

Consolidated Financial Statements

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

As of December 31

	2005 MUS\$	2005 MCh\$	2004 MCh\$
ASSETS			
CASH AND DUE FROM BANKS	1,441.4	741,177.5	491,450.7
LOANS:			
Commercial loans	4,106.8	2,111,739.0	1,844,044.1
Foreign trade loans	495.4	254,725.5	256,925.1
Consumer loans	1,222.4	628,587.9	550,950.1
Mortgage loans	3,962.3	2,037,473.4	1,999,009.7
Leasing contracts	241.6	124,229.6	79,457.3
Contingent loans	366.5	188,478.4	155,027.0
Other outstanding loans	940.1	483,434.5	185,866.4
Past due loans	80.8	41,542.8	42,425.3
Total loans	11,415.9	5,870,211.1	5,113,705.0
Allowance for loan losses	(189.7)	(97,559.8)	(91,917.8)
Total loans, net	11,226.2	5,772,651.3	5,021,787.2
OTHER LOANS:			
Interbank loans	190.3	97,851.9	106,554.3
Investments purchased under agreements to resell	204.9	105,341.0	139,385.2
Total other loans	395.2	203,192.9	245,939.5
INVESTMENTS:			
Government securities	3,127.9	1,608,392.2	1,490,119.8
Other financial investments	2,490.9	1,280,852.4	819,089.7
Investment collateral under agreements to repurchase	1,036.2	532,802.3	417,869.7
Deposits in the Chilean Central Bank	-	-	-
Assets held for leasing	18.7	9,636.3	26,244.6
Assets received in lieu of payment	6.8	3,497.0	3,211.1
Other non-financial investments	0.1	46.1	50.6
Total investments	6,680.6	3,435,226.3	2,756,585.5
OTHER ASSETS	580.5	298,519.4	309,627.5
BANK PREMISES AND EQUIPMENT:			
Premises and equipment, net	225.6	115,993.1	110,346.9
Investments in other companies	8.4	4,342.0	3,151.5
Total bank premises and equipment	234.0	120,335.1	113,498.4
Total assets	20,557.9	10,571,102.5	8,938,888.8

The accompanying notes 1 to 24 are an integral part of these consolidated financial statements.

As of December 31

	2005 MUS\$	2005 MCh\$	2004 MCh\$
LIABILITIES AND SHAREHOLDERS' EQUITY			
DEPOSITS AND OTHER LIABILITIES			
Current accounts	2,563.3	1,318,053.0	1,255,693.9
Time deposits	9,295.4	4,779,827.4	3,440,370.3
Other demand and time deposits	496.6	255,340.9	263,724.9
Securities sold under agreements to repurchase	1,199.9	617,007.5	427,500.5
Mortgage finance bonds	4,051.6	2,083,386.6	1,957,304.5
Contingent liabilities	366.9	188,645.7	154,928.1
Total deposits and other liabilities	17,973.7	9,242,261.1	7,499,522.2
BONDS ISSUED:			
Bonds	144.9	74,555.6	81,902.1
Subordinated bonds	357.5	183,824.9	110,387.8
Total bonds issued	502.4	258,380.5	192,289.9
BORROWINGS FROM FINANCIAL INSTITUTIONS AND THE CENTRAL BANK:			
Central Bank credit lines for renegotiation of loans	1.3	671.9	1,884.5
Other Central Bank borrowings	169.8	87,271.5	384,883.2
Borrowings from domestic financial institutions	158.7	81,594.9	68,182.5
Foreign borrowings	277.0	142,430.0	168,965.1
Other borrowings	11.6	6,002.2	2,575.3
Total borrowings from financial institutions	618.4	317,970.5	626,490.6
OTHER LIABILITIES	595.9	306,418.9	191,289.1
Total liabilities	19,690.4	10,125,031.0	8,509,591.8
MINORITY INTEREST	2.7	1,395.5	1,979.0
SHAREHOLDERS' EQUITY			
Capital and reserves	813.4	418,243.2	380,260.3
Other equity accounts	(25.3)	(13,029.3)	891.7
Net income for the year	76.7	39,462.1	46,166.0
Total Shareholders' equity	864.8	444,676.0	427,318.0
Total liabilities and Shareholders' equity	20,557.9	10,571,102.5	8,938,888.8

The accompanying notes 1 to 24 are an integral part of these consolidated financial statements.



Consolidated Statements of Income

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

For the years ended December 31,

	2005 MUS\$	2005 MCh\$	2004 MCh\$
OPERATING INCOME:			
Interest revenue	1,260.0	647,910.9	471,419.2
Gains from trading activities	51.7	26,613.5	33,067.3
Income from fees and other services	167.4	86,075.6	72,910.8
Gains from foreign exchange transactions	23.8	12,221.5	23,459.7
Other operating income	102.0	52,455.2	17,055.9
Total operating revenues	1,604.9	825,276.7	617,912.9
LESS:			
Interest expense	(740.3)	(380,675.2)	(248,271.5)
Losses from trading activities	(32.9)	(16,931.3)	(9,489.9)
Expenses from fees and other services	(13.2)	(6,802.9)	(6,348.0)
Other operating expenses	(78.4)	(40,294.1)	(9,454.1)
Gross margin	740.1	380,573.2	344,349.4
Personnel salaries and expenses	(292.6)	(150,433.0)	(140,814.0)
Administrative and other expenses	(127.5)	(65,568.3)	(61,753.6)
Depreciation and amortization	(31.4)	(16,164.0)	(17,648.2)
Net margin	288.6	148,407.9	124,133.6
Provision for loan losses	(55.1)	(28,320.5)	(28,777.5)
Total operating income	233.5	120,087.4	95,356.1
Non-operating results:			
Non-operating income	8.0	4,130.5	23,358.7
Non-operating expenses	(30.2)	(15,523.2)	(25,918.3)
Equity participation in net income in investments in other companies	1.2	618.9	545.0
Price-level restatement	(19.9)	(10,245.9)	(6,334.4)
Income before income taxes	192.6	99,067.7	87,007.1
Income taxes	(107.6)	(55,342.1)	(40,312.7)
Income after income taxes	85.0	43,725.6	46,694.4
Minority interest	(8.3)	(4,263.5)	(528.4)
Net income for the year	76.7	39,462.1	46,166.0

The accompanying notes 1 to 24 are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

