

RISK MANAGEMENT

Risk management has been fundamental to sustaining the healthy growth of bank business in 2004. Achieving commercial targets has formed part of a business philosophy based on optimizing the risk-return ratio.

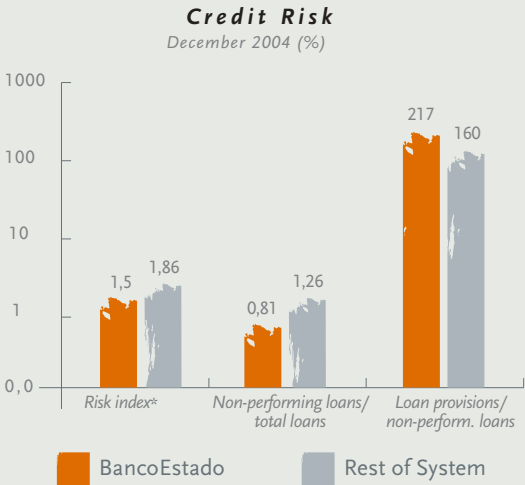
Sales efforts combined with ongoing concern about the risk variable present in any banking business are what have allowed BancoEstado to generate value on a permanent basis over time.

During the year the bank consolidated its credit risk rating system, thereby increasing the precision of risk measurements. Similarly, the loans portfolio was broken down into segments to permit the application of differentiated risk methodologies to look after diverse segments. In BancoEstado, 42% of the total portfolio is individually evaluated and 58% is collectively evaluated; for the commercial portfolio, 84% is individually evaluated and 16% as a group.

In terms of market risk, the bank made significant progress toward strengthening analysis, control and monitoring, applying financial risk measurement methods such as value at risk and interest rate sensitivity models for relevant periods.

In 2004, an automatic evaluation system for consumer credits was completed using a scoring system, thus ensuring that consumer loans are granted using uniform and controlled credit parameters.

As the figure indicates, the bank outperformed the rest of the system for the main risk indicators in 2004.



Today, BancoEstado has the best risk rating for debt in foreign currency among Chilean and Latin American banks, which ratifies its solvency. In fact, for long-term debt more progress was made in international rating and risk reduction, apparent in the bank's improvement within Standard & Poor's foreign currency index, from A- to A; previously, in late 2003, Moody's raised the bank's financial strength rating from C to C+. These indicators are similar to those for banking firms in developed countries.

COMMERCIAL MANAGEMENT AND SOCIAL RESPONSIBILITY

From any point of view, the bank's commercial management was successful in 2004: the number of customers rose; new products and services were created; record sales achieved; prices and commissions were well managed; risks remained limited and controlled; and collections processes remained solid. Altogether, this yielded higher business profits and customers' recognition of the bank's effective management.

For the fiscal year, the bank's commercial activity focused on achieving three general objectives, involving a variety of initiatives.

First, an effort was made to continue to increase the volume of commercial operations, to expand the bank's presence in every segment, but particularly the products and services for personal banking, to generate new income to supplement the more traditional ones.

Second, the bank sought a new model for serving and selling to the public in personal banking. In this sense, it was possible to consolidate BancoEstado's efforts in reorienting itself toward its customers, through pre-, during and post-sale efforts to capture and retain them.

Finally, the bank made efforts to consolidate its market share. Particularly important were strategic joint ventures set up to complement efforts with foreign partners, with broad knowledge and experience in highly specialized markets.

The result has been very important: in 2004 BancoEstado consolidated new, more stable sources of income, and expanded its customer base among low-income sectors that previously had little access to banking.

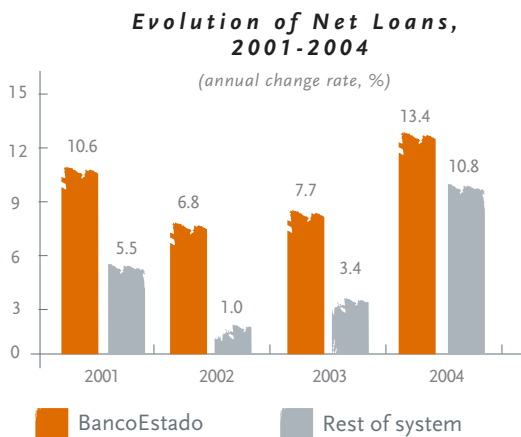
At the same time it strengthened its relationships with its traditional customers, through cross sales of new products and services based with existing ones. This led to a rise in loyalty.

