



BancoEstado[®]

BancoEstado

Social Bond Framework



TABLE OF CONTENTS

1. Introduction	3
2. Rationale for BancoEstado to issue a Social Bond	3
3. BancoEstado Social Bond Framework	4
3.1 Use of Proceeds	4
3.2 Project Evaluation and Selection Process	7
3.3 Management of Proceeds	8
3.4 Reporting	8
4. External Review	9
Appendix	10

1. INTRODUCTION

“At BancoEstado everyone has a place, regardless of their condition. Our services are available to all, without exclusion and with equal dignity. It’s part of our hallmark.”

Banco del Estado de Chile, commercially operating under the brand BancoEstado, is the only public bank in Chile and was created by government decree in 1953. It offers financial services to consumers and companies, with an emphasis on national coverage in terms of geography and social sectors. The bank particularly focusses on the unbanked and small and medium enterprises.

Banco del Estado de Chile is the country's largest mortgage lender and largest issuer of debit cards. The bank performs all of the Chilean government's financial activities through a single account managed by the General Treasury of the Republic of Chile.

Banco del Estado de Chile is wholly owned by the Republic of Chile.

2. RATIONALE FOR BANCO ESTADO TO ISSUE A SOCIAL BOND

A STRONG COMMITMENT TO SUSTAINABLE DEVELOPMENT

As “The Bank of the Chilean People”, BancoEstado’s social role is based on being the main facilitator of financial inclusion in the country, supporting economic development and empowerment of small size companies and deployment of public policies of state institutions.

Through this social role and the search to ensure opportunities and access for all, in 2016 the bank developed an integrated sustainable business vision, across its entire operations that explained the elements of shared value that had always been present. For this reason, a Sustainability Policy was drawn up, which established a series of guidelines and commitments to the Corporation’s interest groups.

BancoEstado’s Corporate Sustainability Policy sets out the basic principles that determine responsible, complete and transparent actions, taking care of everyone’s assets and ensuring the bank’s sustainability and reputation. It applies to all employees of BancoEstado, as well as to subsidiary companies, in accordance with the provisions of BancoEstado’s Subsidiary Supervision Manual.

The general principles behind BancoEstado’s Corporate Sustainability Policy are:

- Respect for human rights
- Compliance with legislation
- Transparency and Information
- Prevention of illicit behavior
- Risk management
- Due process of complaints
- Integration of social and environmental criteria

As part of its sustainability related commitments, BancoEstado is supporting the United Nations (UN) Sustainable Development Goals (SDGs) promoting 17 objectives that contribute to Sustainable Development, materialized in 169 goals focusing on five fundamental issues: people, the planet, prosperity, peace and alliances.

BancoEstado's contributions focus on the goals that are most closely related to the reduction of existing inequality gaps:

- SDG 1 - End of poverty
- SDG 5 - Gender equality
- SDG 8 - Decent work and economic growth
- SDG 10 - Reducing inequalities
- SDG 13 - Climate action
- SDG17- Alliances to achieve the objectives

A SOCIAL BOND TO EMPHASIZE BANCO ESTADO'S SOCIAL ROLE AND ADDRESS EXCLUSIONS AND POVERTY

BancoEstado marked a historic milestone in 2016 by issuing Socially Responsible Bonds into the Japanese market, a Women Bond (Bono Mujer) and a Microfinance Bond (Bono Microfinanzas). Additionally, in April 2017, BancoEstado issued an AUD Women Bond on a private placement format.

In that context and to support its Corporate Sustainability Policy and strong commitment to address the challenge of poverty and exclusion, BancoEstado has decided to change scale and set-up a Social Bond framework in order to offer the local and international market and the investors' community a way to participate in its social investments and actions.

3. BANCO ESTADO SOCIAL BOND FRAMEWORK

BancoEstado Social Bond Framework is in line with the Social Bond Principles 2017 and their four key pillars, i.e. (i) Use of Proceeds (ii) Project Evaluation and Selection (iii) Management of Proceeds and (iv) Reporting, as found by Sustainalytics in the Second-Party Opinion.

3.1 Use of Proceeds

An amount equal to the net proceeds of the Notes ("Net Proceeds") under the BancoEstado Social Bonds will be used to finance and/or refinance, in part or in full, new and/or existing Eligible Social Projects Categories. These categories will include Social Loans granted by BancoEstado and/or Investments made by BancoEstado to develop social services that:

- (i) have been disbursed during the twenty-four months preceding the issue date of the Notes and/or
- (ii) will be disbursed following the issue date of the Notes and before the maturity date of the Notes.

BancoEstado Eligible Social Projects Categories will contribute to one or more of the following **Social Objectives**:

- Providing access to essential financial services for low-income and underserved populations;
- Promoting creation and preservation of viable jobs, socio-economic advancement and empowerment through microfinance and support to women business;
- Contributing to the growth of local economies in rural or remote areas;
- Contributing to reducing social inequalities.