For the periods from January 1 to December 31,

	2005 MUS\$	2005 MCh\$	2004 MCh\$
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income for the year	76.7	39,462.1	46,166.0
Charges (credits) to net income which do not represent cash flows:			
Depreciation and amortization	31.4	16,164.0	17,648.2
Provision for loan losses	101.4	52,116.8	51,790.4
Adjustment of financial investments to market value	12.2	6,274.0	1,661.3
Equity participation in net income in investments in other companies	(1.2)	(618.9)	(545.0)
Gain on sales of goods received in lieu of payment	(3.9)	(2,003.3)	(696.8)
Gain on sales of bank premises and equipment	(0.5)	(260.5)	(54.3)
Write-off of assets received in lieu of payment	7.2	3,696.1	4,113.5
Minority interest	8.3	4,263.5	528.4
Loss from price-level restatement, net	19.9	10,245.9	6,334.4
Other charges which do not represent cash flows	21.4	10,980.7	(4,184.2)
Net changes in interest accruals	(29.1)	(14,958.0)	(15,878.0)
Net cash provided by operating activities	243.8	125,362.4	106,883.9
CASH FLOWS FROM INVESTING ACTIVITIES:			
Changes that affect cash flows:			
Net increase in loans	(1,772.6)	(911,504.3)	(680,104.2)
Net decrease in other loan operation	103.7	53,324.9	68,224.2
Net increase in investments	(2,034.3)	(1,046,042.5)	(561,757.5)
Purchase of bank premises and equipment	(35.4)	(18,219.0)	(17,891.5)
Sale of bank premises and equipment	10.7	5,507.2	1,521.1
Investments in other companies	(2.6)	(1,328.3)	(420.9)
Sale of investment in companies	-	-	17,690.8
Dividends received from investments in other companies	0.1	48.2	545.0
Decrease (increase) in other assets and liabilities	148.1	76,162.7	(80,089.0)
Net cash used in investment activities	(3,582.3)	(1,842,051.1)	(1,252,282.0)

The accompanying notes 1 to 24 are an integral part of these consolidated financial statements.



Consolidated Statements of Cash Flows

BANCO DEL ESTADO DE CHILE AND SUBSIDIARIES

For the periods from January 1 to December 31,

	2005 MUS\$	2005 MCh\$	2004 MCh\$
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase in current accounts	178.3	91,689.9	120,592.6
Net increase in deposits	3,330.2	1,712,399.2	318,653.2
Net decrease in other demand or time liabilities	(27.8)	(14,312.9)	(51,277.8)
Increase in investments sold under repurchase agreements	462.2	237,645.0	218,707.8
Decrease in short-term foreign loans	(50.1)	(25,769.9)	(36,211.4)
Net increase in mortgage finance bonds	383.1	197,006.2	285,819.2
Increase (decrease) in other short-term borrowings	8.8	4,521.8	(1,062.1)
Borrowings from Central Bank, (long-term)	-	-	206,505.1
Payment of borrowings from Central Bank of Chile	(575.9)	(296,142.8)	-
Proceeds from bond issuances	155.6	80,023.6	-
Repayment of bond issuances	(9.1)	(4,679.0)	(1,536.3)
Borrowings from financial institutions (long-term)	33.0	16,995.8	(23,058.4)
Distribution of prior year net income to the Chilean treasury	(15.5)	(7,952.5)	(12,957.9)
Total cash flows provided by financing activities	3,872.8	1,991,424.4	1,024,174.0
Effect of inflation on cash and cash equivalents	(48.6)	(25,008.9)	(12,448.6)
Variation of cash and cash equivalents for the year	485.7	249,726.8	(133,672.7)
Cash and cash equivalents, beginning of year	955.7	491,450.7	625,123.4
Cash and cash equivalents, end of year	1,441.4	741,177.5	491,450.7

The accompanying notes 1 to 24 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 ("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 comparison purposes, the 2004 financial statements have been restated according to changes in the Consumer Price Index, which amounted to 3.6%.

The Bank's accounting records are maintained in Chilean pesos. The translation of the 2005 financial statements into U.S. dollars was made solely for the convenience of the reader. The financial statements for the year ended December 31, 2005 have been translated into U.S. dollars at the closing exchange rate of Ch\$ 514.21 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.

b) Basis of consolidation

These financial statements consider the consolidation of subsidiaries in which the Bank maintains an interest of over 50%, and the New York Branch, as detailed below:

Company	Interest Owned	
	%	
	2005	2004
BancoEstado S.A. Corredores de Bolsa	99.9996	99.9996
BancoEstado Microempresas S.A. (*)	99.8900	99.8900
BancoEstado Corredora de Seguros S.A.	50.1000	50.1000
BancoEstado Servicios de Cobranza S.A. (*)	99.9000	99.9000
BancoEstado S.A. Administradora General de Fondos	99.9900	99.9900
BancoEstado Contacto 24 Horas (*)	99.9000	99.9000
Globalnet S.A. (*)	63.1579	63.1579
BancoEstado Centro de Servicios S.A. (*)	99.9000	-
BancoEstado - New York Branch (*)	100.0000	-

(*) 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\$ 1,395.5, originating a charge to income of MCh\$ 4,263.5. These amounts are presented within "Minority Interest" in the Consolidated Balance Sheet and Consolidated Statements of Income, respectively (minority interest reached MCh\$ 1,979.0 in 2004, with a charge to income in the amount of MCh\$ 528.4).



Notes to the Consolidated Financial Statements

Assets and operating income of the subsidiaries represent 2.08% and 5.98% respectively, of total consolidated assets and operating income (1.80% and 6.27% in 2004, respectively).

For consolidation purposes, the financial statements of the New York Branch have been converted into Chilean pesos at the exchange rate of Ch\$ 514.21 as of December 31, 2005, for each U.S. dollar, in accordance with Technical Bulletin No. 64 of the Chilean Association of Accountants, related to the valuation of foreign investments in countries with economic stability.

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 in the case of past due loans and of outstanding loans with doubtful recovery have been suspended.

d) Use of estimates in preparing the financial statements

The preparation of financial statements according to Chilean GAAP requires that the management make certain 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\$ 10,245.9 (net charge of MCh\$ 6,334.4 in 2004).

Income statement accounts have not been restated.

f) Foreign currency

Assets and liabilities denominated in foreign currency have been translated into Chilean pesos at the closing exchange rate of Ch\$ 514.21 to US\$ 1 (\$ 559.83 to US\$ 1 in 2004).

The balance of MCh\$ 12,221.5 from net foreign exchange gains shown in the Consolidated Statement of Income (foreign exchange net gain of MCh\$ 23,459.7 in 2004), includes both results from foreign exchange transactions as well as the effects of the fluctuation of the exchange rates on assets and liabilities stated in foreign currencies and income from the foreign exchange transactions of the Bank and its subsidiaries.

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".

These financial instruments produced a net charge to income of MCh\$ 6,274.0 (net charge of MCh\$ 1,661.3 in 2004). This amount is presented in operating income as "Loss from trading activities". Adjustment of the permanent portfolio produced a net charge to equity of MCh\$ 13,588.1 (net charge of MCh\$ 2,856.7 in 2004).

Other investments in financial instruments are presented at purchase value plus adjustments and accrued interest, and net of provisions. The charge for provisions established on these investments amounted to MCh\$ 1,605.8 in 2004.

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. The Bank also uses resale agreements as a form of investment. Financial instruments that the Bank purchases in this manner are included as assets under "Loans for trading activities".

i) Derivatives

The Bank and its subsidiaries perform transactions in foreign currencies and financial instruments issued in the domestic market through forward agreements and currency and interest rate 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 income statement.

The initial gains or losses corresponding to the difference between the spot and future rate are recognized as deferred assets or liabilities and amortized using the straight line method 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 income.