During this fiscal year, bank operations expanded in every segment of the market, with different emphasis placed on each. Personal banking grew in every sphere, with the bank granting more than 464,000 consumer credits as well as increasing insurance and every means of payment.

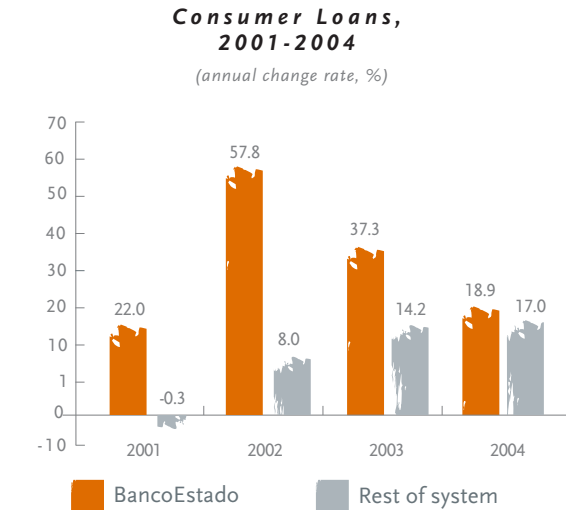
Similarly, the bank established credit control and verification procedures, quadrupling agreements with defaulting customers and transferring a significant number of financial transactions to self-service, which in some cases grew three-fold.

For institutional banking, the bank achieved its objective of holding on to around 80% of the market. Small businesses grew significantly in terms of both the number of customers and the scale of business. In micro-business, the bank served 137,000 customers.

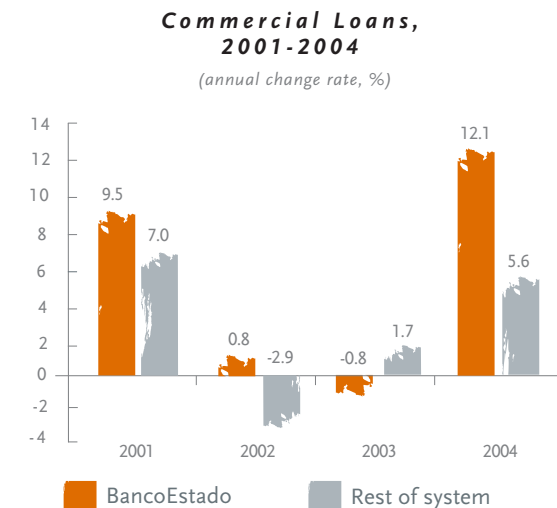
These efforts have been reflected in the strong growth in BancoEstado's net loans, which rose 13.4%, a historic record, 2.6 percentage points higher than the industry's average, to reach a total balance of 4,937 trillion pesos (US\$ 8,819 billion). As a result, the bank's share of total net loans in this market reached 13.2%.



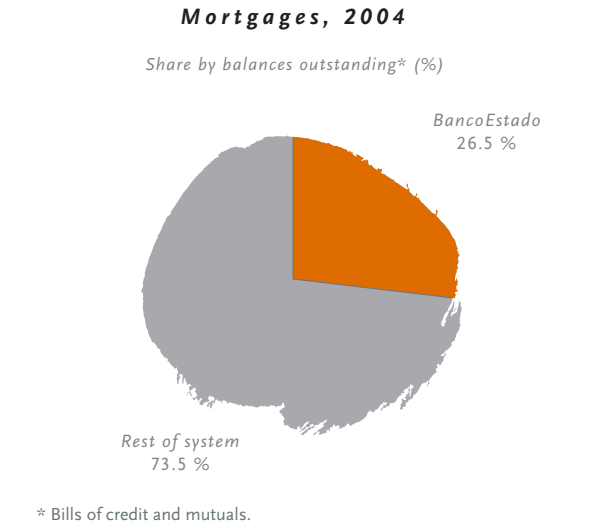
The bank's consumer loans (18.9%) also experienced an above average real annual growth (17.0%).



