

Consolidated Financial Statements

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Consolidated Financial Statements for the years ended
December 31, 2009 and 2008

Consolidated Financial Statements

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

December 31, 2009 and 2008

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

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

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

We have audited the consolidated statements of financial position of Banco del Estado de Chile and subsidiaries as of December 31, 2009 and 2008 and the consolidated opening statements of financial position as of January 1, 2008, and the corresponding consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years ending December 31, 2009 and 2008. The preparation of these financial statements (including the related notes) are the responsibility of the Management of Banco del Estado de Chile. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Chile. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our 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, 2009 and 2008 and as of January 1, 2008, the results of their operations, their comprehensive income, and the changes in shareholders' equity and cash flows for the years ending December 31, 2009 and 2008, in accordance with Accounting Principles issued by the Superintendency of Banks and Financial Institutions.

As is indicated in Note 3 to the consolidated financial statements, on November 9, 2007 the Superintendency of Banks and Financial Institutions issued the new "Compendium of Accounting Standards," which contains the accounting and reporting standards for Banks, which have been applied for these purposes since January 1, 2009. The financial statements for 2008 and the statement of opening consolidated financial position have been reformulated for comparative purposes.

Our audit also comprehended the translation of Chilean peso amounts into U.S. dollar amounts and we are not aware of any modifications that should be made for such translation to be in conformity with the basis stated in Note 1.2 c. Such U.S. dollar amounts are presented solely for the convenience of readers outside Chile.



February 22, 2010

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Consolidated Statements of Financial Position

As of December 31, 2009 and 2008 and the opening balances as of January 1, 2008

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

ASSETS	NOTES	31.12.2009	31.12.2009	31.12.2008	01.01.2008
		MUS\$ (Note 1.2.c)	MCh\$	MCh\$	MC\$h
Cash and deposits in banks	6	2,286	1,159,475	1,513,788	968,739
Unsettled transactions	6	342	173,604	333,064	143,098
Trading investments	7	603	305,684	187,059	285,227
Investments under resale agreements	8	109	55,416	5,958	5,760
Financial derivative contracts	9	437	221,389	572,793	200,390
Interbank loans	10	101	50,969	270,521	101,722
Loans and accounts receivable from customers	11	21,245	10,773,582	9,181,582	7,861,304
Available for sale investments	12	6,540	3,316,640	2,545,341	3,175,525
Held to maturity investments	12	276	139,935	170,774	185,839
Investments in other companies	13	8	3,927	4,982	4,259
Intangibles	14	47	23,830	14,963	8,531
Property, plant and equipment	15	454	230,005	238,893	225,435
Current taxes	16	-	-	45,022	-
Deferred taxes	16	573	290,532	259,224	202,967
Other assets	17	293	148,540	187,418	114,825
TOTAL ASSETS		33,314	16,893,528	15,531,382	13,483,621
LIABILITIES					
Deposits and other demand liabilities	18	7,116	3,608,754	3,194,867	3,162,614
Unsettled transactions	6	185	93,783	283,533	78,401
Investments under repurchase agreements	8	827	419,329	356,604	891,380
Time deposits and other time liabilities	18	14,099	7,149,387	6,331,499	5,006,901
Financial derivative contracts	9	459	232,590	351,470	185,695
Interbank borrowings	19	1,419	719,533	632,390	245,419
Issued debt instruments	20	6,319	3,204,316	3,216,568	2,922,944
Other financial liabilities	20	23	11,570	3,585	14,304
Current taxes	16	368	186,690	-	71,776
Deferred taxes	16	124	62,914	198,947	69,031
Provisions	21	408	207,096	145,034	153,419
Other liabilities	22	123	62,624	113,116	89,717
TOTAL LIABILITIES		31,470	15,958,586	14,827,613	12,891,601
EQUITY					
Equity attributable to the owners of the Bank:					
Capital	24	549	278,497	4,000	4,000
Reserves	24	1,300	659,181	594,048	543,727
Valuation accounts	24	(12)	(6,094)	(2,384)	(7,408)
Retained earnings:					
Net income for the year	24	102	51,686	108,968	52,969
Less: Provision for distribution of net income of the year	24	(102)	(51,686)	(2,371)	(2,648)
		1,837	931,584	702,261	590,640
Minority interest		7	3,358	1,508	1,380
TOTAL EQUITY		1,844	934,942	703,769	592,020
TOTAL LIABILITIES AND EQUITY		33,314	16,893,528	15,531,382	13,483,621

The accompanying notes 1 to 39 are an integral part of these consolidated financial statements.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Consolidated Statements of Income

As of and for the years ended December 31, 2009 and 2008

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

	NOTES	31.12.2009 MUS\$ (Note 1.2.c)	31.12.2009 MCh\$	31.12.2008 MCh\$
Interest income	25	1,286	652,017	1,459,866
Interest expense	25	(338)	(171,380)	(956,439)
Net interest income		948	480,637	503,427
Fee and commission income	26	318	161,290	137,669
Fee and commission expense	26	(43)	(21,614)	(14,897)
Net fee and commission income		275	139,676	122,772
Net income from financial operations	27	(256)	(129,596)	347,243
Foreign exchange gain (loss), net	28	347	175,967	(359,666)
Other operating income	33	65	32,763	59,219
Total operating income		1,379	699,447	672,995
Provisions for loan losses	29	(289)	(146,487)	(99,862)
NET OPERATING PROFIT		1,090	552,960	573,133
Personnel salaries and expenses	30	(497)	(252,160)	(238,636)
Administrative expenses	31	(239)	(121,347)	(107,709)
Depreciation and amortization	32	(67)	(34,088)	(26,331)
Other operating expenses	33	(80)	(40,212)	(4,874)
NET OPERATING EXPENSES		(883)	(447,807)	(377,550)
OPERATING INCOME		207	105,153	195,583
Income from investment in other companies	13	-	(219)	1,543
Income before tax		207	104,934	197,126
Income tax expense	16	(89)	(44,869)	(80,792)
NET INCOME FOR THE YEAR		118	60,065	116,334
Attributable to:				
Equity holders of the Bank	24	102	51,686	108,968
Minority interest	24	16	8,379	7,366
		118	60,065	116,334

The accompanying notes 1 to 39 are an integral part of these consolidated financial statements.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

As of and for the years ended December 31, 2009 and 2008

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

	Capital MCh\$	Reserves MCh\$	Valuation accounts		Income taxes MCh\$	Net Income for the year MCh\$	Provision for distribution of net income of the year MCh\$	Total attributable to equity holders of the Bank MCh\$	Minority interest MCh\$	Total Equity MCh\$
			Available for sale Investments MCh\$	Translation difference Branch New York MCh\$						
equity as of December 31, 2007	4,000	539,838	(17,227)	(3,577)	9,819	52,969	-	585,822	1,380	587,202
effect of first application accounting										
change net of deferred taxes	-	3,889	-	3,577	-	-	-	7,466	-	7,466
adjustment Circular No. 3433 (Note 3) distribution of income	-	-	-	-	-	-	(2,648)	(2,648)	-	(2,648)
equity at January 01, 2008	4,000	543,727	(17,227)	-	9,819	52,969	(2,648)	590,640	1,380	592,020
transfer of 2007 income to reserves	-	52,969	-	-	-	(52,969)	-	-	-	-
dividends paid	-	(2,648)	-	-	-	-	2,648	-	(7,238)	(7,238)
provision for distribution of net income for the year	-	-	-	-	-	-	-	-	-	-
variation of available for sale investments	-	-	-	-	-	-	(2,371)	(2,371)	-	(2,371)
translation differences Branch NY net income for the year	-	-	3,117	-	(1,776)	-	-	1,341	-	1,341
	-	-	-	3,683	-	-	-	3,683	-	3,683
	-	-	-	-	-	108,968	-	108,968	7,366	116,334
equity as of December 31, 2008	4,000	594,048	(14,110)	3,683	8,043	108,968	(2,371)	702,261	1,508	703,769
transfer of 2008 net income to reserves	-	108,968	-	-	-	(108,968)	-	-	-	-
dividends paid	-	(47,412)	-	-	-	-	2,371	(45,041)	(7,637)	(52,678)
variation of available for sale investments	-	-	15,751	-	(8,978)	-	-	6,773	-	6,773
cash flow hedge	-	-	-	-	-	-	-	-	-	-
translation difference Branch NY	-	-	-	(6,906)	-	-	-	(6,906)	-	(6,906)
capital increase	274,497	-	-	-	-	-	-	274,497	-	274,497
sale of ownership interest in subsidiary	-	-	-	-	-	-	-	-	1,108	1,108
provision for distribution of net income for the year	-	-	-	-	-	-	(51,686)	(51,686)	-	(51,686)
net income for the year	-	-	-	-	-	-	-	51,686	8,379	60,065
	-	-	-	-	-	51,686	-	51,686	8,379	60,065
equity as of December 31, 2009	278,497	655,604	1,641	(3,223)	(935)	51,686	(51,686)	931,584	3,358	934,942
equity as of December 31, 2009 - MUS\$ (Note 1.2.c))	549	1,293	3	(6)	(2)	102	(102)	1,837	7	1,844

The accompanying notes 1 to 39 are an integral part of these consolidated financial statements.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

As of and for the years ended December 31, 2009 and 2008

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

	<u>31.12.2009</u>	<u>31.12.2009</u>	<u>31.12.2008</u>
	MUS\$	MCh\$	MCh\$
	(Note 1.2,c)		
Net operating profit	1,090	552,960	573,133
Net operating expenses	(883)	(447,807)	(377,550)
OPERATING INCOME	207	105,153	195,583
Income from investments in other companies	-	(219)	1,543
Income before tax	207	104,934	197,126
Income tax expense	(89)	(44,869)	(80,792)
NET INCOME FOR THE YEAR	118	60,065	116,334
OTHER COMPREHENSIVE INCOME:			
Available for sale investments	31	15,751	3,117
Exchange differences in translation of foreign transactions	(14)	(6,906)	3,683
OTHER COMPREHENSIVE INCOME BEFORE INCOME TAXES	17	8,845	6,800
Income tax on comprehensive loss	(17)	(8,978)	(1,776)
TOTAL OTHER COMPREHENSIVE INCOME FOR THE YEAR	-	(133)	5,024
CONSOLIDATED COMPREHENSIVE INCOME FOR THE YEAR	118	59,932	121,358
Attributable to:			
Equity holders of the Bank	102	51,553	113,992
Minority interest	16	8,379	7,366
	118	59,932	121,358

The accompanying notes 1 to 39 are an integral part of these consolidated financial statements.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Consolidated Statements of Cash Flows

As of and for the years ended December 31, 2009 and 2008

(In million of Chilean pesos – MCh\$ and in millions of US dollars – MUS\$)

	31.12.2009 MUS\$ (Note 1.2.c)	31.12.2009 MCh\$	31.12.2008 MCh\$
CAS FLOWS FROM OPERATING ACTIVITIES			
NET INCOME FOR THE YEAR	118	60,065	116,334
Debits (credits) to income not representing cash flows:			
Depreciation and amortization	67	34,088	26,331
Provisions for loan losses	354	179,435	100,233
Adjustment to market-to-market of trading investments	456	231,402	(207,494)
(Gain) loss from investments in companies	1	219	(1,543)
(Gain) loss from sales of assets received in lieu of payment	-	(19)	(31)
(Gain) loss from sales of property, plant and equipment	-	105	11
(Gain) loss on sale of permanent investments	(25)	(12,449)	-
Write-off of assets received in lieu of payment	1	631	2,200
Other debits (credits) that do not represent cash flows	150	76,060	26,239
Net variation of interests, adjustments and commissions accrued over assets and liabilities	(324)	(164,479)	(73,073)
Changes in assets and liabilities affecting operating cash flows:			
(Increase) decrease of trading investments	(232)	(117,503)	99,034
(Increase) in loans	(1,856)	(941,421)	(488,290)
(Increase) decrease in other credit operations	440	223,128	(168,434)
Net (increase) of other assets and liabilities	(279)	(141,764)	(272,936)
Increase of debits in checking accounts	48	24,460	1,164
Increase of time deposits	1,850	938,181	1,117,412
Increase (decrease) of other time liabilities	268	135,862	(4,369)
Increase (decrease) of other obligations and through documents	126	64,053	(535,170)
Redemption of letters of credit	(1,164)	(590,367)	(570,576)
Increase (decrease) of loans obtained from local banks	(11)	(5,584)	629
Increase (decrease) of loans obtained from foreign banks	(128)	(64,803)	380,658
Increase of loans obtained from the Central Bank	308	156,076	-
Net cash flows provided by (used in) operating activities	168	85,376	(451,671)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Sale of held to maturity and available for sale investments	2,103	1,066,565	295,184
Purchase of property, plant and equipment	(145)	(73,287)	(47,575)
Sale of property, plant and equipment	2	1,142	1,354
Investments in companies	-	4	-
Sale of investments in other companies	27	13,556	-
Dividends received from investments in other companies	1	398	506
Sale of assets received in lieu of payment	1	650	334
Net cash flows provided by investing activities	1,989	1,009,028	249,803
CASH FLOWS FROM FINANCING ACTIVITIES:			
Capital increases	541	274,497	-
Bond issuance	430	217,907	399,556
Repayment of bonds	(14)	(6,937)	(15,024)
Payment of dividend to Government of previous year net income	(93)	(47,412)	(2,648)
Net cash flows provided by financing activities	864	438,055	381,884
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENT	3,021	1,532,459	180,016
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	3,532	1,791,072	1,611,056
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	6,553	3,323,531	1,791,072

The accompanying notes 1 to 39 are an integral part of these consolidated financial statements.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
as of December 31, 2009 and 2008

NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES

1.1 – GENERAL INFORMATION

Background of the Bank and Subsidiaries

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

The Organic Law of *Banco del Estado de Chile*, Law Decree No. 2.079 of 1977, establishes that the Bank is an autonomous government company, with its own legal status and equity, with indefinite term, exclusively subject to the supervision of the Superintendency of Banks and Financial Institutions and related with the Government through the Treasury Department. Therefore, Banco del Estado de Chile does not issue shares as it is governed by the previously mentioned Organic Law.

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

The headquarters of the Bank are located at Avda. Bernardo O'Higgins N°1111, Santiago. Chile.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
as of December 31, 2009 and 2008

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

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

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

- **BancoEstado S.A. Corredores de Bolsa**, a closely held Corporation, incorporated on August 17, 1989, as a stock agency, that became a stock broker on June 10, 1992. On January 19, 1990, it obtained its registration as a stock broker and a stock agency in the Superintendency of Securities and Insurance, under register No. 0137. Its main purpose is the trading of publicly-offered securities on behalf of third parties as for its own account.

- **BancoEstado S.A. Administradora General de Fondos**, a closely held corporation, formed on June 23, 1997 and authorized by Resolution No. 272 dated on August 20, 1997, of the Superintendency of Securities and Insurance, whose exclusive purpose was to administer house savings. On April 25, 2003, through Exempt Resolution No. 105, the Superintendency of Securities and Insurance approved the by-laws of *BancoEstado S.A. Administradora de Fondos para la Vivienda*, consisting of changing its corporate name to *BancoEstado S.A. Administradora General de Fondos*, and its purpose was the administration of all kinds of funds referred to in Article 220 of Law N°18.045 on Capital Markets. On December 3, 2008, Banco del Estado de Chile entered into a Sale Agreement for the sale of 4,999 shares out of the total of 10,000 shares of this subsidiary with BNP Paribas Investment Partners, equivalent to 49.99% of its equity interest. The sale of its equity interests became effective on January 2, 2009.

- **BancoEstado Corredores de Seguros S.A.**, was incorporated as a limited liability company on August 4, 1999. Its by-laws were modified on September 13, 2004, becoming a closely held corporation. This company is regulated by the Superintendency of Securities and Insurance. Its purpose is the remunerated intermediation of all kinds of insurance ruled by the Law Decree No. 251 of 1931, with any national insurance entities domiciled in the country and to provide related insurance contracting advisory services.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
as of December 31, 2009 and 2008

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

BancoEstado has a strategic alliance with Metlife Chile Inversiones Ltda. for the development of the insurance business, incorporating this company into the ownership of BancoEstado Corredores de Seguros S.A. in a 49.9% of the equity interest. Such alliance includes the participation in the management and development of products and businesses. In addition, an Earn Out clause amounting to UF1,447,306 was included, which was fully recognized as income at year-end 2009.

- **BancoEstado Servicios de Cobranza S.A.** is a closely held corporation, incorporated on September 9, 1999, and registered at the Superintendency of Banks and Financial Institutions on August 10, 1999 under No. 752. Its exclusive objective is to collect on its own account or on behalf of third parties all kinds of credit documents, whether through pre-judicial, judicial or extrajudicial means.

- **BancoEstado Microempresas S.A. Asesorías Financieras** was incorporated on July 23, 1996, and is subject to the regulations of the Superintendency of Banks and Financial Institutions. Its exclusive purpose is to provide support services to the banking business in terms of financial advisories to microenterprises.

- **BancoEstado Centro de Servicios S.A.** was incorporated on November 13, 2004, with the sole purpose of carrying out legal and operational activities related to those referred to in No. 1 of Article 69 of the General Banking Law, except for those related to entering into contracts for checking accounts and deposits operations.

- **BancoEstado Contacto 24 Horas S.A.** was incorporated on December 13, 2001, its purpose is to provide services, by using remote and/or virtual communication means, telemarketing, technical assistance, information of products and services, etc., and in general all those services focused on developing and keeping commercial relationships with the customers of BancoEstado and its subsidiaries.

- **Sociedad de Servicios Transaccionales Caja Vecina S.A.** was created on October 16, 2006. Its sole and exclusive purpose is to carry out all the activities, legal and operational acts related to those referred to in No. 1 of Art. 69 of the General Banking Law, except for those related to entering into contracts for checking accounts and deposits operations.

- **BancoEstado Capital de Riesgo S.A.** is a closely held corporation, incorporated on May 7, 2008. The exclusive purpose of the company is the administration of private venture capital investment funds regulated by Law No. 18,815, and complemented by Law No. 20,190. The company is registered at the Securities Register of the Superintendency of Securities and Insurance, under No. 1,023.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
as of December 31, 2009 and 2008

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

- **Sociedad de Promoción de Productos Bancarios S.A.**, is a closely held corporation, incorporated on May 7, 2008. Its sole and exclusive purpose is the promotion of products and services of the Bank and its subsidiaries. This company is subject to the regulations of the Superintendency of Banks and Financial Institutions.

- **Banco del Estado de Chile Branch New York**, whose banking license was issued on July 25, 2005, by the authorities of the State of New York, authorizing Banco del Estado de Chile the opening and operation of a branch in that city. Its operation started on October 5, 2005. Its commercial orientation is towards Chilean customers, corporations, entities and institutions with products and services for foreign trade, such as letters of credit, discounts and payment orders, commercial loans in foreign currencies, exchange operations, risks hedging, etc. The branch fully depends on its parent company.

1.2 – SIGNIFICANT ACCOUNTING POLICIES

a) Accounting period

The consolidated financial statements (hereinafter, the “financial statements”) cover the years ended December 31, 2009 and 2008.

b) Basis of presentation

These consolidated financial statements have been prepared in accordance with the Compendium of Accounting Standards issued by the Superintendency of Banks and Financial Institutions (hereinafter referred to as “SBIF”), which in accordance with Article No.15 of the General Banking Law establishes that according to legal regulations, the banks must use the accounting criteria established by the SBIF and for issues not addressed by them and insofar as they do not contradict such standards, they must use generally accepted accounting principles, which correspond to the technical standards issued by the Chilean Institute of Accountants, which coincide with the International Financial Reporting Standards, as issued by the International Accounting Standards Board (“IASB”).

If there are any discrepancies between the accounting principles and the accounting standards issued by the SBIF (“Compendium of Accounting Standards”), the latter will prevail.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
as of December 31, 2009 and 2008

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

In accordance with Circular No. 3,410 of November 9, 2007 of the “Compendium of Accounting Standards”, the Superintendency of Banks and Financial Institutions, together with other superintendencies and other regulatory agencies in Chile agreed to a convergence plan to the International Financial Reporting Standards (“IFRS”) in order to internationalize the financial reporting models for entities in Chile. As part of this strategic plan, through Circular 3,410 of November 9, 2007, subsequently supplemented by Circular 3,443 dated on August 21, 2008, the SBIF issued its “Compendium of Accounting Standards”, which contain the new accounting and reporting standards for the finance industry applicable beginning on January 1, 2009, considering the transitional provisions stipulated in Chapter E of the Compendium.

The transition date of BancoEstado was January 1, 2008. The Bank has prepared its opening statement of financial position in conformity with these standards as of such date. Consequently, the date of adoption of the new standards by the Bank and its subsidiaries is January 1, 2009. These financial statements were approved by the Board of Directors on February 22, 2010.

The new standards incorporate the following relevant aspects:

- Significant changes in the accounting policies, valuation criteria and presentation of financial statements.
- A significant increase of the information provided in the notes to the financial statements.

In Note N° 3 “Accounting changes – first adoption of International Financial Reporting Standards in accordance with the specific instructions of the Superintendency of Banks and Financial Institutions and the Compendium of Accounting Standards of the SBIF”, a reconciliation between the opening and closing balances of the statement of financial position for the year ended December 31, 2008 is disclosed. The corresponding statements of income during that year, which, therefore, are included in the financial statements of the Bank corresponding to the year 2008, and the corresponding balances of this year-end, in accordance with the new standards are also disclosed.

The notes to the financial statements contain additional information to those presented in the consolidated statements of financial position, in the consolidated statements of income, the consolidated statements of comprehensive income, the consolidated statements of changes in net equity and the consolidated statement of cash flows. The notes provide narrative descriptions or disaggregations of these statements in a clear, relevant, reliable and comparable manner.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
as of December 31, 2009 and 2008

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

c) Convenience translation into U.S. dollars

The Bank maintains its accounting records and prepares its consolidated financial statements in Chilean pesos (its functional and presentation currency). The translations of the Chilean peso amounts into U.S. dollar amounts are included solely for the convenience of the readers outside Chile and have been made at the rate of Ch\$507.1 per US\$1.00 at the December 31, 2009. This translation should not be construed as representing that the Chilean peso amounts actually represent or have been, or could be, converted into U.S. dollars at the above a rate or at any other rate.

d) Information regarding 2008

The information included in these financial statements related to 2008, is presented solely for comparative purposes, with the information of 2009 and, consequently, it does not coincide with the consolidated annual financial statements of BancoEstado and its subsidiaries for the year 2008 prepared in accordance with previous standards.

e) Consolidation criteria

The consolidated financial statements incorporate the statements of the Bank, its New York Branch and subsidiaries as of and for the years ended December 31, 2009 and 2008 and include the necessary adjustments and reclassifications to the financial statements of its New York Branch and subsidiaries to bring their accounting policies in line with those applied by the Bank, in accordance with the Compendium of Accounting Standards issued by the Superintendency of Banks and Financial Institutions.

Intercompany balances and any unrealized gains or losses from intercompany transactions are eliminated in full during the preparation of the consolidated financial statements. In 2009, the assets, liabilities and operating results of the subsidiaries represented a 5.4%, 5.7% and 20.3%, respectively (4.5%, 4.7% and 7.3% in 2008), out of the total consolidated assets, liabilities and operating results. The unrealized gains and losses from transactions with equity method accounted investments in associates are eliminated to the extent of the Bank's interest in the relevant associate.

The companies in which BancoEstado participates are divided in:

- **Controlled entities**

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

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
as of December 31, 2009 and 2008

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

The entities over which the Bank has the ability to exercise control, owns significant participation and which are part of the consolidation of the financial statements as of December 31, 2009 and 2008, are presented in the following table:

Company	Ownership interest					
	December 31, 2009			December 31, 2008		
	Direct	Indirect	Total	Direct	Indirect	Total
BancoEstado S.A. Corredores de Bolsa	99.9996%	-	99.9996%	99.9996%	-	99.9996%
BancoEstado Corredora de Seguros S.A.	50.1000%	-	50.1000%	50.1000%	-	50.1000%
BancoEstado Servicios de Cobranza S.A. (*)	99.9000%	0.1000%	100.0000%	99.9000%	0.1000%	100.0000%
BancoEstado S.A. Administradora General de Fondos (3)	50.0100%	-	50.0100%	99.9900%	0.0100%	100.0000%
BancoEstado Contacto 24 Horas S.A. (*)	99.9000%	0.1000%	100.0000%	99.9000%	0.1000%	100.0000%
BancoEstado Microempresas S.A. Asesorías Financieras (*)	99.9000%	0.1000%	100.0000%	99.9000%	0.1000%	100.0000%
BancoEstado Capital de Riesgo S.A. (1)	99.9000%	0.1000%	100.0000%	99.9000%	0.1000%	100.0000%
Sociedad de Servicios Transaccionales Caja Vecina S.A. (*)	99.9000%	0.1000%	100.0000%	99.9000%	0.1000%	100.0000%
BancoEstado Centro de Servicios S.A. (*)	99.9000%	0.1000%	100.0000%	99.9000%	0.1000%	100.0000%
Sociedad de Promoción de Productos Bancarios S.A. (2)(*)	99.9000%	0.1000%	100.0000%	99.9000%	0.1000%	100.0000%
BancoEstado - Sucursal Nueva York (*)	100.0000%	-	100.0000%	100.0000%	-	100.0000%

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

- (1) The subsidiary company BancoEstado Capital de Riesgo S.A. (Formerly BancoEstado Administradora de Fondos de Inversión de Capital de Riesgo S.A.) was constituted on May 7, 2008. Its purpose is to manage private risk capital investment funds regulated by Law 18.815, supplemented by Law 20.190.
- (2) The subsidiary company Sociedad de Promoción de Productos Bancarios S.A. was incorporated on March 7, 2008. Its purpose is to sell products or services offered by Banco del Estado de Chile and its subsidiaries, or companies supporting its line of business.
- (3) On December 03, 2008, Banco del Estado de Chile signed an agreement with BNP Paribas Investment Partners, subsidiary of BNP Paribas (France), for the sale of 4,999 shares out of the total of 10,000 shares of its subsidiary Banco Estado S.A. Administradora General de Fondos, equivalent to 49.99% of the Company. The sales price was set at 14,000,000 Euros, plus the equivalent of 50% of the equity of the Company at December 31, 2008, plus a contingency payment according to the contract's Earn-Out clause, which will be calculated based on the results of BancoEstado S.A. Administradora General de Fondos over the next 3 years. With the authorization of the Superintendency of Banks and Financial Institutions, the transaction was concluded in January, 2009, by paying the amount agreed to and transferring the shares of the Company.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
as of December 31, 2009 and 2008

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

- **Entities supporting the line of business**

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

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

Company	Ownership percentage	
	2009	2008
Administrador Financiero Transantiago S.A.	21.0000%	21.0000%
Sociedad Operadora de la Cámara de Compensación de Pagos de Alto valor S.A.	10.2300%	11.5200%
Operadora de Tarjetas de Crédito Nexus S.A.	12.9030%	12.9030%
Transbank	8.7188%	8.7188%
Bolsa de Comercio de Santiago	2.0833%	2.0833%
Bolsa Electrónica de Chile	2.5000%	2.5000%

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

The Bank has no participation in special purpose entities.

f) Minority interest

The minority interest represents the portion of the gains or losses and net assets over which the Bank, directly or indirectly, has no ownership. The minority interest is presented separately within the statement of income, and separately from the equity attributable to equity holders of the Bank in the consolidated statement of financial position.