Forward contracts between foreign currencies are valued at the market price for such operations at each month-end based on the 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 Consolidated Balance Sheet.

The credit risk involved in operations with derivatives is restricted to 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

Leasing contracts include the nominal value of all current leasing contracts net of non-accrued interest 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) Allowances for loan losses

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.

Models established by the Superintendency of Banks and Financial Institutions to determine provisions are summarized as follows:



Notes to the Consolidated Financial Statements

Allowances for 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 is complete, each debtor and loan shall be classified in one of the following categories:

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 allowances 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 allowances were assessed according to new regulations:

Category	Estimated loss range	Allowances %
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	Over 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.
- Commercial 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.

Recovery of written-off loans:

Recovery of loans already written off are directly recognized as income under the item "Allowances for risky assets" net of Allowance expense for the year.

As of December 31, 2005 recovery of loans amounted to MCh\$ 23,796.3 (MCh\$ 23,012.9 in 2004).

For companies that are not controlled by the Superintendency of Banks and Financial Institutions, Allowances 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) Factoring operations

The Bank carries out factoring operations with its clients, through which it receives invoices and other commercial instruments representative of loans, with or without responsibility of the transferor, paying the transferor upfront a percentage of the total amounts receivable associated with the documents received.

"Other outstanding loans" include MCh\$ 9,775.9 as of December 31, 2005 (MCh\$ 0 in 2004), corresponding to the amount advanced to the transferor plus accrued interest net of payments received.

n) 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 and net of regulatory write-offs. Regulatory write-offs are required by the Superintendency of Banks and Financial Institutions if the asset is not sold within one year after it is received.

o) Conversion of foreign branch financial statements

The Bank converts the accounting records of its New York Branch to Chilean pesos from U.S. dollars, in accordance with instructions established by the Superintendency of Banks and Financial Institutions, which are consistent with Technical Bulletin No. 64 "Accounting for Permanent Investments Abroad", issued by the Chilean Association of Accountants. All amounts from the Income Statement and Balance Sheet are converted into Chilean pesos using the exchange rate as of the balance sheet closing date. In accordance with this regulation, investments abroad are price-level restated, reflecting the effect on income, while gain or loss from exchange differences between Chilean pesos and U.S. dollars are recorded in equity under "other equity accounts".

p) Investments in other companies

Shares or rights in other companies in which the Bank has 10% or more 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.

Other minority investments are recorded at restated purchase cost.



Notes to the Consolidated Financial Statements

q) Current and deferred income taxes

The income tax provision 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 and 73 issued by the Chilean Association of Accountants.

r) Staff vacations

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

s) Intangibles

The Bank values its intangible assets according to the provisions set forth in Circular Letter No. 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 are shown net of amortization over a six-year period under the item "Other Assets" (See Note 22).

t) Reclassifications

Some reclassifications have been made to the 2004 consolidated financial statements in order to allow proper comparison with 2005 consolidated financial statements.

u) Cash and cash equivalents

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

During the year no accounting changes have occurred that could significantly affect the comparison of these Consolidated Financial Statements with those of the prior year.

NOTE 3 - RELEVANT EVENTS

• Change of Directors in the Board of Directors

Through Treasury Department Decree No. 1,070 published in Official Gazette No. 38,345 dated December 24, 2005, the resignation of Ms. Ingrid Verónica Antonijevic Hahn was accepted on August 23, 2005, as was the resignation dated September 5, 2005 presented by Mr. Antonio Ricardo Schneider Chaigneau, both from the position of Director of the Board of Directors.

On September 28, 2005, Ms. Vivianne Amelia Blanlot Soza and Mr. Luis Alberto Soto Illanes were named Directors of the Board of Directors of Banco del Estado de Chile.

• Issuance of Subordinate Bonds

During 2005 the bank carried out the third issuance of Subordinate Bonds for a total of U.F. 6,000,000, of which U.F. 4,000,000 (Series C) were placed in April 2005 at an annual rate of 4.23%; the remaining balance was placed in January 2006.

The bonds have a 25-year term with a 5-year principal grace period, with biannual interest payments and amortization.

• Opening of New York Branch

On July 25, 2005, the authorities of the State of New York, United States, issued a bank license authorizing the opening and operation of a full branch of BancoEstado Branch in this city. Operations began on October 5, 2005.

The Branch is located at 400 Park Avenue, 22nd Floor, New York, NY 10022. Its commercial orientation is towards the corporate and institutional segments, with foreign trade products and services such as letters of credit, payment orders and discounts. It also has financing products such as commercial loans in foreign currency and comex financing. In liability products it offers demand deposit accounts and money market accounts. Regarding investments and treasury, it performs exchange operations, risk coverage, overnight deposits, time deposits and fixed income investments, among others.

Additionally, the Branch offers a wide range of transactional services through its website, which will facilitate the Bank's operations and allow clients to perform transactions and obtain information in a more efficient manner.

The team in charge of the Branch is led by Ms. Karen Ergas Segal who is the General Manager, reporting to the Bank's Financial General Management through the International Business Management.

• Creation of the Company Administrador Financiero Transantiago

In accordance with Exempt resolution No. 897 of the Ministry of Transportation, on April 18, 2005 the tender for Transantiago Financial Management was awarded to the consortium formed by Banco del Estado de Chile, Banco de Chile, Banco de Crédito e Inversiones, Banco Santander Chile, Sonda S.A. and Promotora CMR Falabella S.A.. The term of the contract is 12 years.

Administrador Financiero de Transantiago S.A. was formed as a privately-held corporation, through public deed on June 18, 2005, for the purpose of providing and operating the means of access to transportation services. On July 19, 2005 Administrador Financiero Transantiago S.A. was registered in the Securities Registry under No. 908, and is therefore controlled by the Superintendency of Securities and Insurance.

Shareholder participation percentages are as follows:

Shareholders	Shares subscribed and paid	Participation percentage
Banco del Estado de Chile	210,000	21.0%
Banco de Chile	200,000	20.0%
Banco de Crédito e Investments	200,000	20.0%
Banco Santander Chile	200,000	20.0%
Sonda S.A.	95,000	9.5%
Promotora CMR Falabella S.A.	95,000	9.5%
Total	1,000,000	100.0%

• Creation of Bancoestado Centro de Servicios S.A.

Through public deed dated November 13, 2004, Banco del Estado de Chile's Subsidiary company was formed under the name "BancoEstado Centro de Servicios S.A.", beginning its operation in January 2005. It's single and exclusive purpose is that through it, its shareholders and banks and financial institutions to which it provides services, perform with the public all activities, legal and operating acts connected to those referred to in Article 69 No. 1 of the General Banking Law, as well as to perform the operations referred to in Nos. 8 and 26 of the mentioned article. This company is regulated by the Superintendency of Banks and Financial Institutions.



