12/31/2018 MUS\$ (*)	827	(3)	1,552	2	(117)	(2)	75	239	(119)	2,454	13	2,467

(*) See Note 1b)

The accompanying notes 1 to 37 are an integral part of these Consolidated Financial Statements.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos - MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

	Notes	12/31/2018 MUS\$ (*)	12/31/2018 MCh\$	12/31/2017 MCh\$
CASH FLOWS USED IN OPERATING ACTIVITIES:				
Net income for the year		259	179,337	132,497
Charges (credits) to income that do not represent cash flows:				
Depreciation and amortization	31	153	106,550	81,542
Provision for loan losses		433	300,744	250,549
Mark to market of financial assets held-for-trading		(349)	(242,688)	142,159
Income from investment in associates	12	(4)	(2,509)	(2,069)
Net gain on sale for assets received in lieu of payment		(5)	(3,093)	(2,067)
Net gain on sale of property, plant and equipment		(1)	(528)	(21)
Write-off of assets received in lieu of payment	32	4	2,258	1,798
Other charges to income that do not represent cash movements		292	202,741	214,016
Accrued interest and inflation indexation income		(166)	(114,312)	(149,067)
Changes in assets and liabilities affecting operating cash flows:				
Decrease of trading instruments		915	635,705	829,366
Increase in loan portfolio		(2,337)	(1,623,798)	(1,915,616)
Increase in held-to-maturity and available-for-sale financial investments		(1,158)	(804,250)	(1,084,489)
Increase in other credit transactions		(30)	(21,026)	(37,076)
Increase in current accounts		19	13,553	810,739
Increase of deposits and fundraising		646	448,895	1,820,456
Increase in other demand and time liabilities		277	192,184	90,326
Increase (decrease) of other obligations through brokerage of documents		329	228,326	(17,094)
Decrease of obligations in letters of credit		(103)	(71,833)	(122,577)
(Decrease) increase of loans obtained from local banks		(1)	(964)	2,864
(Decrease) increase of loans obtained from foreign banks		(145)	(100,678)	326,902
Increase (decrease) of other assets and liabilities		12	8,264	(480,332)
Net cash flows (used) provided in operating activities		(960)	(667,122)	892,806
CASH FLOWS USED IN INVESTING ACTIVITIES:				
Purchase of property, plant and equipment and intangible assets	13.14	(230)	(159,662)	(142,491)
Sale of property, plant and equipment and intangible assets		-	18	25
Purchases of investments in associates		-	(2)	(8,672)
Dividends received from investments in companies		-	339	477
Sale of assets received in lieu of payment		6	4,404	3,593
Net cash flow used in investing activities		(224)	(154,903)	(147,068)
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES:				
Issue of bonds	19	1,791	1,244,289	1,120,148
Repayment of bonds	19	(675)	(469,306)	(869,775)
Payment of mandatory dividends in benefit of the state		(87)	(60,251)	(73,545)
Payment of mandatory dividends of non-controlling interest		(17)	(12,073)	(10,613)
Net cash flows provided by financing activities		1,012	702,659	166,215
NET VARIATION FOR THE YEAR OF CASH AND CASH EQUIVALENTS		(172)	(119,366)	911,953
Effect of exchange rate changes on the balance of cash held in foreign currencies		26	17,878	581
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	5	9,984	6,936,342	6,023,808
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	5	9,838	6,834,854	6,936,342

(*) See Note 1b)

The accompanying notes 1 to 37 are an integral part of these Consolidated Financial Statements.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 1 – GENERAL INFORMATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**General Information - Background of the Bank and Subsidiaries**

The Caja de Crédito Hipotecario was established on August 29, 1855. It was the founding institution that promoted the country's economic development, whose main objective was to provide access to credit to the productive sector and to the public in general and to safeguard their deposits. Subsequently, the Caja Nacional de Ahorro was established by law, on August 22, 1910, in order to encourage savings, especially in the lower-income sector, and to ensure safe and profitable savings. Under such law, it was agreed to combine in a single institution all of the saving entities in the country under the sponsorship of the Government. The country's needs, especially in the agricultural sector led to the creation of the Caja de Crédito Agrario, in August 1926, in order to provide financial services to a wide range of farmers. For similar purposes, but this time pursuant to the manufacturing industry, the Instituto de Crédito Industrial was established in February 1928. The four institutions mentioned above, operated separately until 1953 when Banco del Estado de Chile (hereinafter referred to as "the Bank" or "BancoEstado") was established by Decree in Force of Law (D.F.L.) No. 126, published in the Official Gazette on July 24, 1953, and began operating on September 1, 1953.

The purpose of its creation was to promote development of domestic economic activities by providing financial products and services, and in doing so provide the best quality service to Chilean citizens.

The Organic Law of Banco del Estado de Chile, Law Decree No. 2,079 of 1978, establishes that the Bank is an autonomous company of the State of Chile, with its own legal status and equity, of indefinite duration, exclusively subject to the supervision of the Superintendencia de Bancos e Instituciones Financieras (SBIF) and related to the Government through the Ministerio de Hacienda. Therefore, Banco del Estado de Chile does not have issued 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 trust of the President of the Republic, and one is a representative of the Bank's employees. It is managed by an Executive Committee formed by the Chairman, Vice-chairman and Chief Executive Officer.

The Bank's headquarters are located at Av. Libertador Bernardo O'Higgins No. 1,111, Santiago, Chile.

The Consolidated Financial Statements of BancoEstado, for the year ended December 31, 2018 were approved by the Audit Committee on February 18, 2019 and subsequently by the Board of Directors on February 26, 2019.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

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

Banco del Estado de Chile is the parent company of a group of subsidiaries which are engaged in separate lines of business. Consequently the Bank is obligated to prepare Consolidated Financial Statements including its subsidiaries, its foreign branch, and its investments in entities supporting its line of business in addition to its own Financial Statements.

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

- BancoEstado S.A. Corredores de Bolsa is a privately held corporation, incorporated on August 17, 1989, as a stock agency, that became a stockbroker on June 10, 1992. On January 19, 1990, it obtained its registration as a stockbroker and a stock agency with the Comisión para el Mercado Financiero (CMF, former Superintendencia de Valores y Seguros -S.V.S- see Note 3 – Relevant Events), under registry No. 0137. Its main purpose is the trading of publicly-offered securities on behalf of third parties and on its own account.

BancoEstado S.A. Corredores de Bolsa is located at Bandera No. 76, office 601 and 602; Santiago, Chile.

This company is considered a subsidiary of BancoEstado, given that the latter owns shares with representative voting rights for 99.9996% of its equity as of December 31, 2018 and 2017, maintaining control over the operations of BancoEstado S.A. Corredores de Bolsa.

BancoEstado S.A. Corredores de Bolsa holds non-controlling interest in the following companies:

Entity name	No. of share	Ownership	Valuation of the investment	Dividends Received		
				2018	2017	
				MUS\$	MCh\$	MCh\$
BancoEstado Microempresas S.A. Asesorías Financieras (*)	436	0.1000%	Equity Method	-	1	-
BancoEstado Servicios de Cobranza S.A. (*)	10	0.1000%	Equity Method	-	-	-

(*) Entities that form part of the consolidated BancoEstado group.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

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

- BancoEstado S.A. Administradora General de Fondos is a privately held Corporation established on June 23, 1997 and authorized by Resolution No. 272 dated August 20, 1997 issued by the Comisión para el Mercado Financiero (former SVS), whose exclusive purpose was to manage home savings. On April 25, 2003 through Exempt Resolution No. 105, the Comisión para el Mercado Financiero (former SVS), approved the by-laws of BancoEstado S.A. Administradora de Fondos para la Vivienda, which changed its corporate name to BancoEstado S.A. Administradora General de Fondos, and its purpose is to manage third party resources, in accordance with Law No. 20,712 or by the law that replaces or complements it, and it may perform all complementary activities to its line of business as authorized by the Comisión para el Mercado Financiero (former SVS). 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. Currently the Company has under its administration 14 mutual funds (see Note 22, letter c)).

BancoEstado S.A. Administradora General de Fondos is located at Nueva York No. 33, 7th floor, Santiago, Chile.

This company is considered a subsidiary of BancoEstado, as the Bank owns shares with representative voting rights for 50.01% of its equity as of and December 31, 2018 and 2017, holding controlling interest in the operations of BancoEstado S.A. Administradora General de Fondos.

- BancoEstado Corredores de Seguros S.A. was established as a limited liability company on August 4, 1999. Its by-laws were modified on September 13, 2004, becoming a privately held corporation. This company is regulated by the Comisión para el Mercado Financiero (former SVS). Its purpose is the remunerated brokerage of all types of insurance ruled by Decree in Force of Law No. 251 of 1931, with any national insurance company domiciled in the country and providing related insurance contracting advisory services.

BancoEstado has a strategic alliance with Metlife Chile Inversiones Ltda. for the development of the insurance business and incorporated Metlife Chile Inversiones Ltda. as a shareholder of BancoEstado Corredores de Seguros S.A. with a 49.9% interest. This alliance includes participation in management and development of products and businesses.

BancoEstado Corredores de Seguros S.A. is located at Amunátegui No. 232, 6th floor, Santiago, Chile.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

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

This company is considered a subsidiary of BancoEstado, as the Bank owns shares with representative voting rights for 50.10% of its equity as of December 31, 2018 and 2017, holding controlling interest in the operations of BancoEstado Corredores de Seguros S.A..

- BancoEstado Servicios de Cobranza S.A., is a privately held company established on September 9, 1999, and registered with the Superintendencia de Bancos e Instituciones Financieras on August 10, 1999 under No. 752. Its exclusive objective is to collect on credit documents on its own account or on behalf of others, whether through pre-judicial, judicial or extrajudicial means.

BancoEstado Servicios de Cobranza S.A. is located at San Diego No. 81, 6th floor, Santiago, Chile.

This company is considered a subsidiary of BancoEstado, as the Bank owns shares with representative voting rights for 99.9% of its equity as of December 31, 2018 and 2017, holding controlling interest in the operations of BancoEstado Servicios de Cobranza S.A., which is fully dependent upon BancoEstado.

BancoEstado Servicios de Cobranzas S.A. holds non-controlling interest in the following companies:

Entity name	No. of share	Ownership	Valuation of the investment	Dividends Received		
				2018		2017
				MUS\$	MCh\$	MCh\$
BancoEstado Contacto 24 Horas S.A. (*)	10	0.1000%	Equity Method	-	-	-
BancoEstado Centro de Servicios S.A. (*)	518,749	0.1000%	Equity Method	-	-	-

(*) Entities that form part of the consolidated BancoEstado group.

- BancoEstado Microempresas S.A. Asesorías Financieras was incorporated on July 23, 1996, and is subject to the regulations of the Superintendencia de Bancos e Instituciones Financieras. Its exclusive purpose is to provide support services to the banking business in terms of financial advisory to microenterprises.

BancoEstado Microempresas S.A. Asesorías Financieras is located at Bandera No. 84, 8th floor, Santiago, Chile.

This company is considered a subsidiary of BancoEstado, as the Bank owns shares with representative voting rights for 99.9% of its equity as of December 31, 2018 and 2017, and holds a controlling interest in the operations of BancoEstado Microempresas S.A. Asesorías Financieras.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

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

- BancoEstado Centro de Servicios S.A. was incorporated on November 13, 2004, for the sole purpose of carrying out legal and operating 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 deposit transactions. Its main purpose is to provide support services to the banking business in terms of cash services.

BancoEstado Centro de Servicios S.A. is located at Nueva York No. 9, office 301, Santiago, Chile.

This company is considered a subsidiary of BancoEstado, as the Bank owns shares with representative voting rights for 99.9% of its equity as of December 31, 2018 and 2017, holding controlling interest in the operations of BancoEstado Centro de Servicios S.A..

BancoEstado Centro de Servicios S.A. holds non-controlling interest in the following company:

Entity name	No. of share	Ownership	Valuation of the investment	Dividends Received		
				2018	2017	
				MUS\$	MCh\$	MCh\$
Sociedad de Servicios Transaccionales Caja Vecina S.A. (*)	30	0.1506%	Equity Method	-	4	4

(*) Entity that forms part of the consolidated BancoEstado group.

- BancoEstado Contacto 24 Horas S.A. is a privately held company established on December 13, 2001. Its purpose is to provide, via remote and/or virtual communication, telemarketing and technical support services, and general product and service information aimed at developing and maintaining business relationships with customers from BancoEstado and its subsidiaries.

BancoEstado Contacto 24 Horas S.A. is located at Nueva York No. 80, 11th floor, Santiago, Chile.

This company is considered a subsidiary of BancoEstado, as the Bank owns shares with representative voting rights for 99.9% of its equity as of December 31, 2018 and 2017, holding controlling interest in the operations of BancoEstado Contacto 24 Horas S.A..

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

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

- Sociedad de Servicios Transaccionales Caja Vecina S.A. was incorporated on October 19, 2006. Its sole, exclusive purpose is to provide services to its shareholders, other banks, subsidiaries, and banking support companies so that they can perform, with their clients and the general public, all of the activities, judicial acts and operations, which, by using cash, magnetic cards or any other technological device, are linked to those referred to in No. 1 and 8 of Article No. 69 of the General Banking Law, except for entering into contracts for bank checking accounts and deposit operations. In fulfilling this purpose, the company will try to generate a positive impact on the community, the people linked to the company, and the environment.

Sociedad de Servicios Transaccionales Caja Vecina S.A. is located at Moneda No. 856, 2nd floor, Santiago, Chile.

This company is considered a subsidiary of BancoEstado, as the Bank owns shares with representative voting rights for 99.85% of its equity as of December 31, 2018 and 2017, holding controlling interest in the operations of Sociedad de Servicios Transaccionales Caja Vecina S.A..

Sociedad de Servicios Transaccionales Caja Vecina S.A. holds non-controlling interest in the following company:

Entity name	No. of share	Ownership	Valuation of the investment	Dividends Received		
				2018	2017	
				MUS\$	MCh\$	MCh\$
Sociedad de Promoción de Productos Bancarios S.A. (*)	10	0.1666%	Equity Method	-	-	-

(*) Entity that forms part of the consolidated BancoEstado group.

- Sociedad de Promoción de Productos Bancarios S.A. is a privately held company, established on May 7, 2008. Its sole and exclusive purpose is to promote the products and services of the Bank and its subsidiaries. This company is subject to the regulations of the Superintendencia de Bancos e Instituciones Financieras.

Sociedad de Promoción de Productos Bancarios S.A. is located at Avenida Libertador Bernardo O'Higgins No. 1,111, Santiago, Chile.

This company is considered a subsidiary of BancoEstado, as the Bank owns shares with representative voting rights for 99.83% of its equity as of December 31, 2018 and 2017, holding controlling interest in the operations of Sociedad de Promoción de Productos Bancarios S.A..

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

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

- Red Global S.A., is a privately held company, incorporated on February 21, 2017, authorized by the Superintendencia de Bancos e Instituciones Financieras on January 23, 2017, with the exclusive purpose of operating cards or electronic devices and other complementary activities or related activities. Red Global S.A., has a capital subscribed and paid-in of Ch\$ 9,633,150,000 equivalent to US\$ 15,000,000, divided into 1,000,000 shares. This company is in the initial or transitory stage of operations.

BancoEstado has entered into an agreement with Sumup Limited to develop and operate this business, in which Red Global S.A. has a shareholding interest of 9.9% of the equity.

Red Global S.A. is located at Huérfanos No. 670, 27th floor, office 2,701 Santiago, Chile.

This company is considered a subsidiary of BancoEstado, as the Bank holds 90.10% of its equity as of December 31, 2018 and 2017, and has the ability to control the operations of Red Global S.A..

- Banco del Estado de Chile New York Branch, whose banking license was issued on July 25, 2005, by the authorities of the State of New York, authorized Banco del Estado de Chile to open and operate a branch in the city of New York. Its operation started on October 5, 2005. Its commercial orientation is preferably 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, risk hedging, among others. The Branch fully depends on its parent company. This branch is regulated and supervised by Superintendencia de Bancos e Instituciones Financieras of Chile, the State of New York and the Federal Reserve in the United States.

The branch is located at 400 Park Avenue, 14th floor, New York, United States.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

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

The following tables show a summary of the financial information for the companies in which BancoEstado participates (*):

December 31, 2018

Entities	Assets		Liabilities		Net income		Profits (losses) accumulated		Cash and cash equivalent	
	MUS\$	MCh\$	MUS\$	MCh\$	MUS\$	MCh\$	MUS\$	MCh\$	MUS\$	MCh\$
BancoEstado S.A. Corredores de Bolsa	997	692,782	876	608,720	6	4,301	105	73,107	1	996
BancoEstado S.A. Administradora General de Fondos	38	26,287	26	18,077	14	9,601	1	822	25	17,399
BancoEstado Corredores de Seguros S.A.	63	43,834	50	34,778	25	17,418	12	8,095	7	4,752
BancoEstado Servicios de Cobranzas S.A.	8	5,573	5	3,533	-	226	-	341	3	1,843
BancoEstado Microempresas S.A. Asesorías Financieras	15	10,372	10	6,750	1	733	4	2,529	5	3,430
BancoEstado Centro de Servicios S.A.	57	39,650	52	35,874	-	143	(5)	(3,352)	2	1,405
BancoEstado Contacto 24 Horas S.A.	4	2,516	1	1,039	1	425	-	273	2	1,131
Sociedad de Servicios Transaccionales Caja Vecina S.A.	10	7,091	5	3,633	2	1,352	-	-	5	3,396
Sociedad de Promoción de Productos Bancarios S.A.	1	628	-	17	-	(2)	-	(8)	-	3
Red Global S.A.	13	8,896	2	1,112	(2)	(1,068)	(1)	(781)	8	5,294

December 31, 2017

Entities	Assets		Liabilities		Net income		Profits (losses) accumulated		Cash and cash equivalent	
	MUS\$	MCh\$	MUS\$	MCh\$	MUS\$	MCh\$	MUS\$	MCh\$	MUS\$	MCh\$
BancoEstado S.A. Corredores de Bolsa	735,818		656,053		4,674		68,433		2,508	
BancoEstado S.A. Administradora General de Fondos	12,110		4,585		8,627		822		4,048	
BancoEstado Corredores de Seguros S.A.	38,687		30,283		15,553		7,899		3,178	
BancoEstado Servicios de Cobranzas S.A.	5,278		3,553		315		27		1,198	
BancoEstado Microempresas S.A. Asesorías Financieras	9,404		5,575		581		2,528		2,713	
BancoEstado Centro de Servicios S.A.	36,838		33,205		978		(4,331)		1,241	
BancoEstado Contacto 24 Horas S.A.	2,792		1,740		225		48		1,129	
Sociedad de Servicios Transaccionales Caja Vecina S.A.	8,106		3,527		2,474		-		3,675	
Sociedad de Promoción de Productos Bancarios S.A.	625		12		2		(10)		587	
Red Global S.A.	9,160		308		(781)		-		5,366	

(*) For further information on the above companies, please refer to the Financial Statements of each company, available on BancoEstado website www.bancoestado.cl.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

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

Summary of significant accounting policies and others

a) Period covered:

The Consolidated Financial Statements (hereinafter, “Financial Statements”) comprise the Consolidated Statements of Financial Position as of December 31, 2018 and 2017; and Consolidated Statements of Income, Consolidated Statements of Comprehensive Income, Consolidated Statements of Changes in Equity and Consolidated Statements of Cash Flows for the years ended December 31, 2018 and 2017.

b) Basis of preparation:

Article No.15 of the General Banking Law empowers the Superintendencia de Bancos e Instituciones Financieras to set forth general application accounting standards to entities subject to its oversight. On the other hand, the Companies Law requires that generally accepted accounting principles be followed.

According to the mentioned legal regulations, banks must use the criteria set forth by the Superintendencia de Bancos e Instituciones Financieras in its Compendium of Accounting Standards and for content which is not dealt with therein, if they do not contradict its instructions, banks must follow generally accepted accounting principles in Chile, which correspond to International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). In the event of discrepancies between those generally accepted accounting principles and the accounting standards issued by the Superintendencia de Bancos e Instituciones Financieras, the latter shall prevail.

The Notes to the Consolidated Financial Statements contain additional information to that presented in the Consolidated Statements of Financial Position, Consolidated Statements of Income, Consolidated Statements of Comprehensive Income, Consolidated Statements of Changes in Equity and Consolidated Statements of Cash Flows.

This annual report contains translations of certain Chilean peso amounts into U.S. dollars at specified rates solely for the convenience of the reader. These translations should not be construed as representations that such Chilean peso amounts actually represent such U.S. dollar amounts, were converted from U.S. dollars amounts at the rate indicated in preparing our Consolidated Financial Statements or could be converted into U.S. dollars amounts at the rate indicated or any particular rate at all. Unless otherwise indicated, such U.S. dollar amounts have been translated from Chilean pesos based on the exchange rate of Ch\$ 694.77 per US\$1.00 as of December 31, 2018.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

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

c) Basis of preparation of the Consolidated Financial Statements:

The Consolidated Financial Statements, of the Bank, New York branch and subsidiaries and include the adjustments and reclassifications necessary to conform the accounting policies and valuation criteria applied by the Bank, in accordance with the standards established in the Compendium of Accounting Standards issued by the Superintendencia de Bancos e Instituciones Financieras (the “Compendium”). These Consolidated Financial Statements are therefore presented in compliance with the Compendium.

Intercompany balances and any unrealized gains or losses from intercompany transactions are eliminated in full upon consolidation during the preparation of the Consolidated Financial Statements. As of December 31, 2018, the assets, liabilities and operating income of subsidiaries represent altogether 8.84%, 9.21% and 14.89%, respectively (7.24%, 7.55% and 18.97%, respectively as of December 31, 2017), of total consolidated assets, liabilities and operating income. Unearned income and/or losses from transactions with companies, whose investment is recognized using the equity method, are eliminated from the investment using the ownership percentage in the entity’s equity.

The companies in which BancoEstado participates are divided into the following:

- Controlled entities and/or Subsidiaries**

“Controlled” entities are those over which the Bank has the ability to exercise control, in accordance with IFRS 10; this ability is exercised when the Bank has the right to variable returns from its participation in the entity, and has the ability to influence those returns through its power over them.

The entities (hereinafter jointly referred to as “subsidiaries”) and the foreign branch over which the Bank has the ability to exercise control, and are part of the Consolidated Financial Statements as of December 31, 2018 and 2017, are the following:

Rut	Company and/or foreign Branch	Participation					
		December 31, 2018			December 31, 2017		
		Direct	Indirect	Total	Direct	Indirect	Total
96.564.330-3	BancoEstado S.A. Corredores de Bolsa	99.9996%	-	99.9996%	99.9996%	-	99.9996%
77.330.030-5	BancoEstado Corredores de Seguros S.A.	50.1000%	-	50.1000%	50.1000%	-	50.1000%
96.900.150-0	BancoEstado Servicios de Cobranza S.A. (*)	99.9000%	0.1000%	100.0000%	99.9000%	0.1000%	100.0000%
96.836.390-5	BancoEstado S.A. Administradora General de Fondos	50.0100%	-	50.0100%	50.0100%	-	50.0100%
96.979.620-1	BancoEstado Contacto 24 Horas S.A. (*)	99.9000%	0.1000%	100.0000%	99.9000%	0.1000%	100.0000%
96.781.620-5	BancoEstado Microempresas S.A. Asesorías Financieras (*)	99.9000%	0.1000%	100.0000%	99.9000%	0.1000%	100.0000%
76.727.730-K	Sociedad de Servicios Transaccionales Caja Vecina S.A. (*)	99.8494%	0.1506%	100.0000%	99.8494%	0.1506%	100.0000%
99.578.880-2	BancoEstado Centro de Servicios S.A. (*)	99.9000%	0.1000%	100.0000%	99.9000%	0.1000%	100.0000%
76.015.414-8	Sociedad de Promoción de Productos Bancarios S.A. (*)	99.8334%	0.1666%	100.0000%	99.8334%	0.1666%	100.0000%
76.693.183-9	Red Global S.A. (*)	90.1000%	-	90.1000%	90.1000%	-	90.1000%
-	BancoEstado - Sucursal New York (*)	100.0000%	-	100.0000%	100.0000%	-	100.0000%

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

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

(*) These entities are regulated by the Superintendencia de Bancos e Instituciones Financieras. The remaining companies are regulated by the Comisión para el Mercado Financiero (former SVS). The New York branch is also regulated by the State of New York and the US Federal Reserve.

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

Entities supporting the line of business are those over which the Bank has the ability to exercise significant influence, but not control or joint control.

The companies over which the Bank has significant influence are detailed as follows:

Company	Ownership %	
	12/31/2018	12/31/2017
Administrador Financiero Transantiago S.A.	21.0000%	21.0000%
Sociedad Operadora de la Cámara de Compensación de Pagos de Alto Valor S.A.	15.0021%	14.9606%
Operadora de Tarjetas de Crédito Nexus S.A.	12.9030%	12.9030%
Transbank S.A.	8.7188%	8.7188%
Servicios de Infraestructura de Mercado OTC S.A.	14.5958%	14.5958%

The Bank analyzed the valuation method and decided to continue to apply the equity method to account for all entities supporting the line of business, using as the main criterion for using the equity method the level of significant influence exercised over these companies through its participation in the Board rather than its ownership percentage.

The business support entities are privately held companies that do not trade their shares on a stock exchange, and aim to facilitate the execution of operational activities with associated banks, and are considered permanent investments.

- **Investments in other companies:**

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

Between December 31, 2018 and December 31, 2017, there have been no changes in the Bank's composition or changes in ownership.

The Bank has no participation in special purpose entities.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

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

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 Consolidated Statements of Income, and in the equity in the Consolidated Statements of Financial Position, it is presented separately from the equity attributable to the Bank.

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 for which separate financial information is available, that is used regularly by the chief decision maker to decide how to allocate resources and to evaluate performance.

The Bank’s operating segments are determined based on the different business units. These business units generate services subject to risks and performance that are different from other operating segments. The detail of the operating segments is presented in Note 4 to the Consolidated Financial Statements.

f) Functional and presentation currency:

The Bank and its subsidiaries have defined the Chilean peso as their functional currency because:

- It is the currency of the main economic environment whose competitive forces and regulations determine the prices of financial services provided by the Bank and its subsidiaries.
- It is the currency that mainly influences payroll and other costs necessary to provide the services that the Bank and its subsidiaries provide to its clients.

The New York branch has defined its functional currency as the US dollar. Balances of the branch’s financial statements are translated into Chilean pesos as follows:

- Assets and liabilities are converted at the exchange rate, as of the financial statement closing date.
- Income, expenses, and cash flows are converted applying the exchange rate for the month of the transaction.
- Net equity at historical exchange rates.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

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

The presentation currency for the Consolidated Financial Statements is the Chilean peso, expressed in millions of 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 Consolidated Financial Statements of the Bank and its subsidiaries, assets and liabilities in foreign currencies are translated into Chilean pesos using exchange rates as of the closing date of the respective Consolidated Financial Statements. The resulting gains or losses are recognized in “Net Foreign Exchange gain (loss).”

Differences arising from the conversion of balances into the functional currency of the New York branch to Chilean pesos is recorded in “Valuation accounts – Exchange differences on translation foreign operation” in the Consolidated Statements of Changes in Equity.

As of December 31, 2018 and 2017, the year-end exchange rates are as follows:

	2018	2017
	\$	\$
United States Dollar (US\$)	694.77	614.75
Unidad de Fomento (U.F.)	27,565.79	26,798.14

h) Valuation criteria of assets and liabilities:

The measurement criteria of assets and liabilities recorded in the Consolidated Statements 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 accumulated amortization related to any difference between the initial amount and the maturity amount.

In the case of financial assets, amortized cost also includes adjustments for any impairment that may have occurred or uncollectibility.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

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

The effective interest method is a method of calculating the amortized cost of a financial asset or liability and allocating financial income or expense throughout the relevant period. The effective interest rate is the discount rate that exactly matches the estimated cash flows payable or receivable (including all commissions and interest points paid or received by the parties to the contract making up the effective interest rate, as well as also transaction costs and any other premium or discount) throughout the expected useful life of the financial instrument or, when appropriate, over a shorter period of time, with respect to net carrying amount of the financial asset or liability initially recognized.

- **Assets and liabilities measured at fair value:**

The fair value is understood as the price that would be received for selling an asset or paid to transfer a liability in an orderly transaction between market participants on the date of measurement. 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 fair value for a particular asset or liability, the price of recent transactions of similar instruments is considered to estimate its fair value.

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

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

The Consolidated Financial Statements have been prepared based on historic cost, except for:

- Derivative financial instruments, which have been measured at fair value.
- Assets classified as held for sale are valued at fair value when it is lower than the carrying amount minus the cost of executing the sale.
- Financial assets held for trading are measured at fair value.
- Financial investments available for sale are measured at fair value.
- Loans designated as hedged items.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

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

- **Assets measured at acquisition cost:**

Acquisition cost is the cost of the transaction to acquire the asset, less any impairment losses should there be any.

i) Financial investment:

Financial investments are classified into two categories: financial investments held to maturity and financial investments available for sale. The category of financial investments held to maturity includes only those instruments for which the Bank has the positive intent and ability to hold to maturity. All other financial investments are categorized as available for sale.

Financial investments are initially recognized at fair value, including transaction costs.

Subsequent to initial recognition, financial investments available for sale are measured at fair value based on market prices or valuations obtained from using models, less impairment losses. Unrealized gains or losses from changes in fair value are recognized with a charge or credit to equity accounts. When these investments are sold or impaired, the amount of the accumulated fair value adjustment in equity is transferred to income and reported under “Net income from financial operations” in the Consolidated Statements of Income.

The financial investments held to maturity are recorded at cost plus accrued interest and inflation-indexation less impairment provisions recorded when their carrying amount exceeds their estimated recovery amount.

Interest income and inflation-indexation income of financial investments held to maturity and financial investments available for sale are included under “Interest income” in the Consolidated Statements of Income.

Financial investments designated as hedged items are adjusted following the rules on hedge accounting, if applicable.

Financial investments purchases and sales that must be delivered within the time period established by market regulations and conventions are recognized on the trading date, which is the date when the commitment is made to purchase or sell the asset.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

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

The Bank has evaluated its portfolio classified under “Financial investments held to maturity” and “Financial investments available for sale” as of December 31, 2018 and 2017, in order to assess whether any impairment should be recorded. This assessment includes economic evaluations, credit rating 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) Financial assets held for trading:

Financial assets held for trading are securities acquired for the purpose of generating earnings from current price fluctuation or from brokerage margins, or which form part of a portfolio in which there is a pattern of current profit-taking.

Financial assets held for trading are valued at fair value based on market prices as of the closing date of the Consolidated Statement of Financial Position.

Profits or losses generated by changes in their fair values, as well as income from trading activities (sale of instruments), are included in the Consolidated Statement of Income under “Net income from financial operations.” Accrued interest and inflation-indexation income are also reported in the Consolidated Statement of Income under “Net income from financial operations.”

Management has designated all investments held by subsidiaries as financial assets held for trading.

All purchases and sales of financial assets held for trading to be delivered in the period established by market regulations or conventions are recognized on the trading date, which is the date on which the commitment is made to purchase or sell the asset.

k) Financial Derivative Contracts:

Financial derivative contracts including foreign currency and U.F., interest rate futures, currency and interest rate swaps, interest rate and currency options, and other financial derivatives are initially recognized in the Interim Consolidated Statements of Financial Position at fair value (including transaction costs) and subsequently measured also at fair value. 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 it is negative under “Financial derivative contracts”, as applicable.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

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

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.

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

Any changes in the fair value of speculative financial derivative contracts are included in the Consolidated Statements of Income under “Net income from financial operations.”

If the derivative instrument is classified as a hedging instrument for hedge accounting purposes, it can be: (1) a fair value hedge of existing assets or liabilities or firm commitments, or (2) a cash flow hedge related to existing assets or liabilities or forecast transactions and (3) hedge of a net investment in foreign businesses.

A hedge relationship for hedge accounting purposes must meet all the following conditions: (a) at inception of the hedge there is formal documentation of the hedge 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 highly effective in relation to the hedged risk, continuously throughout the hedge relationship.

Certain transactions with derivatives that do not qualify for hedge accounting are treated and reported as speculative derivatives, even though they provide effective coverage for managing risk positions.

When a derivative hedges exposure to changes in the fair value of a recognized asset or liability, such asset or liability is recorded at fair value with respect to the specific risk hedged. Profits or losses from valuing both the hedged item and the hedge derivative at fair value are recognized in profit or loss.

If the hedged item in a fair value hedge is a firm commitment, changes in the fair value of the commitment in regards to the risk hedged are recorded as an asset or liability with an effect on income for the period. Profits or losses from fair value measurement of the hedge derivative are recognized with an effect on income for the period. When an 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 accumulated effect of fair value valuation of the firm commitment that was recorded in the Consolidated Statements of Financial Position.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

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

When a derivative hedges exposure to changes in the cash flows of recognized assets or liabilities or of forecast transactions, the effective part of the change in fair value with respect to the hedged risk is recorded in shareholders' equity. Any ineffective part is recognized directly in income for the period.

The amounts recorded directly in equity for the effective portion of cash flow hedges, are transferred to income during the same period in which the hedged assets or liabilities affect profit or loss for the period.

Hedge on net investment in foreign businesses, are accounted for similarly to cash flow hedges.

l) Loans to customers:

Loans to customers are non-derivative financial assets with fixed or determined payments that are not quoted in an active market and that the Bank has no intention to sell immediately or in the short-term.

When the Bank is the lessor in a lease agreement and substantially transfers all incidental risks and benefits over the leased asset, the transaction is presented under loans to customers, as leasing operations.

Loans are initially valued at cost, plus incremental transaction costs and are then measured at their amortized cost using the effective interest rate method, except when the Bank defines certain loans as hedged items, which are valued at fair value with effect on income, as described in letter k) of this note to the Consolidated Financial Statements.

m) Interest revenue and expenses:

Interest revenue and expenses are recognized on an accrual basis using the effective interest rate method. As indicated on the Compendium of Accounting Standards issued by the Superintendencia de Bancos e Instituciones Financieras, when a loan is determined to be impaired, the Bank, on a prudent basis, will suspend accrual of interest and inflation-indexation, and recognize such upon receipt.

In accordance with the criteria established by the Superintendencia de Bancos e Instituciones Financieras, suspension occurs in the following cases:

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

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

Loans with individual assessment:

- Loans classified in categories C5 and C6: accrual is suspended by the sole fact of being in the impaired portfolio.
- Loans classified in categories C3 and C4: accrual is suspended after having been three months in the impaired portfolio.

Loans under collective assessment:

- Loans with less than 80% collateralized: accrual is suspended when payment of the loan or one of its installments has been overdue for six months.

Notwithstanding the above, in the case of loans subject to individual assessment, recognition of income from accrual of interest and inflation-indexation could be maintained for loans that are being paid normally and which correspond to obligations whose cash flows are independent, as can occur in the case of project financing.

n) Income and expenses from fees and commissions:

Income and expenses from fees and commissions are recognized in the Consolidated Statements of Income based on different criteria, depending on their nature. The most significant criteria are the following:

- Those originating from specific actions, which are recognized when the action that generates them is performed.
- Those originating from transactions or services that are rendered over a period of time, which are recognized over the life, maturity or term covering such transactions or services.
- Those relating to services provided in a single transaction are recognized when the single transaction is performed.

o) Impairment:

The Bank, New York branch and its subsidiaries use the following criteria to evaluate the impairment of its assets, as applicable:

- **Financial assets:**

Financial assets are evaluated at each reporting date to determine whether there is objective evidence of impairment. A financial asset or group of assets will be impaired if objective evidence that one or

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

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

more events have occurred after the initial recognition of the asset, and this event is causing the loss or has a negative effect on future cash flows of assets.

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 for an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant loans and accounts receivable from customer are individually reviewed to determine their impairment (individual assessment) according to SBIF rules as described below under letter u). The remaining loans and accounts receivable from customer are evaluated collectively in groups that share similar credit risk characteristics (collective assessment).

All impairment losses are recognized in income. Any accumulated decline in fair value related to an available-for-sale financial asset, previously recognized in equity is transferred to income, upon impairment recognition.

Reversal of an impairment loss occurs only if it can be objectively related to an event occurring after its recognition. In the case of financial assets carried at amortized cost and those classified as available-for-sale (with the exception of equity instruments), reversal is recognized in income.

- **Non-financial assets (excluding goodwill):**

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, which is its fair value less cost of sales or its value in use, whichever is greater.

Losses for impairment 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 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 periods.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 1 – GENERAL INFORMATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**p) Investments in associates:**

Associated entities, which correspond to entities that provide business-related support, are valued using the equity method (Note 1 c)), which consists of determining the recording of the investment according to the percentages of participation in the associate's equity. Income on these investments is recognized on an accrual basis.

q) Intangible assets:

Intangible assets held by the Bank are mainly investments in software.

Acquired software is measured at cost less accumulated amortization and any accumulated impairment losses.

Disbursements and costs related to internally developed software are recognized as assets 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 reliably measured. Capitalization of the cost of internally developed software includes all direct costs attributable to the development of the software and is amortized over its useful life.

Amortization is recognized on a straight-line basis over the estimated useful life of the software from the point it is ready for use. The average estimated useful life of software is 3 years.

Expenses incurred in research and evaluation of technological alternatives, are recognized as an expense in the year in which they are incurred.

r) Property, plant and equipment:

“Property, plant and equipment” are 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 at the construction stage includes the cost of materials and direct labor and any other costs directly attributable to the process of putting an asset into the condition of “ready for use.”

When part of a property, plant and equipment item has a different useful life; such part is recorded as a separate item (componentization of “Property, plant and equipment”).

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

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

Depreciation is recognized in the Consolidated Statements of Income based on the straight-line depreciation method applied to the useful lives of each part of a property, plant and equipment item. Leased assets are depreciated over the term of the lease or their useful lives, whichever is shorter, unless there is certainty that the Bank will obtain ownership at the end of the term of the lease.

As of December 31, 2018 and 2017, the Bank applied the following useful lives for depreciation of assets:

- Buildings	80 years
- Equipment and facilities	5 to 10 years
- Equipment and accessories	3 years

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

The estimated useful lives of property, plant and equipment items are reviewed at the end of the reporting period in order to detect any significant changes. If changes are observed in the useful lives of the assets, they are adjusted and depreciation is corrected in the current year and any future year affected.

Repair and maintenance expenses are recognized when they occur.

s) Leasing:

- **Operating leases (as lessee):**

When the Bank, New York branch and its subsidiaries act as lessee and the contract qualifies as an operating lease, the total payment is recorded on a straight-line basis, or as specified in the contract, in operating profit and loss, according to the date on which the service was received.

At the end of the term of the operating lease, any payment related to contract penalties required by the lessor is recorded in expenses in the period in when such contract ended.

- **Financial leases (as lessor):**

Financial leases consist of lease agreements with a clause that gives the lessee the option to purchase the leased asset at the end of the lease. The sum of the present value of lease payments that will be received from the lessee, plus the purchase option is recognized as third party financing and therefore presented in the “Loans and accounts receivable from customers” at present value and the asset is derecognized.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

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

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

t) Cash and cash equivalents:

The Bank has used the indirect method for preparing the Consolidated Statements of Cash Flows whereby the Bank’s net income is adjusted for the effects of non-cash transactions, as well as for cash flows classified as from operating, investing or financing activities.