The equity and net income attributable to minority interest totaled MCh\$3,358 in 2009 (MCh\$1,508 in 2008) and MCh\$8,379 in 2009 (MCh\$7,366 in 2008), respectively, amounts that are presented in the line item “Minority interest” within the Consolidated Statement of Financial Position and the Consolidated Statement of Income, respectively.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
as of December 31, 2009 and 2008

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

g) Operating segments

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

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

h) Functional and presentation currency

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

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

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

- a. Assets and liabilities are translated at the closing exchange rates at the date of the financial statements.
- b. Income and expenses and cash flows, are translated at the exchange rates at the month of the transactions.
- c. Share capital and other equity components are translated at the historical exchange rates.
- d. All resulting exchange differences are recognized in other comprehensive income.

The presentation currency for the consolidated financial statements is the Chilean peso

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
as of December 31, 2009 and 2008

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

i) Foreign currency transactions

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

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

The exchange differences arising from the translation into Chilean pesos of the financial statements of the New York Branch, are recorded and accumulated in the line item “Valuation accounts – Translation reserves Branch New York” within Net Equity, until the disposal of the Branch, moment at which it is reclassified to profit or loss.

j) Valuation criteria of assets and liabilities

The measurement criteria of assets and liabilities recorded in the statement of financial position are the following:

Assets and liabilities measured at amortized cost

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

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments and receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
as of December 31, 2009 and 2008

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

Assets measured at fair value:

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

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

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

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

Assets valued at acquisition cost

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

The consolidated financial statements have been prepared based on the general criterion of the amortized cost, except for:

- Derivative financial instruments, which have been measured at fair value.
- Assets classified as held for sale are at the lower of carrying amount and fair value less cost to sell.
- Trading investments are measured at fair value.
- Available for sale investments are measured at fair value.
- Certain items of property, plant and equipment have been measured at the date of transition to the new standards at fair value and that fair value has been used as its deemed cost at that date, and have been subsequently measured of acquisition cost less any impairment losses.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
as of December 31, 2009 and 2008

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

k) Investment instruments:

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

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

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

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

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

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

The Bank has evaluated its held to maturity and available for sale investments portfolio as of December 31, 2009 and 2008, in order to assess whether there are any impairment indicators. This assessment included economic evaluations, credit ratings of the debt issuers and the intent and ability of management to hold these investments to maturity. Based on such evaluation, no impairment losses have been recognized.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
as of December 31, 2009 and 2008

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

l) Trading investments:

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

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

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

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

m) Financial derivative contracts:

Derivative contracts are classified and measured as follows:

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

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

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
as of December 31, 2009 and 2008

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

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

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

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

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

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

When the hedge 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 the corresponding gain or loss recognized in profit or loss. The changes in the fair value of the hedging instrument are also recognized in profit or loss. When the Bank enters into a firm commitment to acquire an asset or assume a liability that is a hedged item in a fair value hedge, the initial carrying amount of the asset or liability that results from the Bank meeting the firm commitment is adjusted to include the cumulative change in the fair value of the firm commitment attributable to the hedged risk that was recognized in the statement of financial position.

When a derivative is designated as a hedging instrument to hedge the exposure to variability in cash flows that are attributable to a particular risk associated with a recognized asset or liability, or highly probable forecasted transaction, 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. Any ineffective portion of the gain or loss on the hedging instrument is recognized in profit or loss.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
as of December 31, 2009 and 2008

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

The accumulated gains or losses recognized in other comprehensive income are reclassified to profit or loss in the same period or periods during which the assets or liabilities affect profit or loss.

The Bank has not entered into any hedging relationship qualifying for hedge accounting for the years ended December 31, 2009 and 2008.

n) Loans and account receivables from customers

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

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

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

o) Interest income and expense

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

However, when a loan is determined to be impaired, the Bank has, on a prudence basis, discontinued the accrual of interest and indexation on such impaired loans.

p) Fee and commission income and expense

Fee and commission income and expenses are recognized in the consolidated statement of income based on different criteria according to their nature. The main criteria are:

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

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
as of December 31, 2009 and 2008

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

q) Impairment

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

Financial assets:

The Bank assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the asset and that loss event has an impact on the estimated future cash flow of the financial asset or group of financial assets that can be reliably estimated.

If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

An impairment loss on an available for sale financial asset is calculated based on its fair value.

Individually significant financial assets are assessed individually to determine whether objective evidence of impairment exists. The remaining financial assets are included in groups with similar credit risk characteristics and are collectively assessed for impairment.

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

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

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
as of December 31, 2009 and 2008

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

Non-financial assets

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

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

r) Investments in associates

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

s) Intangible assets

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

Software acquired separately is measured at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. The average estimated useful live of the software is 3 years.

Internally developed software is recognized as an asset when the Bank is able to demonstrate its intention and ability to complete its development and use it internally to generate future economic benefits, and when it can reliably measure the expenditures needed to complete its development. The amount recognized for internally developed software is the sum of all those direct costs attributable to the development of the software from the date when the software first meets the above recognition criteria. Subsequent to initial recognition, internally-developed software is reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as software acquired separately.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
as of December 31, 2009 and 2008

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

Expenditure on research and evaluation of technological alternatives activities is recognized as an expense in the period in which it is incurred.

t) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. As described in Note 15, as of January 1, 2008, the transition date to the new accounting standards, certain items of property, plant and equipment were measured at fair value and that fair value was used as its deemed cost at that date. The other items of property, plant and equipment were measured at its net carrying amount and that net carrying amount was used as its deemed cost at that date.

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

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

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

The Bank applied the following useful lives for the depreciation of its property, plant and equipment:

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

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
as of December 31, 2009 and 2008

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

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

Repair and maintenance costs are expensed when they are incurred.

u) Leases

a) Operating Leases

When the Bank or its subsidiaries act as lessees and the contract qualifies as an operating lease, the total operating lease payments are recognized as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

b) Finance Leases

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

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

v) Cash and cash equivalents

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

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
as of December 31, 2009 and 2008

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

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

For the preparation of the statement of cash flows, following concepts are considered:

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

w) Allowance for loan losses

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

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

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
as of December 31, 2009 and 2008

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

Allowance for individual risk assessment

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

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

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

Normal risk portfolio:

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

Higher than normal risk portfolio:

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

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
as of December 31, 2009 and 2008

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

To determine the allowance on debtors categorized as A1, A2, A3 and B, the Bank uses the allowance percentages levels approved by its Executive Committee, that have been determined based on detailed historical statistical studies which are reviewed annually. The categories and their corresponding percentage level assigned are shown in the following table:

Category	Allowance %
A1	0
A2	0
A3	0.5
B	1

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

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

Allowance for collective risk assessment:

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

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

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
as of December 31, 2009 and 2008

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

Impaired loan portfolio:

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

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

During 2009, the Bank implemented the method to treat each customer as a whole, for the purposes of classifying it in the normal portfolio or in the impaired portfolio (carry-forward by ID Number), for the customers belonging to the group portfolios under the condition of not applying this standard to the mortgage credits when there exists impairment in products of customers other than these. This is different to the previous practice in which the loans of each debtor were classified, and in which a customer could have operations in different stages, depending on his defaults.

Charge-off of loans:

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

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

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
as of December 31, 2009 and 2008

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

Recovery of previously changed-off loans

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

Additional provisions

The Bank is permitted under SBIF bank regulations to make additional provisions other than those derived from the use of the portfolio assessment models, in order to protect itself from unforeseen macroeconomic fluctuations that could affect an area, industry or group of debtors.

The Bank has recognized additional provisions, approved by the Executive Committee, to cover the above situations, that could adversely affect the loan portfolio in case of adverse economic conditions and that could affect management judgment about the risks associated with the loan portfolio.

x) Provisions and contingent liabilities

Provisions are liabilities of uncertain timing and amount. Provisions are recognized in the statement of financial position when the Bank has:

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

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

y) Personnel benefits

1. Compensated vacation absences

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

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
as of December 31, 2009 and 2008

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

2. Short term benefits

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

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

3. Long-term benefits

The Bank recognized provisions for long-term personnel benefits pursuant to the existence of present obligations derived from the collective agreements. Such obligations give rise to the recognition of provisions which are determined by using the Projected Unit Credit method, with actuarial valuations being carried out at the end of each reporting period. Actuarial assumptions include as variables the employees turnover rate, future increases in salaries and the probability of using this benefit, considering a nominal discount rate of 6.8%.

z) Income tax and deferred taxes

The Bank and its subsidiaries have recognized their income tax expense at the end of each reporting period, based on applicable tax regulations (Note 16 b).

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

As of December 31, 2009 and 2008, the Bank has recognized deferred tax assets arising from carryforward tax losses, as Management believes that it is probable that future taxable profits will be available against which the deductible temporary differences of the tax losses can be utilized (Note 16 e).

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
as of December 31, 2009 and 2008

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

The Bank and its subsidiaries recognize, as appropriate, deferred tax liabilities for taxable temporary differences between carrying amounts of assets and liabilities and their tax bases.

Deferred tax assets and liabilities are measured at the tax rate that, according to tax regulations, is expected to be applied in the year in which the liability is settled or the asset realized. The effects of changes in tax laws or in tax rates are recognized on deferred taxes at the date on which the tax law or tax rates are enacted.

aa) Investments under resale and repurchase agreements

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

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

bb) Factoring transactions

The Bank performs factoring transactions, with or without guarantees, with its customers, whereby it pays to the transferors a cash consideration in exchange for the rights to cash collected from invoices and other commercial papers (Note 11 a).

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

cc) Assets received in lieu of payment

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

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
as of December 31, 2009 and 2008

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

dd) Derecognition of financial assets and liabilities

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

1. If the Bank transfers substantially all the risks and rewards of ownership of the financial asset to third parties, as in the case of unconditional sales of financial assets, sales under repurchase agreements at fair value at the date of repurchase, sales of financial assets with a purchased call option or written put option deeply out of the money, utilization of assets in which the transferor does not retain subordinated debt nor grants any credit enhancement to the transferee, and other similar cases, the Bank derecognizes the financial asset and separately recognize as assets or liabilities any rights and obligations created or retained in the transfer.
2. If the Bank retains substantially all the risks and rewards of ownership of the financial asset, as in the case of sales of financial assets under repurchase agreements to repurchase at a fixed price or at the sale price plus interest, lending agreement securities under which the borrower undertakes to return the same or similar assets, and other similar cases, the Bank continues to recognize the transferred asset in its entirety and recognizes a financial liability for an amount equivalent to the consideration received. In subsequent periods the Bank recognizes any income on the transferred asset and any expenses incurred on the financial liability.
3. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset— as in the case of sales of financial assets with a purchased call option or written put option that is not deeply in or out of the money, securitization of assets in which the transferor retains a subordinated debt or other types of credit enhancement for a portion of the transferred asset, and other similar cases— the Bank determines whether it has retained control of the financial asset. In this case:
 - a. If the Bank has not retained control, it derecognizes the financial asset and separately recognizes as assets or liabilities any rights or obligations created or retained in the transfer.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
as of December 31, 2009 and 2008

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

- b. If the Bank has retained control, it continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained. The associated liability is measured in such a way that the net carrying amount of the transferred asset and the associated liability is: (a) the amortised cost of the rights and obligations retained by the Bank; or (b) equal to the fair value of the rights and obligations retained by the entity when measured on a stand-alone basis, if the transferred asset is measured at fair value.

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

ee) Use of estimates and judgments

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

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

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

- | | | | |
|---|-----------------|---|--|
| - | Notes 7 and 12 | : | Measurement of financial instruments. |
| - | Notes 14 and 15 | : | Useful lives of property, plant and equipment and of intangible assets |
| - | Note 16 | : | Use of tax losses. |
| - | Note 21 | : | Assumptions used in the actuarial valuations of the long term employee benefits obligations. |
| - | Note 23 | : | Contingencies and commitments. |
| - | Note 32 | : | Impairment losses of certain assets. |
| - | Note 35 | : | Assets and liabilities at fair value. |
| - | Note 36 | : | Risk Management. |

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
as of December 31, 2009 and 2008

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

ff) Non-current assets held for sale

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

gg) Distribution to the Government of net income for the year

As of December 31, 2009, the Bank has recognized a liability for the portion of the net income for the year to be distributed to the Government in accordance with its policy. For such purpose, the Bank recognized a provision against a supplementary equity reserve account.

The mentioned policy establishes that, in order to determine the provision for the distribution of the net income, to be distributed each year, it shall be consider the greater between the moving average of net income distribution for the past three years, taken from the corresponding Decrees of the Ministry of Finance, and the income distribution of the prior year.

In 2009, the Bank received an extraordinary capital increase amounting to US\$500 million, and distributed 100% of the net income of 2008.

hh) Consolidated statement of changes in equity

The consolidated statement of changes in equity included in these consolidated financial statements presents all the changes occurred in equity during the year. Such information is presented in two statements: the consolidated statement of comprehensive income and the consolidated statement of changes in equity. The main characteristics of the information included in both statements are explained below:

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
as of December 31, 2009 and 2008

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

Consolidated statement of comprehensive income

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

The detail of the information included in the consolidated statement of comprehensive income is as follows:

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

Consolidated statement of changes in equity

This component of the consolidated statement of changes in equity presents the reconciliation between the initial and final balance of equity at year end, and includes the following items:

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

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
as of December 31, 2009 and 2008

NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**ii) New and revised IFRS and Interpretations**

The following is a comprehensive list of new and revised IFRS and Interpretations in issue as of December 31, 2009 but not yet effective:

New IFRS	
IFRS 9, <i>Financial Instruments: Classification and Measurement</i>	Annual periods beginning on or after January 1, 2013.

Amendments to IFRSs	
IFRS 1 (Revised), <i>First-time Adoption of International Financial Reporting Standards</i> .	Annual periods beginning on July 1, 2009.
IFRS 2, <i>Group Cash-settled Shared-based Payments</i>	Annual periods beginning on or after January 1, 2010.
IFRS 3 (Revised), <i>Business Combination</i>	Annual periods beginning on July 1, 2009.
IAS 27 (Revised), <i>Consolidated and Separate Financial Statements</i>	Annual periods beginning on July 1, 2009.
IAS 24, <i>Related Party Disclosure</i>	Annual periods beginning on or after January 1, 2011.
IAS 32, <i>Classification of Rights Issues</i>	Annual periods beginning on or after February 1, 2010.
IAS 39, <i>Eligible hedged items</i>	Retrospective application for annual periods beginning on or after July 1, 2009
Improvements to IFRS – collection of amendments to 12 IFRSs	Mostly for annual periods beginning on or after January 1, 2010

New Interpretations	Date of compulsory application
IFRIC 17, <i>Distribution of Non-cash Assets to Owners</i>	Annual periods beginning on or after July 1, 2009.
IFRIC 19, <i>Extinguishing Financial Liabilities with Equity Instruments</i>	Annual periods beginning on or after July 1, 2010.

Amendments to Interpretations	Date of compulsory application
IFRIC 14, <i>Prepayments of a Minimum Funding Requirement</i>	Annual periods beginning on or after January 1, 2011.

Management believes that these new standards, amendments and interpretations, will be adopted in the consolidated financial statements as of January 1, 2010, and that the adoption of such standards, amendments and interpretations will not have a significant impact in the consolidated financial statements of the Bank in the year of its initial application.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
as of December 31, 2009 and 2008

NOTE 2 – ACCOUNTING CHANGES

Except for as described in Note 3 below, during the year ended December 31, 2009, no other significant accounting changes have occurred that could affect the presentation of these consolidated financial statements.

NOTE 3 – ACCOUNTING CHANGES – FIRST ADOPTION OF THE COMPENDIUM OF ACCOUNTING STANDARDS OF THE SUPERINTENDENCY OF BANKS AND FINANCIAL INSTITUTIONS

In accordance with Circular No. 3,410 dated on November 9, 2007 of the “Compendium of Accounting Standards”, the Superintendency of Banks and Financial Institutions, together with other superintendencies and other regulatory agencies in Chile agreed on a convergence plan to International Financial Reporting Standards (“IFRS”) in order to internationalize the financial reporting models for entities in Chile. As part of this strategic plan, through Circular 3,410 of November 9, 2007, subsequently supplemented by Circular 3,443 of August 21, 2008, the SBIF issued its “Compendium of Accounting Standards”, which contain the new accounting and reporting standards for the finance industry that will be applied as of January 1, 2009, considering the transitional provisions stipulated in Chapter E of the compendium.

Under regulatory requirements, banks must use the accounting standards stipulated by the SBIF and, for issues not addressed by them and insofar as they do not contradict such standards, they must use generally accepted accounting standards, which correspond to the technical standards issued by the Chilean Institute of Accountants that coincide with the International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB). If there are any discrepancies between the accounting principles and the accounting standards issued by the SBIF (“Compendium of Accounting Standards”), the latter will prevail.

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

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
as of December 31, 2009 and 2008

NOTE 3 – ACCOUNTING CHANGES – FIRST ADOPTION OF THE COMPENDIUM OF ACCOUNTING STANDARDS OF THE SUPERINTENDENCY OF BANKS AND FINANCIAL INSTITUTIONS (Continued)

In accordance with the transition plan, the standards of the new Compendium of Accounting Standards of the Superintendency of Banks and Financial Institutions have been retrospectively applied as of January 1, 2008, and an opening statement of financial position at that date was prepared. Likewise, the Bank has included pro-forma financial statements for 2008 in order to present comparative financial statements with 2009.

The details and explanations of the main impacts caused by the transition to the new accounting standards, either in the statement of financial position or in statement of income are as follows:

a) Reconciliation of Equity in accordance with previous GAAP and Equity in accordance with New Standards

The main adjustments caused by the transition to the new accounting standards in the consolidated equity are the following:

	Explanation (*)	<u>01.01.2008</u> MCh\$	<u>12.31.2008</u> MCh\$
Equity in accordance with previous GAAP		587,202	687,708
Interbank loans	(1)	(135)	(2,506)
Loan and accounts receivable from customers	(2)	24,238	61,178
Investment in other companies	(3)	366	957
Intangibles	(4)	-	(632)
Property, plant and equipment	(5)	79,519	64,672
Other assets	(6)	5,117	9,107
Provisions	(7)	(92,227)	(96,445)
Provision for distribution of net income for the year	(8)	(2,648)	-
Deferred taxes	(9)	(9,412)	(20,270)
Total transition adjustments		<u>4,818</u>	<u>16,061</u>
Net equity in accordance with New Standards		<u>592,020</u>	<u>703,769</u>

(*) Notes 3d) and 3f) provide detail explanation on the nature of the main adjustments as of January 1, 2008 and December 31, 2008, respectively.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
as of December 31, 2009 and 2008

NOTE 3 – ACCOUNTING CHANGES – FIRST ADOPTION OF THE COMPENDIUM OF ACCOUNTING STANDARDS OF THE SUPERINTENDENCY OF BANKS AND FINANCIAL INSTITUTIONS (Continued)**b) Reconciliation of Net Income in accordance with previous GAAP to Net Income in Accordance with New Standards**

	Explanation (*)	12.31.2008 MCh\$
Net income in accordance with previous GAAP		54,800
Accrual from interests and indexation	(1)	10,440
Valuation of investment at market value	(2)	17
Provision for loan losses	(3)	30,200
Changed-offs	(1)	(753)
Employee benefits	(4)	(5,571)
Depreciation and amortization	(5)	(15,177)
Elimination of price-level restatement	(6)	52,875
Income from investments in companies	(7)	398
Deferred taxes, net	(9)	(10,895)
Total transition adjustments		<u>61,534</u>
Net income in accordance with New Standards		<u>116,334</u>

(*) Note 3.h) below provides detail explanations on the nature of the main adjustments

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
as of December 31, 2009 and 2008

NOTE 3 – ACCOUNTING CHANGES – FIRST ADOPTION OF THE COMPENDIUM OF ACCOUNTING STANDARDS OF THE SUPERINTENDENCY OF BANKS AND FINANCIAL INSTITUTIONS (Continued)

c) Reconciliation of the Consolidated Statement of Financial Position as of January 1, 2008:

The following table details the effect on the statement of financial position of the transition from the previous accounting principles to the new standards of the Compendium of Accounting Standards issued by the SBIF as of January 1, 2008:

ASSETS	Previous	Transition	New	Explan. (*)
	GAAP		Standards	
	01.01.2008	effect	01.01.2008	
	MCh\$	MCh\$	MCh\$	
Cash and deposits in bank	968,739	-	968,739	
Unsettled transactions	143,098	-	143,098	
Trading investments	285,227	-	285,227	
Investments under resale agreements	5,760	-	5,760	
Financial derivative contracts	200,390	-	200,390	
Interbank loans	101,857	(135)	101,722	(1)
Loans and accounts receivables from customers	7,837,066	24,238	7,861,304	(2)
Available for sale investments	3,175,525	-	3,175,525	
Held to maturity investments	185,839	-	185,839	
Investments in other companies	3,893	366	4,259	(3)
Intangibles	8,531	-	8,531	(4)
Property, plant and equipment	145,916	79,519	225,435	(5)
Current taxes	-	-	-	
Deferred taxes	167,053	35,914	202,967	(9)
Other assets	109,708	5,117	114,825	(6)
TOTAL ASSETS	13,338,602	145,019	13,483,621	

(*) Note 3.d) below provides detail explanations on the nature of the main adjustments

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Notes to the Consolidated Financial Statements
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NOTE 3 – ACCOUNTING CHANGES – FIRST ADOPTION OF THE COMPENDIUM OF ACCOUNTING STANDARDS OF THE SUPERINTENDENCY OF BANKS AND FINANCIAL INSTITUTIONS (Continued)

LIABILITIES	Previous GAAP 01.01.2008 MCh\$	Transition effects MCh\$	New Standards 01.01.2008 MCh\$	Explan. (*)
Deposits and other demand liabilities	3,162,614	-	3,162,614	
Unsettled transactions	78,401	-	78,401	
Investments under repurchase agreements	891,380	-	891,380	
Time deposits and other time liabilities	5,006,901	-	5,006,901	
Financial derivative contracts	185,695	-	185,695	
Interbank borrowings	245,419	-	245,419	
Issued debt instruments	2,922,944	-	2,922,944	
Other financial liabilities	14,304	-	14,304	
Current taxes	71,776	-	71,776	
Deferred taxes	23,705	45,326	69,031	(9)
Provisions	58,544	94,875	153,419	(7)
Other liabilities	89,717	-	89,717	
TOTAL LIABILITIES	12,751,400	140,201	12,891,601	
EQUITY				
Equity attributable to the owners of the Bank:				
Capital	4,000	-	4,000	
Reserves	539,838	3,889	543,727	(10)
Valuation accounts	(10,985)	3,577	(7,408)	(10)
Retained earnings:				
Retained earnings from prior years	-	-	-	
Net income for the period	52,969	-	52,969	
Less: Provision for distribution of net income for the year	-	(2,648)	(2,648)	(8)
	585,822	4,818	590,640	
Minority interest	1,380	-	1,380	
TOTAL EQUITY	587,202	4,818	592,020	
TOTAL LIABILITIES AND EQUITY	13,338,602	145,019	13,483,621	

(*) Note 3.d) below provides detail explanations on the nature of the main adjustments.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
as of December 31, 2009 and 2008

NOTE 3 – ACCOUNTING CHANGES – FIRST ADOPTION OF THE COMPENDIUM OF ACCOUNTING STANDARDS OF THE SUPERINTENDENCY OF BANKS AND FINANCIAL INSTITUTIONS (Continued)

d) Explanations to the Transition Adjustments in Equity as of January 1, 2008:

(1) Interbank loans

In this item are presented the balances from operations with domestic and foreign Banks, including the Chilean Central Bank, other than those presented in “Loans and accounts receivables from customers”. The transition adjustment corresponds to the increase in the provision for loan losses, as indicated in (2.1).

	MCh\$
Provisions loan losses (foreign banks)	<u>(135)</u>

(2) Loans and accounts receivable from customers

In this item are included the balances of the normal and impaired loan portfolio (collective and individual portfolios), and the individual and collective provisions for loan losses, associated with the corresponding type of loan, for instance, commercial, mortgage or consumer loans. These loan portfolios correspond to credits, leasing operations and accounts receivable arising from the operations of the business activities, owed by persons other than those of interbanks (mentioned in (1) above), excluding the operations included in the line items “Investments under resale agreements” and “Financial derivative contracts”, as well as, debt securities acquired for trading or investing. Under Loans and accounts receivable from customers the type of operations grouped under the concept “loans” from the provisions corresponding to the loan portfolio were presented separately. Such provisions corresponded only to those established in Chapter B-1 “Provisions for loan losses”.

The effect of the transition adjustment is detailed as follows:

	01.01.2008
	MCh\$
Commercial loans	7,271
Mortgage loans	107,167
Consumer loans	<u>376</u>
Total loans	<u>114,814</u>
Provisions for commercial loans losses	(46,395)
Provisions for mortgage loans losses	(37,150)
Provisions for consumer loans losses	<u>(7,031)</u>
Total Provisions for loans losses	<u>(90,576)</u>
Total Loans and accounts receivable from customers	<u>24,238</u>

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NOTE 3 – ACCOUNTING CHANGES – FIRST ADOPTION OF THE COMPENDIUM OF ACCOUNTING STANDARDS OF THE SUPERINTENDENCY OF BANKS AND FINANCIAL INSTITUTIONS (Continued)

The differences between previous GAAP and the new Compendium of Accounting Standards are the following:

(2.1) Allowance for loan losses

Under the previous GAAP the criteria for the determination of allowance for loan losses was established in Chapter 7-10 “Allowance for Loan Losses” of the “Updated Compilation of Standards” (hereinafter referred to as “UCS”), that required a minimum amount of provisions. Under the new Compendium of Accounting Standards, the main differences correspond to the categorization of the loan portfolio, as normal or impaired, which has impacted directly in the estimates of allowance and their impairment component. The requirement for a minimum amount of allowance was not modified. The new criteria are established in Chapter B-1 “Allowance for loan losses”, of the Compendium of Accounting Standards of the SBIF.

(2.2) Accrual of interest and adjustments

Under previous GAAP, loans, investments and liabilities balances included the corresponding accrued interest and adjustments at year end. However, Chapter 7-1 “Interests and Adjustments” of the UCS required to suspend the recognition of interest and adjustment accruals in the case of past due loans and undue loans with a high risk of uncollectibility. In accordance with Chapter B-2 “Impaired Loans and Changed-offs” of the Compendium of Accounting Standards, impairment indicators have to be identified in the loans portfolio, which will imply suspending interest recognition on an accrual basis, for those loans included in the impaired portfolio based on the following:

Loans subject to suspension:

Individually evaluated:
Borrowers classified in categories D1 and D2
Individually evaluated:
Borrowers classified in categories C3 and C4
Collectively evaluated:
Borrowers with actual collaterals less than 80%

Interest suspended:

For having been classified into these categories
For having been included during three months in the impaired portfolio
When the loan or one of its installments are six months past due

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NOTE 3 – ACCOUNTING CHANGES – FIRST ADOPTION OF THE COMPENDIUM OF ACCOUNTING STANDARDS OF THE SUPERINTENDENCY OF BANKS AND FINANCIAL INSTITUTIONS (Continued)

(2.3) Charge-offs

Under previous GAAP, Chapter 8-29 “Provisions and Charge-offs” of the UCS, established the criteria (lack of executive securities, prescription of shares to demand collection, inexistence in the possibility of credit recovery, compliance of periods of unpaid credits, among others) for the recognition of charge-offs.

