

BANCO

security

annual report 2002

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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.

During 2002, and as has been the case for the past few years, the Chilean economy showed modest improvements in its levels of activity and domestic demand, with rather weak signs of recovery. Accordingly, the greatest accomplishments of the year were the low inflation rate and controlled fluctuations of the main financial variables, the foreign currency parities and the interest rates. These positive results combine with the new free trade agreements signed with the United States, the European Union and South Korea. However, the persistent uncertainty in the Region, and the slowdown in the world economy resulted in a modest growth in domestic demand, with lower than expected growth in output and high unemployment. The local stock exchanges clearly reflected the poor performance of the national economy, not following the upward path of international markets. Although the threats of a war in Iraq and of-to a lesser degree-complications in the Brazilian economic outlook persist, expectations are more optimistic at the onset of 2003 than they were a year ago. A number of policy decisions, such as measures to increase the labor market's flexibility and other clear and stable incentives and rules are expected, that would hopefully boost investment and employment and motivate the long awaited recovery of the economy.

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\$14.02 million in profits in 2002, or a return on equity of 12.9%. These figures

are the result of the good performance of the Bank's various business areas, where worth singling out are the good profits of the investment banking area, the efforts in growth and good returns of the corporate banking area and the favorable development of personal banking operations.

Again, the strategy defined in terms of clearly focused businesses, with a specific positioning in the corporate niche, has proved to be the most appropriate one, because of its ability to generate stable income in time. At the same time, personal banking has continued to develop, which enriches and complements the service provided to corporate clients, with solid and steady growth in terms of recruiting and selecting its new clients. Also, limited possibilities of benefiting from economies of scales have been offset by strong technological support, which has permitted the Bank to return to its levels of efficiency and excellence that have been its trademark, and to ensure Banco Security's privileged position in the same category of other banks that have chosen the path of modernization.

Total loans of Banco Security at December 2002 amounted to US\$ 1.19 billion, a growth of 9.6% in real terms, a remarkable figure when compared to the modest 1.6% growth of the overall banking industry in the year. Altogether, Banco Security closed the year with a 2.7% share of the banking system's total loans.

Banco Security's traditional policies, in terms of customer portfolio excellence, high efficiency and productivity standards, have proven to be important strengths, again this year. In fact, Banco Security continued to be, as in earlier years, one of the lowest-risk banks lending in the local market, with a risk index



of 1.21% of loans as of October 2002, substantially lower than the average rate of 1.95% for the overall banking industry. As for efficiency, Banco Security made important efforts to rationalize its expenses during 2002, in order to be able to compete with the remarkable efficiency levels of the larger banks operating in the country, thus reducing its efficiency indexes (as measured by general expenses over gross margin) from 55.2% in 2001 to 51.8% in 2002. Furthermore, Banco Security has kept its traditional first place in the industry in terms of productivity, as reflected by the ratio of loans to number of employees.

Banco Security is proud to have been included in the honor role as one of the 25 Best places to work in Chile again this year 2002. This is a reflection of 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 has been essential in building what is contained in this Annual Report.

Francisco Silva S.
Chairman

■ Board of Directors & Management of Banco Security

BOARD OF DIRECTORS

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

President

Ramón Eluchans O.

Chief Executive Officer

Margarita Hepp K.

Chief Commercial Officer

Christian Sinclair M.

Chief Investment Banking and Finance Officer

Bonifacio Bilbao H.

Chief Risk Control Officer

José Miguel Bulnes Z.

Chief Operating Officer

Arturo Kutscher H.

Corporate Banking Manager

Alejandro Arteaga I.

Middle-Market & Branches Officer

Adolfo Tocornal R-T.

Personal Banking & Mortgage Business Officer

Gonzalo Baraona B.

International Relations Officer

Claudio Izzo B.

Chief Administration Officer

Manuel José Balmaceda A.

Chief Electronic Business Officer

Marcial Letelier O.



COMMERCIAL MANAGERS & AGENTS

Branches:

El Golf & Vitacura Branches Manager
Temuco Branch Agent
Quilicura Branch Agent
Antofagasta Branch Agent
Concepción Branch Agent
Puerto Montt Branch Agent
Ciudad Empresarial Branch Agent

Juan Carlos Ruiz V.
Felipe Schacht R.
Felipe Oliva L.
Guillermo Delgado G.
Alberto Apel O.
Francisco Zañartu S.
Andrés Llodrá D.