Notes to the Consolidated Financial Statements

NOTE 4 - TRANSACTIONS WITH RELATED PARTIES

In conformity with the provisions of the General Banking Law and the instructions set forth by the Superintendency of Banks and Financial Institutions, related parties are defined as all persons or entities directly or indirectly related to the ownership or management of the Bank and its subsidiaries.

a) Loans granted to related parties

As of December 31, 2005 and 2004 loans granted to related parties are as follows:

	Loans			Past due loans			Total			Collateral pledged (*)		
	2005 MUS\$	2005 MCh\$	2004 MCh\$	2005 MUS\$	2005 MCh\$	2004 MCh\$	2005 MUS\$	2005 MCh\$	2004 MCh\$	2005 MUS\$	2005 MCh\$	2004 MCh\$
Operating companies	50.7	26,061.6	5,693.8	-	-	-	50.7	26,061.6	5,693.8	0.8	416.1	791.3
Individuals (**)	2.0	1,041.7	1,485.9	-	-	-	2.0	1,041.7	1,485.9	1.9	994.8	835.2
Total	52.7	27,103.3	7,179.7	-	-	-	52.7	27,103.3	7,179.7	2.7	1,410.9	1,626.5

(*) 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.

b) Other transactions with related parties

During 2005 and 2004, the Bank and its Subsidiaries have carried out the following transactions with related companies for amounts in excess of UF 5,000:

	Expenses			Gains		
	2005 MUS\$	2005 MM\$	2004 MM\$	2005 MUS\$	2005 MM\$	2004 MM\$
Companies						
Nexus S.A.						
- Computer Support Advisory	0.5	277.9	592.0	-	-	-
Empresa de Correos de Chile						
- Postage	2.5	1,265.9	1,384.2	-	-	-
Empresa Nacional de Telecomunicaciones S.A.						
- Telephone service	1.5	770.8	2,175.6	-	-	-
Ingeniería Informática Kibernum S.A.						
- External resources	1.0	521.5	525.7	-	-	-
Sistema Nacional de Comunicaciones Financieras S.A.						
- Financial communications	0.5	243.0	273.0	-	-	-
Televisión Nacional de Chile						
- Advertising	0.7	372.5	482.5	-	-	-
Fundación Asistencial y de Salud						
- Office rentals	0.2	104.1	56.6	-	-	-
Subtotal	6.9	3,555.7	5,489.6	-	-	-
Operations between 1,000 and 5,000						
Unidades de Fomento:						
Advertising	0.1	27.9	-	-	-	-
- Income from rentals	-	-	-	0.3	142.0	171.8
Total	7.0	3,583.6	5,489.6	0.3	142.0	171.8

In Management's opinion, all these transactions with related parties were carried out at normal market prices, at the date of their realization.

NOTE 5 - INVESTMENTS IN OTHER COMPANIES

Investments in other companies in the amount of MCh\$ 4,342.0 (MCh\$ 3,151.5 in 2004), included in long-term assets are as follows:

Company	Ownership				Investment					
	Interest		Equity		Book value			Income		
	2005	2004	2005	2004	2005	2005	2004	2005	2005	2004
	%	%	MCh\$	MCh\$	MUS\$	MCh\$	MCh\$	MUS\$	MCh\$	MCh\$
Transbank S.A.	8.7188	8.7188	5,136.6	5,136.8	0.9	447.8	447.9	0.1	68.3	68.4
Operadora de Tarjetas de Créditos Nexus S.A.	12.9030	12.9030	4,431.5	4,279.9	1.1	571.8	551.9	0.2	91.1	88.8
Sociedad Operadora de la Cámara de Compensación de Pagos de Alto Valor S.A.	18.1600	18.1600	2,409.8	1,667.9	0.5	281.0	302.9	-	(22.0)	0.8
Bolsa de Comercio de Santiago	2.0833	2.0833	14,032.3	13,868.4	0.6	292.3	288.9	0.1	51.7	46.8
Bolsa Electrónica de Chile (1)	2.5000	-	2,819.2	-	0.1	70.5	-	-	3.4	-
Administrador Financiero Transantiago S.A. (2)	21.0000	-	6,325.6	-	2.6	1,328.4	-	(0.3)	(128.8)	-
Subtotal					5.8	2,991.8	1,591.6	0.1	63.7	204.8
Shares or rights in other companies					2.6	1,350.2	1,559.9	1.1	555.2	340.2
Total					8.4	4,342.0	3,151.5	1.2	618.9	545.0

(1) During January 2005, BancoEstado S.A. Corredores de Bolsa acquired a share of Bolsa Electrónica de Chile for MCh\$ 40.4 .

(2) During June 2005, the Bank made a capital contribution of MCh\$ 1,420.4 equivalent to 21% of the Company's share participation.

NOTE 6 - CASH AND DUE FROM BANKS

The item "Cash and due from banks" includes deposits kept by the Bank and its subsidiaries in different local and foreign banks, including the Central Bank of Chile.

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, 2005, these funds amounted to MCh\$ 133,865.0 (MCh\$ 127,425.9 in 2004).



Notes to the Consolidated Financial Statements

NOTE 7 - ALLOWANCES FOR LOSSES ON LOANS AND OTHER ASSETS

As of December 31, 2005 the Bank and its subsidiaries have established allowances in the amount of MCh\$ 97,605.2 (MCh\$ 96,753.9 Million in 2004), to cover possible losses.

Changes in these allowances during 2005 and 2004 are detailed as follows:

	Allowances for			Total MCh\$
	Loans MCh\$	Assets received in lieu of payment MCh\$	Other Assets MCh\$	
Balances as of December 31, 2003	92,513.8	1,200.0	3,573.6	97,287.4
Application of allowances	(52,900.1)	(12.0)	(974.2)	(53,886.3)
Allowances established	49,110.0	-	880.7	49,990.7
Balances as of December 31, 2004	88,723.7	1,188.0	3,480.1	93,391.8
Balances as of 31.12.2004 updated by 3.6% for comparison purposes	91,917.8	1,230.7	3,605.4	96,753.9
Balances as of December 31, 2004	88,723.7	1,188.0	3,480.1	93,391.8
Application of allowances	(42,435.0)	(31.2)	(5,437.2)	(47,903.4)
Allowances established	51,271.1	(1,127.1)	1,972.8	52,116.8
Balance as of December 31, 2005 in MCh\$	97,559.8	29.7	15.7	97,605.2
Balance as of December 31, 2005 in MUS\$	189.7	0.1	0.0	189.8

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.