In accordance with Chapter B-2 of the new Compendium of Accounting Standards, the period to charge-off loans and accounts receivable shall be calculated from the beginning of the default of a specific operation, but tainting the entire amount of the operation, irrespective of due, past due, or undue portions.

Types of loans and their respective charge-off periods, in accordance with the new Compendium of Accounting Standards are detailed in the following table:

Type of Loans	Period
Leasing Operations	
Consumer leasing	6 months
Other non real estate leasing operations	12 months
Real estate leasing (commercial and housing)	36 months
Other operations	
Consumer loans with or without actual collateral	6 months
Other operations without actual collateral	24 months
Commercial loans with actual collateral	36 months
Mortgage loans	48 months

The Bank has included in the line item loans and accounts receivables to customers the transition adjustments arising from the application of this new methodology for write-offs of loans.

(2.4) Impaired loan portfolio

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

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Notes to the Consolidated Financial Statements
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NOTE 3 – ACCOUNTING CHANGES – FIRST ADOPTION OF THE COMPENDIUM OF ACCOUNTING STANDARDS OF THE SUPERINTENDENCY OF BANKS AND FINANCIAL INSTITUTIONS (Continued)

(2.5) Past due portfolio

Under previous GAAP, Chapter 8-26 “Past Due Portfolio. Treatment of loans and financial investments past due”, required to transfer to the past due portfolio all or a portion of loans on payment default within the 90 days following their maturity. Chapter B-2 “Impaired Loans and Write-offs” of the Compendium of Accounting Standards, established new conditions and criteria for the recognition of write-offs and suspension of accruals, additional to the payment default period criterion.

(3) Investment in other companies

This line item includes the effects arising from the adoption of the Compendium of Accounting Standards, in each of the companies in which the Bank and its subsidiaries have ownership interest. The effects of transition in the Bank’s equity related to investment in other companies, are based on the ownership interest that the Bank and its subsidiaries hold in these companies as indicated in Note 13. The transition adjustment corresponds mainly to the elimination of the price-level restatement and the recalculation of depreciation, among others.

(4) Intangible assets

Under previous GAAP, intangible assets were valued at price-level restated cost and were presented net of their accumulated amortization. Amortization was calculated using the straight-line method over the estimated useful lives of such assets. Under the new standards, intangible assets are valued at cost, less accumulated amortization and accumulated impairment losses. The transition adjustment relates to the reversal of price-level restatement plus the corresponding adjustment to the amortization expense.

(5) Property, plant and equipment

Under previous GAAP, property, plant and equipment was valued at price-level restated cost and presented net of its accumulated depreciation. Depreciation was calculated using the straight-line method over the estimated useful lives of the assets. Under the new standards, all assets of property, plant and equipment are valued at cost, less accumulated depreciation and accumulated impairment losses. The transition adjustments correspond to the reversal of price-level restatement plus the corresponding adjustment to the depreciation expense. As part of the transition to the new accounting standards, the Bank, based on independent appraisals, elected to measure certain items of property, plant and equipment at fair value and use that fair value as its deemed cost. The remaining items of property, plant and equipment were measured at their price-level restated depreciated cost as of December 31, 2007.

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NOTE 3 – ACCOUNTING CHANGES – FIRST ADOPTION OF THE COMPENDIUM OF ACCOUNTING STANDARDS OF THE SUPERINTENDENCY OF BANKS AND FINANCIAL INSTITUTIONS (Continued)

(6) Other assets

Corresponds to the accounts receivable originated in mortgage loans with Government guarantee of 90% over the total amount of the loan. On application of the new standards issued by the SBIF write-offs increased and as such the accounts receivable from the Government, as described below.

Under previous GAAP, Chapter 8-29 “Provisions and Charge-offs” of the UCS, established the criteria (lack of executive title, prescription of shares to demand collection, inexistence in the possibility of credit recovery, compliance of periods of unpaid credits, among others) for the recognition of charge-offs. Under Chapter B-2 “Impaired Loans and Charge-offs” of the Compendium of Accounting Standards of the SBIF, per general rule, the charge-offs have to be performed upon expiration of the contractual rights over the cash flows. The transition adjustment for the application of the new standards is detailed as follows:

	01.01.2008
	MCh\$
Due from the Government	5,685
Charge-offs of loans	<u>(568)</u>
Total Other assets	<u>5,117</u>

(7) Provisions for employee benefits

This line item is affected by the first adoption of IAS 19, *Employee benefits*, which implied recognizing long-term employee benefits, such as, severance payments, savings for retirement and seniority bonuses, as long as the Bank has implicitly committed to pay them according to certain conditions. The provisions are determined mainly based on actuarial calculations. The adjustment implied recognizing long-term employee benefits based on the mentioned actuarial calculations.

(8) Provisions for distribution of net income of the year

A provision for distribution of net income was recognized in accordance with the new Compendium of Accounting Standards.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
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NOTE 3 – ACCOUNTING CHANGES – FIRST ADOPTION OF THE COMPENDIUM OF ACCOUNTING STANDARDS OF THE SUPERINTENDENCY OF BANKS AND FINANCIAL INSTITUTIONS (Continued)**(9) Deferred taxes**

Under previous GAAP, deferred taxes arising from temporary differences between carrying amounts of assets and liabilities in the financial liabilities and the tax bases were recognized on an accrual basis in accordance with Technical Bulletins 60, 69, 71 and 73 of the Chilean Institute of Accountants. The adjustment included in this item corresponds to the deferred taxes arising as a part of the transition adjustments performed to the financial statements of the Bank.

Concept	Transition adjustment to equity 01.01.2008 MCh\$
Personnel benefits	51,840
Provisions for loan losses	48,256
Calculation of accruals	(65,444)
Charge-offs of loans	1,262
Total deferred tax assets on transition adjustments	35,914
Property, plant and equipment and Intangible assets	45,326
Total deferred tax liabilities on transition adjustments	45,326
Net transition adjustment on deferred taxes	(9,412)

(10) Valuation Accounts

Retrospective application of IAS 21, *The Effect of Changes in Foreign Exchange*:

Under previous GAAP all items of the financial statements of the New York Branch were translated from the US dollars into Chilean pesos at the closing exchange rate. Under IAS 21 when the functional currency of a foreign operation differs from the presentation currency, its assets and liabilities are translated at the closing exchange rate, the equity accounts are translated at the historical exchange rate and the income statement accounts are translated at the average exchange rate; thus, the translation differences for the retrospective application of IAS 21 differs from the translation differences under previous GAAP.

In addition, the transition adjustment in line item Valuation Accounts includes the effect for the application of the new accounting standards as of January 1, 2008 related to the provision for the distribution of the net income for the year (see Note 3b), according to the following summary:

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NOTE 3 – ACCOUNTING CHANGES – FIRST ADOPTION OF THE COMPENDIUM OF ACCOUNTING STANDARDS OF THE SUPERINTENDENCY OF BANKS AND FINANCIAL INSTITUTIONS (Continued)

	01.01.2008
	MCh\$
Adjustments at 01.01.2008	4,818
Provision for distribution of net income for the year	2,648
Translation differences - New York Branch	<u>(3,577)</u>
Total	<u><u>3,889</u></u>

e) Reconciliation of the Consolidated Statement of Financial Position as of December 31, 2008:

The following table details the effect on the statement of financial position of the transition from the previous accounting principles to the new standards of the Compendium of Accounting Standards issued by the SBIF as of December 31, 2008:

ASSETS	Previous GAAP 12.31.2008 MCh\$	Transition effects MCh\$	New Standards 31.12.2008 MCh\$	Explan. (*)
Cash and deposits in bank	1,513,788	-	1,513,788	
Unsettled transactions	333,064	-	333,064	
Trading investments	187,059	-	187,059	
Investments under resale agreements	5,958	-	5,958	
Financial derivative contracts	572,793	-	572,793	
Interbank loans	273,027	(2,506)	270,521	(1)
Loans and accounts receivables from customers	9,120,404	61,178	9,181,582	(2)
Available for sale investments	2,545,341	-	2,545,341	
Held to maturity investments	170,774	-	170,774	
Investments in other companies	4,025	957	4,982	(3)
Intangibles	15,595	(632)	14,963	(4)
Property, plant and equipment	174,222	64,671	238,893	(5)
Current taxes	45,022	-	45,022	
Deferred taxes	242,853	16,371	259,224	(8)
Other assets	178,310	9,108	187,418	(6)
TOTAL ASSETS	<u><u>15,382,235</u></u>	<u><u>149,147</u></u>	<u><u>15,531,382</u></u>	

(*) Note 3.f) below provides detail explanations on the nature of the main adjustments.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
as of December 31, 2009 and 2008

NOTE 3 – ACCOUNTING CHANGES – FIRST ADOPTION OF THE COMPENDIUM OF ACCOUNTING STANDARDS OF THE SUPERINTENDENCY OF BANKS AND FINANCIAL INSTITUTIONS (Continued)

LIABILITIES	Balances previous GAAP 31.12.2008 MCh\$	Transition effects MCh\$	Adjusted balances 31.12.2008 MCh\$	Explan. (*)
Deposits and other demand liabilities	3,194,867	-	3,194,867	
Unsettled transactions	283,533	-	283,533	
Investments under repurchase agreements	356,604	-	356,604	
Time deposits and other time liabilities	6,331,499	-	6,331,499	
Financial derivative contracts	351,470	-	351,470	
Interbank borrowings	632,390	-	632,390	
Issued debt instruments	3,216,568	-	3,216,568	
Other financial liabilities	3,585	-	3,585	
Current taxes	-	-	-	
Deferred taxes	162,306	36,641	198,947	(8)
Provisions	48,589	96,445	145,034	(7)
Other liabilities	113,116	-	113,116	
TOTAL LIABILITIES	14,694,527	133,086	14,827,613	
EQUITY				
Equity attributable to the owners of the Bank:				
Capital	4,000	-	4,000	
Reserves	643,098	(49,050)	594,048	
Valuation accounts	(5,961)	3,577	(2,384)	(9)
Retained earnings:				
Retained earnings from prior years	-	-	-	
Net income for the year	47,412	61,556	108,968	(10)
Less: Provision for distribution of net income for the year	(2,371)	-	(2,371)	
Minority interest	686,178	16,083	702,261	
	1,530	(22)	1,508	
TOTAL EQUITY	687,708	16,061	703,769	
TOTAL LIABILITIES AND EQUITY	15,382,235	149,147	15,531,382	

(*) Note 3.f) below provides detail explanations on the nature of the main adjustments.

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NOTE 3 – ACCOUNTING CHANGES – FIRST ADOPTION OF THE COMPENDIUM OF ACCOUNTING STANDARDS OF THE SUPERINTENDENCY OF BANKS AND FINANCIAL INSTITUTIONS (Continued)

f) Explanations to the Transition Adjustments in Equity as of December 31, 2008:

A summarized explanation of the main differences arising from the first time application of the new accounting standards in the financial statements at December 31, 2008, is as follows:

(1) Interbank loans

In this item are presented the balances from operations with domestic and foreign Banks, including the Chilean Central Bank, other than those presented in “Loans and accounts receivables from customers”. The transition adjustment corresponds to the increase in the allowance for loan losses, as indicated in (2.1) and is detailed as follows:

	MCh\$
Accrual of interests and indexation	102
Allowance for loans with foreign banks	<u>(2,608)</u>
Interbank loans	<u><u>(2,506)</u></u>

(2) Loans and accounts receivable from customers

In this item are included the balances of the normal and impaired loan portfolio (collective and individual portfolios), and the individual and collective allowance for loan losses, associated with the corresponding type of loan, for instance, commercial, mortgage or consumer loans. These loan portfolios correspond to credits, leasing operations and accounts receivable arising from the operations of the business activities, owed by persons other than those of interbanks (mentioned in (1) above), excluding the operations included in the line items “Investments under resale agreements” and “Financial derivative contracts”, as well as, debt securities acquired for trading or investing. Under Loans and accounts receivable from customers the type of operations grouped under the concept “loans” from the provisions corresponding to the loan portfolio were presented separately. Such provisions corresponded only to those established in Chapter B-1 “Allowance for loan losses”.

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NOTE 3 – ACCOUNTING CHANGES – FIRST ADOPTION OF THE COMPENDIUM OF ACCOUNTING STANDARDS OF THE SUPERINTENDENCY OF BANKS AND FINANCIAL INSTITUTIONS (Continued)

The effect of the transition adjustment is detailed as follows:

	12.31.2008
	MCh\$
Commercial loans	7,403
Mortgage loans	116,745
Consumer loans	925
Total loans	<u>125,073</u>
Allowance for commercial loans losses	(24,992)
Allowance for mortgage loans losses	(38,708)
Allowance for consumer loans losses	(195)
Total Provisions for loans losses	<u>(63,895)</u>
Total Loans and accounts receivable from customers	<u><u>61,178</u></u>

Under the instructions of the new Compendium of Accounting Standards, the following differences are presented in relation to the former accounting standards:

(2.1) Provisions for loan losses

Under the previous GAAP the criteria for the determination of allowance for loan losses was established in Chapter 7-10 “Allowance for Loan Losses” of the ‘Updated Compilation of Standards’ (hereinafter referred to as “USC”), that required a minimum amount of provisions. Under the new Compendium of Accounting Standards, the main differences correspond to the categorization of the loan portfolio, as normal or impaired, which has impacted directly in the estimates of provisions and their impairment component. The requirement for a minimum amount of provisions was not modified. The new criteria are established in Chapter B-1 “Allowance for loan losses”, of the Compendium of Accounting Standards of the SBIF.

(2.2) Accrual of interest and adjustments

Under previous GAAP, loans, investments and liabilities balances included the corresponding accrued interest and adjustments at year end. However, Chapter 7-1 “Interests and Adjustments” of the UCS required to suspend the recognition of interest and adjustment accruals in the case of past due loans and undue loans with a high risk of uncollectibility. In accordance with Chapter B-2 “Impaired Loans and Changed-offs” of the Compendium of Accounting Standards, impairment indicators have to be identified in the loans portfolio, which will imply suspending interest recognition on an accrual basis, for those loans included in the impaired portfolio based on, the classification level of risk, the period of time that the operations have been impaired and the coverage of the collaterals, among other.

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NOTE 3 – ACCOUNTING CHANGES – FIRST ADOPTION OF THE COMPENDIUM OF ACCOUNTING STANDARDS OF THE SUPERINTENDENCY OF BANKS AND FINANCIAL INSTITUTIONS (Continued)

(2.3) Charge-offs

Under previous GAAP, Chapter 8-29 “Provisions and Charge-offs” of the UCS, established the criteria (lack of executive securities, prescription of shares to demand collection, inexistence in the possibility of credit recovery, compliance of periods of unpaid credits, among others) for the recognition of write-offs. Under Chapter B-2 “Impaired Loans and Charge-offs” of the Compendium of Accounting Standards of the SBIF, per general rule, the write-offs have to be performed upon expiration of the contractual rights over the cash flows.

(2.4) Past due portfolio

Under previous GAAP, Chapter 8-26 “Past Due Portfolio. Treatment of loans and financial investments past due”, required to transfer to the past due portfolio all or a portion of loans on payment default within the 90 days following their maturity. Chapter B-2 “Impaired Loans and Charge-offs” of the Compendium of Accounting Standards, established new conditions and criteria for the recognition of charge-offs and suspension of accruals, additional to the payment default period criterion.

(3) Investment in companies

This line item includes the effects arising from the adoption of the Compendium of Accounting Standards, in each of the companies in which the Bank and its subsidiaries have ownership interest. The effects of transition in the Bank’s equity related to investment in other companies, are based on the ownership interest that the Bank and its subsidiaries hold in these companies as indicated in Note 13. The transition adjustment corresponds mainly to the elimination of the price-level restatement and the recalculation of depreciation, among others.

(4) Intangible assets

Under previous GAAP, intangible assets were valued at price-level restated cost and were presented net of their accumulated amortization. Amortization was calculated using the straight-line method over the estimated useful lives of such assets. Under the new standards, intangible assets are valued at cost, less accumulated amortization and accumulated impairment losses. The transition adjustment performed corresponds to the reversal of the price-level restatement for the year 2008 and the corresponding recomputation of the amortization expense.

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NOTE 3 – ACCOUNTING CHANGES – FIRST ADOPTION OF THE COMPENDIUM OF ACCOUNTING STANDARDS OF THE SUPERINTENDENCY OF BANKS AND FINANCIAL INSTITUTIONS (Continued)

(5) Property, plant and equipment

Under previous GAAP, property, plant and equipment was valued at price-level restated cost and presented net of its accumulated depreciation. Depreciation was calculated using the straight-line method over the estimated useful lives of the assets. Under the new standards, all assets of property, plant and equipment are valued at cost, less accumulated depreciation and accumulated impairment losses. The transition adjustments correspond to the reversal of price-level restatement plus the corresponding adjustment to the depreciation expense. As part of the transition to the new accounting standards, the Bank, based on independent appraisals, elected to measure certain items of property, plant and equipment at fair value and use that fair value as its deemed cost. The remaining items of property, plant and equipment were measured at their price-level restatement depreciated cost as of December 31, 2007.

(6) Other assets

Corresponds to the accounts receivable originated in mortgage loans with State guarantee of 90% over the total amount of the loan. On application of the new standards issued by the SBIF write-offs increased and as such the accounts receivable from the State, as described below.

Under previous GAAP, Chapter 8-29 “Provisions and Write-offs” of the UCS, established the criteria (lack of executive securities, prescription of shares to demand collection, inexistence in the possibility of credit recovery, compliance of periods of unpaid credits, among others) for the recognition of write-offs. Under Chapter B-2 “Impaired Loans and Write-offs” of the Compendium of Accounting Standards of the SBIF, per general rule, the write-offs have to be performed upon expiration of the contractual rights over the cash flows.

In addition, the adjustment includes the reversal of the price-level restatement for the year 2008, the assets received in lieu of payment, according to Chapter B-5 of the Compendium of Accounting Standards, and the adjustments to the subsidiaries.

The adjustment is detailed as follows:

	31.12.2008
	MCh\$
Due from the State	9,004
Accrual of interests and indexation	79
Elimination of price-level restatement assets in lieu of payment	(25)
Other	50
Total Other assets	<u>9,108</u>

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NOTE 3 – ACCOUNTING CHANGES – FIRST ADOPTION OF THE COMPENDIUM OF ACCOUNTING STANDARDS OF THE SUPERINTENDENCY OF BANKS AND FINANCIAL INSTITUTIONS (Continued)**(7) Provisions**

This line item is affected by the first adoption of IAS 19, *Employee benefits*, which implied recognizing long-term employee benefits, such as, severance payments, savings for retirement and seniority bonuses, as long as the Bank has implicitly committed to pay them according to certain conditions. The provisions are determined mainly based on actuarial calculations. The adjustment implied recognizing long-term employee benefits based on the mentioned actuarial calculations. The detail of the adjustment is as follows:

	31.12.2008
	MCh\$
Severance payments	86,626
Plan for voluntary retirements	179
Saving for retirement	2,605
Seniority bonuses	3,477
Contingencies	(73)
Other	3,631
Total Provisions	<u>96,445</u>

(8) Deferred taxes

Under previous GAAP, deferred taxes arising from temporary differences between carrying amounts of assets and liabilities in the financial liabilities and the tax bases were recognized on an accrual basis in accordance with Technical Bulletins 60, 69, 71 and 73 of the Chilean Institute of Accountants. The adjustment included in this item corresponds to the deferred taxes arising as a part of the transition adjustments performed to the financial statements of the Bank, as set forth in the table below:

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NOTE 3 – ACCOUNTING CHANGES – FIRST ADOPTION OF THE COMPENDIUM OF ACCOUNTING STANDARDS OF THE SUPERINTENDENCY OF BANKS AND FINANCIAL INSTITUTIONS (Continued)

Concept	Adjustments to equity	Effects on income (loss)	Adjustments to equity
	01.01.2008	2008	31.12.2008
	MCh\$	MCh\$	MCh\$
Personnel benefits	51,840	3,175	55,015
Loans and accounts receivable from customers	(15,926)	(22,736)	(38,662)
Other assets	-	18	18
	<u>35,914</u>	<u>(19,543)</u>	<u>16,371</u>
Property, plant and equipment and intangible assets	<u>45,326</u>	<u>(8,685)</u>	<u>36,641</u>
Total deferred tax liabilities	<u>45,326</u>	<u>(8,685)</u>	<u>36,641</u>
Net transition adjustment on deferred taxes	<u>(9,412)</u>	<u>(10,858)</u>	<u>(20,270)</u>

(9) Valuation Accounts

Retrospective application of IAS 21, *The Effect of Changes in Foreign Exchange*:

Under previous GAAP all items of the financial statements of the New York Branch were translated from the US dollars into Chilean pesos at the closing exchange rate. Under IAS 21 when the functional currency of a foreign operation differs from the presentation currency, its assets and liabilities are translated at the closing exchange rate, the equity accounts are translated at the historical exchange rate and the income statement accounts are translated at the average exchange rate; thus, the translation differences for the retrospective application of IAS 21 differs from the translation differences under previous GAAP.

(10) Net income for the year:

It corresponds to adjustments to the net income for the year. See reconciliation of net income for the year in 3.g) below.

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NOTE 3 – ACCOUNTING CHANGES – FIRST ADOPTION OF THE COMPENDIUM OF ACCOUNTING STANDARDS OF THE SUPERINTENDENCY OF BANKS AND FINANCIAL INSTITUTIONS (Continued)

g) Reconciliation of the Consolidated Statement of Income at December 31, 2008:

	Previous GAAP 12.31.2008	Transition effects	New Standards 12.31.2008	Explan. (*)
	MCh\$	MCh\$	MCh\$	
Interest income	1,449,426	10,440	1,459,866	(1)
Interest expense	(956,439)	-	(956,439)	
Net interest income	492,987	10,440	503,427	
Fee and commission income	137,669	-	137,669	
Fee and commission expense	(14,897)	-	(14,897)	
Net fee and commission income	122,772	-	122,772	
Net income from financial operations	347,226	17	347,243	(2)
Foreign exchange gain (loss), net	(359,666)	-	(359,666)	
Other operating income	59,219	-	59,219	
Total operating income	662,538	10,457	672,995	
Provisions for loan losses	(129,309)	29,447	(99,862)	(3)
NET OPERATING INCOME	533,229	39,904	573,133	
Personnel salaries and expenses	(233,065)	(5,571)	(238,636)	(4)
Administrative expenses	(107,709)	-	(107,709)	
Depreciation and amortization	(11,462)	(14,869)	(26,331)	(5)
Impairments	-	-	-	
Other operating expenses	(57,017)	52,143	(4,874)	(6)
TOTAL OPERATING EXPENSES	(409,253)	31,703	(377,550)	
OPERATING INCOME	123,976	71,607	195,583	
Income from investment in other companies	758	785	1,543	(7)
Income before taxes	124,734	72,392	197,126	
Income tax expense	(69,934)	(10,858)	(80,792)	(8)
CONSOLIDATED INCOME FOR THE YEAR	54,800	61,534	116,334	
Attributable to:				
Equity holders of the Bank	47,412	61,556	108,968	
Minority interest	7,388	(22)	7,366	
	54,800	61,534	116,334	

(*) Note 3.h) below provides detail explanations on the nature of the main adjustments.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
as of December 31, 2009 and 2008

NOTE 3 – ACCOUNTING CHANGES – FIRST ADOPTION OF THE COMPENDIUM OF ACCOUNTING STANDARDS OF THE SUPERINTENDENCY OF BANKS AND FINANCIAL INSTITUTIONS (Continued)

h) Explanations to the Transition Adjustments to Net Income as of December 31, 2008:

- 1) The adjustment relates to the application of the new criteria and periods for the suspension of interest accruals and the new periods to perform changed-offs according to the new standards.
- 2) The effect of transition corresponds to the adjustment arising from trading investments portfolios measured at fair value held by the subsidiaries.
- 3) The effect in net income is caused by the recalculation under the new standards of the provisions recognized for the loans and accounts receivable from customers' portfolio.
- 4) The adjustment to the line item personnel salaries and expenses is due to new provisions related to severance payments, vacations and other benefits, recognized net of the amount paid during the year.
- 5) The effect in net income corresponds to the new calculation of depreciation and amortization due to price-level restatement reversal in property, plant and equipment and intangible assets and the new calculation of depreciation of certain items of property, plant and equipment measured at fair value on the transition date to the new standards.
- 6) The adjustment corresponds to the elimination of the price-level restatement for the year ended December 31, 2009 plus the recognition of the adjustments to other operating expenses at the subsidiaries level due to the application of the new standards.
- 7) The effect corresponds to the difference arising in the recognition of the new equity in income due to the application of the new Compendium of Accounting Standards in the financial statements of the investments in other companies.
- 8) The effect relates to the recalculation deferred taxes on the transition adjustments.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

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NOTE 3 – ACCOUNTING CHANGES – FIRST ADOPTION OF THE COMPENDIUM OF ACCOUNTING STANDARDS OF THE SUPERINTENDENCY OF BANKS AND FINANCIAL INSTITUTIONS (Continued)

i) Reconciliation of the Consolidated Statement of Cash Flows at December 31, 2008:

	Balances previous GAAP 31.12.2008 MCh\$	Transition effects MCh\$	Adjusted balances at 31.12.2008 MCh\$
CASH FLOWS FROM OPERATING ACTIVITIES			
NET INCOME FOR THE YEAR	54,800	61,534	116,334
Charges (credits) to income that do not represent cash flow:			
Depreciation and amortization	24,569	1,762	26,331
Provisions for loan losses	129,309	(29,076)	100,233
Provision for adjustment to market value of non-permanent investments	(207,494)	-	(207,494)
Income from investments in other companies	(765)	(778)	(1,543)
Net income from sales of assets received in lieu of payment	(31)	-	(31)
Loss from sales of property, plant and equipment	11	-	11
Write-off of assets received in lieu of payment	2,734	(534)	2,200
Other debits (credits) that do not represent cash movement	91,346	(65,107)	26,239
Net variation of interests, adjustments and commissions accrued over assets and liabilities	(62,633)	(10,440)	(73,073)
Net decrease of investments	107,905	(8,871)	99,034
Increase in loans	(1,510,435)	1,022,145	(488,290)
Increase in other credit operations	(198,718)	30,284	(168,434)
Increase of other assets and liabilities	(77,777)	(195,159)	(272,936)
Decrease of creditors in checking accounts, net	(73,657)	74,821	1,164
Increase of deposits and loans	37,616	1,079,796	1,117,412
Decrease in other demand and time liabilities	95	(4,464)	(4,369)
Decrease of other obligations through brokerage of documents	(543,812)	8,642	(535,170)
Increase of time deposits and other loans	1,451,707	(1,451,707)	-
Movement in obligations in letters of credit	(96,720)	(473,856)	(570,576)
Increase of loans obtained from local banks	(10,732)	11,361	629
Increase of loans obtained from foreign banks	398,819	(18,161)	380,658
Increase of loans obtained from banks from the Central Bank	2,248	(2,248)	-
Net cash flow (used in) provided by operating activities	(481,615)	29,944	(451,671)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net decrease (increase) of investments	298,400	(3,216)	295,184
Purchase of fixed assets	(56,092)	8,517	(47,575)
Sale of fixed assets	9,850	(8,496)	1,354
Dividends received from investments in companies	506	-	506
Sale of assets received in lieu of payment	(2,404)	2,738	334
Net cash provided by (used in) investing activities	250,260	(457)	249,803
CASH FLOWS FROM FINANCING ACTIVITIES:			
Bond issuance	421,236	(21,680)	399,556
Release of bonds	(15,024)	-	(15,024)
Payment of income from previous year at the benefit of the state	(2,648)	-	(2,648)
Net cash flow provided by (used in) from financing activities	403,564	(21,680)	381,884
EFFECT OF INFLATION ON CASH AND CASH EQUIVALENTS	(135,576)	135,576	-
NET VARIATION FOR THE YEAR OF CASH AND CASH EQUIVALENT	36,633	143,383	180,016
CASH AND CASH EQUIVALENT AT THE BEGINNING OF YEAR	1,754,439	(143,383)	1,611,056
CASH AND CASH EQUIVALENT AT THE END OF YEAR	1,791,072	-	1,791,072

(*) Note 3.j) below provides detail explanations on the nature of the main adjustments.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
as of December 31, 2009 and 2008

NOTE 3 – ACCOUNTING CHANGES – FIRST ADOPTION OF THE COMPENDIUM OF ACCOUNTING STANDARDS OF THE SUPERINTENDENCY OF BANKS AND FINANCIAL INSTITUTIONS (Continued)

j) Explanation of the main adjustments in the Consolidated Statement of Cash Flows as of December 31, 2008

The adjustments over the loans and accounts receivables from customers, the recalculation of the recognized provisions, personnel benefits, new calculation of depreciation and amortization of property, plant and equipment and intangibles and the recalculation of deferred taxes, were included as debits (credits) to income that do not represent cash flows. There are no other significant differences between the statement of cash flows presented under previous GAAP and the statement of cash flows presented in conformity with the new accounting standards.