Business Platform:

Metropolitan Area Branch Manager
Business Manager
Corporate Manager
Corporate Manager
Middle Market Assistant Officer
Middle Market Assistant Officer
Leasing Operations Assistant Officer
Corporate Agent
Foreign Trade Assistant Officer
Real Estate Agent
Personal Banking Headquarters Agent

René Melo B.
Mauricio Parra L.
Humberto Grattini F.
Sebastián Covarrubias F.
Hernán Besa D.
Jorge Contreras W.
Ignacio Lecanda R.
José Luis Correa L.
Patricio Carvajal M.
Andrés Briseño C.
Margarita Jarpa del S.

Investment Platform:

Money Desk Manager

Ricardo Turner O.

Financial Summary

- Summarized Individual Financial Statements of Banco Security
- Summarized Consolidated Financial Statements of Banco Security

SUMMARIZED INDIVIDUAL FINANCIAL STATEMENTS OF BANCO SECURITY

In millions of December 2002 US dollars

Income Statements	1994	1995	1996	1997	1998	1999	2000	2001	2002
Gross Operating Results (Gross Margin)	14.505	16.698	17.681	19.312	21.644	26.365	27.642	33.497	36.397
Administrative Expenses	6.865	8.372	9.843	10.547	11.508	13.459	14.600	18.475	18.860
Net Operating Results (Net Margin)	7.640	8.326	7.838	8.766	10.135	12.907	13.043	15.021	17.537
Net Income	5.877	7.468	6.457	8.784	6.126	9.462	10.242	10.014	10.069

Closing Balances	1994	1995	1996	1997	1998	1999	2000	2001	2002
Loans	343.823	374.218	452.651	566.881	607.873	641.119	756.842	781.254	856.227
Financial Investments	86.782	159.018	103.341	141.841	118.882	76.373	96.078	142.182	145.408
Productive Assets	430.605	533.235	555.992	708.722	726.755	717.492	852.919	923.436	1.001.635
Fixed Assets and Investments in Subsidiaries	17.851	18.682	21.667	22.201	23.126	26.342	28.101	17.656	20.800
Total Assets	528.906	625.567	722.347	776.900	839.166	820.722	969.400	1.039.750	1.124.257
Checking Accounts	20.400	18.848	28.285	26.452	22.466	30.983	31.190	49.265	50.679
Deposits and Other Term Obligations	266.696	328.804	419.974	410.179	496.934	518.204	665.741	594.648	702.209
Foreign Obligations	70.846	67.087	73.454	39.506	46.615	43.206	9.739	81.679	88.557
Provisions for Risk Assets	3.707	3.695	4.692	4.560	6.131	5.900	5.804	7.803	10.572
Capital & Reserves	39.005	45.188	45.753	47.766	61.252	61.259	72.599	75.074	76.040
Equity	44.882	52.655	52.210	56.550	68.083	70.802	84.257	86.696	87.985

Financial Indicators	1994	1995	1996	1997	1998	1999	2000	2001	2002
Productive Assets/Total Assets	81.41%	85.24%	76.97%	91.22%	86,60%	87.42%	87.98%	88.81%	89.09%
Net Income/Equity	15.07%	16.53%	14.11%	18.39%	9,89%	15.43%	13.84%	13.06%	12.92%
Net Income/Productive Assets	1.36%	1.40%	1.16%	1.24%	0,84%	1.32%	1.20%	1.08%	1.01%
Administrative Expenses/Productive Assets	1.59%	1.57%	1.77%	1.49%	1,58%	1.88%	1.71%	2.00%	1.88%
Productive Assets/Number of Employees	2.475	2.735	2.648	3.029	2.828	2.535	2.641	2.692	3.180
Loans/Number of Employees	1.976	1.919	2.155	2.423	2.365	2.265	2.343	2.278	2.718
Leverage	14,2	13,7	14,7						
Number of Employees	174	195	210	234	257	283	323	343	315



