

 *ANNUAL REPORT*

'01

BANCO *security*



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A LETTER FROM THE CHAIRMAN

I am pleased to present to you Banco Security's Annual Report for the financial year just ended.

In this new millennium, 2001 will be remembered as the year of fundamental changes all around the world. The Chilean economy was not left out of these major events and changes, that shaped a very complex business scenario.

In that context, the year 2001 represents for Banco Security not only a period of good results but also the year in which the efforts of the last twenty years were consolidated. These efforts are reflected on a clear focus on business activities, with a strong position in the entrepreneurial niche, providing agile and customized quality service. At the same time, the Personal Banking area has been developed, to complement and enrich the service the Bank provides to its corporate clients. This year, Banco Security materialized a series of structural changes supported by the modern technology developed over the past few years. These will combine executive platforms providing the personalized service required by our clients in their operations, with branches focusing mainly on transactional businesses. Also, independent units have been developed that provide and charge their services to all the subsidiaries in Grupo Security, whereby spending transparency, homogeneous quality service and economies of scale have been assured. Management systems have been created that supply the necessary tools and information for improved efficiency and increased agility in the operations.

Banco Security's results were once again very satisfactory, reflecting the strength and maturity it has attained in a quite complex

scenario. In fact, Banco Security generated US\$14.8 million in profits in 2001, representing a return on equity of 13.1%. These figures are the result of the good performance of the Bank's business areas, including the good profits of the investment banking area, the efforts in growth and good returns of our corporate banking area and the favorable development of personal banking operations.

Total loans of Banco Security at December 2001 amounted to US\$1.16 billion, showing a moderate growth rate of 4.2% in real terms. This figure is justified by the high volatility and increased risk observed in financial markets, that called for especially prudent and cautious business decisions.

Banco Security's traditional policies, in terms of excellence in customer portfolio and high efficiency and productivity standards, have proven to be important strengths, again this financial year. In fact, Banco Security continued to be, as in earlier years, the lowest-risk bank operating with credits in the local market, with a risk index of 0.99% of loans as of October 2001, compared with the average rate of 1.90% for the overall banking industry. As for efficiency, Banco Security has continued to make cost-reducing efforts, in order to be able to compete with the remarkable efficiency levels of the larger banks operating in the country. The increase in the Bank's general and administrative (G&A) expenses during the year is explained mainly by the costs associated with restructuring and technological innovation implemented during the year. Furthermore, Banco Security has kept its traditional first place in the industry in terms of productivity, as measured by loans over number of employees.

In a world scenario of unending technological

expansion, Banco Security -together with its own subsidiaries and a number of Grupo Security affiliates-completed the "Three-Year Technological Plan" it launched in mid 1998 with the purpose of placing the bank in a privileged position with other technology-oriented banks. It is evident that these fast changes and technological innovation require constantly updated tools, in order to remain as a truly agile, modern and competitive bank.

Thus, the Bank has continued along its path of achievements it began twenty years ago, with the creation of Banco Urquijo de Chile in 1981,

which through the years was transformed into the Banco Security as we know it today. An important group of people that took part in the project back then are still with the Bank, together with new participants. This year, the Bank's work team was selected by the «Great Place to Work Institute» as one of 25 best workplaces in Chile. For all the above reasons, we are proud to rely on -as in previous years- the sustained effort, the humane quality and professional expertise of all the people that work in Banco Security. Their commitment with the organization and its goals have been essential in building what is contained in this Annual Report in your hands.



Francisco Silva S.
Chairman

1.0

▶ *BOARD OF DIRECTORS & MANAGEMENT OF BANCO SECURITY*

▶ *COMMERCIAL MANAGERS AND AGENTS*

internet, wap,
phone banking...

cutting-edge technology,
a permanent service for our customers



BOARD OF DIRECTORS & MANAGEMENT OF BANCO SECURITY

CHAIRMAN

Francisco Silva S.

DIRECTORS

Hernán Felipe Errázuriz C.

Jorge Marín C.

Gustavo Pavez R.

Renato Peñafiel M.

Gonzalo Ruiz U.

Mario Weiffenbach O.

MANAGEMENT

Ramón Eluchans O.

President

Margarita Hepp K.

Chief Executive Officer

Christian Sinclair M.

Chief Corporate Banking Officer

Oscar Brahm G.

Chief Personal Banking Officer

Bonifacio Bilbao H.

Chief Investment Banking Officer

José Miguel Bulnes Z.

Chief Risk Control Officer

Arturo Kutscher H.

Chief Operating Officer

Alejandro Arteaga I.

Corporate Banking Officer

Adolfo Tocornal R-T.

Middle-Market & Branches Officer

Gonzalo Baraona B.

Personal Banking & Mortgage Business Officer

Miguel Angel Soto N.

Private Banking Officer

Claudio Izzo B.

International Relations Officer

Manuel José Balmaceda A.

Chief Administration Officer

Pedro de Tezanos Pinto D.

Chief Development & IT Officer

COMMERCIAL MANAGERS & AGENTS

BRANCHES

Juan Carlos Ruiz V.

El Golf & Vitacura Branches Manager

René Melo B.

Temuco Branch Manager

Felipe Schacht R.

Quilicura Branch Agent

Guillermo Delgado G.

Antofagasta Branch Agent

Alberto Apel O.

Concepción Branch Agent

Francisco Zañartu F.

Puerto Montt Branch Agent

Andrés Llodrá D.

Ciudad Empresarial Branch Agent

BUSINESS PLATFORM

Ignacio Prado R.

Metropolitan Area Branch Manager

Mauricio Parra L.

Corporate Assistant Officer

Humberto Grattini F.

Corporate Assistant Officer

Sebastián Covarrubias F.

Corporate Assistant Officer

Hernán Besa D.

Middle Market Assistant Officer

Jorge Contreras W.

Middle Market Assistant Officer

Ignacio Lecanda R

Leasing Operations Assistant Officer

Enrique Covarrubias F.

Foreign Trade Assistant Officer

Luis Gil del V.

Preferential Banking Agent

Andrés Briceño C.

Real Estate Agent

Ricardo Turner O.

Money Desk Manager

Marcial Letelier O.

Business & Electronic Operations Manager

2.0

▶ **FINANCIAL SUMMARY**

- ▶ *SUMMARIZED INDIVIDUAL FINANCIAL STATEMENTS OF BANCO SECURITY*
- ▶ *SUMMARIZED CONSOLIDATED FINANCIAL STATEMENTS OF BANCO SECURITY*

electronic payments, fund transfers to other
banks, investments, on-line shopping...

a world
of internet
transactions



SUMMARIZED INDIVIDUAL FINANCIAL STATEMENTS OF BANCO SECURITY

In millions of December 2001 US dollars

Income Statements	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Gross Operating Results (Gross Margin)	16.0	21.8	21.5	24.7	26.2	28.6	32.0	39.0	40.9	49.6
Administrative Expenses	6.6	8.7	10.2	12.4	14.6	15.6	17.0	19.9	21.6	27.3
Net Operating Results (Net Margin)	9.5	13.1	11.3	12.3	11.6	13.0	15.0	19.1	19.3	22.2
Net Income	5.8	8.2	8.7	11.1	9.6	13.0	9.1	14.0	15.2	14.8
Closing Balances	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Loans	295.2	395.1	508.5	553.8	669.6	838.5	899.6	948.0	1,119.7	1,155.9
Financial Investments	263.4	310.4	128.4	235.3	152.9	209.8	175.9	112.9	142.1	210.4
Productive Assets	558.7	705.5	636.9	789.1	822.5	1,048.3	1,075.5	1,061.0	1,261.8	1,366.3
Fixed Assets and Investments in Subsidiaries	19.2	24.1	26.4	27.6	32.1	32.8	34.2	39.0	41.6	26.1
Total Assets	639.2	839.2	782.3	925.7	1,068.6	1,149.1	1,241.8	1,213.6	1,434.2	1,538.4
Checking Accounts	19.3	25.8	30.2	27.9	41.8	39.1	33.2	45.8	46.1	72.9
Deposits and Other Term Obligations	277.0	350.8	394.4	486.6	621.3	606.7	735.4	766.3	984.9	879.8
Foreign Obligations	71.5	103.6	104.8	99.3	108.7	58.4	69.0	63.9	14.4	120.8
Provision for Risk Assets	2.9	4.8	5.5	5.5	6.9	6.7	9.1	8.7	8.6	11.5
Capital & Reserves	54.6	56.9	57.7	66.9	67.7	70.7	90.6	90.6	107.4	111.1
Equity	60.3	65.0	66.4	77.9	77.2	83.6	100.8	104.7	124.7	128.3
Financial Indicators	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Productive Assets/Total Assets	87.40%	84.07%	81.41%	85.24%	76.97%	91.22%	86.60%	87.42%	87.98%	88.81%
Net Income/Equity	10.55%	14.41%	15.07%	16.53%	14.11%	18.39%	9.89%	15.43%	13.84%	13.06%
Net Income/ Productive Assets	1.03%	1.16%	1.36%	1.40%	1.16%	1.24%	0.84%	1.32%	1.20%	1.08%
Administrative Expenses/Productive Assets	1.17%	1.23%	1.59%	1.57%	1.77%	1.49%	1.58%	1.88%	1.71%	2.00%
Productive Assets/Number of Employees	3.4	4.4	3.7	4.0	3.9	4.5	4.2	3.7	3.9	4.0
(Millions of December 2001 US dollars)										
Loans/Number of Employees	1.8	2.5	2.9	2.8	3.2	3.6	3.5	3.3	3.5	3.4
(Millions of December 2001 US dollars)										
Leverage	11.87	14.59	14.2	13.7	14.7					
Number of Employees	163	159	174	195	210	234	257	283	323	343

SUMMARIZED CONSOLIDATED FINANCIAL STATEMENTS OF BANCO SECURITY

In millions of December 2001 US dollars

Income Statements	1995	1996	1997	1998	1999	2000	2001
Gross Operating Results (Gross Margin)	34.1	35.1	37.6	39.4	50.9	52.4	56.3
Administrative Expenses	16.6	19.7	20.3	21.6	25.6	26.7	31.1
Net Operating Results (Net Margin)	17.5	15.4	17.3	17.7	25.4	25.7	25.2
Net Income	11.1	9.6	13.0	9.1	14.0	15.2	14.8
Closing Balances	1995	1996	1997	1998	1999	2000	2001
Loans	605.4	732.5	908.0	972.9	1,016.3	1,184.0	1,155.9
Financial Investments	248.2	165.3	234.7	183.6	120.6	181.1	224.9
Productive Assets	853.6	897.9	1,142.7	1,156.5	1,136.8	1,365.2	1,380.8
Fixed Assets and Investments in Affiliates	12.7	17.7	15.7	17.5	20.9	21.6	18.2
Total Assets	975.9	1,131.1	1,228.6	1,312.1	1,281.5	1,533.5	1,548.1
Checking Accounts	33.1	41.8	39.1	33.1	45.8	46.1	72.9
Deposits and Other Term Obligations	490.1	625.3	624.5	738.2	769.4	1,011.1	881.4
Foreign Obligations	76.6	108.7	58.4	69.0	63.9	14.4	120.8
Provision for Risk Assets	5.5	6.9	6.7	9.1	9.8	9.5	11.5
Capital & Reserves	66.9	67.7	70.7	90.6	90.6	107.4	111.1
Equity	77.9	77.2	83.6	100.8	104.7	124.7	128.3
Financial Indicators	1995	1996	1997	1998	1999	2000	2001
Productive Assets/Total Assets	87.47%	79.38%	93.01%	88.14%	88.71%	89.02%	89.19%
Net Income/Equity	16.53%	14.11%	18.39%	9.89%	15.43%	13.84%	13.06%
Net Income/ Productive Assets	1.29%	1.06%	1.14%	0.78%	1.23%	1.11%	1.07%
Administrative Expenses/Productive Assets	1.95%	2.19%	1.78%	1.87%	2.25%	1.96%	2.25%

3.0

▶ *ECONOMIC REVIEW*

▶ *CHILE: BASIC ECONOMIC INDICATORS*

banco security's business platforms...

proactive, permanent relationships between
clients and executives



The Chilean economy had a complex year in 2001, with progressive adjustments because of unfulfilled expectations in all the fronts. The early optimistic 5.5% growth rate forecast had to be reviewed down once and again.

Although the ultimate 3% expansion placed Chile again at the top of the Latin American list, it was now four years of poor GDP performance, with an average growth of 2.8%, compared with the average 7% rate of the previous decade.

The reasons for this poor scenario can be found mostly in the external sector, although several internal factors are also to blame.

The world economy, unlike the previous year that showed a record growth rate of 4.7%, suffered a heavy loss of dynamism in 2001 that affected our exported products' prices and demand. For the first time in many years, deceleration shook all three major industrialized blocks almost simultaneously (i.e. the US, the European Union and Japan), and the terrorist attacks of September 11 only made things worse. As a result, in 2001 the world economy had its lowest growth in 10 years (2.3%), that together with the appreciation of the dollar with respect to the main parities (5.6% with the euro and 15% with the yen), had a negative effect on the country's terms of trade. The average copper price dropped 13% (or almost 20% if closing dates are considered), down more than 10 dollar cents from 82.2 cents to 71.6 cents per pound. To some extent this was offset by the also significant fall in the oil prices, that declined by 15% from US\$28.5 to US\$24.1 per barrel. All in all, the terms of trade fell by 7% from the year 2000, that amounts to a loss of earnings for the country of roughly US\$1.1 billion (the equivalent of 1.7% of GDP).

In this international scene, the only factor showing a more favorable performance in 2001 than in the year before was interest rates, that declined significantly (mainly the US interest rate, that went from a peak of 6.5% in 2000 to 1.75% by the end of 2001) as a result of the expansionary monetary policies implemented in various countries pursuing economic recovery.

The above, however, which implies a reduction in the cost of credits from outside the region, was obscured by the worsening of Argentina's economic situation over the year, which had every investor market in permanent alert over the repercussions this might have on the rest of the emerging economies. This translated into a new departure of credits away from Latin America, in temporary increases in the spreads of sovereign debts and in pressures to devalue local currencies. Regarding the Argentinean crisis, the much publicized differentiation of the other countries in the region began only in November, so before that, neighboring countries suffered the effects of every shock occurring in Argentina.

In Chile, although the premium of its sovereign bonds remained below 200 base points on average, short-term capital inflows were severely reduced (in fact, net outflows amounted to US\$175 million versus an inflow of US\$2.32 billion during 2000), which explains the deterioration of the balance of payments' capital account, that went from nearly US\$1.2 billion in 2000 to US\$600 million in 2001.