NOTE 4 - SIGNIFICANT EVENTS

The following significant events that have influenced the operations of the Bank and its subsidiaries have been recorded as of December 31, 2009:

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

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

b) Bond issuances

- **Bank Bond Issuance**

In 2009, the Bank issued bank bonds as follows:

Series	Type	Amount in million U.F.	Issuance rate	Term in years	Placement Date
J3	Bank	5.0	3.50%	10	July 2009
J6	Bank	2.0	4.00%	20	September 2009
J1	Bank	5.0	3.10%	5	December 2009

In addition, the SBIF has authorized a bank bond (issued but still not placed), series J5 for a total amount of UF 5 million with 10 years maturity, annual interest rate of 3.50%.

All bonds have an amortization of one installment upon final maturity, with semi-annual payment of interest.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
as of December 31, 2009 and 2008

NOTE 4 - SIGNIFICANT EVENTS (Continued)

c) Sale of ownership interest in subsidiary

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

The sale price was 14,000,000 Euros, plus an amount equivalent to 49,99% of the equity of the Company as of December 31, 2008, plus a contingent payment according to the contract's Earn-Out clause, which will be calculated based on the results of BancoEstado S.A. Administradora General de Fondos for the next 3 years.

With the authorization of the Superintendency of Banks and Financial Institutions, the transaction was concluded in January, 2009, by transferring the Company's shares.

d) Extraordinary capital increase

Law 20.318 published at Official Gazette on January 2, 2009, granted authorization to the President of the Republic to make an extraordinary capital contribution to Banco del Estado de Chile for a total amount of US\$500 million. During 2009 the Ministry of Finance made all the agreed contributions as established by the mentioned Law.

e) Additional provisions

During 2009 additional provisions amounting to MCh\$31,000 were recognized against net income (MCh\$22,000 credit to net income for releasing provisions in 2008).

NOTE 5 – OPERATING SEGMENT

Segment criteria

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

The segment information that is provided is based on the monthly reports elaborated from information provided by a control management software application.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
as of December 31, 2009 and 2008

NOTE 5 – OPERATING SEGMENT (Continued)

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

Segments

During the years 2009 and 2008 the Bank focused its activities on the following major lines of business:

Wholesale Banking, consisting of large companies, medium-sized companies and Government entities.

Retail Banking, consisting of individuals, small companies and micro-enterprises.

Treasury and International, which includes financial management and international business.

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

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
as of December 31, 2009 and 2008

NOTE 5 – OPERATING SEGMENT (Continued)

The results by segment as December 31, 2009 and 2008 are the following:

a) Results	2009					2008					
	Wholesale banking	Retail banking	Treasury and International	Other	Total	Total	Wholesale banking	Retail banking	Treasury and International	Other	Total
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MUS\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
Net interest income	102,268	268,721	73,228	36,420	480,637	948	139,969	244,196	73,300	45,962	503,427
Net fee and commission income	30,059	106,889	1,952	776	139,676	275	14,873	103,570	1,218	3,111	122,772
Net income from financial operations	4,228	5,412	(139,236)		(129,596)	(256)	2,138	4,434	340,671	-	347,243
Foreign exchange gain (loss), net	2,312	2,861	170,794		175,967	347	1,570	1,867	(363,103)	-	(359,666)
Other operating income	3,400	29,073	228	62	32,763	65	67	27,708	-	31,444	59,219
Total operating income	142,267	412,956	106,966	37,258	699,447	1,379	158,617	381,775	52,086	80,517	672,995
Provisions for loan losses	(15,309)	(130,119)	(825)	(234)	(146,487)	(289)	(11,070)	(82,001)	(7,063)	272	(99,862)
Net operating income	126,958	282,837	106,141	37,024	552,960	1,090	147,547	299,774	45,023	80,789	573,133
Operating expenses					(407,595)	(803)					(372,676)
Other operating expenses					(40,212)	(80)					(4,874)
Total operating expenses					(447,807)	(883)					(377,550)
Operating income					105,153	207					195,583
Equity in income of investment in other companies					(219)	-					1,543
Income before income tax					104,934	207					197,126

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
as of December 31, 2009 and 2008

NOTE 5 – OPERATING SEGMENT (Continued)

The statements of financial position by segment as of December 31, 2009 and 2008 are the following:

	2009					2008					
	Wholesale banking	Retail banking	Treasury and International	Other	Total	Total	Wholesale banking	Retail banking	Treasury and International	Other	Total
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MUS\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
ASSETS											
Cash and deposits in bank	-	-	1,159,475	-	1,159,475	2,286	-	-	1,513,788	-	1,513,788
Unsettled transactions	-	-	305,684	-	305,684	603	-	-	187,059	-	187,059
Loans and accounts receivable from customers	4,393,506	6,379,769	231	76	10,773,582	21,245	3,273,293	5,909,310	232	(1,253)	9,181,582
Available for sale investments	13,993	-	3,302,647	-	3,316,640	6,540	34,295	-	2,511,046	-	2,545,341
Other assets	88,356	3	552,954	696,834	1,338,147	2,640	291,982	201	1,060,253	751,176	2,103,612
TOTAL ASSETS	4,495,855	6,379,772	5,320,991	696,910	16,893,528	33,314	3,599,570	5,909,511	5,272,378	749,923	15,531,382
LIABILITIES											
Deposits and other demand liabilities	2,624,894	713,841	270,019	-	3,608,754	7,116	2,524,941	512,324	157,602	-	3,194,867
Time deposits and other time liabilities	2,649,775	2,857,618	1,641,994	-	7,149,387	14,099	2,874,557	2,925,136	531,806	-	6,331,499
Interbank borrowings	-	-	719,533	-	719,533	1,419	-	-	632,390	-	632,390
Issued debt instruments	-	-	3,204,316	-	3,204,316	6,319	-	-	3,216,568	-	3,216,568
Other liabilities	314,848	68	444,271	517,409	1,276,596	2,517	381,664	1,744	608,007	460,874	1,452,289
TOTAL LIABILITIES	5,589,517	3,571,527	6,280,133	-	15,958,586	31,470	5,781,162	3,439,204	5,146,373	460,874	14,827,613
EQUITY	-	-	-	934,942	934,942	1,844	-	-	-	703,769	703,769
TOTAL LIABILITIES AND EQUITY	5,589,517	3,571,527	6,280,133	934,942	16,893,528	33,314	5,781,162	3,439,204	5,146,373	1,164,643	15,531,382

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
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NOTE 6 – CASH AND CASH EQUIVALENTS

a) The detail of cash and cash equivalent balances and their reconciliation with the statement of cash flows for the years ended December 31, 2009 and 2008 is as follows:

	31.12.2009	31.12.2009	31.12.2008
	MUS\$	MCh\$	MCh\$
Cash and deposits in bank			
Cash	415	210,577	174,499
Deposits in the Chilean Central Bank	963	488,122	991,477
Deposits in domestic banks	-	169	146
Deposits foreign	908	460,607	347,666
	<u>2,286</u>	<u>1,159,475</u>	<u>1,513,788</u>
Subtotal Cash and deposits in banks			
Unsettled transactions, net	157	79,821	49,531
High liquidity financial instruments (1)	4,001	2,028,819	221,795
Repurchase contracts (2)	109	55,416	5,958
	<u>6,553</u>	<u>3,323,531</u>	<u>1,791,072</u>
Total cash and cash equivalents			

- (1) Corresponds to trading and investment instruments subject to insignificant risk of change in value, whose maturity period does not exceed 90 days after the acquisition date.
- (2) Corresponds to repurchase agreement in identical situation as the one established in the (1) above.

The Bank holds as part of its cash and deposits at the Chilean Central Bank, balances that are not available for its use, amounting to MCh\$337,838 and MCh\$345,338, respectively, as of December 31, 2009 and 2008.

The level of cash funds and in deposits at the Chilean Central Bank responds to a regulated mandatory requirement to maintain monthly average cash reserves that the Bank must meet.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
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NOTE 6 – CASH AND CASH EQUIVALENTS (Continued)**b) Unsettled transactions**

Unsettled transactions correspond to those transactions in which only the settlement remains pending, which will increase or decrease the funds in Chilean Central Bank or in foreign banks, normally within the next 12 or 24 business hours. At the end of each reporting period, unsettled transactions are as follows:

	12.31.2009	12.31.2009	12.31.2008
	MUS\$	MCh\$	MCh\$
Assets:			
Outstanding notes from other banks	147	74,525	60,721
Funds receivable	195	99,079	272,343
	<u>342</u>	<u>173,604</u>	<u>333,064</u>
Subtotal assets	<u>342</u>	<u>173,604</u>	<u>333,064</u>
Liabilities:			
Funds payable	185	93,783	283,533
	<u>185</u>	<u>93,783</u>	<u>283,533</u>
Subtotal liabilities	<u>185</u>	<u>93,783</u>	<u>283,533</u>
Unsettled transactions, net	<u><u>157</u></u>	<u><u>79,821</u></u>	<u><u>49,531</u></u>

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
as of December 31, 2009 and 2008

NOTE 7 – TRADING INVESTMENTS

Trading investments as of December 31, 2009 and 2008 are as follows:

	12.31.2009	12.31.2009	12.31.2008
	MUS\$	MCh\$	MCh\$
Chilean Central Bank and Government securities	111	56,047	56,252
Chile Central Bank Securities	33	16,858	56,252
Bonds or Treasury promissory notes	78	39,189	-
Other Government securities	-	-	-
Securities from other Chilean entities	484	245,534	127,140
Securities from other Chilean banks	484	245,525	127,132
Bonds and bills of exchange from companies	-	-	-
Other Chilean securities	-	9	8
Securities from foreign entities	-	-	-
Foreign Government and Central Bank securities	-	-	-
Other foreign securities	-	-	-
Investments in mutual funds	8	4,103	3,667
Funds managed by related companies	8	4,103	3,667
Funds managed by third parties	-	-	-
Total	<u>603</u>	<u>305,684</u>	<u>187,059</u>

Chilean Central Bank and Government Securities include instruments sold to customers and financial institutions under repurchase agreements amounting to MCh\$147 as of December 31, 2009 (MCh\$643 in 2008).

Securities from other Chilean entities include instruments sold to customers and financial institutions under repurchase agreements amounting to MCh\$217,231 as December 31, 2009, (MCh\$97,813 2008).

As of December 31, 2009 and 2008 the repurchase agreements have an average maturity of 15 and 3 days, respectively.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
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NOTE 8 – INVESTMENTS UNDER RESALE/REPURCHASE AGREEMENTS

a) The Bank also purchases financial instruments with the agreement to sell them on future dates. As of December 31, 2009 and 2008, the instruments purchased under resale agreements are the following:

	Rights to purchase commitments								
	2009				2008				
	From 1 day and less than 3 months	More than 3 months and less than 1 year	More than one year	Total	Total	From 1 day and less than 3 months	More than 3 months and less than 1 year	More than one year	Total
MCh\$	MCh\$	MCh\$	MCh\$	MUS\$	MCh\$	MCh\$	MCh\$	MCh\$	
Chilean Central Bank and Government securities									
Chilean Central Bank securities	118	-	-	118	-	5,958	-	-	5,958
Bonds or Treasury promissory notes	-	-	-	-	-	-	-	-	-
Other Government securities	-	-	-	-	-	-	-	-	-
Securities from other Chilean entities:									
Securities from other Chilean banks	-	-	-	-	-	-	-	-	-
Bonds and bills of exchange from companies	4,882	-	-	4,882	10	-	-	-	-
Other Chilean securities	50,416	-	-	50,416	99	-	-	-	-
Securities from foreign entities:									
Securities from Governments and Central Bank	-	-	-	-	-	-	-	-	-
Other foreign securities	-	-	-	-	-	-	-	-	-
Investments in mutual funds:									
Funds managed by related companies	-	-	-	-	-	-	-	-	-
Funds managed by third parties	-	-	-	-	-	-	-	-	-
Total	55,416	-	-	55,416	109	5,958	-	-	5,958

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
as of December 31, 2009 and 2008

NOTE 8 – INVESTMENTS UNDER RESALE/REPURCHASE AGREEMENTS (Continued)

b) The Bank obtains funds by selling financial instruments and committing itself to purchase them back at future dates, plus interest at a previously established rate. As of December 31, 2009 and 2008, the instruments sold under repurchase agreements are the following:

	Obligations to sales commitments								
	2009				2008				
	From 1 day and less than 3 months	More than 3 months and less than 1 year	More than one year	Total	Total	From 1 day and less than 3 months	More than 3 months and less than 1 year	More than one year	Total
MCh\$	MCh\$	MCh\$	MCh\$	MUS\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
Chilean Central Bank and Government securities									
Chilean Central Bank securities	201,273	43	-	201,316	397	186,825	6,225	-	193,050
Bonds or Treasury promissory notes	-	-	-	-	-	-	-	-	-
Other Government securities	-	-	-	-	-	-	-	-	-
Other Chilean securities:									
Securities from other Chilean banks	215,221	1,608	-	216,829	428	97,428	61,726	-	159,154
Bonds and bills of exchange from companies	1,184	-	-	1,184	2	4,400	-	-	4,400
Other Chilean securities	-	-	-	-	-	-	-	-	-
Foreign financial securities:									
Securities from Governments and Central Bank	-	-	-	-	-	-	-	-	-
Other foreign securities	-	-	-	-	-	-	-	-	-
Investments in mutual funds									
Funds managed by related companies	-	-	-	-	-	-	-	-	-
Funds managed by third parties	-	-	-	-	-	-	-	-	-
Total	417,678	1,651	-	419,329	827	288,653	67,951	-	356,604

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

as of December 31, 2009 and 2008

NOTE 9 – FINANCIAL DERIVATIVE CONTRACTS AND HEDGE ACCOUNTING

a) The valuation process for derivative instruments consists of measuring the obligations and rights assumed at the present value in Chilean pesos. The fair value of the derivative corresponds to the difference between the fair value of the rights acquired and the fair value of the obligations assumed at the measurement date. In other words, it is obtained from the difference between the present value expressed in Chilean pesos of the rights acquired and the present value in Chilean pesos of the assumed obligations.

As of December 31, 2009 and 2008, the Bank maintains the following portfolio of derivative instruments:

2009	Notional amount of the contracts with final maturity				Fair value		
	Up to 3 months	More than 3 months but less than 1 year	More than one year	Assets	Assets	Liabilities	Liabilities
	MCh\$	MCh\$	MCh\$	MUS\$	MCh\$	MUS\$	MCh\$
Fair value hedge derivatives							
Forwards	-	-	-	-	-	-	-
Swaps	-	-	-	-	-	-	-
Call options	-	-	-	-	-	-	-
Put options	-	-	-	-	-	-	-
Futures	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Subtotal	-	-	-	-	-	-	-
Negotiation derivatives							
Forwards	3,106,680	3,173,055	73,917	238	120,738	280	142,037
Swaps	327,711	1,076,854	2,833,300	199	100,651	179	90,530
Call options	-	-	-	-	-	-	23
Put options	-	-	-	-	-	-	-
Futures	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Subtotal	3,434,391	4,249,909	2,907,217	437	221,389	459	232,590
Cash flow hedge derivatives							
Forwards	-	-	-	-	-	-	-
Swaps	-	-	-	-	-	-	-
Call options	-	-	-	-	-	-	-
Put options	-	-	-	-	-	-	-
Futures	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Subtotal	-	-	-	-	-	-	-
Total	3,434,391	4,249,909	2,907,217	437	221,389	459	232,590

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

as of December 31, 2009 and 2008

NOTE 9 – FINANCIAL DERIVATIVE CONTRACTS AND HEDGE ACCOUNTING (Continued)

2008	Notional amount of the contracts with final maturity			Fair value	
	Up to 3 months	More than 3 months and less than 1 year	More than one year	Assets	Liabilities
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
Fair value hedge derivatives					
Forwards	-	-	-	-	-
Swaps	-	-	-	-	-
Call options	-	-	-	-	-
Put options	-	-	-	-	-
Futures	-	-	-	-	-
Other	-	-	-	-	-
Subtotal	-	-	-	-	-
Negotiation derivatives					
Forwards	3,788,743	2,023,081	39,603	507,542	292,834
Swaps	1,086,461	1,941,723	3,777,984	65,251	58,624
Call options	-	-	-	-	12
Put options	-	-	-	-	-
Futures	-	-	-	-	-
Other	-	-	-	-	-
Subtotal	4,875,204	3,964,804	3,817,587	572,793	351,470
Cash flow hedge derivatives					
Forwards	-	-	-	-	-
Swaps	-	-	-	-	-
Call options	-	-	-	-	-
Put options	-	-	-	-	-
Futures	-	-	-	-	-
Other	-	-	-	-	-
Subtotal	-	-	-	-	-
Total	4,875,204	3,964,804	3,817,587	572,793	351,470

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
as of December 31, 2009 and 2008

NOTE 9 – FINANCIAL DERIVATIVE CONTRACTS AND HEDGE ACCOUNTING (Continued)

b) Types of derivatives

Derivative transactions have the following purposes: to provide solutions for risk and trading management to the Bank's customers, and for its own internal risk management, as well as to manage its hedging positions.

The Bank can enter into the following types of derivatives:

b1) Hedging Derivatives, whose main objective is to hedge the variability in the statement of financial position, arising from the investment portfolio classified as available for sale, which allows to manage accounting mismatch in the financial statements.

b2) Trading Derivatives, whose main purpose is to obtain profits in the short term, taking advantage of margins and fluctuations in prices of rates and currencies in the market. Gains and losses resulting from transactions with trading derivatives are recognized in net income (loss) for the period.

Among the different types of derivatives that the Bank currently holds are the following:

Forward contracts, in which a future transaction is agreed, giving rise to rights and obligations that are enforceable at the agreed date. The main two categories are Forwards Exchange Contracts and Forward Rate Agreements (FRA).

Swap contracts, in which more than one right and more than one obligation is acquired for each operation. As its name says, it is a swap of a series of rights and obligations. There are two main categories, Cross Currency Swaps (CCS) and Interest Rate Swaps (IRS).

BancoEstado holds instruments classified as available for sale, which caused a mismatch in the statement of financial position due to the variability arisen from these investments in the equity of the Bank. To minimize the accounting mismatch, BancoEstado enters into trading derivatives that are measured at fair value with changes in the fair value recognized in net income, thus offsetting the accounting mismatch, and providing stability to the Bank's equity.

As of the date of these financial statements, BancoEstado has not entered into any hedge accounting. However, management indicates in the accounting policies that if the market conditions and the risks surrounding the operations existed, the Bank would enter into this type of transaction.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

as of December 31, 2009 and 2008

NOTE 10 – INTERBANK LOANS

a) Interbank loans as of December 31, 2009 and 2008 are as follows:

	2009 MUS\$	2009 MCh\$	2008 MCh\$
Domestic banks			
Loans and advance payments to banks	-	-	-
Deposits in the Central Bank of Chile, not available	-	-	-
Non-transferable securities of the Central Bank	-	-	-
Other obligations with the Central Bank	-	-	-
Interbank loans	6	2,984	203,878
Overdrafts in checking accounts	-	-	-
Non-transferable deposits in local banks	-	-	-
Other obligations with local banks	-	-	-
Allowance and impairment for credits with local banks	-	(102)	-
Foreign banks			
Loans to foreign banks	79	39,902	56,325
Overdrafts in checking accounts	-	-	-
Non-transferable deposits in foreign banks	-	-	-
Other obligations with foreign banks	31	15,733	16,993
Allowance and impairment for credits with foreign banks	(15)	(7,548)	(6,675)
Total	101	50,969	270,521

b) The changes in allowance from interbank loan losses for the years ended December 31, 2009 and 2008 are as follows:

Detail	2009				2008		
	Domestic banks MCh\$	Foreign banks MCh\$	Total MCh\$	Total MUS\$	Domestic banks MCh\$	Foreign banks MCh\$	Total MCh\$
Balance as of January 1	-	6,675	6,675	13	-	135	135
Charge-offs	-	-	-	-	-	-	-
Provisions recognized	982	4,999	5,981	12	-	6,646	6,646
Provisions un used	(880)	(4,126)	(5,006)	(10)	-	(106)	(106)
Impairments	-	-	-	-	-	-	-
Reversal of impairment	-	-	-	-	-	-	-
Balances as of December 31	102	7,548	7,650	15	-	6,675	6,675

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

as of December 31, 2009 and 2008

NOTE 11 – LOANS AND ACCOUNT RECEIVABLE FROM CUSTOMERS

a) Loans and accounts receivables from customers

The composition of the normal and impaired loan portfolios as of December 31, 2009 is as follows:

2009	Assets before allowance			Allowance accrued			Net asset MCh\$	Net asset MUS\$
	Normal portfolio	Impaired portfolio	Total	Individual allowance	Collective allowance	Total		
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$		
Commercial loans								
Commercial loans	4,398,926	285,045	4,683,971	46,745	60,457	107,202	4,576,769	9,025
Foreign trade credits	373,625	48,497	422,122	-	170	170	421,952	832
Debtors in checking accounts	41,399	961	42,360	-	472	472	41,888	83
Factoring operations	90,564	265	90,829	214	42	256	90,573	179
Lease operations	237,365	16,551	253,916	3,037	482	3,519	250,397	494
Other credits and accounts receivable	102,665	2,120	104,785	-	-	-	104,785	206
Subtotal	5,244,544	353,439	5,597,983	49,996	61,623	111,619	5,486,364	10,819
Mortgage loans								
Loans with letters of credit	1,159,420	521,497	1,680,917	-	4,717	4,717	1,676,200	3,305
Endorsable mortgage loans	328,952	87,965	416,917	-	3,508	3,508	413,409	815
Other mortgage credits	1,743,198	345,256	2,088,454	-	107,717	107,717	1,980,737	3,906
Lease operations	-	-	-	-	-	-	-	-
Other credits and accounts receivable	114,712	107,562	222,274	-	12,065	12,065	210,209	415
Subtotal	3,346,282	1,062,280	4,408,562	-	128,007	128,007	4,280,555	8,441
Consumer loans								
Consumer loans in installments	876,424	72,458	948,882	-	53,817	53,817	895,065	1,765
Debtors in checking accounts	37,128	3,152	40,280	-	2,817	2,817	37,463	74
Debtors from credit cards	77,437	5,349	82,786	-	8,651	8,651	74,135	146
Other credits and accounts receivable	-	-	-	-	-	-	-	-
Subtotal	990,989	80,959	1,071,948	-	65,285	65,285	1,006,663	1,985
Total	9,581,815	1,496,678	11,078,493	49,996	254,915	304,911	10,773,582	21,245

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

as of December 31, 2009 and 2008

NOTE 11 – LOANS AND ACCOUNTS RECEIVABLE FROM CUSTOMERS (Continued)

The composition of the normal and impaired loan portfolios as of December 31, 2009 is as follows:

2008	Assets before allowance MCh\$	Provisions accrued			Net asset MCh\$
		Individual allowance MCh\$	Group allowance MCh\$	Total MCh\$	
Commercial loans					
Commercial loans	3,492,908	-	-	-	-
Foreign trade credits	459,044	-	-	-	-
Debtors in checking accounts	34,978	-	-	-	-
Factoring operations	97,411	-	-	-	-
Lease operations	265,669	-	-	-	-
Other credits and accounts receivable	1,921	-	-	-	-
Subtotal	4,351,931	51,893	67,178	119,071	4,232,860
Mortgage loans					
Loans with letters of credit	1,877,391	-	-	-	-
Endorsable mortgage loans	328,634	-	-	-	-
Other mortgage credits	1,788,607	-	-	-	-
Lease operations	-	-	-	-	-
Other credits and accounts receivable	119,062	-	-	-	-
Subtotal	4,113,694	-	85,750	85,750	4,027,944
Consumer loans					
Consumer loans in installments	864,318	-	-	-	-
Debtors in checking accounts	37,472	-	-	-	-
Debtors from credit cards	68,276	-	-	-	-
Other credits and accounts receivable	-	-	-	-	-
Subtotal	970,066	-	49,288	49,288	920,778
Total	9,435,691	51,893	202,216	254,109	9,181,582

Note: The categorization “normal portfolio” and “impaired portfolio” is not necessary when it relates to information of comparative balances prior to December 31, 2009, as indicated in Circular No 3,489 issued by the SBIF on December 29, 2009.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
as of December 31, 2009 and 2008

NOTE 11 – LOANS AND ACCOUNTS RECEIVABLE FROM CUSTOMERS (Continued)

The guarantees received by the Bank to ensure the collection of the rights included in its loan portfolio, correspond to actual guarantees, specifically mortgages and pledges.