NOTE 8 - EQUITY

a) Equity accounts

The movements in the shareholders' equity accounts during 2005 and 2004 are detailed as follows:

	Paid-in Capital MCh\$	Reserves MCh\$	Other Equity Accounts MCh\$	Net income for the year MCh\$	Total MCh\$
Balances as of 12.31.2003	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)
Capitalization of net income 2003	-	12,507.6	-	(12,507.6)	-
Price-level restatement	-	9,002.9	-	-	9,002.9
Changes in financial investment values (1)	-	-	(2,757.4)	-	(2,757.4)
Net income 2004	-	-	-	44,561.8	44,561.8
Balances as of 31.12.2004	4,000.0	363,046.6	860.7	44,561.8	412,469.1
Balances as of 31.12.2004 restated by 3.6% for comparison purposes	4,144.0	376,116.3	891.7	46,166.0	427,318.0
Balances as of 31.12.2004	4,000.0	363,046.6	860.7	44,561.8	412,469.1
Distribution of net income 2004	-	-	-	(7,952.5)	(7,952.5)
Capitalization of net income 2004	-	36,609.3	-	(36,609.3)	-
Price-level restatement	-	14,587.3	-	-	14,587.3
Change in unrealized gains (losses) on permanent financial investments values (1)	-	-	(13,588.1)	-	(13,588.1)
Cumulative translation adjustment (2)	-	-	(301.9)	-	(301.9)
Net income 2005	-	-	-	39,462.1	39,462.1
Balances as of 31.12.2005 in MCh\$	4,000.0	414,243.2	(13,029.3)	39,462.1	444,676.0
Balances as of 31.12.2005 in MUS\$	7.8	805.6	(25.3)	76.7	864.8

(1) Corresponds to the adjustment to market value of the permanent investment portfolio (Note 1 g)).

(2) Corresponds to conversion differences from recording the investment in the New York Branch (Note 1 o)).

Distribution of net income for 2004:

According to official notice No. 007 issued by the Finance Ministry on May 17, 2005, MCh\$ 7,952.5 from total 2004 net income of MCh\$ 44,561.8 was allocated to the Chilean Government Treasury (in 2004 MCh\$ 17,272.3 of 2003 net income of MCh\$ 29,779.9 was allocated). The remaining MCh\$ 36,609.3 (MCh\$ 12,507.6 in 2004) were used to increase the Bank's reserves. Values mentioned above are presented at historical values.

Price-level restatement:

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 Decree.



Notes to the Consolidated Financial Statements

Net income for 2005:

Net income for 2005 amounted to MCh\$ 39,462.1. The President of Chile may, upon proposal from 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, 2005 and 2004, 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:

	December 31	
	2005 MCh\$	2004 MCh\$
Basic Capital (*)	405,213.9	381,152.0
Total assets	10,571,503.5	8,974,508.3
Percentage	3.83%	4.25%
Effective equity (**)	575,873.6	487,185.0
Risk-weighted assets	5,401,171.4	4,809,562.1
Percentage	10.66%	10.13%

(*) 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.

NOTE 9 - INVESTMENTS

a) Financial investments

As of December 31, 2005, financial investments are detailed as follows:

Instruments *	Type of portfolio			Marked-to-Market Adjustments		
	Non-permanent MCh\$	Permanent ** MCh\$	Sub-total MCh\$	Against income MCh\$	Against Sh. Equity MCh\$	Total MCh\$
Banco Central de Chile	1,390,160.1	583,493.1	1,973,653.2	(1,400.6)	(11,213.7)	1,961,038.9
Chilean Treasury and other						
State Organizations	41,666.4	107,076.0	148,742.4	-	4.8	148,747.2
Chilean financial institutions	1,198,220.3	46,784.9	1,245,005.2	(3,925.5)	(1,693.2)	1,239,386.5
Other investments in Chile	16,574.6	29,184.1	45,758.7	(7.9)	(0.2)	45,750.6
Investments abroad	7,926.3	19,022.4	26,948.7	-	175.0	27,123.7
Total in MCh\$	2,654,547.7	785,560.5	3,440,108.2	(5,334.0)	(12,727.3)	3,422,046.9
Equivalent in MUS\$	5,162.4	1,527.7	6,690.1	(10.4)	(24.7)	6,655.0

As of December 31, 2004, financial investments are detailed as follows:

Instruments *	Type of portfolio			Marked-to-Market Adjustments		
	Non-permanent MCh\$	Permanent ** MCh\$	Sub-total MCh\$	Against income MCh\$	Against Sh. Equity MCh\$	Total MCh\$
Banco Central de Chile	1,295,626.9	433,689.8	1,729,316.7	(1,466.3)	(1,422.5)	1,726,427.9
Chilean Treasury and other						
State Organizations	4,155.5	94,383.8	98,539.3	-	-	98,539.3
Chilean financial institutions	832,794.4	19,425.0	852,219.4	268.0	304.4	852,791.8
Other investments in Chile	-	43,307.1	43,307.1	-	2,008.3	45,315.4
Investments abroad	-	4,003.2	4,003.2	-	1.6	4,004.8
Total in MCh\$	2,132,576.8	594,808.9	2,727,385.7	(1,198.3)	891.8	2,727,079.2
Equivalent in MUS\$	4,147.3	1,156.7	5,304.0	(2.3)	1.7	5,303.4

* Classification according to issuers or parties committed to pay. This schedule includes a total of MCh\$ 532,802.3 (MCh\$ 417,869.7 in 2004). in 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 Ch\$ 107,076.0 million (MCh\$ 94,383.8 in 2004).

Additionally the Bank maintains investments in letters of credit that it has issued of MCh\$ 24,801.3 (MCh\$ 129,446.7 in 2004), which are recorded in control accounts.



Notes to the Consolidated Financial Statements

b) Other investments

	2005 MUS\$	2005 MCh\$	2004 MCh\$
Assets held for leasing (*)	18.7	9,636.3	26,244.6
Assets received in lieu of payment or assigned (**)	6.8	3,497.0	3,211.1
Other non-financial investments	0.1	46.1	50.6
Total	25.6	13,179.4	29,506.3

(*) Assets held for leasing in the amount of MCh\$ 9,636.3 as of December 31, 2005 (MCh\$ 26,244.6 as of December 31, 2004), are presented net of provisions of MCh\$ 15.7 (MCh\$ 31.2 as of December 31, 2004).

(**) Assets received in lieu of payment or assigned in the amount of MCh\$ 3,497.0 (MCh\$3,211.1 in 2004), are presented net of provisions of MCh\$ 29.7 (MCh\$ 1,230.7 in 2004). In addition to assets received in lieu of payment that are recorded under assets, there are others that were written off that have not yet been disposed of. It is estimated that these written-off assets could be realized for a sum of approximately MCh\$ 3,963.2 (MCh\$ 12,897.6 in 2004).

NOTE 10 - BANK PREMISES AND EQUIPMENT

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

	2005 MUS\$	2005 MCh\$	2004 MCh\$
Land and buildings	154.6	79,468.7	75,542.0
Furniture and fixtures	19.4	9,987.9	7,609.7
Computer equipment and others	41.8	21,508.6	21,572.4
Other	9.8	5,027.9	5,622.8
Total	225.6	115,993.1	110,346.9

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, 2005 and 2004 respectively.