SUMMARIZED CONSOLIDATED FINANCIAL STATEMENTS OF BANCO SECURITY

In millions of December 2002 US dollars

Income Statements	1995	1996	1997	1998	1999	2000	2001	2002
Gross Operating Results (Gross Margin)	23.050	23.717	25.397	26.598	34.434	35.394	38.024	43.116
Administrative Expenses	11.242	13.290	13.730	14.612	17.285	18.056	21.009	21.549
Net Operating Results (Net Margin)	11.808	10.426	11.667	11.986	17.149	17.338	17.015	21.567
Net Income	7.468	6.457	8.784	6.126	9.462	10.242	10.014	10.069

Closing Balances	1995	1996	1997	1998	1999	2000	2001	2002
Loans	409.131	495.161	613.875	657.407	687.260	800.332	781.254	856.107
Financial Investments	167.697	111.766	158.681	124.075	81.544	122.433	152.039	180.046
Productive Assets	576.828	606.926	772.556	781.483	768.804	922.765	933.292	1.036.153
Fixed Assets and Investments in Subsidiaries	8.605	11.992	10.637	11.849	14.108	14.610	12.325	12.461
Total Assets	659.453	764.622	830.615	886.654	866.670	1.036.546	1.046.362	1.152.414
Checking Accounts	22.390	28.285	26.452	22.384	30.983	31.190	49.265	49.301
Deposits and Other Term Obligations	331.155	422.690	422.213	498.847	520.288	683.449	595.750	702.580
Foreign Obligations	51.730	73.454	39.506	46.615	43.206	9.739	81.679	88.557
Provision for Risk Assets	3.695	4.692	4.560	6.131	6.594	6.432	7.803	10.572
Capital & Reserves	45.188	45.753	47.766	61.252	61.259	72.599	75.074	76.040
Equity	52.655	52.210	56.550	68.083	70.802	84.257	86.696	87.985

Financial Indicators	1995	1996	1997	1998	1999	2000	2001	2002
Productive Assets/Total Assets	87,47%	79,38%	93,01%	88,14%	88,71%	89,02%	89,19%	89,91%
Net Income/Equity	16,53%	14,11%	18,39%	9,89%	15,43%	13,84%	13,06%	12,92%
Net Income/Productive Assets	1,29%	1,06%	1,14%	0,78%	1,23%	1,11%	1,07%	0,97%
Administrative Expenses/Productive Assets	1,95%	2,19%	1,78%	1,87%	2,25%	1,96%	2,25%	2,08%

■ Economic Review

● Chile: Basic Economic Indicators

General Outlook

Chile's economic performance during the year 2002 was largely the repetition of the general trends of earlier years. Growth rates were again lower than expected by policymakers and private agents, investment remained stagnant, unemployment declined only marginally and inflation was in line with the target range. The overall economic environment didn't change significantly, either. While in the Region and around the world adverse shocks continued, domestically there was prolonged uncertainty regarding the future course of some public policies on tax, labor and regulatory matters, with no material achievements in the so-called agenda pro growth. Altogether, the structural soundness of the economy and the high degree of credibility in macroeconomic policies, supported by the new free trade agreements with the European Union and the United States, permitted the economy to face this unfavorable climate with substantial expansion, both fiscal and monetary.

The International Environment

World recovery has been slower than expected, with a second year below the historical average. Structural problems in Europe and Japan, together with their inability to create cyclical incentives, resulted in a global growth rate of 2.6%, according to IMF estimates. The United States, that left behind the 2001 recession and the consequences of accounting frauds, grew by around 2.5%, and emerging Asia, that repeated a nearly 6% expansion, remained the leaders in terms of their contribution to world economic growth. Meanwhile, Latin America's GDP contracted 0.5%, because of the collapse in Argentina and Venezuela, and the sluggish Brazilian and Mexican economies. This growth structure reflected on Chilean exports. While shipments to the United States and some Asian countries expanded strongly, sales to Latin America and the European Union dropped by 11% and 9%, respectively. It should be mentioned that the reduced dynamism in the volume of non-copper exports during the second half of the year, together with the contraction of copper shipments (-2.5%), due to production cuts at the largest mining companies, resulted in exports growing by barely 2.7% in real terms during 2002, the smallest figure since 1984.