As of December 31, 2009 and 2008, the fair value of the guarantees received correspond to 60% and 66% of the secured assets, respectively.

For mortgage guarantees the fair value of the guarantees received corresponds to 133% and 132% of the amount of the mortgage loans as of December 31, 2009 and 2008, respectively.

The Bank provides financing to its customers for the acquisition of assets, both movable and immovable, through financial lease contracts that are presented under this item. As of December 31, 2009 financial leases over movable assets amounting to MCh\$102,538 (MCh\$103,663 in 2008), while financial leases over immovable assets amounting to MCh\$151,378 (MCh\$161,923 in 2008).

The Bank, by the execution of guarantees, has obtained assets, such as real estate amounting to MCh\$1,708 as of December 31, 2009 (MCh\$1,192 in 2008).

b) Loan portfolio characteristics:

The loan portfolio before allowance detailing the customers' economic activity as of December 31, 2009 and 2008, is as follows:

	Domestic Loans		Foreign Loans		Total		2009 %	2008 %	
	2009 MCh\$	2008 MCh\$	2009 MCh\$	2008 MCh\$	2009 MCh\$	2008 MUS\$ MCh\$			
Commercial loans									
Manufacturing	477,656	320,209	1,084	7,883	478,740	944	328,092	4%	3%
Mining	503,262	47,949	20,182	-	523,444	1,032	47,949	5%	1%
Electricity, gas and water	406,163	226,790	-	-	406,163	801	226,790	4%	2%
Agriculture and livestock	168,456	406,268	-	-	168,456	332	406,268	2%	4%
Forestry	15,318	28,513	-	11	15,318	30	28,524	0%	0%
Fishing	6,659	64,659	-	-	6,659	13	64,659	0%	1%
Transport	445,001	303,929	-	478	445,001	878	304,407	4%	3%
Telecommunications	60,332	59,418	-	-	60,332	119	59,418	1%	1%
Construction	643,911	504,950	9,020	11,316	652,931	1,287	516,266	6%	5%
Commerce	1,170,932	1,034,124	24,243	4,818	1,195,175	2,357	1,038,942	11%	11%
Services	1,129,402	728,085	1,799	8,973	1,131,201	2,231	737,058	10%	8%
Other	510,988	587,950	3,575	5,608	514,563	1,015	593,558	5%	6%
Subtotal	5,538,080	4,312,844	59,903	39,087	5,597,983	11,039	4,351,931	51%	46%
Mortgage loans	4,408,562	4,114,993	-	-	4,408,562	8,694	4,113,694	40%	44%
Consumer loans	1,071,948	970,066	-	-	1,071,948	2,114	970,066	10%	10%
Total	11,018,590	9,397,903	59,903	39,087	11,078,493	21,847	9,435,691	100%	100%

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

as of December 31, 2009 and 2008

NOTE 11 – LOANS AND ACCOUNTS RECEIVABLE FROM CUSTOMERS (Continued)

c) Allowance for loan losses

The movement in the provisions for loan losses as of December 31, 2009 and 2008, is summarized as follows:

	December 31, 2009				December 31, 2008		
	Individual allowance	Collective allowance	Total	Total	Individual allowance	Collective allowance	Total
	MCh\$	MCh\$	MCh\$	MUS\$	MCh\$	MCh\$	MCh\$
Balances at January 1	51,893	202,216	254,109	501	42,314	176,096	218,410
Charge-offs of impaired portfolio							
Commercial loans	(5,544)	(33,318)	(38,862)	(77)	(1,865)	(20,414)	(22,279)
Mortgage loans	-	(8,338)	(8,338)	(17)	-	(9,444)	(9,444)
Consumer loans	-	(70,572)	(70,572)	(139)	-	(46,739)	(46,739)
Total write-offs	(5,544)	(112,228)	(117,772)	(233)	(1,865)	(76,597)	(78,462)
Allowance established	40,994	203,736	244,730	483	16,482	113,889	130,371
Allowance un used	(23,731)	(52,425)	(76,156)	(150)	(5,038)	(11,172)	(16,210)
Balances at December 31	63,612	241,299	304,911	601	51,893	202,216	254,109

In addition to the allowance for loan losses, the Bank has recognized provisions for Country Risk to cover foreign operations and additional provisions authorized by the Executive Committee, which are presented in the item Provisions (Note 21) within Liabilities.

d) Sale of portfolio:

In 2009, BancoEstado sold the portfolio of University Credits with State Guarantee (UCSG) as part of the public bidding process for awarding the Financing and Administration Service for Higher Education Studies Law No. 20,027. The bid model open to the financial institutions is explained in the corresponding bid terms, which allow selling a percentage of the portfolio to third parties. Regarding the sold portfolio, BancoEstado transferred substantially all risks and rewards associated with such portfolio, maintaining only the administration service of the portfolio, that considers the generation of new credits and the collection of the payment of the installments of such credits. The detail of the credits sold is as follows:

	No. of operations	Par value MCh\$	Sales value MCh\$	Release of provisions MCh\$	Income from sale MCh\$	MUS\$
Bid on lists	12,590	18,978	24,387	(1,375)	6,784	13
Other	1		521		521	1
Total	12,591	18,978	24,908	(1,375)	7,305	14

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

as of December 31, 2009 and 2008

NOTE 12 – INVESTMENT INSTRUMENTS

The following table sets forth the details of the financial instruments classified as available for sale and held to maturity as of December 31, 2009 and 2008, as follows:

	2009				2008		
	Available for sale	Held to maturity	Total	Total	Available for sale	Held to maturity	Total
	MCh\$	MCh\$	MCh\$	MUS\$	MCh\$	MCh\$	MCh\$
Investment quoted on active markets:							
Chilean Central Bank and Government securities							
Chilean Central Bank securities	2,035,644	-	2,035,644	4,014	417,949	-	417,949
Bonds or Treasury promissory notes	-	-	-	-	7,977	-	7,977
Other Government securities	-	-	-	-	-	-	-
Securities from other Chilean entities							
Securities from other Chilean banks	1,215,609	40,324	1,255,933	2,477	1,908,119	41,480	1,949,599
Bonds and bills of exchange from companies	4,488	269	4,757	9	16,381	3,028	19,409
Other Chilean securities	-	-	-	-	-	-	-
Securities from foreign banks:							
Foreign Government and Central Bank securities	8,329	675	9,004	18	10,547	7,293	17,840
Other foreign securities	52,570	7,725	60,295	119	184,368	32,195	216,563
Impairment provision	-	-	-	-	-	-	-
Subtotal	<u>3,316,640</u>	<u>48,993</u>	<u>3,365,633</u>	<u>6,637</u>	<u>2,545,341</u>	<u>83,996</u>	<u>2,629,337</u>
Investments not quoted on active markets:							
Bonds or Treasury promissory notes	-	77,955	77,955	154	-	86,009	86,009
Bonds and bills of exchange from companies	-	6,659	6,659	13	-	-	-
Other instruments	-	6,328	6,328	12	-	769	769
Impairment provision	-	-	-	-	-	-	-
Subtotal	<u>-</u>	<u>90,942</u>	<u>90,942</u>	<u>179</u>	<u>-</u>	<u>86,778</u>	<u>86,778</u>
Total	<u>3,316,640</u>	<u>139,935</u>	<u>3,456,575</u>	<u>6,816</u>	<u>2,545,341</u>	<u>170,774</u>	<u>2,716,115</u>

Chilean Central Bank and Government securities include instruments sold to customers and financial institutions under repurchase agreements amounting to MCh\$200,073 as of December 31, 2009 (MCh\$194,492 in 2008).

Securities from other Chilean entities and from foreign entities include instruments sold to customers and financial institutions under repurchase agreements amounting to MCh\$101 as of December 31, 2009 (MCh\$84,086 in 2008).

As December 31, 2009 and 2008 the repurchase agreements have an average maturity of 16 and 21 days, respectively.

As of December 31, 2009 and 2008 no impairment losses has been recognized on investment instruments.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

as of December 31, 2009 and 2008

NOTE 13 – INVESTMENTS IN OTHER COMPANIES

a) Investments in other companies as of December 31, 2009 and 2008, are as follows:

	At December 31,										
	2009							2008			
	Ownership percentage	Company equity MUS\$	Company equity MCh\$	Total investment MUS\$	Total investment MCh\$	Income (loss) MUS\$	Income (loss) MCh\$	Ownership percentage	Company equity MCh\$	Total investment MCh\$	Income (loss) MCh\$
Investment stated at equity method:											
Administrador Financiero Transantiago S.A.	21.0000	6	2,915	1	612	(1)	(645)	21.0000	2,843	1,257	858
Sociedad Operadora de la Cámara de Compensación de Pagos de Alto Valor S.A.	10.2300	6	3,073	1	315	-	53	11.5200	3,215	377	97
Operadora de Tarjetas de Créditos Nexus S.A.	12.9030	13	6,412	2	827	-	94	12.9030	6,418	828	147
Transbank S.A.	8.7188	14	7,006	1	611	-	85	8.7188	7,631	665	179
Bolsa de Comercio de Santiago	2.0833	34	17,143	1	350	-	70	2.0833	4,022	368	107
Bolsa Electrónica de Chile	2.5000	8	4,162	-	100	-	7	2.5000	2,843	92	7
Subtotal				6	2,815	(1)	(336)			3,587	1,395
Investments stated at cost:											
Shares or rights in other companies (Bladex)				2	1,112	1	117			1,395	148
Total				8	3,927	-	(219)			4,982	1,543

b) The movement in the investments in other companies in 2009 and 2008, is as follows:

	2009 MCh\$	2009 MCh\$	2008 MCh\$
Balance as of January 1,	10	4,982	4,285
Acquisition of investments (*)	-	4	-
Sale of investments (*)	-	(39)	-
Participation in results	-	(219)	1,543
Dividends received	(1)	(518)	(478)
Provision for investment losses	-	-	-
Exchange rate difference of shares Banco Latinoamericano de Exportaciones S.A.	(1)	(283)	158
Adjustment of investments	-	-	(526)
Balance as of December 31,	8	3,927	4,982

* On November 30, 2009, BancoEstado acquired 0.12% of the shares of Sociedad Operadora de la Cámara de Compensación de Pagos de Alto Valor S.A. from Banco do Brasil S.A. for a total consideration of MCh\$4 (equivalent to 12 shares)

On April 21, 2009, BancoEstado sold 137 shares of its investment in Sociedad Operadora de la Cámara de Compensación de Pagos de Alto Valor S.A. to Banco Bice for a total consideration of MCh\$39, resulting in a gain amounting to MCh\$1.

As a result of aforementioned sale/purchase shares transactions, BancoEstado decreased its ownership percentage from 11.52% to 10.23% in such company (Sociedad Operadora de la Cámara de Compensación de Pagos de Alto Valor S.A.).

c) As of December 31, 2009 and 2008 no impairment losses has been identified for these investments.

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Notes to the Consolidated Financial Statements

as of December 31, 2009 and 2008

NOTE 14 – INTANGIBLE ASSETS

a) Intangible assets as of December 31, 2009 and 2008, are detailed as follows:

Concept	Years of useful life	Remaining years of amortization	Gross balance	2009		2008	
				Accumulated amortization and impairment	Net balance	Net balance	Net balance
			MCh\$	MCh\$	MCh\$	MUS\$	MCh\$
Intangible assets acquired separately	3	2.5	10,476	(4,941)	5,535	11	3,784
Intangible assets acquired in business combination	-	-	-	-	-	-	-
Internally developed intangible assets	3	2.5	30,418	(12,123)	18,295	36	11,179
Total			40,894	(17,064)	23,830	47	14,963

b) The movement in intangible assets during the years 2009 and 2008, is as follows:

	Intangible assets acquired separately	Intangible assets acquired in business combination	Internally developed intangible assets	Total	Total
	MCh\$	MCh\$	MCh\$	MCh\$	MUS\$
Balance at January 1, 2008	2,188	-	6,343	8,531	-
Acquisitions	3,837	-	9,860	13,697	-
Withdrawals	-	-	-	-	-
Increases and decreases from revaluations	-	-	-	-	-
Assets classified as held for sale	-	-	-	-	-
Other	117	-	69	186	-
Balance as of December 31, 2008	6,142	-	16,272	22,414	-
Balance as of January 1, 2009	6,142	-	16,272	22,414	44
Acquisitions	4,274	-	14,221	18,495	37
Withdrawals	-	-	(75)	(75)	-
Increases and decreases from revaluations	-	-	-	-	-
Assets classified as held for sale	-	-	-	-	-
Other	60	-	-	60	-
Balances as of December 31, 2009	10,476	-	30,418	40,894	81

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Notes to the Consolidated Financial Statements
as of December 31, 2009 and 2008

NOTE 14 – INTANGIBLE ASSETS (Continued)

Accumulated amortizations and impairments	Intangible assets acquired separately	Intangible assets acquired in business combination	Internally developed intangible assets	Total	Total
	MCh\$	MCh\$	MCh\$	MCh\$	MUS\$
Gross balance 2008					
Balance at January 1, 2008	-	-	-	-	-
Amortization for the year	(2,358)	-	(5,093)	(7,451)	-
Impairment loss	-	-	-	-	-
Exchange differences	-	-	-	-	-
Other changes in carrying amount for the year	-	-	-	-	-
Balances at December 31, 2008	(2,358)	-	(5,093)	(7,451)	-
Balance at January 1, 2009	(2,358)	-	(5,093)	(7,451)	(15)
Amortization for the year	(3,987)	-	(5,566)	(9,553)	(19)
Impairment loss	-	-	-	-	-
Exchange differences	-	-	-	-	-
Other changes in carrying amount for the year	(60)	-	-	(60)	-
Balances at December 31, 2009	(6,405)	-	(10,659)	(17,064)	(34)

- c) The Bank maintains contractual commitments for the acquisition of intangible assets, as of December 31, 2009 and 2008 as follows:

Detail	Contract date	Investment amount		
		2009 MUS\$	2009 MCh\$	2008 MCh\$
Development project 12511 Prosecución 4868	Purchase Order Dec.2009	2	1,002	-
Development projects (Codes 11329, 11570, 11714, 11731, 11872, 11906, 12028,12346,12720,12743,12749,12760,12834)	Purchase Order Dec.2009	1	376	-
Projecto 12101 Capacity increase of IT platform (Prosecución)	Purchase Order Dec. 2008	-	-	674
Development project 12511 Prosecución 4868	Purchase Order Dec. 2008	-	-	98
Project 12510 Growth and Renewal of ATM Platform (Prosecution)	Purchase Order Dec. 2008	-	-	867
		3	1,378	1,639

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

as of December 31, 2009 and 2008

NOTE 15 - PROPERTY, PLANT AND EQUIPMENT

a) The detail and movement of property, plant and equipment as of December 31, 2009 and 2008 are set forth in the following tables:

2009	Land and constructions	Equipment	Granted in operating leases	Other	Total	Total
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MUS\$
Cost						
Balances as of January 1, 2009	188,174	34,930	-	39,124	262,228	517
Additions	6,561	20,704	-	27,526	54,791	108
Withdrawals / Disposals	(275)	(741)	-	(199)	(1,215)	(2)
Transfers	-	-	-	(38,492)	(38,492)	(76)
Other	35	62	-	-	97	-
	194,495	54,955	-	27,959	277,409	547
Accumulated depreciation	(10,716)	(30,436)	-	(6,252)	(47,404)	(93)
Impairment losses	-	-	-	-	-	-
Balances as of December 31, 2009	183,779	24,519	-	21,707	230,005	454

2008	Land and Constructions	Equipment	Granted in operating lease	Other	Total
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
Cost					
Balances as of January 1, 2008	181,412	28,714	-	19,626	229,752
Additions	7,040	6,516	-	20,322	33,878
Withdrawals / Disposals	(85)	(102)	-	(159)	(346)
Transfers	(59)	(198)	-	(27)	(284)
Others	(134)	-	-	(638)	(772)
	188,174	34,930	-	39,124	262,228
Accumulated depreciation	(7,968)	(9,142)	-	(6,225)	(23,335)
Impairment	-	-	-	-	-
Balances as of December 31, 2008	180,206	25,788	-	32,899	238,893

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

as of December 31, 2009 and 2008

NOTE 15 - PROPERTY, PLANT AND EQUIPMENT (Continued)

b) The Bank and its subsidiaries have non-cancellable operating lease contracts as of December 31, 2009 and 2008. The total future minimum lease payments are detailed as follows:

Real estate properties	Future minimum lease payments				Total MUS\$
	Up to 1 year	From 2 to 3 years	More than 3 years	Total	
	MCh\$	MCh\$	MCh\$	MCh\$	
Balances at December 31, 2009	4,964	6,004	12,163	23,131	46
Balances at December 31, 2008	8,353	8,126	4,671	21,150	-

c) The Bank has no financial lease contracts where is acting as a lessee as of December 31, 2009 and 2008.

On the other hand, the Bank is acting as a lessor under financial lease contracts amounting to MCh\$13,188 as of December 31, 2009 (MCh\$28,586 in 2008), which are presented in the line item "Other assets".

NOTE 16 - CURRENT TAX AND DEFERRED TAXES

a) Current tax

The Bank has recognized its income tax payable (recoverable) at the end of each reporting period, based on applicable tax regulations where a liability amounting to MCh\$186,690 was recognized as of December 31, 2009 and an asset amounting to MCh\$45,022 was recognized as of December 31, 2008. Income tax payable is presented net of current recoverable taxes as set forth in the following table:

	2009 MUS\$	2009 MCh\$	2008 MCh\$
Income taxes (tax rate 17%)	(132)	(66,927)	(4,159)
Tax Article 2 DL N°2.398 (40%)	(296)	(149,970)	(3,652)
First category income tax	(8)	(4,219)	(2,261)
Single tax Article 21	-	(7)	(12)
Less:			
Monthly provisional payments	66	33,667	53,607
Monthly provisional payments for accumulated losses Art. 31, paragraph 3	-	-	-
Credit for training expenses	2	766	212
Credit for purchases of property, plant and equipment	-	-	-
Other	-	-	1,287
Total	(368)	(186,690)	45,022

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
as of December 31, 2009 and 2008

NOTE 16 - CURRENT TAX AND DEFERRED TAXES (Continued)

b) Income tax charge to income

Income tax expense for the years ended December 31, 2009 and 2008 is as follows:

	2009 MUS\$	2009 MCh\$	2008 MCh\$
Income tax expense			
Income taxes (tax rate 17%)	(132)	(66,927)	(4,159)
Tax Article 2 DL N°2,398 (40%)	(296)	(149,970)	(3,652)
First category income tax	(8)	(4,219)	(2,261)
Credit (debit) for deferred taxes			
Origination and reversal of temporary differences	347	176,323	(71,440)
Tax benefit from previous years	-	-	-
	<u>(89)</u>	<u>(44,793)</u>	<u>(81,512)</u>
Subtotal			
	(89)	(44,793)	(81,512)
Taxes for non-deductible expenses Article No. 21	-	(7)	(12)
Other	-	(69)	732
	<u>-</u>	<u>(76)</u>	<u>720</u>
Net charge to income for income taxes	<u>(89)</u>	<u>(44,869)</u>	<u>(80,792)</u>

c) Reconciliation between the income tax expense and the applicable effective tax rate

The reconciliation between the income tax rate and the applicable rate used in calculating the tax expense as of December 31, 2009 and 2008 is as follows:

	2009		2008		
	Tax rate %	Amount MCh\$	Amount MUS\$	Tax rate %	Amount MCh\$
Income before taxes	57%	59,812	118	57%	112,025
Permanent differences	10%	(10,731)	(21)	16%	(31,245)
Additions or deductions		-	-		
Single tax (non-deductible expenses)	35%	7	-	35%	12
Non-deductible expenses (interest expenses and non-taxable)		-	-		-
Tax incentives not recognized in the statement of income		-	-		-
Single tax	17%	(4,219)	(8)		
Others		-	-		-
		<u>-</u>	<u>-</u>		<u>-</u>
Effective tax rate and income tax expense	<u>43%</u>	<u>44,869</u>	<u>89</u>	<u>41%</u>	<u>80,792</u>

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

as of December 31, 2009 and 2008

NOTE 16 - CURRENT TAX AND DEFERRED TAXES (Continued)

d) Deferred taxes recognized directly in equity

Deferred taxes recognized with charge (credit) to equity for the years ended December 31, 2009 and 2008 are as follows:

	2009		2008
	MUS\$	MCh\$	MCh\$
Financial investments available for sale	(2)	(935)	8,043
Others	-	-	-
Total charge (credit) to equity	(2)	(935)	8,043

e) Deferred taxes recognized in income

The Bank has recorded in its financial statements the effects of the deferred taxes in accordance with IAS 12. The effects of deferred taxes on temporary differences are as follows:

Concept	2009				2008		
	Assets	Liabilities	Net	Net	Assets	Liabilities	Net
	MCh\$	MCh\$	MCh\$	MUS\$	MCh\$	MCh\$	MCh\$
Loans provisions	156,806	-	156,806	309	131,004	-	131,004
Vacation provision	11,001	-	11,001	22	9,151	-	9,151
Provision associated to personnel	244	-	244	-	210	-	210
Severance payments	-	-	-	-	54,806	-	54,806
Tax losses (*)	621	-	621	1	11,876	-	11,876
Suspended interest and indexation	41,623	-	41,623	82	14,235	-	14,235
Other provisions	72,115	-	72,115	142	13,889	-	13,889
Changed-off of loans	-	-	-	-	1,693	-	1,693
Intangibles	-	-	-	-	-	-	-
Fixed assets, net	77	(36,302)	(36,225)	(71)	-	(36,968)	(36,968)
Fair value	15	5,455	5,470	11	8,043	(126,946)	(118,903)
Lease operations (net)	-	(10,385)	(10,385)	(20)	-	(13,542)	(13,542)
Other	8,030	(21,682)	(13,652)	(27)	14,317	(21,491)	(7,174)
Total	290,532	(62,914)	227,618	449	259,224	(198,947)	60,277

(*) The Bank has recognized a deferred tax asset for carryforward tax losses as they do not expire. Management believes that it is probable that future taxable profits will be available against which the deductible temporary differences of the tax losses can be realized.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

as of December 31, 2009 and 2008

NOTE 17 – OTHER ASSETS

a) Other assets as of December 31, 2009 and 2008 are detailed as follows:

	2009	2009	2008
	MUS\$	MCh\$	MCh\$
Lease assets (*)	26	13,188	28,586
Assets received in lieu of payments or awarded	3	1,570	1,260
Assets received in lieu of payment	-	18	-
Assets obtained through court-ordered public auction	3	1,569	1,293
Assets received in settlement of loans (***)	-	(17)	(33)
Other assets	264	133,782	157,572
Deposits of money in guarantee	-	183	62
Investments in gold	-	-	-
Value added tax	4	2,167	2,462
Prepaid expenses	28	14,420	25,159
Items of fixed assets held for sale (**)	-	4	7
Assets recovered from leasing held for sale	-	-	-
Valuation adjustment for macro-hedges	-	-	-
Due from the Government	75	37,930	29,866
Due from supporting companies	77	39,105	25,007
Outstanding operations	6	2,793	23,967
Materials	3	1,493	1,496
Commissions receivable	14	6,955	6,080
Sundry accounts	32	16,093	36,040
Other receivables	7	3,415	-
Other assets	18	9,224	7,426
Total	293	148,540	187,418

(*) Correspond to assets available for delivery under financial leases.

(**) Non-current assets held for sale corresponding to real estate assets, which are presented in the account "Items of Fixed Assets held for Sale".

These real estate assets are have been classified as held for sale as their sale is highly probable. For most of the assets the sale is expected to occur within one year from the date on which the asset are classified as "Items of fixed asset held for sale and/or assets recovered from leasing held for sale".

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

as of December 31, 2009 and 2008

NOTE 17 – OTHER ASSETS (Continued)

(***) Provisions for assets received in lieu of payment of obligations, are recorded in accordance with Chapter B-5.3 of the Compendium of Accounting Standards, where the provision is determined as the difference between the initial carrying amount plus any additions and its net realizable value accounting for any excess of the initial carrying amount plus additions over net realizable value.