As for the domestic economic policies, during the year 2001 there were initiatives that led to

mistrust from the private sector and that tended to make markets rigid and costly, particularly the labor sector. On the other side, a reform to the capital market was implemented, that was taken very favorably by the market, as a true path of modernization and international integration.

In the monetary area, the Central Bank's management was somewhat erratic, aggravated in part by the nominalization of the Monetary Policy Rate (MPR), previously based on indexed interest rates. While in theory it applied a gradual monetary relief through reducing the MPR, its actual administration was much more volatile than that. Following a severe adjustment during the year 2000, that reflected on a big contraction of the monetary base, until the middle of the third quarter of 2001 there were symptoms of overexpansion, which combined with the crisis in Argentina and the deterioration of the terms of trade, it presumably encouraged a dollar price escalation and the resulting inflationary pressures.

As for interest rates, the decline of 150 base points experienced by the monetary policy rate, from 5.0% to 3.5% in real terms during the first half of 2001, that was subsequently pegged at a nominal 6.5%, was the reference to be followed by market interests, particularly long term rates. Thus, during the year, 8-year PRCs went from 5.85% to 4.72%, back 113 points and dragging along mortgage bonds with them.

With the nominalization of the MPR in August (that went from a real rate of 3.5% to a nominal rate of 6.5% with an estimated inflation rate for the year of 3%), said administration became even more complex, because the volatility inherent in the monthly variation of the consumer price index was transferred to the real rate or in the CPI-tied unit of account UF. Thus, with comparatively high inflation rates in August and September, monetary policies continued to be expansionary into the month of October. However, beginning in November and without changing the MPR of 6.5%, it turned openly contractionary, pushing UF rates way above the initial reference of 3.5%, given the very low and even negative monthly inflation rates. This dramatic turn of the monetary policy, whether intentional or not, favored a fast decline of the exchange rate which averted the threats of future inflation increases. At the same time, the deterioration of the Argentinean economy also encouraged economic agents to take refuge in the American dollar, together with the decline in the terms of trade at the time of the terrorist attacks in the United States. Influenced by all these factors, the exchange rate rose to a peak of \$720. Nevertheless, as of November, the regional markets, Chile included, began disconnecting from the events in Argentina, internalizing the country's default and the imminent risk of devaluation that finally occurred by the end of the year. Thus, hand in hand with the Brazilian real that began gaining ground, the Chilean peso was also strengthened, and received an additional momentum from the upward adjustment of real interest rates. Exchange rate pressures also loosened as a result of the US\$2.5-billion extraordinary program of PRD (dollar denominated loans) placement between July 2001 and January 8 of 2002 implemented by the Chilean Central Bank, and the direct sale of international reserves it made for an amount of US\$800 million.

Fiscal policy played an expansionary role during the year, completing an expenditure increase with macroeconomic impact of around 5.1% over the year 2000. As a result of the drop in earnings caused by the economic slowdown, the above led to a new fiscal deficit, of an estimated 0.5% of GDP.

All in all, despite the deterioration of our exported products' demand and prices, they still were the main support of the moderate growth rate of 3.0% in GDP during 2001. Actually, the 12% increase in volume (although in overall terms they fell by some 2% from 2000), was almost the only driving force of economic activity throughout the year. This good performance of shipments overseas

was favored by the substantial increase of the US dollar parity, of 15%. This increase translated into a real appreciation of more than 10%. This latter element curtailed the per capita GDP as measured in dollars, which, despite the expansion of the economy, dropped to around US\$4,200 in 2001, down from US\$4,600 the previous year.

Still more tightened than economic activity was the domestic demand during 2001, closing with a slight decrease of nearly 0.5% and completing three consecutive quarters of downward trend. This result was influenced by a strong reduction in inventories, which added to very weak private consumption (3.2%) and investment in fixed capital (2.6%).

Spending could hardly recover, while the average unemployment rate remained very high, steady at the same 9.2% of 2000. The economic slowdown, together with the rigidities in real wages and in the official minimum wage, combined with the «noise» provoked by the debates on the labor reforms, conspired against new hirings. In this context, the Government's special plan designed to create 150 thousand new jobs averted worse results in the labor market.

Inflation ended the year with a rate of 2.6%, and an underlying inflation of 3.2%. This result was the consequence of a number of factors, including the reversal of part of the oil shock of the previous year and the stagnant domestic demand. The latter held down the prices of non tradables, and in the case of imported goods avoided prices to absorb the exchange rate pressures, forcing enterprises and intermediaries to squeeze their margins. Also important was the fast and deep decline of the dollar parity towards the end of the year, that in about two months time relapsed by \$60 (or 8.3%), to close the year 2001 in \$660.

Finally, the foreign accounts result of 2001 was very similar to the previous year's, with a trade balance of nearly US\$1.45 billion and a current account deficit of around 1.5% of GDP. Despite the US\$1.0 billion drop in the terms of trade over the year, said deficit remained within limits due to the contraction of spending.

In summary, the year 2001 was marked by strong changes in both the domestic and the international scenarios, which ultimately shaped an economy of low growth where unemployment levels persisted, but with low inflation and fairly stable foreign accounts. Once the whole process of year-end parliamentary elections was left behind, economic agents expected a stronger commitment towards reforms designed to stimulate growth and permit the country to return to the growth potential of the past and bring down the rates of unemployment.



CHILE: BASIC ECONOMIC INDICATORS

	1997	1998	1999	2000	2001
GDP (billion US\$)	75.3	73.1	67.7	70.0	64.3
Per Capita GDP (US\$)	5,148.6	4,929.5	4,505.2	4,603.1	4,175.2
Real GDP Growth (%)	7.4	3.9	-1.1	5.4	3.0
Domestic Spending Growth (%)	9.1	3.9	-10.0	6.6	-0.5
Private Consumption	8.2	4.3	-3.1	4.1	3.2
Gross Fixed Capital Formation	11.5	4.1	-17.4	4.3	2.6
Terms of Trade (1986=100)	123.6	116.8	115.5	114.8	107.4
Copper Price (US\$ cents per pound)	103.3	75.0	71.3	82.2	71.6
Oil Price (US\$ per barrel)	19.2	12.9	16.4	28.5	24.0
Trade Balance (billions of US\$)	-1.6	-2.5	1.7	1.4	1.6
Current Account (billions of US\$)	-3.7	-4.1	-0.1	-1.0	-0.9
Balance of Payments (billions of US\$)	3.2	-2.1	-0.7	0.2	-0.4
Total Savings (domestic + foreign)	27.2	27.4	22.1	23.4	22.1
Gross National Savings	21.6	21.2	21.8	21.9	20.6
Central Government	5.6	4.1	2.5	3.7	3.3
Rest (private sector, Central Bank & state-owned companies)	16.0	17.0	19.4	19.4	17.3
Foreign Savings (current account deficit)	5.7	6.2	0.2	1.6	1.5
CPI Variation December - December (%)	6.0	4.7	2.3	4.5	2.6
Relevant Foreign Inflation (Central Bank average%)	-3.4	-4.7	-1.4	2.4	-0.6
90-day Central Bank bond rate (December average %)	11.4	13.1	8.8	8.3	6.5
8-year Central Bank bond rate (December average %)	6.8	7.2	6.7	5.9	4.9
Exchange Rate (average Ch\$/US\$)	419.3	460.3	508.8	539.5	635.0
Exchange Rate (December average. Ch\$/US\$)	438.3	472.4	538.2	574.6	669.6
Real Exchange Rate (Central Bank Average Index; 1986=100)	78.4	78.0	82.3	86.0	97.1
Employment Growth (%)	-2.1	1.8	-2.1	1.0	0.1
Labor Force Growth (%)	1.7	1.8	1.8	0.5	0.1
Unemployment Rate (%)	6.1	6.2	9.7	9.2	9.2
Real Wage Variation (%)	4.8	2.7	2.4	1.4	1.6
Net Foreign Debt (billion of US\$)	8.9	15.7	19.5	22.1	23.5
Net Foreign Investment Stock (billions of US\$)	29.6	33.7	33.8	34.8	35.8
Total Net Foreign Liabilities (billions of US\$)	39.3	46.2	50.0	49.7	55.6
Total Net Foreign Liabilities (% of GDP)	177.6	227.5	216.6	191.7	205.0
Total Net Foreign Liabilities (% of FOB exports)	177.6	227.5	216.6	191.7	205.0

4.0

- ▶ ***BANCO SECURITY AND THE CHILEAN BANKING INDUSTRY***
 - ▶ *A GLOBAL REVIEW OF THE BANKING INDUSTRY*
 - ▶ *ACTIVITIES AND RESULTS OF BANCO SECURITY*

do all your
foreign trade
operations on line...
in banco security



Before reviewing Banco Security's activities and results, it is worth making a brief recount on the performance of the overall banking system over the year.

THE OVERALL BANKING INDUSTRY

The complex Chilean economic scenario during 2001 was characterized particularly by the sustained deterioration of expected growth in all activities, as months went by. In the banking sector, these effects manifested in cautious growth of financial activities, where efforts were focused on controlling expenses and risk levels in order to ameliorate the results and returns of the banks.

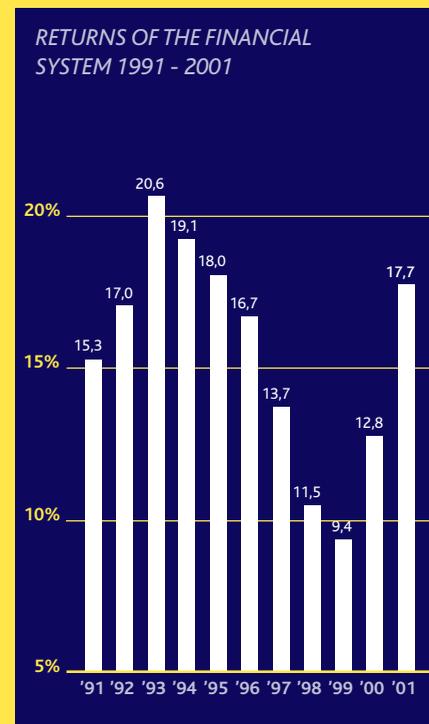
At the end of the year 2001, a total of 27 institutions were operating in the financial system, including 16 banks established in Chile, 9 foreign bank branches, the state-owned bank Banco del Estado and one financial institution. During the year, the Superintendencia of Banks and Financial Institutions granted four new bank licenses, to Banco Ripley, Banco HNS, Banco Monex and HSBC Bank Chile (that changed its status from branch to subsidiary).

Results

It is worth highlighting the significant improvement of bank results during the year just ended, when the net earnings of the financial system increased by 39.9% in real terms, with an average return on equity of 17.7%. This result is partly a recovery from the series of falls in earnings and returns between 1994 and 1999, but is also a reflection of efforts to reduce risks and especially to increase efficiency that some banks have made during the year.

The continuous downward adjustment of growth expectations for the economy, which was free of inflationary pressures due to the weak domestic demand, led the Central Bank to announce five successive cuts in interest rates during the first half of the year, before finally declaring the nominalization of its monetary policy. The favorable positions that many banks had taken favored a strong recovery of the system's interest income, with the resulting favorable impact on results since the beginning of the year. Similarly, an important improvement of the net results excluding intermediation was observed, also encouraged by the high volatility of financial variables throughout the year.

As for expenditures, minor growth rates were observed in most of the banks, with an average increase of 4.49% in the system's general and administrative expenses in 2001, thus making improvements in the financial system's efficiency. The efficiency coefficient, that measures G&A expenses over gross margin, went from 58.3% in 2000 to 56.2% in 2001. The growth in spending



concentrated more in administrative expenses, with a slightly higher increase than in labor expenses.

On the other hand, a drop in provisions and write-offs was observed during the year (down 12.8% from the previous year), due to increased control and the decline of risk coefficients, with respect to the peak of 2.14% of the credit portfolio experienced in the middle of the year 2000.

Finally, it is also necessary to single out the results of the banks' subsidiaries, probably explained by the same factors as with banks, although during the year some bank leasing and factoring subsidiaries were incorporated into their respective parent companies, while brokerage, security management and financial consulting operations remained with an affiliate status, together with the mutual funds management.

Hence, from the analysis of the results it follows that the banking system faced the complex economic situation of the past few years, and particularly during 2001, with the proper degree of maturity, considering that it reduced the relative weight of G&A expenses, while controlling the risk levels and ensuring a moderate growth in loans.

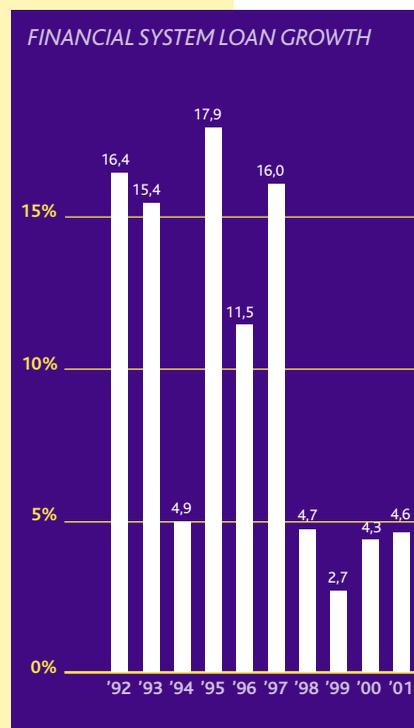
Levels of Activity

Available numbers for the banking industry show an increase in total loans of 4.6% for the year 2001, after a mere 4.3% in 2000 and 2.7% in real terms in 1999, significantly less than the average real annual growth rate of 10.8% it showed between 1990 and 1998, but consistent with the complex economic climate that has prevailed in the past few years.

In this context, the hardest fall was suffered by interbank credits (- 47.3%), while the other credits increased by a real 6.1% in the year. Also down were overdrafts (- 12.2%), and by a milder degree past-due credits (- 2.4%), which is a clear reflection of portfolio quality improvements. Consumer credits showed a slight recovery (+1.2%) together with housing loans (+4.0%). Commercial loans, that are the main credit component, grew by 7.2%, while foreign trade grew 9.5%, and loans that had been formerly placed by the subsidiaries, such as leasing and factoring, grew by very high rates because of the progressive incorporation of said subsidiaries into their respective parent banks.