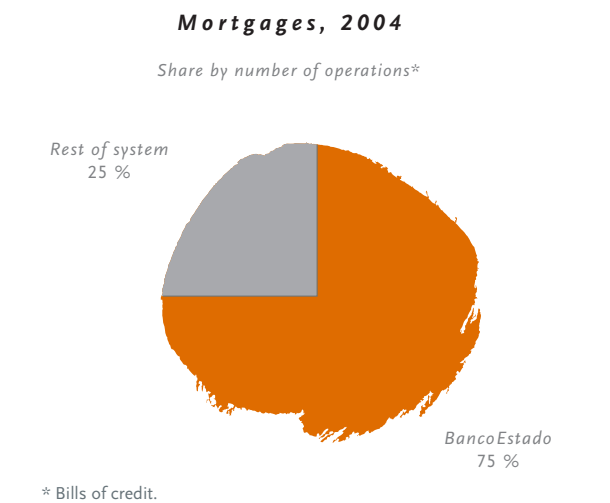
Likewise, BancoEstado's commercial loans rose (12.1%) more than twice the amount of the rest of the private banks (5.6%).



In terms of mortgages, the bank achieved significant growth (10.3%), although somewhat lower than in 2003, holding on to its leadership in the number of operations, especially among lower income sectors.



The bank's share in the mortgage market reached 26.5% in 2004. Nevertheless, its share increases to 75% in the number of these transactions.



At the same time, the average mortgage amount is US\$ 7,100 in BancoEstado, while in the rest of the bank industry it is US\$ 12,900.

# Estamos en la misma Parada

This reflects BancoEstado's social priorities and criteria favoring the provision of banking services to those hitherto precluded from access, as it supports access to housing for low-income sectors with few opportunities within private banking.

In trade financing, BancoEstado achieved real growth of 64.8% in 2004, more than double that of the financial system as a whole.

Particularly important was the good performance from the five campaigns the bank conducted to attract new customers: general credit (*Creditazo*), insurance, mortgages (*Hipotecazo*), Independence celebration credit (*Creditazo Dieciochero*) and Christmas credit (*Creditazo Pascua*). Of the nine products offered during these campaigns, seven saw their results soar by more than 100% over target, thanks to efforts from bank employees and a good response from customers.

An important factor in these results was the direct, friendly publicity campaigns that the bank has carried out, which were reinforced toward year's end by the new model for serving customers.

## A Massive Bank, Always Nearby

With a network of 311 branches, 50 special access points (*Puntos de Atención de Cercanía, PAC*), 826 automatic telling machines, complemented by private ones, 1,060 machines providing balances, and banking deposit slots, BancoEstado is the bank that serves the most people and covers the largest territory.

In 141 municipal areas (*comunas*), especially in those most distant and with the lowest income, we are the sole bank, thanks to 105 branches, 40 PAC, 1 auxiliary teller and 1 PACP. This is the case for example in Putre, Alto Hospicio and Montepatria, three municipal areas in northern Chile; on Easter Island, in the Pacific Ocean; and in Quirihue, Chonchi and Alto Palena, in the south.

Something similar occurs just a few kilometers from Santiago's main downtown square, the *Plaza de Armas* de Santiago, in densely populated, low-income municipalities within the Metropolitan Region. BancoEstado is the only bank present in Cerro Navia, La Pintana and La Granja, for example.



¡Este 18, pídelo ya!

**FÁCIL DE OBTENER - FÁCIL DE PAGAR**

- PAGA TUS DEUDAS CON UNA **TASA ESPECTACULAR** HASTA **60 MESES PLAZO**.
- EXIGE 2 MESES SIN VENCIMIENTO DE CUOTA.
- HASTA 3 MESES PARA PAGAR LA PRIMERA CUOTA.



**BancoEstado**  
Te conviene de verdad.

Infórmese sobre la garantía estatal de los depósitos en su banco o en [www.bsf.cl](http://www.bsf.cl)

### BancoEstado Customers

- 7 million customers with term savings accounts.
- 720,000 customers with a checking account or demand saving account.
- 570,000 customers electronic check books or credit cards.
- 480,000 customers with mortgages.
- 1.6 million insured customers.
- 420,000 customers with consumer credits.
- 150,000 customers from micro- and small businesses.
- 900,000 customers receive their monthly pay check, pensions and grants.
- 520 public institutions are customers.

The network makes it possible to serve most of the population, as the different indicators suggest. One of every two Chilean adults has a BancoEstado saving account passbook, which means the bank administers 79% of saving balances in the bank industry and 7 million active passbooks.

After the effort to expand the bank network, which brought 50% growth in branches between 1999 and 2002, for this fiscal year the goal was to assimilate this objective and generate distance customer service channels (Call Center, Internet) and for direct promotion, suitable to the different segments.

### Serving Families

BancoEstado helps to make the dreams and longings of its customers a reality, responding to their specific needs with a wide range of massive products, according to segment.

It has 465,000 mortgage holders, more than 100,000 added in recent years. It has provided more than 250,000 credits to micro-business people, 95% of which are paid up on time.