Eligible Social Projects Categories:

1. Micro, small and medium-sized enterprises (MSMEs)

BancoEstado provides through its subsidiary “Microempresas”, financial advice and financing opportunities to the country’s entrepreneurs, traditionally excluded from the banking system and lacking the necessary tools to grow their businesses. BancoEstado whole sale banking includes segments based on annual revenues (as described in the Eligibility Criteria table).

2. Woman Entrepreneurs

BancoEstado’s program to support women-owned businesses, such as “Crece Mujer Emprenderora”, is aiming to improve access conditions to financial and non-financial services for women entrepreneurs, thus contributing to the strengthening and growth of their businesses and also supporting the economic empowerment of women in the country.

This initiative includes, in addition to specific financing alternatives, face-to-face training in business management, financial education, indebtedness, leadership and innovation.

In addition, it generates a virtual community through a web platform that facilitates exchanging experiences among the entrepreneurs themselves, along with training in business, legal and tax advice, among others.

3. Social housing

BancoEstado provides mortgages with Governmental Guarantee to low-income persons that fulfill Ministry of Housing requirements.

In addition, BancoEstado’s policy to provide mortgage loans must meet risk guidelines as of any mortgage loan.

4. Access to banking services and technological support to financial inclusion

To strengthen its social missions in the area of financial inclusion and to make Chile a more inclusive and equitable country, BancoEstado is implementing services and systems to support access to essential services.

Example of projects:

Caja Vecina:

BancoEstado, through its “Caja Vecina” system, has brought the most isolated localities in the country closer by allowing people to make cash withdrawals, transfers, deposits and other non-financial services such as paying bills or recharging mobile phones, among others. CajaVecina is a system that contributes to promoting financial inclusion in the whole country as well as the growth of local economies.

CuentaRUT:

Emblematic financial inclusion product that allows depositing, transferring or withdrawing money and using it as a debit card (RedCompra) to pay in stores. It is universal and does not hold any type of discrimination.

Universal Customer Service Program (PAUC):

This project aims to facilitate the conditions of access to BancoEstado’s services in an autonomous and egalitarian way.

With the implementation of Universal Customer Service, BancoEstado seeks to take charge of diversity and make the necessary internal changes to reduce infrastructure barriers, regulations, protocols and also the behaviors that hinder or impede access and social participation of people with disabilities, senior adults, indigenous peoples and immigrants.

The first visible initiative of the Program is the implementation of Universal Branches that comprise all the conditions for access and self-sufficient circulation, such as elevators, access ramps, turnstiles at a height accessible for all, as well as double height boxes and counters; allowing all people to enjoy equal treatment and to circulate through bank locations in an autonomous and independent way.

Eligibility Criteria:

Eligible Social Project Category	Definition	Target Population	Eligibility criteria	Sustainability benefits
1. Micro, small and medium-sized enterprises (MSMEs)	Projects supporting MSMEs financing and microfinance	<ul style="list-style-type: none"> • MSMEs • Unemployed people 	<ul style="list-style-type: none"> • Microfinance is any customers with annual sales of less than UF 2,400 in activities such as trade, artisanal fishing, agriculture, passenger transport, freight transport, professional services, independent technicians, production, handicrafts and tourism • Small business is any company with annual sales between UF 2,401 and UF 40,000 • Medium-sized business is any company with annual sales between UF 40,001 and UF 300,000 for the Metropolitan Region 	<p>Strengthen social cohesion and solidarity between territories</p> <p>---</p> <p>Promote local economic development</p>
2. Woman Entrepreneurs	Projects supporting women business	<ul style="list-style-type: none"> • Women 	<ul style="list-style-type: none"> • A women entrepreneur is any woman 18 years or over that operates her own enterprise. 	
3. Social housing	Projects supporting social housing supply to meet the demand of Chilean people	<ul style="list-style-type: none"> • Homeless people 	<ul style="list-style-type: none"> • 18 years old minimum • Belong to 40% of underserved population according to "Registro Social de Hogares", provided by the Ministry of Social Development • Houses between UF 950 and UF 1,600 	<p>Foster equal access to essential services</p> <p>---</p> <p>Reduce social exclusions and inequalities</p> <p>---</p> <p>Promote access to housing for all</p> <p>---</p> <p>Reduce precarious situations</p>
4. Access to banking services and technological support to financial inclusion	Projects supporting social inclusion	<ul style="list-style-type: none"> • Underserved population • Young people • Elderly people • People with disabilities • Immigrants 	<ul style="list-style-type: none"> • Meet the target population • Implementation in rural and remote regions (see map below) where: <ul style="list-style-type: none"> • Rural regions are locations outside populated communes • Remote regions are the extreme zones North and South of Chile 	

3.2 Project Evaluation and Selection Process

The evaluation and selection process of the Eligible Social Projects is defined in line with BancoEstado's Sustainability policies, which rely on BancoEstado's strong processes to identify and mitigate common environmental and social risks.