In accordance with the specific provisions applicable to financial institutions, the Bank and its subsidiaries consider cash and cash equivalents as the balance of “Cash and due from banks”, plus (minus) the net balance of “Transactions in the course of collection” as shown in the Consolidated Statements of Financial Position, plus “Financial assets held for trading” and “Financial investments available for sale” of high liquidity and insignificant risk of a change in value, whose maturity does not exceed three months from the date of acquisition, and “Repurchase agreements and securities loans.” It also includes investments in fixed income mutual funds, which are found under “Financial assets held for trading” in the Consolidated Statements of Financial Position.

The preparation of the Consolidated Statements of Cash Flows considers the following concepts:

- a) Operating activities:** correspond to normal activities performed by banks, as well as other activities that cannot be qualified as from investing or financing.
- b) Investing activities:** correspond to acquisition or disposal by other means of non-current assets and other investments not included in cash and cash equivalents.
- c) Financing activities:** correspond to activities that produce changes in the size and composition of net equity and liabilities that do not form part of operating or investing activities.

u) Allowances for loan losses:

The allowances required to cover loan losses have been recognized according to the standards of the Superintendencia de Bancos e Instituciones Financieras. Assets are presented net of the allowances for loan losses showing the reduction under the item “Loans and accounts receivable from customers.” In the case of contingent loans, allowances are recorded in liabilities, under “Provisions.”

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

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

The models established by the Superintendencia de Bancos e Instituciones Financieras for determining allowances for loan losses are summarized as follows

u.1) Allowances for loan losses for individual assessment:

In accordance with Chapter B-1 of the Compendium of Accounting Standards of the Superintendencia de Bancos e Instituciones Financieras the individual assessment of debtors is necessary when dealing with clients who due to their size, complexity or exposure level, need to be known and analyzed in detail.

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

The following risk rating criteria are applied to commercial debtors subject to individual analysis, and are based on the principles established in Chapter B-1 of the Compendium of Accounting Standards of the Superintendencia de Bancos e Instituciones Financieras.

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

Normal Risk Portfolio

The portfolio with normal risk includes debtors whose payment capacity allows them to fulfill their obligations and commitments and it is not perceived that this condition will change based on the assessment of their economic financial position. Therefore, these are debtors without substantial risks, whose payment capacity allows them to cover obligations under the agreed terms and which would continue being satisfactory in spite of unfavorable business, economic and financial situations.

The probability of default and expected loss in each category of the normal risk portfolio is as follows:

Type of portfolio	Debtor category	Probability of default %	Loss given 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

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

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

Substandard Portfolio

The substandard portfolio includes debtors with financial difficulties or significant worsening of their payment capacity and for which there are reasonable doubts about the total reimbursement of agreed principal and interest, showing little room to fulfill their current financial obligations.

This portfolio also includes debtors, which lately (in the last twelve months) have shown delinquency (payments overdue) in excess of thirty days, show poor payment behavior with the Bank and with third parties (payments overdue during the year for significant amounts outstanding for less than 90 days).

The probability of default and expected loss in each category of the substandard portfolio are detailed as follows:

Type of portfolio	Debtor category	Probability of default %	Loss given default %	Expected loss (allowance %)
Substandard 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

Allowances for normal and substandard portfolios

To determine the amount of the allowances that should be established for portfolios with normal and substandard portfolios, banks must first estimate the exposure subject to provisioning, to which the respective loss percentages will be applied (expressed in decimals), which comprise the probability of default (PD) and loss given default (LGD) established for the category within which the debtor and/or its qualified guarantor fall, as applicable.

The exposure subject to provisioning corresponds to loans plus contingent loans less amounts that would be recovered by means of executing guarantees, as stated in No. 4.1 of Chapter B-1 of the Compendium of Accounting Standards of the Superintendencia de Bancos e Instituciones Financieras. Likewise, loans are understood to be the carrying amount of loans and accounts receivable of the respective debtor, whereas contingent loans are understood as the value resulting of applying the regulations contained in No. 3 of Chapter B-3 of the Compendium of Accounting Standards of the Superintendencia de Bancos e Instituciones Financieras.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

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

The following should be considered for calculation purposes:

$$\text{Provisioning for} = (E - GE) * (PD_{\text{debtor}} / 100) * (LGD_{\text{debtor}} / 100) + GE * (PD_{\text{guarantor}} / 100) * (LGD_{\text{guarantor}} / 100)$$

Where:

E	=	Exposure subject to provisioning (Loans + contingent loans) - Guarantee (collateral).
GE	=	Guaranteed exposure.
PD	=	Probability of default.
LGD	=	Loss given default.

Notwithstanding the above, the Bank must maintain a minimum allowance percentage required of 0.50% for loans and contingent loans in the Normal Portfolio.

Non-performing portfolio

This portfolio includes debtors with loan payments overdue for more than 90 days (“past due”) or which are in judicial collection and whose source of payment is supported in the guarantees established. Should there be concrete information that justifies it, the present value of recoveries that might be obtained by exerting collection actions, net of associated expenses can also be considered.

“Concrete information” is considered to be any recovery by judicial means that is supported with a report from the Bank’s Legal Department, determining the effectiveness of the collection. This must be free of any encumbrance or preferential creditors, leading to an actual payment flow.

In addition, those debtors who have shown a negative past performance with the Bank or the Financial System are considered as non-performing, such as: social security and tax payment infringement, protested and not cleared notes, debt past due with the Financial System, write-offs in the financial system, etc., as well as debtors in default or showing a preventive judicial arrangement.

There are six categories for debtors classified as non-performing loans and each one of them is associated with a range of expected loss relating to commercial loans and commercial lease operations of the customer as a whole; therefore it is necessary to determine the guarantee coverage. It should be noted that all contingent loans must be fully considered, since they may be classified as non-performing loans.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

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

Allowance for non-performing portfolio

For the purpose of establishing the allowance, there are percentages that must be applied to the amount of the exposure which corresponds to the sum of loans and contingent loans held by the same debtor. To apply this percentage, an expected loss rate should first be estimated by deducting from the amount of the exposure the amounts recoverable through execution of guarantees and, in case there is concrete information to justify it, also deducting the present value of recoveries that can be obtained exerting collection actions, net of the associated expenses. This loss rate should be included in one of the six categories defined according to the range of losses actually expected by the Bank for all the operations of the same debtor.

These categories and their loss range as estimated by the Bank and the allowances percentages that should ultimately be applied on the amounts of exposure for the non-performing portfolio are those indicated in the following table:

Type of portfolio	Debtor category	Range of expected loss	Allowances (%)
Non-performing	C1	More than 0 up to 3%	2
	C2	More than 3 % up to 20%	10
	C3	More than 20% up to 30%	25
	C4	More than 30% up to 50%	40
	C5	More than 50% up to 80%	65
	C6	More than 80%	90

The following should be considered for calculation purposes:

$$\text{Expected loss rate} = (E-R)/E$$

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

Where:

E = Amount of the exposure.

R = Recoverable amount.

PP = Allowance percentage (as per category where the expected loss rate must fall).

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

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

u.2) Collective assessment allowances:

Collective assessment is used to analyze a large number of operations whose individual amounts are low, generally involving individuals or small businesses. For this purpose the Bank uses internal models for the commercial and consumer portfolio, based on probability of default of debtors and characteristics of their loans. In the case of the mortgage portfolio, since January 2016, the Bank uses a standard model established by Chapter B-1 of the Compendium of Accounting Standards of the Superintendencia de Bancos e Instituciones Financieras.

Allowances for consumer and commercial portfolios collectively assessed

Allowances for consumer and commercial portfolios collectively assessed are determined as follows:

Situation of the operation	
Normal portfolio	Origin
	Overdue 1
	Overdue 2
	Overdue 3
$EL = E * (1 - EG) * PD * LGD_{\text{past due} \rightarrow \text{Write off}} * LGD_{\text{write off}} + E * EG * PD_{\text{guarantor}} * LGD_{\text{guarantor}}$	
Non-performing portfolio	Origin
	Overdue 1
	Overdue 2
	Overdue 3
	Past due
$EL = E * (1 - EG) * PD * LGD_{\text{overdue}} * LGD_{\text{past due} \rightarrow \text{Write off}} * LGD_{\text{write off}} + E * EG * PD_{\text{guarantor}} * LGD_{\text{guarantor}}$	
$EL = E * (1 - EG) * PD * LGD_{\text{past due} \rightarrow \text{Write off}} * LGD_{\text{write off}} + E * EG * PD_{\text{guarantor}} * LGD_{\text{guarantor}}$	

Where:

EL	= Expected loss.
E	= Amount of the exposure.
EG	= Portion of the operation covered by guarantor as a percentage.
PD	= Probability of default.
LGD _{overdue}	= Loss given default of operation with impairment or renegotiation.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

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

LGD _{past due->write off}	=	Loss given default due of operations in actions of collection and before write offs.
LGD _{write off}	=	Loss give default based on the recoveries of charge offs or collection of guarantees.
PD _{guarantor}	=	Guarantors probability of default.
LGD _{guarantor}	=	Guarantors loss given default.

Allowances for mortgage portfolio collectively assessed

In the case of the mortgage portfolio evaluated collectively, allowances are determined by using the standard method. The applicable allowance factor, represented by the expected loss (EL) on the amount of mortgage loans for housing will depend on the number of days of payment overdue of each loan and the relationship between the amount of outstanding principal for each loan and the value of the mortgage collateral (PVG) covering it, as shown in the following table:

Allowance factors applied according to days of payment overdue and PVG						
PVG = Amount of outstanding principal of the loan / value of the mortgage collateral						
Section PVG	Days overdue at the end of the month	0	1 - 29	30 - 59	60 - 89	Non - performing portfolio
PVG <= 40%	PD (%)	1.0916	21.3407	46.0536	75.1614	100.0000
	LGD (%)	0.0225	0.0441	0.0482	0.0482	0.0537
	EL (%)	0.0002	0.0094	0.0222	0.0362	0.0537
40% < PVG <= 80%	PD (%)	1.9158	27.4332	52.0824	78.9511	100.0000
	LGD (%)	2.1955	2.8233	2.9192	2.9192	3.0413
	EL (%)	0.0421	0.7745	1.5204	2.3047	3.0413
80% < PVG <= 90%	PD (%)	2.5150	27.9300	52.5800	79.6952	100.0000
	LGD (%)	21.5527	21.6600	21.9200	22.1331	22.2310
	EL (%)	0.5421	6.0496	11.5255	17.6390	22.2310
PVG > 90%	PD (%)	2.7400	28.4300	53.0800	80.3677	100.0000
	LGD (%)	27.2000	29.0300	29.5900	30.1558	30.2436
	EL (%)	0.7453	8.2532	15.7064	24.2355	30.2436

If the situation where a debtor has more than one mortgage loan with the Bank and one of them presents loans with payments overdue more than 90 days (“past due”), for purposes of determining the allowances percentage applicable, all loans will be allocated to that where the debtor’s poorest rated loan resides and the allowances for each of the loans shall be calculated according to the respective percentages of PVG.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

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

In the case of residential mortgage loans linked to housing programs and guaranteed by the State of Chile, provided they have contracted the insurance provided by the latter, the provisioning rate may be weighted by a factor of loss mitigation (MP), which depends on the PVG percentage and the price of the residence in the deed of sale (V). MP factors applied to the provisioning rate applicable, are presented in the following table:

MP Factor of mitigation of loan losses with state guarantee.		
<i>Section PVG</i>	<i>Section V: Housing value on agreement (UF)</i>	
	V ≤ 1,000	1,000 < V ≤ 2,000
PVG ≤ 40%	100%	
40% < PVG ≤ 80%		
80% < PVG ≤ 90%	95%	96%
PVG > 90%	84%	89%

Allowance for non-performing portfolio collectively assessed

The non-performing portfolio includes all loans and 100% of the amount of contingent loans, of the debtors that at the end of a month present overdue equal to or more than 90 days on payment of interest or principal of a credit. It also includes debtors to whom have been granted a credit to replace an operation that had more than 60 days overdue on payment, as well as those debtors who have undergone forced restructuring or partial debt forgiveness.

The following may be excluded from the non-performing portfolio: a) mortgage loans for housing, whose overdue is less than 90 days, unless the debtor has another loan of the same type with more than 90 days overdue; and, b) loans to finance higher education of Law No. 20,027, which do not present the non-performing conditions outlined in Circular No. 3,454 of December 10, 2008, by the Superintendencia de Bancos e Instituciones Financieras.

All loans of the debtor shall be maintained in the non-performing portfolio until an improvement of its capacity or positive conduct of payment is observed, without prejudice to proceed to the write offs of each particular loan that meets the condition established in Title II of Chapter B-2. To remove a debtor from the non-performing portfolio, the following conditions must be met in a copulative manner:

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

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

- i) No obligation of the debtor presents a payment overdue for more than 30 calendar days.
- ii) No new refinancing loans have been given to pay obligations.
- iii) At least one of the payments includes principal payment.
- iv) If the debtor has partial credit payments for a period less than six months, it has already made two payments.
- v) If the debtor must pay monthly fees for one or more credits, four consecutive installments have been paid.
- vi) The debtor does not have payments overdue according to the information published by the Superintendencia de Bancos e Instituciones Financieras, except for insignificant amounts.

The condition of paragraph iii) does not apply in the case of debtors who have only loans to finance higher education in accordance with Law No. 20,027.

u.3) Impaired portfolio:

The impaired portfolio will consist of the following assets, as provided in Chapter B-1:

- a) In the case of debtors subject to individual assessment, it includes the non-performing portfolio and those loans classified in categories B3 and B4 of the substandard portfolio.
- b) Debtors subject to collective assessment, includes all loans in the non-performing portfolio.

u.4) Loans write-off:

Loans and accounts receivable are written-off based on due, past due and outstanding installments. The timeframe for the write-off is the point at which the first installment or portion of loan becomes past due to the end of the respective deadline period noted below:

<u>Type of loan</u>	<u>Deadline</u>
Consumer loans with or without guarantees	6 months
Other transactions without guarantees	24 months
Commercial loans with guarantees	36 months
Residential mortgage loans	48 months
Leasing of consumer goods	6 months
Other non-real estate lease transactions	12 months
Real estate lease (commercial and residential)	36 months

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 1 – GENERAL INFORMATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**u.5) Recovery of written-off loans:**

Recoveries of previously written-off loans are recognized directly in income under “Provision for loan losses”, netted against provision expense for the period.

u.6) Additional provisions:

In addition to the allowance for loan losses, the Bank may establish additional provisions to those derived from the application of portfolio assessment models, for the purpose of safeguarding against unpredictable economic fluctuations that might affect the macroeconomic environment or the situation of a specific economic sector, in accordance with the Bank’s policies (Note 20). Within the additional provisions the Bank contemplates a countercyclical mechanism of accumulation of provisions in the commercial, consumer and mortgage portfolio, to safeguard against any recessionary periods and also considers additional provisions for portfolio concentration of the mortgage loan portfolio.

In 2014 the Bank’s Executive Committee set the limits for establishing additional provisions between 0% and 2.5% of risk weighted assets.

As of December 31, 2018, the Bank maintains additional provisions for an equivalent to 1.94% of risk weighted assets (1.91% as of December 31, 2017), see Note 20 letter e).

v) Provisions and contingent liabilities:

Provisions are liabilities of uncertain timing and amount. These provisions are recognized in the Consolidated Statements of Financial Position when the following requirements are fulfilled collectively:

- It is a present obligation as a result of past events and,
- As of the date of the Consolidated Financial Statements it is probable that the Bank or group will use an outflow of resources to settle the obligation and the amount of the obligation can be reliably estimated.

A contingent liability is a 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, New York branch and its subsidiaries.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

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

w) Employee benefits:

- **Employee vacations:**

The annual cost of vacations and employee benefits are recognized on an accrual basis.

- **Current benefits:**

The Bank provides its employees an annual bonus incentive plan based on achievement of certain objectives and goals, which consists of a specific number or portion of monthly salaries. That bonus is accrued based on the expected amount to be paid.

The Bank has agreed with its workers in the collective negotiation of 2017 a termination of conflict bonus, which is amortized over the term of the collective agreement and the unamortized portion is recorded under “Other assets.”

- **Non-current benefits:**

The Bank has made provisions for long-term benefits to its employees due to the existence of obligations in the union agreement. These obligations result in provisions that are calculated using actuarial assumptions including variables such as the rate of staff turnover, increased salaries, mortality tables and the probability of using this benefit. BancoEstado does not have defined contribution plans.

x) Current and deferred income taxes:

The Bank and its subsidiaries have recognized a corporate income tax expense as of the end of each reporting year in accordance with applicable tax regulations.

Additionally, as the Bank is treated as a State company, it is subject to a tax in accordance with Art. No. 2 of Decree Law No. 2,398 dated 1978, that corresponds to an additional rate of 40%.

The effects of deferred taxes on temporary differences, between the tax values set out by the Income Tax Law and the Consolidated Statements of Financial Position, are recorded in accordance with IAS 12.

The Bank and its subsidiaries recognize, when applicable, deferred tax assets and/or liabilities for future estimated tax effects attributable to differences between the carrying amounts of assets and/or liabilities and their tax values.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

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

Deferred tax assets and/or liabilities are measured on the basis of the tax rate, which according to current tax legislation must be applied in the business year in which the deferred tax assets and/or liabilities are realized or settled. Future effects of changes in tax legislation or in tax rates are recognized in deferred taxes, as of the date in which the law approving those changes is enacted.

On September 26, 2014, Law No. 20,780 was passed, “Tax reform modifying the tax system and introducing adjustments to the tax system”, which was published in the Official Gazette on September 29, 2014. In addition, on July 14, 2016, Servicios Impuestos Internos issued Circular No. 49, “Instructions on amendments incorporated by Law No. 20,780” which states that they are excluded from any of the Taxation regimes of Article No. 14, since BancoEstado is a company which is fully owned by the State of Chile and all of its income is subject to the tax established in Article No. 2 of the Decree Law No. 2,398. In addition, it instructs that the First Category Tax rate of these companies will be 25% from the year 2017. For this reason, BancoEstado has calculated taxes with a 25% plus 40% rate (65%) as of 2017. For subsidiaries, there is no 100% ownership interest, so taxes have been calculated with a 27% rate for 2018 onwards.

At the end of 2017, the Tax Cuts and Jobs Act of 2017 (US Tax Reform) was passed in the United States. This tax reform lowered the federal tax rate from 35% to 21%. As a result, the New York Branch analyzed its deferred tax assets and liabilities, and it did not find any differences and effects to be recognized in the Consolidated Financial Statements.

On January 8, 2018, the Superintendencia de Bancos e Instituciones Financieras issued a Letter to Management supplementing instructions about current taxes and deferred taxes in accordance with IAS 12 within the framework of the Compendium of Accounting Standards for Banks. Such Letter instructs on the presentation of current taxes and deferred taxes in the Statement of Financial Position.

y) Transactions with agreements:

The Bank, New York branch and subsidiaries enter into sales with repurchase agreements as a method of financing. In this regard, investments sold under repurchase agreements which serve as loan guarantees are classified under “Financial assets held for trading” and “Financial investment available for sale.” The repurchase obligation is classified under “Repurchase agreements and securities loans”, recognizing interest and inflation-indexation accrued as of the closing date.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

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

The Bank, New York branch and its subsidiaries also enter into resale agreements as a method of investing. Financial instruments purchased under resale agreements are included as assets under “Repurchase agreements and securities loans” recognizing interest and inflation indexation accrued as of the closing date.

z) Factoring transactions:

The Bank performs factoring transactions with its customers, whereby it receives invoices and other commercial papers representing receivables, with or without recourse to the transferor, paying the transferor a percentage of the total amounts receivable from the debtor for the transferred documents.

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 maintains the responsibility of payment on the invoices not collected.

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 regulatory write-offs. Write-offs are required by the Superintendencia de Bancos e Instituciones Financieras if the asset has not been sold within one year from its reception.

bb) Derecognition of financial assets and liabilities:

The Bank, New York branch and its subsidiaries derecognize a financial asset from their Consolidated Statements of Financial Position when all the contractual rights over the cash flows of the financial asset expire, or when they transfer the rights to receive contractual cash flows for the financial asset during a transaction in which the risks and benefits of ownership of the financial asset are substantially transferred. Any share in financial assets transferred that is created or retained by the Bank is recognized as a separate asset or liability.

When the Bank transfers a financial asset, it evaluates to what extent it retains the risks and benefits inherent to ownership. In this case:

- a) If the risks and rewards inherent to ownership of the financial asset are substantially transferred, it is derecognized from the Consolidated Statements of Financial Position and any rights or obligations created or retained due to the transfer will be separately recognized as assets or liabilities.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

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

- b) If the risks and rewards inherent to ownership of a financial asset are substantially retained, it will continue to be recognized.
- c) If all the risks and advantages inherent to ownership of the financial asset are not substantially transferred or retained, it shall determine whether it has retained control over the financial asset. In this case:
 - (i) If it has not retained control, it will derecognize the financial asset and shall separately recognize, as an asset or liability, any right or obligation created or retained due to the transfer.
 - (ii) If it has retained control, it shall continue recognizing the financial asset in the Consolidated Statements of Financial Position in an amount equal to the exposure to changes in value that it might experience and recognizes a financial liability associated with the financial asset transferred.

The Bank eliminates a financial liability (or part of it) from its Consolidated Statements of Financial Position when, and only when, it has been extinguished, i.e. when the obligation specified in the corresponding contract has been paid, cancelled or expired.

cc) Use of estimates and judgment:

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

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

The Bank has established allowances to cover loan losses, in accordance with regulations issued by the Superintendencia de Bancos e Instituciones Financieras. These regulations requires banks to regularly evaluate factors such as changes in the nature and size of the loan portfolio, trends in the portfolio, credit quality and economic conditions that may affect the debtor's ability to pay in order to estimate allowances. Net increases in allowances for loan losses are presented as "Provision for loan losses" in the Consolidated Statements of Financial Position.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

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

Loans are written off when contractual rights over cash flows expire, however, in the case of Loans and accounts receivable from customers, the Bank will write off in accordance with Title II of Chapter B-2, “Impaired and written off credits” of the Compendium of Accounting Standards of the Superintendencia de Bancos e Instituciones Financieras. Write offs are recorded as a reduction in provision for loan losses.

In particular, the information regarding the most significant areas of estimates and uncertainties and critical judgments in the application of accounting policies that have the most significant effect on the amounts recognized in the Consolidated Financial Statements, correspond to the following items:

- Valuation financial instrument and derivatives (Notes 6, 8 and 11).
- The useful lives of property, plant and equipment and intangible assets (Notes 13 and 14).
- Current and deferred income taxes (Note 15).
- Provisions (Note 20).
- Contingencies and commitments (Note 22).
- Provision for loan losses (Note 28).
- Assumptions used in the actuarial valuation of employee benefits liabilities and commitments and other obligations (Note 29).
- Impairment losses on certain assets (Note 31).
- Assets and liabilities at fair value (Note 34).

During the year ended December 31, 2018 there have been no significant changes in estimates performed in comparison with the 2017 year-end other than those indicated in these Consolidated Financial Statements.

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 mainly through a sale transaction rather than through continuous use. Immediately before this classification, the assets (or elements of a disposal group) are re-measured in accordance with the Bank’s accounting policies. From that time on, the assets (or disposal group) are measured at the carrying amount or fair value less cost of sales, whichever is lower. Deferred tax assets, assets of employee benefits and investment properties continue to be evaluated according to the Bank's accounting policies. In the initial classification of assets held for sale and profits and/or losses subsequent to the revaluation, impairment losses are recognized in income. Profits are not recognized if they exceed any cumulative impairment.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

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

ee) Distribution of net income to the Government:

As of December 31, 2018 and 2017, the Bank has recognized a liability for the portion of net income to be distributed to the State of Chile in accordance with its dividend distribution policy. For this purpose, it establishes a provision against a supplementary equity reserve account.

This policy establishes that in order to determine the provision for the distribution of net income to the State of Chile, it shall consider the average distribution of net income for the last three years (established from the decrees issued by the Ministerio de Hacienda) or that of the last year should it be greater. In accordance with the above, the provision percentage used for distribution of net income for the year was 50.0% as of December 31, 2018 and 2017.

ff) Consolidated Statements of Comprehensive Income:

In this statement income and expenses generated by the Bank for the year as a result of its activities are presented, and all other charges (credits) that are recognized directly in equity are separately disclosed.

The items included in this Consolidated Financial Statement is detailed as follows:

- a) Net income for the year.
- b) Net amount of income and expenses temporarily recognized in equity as “Valuation accounts.”
- c) Income tax and deferred taxes originated from items in b), as appropriate, except for adjustment for exchange rate differences and hedging derivative for foreign investment.
- d) The net amount of revenue and expenses recognized in equity as “Other reserves not derived from profits.”
- e) Adjustments for IAS 19 actuarial calculation that are not reversed to income, net of deferred taxes.
- f) Total consolidated comprehensive income recognized, calculated as the sum of the previous items, separately showing the amount attributable to equity holders of the Bank and to non-controlling interest.

gg) New accounting pronouncements (IFRS, Interpretations of the IFRS Interpretations Committee and Superintendencia de Bancos e Instituciones Financieras Regulations):

The new standards, improvements, and modifications to the IFRS, as well as the interpretations that have been issued during the period are detailed below. At the date of these Consolidated Financial Statements, these regulations have not yet gone into effect, and have not been adopted for early application:

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

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

a) New standards

		Date of obligatory application
IFRS 16	Leases	January 1, 2019
IFRS 17	Insurance Contracts	January 1, 2021

IFRS 16 “Lease”

On January 13, 2016, the IASB published IFRS 16 Leases. IFRS 16 introduces a comprehensive model for the identification of lease agreements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether the identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use and a corresponding liability have to be recognized for all leases by lessees, except for short-term leases and leases of low value assets, where such exemptions are adopted by the lessee.

The right-of-use asset is initially measured at the amount of the lease liability plus any initial direct costs incurred by the lessee. Adjustments may also be required for lease incentives or payments at or prior to commencement of the lease. The right of use asset is subsequently measured using a cost model (subject to certain exceptions) which model measures the asset at cost less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability, if applicable. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows, respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

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

IFRS 16 is effective for annual periods beginning on or after January 1, 2019 with earlier application permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16. Entities can apply IFRS 16 either by a full retrospective approach or a modified retrospective approach.

BancoEstado has chosen to apply the modified retrospective approach. Therefore, it is not required to restate comparative financial information; instead it will record, for accounting purposes, on January 1, 2019, a right-of-use asset and a lease liability for an estimated amount of MCh\$ 96,000; which was calculated by discounting the future lease cash flows at the present value of the financing rate.

IFRS 17 “Insurance Contracts”

On May 18, 2017, the IASB published IFRS 17 *Insurance Contracts*. The new Standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 *Insurance contracts*.

IFRS 17 outlines a General Model, which is modified for insurance contracts with direct participation features, described as the “Variable Fee Approach.” The General Model is simplified if certain criteria are met by measuring the liability for remaining coverage using the “Premium Allocation Approach.”

The General Model will use current assumptions to estimate the amount, timing and uncertainty of future cash flows and it will explicitly measure the cost of that uncertainty; it takes into account market interest rates and the impact of policyholders’ options and guarantees.

It is probable that the implementation of this Standard results in significant changes to the entity's processes and systems, and will require significant coordination among many business functions, including finance, actuarial and IT.

IFRS 17 is effective for annual periods beginning on or after January 1, 2021 with earlier application permitted. It is applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied.

For the purpose of the transition requirements, the date of initial application is the start of the annual reporting period in which the entity first applies the Standard and the transition date is the beginning of the period immediately preceding the date of initial application.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

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

BancoEstado is evaluating the impact that this standard would have on its Consolidated Financial Statements.

b) Improvements and modifications of standards

		Date of obligatory application
IAS 28 and IFRS 10	Investments in Associates and Joint Ventures and Consolidated Financial Statements	Postpone indefinitely
IFRIC 23	Uncertainty over income tax treatments	January 1, 2019
IFRS 9	Financial Instruments	January 1, 2019
IAS 28	Investments in Associates and Joint Ventures	January 1, 2019
IFRS 3 and IFRS 11	Business Combinations and Joint Arrangements	January 1, 2019
IAS 12	Income Taxes	January 1, 2019
IAS 23	Borrowing Costs	January 1, 2019
IAS 19	Employee Benefits	January 1, 2019
IFRS 3	Business Definition	January 1, 2020
IAS 1 e IAS 8	Material Definition	January 1, 2020
	Conceptual Framework in IFRS for Financial Information	January 1, 2020

IAS 28 “Investments in Associates and Joint Ventures” and IFRS 10 “Consolidated Financial Statements”

On September 11, 2014, the IASB has published “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).” The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent’s profit or loss only to the extent of the unrelated investors’ interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent’s profit or loss only to the extent of the unrelated investors’ interests in the new associate or joint venture.

The effective date of the amendments has not yet been established by the IASB; however, earlier application of the amendments is permitted.

According to Management, these amendments would not have an impact on the Consolidated Financial Statements of the Bank.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 1 – GENERAL INFORMATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**IFRIC 23 “Uncertainty over income tax treatments”**

On June 7, 2017, the IASB issued IFRIC 23 “Uncertainty over income tax treatments.” The interpretation stipulates how a tax position is established when there is uncertainty over income tax treatments.

IFRIC 23 requires an entity to:

- (i) Determine whether the uncertain tax positions are evaluated separately or as a whole;
- (ii) Evaluate whether the tax authorities will probably accept an uncertain tax treatment used, or proposed to be used, by an entity in its tax return:
 - a. If it will be accepted, the entity must determine its tax accounting position consistently with the tax treatment used or planned to be used in its tax return.
 - b. If it will not be or is doubtful of being accepted, the entity must reflect the effect of the uncertainty on determining its accounting tax position.

IFRIC 23 is effective for annual periods starting on or after January 1, 2019. Entities can apply the interpretation with either full retrospective application or modified retrospective application without restatement of comparatives retrospectively or prospectively.

BancoEstado is evaluating the impact that this interpretation will have on its Consolidated Financial Statements.

IFRS 9 “Financial Instruments”

On October 12, 2017, the IASB published “Prepayment Features with Negative Compensation (Amendments to IFRS 9).” The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI.

The amendment applies to annual periods beginning on or after 1 January 2019, with earlier application permitted. There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of IFRS 9.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

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

As of the issuance date of these Consolidated Financial Statement, IFRS 9 has not been approved by the Superintendencia de Bancos e Instituciones Financieras, an event that is required for its application.

IAS 28 “Investments in Associates and Joint Ventures”

On October 12, 2017, the IASB published published “Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28).” The amendment clarifies that IFRS 9, including its impairment requirements, applies to long-term interests. Furthermore, in applying IFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount required by IAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).

The amendments apply retrospectively to annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. Specific transition provisions apply depending on whether the first-time application of the amendments coincides with that of IFRS 9.

According to Management, these amendments would not have an impact on the Consolidated Financial Statements of the Bank.

IFRS 3 “Business Combinations” and IFRS 11 “Joint Arrangements”, IAS 12 “Income Taxes” and IAS 23 “Borrowing Costs”

The IASB issued “Annual Improvements to IFRS Standards 2015–2017 Cycle” on 12 December 2017. The annual improvements contain amendments to the following standards:

- IAS 12, Income Taxes - The amendments clarify that an entity should recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.
- IAS 23, Borrowing Costs - The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings..

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

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

- IFRS 3, Business Combinations - The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be remeasured includes any unrecognized assets, liabilities and goodwill relating to the joint operation.
- IFRS 11, Joint Arrangements - The amendments to IFRS 11 clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the entity does not remeasure its PHI in the joint operation.

The amendments to IAS 12, IAS 23, IFRS 3 and IFRS 11, are all effective for annual periods beginning on or after January 1, 2019 and in general they require prospective application. Early application is permitted.

BancoEstado is evaluating the impact that the aforementioned interpretations could have on its Consolidated Financial Statements.

IAS 19 “Employee Benefits”

The IASB published amendments to IAS 19 “Employee Benefits” on February 7, 2018. The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). IAS 19 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognised in the normal manner in other comprehensive income.

The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended. An entity will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under IAS 19.99 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

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

The amendments are applied prospectively. They apply only to plan amendments, curtailments or settlements that occur on or after the beginning of the annual period in which the amendments to IAS 19 are first applied. The amendments to IAS 19 must be applied to annual periods beginning on or after January 1, 2019, but they can be applied earlier if an entity elects to do so.

In the opinion of the Management, this regulatory amendment has no impact on the Consolidated Financial Statements of the Bank.

IFRS 3 “Business Definition”, definition of a business

On October 22, 2018, the IASB published “Definition of a Business (Amendments to IFRS 3)” aimed at resolving the difficulties that arise when an entity determines whether it has acquired a Business or a group of assets.

The amendments are changes to Appendix A Defined terms, the application guidance, and the illustrative examples of IFRS 3 only. They:

- Clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;
- Narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs;
- Add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;
- Remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and
- Add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period. Earlier application is permitted.

BancoEstado is evaluating the impact that the aforementioned interpretations could have on its Consolidated Financial Statements.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 1 – GENERAL INFORMATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors, definition of Material”**

On October 31, 2018, the IASB issued “Definition of Material (Amendments to IAS 1 and IAS 8)” to clarify the definition of “material” and to align the definition used in the Conceptual Framework and the standards themselves.

The changes all relate to a revised definition of “material” which is quoted below from the final amendments: *“Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.”*

Three new aspects of the new definition should especially be noted:

Obscuring: The existing definition only focused on omitting or misstating information, however, the Board concluded that obscuring material information with information that can be omitted can have a similar effect. Although the term obscuring is new in the definition, it was already part of IAS 1 (IAS 1.30A).

Could reasonably be expected to influence: The existing definition referred to 'could influence' which the Board felt might be understood as requiring too much information as almost anything 'could' influence the decisions of some users even if the possibility is remote.

Primary users: The existing definition referred only to 'users' which again the Board feared might be understood too broadly as requiring to consider all possible users of financial statements when deciding what information to disclose.

The new definition of material and the accompanying explanatory paragraphs are contained in IAS 1 “Presentation of Financial Statements.” The definition of material in IAS 8 “Accounting Policies”, “Changes in Accounting Estimates and Errors” has been replaced with a reference to IAS 1.

The amendments are effective for annual reporting periods beginning on or after 1 January 2020. Earlier application is permitted.

BancoEstado is evaluating the impact that the aforementioned interpretations could have on its Consolidated Financial Statements.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

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

“Conceptual Framework in IFRS for Financial Information”

The IASB published a revision to its Conceptual Framework for Financial Reporting (the “Conceptual Framework”) on March 29, 2018. The Conceptual Framework is not a standard, and none of the concepts prevails over any standard or any of the requirements of a standard. The main purpose of the Conceptual Framework is to assist the IASB when developing International Financial Reporting Standards. The Conceptual Framework also assists financial statement preparers in developing consistent accounting policies, if there is no similar or specific applicable standard to address a particular issue. The new Conceptual Framework has an introduction, eight chapters and a glossary. Five of the chapters are new, or have been substantially amended.

The New Conceptual Framework:

- It introduces a new definition of an asset focused on rights and a new definition of a liability that is likely to be broader than the replaced definition, but it does not change the distinction between a liability and an equity instrument.
- References to the expected flows of economic benefits are removed from the definitions of assets and liabilities. This reduces the obstacles to identifying whether there is an asset or a liability and emphasizes more on reflecting uncertainty in the measurement.
- It analyzes historical cost and present value measurements, and provides certain guidance on the considerations that the IASB would take in selecting a measurement basis for a specific asset or liability.
- It establishes that the main measure of financial performance is profit or loss, and that only under exceptional circumstances the IASB will use the other comprehensive income and only for income or expenses arising from a change in the present value of an asset or liability.
- It analyzes the uncertainty, the derecognition, the unit of account, the reporting entity and the combined financial statements.

The new Conceptual Framework is effective immediately upon its publication on March 29, 2018.

Additionally, the IASB published a separate document “Updating References to the Conceptual Framework”, which contains the corresponding amendments to the affected Rules so that they now refer to the new Conceptual Framework. These amendments are effective for annual periods beginning on or after January 1, 2020, with earlier application permitted.

BancoEstado is evaluating the impact that the aforementioned interpretations will have on its Consolidated Financial Statements.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 1 – GENERAL INFORMATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**c) Regulations issued by the Superintendencia de Bancos e Instituciones Financieras****Circular No. 3,634:**

On March 9, 2018, the Superintendencia de Bancos e Instituciones Financieras issued Circular No. 3,634, in which it makes adjustments to Chapter 12-1 and 12-3 of the Updated Compendium of Regulations, in order that banks can recognize the effects of the risk mitigation mechanisms of clearing and settlement systems administered by the Counterparty Entities Center (CEC), which are set up under Law No. 20,345.

Circular No. 3,638:

On July 6, 2018, the Superintendencia de Bancos e Instituciones Financieras issued the Circular Letter No. 3,638 setting the standard methods of provisions for trade credit of the group portfolio to be used by banks for operations of commercial leasing, loans for students and other commercial credits as applicable.

It is indicated that the use of these models in no case exempt the bank institutions from their responsibility of having methodologies of their own in order to determine provisions that are sufficient to safeguard the credit risk of each portfolio. The establishment of provisions should be made considering the greater value obtained between the corresponding standard method and the internal method of each institution.

Additionally, the Circular Letter stated that the standard methods to make provisions for credits of the group business portfolio shall be binding as from July 1, 2019, and the accounting effects of its first application shall be recognized in the statement of income.

Circular No. 3,640:

On August 31, 2018, the Superintendencia de Bancos e Instituciones Financieras issued the Circular Letter No. 3,640 updating Chapters 1-13 and 20-8 of the Updated Compilation of Standards, where the guidelines for the management of Cybersecurity, as well as the report on operating incidents, are stated.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 2 – ACCOUNTING CHANGES

During the year ended December 31, 2018 there have been no significant accounting changes that affect the interpretation of these Consolidated Financial Statements.