The slow international economy pulled export prices down which, combined with the solid oil prices, resulted in a fall in terms of trade. The average copper price slipped from 72 cents per pound in 2001 to 70.5 cents per pound in 2002, while the oil price rose from US\$24 to US\$ 25.2 per barrel, and even climbed over US\$30 toward year end, driven by the strikes in Venezuela and the threat of conflict escalating in the Middle East. In the end, terms of trade dropped by 1% from 2001, and settled around 5% below their long-term average. This drop occurred despite the fact that the economy continued to absorb the foreign deflation, mainly because of the depreciation of several currencies in the region.

This weaker global scenario, with no inflationary pressures, led authorities in industrialized countries to implement expansionary monetary policies. In the U.S., the Federal Reserve Board reduced the reference interest rate from 1.75% to 1.25%; the European Central Bank cut the rate from 3.25% to 2.75%, and the Bank of Japan kept the rate at zero. Long-term rates, in this context, remained close to historical minimums. However, as opposed to the early nineties, when the world economy experienced a similar



situation, said process did not unleash the return of capital flows into Latin America.

The crisis in Argentina and its difficulties to resolve its problems, the complex situation in Brazil, the severe deterioration in other Latin American economies, and the increased aversion to risk among international investors, caused an additional deterioration of gross capital inflows to the region. Chile was no exception, and saw foreign investment and long-term flows fall substantially. Altogether, the public sector kept the financing window open to a low spread. Despite important swings, the sovereign risk averaged 180 basis points (bp) in the year, supported by a low level of public debt, as was confirmed in October with the Government's disclosure of detailed information on its asset and liability structure. This was also favored by a better perception on the country's future performance, driven by the new treaties with the European Union and the United States, and the expectation of less contagion from potential turbulence in the region.

Public Policies and Income Statement

Conditional to price stability (inflation target range from 2% to 4%) and stable foreign payments (controlled current account deficit), the Central Bank continued implementing its monetary policy so as to minimize the sacrifice in terms of activity. Actually, persistent idle capacities in the economy took some steam off inflationary pressures and allowed a 350bp reduction in the monetary policy rate, from 6.5% at the beginning of the year, to 3% in August, where it stayed until year end.

Again, resources were underused. With occupation stagnant at the same level since 1997, the average employment rate remained at 9% for the fourth consecutive year. Consistently, available estimates suggest that the output gap, that measures the distance between actual and potential GDP, was between 4% and 5%. This kept margins compressed, which combined with the foreign inflation absorption and certain slowdown in the pace of wage increases, validated the peso depreciation without jeopardizing the inflation target. Thus, the exchange rate went from \$650 at the end of 2001 to \$700 one year later, peaking at almost \$760 in early October. As for core inflation (that excludes perishable goods and fuels) accumulated a rise of just 1.8%, below the floor of the target range of the Central Bank (2%) and one point less than the Central Bank's own forecast, published in its September monetary policy report (2.8%). This trend of core inflation, that slowed nearly 1.5 points compared with the end of 2001 (3.2%), was the clearest reflection of the poor performance of the domestic economy throughout 2002. During the second half of 2002 there was a rather deflationary tendency, with a monthly rate of about 0.3% by mid year, and seasonally adjusted core inflation of zero in December. All in all, headline inflation closed the year one percentage point above the underlying rate, as a result of fuel price rises caused by the higher oil price, and of higher prices in perishable goods, associated to supply problems deriving from heavy rainfalls in the winter.

Idle capacities were also present in the foreign accounts. Weak spending, even within a context of depressed terms of trade, resulted once again in a current account deficit of nearly 1% of GDP. The public sector contributed to this result with a consolidated deficit of 2.5% of GDP, which was more than offset by the excess saving of the private sector (with respect to private investment). In fact, the loosened

monetary policy was complemented with a countercyclical fiscal policy, especially during the first semester, where fiscal spending with macro impact showed a real growth rate of 7.8%. From the third quarter on, this expansion began fading as a consequence of some spending adjustments. As a result, the Central Government's official balance, that includes as income any withdrawals from the Copper Compensation Fund (strictly a financing modality that should be accounted for below the line) ended the year with an estimated deficit of less than 1% of GDP. According to the authorities, this result is consistent with a structural surplus of 1% of GDP, assuming a difference between actual and potential output of 4.5% to 5% and a long-term copper price of 90 cents per pound.

