

*Consolidated Financial Statements*

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

*Santiago, Chile*

*December 31, 2004 and 2003*

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

(Translation of report originally issued in Spanish—See Note 1(a))

December 31, 2004 and 2003

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Ch\$ -Chilean pesos.

MCh\$ -Millions of Chilean pesos.

US\$ -United States dollars.

ThUS\$ -Thousands of United States dollars.

MUS\$ -Millions of United States dollars.

UF -Unidad de Fomento (An inflation-indexed, Chilean-peso denominated monetary unit set daily in advance on the basis of the previous month's inflation rate).

## **Report of the Independent Auditors**

(Translation of report originally issued in Spanish—See Note 1(a))

To the Chairman and Members of the Board of  
Banco del Estado de Chile:

We have audited the accompanying consolidated balance sheets of Banco del Estado de Chile and Subsidiaries (the “Bank”) as of December 31, 2004 and 2003 and the related consolidated statements of income and cash flows for the years then ended. These financial statements (which include their related notes) are the responsibility of the Bank’s management. Our responsibility is to issue 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 statement 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, 2004 and 2003, and the results of its operations and cash flows for the years then ended, in conformity with generally accepted accounting principles in Chile and regulations established by the Chilean Superintendency of Banks and Financial Institutions.

Juan Francisco Martínez A.

ERNST & YOUNG LTDA.

Santiago, Chile January 28, 2005

# BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

## Consolidated Balance Sheets

As of December 31

(Translation of financial statements originally issued in Spanish – See Note 1(a))

<b>ASSETS</b>	<b>2004</b> <b>MUS\$</b>	<b>2004</b> <b>MCh\$</b>	<b>2003</b> <b>MCh\$</b>
	(Note 1(a))		
<b>CASH AND DUE FROM BANKS</b>	847.3	74,373.3	603,401.0
<b>LOANS:</b>			
Commercial loans	3,179.5	1,779,965.4	1,595,979.7
Foreign trade loans	443.0	247,997.2	154,233.6
Consumer loans	950.0	531,805.1	433,154.2
Mortgage loans	3,446.7	1,929,546.0	1,736,286.1
Leasing contracts	137.0	76,696.2	75,950.7
Contingent loans	267.3	149,640.0	105,606.1
Other outstanding loans	320.4	179,407.7	209,428.6
Past due loans	73.1	40,951.1	51,051.0
Total loans	8,817.0	4,936,008.7	4,361,690.0
Allowance for loan losses	(158.5)	(88,723.7)	(94,826.7)
Total loans, net	8,658.5	4,847,285.0	4,266,863.3
<b>OTHER LOANS:</b>			
Interbank loans	183.7	102,851.6	206,167.2
Investments purchased under agreements to resell	240.3	134,541.7	103,014.4
Total other loans	424.0	237,393.3	309,181.6
<b>INVESTMENTS:</b>			
Government securities	2,569.2	1,438,339.6	1,338,236.3
Other financial investments	1,412.3	790,627.1	626,705.8
Investment collateral under agreements to repurchase	720.5	403,349.1	211,814.7
Assets held for leasing	45.3	25,332.6	3,082.5
Assets received in lieu of payment	5.5	3,099.5	5,196.9
Other non-financial investments	0.1	48.9	43.5
Total investments	4,752.9	2,660,796.8	2,185,079.7
 <b>OTHER ASSETS</b>	 533.9	 298,868.2	 171,654.8
<b>BANK PREMISES AND EQUIPMENT:</b>			
Premises and equipment, net	190.3	106,512.4	106,629.1
Investments in other companies	5.4	3,042.0	2,873.3
Total bank premises and equipment	195.7	109,554.4	109,502.4
Total assets	15,412.3	8,628,271.0	7,645,682.8

The accompanying Notes 1 to 23 are an integral part of these consolidated financial statements.

# BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

## Consolidated Balance Sheets

As of December 31

(Translation of financial statements originally issued in Spanish – See Note 1(a))

	2004 MUS\$ (Note 1(a))	2004 MCh\$	2003 MCh\$
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>DEPOSITS AND OTHER LIABILITIES</b>			
Current accounts	2,165.1	1,212,059.7	1,125,959.1
Time deposits	5,931.8	3,320,820.7	3,088,571.6
Other demand and time deposits	454.7	254,560.7	310,420.6
Securities sold under agreements to repurchase	737.1	412,645.3	206,575.8
Mortgage finance bonds	3,374.8	1,889,290.1	1,654,859.2
Contingent liabilities	267.1	149,544.5	105,686.3
Total deposits and other liabilities	12,930.6	7,238,921.0	6,492,072.6
<b>BONDS ISSUED:</b>			
Bonds	141.2	79,056.1	85,480.7
Subordinated bonds	190.3	106,551.9	106,250.4
Total bonds issued	331.5	185,608.0	191,731.1
<b>BORROWINGS FROM FINANCIAL INSTITUTIONS AND THE CENTRAL BANK:</b>			
Central Bank credit lines for renegotiation of loans	3.3	1,819.1	3,331.7
Other Central Bank borrowings	663.6	371,508.9	174,980.4
Borrowings from domestic financial institutions	117.6	65,813.2	89,715.7
Foreign borrowings	291.3	163,093.7	202,124.1
Other borrowings	4.4	2,485.8	3,573.1
Total borrowings from financial institutions	1,080.2	604,720.7	473,725.0
<b>OTHER LIABILITIES</b>			
Total liabilities	14,672.1	8,213,891.7	7,257,078.4
<b>MINORITY INTEREST</b>			
Total liabilities and Shareholders' equity	3.4	1,910.2	196.9
<b>SHAREHOLDERS' EQUITY</b>			
Capital and reserves	655.6	367,046.6	354,174.5
Other equity accounts	1.6	860.7	3,708.6
Net income for the year	79.6	44,561.8	30,524.4
Total Shareholders' equity	736.8	412,469.1	388,407.5
Total liabilities and Shareholders' equity	15,412.3	8,628,271.0	7,645,682.8

The accompanying Notes 1 to 23 are an integral part of these consolidated financial statements.

## BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

### Consolidated Statements of Income

For the years ended December 31,

(Translation of financial statements originally issued in Spanish – See Note 1(a))

	2004 MUS\$ (Note 1(a))	2004 MCh\$	2003 MCh\$
<b>OPERATING INCOME:</b>			
Interest revenue	812.8	455,037.8	373,435.5
Gains from trading activities	57.0	31,918.3	22,833.6
Income from fees and other services	125.7	70,377.2	66,095.5
Gains from foreign exchange transactions	40.5	22,644.5	70,795.0
Other operating income	29.4	16,436.2	7,962.9
Total operating revenues	1,065.4	596,441.0	541,122.5
<b>Less:</b>			
Interest expense	(428.1)	(239,644.3)	(202,726.5)
Losses from trading activities	(16.3)	(9,160.1)	(9,643.2)
Expenses from fees and other services	(11.0)	(6,127.4)	(1,977.7)
Other operating expenses	(16.3)	(9,125.6)	(4,794.8)
Gross margin	593.7	332,383.6	321,980.3
Personnel salaries and expenses	(242.8)	(135,920.9)	(137,640.0)
Administrative and other expenses	(106.5)	(59,607.7)	(59,905.0)
Depreciation and amortization	(30.4)	(17,034.9)	(19,816.5)
Net margin	214.0	119,820.1	104,618.8
Provision for loan losses	(49.6)	(27,777.5)	(21,597.9)
Total operating income	164.4	92,042.6	83,020.9
<b>NON-OPERATING RESULTS:</b>			
Non-operating income	40.3	22,547.0	7,455.7
Non-operating expenses	(44.7)	(25,017.7)	(18,819.0)
Equity participation in net income in investments in other companies	0.9	526.1	166.4
Loss from price-level restatement, net	(10.9)	(6,114.3)	(2,837.6)
Income before income taxes	150.0	83,983.7	68,986.4
Income taxes	(69.5)	(38,911.9)	(38,465.6)
Income after income taxes	80.5	45,071.8	30,520.8
Minority interest	(0.9)	(510.0)	3.6
Net income for the year	79.6	44,561.8	30,524.4

The accompanying Notes 1 to 23 are an integral part of these consolidated financial statements.

## BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

### Consolidated Statements of Cash flows

For the years ended December 31,

(Translation of financial statements originally issued in Spanish – See Note 1(a))

	2004 MUS\$ (Note 1(a))	2004 MCh\$	2003 MCh\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income for the year	79.6	44,561.8	30,524.4
Charges (credits) to net income which do not represent cash flows:			
Depreciation and amortization	30.4	17,034.9	19,816.5
Provision for loan losses	89.3	49,990.7	49,018.2
Adjustment of financial investments to market value	2.9	1,603.6	797.5
Equity participation in net income in investments in other companies	(0.9)	(526.1)	(166.4)
Gain on sales of goods received in lieu of payment	(2.6)	(1,427.8)	(4,650.0)
Gain on sales of bank premises and equipment	(0.1)	(52.3)	(450.4)
Write-off of assets received in lieu of payment	7.1	3,970.6	3,996.2
Minority interest	0.9	510.0	(3.6)
Loss from price-level restatement, net	10.9	6,114.3	2,837.6
Other charges which do not represent cash flows	(7.2)	(4,038.8)	10,203.7
Net changes in interest accruals	(27.4)	(15,326.3)	(13,408.2)
Total cash flows from operating activities	182.9	102,414.6	98,515.5
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Net increase in loans	(1,172.6)	(656,471.2)	(404,400.7)
Net increase in investments	(968.6)	(542,237.0)	(37,769.4)
Net increase (decrease) in other loans	117.6	65,853.5	(94,462.0)
Purchases of bank premises and equipment	(30.8)	(17,269.8)	(18,827.6)
Proceeds from sales of bank premises and equipment	2.6	1,468.2	9,101.3
Sale of investment in companies	30.5	17,076.1	-
Investments in other companies	(0.7)	(406.3)	-
Proceeds from sale of assets received in lieu of payment	1.4	755.2	1,259.5
Net decrease (increase) in other assets and liabilities	(138.1)	(77,306.0)	37,497.1
Dividends received from investments in other companies	0.9	526.1	166.4
Total cash flows from investment activities	(2,157.8)	(1,208,011.2)	(507,435.4)

The accompanying Notes 1 to 23 are an integral part of these consolidated financial statements.

## BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

### Consolidated Statements of Cash flows

For the years ended December 31,

(Translation of financial statements originally issued in Spanish – See Note 1(a))

<b>Statement of Cash Flows, continued</b>	<b>2004</b>	<b>2004</b>	<b>2003</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>	<b>MUS\$</b>	<b>MCh\$</b>	<b>MCh\$</b>
	(Note 1(a))		
Net increase in current accounts	207.9	116,402.1	231,194.1
Net increase in time deposits	549.4	307,580.3	25,381.3
Net increase (decrease) in other demand or time liabilities	(88.4)	(49,495.9)	63,197.4
Net increase (decrease) in investments sold under repurchase agreements	377.1	211,107.9	120,907.5
Increase in short-term foreign loans	(62.4)	(34,953.1)	93,645.8
Net increase in mortgage finance bonds	492.8	275,887.3	206,156.8
Net increase (decrease) in other short-term borrowings	(1.8)	(1,025.2)	(8,064.1)
Borrowings from Central Bank, long-term	356.1	199,329.2	51,571.4
Proceeds from bond issuances	-	-	44,978.4
Repayment of bond issuances	(2.7)	(1,482.9)	(1,534.1)
Long-term foreign borrowings	-	-	(19.0)
Payment of borrowings from financial institutions, long-term	(39.8)	(22,257.2)	15,697.6
Distribution of prior year net income to the Chilean Treasury	(22.3)	(12,507.6)	(21,447.5)
Total cash flows from Financing Activities	<u>1,765.9</u>	<u>988,584.9</u>	<u>821,665.6</u>
Effect of price-level restatement on cash and due from banks	<u>(21.5)</u>	<u>(12,016.0)</u>	<u>(6,034.0)</u>
Net (decrease) increase in cash flows for the year	<u>(230.5)</u>	<u>(129,027.7)</u>	<u>406,711.7</u>
Cash and due from banks at Beginning of year	<u>1,077.8</u>	<u>603,401.0</u>	<u>196,689.3</u>
Cash and due from banks at End of year	<u>847.3</u>	<u>474,373.3</u>	<u>603,401.0</u>

The accompanying Notes 1 to 23 are an integral part of these consolidated financial statements.



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

## Notes to the Consolidated Financial Statements

December 31, 2004 and 2003

(Translation of financial statements originally issued in Spanish – See Note 1(a))

### **Note 1 - Summary of Significant Accounting Principles**

#### **a) Basis of preparation**

These consolidated financial statements have been prepared in accordance with the accounting principles issued by the Superintendency of Banks and Financial Institutions (“SBIF”) and with generally accepted accounting principles in Chile (“Chilean GAAP”). Certain accounting practices applied by the Company that conform to Chilean GAAP may not conform to generally accepted accounting principles in the United States of America (“US GAAP”) or International Financial Reporting Standards (“IFRS”).

For subsidiaries controlled by the Chilean Superintendency of Securities and Insurance, the accounting principles provided by that controlling agency have been applied. The use of different accounting principles does not have a significant effect on these consolidated financial statements.

For comparative purposes, the 2003 financial statements have been restated according to changes in the Consumer Price Index, which amounted to 2.5%.

The Bank’s accounting records are maintained in Chilean pesos. The translation of the 2004 financial statements into U.S. dollars was made solely for the convenience of the reader. The financial statements for the year ended December 31, 2004 have been translated into U.S. dollars at the closing exchange rate of Ch\$ 559.83 per US\$ 1. This translation should not be construed as representing that the Chilean peso amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other exchange rate.

For the convenience of the reader, the financial statements and their accompanying notes have been translated from Spanish to English.

# BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

December 31, 2004 and 2003

(Translation of financial statements originally issued in Spanish – See Note 1(a))

### Note 1 - Summary of Significant Accounting Principles, continued

#### b) Basis of consolidation:

The Bank consolidates the following subsidiaries in which it maintains an interest of over 50%, as detailed below:

Company	Interest Owned	
	2004	2003
BancoEstado S.A. Corredores de Bolsa	99.9996	99.9996
BancoEstado S.A. (*)	99.8900	99.8900
BancoEstado Microempresas S.A. (*)	50.1000	99.9000
BancoEstado Servicios de Seguros Ltda.	99.9000	99.9000
BancoEstado S.A. (*)	99.9900	99.9900
BancoEstado Contacto 24 Horas (*)	99.9000	99.9000
Globalnet S.A. (*)	63.1579	63.1579

(\*) Companies regulated by the Superintendency of Banks and Financial Institutions. The Superintendency of Securities and Insurance regulates the remaining companies.

All significant intercompany balances and transactions have been eliminated in consolidation. Third party ownership in the equity and income from subsidiaries amounts to MCh\$ 1,910.2 and a charge to income of MCh\$ 510.0. These amounts are presented within "Minority Interest" in the Consolidated Balance Sheet and Consolidated Statements of Income, respectively (minority interest reached MCh\$ 196.9 in 2003, with a credit to income of MCh\$ 3.6 being generated).

The assets at operating income of the subsidiaries represent for 1.80% and 6.27%, of the total consolidated operating assets and respectively (1.18% and 5.43% in 2003).

#### c) Interest and adjustments

Loans, investments and liabilities are stated including their corresponding accrued interest and adjustments as of year end. However, interest accruals and readjustments of past due loans, and of outstanding current loans of doubtful recovery are suspended.

# BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

December 31, 2004 and 2003

(Translation of financial statements originally issued in Spanish – See Note 1(a))

### **Note 1 - Summary of Significant Accounting Principles, continued**

#### **d) Use of estimates in preparing the financial statements**

The preparation of financial statements according to Chilean GAAP requires that the management make some estimates and assumptions, which affect the balances reported for assets and liabilities, disclosures of contingencies with respect to assets and liabilities as of the date of these financial statements, and the balances reported for income and expenses during the year. Actual income (losses) may differ from these estimates.

#### **e) Price-level restatement**

Shareholders' equity, bank premises and equipment and other non-monetary assets and liabilities have been restated according to the variation in the Consumer Price Index (CPI), which resulted in a net charge to income of MCh\$ 6,114.3 (MCh\$ 2,837.6 in 2003).

Income statement accounts have not been restated.

#### **f) Foreign currencies**

Assets and liabilities denominated in foreign currency have been translated into Chilean pesos at the closing exchange rate of Ch\$ 559.83 to US\$1 (Ch\$ 599.42 to US\$1 in 2003).

The balance of MCh\$ 22,644.5 from net foreign exchange gains shown in the Consolidated Statement of Income (foreign exchange net gain of MCh\$ 70,795.0 in 2003) includes both the results of foreign exchange transactions as well as the effects that the fluctuation in the exchange rates has had on assets and liabilities stated in foreign currencies (i.e. net foreign currency translation).