Risk figures available indicate that the system's risk index continued to decline from the peak of 2.14% in June of 2000, down to 2.08% of credits in October 2000 and to 1.90% as of October of 2001. Although this can be considered an achievement, it still means having very high risk levels as compared with the 1.25% rate the financial system had attained in the years prior to the crisis (1995-1997 average). Past-due portfolios amounted to 1.62% of the system's credits by the end of 2001. In sum, risk can be said to have begun to decline, and are today in line and duly backed by bank provisions (2.37% of credits as of October 2001).

In general, several banks have also strengthened their capital base, in order to face the higher potential risk of their portfolios. The strength of the banking industry as a whole is reflected on the Basle coefficient, which considers effective equity in terms of risk-weighted assets, which reached 12.7% in November of 2001, with respect to 13.4% a year before, showing a wide margin over the legal requirement of 8%. Furthermore, virtually all the financial institutions showed a Basle indicator of over 10% one of the requisites to qualify as a first-rate bank.



To summarize, it may be said that the Chilean banking system adequately faced the complex economic situation of the past years, tackling the higher risk of the market with the proper provisions, and making an effort in terms of controlling expenses, thus helping to reduce the high costs inherent in any adjustment process. Efforts have begun to pay off, through the recovery of attractive return rates such as the ones achieved by the financial system during the present year.

ACTIVITIES AND RESULTS OF BANCO SECURITY

After twenty years in operation, it is important to visualize the efforts made and the goals achieved from the perspective of the road we have traveled since the creation of Banco Urquijo de Chile in 1981, which over the years gradually transformed itself into the Banco Security as we know it today.

Our efforts have reflected in clearly focused businesses, whereby Banco Security has attained a notorious position in the entrepreneurial niche, providing quality services to its clients, who perceive it as agile and customized, as is evidenced by recent market surveys. At the same time, the Personal Banking area has been developed, that complements and enriches the services provided to corporate clients. Thus, Banco Security's strategy is oriented to serve a market segment of medium to large companies and a select group of high-income individuals. The wide range of financial products and services provided by Banco Security is markedly oriented to the client, providing customized, integral, flexible and timely services.

With this in mind, Banco Security has organized its activities around three main business areas, namely the Corporate Banking, Personal Banking, and Investment Banking divisions.

The **Corporate Banking Division** is Banco Security's most traditional area, and it essentially defines the preferential niche to which it orients its businesses, accounting for 85% of all credits. It is made up of the following groups:

- Large corporations, that focuses on the larger private enterprises and state-owned companies, with annual sales of US\$25 or over, also including real estate companies;
- Medium-sized companies, that services enterprises with annual sales in the US\$ 5 to 25 million range, through its branches in Santiago and other regions;
- In April of 2001 the Bank absorbed the Leasing Security subsidiary, in order to provide the leasing services directly through its Corporate Banking division.

The **Personal Banking Division** is directed at high-income individuals and professionals, and today it accounts for 13% of the Bank's loans. It is made up of the department of Personal Banking and Mortgage Businesses, oriented at meeting the financial needs of high-income individuals in general, through either the Preferential Banking or the Private Banking areas, which focus on managing private investors' personal finances.

Finally, the **Investment Banking Division** has traditionally been of great importance in the Bank's businesses, especially through its active Money Desk that operates both domestically and abroad. It also includes the International Relations Office that explores international financial markets and finds financing for foreign trade businesses, where Banco Security has kept significant market share over the years.

The year 2001 was one of consolidating the series of structural changes that had been taking place in Banco Security over the past few years. Upon completion of the «Three-Year Technological Plan» that had been launched in mid 1998 to give the Bank a privileged position together with other modern banks, restructuring actions were oriented in 2001 at creating a structure that will enhance and favor the corporate service image that is characteristic of Banco Security. Thus, with its modern technological support, the «business platforms» were defined whereby commercial executives deliver the customized service and financial support required by the clients in their operations. In addition, the branches were defined as «transaction centers» and the necessary technological tools were created to be able to perform every type of operation and transaction through cutting-edge communication systems (i.e. the Internet, WAP and phone banking), all of which will result in significant costs and time saved. Among the services offered by the Bank, it is worth mentioning the wage and supplier payroll payments, social security, mortgage loans and electronic fund transfers provided to Banco Security's corporate customers. Also, the Personal Banking area has developed the use of the checking account as a means of payment, with electronic payment of utility bills, fund transfers to other banks and investments in various instruments through the Internet, as well as on-line shopping.

We are aware that the speed of technological innovation and changes require these tools to be permanently updated, in order to maintain our position as an agile, modern and competitive bank.

Results

Despite the complex economic scenario already described, Banco Security's 2001 results were very satisfactory, demonstrating the strength and maturity that the Bank has attained in recent years. In fact, Banco Security & subsidiaries' consolidated income amounted to US\$14.8 million in the year, representing a return on equity of 13.1%. These figures derive from the good performance of the various commercial areas of the Bank, where worth singling out are the high returns of the investment banking division, the efforts made in terms of growth and returns in the corporate banking area, and the good operating performance of the personal banking area.

Total loans of Banco Security at December of 2001 amounted to US\$1.16 million, showing a moderate growth of 4.2% in real terms, fairly similar to the overall banking industry's 4.6%. More prudence is needed in a market whose parameters have been highly variable and thus riskier this year. Thus, Banco Security ended the year with a market share of 2.53% of the industry's total loans. Comparatively, Banco Security is currently ranked 13th among the 27 banks and financial institutions operating in the market as of the end of 2001.

As for Banco Security's credit portfolio, consistently with its orientation to the corporate market niche, a 67.3% of its loans are commercial, while 10.8% are allocated to foreign trade operations, leasing contracts account for 5.3% and contingent loans represent another 5.1%. Consumer loans granted by the Bank's personal banking division account for only 0.5% and letters of credit account for 4.1% of Banco Security's portfolio.

Throughout the year, Banco Security maintained its traditional strengths in terms of client portfolio quality, together with high efficiency and productivity standards.

In fact, according to numbers available at October 2001, Banco Security's has a risk index of 0.99%, the lowest among the banks that operated with credits in the local market, and ranks fifth if all the banks, both domestic and foreign, are considered. Available risk indicators as of October 2001 indicate that risk levels in the financial system have been subsiding, down to an average of 1.90% of

loans, compared with the 2.14% peak of June 2000 and 2.08% in October 2000. Banco Security's past-due loans as of the same date were 0.84% of total loans, which also compares favorably with the banking system average of 1.74%. It must be noted that the Chilean financial system's risk is relatively low by international standards, and is duly backed by provisions, that amount to 2.37% of credits as per October 2001 figures.

In addition, the Bank has continued doing cost-controlling efforts, both administrative and labor-related, in order to keep its strict efficiency standards. To that end, during the year 2001 a number of investments and structural changes were made, to allow for direct control and better expense rationalization. It is worth mentioning here that several independent units were created to provide and charge their services to all the subsidiaries of the holding Grupo Security, allowing for more spending transparency, more homogeneous service quality, increased efficiency and economies of scale. This is the case of such units as Corporate Culture, Comptrollership and Accounting, Wages and Salaries, and others. In early 2002 the Technological Development unit will begin operating independently. Thus, the real increase in the Bank's G&A expenses is mainly explained by the higher expenses associated with those structural changes and technological innovation, as well as by the higher G&A cost from incorporating the leasing unit to the Bank. At any rate, Banco Security's efficiency indicators, that measure G&A expenses over gross margin, were 55.2% in 2001, compared with 52.8% the year before, but still below the market's average of 56.2%. On the other hand, Banco Security still maintains its traditional first place in the industry in terms of productivity, as measured by the loans to number of employees ratio (US\$3.37 million per employee in the year 2001).

To strengthen the base of the Bank's development strategy, Grupo Security had made a capital contribution of US\$10.8 million by the end of 2000, to complete a total of US\$14.8 million at the beginning of 2001. Also, at that time the Bank issued subordinate bonds worth US\$18.6 million in order to build up its effective equity. Thus, Banco Security's Basle indexes show significant leeway above the 10% level required by law to qualify as a first-rate bank. Hence, Banco Security's Basle coefficient -that measures effective equity over risk-weighted assets- is 12.02% as of November of 2001, compared with the system's average of 12.73%, showing a comfortable margin over the minimum required of 8%. On the other hand, the Bank's base capital accounts for 7.15% of its total assets, much above the legal minimum of 3% set forth by the country's General Banking Act.

Regarding the subsidiaries, it is worth noting the incorporation in April 2001 of the former subsidiary Leasing Security to the Bank's corporate banking division. Currently, Banco Security's subsidiaries are the stockbroker «Valores Security, Corredores de Bolsa» and the mutual fund «Administradora de Fondos Mutuos Security», whose activities and businesses are described below. These two companies contributed significantly, as they have in earlier years, to the Bank's activities and results. In fact, earnings from investments in related companies amounted to US\$2.75 million at December 2001 and accounted for 18.6% of the Bank's consolidated income.

Branches

Banco Security operates with a total of 12 offices in addition to the Headquarters. Its branch-opening strategy has been framed by the Bank's vision of future technological development, and is directed mainly towards sectors or regions that are consistent with the target market of large and medium-sized companies and selected individuals. It is the Bank's belief that given the technological

development brought about by the new millennium, it is an important advantage for the Bank to rely on a light office structure. Thus, four of the Bank's branches are located outside Santiago (i.e. Temuco, Concepción, Antofagasta and Puerto Montt) while the rest are in the Santiago Metropolitan Region (Providencia, El Golf, Vitacura, La Dehesa, Panamericana, Quilicura, Santa Elena, and Ciudad Empresarial).

Other Activities

In its twentieth year, Banco Security was included in the honor role among the 25 best workplaces in Chile. Thus, the Bank has continued with its path of achievements it began with the creation of Banco Urquijo de Chile in 1981, that over the years was transformed into the Banco Security we know today. An important group of people that participated from the beginning continue with the Bank today working with new participants in a great work team that has been singled out among more than three thousand enterprises surveyed to determine the most rewarding workplaces in the country. The results were published in Capital magazine, and the study was carried out by Marketing Meter, the representative in Chile of the «Great Place to Work» Institute.

5.0

▶ ***THE SUBSIDIARIES OF BANCO SECURITY***

- ▶ *BOARDS OF DIRECTORS AND MANAGEMENT OF BANCO SECURITY'S SUBSIDIARIES*
- ▶ *ACTIVITIES AND RESULTS*

an agile, personal service for customers
a pleasant working environment...
organization,
a modern



BOARDS OF DIRECTORS AND MANAGEMENT OF BANCO SECURITY'S SUBSIDIARIES ACTIVITIES AND RESULTS

VALORES SECURITY S.A. CORREDORES DE BOLSA

During the year 2001 Valores Security S.A. Corredores de Bolsa had very satisfactory results, with net income of US\$1.18 million, showing a return on equity of 27.3%.

Valores Security is engaged in two main business areas, which showed the following performance during the last financial year:

- Fixed-income instruments yielded gross income of US\$2.73 million during the year, a significant achievement in a period that was not free of complications for handling positions in fixed income securities and US dollars. This activity became the main income-generating source of the Company, because of the steady deterioration of the stock market that began in the mid nineties. Fixed-income operations consist mostly of intermediation of financial securities, purchase and sale of foreign currencies and dollar-denominated futures contracts.

- The variable-income business (shares) grossed US\$0.71 million from stock intermediation, stock-exchange rights, and from the earnings of the Company's own share portfolio.

These favorable results were achieved despite the lagging local stock exchanges, which continued deteriorating to trade a total of US\$ 4.15 billion in 2001, similar to the volume traded in 1994, and down 21% in one year. Among the most remarkable events in the stock market was the capital market reform announced in April and promulgated in November of 2001. Said reform, although it failed to pick up the value of transactions because of the domestic and international economic deterioration that became more tangible as the months went by, did result in a 9.1% recovery of prices of the stocks that make up the selected stock price index IPSA, and of 10.9% in the general index IGPA that measures the prices of all listed stocks.

«Valores Security» traded shares worth US\$404.94 million during 2001, somewhat lower than the previous year, consistently with the reduction in trading in the local exchanges, keeping its 8th place among the 38 stockbrokers operating domestically. Its market share for the year was 3.54%, considering the transactions performed in the Santiago Stock Exchange and the Chilean Electronic Stock Exchange where the company operates.

CHAIRMAN

Ramón Eluchans O.

DIRECTORS

Claudio Berndt C.

Guillermo Correa S.

Javier Gómez C.

Luis Montalva R.

Juan Oehninger M.

Mario Weiffenbach O.

MANAGEMENT

Nicolás Ugarte B.

President

Juan Adell S.

Chief Operating Officer

ADMINISTRADORA DE FONDOS MUTUOS SECURITY S.A.

The company was created as a subsidiary of Banco Security in May of 1992, and has grown steadily since, constantly incorporating new funds. As of December of 2001, the company administers eight funds, as listed below:

- **Security Check**, a short term fixed-income fund oriented at large and medium-sized companies;
- **Security First**, a medium and long term fixed-income fund;
- **Security Premium**, a short term fixed-income fund oriented primarily at individuals and smaller companies;
- **Security Acciones**, a variable-income fund;
- **Security Global Investment**, a fund that is authorized to invest 100% of its portfolio in foreign instruments;
- **Security Gold**, a fixed-income fund oriented at individuals wishing to invest for the medium and long term;
- **Security Explorer**, an international variable-income fund; and
- **Security Bond**, a fund that invests in long-term Chilean and foreign bonds.

Administradora de Fondos Mutuos Security's net income amounted to US\$ 1.27 million in 2001, that compares with a very similar result the year before, with a return on equity ratio of 66.3%.

At December of 2001 Administradora de Fondos Mutuos Security was managing an average equity of US\$ 182.53 million, that accounts for a market share of 3.56%, ranking 11th among the 17 mutual funds in the market. The company's strategy, in terms of yielding high returns on every one of the several funds it manages, while orienting its sales force to companies and particularly to higher-income individuals, has resulted in a large number of participants, specifically 7,415 of the nearly 320,000 of the whole system.

The table below shows the evolution of Mutual Funds during the past five years, (in millions of current US dollars):

MUTUAL FUNDS	DEC. 1997	DEC. 1998	DEC. 1999	DEC. 2000	DEC. 2001
Mutual Fund Industry	3,053.8	2,091.9	3,211.1	4,026.2	5,126.8
Administradora de Fondos Mutuos Security	87.8	87.2	137.9	154.5	182.6
AFM Security's market share	2.9%	4.2%	4.3%	3.8%	3.6%

It must be noted that Administradora de Fondos Mutuos Security has a highly qualified sales force, specialized in financial and tax-related issues. This is considered a most valuable asset in the Company, because of the knowledge they have of their clients and their investment needs. One quarter of total sales are performed at the branches of Banco Security, at each of which AFM Security has at least one investment agent assigned for its operations.