Overall, although the economy showed a moderate tendency to recover in the last quarter, 2002 recorded the lowest growth rate since 1999, of 1.9% in real terms. Domestic demand, that during the first half of the year continued contracting, managed to show a rebound in the second half, ending the year with an average increase of 1.3%. This increased dynamism was associated to a moderate recovery of private consumption, that absorbed the influence of the expansionary monetary policy of the Central Bank and the corresponding passthrough to market rates, helped by a high degree of competition in the financial system. Despite the uncertainties-in both the international and the domestic scenarios-not too different from 2001, toward the end of 2002 there was a strong recovery of variables that are very sensitive to interest rates (e.g. durable sales, consumer loans). However, fixed capital investment, that normally recovers with some lag, did not accompany this rebound in consumption, and closed the year 0.7% below one year earlier.

Finally, it is worth mentioning the effect of production cuts on aggregate GDP. Leaving out the subsequent contraction of the mining sector (-3%), growth in activity (non-mining) rises to 2.4% in 2002. From a sectoral perspective, the best performing sector was electricity, that grew 4.5%, favored by heavy rains. The rest of non tradable sectors, although recovering at year end, grew in tandem with the rest of the economy. In the financial sector in particular, monetary expansion and new players in the industry jumpstarted consumer loans, which had been stagnant for four years, with a real increase of 12%. However, the decline in domestic investment and banking disintermediation caused by substantial bond issues, prevented it to translate into an acceleration of total loans, which was only 1.6% in real terms.

CHILE: BASIC ECONOMIC INDICATORS

	1998	1999	2000	2001	2002
GDP (billions of US\$)	79.4	73.0	75.0	66.5	64.0
Per Capita GDP (US\$)	5,355.3	4,864.0	4,927.4	4,314.4	4,106.4
Real GDP Growth (%)	3.2	-1.0	4.4	2.8	1.9
Domestic Spending Growth (%)	3.7	-5.7	5.9	-0.7	1.3
Private Consumption	4.7	-1.0	3.5	1.4	1.6
Gross Fixed Capital Formation	1.9	-18.4	8.5	2.0	-0.7
Terms of Trade (1996 = 100)	97.5	99.6	102.3	93.4	92.0
Copper Price (US\$ cents per pound)	75.0	71.3	82.2	71.6	70.7
Oil Price (US\$ per barrel)	12.9	16.4	28.5	24.0	25.2
Trade Balance (billions of US\$)	-2.0	2.5	2.2	2.1	2.4
Current Account (billions of US\$)	-4.0	0.3	-1.1	-1.2	-0.6
Balance of Payments (billions of US\$)	-2.2	-0.6	0.3	-0.6	0.2
Total Savings (domestic + foreign), % of GDP	26.9	21.3	22.5	20.7	20.3
Gross National Savings	21.8	21.2	20.7	18.8	19.4
Central Government	3.3	1.5	2.3	2.3	1.8
Rest (private sector, Central Bank & state-owned companies)	18.5	19.7	19.3	16.5	17.6
Foreign Savings (current account deficit)	5.1	0.2	1.8	1.9	0.9
CPI Variation December-December (%)	4.7	2.3	4.5	2.6	2.8
CPIX Variation December-December (%)	6.3	2.1	3.4	3.2	1.8
Relevant Foreign Inflation (Central Bank average %)	-4.4	-1.4	2.4	-1.7	-4.5
Monetary Policy Rate, TPM (december average % in \$)	13.1	8.8	8.3	6.5	3.0
8-year Central Bank bond rate (december average % in UF)	7.2	6.7	5.9	4.9	3.2
Exchange Rate (average Ch\$/US\$)	460.3	508.8	539.5	634.9	688.9
Exchange Rate (december average. Ch\$/US\$)	472.4	538.2	574.6	669.1	701.9
Real Exchange Rate (Central Bank average index; 1986=100)	92.0	97.1	101.5	113.3	114.6
Employment Growth (%)	1.8	-2.2	1.1	0.3	1.1
Labor Force Growth (%)	2.0	1.5	0.3	0.3	0.9
Unemployment Rate (%)	6.3	9.8	9.2	9.0	8.9
Real Wage Variation (%)	2.7	2.4	1.4	1.6	2.1
Net Foreign (billions of US\$)	15.7	19.4	21.7	23.6	25.7
Total Net Foreign Liabilities (billions of US\$)	33.2	33.5	34.6	35.8	36.4
Total Net Foreign Liabilities (% of GDP)	41.8	45.8	46.1	53.9	56.9
Total Net Foreign Liabilities (% of FOB exports)	164.6	161.1	150.5	160.5	164.0