- b) The movement in the provision for assets received in lieu of payment during 2009 and 2008, is as follows:

	As of December 31,		
	2009	2009	2008
	MUS\$	MCh\$	MCh\$
Balance as of January 1,	-	33	43
Amortization for the year	-	-	-
Impairment loss	-	-	-
Exchange differences	-	-	-
Provisions recognized	-	(16)	(10)
Balance as of December 31,	-	17	33

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

as of December 31, 2009 and 2008

NOTE 18 – DEPOSITS AND OTHER DEMAND LIABILITIES AND TIME DEPOSITS AND OTHER TIME LIABILITIES

As of December 31, 2009 and 2008, the detail of deposits and other demand liabilities and time deposits and other time liabilities is as follows:

	2009	2009	2008
	MUS\$	MCh\$	MCh\$
a) Deposits and other demand liabilities			
Checking accounts	5,602	2,841,001	2,683,269
Other demand deposits and obligations	719	364,594	244,301
Deposits for legal consignments	347	175,995	148,537
Performance bonds payable on demand	1	501	501
Collections performed to be completed	72	36,495	31,729
Import payments to be liquidated	2	1,009	263
Pending payment orders	8	3,849	10,138
Payments on account of credits to be liquidated	43	21,850	12,125
Immobilized accounts Article 156 LGB	7	3,434	2,803
Matured time deposits	19	9,817	6,031
Matured bond coupons and letters of credit	-	180	162
Other demand obligations	296	150,029	55,008
Total	<u>7,116</u>	<u>3,608,754</u>	<u>3,194,867</u>
b) Time deposits and other time liabilities			
Time deposits	9,721	4,929,588	4,218,722
Saving accounts	4,355	2,208,436	2,102,600
Other time creditor balances	23	11,363	10,177
Total	<u><u>14,099</u></u>	<u><u>7,149,387</u></u>	<u><u>6,331,499</u></u>

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

as of December 31, 2009 and 2008

NOTE 19 – INTERBANK BORROWINGS

As December 31, 2009 and 2008, the detail of interbank borrowings is as follows:

	2009 MUS\$	2009 MCh\$	2008 MCh\$
Loans obtained from Financial Institutions and Chile's Central Bank:			
Other obligations with Chile's Central Bank	308	156,076	-
Subtotal	<u>308</u>	<u>156,076</u>	<u>-</u>
Loans from local financial institutions:			
The Bank of Tokyo Mitsubishi Ltda.	2	1,000	5,130
Subtotal	<u>2</u>	<u>1,000</u>	<u>5,130</u>
Loans from foreign financial institutions:			
ABN Amro Bank	-	-	13,162
Banco Bilbao Vizcaya Argentar	-	-	6,499
Banco Español de Crédito	1	261	19,607
Banco Latinoamericano	10	5,072	6,365
Bank of New York, NY	-	-	12,862
Bayerische Landesbank	-	-	198,091
BNP Paribas Panama Bra	50	25,443	-
BNP Paribas S.A. - Par	100	50,776	-
Commerzbank AG	-	48	6,436
Commercebank NA Estados Unidos	40	20,343	-
Credit Industriel et Commerci	7	3,575	3,994
Dresdner Bank A.G.	-	-	13,031
ING Bank N. V. Amstersam	60	30,488	-
Intesa SanPaolo S.P.A.	-	101	54,888
Intesabci SPA New York	65	33,064	-
JPMorgan Chase Bank	120	60,952	70,781
Kfw Bankengruppe	134	67,781	96,395
Mercantil Commercebank NA	30	15,235	-
Standard Chartered Bank	102	51,587	294
The Bank of Montreal	20	10,148	9,659
The Royal Bank of Scotland	30	15,241	-
The Toronto Dominion Bank	40	20,424	19,504
Wachovia Bank, Miami	-	-	9,750
Wachovia Bank NA	91	45,875	-
Wachovia Rep. Office	-	-	34,196
Zuercher Kantonalbank	30	15,239	-
Other	4	1,991	12,276
Foreign obligations			
Bank of Montreal	-	-	12,899
ING Bank N.V. Amsterdam	-	-	19,345
Commercebank AG	50	25,398	-
Standard Chartered Bank	30	15,217	-
The Bank of New York	20	10,149	-
Wachovia Bank NA	45	22,834	-
The Toronto Dominion Bank	30	15,215	-
Other	-	-	7,226
Subtotal	<u>1,109</u>	<u>562,457</u>	<u>627,260</u>
Total	<u>1,419</u>	<u>719,533</u>	<u>632,390</u>

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

as of December 31, 2009 and 2008

NOTE 20 – ISSUED DEBT INSTRUMENTS AND OTHER FINANCIAL LIABILITIES

As of December 31, 2009 and 2008, the detail of issued debt instruments and other financial liabilities is as follows:

	2009 MUS\$	2009 MCh\$	2008 MCh\$
Other financial obligations:			
Bonds payable:	-	-	-
Other obligations in the country	23	11,570	3,585
Borrowings abroad	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>23</u>	<u>11,570</u>	<u>3,585</u>
Issued debt instruments:			
Mortgage finance bonds	3,473	1,761,278	1,984,500
Senior bonds	2,064	1,046,579	821,242
Subordinated bonds	782	396,459	410,826
	<u>782</u>	<u>396,459</u>	<u>410,826</u>
Total	<u>6,319</u>	<u>3,204,316</u>	<u>3,216,568</u>
Total	<u><u>6,342</u></u>	<u><u>3,215,886</u></u>	<u><u>3,220,153</u></u>

NOTE 21 – PROVISIONS

As of December 31, 2009 and 2008, the detail of provisions is as follows:

a) Provisions

	2009 MUS\$	2009 MCh\$	2008 MCh\$
Provisions for personnel benefits and compensations	218	110,722	130,056
Provisions for distribution of net income for the year	102	51,686	2,371
Allowance for contingent loan losses	4	1,908	1,968
Provisions for contingencies	82	41,458	10,250
Provision for country risk	2	1,322	389
	<u>2</u>	<u>1,322</u>	<u>389</u>
Total	<u>408</u>	<u>207,096</u>	<u>145,034</u>

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

as of December 31, 2009 and 2008

NOTE 21 – PROVISIONS (Continued)

b) The following table sets forth the movement in provisions during the years ended December 31, 2009 and 2008:

	<u>Personnel benefits and compensations</u>	<u>Contingent credit risk</u>	<u>Contingency provisions</u>	<u>Other provisions</u>	<u>Total</u>	<u>Total</u>
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MUS\$
Balances at January 1, 2008	106,004	1,278	43,470	19	150,771	-
Provisions recognized	32,117	1,595	-	2,741	36,453	-
Application of the provisions	(8,065)	(905)	(10,220)	-	(19,190)	-
Provisions released	-	-	(23,000)	-	(23,000)	-
Other	-	-	-	-	-	-
	<u>130,056</u>	<u>1,968</u>	<u>10,250</u>	<u>2,760</u>	<u>145,034</u>	<u>-</u>
Balances at January 1, 2009	130,056	1,968	10,250	2,760	145,034	286
Provisions established	27,934	2,708	32,016	52,619	115,277	227
Application of the provisions	(47,268)	(5)	(808)	(2,371)	(50,452)	(99)
Provisions released	-	(2,833)	-	-	(2,833)	(6)
Other	-	70	-	-	70	-
	<u>110,722</u>	<u>1,908</u>	<u>41,458</u>	<u>53,008</u>	<u>207,096</u>	<u>408</u>

c) Provisions for personnel benefits and compensations

	2009	2009	2008
	MUS\$	MCh\$	MCh\$
Provision for severance payments (note d)	152	76,857	102,539
Provision for other personnel benefits	25	12,893	7,500
Vacation provisions	41	20,972	20,017
	<u>218</u>	<u>110,722</u>	<u>130,056</u>

d) Severance payments

	2009	2009	2008
	MUS\$	MCh\$	MCh\$
Present value of the obligation at the beginning of the year	202	102,539	88,041
Increase of provisions	19	9,456	22,563
Advanced payments	-	-	-
Application of provisions	(69)	(35,138)	(8,065)
Provisions release	-	-	-
Effects for discount rates	-	-	-
Other	-	-	-
	<u>152</u>	<u>76,857</u>	<u>102,539</u>

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

as of December 31, 2009 and 2008

NOTE 22 – OTHER LIABILITIES

As of December 31, 2009 and 2008, other liabilities are as follows:

	2009 MUS\$	2009 MCh\$	2008 MCh\$
Accounts and notes payable	72	36,342	47,894
Agreed dividends payable	14	7,236	-
Unearned income	2	896	1,554
Outstanding operations	8	4,278	44,215
Valuation adjustment for macro-hedges	-	-	-
Miscellaneous payables	-	-	-
Provisions payable for lease insurance premiums	24	12,472	11,373
Other liabilities	3	1,400	8,080
	<hr/>	<hr/>	<hr/>
Total	123	62,624	113,116

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

as of December 31, 2009 and 2008

NOTE 23 – COMMITMENTS AND CONTINGENCIES

A) Commitments and responsibilities recorded in memorandum accounts:

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

	2009 MUS\$	2009 MCh\$	2008 MCh\$
Contingent loans			
Guarantees and deposits			
Guarantees and deposits in local currency	77	38,994	-
Guarantees and deposits in foreign currency	143	72,359	57,937
Confirmed foreign letters of credit	12	6,371	3,337
Issued documented letters of credit	59	29,944	26,800
Performance bonds	571	289,602	250,688
Interbank letters of credit	-	-	-
Immediately available credit lines	838	424,985	397,013
Amount of committed credits and not placed	-	-	-
Other credit commitments	-	-	26,718
Credits for higher education law No. 20,027	227	114,901	-
Others	444	225,360	166,860
Other contingent credits	-	-	-
Operations on account of third parties			
Collections:			
Foreign collections	14	7,175	21,289
Local collections	70	35,540	28,210
Placement or sale of financial instruments			
Placement of securities for public bid	-	-	-
Sale of letters of credit of Bank operations	-	-	-
Sale of other instruments	-	-	-
Financial assets transferred to and managed by the Bank:			
Assets assigned to insurance companies	-	-	-
Securitized assets	-	-	-
Other assets assigned to third parties	-	-	-
Third party resources managed by the Bank:			
Financial assets administrated on behalf of third parties	537	272,314	-
Other assets administrated on behalf of third parties	-	-	-
Financial assets acquired for its own	-	-	-
Other assets acquired for its own	-	-	-
Securities held in custody			
Securities held in custody of the Bank	-	-	-
Securities held in custody deposited in another entity	-	-	101,443
Securities issued by the Bank:			
Promissory notes of time deposits	2,198	1,114,422	1,312,712
Letters of credit for sale	20	9,996	16,630
Other documents	-	-	37,683
Agreements			
Guarantees for underwriting operations	-	-	-
Commitments for assets purchase	-	-	-
Total	5,210	2,641,963	2,447,320

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

as of December 31, 2009 and 2008

NOTE 23 – COMMITMENTS AND CONTINGENCIES (Continued)

b) Legal proceedings

b.1.) Normal legal contingencies of the business

At the issuance date of the financial statements there are several legal proceedings filed against the Bank and its subsidiaries, in relation to normal operations of their businesses activities. According to Management, and based on the advice of its legal advisors, it is believed that approximately 10% of these proceedings could lead to losses not contemplated by the Bank and its subsidiaries. As of December 31, 2009 and 2008, the Bank and its subsidiaries have recognized provisions for this concept amounting to MCh\$4,458 and MCh\$4,250, respectively, which are part of the item Provisions. The following is a summary of the lawsuits and provisions per type:

TYPE	2009			2008	
	No.	AMOUNT OF PROVISION MUS\$	AMOUNT OF PROVISION MCh\$	No.	AMOUNT OF PROVISION MCh\$
Labor	73	2	1,146	61	831
Civil	279	7	3,312	246	3,419
TOTAL	352	9	4,458	307	4,250

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

As December 31, 2009 and 2008, the Bank and its Subsidiaries do not have contingencies for significant lawsuits.

c) Guarantees given for operations

	2009 MUS\$	2009 MCh\$	2008 MCh\$
Assets given in guarantee SCL to the Santiago Stock Exchange	4	2,099	2,146

Banco Estado Corredores de Seguros S.A.

- **Transaction guarantee**

In compliance with Article 58 of Statutory Decree 251 of 1931 and Circular 1,160 from the Superintendency of Securities and Insurance, an insurance policy has been taken out with Chilena Consolidada Seguros Generales S.A. for UF 500, expiring on April 14, 2010.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

as of December 31, 2009 and 2008

NOTE 23 – COMMITMENTS AND CONTINGENCIES (Continued)

- **Third party guarantee**

The Company has taken out a professional third party insurance policy for its insurance brokers with Chilena Consolidada Seguros Generales S.A. for UF60,000, expiring on April 14, 2010.

BancoEstado S.A. Stock Exchange Brokers

- **Transaction guarantees**

To comply with the obligation of constituting a guarantee for the transactions established in Article No. 30 of Law No. 18.045, the Company has taken out an insurance with Compañía de Seguros de Crédito Continental S.A. N°208103312, in the amount of UF20,000 valid from April 22, 2008 to April 22, 2010, being the representative of the creditors of the guarantee, the Santiago Stock Exchange.

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

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

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
as of December 31, 2009 and 2008

NOTE 23 – COMMITMENTS AND CONTINGENCIES (Continued)

BancoEstado S.A. Administradora General de Fondos

- **Transaction guarantees**

In compliance with requirements of Articles 226 and 227 of Law No. 18.045, Banco del Estado de Chile has been designated as representative of the beneficiaries of the guarantees it has given. The Performance Bonds taken out are the following:

	<u>Currency</u>	<u>Amount</u>	<u>Starting date</u>	<u>Termination date</u>
Fondo para la Vivienda Solidez BECH	UF	10,000.00	09/01/2009	10/01/2010
Fondo Mutuo Corporativo BancoEstado	UF	53,542.83	09/01/2009	10/01/2010
Fondo Mutuo Solvente BancoEstado	UF	49,976.70	09/01/2009	10/01/2010
Fondo Mutuo Conveniencia BancoEstado	UF	11,489.72	09/01/2009	10/01/2010
Fondo Mutuo Compromiso BancoEstado	UF	18,018.51	09/01/2009	10/01/2010
Fondo Mutuo Protección BancoEstado	UF	10,000.00	09/01/2009	10/01/2010
Fondo Mutuo BancoEstado Acciones Nacionales	UF	10,000.00	09/01/2009	10/01/2010
F.M. BancoEstado Garantizado Nuevo Mundo	UF	12,006.32	09/01/2009	10/01/2010
F.M. BancoEstado Perlas Emergentes Garantizado	UF	10,203.72	09/01/2009	10/01/2010
F.M. BancoEstado Garantizado Tesoro Americano	UF	10,000.00	09/01/2009	10/01/2010
F.M. BancoEstado Garantizado Doble Oportunidad	UF	10,000.00	09/01/2009	10/01/2010
F.M. BancoEstado BNP Paribas Renta Desarrollada	UF	10,000.00	09/01/2009	10/01/2010
F.M. BancoEstado BNP Paribas Renta Emergente	UF	10,000.00	09/01/2009	10/01/2010
F.M. BancoEstado BNP Paribas Acciones Desarrollada	UF	10,000.00	09/01/2009	10/01/2010
F.M. Acciones BancoEstado BNP Paribas Emergente	UF	10,000.00	09/01/2009	10/01/2010
F.M. Garantizado Nuevo Mundo	MCh\$	25,771	29/10/2009	30/10/2010
F.M. Perlas Emergentes Garantizado	MCh\$	20,834	29/10/2009	30/10/2010
F.M. Garantizado Tesoro Americano	MCh\$	12,124	29/10/2009	30/10/2010
F.M. Garantizado Doble Oportunidad	MCh\$	17,627	02/12/2009	03/12/2010

d) Credits and contingent liabilities

To satisfy the needs of the customers, the Bank acquired several irrevocable commitments and contingent liabilities, although these obligations could not be recognized in the statements of financial positions, these contain credit risks and are therefore part of the Bank's global risk, as indicated in letter a).

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NOTE 23 – COMMITMENTS AND CONTINGENCIES (Continued)

The table below shows the contractual amounts of transactions forcing the Bank to grant credits and the amount of the provisions set up for the credit risk assumed:

	2009 MUS\$	2009 MCh\$	2008 MCh\$
Guarantees and deposits	220	111,353	57,937
Documented letter of credit	72	36,315	30,137
Performance bonds	571	289,602	250,688
Amounts available for users of credit cards	838	424,985	397,013
Amount of committed credits and not placed	422	213,880	166,860
Credits for higher education law No. 20,027	226	114,901	-
Other	23	11,480	26,719
Provisions established	(4)	(1,908)	(1,968)
Total	2,368	1,200,608	927,386

e) Other

The subsidiary BancoEstado S.A. Corredores de Bolsa has furnished a first priority security interest on its ownership share in the Santiago Stock Exchange in order to guarantee faithful, timely performance of its obligations towards that institution. It has also furnished a second priority security interest made out to each and every one of the Stock Brokers, in order to guarantee its obligations towards them.

NOTE 24 – EQUITY

a) Capital

Banco del Estado de Chile is governed by the Organic Law of the Banco del Estado de Chile Law Decree No. 2,079 of 1977, which in its Title 1, articles 1 and 4, establishes the following:

Article 1: The Banco del Estado de Chile is an autonomous State-Government company, with its own juridical status and equity, with indefinite term, submitted exclusively to the inspection of the Superintendence of Banks and Financial Institutions and related with the Government through the Treasury Department.

Article 4 – The authorized capital of the Bank is MCh\$4,000 (four thousand million Chilean pesos) and which will be completed with the funds currently recorded as capital and reserves in local currency. If such funds are not enough to complete the authorized capital, then it will be completed with charges to revaluations or the net income generated in future years. This capital could be increased by a Supreme Decree, prior to a favorable report of the Superintendence of Banks and Financial Institutions.

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NOTE 24 – EQUITY (Continued)

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

b) Distribution of net income:

b.1) Net income for the year 2008

As per Decree No. 518 dated May 15, 2009, issued by the Ministry of Finance, the net income for year 2008 amounting to MCh\$\$47,412, determined according to the previous GAAP see Note 3g, was destined to fiscal benefit, for which BancoEstado recognized a provision for the distribution of net income to fiscal benefit.

b.2) Net income for the year 2009

Net income for the year 2009 of Banco del Estado de Chile was MCh\$\$51,686. The President of the Republic could, upon proposal of the Board of Directors of the Bank, distribute the entire or a portion of the net income for the year to fiscal benefit, as established in the Organic Law of the Banco del Estado de Chile.

BancoEstado recognized a provision for distribution of the net income to fiscal benefit equivalent to 100% out of the total the net income for the year, in accordance with its accounting policies.

c) Price-level restatement:

The price-level restatement of the Capital is presented in Reserves, since, according to the Basic Banking Law, authorized capital may only be increased by Supreme Decree.

d) Exchange rate differences, net:

As of December 31, 2009 and 2008, the reconciliation of this item, as separate components of the equity is as follows:

	2009 MUS\$	2009 MCh\$	2008 MCh\$
Balance as of January 1,	7	3,683	-
(Debits) credit of exchange differences, net	(13)	(6,906)	3,683
Balance as of December 31	(6)	(3,223)	3,683

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NOTE 24 – EQUITY (Continued)

e) Nature and explanation of the reserves:

Translation reserve:

The translation reserves correspond to the effect of translating the financial statements of the New York Branch, whose functional currency is the US dollar, to the presentation currency of the BancoEstado which is the Chilean peso.

Available for sale investments reserve:

The available for sale investment reserve includes the cumulative net changes in the fair value of the available for sale investments until such investment is sold or when the need exists to recognize impairment losses.

f) Minority interests:

The detail, by subsidiaries incorporated on consolidation, of the minority interests balances as of December 31, 2009 and 2008 included as part of equity, is the following:

	2009 MUS\$	2009 MCh\$	2008 MCh\$
Minority interest in BancoEstado Corredora de Seguros S.A.			
MetLife Chile Inversiones Limitada (49,90%)	4	1,832	1,508
Minority interest in BancoEstado S.A. Administradora General de Fondos			
BNP Paribas Investment Partners (49,99%)	3	1,526	-
Total minority interest	7	3,358	1,508

The following table details of minority interest recognized in the net income for the years ended December 31, 2009 and 2008:

	2009 MUS\$	2009 MCh\$	2008 MCh\$
Minority interest in BancoEstado Corredora de Seguros S.A.			
MetLife Chile Inversiones Limitada (49,90%)	15	7,585	7,366
Minority interest in BancoEstado S.A. Administradora General de Fondos			
BNP Paribas Investment Partners (49,99%)	1	794	-
Total minority interest	16	8,379	7,366

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NOTE 25 – INTEREST INCOME AND EXPENSE

a) Interest income as of December 31, 2009 and 2008 is detailed as follows:

	At December 31,						
	2009				2008		
	Interest MCh\$	Indexation MCh\$	Total MCh\$	Total MUS\$	Interest MCh\$	Indexation MCh\$	Total MCh\$
Normal portfolio							
Repurchase agreements	8,678	2,259	10,937	22	14,048	23	14,071
Interbank loans	5,674	-	5,674	11	9,054	-	9,054
Commercial loans	318,169	(46,210)	271,959	536	285,894	160,102	445,996
Mortgage loans	237,443	(103,371)	134,072	264	234,863	321,754	556,617
Consumer loans	154,950	(6,129)	148,821	294	143,024	17,411	160,435
Investment instruments	69,479	(8,917)	60,562	119	204,076	36,657	240,733
Other income from interest and indexation	10,150	744	10,894	22	25,982	1,012	26,994
Subtotal	804,543	(161,624)	642,919	1,268	916,941	536,959	1,453,900
Impaired Portfolio							
Recovery of interest and indexation							
Commercial loans	1,697	61	1,758	3	1,526	688	2,214
Mortgage loans	4,024	2,472	6,496	13	1,723	1,557	3,280
Consumer loans	825	19	844	2	467	5	472
Investment instruments	-	-	-	-	-	-	-
Result from hedge accounting	-	-	-	-	-	-	-
Other income from interest and indexation	-	-	-	-	-	-	-
Subtotal	6,546	2,552	9,098	18	3,716	2,250	5,966
Total income from interest and indexation	811,089	(159,072)	652,017	1,286	920,657	539,209	1,459,866

b) The detail of income from suspended interest and adjustments of the impaired portfolio, is the following:

	At December 31,						
	2009				2008		
	Interest MCh\$	Indexation MCh\$	Total MCh\$	Total MUS\$	Interest MCh\$	Indexation MCh\$	Total MCh\$
Commercial loans	13,943	12,088	26,031	51	2,818	35,818	38,636
Mortgage loans	18,961	28,030	46,991	93	15,401	62,642	78,043
Consumer loans	-	-	-	-	-	9	9
Investment instruments	-	-	-	-	-	-	-
Total	32,904	40,118	73,022	144	18,219	98,469	116,688

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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NOTE 25 – INTEREST INCOME AND EXPENSES (Continued)

c) The detail of interest expense as of December 31, 2009 and 2008, is as follows:

	At December 31,						
	2009			2008			
	Interest expense MCh\$	Indexation MCh\$	Total MCh\$	Total MUS\$	Interests MCh\$	Indexation MCh\$	Total MCh\$
Demand deposits	1,421	-	1,421	3	5,133	9	5,142
Repurchase agreements	15,019	-	15,019	30	56,125	624	56,749
Time deposits and other loans	125,842	(61,469)	64,373	127	217,889	213,014	430,903
Interbank borrowings	4,982	-	4,982	10	10,705	-	10,705
Issued debt instruments	149,485	(69,104)	80,381	158	156,969	282,618	439,587
Other financial obligations	4,565	-	4,565	9	11,293	-	11,293
Result from accounting hedges	-	-	-	-	-	-	-
Other income from interest and indexation	611	28	639	1	567	1,493	2,060
Total	301,925	(130,545)	171,380	338	458,681	497,758	956,439

NOTE 26 – FEES AND COMMISSION INCOME AND EXPENSE

Fees and commission income and expense as of December 31, 2009 and 2008 are as follows:

Concept	2009 MUS\$	2009 MCh\$	2008 MCh\$
a) Commission income			
Commissions from lines of credit and overdrafts	5	2,399	5,356
Commissions from letters of credit and guarantees	9	4,578	2,480
Commissions from card services	35	17,813	12,312
Commissions from account administration	46	23,409	21,290
Commissions from collections, billings and payments	131	66,224	54,701
Commissions from brokerage and administration of securities	12	6,287	5,198
Commissions from mutual fund investments and other	-	214	276
Fees from insurance brokerage	45	22,834	22,085
Other fees from provided services	31	15,827	12,526
Other commissions earned	4	1,705	1,445
Total fees and commissions income	318	161,290	137,669
b) Expense for commissions			
Fees for card operations	12	6,302	4,538
Commissions for brokerage of securities	4	1,826	835
Commissions for interbank transactions	24	11,948	8,729
Other commissions paid	3	1,538	795
Total fees and commissions expense	43	21,614	14,897

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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NOTE 27 – NET INCOME FROM FINANCIAL OPERATIONS

Net income from financial operations as of December 31, 2009 and 2008 are as follows:

	2009	2009	2008
	MUS\$	MCh\$	MCh\$
Net income from financial operations			
Trading portfolio	17	8,571	12,544
Financial derivative contracts	(327)	(166,025)	355,403
Other instruments at fair value with effect on income	-	-	-
Proceeds from sale of Available for sale instruments	34	17,471	(35,636)
Other	20	10,387	14,932
	<u>20</u>	<u>10,387</u>	<u>14,932</u>
Total	<u>(256)</u>	<u>(129,596)</u>	<u>347,243</u>

NOTE 28 – FOREIGN EXCHANGE GAIN (LOSS), NET

Foreign exchange gain (loss), net as of December 31, 2009 and 2008, are as follows:

	2009	2009	2008
	MUS\$	MCh\$	MCh\$
Exchange differences			
Gain on exchange difference	387	196,036	181,927
Loss on exchange difference	(30)	(15,198)	(551,189)
	<u>357</u>	<u>180,838</u>	<u>(369,262)</u>
Subtotal	<u>357</u>	<u>180,838</u>	<u>(369,262)</u>
Adjustments foreign currency			
Results from adjustments to assets in foreign currency	(10)	(4,871)	9,596
Results from adjustments to liabilities in foreign currency	-	-	-
	<u>(10)</u>	<u>(4,871)</u>	<u>9,596</u>
Subtotal	<u>(10)</u>	<u>(4,871)</u>	<u>9,596</u>
Total	<u>347</u>	<u>175,967</u>	<u>(359,666)</u>

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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NOTE 29 – PROVISIONS AND IMPAIRMENT FOR LOAN LOSSES

The changes in the provisions and impairment during 2009 and 2008 are summarized as follows:

2009	Loans an accounts receivable from customers						Total	Total
	Interbank loans	Commercial loans	Housing loans	Consumer loans	Contingent loans	Total		
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$		
Provision established								
- Individual provisions	(5,981)	(39,398)	-	(1,596)	(2,279)	(49,254)	(97)	
- Collective provisions	-	(49,147)	(69,707)	(84,882)	(429)	(204,165)	(403)	
Total provision established	(5,981)	(88,545)	(69,707)	(86,478)	(2,708)	(253,419)	(500)	
Provisions released								
- Individual provisions	5,006	22,135	-	1,596	2,405	31,142	61	
- Collective provisions	-	32,760	13,650	6,015	428	52,853	104	
Total of provisions released	5,006	54,895	13,650	7,611	2,833	83,995	165	
Recovery of loan previously charge off assets	-	9,829	1,264	11,844	-	22,937	45	
Net loss for provision for loan losses	(975)	(23,821)	(54,793)	(67,023)	125	(146,487)	(290)	

2008	Loans an accounts receivable from customers						Total
	Interbank loans	Commercial loans	Housing loans	Consumer loans	Contingent credits	Total	
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	
Provision established							
- Individual provisions	(6,781)	(16,482)	-	-	(559)	(23,822)	
- Collective provisions	-	(17,406)	(41,080)	(55,403)	(1,036)	(114,925)	
Total provision established	(6,781)	(33,888)	(41,080)	(55,403)	(1,595)	(138,747)	
Provisions released							
- Individual provisions	106	5,038	-	-	-	5,144	
- Collective provisions	-	6,057	5,115	-	905	12,077	
Total of provisions released	106	11,095	5,115	-	905	17,221	
Recovery of loan previously charge off assets	-	7,989	1,053	12,549	73	21,664	
Net loss for provision for loan losses	(6,675)	(14,804)	(34,912)	(42,854)	(617)	(99,862)	

According to management the provisions and impairment on loan losses recognized cover all possible losses that might result from non-recovery of assets based on the evidence examined by the Bank.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

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NOTE 30 – PERSONNEL SALARIES AND EXPENSES

a) The detail of the personnel salaries and expenses in 2009 and 2008, is as follows:

	2009	2009	2008
	MUS\$	MCh\$	MCh\$
Personnel compensations	365	185,375	182,063
Bonus or rewards	42	21,223	7,934
Severance payments	20	9,968	18,248
Training expenses	5	2,501	2,887
Expense for termination benefits	-	-	228
Wellfare expenses	32	16,382	15,698
Other personnel expenses	33	16,711	11,578
	<u> </u>	<u> </u>	<u> </u>
Total	<u>497</u>	<u>252,160</u>	<u>238,636</u>

b) Personnel benefit plans

As of December 31, 2009 and 2008, the Bank maintains the following employee benefits:

1. Compensated vacation absences

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

2. Short term benefits

The Bank provides to its employees an annual bonus plan based on the fulfillment of certain objectives and goals, and which consists of a specific number or portion of monthly salaries; such bonuses are accrued based on the expected amount that will be paid. The Bank has also agreed with its employees, based on union contracts, a lump sum compensation payment for completion of the collective bargaining process. Such compensation is recorded as “Other assets” and is amortized over term of the collective bargaining agreement.