The capital market reform approved in November 2001 opens interesting business opportunities for Mutual Funds, where AFM Security will take active part. It is worth noting that mutual fund management organizations may act as sales agents for insurance companies, in addition to the possibility of offering voluntary retirement plans, which increases the opportunities of capturing voluntary savings enormously by providing attractive product mixes.

CHAIRMAN

Oscar Brahm G.

DIRECTORS

Francisco Juanicotena S.

Gonzalo Ruiz U.

Miguel Angel Soto N.

Adolfo Tocornal R-T.

MANAGEMENT

Alfredo Reyes V.

President

Juan Pablo Lira T.

Commercial Manager

6.0

▶ **2001-2000 FINANCIAL STATEMENTS**

- ▶ *INDIVIDUAL FINANCIAL STATEMENTS OF BANCO SECURITY*
- ▶ *CONSOLIDATED FINANCIAL STATEMENTS OF BANCO SECURITY AND SUBSIDIARIES*
- ▶ *SUMMARIZED FINANCIAL STATEMENTS OF BANCO SECURITY'S SUBSIDIARIES*

the branches of
banco security... **integral**
customer service
for all your financial operations



INDIVIDUAL FINANCIAL STATEMENTS OF BANCO SECURITY

December 31, 2001 and 2000 with Independent Auditors' Report Thereon

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Ch\$ = Chilean pesos

ThCh\$ = Thousands of Chilean pesos

MCh = Millions of Chilean pesos

UF = Price-level restatement unit

US\$ = United States dollar



INDEPENDENT AUDITORS' REPORT

Deloitte & Touche

To the Shareholders and Directors of
Banco Security

We have audited the balance sheets of Banco Security as of December 31, 2001 and 2000, and the related statements of income and of cash flows for the years then ended. These financial statements (including the related notes) are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted 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 the Bank's management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

The present financial statements have been prepared to reflect the individual financial position of Banco Security, on the basis of the criteria described in Note 1 to the financial statements, before consolidating the financial statements of the subsidiaries detailed in Note 4 to the financial statements. Therefore, in order for these individual financial statements to be correctly understood, they should be read and analyzed in conjunction with the consolidated financial statements of Banco Security and subsidiaries, which are required by accounting principles generally accepted in Chile.

In our opinion, such individual financial statements present fairly, in all material respects, the financial position of Banco Security as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended, in conformity with the criteria described in Note 1 to the financial statements.

During 2001 the subsidiary Leasing Security S.A. was merged into the Bank.

The translation of the financial statements into English has been made solely for the convenience of our English-speaking readers.


Jorge Rodríguez

Deloitte & Touche
January 10, 2002



BALANCE SHEETS

As of December 31, 2001 and 2000 (In millions of Chilean pesos – MCh\$)

	2001	2000
Assets	MCh\$	MCh\$
Liquid Assets	84,104.9	83,382.2
Loans:		
Commercial	515,351.1	524,547.2
Foreign trade	82,773.7	97,437.6
Consumer	3,912.7	2,673.9
Mortgage loans	31,010.6	14,923.7
Leasing contracts	40,197.3	–
Contingent	39,079.5	48,283.7
Other outstanding loans	37,334.3	43,339.5
Past-due	8,839.4	3,543.4
Total loans	758,498.6	734,749.0
Less: allowance for loan losses	(7,575.3)	(5,634.6)
Total loans–net	750,923.3	729,114.4
Other loan operations:		
Loans to financial institutions	7,005.0	–
Credits for intermediation	700.9	–
Total other loan operations	7,705.9	–
Investments:		
Banco Central de Chile and Treasury Securities	12,041.7	11,561.7
Other financial investments	78,648.6	69,309.7
Intermediation	31,121.8	10,965.6
Assets for leasing	2,652.3	–
Assets received in settlement or awarded	5,870.7	1,436.2
Total investments	130,335.1	93,273.2
Other assets	19,255.3	8,051.9
Fixed assets:		
Premises and equipment	11,381.8	13,365.3
Investments in related companies	5,760.0	13,915.7
Total fixed assets	17,141.8	27,281.0
Total assets	1,009,466.3	941,102.7

The accompanying notes are an integral part of these financial statements

	2001	2000
	MCh\$	MCh\$
Liabilities and Shareholders' equity		
Liabilities:		
Deposits and other liabilities:		
Checking accounts	47,830.1	30,280.0
Deposits and savings	518,971.2	591,423.7
Other time and demand liabilities	58,356.7	54,884.3
Liabilities arising from intermediation	31,451.0	10,780.2
Mortgage notes	32,143.0	15,161.7
Contingent liabilities	39,515.1	48,376.4
Total deposits and other liabilities	728,267.1	750,906.3
Bonds:		
Current bonds	11,584.6	6,993.0
Subordinated bonds	35,348.8	35,003.9
Total bonds	46,933.4	41,996.9
Borrowings from Banco Central de Chile and other financial institutions:		
Other Banco Central de Chile borrowings	854.7	1,069.8
Domestic borrowings	6,597.0	–
Foreign borrowings	79,299.7	9,454.5
Other borrowings	41,009.5	38,772.0
Total borrowing from financial institutions	127,760.9	49,296.3
Other liabilities	22,334.5	17,105.3
Total liabilities	925,295.9	859,304.8
Voluntary provisions	–	–
Shareholders' equity:		
Capital and reserves	72,887.4	70,479.4
Other reserves	1,561.0	1,375.4
Net income	9,722.0	9,943.1
Total shareholders' equity	84,170.4	81,797.9
Total liabilities and shareholders' equity	1,009,466.3	941,102.7

The accompanying notes are an integral part of these financial statements



STATEMENTS OF INCOME

For the years ended December 31, 2001 and 2000 (In millions of Chilean pesos – MCh\$)

	2001 MCh\$	2000 MCh\$
Operating revenue:		
Interest and indexation income	84,361.9	83,856.9
Earnings from intermediation	3,035.2	1,056.8
Commissions in earned	1,512.4	1,731.5
Exchange income–net	2,502.5	3,637.9
Other operating income	238.6	85.8
Total operating revenue	91,650.6	90,368.9
Less:		
Interest and indexation expense	(57,446.9)	(63,345.8)
Loss from intermediation	(1,553.2)	(65.9)
Commissions paid	(44.0)	(68.7)
Other operating expenses	(85.6)	(53.0)
Gross operating margin	32,520.9	26,835.5
Remunerations and personnel expenses	(8,674.7)	(7,800.6)
Administrative and other expenses	(8,068.0)	(5,443.3)
Depreciation and amortization	(1,194.5)	(929.5)
Net operating margin	14,583.7	12,662.1
Provisions for assets at risk	(6,649.6)	(3,909.0)
Recovery of loans written off	254.3	153.9
Operating income	8,188.4	8,907.0
Other income and expenses:		
Non–operating income	1,960.0	749.4
Non–operating expense	(564.8)	(282.4)
Equity in earnings of related companies	1,807.1	3,056.5
Monetary correction	(1,637.3)	(1,823.9)
Income before income taxes	9,753.4	10,606.6
Income taxes	(31.4)	(663.5)
Income before voluntary provisions	9,722.0	9,943.1
Voluntary provisions	–	–
Net income	9,722.0	9,943.1

The accompanying notes are an integral part of these financial statements



STATEMENTS OF CASH FLOWS

For the years ended december 31, 2001 and 2000 (In millions of Chilean pesos - MCh\$)

	2001	2000
	MCh\$	MCh\$
Cash flows from operating activities:		
Net income	9,722.0	9,943.1
Charges (credits) to income that do not represent cash flows:		
Depreciation and amortization	1,194.5	929.5
Provisions for assets at risk	6,649.6	3,909.0
Equity in earnings of related companies	(1,807.1)	(3,056.5)
Monetary correction	1,637.3	1,823.9
Other charges that do not represent cash flows	922.1	3,683.6
Net variation in interest, indexation and commissions accrued on assets and liabilities	5,057.5	(4,836.6)
Net cash provided by operating activities	23,375.9	12,396.0
Cash flows from investing activities:		
Net increase in loans	(44,281.7)	(121,967.9)
Net increase in other loan operations	(7,089.6)	–
Net increase in investments	(38,055.6)	(18,690.8)
Purchase of fixed assets	(4,791.9)	(3,851.5)
Sale of fixed assets	5,131.3	1,948.6
Investments in related companies	–	149.6
Dividends received from investments in related companies	1,749.7	2,145.6
Sale of assets received in settlement of loans	722.0	1,526.8
Net decrease (increase) in other assets and liabilities	2,097.6	(524.0)
Net cash used in investing activities	(84,518.2)	(139,263.6)
Cash flows from financing activities:		
Net increase in checking accounts	17,774.8	208.9
Net increase (decrease) in deposits and banker drafts	(69,628.7)	121,991.2
Net increase in other time and demand liabilities	3,516.8	19,205.7
Net increase in other liabilities arising from trading activities	21,203.4	3,678.1
Net increase in short-term foreign borrowings	69,593.2	1,569.0
Mortgage notes issued	16,158.0	15,046.8
Bonds issued	2,824.6	12,449.1
Long-term borrowings from financial institutions	6,450.5	–
Repayment of other long-term loans	(248.7)	(33,481.6)
Shares issued	–	6,398.6
Increase (decrease) in other short-term liabilities	545.7	(4,605.3)
Dividends paid	(7,344.0)	(4,648.7)
Net cash provided by financing activities	60,845.6	137,811.8
Net increase (decrease) in cash flows	(296.7)	10,944.2
Effect of inflation on cash and cash equivalents	1,019.4	3,252.0
Increase in cash and in cash equivalents	722.7	14,196.2
Cash and cash equivalents at beginning of year	83,382.2	69,186.0
Cash and cash equivalents at end of year	84,104.9	83,382.2

The accompanying notes are an integral part of these financial statements



NOTES TO THE FINANCIAL STATEMENTS

(In millions of Chilean pesos - MCh\$)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Information provided

The financial statements have been prepared in accordance with accounting regulations issued by the Superintendencia de Bancos e Instituciones Financieras (hereinafter the Superintendencia). Such regulations agree with accounting principles generally accepted in Chile, except for the investments in subsidiaries, which are recorded as a single line on the Balance Sheet using the equity method of accounting, and therefore have not been consolidated on a line by line basis. This procedure does not modify the net income or the shareholders' equity.

These financial statements have been issued solely for the purpose of making an individual analysis of the Bank and, accordingly, should be read in conjunction with the consolidated financial statements.

The 2000 Chilean peso amounts have been price-level restated for the year's change in the Consumer Price Index used for monetary correction (3.1%).

b. Interest and indexation

The amounts recorded in the Balance Sheet for loans, investments, and liabilities include interest and indexation accrued until year end. However, the Bank has taken the conservative position of suspending the accrual of interest and indexation on high-risk and past-due loans.

c. Monetary correction

Shareholders' equity, fixed assets, and other non-monetary balances have been monetarily corrected, considering the changes in the Chilean Consumer Price Index (CPI). The application of monetary correction results in a net charge to income of MCh\$1,637.3 (MCh\$1,823.9 in 2000).

The income statements of the Bank are not monetarily corrected.

d. Foreign currency

Assets and liabilities denominated in foreign currency are stated in Chilean pesos at the exchange rate prevailing at year end (Ch\$656.2 = US\$1 and Ch\$572.68 = US\$1 in 2000).

The net gain from foreign exchange of MCh\$2,502.5 (MCh\$3,637.9 in 2000) shown in the income statement includes the net gains obtained from foreign exchange transactions, as well as the recognized effects of exchange rate variations on net assets or liabilities denominated in foreign currency.

e. Finance leases

These operations are, for all purposes, shown net of provisions and deferred interest, following accounting regulations issued by the Superintendencia and applicable to these companies.

f. Financial investments

The financial investments that are traded in the secondary market are stated at market value, in accordance with instructions of the Superintendencia. Said instructions call for the recognition of the adjustments to market value against income of the year, unless permanent investments are involved, in which case, with certain limitations,

the aforementioned adjustments can be made directly against the "Fluctuation in value of financial investments" in the shareholders' equity accounts.

The application of the adjustment to market value resulted in a net credit of MCh\$227.0 (net charge of MCh\$1,261.5 (historical) in 2000) to income.

Other financial investments are stated at cost plus accrued interest and indexation.

g. Premises and equipment

Premises and equipment are stated at monetarily corrected cost and are shown net of accumulated depreciation. Depreciation is calculated using the straight-line method over the useful lives of the corresponding assets.

h. Investments in related companies

The shares or rights in related companies in which the Bank's ownership is equal to, or greater than, 10%, or in which it can elect or appoint at least one of the members of the Board or management, are recorded in assets using the equity method of accounting.

i. Provisions for assets at risk

The Bank has established all the provisions that are required to cover the risk of loss on assets, in accordance with the standards issued by the Superintendencia. The assets are shown net of such provisions or in the case of loans, as a deduction therefrom.

j. Voluntary provisions

In accordance with the General Banking Law, financial institutions may set special provisions, called "Voluntary provisions", which can be considered as part of equity for the purposes of complying with certain regulations of the General Banking Law.

At December 31, 2001 and 2000, the Bank has no voluntary provisions.

k. Deferred taxes

The effects of deferred taxes arising from temporary differences between the tax and the book bases are recorded on an accrual basis in conformity with Technical Bulletin N° 60 of the Chilean Institute of Certified Accountants (Colegio de Contadores de Chile A.G.) and its supplements. Technical Bulletin N°71 also issued by this Institute states that, effective in 2001, deferred taxes are to be recorded by applying the income tax rate of the year in which the temporary difference that gave rise to such deferred taxes will be reversed.

l. Employee vacations

The annual cost of employee vacations and benefits is recorded on an accrual basis.

m. Cash and cash equivalents

For purposes of the statement of cash flows, cash and cash equivalents include the balance of "Liquid Assets", in accordance with the rules established in Chapter 18-1 of the Superintendencia's compendium of regulations.