NOTE 3 – RELEVANT EVENTS

a) Bond placement:

- On January 3, 2018, the Bank placed a bond abroad for US\$ 500 million, 3 years term, with principal due January 8, 2021, at an annual interest rate of 2.668%, with semi-annual interest payments starting on July 8, 2018.
- On January 18, 2018, the Bank placed a bond abroad for AUD 40 million, 12 years term, with principal due January 24, 2030, at an annual interest rate of 3.90%, with an annual interest payments starting on January 24, 2019.
- On February 28, 2018, the Bank placed a bond for U.F. 3.0 million, 7 years term, at an annual interest rate of 2.90%, with semi-annual interest payments and a single payment of principal on maturity.
- On February 28, 2018, the Bank placed a bond for U.F. 2.0 million, 7 years and 3 months term, at an annual interest rate of 2.90%, with semi-annual interest payments and a single payment of principal on maturity.
- On March 14, 2018, the Bank placed a bond for U.F. 2.0 million, 9 years and 3 months term, at an annual interest rate of 3.00%, with semi- annual interest payments and a single payment of principal on maturity.
- On March 14, 2018, the Bank placed a bond for U.F. 2.0 million, 9 years and 5 months term, at an annual interest rate of 3.00%, with semi- annual interest payments and a single payment of principal on maturity.
- On April 11, 2018, the Bank placed a bond for U.F. 3.0 million, 6 years and 1 month term, at an annual interest rate of 2.90%, with semi-annual interest payments and a single payment of principal on maturity.
- On April 11, 2018, the Bank placed a bond for U.F. 3.0 million, 6 years and 4 months term, at an annual interest rate of 2.90%, with semi-annual interest payments and a single payment of principal on maturity.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 3 – RELEVANT EVENTS (Continued)

- On April 25, 2018, the Bank placed a bond for MCh\$ 50,000, 4 years and 2 months term, at an annual interest rate of 4.50%, with semi-annual interest payments and a single payment of principal on maturity.
- On May 14, 2018, the Bank placed a bond abroad for HKD 600 million, 15 years term, with principal due May 29, 2033, at an annual interest rate of 3.60%, with an annual interest payments starting on May 29, 2019.
- On May 16, 2018, the Bank placed a bond abroad for JPY 13,000 million, 10 years term, with principal due May 23, 2028, at an annual interest rate of 0.58%, with semi-annual interest payments starting on November 23, 2018.
- On June 20, 2018, the Bank placed a bond abroad for COP 150,000 million, 10 years term, with principal due July 5, 2028, at an annual interest rate of 7.00%, with an annual interest payments starting on July 5, 2019.
- On July 10, 2018, the Bank placed a bond abroad for COP 150,000 million, 10 years term, with principal due July 19, 2028, at an annual interest rate of 7.00%, with an annual interest payments starting on July 19, 2019.
- On August 9, 2018, the Bank placed a subordinated bond for U.F. 2.0 million, 31 years and 9 months term, at an annual interest rate of 3.30%, with semi-annual interest payments and a single payment of principal on maturity.
- On October 11, 2018, the Bank placed a subordinated bond for U.F. 2.0 million, 31 years and 11 months term, at an annual interest rate of 3.30%, with semi-annual interest payments and a single payment of principal on maturity.
- On October 19, 2018, the Bank placed a bond abroad for HKD 720 million, 10 years term, with principal due October 26, 2028, at an annual interest rate of 3.93%, with an annual interest payments starting on October 26, 2019.
- On November 6, 2018, the Bank placed a bond abroad for CHF 125 million, 6 years term, with principal due December 4, 2024, at an annual interest rate of 0.69%, with an annual interest payments starting on December 4, 2018.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 3 – RELEVANT EVENTS (Continued)

- On November 20, 2018, the Bank placed a bond abroad for AUD 40 million, 12 years term, with principal due November 20, 2030, at an annual interest rate of 4.13%, with an annual interest payments starting on December 4, 2018.

b) Creation of the Compliance and Conduct Committee:

On January 2, 2018, the Executive Committee created the Compliance and Conduct Committee, which, after amendments to its bylaws, was made up of Mr. Edmundo Eluchans Urenda (Chairman of the Committee), Mr. Arturo Tagle Quiroz, Mr. Pablo Correa González, Mr. Juan Cooper Álvarez and Mr. Álvaro Larraín Fierro. The latter is in his capacity as Deputy Legal Advisor. Effective as of October 1, 2018 the Legal Counsel Mrs. Isabel Margarita Cabello Silva took over, replacing Mr. Álvaro Larraín Fierro.

c) Letter to Management- Instructions regarding current and deferred income taxes according to IAS 12, based upon the framework of the Compendium of Accounting Standards for Banks:

On January 8, 2018, the Superintendencia de Bancos e Instituciones Financieras issued a letter to management where information on current tax and deferred tax according to IAS 12, based upon the framework of the Compendium of Accounting Standards for Banks. The letter provided instructions about the presentation of current tax liabilities and deferred taxes in the Statement of Financial Position.

d) Modifications to standard of allowance for credit risk:

On January 11, 2018, the Superintendencia de Bancos e Instituciones Financieras put in consultation modifications to standard of allowance for credit risk (chapter B-1 of the Compendium of Accounting Standards). This modification related to the use of standard methods of allowance for credit losses for the collectively-evaluated group, which must be considered one of the four methods posed as the norm in the consultation, as appropriate to commercial leasing operations, factoring, loans or other types of commercial loans. This standard was in consultation until March 16, 2018.

Subsequently, on July 6, 2018, the Superintendencia de Bancos e Instituciones Financieras issued Circular No. 3,638 on this matter.

e) Comisión para el Mercado Financiero:

On January 15, 2018, according to the provisions of the Decree with Force of Law No. 10, on December 13, 2017, the Superintendencia de Valores y Seguros was abolished, and replaced by the Comisión para el Mercado Financiero, created by the Law No. 21,000, published in the official journal on February 23, 2017.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 3 – RELEVANT EVENTS (Continued)

f) Ratification of the renewal of external audit services:

On February 28, 2018, the Executive Committee ratified the renewal of external audit services for one year to be provided by the firm Deloitte Auditores y Consultores Limitada to BancoEstado, Subsidiaries and New York Branch.

g) Appointment of a new President of BancoEstado:

On March 16, 2018, the President of the Republic, Mr. Sebastián Piñera, together with the Minister of Finance, Mr. Felipe Larraín, signed the decree whereby Mr. Arturo Tagle Quiroz was appointed as the new Chairman of BancoEstado.

h) Ordinary General Meeting of Shareholders' in Subsidiary BancoEstado S.A. Administradora General de Fondos:

On March 27, 2018, the twenty first meeting of the General Ordinary Shareholders' of BancoEstado S.A. Administradora General de Fondos, which approved the annual report, balance sheet and financial statements of the entity for the year 2017 was held. In addition, unanimous agreement was reached for the distribution and payment of a final dividend equivalent to 100% of the liquid profits for the year 2017, amounting to a total of MCh\$ 8,627.

The Meeting also agreed to renew partially the Board of the Company as per the following detail:

<u>Director</u>	<u>Alternate Director</u>
Emiliano Figueroa Sandoval	Victoria Martínez Ocamica
Humberto Gómez Cisternas	Alexis Genkowsky Goic
Marcelo Hiriart Vergara	Verónica Hevia Lobo
Carlos Alberto Curi	Pascal Biville
Vincent Trouillard-Perrot	Henri Jean Auguste Coste
Luca Restuccia	Arnaud Schwebel

Regarding the appointment of external auditors, Deloitte Auditores y Consultores Limitada has been appointed as the external auditor for the 2018 fiscal year.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 3 – RELEVANT EVENTS (Continued)

i) Ordinary General Meeting of Shareholders' in Subsidiary Sociedad de Servicios Transaccionales CajaVecina S.A.:

The twelfth Ordinary General Shareholders' Meeting was held on April 4, 2018. In this meeting the balance sheet and the financial statements for the year ended December 31, 2017 were approved, and the distribution of the dividends of profits for the year 2017 for MCh\$ 2,474 was unanimously agreed. This dividend was paid on April 16, 2018. In addition, the appointment of Deloitte Auditores y Consultores Limitada made in 2017 was also extended to include the audit of the Company's accounting, inventories, balance sheet and other financial statements for the year 2018.

Also, the certification of the Company as “Company B” was reported. This means companies that have redefined the sense of business success, using the strength of the market to solve social and environmental problems. This new type of company then maintains a fiduciary duty to its shareholders and managers to incorporate non-financial interests, fulfilling a commitment to generate positive social and environmental impacts, operating with high standards of performance and transparency.

j) Ordinary General Meeting of Shareholders' in Subsidiary BancoEstado Centro de Servicios S.A.:

The Ordinary General Shareholders' Meeting was held on April 4, 2018. In this meeting the balance sheet and the financial statements for the year ended December 31, 2017 were approved. The meeting unanimously agreed to use the profits to absorb the accumulated losses. In addition, the appointment of Deloitte Auditores y Consultores Limitada made in 2017 was also extended to include the audit of the Company's accounting, inventories, balance sheet and other financial statements for the year 2018.

k) Ordinary General Meeting of Shareholders' in Subsidiary Sociedad de Promoción de Productos Bancarios S.A.:

The tenth Ordinary General Shareholders' Meeting was held on April 9, 2018. In this meeting the balance sheet and the financial statements for the year ended December 31, 2017 were approved. The meeting unanimously agreed to use the profits to absorb the accumulated losses. In addition, the appointment of Deloitte Auditores y Consultores Limitada made in 2017 was also extended to include the audit of the Company's accounting, inventories, balance sheet and other financial statements for the year 2018. This company continues with suspension of duties since September 2010.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 3 – RELEVANT EVENTS (Continued)

l) Appointment of BancoEstado's Chief Executive Officer:

On April 10, 2018, the President of the Republic, Mr. Sebastián Piñera, and the Minister of Finance, Mr. Felipe Larraín, signed the decree where Mr. Juan Cooper Álvarez is appointed as the new BancoEstado Chief Executive Officer. He took over his duties on April 24, 2018.

m) Ordinary General Meeting of Shareholders' in Subsidiary BancoEstado Contacto 24 Horas S.A.:

The Ordinary General Shareholders' Meeting was held on April 11, 2018. In this meeting the balance sheet and the financial statements for the year ended December 31, 2017 were approved. In addition, the appointment of Deloitte Auditores y Consultores Limitada made in 2017 was also extended to include the audit of the Company's accounting, inventories, balance sheet and other financial statements for the year 2018. Also, the re-certification of the company with the Pro-pyme Seal was reported.

n) Ordinary General Meeting of Shareholders' in Subsidiary BancoEstado Microempresas S.A. Asesorías Financieras:

The twenty-second Ordinary General Shareholders' Meeting was held on April 18, 2018. In this meeting the entity's annual report, balance sheet and financial statements for the year 2017 were approved, and the distribution and payment of a dividend of profits for the year 2017 for MCh\$ 581 was unanimously agreed upon.

With regard to the appointment of external auditors, the services of Deloitte Auditores y Consultores Limitada were renewed for 2018.

o) Ordinary General meeting of Shareholders' in Subsidiary BancoEstado Corredores de Seguros S.A.:

The fourteenth Ordinary General Shareholders' Meeting was held on April 25, 2018. In this meeting the entity's annual report, balance sheet and financial statements for the year 2017 were approved, and the distribution and payment of a final dividend to the shareholders out of net profits for the year 2017 for MCh\$ 15,553 were unanimously agreed upon.

The Meeting also agreed to renew the Board of the Company as per the following detail:

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 3 – RELEVANT EVENTS (Continued)

Director	Alternate Director
Carlos Martabit Scaff	Mauricio Zarate González
María Cecilia Vergara Fisher	Juan Paulo Mestre Carmona
Pablo Iacobelli Del Río	Cristián Eyzaguirre Court
José Miguel Saavedra Florez	Patricia Silberman Veszpremi

With regard to the appointment of external auditors, the services of Deloitte Auditores y Consultores Limitada were renewed for 2018.

p) Appointment of BancoEstado's New Vice-President and Board of Directors:

On April 25, 2018, the President of the Republic, Mr. Sebastián Piñera, and the Minister of Finance, Mr. Felipe Larraín, signed the decree where Mr. Pablo Correa González is appointed as the new BancoEstado Vice-President, and replaces Mr. Juan Foxley Riesco, who resigned on April 24, 2018.

In addition, Mrs. Iris Boeninger Von Kretschmann, Mrs. Paola Assael Montaldo, Mr. Edmundo Eluchans Urenda and Mr. Roberto Palumbo Ossa were appointed as the members of the Board of Directors and replaced Mrs. Andrea Repetto Lisboa, Mr. Sergio Páez Verdugo, Mr. Pedro Neira Asenjo and Mr. Francisco Vidal Salinas.

q) Audit Committee Members:

On April 26, 2018, BancoEstado's Board of Directors appointed Mrs. Paola Assael Montaldo and Mr. Roberto Palumbo Ossa as members of the Audit Committee. Also, on May 2, 2018, the Executive Committee appointed Mr. Pablo Correa González as a member of the Audit Committee. According to these appointments, the Audit Committee it is made up of Mrs. Paola Assael Montaldo, Mr. Roberto Palumbo Ossa, Mr. Pablo Correa González and Mr. Guillermo Ramírez Vilardel, the latter, as an independent member. This committee is chaired by Mr. Roberto Palumbo Ossa.

r) Ordinary General Meeting of Shareholders' in Subsidiary BancoEstado S.A. Corredores de Bolsa:

The twenty-ninth Ordinary General Shareholders' Meeting was held on April 27, 2018. In this meeting the entity's annual report, balance sheet and financial statements for the year 2017 were approved, and the non-distribution of the profits for the year for MCh\$ 4,674 was unanimously agreed upon. It was agreed to keep them as reserves.

The shareholders' meeting also agreed that the composition of the Company's Board of Directors will be decided at an upcoming Extraordinary Shareholders' Meeting.

With regard to the appointment of external auditors, the services of Deloitte Auditores y Consultores Limitada were renewed for 2018.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 3 – RELEVANT EVENTS (Continued)

s) Ordinary General Meeting of Shareholders' in Subsidiary BancoEstado Servicios de Cobranza S.A.:

The eighteenth Ordinary General Shareholders' Meeting was held on April 27, 2018. In this meeting the entity's annual report, balance sheet and financial statements for the year 2017 were approved, and the non distribution of the profits for the year for MCh\$ 315 was unanimously agreed upon. It was agreed to keep them as reserves.

The meeting agreed to renew the composition of the Board of Directors for a period of two years. The Board of Director is now made up of Mr. Eduardo De Las Heras Val, Mr. Marcelo Hiriart Vergara, Mr. Jaime Blanco Barrio, Mr. Carlos Marcuello Aguirre and Mr. Humberto Gómez Cisternas.

With regard to the appointment of external auditors, the services of Deloitte Auditores y Consultores Limitada were renewed for 2018.

t) Changes in BancoEstado's Senior Management Structure:

On June 1, 2018, Mr. Marcelo Hiriart Vergara became the Branch Division Manager and replaced Mr. Antonio Bertrand Hermosilla, who was released from BancoEstado. Mr. Leopoldo Quintano Hartard became the Marketing and Quality Division Manager and replaced Mrs. María Cecilia Vergara Fisher, who was released from BancoEstado.

Mr. Jonás Preller Roldán became the Communications and Sustainability Manager and Mr. Michel Moure Casabianca was released from BancoEstado. Mr. Julio Guzmán Herrera became the Finance Manager and replaced Mr. Carlos Martabit Scaff, who will continue to provide services for BancoEstado Group in the Boards of Directors of subsidiaries. Mr. Luis Alberto Soto Illanes was released from BancoEstado's Operations and Systems Division Management.

Mr. Darko Homan Varljen, the legal advisor, was released from BancoEstado.

u) Changes in the Board of Directors of the subsidiary BancoEstado Servicios de Cobranza S.A.:

On June 25, 2018, Mr. Jaime Blanco Barrio, Mr. Carlos Marcuello Aguirre, Mr. Marcelo Hiriart Vergara and Mr. Humberto Gómez Cisternas are no longer Directors of BancoEstado Servicios de Cobranza S.A. Mrs. Victoria Martínez Ocamica and Mr. Juan Cooper Álvarez were appointed to replace them.

Mr. Eduardo De Las Heras Val is now the Chairman of the Board of Directors.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 3 – RELEVANT EVENTS (Continued)

v) Distribution and payment of profits of BancoEstado of 2017 to the Treasury:

On June 26, 2018, the Ministerio de Hacienda to send Supreme Decree for processing. This decree allocates MCh\$ 60,250.5 on behalf of the Chilean Treasury. This is 50% of net profits for the year 2017. On September 24, 2018, said payment was sent to the Tesorería General de la República.

w) Extraordinary General Meeting of Shareholders' in Subsidiary BancoEstado S.A. Administradora General de Fondos:

The eleventh Extraordinary General Shareholders' Meeting was held on June 26, 2018. This meeting agreed to renew the composition of the Board of Directors until the next Ordinary Shareholders' Meeting. The Board of Directors was made up of:

Director	Alternate Director
Pablo Correa González	Victoria Martínez Ocamica
Leopoldo Quintano Hartard	Marcelo Hiriart Vergara
Emiliano Figueroa Sandoval	Alexis Genskowsky Goic
Carlos Alberto Curi	Pascal Biville
Luca Restuccia	Arnaud Schwebel Coste
Vincent Trouillard-Perrot	Luiz Di Nizo Sorge

Mr. Pablo Correa González and Mr. Carlos Alberto Curi, became the Chairman and Vice Chairman, respectively.

x) Extraordinary General Meeting of Shareholders' in Subsidiary BancoEstado Corredores de Seguros S.A.:

The sixth Extraordinary General Shareholders' Meeting was held on June 27, 2018. This meeting agreed to renew the composition of the Board of Directors until the next Ordinary Shareholders' Meeting. The Board of Directors is now made up of:

Director	Alternate Director
Juan Cooper Álvarez	Leopoldo Quintano Hartard
Marcelo Hiriart Vergara	Gabriela Blu Salcedo
Pablo Iacobelli Del Río	Cristián Eyzaguirre Court
José Miguel Saavedra Florez	Patricia Silberman Veszpremi

Mr. Juan Cooper Álvarez and Mr. Pablo Iacobelli Del Río, became the Chairman and Vice Chairman, respectively.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 3 – RELEVANT EVENTS (Continued)

y) Extraordinary General Meeting of Shareholders' in BancoEstado S.A. Corredores de Bolsa:

An Extraordinary General Shareholders' Meeting was held on June 27, 2018. This meeting agreed to amend the bylaws regarding the number of Directors, reducing the number of Board members of the company from 6 to 3. Also, it was agreed to renew its members. The Board of Directors is now made up of Mrs. Nicole Winkler Sotomayor, Mr. Carlos Martabit Scaff and Mr. Álvaro Larraín Fierro.

Mr. Carlos Martabit Scaff and Mrs. Nicole Winkler Sotomayor were appointed as the Chairman and the Vice Chairwoman of the Board of Directors, respectively.

z) Extraordinary General Meeting of Shareholders' in BancoEstado Microempresas S.A. Asesorías Financieras:

An Extraordinary General Shareholders' Meeting was held on June 27, 2018. In the meeting Mr. Marcelo Hiriart Vergara and Mr. Pablo Correa González were appointed as Directors of the Subsidiary. They will hold office until the Ordinary Shareholders' Meeting, when the whole Board of Directors will be renewed. This appointment was made to replace Mrs. Jessica López Saffie and Mr. Antonio Bertrand Hermosilla, who were released from BancoEstado.

aa) Appointment of an Independent Member of the Audit Committee:

On June 28, 2018, the Board of Directors appointed Mr. Gustavo Favre Domínguez as an independent member of the Audit Committee. Therefore, the Audit Committee is now made up of Mr. Roberto Palumbo Ossa (Chairman of the Committee), Mr. Pablo Correa González, Mrs. Paola Assael Montaldo, and Mr. Guillermo Ramírez Vilardel and Mr. Gustavo Favre Domínguez as independent members.

bb) Appointment of member of the Board of Directors of the Subsidiary Sociedad de Servicios Transaccionales CajaVecina S.A.:

On July 5, 2018, meeting No. 110 of the Board of Directors of Sociedad de Servicios Transaccionales CajaVecina S.A. was held, where Mr. Jonás Preller Roldán was appointed as substitute of the outgoing Director Mr. Antonio Bertrand Hermosilla. At the same meeting, Mr. Carlos Olivares González resigned from the Board of Directors and Mr. Arturo Barrios Almarza was appointed as substitute. Therefore, the Board of Directors was made up Mr. Jonás Preller Roldán, Mr. Arturo Barrios Almarza, Mr. Emilio Vélez Hormazabal and Mr. Mauricio Zárate González.

Mr. Jonás Preller Roldán holds the office of Chair of the Board of Directors.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 3 – RELEVANT EVENTS (Continued)

cc) Extraordinary General Meeting of Shareholders' in Subsidiary BancoEstado Centro de Servicios S.A.:

On July 9, 2018, the Extraordinary General Meeting of Shareholders' of the Subsidiary BancoEstado Centro de Servicios S.A. was held, where the composition of the Board of Directors was renewed, thus being made up by Mrs. Virginia María Vergara Soto, Mr. Julio Martín Guzmán Herrera, Mr. Carlos Francisco Olivares González and Mr. Alejandro Augusto Romero Saccani.

Mr. Julio Martín Guzmán Herrera is now the Chairman of the Board of Directors.

dd) Change of Board of Directors of Subsidiary Red Global S.A.:

On July 13, 2018, the general meeting of the board of directors was held, where the resignation to the Company's Board of Directors of Mrs. María Cecilia Vergara Fisher and of Mr. Emilio Vélez Hormazábal was communicated. Additionally, Mr. Leopoldo Quintano Hartard and Mrs. María Dolores Peralta Rubio were appointed as replacing directors.

Definitely, after the aforementioned resignations and replacements according to the provisions in Article No. 32, final paragraph of the Law No. 18,046 on Corporations, the Company's Board of Directors is made up by the following directors:

Chairman	:Óscar González Narbona;
Vice-Chairman	:Leopoldo Quintano Hartard;
Director	:Rodrigo Collado Lizama;
Director	:María Dolores Peralta Rubio;
Director	:Igor Marchesini Ferreira.

ee) Modification of by-laws of Subsidiary BancoEstado Servicios de Cobranza S.A.:

On July 18, 2018, the Superintendencia de Bancos e Instituciones Financieras approved the amendment of the articles of association of BancoEstado Servicios de Cobranza S.A., so as to decrease the number of directors from 5 to 3.

ff) Modification of by-laws of Subsidiary BancoEstado Contacto 24 Horas S.A.:

On July 18, 2018, the Superintendencia de Bancos e Instituciones Financieras approved the amendment of the articles of association of BancoEstado Contacto 24 horas S.A., so as to decrease the number of directors from 4 to 3.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 3 – RELEVANT EVENTS (Continued)

gg) Modification of by-laws of Subsidiary Sociedad de Servicios Transaccionales CajaVecina S.A.:

On July 18, 2018, the Superintendencia de Bancos e Instituciones Financieras approved the amendment of the articles of association of Sociedad de Servicios Transaccionales CajaVecina S.A., so as to decrease the number of directors from 4 to 3 and to set the minimum frequency of the Board of Directors' meeting to one monthly meeting.

hh) Modification of by-laws of Subsidiary BancoEstado S.A. Corredores de Bolsa:

On July 19, 2018, the Superintendencia de Bancos e Instituciones Financieras acknowledged receipt of notice sent as regards the amendment of BancoEstado S.A. Corredores de Bolsa articles of association, in order to decrease the number of directors from 6 to 3 members produced at the Extraordinary General Meeting of Shareholders' as of June 27, 2018.

ii) Modification of by-laws of Subsidiary BancoEstado Centro de Servicios S.A.:

On July 19, 2018, the Superintendencia de Bancos e Instituciones Financieras approved the amendment of the articles of association of BancoEstado Centro de Servicios S.A., so as to decrease the number of directors from 4 to 3 and to set the minimum frequency of the Board of Director's meeting to one monthly meeting.

jj) Extraordinary General Meeting of Shareholders' in Subsidiary Sociedad de Servicios Transaccionales CajaVecina S.A.:

On July 30, 2018, the Fifth General Extraordinary Meeting of Shareholders was held, where the modification of the articles of association was agreed with respect to the number of directors, reducing the members of the company's Board of Directors from 4 to 3. Additionally, the renewal of its composition was agreed, thus being made up by Mr. Jonás Preller Roldán, Mr. Arturo Barrios Almarza and Mr. Emilio Velez Hormazabal. This was approved by SBIF according to letter No. 91827701 as of July 18, 2018.

Mr. Jonás Preller Roldán acts as Chairman of the Board of Directors.

kk) Extraordinary General Meeting of Shareholders' in Subsidiary BancoEstado Centro de Servicios S.A.:

On August 1, 2018 the Fifth General Extraordinary Meeting of Shareholders was held, where the modification of the articles of association was agreed with respect to the number of directors, reducing the members of the company's Board of Directors from 4 to 3.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 3 – RELEVANT EVENTS (Continued)

Additionally, the renewal of its composition was agreed, thus being made up by Mr. Julio Guzmán Herrera, Mr. Carlos Herrera, Mr. Carlos Olivares González and Mr. Alejandro Romero Saccani. Likewise, an amendment was approved related to the minimum frequency of the Board of Director's meetings to one monthly meeting. All of this was approved by SBIF according to letter No. 91827998 as of July 19, 2018.

Mr. Julio Guzmán Herrera holds the office of Chair of the Board of Directors.

ll) Extraordinary General Meeting of Shareholders' in Subsidiary BancoEstado Contacto 24 horas S.A.:

On August 6, 2018 the Third General Extraordinary Meeting of Shareholders was held, where the modification of the articles of association was agreed with respect to the number of directors, reducing the members of the company's Board of Directors from 4 to 3. Additionally, the renewal of its composition was agreed, thus being made up by Mrs. María Dolores Peralta Rubio as Chairman of the Board of Directors and Mr. Arturo José Tagle Quiroz and Mr. Rodrigo Alfonso Collado Lizama as Directors. All of this was approved by SBIF according to letter No. 91827777 as of July 18, 2018.

mm) Resignation of Director of the Subsidiary BancoEstado S.A. Administradora General de Fondos:

On August 8, 2018, Mr. Alexis Genskowsky Goic, submitted his resignation from the position of Alternate Director of the company.

nn) Extraordinary General Meeting of Shareholders' in Subsidiary BancoEstado Servicios de Cobranza S.A.:

On August 10, 2018 the Eighth General Extraordinary Meeting of Shareholders was held, where the modification of the articles of association was agreed with respect to the number of directors, reducing the members of the company's Board of Directors from 5 to 3. Additionally, the renewal of its composition was agreed, thus being made up by Mrs. Victoria Martínez Ocamica and Mr. Juan Cooper Álvarez and Mr. Eduardo de las Heras Val. All of this was approved by SBIF according to letter No. 91827702 as of July 18, 2018.

Mr. Eduardo de las Heras Val holds the office of Chair of the Board of Directors.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 3 – RELEVANT EVENTS (Continued)**oo) Purchase of shares from Sociedad Operadora de la Cámara de Compensación de Pagos de Alto Valor S.A.:**

On August 16, 2018, BancoEstado purchased from JP Morgan Chase Bank N.A., Chilean branch, the amount of 4 shares of the Sociedad Operadora de la Cámara de Compensación de Pagos de Alto Valor S.A. for the amount of MCh\$ 2, thus keeping 15.0021% share in said Company.

pp) Resignation of Director of the Subsidiary BancoEstado S.A. Administradora General de Fondos:

On August 28, 2018, Mr. Emiliano Figueroa Sandoval submitted his resignation to the position of Director of the Company. This resignation became effective on August 31 of the same year.

qq) Appointment of General Manager of BancoEstado Loans:

On September 1, 2018, Mr. Andrés Heusser Risopatrón assumed the position of General Credit Manager, replacing Mr. Emiliano Figueroa Sandoval, was released from BancoEstado.

rr) Appointment of new Attorney for BancoEstado:

On September 11, 2018, the President of the Republic Mr. Sebastián Piñera, along with the Finance Minister, Mr. Felipe Larraín, signed the decree appointing Mrs. Isabel Margarita Cabello Silva as the new Attorney of BancoEstado, who commenced her duties on October 1, 2018.

ss) Appointment of the General Manager of Banco del Estado de Chile at the New York Branch:

On September 20, 2018, Mr. Max Goldsmid Pendler was appointed General Manager of the New York Branch, and took over the position effective as of December 3, 2018, replacing Mr. Eugenio Echeverría Olivares.

tt) Ordinary Meeting of the Board of Directors of the Subsidiary BancoEstado S.A. Administradora General de Fondos:

On September 25, 2018, it agreed to appoint Mr. Andrés Heusser Risopatrón as Director of the company, who will perform his duties until the next Ordinary Shareholders' Meeting.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))



NOTE 3 – RELEVANT EVENTS (Continued)

uu) Resignation of the Director of BancoEstado Microempresas S.A. Asesorías Financieras:

The 264th Ordinary Meeting of the Board of BancoEstado Microempresas S.A. Asesorías Financieras took place on October 8, 2018, and in such meeting it was informed that Mrs. Soledad Ovando Green resigned from her position of Director and Chairman of the Board of BancoEstado Microempresas S.A. Asesorías Financieras effective as of September 28, 2018.

vv) Change in the Board of the Subsidiary BancoEstado Corredores de Seguros S.A.:

Mr. Marcelo Hiriart Vergara resigned as Standing Director of the subsidiary BancoEstado Corredores de Seguros S.A. effective as of October 12, 2018. The Deputy Director Mrs. Gabriela Blu Salcedo will take over the position of Standing Director.

ww) Payment of dividend by Subsidiary BancoEstado Corredores de Seguros S.A.:

The subsidiary BancoEstado Corredores de Seguros S.A. paid a final dividend to the shareholders effective as of October 19, 2018, as established in the 14th Ordinary General Shareholders' Meeting, held on April 25, 2018.

xx) Change of General Manager (CEO) in Subsidiary Red Global S.A.:

On October 26, 2018, at the 18th Meeting of the Board of Directors of Red Global S.A. the resignation, effective as of November 1, 2018 of Mr. Álvaro De la Fuente Marciani from the position of General Manager of this Subsidiary was communicated. Immediately Mr. Carlos Schaaf Raposo was appointed as new General Manager effective as of November 1, 2018.

yy) Appointment of Director in Subsidiary BancoEstado Microempresas S.A. Asesorías Financieras:

The 265th Ordinary Meeting of the Board of BancoEstado Microempresas S.A. Asesorías Financieras was held on November 7, 2018. At this meeting Mr. Leopoldo Quintano Hartard was appointed as director.

zz) Resignation of board member at BancoEstado:

On November 30, 2018, Mrs. Iris Boeninger Von Kretschmann submitted her resignation from the position of member of the Board of Directors of BancoEstado

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES



Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 3 – RELEVANT EVENTS (Continued)

aaa) New General Manager takes over at Subsidiary BancoEstado S.A. Corredores de Bolsa:

Effective as of December 3, 2018, and after the appointment made in the meeting of the Board of BancoEstado S.A. Corredores de Bolsa held on November 22, 2018, Mr. Eugenio Echeverría Olivares took over as General Manager of this Subsidiary, replacing Mr. Jorge Ramírez Oñate.

bbb) Shareholders' Agreement entered by and between Banco del Estado de Chile and Sumup Limited:

On December 31, 2018, the Company SUMUP LIMITED manifested its desire to exercise the right to acquire shares issued by Red Global, which is owned by BancoEstado. As a result, it would increase its interest in Red Global from 9.9% to 29.9%, all of this in accordance with the provisions of the Shareholders' Agreement signed by and between BancoEstado and Sumup on February 21, 2017. The foregoing is contingent on the approval by the Superintendencia de Bancos e Instituciones Financieras in accordance with Chapter 11-6 of the Updated Compilation of Standards.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 4 – OPERATING SEGMENTS**Segmentation criteria:**

Segment information is structured according to the different lines of business of the Bank, which are based on its organizational structure, products and services offered and the customer segments for which they are intended.

Segment information provided is based on monthly reports prepared from information facilitated by a management control information application.

The structure of this management information is designed as if each line of business were treated as an autonomous business. The Bank obtains most of its income from interest, inflation-indexation and fees, subtracting provisions and expenses. As such, the financial performance of each segment is calculated by applying the following criteria:

- a) The net interest margin of loans and deposits is measured at an individual transaction level and corresponds to the difference between the effective rate of the customer and the internal transfer pricing established based on the term and currency of each operation,
- b) Net commission income, net income from financial operations, net exchange gains (losses) and other operating income and other operating income are distributed to each functional area and allocated to segments using different allocation criteria, regarding which specific indicators are defined for different concepts; and
- c) Operating expenses and taxes are managed at the corporate level and are not allocated to segments.

Transfer pricing between operating segments are carried out at market values as if they were transactions with third parties.

Segments:

The Bank has the following reporting segments:

Wholesale Banking, which comprises large companies, medium sized companies and institutions.

Retail Banking, which includes individuals, small companies and micro companies.

Treasury and International, which represents financial and international business.

Other, this group comprises corporate concepts, where the assets, liabilities, income and expenses, as applicable, cannot be clearly attributed to any of the lines of business or segment or which are the result of decisions affecting the Bank as a whole.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 4 - OPERATING SEGMENTS (Continued)

For the year ended on December 31, 2018 and 2017, segment information is detailed as follows:

	December 31, 2018						December 31, 2017					
	Wholesale Banking MCh\$	Retail Banking MCh\$	Treasury and International MCh\$	Other MCh\$	Total		Wholesale Banking MCh\$	Retail Banking MCh\$	Treasury and International MCh\$	Other MCh\$	Total	
					MCh\$	MUS\$					MCh\$	
Net interest income	222,234	633,387	64,800	73,531	993,952	1,431	221,491	556,306	32,827	75,689	886,313	
Net fee and commission income	56,278	363,653	1,591	(115,645)	305,877	440	44,875	288,319	1,768	(74,646)	260,316	
Net income from financial operations	8,086	11,621	95,812	-	115,519	166	9,930	10,361	134,831	377	155,499	
Net foreign exchange gain (loss)	4,423	7,803	8,439	6	20,671	30	4,272	5,700	(44,916)	7	(34,937)	
Other operating income	142	1,908	1	16,913	18,964	27	209	675	1	8,140	9,025	
Total operating Income	291,163	1,018,372	170,643	(25,195)	1,454,983	2,094	280,777	861,361	124,511	9,567	1,276,216	
Provision for loan losses	(23,657)	(170,806)	(1,982)	(35,602)	(232,047)	(334)	(27,763)	(161,293)	(197)	3,404	(185,849)	
Operating income, net	267,506	847,566	168,661	(60,797)	1,222,936	1,760	253,014	700,068	124,314	12,971	1,090,367	
Operating expense					(820,134)	(1,180)					(781,487)	
Other operating expenses					(49,290)	(71)					(34,335)	
Total operating expenses					(869,424)	(1,251)					(815,822)	
Net operating income					353,512	509					274,545	
Income from investments in associates					2,509	4					2,069	
Income before income taxes					356,021	513					276,614	

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 4 - OPERATING SEGMENTS (Continued)

As of December 31, 2018 and 2017 the Consolidated Statements of Financial Position by segment are detailed as follows:

	December 31, 2018						December 31, 2017					
	Wholesale Banking MCh\$	Retail Banking MCh\$	Treasury and International MCh\$	Others MCh\$	Total MCh\$	MUS\$	Wholesale Banking MCh\$	Retail Banking MCh\$	Treasury and International MCh\$	Others MCh\$	Total MCh\$	
ASSETS												
Cash and due from banks	-	-	4,354,391	-	4,354,391	6,267	-	-	4,781,085	-	4,781,085	
Transactions in the course of collection	-	-	369,632	-	369,632	532	-	-	186,484	-	186,484	
Financial assets held for trading	-	-	2,192,921	-	2,192,921	3,156	-	-	2,311,304	-	2,311,304	
Loans and accounts receivable from customers, net	8,836,601	14,383,433	19,943	35	23,240,012	33,450	8,602,903	13,235,357	9,976	25	21,848,261	
Financial investments available for sale	37,076	-	5,971,688	-	6,008,764	8,649	6,862	-	5,193,773	-	5,200,635	
Other assets	402,203	67	1,393,028	2,260,511	4,055,809	5,838	381,077	4	1,250,033	1,931,353	3,562,467	
TOTAL ASSETS	9,275,880	14,383,500	14,301,603	2,260,546	40,221,529	57,892	8,990,842	13,235,361	13,732,655	1,931,378	37,890,236	
LIABILITIES												
Current accounts and other demand deposits	5,522,631	3,426,185	63,747	526,953	9,539,516	13,730	5,625,254	3,039,592	65,664	293,514	9,024,024	
Transactions in the course of payment	-	-	352,913	-	352,913	508	-	-	101,578	-	101,578	
Time deposits and savings account	4,407,108	7,021,704	5,719,374	83	17,148,269	24,682	4,112,805	6,299,688	6,590,459	6,177	17,009,129	
Obligations with banks	-	-	1,307,903	-	1,307,903	1,883	-	-	1,409,545	-	1,409,545	
Debt instruments issued	-	-	7,231,410	-	7,231,410	10,408	-	-	6,166,010	-	6,166,010	
Other liabilities	818,704	10,453	827,249	1,271,528	2,927,934	4,214	648,040	10,719	740,026	1,126,708	2,525,493	
TOTAL LIABILITIES	10,748,443	10,458,342	15,502,596	1,798,564	38,507,945	55,425	10,386,099	9,349,999	15,073,282	1,426,399	36,235,779	
EQUITY	-	-	-	1,713,584	1,713,584	2,467	-	-	-	1,654,457	1,654,457	
TOTAL LIABILITIES AND EQUITY	10,748,443	10,458,342	15,502,596	3,512,148	40,221,529	57,892	10,386,099	9,349,999	15,073,282	3,080,856	37,890,236	

The “Others” item includes the following concepts: a) Assets: Repurchase agreements and securities loans, Financial derivative contracts, Loans and advances to banks, Financial investments held to maturity, Investments in associates, Intangible assets, Property, plant and equipment, Current tax, Deferred taxes and Other assets; b) Liabilities: Repurchase agreements and securities loans, Financial derivative contracts, Other financial obligations, Current taxes, Deferred taxes, Provisions and Other liabilities.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 5 – CASH AND CASH EQUIVALENTS

- a) As of December 31, 2018 and 2017, balances included in cash and cash equivalents are detailed as follows:

	12/31/2018		12/31/2017
	MUS\$	MCh\$	MCh\$
Cash and due from banks			
Cash	930	646,047	585,728
Deposits in the Chilean Central Bank	3,584	2,490,188	2,922,529
Deposits in domestic banks	9	6,450	645
Foreign deposits	1,744	1,211,706	1,272,183
Subtotal Cash and due from banks	6,267	4,354,391	4,781,085
Transactions in the course of collection net	24	16,719	84,906
Highly liquid financial instruments (*)	3,062	2,126,717	1,747,351
Repurchase agreements (*)	485	337,027	323,000
Total Cash and cash equivalents	9,838	6,834,854	6,936,342

- (*) Corresponds to financial assets held for trading and financial investments available for sale and Repurchase Agreements with little risk of change in value, maturing in 90 days or less from the date of acquisition. These are detailed as follows:

Highly liquid financial instruments	12/31/2018		12/31/2017
	MUS\$	MCh\$	MCh\$
Financial assets held for trading			
Fixed time deposits in national currency	18	12,364	78,946
Fixed time deposits in foreign currency	-	-	39,237
Fixed time deposits adjustable	21	14,429	-
Mutual funds	83	57,510	51,727
Subtotal Financial assets held for trading	122	84,303	169,910
Financial investments available for sale			
Fixed time deposits	-	-	128,732
Promissory note - Central Bank	2,925	2,032,114	1,396,794
Treasury bonds	15	10,300	51,915
Subtotal Financial investments available for sale	2,940	2,042,414	1,577,441
Total	3,062	2,126,717	1,747,351

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 5 – CASH AND CASH EQUIVALENTS (Continued)

As of December 31, 2018 and 2017, the Bank presents balances corresponding to mandatory reserves in the amount for MCh\$ 826,478 and MCh\$ 780,796, respectively, as part of its cash and deposits in the Chilean Central Bank.