■ Banco Security and the Chilean Banking Industry

- The Overall Banking Industry
- Activities and Results of Banco Security

Before reviewing Banco Security's activities and results in 2002, it is worth making a brief recount on the performance of the overall banking system over the year.

THE OVERALL BANKING INDUSTRY

As in previous years, in 2002 the Chilean economy was characterized by the sustained deterioration of expected growth in every activity, closing the period with a GDP growth of around 2%, compared with its estimated potential of over 4%. This reflected mostly in an expansionary monetary policy, with successive reductions in the interest rate announced by the Central Bank throughout the year, with the purpose of stimulating domestic demand and stir up the economy. In the banking sector, these effects manifested in cautious growth in financial activities, in line with the business cycle, where efforts were focused on controlling expenses and risk levels in order to improve the results and returns of the banks, and on incorporating new technologies and new products.

Throughout the year, the Chilean financial system was marked by the merging of the two largest banks operating in the country, the entry of new banks, and the transformation of the only remaining financial firm into a commercial bank. Thus, as of December of 2002 a total of 26 institutions were operating in the financial system, including 17 banks established in Chile, 8 foreign bank branches and the state-owned Banco del Estado. During the year, the Superintendence of Banks and Financial Institutions granted five new bank licenses, to Banco Ripley, Banco HNS, Banco Monex and HSBC Bank Chile (that changed its status from branch to subsidiary) and to Financiera Conosur that became a bank. As for the launching of new products, it is worth singling out the voluntary pension saving scheme that began operating in March, interests paid to checking accounts from June, and new housing loans in pesos, consistent with the gradual nominalization or conversion into non-indexed financial operations that has been an important objective of the Central Bank.

Results

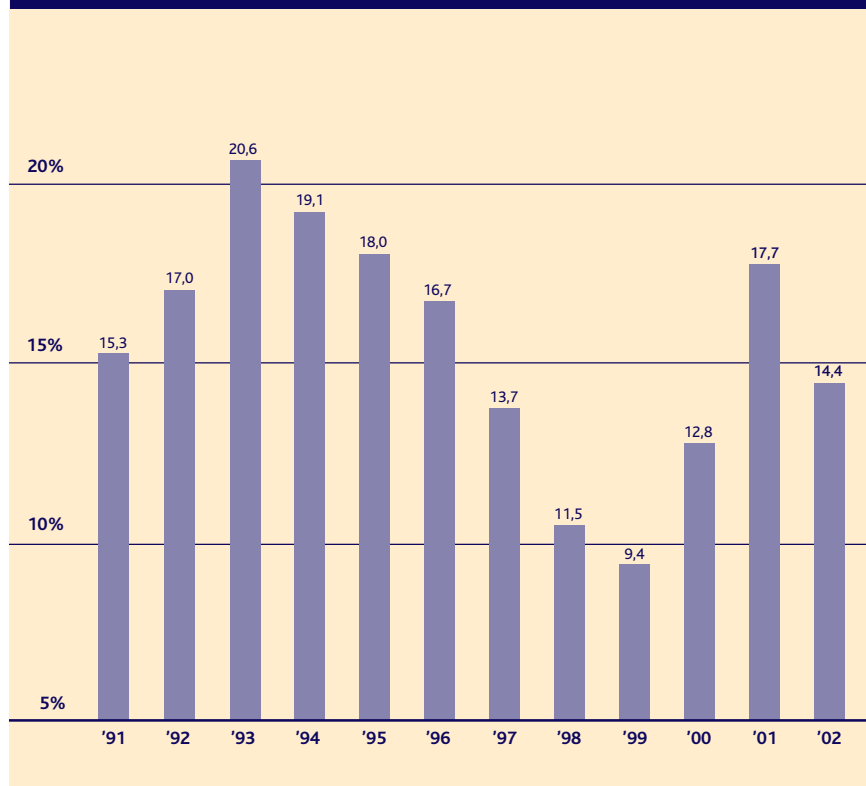
During the year just ended, the net earnings of the financial system amounted to US\$713 million, a 12.5% decline from the year before, representing an average return on equity ratio of 14.4%. After the strong growth of earlier years, the reduced income of 2002 is partly explained by the costs of mergers and increased risk in the system, which in any case is within reasonable boundaries. It should be noted that the overall system's return of 14.4% in real terms is not far from the historical average of 16.5% in the 1987 - 2001 period, and is a clear demonstration of the strengths of the Chilean banking industry to operate in a very complex economic scenario.