NOTE 2. ACCOUNTING CHANGES

In accordance with Circular N° 3,029 issued by the Superintendencia, the Bank modified the accounting treatment of unearned income and of prepaid expenses, relating them to the period where the service was rendered or received. The new accounting policy calls for the deferral of the results associated with such unearned income or prepaid expenses. The accounting procedure calls for its application only when it has a significant effect on income, compared to the income obtained when consistently recognizing income and expenses on the cash basis. At December 31, 2001, the application of this criterion has no significant effects on the Bank.

NOTE 3. RELATED - PARTY TRANSACTIONS

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

a. Loans to related parties

At December 31, 2001 and 2000, loans to related parties are as follows:

	Current Portfolio		Past-due Portfolio		Total		Guarantees (*)	
	2001	2000	2001	2000	2001	2000	2001	2000
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
Individuals	175.3	369.2	–	–	175.3	369.2	175.3	210.1
Operating companies	15,705.0	6,867.5	13.9	–	15,718.9	6,867.5	8,391.4	299.9
Investment companies	4,107.8	4,540.2	–	–	4,107.8	4,540.2	2,316.3	1,536.5
Total	19,988.1	11,776.9	13.9	–	20,002.0	11,776.9	10,883.0	2,046.5

(*) Includes only those guarantees that are admitted by Article 84 of the General Banking Law for the purpose of establishing the individual credit limits defined by the Law. The guarantees are valued in accordance with the Superintendencia's instructions.

b. Other transactions with related parties

During 2001 and 2000, the Bank entered into the following transactions in excess of UF1,000 with related parties:

Company	Item	Credit to income		Charge to income	
		2001 MCh\$	2000 MCh\$	2001 MCh\$	2000 MCh\$
Invest Security S.A.	Advisory services	–	–	369.2	–
Compañía de Seguros de Vida La Previsión S.A.	Office rentals	15.8	20.3	–	–
Compañía de Seguros Generales La Previsión S.A.	Office rentals	12.6	16.9	–	–
Merchant Security S.A.	Advisory services	3.1	–	167.9	16.2
	Office rentals	16.6	–	–	–
Grupo Security S.A.	Advisory services	–	16.1	–	–
Global Security S.A.	Advisory services	–	–	817.0	–

These transactions were realized on prevailing market terms.

NOTE 4. INVESTMENTS IN RELATED COMPANIES

a. Participation in companies

Under the heading of fixed assets, there are investments in affiliates amounting to MCh\$5,760.0 (MCh\$13,915.7 in 2000), the detail of which is as follows:

Company	Bank's ownership		Equity		Investment Value		Income	
	2001 %	2000 %	2001 MCh\$	2000 MCh\$	2001 MCh\$	2000 MCh\$	2001 MCh\$	2000 MCh\$
Valores Security S.A.								
Corredores de Bolsa	99.900	99.900	3,596.8	3,746.6	3,593.2	3,742.8	771.1	968.0
Leasing Security S.A. (1)	–	99.999	–	7,986.0	–	7,985.8	203.5	1,309.7
Administradora de Fondos								
Mutuos Security S.A.	99.990	99.990	2,089.3	2,107.3	2,089.1	2,107.1	832.5	833.3
Asesorías Security S.A. (2)	–	95.000	–	–	–	–	–	(54.5)
Subtotal					5,682.3	13,835.7	1,807.1	3,056.5
Shares and rights								
in other companies					77.7	80.0	–	–
Total					5,760.0	13,915.7	1,807.1	3,056.5

(1) On April 1, 2001, Leasing Security S.A. was merged into Banco Security at its book value, with no effect on income.

(2) On October 31, 2000, Asesorías Security S.A. was sold to Merchant Security S.A. (Company related to the Bank) at its book value, with no effect on income.

b. Related companies' information

Company	Assets				Liabilities			
	Totals		% with the Bank		Totals		% with the Bank	
	2001 MCh\$	2000 MCh\$	2001	2000	2001 MCh\$	2000 MCh\$	2001	2000
Valores Security S.A.								
Corredores de Bolsa	72,737.8	124,284.7	–	–	69,141.0	120,538.1	0.26	–
Leasing Security S.A.	–	44,716.9	–	–	–	36,731.0	–	–
Administradora de Fondos								
Mutuos Security S.A.	2,193.6	2,270.8	–	–	104.2	163.4	–	–

NOTE 5. PROVISIONS

a. Provisions for assets at risk

At December 31, 2001, the Bank has accrued provisions for a total of MCh\$7,606.0 (MCh\$5,695.3 in 2000) which correspond to the minimum provisions required by the Superintendencia to cover possible losses.

During each year, the changes in the above provisions were as follows:

	Provisions for			
	Assets			Total MCh\$
	Loans MCh\$	received in settlement MCh\$	Other assets MCh\$	
Historical balances, December 31, 1999	4,798.8	–	–	4,798.8
Write offs	(3,125.1)	–	–	(3,125.1)
Increase in provisions	3,791.5	58.9	–	3,850.4
Balances, December 31, 2000	5,465.2	58.9	–	5,524.1
Updated balances for comparative purposes	5,634.6	60.7	–	5,695.3
Historical balances, December 31, 2000	5,465.2	58.9	–	5,524.1
Write offs	(4,538.9)	(90.2)	–	(4,629.1)
Increase in provisions	6,649.0	6.0	–	6,711.0
Balances, December 31, 2001	7,575.3	30.7	–	7,606.0

In the opinion of management, the provisions established cover all possible losses that might result from non-recovery of assets based on the evidence examined by the Bank.

b. Voluntary provisions

The Bank has no voluntary provisions at December 31, 2001 and 2000.

NOTE 6. SHAREHOLDERS' EQUITY

a. Equity

The movements in the shareholders' equity accounts during 2001 and 2000 are summarized as follows:

	Paid-in capital MCh\$	Other reserves MCh\$	Other accounts MCh\$	Net Income MCh\$	Total MCh\$
Balances, December 31, 1999, historical	46,298.4	8,790.8	72.5	8,508.8	63,670.5
Distribution of 1999 income	–	8,508.8	–	(8,508.8)	–
Dividends paid	–	(4,254.4)	–	–	(4,254.4)
Fluctuation in value of financial investments	–	–	1,261.5	–	1,261.5
Capital increase	6,206.2	–	–	–	6,206.2
Monetary correction of capital	2,168.2	642.2	–	–	2,810.4
Net income	–	–	–	9,644.1	9,644.1
Balances, December 31, 2000	54,672.8	13,687.4	1,334.0	9,644.1	79,338.3
Updated balances for comparative purposes	56,367.7	14,111.7	1,375.4	9,943.1	81,797.9
Balances, December 31, 2000, historical	54,672.8	13,687.4	1,334.0	9,644.1	79,338.3
Distribution of 2000 income	–	9,644.1	–	(9,644.1)	–
Dividends paid	–	(7,344.0)	–	–	(7,344.0)
Fluctuation in value of financial investments	–	–	227.0	–	227.0
Monetary correction of capital	1,689.6	537.5	–	–	2,227.1
Net income	–	–	–	9,722.0	9,722.0
Balances, December 31, 2001	56,362.4	16,525.0	1,561.0	9,722.0	84,170.4

Pursuant to Article 10 of Law N°18,046, the monetary correction of capital has been included in paid-in capital, which is represented by 90,241,632 no-par-value shares, with the same treatment being applied to the reserves.

During February of 2001 and 2000, net profits from 2000 and 1999 of MCh\$9,644.1 and MCh\$8,508.8 (historical), respectively, were transferred to other reserves.

At the Special Shareholders' Meeting held on July 27, 1998, the shareholders voted to increase the paid-in capital by Ch\$15,500,000,000 issuing 28,148,440 new no-par-value shares of the same series, raising the subscribed capital to Ch\$49,697,533,082 represented by 90,241,632 shares. Of the subscribed shares, 16,877,928 were distributed among the current shareholders at the price of Ch\$550.66 each, on a pro-rata basis, and which were paid-in in cash on August 3, 1998. The remaining 11,270,512 shares should be paid-in in cash within three years. On December 28, 2000, the remaining 11,270,512 shares were paid in by the current shareholders at the price of Ch\$550.66 per unit.

b. Minimum basic capital and effective equity

According to the General Banking Law, a financial institution's minimum basic capital may not be lower than 3% of its total assets, while the effective equity may not be lower than 8% of its risk-weighted assets. At year-end of 2001 and 2000, the Bank's situation was as follows:

	2001 MCh\$	2000 MCh\$
Basic Capital (*)	74,448.4	71,854.8
Total assets	1,009,960.3	912,840.2
Percentages	7.37%	7.87%
Actual equity (**)	102,762.8	103,667.9
Risk weighted assets	829,055.0	774,666.6
Percentages	12.40%	13.38%

(*) For these purposes, equivalent to paid-in capital and reserves.

(**) Pursuant to Article 66 of the General Banking Law, to determine effective shareholders' equity, amounts corresponding to investments in related companies and capital assigned to foreign branches must be deducted, while subordinated bonds and voluntary provisions, have to be considered as equity up to certain limits.

NOTE 7. INVESTMENTS

At December 31, 2001 and 2000, the Bank's investment balances were as follows:

a. Financial Investments

	Type of portfolio						Adjustment to market value					
	Permanent(**)		Non-permanent		Subtotal		Credit to income		Credit to equity		Total	
	2001 MCh\$	2000 MCh\$	2001 MCh\$	2000 MCh\$	2001 MCh\$	2000 MCh\$	2001 MCh\$	2000 MCh\$	2001 MCh\$	2000 MCh\$	2001 MCh\$	2000 MCh\$
Securities (*)												
Banco Central de Chile,	5,320.4	918.9	36,765.7	21,225.6	42,086.1	22,144.5	646.8	82.6	109.7	51.6	42,842.6	22,278.7
Local financial institutions	5,340.8	5,758.2	5,791.7	–	11,132.5	5,758.2	14.7	15.1	243.1	100.4	11,390.3	5,873.7
Other investments	–	1,641.9	1,440.8	8,392.6	1,440.8	10,034.5	44.6	8.6	–	55.7	1,485.4	10,098.8
Investments abroad	35,583.3	26,443.9	28,528.9	25,895.2	64,112.2	52,339.1	773.4	79.0	1,208.2	1,167.7	66,093.8	53,585.8
Total	46,244.5	34,762.9	72,527.1	55,513.4	118,771.6	90,276.3	1,479.5	185.3	1,561.0	1,375.4	121,812.1	91,837.0

(*) Classification according to issuers or those obliged to pay. The above mentioned amounts, in total, include MCh\$31,121.8 (MCh\$10,965.6 in 2000) for securities sold under repurchase agreements.

(**) Permanent investments include securities whose adjustment to market value is charged to the "Fluctuation in value of financial investments" account, as described in Note 1f.

b. Other investments

	2001 MCh\$	2000 MCh\$
Assets for leasing	2,652.3	–
Assets received in settlement or awarded in payment (*)	5,870.7	1,436.2
Total	8,523.0	1,436.2

(*) The amount shown on the Balance Sheet represents the estimated realizable value of these assets taken as a whole.

In addition to those assets received in settlement of loans that are recorded as assets, none exist that have been written-off and have yet to be sold.

NOTE 8. MATURITIES OF ASSETS AND LIABILITIES

a. Maturities of loans and financial investments

The information below shows loans and financial investments grouped in accordance with their remaining term until maturity. The balances include interests accrued at December 31, 2001 and 2000, respectively.

	Due within one year		More than 1 year up to 3 years		More than 3 years up to 6 years		More than 6 years		Total	
	2001 MCh\$	2000 MCh\$	2001 MCh\$	2000 MCh\$	2001 MCh\$	2000 MCh\$	2001 MCh\$	2000 MCh\$	2001 MCh\$	2000 MCh\$
Loans (1):										
Commercial and others	483,141.2	453,452.2	104,380.0	74,205.9	41,668.0	77,315.7	45,052.0	51,087.5	674,241.2	656,061.3
Mortgage loans	235.7	226.8	329.9	598.4	774.1	798.0	9,670.9	21,264.8	31,010.6	22,888.0
Consumer loans	828.5	1,431.6	2,166.5	1,081.3	917.7	161.0	–	–	3,912.7	2,673.9
Other lending operations:										
Loans to other										
financial institutions	7,005.0	–	–	–	–	–	–	–	7,005.0	–
Credits arising from										
intermediation	700.9	–	–	–	–	–	–	–	700.9	–
Financial investments:										
Permanent portfolio (2)	1,953.0	26,870.0	13,387.0	25.7	22,089.3	496.0	8,815.2	7,371.2	46,244.5	34,762.9
Non-permanent portfolio (3)	74,006.6	55,698.7	–	–	–	–	–	–	74,006.6	55,698.7

(1) Considers only those loans outstanding at year end that fall due within the indicated periods. Consequently, contingent loans and loans transferred to the past-due portfolio, as well as delinquent debts that have not been transferred to the past-due portfolio amounting to MCh\$1,415.2 (MCh\$1,298.7 in 2000), of which MCh\$498.7 (MCh\$338.5 in 2000) had been delinquent less than 30 days, have been excluded.

(2) Includes securities classified as permanent investments, as described in Note 1f, without adjustments to market value, and non-transferable instruments.

(3) Includes all the other financial investments, with their respective adjustments to market value.

b. Maturities of deposits, borrowings and other financing operations

The information detailed below shows deposits, borrowings and other liabilities in accordance with their remaining term until maturity. The balances, which include interests accrued at December 31, 2001 and 2000, are as follows:

	Up to one year		More than 1 year up to 3 years		More than 3 years up to 6 years		More than 6 years		Total	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
Deposits and other obligations (*):										
Deposits and savings	497,715.9	568,720.7	15,768.1	19,929.4	5,487.2	2,773.6	–	–	518,971.2	591,423.7
Obligations arising from intermediation	31,451.0	10,780.2	–	–	–	–	–	–	31,451.0	10,780.2
Mortgage notes	–	–	–	–	510.4	298.1	31,632.6	14,863.6	32,143.0	15,161.7
Bonds issued	2,187.2	411.9	3,798.3	3,274.2	5,438.7	8,365.2	35,509.2	29,945.6	46,933.4	41,996.9
Loans from financial institutions and Banco Central de Chile:										
Other obligations with Banco Central	133.6	1,069.8	721.1	–	–	–	–	–	854.7	1,069.8
Loans from local financial institutions	1,514.2	–	5,082.8	–	–	–	–	–	6,597.0	–
Obligations abroad	78,427.6	8,864.1	872.1	262.4	–	328.0	–	–	79,299.7	9,454.5
Other obligations	2,558.5	7,826.7	7,356.7	19,047.6	12,746.6	7,847.2	18,347.7	4,050.5	41,009.5	38,772.0

(*) Excludes all sight and contingent obligations.