3. Long-term benefits

The Bank recognized provisions for long-term employee benefits pursuant to the existence of present obligations derived from the collective agreements. Such obligations give rise to the recognition of provisions which are determined by using the Projected Unit Credit method, with actuarial valuations being carried out at the end of each reporting period. Actuarial assumptions include as variables the employees turnover rate, future increases in salaries and the probability of using this benefit, considering a nominal discount rate of 6.8%.

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NOTE 30 – PERSONNEL SALARIES AND EXPENSES (Continued)

In accordance IAS 19, *Employee Benefits*, the Projected Unit Credit Method used, considering the following actuarial assumptions:

1. Mortality tables according to the Superintendency of Securities and Insurance.
2. Retirement age according to the social security standards.
3. Annual nominal discount rate of 6.8%.
4. The annual turnover rates according to historic averages.
5. The salary increase rate based on annual average.
6. Severance payments in conformity with legal regulations.

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NOTE 31 – ADMINISTRATIVE EXPENSES

Administrative expenses as of December 31, 2009 and 2008, are as follows:

	2009	2009	2008
	MUS\$	MCh\$	MCh\$
General administrative expenses	127	64,035	61,435
Maintenance and repair of fixed assets	6	2,918	2,601
Office rentals	12	6,037	5,057
Equipment leased	1	387	406
Insurance premiums	5	2,556	1,787
Office material	9	4,813	4,930
IT and communication expenses	29	14,794	16,393
Electricity, heating and other services	11	5,501	5,062
Security and securities transport service	5	2,333	1,811
Representation and travel expenses of personnel	10	4,963	4,450
Legal and notary expenses	-	210	245
Rendering of external services	9	4,493	5,213
Audit fees of the financial statements	1	403	477
Fees for securities classification	-	2	-
Fines applied by the SBIF	-	5	-
Fines applied by other entities	-	148	106
Correspondence expenses	5	2,415	2,434
Other rental of properties	7	3,348	2,491
Other general administrative expenses	17	8,709	7,972
Subcontracted services	74	37,323	28,177
Rendering of services paid to companies	38	19,200	14,874
Expenses for external personnel	14	6,874	6,206
Administration and maintenance of ATM's	12	6,009	5,056
Other	10	5,240	2,041
Expenses of the Managing Board	-	197	158
Directors' compensations	-	179	139
Other of the Board of Directors expenses	-	18	19
Advertisement and publicity	23	11,766	10,666
Taxes, duties and contributions	15	8,026	7,273
Real estate taxes	4	2,192	1,973
Patents	1	607	497
Other taxes	2	1,026	1,080
Contributions to the SBIF	8	4,201	3,723
Total	239	121,347	107,709

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NOTE 32 – DEPRECIATION, AMORTIZATION AND IMPAIRMENT

- a) Depreciation, amortization and impairment expenses recognized for the years ended December 31, 2009 and 2008, are as follows:

	2009 MUS\$	2009 MCh\$	2008 MCh\$
Depreciation, amortization and impairment			
Depreciation of PP&E	48	24,475	19,415
Impairment of PP&E	-	-	-
Amortization of intangibles	19	9,613	6,916
Impairment of intangibles	-	-	-
	<u>67</u>	<u>34,088</u>	<u>26,331</u>
Balances at December 31,	<u>67</u>	<u>34,088</u>	<u>26,331</u>

- b) The reconciliation between balances as of January 1 and as of December 31, 2009 and 2008, is as follows:

Concept	Depreciation, amortization and impairment								
	2009				2008				
	Property, plant and equipment MCh\$	Intangibles MCh\$	Investment instruments MCh\$	Total MCh\$	Total MUS\$	Property, plant and equipment MCh\$	Intangibles MCh\$	Investment instruments MCh\$	Total MCh\$
Balances at January 1,	23,335	7,451	-	30,786	61	4,317	535	-	4,852
Charges for depreciation, amortization and impairment for the year	24,475	9,613	-	34,088	67	19,415	6,916	-	26,331
Disposals and sales	(406)	-	-	(406)	(1)	(397)	-	-	(397)
Discontinued operations	-	-	-	-	-	-	-	-	-
Balances at December 31	<u>47,404</u>	<u>17,064</u>	<u>-</u>	<u>64,468</u>	<u>127</u>	<u>23,335</u>	<u>7,451</u>	<u>-</u>	<u>30,786</u>

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

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NOTE 33 – OTHER OPERATING INCOME AND EXPENSES

a) Other operating income:

Other operating income as of December 31, 2009 and 2008 is as follows:

Concept	2009 MUS\$	2009 MCh\$	2008 MCh\$
Income from assets received in lieu of payment			
Income from sales of assets received in lieu of payment	-	19	31
Other Income	-	-	25
Subtotal	<u>-</u>	<u>19</u>	<u>56</u>
Release of contingency provisions			
Provision for country risk	-	-	-
Special provisions for foreign credits	-	-	-
Additional provision for loans	-	-	22,000
Other provisions for contingencies	-	-	1,000
Subtotal	<u>-</u>	<u>-</u>	<u>23,000</u>
Other Income			
Income from the sale of fixed assets	-	54	16
Revenues from sales of investments in other companies	49	24,818	-
Indemnities from insurance companies	-	-	-
PET operations	-	-	14,072
Sales of awarded real estate properties	6	3,043	3,662
Balance of sales price of shares	-	-	13,300
Rental of real estate	1	158	649
Income from sales of recovered assets	-	119	211
Recovery of subsidies BAF/INDAP and others	3	1,654	916
Subsidy assigning of new basic houses	-	17	59
Recovery of several write-offs	1	150	145
Income from price adjustments	1	597	430
Other income	4	2,134	2,703
Subtotal	<u>65</u>	<u>32,744</u>	<u>36,163</u>
Total	<u>65</u>	<u>32,763</u>	<u>59,219</u>

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NOTE 33 – OTHER OPERATING INCOME AND EXPENSES (Continued)

b) Other operating expenses:

Other operating expenses as of December 31, 2009 and 2008 are as follows:

	2009 MUS\$	2009 MCh\$	2008 MCh\$
Provisions and expenses of assets received in lieu of payment			
- Provisions for assets received in lieu of payment	-	-	-
- Write-off of assets received in lieu of payment	1	631	2,200
- Expenses from maintenance of assets received in lieu of payment	1	364	403
	<u>2</u>	<u>995</u>	<u>2,603</u>
Subtotal	2	995	2,603
Provisions for contingencies			
- Provision for country risk	2	932	371
- Special provisions for foreign credits	-	-	-
- Additional provision for loans	61	31,000	-
- Other provisions for contingencies	2	1,016	-
	<u>65</u>	<u>32,948</u>	<u>371</u>
Subtotal	65	32,948	371
Other Expenses			
- Loss from sales of assets received in lieu of payment	1	159	27
- Loss from sales of investments in other companies	-	-	-
- Restructuring costs	-	-	-
- Write-off of assets recovered in leasing	-	-	534
- Payment or collection adjustment from previous year	1	423	1,063
- Sundry write-offs	2	966	-
- Reversal of price-level restatement due to the application of the new standards	-	-	-
- Other expenses	9	4,721	276
	<u>13</u>	<u>6,269</u>	<u>1,900</u>
Subtotal	13	6,269	1,900
Total	<u><u>80</u></u>	<u><u>40,212</u></u>	<u><u>4,874</u></u>

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

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NOTE 34 – TRANSACTIONS WITH RELATED PARTIES

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

a) Entities of the Group

Company	2009			2008		
	Direct	Indirect	Total	Direct	Indirect	Total
BancoEstado S.A. Corredores de Bolsa	99.9996%	-	99.9996%	99.9996%	-	99.9996%
BancoEstado Corredora de Seguros S.A.	50.1000%	-	50.1000%	50.1000%	-	50.1000%
BancoEstado Servicios de Cobranza S.A.	99.9000%	0.1000%	100.0000%	99.9000%	0.1000%	100.0000%
BancoEstado S.A. Administradora General de Fondos	50.0100%	-	50.0100%	99.9900%	0.0100%	100.0000%
BancoEstado Contacto 24 Horas S.A.	99.9000%	0.1000%	100.0000%	99.9000%	0.1000%	100.0000%
BancoEstado Microempresas S.A. Asesorías Financieras	99.9000%	0.1000%	100.0000%	99.9000%	0.1000%	100.0000%
BancoEstado Capital de Riesgo S.A.	99.9000%	0.1000%	100.0000%	99.9000%	0.1000%	100.0000%
Sociedad de Servicios Transaccionales Caja Vecina S.A.	99.9000%	0.1000%	100.0000%	99.9000%	0.1000%	100.0000%
BancoEstado Centro de Servicios S.A.	99.9000%	0.1000%	100.0000%	99.9000%	0.1000%	100.0000%
Sociedad de Promoción de Productos Bancarios S.A.	99.9000%	0.1000%	100.0000%	99.9000%	0.1000%	100.0000%
BancoEstado - Branch Nueva York	100.0000%	-	100.0000%	100.0000%	-	100.0000%

b) Loans with related parties:

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

	2009						2008		
	Productive companies		Investment companies		Natural persons		Productive companies	Investment companies	Natural persons
	MUS\$	MCh\$	MUS\$	MCh\$	MUS\$	MCh\$	MCLP\$	MCh\$	MCh\$
Loans and accounts receivable	-	-	-	-	-	-	-	-	-
Commercial loans	3	1,296	-	16	-	346	575	-	423
Mortgage loans	-	-	-	-	9	4,409	-	-	4,028
Consumer loans	-	-	-	-	1	382	-	-	127
Gross loans and account receivable	3	1,296	-	16	10	5,137	575	-	4,578
Allowance for loan losses	-	(3)	-	-	-	(18)	(119)	-	(23)
Loans – net	3	1,293	-	-	10	5,119	456	-	4,555
Contingent loans									
Total contingent credits	6	3,042	162	81,953	-	-	-	-	-
Allowance for contingent loans	-	(15)	-	-	-	-	-	-	-
Net contingent loans	6	3,027	162	81,953	-	-	-	-	-
Acquired instruments:									
For negotiation	-	-	-	-	-	-	-	-	-
For investment	-	-	-	-	-	-	-	-	-

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NOTE 34 – TRANSACTIONS WITH RELATED PARTIES (Continued)

c) Other assets and liabilities with related parties

	2009	2009	2008
	MUS\$	MCh\$	MCh\$
Assets			
Financial derivative contracts	-	-	-
Other assets	-	-	-
Liabilities			
Financial derivative contracts	-	-	-
Demand deposits	254	129,050	2,458
Time deposits and other loans	11	5,529	5,889
Other liabilities	-	-	-

d) Results of operations with related parties

	2009				2008	
	Income	Income	Expenses	Expenses	Income	Expenses
	MUS\$	MCh\$	MUS\$	MCh\$	MCh\$	MCh\$
Interest and indexation for income and expenses	1	745	-	(90)	1,621	(65)
Income and expenses from commissions and services	-	132	-	-	92	(77)
Income and loss for negotiation	-	-	-	-	-	-
Income and expense for other financial transactions	-	-	-	-	-	-
Results from exchange difference	-	126	-	-	82	-
Expenses from operational support	-	-	(1)	(629)	-	(4,681)
Other income and expenses	-	-	-	-	-	-
Total	1	1,003	(1)	(719)	1,795	(4,823)

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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NOTE 34 – TRANSACTIONS WITH RELATED PARTIES (Continued)

e) Contracts with related parties

Related party	2009	2008
	Type of Contract	Type of Contract
1) Contracts for more than UF 1.000		
Isapre Fundación	Office rental	Office rental
Operadora de Tarjetas de Crédito Nexus S. A.	Advisory computer support	Advisory computer support
Transbank S. A.	Advisory computer support	Advisory computer support
Soc. Op. Cam. Comp. Pago a Valor.	Compensation Chamber service	Compensation Chamber service
2) Contracts for less than UF 1.000		
Operadora de Tarjetas de Crédito Nexus S. A.	Service of inserts	Service of inserts
Operadora de Tarjetas de Crédito Nexus S. A.	Service of checkbooks	Service of checkbooks
Fundación Asistencial y de Salud	Office rental	Office rental
Transbank S. A.	Transport of securities	Transport of securities

f) Compensation to key management personnel

Compensation received by key management personnel as of December 31, 2009 and 2008 corresponded to the following categories:

	2009	2009	2008
	MUS\$	MCh\$	MCh\$
Short-term payments to employees	6	3,065	2,540
Post-retirement payments	-	-	-
Other long-term renderings	-	-	-
Indemnities for end of contract	-	-	-
Share-based payment	-	-	-
Total	6	3,065	2,540

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

as of December 31, 2009 and 2008

NOTE 34 – OPERATIONS WITH RELATED PARTIES (Continued)

g) Key management personnel

Key management personnel of the Bank as of December 31, 2009 and 2008 is composed of as follows:

Position	2009	2008
	No. of executives	No. of executives
President	1	1
Vice President	1	1
Director	4	2
Labor Director	2	2
General Manager	1	1
Chief Attorney	1	1
Controller	1	1
Area Managers	6	6
General Managers of Subsidiaries	9	10
Total	26	25

h) Transactions with key management personnel

As of December 31, 2009 and 2008, the Bank has performed the following transactions with key management personnel:

	Total income		2009		2008	
	Total income	Total income	Income of key executives	Income of key executives	Total income	Income of key executives
	MUS\$	MCh\$	MUS\$	MCh\$	MCh\$	MCh\$
Credit cards and other services	-	-	-	-	-	-
Mortgages	-	-	-	-	-	-
Guarantees	-	-	-	-	-	-
Mortgage credits	-	-	-	39	-	59
Other	-	-	-	-	-	49
Total	-	-	-	39	-	108

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

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NOTE 35 – ASSETS AND LIABILITIES AT FAIR VALUE

In general, the fair value of an asset or liability is the amount for which an asset could be exchanged and a liability could be settled between knowledgeable, willing parties in an arm's length transaction. In the case of those financial instruments without available market prices, the fair values have been estimated using present values or other valuation techniques. These valuation techniques are significantly affected by the assumptions used, including the discount rate. In this sense, the estimations of fair value over some financial assets and liabilities, cannot be justified in comparison to independent markets and, in many cases, cannot be performed on initial recognition.

In addition, the following estimations of fair value presented, do not intend either to estimate the value of the profits of the Bank generated by its businesses, or future business activities, and, therefore, they do not represent the value of the Bank as a going concern.

The methods used to estimate the fair value of the financial instruments are the following:

a) Cash and bank deposits:

The carrying amount of the cash and bank deposits approximates its fair value due to its short term nature.

b) Unsettled transactions (asset and liability):

The carrying amount of transactions with foreign exchange approximates its fair value due to its short term nature.

c) Financial investments and issued bonds:

The estimated fair value of these financial instruments is determined by using market values or quoted market prices of financial instruments with similar characteristics.

d) Loans and accounts receivables from customers, interbank loans, deposits and other liabilities, issued letters of credit, agreements and other debt instruments:

The fair values of these financial instruments are determined by using discounted cash flows analysis, derived from the settlement of contractual flows for each of them, at a market discount rate, which considers the credit risk, as appropriate.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

as of December 31, 2009 and 2008

NOTE 35 – ASSETS AND LIABILITIES AT FAIR VALUE (Continued)

e) Derivative instruments

The fair value of derivatives represents the estimated amount that the Bank and its subsidiaries expect to receive or pay to settle the contracts, considering the actual discount rates and prices.

As of December 31, 2009 and 2008, the estimated fair values of financial instruments are the following:

	At December 31,								
	2009						2008		
	Carrying value	Carrying value	Estimated Fair Value	Estimated Fair Value	Unrealized gain (loss)	Unrealized gain (loss)	Carrying value	Estimated Fair Value	Unrealized gain (loss)
MUS\$	MCh\$	MUS\$	MCh\$	MUS\$	MCh\$	MCh\$	MCh\$	MCh\$	
Assets									
Cash and deposits in bank	2,286	1,159,475	2,286	1,159,475	-	-	1,513,788	1,513,788	-
Unsettled transactions	342	173,604	342	173,604	-	-	333,064	333,064	-
Trading investments	603	305,684	603	305,684	-	-	187,059	187,059	-
Investment under resale agreements	109	55,416	109	55,411	-	(5)	5,958	5,930	(28)
Financial derivative contracts	437	221,389	437	221,389	-	-	572,793	572,793	-
Interbank loans	101	50,969	98	49,682	(3)	(1,287)	270,521	277,545	7,024
Loans and accounts receivable from customers	21,245	10,773,582	24,515	12,431,451	3,269	1,657,869	9,181,582	10,904,957	1,723,375
Available for sale investments	6,540	3,316,640	6,540	3,316,640	-	-	2,545,341	2,545,341	-
Held to maturity investments	276	139,935	258	130,772	(18)	(9,163)	170,774	164,918	(5,856)
Liabilities									
Demand deposits and other liabilities	7,116	3,608,754	7,116	3,608,754	-	-	3,194,867	3,194,867	-
Unsettled transactions	185	93,783	185	93,783	-	-	283,533	283,533	-
Investments under repurchase agreements	827	419,329	827	419,278	-	51	356,604	356,359	245
Time deposits and other time liabilities	14,099	7,149,387	14,787	7,498,609	(689)	(349,222)	6,331,499	6,579,514	(248,015)
Financial derivative contracts	459	232,590	459	232,590	-	-	351,470	351,470	-
Bank borrowings	1,419	719,533	1,474	747,678	(56)	(28,145)	632,390	643,945	(11,555)
Issued debt instruments	6,319	3,204,316	7,010	3,554,744	(691)	(350,428)	3,216,568	3,637,049	(420,481)
Other financial obligations	23	11,570	23	11,557	-	13	3,585	3,577	8

“Interbank loans” and “Loans and accounts receivable” are measured by using market rates, deducting, in the respective cases, the provisions for loan losses.

Fair value hierarchy

IFRS 7, *Financial Instruments: Disclosures* establishes a fair value measurement hierarchy, that reflects the significance of the inputs used in making the measurements. The hierarchy gives highest significance to unadjusted quoted prices in active markets, for identical assets and liabilities (Level 1) and lowest significance to measurements using observable inputs that require significant adjustments based on unobservable inputs (Level 3). The three hierarchy levels of fair value are the following:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2: inputs other than quoted prices within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

as of December 31, 2009 and 2008

NOTE 35 – ASSETS AND LIABILITIES AT FAIR VALUE (Continued)

The following table details the assets and liabilities measured at fair value on a ongoing basis as of December 31, 2009 and 2008.

	December 31, 2009		Fair value measures				
	MUS\$	MCh\$	Prices in active markets for identical assets (level 1)	Prices in active markets for identical assets (level 1)	Other observable significant entries (level 2)	Other observable significant entries (level 2)	Unobservable significant entries (level 3)
ASSETS							
Trading instruments	603	305,684	109	55,506	494	250,178	-
Financial derivative contracts	437	221,389	-	-	437	221,389	-
Available for sale investments	6,540	3,316,640	2,659	1,348,147	3,881	1,968,493	-
TOTAL	7,580	3,843,713	2,768	1,403,653	4,812	2,440,060	-
LIABILITIES							
Financial derivative contracts	459	232,590	-	-	459	232,590	-
TOTAL	459	232,590	-	-	459	232,590	-

	Fair value measures			
	December 31, 2008	Prices in active markets for identical assets (level 1)	Other observable significant inputs (level 2)	Unobservable significant inputs (level 3)
	MCh\$	MCh\$	MCh\$	MCh\$
ASSETS				
Trading investments	187,059	59,978	127,081	-
Financial derivative contracts	572,793	-	572,793	-
Available for sale investments	2,545,341	541,357	2,003,984	-
TOTAL	3,305,193	601,335	2,703,858	-
LIABILITIES				
Financial derivative contracts	351,470	-	351,470	-
TOTAL	351,470	-	351,470	-

Assets and liabilities classified in Level 2 correspond to instruments whose valuation rates or prices were obtained from market prices with the applications of models.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
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NOTE 36 – RISK MANAGEMENT

Introduction:

The main purpose of the Bank's risk management system is to manage the stability and long-term sustainability of its business. This is achieved through the application of credit policies, consistent with the commercial development strategy of the Bank, assuring the existence of robust processes related to the evaluation, approval and risk management that relate to bank operations, in conformity with the Bank's corporate governance practices.

The credit process is performed with valid counterparties in all the commercial segments of the Bank, under a schedule of joint decisions. Accordingly the Corporate Risk Management function is carried out independently from the commercial areas.

The achievement of the Bank's mission has been performed by maximizing the risk-return relationship, generating an added value to the entity.

Risk management structure:

The responsibilities for risk management policies, methodologies, procedure manuals, contingency plans and limitation structures, are assigned to the following internal bodies:

Executive Committee: approves policies, methodologies and establishes the risk exposure limits which are review at least once a year.

Financial Business Committee: Responsible for assigning limits defined by the Executive Committee and for the management and performance of the financial business.

Assets and Liabilities Committee: responsible for managing and controlling the assets and liabilities of the Bank.

Internal Audit: responsible for supervising the compliance with policies, limitations and standards regulating the banking business.

Credit Committee: Responsible for the approval of credits according to the attribution matrix defined for each segment.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
as of December 31, 2009 and 2008

NOTE 36 – RISK MANAGEMENT (Continued)

Main risks affecting the Bank:

1) Credit risk

This is the risk of the Bank incurring in a loss because its customers or counterparties fail to comply with their contractual obligations.

The exposure to the credit risks is managed in a centralized manner by incorporating the Bank and its subsidiaries and its foreign branch, through regular analysis of the ability of the debtors, and potential debtors, to comply with their contractual payments obligations. This exposure is mitigated by obtaining real and personal guarantees. Nevertheless, a portion of the credits correspond to loans without guarantee, for example, the consumer loans granted to natural persons.

The Bank has specialized areas, segmented by the size of the company and the type of exposure, which participate actively in all credit process stages; from risk evaluation and approval of credits (through the corresponding committees), through monitoring and follow up of customers, to the regularization and recovery of the critical portfolio for those debtors with financial impairment, existing a clear definition of policies, attributions and processes for the Wholesale and Retail operating segments.

The risk evaluation and credit approval in the Wholesale segment is performed on a case-by-case basis, by assigning a risk rating and debtor classification. For the Retail Banking Segment risk evaluation and credit approval is performed by different automated tools, such as scoring for the Individual's Segment and evaluation guidelines in the case of Small Companies.

Provisions for loan losses in the Retail Banking Segment are determined by using models based on estimated default probability, which consider behavior information, recovery and mitigating procedures. The models are product- and customer-based, and are applied to all operations of the collective portfolio, which allows having a global and integrated vision of credit risk management.

In addition, the Bank maintains strict control over the open derivative contracts positions negotiated directly with its counterparties. In any case, the credit risk is limited to the fair value of those contracts favorable to the Bank (asset position), which only represents a small portion of the notional amounts of these instruments. This credit risk exposure is managed as part of the loan limits to customers, together with possible exposures due to market fluctuations.

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Notes to the Consolidated Financial Statements
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NOTE 36 – RISK MANAGEMENT (Continued)

In relation to contingent loans, BancoEstado operates with several instruments which, although they have a credit risk exposure, are not reflected in the statement of financial position (off-balance sheet items), such as: Sureties and pledges, letter of credits, performance bonds and commitments to grant credits.

Sureties and pledges represent an irrevocable payment obligation. In case a secured customer does not comply with his/her obligations with third parties pledged by the Bank, the Bank will make the corresponding payments; therefore, these operations represent the same credit risk exposure as a common loan.

Letters of credit are commitments documented by the Bank on behalf of the customers which are guaranteed by the shipped merchandise to which they are related to, and, as such, have a lower risk than a direct loan. Performance bonds correspond to contingent commitments that will be effective only if the customer does not comply with the execution of works agreed with a third party.

The Bank recognized provisions for the above mentioned contingent commitments in order to avoid potential losses should such commitments be executed.

Regarding financial instruments, the Bank measures the uncollectible probability to the issuers by using internal ratings and external ratings provided by independent risk rating agencies.

Maximum credit risk exposure:

The following table sets forth the maximum credit risk exposure of the different components of the statement of financial position, including derivatives. The exposures do not consider the guarantees or other credit improvements.

	Note	2009				2008	
		Gross	Gross	Net	Net	Gross	Net
		maximum exposure MUS\$	maximum exposure MCh\$	maximum exposure MUS\$	maximum exposure MCh\$	maximum exposure MCh\$	maximum exposure MCh\$
Interbank loans	10	116	58,619	100	50,969	277,196	270,521
Loans and accounts receivable from customers	11	21,847	11,078,493	21,245	10,773,582	9,435,691	9,181,582
Financial derivative contracts	9	437	221,389	437	221,389	572,793	572,793
Investment under resale agreements	8	109	55,416	-	-	5,958	-
Investment instruments available for sale	12	6,540	3,316,640	6,540	3,316,640	2,545,341	2,545,341
Investment instruments held to maturity	12	276	139,935	276	139,935	170,774	170,774
Other assets (*)	17	166	83,990	166	83,990	60,953	60,953
Contingent loans		2,371	1,202,516	2,368	1,200,608	929,353	927,386
Total		31,862	16,156,998	31,132	15,787,113	13,998,059	13,729,350

For further details of the maximum credit risk exposure and concentration for each type of financial instrument, please refer to the Notes indicated in the above table.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

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NOTE 36 – RISK MANAGEMENT (Continued)

(*) It corresponds to Accounts Receivable from the State, Accounts receivables from Business-Supprt Companies and Commissions Receivable.

An analysis of financial assets credit risk concentration by industry is as follows:

	2009				2008	
	Gross maximum exposure MUS\$	Gross maximum exposure MCh\$	Net maximum exposure MUS\$	Net maximum exposure MCh\$	Gross maximum exposure MCh\$	Net maximum exposure MCh\$
Commercial loans						
Manufacturing	950	481,859	950	481,859	342,066	335,958
Mining	1,032	523,460	1,032	523,460	62,698	62,198
Electricity, gas and water	821	416,470	821	416,470	273,294	272,901
Agriculture and livestock	334	169,264	334	169,264	412,066	399,520
Forestry	30	15,318	30	15,318	45,063	43,646
Fishing	13	6,666	13	6,666	64,809	62,681
Transport	878	445,134	878	445,134	341,182	331,703
Telecommunication	130	65,993	130	65,993	59,818	59,607
Construction	1,288	653,375	1,289	653,375	643,812	638,970
Commerce	3,149	1,596,726	2,927	1,484,167	1,060,551	1,038,908
Services	9,627	4,882,008	9,501	4,817,974	3,821,657	3,810,158
Other	2,801	1,420,215	2,801	1,420,215	1,785,984	1,722,537
Subtotal	21,053	10,676,488	20,706	10,499,895	8,913,000	8,778,787
Mortgage and Consumer Loans						
Mortgage loans	8,694	4,408,562	8,441	4,280,555	4,114,993	4,029,262
Consumer loans	2,114	1,071,948	1,985	1,006,663	970,066	921,301
Subtotal	10,808	5,480,510	10,426	5,287,218	5,085,059	4,950,563
Total	31,861	16,156,998	31,132	15,787,113	13,998,059	13,729,350

Risk categories for the Individual portfolio are described below:

Classification in the loan portfolio as **Normal Risk** (debtors with no observable risks, whose payment ability is sufficient to cover the contractual payment obligations and which will continue being adequate in case of adverse business, economic or financial situations) considers four categories as follows:

Categories	Definition
A1	Corresponds to those companies whose securities in local currency have a private risk rating equal to or higher than AA-. In cases in which there are more than one risk rating for the same securities, the lowest has to be considered. The rating shall not exceed 1.9. No provisions for loan losses are recognized.
A2	Companies with known prestige, which have an excellent administration, of which there is no doubt regarding the total recovery. In particular, publicly traded companies with excellent stock market standing, excellent information and audited by first class audit firms. The rating shall not exceed 3.9. No provisions for loan losses are recognized.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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Categories	Definition
A3	Key management is professional and/or with vast knowledge of the Business. Although the information could be audited, it presents some restrictions of frequency and/or quality. Customers with good levels of creditworthiness and a solid ability to comply with their obligations; however, there could exist some temporary adverse final results. The rating shall not exceed 4.9. A 0.5% over the outstanding amounts due is recognized as a provision for loan losses.
B	Debtors that present some risk, but with no indications of impairment, to the extent that on facing foreseeable adverse business, economic or financial situations, they would default to pay some of their obligations. In addition, key management and the level of available information could present certain deficiencies. The rating shall not exceed 6.9. A 1% over the outstanding amounts due is recognized as a provision for loan losses.