The Bank and its subsidiaries carry out forward operations and enter into foreign exchange futures contracts. Forward contracts between US dollars and Chilean pesos or UF and forward agreements in foreign currency are valued at the exchange rate in effect as of each year end. In addition to forward contracts, the Bank and its subsidiaries purchase and sell foreign exchange futures contracts, which are valued at the daily exchange rate in effect.

#### **g) Financial investments**

Financial investments traded on secondary markets are shown adjusted to market value, in accordance with specific instructions from the Superintendency of Banks and Financial Institutions. These instructions require such adjustments to be recognized against income, except in the case of the investment portfolio classified as permanent, which may be recorded directly in the equity account, "Change in unrealized gains (losses) on permanent financial investments".

# BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

December 31, 2004 and 2003

(Translation of financial statements originally issued in Spanish – See Note 1(a))

### **Note 1 - Summary of Significant Accounting Principles, continued**

These financial instruments produced a net charge to income of MCh\$ 1,603.6 for the year (net charge of MCh\$ 797.5 in 2003). This amount is presented in the operating results as “Losses from trading activities”. The adjustment of the permanent portfolio produced a net credit to equity of MCh\$ 2,757.4 (net charge of MCh\$ 5,415.4 in 2003).

Other investments in financial instruments are presented at purchase value plus adjustments and accrued interest, and net of provisions charged to income of the year 2004, which amounts to MCh\$ 1,550.0 (MCh\$ 1,967.0 in 2003).

#### **h) Operations under agreement to repurchase**

The Bank and its subsidiaries use repurchasing agreements as a form of financing. Therefore, the Bank’s investments that are sold subject to a repurchasing obligation and used as collateral for loans are classified as “Traded documents” and valued at the initial value of the agreement plus accrued interest and adjustments. The obligation to repurchase the investment is classified as “Liability for trading activities”, recognizing accrued interest and adjustments as of year-end.

#### **i) Derivatives**

The Bank and its subsidiaries carry out transactions in foreign currency and financial instruments issued in the domestic market through forward agreements and currency and interest rates swaps. These transactions are carried out for the Bank’s commercial, hedging and financial management purposes.

In accordance with the Superintendency of Banks and Financial Institutions, gains and losses are recognized in the Bank’s results.

The initial gains or losses corresponding to the difference between the spot and future rate are recognized as deferred assets or liabilities and amortized to income over the duration of the respective contracts. Operations between foreign currency and Chilean pesos are valued monthly at the exchange rate in effect as of each month-end, with gains and losses being credited or charged directly to statements of income.

Forward contracts between foreign currencies are valued at the market price for such operations at each month-end based on its remaining maturity term.

Derivatives with domestic financial instruments are valued monthly according to the market value of underlying assets, recording the difference with a credit or charge to income.

Assets or liabilities related to derivative operations contracts are shown net under “Other Assets” and “Other Liabilities” in the Balance Sheet.

# BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

December 31, 2004 and 2003

(Translation of financial statements originally issued in Spanish – See Note 1(a))

### **Note 1 - Summary of Significant Accounting Principles, continued**

The credit risk involved in operations with derivatives is restricted to the approval of the loan for each party with which the operation is being performed, while its market risk is managed according to each transaction's risk value, the set of transactions with each party and the total number of operations performed by the Institution for each kind of derivative.

#### **j) Leasing contracts**

Financial lease contracts include the aggregate lease payments receivable, less unearned income and value-added tax. Allowances for losses on lease contracts are shown separately under "Allowance for loan losses".

Assets acquired for leasing contracts are shown at restated cost under "Assets held for leasing".

#### **k) Provisions for assets under risk**

Allowances required to cover the loan risk of assets have been set forth according to the rules of the Superintendency of Banks and Financial Institutions. Assets are shown net of such allowances. In the case of loans, the allowance has been deducted.

#### **Provisions over loans**

According to Chapters 7-10 of the Updated Compilation of Rules of the Superintendency of Banks and Financial Institutions, as of January 1, 2004, the Bank must use new models or methods to establish credit risk provisions on the basis of the individual and group analyses of debtors.

Models based on the individual analysis of debtors:

The individual analysis of debtors is necessary in the case of companies for which--due to their size, complexity or level of exposure - thorough and detailed information must be provided. Also, a risk category must be assigned to each debtor and its corresponding loans, taking into consideration at least the following risk factors:

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

Once the analysis has ended, each debtor and loan shall be classified in one of the following categories:

# BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

December 31, 2004 and 2003

(Translation of financial statements originally issued in Spanish – See Note 1(a))

### Note 1 - Summary of Significant Accounting Principles, continued

Portfolio of debtors under normal risk:

- Categories A1, A2 and A3 correspond to debtors whose creditworthiness is sufficient to cover their liabilities according to the terms agreed upon and without outstanding risks.
- Category B corresponds to debtors whose creditworthiness is sufficient to cover their liabilities under the terms agreed upon but with some kind of risk.

Portfolio of debtors under higher than normal risk:

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

In order to assess provisions for debtors classified under A1, A2, A3 and B, the Bank uses the provision percentages approved by the Executive Committee. In addition, for C1, C2, C3, C4, D1 and D2 debtors, the following levels of provisions were assessed according to new regulations:

Category	Loss range estimated	Provision %
C1	Up to 3%	2
C2	Over 3% up to 19%	10
C3	Over 19% up to 29%	25
C4	Over 29% up to 49%	40
D1	Over 49% up to 79%	65
D2	Above 79%	90

Models of group assessment:

In addition, the group analysis is used to analyze a high number of operations whose individual amounts are low. Generally, these are individuals or small companies. In these cases, the Bank uses models based on the attributes of debtors and their loans.

#### • Loan write-offs:

Loan write-offs are performed after every means of collection has been exhausted, within the regulatory terms provided by the Superintendency of Banks and Financial Institutions, which are as follows:

- Consumer loans are 100% written off 6 months after the debtor defaults on the first payable installment.
- Trade loans are written off 24 months after being admitted into the past due portfolio in the case of loans without collateral, and 36 months for loans with collateral.

# BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

December 31, 2004 and 2003

(Translation of financial statements originally issued in Spanish – See Note 1(a))

### Note 1 - Summary of Significant Accounting Principles, continued

- **Recovery of written-off loans**

Recovery of loans already written off and recorded in memorandum accounts is directly recognized as income under the item “Provisions for risky assets”.

As of December 31, 2004, recoveries of loans amounted to MCh\$ 22,213.2 (MCh\$ 27,420.4 in 2003).

For companies that are not controlled by the Superintendency of Banks and Financial Institutions, provisions have been established according to specific criteria set forth by the Management of each subsidiary.

**l) Bank, premises and equipment**

Bank premises and equipment are shown at restated cost, net of accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated remaining useful lives of the assets.

**m) Assets received in lieu of payment**

Assets received in lieu of payment are shown as the lower of the restated incorporation value and the appraisal value of these assets. Assets that have not been sold within one year are written-off over 12 months, in accordance with the instructions of the Superintendency of Banks and Financial Institutions.

**n) Investments in other companies**

Shares or rights in other companies in which the Bank has 10% or more of equity participation or the right to elect one member of the Board of Directors or Management of such companies are accounted for using the equity method.

**o) Current and deferred income taxes**

Current income tax has been determined in conformity with Chilean tax legislation.

The Bank and its subsidiaries have recognized the effects of deferred income taxes arising from temporary differences between the tax and financial basis of assets and liabilities, which are recorded on an accrual basis in accordance with Technical Bulletins Nos. 60, 69 and 71 issued by the Chilean Association of Accountants.

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

## Notes to the Consolidated Financial Statements

December 31, 2004 and 2003

(Translation of financial statements originally issued in Spanish – See Note 1(a))

### **Note 1 - Summary of Significant Accounting Principles, continued**

**p) Staff vacations**

The annual cost of staff vacations and benefits are accounted for on an accrual basis.

**q) Intangibles**

The Bank values its intangible assets according to the provisions set forth in Circular Letter N° 3,029 issued by the Superintendency of Banks and Financial Institutions of Chile.

Investments in software are the main intangible assets kept by the Banks and they are shown net of amortizations under the item “Other Assets” (see Note N° 22).

**r) Reclassifications**

Some reclassifications have been made to the 2003 financial statements in order to allow proper comparison with 2004 financial statements.

**s) Statement of cash flows**

In conformity with specific provisions applicable to financial institutions, the Bank has considered as cash and cash equivalents only the cash and amounts due from bank balances in the Consolidated Balance Sheet. The Consolidated Statement of Cash Flows has been prepared using the indirect method.