NOTE 9. FOREIGN CURRENCY POSITION

The balance sheet includes assets and liabilities that are denominated in foreign currencies or are indexed to changes in exchange rates. These amounts are summarized below:

	Payable in				Total	
	Foreign currency		Chilean currency (*)		2001 ThUS\$	2000 ThUS\$
	2001 ThUS\$	2000 ThUS\$	2001 ThUS\$	2000 ThUS\$		
Assets						
Liquid assets (*)	22,315	20,665	–	–	22,315	20,665
Loans	159,677	184,032	34,414	47,131	194,090	231,163
Contingent loans	25,008	43,194	3,657	1,389	28,666	44,583
Financial investments:						
Foreign	100,722	90,757	–	–	100,722	90,757
Other assets	122,762	65,008	17,371	–	140,133	65,008
Total assets	430,484	403,656	55,442	48,520	485,926	452,176
Liabilities						
Deposits and savings	12,560	12,128	–	–	12,560	12,128
Contingent liabilities	25,788	43,535	–	–	25,788	43,535
Time deposits and savings	104,585	94,884	92	263	104,677	95,147
Liabilities with foreign banks	120,811	15,958	–	–	120,811	15,958
Other liabilities	234,269	245,009	31,532	33,166	265,801	278,175
Total liabilities	498,013	411,514	31,624	33,429	529,637	444,943

(*) Corresponds to operations denominated in foreign currencies and payable in Chilean pesos or operations that are indexed to exchange rate variations.

NOTE 10. TRANSACTIONS WITH DERIVATIVE INSTRUMENTS

Transactions for the purchase and sale of foreign currency futures and other derivative products at each year end, are summarized below (in thousands of US dollars):

a. Contracts for the purchase and sale of foreign currency futures, and interest rates:

Type of futures operation	Amount of the contracts					
	Number of operations		Up to three months		More than three months	
	2001	2000	2001 ThUS\$	2000 ThUS\$	2001 ThUS\$	2000 ThUS\$
Local market:						
Future purchase of foreign currency in Chilean pesos	29	14	64,500.0	31,500.0	36,619.7	23,201.4
Future sale of foreign currency in Chilean pesos	60	49	68,751.1	35,200.0	140,500.0	182,800.0
Sales of foreign currency forwards	1	2	615.9	211.0	–	211.0
Foreign market:						
Purchases of foreign currency forwards	1	2	615.9	209.9	–	209.9

The amounts refer to either the US dollar futures bought or sold, or to the US dollar equivalent of foreign currency futures bought or sold, or the US dollar basis associated with interest rate futures, as appropriate. The terms correspond to the duration of the contracts from the transaction date.

b. Contracts on the value of “Unidad de Fomento” (Inflation-linked unit of account):

	Contract amounts			
	Number of operations		1 to 3 months	Over 3 months
	2001	2000	UF	UF
Purchase of UF/Chilean peso forwards	–	–	–	–

NOTE 11. COMMITMENTS, CONTINGENCIES AND RESPONSIBILITIES

a. Commitments and responsibilities recorded in memorandum accounts

The Bank has recorded the following commitments and responsibilities in memorandum accounts:

	2001	2000
	MCh\$	MCh\$
Mortgage and pledge guarantees	467,727.7	430,207.4
Credit lines obtained	224,372.5	194,678.6
Securities and notes in guarantee	111,674.0	115,634.9
Securities held in custody	79,558.9	88,241.2
Loans approved and not disbursed	30,986.8	23,031.5
Foreign collections	14,057.3	16,405.3

The above summary list includes only the more important balances. Contingent loans and liabilities are stated on the balance sheet.

NOTE 12. COMMISSIONS

Commissions earned and paid shown in the income statements are as follows:

	Income		Expense	
	2001	2000	2001	2000
	MCh\$	MCh\$	MCh\$	MCh\$
Commissions earned or paid on:				
Foreign trade transactions	77.4	108.9	–	17.3
Collection of documents	295.9	683.2	–	–
Letters of credit, guarantees, pledges and other contingent loans	394.9	362.4	–	–
Credit cards	84.2	93.0	–	–
Credit lines	182.0	54.1	–	–
Checking accounts	14.1	70.0	–	–
Others	463.9	359.9	44.0	51.4
Total	1,512.4	1,731.5	44.0	68.7

Commissions earned on mortgage note transactions are included in "Interest and Indexation Income" in the income statements.

NOTE 13. NON-OPERATING INCOME

The detail of non-operating income is as follows:

	2001	2000
	MCh\$	MCh\$
Sale of fixed assets	874.7	–
Recovery of expenses	697.0	362.7
Rents received	104.3	94.1
Recovery of written-off asset received in settlement	58.2	66.6
Others	225.8	226.0
Total	1,960.0	749.4

NOTE 14. INCOME TAXES

The Bank has accrued a provision for Corporate Income Tax of MCh\$16.6 (MCh\$1,307.7 in 2000).

NOTE 15. DEFERRED TAXES

As explained in Note 1k, the Bank has applied the accounting criteria in Technical Bulletin N°60 of the Chilean Institute of Certified Public Accountants and its supplements. The deferred taxes originating as a result of temporary differences are presented below:

2001:	Balance as of	
	January 1, 2001 (historical) MCh\$	December 31, 2001 MCh\$
Item		
Debit differences:		
Global portfolio provision	632.8	611.8
Recovered assets provisions	–	30.0
Leasing contract provisions	–	102.9
Leasing taxable assets	–	4,550.7
Non-permanent investments' market adjustment	–	227.9
Adjustment for futures contracts	197.2	–
Written-off assets received in settlement	41.2	43.0
Other	2.8	1.9
Subtotal	874.0	5,568.2
Complementary account	–	(3,482.5)
Net difference	874.0	2,085.7
Credit differences:		
Leasing contracts	–	(6,828.5)
Depreciation of fixed assets	(399.3)	(522.3)
Other	–	(13.4)
Subtotal	(399.3)	(7,364.2)
Complementary account	267.6	6,006.0
Net difference	(131.7)	(1,358.2)

2000:	Balance as of	
	January 1, 2000 (historical)	December 31, 2000
	MCh\$	MCh\$
Item		
Debit differences:		
Global portfolio provision	360.0	652.4
Country risk provision	11.0	2.9
Voluntary provisions	78.6	–
Futures operations	–	203.3
Written-off assets received in settlement	–	42.5
Subtotal	449.6	901.1
Complementary account balance	(307.1)	–
Net difference	142.5	901.1
Credit differences:		
Suspended accrual of interest and adjustments	(0.8)	–
Depreciation of fixed assets	(221.1)	(411.7)
Adjustment for futures contracts	(99.9)	–
Subtotal	(321.8)	(411.7)
Complementary account balance	300.4	275.9
Net difference	(21.4)	(135.8)

Tax expense for each year is as follows:

Item	2001 MCh\$	2000 MCh\$
Current tax expense	(16.6)	(1,307.7)
Effect on assets or liabilities for deferred tax of the year	(2,270.7)	361.6
Effect of amortization of complementary assets and liabilities accounts for deferred taxes of the year	2,255.9	282.6
Total	(31.4)	(663.5)

NOTE 16. DIRECTORS' EXPENSES AND FEES

During the years 2001 and 2000, the Bank has paid, with a charge to results, the following directors' fees and expenses:

	2001	2000
	MCh\$	MCh\$
Per diem	72.4	57.1
Advisory service fees	290.1	302.6
Total	362.5	359.7

NOTE 17. PURCHASES, SALES, SUBSTITUTIONS OR TRADES IN THE LOAN PORTFOLIO

In 2001 and 2000, the Bank traded loan portfolio as follows:

2001

Purchase	Sale	Effect on	Effect on
MCh\$	MCh\$	Income	provisions
		MCh\$	MCh\$
721.9	2,809.9	(434.0)	-

2000

Purchase	Sale	Effect on	Effect on
MCh\$	MCh\$	Income	provisions
		MCh\$	MCh\$
-	11,035.8	527.9	-

HORACIO SILVA C.
Accounting Officer

RAMON ELUCHANS O.
President



CONSOLIDATED FINANCIAL STATEMENTS OF BANCO SECURITY AND SUBSIDIARIES

December 31, 2001 and 2000 with Independent Auditors' Report Thereon

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Ch\$ = Chilean pesos

ThCh\$ = Thousands of Chilean pesos

MCh = Millions of Chilean pesos

UF = Price-level restatement unit

US\$ = United States dollar



To the Shareholders and Directors of
Banco Security

We have audited the consolidated balance sheets of Banco Security and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of income and of cash flows for the years then ended. These financial statements (including the related notes) are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted 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 the Bank's 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, such consolidated financial statements present fairly, in all material respects, the financial position of Banco Security and subsidiaries at December 31, 2001 and 2000, the results of their operations, and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Chile and regulations of the Banks & Financial Institutions Commission (Superintendencia de Bancos e Instituciones Financieras).

During 2001, the subsidiary Leasing Security S.A. was merged into Banco Security.

The translation of the financial statements into English has been made solely for the convenience of our English-speaking readers.



Jorge Rodríguez

Deloitte & Touche
January 10, 2002



CONSOLIDATED BALANCE SHEETS

December 31, 2001 and 2000 (In millions of Chilean pesos - MCh\$)

	2001	2000
	MCh\$	MCh\$
Assets		
Liquid Assets	84,970.0	83,730.0
Loans:		
Commercial	515,351.1	524,547.2
Foreign trade	82,773.7	97,437.6
Consumer	3,912.7	2,673.9
Mortgage loans	31,010.6	14,923.7
Leasing contracts	40,197.3	42,220.9
Contingent	39,079.5	48,283.7
Other outstanding loans	37,334.3	43,339.5
Past-due	8,839.4	3,543.4
Total loans	758,498.6	776,969.9
Less: allowance for loan losses	(7,575.3)	(6,243.9)
Total loans-net	750,923.3	770,726.0
Other loan operations:		
Loans to financial institutions	7,005.0	-
Credits arising from intermediation	700.9	-
Total other loan operations	7,705.9	-
Investments:		
Banco Central de Chile and Treasury Securities	15,215.7	11,561.7
Other financial investments	84,180.4	73,554.9
Intermediation	32,685.5	32,306.7
Assets for leasing	2,652.3	-
Assets received in settlement or awarded	5,870.7	1,436.2
Total investments	140,604.6	118,859.5
Other Assets	19,715.6	18,790.1
Fixed Assets:		
Premises and equipment	11,517.1	14,102.9
Investments in related companies	448.5	80.8
Total fixed assets	11,965.6	14,183.7
Total Assets	1,015,885.0	1,006,289.3

The accompanying notes are an integral part of these consolidated financial statements

	2001	2000
	MCh\$	MCh\$
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits and Other Liabilities:		
Checking accounts	47,830.1	30,280.0
Deposits and savings	518,971.2	591,423.7
Other time and demand liabilities	59,426.9	72,075.4
Liabilities arising from trading securities	31,451.0	30,829.4
Mortgage notes	32,143.0	15,161.7
Contingent Liabilities	39,515.1	51,469.4
Total deposits and other liabilities	729,337.3	791,239.6
Bonds:		
Current bonds	11,584.6	13,161.8
Subordinated bonds	35,348.8	35,003.9
Total bonds	46,933.4	48,165.7
Borrowings from Banco Central de Chile and other Financial Institutions:		
Other obligations with Banco Central de Chile	854.7	1,069.8
Domestic borrowings	11,783.7	10,447.8
Foreign borrowings	79,299.7	9,454.5
Other borrowings	41,009.5	45,527.9
Total borrowing from financial institutions	132,947.6	66,500.0
Other liabilities	22,481.2	18,572.1
Total liabilities	931,699.5	924,477.4
Voluntary provisions	-	-
Minority interest	15.1	14.0
Shareholders' Equity:		
Capital and reserves	72,887.4	70,479.4
Other reserves	1,561.0	1,375.4
Net income	9,722.0	9,943.1
Total shareholders' equity	84,170.4	81,797.9
Total Liabilities and Shareholders' Equity	1,015,885.0	1,006,289.3

The accompanying notes are an integral part of these consolidated financial statements



CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 2001 and 2000 (In millions of Chilean pesos - MCh\$)

	2001 MCh\$	2000 MCh\$
Operating Revenue:		
Interest and indexation income	84,875.4	91,110.9
Gains from intermediation	5,883.2	4,163.9
Commission income	2,113.7	3,018.6
Exchange income-net	2,761.1	3,931.9
Other operating income	2,961.0	1,442.0
Total operating revenue	98,594.4	103,667.3
Less:		
Interest and indexation expenses	(57,446.9)	(67,577.3)
Loss from intermediation	(2,844.7)	(367.4)
Commission expense	(161.8)	(233.2)
Other operating expenses	(1,224.6)	(1,128.6)
Gross operating margin	36,916.4	34,360.8
Remuneration and personnel expenses	(10,002.6)	(9,256.9)
Administrative and other expenses	(9,146.6)	(7,259.4)
Depreciation and amortization	(1,247.5)	(1,012.4)
Net operating margin	16,519.7	16,832.1
Provisions for assets at risk	(6,649.6)	(4,046.7)
Recovery of loans written off	254.3	153.9
Operating income	10,124.4	12,939.3
Other income and expenses:		
Non-operating income	1,995.4	1,016.6
Non-operating expense	(597.7)	(336.3)
Equity in earnings of related companies	268.1	39.9
Monetary correction	(1,770.8)	(2,311.6)
Income before income taxes	10,019.4	11,347.9
Income Taxes	(296.3)	(1,394.9)
Income before voluntary provisions and minority interest	9,723.1	9,953.0
Minority interest	(1.1)	(9.9)
Voluntary provisions	-	-
Net Income	9,722.0	9,943.1

The accompanying notes are an integral part of these consolidated financial statements



CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2001 and 2000 (In millions of Chilean pesos - MCh\$)