The level of cash funds and amounts held in deposits at the Chilean Central Bank is due to regulations on mandatory cash reserve that the Bank must maintain on average, which are measured on a monthly basis.

b) Transactions in the course of collection

Transactions in the course of collection correspond to transactions only pending of settlement, which will increase or decrease the funds in the Chilean Central Bank or in foreign banks, normally within the following 12 or 48 business hours. As of December 31, 2018 and 2017, these balances are detailed as follows:

	12/31/2018		12/31/2017
	MUS\$	MCh\$	MCh\$
Assets:			
Outstanding notes from other Banks (clearing)	74	51,393	67,827
Accounts receivables	458	318,239	118,657
Subtotal assets	532	369,632	186,484
Liabilities:			
Accounts payables	508	352,913	101,578
Subtotal liabilities	508	352,913	101,578
Net balances in the course of collection	24	16,719	84,906

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 6 – FINANCIAL ASSETS HELD FOR TRADING

As of December 31, 2018 and 2017, instruments designated as financial assets held-for-trading are detailed as follows:

	<u>12/31/2018</u>		<u>12/31/2017</u>
	MUS\$	MCh\$	MCh\$
Instruments of the State and the Chilean Central Bank:	165	114,933	66,878
Instruments of the Chilean Central Bank	57	40,038	48,295
Bonds and promissory notes of the Chilean Treasury	108	74,895	18,583
Other government instruments	-	-	-
Instruments from other local institutions:	2,908	2,020,478	2,192,699
Instruments from other local banks	2,886	2,005,185	2,161,726
Bonds and commercial papers from companies	-	-	-
Other instruments issued locally	22	15,293	30,973
Instruments from foreign institutions:	-	-	-
Instruments from foreign governments or central banks	-	-	-
Other instruments issued abroad	-	-	-
Investments in Mutual Funds:	83	57,510	51,727
Funds managed by related entities	83	57,510	51,727
Funds managed by third parties	-	-	-
Total	<u>3,156</u>	<u>2,192,921</u>	<u>2,311,304</u>

As of December 31, 2018 and 2017, instruments with repurchase agreements sold to clients and financial institutions correspond to Instruments of the State and Chilean Central Bank. As of December 31, 2018 they have been sold with repurchase agreements for MCh\$ 1,127 (MCh\$ 32,062 as December 31, 2017).

As of December 31, 2018, instruments with repurchase agreements sold to clients and financial institutions with a recorded amount of MCh\$ 474,614 correspond to under Instruments of other national and foreign institutions (MCh\$ 391,953 as December 31, 2017).

As of December 31, 2018 and December 31, 2017, instruments with repurchase agreements mature on average at 7 and 6 days, respectively.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 7 – REPURCHASE AGREEMENTS AND SECURITIES LOANS

a) The Bank purchases financial instruments and agrees to sell them at future dates at an established price. As of December 31, 2018 and 2017, instruments purchased with resale agreements are detailed as follows:

	Rights under resale agreements							
	12/31/2018				12/31/2017			
	From 1 day to 3 months MCh\$	More than 3 months to 1 year MCh\$	More than 1 year MCh\$	Total MCh\$ MUS\$	From 1 day to 3 months MCh\$	More than 3 months to 1 year MCh\$	More than 1 year MCh\$	Total MCh\$
Instruments of the State and the Chilean Central Bank:								
Instruments of the Chilean Central Bank	248	-	-	248 -	4,369	-	-	4,369
Bonds and promissory notes of the Chilean Treasury	-	-	-	- -	67,918	-	-	67,918
Other government instruments	-	-	-	- -	-	-	-	-
Other instruments issued locally:								
Instruments from other local banks	322,542	-	-	322,542 465	250,713	-	-	250,713
Bonds and commercial papers from companies	14,237	-	-	14,237 20	-	-	-	-
Other instruments issued locally	-	-	-	- -	-	-	-	-
Other instruments issued abroad:								
Instruments from governments or central banks	-	-	-	- -	-	-	-	-
Other instruments issued abroad	-	-	-	- -	-	-	-	-
Investments in Mutual Funds:								
Funds managed by related entities	-	-	-	- -	-	-	-	-
Funds managed by third parties	-	-	-	- -	-	-	-	-
Total	337,027	-	-	337,027 485	323,000	-	-	323,000

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 7 – REPURCHASE AGREEMENTS AND SECURITIES LOANS (Continued)

b) The Bank obtains funds selling financial instruments, committing to buying them back on future dates plus interest at a pre-established rate. As of December 31, 2018 and 2017, the obligation for instruments sold under repurchase agreements is as follows:

	Obligations under repurchase agreements								
	12/31/2018					12/31/2017			
	From 1 day to 3 months MCh\$	More than 3 months to 1 year MCh\$	More than 1 year MCh\$	Total MCh\$	MUS\$	From 1 day to 3 months MCh\$	More than 3 months to 1 year MCh\$	More than 1 year MCh\$	Total MCh\$
Instruments of the State and the Chilean Central Bank:									
Instruments of the Chilean Central Bank	229,014	-	-	229,014	330	22,005	-	-	22,005
Bonds and promissory notes of the Chilean Treasury	-	-	-	-	-	-	-	-	-
Other government instruments	-	-	-	-	-	-	-	-	-
Other instruments issued locally:									
Instruments from other local banks	564,827	27,008	-	591,835	851	570,518	-	-	570,518
Bonds and commercial papers from companies	-	-	-	-	-	-	-	-	-
Other instruments issued locally	-	-	-	-	-	-	-	-	-
Other instruments issued abroad:									
Instruments from foreign governments or central banks	-	-	-	-	-	-	-	-	-
Other instruments issued abroad	-	-	-	-	-	-	-	-	-
Investments in Mutual Funds:									
Funds managed by related entities	-	-	-	-	-	-	-	-	-
Funds managed by third parties	-	-	-	-	-	-	-	-	-
Total	793,841	27,008	-	820,849	1,181	592,523	-	-	592,523

As of December 31, 2018, the obligations associated with these instruments sold repurchase agreements have an average expiration of 6 and 17 days, respectively.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 8 – FINANCIAL DERIVATIVE CONTRACTS

As of December 31, 2018 and 2017, the Bank's portfolio of derivative instruments is detailed as follows:

12/31/2018	Notional amount of contracts with final maturity						Fair Value			
	Up to 1 month	More than 1 up to 3 months	More than 3 up to 6 months	More than 6 up to 12 months	More than 1 up to 3 years	More than 3 up to 5 years	Assets		Liabilities	
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MUS\$	MCh\$	MUS\$	MCh\$
Fair value hedge derivatives:										
Forwards	-	-	-	-	-	-	-	-	-	-
Swaps	-	-	-	-	76,026	210,275	5	3,277	29	20,038
Call options	-	-	-	-	-	-	-	-	-	-
Put options	-	-	-	-	-	-	-	-	-	-
Futures	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-
Subtotal	-	-	-	-	76,026	210,275	5	3,277	29	20,038
Trading Derivatives:										
Forwards	6,524,482	4,405,052	2,941,077	2,659,798	1,494,824	456	392	272,524	395	274,542
Swaps	255,861	1,474,929	1,495,162	1,668,538	5,835,496	4,657,416	595	413,575	554	385,372
Call options	-	-	-	-	-	-	-	-	-	28
Put options	-	-	-	-	-	-	-	-	-	1
Futures	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-
Subtotal	6,780,343	5,879,981	4,436,239	4,328,336	7,330,320	4,657,872	987	686,099	949	659,943
Net investment in foreign operation hedging derivatives:										
Forwards	224,897	7,642	-	-	-	-	-	-	41	28,280
Cash flow hedging derivatives:										
Swaps	50,023	165,395	165,395	263,318	924,499	397,864	171	118,825	79	54,694
Total	7,055,263	6,053,018	4,601,634	4,591,654	8,330,845	5,266,011	1,163	808,201	1,098	762,955

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 8 – FINANCIAL DERIVATIVE CONTRACTS (Continued)

12/31/2017	Notional amount of contracts with final maturity						Fair Value	
	Up to 1month	More than 1 up to 3 months	More than 3 up to 6 months	More than 6 up to 12 months	More than 1 up to 3 years	More than 3 up to 5 years	More than 5 years	
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	Assets MCh\$
Fair value hedge derivatives:								Liabilities MCh\$
Forwards	-	-	-	-	-	-	-	-
Swaps	-	-	-	-	-	178,743	650,340	5,664
Call options	-	-	-	-	-	-	-	-
Put options	-	-	-	-	-	-	-	-
Futures	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-
Subtotal	-	-	-	-	-	178,743	650,340	5,664
Trading Derivatives:								
Forwards	6,742,707	4,253,824	3,456,671	3,145,062	384,876	1,030	-	275,720
Swaps	38,197	256,139	448,439	1,205,213	3,747,143	3,011,539	3,919,649	350,560
Call options	-	-	-	-	-	-	-	-
Put options	-	-	-	-	-	-	-	-
Futures	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-
Subtotal	6,780,904	4,509,963	3,905,110	4,350,275	4,132,019	3,012,569	3,919,649	626,280
Net investment in foreign operation hedging derivatives:								
Forwards	208,585	-	-	-	-	-	-	17,869
Cash flow hedging derivatives:								
Swaps	27,664	-	401,549	812,351	580,440	315,915	658,096	25,378
Total	7,017,153	4,509,963	4,306,659	5,162,626	4,712,459	3,507,227	5,228,085	675,191

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 8 – FINANCIAL DERIVATIVE CONTRACTS (Continued)

Types of derivatives:

Transactions with derivatives have the following purposes: to provide solutions for the Bank's customers with respect to risk management and trading and to manage the Bank's own internal risks, as well as managing matching of the Bank's positions.

The Bank can enter into the following derivatives:

1) Hedge derivatives, whose main purpose is to manage volatility in the Consolidated Statements of Financial Position.

As of December 31, 2018, the Bank has the following hedge derivatives:

i) Hedge of a net investment in foreign operations

BancoEstado has an investment in a foreign operation, which consists of the investment in the New York Branch in the United States of America whose functional currency (US dollar) is other than the parent company functional currency. The accounting treatment of this position generates changes in the parent equity due to the conversion to the functional currency of the parent. Therefore, the Bank has decided to hedge the foreign currency risk arising from its net investment in this foreign operation with contracts for a notional of MCh\$ 232,539 with maturities up to three month. This hedge has negative net fair value of MCh\$ 28,280 (notional amount of MCh\$ 208,585 and positive net fair value of MCh\$ 17,869 as December 31, 2017), with its purpose being to hedge that investment's currency risk. The issued capital of New York Branch amount to MCh\$ 104,449 as of December 31, 2018 and 2017.

	Notional amount at December 31, 2018							Total	
	Up to 1 month	More than 1 up to 3 months	More than 3 up to 6 months	More than 6 up to 12 months	More than 1 up to 3 years	More than 3 up to 5 years	More than 5 years		
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MUS\$
Hedged item									
Investment (equity) in New York Branch	224,897	7,642	-	-	-	-	-	232,539	335
Hedging instrument									
Forward hedging	(224,897)	(7,642)	-	-	-	-	-	(232,539)	(335)
Total	-	-	-	-	-	-	-	-	-

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 8 – FINANCIAL DERIVATIVE CONTRACTS (Continued)

	Notional amount at December 31, 2017						Total
	Up to 1 month	More than 1 up to 3 months	More than 3 up to 6 months	More than 6 up to 12 months	More than 1 up to 3 years	More than 3 up to 5 years	
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
Hedged item							
Investment (equity) in New York Branch	208,585	-	-	-	-	-	208,585
Hedging instrument							
Forward hedging	(208,585)	-	-	-	-	-	(208,585)
Total	-	-	-	-	-	-	-

ii) Cash flow hedge:

The Bank uses derivative instruments, in particular cross currency swaps (CCS), to hedge the following risks related to placement of bonds abroad, and it also hedges risks related with assets in U.F. and US\$.

Hedged Risk 1: Bonds in Foreign Currency (MX).

The volatility of cash flows consisting of principal plus interest (payable by the Bank), which are denominated in MX, and settled in Chilean pesos arising from the issuance of debt.

Hedged Risk 2: Assets in U.F. and US\$

The volatility of expected cash flows (receivable by the Bank), which are denominated in U.F. and settled in Chilean pesos arising from various sources. These projected cash flows have different sources or risk, although all of them share the risk of cash flows due to the effects of change in the U.F. the volatility of expected flows (to be received by the Bank) which are denominated in US\$, is indexed at the Libor US\$ 6 month rate, which exposes the Bank to the risk of resetting or re-pricing, given the volatility of this index.

Considering the above, hedged risk 2 has been defined as a portion of total exposure of these U.F. and US\$ denominated projected cash flows, where the hedged portion is only the part that is affected by the variation in the U.F. and the exchange rate US\$ (references in paragraph AG99F of IAS 39).

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 8 – FINANCIAL DERIVATIVE CONTRACTS (Continued)

This strategy covers different risks with a single hedging instrument, as permitted by paragraph 76 of IAS 39.

Cash flow hedges are recorded as follows: the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized in other comprehensive income. The effects which the hedging instruments generated in this cash flow hedge strategy have been recorded as a debit to equity in the accumulated amount of generated MCh\$ 24,470, net of deferred taxes (credit of MCh\$ 1,304 as of December 31, 2017).

As of December 31, 2018 and 2017 there was no ineffectiveness in cash flow hedges, since both the hedging instrument and the hedged item are mirrors of each other, which means that all changes in value attributable to rate and inflation-indexation components are completely balanced out.

The cash flows of the portfolio of underlying assets in U.F. and the cash flows of the liability part of the hedging derivative instrument are presented below:

	2018							Total	
	Up to 1 month	More than 1 up to 3 months	More than 3 up to 6 months	More than 6 up to 12 months	More than 1 up to 3 years	More than 3 up to 5 years	More than 5 years		
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MUS\$
Hedged item (assets)									
Loans UF	-	-	2,018,074	-	4,770,456	1,886,068	3,210,754	11,885,352	17,107
Hedging instrument									
Cross Currency Swap UF	-	-	(2,018,074)	-	(4,770,456)	(1,886,068)	(3,210,754)	(11,885,352)	(17,107)
Total	-	-	-	-	-	-	-	-	-

	2017							Total	
	Up to 1 month	More than 1 up to 3 months	More than 3 up to 6 months	More than 6 up to 12 months	More than 1 up to 3 years	More than 3 up to 5 years	More than 5 years		
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
Hedged item (assets)									
Loans UF	-	-	1,866,716	1,222,989	2,967,648	1,368,353	2,284,639	9,710,345	
Hedging instrument									
Cross Currency Swap UF	-	-	(1,866,716)	(1,222,989)	(2,967,648)	(1,368,353)	(2,284,639)	(9,710,345)	
Total	-	-	-	-	-	-	-	-	-

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 8 – FINANCIAL DERIVATIVE CONTRACTS (Continued)

The cash flows of the bonds issued abroad, subject to this hedge, and the cash flows of the asset part of the hedging derivative instrument are presented below:

	2018							Total	
	Up to 1 month	More than 1 up to 3 months	More than 3 up to 6 months	More than 6 up to 12 months	More than 1 up to 3 years	More than 3 up to 5 years	More than 5 years		
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MUS\$
Hedged item (liabilities)									
Corporate bonds in FC	(5,904)	(8,587)	(12,151)	(31,916)	(986,014)	(395,086)	(1,119,127)	(2,558,785)	(3,683)
Hedging instrument									
Cross Currency Swap FC	5,904	8,587	12,151	31,916	986,014	395,086	1,119,127	2,558,785	3,683
Total	-	-	-	-	-	-	-	-	-

	2017							Total	
	Up to 1 month	More than 1 up to 3 months	More than 3 up to 6 months	More than 6 up to 12 months	More than 1 up to 3 years	More than 3 up to 5 years	More than 5 years		
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
Hedged item (liabilities)									
Corporate bonds in FC	(440)	(8,034)	(9,459)	(16,397)	(374,172)	(642,165)	(607,695)	(1,658,362)	
Hedging instrument									
Cross Currency Swap FC	440	8,034	9,459	16,397	374,172	642,165	607,695	1,658,362	
Total	-	-	-	-	-	-	-	-	-

iii) Fair value hedge:

The Bank uses interest rate swaps (IRS), to cover its exposure to changes in the fair value of the hedged element attributable to interest rate.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 8 – FINANCIAL DERIVATIVE CONTRACTS (Continued)

The following is the detail in nominal values of the items and instruments under fair value hedge:

	2018		2017
	MUS\$	MCh\$	MCh\$
Hedged item (notional value)			
Corporate bonds in FC	361	250,516	233,113
Mortgage loans	747	519,385	452,688
Commercial loans	201	138,662	143,282
Total	1,309	908,563	829,083
Hedging instrument (notional value)			
Interest rate swap	1,309	908,563	829,083
Total	1,309	908,563	829,083

As a way to mitigate the exposure to the interest rate risk of certain commercial loans and the portfolio of mortgage loans, the Bank has adopted a hedging strategy, by using interest rate swaps.

BancoEstado has instruments classified as available for sale, therefore the amounts in the Consolidated Statements of Financial Position are affected by the volatility of these instruments through equity. To mitigate this effect, BancoEstado established fair value hedge relationships, whose recording through profit and loss, when highly effective, offsets the effect recorded in equity, generating a neutral effect through posting to retained earnings of such profit and loss effects and giving stability to the bank's equity.

The table below shows the cash flows of the mortgages loans in U.F. and the cash flows of the liability portion of the hedging derivative:

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 8 – FINANCIAL DERIVATIVE CONTRACTS (Continued)

	2018							Total	
	Up to 1 month	More than 1 up to 3 months	More than 3 up to 6 months	More than 6 up to 12 months	More than 1 up to 3 years	More than 3 up to 5 years	More than 5 years		
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MUS\$
Hedged item (assets)									
Mortgage loans UF	2,529	5,058	7,586	15,173	60,691	58,162	370,186	519,385	748
Hedging instrument									
Interest rate swap	(2,529)	(5,058)	(7,586)	(15,173)	(60,691)	(58,162)	(370,186)	(519,385)	(748)
Total	-	-	-	-	-	-	-	-	-
	2017							Total	
	Up to 1 month	More than 1 up to 3 months	More than 3 up to 6 months	More than 6 up to 12 months	More than 1 up to 3 years	More than 3 up to 5 years	More than 5 years		
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	
Hedged item (assets)									
Mortgage loans UF	2,123	4,247	6,370	12,740	50,838	48,961	327,409	452,688	
Hedging instrument									
Interest rate swap	(2,123)	(4,247)	(6,370)	(12,740)	(50,838)	(48,961)	(327,409)	(452,688)	
Total	-	-	-	-	-	-	-	-	

The table below shows the cash flows of the commercial placements and the cash flows of the liability portion of the hedging derivative:

	2018							Total	
	Up to 1 month	More than 1 up to 3 months	More than 3 up to 6 months	More than 6 up to 12 months	More than 1 up to 3 years	More than 3 up to 5 years	More than 5 years		
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MUS\$
Hedged item									
Commercial loans	2,481	-	6,243	-	46,827	83,111	-	138,662	200
Hedging instrument									
Swap	(2,481)	-	(6,243)	-	(46,827)	(83,111)	-	(138,662)	(200)
Total	-	-	-	-	-	-	-	-	-

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 8 – FINANCIAL DERIVATIVE CONTRACTS (Continued)

				2017			
	Up to 1 month	More than 1 up to 3 months	More than 3 up to 6 months	More than 6 up to 12 months	More than 1 up to 3 years	More than 3 up to 5 years	Total
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
Hedged item							
Commercial loans	2,412	-	6,070	-	16,963	44,478	143,282
Hedging instrument							
Swap	(2,412)	-	(6,070)	-	(16,963)	(44,478)	(143,282)
Total	-	-	-	-	-	-	-

We present below the valuation adjustment for macro-coverage to the portfolio of covered mortgage loans:

	2018		2017
	MUS\$	MCh\$	MCh\$
Assets			
Fair value adjustments for Macro-Hedge contracts	12	8,620	751
Liabilities			
Fair value adjustments for Macro-Hedge contracts	-	-	-

2) Trading derivatives, their main purpose is to generate profits in the short-term, taking advantage of margins and fluctuations in rates and currencies in the market. Profits and/or losses generated from operating with these instruments are recorded in net income for the year.

The different types of economic hedges the Bank currently has include the following:

Forwards, where a future transaction is agreed upon, generating an enforceable right and obligation on the agreed upon date. The two main categories are currency forwards and rate forwards (FRA).

Swaps, where more than one right and more than one obligation, are assumed for each transaction. As the name says, it is an exchange of a series of rights and obligations. There are two main categories, cross currency swaps (CCS) and interest rate swaps (SPC).

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 9 – LOANS AND ADVANCES TO BANKS

a) As of December 31, 2018 and 2017, “Loans and advances to banks” are detailed as follows:

	<u>12/31/2018</u>		<u>12/31/2017</u>
	MUS\$	MCh\$	MCh\$
Local banks			
Loans and advances to banks	-	-	-
Deposits in the Chilean Central Bank, not available	-	-	-
Non-transferable notes of the Chilean Central Bank	-	-	-
Other credit balances with the Chilean Central Bank	-	-	-
Interbank loans	2	1,596	118,439
Overdrafts in checking accounts	-	-	-
Non-transferable deposits in local banks	-	-	-
Other credit balances with local banks	-	-	-
Allowances for loan losses with local banks	-	(247)	(232)
Foreign banks			
Loans to foreign banks	908	630,646	413,738
Overdrafts in checking accounts	-	-	-
Non-transferable deposits in foreign banks	-	-	-
Other credit balances with foreign banks	-	-	77,042
Allowances for loan losses with foreign banks	(5)	(3,087)	(1,105)
Total	905	628,908	607,882

b) For each year, a rollforward of the allowance for loan losses, related to loans and advances to banks, is detailed as follows:

	<u>12/31/2018</u>				<u>12/31/2017</u>		
	<u>Local banks</u>	<u>Foreign banks</u>	<u>Total</u>		<u>Local banks</u>	<u>Foreign banks</u>	<u>Total</u>
	MCh\$	MCh\$	MCh\$	MUS\$	MCh\$	MCh\$	MCh\$
Details							
Balance as of January 1,	232	1,105	1,337	2	140	840	980
Transfer	-	-	-	-	-	-	-
Write-off	-	-	-	-	-	-	-
Allowances established	557	3,388	3,945	6	1,200	1,581	2,781
Allowances released	(566)	(1,708)	(2,274)	(3)	(1,099)	(1,246)	(2,345)
Impairment	-	-	-	-	-	-	-
Reversal of impairment	-	-	-	-	-	-	-
Exchange differences	24	302	326	-	(9)	(70)	(79)
Total	247	3,087	3,334	5	232	1,105	1,337

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 10 – LOANS AND ACCOUNTS RECEIVABLE FROM CUSTOMERS

a) Loans and accounts receivable from customers:

As of December 31, 2018, the loan portfolio is detailed as follows:

	Assets before allowances			Allowances established			Net assets	
	Portfolio without impairment	Impaired portfolio	Total	Individual allowances	Group allowances	Total		
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MUS\$
Commercial loans								
Commercial loans	8,862,074	406,648	9,268,722	133,597	100,525	234,122	9,034,600	13,004
Foreign trade loans	727,491	9,201	736,692	37,528	1,520	39,048	697,644	1,004
Amounts receivable, checking accounts	35,527	4,154	39,681	1,107	2,756	3,863	35,818	52
Factoring operations	539,115	2,145	541,260	4,704	926	5,630	535,630	771
Student loans	774,826	73,286	848,112	-	46,860	46,860	801,252	1,153
Leasing operations	751,699	32,196	783,895	16,564	3,204	19,768	764,127	1,100
Other credits and accounts receivable	2,973	3,731	6,704	2,720	362	3,082	3,622	5
Subtotal	11,693,705	531,361	12,225,066	196,220	156,153	352,373	11,872,693	17,089
Mortgage loans								
Loans with mortgage finance bonds	430,231	90,947	521,178	-	5,439	5,439	515,739	742
Endorsable mortgage mutual loans	511,433	117,979	629,412	-	5,461	5,461	623,951	898
Other credits with mortgages	7,503,567	893,319	8,396,886	-	150,937	150,937	8,245,949	11,869
Other credits and accounts receivable	33,244	12,956	46,200	-	1,684	1,684	44,516	64
Subtotal	8,478,475	1,115,201	9,593,676	-	163,521	163,521	9,430,155	13,573
Consumer loans								
Consumer loans in installments	1,493,950	192,220	1,686,170	-	144,173	144,173	1,541,997	2,219
Amounts receivable, checking accounts	113,372	9,700	123,072	-	9,743	9,743	113,329	163
Credit card balances	290,541	16,022	306,563	-	24,725	24,725	281,838	406
Other credits and accounts receivable	-	-	-	-	-	-	-	-
Subtotal	1,897,863	217,942	2,115,805	-	178,641	178,641	1,937,164	2,788
Total	22,070,043	1,864,504	23,934,547	196,220	498,315	694,535	23,240,012	33,450

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 10 – LOANS AND ACCOUNTS RECEIVABLE FROM CUSTOMERS (Continued)

As of December 31, 2017, the loan portfolio is detailed as follows:

	Assets before allowances			Allowances established			Net assets
	Portfolio without impairment MCh\$	Impaired portfolio MCh\$	Total MCh\$	Individual allowances MCh\$	Group allowances MCh\$	Total MCh\$	
Commercial loans							
Commercial loans	8,527,547	340,392	8,867,939	128,573	107,419	235,992	8,631,947
Foreign trade loans	874,859	15,578	890,437	41,938	1,464	43,402	847,035
Amounts receivable, checking accounts	92,012	3,573	95,585	668	2,381	3,049	92,536
Factoring operations	365,937	967	366,904	3,699	946	4,645	362,259
Student loans	761,796	59,708	821,504	-	42,275	42,275	779,229
Leasing operations	748,639	24,084	772,723	16,490	2,945	19,435	753,288
Other credits and accounts receivable	2,874	3,450	6,324	2,870	211	3,081	3,243
Subtotal	11,373,664	447,752	11,821,416	194,238	157,641	351,879	11,469,537
Mortgage loans							
Loans with mortgage finance bonds	510,008	102,248	612,256	-	6,339	6,339	605,917
Endorsable mortgage mutual loans	551,623	122,531	674,154	-	5,818	5,818	668,336
Other credits with mortgages	6,745,053	777,860	7,522,913	-	143,007	143,007	7,379,906
Other credits and accounts receivable	30,917	11,622	42,539	-	1,313	1,313	41,226
Subtotal	7,837,601	1,014,261	8,851,862	-	156,477	156,477	8,695,385
Consumer loans							
Consumer loans in installments	1,307,197	172,319	1,479,516	-	145,349	145,349	1,334,167
Amounts receivable, checking accounts	105,123	9,138	114,261	-	8,779	8,779	105,482
Credit card balances	250,777	13,638	264,415	-	20,725	20,725	243,690
Other credits and accounts receivable	-	-	-	-	-	-	-
Subtotal	1,663,097	195,095	1,858,192	-	174,853	174,853	1,683,339
Total	20,874,362	1,657,108	22,531,470	194,238	488,971	683,209	21,848,261

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 10 – LOANS AND ACCOUNTS RECEIVABLE FROM CUSTOMERS (Continued)

Guarantees received by the Bank, to guarantee collection of the rights reflected in its loan portfolio correspond to property guarantees such as mortgages and pledges.

As of December 31, 2018 and 2017, the fair value of guarantees (mortgage and liens) received correspond to 117% y 113% of hedged assets, respectively.

As of December 31, 2018 and 2017, the fair value of the mortgage guarantees received corresponds to 267% y 263% of the mortgage loans balance receivable, respectively.

The Bank finances the acquisition by its customers of personal property and real estate, through financial lease contracts presented under this heading. As of December 31, 2018, MCh\$ 311,399 (MCh\$ 283,745 as December 31, 2017), correspond to financial leases on personal property and MCh\$ 472,496 (MCh\$ 488,978 as December 31, 2017), to financial leases on real estate.

As of December 31, 2018, the Bank has obtained assets, such as real estate for a total amount of MCh\$ 4,313 (MCh\$ 2,660 as December 31, 2017), through the execution of guarantees.

b) Characteristics of the portfolio:

As of December 31, 2018 and 2017, the portfolio before allowances, as separated by the customer's economic activity, is detailed as follows:

	Local credits		Foreign credits		Total			12/31/2018 %	12/31/2017 %
	12/31/2018 MCh\$	12/31/2017 MCh\$	12/31/2018 MCh\$	12/31/2017 MCh\$	12/31/2018 MUS\$	12/31/2018 MCh\$	12/31/2017 MCh\$		
Commercial loans									
Manufacturing	975,663	870,383	-	-	1,404	975,663	870,383	4.1%	3.9%
Mining	321,718	476,427	3,425	5,050	468	325,143	481,477	1.3%	2.1%
Electricity, gas and water supply	811,123	660,523	-	-	1,167	811,123	660,523	3.4%	2.9%
Agriculture and cattle-raising	686,155	589,782	-	-	988	686,155	589,782	2.9%	2.6%
Forestry	74,264	102,163	-	-	107	74,264	102,163	0.3%	0.5%
Fishing	68,533	72,725	-	-	99	68,533	72,725	0.3%	0.3%
Transport	809,728	857,880	5,753	5,859	1,174	815,481	863,739	3.4%	3.8%
Telecommunications	167,766	171,377	-	-	241	167,766	171,377	0.7%	0.8%
Construction	1,778,109	1,685,266	-	96	2,559	1,778,109	1,685,362	7.4%	7.5%
Retail	1,999,721	2,167,171	1,019	-	2,880	2,000,740	2,167,171	8.4%	9.6%
Services	3,478,133	3,168,351	-	-	5,006	3,478,133	3,168,351	14.5%	14.1%
Others	1,043,956	988,363	-	-	1,503	1,043,956	988,363	4.4%	4.4%
Subtotal	12,214,869	11,810,411	10,197	11,005	17,596	12,225,066	11,821,416	51.1%	52.5%
Mortgage loans	9,593,676	8,851,862	-	-	13,808	9,593,676	8,851,862	40.1%	39.3%
Consumer loans	2,115,805	1,858,192	-	-	3,045	2,115,805	1,858,192	8.8%	8.2%
Total	23,924,350	22,520,465	10,197	11,005	34,449	23,934,547	22,531,470	100.0%	100.0%

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 10 – LOANS AND ACCOUNTS RECEIVABLE FROM CUSTOMERS (Continued)**c) Allowances:**

As of December 31, 2018 and 2017, movements of allowances are detailed as follows:

	12/31/2018				12/31/2017		
	Individual	Group	Total		Individual	Group	Total
	Allowances	Allowances	MCh\$	MUS\$	Allowances	Allowances	MCh\$
	MCh\$	MCh\$	MCh\$	MUS\$	MCh\$	MCh\$	MCh\$
Balances at January 1,	194,238	488,971	683,209	983	181,078	445,721	626,799
Allowances released due to write - offs							
Commercial loans	(11,240)	(87,237)	(98,477)	(142)	(11,079)	(61,464)	(72,543)
Mortgage loans	-	(16,939)	(16,939)	(24)	-	(13,054)	(13,054)
Consumer loans	-	(120,709)	(120,709)	(174)	-	(104,289)	(104,289)
Total Allowances released due to write - offs	(11,240)	(224,885)	(236,125)	(340)	(11,079)	(178,807)	(189,886)
Allowances established	69,421	270,501	339,922	489	77,864	265,385	343,249
Allowances released	(56,091)	(36,272)	(92,363)	(133)	(52,191)	(43,328)	(95,519)
Exchange differences	(108)	-	(108)	-	(1,434)	-	(1,434)
Total	196,220	498,315	694,535	999	194,238	488,971	683,209

In addition to these allowances, there are country risk provisions to cover transactions abroad, provisions for contingent credit risk and additional provisions agreed upon by the Executive Committee, which are presented in liabilities under “Provisions” (Note 20).

d) Portfolio sales:

As of December 31, 2018 and 2017, BancoEstado sold part of the portfolio of State Guaranteed University Loans (“CUGE”) in the framework of the public bid on the Financing and Administration Service for Higher Education Studies Law No. 20,027. The bid model open to financial institutions is included in the respective tender documents, and allows the selling of a percentage of the portfolio to third parties. Regarding the sold portfolio, BancoEstado partially transferred all the risks and benefits associated with that portfolio, maintaining only its administration service, which considers the generation of new loans and collection of loan installments. Loans sold are detailed as follows:

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 10 – LOANS AND ACCOUNTS RECEIVABLE FROM CUSTOMERS (Continued)

Sales at December 31, 2018

	Number of transactions	Par value MCh\$	Sale value MCh\$	Allowances released MCh\$	Financial income recognized MCh\$	Payment received in advance MCh\$ (*)
Bid lists	19,454	32,460	29,657	(1,485)	(1,318)	5,085
New credits based on prior years list	23,068	54,200	53,134	(1,066)	-	19,279
Others (**)	-	-	-	-	12,816	81,642
Total	42,522	86,660	82,791	(2,551)	11,498	106,006
Total MUS\$		125	119	(4)	17	153

Sales at December 31, 2017

	Number of transactions	Par value MCh\$	Sale value MCh\$	Allowances release MCh\$	Financial income recognized MCh\$	Payment received in advance MCh\$ (*)
Bid lists	6,702	18,114	23,916	(292)	-	6,094
New credits based on prior years list	23,455	50,111	65,823	(1,102)	-	16,814
Others (**)	-	-	-	-	10,307	71,550
Total	30,157	68,225	89,739	(1,394)	10,307	94,458

(*) Payments received in advance is reflected in “Other liabilities” under the concept of income received in advance, and is recorded in income over the deferral period, recognizing the equivalent of the effective rate of these operations, according to IAS 39.

(**) As of December 31, 2018, it has been recognized as a result MCh\$ 11,498 (MCh\$ 10,307 as of December 31, 2017) a gain, reflected in the category “Net income from financial operations” in the Consolidated Statements of Income, as detailed below:

Portfolio sales	Balance 12/31/2016 MCh\$	Income received in advance 2017 MCh\$	Annual amortization 2017 MCh\$	Balance 12/31/2017 MCh\$	Income received in advance 2018 MCh\$	Annual amortization 2018 MCh\$	Balance 12/31/2018 MCh\$	MUS\$
Year 2012	9,092	-	(1,536)	7,556	-	(1,536)	6,020	9
Year 2013	14,877	-	(2,125)	12,752	-	(2,125)	10,627	15
Year 2014	15,291	-	(1,961)	13,330	-	(1,961)	11,369	16
Year 2015	20,508	-	(2,317)	18,191	-	(2,317)	15,874	23
Year 2016	22,089	-	(2,222)	19,867	-	(2,222)	17,645	25
Year 2017	-	22,908	(146)	22,762	-	(2,291)	20,471	30
Year 2018	-	-	-	-	24,364	(364)	24,000	35
Totals	81,857	22,908	(10,307)	94,458	24,364	(12,816)	106,006	153

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 11 – FINANCIAL INVESTMENTS

As of December 31, 2018 and 2017, instruments designated as financial investments available for sale and financial investments held to maturity are detailed as follows:

	12/31/2018				12/31/2017		
	Available for sale MCh\$	Held to maturity MCh\$	Total		Available for sale MCh\$	Held to maturity MCh\$	Total MCh\$
Investments quoted in active markets:							
From the Chilean Government and the Chilean Central Bank:							
Instruments of the Chilean Central Bank	2,746,971	-	2,746,971	3,954	2,087,999	-	2,087,999
Bonds and promissory notes of the Chilean Treasury	134,847	-	134,847	194	277,610	-	277,610
Other government instruments	-	-	-	-	-	-	-
Other instruments issued locally:							
Instruments from other local banks	2,129,119	-	2,129,119	3,064	2,430,610	-	2,430,610
Bonds and commercial papers from companies	7,304	-	7,304	11	7,048	-	7,048
Other instruments issued locally	30,470	-	30,470	44	-	-	-
Other instruments issued abroad:							
Instruments from foreign governments or central banks	25,800	-	25,800	37	-	-	-
Other instruments issued abroad	934,253	-	934,253	1,345	397,368	-	397,368
Provision for impairment	-	-	-	-	-	-	-
Subtotal	6,008,764	-	6,008,764	8,649	5,200,635	-	5,200,635
Investments not quoted in active markets:							
Bonds and promissory notes of the Chilean Treasury	-	20,942	20,942	31	-	24,816	24,816
Bonds and commercial papers from companies	-	-	-	-	-	-	-
Other instruments	-	220	220	-	-	225	225
Provision for impairment	-	-	-	-	-	-	-
Subtotal	-	21,162	21,162	31	-	25,041	25,041
Total	6,008,764	21,162	6,029,926	8,680	5,200,635	25,041	5,225,676

As of December 31, 2018, there are securities of Banco Central de Chile and the Tesorería General de la República sold as repurchase agreement to customer and financial institutions for an amount of MCh\$ 229,052. As of December 31, 2017 there are no Instruments of the Chilean Central Bank sold with repurchase agreements to customers and financial institutions.

As of December 31, 2018, Instruments issued locally and abroad, includes instruments sold with repurchase agreements to customers and financial institutions in the amount of MCh\$ 71,647 (MCh\$ 10,463 as of December 31, 2017).

As of December 31, 2018 and 2017, obligations for repurchase agreements have an average expiration of 6 and 17 days, respectively.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 12 – INVESTMENTS IN ASSOCIATES

a) As of December 31, 2018 and 2017, the main investments in associates are detailed as follows:

	12/31/2018						12/31/2017			
	Participation %	Equity of company of investment		Total investment		Net income		Participation %	Equity of company of investment	
		MUS\$	MCh\$	MUS\$	MCh\$	MUS\$	MCh\$		MCh\$	Net income MCh\$
Investments valued at the equity method:										
Administrador Financiero Transantiago S.A.	21.0000	26	17,978	5	3,776	1	611	21.0000	15,490	3,253
Sociedad Operadora de la Cámara de Compensación de Pagos de Alto Valor S.A.	15.0021	9	6,106	1	916	-	57	14.9606	5,838	873
Operadora de Tarjetas de Créditos Nexus S.A.	12.9030	24	16,805	3	2,168	1	368	12.9030	13,781	1,778
Transbank S.A.	8.7188	100	69,358	9	6,047	2	1,087	8.7188	56,804	4,953
Servicios de Infraestructura de Mercado OTC S.A.	14.5958	17	11,952	3	1,744	-	66	14.5958	11,490	1,677
Subtotal				21	14,651	4	2,189		12,534	1,624
Investments valued at market value:										
Bolsa de Comercio de Santiago; Bolsa de Valores (*)				-	-	-	-		-	130
Banco Latinoamericano de Comercio Exterior S.A. (Bladex)				2	1,523	-	320		1,348	315
Subtotal				2	1,523	-	320		1,348	445
Total				23	16,174	4	2,509		13,882	2,069

(*) On August 16, 2018, BancoEstado purchased 4 shares of the Sociedad Operadora de la Cámara de Compensación de Pagos de Alto Valor S.A. for the amount of MCh\$ 2.