### **Note 2 - Accounting Changes**

As of January 1, 2004 and according to the Circular Letter N° 3,246 of the Superintendency of Banks and Financial Institutions, the application of the new rule to assess Provisions on Loans was made effective, as stated in Chapter 7-10 of the Updated Compilation of Rules of said Institution. The application of this new criterion to assess provisions did not result in a significant effect on the Bank’s financial condition, as submitted in these financial statements, in comparative terms. Voluntary allowances recorded as of December 31, 2003 for MCh\$ 13,300.0 (historic) were in turn allocated to the establishment of Additional Provisions in compliance with the regulations already mentioned.

### **Note 3 - Relevant Events**

- a) On August 21, 2004, by means of Treasury Ordinance No. 643, published in the Official Gazette N° 37,988 dated October 18, 2004, the resignation of Mr. Marco Colodro Hadjes as Director and Vice President of the Bank was accepted.

Also, on July 7, 2004, Mr. Jorge Antonio Marshall Rivera was appointed as Director of the Bank.



# BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

December 31, 2004 and 2003

(Translation of financial statements originally issued in Spanish – See Note 1(a))

### Note 3 - Relevant Events, continued

- b) In order to strengthen Bancaseguros products, which are part of the financial services provided by the Bank to its customers, in November 2004 a strategic alliance agreement was signed between the Bank and the insurance company Metlife Chile Inversiones Ltda., a subsidiary of Metlife Internacional, which is in turn a subsidiary of Metlife Co., the primary life insurance company in the United States.

This strategic alliance materialized with the transfer to Metlife Chile Inversiones Ltda. – a subsidiary of Metlife Internacional – of 49.9% of BancoEstado Corredores de Seguros S.A.’s shares. In addition, Metlife Chile Inversiones Ltda. paid BancoEstado approximately US\$ 30 million in cash and committed to the payment of an additional UF 1,447,306 (about US\$ 40 million) by the year 2010, subject to the fulfillment of a business plan agreed upon by the Bank and Metlife Chile Inversiones Ltda. The latter began to participate in the BancoEstado Corredores de Seguros S.A.’s management immediately by contributing its experience in the field.

The agreement represented an increase in profits for the Bank by the net amount of MCh\$16,132.1, due to the US\$ 30 million payment received in cash. This transaction is recorded as MCh\$ 17,076.1 within “Non-operating income” and MCh\$ 944.0 within “Non-operating expenses”, as detailed in Note 17.

### Note 4 - Transactions with Related Parties

In accordance with the General Banking Law and instructions of the Superintendency of Banks and Financial Institutions, related parties are defined as all persons or entities directly or indirectly related to the owners or management of the Bank and its subsidiaries.

#### a) Loans granted to related parties

As of December 31, 2004 and 2003, loans granted to related parties are as follows:

	Loans			Past due loans			Total			Collateral pledged (*)		
	2004 MUS\$	2004 MCh\$	2003 MCh\$	2004 MUS\$	2004 MCh\$	2003 MCh\$	2004 MUS\$	2004 MCh\$	2003 MCh\$	2004 MUS\$	2004 MCh\$	2003 MCh\$
Operating companies	9.8	5,495.9	15,344.8	-	-	-	9.8	5,495.9	15,34	1.4	763.8	-
Individuals (**)	2.6	1,434.3	1,138.3	-	-	-	2.6	1,434.3	1,138.3	1.4	806.2	893.9
Total	12.4	6,930.2	16,483.1	-	-	-	12.4	6,930.2	16,483.1	2.8	1,570.0	893.9

(\*) Includes only collateral allowed for calculating individual credit limits as referred to in Article No. 84 of the General Banking Law, valued in accordance with the instructions issued by the Superintendency of Banks and Financial Institutions.

(\*\*) Only includes the obligations of individuals whose debts are equal to or greater than UF 3,000.

# BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

December 31, 2004 and 2003

(Translation of financial statements originally issued in Spanish – See Note 1(a))

### Note 4 - Transactions with Related Parties, continued

#### b) Other transactions with related parties

During the years ended December 31, 2004 and 2003, the Bank and its subsidiaries have not carried out any transactions or kept agreements in effect with related parties for amounts in excess of UF 1,000.

### Note 5 - Investments in Other Companies

Investments in other companies in the amount of MCh\$ 3,042.0 (MCh\$ 2,873.3 in 2003) included in long-term assets are as follows:

Company	Ownership Interest		Equity		Book value			Investment		Income	
	2004	2003	2004	2003	2004	2004	2003	2004	2004	2003	
	%	%	MCh\$	MCh\$	MUS\$	MCh\$	MCh\$	MUS\$	MCh\$	MCh\$	
Transbank	8.7188	8.7188	4,958.3	4,973.1	0.8	432.3	433.6	0.1	66.0	66.3	
Nexus	12.9030	12.9030	4,131.2	3,916.5	0.9	532.7	505.3	0.1	85.7	73.0	
Sociedad Operadora de la Cámara de Compensación de Pagos de Alto Valor S.A.	18.1600	-	1,609.9	-	0.5	292.4	-	-	0.8	-	
Bolsa de Comercio	2.0833	2.0833	13,386.5	13,410.8	0.5	278.9	279.4	0.1	45.2	45.1	
<b>Subtotal</b>					2.7	1,536.3	1,218.3	0.3	197.7	184.4	
Shares or rights in other companies					2.7	1,505.7	1,655.0	0.6	328.4	(18.0)	
<b>Total</b>					5.4	3,042.0	2,873.3	0.9	526.1	166.4	

### Note 6 – Cash and Due from Banks

The item “Cash and due from banks” includes deposits kept by the Bank in different local and foreign banks, including the Central Bank.

According to the rules set forth by the Superintendency of Banks and Financial Institutions, the Bank shall keep certain binding balances for deposits not generating interest in its accounts with the Central Bank. Balances required are based on specific criteria related to the level of the Bank’s deposits, foreign loans and average liabilities. As of December 31, 2004, these funds amounted to MCh\$ 122,988.0 (MCh\$ 104,001.0 in 2003).

# BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

December 31, 2004 and 2003

(Translation of financial statements originally issued in Spanish – See Note 1(a))

### Note 7 - Allowances for Losses on Loans and other Assets

As of December 31, 2004, the Bank has made allowances for losses amounting to MCh\$ 93,391.8 (MCh\$ 99,719.6 in 2003), to cover possible losses.

Changes in these allowances during 2004 and 2003 are detailed as follows:

	Allowances for			Total MCh\$
	Loans MCh\$	Assets received in lieu of of payment MCh\$	Other assets MCh\$	
Balance as of December 31, 2002	85,557.9	-	1,900.0	87,457.9
Charge-offs	(51,282.8)	(10.4)	-	(51,293.2)
Allowances established	44,938.7	1,210.4	1,673.6	47,822.7
Voluntary allowances (1)	13,300.0	-	-	13,300.0
<b>Balance as of December 31, 2003</b>	<b>92,513.8</b>	<b>1,200.0</b>	<b>3,573.6</b>	<b>97,287.4</b>
<b>Balance restated for comparative purposes</b>	<b>94,826.7</b>	<b>1,230.0</b>	<b>3,662.9</b>	<b>99,719.6</b>
Balance as of December 31, 2003	92,513.8	1,200.0	3,573.6	97,287.4
Charge-offs	(52,900.1)	(12.0)	(974.2)	(53,886.3)
Allowances established	49,110.0	-	880.7	49,990.7
<b>Balance as of December 31, 2004 in MCh\$</b>	<b>88,723.7</b>	<b>1,188.0</b>	<b>3,480.1</b>	<b>93,391.8</b>
<b>Balance as of December 31, 2004 in MUS\$</b>	<b>158.5</b>	<b>2.1</b>	<b>6.2</b>	<b>166.8</b>

In management's opinion, the allowances cover potential losses arising from non-recoverable assets, on the basis of the information available to the Bank and its subsidiaries.

- (1) Considering the above on additional allowances in Circular Letter N° 3,246 of the Superintendency of Banks and Financial Institutions, the Bank has used its voluntary allowances to establish additional allowances according to the new rules on allowances (See Note N° 2).

# BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

December 31, 2004 and 2003

(Translation of financial statements originally issued in Spanish – See Note 1(a))

### Note 8 - Equity

#### a) Equity accounts

The movements in the shareholders' equity accounts during 2004 and 2003 are detailed as follows:

	Paid-in capital MCh\$	Other Reserves MCh\$	Other accounts MCh\$	Net income For the year MCh\$	Total MCh\$
Balance as of 12.31.2002	4,000.0	330,808.7	8,901.4	27,899.2	371,609.3
Distribution of net income 2002	-	-	-	(20,924.4)	(20,924.4)
Transfer to reserves 2002	-	6,974.8	-	(6,974.8)	-
Price-level restatement	-	3,752.6	-	-	3,752.6
Change in unrealized gains (losses) on permanent financial investments	-	-	(5,283.3)	-	(5,283.3)
Net income	-	-	-	29,779.9	29,779.9
<b>Balance as of December 31, 2003</b>	<b>4,000.0</b>	<b>341,536.1</b>	<b>3,618.1</b>	<b>29,779.9</b>	<b>378,934.1</b>
<b>Balance restated for comparative purposes</b>	<b>4,100.0</b>	<b>350,074.5</b>	<b>3,708.6</b>	<b>30,524.4</b>	<b>388,407.5</b>
Balance as of December 31, 2003	4,000.0	341,536.1	3,618.1	29,779.9	378,934.1
Distribution of net income 2003	-	-	-	(17,272.3)	(17,272.3)
Transfer to reserves 2003	-	12,507.6	-	(12,507.6)	-
Price-level restatement	-	9,002.9	-	-	9,002.9
Change in unrealized gains (losses) on permanent financial investments	-	-	(2,757.4)	-	(2,757.4)
Net income	-	-	-	44,561.8	44,561.8
<b>Balance as of December 31, 2004 in MCh\$</b>	<b>4,000.0</b>	<b>363,046.6</b>	<b>860.7</b>	<b>44,561.8</b>	<b>412,469.1</b>
<b>Balance as of December 31, 2004 in MUS\$</b>	<b>7.1</b>	<b>648.5</b>	<b>1.5</b>	<b>79.6</b>	<b>736.8</b>

#### Distribution of net income for year 2003:

In accordance with Supreme Decree No. 418 issued by the Finance Ministry on May 10, 2004, MCh\$ 17,272.3 (MCh\$ 20,924.4 in 2002) from net income in 2003 of MCh\$ 29,779.9 was allocated to the Chilean Government Treasury. The remaining MCh\$ 12,507.6 (MCh\$ 6,974.8 in 2003) was used to increase the Bank's reserves. Values mentioned above are presented in historical values.

#### Price-level restatement of paid-in capital

The aggregate amount of price-level restatement of paid-in capital is included under "Reserves" because, in accordance with the Bank's Special Law, authorized capital may only be increased by Supreme Decrees.

# BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

December 31, 2004 and 2003

(Translation of financial statements originally issued in Spanish – See Note 1(a))

### Note 8 – Equity, continued

#### Net income for the year

Net income for the year 2004 amounted to MCh\$ 44,561.8 (MCh\$ 30,524.4 in 2003). The President of Chile may, upon the approval of the Bank's Board of Directors, allocate all or part of the net income for the year as a dividend to the Chilean Government, in accordance with the Bank's Special Law.

#### b) Basic capital and effective equity

In conformity with the General Banking Law, the minimum base capital of a financial institution cannot be less than 3% of total assets, while actual shareholders' equity cannot be less than 8% of the risk-weighted assets. As of December 31, 2004 and 2003, these indexes were assessed for the total risk-weighted assets on a consolidated basis, according to the provisions of the Superintendency of Banks and Financial Institutions. The Bank's basic capital and effective equity ratios are as follows:

	<b>2004</b>	<b>2003</b>
	<b>MCh\$</b>	<b>MCh\$</b>
Basic Capital (*)	367,907.3	357,883.1
Total assets	8,662,652.8	7,660,147.1
Percentage	4.25%	4.67%
Effective equity (**)	470,255.8	457,045.8
Risk-weighted assets	4,642,434.5	4,028,816.5
Percentage	10.13%	11.34%

(\*) Equivalent to paid-in capital and reserves for the purposes of these calculations.

(\*\*) According to Article 66 of the General Banking Law, effective equity is considered to be the basic capital and, up to certain limits, the subordinate funds and normal risk provisions and additional allowances over the loan portfolio.

# BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

December 31, 2004 and 2003

(Translation of financial statements originally issued in Spanish – See Note 1(a))

### Note 9 – Investments

#### a) Financial investments

As of December 31, 2004 and 2003, financial investments are detailed as follow:

#### 2004

Instruments (*)	Portfolio		Sub Total	Marked to Market Adjustment		
	Non-Permanent	Permanent (**)		Against MCh\$	Against MCh\$	Total
Banco Central de Chile	1,250,605.1	418,619.5	1,669,224.6	(1,415.4)	(1,373.1)	1,666,436.1
Chilean Treasury and Other Government entities	4,011.1	91,104.1	95,115.2	-	-	95,115.2
Chilean financial institutions	803,855.6	18,750.0	822,605.6	258.7	293.8	823,158.1
Other investments in Chile		41,802.3	41,802.3		1,938.5	43,740.8
Investments abroad	-	3,864.1	3,864.1		1.5	3,865.6
<b>Total in MCh\$</b>	<b>2,058,471.8</b>	<b>574,140.0</b>	<b>2,632,611.8</b>	<b>(1,156.7)</b>	<b>860.7</b>	<b>2,632,315.8</b>
<b>Equivalent in MUS\$</b>	<b>3,677.0</b>	<b>1,025.6</b>	<b>4,702.5</b>	<b>(2.1)</b>	<b>1.5</b>	<b>4,702.0</b>

#### 2003

Instruments (*)	Portfolio		Sub Total	Marked to Market Adjustment		
	Non-Permanent MCh\$	Permanent (**) MCh\$		Against Income MCh\$	Against Equity MCh\$	Total MCh\$
Banco Central de Chile	931,843.3	470,379.5	1,402,222.8	179.5	607.7	1,403,010.0
Chilean Treasury and Other Government entities	601.7	98,934.6	99,536.3	-	-	99,536.3
Chilean financial institutions	554,044.9	56,293.8	610,338.7	93.0	643.0	611,074.7
Other investments in Chile	269.5	45,114.9	45,384.4	-	2,457.8	47,842.2
Investments abroad	-	15,293.6	15,293.6	-	-	15,293.6
<b>Total in MCh\$</b>	<b>1,486,759.4</b>	<b>686,016.4</b>	<b>2,172,775.8</b>	<b>272.5</b>	<b>3,708.5</b>	<b>2,176,756.5</b>
<b>Equivalent in MUS\$</b>	<b>2,665.7</b>	<b>1,255.4</b>	<b>3,881.1</b>	<b>0.5</b>	<b>6.6</b>	<b>3,888.2</b>

(\*) Classification according to issuers or parties committed to pay. This schedule includes a total of MCh\$ 403,349.1 (MCh\$ 211,814.7 in 2003) of securities sold under repurchase agreements.

(\*\*) Permanent portfolio includes securities whose market value adjustments are booked against the equity account “Change in unrealized gains (losses) on permanent financial investments”, as described in Note 1 (g), and nonnegotiable instruments amounting to MCh\$ 91,104.1 (MCh\$ 98,934.6 in 2003).

Additionally, the Bank maintains investments in letters of credits that it has issued of MCh\$ 124,948.6 (MCh\$ 141,173.8 in 2003), which are registered in control accounts.

# BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

December 31, 2004 and 2003

(Translation of financial statements originally issued in Spanish – See Note 1(a))

### Note 9 – Investments, continued

#### b) Other investments

	2004 MUS\$	2004 MCh\$	2003 MCh\$
Assets held for leasing (*)	45.3	25,332.6	3,082.5
Assets received in lieu of payment (**)	5.5	3,099.5	5,196.9
Other investments	0.1	48.9	43.5
Total	<u>50.9</u>	<u>28,481.0</u>	<u>8,322.9</u>

(\*) Assets held for leasing of MCh\$ 25,332.6 as of December 31, 2004 (MCh\$ 3,082.5 as of December 31, 2003) are presented net of provisions for MCh\$ 30.1 (MCh\$ 1,715.0 as of December 31, 2003).

(\*\*) Assets received in lieu of payment for MCh\$ 3,099.5 are presented net of provisions of MCh\$ 1,188.0 (MCh\$ 1,230.0 in 2003). In addition to assets received in lieu of payment that are registered as assets, other goods received in lieu of payment, amounting to an estimated MCh\$ 12,449.4 (MCh\$ 9,235.9 in 2003) have been written off but not yet eliminated.