	2005				
	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\$	Total MCh\$
LOANS (1):					
Commercial loans and other	1,136,590.3	576,028.3	450,739.0	696,607.5	2,859,965.1
Mortgage loans	91,771.7	205,955.9	357,628.4	1,481,510.0	2,136,866.0
Consumer loans	227,188.8	227,912.3	93,764.5	76,140.6	625,006.2
OTHER LOANS					
Interbank loans	97,851.9	-	-	-	97,851.9
Investments purchased under agreements to resell	105,341.0	-	-	-	105,341.0
FINANCIAL INVESTMENTS					
Permanent (2)	208,033.7	314,807.9	139,065.4	123,653.5	785,560.5
Non-permanent (3)	2,649,213.7	-	-	-	2,649,213.7
Total in MCh\$	4,515,991.1	1,324,704.4	1,041,197.3	2,377,911.6	9,259,804.4
Equivalent in MUS\$	8,782.4	2,576.2	2,024.8	4,624.4	18,007.8

As of 2004 year-end, the balances were as follows:

	2004				
	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\$	Total MCh\$
LOANS (1):					
Commercial loans and other	1,155,683.4	477,584.8	311,923.7	347,402.7	2,292,594.6
Mortgage loans	174,767.7	365,299.6	408,156.5	1,112,957.4	2,061,181.2
Consumer loans	206,676.9	220,337.4	65,846.7	54,356.0	547,217.0
OTHER LOANS					
Interbank loans	106,554.3	-	-	-	106,554.3
Investments purchased under agreements to resell	139,385.2	-	-	-	139,385.2
FINANCIAL INVESTMENTS					
Permanent (2)	155,851.5	176,643.0	188,824.6	73,489.8	594,808.9
Non-permanent (3)	2,131,378.5	-	-	-	2,131,378.5
Total in MCh\$	4,070,297.5	1,239,864.8	974,751.5	1,588,205.9	7,873,119.7
Equivalent in MUS\$	7,915.6	2,411.2	1,895.6	3,088.7	15,311.1

(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\$ 18,352.6 (MCh\$ 15,259.9 in 2004), of which MCh\$ 10,258.8 (MCh\$ 9,913.0 in 2004) 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.



Notes to the Consolidated Financial Statements

b) Maturities of deposits, borrowings and other financing operations

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, 2005 and 2004.

	2005				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\$	
DEPOSITS AND OTHER BORROWINGS (*):					
Deposits and borrowings	2,780,793.6	86,592.2	3,718.2	-	2,871,104.0
Other short-term liabilities	14,875.0	-	-	-	14,875.0
Securities sold under repurchase agreements	617,007.5	-	-	-	617,007.5
Mortgage finance bonds	157,355.1	291,430.9	457,581.4	1,177,019.2	2,083,386.6
OBLIGATIONS FOR BONDS ISSUED	15,057.6	32,567.6	35,577.1	175,178.2	258,380.5
BORROWINGS FROM FINANCIAL INSTITUTIONS AND THE CENTRAL BANK OF CHILE:					
Credit lines from renegotiation of loans	49.7	94.2	147.8	380.2	671.9
Other Central Bank borrowings	83,543.2	564.1	885.8	2,278.4	87,271.5
Borrowings from domestic financial institutions	81,594.9	-	-	-	81,594.9
Foreign borrowings	142,430.0	-	-	-	142,430.0
Other liabilities	6,002.2	-	-	-	6,002.2
Total in MCh\$	3,898,708.8	411,249.0	497,910.3	1,354,856.0	6,162,724.1
Equivalent in MUS\$	7,581.9	799.8	968.3	2,634.8	11,984.8

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

As of 2004 year-end the balances were as follows:

	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\$	
DEPOSITS AND OTHER BORROWINGS (*):					
Deposits and borrowings	1,411,996.3	131,690.8	1,355.2	3,556.0	1,548,598.3
Other term liabilities	9,804.4	-	-	-	9,804.4
Securities sold under repurchase agreements	427,500.5	-	-	-	427,500.5
Mortgage finance bonds	149,660.5	273,517.5	429,455.2	1,104,671.3	1,957,304.5
OBLIGATIONS FOR BONDS ISSUED	8,885.3	33,278.0	39,647.2	110,479.4	192,289.9
BORROWINGS FROM FINANCIAL INSTITUTIONS AND THE CENTRAL BANK OF CHILE:					
Central Bank credit lines from renegotiation of loans	138.6	264.2	414.7	1,067.0	1,884.5
Other Central Bank borrowings	377,651.5	1,094.2	1,718.1	4,419.4	384,883.2
Borrowings from domestic financial institutions	68,182.5	-	-	-	68,182.5
Foreign borrowings	168,965.1	-	-	-	168,965.1
Other liabilities	2,575.3	-	-	-	2,575.3
Total in MCh\$	2,625,360.0	439,844.7	472,590.4	1,224,193.1	4,761,988.2
Equivalent in MUS\$	5,105.6	855.4	919.1	2,380.7	9,260.8

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



Notes to the Consolidated Financial Statements

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					
	Foreign Currency		Chilean pesos (*)		Total	
	2005 ThUS\$	2004 ThUS\$	2005 ThUS\$	2004 ThUS\$	2005 ThUS\$	2004 ThUS\$
ASSETS						
Cash and due from banks	1,038,821.5	53,629.8	-	-	1,038,821.5	53,629.8
Loans	567,492.5	579,146.8	33,963.1	24,876.1	601,455.6	604,022.9
Contingent loans	175,434.0	137,113.2	-	-	175,434.0	137,113.2
Financial investments						
In Chile	1,069,385.5	560,369.8	62,059.4	440,301.8	1,131,444.9	1,000,671.6
Abroad	51,993.0	1,644.0	-	-	51,993.0	1,644.0
Other assets	169,044.6	101,560.4	-	-	169,044.6	101,560.4
Total assets	3,072,171.1	1,433,464.0	96,022.5	465,177.9	3,168,193.6	1,898,641.9
LIABILITIES						
Deposits	1,804,786.8	279,538.7	-	-	1,804,786.8	279,538.7
Contingent liabilities	176,382.8	137,405.4	-	-	176,382.8	137,405.4
Liabilities with Chilean banks	10,055.6	17,863.4	-	-	10,055.6	17,863.4
Liabilities with foreign banks	276,988.0	291,327.2	-	-	276,988.0	291,327.2
Other liabilities	851,003.4	1,174,947.7	-	-	851,003.4	1,174,947.7
Total liabilities	3,119,216.6	1,901,082.4	-	-	3,119,216.6	1,901,082.4

(*) Includes operations expressed in foreign currency and payable in Chilean pesos or transactions that are adjusted based on the exchange rate.

NOTE 13 - DERIVATIVES

The forward foreign exchange and arbitration contracts and other operations with derivative products held at year-end 2005 and 2004 are detailed as follows:

a) Contracts on foreign currency and interest rates

Description of transaction	Number of operations		Contract amount			
			Less than three months		Over three months	
	2005	2004	2005 ThUS\$	2004 ThUS\$	2005 ThUS\$	2004 ThUS\$
Local market:						
Forward foreign exchange contracts purchased in Chilean currency	596	594	844.246,0	555.806,6	2.610.178,3	2.623.294,9
Forward foreign exchange contracts sold in Chilean currency	823	731	742.799,7	942.677,0	2.370.166,8	2.630.203,2
Forward or interest rate swaps	263	133	129.442,9	-	1.952.254,2	1.134.866,2
Foreign markets:						
Forward foreign exchange contracts purchased in foreign currencies	18	37	24.000,0	127.362,2	126.466,5	316.067,1
Forward foreign exchange contracts sold in foreign currencies	21	10	59.836,3	20.792,5	124.136,0	27.169,4
Forward or other interest rate swaps	19	36	-	-	239.078,1	349.824,6

The amount refers 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.