All loans will comply with BancoEstado's lending procedures. New guidelines for social and environmental risks will be released shortly including an exclusion List, summarized as follow:

- Customers who manufactures or trades any illegal products under Chilean Law
- Products under Montreal Protocol

New guidelines will also follow IFC Environmental, Health, and Safety (EHS) Guidelines¹ (“Guías sobre medio ambiente, salud y seguridad”) and other local guidelines provided by the Environmental authorities.

A Social Bond coordination working group, comprised of relevant members from different business units, will meet on an annual basis in order to select relevant Eligible Social projects that would qualify within the Social Bond Framework.

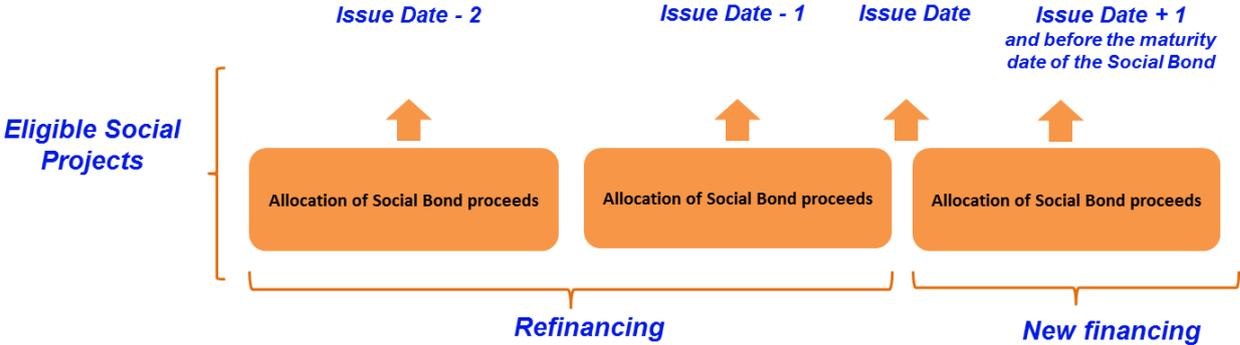
The members will review and approve, on an annual basis and, when circumstances so require, the allocation of the proceeds to Eligible Social Projects and the annual reporting.

3.3 Management of Proceeds

The net proceeds of the Social Bond issuance will be managed within BancoEstado’s treasury liquidity portfolio, in cash or other liquidity instruments, until the total amount of the net proceeds equals the total amount of selected Eligible Social Projects and/or until the maturity date of the Bond.

BancoEstado will take specific measures as part of the annual financial audit process to track the invested amounts used and the loans granted in order to finance the selected Eligible Social Projects.

The net proceeds of the issuance will be only used to finance current and future projects.



In case of project divestment, BancoEstado will use the net proceeds to finance other Eligible Social Projects which are compliant with the current Use of Proceeds.

3.4 Reporting

On an annual basis at least until full allocation, BancoEstado will provide on its website² the following reporting on any bonds issued under this Framework:

¹ <http://www.ifc.org/wps/wcm/connect/554e8d80488658e4b76af76a6515bb18/Final%2B-%2BGeneral%2BEHS%2BGuidelines.pdf?MOD=AJPERES>

² <http://www.corporativo.bancoestado.cl/investor-relations/home-investor>

- **Allocation reporting:** detailing the bond proceeds allocated, in whole or in part, by each Eligible Social Project Category, the progress on the projects financed by the bond proceeds, and the balance amount of unallocated net proceeds.
- **Impact reporting:** For each Eligible Social Project Category, BancoEstado will endeavor to report on social outcomes and impact metrics, using the following indicative reporting impact indicators:

Sector of Action	Example of Social Impact Indicators
Supporting MSMEs for the creation and preservation, of viable jobs	<ul style="list-style-type: none"> - Number of MSME's supported - Number of microfinance loans granted - Amount of credit distributed
Women Entrepreneurs	<ul style="list-style-type: none"> - Number of women-owned small and medium enterprises supported - Number of loans granted - Amount of credit distributed
Social Housing for low-income persons	<ul style="list-style-type: none"> - Number of dwellings and/or number of beneficiaries
Access to banking services and technological support to financial inclusion	<ul style="list-style-type: none"> - Number of beneficiaries - Number of service points implemented - % of people living in rural and remote areas - Number of access ramps

4. EXTERNAL REVIEW

4.1 Second-Party Opinion

BancoEstado mandated Sustainalytics to provide a Second-Party Opinion on its Social Bond Framework, including its alignment with the four pillars of the Social Bond Principles 2017³ as well as BancoEstado’s contribution to the relevant SDGs as mentioned in part two of the present Framework.

4.2 External validation

The allocation of the proceeds will be reviewed by BancoEstado auditors or a qualified third-party on an annual basis.

³ The Social Bond Principles 2017: <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/SocialBondsBrochure-JUNE2017.pdf>

APPENDIX