(**) Bolsa de Comercio de Santiago - Bolsa de Valores, due to the demutualization that took place on June 12, 2017, the ownership of shares in this company was modified, considering them from this point onwards as financial assets held for trading.

b) Movements of investments in associates recorded in years 2018 and 2017 are detailed as follows:

	12/31/2018		12/31/2017
	MUS\$	MCh\$	MCh\$
Initial carrying amount	20	13,882	14,273
Capitalization	-	262	-
Acquisition of investment in associates	-	2	-
Shares of profit	4	2,509	2,069
Dividends received	-	(320)	(445)
Mandatory dividends provision	(1)	(336)	(236)
Exchange difference of shares of Banco Latinoamericano de Exportaciones S.A.	-	175	(120)
Reclassification of shares in the investment in Bolsa de Valores (*)	-	-	(1,750)
Others	-	-	91
Total	23	16,174	13,882

(*) On the occasion of demutualization described above.

c) As of December 31, 2018 and 2017 no impairment has been identified for these kinds of investments.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 13 – INTANGIBLE ASSETS

a) As of December 31, 2018 and 2017, intangibles are detailed as follows:

Item	Years of useful life	Years of remaining amortization	12/31/2018				12/31/2017
			Gross balance	Accumulated amortization and impairment	Net balance		Net balance
			MCh\$	MCh\$	MCh\$	MUS\$	MCh\$
Intangible assets acquired independently	3	1.5	103,228	(20,146)	83,082	119	71,884
Internally-generated intangible assets	3	1.5	176,678	(61,452)	115,226	166	96,100
Total			279,906	(81,598)	198,308	285	167,984

b) As of December 31, 2018 and 2017, the movements of intangibles are detailed as follows:

	Intangible Assets Acquired independently	Internally-generated intangible assets	Total	
	MCh\$	MCh\$	MCh\$	MUS\$
Gross Balance				
Balance at January 1, 2017	98,889	240,030	338,919	
Purchases	15,376	60,686	76,062	
Disposals	(255)	(1,024)	(1,279)	
Impairment	-	-	-	
Transfers (*)	120	519	639	
Others	(121)	(510)	(631)	
Balances at December 31, 2017	114,009	299,701	413,710	
Balance at January 1, 2018	114,009	299,701	413,710	595
Purchases	41,214	80,761	121,975	176
Disposals	(43,464)	(185,963)	(229,427)	(330)
Impairment	-	-	-	-
Transfers (*)	(8,531)	(17,826)	(26,357)	(38)
Others	-	5	5	-
Balances at December 31, 2018	103,228	176,678	279,906	403

(*) Corresponds to reclassification for the year between Property, plant and equipment and Intangible assets.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 13 – INTANGIBLE ASSETS (Continued)

	Intangible Assets Acquired independently	Internally- generated intangible assets	Total	
	MCh\$	MCh\$	MCh\$	MUS\$
Accumulated amortization and impairment				
Balance at January 1, 2017	(33,728)	(169,068)	(202,796)	
Amortization for the year	(8,746)	(35,379)	(44,125)	
Impairment loss	-	-	-	
Withdrawals / disposals	211	846	1,057	
Other changes in the carrying amount of the year	138	-	138	
Balances at December 31, 2017	(42,125)	(203,601)	(245,726)	
Balance at January 1, 2018	(42,125)	(203,601)	(245,726)	(354)
Amortization for the period	(21,132)	(43,114)	(64,246)	(92)
Impairment loss	-	-	-	-
Withdrawals / disposals	43,009	185,263	228,272	328
Other changes in the carrying amount of the period	102	-	102	-
Balances at December 31, 2018	(20,146)	(61,452)	(81,598)	(118)

c) As of December 31, 2018 and 2017, the Bank maintains commitments to acquire intangible assets, as follows:

Details	Committed amount		
	2018	2017	
	MUS\$	MCh\$	MCh\$
Service Management Projects	-	-	2,121
Development Projects	8	5,634	1,378
Total	8	5,634	3,499

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT

a) As of December 31, 2018 and 2017 details of Property, plant and equipment are as follows:

Item	12/31/2018		12/31/2017
	MUS\$	MCh\$	MCh\$
Gross Balance	930	645,785	589,563
Accumulated depreciation	(375)	(260,500)	(224,532)
Net balance	555	385,285	365,031

b) As of December 31, 2018 and 2017 property, plant and equipment movements by class are detailed as follows:

	Land and buildings	Equipment	Others	Total	
	MCh\$	MCh\$	MCh\$	MCh\$	MUS\$
Gross balance					
Balance as of January 1, 2017	230,130	177,340	119,436	526,906	
Additions	18,034	12,763	35,632	66,429	
Withdrawals / disposals	(258)	(729)	(1,124)	(2,111)	
Transfers (*)	996	3,355	(4,990)	(639)	
Others	(23)	(62)	(937)	(1,022)	
Balances at December 31, 2017	248,879	192,667	148,017	589,563	
Balance as of January 1, 2018	248,879	192,667	148,017	589,563	849
Additions	2,450	6,199	29,037	37,686	54
Withdrawals / disposals	(380)	(6,016)	(1,353)	(7,749)	(11)
Transfers (*)	1,112	31,011	(5,766)	26,357	38
Others	270	61	(403)	(72)	-
Balances at December 31, 2018	252,331	223,922	169,532	645,785	930

(*) Corresponds to reclassification for the year between Property, plant and equipment and Intangible assets.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT (Continued)

	<u>Land and buildings</u> MCh\$	<u>Equipment</u> MCh\$	<u>Others</u> MCh\$	<u>Total</u> MCh\$	MUS\$
Accumulated depreciation					
Balance as of January 1, 2017	(32,191)	(123,256)	(33,495)	(188,942)	
Depreciation	(4,677)	(22,250)	(10,490)	(37,417)	
Withdrawals / disposals	20	705	1,061	1,786	
Others	8	53	(20)	41	
Balances at December 31, 2017	<u>(36,840)</u>	<u>(144,748)</u>	<u>(42,944)</u>	<u>(224,532)</u>	
Balance as of January 1, 2018	(36,840)	(144,748)	(42,944)	(224,532)	(323)
Depreciation	(5,534)	(22,851)	(13,919)	(42,304)	(61)
Withdrawals / disposals	234	4,944	1,217	6,395	9
Others	(27)	(46)	14	(59)	-
Balances at December 31, 2018	<u>(42,167)</u>	<u>(162,701)</u>	<u>(55,632)</u>	<u>(260,500)</u>	<u>(375)</u>

c) As of December 31, 2018 and 2017, the Bank and its Subsidiaries have operating lease contracts. Information on future payments is broken down as follows:

	<u>Future payments of operating lease</u>			<u>Total</u>	
Real estate	<u>Up to 1 year</u> MCh\$	<u>From 2 to 3 Years</u> MCh\$	<u>More than 3 years</u> MCh\$	<u>MCh\$</u>	<u>MUS\$</u>
As of December 31, 2018	8,913	8,867	10,206	27,986	40
As of December 31, 2017	7,967	8,329	10,561	26,857	

d) As of December 31, 2018, the Bank and its Subsidiaries have finance lease contracts. Information on future payments is broken down as follows:

	<u>Future payments of financial lease</u>			<u>Total</u>	
Real estate	<u>Up to 1 year</u> MCh\$	<u>From 1 to 5 Years</u> MCh\$	<u>More than 5 years</u> MCh\$	<u>MCh\$</u>	<u>MUS\$</u>
As of December 31, 2018	1,270	5,082	16,622	22,974	33
As of December 31, 2017	1,292	5,168	18,192	24,652	

Future payments for finance leases include deferred interest of MCh \$ 6,147.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT (Continued)

The assets that the Bank holds in financial leasing, are presented as part of “Properties and plant” and “Other” for an amount of MCh \$ 12,747 and MCh \$ 4,562 of the total of the respective classes, in net terms.

Furthermore, lease assets acquired to be delivered under finance leases at December 31, 2018 amount to MCh\$ 134,582 (MCh\$ 80,615 at 2017), and they are classified as “Other assets.”

NOTE 15 – CURRENT AND DEFERRED INCOME TAXES**a) Current taxes:**

As of December 31, 2018 and 2017, the Bank has recorded current tax expense in the amount of MCh\$ 203,279 and MCh\$ 246,458 with debits to income, respectively, which considers 40% additional tax in accordance with D.L. No. 2,398. That provision is presented net of provisional payments, tax installments and other credits. The following table represents the asset and liability positions:

	12/31/2018				12/31/2017	
	Asset		Liabilities		Asset	Liabilities
	MUS\$	MCh\$	MUS\$	MCh\$	MCh\$	MCh\$
Income tax	(11)	(8,262)	(108)	(74,989)	(7,828)	(91,369)
Article No. 2 D.L. No. 2,398	-	-	(173)	(120,028)	-	(147,261)
Non-deductible expenses article No. 21	-	(151)	-	(3)	(120)	(1)
Income tax on equity (*)	-	-	61	42,728	-	(6,068)
Less:						
Monthly provisional payments	13	9,079	154	106,824	9,386	100,625
Credit for training expenses	1	553	3	1,885	508	1,605
Credit for purchase of property, plant and equi	-	159	-	-	-	-
Others	3	2,893	-	13	842	1
Total	6	4,271	(63)	(43,570)	2,788	(142,468)

(*) Corresponds to 1st category income tax from the Income Tax Law and Article No. 2 of D.L. No. 2,398, credited or debited to equity for the concept of the fair value of derivatives, which is part of the income tax liability.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 15 – CURRENT AND DEFERRED INCOME TAXES (Continued)**b) Tax effect on income:**

Tax expense for the years between January 1 and December 31, 2018 and 2017 is detailed as follows:

	12/31/2018		12/31/2017
	MUS\$	MCh\$	MCh\$
Income tax expenses			
Income tax	(119)	(83,251)	(99,197)
Article No. 2 D.L. No. 2,398	(173)	(120,028)	(147,261)
Credit (charge) for deferred taxes:			
Generation and reversal of temporary differences	42	29,373	104,694
Tax (loss) benefit from prior years	(4)	(2,666)	(2,247)
Subtotal	(254)	(176,572)	(144,011)
Taxes from disallowed expenses article No. 21	-	(154)	(121)
Other	-	42	15
Net charge to income for income tax	(254)	(176,684)	(144,117)

c) Reconciliation of effective tax rate:

The reconciliation of the income tax rate to the effective rate applied in the determination of the tax expense, as of December 31, 2018 and 2017, is detailed as follows:

	12/31/2018			12/31/2017	
	Tax rate	Amount		Tax rate	Amount
	%	MCh\$	MUS\$	%	MCh\$
Income before taxes	65.0%	231,414	333	65.0%	179,799
Permanent differences	(15.3%)	(54,576)	(79)	(12.9%)	(35,561)
Additions or deductions:					
Sole tax (disallowed expenses)	-	(154)	-	-	(121)
Non-deductible expenses (financial and non-taxable expenses)	-	-	-	-	-
Incentives of taxes not recognized in the statement of income	-	-	-	-	-
Sole tax	-	-	-	-	-
Investment Company's	-	-	-	-	-
Other	-	-	-	-	-
Effective tax rate and income tax expense	49.7%	176,684	254	52.1%	144,117

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 15 – CURRENT AND DEFERRED INCOME TAXES (Continued)

d) Deferred taxes effect on equity:

Deferred taxes recognized with a charge (credit) to equity as of December 31, 2018 and 2017, respectively, are detailed as follows:

	12/31/2018						12/31/2017		
	Assets		Liabilities		Net		Assets	Liabilities	Net
	MUS\$	MCh\$	MUS\$	MCh\$	MUS\$	MCh\$	MCh\$	MCh\$	MCh\$
Available-for-sale financial investments	-	-	(1)	(887)	(1)	(887)	-	(293)	(293)
Cash flow hedge	7	5,083	-	-	7	5,083	2,367	-	2,367
Employee benefit plans	9	6,402	-	-	9	6,402	6,410	-	6,410
Total charge (credit) in equity	16	11,485	(1)	(887)	15	10,598	8,777	(293)	8,484

e) Deferred taxes effect:

As of December 31, 2018 and 2017, deferred taxes are detailed as follows:

Item	12/31/2018						12/31/2017		
	Assets		Liabilities		Net		Assets	Liabilities	Net
	MUS\$	MCh\$	MUS\$	MCh\$	MUS\$	MCh\$	MCh\$	MCh\$	MCh\$
Provisions for loan losses	566	393,284	-	-	566	393,284	380,575	-	380,575
Vacation provision	29	19,893	-	53	29	19,946	19,920	75	19,995
Provisions associated with employees	25	17,250	-	-	25	17,250	18,322	-	18,322
Severance indemnity	60	41,499	-	-	60	41,499	39,294	-	39,294
Tax loss (*)	2	1,760	-	-	2	1,760	1,802	61	1,863
Suspended interest and indexation	118	81,691	-	-	118	81,691	82,441	-	82,441
Other provisions	528	367,173	-	-	528	367,173	329,338	-	329,338
Bond placement premiums	95	65,979	-	-	95	65,979	49,963	-	49,963
Intangibles	(169)	(117,671)	-	-	(169)	(117,671)	(78,459)	-	(78,459)
Property, plant and equipment, net	(35)	(23,988)	-	-	(35)	(23,988)	(26,016)	-	(26,016)
Fair value	(35)	(24,497)	-	-	(35)	(24,497)	(4,347)	-	(4,347)
Leasing operations, net	(61)	(42,376)	-	-	(61)	(42,376)	(45,064)	-	(45,064)
Other provisions	102	70,692	-	(79)	102	70,613	51,436	(165)	51,271
Total net tax	1,225	850,689	-	(26)	1,225	850,663	819,205	(29)	819,176

(*) BancoEstado and Subsidiaries has recognized deferred taxes on tax losses, since they have no expiration date and Management believes that there will be sufficient future taxable income to allow the use of the respective tax credit. The New York branch has not recognized deferred taxes in its stand-alone balance, since Management is uncertain about the generation of future taxable income that would enable it to use this benefit in the near future.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 15 – CURRENT AND DEFERRED INCOME TAXES (Continued)

f) Provisions and penalties for tax fines

By virtue of Joint Circular No. 47 of the Internal Revenue Service and No. 3,478 of the Superintendencia de Bancos e Instituciones Financieras, of August 18, 2009, the following shows the movements and effects generated by the application of Article No. 31 No. 4, of the Law on Income Tax.

As of December 31, 2018, the detail is as follows:

A. Loans and accounts receivable from customers, and Loans and advance to banks	(*) Financial value of assets		Tax value of assets		
	Total	Total	Past-due portfolio with guarantee	Past-due portfolio without guarantee	
	MCh\$	MUS\$	MCh\$	MCh\$	
Loans as of December 31, 2018					
Loans and accounts receivable from customers and loans and advance to banks	11,476,226	16,667	11,579,588	30,962	74,432
Consumer	2,115,805	3,045	2,115,874	1,451	13,405
Mortgage	9,593,676	13,840	9,615,884	137,526	-
B. Provisions for loan losses from past-due portfolio	Balance at 01.01.2018	Write-off against provisions	Provisions established	Provisions Released	Balance at 12.31.2018
	MCh\$	MCh\$	MCh\$	MCh\$	MUS\$ MCh\$
Commercial	67,598	(39,470)	63,274	(16,970)	107 74,432
Consumer	12,178	(9,233)	13,404	(2,944)	19 13,405
Mortgage	-	-	-	-	- -
C. Direct write-offs and recoveries	MCh\$				
Direct write-offs Art. 31 No.4 section 2	182,367				
Forgiving (renegotiation)/ release of provisions	-				
Recoveries or renegotiations write-off credits	-				
D. Application of Art. 31 No. 4 sections 1 and 3	MCh\$				
(Other write-offs/forgiving)					
Write-off section 1	-				
Forgiving (impaired credits)	-				

(*) These are balances only of BancoEstado individually (without considering factoring or leasing), in other words, they do not include Subsidiaries or the New York Branch.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 15 – CURRENT AND DEFERRED INCOME TAXES (Continued)

As at December 31, 2017, details are as follows:

A. Loans and accounts receivable from customers, and Loans and advance to banks	(*) Financial value of assets	Tax value of assets			
		Total	Past-due portfolio with guarantee	Past-due portfolio without guarantee	
Loans as of December 31, 2017	MCh\$	MCh\$	MCh\$	MCh\$	
Loans and accounts receivable from customers and loans and advance to banks	11,262,154	11,420,785	20,507	67,598	
Consumer	1,858,192	1,858,835	1,295	12,178	
Mortgage	8,851,862	8,873,824	102,292	-	
 B. Provisions for loan losses from past-due portfolio	 Balance at 01.01.2016	 Write-off against provisions	 Provisions established	 Provisions Released	 Balance at 12.31.2016
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
Commercial	54,557	(26,828)	56,584	(16,715)	67,598
Consumer	9,923	(7,440)	12,176	(2,481)	12,178
Mortgage	-	-	-	-	-
 C. Direct write-offs and recoveries	 MCh\$				
Direct write-offs Art. 31 No.4 section 2	150,866				
Forgiving (renegotiation)/ release of provisions	-				
Recoveries or renegotiations write-off credits	-				
 D. Application of Art. 31 No. 4 sections 1 and 3	 MCh\$				
(Other write-offs/forgiving)					
Write-off section 1	-				
Forgiving (impaired credits)	-				

(*) Corresponds to balances only from individual BancoEstado (without considering factoring and leasing), it is say does not include subsidiaries and New York Branch.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 16 – OTHER ASSETS

a) As of December 31, 2018 and 2017, “Other assets” are detailed as follows:

	12/31/2018		12/31/2017
	MUS\$	MCh\$	MCh\$
Assets for leasing (*)	194	134,582	80,615
Assets received in lieu of payment	5	3,012	1,583
Assets received in lieu of payment	-	-	-
Assets received in settlement of loans in sheriff's auction	5	3,045	1,609
Provisions for assets received in lieu of payment (**)	-	(33)	(26)
Other assets	961	668,190	480,265
Money deposits in guarantee	-	295	279
Value added tax	12	8,108	7,697
Prepaid expenses	26	17,926	41,253
Property, plant and equipment for sale (***)	1	388	369
Valuation adjustments for Macro-Hedges	12	8,620	751
Debts receivable from the government	24	16,452	15,155
Outstanding operations	7	4,702	6,010
Guarantee deposit (Credit Support Annex)	467	324,691	206,385
Supplies	3	2,112	3,066
Commissions receivable	8	5,772	5,298
Sundry accounts	18	12,363	13,528
Leasing assets in transit	33	23,170	23,319
Other receivables	29	20,101	16,292
Advance payment to providers	1	944	430
Commissions receivable (Cash agreement)	-	54	60
Financial instruments in guarantee	14	9,788	10,135
Guarantee deposits (COMDER)	3	2,375	3,540
Guarantee deposits (Clearing contracts)	283	196,537	93,162
Other assets	20	13,792	33,536
Total	1,160	805,784	562,463

(*) Corresponds to property, plant and equipment available to be delivered under financial leases.

(**) The recording of provisions over assets received or awarded in lieu of payments are recorded as indicated in the Compendium of Accounting Standards Chapter B-5 No. 3, which implies recognizing a provision for the difference between the initial value plus additions and appraisal value, when the former is greater.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 16 – OTHER ASSETS (Continued)

(***) Non-current assets held for sale that are presented in other assets are real estate, which is presented in the “Fixed Assets for Sale” account.

These properties are assets available for sale, whose occurrence is considered to be highly probable. The sale of most assets is expected to be completed within one year after the date on which the asset was classified as “Fixed asset for sale and/or Asset recovered from leasing for sale.”

b) The movement of the provision for assets received in lieu of payment or awarded during 2018 and 2017, is detailed as follows:

Provisions on assets received in payment or adjudicated	12/31/2018		12/31/2017
	MUS\$	MCh\$	MCh\$
Balance as of January 1,	-	26	34
Provision established	-	275	170
Provisions applied	-	(261)	(163)
Provision released	-	(7)	(15)
Total	-	33	26

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 17 – DEPOSITS AND OTHER DEMAND OBLIGATIONS AND TIME DEPOSITS

As of December 31, 2018 and 2017, current accounts and other demand deposits and time deposits and saving accounts are detailed as follows:

a) Current accounts and other demand deposits	12/31/2018		12/31/2017
	MUS\$	MCh\$	MCh\$
Current accounts	8,958	6,223,816	6,210,263
Other deposits and call accounts	3,184	2,212,062	1,902,307
Deposits from judicial appropriation	585	406,369	404,731
On demand guarantees	18	12,838	13,137
Collections made to be paid	545	378,670	176,127
Payments from sales of financial instruments	-	5	4
Export proceeds to be paid	-	202	645
Payment pending of authorization	30	20,880	14,510
Payments on account of credits to be paid	17	11,582	17,158
Frozen balances article No. 156 of the General Banking Law	17	11,955	12,047
Past-due time deposits	9	6,464	7,517
Past-due bond coupons and bills of exchange	-	32	30
Other demand liabilities	367	254,641	265,548
Total	13,730	9,539,516	9,024,024

b) Time deposits and saving account	12/31/2018		12/31/2017
	MUS\$	MCh\$	MCh\$
Time deposits	17,620	12,241,902	12,591,416
Saving accounts	6,361	4,419,345	4,122,645
Other	701	487,022	295,068
Total	24,682	17,148,269	17,009,129

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 18 – OBLIGATIONS WITH BANKS

As of December 31, 2018 and 2017, “Obligations with banks” are detailed as follows:

	12/31/2018		12/31/2017
	MUS\$	MCh\$	MCh\$
Borrowings from Local Financial Institutions:			
Banco de la Nación Argentina	3	1,900	2,864
Subtotal	3	1,900	2,864
Borrowings from Financial Institutions and the Chilean Central Bank:			
Other obligations with the Chilean Central Bank	-	-	-
Subtotal	-	-	-
Borrowings from Foreign Financial Institutions:			
Agricultural Bank of China	-	19	42
Akbank T.A.S.	-	233	-
Banco de Sabadell S.A.	-	26	590
Banca Nazionale del Lavoro S.P.A.	-	213	83
Banco Bilbao Vizcaya Argentaria	-	298	55
Banco do Brasil S.A.	2	910	67
Banca Monte dei paschi di siena SPA	-	-	302
Banco Santander (Brasil) S.A.	-	180	393
Bank of Tokyo Mitsubishi UFJ Ltd	2	1,224	334
Bank of China	1	420	1,959
Bank of Communications Co. Ltd	-	135	74
Bank of India	-	190	132
Bank of Taiwan	-	13	-
BGL BNP Paribas	-	-	66
Canara Bank	-	148	-
China Citic Bank	-	207	81
China Construction Bank Corporation	2	1,286	237
Citibank, A.S.	-	-	388
Citibank, N.A.	-	10	79
Citibank, N.A. Sri Lanka	-	-	132
Commerzbank AG	-	-	421
Commercial Bank of Ceylon PLC	-	89	261
Denizbank A.S.	1	310	379
Hong Kong Shanghai Banking Corp. Ltd	2	1,230	2,010
HSBC Bank (China) Company Limited	-	16	-
Hua Nan Commercial Bank, Ltd.	-	36	-
Industrial and Commercial Bank of	1	316	-
Industrial Bank of Korea	-	102	-
Industrial Commercial Bank of China	-	141	114
ITAU Unibanco S/A	2	1,050	12
JP Morgan Chase Bank NA	-	153	106
Kasikornbank Public Company Ltd.	-	-	154
Keb Hana Bank	-	130	-
Keb Hana Bank (F/Hana Bank)	-	-	81
Keb Hana Bank (F/Korea Exchange Bank)	-	-	773
Rabobank Nederland	-	141	-
Shinhan Bank	-	254	1,072
Standard Chartered Bank	-	-	80
Standard Chartered Bank (Pakistan)	-	-	104
Standard Chartered Bank Korea Ltd	-	-	590
Sudameris Bank S.A.E.C.A.	-	-	217
Sumitomo Mitsui Banking Corpo	-	-	100
Swedbank AB	-	-	155
Unicredit Bank AG (Hypovereinsbank)	1	576	493
Unicredit Bank Austria AG	-	-	260
Unicredit SPA	1	309	49
Wells Fargo Bank, N.A.	-	195	199
Others	1	430	448
Subtotal	16	10,990	13,092

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 18 – OBLIGATIONS WITH BANKS (Continued)

As at December 31, 2018 and 2017, the breakdown of “Obligations with Banks” is as follows:

	12/31/2018		12/31/2017
	MUS\$	MCh\$	MCh\$
Borrowings abroad:			
Bank of America N.A	135	93,898	63,948
Bank of nova Scotia Toronto	30	20,886	-
Citibank N.A. NY	50	34,774	212,305
Commerzbank AG	-	-	9,223
Corporación Andina de Fomento	-	-	43,045
DNB NOR Bank ASA	-	-	33,905
HSBC Bank PLC (Midland Bank)	-	-	52,464
ING Bank N.V.	20	13,897	73,855
JP Morgan Chase Bank N.A.	201	139,189	-
Kfw Bankengruppe	61	42,494	53,136
Kreditanstalt Fur Wiederaufba	141	97,741	98,173
Mizuho Corporate Bank NY	180	125,122	92,242
Mercantil Commercebank NA	-	-	18,445
Sumitomo Mitsui Banking Corp NY	453	315,003	230,689
The Bank of Nova Scotia	210	146,107	135,321
Toronto-Dominion Bank	10	6,954	-
Wells Fargo Bank N.A.	250	173,828	181,462
Zurcher Kantonalbank	123	85,120	95,536
Subtotal	1,864	1,295,013	1,393,749
Total	1,883	1,307,903	1,409,705

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 19 – DEBT INSTRUMENTS ISSUED AND OTHER FINANCIAL OBLIGATIONS

As of December 31, 2018 and 2017, debt instruments issued and other financial obligations are detailed as follows:

	12/31/2018		12/31/2017
	MUS\$	MCh\$	MCh\$
Debt instruments issued:			
Mortgage finance bonds	937	651,328	723,161
Ordinary bonds	8,070	5,606,845	4,587,918
Subordinated bonds	1,401	973,237	854,931
Subtotal	<u>10,408</u>	<u>7,231,410</u>	<u>6,166,010</u>
Other Financial Obligations:			
Obligations public sector	-	-	-
Other local obligations	25	17,297	28,825
Borrowings abroad	-	-	-
Subtotal	<u>25</u>	<u>17,297</u>	<u>28,825</u>
Total	<u>10,433</u>	<u>7,248,707</u>	<u>6,194,835</u>

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 19 – DEBT INSTRUMENTS ISSUED AND OTHER FINANCIAL OBLIGATIONS **(Continued)**

As of December 31, 2018 and 2017, ordinary and subordinated bonds present the following movements:

		12/31/2018		12/31/2017
		MUS\$	MCh\$	MCh\$
Balance as of January 1,		7,834	5,442,849	5,219,273
Issuances:				
U.F. Ordinary Bonds:				
	BESTR20317	-	-	52,900
	BESTR30317	-	-	52,903
	BESTR40517	-	-	79,842
	BESTR50517	-	-	53,226
	BESTS10317	-	-	80,689
	BESTS20317	-	-	80,270
	BESTS40317	116	80,769	-
	BESTS50317	-	-	80,775
	BESTS60317	-	-	80,433
	BESTS70517	-	-	80,083
	BESTS80517	116	80,901	-
	BESTS90517	-	-	53,262
	BESTT40617	78	54,232	-
	BESTT50617	78	54,384	-
	BESTT80817	117	81,361	-
	BESTT90817	78	54,117	-
Subordinated Bonds				
	UESTP11115	79	54,891	-
	UESTP20916	79	54,942	-
Ch\$ Ordinary Bonds:				
	BESTU10417	-	-	50,994
	BESTU20517	-	-	50,851
	BESTU30717	73	50,802	-
Foreign currency Ordinary Bonds:				
	Euro	-	-	146,078
	CHF	120	83,495	66,369
	AUD	56	38,952	54,810
	Yen	106	73,452	56,663
	HKD	160	110,886	-
	COP	98	68,085	-
	US\$	437	303,020	-
Total issuances		1,791	1,244,289	1,120,148
Maturities:				
U.F. Ordinary Bonds:				
	BESTA30400	(7)	(4,612)	(4,236)
	BEST-D0807	-	-	(159,563)
	BEST-H1207	-	-	(106,946)
	BESTJ20708	(117)	(81,501)	-
	BESTJ31008	(197)	(136,796)	-
	BESTJ70112	-	-	(131,753)
	BESTK10713	(117)	(81,501)	-
Foreign currency Ordinary Bonds:				
	US\$	-	-	(442,260)
	Yen	(199)	(138,099)	-
U.F. Subordinated Bonds:				
	UEST-A0799	(9)	(6,304)	(5,815)
	UEST-B0603	(6)	(4,198)	(3,914)
	UEST-C0405	(9)	(6,110)	(5,718)
	UEST-D0106	(3)	(2,290)	(2,153)
	UEST-E0806	(4)	(2,804)	(2,627)
	UEST-F0207	(4)	(2,918)	(2,748)
	UEST-I0308	(3)	(2,173)	(2,042)
Total maturities		(675)	(469,306)	(869,775)
Others		521	362,250	(26,797)
Total		9,471	6,580,082	5,442,849

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 19 – DEBT INSTRUMENTS ISSUED AND OTHER FINANCIAL OBLIGATIONS (Continued)

As of December 31, 2018 and 2017, bonds issued and placed are detailed as follows:

12/31/2018

ORDINARY BONDS							Balance due	
Series	UF placement	Issuance date	Maturity date	Issuance rate	UF Original currency		MCh\$	MUS\$
BESTA30400	3,000,000	04/01/2000	04/01/2025	6.50%	1,394,841.60		38,450	55
BEST-F1007	2,000,000	10/01/2007	10/01/2027	4.25%	2,078,441.53		57,294	82
BESTJ41008	2,000,000	10/01/2008	10/01/2028	4.00%	1,928,732.08		53,167	77
BESTJ50109	5,000,000	01/01/2009	01/01/2019	3.50%	5,086,561.11		140,215	202
BESTJ60109	2,000,000	01/01/2009	01/01/2029	4.00%	2,007,083.21		55,327	80
BESTJ80112	3,000,000	01/01/2012	01/01/2032	3.75%	3,091,324.10		85,215	123
BESTK20713	2,000,000	07/01/2013	07/01/2043	3.70%	2,277,896.70		62,792	90
BESTK30114	3,000,000	01/01/2014	01/01/2019	3.30%	3,049,048.08		84,049	121
BESTK40114	2,000,000	01/01/2014	01/01/2044	3.70%	2,314,970.86		63,814	92
BESTK50714	3,000,000	07/01/2014	07/01/2019	3.30%	2,946,084.77		81,210	117
BESTK60714	2,000,000	07/01/2014	07/01/2044	3.70%	2,353,868.04		64,886	93
BESTK70115	3,000,000	01/01/2015	01/01/2020	3.30%	2,910,366.22		80,226	115
BESTK80115	2,000,000	01/01/2015	01/01/2045	3.70%	2,342,258.95		64,566	93
BESTN10814	3,000,000	08/01/2014	08/01/2024	3.00%	3,068,765.97		84,593	122
BESTN20814	2,000,000	08/01/2014	08/01/2044	3.30%	2,149,857.66		59,263	85
BESTN30914	2,000,000	09/01/2014	09/01/2044	3.30%	2,111,799.70		58,213	84
BESTN41114	2,000,000	11/01/2014	11/01/2046	3.30%	2,086,904.47		57,527	83
BESTN51214	2,000,000	12/01/2014	12/01/2046	3.30%	2,029,807.24		55,953	81
BESTO10215	2,000,000	02/01/2015	02/01/2035	3.20%	2,137,850.94		58,932	85
BESTO20315	2,000,000	03/01/2015	03/01/2020	2.80%	1,643,497.71		45,303	65
BESTO30315	3,000,000	03/01/2015	03/01/2025	3.00%	3,054,403.43		84,197	121
BESTO50615	2,000,000	06/01/2015	06/01/2025	3.00%	2,066,418.19		56,962	82
BESTO60715	3,000,000	07/01/2015	07/01/2020	2.80%	3,062,181.13		84,411	121
BESTO81015	2,000,000	10/01/2015	10/01/2020	2.80%	2,036,060.33		56,126	81
BESTQ10316	2,000,000	03/01/2016	03/01/2026	3.00%	2,164,746.48		59,673	86
BESTQ30516	3,000,000	05/01/2016	05/01/2021	2.80%	3,080,553.61		84,918	122
BESTQ40616	3,000,000	06/01/2016	06/01/2021	2.80%	3,075,974.57		84,792	122
BESTQ50816	2,000,000	08/01/2016	08/01/2026	3.00%	2,152,931.35		59,347	85
BESTQ71016	3,000,000	10/01/2016	10/01/2021	2.80%	3,079,633.15		84,893	122
BESTR20317	2,000,000	03/01/2017	03/01/2027	3.00%	2,157,050.63		59,461	86
BESTR30317	2,000,000	03/01/2017	03/01/2022	2.80%	2,095,950.28		57,777	83
BESTR40517	3,000,000	05/01/2017	05/01/2022	2.80%	3,141,729.91		86,604	125
BESTR50517	2,000,000	05/01/2017	05/01/2027	3.00%	2,176,546.64		59,998	86
BESTS10317	3,000,000	03/01/2017	03/01/2022	2.80%	3,137,246.64		86,481	124
BESTS20317	3,000,000	03/01/2017	03/01/2023	2.80%	3,137,794.72		86,496	124
BESTS40317	3,000,000	03/01/2017	03/01/2025	2.90%	3,191,491.64		87,976	127
BESTS50317	3,000,000	03/01/2017	03/01/2026	3.00%	3,214,331.71		88,606	128
BESTS60317	3,000,000	03/01/2017	03/01/2029	3.00%	3,199,778.18		88,204	127
BESTS70517	3,000,000	05/01/2017	05/01/2023	2.80%	3,140,848.97		86,580	125
BESTS80517	3,000,000	05/01/2017	05/01/2024	2.90%	3,179,299.43		87,640	126
BESTS90517	2,000,000	05/01/2017	05/01/2028	3.00%	2,109,821.27		58,159	84
BESTT40617	2,000,000	06/01/2017	06/01/2025	2.90%	2,114,961.75		58,301	84
BESTT50617	2,000,000	06/01/2017	12/01/2027	3.00%	2,120,543.60		58,454	84
BESTT80817	3,000,000	08/01/2017	08/01/2024	2.90%	3,206,539.91		88,391	127
BESTT90817	2,000,000	08/01/2017	08/01/2027	3.00%	2,142,805.92		59,068	85
Subtotal UF Bonds	113,000,000				116,249,604.38		3,204,510	4,612

							Balance due	
Series	Ch\$ placement	Issuance date	Maturity date	Issuance rate	Ch\$ Original currency		MCh\$	MUS\$
BESTU10417	50,000,000,000	08/24/2017	04/01/2022	4.50%	51,119,535,841		51,120	74
BESTU20517	50,000,000,000	08/31/2017	05/01/2022	4.50%	50,750,437,858		50,750	73
BESTU30717	50,000,000,000	04/25/2018	07/01/2022	4.50%	51,579,263,876		51,579	74
Subtotal Ch\$ Bonds	150,000,000,000				153,449,237,575		153,449	221

							Balance due	
Series	US\$ placement	Issuance date	Maturity date	Issuance rate	US\$ Original currency		MCh\$	MUS\$
FOREIGN CURRENCY BONDS	500,000,000	10/07/2010	10/07/2020	4.13%	503,380,477		349,734	503
FOREIGN CURRENCY BONDS	500,000,000	02/08/2012	02/08/2022	3.88%	498,158,403		346,106	498
FOREIGN CURRENCY BONDS	100,000,000	10/24/2016	11/09/2026	2.66%	100,072,235		69,527	100
FOREIGN CURRENCY BONDS	500,000,000	01/03/2018	01/08/2021	2.67%	505,576,671		351,260	506
Subtotal US\$ Bonds	1,600,000,000				1,607,187,786		1,116,627	1,607

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 19 – DEBT INSTRUMENTS ISSUED AND OTHER FINANCIAL OBLIGATIONS (Continued)

						Balance due	
Serie	Y placement	Issuance date	Maturity date	Issuance rate	Y Original currency	MCh\$	MUS\$
FOREIGN CURRENCY BONDS	31,000,000,000	01/16/2015	01/23/2020	0.52%	31,009,599,319	195,185	281
FOREIGN CURRENCY BONDS	10,000,000,000	06/17/2016	06/17/2026	0.48%	9,907,272,795	62,360	90
FOREIGN CURRENCY BONDS	15,000,000,000	08/10/2016	06/17/2026	0.48%	14,883,692,736	93,683	135
FOREIGN CURRENCY BONDS	10,000,000,000	09/08/2017	09/15/2027	0.55%	9,978,087,105	62,806	90
FOREIGN CURRENCY BONDS	13,000,000,000	05/16/2018	05/23/2028	0.58%	12,970,381,716	81,640	117
Subtotal Y Bonds	79,000,000,000				78,749,033,671	495,674	713

						Balance due	
Serie	€ placement	Issuance date	Maturity date	Issuance rate	€ Original currency	MCh\$	MUS\$
FOREIGN CURRENCY BONDS	53,000,000	07/08/2015	07/22/2025	1.58%	52,999,321	42,121	61
FOREIGN CURRENCY BONDS	52,000,000	02/08/2017	03/01/2032	1.67%	52,110,034	41,414	60
FOREIGN CURRENCY BONDS	75,000,000	03/17/2017	03/01/2032	1.67%	74,475,254	59,189	85
FOREIGN CURRENCY BONDS	50,000,000	06/02/2017	07/05/2032	1.74%	50,310,031	39,984	58
FOREIGN CURRENCY BONDS	25,000,000	11/30/2017	07/05/2032	1.74%	24,809,048	19,717	28
Subtotal € Bonds	255,000,000				254,703,688	202,425	292

						Balance due	
Serie	CHF placement	Issuance date	Maturity date	Issuance rate	CHF Original currency	MCh\$	MUS\$
FOREIGN CURRENCY BONDS	100,000,000	03/15/2017	04/07/2027	0.58%	100,011,073	70,607	102
FOREIGN CURRENCY BONDS	125,000,000	11/06/2018	12/04/2024	0.69%	123,683,029	87,320	126
Subtotal CHF Bonds	225,000,000				223,694,102	157,927	228

						Balance due	
Serie	AUD placement	Issuance date	Maturity date	Issuance rate	AUD Original currency	MCh\$	MUS\$
FOREIGN CURRENCY BONDS	110,000,000	04/28/2017	11/10/2027	4.18%	110,043,200	53,830	77
FOREIGN CURRENCY BONDS	40,000,000	01/18/2018	01/24/2030	3.90%	41,217,949	20,163	29
FOREIGN CURRENCY BONDS	40,000,000	11/14/2018	11/20/2030	3.90%	39,791,393	19,465	28
Subtotal AUD Bonds	190,000,000				191,052,542	93,458	134

						Balance due	
Serie	HKD placement	Issuance date	Maturity date	Issuance rate	HKD Original currency	MCh\$	MUS\$
FOREIGN CURRENCY BONDS	600,000,000	05/14/2018	05/29/2033	3.60%	609,392,127	54,072	78
FOREIGN CURRENCY BONDS	720,000,000	10/19/2018	10/26/2028	3.93%	717,878,231	63,698	91
Subtotal HKD Bonds	1,320,000,000				1,327,270,358	117,770	169

						Balance due	
Serie	COP placement	Issuance date	Maturity date	Issuance rate	COP Original currency	MCh\$	MUS\$
FOREIGN CURRENCY BONDS	150,000,000,000	06/22/2018	07/05/2028	7.00%	151,572,896,815	32,508	47
FOREIGN CURRENCY BONDS	150,000,000,000	07/10/2018	07/19/2028	7.00%	151,520,210,478	32,497	47
Subtotal COP Bonds	300,000,000,000				303,093,107,292	65,005	94