Notes to the Consolidated Financial Statements

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

Description of transaction	Number of operations		Amount of contract					
			Less than 3 months			Over 3 months		
	2005	2004	2005 MUS\$	2005 MCh\$	2004 MCh\$	2005 MUS\$	2005 MCh\$	2004 MCh\$
ARS/peso forward contracts purchased	138	81	97.9	50,329.5	43,292.6	940.3	483,522.4	256,119.1
ARS/peso forward contracts sold	154	69	241.2	124,026.2	-	915.9	470,940.0	252,427.8

c) Options

As of December 31, 2005 and 2004, no balances were outstanding for this type of transaction.

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:

	2005	2005	2004
	MUS\$	MCh\$	MCh\$
Securities held in custody	921.8	473,984.3	521,653.2
Foreign credit lines	384.1	197,507.8	226,933.6
Credit approved but not yet disbursed	332.7	171,082.5	111,248.7
Domestic collection documents	36.6	18,806.9	76,850.4
Total	1,675.2	861,381.5	936,685.9

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, 2005 and 2004, 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 advisors. The provisioned amount as of December 31, 2005 was MCh\$ 9,238.2 (MCh\$ 4,164.5 in 2004).

c) Guarantees for Operations

BancoEstado S.A. Corredores de Bolsa

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 purchased insurance policy No. 205102625, from Compañía de Seguros Continental S.A. for U.F. 20,000 in force from April 22, 2005 until April 22, 2006. The Santiago Stock Exchange is the representative of the beneficiaries of this guarantee.

This subsidiary also constituted a lien on its shares in the Santiago Stock Exchange, to guarantee 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.

BancoEstado Corredores de Seguros S.A.

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 S.A. has purchased an insurance policy from Mapfre Seguros Generales S.A. for U.F. 500, which expires on April 14, 2006. Likewise, this Company maintains a policy to cover the professional civil liability of insurance brokers for U.F. 60,000 which expires on April 14, 2006.

NOTE 15 - COMMISSIONS

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

	Income			Expenses		
	2005 MUS\$	2005 MCh\$	2004 MCh\$	2005 MUS\$	2005 MCh\$	2004 MCh\$
Commissions received or paid for:						
Collections of documents	35.6	18,321.3	15,944.4	-	-	-
Insurance brokerage services	25.7	13,232.9	8,847.8	-	-	-
Savings accounts	20.9	10,733.0	8,299.5	-	-	-
Pre-legal collection services	13.3	6,850.0	7,185.2	-	-	-
Current accounts	15.4	7,906.0	8,449.8	-	-	-
Commission for retail charges	18.8	9,662.1	8,441.4	-	-	-
Automated teller machine cards	4.8	2,464.8	3,100.5	-	-	-
Credit cards	3.5	1,814.7	1,406.9	3.7	1,899.1	1,935.0
Lines of credit	2.4	1,210.9	1,160.3	-	-	-
Foreign trade	1.3	693.6	992.3	-	-	-
Custody and trust commissions	1.0	535.5	831.9	-	-	-
Cashier's checks and fund transfers	0.5	251.4	236.7	-	-	-
Letters of credit, guarantors, deposits and other contingent operations	0.4	181.0	191.5	-	-	-
Compensatory rights for appraisals	0.1	29.1	50.9	-	-	-
Others	23.7	12,189.3	7,771.7	9.5	4,903.8	4,413.0
Total	167.4	86,075.6	72,910.8	13.2	6,802.9	6,348.0

Commissions earned for operations with letters of credit are presented in the consolidated Statement of Income under the item "Income from Interest and Readjustments".



Notes to the Consolidated Financial Statements

NOTE 16 - OTHER OPERATING INCOME AND EXPENSES

The detail of other operating income and expenses shown in the Consolidated Statement of Income is as follows:

a) Other operating income

	2005 MUS\$	2005 MCh\$	2004 MCh\$
Net income from UF/peso forward operations	81.2	41,769.6	8,598.3
Net income from goods received in lieu of payment	4.9	2,539.2	3,749.6
New basic residence origination subsidy	2.7	1,396.1	1,727.9
Net income from recovered assets	2.1	1,041.3	951.8
Recovery of loans written off on account of the Government	1.3	655.0	658.5
Other	9.8	5,054.0	1,369.8
Total	102.0	52,455.2	17,055.9

b) Other operating expenses

	2005 MUS\$	2005 MCh\$	2004 MCh\$
Losses on UF/peso forward operations	76.6	39,379.2	8,202.5
Expenses for maintenance and/or operation of real estate received in lieu of payment	0.8	408.3	394.5
Other	1.0	506.6	857.1
Total	78.4	40,294.1	9,454.1

NOTE 17 - NON-OPERATING INCOME AND EXPENSES

The detail of non-operating income and expenses shown in the Consolidated Statement of Income is as follows:

a) Non-operating income

	2005 MUS\$	2005 MCh\$	2004 MCh\$
Net income on sale of shares of subsidiary BancoEstado Corredora de Seguros S.A.	-	-	17,690.8
Income on sale of assets received in lieu of payment, previously written off	3.3	1,692.8	3,750.1
Lease income	0.3	174.4	359.9
Reimbursement of expenses	0.3	150.8	328.4
Income from adjustment of payment or collection from previous years	1.1	588.6	270.9
Income from the sale of bank premises and equipment	0.6	315.5	132.4
Recovery of other write-offs	1.2	609.6	65.1
Other	1.2	598.8	761.1
Total	8.0	4,130.5	23,358.7

b) Non-operating expenses

	2005 MUS\$	2005 MCh\$	2004 MCh\$
Compensations under the plan of extraordinary expenses in collective agreement	6.3	3,253.5	11,396.0
Write-off of assets received in lieu of payment	7.2	3,696.1	4,113.5
Other write-offs	2.6	1,331.5	3,488.1
Write-off of leased assets recovered	2.7	1,387.0	1,943.0
Other expenses on sale of shares of subsidiary BancoEstado Corredora de Seguros S.A.	-	-	978.0
Provisions for outstanding lawsuits	10.1	5,218.4	362.6
Loss on sale of bank premises and equipment	0.1	30.4	78.6
Other	1.2	606.3	3,558.5
Total	30.2	15,523.2	25,918.3



Notes to the Consolidated Financial Statements

NOTE 18 - CURRENT AND DEFERRED INCOME TAXES

a) Current income taxes

The income tax provision was determined in conformity with current Chilean tax regulations and is reflected in liabilities of MCh\$ 60,502.1 (MCh\$ 52,506.3 in 2004), net of monthly tax provisional payments under "Other Liabilities". The detail of current income taxes is as follows:

	2005 MUS\$	2005 MCh\$	2004 MCh\$
First Category Income Tax (17%)	37.9	19,472.5	18,740.8
Article No. 21 Single Tax	-	7.5	9.9
Article 2 Tax Decree Law No. 2.398 (40%)	79.8	41,022.1	33,755.6
Total	117.7	60,502.1	52,506.3

b) Deferred income taxes

Deferred income tax balances are as follows:

	Balance as of Dec. 31, 2004 (historical) MCh\$	2005 Variation MCh\$	Balance as of 2005 MCh\$
ASSETS			
Allowance for loan losses	35,739.7	4,347.9	40,087.6
Suspended interest and readjustments	21,610.6	7,706.3	29,316.9
Other provisions	15,963.0	104.1	16,067.1
Derivative instruments	8,020.2	(7,988.9)	31.3
Staff vacations	5,915.5	859.0	6,774.5
Other	3,959.1	252.5	4,211.6
Net Assets	91,208.1	5,280.9	96,489.0
Equivalent in MUS\$	177.4	10.3	187.7
LIABILITIES			
Lease contracts	(2,343.5)	1,678.0	(665.5)
Accelerated depreciation of bank premises and equipment	322.6	(58.7)	263.9
Adjustment of financial investments to market value	(665.6)	(2,368.3)	(3,033.9)
Other	6,712.4	869.9	7,582.3
Net liabilities	4,025.9	120.9	4,146.8
Equivalent in MUS\$	7.9	0.2	8.1

c) Effect on income

	2005 MUS\$	2005 MCh\$	2004 MCh\$
Income tax provision	(117.6)	(60,502.1)	(52,506.3)
Deferred tax effect for the year	10.0	5,160.0	12,193.6
Net charge to income	(107.6)	(55,342.1)	(40,312.7)

NOTE 19 – PURCHASES, SALES, SUBSTITUTIONS OR EXCHANGE OF CREDITS FROM THE LOAN PORTFOLIO

During 2005, the Bank repurchased endorsable mortgage loans (“mutuos hipotecarios”) from Banchile Securitizadora S.A. (Separate Equity No. 2), equivalent to 1,875 operations for a total amount of U.F. 1,976,778 (ChM\$ 34,600) at an annual real rate of 6.54%, as a consequence of the advanced liquidation of this separate equity. The repurchased portfolio did not increase the establishment of provisions or have an effect on income for the year.

As a result of this transaction, there was a write-off of the Series C Bonds (“Junior Bonds”) which originated as part of the operation of initial sale of endorsable mortgage loans (“mutuos hipotecarios”) referred to in the aforementioned repurchase. Those instruments were maintained as financial investments, and they were written off against the provisions established, originating a charge to 2005 income in the amount of MCh\$ 2,156.7.

NOTE 20 - DEMAND AND TIME DEPOSITS

The following concepts are include under the items Creditors in current accounts, deposits and borrowings and other demand or time obligations:

	2005 MUS\$	2005 MCh\$	2004 MCh\$
SIGHT DEPOSITS			
Current accounts	2,563.3	1,318,053.0	1,255,693.9
Other deposits	443.9	228,255.0	350,717.7
TIME DEPOSITS			
Time deposits	5,583.5	2,871,104.0	1,548,209.0
Savings accounts	3,516.7	1,808,309.9	1,794,974.8
Total	12,107.4	6,225,721.9	4,949,595.4

NOTE 21 - DIRECTORS' EXPENSES AND REMUNERATION

During 2005 and 2004 the Bank has charged to income the following amounts for concepts related to stipends paid to the members of the Board of Directors:

	2005 MUS\$	2005 MCh\$	2004 MCh\$
Remuneration	0.2	108.9	122.7
Representation expenses		-	-
Travel allowance	0.1	64.1	24.2
Total	0.3	173.0	146.9



Notes to the Consolidated Financial Statements

NOTE 22 - OTHER ASSETS AND OTHER LIABILITIES

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

a) Other Assets

	2005	2005	2004
	MUS\$	MCh\$	MCh\$
Deferred taxes receivable	187.7	96,489.0	94,491.6
Forward operations, net	80.1	41,206.1	62,198.7
Foreign currency purchased to be transferred	29.9	15,376.3	58,802.7
LBTR operations to be collected	189.3	97,341.2	33,785.1
Government receivable accounts	27.1	13,919.9	22,874.6
Investments in software	10.9	5,626.1	4,636.8
Commissions receivable	8.8	4,500.3	3,362.2
Prepaid expenses	6.9	3,520.8	7,470.3
Rights for term stock operations	1.2	624.2	5,022.0
Miscellaneous accounts	6.5	3,321.1	5,038.1
Negative goodwill related to purchase of mortgage finance bonds	-	15.3	2,003.0
Other	32.1	16,579.1	9,942.4
Total	580.5	298,519.4	309,627.5

b) Other Liabilities

	2005	2005	2004
	MUS\$	MCh\$	MCh\$
Foreign currency sold to be transferred	234.5	120,562.1	68,898.0
LBTR operations to be paid	195.0	100,301.0	40,455.0
Income tax provision (net)	74.6	38,376.8	35,653.5
Staff vacation provision	24.2	12,419.1	11,195.4
Pending lawsuits provision	18.0	9,238.2	4,164.5
Other provisions	17.0	8,750.8	18,998.4
Deferred income taxes payable	8.1	4,146.8	4,170.8
Outstanding operations	7.8	4,004.1	1,727.5
Balances with subsidiaries (net)	7.1	3,641.2	1,523.3
Other	9.6	4,978.8	4,502.7
Total	595.9	306,418.9	191,289.1

NOTE 23 - NEW ACCOUNTING POLICIES

On December 20, 2005, the Superintendency of Banks and Financial Institutions issued Circular No. 3,345, which establishes new accounting policies for the valuation of financial instruments acquired for negotiation or investment, derivative instruments, accounting hedges and disposal of balance sheet financial assets. Similarly, it complements and modifies the accounting guidelines for foreign currency operations.

Those standards must be applied by the Bank starting with information as of March 31, 2006, with a retroactive effect as of January 1, 2006. Likewise, the valuation differences originating as part of the initial application of these new standards, for investments current as of December 31, 2005, must be adjusted directly against the Bank's shareholders' equity.

The effects on the consolidated financial statements as of December 31, 2005, corresponding to the implementation of the new standard have not been quantified.

NOTE 24 - SUBSEQUENT EVENTS

a) In January 2006 the Subordinate Bond placement process was completed for the third issuance performed in 2005, the placement amount of which was U.F. 2,000,000 (Series D) at an annual rate of 4.47%.

The bonds were issued with a 25-year term, a 5-year grace period for the principal, with biannual payment of interest and amortization.

b) Management is unaware of any other significant subsequent events that have occurred between December 31, 2005 and the date of issuance of these consolidated financial statements that could affect the Bank's financial position or the interpretation of these consolidated financial statements.

CARLOS MARTABIT SCAFF
Chief Financial Officer

JOSÉ MENA VALENCIA
Chief Executive Officer

MARCOS GAÍNZA ARAGONÉS
Accounting Manager

OSCAR GONZÁLEZ NARBONA
Planning and Research Manager



Report of 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, 2005 and 2004, and the related consolidated statements of income and cash flows for the years then ended. These financial statements 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, 2005 and 2004, and the results of their 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 27, 2006