### Note 10 – Bank Premises and Equipment

The main categories of bank premises and equipment, net of their corresponding accrued depreciation are as follows:

	2004 MUS\$	2004 MCh\$	2003 MCh\$
Lands and buildings	130.3	72,917.0	73,300.0
Furniture and appliances	13.1	7,354.3	6,589.6
Computers and others	37.2	20,822.8	21,120.6
Other	9.7	5,427.3	5,530.9
Total	<u>190.3</u>	<u>106,512.4</u>	<u>106,629.1</u>

# BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

December 31, 2004 and 2003

(Translation of financial statements originally issued in Spanish – See Note 1(a))

### Note 11 – Maturities of Assets and Liabilities

#### a) Maturities of loans and financial investments

The following table details loans and financial investments classified by years to maturity. These balances include interest accrued as of December 31, 2004 and 2003:

	2004				Total MCh\$
	Less than 1 year MCh\$	Over 1 year / Less than 3 years MCh\$	Over 3 years/ Less than 6 years MCh\$	Over 6 years MCh\$	
<b>LOANS (1):</b>					
Commercial loans and other	1,115,524.5	460,989.2	301,084.7	335,330.8	2,212,929.2
Mortgage loans	168,694.7	352,605.8	393,973.5	1,074,283.0	1,989,557.0
Consumer loans	199,495.1	212,680.9	63,558.6	52,467.2	528,201.8
<b>OTHER LOANS:</b>					
Interbank loans	102,851.6	-	-	-	102,851.6
Investments purchased under agreements to resell	134,541.7	-	-	-	134,541.7
<b>FINANCIAL INVESTMENTS:</b>					
Permanent (2)	150,435.8	170,504.8	182,263.2	70,936.2	574,140.0
Non-permanent (3)	2,057,315.1	-	-	-	2,057,315.1
<b>Total in MCh\$</b>	<b>3,928,858.5</b>	<b>1,196,780.7</b>	<b>940,880.0</b>	<b>1,533,017.2</b>	<b>7,599,536.4</b>
<b>Equivalent in MUS\$</b>	<b>7,017.9</b>	<b>2,137.8</b>	<b>1,680.7</b>	<b>2,738.3</b>	<b>13,574.7</b>



# BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

December 31, 2004 and 2003

(Translation of financial statements originally issued in Spanish – See Note 1(a))

### Note 11 – Maturities of Assets and Liabilities, continued

As of the end of 2003, balances were as follows:

	2003				Total MCh\$
	Less than 1 year MCh\$	Over 1 year / Less than 3 years MCh\$	Over 3 years/ Less than 6 years MCh\$	Over 6 years MCh\$	
<b>LOANS (1):</b>					
Commercial loans and other	964,842.0	468,853.6	297,248.2	219,876.1	1,950,819.2
Mortgage loans	128,502.5	252,370.2	366,028.2	1,064,336.4	1,811,237.3
Consumer loans	154,833.5	186,593.1	50,714.7	37,592.7	429,734.0
<b>OTHER LOANS:</b>					
Interbank loans	206,160.6	6.6	-	-	206,167.2
Investments purchased under agreements to resell	103,014.4	-	-	-	103,014.4
<b>FINANCIAL INVESTMENTS:</b>					
Permanent (2)	166,797.0	95,423.0	173,389.7	250,406.7	686,016.4
Non-permanent (3)	1,487,031.9	-	-	-	1,487,031.9

- (1) Includes only current effective loans as of each year-end within the indicated maturity periods. Therefore, contingent loans, past-due loans and overdue loans are excluded. Overdue loans not transferred to past-due loans amounted to MCh\$ 14,729.6 (MCh\$ 13,241.7 in 2003), of which MCh\$ 9,568.5 (MCh\$ 6,737.6 in 2003) were past due by less than 30 days.
- (2) Includes the investments that compose the permanent portfolio, net of provisions, as described in Note 1 g), not including adjustments to market value and non-negotiable instruments.
- (3) Includes the total amount of the rest of the portfolio of financial investments, including adjustments to market value.

# BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

December 31, 2004 and 2003

(Translation of financial statements originally issued in Spanish – See Note 1(a))

### Note 11 – Maturities of Assets and Liabilities, continued

#### b) Maturities of deposits, borrowings and other obligations

The following table details deposits, borrowings and other obligations, classified according to their remaining years to maturity. The balances include interest accrued as of December 31, 2004 and 2003:

	2004				Total MCh\$
	Less than 1 year MCh\$	Over 1 year / Less than 3 years MCh\$	Over 3 years/ Less than 6 years MCh\$	Over 6 years MCh\$	
<b>DEPOSITS AND OTHER BORROWINGS (*):</b>					
Deposits and borrowings	1,362,930.8	127,114.7	1,308.1	3,432.4	1,494,786.0
Other short-term liabilities	9,463.7	-	-	-	9,463.7
Securities sold under repurchase agreements	412,645.3	-	-	-	412,645.3
Mortgage finance bonds	144,460.0	264,013.0	414,532.0	1,066,285.1	1,889,290.1
<b>BORROWINGS FROM BONDS ISSUED:</b>	8,576.5	32,121.6	38,269.5	106,640.4	185,608.0
<b>BORROWINGS FROM FINANCIAL INSTITUTIONS AND THE CENTRAL BANK</b>					
Central Bank credit lines from renegotiation of loans	133.8	255.0	400.4	1,029.9	1,819.1
Other Central Bank borrowings	364,528.5	1,056.2	1,658.4	4,265.8	371,508.9
Borrowings from domestic financial institutions	65,813.2	-	-	-	65,813.2
Foreign borrowings	163,093.7	-	-	-	163,093.7
Other liabilities	2,485.8	-	-	-	2,485.8
<b>Total in MCh\$</b>	<b>2,534,131.3</b>	<b>424,560.5</b>	<b>456,168.4</b>	<b>1,181,653.6</b>	<b>4,596,513.8</b>
<b>Equivalent in MUS\$</b>	<b>4,526.6</b>	<b>758.4</b>	<b>814.8</b>	<b>2,110.8</b>	<b>8,210.6</b>

# BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

December 31, 2004 and 2003

(Translation of financial statements originally issued in Spanish – See Note 1(a))

### Note 11 – Maturities of Assets and Liabilities, continued

As of the end of 2003, balances were as follows:

	2003				Total MCh\$
	Less than 1 year MCh\$	Over 1 year / Less than 3 years MCh\$	Over 3 years/ Less than 6 years MCh\$	Over 6 years MCh\$	
<b>DEPOSITS AND OTHER BORROWINGS (*):</b>					
Deposits and borrowings	1,141,254.5	68,018.1	3,093.8	3,224.5	1,215,590.9
Other short-term liabilities	10,869.5	126.3	-	-	10,995.8
Securities sold under repurchase agreements	206,575.8	-	-	-	206,575.8
Mortgage finance bonds	128,305.3	230,985.2	362,674.6	932,894.1	1,654,859.2
<b>BORROWINGS FROM BONDS ISSUANCED:</b>	10,526.6	24,126.3	33,082.3	123,995.9	191,731.1
<b>BORROWINGS FROM FINANCIAL INSTITUTIONS AND THE CENTRAL BANK</b>					
Central Bank credit lines from renegotiations of loans	248.8	466.5	732.5	1,883.9	3,331.7
Other Central Bank borrowings	164,788.1	1,542.2	2,421.5	6,228.6	174,980.4
Borrowings from domestic financial institutions	89,715.7	-	-	-	89,715.7
Foreign borrowings	202,124.1	-	-	-	202,124.1
Other liabilities	3,573.1	-	-	-	3,573.1

(\*) Excluding all demand deposits, savings accounts and contingent liabilities.

# BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

December 31, 2004 and 2003

(Translation of financial statements originally issued in Spanish – See Note 1(a))

### Note 12 - Foreign Currency Position

Included in the Consolidated Balance Sheet are assets and liabilities in foreign currencies or adjustable currencies affected by exchange rates, as detailed below:

	Payable in		Chilean pesos (*)		2004 ThUS\$	Total 2003 ThUS\$
	Foreign currencies		2004			
	2004 ThUS\$	2003 ThUS\$	2004 ThUS\$	2003 ThUS\$		
<b>ASSETS</b>						
Cash and due from banks	53,629.8	48,893.0	-	-	53,629.8	48,893.0
Loans	579,146.8	328,258.0	24,876.1	24,080.2	604,022.9	352,338.2
Contingent loans	137,113.2	109,103.8	-	-	137,113.2	109,103.8
Financial investments:						
In Chile	560,369.8	75,591.5	440,301.8	458,461.7	1,000,671.6	534,053.2
Abroad	1,644.0	20,093.5	-	-	1,644.0	20,093.5
Other assets	101,560.4	43,995.1	-	-	101,560.4	43,995.1
<b>Total assets</b>	<b>1,433,464.0</b>	<b>625,934.9</b>	<b>465,177.9</b>	<b>482,541.9</b>	<b>1,898,641.9</b>	<b>1,108,476.8</b>
<b>LIABILITIES</b>						
Deposits	279,538.7	236,337.7	-	-	279,538.7	236,337.7
Contingent liabilities	137,405.4	109,446.0	-	-	137,405.4	109,446.0
Liabilities with Chilean banks	17,863.4	26,938.9	-	-	17,863.4	26,938.9
Liabilities with foreign banks	291,327.2	328,973.2	-	-	291,327.2	328,973.2
Other liabilities	1,174,947.7	404,293.6	-	-	1,174,947.7	404,293.6
<b>Total liabilities</b>	<b>1,901,082.4</b>	<b>1,105,989.4</b>	<b>-</b>	<b>-</b>	<b>1,901,082.4</b>	<b>1,105,989.4</b>

(\*) Includes assets and liabilities denominated in foreign currencies and payable in Chilean pesos, or transactions that are adjusted based on exchange rate fluctuations.

# BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

December 31, 2004 and 2003

(Translation of financial statements originally issued in Spanish – See Note 1(a))

### Note 13 - Derivatives

The forward foreign exchange contracts, forward or interest rate swaps and other operations with derivative products held at year-end are detailed as follows:

#### a) Contracts on foreign currency and interest rates:

Description of transaction	Number of operations		Contract Amount			
			Less than 3 months		Over 3 months	
	2004	2003	2004 ThUS\$	2003 ThUS\$	2004 ThUS\$	2003 ThUS\$
<b>Local market:</b>						
Forward foreign exchange contracts purchased in Chilean currency	594	511	555,806.6	1,282,683.0	2,623,294.9	564,596.4
Forward foreign exchange contracts sold in Chilean currency	731	513	942,677.0	1,092,586.2	2,630,203.2	688,141.4
Forward or interest rate swaps	133	13	-	-	1,134,866.2	117,325.0
<b>Foreign markets:</b>						
Foreign currency forward contracts	37	18	127,362.2	9,050.4	316,067.1	1,166.9
Forward foreign exchange contracts sold in foreign currencies	10	14	20,792.5	113,305.3	27,169.4	3,540.2
Forward or other interest rate swaps	36	37	-	-	349,824.6	328,800.0

The amounts refer to either United States dollar amounts purchased or sold, the equivalent in United States dollars of the foreign currency purchased or sold or the future amount or the amount on which interest rate contracts are agreed. The period refers to the contract maturity from the date of the transaction.

#### b) Contracts on the value of the authorized readjustment systems (A.R.S.) and on interest rates in Chilean currency:

Description of transaction	Number of operations		Nominal amount of contract			
			Less than 3 months		Over 3 months	
	2004	2003	2004 MUS\$	2003 MCh\$	2004 MCh\$	2003 MCh\$
ARS/peso forward contracts purchased	81	34	43,292.6	47,697.9	256,119.1	28,618.7
ARS/peso forward contracts sold	69	19	-	21,680.8	252,427.8	30,353.1

# BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

December 31, 2004 and 2003

(Translation of financial statements originally issued in Spanish – See Note 1(a))

### Note 13 – Derivatives, continued

#### c) Options:

As of December 31, 2004 and 2003 no balances were outstanding for these transactions.

### Note 14 – Contingencies, Commitments and Obligations

#### a) Commitments and obligations recorded in memorandum accounts

The Bank and its subsidiaries maintain the following control accounts relating to their commitments and obligations arising in the ordinary course of business:

	<b>2004</b> <b>MUS\$</b>	<b>2004</b> <b>MCh\$</b>	<b>2003</b> <b>MCh\$</b>
Securities held in custody	899.4	503,526.3	361,105.8
Foreign credit lines	391.3	219,047.9	237,504.5
Credit approved but not yet disbursed	191.8	107,382.9	78,683.8
Domestic collection documents	132.5	74,179.9	56,695.8
Total	<u>1,615.0</u>	<u>904,137.0</u>	<u>733,989.9</u>

The list above includes only major items. Contingent loans and liabilities are shown in the Consolidated Balance Sheets.

#### b) Legal contingencies

As of December 31, 2004, and 2003, there are legal complaints filed against the Bank and its Subsidiaries arising from the ordinary course of its business. During both years, the Bank has established provisions on the basis of the estimates made by its legal advisers. The provisioned amount as of December 31, 2004 was MCh\$ 4,019.9 (MCh\$ 3,761.6 in 2003).

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

## Notes to the Consolidated Financial Statements

December 31, 2004 and 2003

(Translation of financial statements originally issued in Spanish – See Note 1(a))

### **Note 15 – Guarantees by Operations**

#### Stock Brokerage

In order to fulfill the obligation of constituting a guarantee on its transactions, as established by Article No. 30 of Law 18,045, the subsidiary BancoEstado S.A. Corredores de Bolsa contracted an insurance policy from Compañía de Seguros Continental for UF 4,000, which began on December 2, 2004 and expires on December 2, 2005. The Santiago Stock Exchange is the representative of beneficiaries of this guarantee.

This subsidiary also constituted a lien on its shares in the Santiago Stock Exchange, to guarantee the fulfillment of all its obligations with the stock exchange. In addition, this subsidiary also constituted a second lien in favor of its stockbrokers to guarantee its commitments with them.

#### Insurance Brokerage

In order to comply with article No. 58 of the Decree of Law No. 251 of 1931 and Circular No. 1,160 of the Superintendency of Securities and Insurances, the subsidiary BancoEstado Corredores de Seguros Ltda. has contracted an insurance policy with Renta Nacional Compañía de Seguros for UF 500, which matures on April 14, 2005. Also, this Company maintains a policy to cover the professional civil responsibility of insurance agents for UF 60,000, which matures on April 14, 2005.

# BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

December 31, 2004 and 2003

(Translation of financial statements originally issued in Spanish – See Note 1(a))

### Note 16 – Commissions

Commission income and expenses shown in the Consolidated Statement of Income are detailed as follows:

	Income			Expenses		
	2004 MUS\$	2004 MCh\$	2003 MCh\$	2004 MUS\$	2004 MCh\$	2003 MCh\$
Commissions received or paid for:						
Collections of documents	27.5	15,390.3	14,320.5	-	-	-
Insurance brokerage services	15.3	8,540.3	7,080.6	-	-	-
Current accounts	14.6	8,156.2	8,064.7	-	-	-
Commission for massive charges	14.6	8,148.1	3,281.0	-	-	-
Savings accounts	14.3	8,011.1	13,782.2	-	-	-
Pre-legal collection services	12.4	6,935.5	4,644.7	-	-	-
Automatic teller machine cards	5.4	2,992.8	2,831.1	-	-	-
Credit cards	2.4	1,358.1	1,105.2	3.3	1,867.8	1,725.8
Lines of credit	2.0	1,120.0	1,338.8	-	-	-
External trade	1.7	957.8	1,312.3	-	-	-
Custody and trust commissions	1.4	803.0	153.2	-	-	-
Cashier's checks and fund transfers	0.4	228.5	214.8	-	-	-
Letters of credit, guarantees, deposits and other contingent operations	0.3	184.8	469.3	-	-	-
Compensatory rights for appraisals	0.1	49.1	92.4	-	-	241.3
Others	13.4	7,501.6	7,404.7	7.6	4,259.6	10.6
<b>Total</b>	<b>125.7</b>	<b>70,377.2</b>	<b>66,095.5</b>	<b>10.9</b>	<b>6,127.4</b>	<b>1,977.7</b>

Commissions earned for operations with letters of credit are presented in the consolidated income statement under the item "Income for interest and adjustments".



# BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

December 31, 2004 and 2003

(Translation of financial statements originally issued in Spanish – See Note 1(a))

### Note 17 – Non-Operating Income and Expenses

As of December 31, 2004 and 2003, non-operating income and expenses are detailed as follows:

#### a) Non-operating income

	2004 MUS\$	2004 MCh\$	2003 MCh\$
Income from sale of shares of subsidiary BancoEstado Corredora de Seguros	30.5	17,076.1	-
Income from sale of assets received in lieu of payment or assigned, previously written off	6.5	3,619.8	4,650.0
Lease income	0.6	347.4	190.2
Reimbursement of expenses	0.6	317.0	477.4
Income from adjustment of payment or collection of previous years	0.5	261.5	553.3
Income from sale of bank premises and equipment	0.2	127.8	470.0
Recover of other write-offs	0.1	62.8	55.9
Other	1.3	734.6	1,058.9
Total	40.3	22,547.0	7,455.7

#### b) Non-operating expenses

	2004 MUS\$	2004 MCh\$	2003 MCh\$
Compensations under the plan of extraordinary expenses in collective agreement	19.7	11,000.0	13,022.7
Write-off of assets received in lieu of payment or assigned	7.1	3,970.6	3,996.2
Other write-offs	6.0	3,366.9	2,492.0
Write-off of leased assets recovered	3.4	1,875.5	-
Loss on sale of shares of subsidiary BancoEstado Corredora de Seguros	1.7	944.0	-
Provisions for outstanding lawsuits	0.6	350.0	(871.3).0
Loss on sale of bank premises and equipment	0.1	75.9	19.6
Other	6.1	3,434.8	159.8
Total	44.7	25,017.7	18,819.0

# BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

December 31, 2004 and 2003

(Translation of financial statements originally issued in Spanish – See Note 1(a))

### Note 18 – Current and Deferred Income Taxes

#### a) Current income taxes

Income taxes are determined in conformity with current Chilean tax regulation and reflected in liabilities of MCh\$ 50,681.8 (MCh\$ 29,766.8 in 2003), net of monthly tax provisional payments. The detail of current income taxes is as follows:

	2004 MUS\$	2004 MCh\$	2003 MCh\$
First category income tax (17% 2004 and 16.5% 2003)	32.3	18,089.6	9,091.4
Article N°21 withholding tax	-	9.6	7.2
Article 2° tax Decree Law N° 2398 (40%)	58.2	32,582.6	20,668.2
Total	<u>90.5</u>	<u>50,681.8</u>	<u>29,766.8</u>

#### b) Deferred income taxes

Deferred income tax balances are as follows:

	Balance as of December 31, 2003 (Historic) MCh\$	Variation year 2004 MCh\$	Amortization year 2004 MCh\$	Balance as of December 31, 2004 MCh\$
<b>Assets</b>				
Global allowances for loan losses	36,241.0	(501.3)	-	35,739.7
Interest and readjustments suspended	19,496.8	2,113.8	-	21,610.6
Other provisions	14,212.0	1,751.0	-	15,963.0
Derivate instruments	1,262.9	6,757.3	-	8,020.2
Staff vacations	6,468.1	(552.6)	-	5,915.5
Other	4,985.0	(1,025.9)	-	3,959.1
<b>Net assets</b>	<u>82,665.8</u>	<u>8,542.3</u>	<u>-</u>	<u>91,208.1</u>
<b>Liabilities</b>				
Leasing contracts	1,113.3	(3,456.8)	-	(2,343.5)
Depreciation of bank premises and equipment	538.3	(215.7)	-	322.6
Adjustment of financial investments to market value	151.5	(817.1)	-	(665.6)
Other	5,450.4	1,262.0	-	6,712.4
<b>Net liabilities</b>	<u>7,253.5</u>	<u>(3,227.6)</u>	<u>-</u>	<u>4,025.9</u>
<b>Equivalent in MUS\$</b>	13.0	(5.8)	-	7.2

# BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

December 31, 2004 and 2003

(Translation of financial statements originally issued in Spanish – See Note 1(a))

### Note 18 – Current and Deferred Income Taxes, continued

	2004 MUS\$	2004 MCh\$	2003 MCh\$
Tax expense	(90.5)	(50,681.8)	(29,766.8)
Deferred tax effect for the year	21.0	11,769.9	(6,376.8)
Amortization of deferred taxes beginning balance	-	-	(2,322.0)
Total	<u>69.5</u>	<u>(38,911.9)</u>	<u>(38,465.6)</u>

### Note 19 – Directors' Expenses and Remuneration

During the years ended December 31, 2004 and 2003, the Bank has charged to income the following amounts for Directors' Expenses and Remuneration:

	2004 MCh\$	2003 MCh\$
Remuneration	118.4	103.5
Representation expenses	-	0.2
Travel allowances	23.4	22.1
<b>Total in MCh\$</b>	<u>141.8</u>	<u>125.8</u>
<b>Equivalent in MUS\$</b>	<u>0.3</u>	<u>0.2</u>

# BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

December 31, 2004 and 2003

(Translation of financial statements originally issued in Spanish – See Note 1(a))

### Note 20 – Purchases, Sales, Substitutions or Exchange of Credits from the Portfolio of Loans

#### a) Securitization of mortgage loans

During the year 2004, the Bank securitized 1,001 agreements of endorsable mortgage loans from the portfolio of loans with the company Banchile Securitizadora S.A. for the amount of UF 1,820,000 and whose effect on the year's income (loss) is presented under the item "Profits for trading activities" for the amount of MCh\$ 2,611.7 according to the following detail:

	Par Value	Selling value	Price difference
Securitized assets	Mch\$	Mch\$	Mch\$
Endorsable mortgage loans	26,814.2	29,425.9	2,611.7

#### b) Sale of loan portfolio

In addition to letter a) above, during the year 2004, the Bank sold commercial credits for the par value of MCh\$ 3,068.0, receiving MCh\$ 3,245.7 as income from the sale. This transaction generated a price difference of MCh\$ 177.7 (profits) and allowances released of MCh\$ 1,994.2.

### Note 21 – Demand and Time Deposits

Under the items Creditors in current accounts, deposits and borrowings and other obligations at demand or time, the following concepts are included:

	2004 MUS\$	2004 MCh\$	2003 MCh\$
<b>Sight deposits</b>			
Current accounts	2,165.0	1,212,059.7	1,125,959.1
Other deposits	604.7	338,530.6	377,697.9
<b>Time deposits</b>			
Time deposits	2,669.4	1,494,410.2	1,215,591.0
Savings accounts	3,094.9	1,732,601.1	1,794,207.7
<b>Total</b>	<u>8,534.0</u>	<u>4,777,601.6</u>	<u>4,513,455.7</u>

# BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

December 31, 2004 and 2003

(Translation of financial statements originally issued in Spanish – See Note 1(a))

### Note 22 – Other Assets and Other Liabilities

“Other Assets” and “Other Liabilities” shown in the Consolidated General Balance Sheet are detailed as follows:

#### a) Other assets

	2004 MUS\$	2004 MCh\$	2003 MCh\$
Deferred taxes receivable	162.9	91,208.1	84,732.5
Forward operations, net	107.2	60,037.3	6,150.0
Foreign currency purchased to be transferred	101.4	56,759.4	26,631.6
LBTR operations to be collected	58.3	32,611.1	-
Government receivable accounts	39.4	22,079.7	19,593.0
Prepaid Expenses	12.9	7,210.7	3,142.6
Rights for term stock operations	8.7	4,847.5	6,298.0
Diverse accounts	8.7	4,863.0	4,376.4
Investments in software	8.0	4,475.7	5,737.9
Negative goodwill related to mortgage Finance bonds issued by the bank	3.5	1,933.4	1,983.0
Others	22.9	12,842.3	13,009.8
<b>Total</b>	<b>533.9</b>	<b>298,868.2</b>	<b>171,654.8</b>

#### b) Other liabilities

	2004 MUS\$	2004 MCh\$	2003 MCh\$
Foreign currency sold to be transferred	118.8	66,503.9	47,867.0
LBTR operations to be paid	69.7	39,049.2	-
Income tax provision	61.5	34,414.6	14,121.9
Other provisions	32.8	18,338.2	6,163.4
Accrued staff vacation expenses	19.3	10,806.3	11,938.9
Lawsuits pending	7.2	4,019.9	3,761.6
Deferred taxes payable	7.2	4,025.9	7,434.8
Outstanding operations	3.0	1,667.5	636.7
Balance with subsidiaries (net)	2.6	1,470.4	1,979.9
Others	7.7	4,346.1	5,645.5
<b>Total</b>	<b>329.8</b>	<b>184,642.0</b>	<b>99,549.7</b>

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

Notes to the Consolidated Financial Statements

December 31, 2004 and 2003

(Translation of financial statements originally issued in Spanish – See Note 1(a))

## **Note 23 – Subsequent Events**

- a) On January 3, 2005, Mr. Jaime Estévez Valencia, Banco del Estado de Chile's President was appointed as Minister of Public Works, Transport and Telecommunications, with Mr. Javier Etcheverry Celhay being appointed as his replacement.
- b) In the management's opinion, between December 31, 2004 and the issue date of these consolidated financial statements, no further events have occurred which may have a significant effect on these consolidated financial statements.

**CARLOS MARTABIT SCAFF**  
Chief Financial Officer

**JOSE MENA VALENCIA**  
Chief Executive Officer

**PEDRO GONZALEZ REYES**  
Manager of Accounting and Budgeting

**OSCAR GONZALEZ NARBONA**  
Manager of Planning and  
Research