	2001 MCh\$	2000 MCh\$
Cash flow from operating activities:		
Net income	9,722.0	9,943.1
Charges (credits) to income that do not represent cash flows:		
Depreciation and amortization	1,247.5	1,012.4
Provisions for assets at risk	6,649.6	4,046.7
Equity in earnings of related companies	(268.1)	(39.9)
Net loss from sale of assets received as payment	-	90.4
Minority interest	1.1	9.9
Monetary correction	1,770.8	2,311.6
Other charges (credits) that do not represent cash flows	(3,863.5)	237.6
Net variation in interest, indexation and commissions accrued on assets and liabilities	5,057.5	(4,645.7)
Net cash provided by operating activities	20,316.9	12,966.1
Cash flow from investing activities:		
Net increase in loans	(4,083.8)	(119,866.9)
Net increase in other loan operations	(7,089.6)	-
Net increase in investments	(18,438.8)	(18,690.8)
Purchase of fixed assets	(4,809.2)	(3,906.6)
Sale of fixed assets	5,131.3	1,948.6
Investments in related companies	303.8	-
Dividends received from investments in related companies	68.4	-
Sale of assets received in settlement of loans	722.0	-
Net (increase) decrease in other assets and liabilities	(2,030.7)	3,883.3
Net cash used in investing activities	(30,226.6)	(136,632.4)
Cash flow from financing activities:		
Net increase in checking accounts	17,774.8	208.9
Net increase (decrease) in deposits and banker drafts	(69,628.7)	119,932.8
Net increase in other time and demand liabilities	(12,604.1)	19,205.7
Net increase in other liabilities arising from trading activities	889.7	3,678.1
Net increase in short-term foreign borrowings	69,593.2	1,569.0
Mortgage notes issued	16,158.0	15,046.8
Increase in other short-term liabilities	215.1	20,833.3
Borrowings from Banco Central de Chile (long-term)	330.6	-
Repayment of loans from Banco Central de Chile (long-term)	(248.7)	-
Bonds issued	-	12,449.1
Bonds redeemed	(1,884.5)	-
Payment of foreign long-term loans	-	(35,505.8)
Borrowings from financial institutions - net	1,256.0	(24,605.6)
Repayment of other long-term loans	(4,320.4)	-
Shares issued	-	6,398.6
Dividends paid	(7,344.0)	(4,648.7)
Net cash provided by financing activities	10,187.0	134,562.2
Net increase in cash flows	277.3	10,895.9
Effect of inflation on cash and cash equivalents	962.7	3,269.3
Increase in cash and in cash equivalents	1,240.0	14,165.2
Cash and cash equivalents at beginning of year	83,730.0	69,564.8
Cash and cash equivalents at end of year	84,970.0	83,730.0

The accompanying notes are an integral part of these consolidated financial statements



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In millions of Chilean pesos - MCh\$)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Information provided

The financial statements have been prepared in accordance with accounting regulations issued by the Superintendencia de Bancos e Instituciones Financieras (hereinafter, the Superintendencia). Such regulations agree with accounting principles generally accepted in Chile.

The 2000 Chilean peso amounts have been price-level restated for the year's Consumer Price Index variation used for monetary correction (3.1%).

b. Basis of consolidation

The consolidated group comprises Banco Security ("the Bank") and its subsidiaries listed below :

	Ownership	
	2001	2000
	%	%
Leasing Security S.A (1)	–	99.999
Valores Security S.A. Corredores de Bolsa	99.900	99.900
Administradora de Fondos Mutuos Security S.A.	99.990	99.990
Asesorías Security S.A. (2)	–	–

(1) On April 1, 2001, Leasing Security S.A. was merged into Banco Security at its book value with no effect on income.

(2) On October 31, 2000 Asesorías Security S.A. was sold to Merchant Security S.A. (a company related to the Bank) at book value with no effect on income.

Assets of subsidiaries account for a total of 0.6% of the consolidated balance sheet (17.1% in 2000), and income of such subsidiaries represents 7.0% of the consolidated income (15.9% in 2000).

In the consolidation process, all significant intercompany balances and transactions have been eliminated.

c. Interest and indexation

The amounts recorded in the balance sheet for loans, investments, and liabilities include interest and indexation accrued until year end. However, the Bank has taken the conservative position of suspending the accrual of interest and indexation on high-risk and past-due loans.

d. Monetary correction

Shareholders' equity, fixed assets, and other non-monetary balances have been monetarily corrected, considering the change in the Chilean Consumer Price Index (CPI). The application of monetary correction results in a net charge to income of MCh\$1,770.8 (MCh\$2,311.6 in 2000).

The income statements of the Bank are not monetarily corrected. The subsidiaries' income statement accounts are monetarily corrected.

e. Foreign currency

Assets and liabilities denominated in foreign currency are stated in Chilean pesos at the exchange rate prevailing at year end (Ch\$656.2 = US\$1 and Ch\$572.68 = US\$1 in 2000).

The net gain from foreign exchange of MCh\$2,761.1 (MCh\$3,931.9 in 2000), shown in the consolidated income statement includes the net gains obtained from foreign exchange transactions, as well as the recognized effects of exchange rate variations on net assets or liabilities denominated in foreign currency.

f. Finance leases

These operations are, for all purposes, shown net of provisions and deferred interest, pursuant to accounting regulations issued by the Superintendencia and applicable to these companies.

g. Financial investments

Financial investments that trade in the secondary market are stated at market value, in accordance with instructions of the Superintendencia. Said instructions call for the recognition of the adjustments to market value against income of the year, unless permanent investments are involved, in which case, under certain limitations, the aforementioned adjustments can be made directly against the "Fluctuation in value of financial investments" in the shareholders' equity accounts.

The application of the adjustment to market value resulted in a net credit of MCh\$227.0 (net charge of M\$1,261.5 (historical) in 2000) to income of the year.

Other financial investments are stated at cost plus accrued interest and indexation.

h. Premises and equipment

Premises and equipment are stated at monetarily corrected cost and are shown net of accumulated depreciation. Depreciation is calculated using the straight-line method over the assets' useful lives.

i. Provisions for assets at risk

The Bank has established all the provisions that are required to cover the risk of loss on assets, in accordance with the standards issued by the Superintendencia. Assets are shown net of such provisions, or in the case of loans, as a deduction therefrom.

j. Voluntary provisions

In accordance with the General Banking Law, financial institutions may accrue special provisions, called "Voluntary provisions", which can be considered as part of the equity for the purposes of complying with certain regulations in the General Banking Law.

At December 31, 2001 and 2000, the Bank and its subsidiaries have no voluntary provisions.

k. Deferred taxes

The effects of deferred taxes arising from temporary differences between the tax and the book bases are recorded on an accrual basis in conformity with Technical Bulletins N° 60 of the Colegio de Contadores de

Chile A.G. and its supplements. Technical Bulletin No. 71, also issued by the Colegio de Contadores de Chile A.G., states that, effective in 2001, deferred taxes are to be recorded by applying the income tax rate of the year in which the temporary difference that gave rise to such deferred taxes will be reversed.

l. Employee vacations

The annual cost of employee vacations and benefits is recorded on an accrual basis.

m. Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include the balance of "Liquid Assets", in accordance with the rules established in Chapter 18-1 of the Superintendencia's compendium of regulations.

NOTE 2. ACCOUNTING CHANGES

In accordance with Circular No 3,029 issued by the Superintendencia, the Bank modified the accounting treatment of unearned income and of prepaid expenses, relating them to the period where the service was rendered or received. The new accounting policy calls for the deferral of the results associated with such unearned income or prepaid expenses. The accounting procedure calls for its application only when it has a significant effect on income, compared to the income obtained when consistently recognizing income and expenses on a cash basis. At December 31, 2001, the application of this criterion does not have significant effects on the Bank.

NOTE 3. RELATED PARTY TRANSACTIONS

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

a. Loans to related parties

At December 31, 2001 and 2000, loans to related parties are as follows:

	Current Portfolio		Past due portfolio		Total		Guarantees (*)	
	2001	2000	2001	2000	2001	2000	2001	2000
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
Individuals	175.3	369.2	–	–	175.3	369.2	175.3	210.1
Operating companies	15,705.0	6,867.5	13.9	–	15,718.9	6,867.5	8,391.4	299.9
Investment companies	4,107.8	4,540.2	–	–	4,107.8	4,540.2	2,316.3	1,536.5
Total	19,988.1	11,776.9	13.9	–	20,002.0	11,776.9	10,883.0	2,046.5

(*) Includes only those guarantees that are admitted by Article 84 of the General Banking Law for the purposes of establishing the individual credit limits defined by the Law. The guarantees are valued in accordance with the Superintendencia's instructions.

b. Other transactions with related parties

During 2001 and 2000, the Group entered into the following transactions in excess of UF1,000 with related parties:

Company	Item	Credit to income		Charge to income	
		2001 MCh\$	2000 MCh\$	2001 MCh\$	2000 MCh\$
Invest Security S.A.	Advisory services	–	–	369.2	–
Compañía de Seguros de Vida La Previsión S.A.	Office rentals	15.8	20.3	–	–
Compañía de Seguros Generales La Previsión S.A.	Office rentals	12.6	16.9	–	–
Merchant Security S.A.	Advisory services	3.1	–	167.9	16.2
	Office rentals	16.6	–	–	–
Grupo Security S.A.	Advisory services	–	16.1	–	–
Global Security	Advisory services	–	–	817.0	–

These transactions were realized in prevailing market terms.

NOTE 4. PROVISIONS

a. Provisions for assets at risk

At December 31, 2001, the Bank has accrued provisions for a total of MCh\$7,606.0 (MCh\$6,304.6 in 2000) which correspond to the minimum provisions required by the Superintendencia to cover possible losses.

During each year, the changes in the above provisions were as follows:

	Provisions for			Total MCh\$
	Loans MCh\$	Assets received in settlement MCh\$	Other assets MCh\$	
Historical balances, December 31, 1999	5,423.0	–	–	5,423.0
Write offs	(3,292.0)	–	–	(3,292.0)
Increase in provisions	3,925.2	58.9	–	3,984.1
Balances, December 31, 2000	6,056.2	58.9	–	6,115.1
Updated balances for comparative purposes	6,243.9	60.7	–	6,304.6
Historical balances, December 31, 2000	6,056.2	58.9	–	6,115.1
Write offs	(5,130.5)	(90.2)	–	(5,220.7)
Increase in provisions	6,649.6	62.0	–	6,711.6
Balances, December 31, 2001	7,575.3	30.7	–	7,606.0

In the opinion of management, the provisions established cover all possible losses that might result from non-recovery of assets based on the evidence examined by the Bank.

b. Voluntary provisions

The Bank has no voluntary provisions at December 31, 2001 and 2000.

NOTE 5. SHAREHOLDERS' EQUITY

a. Equity

The movements in the shareholders' equity accounts during 2001 and 2000 are summarized as follows:

	Paid-in capital MCh\$	Other reserves MCh\$	Other accounts MCh\$	Net Income MCh\$	Total MCh\$
Balances, December 31, 1999, historical	46,298.4	8,790.8	72.5	8,508.8	63,670.5
Distribution of 1999 income	–	8,508.8	–	(8,508.8)	–
Dividends paid	–	(4,254.4)	–	–	(4,254.4)
Fluctuation in value of financial investments	–	–	1,261.5	–	1,261.5
Capital increase	6,206.2	–	–	–	6,206.2
Monetary correction of capital	2,168.2	642.2	–	–	2,810.4
Net income	–	–	–	9,644.1	9,644.1
Balances, December 31, 2000	54,672.8	13,687.4	1,334.0	9,644.1	79,338.3
Updated balances for comparative purposes	56,367.7	14,111.7	1,375.4	9,943.1	81,797.9
Balances, December 31, 2000, historical	54,672.8	13,687.4	1,334.0	9,644.1	79,338.3
Distribution of 2000 income	–	9,644.1	–	(9,644.1)	–
Dividends paid	–	(7,344.0)	–	–	(7,344.0)
Fluctuation in value of financial investments	–	–	227.0	–	227.0
Monetary correction of capital	1,689.6	537.5	–	–	2,227.1
Net income	–	–	–	9,722.0	9,722.0
Balances, December 31, 2001	56,362.4	16,525.0	1,561.0	9,722.0	84,170.4

Pursuant to Article 10 of Law N°18,046, the monetary correction of capital has been included in paid-in capital, which is represented by 90,241,632 no-par-value shares, with the same treatment being applied to the reserves.

During February of 2001 and 2000, net profits from 2000 and 1999 of MCh\$9,644.1 and MCh\$8,508.8 (historical), respectively, were transferred to other reserves.

At the Special Shareholders' Meeting held on July 27, 1998 the shareholders voted to increase the paid-in capital by Ch\$15,500,000,000 issuing 28,148,440 new no-par-value shares of the same series, raising the subscribed capital to Ch\$49,697,533,082 represented by 90,241,632 shares. Of the subscribed shares, 16,877,928 were distributed among the current shareholders at the price of Ch\$550.66 per share, on a pro-rata basis, and which were paid-in in cash on August 3, 1998. The remaining 11,270,512 shares should be paid-in in cash within three years. On December 28, 2000 they were paid in by the current shareholders at the price of Ch\$550.66 per unit.

b. Minimum Basic Capital and Effective Equity

According to the General Banking Law, a financial institution's minimum basic capital may not be lower than 3% of its total assets, while the effective equity may not be lower than 8% of its risk-weighted assets.

At December 31, 2001, the Bank has the following parameters: 7.37% (7.87% in 2000) and 12.40% (13.38% in 2000), respectively.

NOTE 6. INVESTMENTS

At December 31, 2001 and 2000, balances in financial investments are as follows:

a. Financial investments

	Type of portfolio						Adjustment to market value					
	Permanent(**)		Non-permanent		Subtotal		Credit to income		Credit to equity		Total	
	2001 MCh\$	2000 MCh\$	2001 MCh\$	2000 MCh\$	2001 MCh\$	2000 MCh\$	2001 MCh\$	2000 MCh\$	2001 MCh\$	2000 MCh\$	2001 MCh\$	2000 MCh\$
Securities (*)												
Banco Central de Chile,	5,320.4	918.9	39,939.3	21,753.2	45,259.7	22,672.1	646.8	82.6	109.7	51.6	46,016.2	22,806.3
Local financial institutions	5,340.8	5,758.2	12,798.2	4,139.1	18,139.0	9,897.3	14.7	15.1	243.1	100.4	18,396.8	10,012.8
Other investments	-	1,641.9	1,530.3	29,312.2	1,530.3	30,954.1	44.6	8.6	-	55.7	1,574.9	31,018.4
Investments abroad	35,583.3	26,443.9	28,528.8	25,895.2	64,112.1	52,339.1	773.4	79.0	1,208.2	1,167.7	66,093.7	53,585.8
Total	46,244.5	34,762.9	82,796.6	81,099.7	129,041.1	115,862.6	1,479.5	185.3	1,561.0	1,375.4	132,081.6	117,423.3

(*) Classification according to issuers or those obliged to pay. This amount includes, in total, MCh\$32,685.5 (MCh\$32,306.7 in 2000) for securities sold under repurchase agreements.