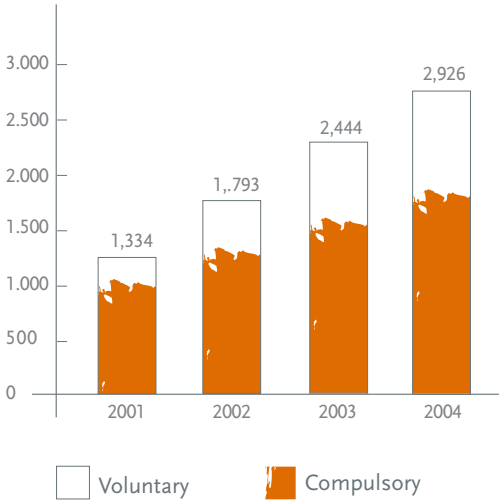
About 900,000 people received their wages, pensions or grants through the bank's electronic payment means. The bank is the largest provider of this kind of payment service, with 2.2 million users.

It offers instruments or means of saving within the reach of every sector, along with personal credits (consumption, mortgages), university (to finance higher education), housing (covering 85% of operations involving a state subsidy) and electronic payment means (credit and debit cards).

The bank became a leader in 2004 in insurance by number of policies (2,926,000) and customers (more than 1.6 million) and is second by sales volume. The distribution among voluntary (49.7%) and compulsory (50.3%) insurance has become balanced due to the growing share of voluntary insurance over the total.



Outstanding Insurance Policies  
(thousands)



Brand studies carried out in 2004 indicate that nine of every ten people surveyed associated BancoEstado with a good location and number of branches and its purpose of serving everyone, on first mention.

It reaches all social sectors, although it is a leader amongst the lower income social sectors: according to a sample-based study, in the D segment 51% are bank customers; while for the other segments the percentages are C3 (44%), C2 (36%), and ABC1 (16%).

To position the bank at a level of international excellence, a new service and sales model was implemented during this fiscal year. Its design combines a menu of products segmented according to customers' characteristics and shifts the focus of the bank's network toward sales and services.

Results in 2004 reflect that customers have been the beneficiaries of better quality, faster service. The amount of time necessary to enter information has been cut in half in the case of new customers, to one-third for old customers, and there has been a significant rise in credit approvals. At the same time, personnel have been freed of administrative tasks to focus on commercial activity.

### The Customer First

The new, client-centered service and sales model began with a pilot project at the Matta and Recoleta branches and then taken to nine other Metropolitan Region branches, a process that will be completed in 2005.

This will later be applied to the north and south of Chile, where 200 branches will be up and running in 2006.

It is based on offering value according to the needs of each segment of customers. It has required strengthening branches as sales centers, placing an emphasis on the commercial role of service models and platforms, reducing the operating burden.

All this has earned positive responses from customers: brand studies by external firms indicate that over 80% consider BancoEstado to be close to its customers, charge low interest rates and fees, be transparent, secure, reliable, and help people to get ahead.

## Modernity at the Service of Customers

BancoEstado's modernization process has required the incorporation of new technologies to provide more massive services to customers, permitting a steady improvement in efficiency and competitiveness through automation, long-distance services and integration into networks and Internet.

In 2004 the bank's website was renovated. It handles more than 50,000 transactions daily for persons, companies and institutions, and has been recognized in the marketplace for its quality, usefulness and ease of use.

Other important progress made in this fiscal year included the renovation of technological platforms and consolidation of two new telecommunication networks, one for voice and one for data, based on IP technology, which provide each other with backup.

The bank's information infrastructure makes it possible to look at the profitability of its operations from different perspectives and is now being used to support knowledge processes and the generation of valuable offers to customers through "data warehouse" technology.

### New Portal: [www.bancoestado.cl](http://www.bancoestado.cl)

BancoEstado's new, 2004 portal has received widespread recognition. Major media have called it essential, complete, secure, educational, and included it among the financial system's three best in terms of ease of use and usefulness.

It is easy and fast to use, has the most modern security measures, and offers new services so that customers can carry out ordinary transactions without having to go to the bank.

Within the financial system, BancoEstado has taken a leading role in the modernization process begun by the Central Bank in terms of electronic payments between financial institutions, by leading the changeover to a real time settlement system.

In 2004, the bank was also a leader in expanding the country's banking locations operating with electronic check processing systems. This expansion made it possible to improve service standards, raise the quality and reduce the costs of cashing checks.