Loan portfolio classified as **Risk Higher than Normal** includes those debtors with insufficient payment capacity in foreseen situations.

Customers' loans with risks higher than normal are classified in six categories, each one of them associated with an expected loss range of commercial credits and commercial lease operations of the customer as a whole, and therefore it is necessary to verify first the guarantee coverage and subsequently the rating that has been assigned. The customers with ratings over 7 are included in these categories. The provision percentage covers the range of 2% to 90%.

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NOTE 36 – RISK MANAGEMENT (Continued)

Credit quality by financial asset category

The following tables set forth the credit quality, described in accordance with the Compendium of Accounting Standards of the Superintendency of Banks and Financial Institutions, as follows:

	2009		INDIVIDUAL			COLLECTIVE		TOTAL MCh\$	TOTAL MUS\$
	A1	A2	A3	B	Impaired portfolio MCh\$	Normal	Impaired		
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$		
Interbank loans	2,307	27,804	17,281	200	11,027	-	-	58,619	115
Loans and accounts receivable from customers	52,556	1,935,183	1,185,825	1,055,816	235,258	5,352,435	1,261,420	11,078,493	21,847
Total	54,863	1,962,987	1,203,106	1,056,016	246,285	5,352,435	1,261,420	11,137,112	21,962

	2008		INDIVIDUAL			COLLECTIVE		TOTAL MCh\$	TOTAL MUS\$
	A1	A2	A3	B	Impaired portfolio MCh\$	Normal	Impaired		
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$		
Interbank loans	204,022	33,464	11,564	17,838	10,271	37	-	277,196	
Loans and accounts receivable from customers	-	1,322,527	1,022,941	708,571	205,890	5,230,148	945,614	9,435,691	
Total	204,022	1,355,991	1,034,505	726,409	216,161	5,230,185	945,614	9,712,887	-

Note: Gross balances presented without deducting allowance.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2009 and 2008

NOTE 36 – RISK MANAGEMENT (Continued)

The aging analysis of due, but not impaired, loans by category is as follows:

Terms:

Due 1: 1 to 29 days

Due 2: 30 to 59 days

Due 3: 60 to 89 days

	Due 1	Due 2	Due 3	Total	Total
2009	MCh\$	MCh\$	MCh\$	MCh\$	MUS\$
Interbank loans	-	-	-	-	-
Commercial loans	26,049	6,777	1,527	34,353	65
Mortgage loans	2,066	1,175	164	3,405	6
Consumer loans	2,732	1,315	1,452	5,499	8
Total	30,847	9,267	3,143	43,257	79
	Default 1	Default 2	Default 3	Total	
2008	MCh\$	MCh\$	MCh\$	MCh\$	
Interbank loans	-	-	-	-	
Commercial loans	48,949	3,826	1,996	54,771	
Mortgage loans	2,544	1,435	170	4,149	
Consumer loans	3,427	1,572	1,347	6,346	
Total	54,920	6,833	3,513	65,266	

Note: Gross balances presented without deducting allowance.

The fair value of guarantees over impaired default loans amount to MCh\$\$16,160 and MCh\$\$14,925 for the individual portfolio and MCh\$\$24,793 and MCh\$\$24,482 for the collective portfolio, as of December 31, 2009 and 2008, respectively.

In order to mitigate the credit risk, the Bank actively uses different types of guarantees, as for example: Mortgages, pledges, guarantors and deposits and assets in leasing. Regarding the guarantees demanded for financial operations, in particular to agreements, which have credit risks, the existing assets are considered as guarantees which are in general, securities of the State.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2009 and 2008

NOTE 36 – RISK MANAGEMENT (Continued)

The coverage of the provision and guarantees over the impaired portfolio is of 92% as of December 31, 2009. For such purpose, have been considered as the adjusted guarantees the historical recovery values obtained by BancoEstado.

2) Liquidity risk:

Liquidity risk is the risk that the Bank may have difficulty meeting the obligations associated with its financial obligations. The Bank is continually exposed to demands for cash arising from multiple banking transactions such as payments from checking accounts, payments on time deposits, payments of guarantees, disbursements for derivative transactions, among other.

The limits established to manage liquidity are the following:

- (i) Asymmetries for up to 30 days in all currencies, up to the amount of basic capital;
- (ii) Asymmetries for up to 30 days in all foreign currencies, up to the amount of basic capital;
- (iii) Asymmetries for up to 90 days in all currencies, twice the basic capital;

Based on the nature of its operations, the Bank adopted the adjusted methodology for purposes of measuring its asymmetries and compliance of the legal basic capital limits. Such methodology assumes that a portion of the sight, time, and saving accounts deposits of individually non significant customers tends to remain at the Bank for more extended periods than the contractual ones; such assumption is modeled with sufficient confidence by the Bank. Note 37 disclosed details by maturities of assets and liabilities.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2009 and 2008

NOTE 36 – RISK MANAGEMENT (Continued)

Assets, liabilities and contingent credits detailed by currencies at the end of each reporting period are as follows:

	US\$	Euros	Yens	Pounds	Other	Chilean Peso	UF	Total	Total
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MUS\$
2009									
Cash and deposits in banks	499,620	21,812	31	176	604	637,232	-	1,159,475	2,286
Unsettled transactions	66,446	44	-	232	32	106,850	-	173,604	342
Trading investment	-	-	-	-	-	112,600	193,084	305,684	603
Instruments under resale agreements	50,678	-	-	-	-	4,738	-	55,416	109
Financial derivative contracts	72	-	-	-	-	221,317	-	221,389	437
Interbank loans	42,717	8,252	-	-	-	-	-	50,969	101
Loans and account receivables from customers	1,048,680	20,833	52	46	16,094	3,018,241	6,669,636	10,773,582	21,245
Investment instruments	548,678	1,965	-	-	-	2,700,316	205,616	3,456,575	6,816
Other assets	2,986	130	-	-	1	669,631	24,086	696,834	1,375
Total assets	2,259,877	53,036	83	454	16,731	7,470,925	7,092,422	16,893,528	33,314
Demand deposits	144,789	13,169	-	124	220	3,335,464	114,988	3,608,754	7,116
Unsettled transactions	25,061	10,872	-	151	143	57,556	-	93,783	185
Investments under repurchase agreements	24,542	11,363	-	899	1,031	381,494	-	419,329	827
Time deposits and other time liabilities	2,215,683	45,195	-	-	-	2,105,765	2,782,744	7,149,387	14,099
Financial derivative contracts	716	-	-	-	-	231,874	-	232,590	459
Interbank borrowings	562,269	188	-	-	-	157,076	-	719,533	1,419
Issued debt instruments	-	-	-	-	-	-	3,204,316	3,204,316	6,319
Other financial obligations	7,499	-	-	-	-	4,071	-	11,570	23
Other liabilities	2,263	22	-	37	51	516,337	614	519,324	1,023
Total liabilities	2,982,822	80,809	-	1,211	1,445	6,789,637	6,102,662	15,958,586	31,470
Assets (liabilities) net	(722,945)	(27,773)	83	(757)	15,286	681,288	989,760	934,942	1,844
Contingent loans	167,032	6,269	912	16	-	887,465	140,822	1,202,516	2,371
Net position asset (liability)	(555,913)	(21,504)	995	(741)	15,286	1,568,753	1,130,582	2,137,458	4,215
2008									
Cash and deposits in banks	733,857	30,049	151	1,440	1,520	746,771	-	1,513,788	
Unsettled transactions	144,803	15,666	511	565	91	171,428	-	333,064	
Trading investment	-	-	-	-	-	71,851	115,208	187,059	
Instruments under resale agreements	-	-	-	-	-	5,958	-	5,958	
Financial derivative contracts	-	-	-	-	-	572,793	-	572,793	
Interbank loans	62,528	10,411	-	-	-	197,582	-	270,521	
Loans and account receivables from customers	593,717	29,845	125	-	-	2,275,797	6,282,098	9,181,582	
Investment instruments	238,226	15,569	-	-	-	2,148,531	313,789	2,716,115	
Other assets	11,822	51	-	58	3	700,663	27,204	739,801	
Total assets	1,784,953	101,591	787	2,063	1,614	6,891,374	6,738,299	15,520,681	
Demand deposits	259,468	8,086	-	7	458	2,912,094	14,754	3,194,867	
Unsettled transactions	216,983	29,578	511	1,798	1,109	33,554	-	283,533	
Investments under repurchase agreements	75,428	13,454	-	2,230	850	253,904	10,738	356,604	
Time deposits and other time liabilities	1,572,545	65,514	-	-	-	2,150,699	2,542,741	6,331,499	
Financial derivative contracts	1,797	-	-	-	-	349,673	-	351,470	
Interbank borrowings	487,912	144,441	37	-	-	-	-	632,390	
Issued debt instruments	-	-	-	-	-	-	3,216,568	3,216,568	
Other financial obligations	974	-	-	-	-	2,611	-	3,585	
Other liabilities	9,353	13,769	-	-	1	427,192	176	450,491	
Total liabilities	2,624,460	274,842	548	4,035	2,418	6,129,727	5,784,977	14,821,007	
Assets (liabilities) net	(839,507)	(173,251)	239	(1,972)	(804)	761,647	953,322	699,674	
Contingent loans	96,112	4,095	352	-	-	630,793	198,001	929,353	
Net position asset (liability)	(743,395)	(169,156)	591	(1,972)	(804)	1,392,440	1,151,323	1,629,027	

Note 37 discloses details by maturities of assets and liabilities.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2009 and 2008

NOTE 36 – RISK MANAGEMENT (Continued)

3) Market risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

The Bank has defined as Market Risk its risk exposure due to changes in interest rates, foreign exchange rates and market prices that affect the fair value of its positions. Such definition covers the Bank and its subsidiaries and incorporates methodologies internationally accepted and validated by different standards and accounting regulatory entities.

Considering the importance of an adequate administration and management of market risks to achieve its strategic objectives, the Bank and its subsidiaries, has a Corporate Policy for its management and control, which establishes the required general guidelines to maintain an adequate risk level regarding the defined limits for the financial business.

The Central Bank of Chile establishes a legal limit for the aggregate of the interest rate risk on trading positions and the currency risk. The Bank, at the individual level, shall monitor on an ongoing basis such limits and inform on a weekly basis to the Superintendency of Banks and Financial Institutions regarding its risk positions and the compliance with such limits. It shall also report on a monthly basis to the Superintendency of Banks and Financial Institutions regarding its consolidated risk positions. The legal limit requires the effective equity to be sufficient to cover the aggregate of 8% of credit risk and market risk weighted assets.

BancoEstado manages its risks through models and methodologies known as the ‘Value at Risk (VaR) model’ which is used to measure market and credit risks of derivative instruments. The Bank has externally- and internally-developed systems to manage the financial risks. The reporting structure includes daily reports showing an exhaustive monitoring and control of the market risk exposures.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2009 and 2008

NOTE 36 – RISK MANAGEMENT (Continued)

As of December 31, 2009 and 2008, the regulatory required exposure to interest rate risk in trading positions was US\$141 million and US\$158 million, respectively, and for currency risk it totaled US\$7.3 million and US\$3.8 million, respectively.

The VaR applied with a 99.5% confidence level is estimated and informed on a daily basis to the corresponding entities and reflects the potential loss that could occur if the current positions would remain without changes during a business day. As of December 31, 2009 and 2008, the exposure to interest rate risk was of US\$10.1 million and US\$9.3 million and to the currency risk totaled US\$0.45 and US\$0.53 million, respectively.

The results are subject to retrospective testing to verify that the daily losses actually incurred do not exceed the VaR determined, more than twice every 100 days. The result is monitored on an ongoing basis to verify the validity of the assumptions, hypothesis and the adjustment of the risk parameters and factors used in the VaR calculations.

As the VaR is an integral part of market risk management of the Bank, the maximum exposure limits of VaR to the market risk are established by the Executive Committee for all trading and investment operations.

4) Operational risk

BancoEstado defines as its operational risk, the risk of loss resulting from inadequate or deficient internal processes, people and/or internal systems or from external events. This definition includes the legal risk, but excludes the reputation and strategic risk and is included in the proposal of the Basel Committee.

Considering the importance of an adequate management of this risk to achieve its strategic objectives, BancoEstado and its subsidiaries has a Corporate Policy for its overall management, which establishes the required general guidelines to maintain a model to manage the risk level in the operating environment.

In relation to the policy, specific responsibilities have been assigned to manage the operational risks, as follows:

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2009 and 2008

NOTE 36 – RISK ADMINISTRATION (Continued)

The individuals responsible for the processes, as for example the primary risk owners, in charge of the self-management of the risks in the activities they execute.

The Board of Compliance and Operational Security, in charge of the overall management and monitoring of the operational risk.

The Comptroller department, is responsible for the evaluation of the compliance with the operational risk policies implementation, and

The Operational Risk Committee, responsible for managing and approving the exposure levels and the assumed risks. The Operational Risk Committee consist of members of Senior Management, and is lead by the Vice President of the Bank and reports annually regarding its performance to the Executive Committee of the Bank.

BancoEstado manages its risks through a model that considers the impacts that the identified risk events could cause to the Bank and the probability of their occurrence. In the case of the most critical identified risks, which are not within the accepted levels, there are specified action plans established to mitigate them.

In addition, BancoEstado has incorporated to its normal activities the monitoring of the operational risk and has increasingly defined adequate indicators that provide alerts in case of risk increases and future potential losses. Furthermore, it has a Loss and Operational Incidents Database. All this allows knowing and quantifying the risks, which significantly favors the continuing improvement processes.

On the other hand, BancoEstado has implemented controls to ensure the information security, whose main objective is to safeguard its confidentiality, integrity and availability. For that purposes, the Bank has made efforts in classifying the information in different protection levels.

In the business continuity matter, the Bank considers in its plans of business continuity and contingency, several scenarios and assumptions that could impede complying with all or part of its obligations and, in this respect, it has developed a formal methodology that among its stages, considers the impact and critical nature of its services and products, the definition of strategies related to prevention, containment and recovery, as well as periodic tests of such strategies.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2009 and 2008

NOTE 36 – RISK MANAGEMENT (Continued)

BancoEstado in its purpose of mitigating these risks performs continuous training sessions at all levels so that each member of the entity assumes and understands in his/her activities, the responsibilities assigned to him/her in his/her management.

In the area of the creation of new products and/or services, these are subject to a risk analysis, prior to their implementation, which allows avoiding the introduction of risks beyond the accepted levels.

Capital requirements

- a) In accordance with the Chilean General Banking Law, the Bank complies with the requirement of maintaining a minimum 8% effective equity/Risk-weighted consolidated assets ratio, net of required provisions, and a minimum 3% Basic Capital/Total Consolidated Assets ratio, net of required provisions. To that end, the effective equity is calculated based on the Capital and Reserves or the Basic Capital, with the following adjustments:
 - a. Subordinated bonds with a maximum of 50% of basic capital are added; and
 - b. Goodwill or surcharges paid and investments in companies' balances that are not part of the consolidation are deducted.
 - c. Additional provisions up to 1.25% of its risk weighed assets are added.

Assets are weighted based on their risk categories, to which a risk percentage is assigned according to the amount of capital needed to back 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 securities issued by the Banco Central de Chile have a 0% risk factor, which means that, consistent with current regulations, no capital is needed to back these assets. Fixed assets carry a 100% risk, which means that a minimum capital equivalent to 8% of the value of these assets must be available.

All derivative securities negotiated off-exchange are taken into account in determining risk assets with conversion factors on notional values, thereby obtaining a credit risk exposure amount (or "credit equivalent"). The off-balance contingent loans are also considered "credit equivalent" in terms of weighting.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2009 and 2008

NOTE 36 – RISK MANAGEMENT (Continued)

Ratio of assets and risk weighted assets as of December 31, 2009 and 2008 are as follows:

	2009				2008	
	Consolidated assets	Consolidated assets	Risk weighed asset	Risk weighed asset	Consolidated assets	Risk weighed asset
	MUS\$	MCh\$	MUS\$	MCh\$	MCh\$	MCh\$
Assets (net of allowances):						
Cash and deposits in bank	2,286	1,159,475	-	-	1,513,788	-
Unsettled transactions	342	173,604	242	122,510	333,064	196,942
Trading investments	603	305,684	45	23,041	187,059	27,412
Investment under resale agreements	109	55,416	109	55,416	5,958	5,958
Financial derivative contracts	437	221,389	664	336,660	572,793	391,985
Interbank loans	101	50,969	94	47,504	270,521	166,924
Loans and account receivables from customers	21,245	10,773,582	17,048	8,645,060	9,181,582	7,464,356
Available for sale investments	6,540	3,316,640	578	293,171	2,545,341	587,016
Held to maturity investments	276	139,935	402	203,730	170,774	49,860
Investments in other companies	8	3,927	8	3,931	4,982	10,894
Intangibles	47	23,830	48	24,218	14,963	15,389
Property, plant and equipment	454	230,005	471	238,625	238,893	243,045
Current taxes	-	-	-	-	45,022	4,994
Deferred taxes	573	290,532	58	29,194	259,224	26,646
Other assets	293	148,540	301	152,700	187,418	188,792
Off balance sheet items						
Contingent loans	841	426,359	512	259,550	331,160	201,061
Total risk weighted assets			20,580	10,435,310		9,581,274

	2009				2008	
	MUS\$	MCh\$	Ratio %	Ratio %	MCh\$	Ratio %
	Basic capital	1,837	931,584	5.34%	5.34%	702,261
Effective equity	2,544	1,290,202	12.36%	12.36%	1,044,935	10.91%

(b) As of December 31, 2009 and 2008, the Bank considers the following information regarding its capital management:

- 1) The standards related to basic capital, actual equity and weighting of risk assets, referred to in Articles 66 and 67 of the General Banking Law, regulate the minimum own resources that the national credit institutions have to maintain, at a consolidated level, and establish, in particular, that the actual equity of a bank may not be inferior to 8% of its risk weighted assets, net of the required provisions, while its basic capital should be equal or higher than 3% of its total assets, net of the required provisions.
- 2) The Bank policy in this area has been to comply permanently and strictly with the mentioned legal capital requirements, according to the inherent credit risks assumed in its activity and the environment in which it operates, pursuing the maximum efficiency in such performance. Furthermore, it has maintained sufficient capital and own resources that allow to adequately face economic and/or financial shocks, in order to continuously ensure the institutional creditworthiness and public trust.
- 3) Due to its nature of state government company, the Bank has no access to foreign capital sources. Therefore, the sources of its equity growth are exclusively the capitalization of its annual income, and possible extraordinary capital contributions, which require the enactment of a law.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2009 and 2008

NOTE 36 – RISK MANAGEMENT (Continued)

- 4) The Bank received an extraordinary capital contribution during 2009 in the amount equivalent to US\$500 million, which was published in the Official Gazette on January 2, 2009, in which Law No. 20,318 was published, which grants the President of the Republic the power for such purpose, prior to a favorable report of the Superintendency of Banks and Financial Institutions. This contribution was fully carried out in several tranches during the twelve months after publication of the cited Law.
- 5) During 2009 there was no capitalization of income corresponding to 2008, as this was paid as dividends or assigned completely for the benefit of the Government.
- 6) The amounts obtained as consolidated capital at December 31, 2009 and 2008, amounted to MCh\$\$931,584 and MCh\$\$702,261, respectively.
- 7) The Bank managed as capital the equity attributable to equity holders of the Bank, which is indicated in its consolidated statements of financial position.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2009 and 2008

NOTE 37 - MATURITY OF ASSETS AND LIABILITIES

As of December 31, 2009, the detail of this item is as follows:

	Up to 1 month	Between 1 and 3 months	Between 3 and 12 months	Subtotal up to 1 year	More than 1 year	Total	Total
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MUS\$
Assets							
Cash and deposits in bank	1,159,475			1,159,475		1,159,475	2,286
Unsettled transactions	173,604			173,604		173,604	342
Trading investment	305,684			305,684		305,684	603
Investments under resale agreements	252,444	143,808	2,062	398,314		398,314	785
Financial derivative contracts	219,738	148,481	186,123	554,342	98,137	652,479	1,287
Interbank loans	16,009	2,965	5,377	24,351	88,485	112,836	223
Loans and accounts receivable from customers	419,289	323,169	1,047,390	1,789,848	11,354,891	13,144,739	25,921
Available for sale investments	3,270,781	3		3,270,784		3,270,784	6,450
Held to maturity investments	23	40,711	41,517	82,251	104,223	186,474	368
Total	5,817,047	659,137	1,282,469	7,758,653	11,645,736	19,404,389	38,265
Liabilities							
Demand deposits and other obligations	3,765,245	137,835	184,389	4,087,469	40,322	4,127,791	8,140
Unsettled transactions	93,783			93,783		93,783	185
Investment under repurchase agreements	266,959	553	2,104	269,616		269,616	532
Time deposits and other time liabilities	1,492,077	1,155,521	1,658,101	4,305,699	2,498,220	6,803,919	13,417
Financial derivative contracts	218,842	146,307	203,573	568,722	100,094	668,816	1,319
Interbank borrowings	113,807	268,615	219,710	602,132	148,955	751,087	1,481
Issued debt instruments	111,804	9,093	223,298	344,195	4,026,592	4,370,787	8,619
Other financial obligations	8,960	2,609		11,569		11,569	23
Other liabilities	28,026			28,026		28,026	55
Total	6,099,503	1,720,533	2,491,175	10,311,211	6,814,183	17,125,394	33,771

NOTE: The amounts correspond to the expected flows, including interest to be accrued until maturity.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2009 and 2008

NOTE 37 - MATURITY OF ASSETS AND LIABILITIES (Continued)

As of December 31, 2008, the detail of this item is as follows:

	Up to 1 month	Between 1 and 3 months	Between 3 and 12 months	Subtotal up to 1 year	<u>More than 1 year</u>
	MCLP\$	MCLP\$	MCLP\$	MCLP\$	MCLP\$
Assets					
Cash and bank deposits	1,513,788	-	-	1,513,788	-
Unsettled transactions	333,064	-	-	333,064	-
Trading investments	187,059	-	-	187,059	-
Investment under resale agreements	5,958	-	-	5,958	-
Financial derivative contracts	421,140	737,459	786,391	1,944,990	20,866
Interbank loans	208,841	5,782	10,878	225,501	59,965
Loans and accounts receivable from customers	451,500	468,085	1,462,551	2,382,136	10,137,764
Available for sale investments	3,098,686	825	-	3,099,511	-
Held to maturity investments	38,374	462	45,849	84,685	174,769
Total	6,258,410	1,212,613	2,305,669	9,776,692	10,393,364
Liabilities					
Demand deposits and other obligations	2,528,796	77,232	206,100	2,812,128	702,683
Unsettled transactions	283,533	-	-	283,533	-
Investment under repurchase agreements	335,156	16,717	5,105	356,978	-
Time deposits and other time obligations	1,718,484	918,153	1,092,068	3,728,705	3,044,944
Financial derivative contracts	359,181	594,563	745,610	1,699,354	17,114
Interbank borrowings	30,109	253,688	194,011	477,808	187,812
Issued debt instruments	140,892	9,255	231,910	382,057	4,085,063
Other financial obligations	3,316	269	-	3,585	-
Other liabilities	113,099	-	-	113,099	-
Total	5,512,566	1,869,877	2,474,804	9,857,247	8,037,616

NOTE: The amounts correspond to the expected flows, including interest to be accrued until maturity.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2009 and 2008

NOTE 37 - MATURITY OF ASSETS AND LIABILITIES (Continued)

The assigning to each Temporary Band of revenues from the Financial Investments Portfolio excluding (according to regulations) those of the past due portfolio, the investment with no secondary market, those given in guarantee and those sold under resale/repurchase agreements (over 7 days), is adjusted based on the depth of the market and the portfolio risk.

NOTE 38 – NEW SUPERINTENDENCY OF BANKS AND FINANCIAL INSTITUTIONS ACCOUNTING PRONOUNCEMENTS

Provisions for loan losses and new credit risk classifications to individually evaluated debtors:

As of January 1, 2010, the Bank began to accrue provisions for loan losses on its contingent loans, including the unrestricted credit lines, other credit commitments and other contingent credits, and as a result applied the changes in the exposure to credit risk of the already existing provisions as established in Chapter B-3 of the Compendium of Accounting Standards of the Superintendency of Banks and Financial Institutions. On December 29, 2009, the SBIF issued Circular No. 3,489 in which it established that the cumulative effect as of December 31, 2009 had to be recorded directly as an equity decrease. The accumulated effect at the end of 2009 amounts to MCh\$3,547, which was recorded charging to equity on January 1, 2010, amount that according to the Circular has to be revised in July 2010, once the Bank has the final figures from the integral application of the new standards.

Furthermore, the mentioned Circular instructed that the new risk categories and their new provision percentages used in the determination of the credit risk of the individually evaluated debtors, in conformity with the indicated in Chapter B-1 of the Compendium of Accounting Standards, will start to be applied under the new standards in July 2010. The adjustments originated by the application of these new standards are recognized directly against income (loss) for the year. For the first semester of 2010, the Bank continues applying the transitory standards established in Chapter E of the mentioned Compendium.

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2009 and 2008

NOTE 39 - SUBSEQUENT EVENTS

- In accordance with the requirements of Articles No. 226 and 227 of Law 18,045, BancoEstado S.A. Administradora General de Fondos, appointed Banco del Estado de Chile as representative of the guarantee beneficiaries constituted by this Entity on January 11, 2010 with maturity on January 10, 2011 (see Note 23).
- There are no other subsequent events between December 31, 2009 and February 22, 2010 that could have a significant effect on the Bank's consolidated financial statements.

CARLOS MARTABIT SCAFF
Chief Financial Officer

PABLO PIÑERA ECHENIQUE
Executive General Manager

MARCOS GAINZA ARAGONES
Administration and Accounting Manager

OSCAR GONZALEZ NARBONA
Planning and Studies Manager