(**) Permanent investments include securities whose adjustment to market value is charged to the "Fluctuation in value of financial investments" account, as described in Note 1g.

b. Other investments

	2001 MCh\$	2000 MCh\$
Assets for leasing	2,652.3	–
Assets received in settlement or awarded in payment (*)	5,870.7	1,436.2
Total	8,523.0	1,436.2

(*) The amount shown on the balance sheet represents the estimated realizable value of these assets taken as a whole.

In addition to those assets received in settlement of loans that are recorded as assets, none exist that have been written-off and have yet to be sold.

NOTE 7. MATURITY OF ASSETS AND LIABILITIES

a. Maturity of loans and financial investments

The table below shows loans and financial investments according to their remaining term until maturity. The balances, which include interest accrued at December 31, 2001 and 2000, are as follows:

	Due within one year		More than 1 year up to 3 years		More than 3 years up to 6 years		More than 6 years		Total	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
Loans (1):										
Commercial and others	483,141.2	466,132.2	104,380.0	89,047.9	41,668.0	92,014.6	45,052.0	51,087.5	674,241.2	698,282.2
Mortgage loans	235.7	226.8	329.9	598.4	774.1	798.0	29,670.9	21,264.8	31,010.6	22,888.0
Consumer loans	828.5	1,431.6	2,166.5	1,081.3	917.7	161.0	–	–	3,912.7	2,673.9
Other lending operations:										
Loans to other										
financial institutions	7,005.0	–	–	–	–	–	–	7,005.0	–	–
Credits arising from										
intermediation	700.9	–	–	–	–	–	–	700.9	–	–
Financial investments:										
Permanent portfolio (2)	1,953.0	26,870.0	13,387.0	25.7	22,089.3	496.0	8,815.2	7,371.2	46,244.5	34,762.9
Non-Permanent portfolio (3)	84,276.1	81,285.0	–	–	–	–	–	–	84,276.1	81,285.0

(1) Considers only those loans outstanding at year end that fall due within the indicated periods. Consequently, contingent loans and loans transferred to the past-due portfolio, as well as delinquent debts that have not been transferred to the past-due portfolio amounting to MCh\$1,415.2 (MCh\$1,298.7 in 2000), of which MCh\$498.7 (MCh\$338.5 in 2000) have been delinquent less than 30 days, have been excluded.

(2) Includes securities classified as permanent investments, as described in Note 1g, without adjustments to market value, and non-transferable notes.

(3) Includes all the other financial investments, with adjustments to market value.

b. Maturities of deposits, borrowings and other financing operations

The table below details deposits, borrowings and other liabilities by remaining term until maturity. The balances, which include interest accrued at December 31, 2001 and 2000, are as follows:

	Up to one year		More than 1 year up to 3 years		More than 3 years up to 6 years		More than 6 years		Total	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
Deposits and other obligations (*):										
Deposits and savings	497,715.9	568,720.8	15,768.1	19,929.4	5,487.2	2,773.5	–	–	518,971.2	591,423.7
Obligations arising from										
intermediation	31,451.0	30,829.4	–	–	–	–	–	–	31,451.0	30,829.4
Mortgage notes	–	–	–	–	510.4	298.1	31,632.6	14,863.6	32,143.0	15,161.7
Bonds issued	2,187.2	1,898.2	3,798.3	4,182.9	5,438.7	9,603.7	35,509.2	32,480.9	46,933.4	48,165.7
Loans from financial entities and Banco Central de Chile										
Other obligations with Banco Central	133.6	1,069.8	721.1	–	–	–	–	–	854.7	1,069.8
Loans from local financial										
institutions	6,700.9	10,447.8	5,082.8	–	–	–	–	–	11,783.7	10,447.8
Obligations abroad	78,427.6	8,864.1	872.1	262.4	–	328.0	–	–	79,299.7	9,454.5
Other obligations	2,558.5	10,048.5	7,356.7	19,047.6	12,746.6	7,847.2	18,347.8	8,584.6	41,009.5	45,527.9

(*) Excludes all sight and contingent obligations.

NOTE 8. FOREIGN CURRENCY POSITION

The balance sheet includes assets and liabilities that are denominated in foreign currencies or are indexed to changes in exchange rates. These amounts are summarized below:

	Payable in				Total	
	Foreign currency		Chilean currency (*)		2001 ThUS\$	2000 ThUS\$
	2001 ThUS\$	2000 ThUS\$	2001 ThUS\$	2000 ThUS\$		
Assets						
Liquid assets (*)	22,315	20,665	–	–	22,315	20,665
Loans	159,677	184,032	34,414	47,131	194,091	231,163
Contingent loans	25,008	43,194	3,657	1,389	28,665	44,583
Financial investments:						
Foreign	100,722	90,757	–	–	100,722	90,757
Other assets	122,762	65,008	17,371	–	140,133	65,008
Total assets	430,484	403,656	55,442	48,520	485,926	452,176
Liabilities						
Deposits and savings	12,560	12,128	–	–	12,560	12,128
Contingent liabilities	25,788	43,535	–	–	25,788	43,535
Time deposits and savings	104,585	94,884	92	263	104,677	95,147
Liabilities with foreign banks	120,811	15,958	–	–	120,811	15,958
Other liabilities	234,269	245,009	31,532	33,166	265,801	278,175
Total liabilities	498,013	411,514	31,624	33,429	529,637	444,943

(*) Corresponds to operations denominated in foreign currencies and payable in Chilean pesos or operations that are indexed to changes in the exchange rate.

NOTE 9. TRANSACTIONS WITH DERIVATIVE INSTRUMENTS

Transactions for the purchase and sale of foreign currency futures and other derivative products at each year end, are summarized below (in thousands of US dollars):

a. Contracts for the purchase and sale of foreign currency futures, and interest rates:

Type of futures operation	Amount of the contracts					
	Number of operations		Up to three months		More than three months	
	2001	2000	2001 ThUS\$	2000 ThUS\$	2001 ThUS\$	2000 ThUS\$
Local market:						
Future purchase of foreign currency in Chilean pesos	29	14	64,500.0	31,500.0	36,619.7	23,201.4
Future sale of foreign currency in Chilean pesos	60	49	68,751.1	35,200.0	140,500.0	182,800.0
Forward in foreign currency (sales)	1	2	615.9	211.0	–	211.0
Foreign market:						
Forward in foreign currency (purchases)	1	2	615.9	209.9	–	209.9

The amount refers to either the US dollar futures bought or sold, or the equivalent in US dollars of foreign currency futures bought or sold, or the US dollar basis associated with interest rate futures, as appropriate. The terms correspond to the duration of the contracts from the transaction date.

b. Contracts on the value of "Unidad de Fomento" (Inflation-linked unit of account):

	Contract amounts			
	Number of operations		1 to 3 months	Over 3 months
	2001	2000	UF	UF
Purchase of UF/Chilean peso forwards	–	–	–	–

NOTE 10. COMMITMENTS, CONTINGENCIES AND RESPONSIBILITIES

a. Commitments and responsibilities recorded in memorandum accounts:

The Group has recorded the following commitments and responsibilities in memorandum accounts:

	2001 MCh\$	2000 MCh\$
Mortgage and pledge guarantees	467,727.7	430,207.4
Credit lines obtained	224,372.5	194,678.6
Securities and notes in guarantee	111,674.0	115,634.9
Securities held in custody	79,558.9	88,241.2
Loans approved and not disbursed	30,986.8	23,031.5
Foreign collections	14,057.3	16,405.3

The above summary list includes only the significant balances. Contingent loans and liabilities are stated on the balance sheet.

NOTE 11. COMMISSIONS

Commission income and expenses shown in the consolidated statements of income correspond to the following:

	Income		Expenses	
	2001 MCh\$	2000 MCh\$	2001 MCh\$	2000 MCh\$
Commissions earned or paid on:				
Stock exchange transactions	581.2	1,247.6	117.8	182.1
Foreign trade transactions	77.4	108.9	–	–
Mutual fund transactions	20.1	–	–	–
Collection of documents	295.9	683.1	–	–
Letters of credit, guarantees, pledges and other contingent loans	394.9	362.4	–	–
Credit cards	84.2	93.0	–	–
Credit lines	182.0	54.1	–	–
Checking accounts	14.1	70.0	–	–
Other	463.9	399.5	44.0	51.1
Total	2,113.7	3,018.6	161.8	233.2

The commissions earned on mortgage note transactions are included in “Interest and Indexation Income” in the consolidated statements of income.

NOTE 12. NON-OPERATING INCOME

The detail of non-operating income is as follows:

	2001 MCh\$	2000 MCh\$
Sale of fixed assets	874.7	–
Financial investments	–	420.1
Recovery of expenses	697.0	362.7
Rents received	139.7	–
Recovery of written-off asset received in settlement	58.2	–
Other	225.8	233.8
Total	1,995.4	1,016.6

NOTE 13. INCOME TAX

The Bank and its subsidiaries have accrued a provision for Corporate Income Tax, of MCh\$315.4 (MCh\$2,414.5 in 2000).

NOTE 14. DEFERRED TAXES

As explained in Note 1k, the Bank and its subsidiaries have applied the accounting criteria of Technical Bulletins N°60 of the Chilean Institute of Certified Public Accountants and its supplements. The deferred taxes originating as a result of temporary differences are presented below:

Tax expense for each year is as follows:

2001	Balance as of	
	January 1,	December 31,
	2001	2001
Item	(historical)	
	MCh\$	MCh\$
Debit differences:		
Global portfolio provision	632.8	611.8
Recovered assets provisions	–	30.0
Leasing contract provisions	–	102.9
Leasing taxable assets	–	4,550.7
Adjustment to market of non–permanent investments	–	227.9
Adjustment for futures contracts	197.2	–
Written–off assets received in settlement	41.2	43.0
Other	2.8	35.8
Subtotal	874.0	5,602.1
Complementary account	–	(3,482.5)
Net difference	874.0	2,119.6
Credit differences:		
Leasing contracts	–	(6,828.5)
Depreciation of fixed assets	(399.3)	(522.3)
Other	–	(13.4)
Subtotal	(399.3)	(7,364.2)
Complementary account	267.6	6,006.0
Net difference	(131.7)	(1,358.2)

2000	Balance as of	
	January 1, 2000 (historical)	December 31, 2000
	MCh\$	MCh\$
Item		
Debit differences:		
Global portfolio provision	360.0	652.4
Country risk provisions	11.0	2.9
Voluntary provisions	78.6	–
Futures operations	–	203.3
Written-off assets received in settlement	–	42.5
Tax assets	4,199.4	4,904.8
Other	120.7	35.8
Subtotal	4,769.7	5,841.7
Complementary account	(4,448.4)	(3,829.6)
Net difference	321.3	2,012.1
Credit differences		
Suspended accrual of interest and adjustments	(0.8)	–
Depreciation of fixed assets	(221.1)	(411.7)
Adjustment for futures contracts	(99.9)	–
Leasing contracts	(6,241.7)	(6,241.7)
Other	(0.4)	(214.8)
Subtotal	(6,563.9)	(6,868.2)
Complementary account	6,651.3	6,284.4
Net difference	87.4	(583.8)

The tax expense breakdown is shown below:

Item	2001	2000
	MCh\$	MCh\$
Current tax expense	(315.4)	(2,414.5)
Effect on assets or liabilities for deferred tax of the year	(2,236.8)	767.7
Effect of amortization of complementary assets and liabilities accounts on deferred taxes	2,255.9	251.9
Total	(296.3)	(1,394.9)

NOTE 15. DIRECTORS' EXPENSES AND FEES

The Bank has paid the following directors' fees and expenses:

	2001	2000
	MCh\$	MCh\$
Per diem	72.4	57.1
Advisory service fees	290.1	302.6
Total	362.5	359.7

NOTE 16. PURCHASES, SALES, SUBSTITUTIONS OR TRADES IN THE LOAN PORTFOLIO

In 2001 and 2000, the Bank traded loan portfolio as follows:

2001

Purchase	Sale	Effect on	Effect on
MCh\$	MCh\$	Income	provisions
		MCh\$	MCh\$
721.9	2,809.9	(434.0)	-

2000

Purchase	Sale	Effect on	Effect on
MCh\$	MCh\$	Income	provisions
		MCh\$	MCh\$
-	11,035.8	527.9	-

HORACIO SILVA C.
Accounting Officer

RAMON ELUCHANS O.
President



SUMMARIZED FINANCIAL STATEMENTS OF BANCO SECURITY'S SUBSIDIARIES

As of December 31, 2001 and 2000

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Ch\$ = Chilean pesos

ThCh\$ = Thousands of Chilean pesos

MCh\$ = Millions of Chilean pesos

UF = Price-level restatement unit

US\$ = United States dollar



VALORES SECURITY S.A. CORREDORES DE BOLSA

Financial Statements as of December 31, 2001 and 2000.

Balance Sheet

	2001 ThCh\$	2000 ThCh\$
Assets		
Liquid assets	72,270,485	123,794,992
Fixed assets	77,043	93,388
Other assets	389,761	396,287
Total assets	72,737,789	124,284,667
Liabilities		
Current liabilities	69,140,962	120,538,088
Capital and reserves	2,824,978	2,739,977
Net income	771,849	1,006,602
Total liabilities and equity	72,737,789	124,284,667
Statement of income		
Operating result	855,707	1,144,221
Non-operating result	40,553	(16,222)
Net income before taxes	896,260	1,127,999
Income tax	(124,411)	(121,397)
Net income	771,849	1,006,602



ADMINISTRADORA DE FONDOS MUTUOS SECURITY S.A.

Financial Statements as of December 31, 2001 and 2000.

Balance Sheet

	2001	2000
	ThCh\$	ThCh\$
Assets		
Liquid assets	2,135,254	2,197,408
Long-term	–	–
Fixed assets	58,315	73,286
Total assets	2,193,569	2,270,694
Liabilities		
Current liabilities	104,238	163,429
Capital and reserves	1,154,609	1,154,609
Retained net income	101,823	96,007
Net income	832,899	856,649
Total liabilities and equity	2,193,569	2,270,694
Statement of income		
Operating result	814,291	718,610
Non-operating result	159,100	279,334
Net income before taxes	739,391	997,944
Income tax	(140,492)	(141,295)
Net income	832,899	856,649



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