Total Ordinary Bonds						5,606,845	8,070
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						Balance due	
Serie	UF placement	Issuance date	Maturity date	Issuance rate	UF Original currency	MCh\$	MUS\$
UEST-A0799	4,000,000	07/01/1999	07/01/2024	6.50%	1,773,094.75	48,877	70
UEST-B0603	2,500,000	06/01/2003	06/01/2025	4.80%	1,162,540.22	32,046	46
UEST-C0405	4,000,000	04/01/2005	04/01/2027	4.50%	2,420,642.88	66,727	96
UEST-D0106	2,000,000	01/01/2006	01/01/2031	4.50%	1,480,023.68	40,798	59
UEST-E0806	2,500,000	08/01/2006	08/01/2031	4.50%	1,926,426.48	53,103	76
UEST-F0207	2,500,000	02/01/2007	08/01/2031	4.00%	1,920,728.16	52,946	76
UEST-I0308	2,000,000	03/01/2008	03/01/2033	4.00%	1,602,405.96	44,172	64
UEST-I20110	3,000,000	01/01/2010	01/01/2038	4.50%	3,354,688.85	92,475	133
UEST-L10111	2,000,000	01/01/2011	01/01/2041	4.00%	2,081,528.44	57,379	83
UEST-L20711	2,000,000	07/01/2011	07/01/2041	4.00%	2,181,055.24	60,123	86
UEST-L30112	2,000,000	01/01/2012	01/01/2042	4.00%	2,186,366.17	60,269	87
UEST-M11213	2,000,000	12/01/2013	12/01/2043	3.50%	2,041,166.82	56,266	81
UEST-M20114	2,000,000	01/01/2014	01/01/2045	3.50%	2,181,310.80	60,130	87
UEST-M30114	2,000,000	01/01/2014	01/01/2046	3.50%	2,343,463.77	64,599	93
UEST-M40114	2,000,000	01/01/2014	01/01/2047	3.50%	2,211,814.48	60,970	88
UEST-P11115	2,000,000	11/01/2015	05/01/2050	3.30%	2,246,153.00	61,917	89
UEST-P20916	2,000,000	09/01/2016	09/01/2020	3.30%	2,192,558.18	60,440	87
Total Subordinated Bonds	40,500,000				35,305,967.88	973,237	1,401

Total issued Bonds						6,580,082	9,471
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BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 19 – DEBT INSTRUMENTS ISSUED AND OTHER FINANCIAL OBLIGATIONS (Continued)

12/31/2017

ORDINARY BONDS

Series	UF placement	Issuance date	Maturity date	Issuance rate	UF Original currency	Balance due
						MCh\$
BEST-F1007	2,000,000	10/01/2007	10/01/2027	4.25%	2,083,897.81	55,845
BESTA30400	3,000,000	04/01/2000	04/01/2025	6.50%	1,557,860.27	41,748
BESTJ20708	3,000,000	07/01/2008	07/01/2018	3.50%	3,026,446.70	81,103
BESTJ31008	5,000,000	10/01/2008	10/01/2018	3.50%	4,977,340.13	133,384
BESTJ41008	2,000,000	10/01/2008	10/01/2028	4.00%	1,919,737.95	51,445
BESTJ50109	5,000,000	01/01/2009	01/01/2019	3.50%	4,895,825.30	131,255
BESTJ60109	2,000,000	01/01/2009	01/01/2029	4.00%	2,004,635.32	53,720
BESTJ80112	3,000,000	01/01/2012	01/01/2032	3.75%	3,093,462.95	82,899
BESTK10713	3,000,000	07/01/2013	07/01/2018	3.30%	3,064,675.50	82,128
BESTK20713	2,000,000	07/01/2013	07/01/2043	3.70%	2,284,617.88	61,223
BESTK30114	3,000,000	01/01/2014	01/01/2019	3.30%	3,000,121.69	80,398
BESTK40114	2,000,000	01/01/2014	01/01/2044	3.70%	2,322,506.74	62,239
BESTK50714	3,000,000	07/01/2014	07/01/2019	3.30%	3,112,860.17	83,419
BESTK60714	2,000,000	07/01/2014	07/01/2044	3.70%	2,362,422.22	63,308
BESTK70115	3,000,000	01/01/2015	01/01/2020	3.30%	3,071,997.81	82,324
BESTK80115	2,000,000	01/01/2015	01/01/2045	3.70%	2,349,998.51	62,976
BESTN10814	3,000,000	08/01/2014	08/01/2024	3.00%	3,073,929.01	82,376
BESTN20814	2,000,000	08/01/2014	08/01/2044	3.30%	2,153,101.16	57,699
BESTN30914	2,000,000	09/01/2014	09/01/2044	3.30%	2,114,225.62	56,657
BESTN41114	2,000,000	11/01/2014	11/01/2046	3.30%	2,088,714.09	55,974
BESTN51214	2,000,000	12/01/2014	12/01/2046	3.30%	2,030,408.84	54,411
BESTO10215	2,000,000	02/01/2015	02/01/2035	3.20%	2,143,322.16	57,437
BESTO20315	2,000,000	03/01/2015	03/01/2020	2.80%	2,036,393.19	54,572
BESTO30315	3,000,000	03/01/2015	03/01/2025	3.00%	3,058,038.79	81,950
BESTO50615	2,000,000	06/01/2015	06/01/2025	3.00%	2,075,239.57	55,613
BESTO60715	3,000,000	07/01/2015	07/01/2020	2.80%	3,088,459.29	82,765
BESTO81015	2,000,000	10/01/2015	10/01/2020	2.80%	2,048,343.68	54,892
BESTQ10316	2,000,000	03/01/2016	03/01/2026	3.00%	2,183,529.45	58,514
BESTQ30516	3,000,000	05/01/2016	05/01/2021	2.80%	3,108,279.11	83,296
BESTQ40616	3,000,000	06/01/2016	06/01/2021	2.80%	3,103,637.25	83,172
BESTQ50816	2,000,000	08/01/2016	08/01/2026	3.00%	2,168,319.49	58,107
BESTQ71016	3,000,000	10/01/2016	10/01/2021	2.80%	3,100,476.09	83,087
BESTR20317	2,000,000	03/01/2017	03/01/2027	3.00%	2,172,400.18	58,216
BESTR30317	2,000,000	03/01/2017	03/01/2022	2.80%	2,119,565.38	56,800
BESTR40517	3,000,000	05/01/2017	05/01/2022	2.80%	3,179,099.07	85,194
BESTR50517	2,000,000	05/01/2017	05/01/2027	3.00%	2,194,835.23	58,818
BESTS10317	3,000,000	03/01/2017	03/01/2022	2.80%	3,170,814.33	84,971
BESTS50317	3,000,000	03/01/2017	03/01/2026	3.00%	3,237,961.96	86,771
BESTS20317	3,000,000	03/01/2017	03/01/2023	2.80%	3,162,931.72	84,761
BESTS60317	3,000,000	03/01/2017	03/01/2029	3.00%	3,214,629.15	86,146
BESTS70517	3,000,000	05/01/2017	05/01/2023	2.80%	3,168,543.37	84,911
BESTS90517	2,000,000	05/01/2017	05/01/2028	3.00%	2,119,274.69	56,793
Subtotal UF Bonds	109,000,000				112,442,878.82	3,013,317

Series	Ch\$ placement	Issuance date	Maturity date	Issuance rate	Ch\$ Original currency	Balance due
						MCh\$
BESTU10417	50,000,000,000	08/24/2017	04/01/2022	4.50%	51,277,319,885	51,277
BESTU20517	50,000,000,000	08/31/2017	05/01/2022	4.50%	50,852,208,292	50,852
Subtotal Ch\$ Bonds	100,000,000,000				102,129,528,177	102,129

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 19 – DEBT INSTRUMENTS ISSUED AND OTHER FINANCIAL OBLIGATIONS (Continued)

Series	US\$ placement	Issuance date	Maturity date	Issuance rate	US\$ Original currency	Balance due
						MCh\$
FOREIGN CURRENCY BONDS	500,000,000	10/07/2010	10/07/2020	4.13%	502,506,681	308,916
FOREIGN CURRENCY BONDS	500,000,000	02/08/2012	02/08/2022	3.88%	499,884,093	307,304
FOREIGN CURRENCY BONDS	100,000,000	10/24/2016	11/09/2026	2.66%	99,988,640	61,468
Subtotal US\$ Bonds	1,100,000,000				1,102,379,414	677,688

Serie	¥ placement	Issuance date	Maturity date	Issuance rate	¥ Original currency	Balance due
						MCh\$
FOREIGN CURRENCY BONDS	24,000,000,000	06/11/2013	06/18/2018	0.84%	23,988,203,157	130,977
FOREIGN CURRENCY BONDS	31,000,000,000	01/16/2015	01/23/2020	0.52%	30,979,383,588	169,150
FOREIGN CURRENCY BONDS	10,000,000,000	06/17/2016	06/17/2026	0.48%	9,887,053,562	53,984
FOREIGN CURRENCY BONDS	15,000,000,000	08/10/2016	06/17/2026	0.48%	14,871,928,226	81,202
FOREIGN CURRENCY BONDS	10,000,000,000	09/08/2017	09/15/2027	0.55%	9,992,988,283	54,562
Subtotal ¥ Bonds	90,000,000,000				89,719,556,816	489,875

Serie	€ placement	Issuance date	Maturity date	Issuance rate	€ Original currency	Balance due
						MCh\$
FOREIGN CURRENCY BONDS	53,000,000	07/08/2015	07/22/2025	1.58%	52,909,767	39,108
FOREIGN CURRENCY BONDS	52,000,000	02/08/2017	03/01/2032	1.67%	52,598,995	38,878
FOREIGN CURRENCY BONDS	75,000,000	03/17/2017	03/01/2032	1.67%	74,374,124	54,974
FOREIGN CURRENCY BONDS	50,000,000	06/02/2017	07/05/2032	1.74%	50,302,976	37,181
FOREIGN CURRENCY BONDS	25,000,000	11/30/2017	07/05/2032	1.74%	25,146,995	18,588
Subtotal € Bonds	255,000,000				255,332,857	188,729

Serie	CHF placement	Issuance date	Maturity date	Issuance rate	CHF Original currency	Balance due
						MCh\$
FOREIGN CURRENCY BONDS	100,000,000	03/15/2017	04/07/2027	0.58%	100,055,675	63,151
Subtotal CHF Bonds	100,000,000				100,055,675	63,151

Serie	AUD placement	Issuance date	Maturity date	Issuance rate	AUD Original currency	Balance due
						MCh\$
FOREIGN CURRENCY BONDS	110,000,000	04/28/2017	11/10/2027	4.18%	110,405,282	53,029
Subtotal AUD Bonds	110,000,000				110,405,282	53,029

Total Ordinary Bonds						4,587,918
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SUBORDINATED BONDS

Series	UF placement	Issuance date	Maturity date	Issuance rate	UF Original currency	Balance due
						MCh\$
UEST-A0799	4,000,000	07/01/1999	07/01/2024	6.50%	2,001,186.44	53,628
UEST-B0603	2,500,000	06/01/2003	06/01/2025	4.80%	1,306,438.51	35,010
UEST-C0405	4,000,000	04/01/2005	04/01/2027	4.50%	2,653,257.52	71,102
UEST-D0106	2,000,000	01/01/2006	01/01/2031	4.50%	1,567,055.59	41,994
UEST-E0806	2,500,000	08/01/2006	08/01/2031	4.50%	2,036,257.24	54,568
UEST-F0207	2,500,000	02/01/2007	08/01/2031	4.00%	2,033,412.08	54,492
UEST-I0308	2,000,000	03/01/2008	03/01/2033	4.00%	1,682,018.53	45,075
UESTL20110	3,000,000	01/01/2010	01/01/2038	4.50%	3,366,034.66	90,203
UESTL10111	2,000,000	01/01/2011	01/01/2041	4.00%	2,085,742.72	55,894
UESTL20711	2,000,000	07/01/2011	07/01/2041	4.00%	2,185,746.27	58,574
UESTL30112	2,000,000	01/01/2012	01/01/2042	4.00%	2,191,261.21	58,722
UESTM11213	2,000,000	12/01/2013	12/01/2043	3.50%	2,042,169.60	54,726
UESTM20114	2,000,000	01/01/2014	01/01/2045	3.50%	2,184,973.17	58,553
UESTM30114	2,000,000	01/01/2014	01/01/2046	3.50%	2,351,195.80	63,008
UESTM40114	2,000,000	01/01/2014	01/01/2047	3.50%	2,215,883.93	59,382
Total Subordinated Bonds	36,500,000				31,902,633.27	854,931

Total issued Bonds						5,442,849
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BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 20 – PROVISIONS

As of December 31, 2018 and 2017, “Provisions” are detailed as follows:

a) Provisions

	12/31/2018		12/31/2017
	MUS\$	MCh\$	MCh\$
Employee benefits and remunerations provision	183	127,289	124,917
Provision for mandatory dividends	119	82,976	60,250
Credit risk on contingent loans provision	80	55,305	42,710
Provisions for contingencies (*)	729	506,233	460,968
Country risk provisions	4	2,926	898
Total	1,115	774,729	689,743

(*) Includes additional provisions in the amount of MCh\$ 488,405, as of December 31, 2018 (MCh\$ 448,905 as of December 31, 2017).

b) As of December 31, 2018 and 2017 the movement of provisions is detailed as follows:

	Employee benefits and remunerations MCh\$	Contingent credit risks MCh\$	Provisions for contingencies MCh\$	Other provisions MCh\$	Total	
					MCh\$	MUS\$
Balances at January 1, 2018	124,917	42,710	460,968	61,148	689,743	993
Provisions established	46,024	33,704	59,141	85,665	224,534	323
Application of provisions	(33,658)	-	(10,876)	(60,250)	(104,784)	(151)
Provisions released	(9,994)	(21,688)	(3,000)	(661)	(35,343)	(51)
Other movements	-	579	-	-	579	1
December 31, 2018	127,289	55,305	506,233	85,902	774,729	1,115
Balances at January 1, 2017	126,117	40,656	460,879	96,968	724,620	
Provisions established	50,067	23,908	33,416	61,316	168,707	
Application of provisions	(37,580)	-	(7,566)	(95,879)	(141,025)	
Provisions released	(13,614)	(21,525)	(25,761)	(1,257)	(62,157)	
Other movements	(73)	(329)	-	-	(402)	
December 31, 2017	124,917	42,710	460,968	61,148	689,743	

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 20 – PROVISIONS (Continued)

- c) As of December 31, 2018 and 2017, provisions for employment benefits and payroll are detailed as follows:

	12/31/2018		12/31/2017
	MUS\$	MCh\$	MCh\$
Severance indemnity provision	106	73,917	70,280
Provision for other employee benefits	29	19,813	21,104
Vacation provision	48	33,559	33,533
Total	183	127,289	124,917

- d) As of December 31, 2018 and 2017, details of the movements of the severance indemnity provision (Note 29) are as follows:

	12/31/2018		12/31/2017
	MUS\$	MCh\$	MCh\$
Present value of liabilities at beginning of year	101	70,280	77,507
Increase in provision	18	12,714	15,864
Application of provisions	(11)	(7,565)	(13,234)
Provisions released	(2)	(1,512)	(9,857)
Total	106	73,917	70,280

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 20 – PROVISIONS (Continued)

e) Additional provisions

Additional provisions (included under the concept of contingencies provisions) are established to cover countercyclical adverse effects on the Bank's businesses and concentration risks, in accordance with the criteria approved by the Bank's Executive Committee, as described in Note 1 u.6). As of December 31, 2018 and 2017, movements of additional provisions are detailed as follows:

	12/31/2018		12/31/2017
	MUS\$	MCh\$	MCh\$
Balance as of January 1,	646	448,905	448,905
Provision established	61	42,500	25,200
Provisions released	(4)	(3,000)	(25,200)
Balance as of	703	488,405	448,905

The effects for the period are recorded in "Provision for loan losses" in the Consolidated Statements of Income.

NOTE 21 – OTHER LIABILITIES

As of December 31, 2018 and 2017, "Other liabilities" are detailed as follows:

	12/31/2018		12/31/2017
	MUS\$	MCh\$	MCh\$
Accounts and notes payable	158	109,913	107,008
Agreed-upon dividends payable	11	7,428	6,683
Unearned income	168	116,756	104,378
Outstanding operations	9	6,454	11,039
Provisions for payment of leasing insurance premiums	8	5,717	6,112
Provisions for other payment leasing	-	127	4,323
Guarantee deposit (Credit Support Annex)	41	28,625	14,871
Various creditor accounts	80	55,240	166
Guarantee deposits (COMDER)	-	-	4,407
Guarantee deposits (Clearing contracts)	241	167,053	62,773
Other liabilities	16	11,195	15,468
Total	732	508,508	337,228

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 22 – CONTINGENCIES AND COMMITMENTS**a) Commitments and responsibilities recorded in off-balance sheet accounts:**

The Bank, its New York branch and subsidiaries, hold the following balances related to commitments and responsibilities arising from its normal line of business in off-balance sheet accounts:

	12/31/2018		12/31/2017
	MUS\$	MCh\$	MCh\$
Contingent Loans			
Guarantee and deposits:			
Guarantees and deposits in local currency	425	295,117	430,843
Guarantees and deposits in foreign currency	288	200,442	133,073
Confirmed foreign letters of credit	155	107,946	106,589
Issued documented letters of credit	88	61,044	72,212
Performance bonds	2,023	1,405,574	1,424,041
Interbank letters of credit	-	-	-
Immediately available lines of credit	2,244	1,558,860	1,441,571
Amount of committed credits and not placed	-	-	-
Other credit commitments:			
Credits for higher education Law No. 20,027	617	428,797	455,420
Others	868	602,901	473,747
Other contingent credits	-	-	-
Operations on account of third parties			
Collections:			
Foreign collections	49	33,944	46,384
Local collections	131	91,348	93,701
Placement or sale of financial instruments:			
Placement of securities for public bid	-	-	-
Sale of letters of credit of bank operations	-	-	-
Sales 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 administered on behalf of third parties	858	596,373	773,452
Other assets administered on behalf of third parties	-	-	-
Financial assets acquired	-	-	-
Other assets acquired	-	-	-
Security held in custody			
Securities held in custody of the bank	1,838	1,276,721	978,084
Securities held in custody deposited in another entity	4,908	3,409,866	3,619,552
Securities issued by the bank:			
Promissory notes of time deposits	6,069	4,216,277	4,098,401
Letters of credit for sale	10	7,185	4,418
Other documents	-	-	-
Commitment			
Guarantees for underwriting operations	-	-	-
Commitments for asset purchases	-	-	-
Total	20,571	14,292,395	14,151,488

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 22 – CONTINGENCIES AND COMMITMENTS (Continued)**b) Lawsuits and legal proceedings:****b.1) Normal legal contingencies of the industry:**

As of the date of issuance of these Consolidated Financial Statements, there are several legal proceedings that have been filed against the Bank, its New York branch and its subsidiaries in relation to normal operations in its line of business. According to Management and based on the advice of its legal counsel, the Bank has recorded the provisions it deems appropriate to cover losses in accordance with IAS 37 for the Bank, New York branch and subsidiaries. As of December 31, 2018 and 2017, the Bank and its subsidiaries have provisions for this concept that amount to MCh\$ 3,069 and MCh\$ 2,311, respectively, which form part of “Provisions” in the Consolidated Statements of Financial Position. Lawsuits and provisions by type are detailed as follows:

TYPE	12/31/2018			12/31/2017	
	No. of cases	Provision		No. of cases	Provision
		Amount			
		MUS\$	MCh\$		MCh\$
Labor	32	1	878	21	341
Civil	362	3	2,191	325	1,970
Total	394	4	3,069	346	2,311

b.2) Significant lawsuit contingencies in court.

As of December 31, 2018, BancoEstado is being sued in the Court for the Defense of Free Competition by the Banks BICE, Security, Internacional, Scotiabank and BBVA, Case Numbers C-323-2017, C-324-2017, C-325-2017, C-327-2017 and C-331-2017, respectively, currently all grouped under Case Number C-323-2017. The first three lawsuits were filed on July 12, 2017, and Scotiabank’s on August 21, 2017 and BBVA’s on October 19, 2017.

The possible amount of the Banco BICE lawsuit is 11,000 UTA (MCh\$ 6,176) and that of each of the other banks is 10,000 UTA (MCh\$ 5,614 or MCh\$ 5,592, depending on the month in which the lawsuit was filed). Currently the lawsuit is still in progress, in test stage.

Provision of 0.1% of the possible fine has been made for the previous mentioned proceedings.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 22 – CONTINGENCIES AND COMMITMENTS (Continued)

c) Operating guarantees granted:

	12/31/2018		12/31/2017
	MUS\$	MCh\$	MCh\$
Financial assets in guarantee CCLV, Bolsa de Comercio	14	9,788	10,135
Shares in guarantee for the Bolsa de Comercio de Santiago	19	13,524	29,184
Own portfolio shares	3	1,750	1,750
Total	36	25,062	41,069

BancoEstado Corredores de Seguros S.A.

- Guarantees on transactions and third party liability:**

In accordance with Article No. 58 of Decree Law No. 251, as of December 31, 2018, subsidiary BancoEstado Corredores de Seguros S.A. has a guarantee deposit which covers possible damages that might affect it as a consequence of infractions of the law, regulations and complementary standards that regulate insurance brokers, and especially when the non-compliance arises from acts, errors and omissions of the broker its representatives, managers or dependents participating in the brokerage.

Guarantee information is as follows:

Number : 10675567.
Amount : U.F. 60,000.
Issuer : BancoEstado.
Purpose : To guarantee any present or 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 D.F.L. No. 251 dated 1931.
Effective : Until April 14, 2019.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 22 – CONTINGENCIES AND COMMITMENTS (Continued)

BancoEstado S.A. Corredores de Bolsa

- **Operating guarantees:**

In order to comply with the obligation of transaction guarantees established in Article No. 30 of Law No. 18,045, subsidiary BancoEstado S.A. Corredores de Bolsa has purchased insurance policy No. 1188 from HDI Seguros Magallanes for a value of U.F. 20,000, valid from April 22, 2018, to April 22, 2020, with Bolsa de Comercio de Santiago-Bolsa de Valores as the representative of the beneficiaries of the guarantee.

BancoEstado S.A. Corredores de Bolsa has established a first priority pledge on its share of Bolsa de Comercio de Santiago-Bolsa de Valores, in order to guarantee faithful and timely performance of its obligations owed to that institution. In addition, it has established a second priority pledge in favor of all stock brokers to secure its obligations with them.

Regarding the Comprehensive Insurance for brokers, BancoEstado S.A. Corredores de Bolsa has purchased one insurance policy for an amount of US\$ 20,000,000, with Orion Seguros Generales S.A., it is valid until January 31, 2020.

On August 31, 2018, BancoEstado S.A. Corredores de Bolsa contracted a guarantee in pesos issued by BancoEstado, No. 81127392, for an amount of Ch\$ 2,000,000, effective until November 13, 2018, to ensure compliance with the contract and payment of labor and social obligations, brokerage service for the sale of shares and other securities, of Fisco de Chile - Ministerio de Bienes Nacionales, It is valid until December 17, 2021.

On February 15, 2017, BancoEstado S.A. Corredores de Bolsa contracted a guarantee in U.F. issued by Banco Santander Chile, No. 6883, for an amount of U.F. 15,500, to guarantee CORFO faithful performance of the CORFO portfolio, committees and fund management contract and payment of all of its labor and social security obligations with regard to the contracting party's workers, effective until February 14, 2022.

On December 26, 2018, and in compliance with the requirements established by the CMF (former SVS) in general standard No. 363 for the registration of Third Party Portfolio Managers, the Company took out a performance bond in U.F. issued by BancoEstado, No. 11128253, U.F. 454,000, it is valid until December 30, 2019.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 22 – CONTINGENCIES AND COMMITMENTS (Continued)

On December 29, 2017, BancoEstado S.A. Corredores de Bolsa took out a performance bond in Chilean pesos issued by Banco Santander Chile, No. 3033, for Ch\$ 5,026,000, to guarantee the fund faithful performance of the contract for the provision of services involving the deposit, custody and collection of securities and payment of all of the labor and social security obligations with regard to the contracting party's workers. It is valid until June 30, 2023.

On December 29, 2017, BancoEstado S.A. Corredores de Bolsa took out a performance bond in Chilean pesos issued by Banco Santander Chile, No. 3034, for Ch\$ 20,926,000, to guarantee CORFO faithful performance of the contract for the provision of services involving the deposit, custody and collection of securities and payment of all of the labor and social security obligations with regard to the contracting party's workers. It is valid until June 30, 2023.

On April 12, 2018, BancoEstado S.A. Corredores de Bolsa contracted a guarantee in U.F. issued by BancoEstado, No. 10675704, for an amount of U.F. 10,500, effective until April 18, 2019, to ensure compliance of contract No.1836, SOMA with the Banco Central de Chile.

On April 13, 2018, BancoEstado S.A. Corredores de Bolsa took out a performance bond in Chilean pesos issued by BancoEstado, No. 10675723, for Ch\$ 50,000,000, to guarantee faithful, timely and proper performance of the contractual obligations of the "Investment Portfolio Management" contract. It is valid until April 22, 2019.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 22 – CONTINGENCIES AND COMMITMENTS (Continued)

BancoEstado S.A. Administradora General de Fondos:

- **Operating guarantees**

In compliance with Articles No. 226 and No. 227 of Law No. 18,045, subsidiary BancoEstado S.A. Administradora General de Fondos, designated Banco del Estado de Chile as representative of the beneficiaries of the guarantees it has established. The guarantee deposits established are detailed as follows:

	Currency	Amount	Start date	Maturity date
Fondo Mutuo Solvente BancoEstado	UF	503,343.05	01/09/2018	01/10/2019
Fondo Mutuo Compromiso BancoEstado	UF	86,039.19	01/09/2018	01/10/2019
Fondo Mutuo Conveniencia BancoEstado	UF	106,237.85	01/09/2018	01/10/2019
Fondo Mutuo BancoEstado Renta Futura	UF	10,000.00	01/09/2018	01/10/2019
Fondo Mutuo Protección BancoEstado	UF	166,133.09	01/09/2018	01/10/2019
Fondo Mutuo BancoEstado Acciones Nacionales	UF	10,000.00	01/09/2018	01/10/2019
Fondo Mutuo BancoEstado BNP Paribas Renta Emergente	UF	10,000.00	01/09/2018	01/10/2019
Fondo Mutuo BancoEstado BNP Paribas Acciones Desarrolladas	UF	10,000.00	01/09/2018	01/10/2019
Fondo Mutuo BancoEstado BNP Paribas Más Renta Bicentenario	UF	42,868.51	01/09/2018	01/10/2019
Fondo Mutuo BancoEstado Perfil A	UF	10,000.00	01/09/2018	01/10/2019
Fondo Mutuo BancoEstado Perfil C	UF	10,000.00	01/09/2018	01/10/2019
Fondo Mutuo BancoEstado Perfil E	UF	10,000.00	01/09/2018	01/10/2019
Fondo Mutuo BancoEstado Dólar Disponible	UF	10,000.00	01/09/2018	01/10/2019
Fondo Mutuo BancoEstado Ahorro Corto Plazo	UF	10,000.00	01/09/2018	01/10/2019
Fondo Mutuo BancoEstado Empresas Europeas (*)	UF	10,000.00	01/09/2018	01/10/2019

(*) On March 2, 2018 the deposit in guarantee for U.F. 10,000 of Fondo Mutuo BancoEstado Empresas Europeas was reimbursed due to the expiry of the mutual fund.

(**) On January 11, 2019 the Performance Bonds were renewed and now they expire on January 10, 2020.

d) Contingent loans and liabilities:

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

The contractual amounts of the transactions that obligate the Bank to grant loans and the amount of the provisions established for the credit risk assumed are detailed as follows:

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 22 – CONTINGENCIES AND COMMITMENTS (Continued)

	12/31/2018		12/31/2017
	MUS\$	MCh\$	MCh\$
Guarantees and deposits	713	495,559	563,916
Document-letter of credit	243	168,990	178,801
Performance bonds	2,023	1,405,574	1,424,041
Amounts available for users of credit card	2,244	1,558,860	1,441,571
Amount of committed credits	868	602,901	473,747
Credits for higher education Law No. 20,027	617	428,797	455,420
Provisions established	(80)	(55,305)	(42,710)
Total	6,628	4,605,376	4,494,786

NOTE 23 – EQUITY**a) Corporate capital**

BancoEstado is governed by the Organic Law of Banco del Estado de Chile D.L. No. 2,079 dated 1978, which in its Title I, articles No. 1 and No. 4 establish the following:

Article 1: Banco del Estado de Chile is an autonomously state-owned company with its own legal status and equity, with an indefinite term, submitted exclusively to the supervision of the Superintendencia de Bancos e Instituciones Financieras and related with the Government through the Ministerio de Hacienda.

Article 4: The Bank's authorized original capital is Ch\$ 4,000,000,000 (four billion Chilean pesos) and will be paid with the funds that it currently has accounted for as capital and reserves in local currency. If those funds are not sufficient to complete the authorized capital, it will be completed with a charge to revaluations or net income produced in future years.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 23 – EQUITY (Continued)

This capital can be increased by supreme decree, with a prior favorable report from the Superintendencia de Bancos e Instituciones Financieras.

Law No. 20,318 was published on January 2, 2009 and permits the Bank to make an extraordinary capital contribution of US\$ 500 million under the conditions indicated in the mentioned Law. In 2009 this additional capital was completed for the equivalent of MCh\$ 274,497 leaving current capital at MCh\$ 278,497.

On November 8, 2014, Law No. 20,792 as published allowed an extraordinary capital contribution to the Bank of up to US\$ 450 million under the conditions indicated in the aforementioned law. In 2014, part of this additional capital contribution (US\$ 250 million) was received equivalent to MCh\$ 153,975. In November 2015 the balance of the capital contribution (US\$ 200 million) was received, equivalent to MCh\$ 142,160, leaving the current capital at MCh\$ 574,632.

b) Distribution of net income:**Net income for 2017:**

The 2017 income of BancoEstado attributable to the ownership of the Bank amounted to MCh\$ 120,501. His Excellency the President of the Republic could, upon proposal of the Board of Directors of the Bank, allocate all or a portion of the income for the year to government benefit, as established in the Organic Law of Banco del Estado de Chile.

BancoEstado constituted a provision for distribution of the minimum income to government benefit equivalent to 50.0% of the income for the year, in conformity to what is established in its accounting policies.

On June 26, 2018, through Ordinance No. 1,118, the Ministerio de Hacienda, according to the provisions of D.L. No. 2,079 of 1978, authorized a capitalization of MCh\$ 60,250.5 for BancoEstado and allocated to fiscal benefit the amount of MCh\$ 60,250.5 from the profits of MCh\$ 120,501 generated during 2017. The amount sent corresponds to 50% of net income of 2017, which was sent to the Tesorería General de la República on September 24, 2018.

Net income for 2018:

For 2018, net income of BancoEstado attributable to the holders of the Bank amounted to MCh\$ 165,951. His Excellency the President of the Republic may, subject to a proposal by the Bank's Board of Directors, allocate all or part of the profits for the year to the Treasury, as provided for in the Organic Law of BancoEstado.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 23 – EQUITY (Continued)

BancoEstado constituted a provision for distribution of the minimum income to government benefit equivalent to 50.0% of the income for the year, in conformity to what is established in its accounting policies.

c) Reserves:

Corresponds to balances that mainly come from the capitalization of net income from previous years, adjustments from the first time adoption of the International Financial Reporting Standards, in accordance with the Superintendencia de Bancos e Instituciones Financieras, in its Compendium of Accounting Standards, and the Instructions concerning what is to be recognized in reserves. Additionally, actuarial gains and losses are recognized in reserves in accordance with IAS 19.

d) Valuation accounts:

They consist of the following concepts:

- Financial investments available for sale, which corresponds to the mark to market adjustments, until the investment is sold/disposed of or there is a need to make provisions for impairment. This information is presented net of taxes.
- Cash flow hedge, the effect on equity of a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability. They are presented net of income tax and deferred taxes, as applicable, according to the instructions of Law No. 20,544 of 2011.
- Exchange differences on translation foreign operation, corresponds to the effect of converting the financial statements of the New York branch, whose functional currency is the US dollar, to the functional currency of the Bank as its parent company, in Chilean pesos.

As of December 31, 2018 and 2017, the movements of this item, as a separate component of equity is as follows:

	<u>12/31/2018</u>		<u>12/31/2017</u>
	MUS\$	MCh\$	MCh\$
Balance as of January 1,	(2)	(1,155)	(981)
Net exchange differences on translation foreign operation	-	(256)	(174)
Total	<u>(2)</u>	<u>(1,411)</u>	<u>(1,155)</u>

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 23 – EQUITY (Continued)

e) Non-controlling interest:

Non-controlling interest balances as of December 31, 2018 and 2017, for consolidated companies included in shareholders equity are detailed as follows:

	12/31/2018		12/31/2017
	MUS\$	MCh\$	MCh\$
Non-controlling interest in BancoEstado Corredora de Seguros S.A.			
MetLife Chile Inversiones Limitada (49.90%)	7	4,519	4,193
Non-controlling interest in BancoEstado S.A. Administradora General de Fondos			
BNP Paribas Investment Partners (49.99%)	5	4,104	3,762
Non-controlling interest in Red Global S.A.			
Sumup Limited (9.90%)	1	771	877
Total non-controlling interests	13	9,394	8,832

The share in income of non-controlling interests for December 31, 2018 and 2017 are detailed as follows:

	12/31/2018		12/31/2017
	MUS\$	MCh\$	MCh\$
Non-controlling interest in BancoEstado Corredora de Seguros S.A.			
MetLife Chile Inversiones Limitada (49.90%)	13	8,692	7,761
Non-controlling interest in BancoEstado S.A. Administradora General de Fondos			
BNP Paribas Investment Partners (49.99%)	7	4,800	4,312
Non-controlling interest in Red Global S.A.			
Sumup Limited (9.90%)	-	(106)	(77)
Total non-controlling interests	20	13,386	11,996

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 24 – INTEREST INCOME AND EXPENSES

a) For the years ended December 31, 2018 and 2017, “Interest income” are detailed as follows:

	For the period ended December 31,					
	2018				2017	
	Interest MCh\$	Inflation- Indexation MCh\$	Total MCh\$ MUS\$		Interest MCh\$	Inflation- Indexation MCh\$
Normal Portfolio						
Repurchase agreements	21,593	-	21,593	31	24,344	-
Loans to banks	17,232	-	17,232	25	13,750	-
Commercial loans	608,587	104,687	713,274	1,027	586,194	56,472
Mortgage loans	392,783	257,379	650,162	936	368,750	143,493
Consumer loans	301,813	-	301,813	434	270,288	-
Investment instruments	157,562	4,783	162,345	234	133,759	3,169
Hedging income	-	(9,022)	(9,022)	(13)	-	50
Other interest and indexation income	56,901	2,046	58,947	84	40,361	1,262
Subtotal	1,556,471	359,873	1,916,344	2,758	1,437,446	204,446
Impaired Portfolio						
Recovery of interest and indexation						
Commercial loans	2,232	118	2,350	3	2,083	156
Mortgage loans	3,270	1,404	4,674	7	3,023	1,120
Consumer loans	1,947	-	1,947	3	1,871	-
Investment instruments	-	-	-	-	-	-
Hedging income	-	-	-	-	-	-
Other interest and indexation income	-	-	-	-	-	-
Subtotal	7,449	1,522	8,971	13	6,977	1,276
Total interest income	1,563,920	361,395	1,925,315	2,771	1,444,423	205,722

	For the period ended December 31,					
	2018				2017	
	Interest MCh\$	Inflation- Indexation MCh\$	Total MCh\$ MUS\$		Interest MCh\$	Inflation- Indexation MCh\$
Impaired portfolio with						
Suspended interest						
Commercial loans	75,095	28,783	103,878	150	130,944	27,826
Mortgage loans	14,108	8,099	22,207	32	13,327	8,582
Consumer loans	34	35	69	-	86	116
Investment instruments	-	-	-	-	-	-
Total	89,237	36,917	126,154	182	144,357	36,524

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 24 – INTEREST INCOME AND EXPENSES (Continued)

b) For the years ended December 31, 2018 and 2017, “Interest expense” are detailed as follows:

Concept	For the period ended December 31,					
	2018				2017	
	Expenses				Expenses	
	Inflation-Indexation		Total		Inflation-Indexation	
	Interest MCh\$	MCh\$	MCh\$	MUS\$	Interest MCh\$	Total MCh\$
Demand deposits	15,381	44	15,425	22	13,731	25
Repurchase agreements	21,241	-	21,241	31	22,811	-
Time and demand deposits	370,799	74,266	445,065	640	351,203	52,212
Liabilities with banks	31,901	-	31,901	46	19,029	-
Issued debt instruments	211,661	135,912	347,573	500	196,811	75,044
Hedging income	69,758	-	69,758	100	32,180	-
Other interest and indexation expenses	386	14	400	1	786	-
Total interest expenses	721,127	210,236	931,363	1,340	636,551	127,281
						763,832

NOTE 25 – FEES AND COMMISSION INCOME

For the years ended December 31, 2018 and 2017, “Fees and commission income” and “Fees and commission expense” are detailed as follows:

Concept	12/31/2018		12/31/2017
	MUS\$	MCh\$	MCh\$
a) Fees and commission income			
Commissions for lines of credit and overdraft	3	2,226	2,207
Commissions for guarantees and letters of credit	15	10,078	9,463
Commission for card services	184	128,049	103,918
Commissions for account management	106	73,617	64,261
Commissions for collections and payments	223	154,923	133,035
Commissions for trading and management of securities	14	9,696	8,911
Commissions for investments in mutual funds and others	28	19,626	17,241
Compensations for trading of insurance policies	56	38,763	33,905
Other compensations for services rendered	47	32,913	26,935
Other commissions earned	5	3,616	3,437
Total fees and commission income	681	473,507	403,313
b) Fees and commission expense			
Fees for card operation services	71	49,769	40,208
Commissions for operation of securities	34	23,464	22,060
Commissions for interbank transactions	90	62,681	57,598
Commissions for using ATMs	8	5,306	4,610
Commissions CCA	28	19,692	16,759
Other commissions paid	10	6,718	1,762
Total fees and commission expense	241	167,630	142,997

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 26 – NET INCOME FROM FINANCIAL OPERATIONS

For the years ended December 31, 2018 and 2017, “Net income from financial operations” is detailed as follows:

	12/31/2018		12/31/2017
	MUS\$	MCh\$	MCh\$
Trading portfolio	87	60,506	69,501
Derivative contracts	43	29,747	62,411
Portfolio available for sale	1	885	6,373
Sale of loan portfolio	18	12,828	10,307
Gain on factoring operations	14	9,801	6,844
Others	3	1,752	63
Net income from financial operations	166	115,519	155,499

NOTE 27 – NET FOREIGN EXCHANGE GAIN (LOSS)

For the years ended December 31, 2018 and 2017, “Net foreign exchange gain (loss)” is detailed as follows:

	12/31/2018		12/31/2017
	MUS\$	MCh\$	MCh\$
Exchange difference			
Gain on exchange difference	14	9,610	84,630
Loss on exchange difference	(461)	(319,961)	(4,412)
Subtotal	(447)	(310,351)	80,218
Indexed in foreign currency			
Gain (loss) on for assets indexed in foreign currency	15	10,638	(8,375)
Gain (loss) on for liabilities indexed in foreign currency	-	-	-
Subtotal	15	10,638	(8,375)
Hedging income			
Gain (loss) on asset hedging	-	-	-
Gain (loss) on liability hedging	462	320,384	(106,780)
Subtotal	462	320,384	(106,780)
Net foreign exchange gain (loss)	30	20,671	(34,937)

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 28 – PROVISION FOR LOAN LOSSES

For the years ended 2018 and 2017, movements recorded in income for the concept of provisions and impairment are detailed as follows:

12/31/2018	Loans and advance to banks MCh\$	Loans and accounts receivable from customers			Contingent credits MCh\$	Total	
		Commercial loans MCh\$	Mortgages loans MCh\$	Consumer loans MCh\$		MCh\$	MUS\$
Provisioning							
- Individual provisions	(3,945)	(69,421)	-	-	(29,478)	(102,844)	(148)
- Group provisions	-	(104,601)	(28,707)	(137,193)	(4,226)	(274,727)	(395)
- Additional provisions	-	(39,500)	-	(3,000)	-	(42,500)	(61)
Provisions established	(3,945)	(213,522)	(28,707)	(140,193)	(33,704)	(420,071)	(604)
Release of provisions							
- Individual provisions	2,274	56,091	-	-	17,619	75,984	109
- Group provisions	-	19,745	3,830	12,697	4,069	40,341	58
- Additional provisions	-	-	3,000	-	-	3,000	4
Provisions released	2,274	75,836	6,830	12,697	21,688	119,325	171
Recovery of written-off assets	-	25,221	18,761	24,717	-	68,699	99
Provision for loan losses	(1,671)	(112,465)	(3,116)	(102,779)	(12,016)	(232,047)	(334)

12/31/2017	Loans and advance to banks MCh\$	Loans and accounts receivable from customers			Contingent credits MCh\$	Total	
		Commercial loans MCh\$	Mortgages loans MCh\$	Consumer loans MCh\$		MCh\$	
Provisioning							
- Individual provisions	(2,781)	(77,864)	-	-	(17,901)	(98,546)	
- Group provisions	-	(107,580)	(26,876)	(130,929)	(6,007)	(271,392)	
- Additional provisions	-	(25,200)	-	-	-	(25,200)	
Provisions established	(2,781)	(210,644)	(26,876)	(130,929)	(23,908)	(395,138)	
Release of provisions							
- Individual provisions	2,345	52,191	-	-	16,012	70,548	
- Group provisions	-	20,058	17,218	6,052	5,513	48,841	
- Additional provisions	-	-	25,200	-	-	25,200	
Provisions released	2,345	72,249	42,418	6,052	21,525	144,589	
Recovery of written-off assets	-	17,579	22,038	25,083	-	64,700	
Provision for loan losses	(436)	(120,816)	37,580	(99,794)	(2,383)	(185,849)	

In Management's opinion, provisions established on credit risk and impairment cover all eventual losses that might be derived from non-recovery of assets, according to the information examined by the Bank, New York branch and subsidiaries.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 29 – PERSONNEL SALARIES AND EXPENSES

a) For the years ended December 31, 2018 and 2017, “Personnel salaries and expenses” are detailed as follows:

	12/31/2018		12/31/2017
	MUS\$	MCh\$	MCh\$
Personnel remunerations	478	332,110	324,149
Bonuses or other benefits	60	41,458	37,829
Severance indemnity	19	13,423	8,386
Training expenses	4	2,633	2,902
Welfare expenses	35	24,628	22,913
Other personnel expenses	33	22,717	23,886
Total	629	436,969	420,065

b) Employee benefits plans:

As of December 31, 2018 and 2017 the Bank and subsidiaries maintain the following employee benefits:

Employee vacations:

The annual cost of vacations and employee benefits is recognized on an accrual basis.

Short-term benefits:

The existence of short-term benefits (current expense) is primarily based on incentives for meeting commercial objectives and achieving operational efficiency. These benefits are:

- Individual performance bonus: Each employee is granted an amount of money based on the fulfillment of the Bank’s objectives, the individual’s goals and the employee’s salary.
- Corporate bonus: Defines a percentage of the Bank’s monthly payroll to be distributed equally to all of the Bank’s employees. It is based on the fulfillment of commercial objectives and operational efficiency.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 29 – PERSONNEL SALARIES AND EXPENSES (Continued)**Long-term benefits:**

Long-term benefits correspond to those benefits granted by the Bank according to Law and/or the existence of implicit obligations derived from the current Union Contract.

The methodology used to determine the provision for all employees uses actuarial assumptions that consider variables such as turnover rates, mortality rates, salary increases, probability of the use of the benefit according to the valuation method. This methodology is established in IAS 19.

The benefits are the following

- Years of service: Applies to all of the Company's employees. The Bank estimates that the employees will continue to work until their retirement age (men and women 67 years) and therefore constitutes provisions according to the probability of the occurrence of resignation, death, dismissal and retirement during the employees' professional life at the Bank. The benefits are determined according to current legal regulations and the Union Contract.
- Prizes for years of service: Applies to all of the Company's employees. This prize for years with the Company grants a percentage of salary to each milestone, including 10, 15, 20, 25, 30, 35, 40 and 45 years of service.
- Retirement savings: Applies to all of the Company's employees for an indefinite term who joined the company after August 14, 1981 and are not affiliated with the unemployment insurance established by Law No. 19,728. This benefit establishes a retirement savings program in the form of self-insurance, in order to provide a salary plus bonus of a maximum of U.F. 90 for each 36 months of contribution to the program.
- Pension saving 2.0: The program is aimed at:
 - Employees with an indefinite contract at October 1, 2017, who, having paid contributions into an unemployment insurance, have ceased to pay contributions into such insurance, because they have completed 11 years of contributions in the company, as provided for in Article No. 9 of Law No. 19,728; and
 - The employees paying contributions into the unemployment insurance, who, during the term of the collective contract (October 2, 2017 to September 30, 2019), complete the 11 years of contributions paid into such insurance in the company, as stipulated in Article No. 9 of Law No. 19,728.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 29 – PERSONNEL SALARIES AND EXPENSES (Continued)

This benefit is a means of encouraging employees to save for their pension via a voluntary and shared savings program, which will contribute a wage plus bonus with a ceiling of U.F. 90 for every 36 months of actual, continuous contributions paid into that program.

- Additional benefits for retirement plan: applies to all of the Company's employees included in the plan established by the union contract. It is an early and voluntary retirement plan for all workers between 55 and 60 years; and between 58 and 64 years whose compensation increases by a percentage according to age range and the hiring date. The benefits that can be provisioned refer to health plans and life insurance for a period of 24 months, as well as education scholarships during the current school year (preschool, elementary school, high school and university) for school-aged children.

Actuarial Assumptions

The actuarial assumptions used to calculate the abovementioned long-term commitments according to IFRS are the following:

- Mortality and disability: Uses the RV-2014 Mortality Chart of the Comisión para el Mercado Financiero (former SVS).
- Turnover rates (resignations and company's needs): Calculated based on the historical values registered in BancoEstado and subsidiaries, which records events which occurred between 2015 and 2017.
- Discount rate: Determined based on BCU (bond rate of the Central Bank of Chile in Unidades de Fomento) at 5, 10 and 20 years plus a spread equivalent to the cost over the indicated rate, of bond issuances or high-quality corporate bonds. As of December 31, 2018, the annual real discount rates used are 1.76%, 2.00% and 2.45% respectively (1.96%, 2.53% and 2.65%, as of December 31, 2017).
- Salary increase: Historical estimates of an annual rate of 2.24%.
- Retirement age: According to determinations by the Administration, 67 years for men and women.

The prepayment of employee benefits does not exist in the practice of the organization.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 29 – PERSONNEL SALARIES AND EXPENSES (Continued)

The activity related to employee benefits as of December 31, 2018 and 2017 is as follows:

	Indemnity for years of service MCh\$	Prizes for years of service MCh\$	Retirement savings MCh\$	Total MCh\$ MUS\$	
Initial value of obligation at January 1, 2017	53,647	13,470	10,390	77,507	
Benefits paid during the year	(9,681)	(1,540)	(355)	(11,576)	
Services cost during current year	1,746	72	53	1,871	
Interest cost	2,941	738	570	4,249	
Actuarial profits and losses (*)					
Assumptions	1,729	2,755	275	4,759	
Experience	3,482	1,159	(1,550)	3,091	
Turnover rate for resignation	-	-	(5,596)	(5,596)	
Others	(1,256)	(4,022)	1,253	(4,025)	
Obligation at the December 31, 2017	52,608	12,632	5,040	70,280	
Initial value of obligation at January 1, 2018	52,608	12,632	5,040	70,280	101
Benefits paid during the year	(1,500)	(1,571)	(176)	(3,247)	(5)
Services cost during current year	1,933	70	56	2,059	3
Interest cost	2,864	689	274	3,827	6
Actuarial profits and losses (*)					
Assumptions	61	(532)	(54)	(525)	(1)
Experience	(822)	1,542	803	1,523	2
Obligation at the December 31, 2018	55,144	12,830	5,943	73,917	106

(*) For employee benefits, the Bank recorded in the Consolidated Statements of Comprehensive Income and the Consolidated Statements of Changes in Equity, the credit of MCh\$ 4 net of deferred taxes as of December 31, 2018 (charge for MCh\$ 1,497 as for December 31, 2017, net of deferred taxes), due to the application of IAS 19.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 30 – ADMINISTRATIVE EXPENSES

For the years ended December 31, 2018 and 2017, “Administrative expenses” are detailed as follows:

	<u>12/31/2018</u>		<u>12/31/2017</u>
	<u>MUS\$</u>	<u>MCh\$</u>	<u>MCh\$</u>
Administrative expenses	152	105,945	111,688
Maintenance and repair of property, plant, equipment	12	8,264	10,860
Office rentals	21	14,625	14,437
Equipment rentals	1	820	493
Insurance premiums	7	4,771	5,355
Office supplies	12	8,398	8,453
IT and communication expenses	30	20,942	20,983
Lighting, heating and other services	10	6,970	6,937
Securities services	16	10,892	7,342
Employees' representation expenses and travel costs	8	5,847	8,025
Court and notary costs	-	180	349
Other services	5	3,178	4,186
Fees for audit of financial statements	1	954	902
Fines applied by agencies	-	24	31
Other property rentals	13	8,972	8,197
Other administrative expenses	16	11,108	15,138
Subcontracted services	200	139,120	136,991
Rendering of services paid to companies	141	98,178	92,525
External personnel expenses	11	7,594	8,261
Administration and maintenance of automatic teller machines	33	22,686	19,520
Others	15	10,662	16,685
Board of Directors' expenses	-	259	269
Directors' remunerations	-	249	246
Other expenses of the Board of Directors	-	10	23
Advertising	16	11,020	13,784
Taxes, property tax and contributions	30	20,271	17,148
Property taxes	4	2,488	2,049
Licenses	2	1,348	1,224
Other taxes	9	6,190	4,647
Contributions to SBIF	15	10,245	9,228
Total	398	276,615	279,880

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 31 – DEPRECIATION, AMORTIZATION AND IMPAIRMENT

a) For the years ended December 31, 2018 and 2017, amounts corresponding to charges to income for the concept of depreciation, amortization and impairment are detailed as follows:

	<u>12/31/2018</u>		<u>12/31/2017</u>
	<u>MUS\$</u>	<u>MCh\$</u>	<u>MCh\$</u>
Depreciation and amortization			
Depreciation of property, plant and equipment	61	42,304	37,417
Impairment of property, plant and equipment	-	-	-
Amortization of intangible assets	92	64,246	44,125
Impairment	-	-	-
Total	<u>153</u>	<u>106,550</u>	<u>81,542</u>

b) The rollforward of carrying amounts of accumulated amortization, depreciation and impairment as of January 1 to balances as of December 31, 2018 and 2017, is detailed as follows:

Concept	Depreciation, amortization and impairment								
	12/31/2018					12/31/2017			
	Property, plant and equipment	Intangible assets	Investment instruments	Total		Property, plant and equipment	Intangible assets	Investment instruments	Total
	MCh\$	MCh\$	MCh\$	MCh\$	MUS\$	MCh\$	MCh\$	MCh\$	MCh\$
Balances as of January 1,	224,532	245,726	-	470,258	677	188,942	202,796	-	391,738
Charges for depreciation, amortization and impairment for the year	42,304	64,246	-	106,550	153	37,417	44,125	-	81,542
Withdrawals / disposals	(6,395)	(228,272)	-	(234,667)	(337)	(1,786)	(1,057)	-	(2,843)
Other	59	(102)	-	(43)	-	(41)	(138)	-	(179)
Balances rollforward as of	260,500	81,598	-	342,098	493	224,532	245,726	-	470,258

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 32 – OTHER OPERATING INCOME AND EXPENSES

a) Other operating income:

For the years ended December 31, 2018 and 2017, the Bank presents “Other operating income” detailed as follows:

Concept	12/31/2018		12/31/2017
	MUS\$	MCh\$	MCh\$
Income from assets received in lieu of payment			
Gain on sale of assets received in lieu of payment	-	155	210
Other income	-	-	-
Subtotal	-	155	210
Release of provisions for contingencies			
Country risk provision	-	-	191
Special provisions for credits abroad	-	-	-
Additional provisions for loans	-	-	-
Other provisions for contingency	-	-	-
Subtotal	-	-	191
Other income			
Gain on sale of porperty, plant and equipment	1	532	44
Gain on sale from participation in company	11	7,347	-
Income from communications received - swift system	-	295	352
Regulatory compliance credit	-	212	739
Income from sales over foreclosed assets	5	3,300	2,087
Assignment of clients to external appraisers	1	376	394
Insurrance reimbursement	1	358	355
Property rental	1	457	208
Expenses recovery	-	297	223
Subsidy from new basic housing	-	45	81
Several recoveries	3	1,960	1,322
Recovery of sundry write-offs	-	-	1
Income from payment adjustment	-	185	573
Fines to suppliers	-	354	357
Other income	4	3,091	1,888
Subtotal	27	18,809	8,624
Total	27	18,964	9,025

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 32 – OTHER OPERATING INCOME AND EXPENSES (Continued)

b) Other operating expenses:

For the years ended 2018 and 2017, the Bank presents “Other operating expenses” detailed as follows:

	12/31/2018		12/31/2017
	MUS\$	MCh\$	MCh\$
Provisions and expenses from assets received in lieu of payment			
Provisions for assets received in lieu of payment	-	275	222
Write-offs of assets received in lieu of payment	4	2,258	1,798
Maintenance expenses of assets received in lieu of payment	-	28	29
Subtotal	4	2,561	2,049
Provisions for contingencies			
Provisions for country risk	3	2,028	-
Other contingency provisions	21	14,643	7,617
Subtotal	24	16,671	7,617
Other expenses			
Loss on sale of plant, property and equipment	-	4	23
Corrections of credit cards	4	2,998	2,479
Adjustment of payment or collection from prior year	1	959	502
Various write offs	5	3,388	3,500
Insurance premiums payments	-	1	19
Expenses from renegotiation of mortgage loan portfolio	-	97	225
Losses from failures in systems and processes	2	1,610	1,760
Losses from theft and robbery	2	1,143	1,388
Losses from operational fraud	10	7,141	5,781
Losses due to customer complaints	-	234	254
Credit card reward program	6	3,942	5,501
Loss to damage to assets	2	1,046	924
Interest and inflation-indexation leasing	2	1,132	919
Technology services received	2	1,193	689
Other expenses	7	5,170	705
Subtotal	43	30,058	24,669
Total	71	49,290	34,335

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 33 – TRANSACTIONS WITH RELATED PARTIES

In accordance with the provisions of the General Banking Law and the instructions set forth by the Superintendencia de Bancos e Instituciones Financieras, individuals or legal entities are considered to be associated when they are involved in the ownership or management of the institution directly or indirectly through third parties.

a) Group entities (consolidated in these Financial Statements)

Company and/or foreign Branch	12/31/2018			12/31/2017		
	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%
Sociedad de Servicios Transaccionales Caja Vecina S.A.	99.8494%	0.1506%	100.0000%	99.8494%	0.1506%	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.	99.8334%	0.1666%	100.0000%	99.8334%	0.1666%	100.0000%
Red Global S.A.	90.1000%	-	90.1000%	90.1000%	-	90.1000%
BancoEstado - Sucursal New York	100.0000%	-	100.0000%	100.0000%	-	100.0000%

b) Loans with related parties

Loans and accounts receivable, contingent loans and assets corresponding to trading and investing instruments associated to related parties are detailed as follows:

	12/31/2018						12/31/2017		
	Productive Companies		Investment Companies		Natural Persons		Productive Companies	Investment Companies	Natural Persons
	MUS\$	MCh\$	MUS\$	MCh\$	MUS\$	MCh\$	MCh\$	MCh\$	MCh\$
Loans and receivables									
Commercial loans	33	23,252	-	274	2	1,674	324	317	1,272
Mortgage loans	-	-	-	-	13	9,112	-	-	8,102
Consumer loans	-	-	-	-	2	1,579	-	-	1,528
Gross loans	33	23,252	-	274	17	12,365	324	317	10,902
Allowance for loan losses	-	(107)	-	-	-	(58)	(1)	-	(54)
Loans, net	33	23,145	-	274	17	12,307	323	317	10,848
Contingent credits:									
Total contingent credits	-	27	42	28,878	1	675	307	30,180	618
Allowance for contingent loans	-	-	-	(74)	-	(3)	(5)	(102)	(3)
Contingent loans, net	-	27	42	28,804	1	672	302	30,078	615
Acquired instruments:									
For negotiation	-	-	-	-	-	-	-	-	-
For investment	-	-	-	-	-	-	-	-	-

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 33 – TRANSACTIONS WITH RELATED PARTIES (Continued)

c) Other assets and liabilities with related parties

	12/31/2018		12/31/2017
	MUS\$	MCh\$	MCh\$
Assets			
Other Assets	-	199	104
Liabilities			
Demand deposits	72	50,260	48,700
Deposits and other loans	243	168,875	107,882
Other liabilities	-	47	41

d) Transactions with related parties

Type of income or expense	12/31/2018				12/31/2017	
	Income		Expenses		Income	Expenses
	MUS\$	MCh\$	MUS\$	MCh\$	MCh\$	MCh\$
Interest and inflation-indexation income (expense)	5	3,495	(1)	(870)	1,777	(299)
Income (expense) from commissions and services	-	282	-	-	174	-
Income (loss) from trading	-	-	-	-	-	-
Income (loss) from other financial transactions	-	-	-	-	-	-
Exchange differences	-	29	-	-	10	-
Expenses from operational support	-	-	(2)	(1,627)	-	(1,402)
Other expenses	-	-	-	(56)	-	(51)
Total	5	3,806	(3)	(2,553)	1,961	(1,752)

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 33 – TRANSACTIONS WITH RELATED PARTIES (Continued)

e) Contracts with related parties

Related parties	12/31/2018	12/31/2017
	Type of Contract	Type of Contract
1) Contracts over UF 1,000		
Isapre Fundación	Lease of office	Lease of office
Operadora de Tarjetas de Crédito Nexus S.A.	Back office services	Back office services
Transbank S.A.	Commission fee	Commission fee
Sociedad Operadora Camara Compensación Pago Alto Valor S.A.	Compensation chamber service	Compensation chamber service
2) Contracts less than UF 1,000		
Fundación Asistencial y de Salud	Lease of office	Lease of office

f) Payments to the Board of Directors and key management employees

For the years ended December 31, 2018 and 2017, remuneration received by key Management employees is detailed as follows:

	12/31/2018		12/31/2017
	MUS\$	MCh\$	MCh\$
Short term benefits to employees	7	4,557	4,651
Staff severance indemnities	1	492	11
Total	8	5,049	4,662

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 33 – TRANSACTIONS WITH RELATED PARTIES (Continued)

g) Key employees

As of December 31, 2018 and 2017, the Bank's key employees are detailed as follows:

	<u>12/31/2018</u>	<u>12/31/2017</u>
Position	Number of executives	Number of executives
Chairman	1	1
Vice President	1	1
Director	3	4
Labor Director	2	2
General Manager	1	1
Chief Attorney	1	1
Comptroller	1	1
Area Managers	10	12
General Managers of Subsidiaries	9	9
Total	29	32

h) Transactions with key employees and their related parties

For the years ended December 31, 2018 and 2017, the Bank has performed transactions with key employees and their related parties, whose results are detailed as follows:

	<u>12/31/2018</u>	<u>12/31/2017</u>
	Amounts of	Amounts of
	transactions of key	transactions of
	executives and	executives and
	related parties	related parties
	<u>MUS\$</u>	<u>MCh\$</u>
Credit cards and other services	2	1,422
Loans	-	78
Mortgage credits	-	9
Others	-	37
Total	2	1,546

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 34 – ASSETS AND LIABILITIES AT FAIR VALUE

“Fair value” is understood as the price that would be received for selling an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. For financial instruments without available market prices, fair values have been estimated using current values or other valuation techniques. These techniques are significantly affected by the assumptions used, including the discount rate. In this sense, the fair value estimates of certain financial assets and liabilities, cannot be justified by comparison to independent markets and, in many cases cannot be made at immediate placement.

In addition, the fair value estimates presented below do not have the intention of estimating the fair value of the Bank’s profits generated by its current or future business activities, and therefore do not represent the Bank’s value as a going concern.

The methods used to estimate fair value of financial instruments are detailed below:

a) Cash and due from banks:

The carrying amount of cash and due banks from deposits approximates their estimated fair value due to their current nature.

b) Transactions in the course of collection (assets and liabilities):

The carrying value of transactions in the course of collection approximates their estimated value due to their current nature.

c) Financial investments and bonds issued:

The estimated fair value of these financial instruments was determined using market values at prices quoted in the market for financial instruments with similar characteristics.

d) Loans and accounts receivable from customers, loans and advances to banks, deposits and other obligations, letters of credit issued, repurchase agreements and securities loans and other debts:

The fair values of these financial instruments are estimated using the analysis of discounted cash flows, derived from the settlement of contractual cash flows for each of them, at a market discount rate, which considers credit risk, when applicable.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 34 – ASSETS AND LIABILITIES AT FAIR VALUE (Continued)

e) Financial derivative contracts

The fair value of derivatives represents the estimated amount that the Bank, New York branch and subsidiaries expect to receive or pay to rescind the contracts and agreements, keeping in mind current interest rates and prices. Regarding the fair value of derivatives the Bank performs contrast price adjustment and adjustments for counterparty credit risk. In the case of contrast price adjustments (Bid/Ask) the Bank uses market information and incorporates it in the rate curves when making the assessment. For counterparty credit risk adjustments the Bank applies the criteria defined by the Compendium of Accounting Standards of the Superintendencia de Bancos e Instituciones Financieras for the “normal and substandard” portfolios, it takes the counterparty exposure and applies the expected loss factor over the fair value and this adjustments is recorded as a reduction in the fair value with effect in the Consolidated Statements of Income.

As of December 31, 2018 and 2017, estimated fair values of financial instruments are detailed as follows:

	12/31/2018						12/31/2017		
	Carrying amount		Estimated fair value		Difference		Carrying amount	Estimated fair value	Difference
	MUS\$	MCh\$	MUS\$	MCh\$	MUS\$	MCh\$	MCh\$	MCh\$	MCh\$
Assets									
Cash and due from banks	6,267	4,354,391	6,267	4,354,391	-	-	4,781,085	4,781,085	-
Transactions in the course of collection	532	369,632	532	369,632	-	-	186,484	186,484	-
Financial assets held for trading	3,156	2,192,921	3,156	2,192,921	-	-	2,311,304	2,311,304	-
Repurchase agreements and securities loans	485	337,027	485	336,953	-	(74)	323,000	322,937	(63)
Financial derivative contracts	1,163	808,201	1,163	808,201	-	-	675,191	675,191	-
Loans and advances to banks, net	905	628,908	1,038	720,956	133	92,048	607,882	934,488	326,606
Loans and accounts receivables from customers, net	33,450	23,240,012	39,746	27,614,592	6,296	4,374,580	21,848,261	25,472,419	3,624,158
Financial investments available for sale	8,649	6,008,764	8,649	6,008,764	-	-	5,200,635	5,200,635	-
Financial investments held to maturity	31	21,162	27	18,720	(4)	(2,442)	25,041	24,178	(863)
Total	54,638	37,961,018	61,063	42,425,130	6,425	4,464,112	35,958,883	39,908,721	3,949,838
Liabilities									
Current accounts and other demand deposits	13,730	9,539,516	13,730	9,539,516	-	-	9,024,024	9,024,024	-
Transactions in the course of payment	508	352,913	508	352,913	-	-	101,578	101,578	-
Repurchase agreements and securities loans	1,181	820,849	1,180	820,162	1	687	592,523	592,281	242
Times deposits and savings account	24,682	17,148,269	24,210	16,820,222	472	328,047	17,009,129	17,250,787	(241,658)
Financial derivative contracts	1,098	762,955	1,098	762,955	-	-	734,677	734,677	-
Obligations with banks	1,883	1,307,903	1,907	1,324,907	(24)	(17,004)	1,409,545	1,790,512	(380,967)
Debt instruments issued	10,408	7,231,410	9,511	6,607,667	897	623,743	6,166,010	5,614,506	551,504
Other financial obligations	25	17,297	20	13,804	5	3,493	28,825	27,545	1,280
Total	53,515	37,181,112	52,164	36,242,146	1,351	938,966	35,066,311	35,135,910	(69,599)

“Loans and advances to banks” and “Loans and accounts receivable from customers” are valued using market rates, subtracting credit risk provisions, if applicable.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 34 – ASSETS AND LIABILITIES AT FAIR VALUE (Continued)**Fair value measurement and hierarchy**

IFRS 13 establishes a fair value hierarchy, which prioritizes the valuation techniques used to measure fair value. The hierarchy gives top priority to unadjusted prices quoted in active markets for identical assets and liabilities (level 1 measurements) and the lowest priority to measurements that include significant unobservable inputs (level 3 measurements). The three levels of fair value hierarchy are detailed as follows:

- Level 1: inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. For these instruments there are observable market prices (internal rate of return, stock price, etc.), so no assumptions are needed to value.
- Level 2: inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. This category inputs include the following:
 - a) Quoted prices for similar assets or liabilities in active markets.
 - b) Quoted prices for identical or similar assets or liabilities in markets that are not active.
 - c) Inputs other than quoted prices that are observable for the asset or liability,
 - d) Inputs corroborated by the market.

The assets and liabilities classified in this level, correspond to financial instruments whose rates or quoted prices are obtained from market prices with the application of a model.

- Level 3: inputs are significant unobservable inputs for the asset or liability.

In this case, BancoEstado applies models recognized and validated in the financial industry to value financial instruments. With regard to fixed income instruments (IRF) and financial brokerage instruments (IIF), these are valued, applying the model developed by DICTUC S.A., a subsidiary of Pontificia Universidad Católica de Chile, which consists of valuing instruments in the portfolio with actual transaction prices. Should there be no prices for a specific instrument; the price reference model is applied, based on all information available on transactions for the day and all historical information recorded in Bolsa de Comercio de Santiago- Bolsa de Valores.

In the case of derivative instruments, the methodology applied corresponds to currency rate factors obtained from valid market sources and modeled using a 6-factor Svensson model, obtaining the rate curve with daily frequency for each currency, term and market where the Bank operates.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 34 – ASSETS AND LIABILITIES AT FAIR VALUE (Continued)

As of December 31, 2018 and 2017, the assets and liabilities measured at fair value, are detailed as follows.

		12/31/2018							
		Fair value measurements							
		Total		Prices in active markets for identical assets (level 1)		Other significant observable input (level 2)		Significant unobservable inputs (level 3)	
		MUS\$	MCh\$	MUS\$	MCh\$	MUS\$	MCh\$	MUS\$	MCh\$
Assets									
Financial assets held for trading		3,156	2,192,921	1,127	783,071	2,029	1,409,850	-	-
Financial derivative contracts		1,163	808,201	-	-	1,163	808,201	-	-
Financial investments available for sale		8,649	6,008,764	2,228	1,547,808	6,421	4,460,956	-	-
Total		12,968	9,009,886	3,355	2,330,879	9,613	6,679,007	-	-
Liabilities									
Financial derivative contracts		1,098	762,955	-	-	1,098	762,955	-	-
Total		1,098	762,955	-	-	1,098	762,955	-	-

		12/31/2017			
		Fair value measurements			
		Total	Prices in active markets for identical (level 1)	Other significant observable input (level 2)	Significant unobservable inputs (level 3)
		MCh\$	MCh\$	MCh\$	MCh\$
Assets					
Financial assets held for trading		2,311,304	515,296	1,796,008	-
Financial derivative contracts		675,191	-	675,191	-
Financial investments available for sale		5,200,635	1,023,304	4,177,331	-
Total		8,187,130	1,538,600	6,648,530	-
Liabilities					
Financial derivative contracts		734,677	-	734,677	-
Total		734,677	-	734,677	-

As of December 31, 2017 and 2018, transfers have been made between the fair value 1 and 2 hierarchical levels. For transfers to level 1, the Bank obtained prices from market transactions available for identical assets, with there being no need to use assumptions for their valuation. The transfers to level 2 involve instruments that have been valued considering market information in preference to market transactions, since none were available at the date of measure.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 34 – ASSETS AND LIABILITIES AT FAIR VALUE (Continued)

The transfers of levels are as follows:

Assets

Level 1

	Financial assets held for trading	Financial derivative contracts	Financial investments available for sale	Total
	MCh\$	MCh\$	MCh\$	MCh\$
Balance as of January 01, 2018	515,296	-	1,023,304	1,538,600
Changes in level 1 (*)	237,674	-	528,640	766,314
Transfers of levels:				
- Entry from level 2	30,933	-	26,038	56,971
- Exit to level 2	(832)	-	(30,174)	(31,006)
Balance as of December 31, 2018 MCh\$	783,071	-	1,547,808	2,330,879
Balance as of December 31, 2018 MUS\$	1,127	-	2,228	3,355
Balance as of January 01, 2017	164,070	-	638,210	802,280
Changes in level 1 (*)	352,586	-	431,124	783,710
Transfers of levels:				
- Entry from level 2	-	-	14,401	14,401
- Exit to level 2	(1,360)	-	(60,431)	(61,791)
Balance as of December 31, 2017 MCh\$	515,296	-	1,023,304	1,538,600

Level 2

	Financial assets held for trading	Financial derivative contracts	Financial investments available for sale	Total
	MCh\$	MCh\$	MCh\$	MCh\$
Balance as of January 01, 2018	1,796,008	675,191	4,177,331	6,648,530
Changes in level 2 (*)	(356,057)	133,010	279,489	56,442
Transfers of levels:				
- Entry from level 1	832	-	30,174	31,006
- Exit to level 1	(30,933)	-	(26,038)	(56,971)
Balance as of December 31, 2018 MCh\$	1,409,850	808,201	4,460,956	6,679,007
Balance as of December 31, 2018 MUS\$	2,029	1,163	6,421	9,613
Balance as of January 01, 2017	1,916,376	473,545	3,473,701	5,863,622
Changes in level 2 (*)	(121,728)	201,646	657,600	737,518
Transfers of levels:				
- Entry from level 1	1,360	-	60,431	61,791
- Exit to level 1	-	-	(14,401)	(14,401)
Balance as of December 31, 2017 MCh\$	1,796,008	675,191	4,177,331	6,648,530

(*) Changes are caused by maturities, purchase and sale of instruments and changes in their fair value.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 34 – ASSETS AND LIABILITIES AT FAIR VALUE (Continued)

Liabilities

Level 2

	Financial assets held for trading	Financial derivative contracts	Financial investments available for sale	Total
	MCh\$	MCh\$	MCh\$	MCh\$
Balance as of January 01, 2018	-	734,677	-	734,677
Changes in level 2 (*)	-	28,278	-	28,278
Transfers of levels:				
- Entry from level 1	-	-	-	-
- Exit to level 1	-	-	-	-
Balance as of December 31, 2018 MCh\$	-	762,955	-	762,955
Balance as of December 31, 2018 MUS\$	-	1,098	-	1,098
Balance as of January 01, 2017	-	400,720	-	400,720
Changes in level 2 (*)	-	333,957	-	333,957
Transfers of levels:				
- Entry from level 1	-	-	-	-
- Exit to level 1	-	-	-	-
Balance as of December 31, 2017 MCh\$	-	734,677	-	734,677

(*) Changes are caused by maturities, purchase and sale of instruments and changes in their fair value.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 34 – ASSETS AND LIABILITIES AT FAIR VALUE (Continued)**Offsetting Financial Assets and Liabilities:**

BancoEstado enters into financial derivative transactions with counterparties abroad, using the ISDA (International Swaps and Derivatives Association, Inc.) Master Agreement documentation, under the current legal jurisdiction of New York, USA, or London, England. The legal framework in these jurisdictions, together with the documentation specified, grant the Bank the right to accelerate the maturity of the transactions and then offset their net value in the event of the cessation of payments of the respective counterparty. In addition, BancoEstado has negotiated a supplementary appendix (CSA, Credit Support Annex) with some counterparties, including another credit mitigator, which involves paying margins on a certain threshold amount or maximum range of the net value of the transactions; and other clauses.

Details of the contracts susceptible to offsetting are as follows:

Fair Value in balance sheet	ISDA CONTRACTS		CONTRACTS WITH ISDA AND CSA		Net financial guarantees	Net fair value	
	Negative Fair Value Contracts with right to compensation	Positive Fair Value Contracts with right to compensation	Negative Fair Value Contracts with credit mitigator	Positive Fair Value Contracts with credit mitigator		MCh\$	MUS\$
MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MUS\$
Assets for financial derivative contracts as of December 31, 2018	808,201	(203,717)	217,548	(701,924)	404,279	296,066	809,780 1,166
Assets for financial derivative contracts as of December 31, 2017	675,191	(209,283)	127,060	(631,733)	279,384	191,514	836,026

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 35 – RISK MANAGEMENT**Introduction:**

The main purpose of risk management is to ensure the long-term stability and sustainability of the businesses undertaken by BancoEstado. This is achieved through the application of credit policies consistent with the Bank's commercial development, ensuring the existence of solid evaluation, approval and own risk management processes for bank operations in accordance with corporate governance management practices established by BancoEstado.

The credit process is carried out with effective counterparts in all the Bank's commercial segments, under a collective decisions scheme. In this sense, Corporate Risk Management is carried out independently from the commercial areas and encompasses management of the credit, market and liquidity risks faced by BancoEstado in its businesses and also makes proposals on policies, methodologies and procedures to be applied in risk management.

Therefore, the achievements in fulfilling the mission assigned to BancoEstado have been optimizing risk-return relationship, generating an increase in value of the institution.

Risk management structure:

Regarding the policies, methodologies, procedures manuals, contingency plans and limit structures, there is an allocation of specific responsibilities in respect to risk management, as follows:

Executive Committee: approves policies and methodologies and establishes exposure limits for these risks, which are reviewed at least once a year.

Financial Business Committee: responsible for assigning the limits defined by the Executive Committee and Management and managing the financial business.

Assets and Liabilities Committee: responsible for managing and controlling the Bank's assets and liabilities.

Internal Audit: responsible for ensuring compliance with the policies, limits and standards regulating the banking business.

Credit Committee: responsible for the approval of loans in accordance with the attributions matrix established for each segment.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 35 – RISK MANAGEMENT (Continued)

Main risks affecting the Bank:

1) Credit risk:

Credit risk is the risk that the Bank incurs a loss because its customers or counterparties do not comply with their contractual obligations.

Exposure to credit risks are managed in a centralized manner incorporating the Bank, subsidiaries and New York branch, through regular analysis of the capacity of debtors and potential debtors to comply with payments in accordance with the contractual terms of loans. This exposure is mitigated by obtaining real and personal guarantees. However, a proportion of these loans are unguaranteed; for example, consumer loans granted to individuals.

The Bank has segmented specialized areas based on company size and type of exposure, which actively participate at all stages of the loan process from risk assessment and approval of loans (through the respective committees), to monitoring and follow up of customers, up to managing debtors who present problems complying with all contractual payments and recovery of critical portfolio of debtors financially impaired, with clear definition of the policies, attributions and processes for the wholesale and retail segments.

The risk assessment in the wholesale banking segment is carried out on a case-by-case basis for debtors with individual assessment who represent 98% of this portfolio, through rating the debtor in the risk categories defined in Chapter B-1 of the Compendium of Accounting Standards of the Superintendencia de Bancos e Instituciones Financieras. The remaining customers are provisioned by collective assessment, which is based on models of probability of default.

Risk categorization in the retail banking segments is through different degrees of automation, with scoring tools for individually assessed loans and assessment guidelines in the case of small companies.

Models based on probability of default are used to determine provisions in the retail banking segment which consider behavior information, recovery and mitigation measures. These models can be viewed by product and by customer and are applied to all operations in the collectively evaluated portfolio, which allows for a global and integrated view of credit risk management.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 35 – RISK MANAGEMENT (Continued)

On the other hand, the Bank has strict controls over open positions in derivative contracts negotiated directly with its counterparts. In any case, the credit risk is limited to the fair value of contracts favorable to the Bank (active position), which only represents a small fraction of the notional values of these instruments. This exposure to credit risk is managed as part of the limits of loans to customers, together with potential exposures due to market fluctuations.

For contingent commitments, BancoEstado operates with various instruments whose credit risk exposure is not reflected in the Consolidated Statements of Financial Position, such as: guarantors and bonds, documentary letters of credit, guarantee deposits and commitments to grant loans.

Guarantees and securities represent an irrevocable payment obligation. Should a guaranteed customer not fulfill its obligations with third parties guaranteed by the Bank, the latter will make the corresponding payments, therefore these operations represent the same credit risk exposure as an ordinary loan.

Documentary letters of credit are documented commitments made by the Bank in representation of the customer, which are guaranteed by the shipped merchandise to which they are related and therefore have less risk than direct debt. Guarantee deposits correspond to contingent commitments that are made effective only if the customer does not comply with the performance of the work agreed upon with a third party, guaranteed by them.

It should be noted that the Bank establishes provisions to safeguard against potential losses in respect to the exposure of these contingent loans, duly weighted in accordance with the requirements of the SBIF in Chapter B-3 of the Compendium of Accounting Standards.

For financial instruments, the Bank measures the probability of not being able to collect from the issuers using internal and external ratings such as risk rating agencies that are independent from the Bank.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 35 – RISK MANAGEMENT (Continued)

Maximum exposure to financial credit risk:

The maximum exposure to credit risk for the different components of the Consolidated Statements of Financial Position including derivatives, not considering guarantees or other credit improvements is detailed as follows:

	Note	12/31/2018				12/31/2017	
		Exposure maximum gross		Exposure maximum net		Exposure maximum gross	Exposure maximum net
		MUS\$	MCh\$	MUS\$	MCh\$	MCh\$	MCh\$
Repurchase agreements and securities loans	7	485	337,027	-	-	323,000	-
Financial derivative contracts	8	1,163	808,201	1,163	808,201	675,191	675,191
Loans and advances to banks	9	910	632,242	905	628,908	609,219	607,882
Loans and accounts receivable from customers	10	34,449	23,934,547	33,450	23,240,012	22,531,470	21,848,261
Financial investments available for sale	11	8,649	6,008,764	8,649	6,008,764	5,200,635	5,200,635
Financial investments held to maturity	11	31	21,162	31	21,162	25,041	25,041
Other assets (*)	16	61	42,325	61	42,325	35,720	35,720
Contingent credits	22	6,708	4,660,681	6,628	4,605,376	4,537,496	4,494,786
Total		52,456	36,444,949	50,887	35,354,748	33,937,772	32,887,516

For further details of the maximum credit risk exposure and concentration for each type of financial risk, refer to the indicated notes.

(*) Corresponds to debts receivable from the government, commissions receivable and other receivables.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 35 – RISK MANAGEMENT (Continued)

The concentration of financial assets credit risk by industry is detailed as follows:

	12/31/2018				12/31/2017	
	Maximum exposure		Maximum exposure		Maximum exposure	Maximum exposure
	gross		net		gross	net
	MUS\$	MCh\$	MUS\$	MCh\$	MCh\$	MCh\$
Commercial Assets						
Manufacturing	1,453	1,009,579	1,424	989,171	903,021	878,421
Mining	469	325,654	447	310,453	483,627	467,819
Electricity, gas and water supply	1,174	815,581	1,136	789,393	667,462	647,824
Agriculture and cattle raising	988	686,650	947	657,686	592,656	564,349
Forestry	117	81,570	107	74,498	109,002	102,080
Fishing	99	68,949	90	62,346	73,921	63,269
Transport	1,314	913,155	1,247	866,258	940,791	895,133
Telecommunications	241	167,766	238	165,330	174,295	171,681
Construction	2,635	1,830,438	2,600	1,806,586	1,736,110	1,707,414
Retail	2,960	2,056,332	2,860	1,987,233	2,199,289	2,128,951
Services	15,880	11,032,746	15,305	10,633,416	9,784,624	9,404,035
Others	8,273	5,747,048	8,125	5,645,059	5,562,920	5,477,816
Subtotal	35,603	24,735,468	34,526	23,987,429	23,227,718	22,508,792
Mortgage and consumer assets						
Mortgage	13,808	9,593,676	13,573	9,430,155	8,851,862	8,695,385
Consumer	3,045	2,115,805	2,788	1,937,164	1,858,192	1,683,339
Subtotal	16,853	11,709,481	16,361	11,367,319	10,710,054	10,378,724
Total	52,456	36,444,949	50,887	35,354,748	33,937,772	32,887,516

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 35 – RISK MANAGEMENT (Continued)

The risk categories for the individual portfolio are described as follows:

Normal risk portfolio

Normal risk portfolio includes debtors, whose payment capacity allows them to fulfill their obligations and commitments and based on the assessment of their economic-financial situation, it is not perceived that this situation will change. Therefore, these are debtors without appreciable risks, whose payment capacity allows them to cover their obligations under the agreed upon conditions and who would continue to have good behavior even when faced with unfavorable business, economic or financial situations.

The probabilities of default, loss given default and expected loss for each category are detailed below:

Type of portfolio	Debtor category	Probability of default %	Loss given 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 debtors with financial difficulties or significant worsening of their payment capacity and with respect to which there are reasonable doubts regarding full reimbursement of principal and interest under the contractually agreed upon terms, showing little probability to fulfill their current financial obligations.

This portfolio also includes debtors, which in the last twelve months have been more than 30 days overdue, shown poor payment behavior with the Bank or with third parties (delinquency of significant amounts during the year, overdue of less than 90 days).

The probabilities of default, loss given default and expected loss for each category are detailed as follows:

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 35 – RISK MANAGEMENT (Continued)

Type of portfolio	Debtor category	Probability of default %	Loss given default %	Expected loss (allowance %)
Substandard 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

The following formula established by the Superintendencia de Bancos e Instituciones Financieras must be used for the purpose of calculating the provision for the normal and substandard portfolios:

$$\text{Provisioning for}_{debtor} = (E - GE) * (PD_{debtor} / 100) * (LGD_{debtor} / 100) + GE * (PD_{guarantor} / 100) * (LGD_{guarantor} / 100)$$

Where:

- E = Exposure subject to provisioning (Loans + contingent loans) – guarantees (collateral).
 GE = Guaranteed exposure.
 PD = Probability of default.
 LGD = Loss given default.

Notwithstanding the above, the Bank must maintain a minimum allowance percentage of 0.50% on loans and contingent loans in the Normal Portfolio.

Non-performing portfolio

The non-performing portfolio includes debtors and their loans for which recovery is considered remote, since they show an impaired or no payment capacity. These debtors are those with evident indications of possible bankruptcy and those for which a forced debt restructuring is necessary to prevent their delinquency (payment overdue) and in addition any debtor that has loans payment overdue for more than 90 days (“past-due”) or is in judicial collection and whose source of payment is supported in the guarantees established. Should there be concrete information to justify it, the present value of recoveries that might be obtained by exerting the collection actions, net of the expenses associated with them can also be considered.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 35 – RISK MANAGEMENT (Continued)

To apply this percentage, first of all an expected loss rate must be estimated by deducting from the amount of the exposure those credits that are recoverable through the enforcement of the financial and real estate guarantees that secure them, according to sections b) and c) of number 4.1 of the property delivered in leasing indicated in number 4.2 of this Chapter and, in case of having specific information justifying this, also by deducting the present value of the amounts that can be recovered through judicial collection actions, net of the expenses associated with these actions. This loss rate must be classified in one of the six categories defined according to the range of losses actually expected by the bank for all the operations of the same borrower.

“Concrete information” is considered to be any recovery by judicial means that is duly supported with a report from the Bank’s Legal Department (“Fiscalía”) determining the effectiveness of the collection. This must be free of any encumbrance or preferential creditors, leading to an actual payment flow.

In addition, debtors who have shown negative past performance with the Bank or Financial System (FS) are considered to be non-performing. This includes: social security and tax infringement, returned and not cleared notes, debt past due with the Financial System (FS), write-offs in the Financial System (FS), etc. as well as debtors under default or showing a preventive judicial arrangement.

There are six categories for debtors with non-performing loans and each of them is associated with a range of expected loss relating to commercial loans and commercial lease operations of the customer as a whole; therefore it is necessary to determine the guarantee coverage. It should be noted that all contingent loans must be fully considered, since they are classified as non-performing loans.

These categories and their range of loss as estimated by the Bank and the allowance percentages that finally must be applied on exposure amounts are detailed as follows:

Type of portfolio	Debtor category	Range of expected loss	Allowances (%)
Non-performing Portfolio	C1	More than 0 up to 3%	2
	C2	More than 3 % up to 20%	10
	C3	More than 20% up to 30%	25
	C4	More than 30% up to 50%	40
	C5	More than 50% up to 80%	65
	C6	More than 80%	90

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 35 – RISK MANAGEMENT (Continued)

The following should be considered for calculation purposes:

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

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

Where

E = Amount of the exposure.

R = Recoverable amount.

PP = Provision percentage (according to the category of the expected loss rate).

The Bank maintains a level of additional provisions, approved by the Executive Committee, aimed at the application of portfolio assessment models for the purpose of safeguarding against unpredictable economic fluctuations that might affect the macroeconomic environment or the situation of a specific economic sector, in accordance with the Bank's policies. The additional provisions include a mechanism for determining anti-cyclical provisions (accumulation of provisions in commercial, consumer and mortgage portfolios) in order to protect against possible periods of recession and portfolio concentration due to mortgage loans.

As of December 31, 2018, the Bank has constituted additional provisions that represents 1.94% of risk-weighted assets (1.91% as December 31, 2017).

As of December 31, 2018 the additional provisions accrued for commercial loans, mortgage loans and consumption loans amount to MCh\$ 143,029, MCh\$ 316,476 and MCh\$ 28,900, as of December 31, 2017, MCh\$ 103,529, MCh\$ 319,476 and MCh\$ 25,900, respectively.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 35 – RISK MANAGEMENT (Continued)

Quality of loans by class of financial asset

Quality of loans described in conformity with the Compendium of Accounting Standards of the Superintendencia de Bancos e Instituciones Financieras, are detailed as follows:

12/31/2018	INDIVIDUAL								GROUP				
	A1 MCh\$	A2 MCh\$	A3 MCh\$	A4 MCh\$	A5 MCh\$	A6 MCh\$	B1 MCh\$	B2 MCh\$	Impaired portfolio MCh\$	Normal MCh\$	Impaired MCh\$	Total MCh\$	Total MUS\$
Loans and advances to banks	-	41	117,111	515,090	-	-	-	-	-	-	-	632,242	910
Loans and accounts receivable from customers	189,174	1,328,206	2,196,066	1,923,905	1,523,811	1,240,649	292,026	114,979	205,238	13,261,227	1,659,266	23,934,547	34,449
Total	189,174	1,328,247	2,313,177	2,438,995	1,523,811	1,240,649	292,026	114,979	205,238	13,261,227	1,659,266	24,566,789	35,359

12/31/2017	INDIVIDUAL								GROUP				
	A1 MCh\$	A2 MCh\$	A3 MCh\$	A4 MCh\$	A5 MCh\$	A6 MCh\$	B1 MCh\$	B2 MCh\$	Impaired portfolio MCh\$	Normal MCh\$	Impaired MCh\$	Total MCh\$	
Loans and advances to banks	12,002	119,401	453,020	24,796	-	-	-	-	-	-	-	609,219	
Loans and accounts receivable from customers	361,873	1,310,330	1,939,728	1,920,215	1,463,287	1,278,365	246,542	57,766	171,196	12,296,256	1,485,912	22,531,470	
Total	373,875	1,429,731	2,392,748	1,945,011	1,463,287	1,278,365	246,542	57,766	171,196	12,296,256	1,485,912	23,140,689	

Note: Values are presented gross

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 35 – RISK MANAGEMENT (Continued)

Analysis of aging of debts that are overdue but not impaired by class of financial asset is detailed as follows:

Aging:

Overdue 1: 1 to 29 days overdue

Overdue 2: 30 to 59 days overdue

Overdue 3: 60 to 89 days overdue

12/31/2018	Overdue 1 MCh\$	Overdue 2 MCh\$	Overdue 3 MCh\$	Total	
				MCh\$	MUS\$
Loans and advances to banks	-	-	-	-	-
Commercial loans	135,313	6,638	1,614	143,565	207
Mortgage loans	2,751	997	358	4,106	6
Consumer loans	6,061	2,339	3,924	12,324	18
Total	144,125	9,974	5,896	159,995	231

12/31/2017	Overdue 1 MCh\$	Overdue 2 MCh\$	Overdue 3 MCh\$	Total MCh\$
Loans and advances to banks	-	-	-	-
Commercial loans	79,971	6,242	1,927	88,140
Mortgage loans	2,456	881	279	3,616
Consumer loans	5,018	2,097	3,208	10,323
Total	87,445	9,220	5,414	102,079

Note: Values are presented gross

The fair value of guarantees on impaired loans amounts to MCh\$ 32,820 and MCh\$ 26,303 for the individual portfolio and MCh\$ 622,281 and MCh\$ 525,395 for the collective portfolio as of December 31, 2018 and 2017, respectively.

In order to mitigate credit risk, the Bank actively uses different types of guarantees such as: mortgages, bonds, guarantors and bonds and leased assets. Regarding the guarantees required for financial transactions, particularly agreements, which are those with credit risk, the underlying asset is considered as a guarantee, which usually corresponds to government commercial paper.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 35 – RISK MANAGEMENT (Continued)

It should be noted, that the coverage of provisions and guarantees over the impaired portfolio is of 90% and 89% as of December 31, 2018 and 2017, respectively. The difference in respect to the total corresponds to expected recoveries using collections actions. For this purpose, the Bank has considered the guarantees adjusted to the historical recovery values obtained by BancoEstado.

2) Liquidity risk:

Liquidity risk is the risk that an entity finds it difficult to obtain the funds necessary to fulfill its financial commitments. On a daily basis BancoEstado requires cash funds for draws on bank savings and current accounts, payment of time deposits, payment of guarantees, disbursements on operations with derivatives and others.

The limits established to control liquidity are detailed as follows:

- (i) Liquidity gap of up to 30 days for all currencies, up to one time the basic capital.
- (ii) Liquidity gap of up to 30 days for foreign currencies, up to one time the basic capital.
- (iii) Liquidity gap of up to 90 days for all currencies, two times the basic capital.

Considering the nature of its operations, the Bank adopts the adjusted methodology for the purpose of measuring its mismatches and compliance with regulation limits. This methodology allows the Bank to consider that one part of demand deposits, time deposits and retail customer accounts tend to remain at the Bank for longer periods than contractual deposits, which the Bank models with sufficient reliability. In Note 36, the breakdown by assets and liabilities is presented.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 35 – RISK MANAGEMENT (Continued)

Positions of assets, liabilities and contingent loans by currency, as of December 31, 2018 and 2017 are detailed as follows:

12/31/2018	US\$ MCh\$	Euro MCh\$	Yen MCh\$	Pounds MCh\$	Others MCh\$	Pesos MCh\$	UF MCh\$	Total	
								MCh\$	MUS\$
Assets									
Cash and due from banks	2,828,683	21,862	1,844	430	2,505	1,499,067	-	4,354,391	6,267
Transactions in the course of collection	147,296	8,274	2,941	348	1,896	208,877	-	369,632	532
Financial assets held for trading	1,609	-	-	-	-	1,432,494	758,818	2,192,921	3,156
Repurchase agreements and securities loans	-	-	-	-	-	337,027	-	337,027	485
Financial derivative contracts	4,567	-	-	-	-	803,634	-	808,201	1,163
Loans and advances to banks, net	628,908	-	-	-	-	-	-	628,908	905
Loans and accounts receivable from customers, net	2,260,456	13,769	1,787	8	84,384	7,239,019	13,640,589	23,240,012	33,450
Investment securities	997,827	-	-	-	-	4,741,777	290,322	6,029,926	8,680
Other assets	471,513	739	-	-	17,796	1,713,432	57,031	2,260,511	3,254
Total assets	7,340,859	44,644	6,572	786	106,581	17,975,327	14,746,760	40,221,529	57,892
Liabilities									
Current accounts and other demand deposits	320,831	12,049	16	148	1,069	9,205,392	11	9,539,516	13,730
Transactions in the course of payment	144,438	15,717	-	347	892	191,519	-	352,913	508
Repurchase agreements and securities loans	4,868	-	-	51	221	815,709	-	820,849	1,181
Time deposits and savings accounts	5,121,933	4,605	-	-	-	9,059,733	2,961,998	17,148,269	24,682
Financial derivative contracts	3,232	-	-	-	-	759,723	-	762,955	1,098
Obligations with banks	1,205,690	99,122	1,191	-	-	1,900	-	1,307,903	1,883
Debt instruments issued	1,122,306	203,759	497,118	-	436,695	146,175	4,825,357	7,231,410	10,408
Other financial obligations	1,419	-	-	-	-	15,878	-	17,297	25
Other liabilities	176,621	2	-	-	125	1,129,432	20,653	1,326,833	1,910
Total liabilities	8,101,338	335,254	498,325	546	439,002	21,325,461	7,808,019	38,507,945	55,425
Net assets (liabilities)	(760,479)	(290,610)	(491,753)	240	(332,421)	(3,350,134)	6,938,741	1,713,584	2,467
Contingent credits	678,358	14,820	141	247	-	3,285,680	681,435	4,660,681	6,708
Net position of assets (liabilities)	(82,121)	(275,790)	(491,612)	487	(332,421)	(64,454)	7,620,176	6,374,265	9,175

For the maturity analysis of assets and liabilities, see Note 36.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 35 – RISK MANAGEMENT (Continued)

12/31/2017	US\$ MCh\$	Euro MCh\$	Yen MCh\$	Pounds MCh\$	Others MCh\$	Pesos MCh\$	UF MCh\$	Total MCh\$
Assets								
Cash and due from banks	2,335,071	15,143	2,641	2,081	1,528	2,424,621	-	4,781,085
Transactions in the course of collection	37,625	11,902	1,152	424	1,742	133,639	-	186,484
Financial assets held for trading	32,200	-	-	-	-	2,185,966	93,138	2,311,304
Repurchase agreements and securities loans	-	-	-	-	-	323,000	-	323,000
Financial derivative contracts	2,972	-	-	-	-	672,219	-	675,191
Loans and advances to banks, net	491,245	-	-	-	-	116,637	-	607,882
Loans and accounts receivable from customers, net	2,119,754	9,569	6,173	6	77,837	7,137,982	12,496,940	21,848,261
Investment securities	410,314	-	-	-	-	4,643,930	171,432	5,225,676
Other assets	266,187	3,858	-	83	13,258	1,591,341	56,626	1,931,353
Total assets	5,695,368	40,472	9,966	2,594	94,365	19,229,335	12,818,136	37,890,236
Liabilities								
Current accounts and other demand deposits	321,227	15,557	9	197	382	8,686,054	598	9,024,024
Transactions in the course of payment	62,072	2,377	1,486	1,561	7,819	26,263	-	101,578
Repurchase agreements and securities loans	42	-	-	48	-	592,433	-	592,523
Time deposits and savings accounts	3,662,952	4,283	-	-	-	10,543,978	2,797,916	17,009,129
Financial derivative contracts	896	-	-	-	-	733,781	-	734,677
Obligations with banks	1,307,101	99,358	67	-	155	2,864	-	1,409,545
Debt instruments issued	680,947	189,390	491,528	-	116,526	102,130	4,585,489	6,166,010
Other financial obligations	13,413	-	-	-	-	15,412	-	28,825
Other liabilities	55,848	1	-	-	-	1,092,570	21,049	1,169,468
Total liabilities	6,104,498	310,966	493,090	1,806	124,882	21,795,485	7,405,052	36,235,779
Net assets (liabilities)	(409,130)	(270,494)	(483,124)	788	(30,517)	(2,566,150)	5,413,084	1,654,457
Contingent credits	615,282	15,494	839	233	-	3,260,679	644,969	4,537,496
Net position of assets (liabilities)	206,152	(255,000)	(482,285)	1,021	(30,517)	694,529	6,058,053	6,191,953

For the maturity analysis of assets and liabilities, see Note 36.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 35 – RISK MANAGEMENT (Continued)**3) Market risk:**

It is the risk that the future fair value or cash flows of a financial instrument might fluctuate as a consequence of changes in market prices.

BancoEstado has defined losses due to changes in interest rates, exchange rates and market prices that affect the fair value of its positions as market risk. This definition encompasses all of BancoEstado and incorporates methodologies that are internationally accepted and validated by different instances of regulating and accounting supervision.

Regarding the main market risk components, the Bank's greatest source of risk is from active positions in indexed local currency and when looking at risk components by product the greatest source of risk are mortgage loans whose average term is approximately 13 years.

Conscious of the importance of appropriate administration and market risk management to achieve its strategic objectives, BancoEstado, subsidiaries and New York branch have a corporate policy for administration and control which establishes general guidelines necessary to maintain a level of market risk limited to the limits defined for the financial business sector.

The Chilean Central Bank establishes a regulatory limit for the sum of interest rate risks in the trading positions and currency risk. At an individual level, the Bank must observe these limits on an ongoing basis and report weekly to the Superintendencia de Bancos e Instituciones Financieras on its risk positions and compliance with those limits. It must also report monthly to the SBIF regarding risk positions consolidated with its subsidiaries and New York Branch. The regulatory limit establishes that effective equity must be sufficient to cover the sum of 8% of credit risk and market risk weighted assets.

In addition BancoEstado uses regulatory models to manage its risks through recognized models and methodologies such as the Value at Risk (VaR) model with one-day horizons and a 99% level of reliance, used to measure market risks and credit risk of derivative instruments.

To the application of VaR as management and risk measurement tool the Bank also incorporates market price sensitivity analysis for currencies, interest rates and price indices.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 35 – RISK MANAGEMENT (Continued)

Results of measuring these risk management instruments are reported daily to the Bank's senior management. The Bank has systems to manage financial risks developed by external suppliers and others developed with its own resources. The report structure includes daily reports that show exhaustive monitoring and control of exposures to market risks.

As of December 31, 2018 and 2017, exposure consolidated to interest rate risk in the trading positions of BancoEstado and subsidiaries, with the methodology described in Chapter III B-2 of the Compendium of Financial Standards of the Chilean Central Bank, was US\$ 96 million and US\$ 120 million, respectively. For currency risk it was US\$ 11 million and US\$ 22 million, respectively.

The VaR applied with a 99% level of reliance is estimated and reported daily and provides the potential loss that would result if the current positions remained unaltered during one business day.

The measurement is subjected to retrospective testing to verify that daily losses effectively occurred do not exceed the VaR, more than thrice every 100 days. The result is regularly monitored to verify the validity of assumptions, hypothesis and adjustment of the parameters and risk factors used to calculate the VaR.

Since the VaR is an integral part of the Bank's market risk control, the VaR maximum exposure limits to market risks are established by the Executive Committee both for trading and investment operations.

4) Operational risk and Technology risk:

BancoEstado in its model of Comprehensive Management of Operational and Technological Risk adopts as definitions:

Operational Risk

Risk is the risk of loss due to the inadequacy or failure in processes, employees and/or internal systems or due to external events. This definition includes legal risk, but excludes strategic risk, and the risk of image and reputation, as framed in the proposal of the Basel Committee.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 35 – RISK MANAGEMENT (Continued)**Technology Risk**

It is defined as a threat that exploits the vulnerability of an asset and can cause damage. This risk is related to the use, ownership, operation, distribution and adoption of information technologies (IT).

Information Security

These are all the activities aimed at preserving the completeness, confidentiality and availability of the information and of the assets associated with its treatment, regardless of how it may be stored (it comprises physical security, technological security and cyber-security).

Cybersecurity

This is the set of actions designed for protecting the information located in the cyberspace, as well as the infrastructure that backs it up. Their purpose is to avoid or to mitigate the adverse effects of inherent risks and threats on information security and on the entity's business continuity.

Aware of the importance of an adequate administration of these risks to achieve its strategic objectives, BancoEstado and its subsidiaries count on a corporate policy for the comprehensive administration of all its operational and technological risks, which establish the necessary general guidelines and responsibilities associated with the structure of operational and technological risk in conformity with rules and regulation in force, in order to maintain acceptable levels of risk for the institution and contribute to achieve the strategic guidelines of the Bank.

The policy includes specific allocation of responsibilities for managing operational and technological risks, which refer to:

- The Executive Committee is responsible for approving the Integral Policy for Operational and Technological Risk Management at BancoEstado as well as the management strategy; it approves the structure and responsibilities for the management of operational and technological risk and approves the outsourcing of services, according to its matrix of attributions.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 35 – RISK MANAGEMENT (Continued)

- The Risk Committee is responsible for the review and proposal of the operational risk policies, knowing the existing risks and approving exposure levels (limits), performing overall risk follow up and its evolution, knowing the regulatory changes and proposing action plans (if required), validating the internal models of risk assessment (construction guidelines, application, performance) analysis of the risk program and budget, following up on the compliance with the observations made by the Superintendencia de Bancos e Instituciones Financieras in matters of operational and technological risk. In addition, in terms of operational risk, it monitors the performance of the technological platform and the incidents occurred.
- Those responsible for processes are the main risk managers, in charge of handling, identifying and continuously evaluating the operational and technological risk of their process, in the following areas: Processes, Business Continuity, Technology Risk (Information Security and CyberSecurity) and Services outsourcing.
- Contract Managers, are those responsible for participating, within the scope of the attribute assigned to administer, monitor, coordinate and execute all necessary actions to comply with those stipulated in the contract or purchase order, in order to comply with internal or external requirements), from the request for authorization to the execution of the activities related to the outsourcing of an activity.
- The Operational and Technological Risk Department is responsible for ensuring the implementation and operation of the operational and technological risk management model at BancoEstado.
- The Information Security Officer is responsible for defining and managing the information security strategy, implementing and maintaining the regulatory and governance framework for Information Security, being in contact with external organizations on matters of Information Security, reporting to the Executive General Manager any relevant situation associated with information security, promoting, overseeing and monitoring action plans concerning the main activities related to Information Security, and generating a training and education program. in everything related to Information Security at the different levels of the organization, and carrying out high-level monitoring of the main activities related to the Information Security, so that to ensure the fulfillment of Specific Security Standards. This document is part of the Comprehensive Policy of Operating and Technological Risk.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 35 – RISK MANAGEMENT (Continued)

- The Internal Audit Department is responsible for auditing the design and compliance of the comprehensive operational and technological risk policy of the different areas of the Bank and the Corporate Risk Department. In addition, its audit the operational risk management process in the Bank and evaluates the effectiveness of the controls established to mitigate operational risks.

BancoEstado manages its risks through a model that considers the impact that they could cause the Bank and the likelihood of occurrence of the risk events it identifies and the effectiveness of their controls. For the most critical risks identified, which are not at tolerated levels, action plans are established to enable their mitigation.

In addition, BancoEstado has integrated monitoring of operational and technological risk to its normal activities and has increased the construction of appropriate indicators that provide warning of risk and of future losses. In addition, the Bank has a loss and information database. All this allows it to learn about and quantify the risks, which significantly favors continuous improvement processes.

BancoEstado has established controls to guarantee the security of the information and cybersecurity, mainly focused on safeguarding its confidentiality, integrity and availability, also including its associated assets, regardless of how it is presented. In this sense, the Bank has made efforts to classify information into the different levels of required protection. On the same matter a special emphasis has been placed on the management of risks associated with cybersecurity and it has a Master Plan and an Official Security.

Under the business continuity scope, the Bank has defined four scenarios that could prevent it from complying with all or part of its obligations. In this area, it has developed a formal methodology that considers within its stages evaluating the impact and critical nature of its services and products, through specific tools; the definition of strategies related to prevention, containment and recovery; as well as periodic tests of such strategies. Likewise, the first primary, self-contained and certificated TIER 3 Data Center has been implemented according to the highest world-class standards, and work is ongoing to have it available as one back-up with the same certifications.

In the area of operational and technological risk management for outsourcing services, the Bank has policies, standards and procedures, as well as an environment that enables it to identify, assess, control, mitigate, monitor and report the most significant risks associated with this subject, in accordance with the provisions of the Superintendencia de Bancos e Instituciones Financieras Updated Compilation of Norms (RAN) Chapter 20-7.

In an effort to raise awareness in the organization with respect to operational and technological risk, BancoEstado conducts dissemination activities, for each participant in the organization to assume and understand the responsibilities of his/her area.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 35 – RISK MANAGEMENT (Continued)

For the generation of new products and/or relevant services, the new products are subjected to risk analysis prior to their implementation, in order to prevent the introduction of risks that are outside acceptable levels

In the field of operating incidents communication, BancoEstado has defined a process in order to report on the operating incidents affecting or compromising the business continuity, the funds or resources of the entity and / or of its clients, the quality of service or the image of the institution, according to that set forth in the Regulations of the Superintendencia de Bancos e Instituciones Financieras, Updated Compilation of Standards (RAN), Chapter 20-8.

In the field of Security of the information management, BancoEstado manages its Security of the information incidents in order to detect, investigate and generate mitigation actions for the impact of these events, and to ensure the confidentiality, availability and integrity of its information assets. Additionally, it reports on the Security of the information incidents to the other entities, so that the latter may take the necessary measures for detection, response and recovery of services, thus being able to reduce the probability from negative impacts to spread throughout the system.

Accounting hedges

BancoEstado uses accounting hedges to manage risks of changes in fair value and cash flows, which risk is exposed to in the undertaking of its businesses. Derivative instruments are used to hedge against changes in the value of the assets and liabilities in the balance sheet. The treatment of this type of instrument is regulated in accordance with IAS 39. Market risk management is in charge of designing and validating the effectiveness of the hedges. The results of the hedges are informed to the Assets and Liabilities Committee. As of December 31, 2018, the Company maintains notional in cash flow hedges for MCh\$ 3,011,110 (MCh\$ 2,796,015 as of December 31, 2017), of net investments on a foreign operation hedges for MCh\$ 232,539 (MCh\$ 208,585 as of December 31, 2017) and of fair value hedges for MCh\$ 908,563 (MCh\$ 829,083 as of December 31, 2017). For more details, see Note 8.

Capital requirement

- a) In accordance with the General Banking Law, the Bank must maintain a minimum ratio of effective equity over consolidated risk weighted assets of 8%, net of provisions required and a minimum ratio of basic risk capital over total consolidated assets of 3%, net of required provisions. For this purpose, effective equity is determined from capital and reserves or basic capital with the following adjustments:
 - a. Subordinated bonds are added with a limit of 50% of basic capital and,
 - b. Deducting the balance of assets corresponding to goodwill or surcharges paid and premiums paid and investments in companies that do not participate in consolidation.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 35 – RISK MANAGEMENT (Continued)

c. Adding additional provisions up to 1.25% of its risk weighted assets.

Assets are weighted according to risk categories, to which a risk percentage is assigned based on the capital amount necessary to support each of those assets. Five risk categories are applied (0%, 10%, 20%, 60% and 100%). For example, cash, deposits in other banks and financial instruments issued by the Chilean Central Bank, have 0% of risk, which means that in accordance with current regulations, no capital is required to support these assets. Property, plant and equipment have 100% risk, which means that the Bank must have minimum capital equivalent to 8% of the amount of these assets.

All derivative instruments traded outside the stock exchange are considered in the determination of risk assets, as a conversion factor over notional values, thus obtaining the amount of exposure to credit risk (or “credit equivalent”). Contingent loans outside the Consolidated Statements of Financial Position are also considered as “credit equivalents”, for weighting.

As of December 31, 2018 and 2017, the ratio of consolidated totals and consolidated risk weighted assets is as follows

	12/31/2018				12/31/2017	
	Consolidated assets		Risk weighted Assets		Consolidated assets	Risk weighted Assets
	MUS\$	MCh\$	MUS\$	MCh\$	MCh\$	MCh\$
Assets of balance sheet (net of provisions)						
Cash and due from banks	6,267	4,354,391	-	-	4,781,085	-
Transactions in the course of collection	532	369,632	227	157,525	186,484	78,250
Financial assets held for trading	3,156	2,192,921	693	481,329	2,311,304	516,904
Repurchase agreements and securities loans	485	337,027	485	337,027	323,000	323,000
Financial derivative contracts	1,163	808,201	1,037	720,822	675,191	843,354
Loans and advances to banks, net	905	628,908	903	627,654	607,882	513,205
Loans and accounts receivable from customers, net	33,450	23,240,012	27,548	19,139,784	21,848,261	18,097,538
Financial investments available for sale	8,649	6,008,764	1,132	786,574	5,200,635	602,917
Financial investments held to maturity	31	21,162	3	2,116	25,041	2,504
Investments in associates	23	16,174	23	16,175	13,882	13,900
Intangible assets	285	198,308	285	198,308	167,984	167,984
Property, plant and equipment	555	385,285	555	385,285	365,031	365,031
Current taxes	6	4,271	1	427	2,788	279
Deferred taxes	1,225	850,689	122	85,069	819,205	81,921
Other assets	1,160	805,784	1,160	805,784	562,463	562,464
Off balance sheet assets						
Contingent credits	3,471	2,411,722	2,025	1,406,964	2,341,247	1,383,234
Total risk weighted assets			36,199	25,150,843		23,552,485

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 35 – RISK MANAGEMENT (Continued)

For the purposes of calculating the indicators of capital sufficiency, according to Chapter 12-1 of the Collection of Updated Standards of the Superintendencia de Bancos e Instituciones Financieras , total consolidated assets are MCh\$ 42,696,279 and MCh\$ 40,638,526 as of December 31, 2018 and 2017, respectively.

	12/31/2018			12/31/2017	
	MUS\$	MCh\$	Ratio %	MCh\$	Ratio %
Basic capital	2,453	1,704,191	3.99%	1,645,624	4.05%
Effective equity	4,024	2,795,780	11.12%	2,599,357	11.04%

b) With respect to the Consolidated Financial Statements December 31, 2018 and 2017 year-end, the Bank contemplates the following information regarding its capital management:

- 1) Standards pursuant to basic capital, effective equity and risk weighted assets, referred to in No. 66 and No. 67 of the General Banking Law, regulation of the minimum own resources that national credit institutions must maintain at a consolidated level and particularly establishing that the effective equity of a bank cannot be less than 8% of its risk weighted assets, net of provisions required, whereas its basic capital must be equal to or higher than 3% of its total assets, net of provisions required.
- 2) The BancoEstado policy in this area has been to always strictly comply with the mentioned regulatory capital requirements, in accordance with the inherent credit risks assumed in its activity and the environment in which it operates, pursuing maximum efficiency in that area. In addition, it has maintained sufficient capital and comfortable leeway of its own resources that allow it to adequately face possible economic and/or financial shocks in order to continuously ensure institutional solvency and public confidence.
- 3) Due to its nature of state-owned company, the Bank cannot access external sources of capital. Therefore, the sources of its equity growth are exclusively capitalization of annual net income and the eventual extraordinary capital contributions that the enactment of a law require.
- 4) During 2018 MCh\$ 60,250.5 was paid as a dividend on fiscal benefit.
- 5) The Bank considers the equity capital attributable to the Bank's owners as that indicated in its Consolidated Statements of Financial Position.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 36 – MATURITY OF ASSETS AND LIABILITIES

As of December 31, 2018, maturity of assets and liabilities is detailed as follows:

	Up to 30 Days MCh\$	From 31 to 90 days MCh\$	From 91 to 180 days MCh\$	From 181 and 365 days MCh\$	From 1 and 3 years MCh\$	More than 3 years MCh\$	Total	
							MCh\$	MUS\$
Assets								
Cash and due from banks	4,354,391	-	-	-	-	-	4,354,391	6,267
Transactions in the course of collection	369,632	-	-	-	-	-	369,632	532
Financial assets held for trading	357,438	327,801	1,135,882	231,232	80,107	60,461	2,192,921	3,156
Repurchase agreements and securities loans	334,394	2,633	-	-	-	-	337,027	485
Financial derivative contracts	51,780	47,108	122,546	49,008	232,170	305,589	808,201	1,163
Loans and advances to banks, net	627,746	-	1,162	-	-	-	628,908	905
Loans and accounts receivable from customers, net	1,146,784	1,482,229	1,459,901	1,893,279	4,586,649	12,671,170	23,240,012	33,450
Financial investments available for sale	2,350,076	1,231,222	1,043,280	794,754	443,880	145,552	6,008,764	8,649
Financial investments held to maturity	580	308	11,788	5,230	2,179	1,077	21,162	31
Total assets	9,592,821	3,091,301	3,774,559	2,973,503	5,344,985	13,183,849	37,961,018	54,638
Liabilities								
Current accounts and other demand deposits	9,539,516	-	-	-	-	-	9,539,516	13,730
Transactions in the course of payment	352,913	-	-	-	-	-	352,913	508
Repurchase agreements and securities loans	706,416	87,425	27,008	-	-	-	820,849	1,181
Time deposits and savings account	8,694,668	3,947,635	2,653,321	1,526,927	296,094	29,624	17,148,269	24,682
Financial derivative contracts	73,022	51,539	118,061	38,695	187,297	294,341	762,955	1,098
Obligations with banks	459,867	27,811	289,343	364,680	112,049	54,153	1,307,903	1,883
Debt instruments issued	251,312	7,839	34,590	154,598	1,698,721	5,084,350	7,231,410	10,408
Other financial obligations	15,889	-	1,408	-	-	-	17,297	25
Other liabilities	422,452	2,697	4,045	8,090	4,538	66,686	508,508	732
Total liabilities	20,516,055	4,124,946	3,127,776	2,092,990	2,298,699	5,529,154	37,689,620	54,247

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 36 – MATURITY OF ASSETS AND LIABILITIES (Continued)

As of December 31, 2017, maturity of assets and liabilities is detailed as follows:

	Up to 30 Days MCh\$	From 31 to 90 days MCh\$	From 91 to 180 days MCh\$	From 181 and 365 days MCh\$	From 1 and 3 years MCh\$	More than 3 years MCh\$	Total MCh\$
Assets							
Cash and due from banks	4,781,085	-	-	-	-	-	4,781,085
Transactions in the course of collection	186,484	-	-	-	-	-	186,484
Financial assets held for trading	24,293	411,191	1,294,104	494,456	50,624	36,636	2,311,304
Repurchase agreements and securities loans	323,000	-	-	-	-	-	323,000
Financial derivative contracts	126,037	50,042	74,319	89,549	47,613	287,631	675,191
Loans and advances to banks, net	383,792	94,117	94,890	28,600	6,483	-	607,882
Loans and accounts receivable from customers, net	1,378,107	1,274,097	1,577,873	1,999,041	4,273,501	11,345,642	21,848,261
Financial investments available for sale	2,014,475	903,905	736,739	1,260,855	223,934	60,727	5,200,635
Financial investments held to maturity	28	28	44	67	9,003	15,871	25,041
Total assets	9,217,301	2,733,380	3,777,969	3,872,568	4,611,158	11,746,507	35,958,883
Liabilities							
Current accounts and other demand deposits	6,750,881	16,823	31,209	15,082	-	2,210,029	9,024,024
Transactions in the course of payment	32,555	48,981	20,042	-	-	-	101,578
Repurchase agreements and securities loans	589,944	2,579	-	-	-	-	592,523
Time deposits and savings account	5,647,864	3,535,406	2,821,138	1,252,863	47,297	3,704,561	17,009,129
Financial derivative contracts	101,465	57,787	104,138	128,971	59,290	283,026	734,677
Obligations with banks	333,611	28,294	199,539	674,794	69,579	103,728	1,409,545
Debt instruments issued	97,010	5,344	165,832	367,339	1,320,932	4,209,553	6,166,010
Other financial obligations	9,643	8,055	4,843	3,333	2,951	-	28,825
Other liabilities	204,804	26,700	75,981	1,700	2,301	25,742	337,228
Total liabilities	13,767,777	3,729,969	3,422,722	2,444,082	1,502,350	10,536,639	35,403,539

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

(In millions of Chilean Pesos – MCh\$)

(Translation of the Consolidated Financial Statements originally issued in Spanish – See Note 1b))

NOTE 37 – SUBSEQUENT EVENTS

- Law No. 21,130 was published effective as of January 12, 2019, which streamlines the banking regulations.
- On January 14, 2019, as approved by the Assets and Liabilities Committee of BancoEstado, Banco del Estado de Chile Sucursal New York was instructed to remit on February 5, 2019 the profits generated during the year 2018, which amounted to US\$ 13,136,572.20.
- On January 28, 2019, the Bank placed a bond abroad for € 44 million, 6 years term, with principal due January 28, 2025, at an annual interest rate of 1.169%, with an annual interest payments starting on January 28, 2020.
- On February 7, 2019, the Bank placed a bond for U.F. 3.0 million, 4 years and 6 months term, at an annual interest rate of 2.80%, with semi- annual interest payments and a single payment of principal on maturity.
- On February 14, 2019, the Bank placed a bond for U.F. 3.0 million, 4 years and 8 months term, at an annual interest rate of 2.80%, with semi- annual interest payments and a single payment of principal on maturity.
- No other subsequent events between January 1 and February 26, 2019, issuance date of the accompanying Financial Statements that could affect significantly the presentation of these Consolidated Financial Statements have occurred.

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Chief Finance Officer

JUAN COOPER ÁLVAREZ
Chief Executive Officer

INGRID GARAFULIC EBERL
Accounting Manager

ÓSCAR GONZÁLEZ NARBONA
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