As for operative expenses, moderated growth rates are observed in most of the banks, with an average increase of only 1% in the system in 2002, thus showing improvements in the financial system's efficiency.

During 2002, the growth in spending concentrated more in administrative expenses, offset by a slight fall in labor costs and a substantial increase in depreciation, possibly associated to technological investments.



Returns of the Financial System 1991 - 2002



Also, there was an increase of 6.9% in provisions and write-offs during the period, because of the higher risk associated to the modest levels of activity in the economy.

Finally, it is also necessary to single out the substantial increase of 25.47% in the results of the banks' subsidiaries, probably explained by the fact that some bank leasing and factoring subsidiaries were absorbed into their respective parent companies, adding to the subsidiaries' traditional businesses such as brokerage, security management and financial consulting, and mutual fund management.

Levels of Activity

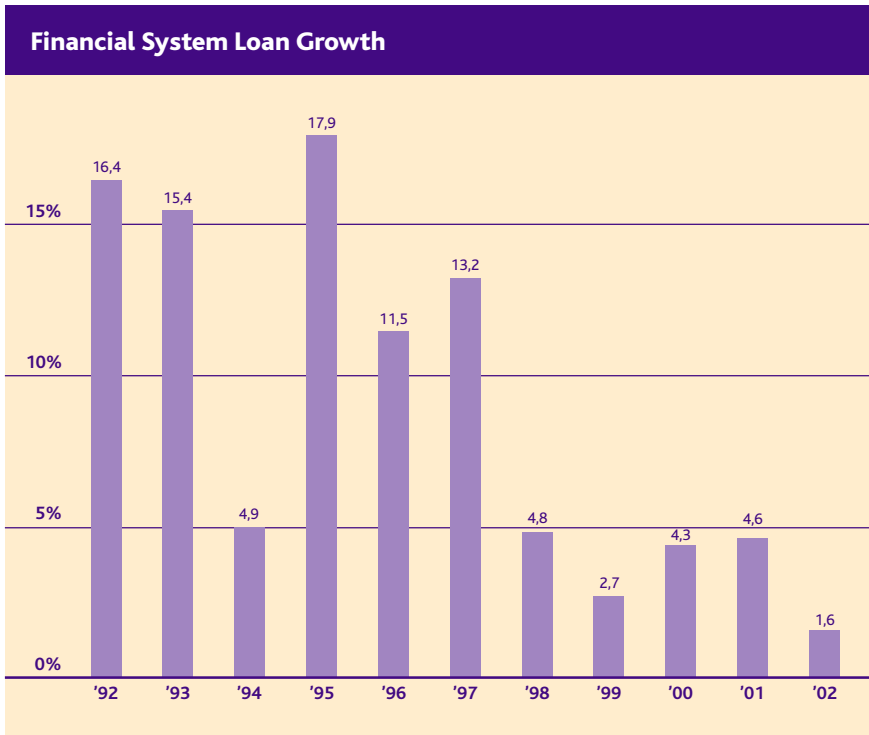
Available numbers for the banking industry show an increase in total loans of 1.6% for the year 2002, completing five years of modest growth, significantly less than the average real annual growth rate of 10.8% it showed between 1990 and 1998, but consistent with the complex economic climate that has prevailed in the past few years.

In this context, the hardest fall was suffered by interbank credits (-5.3%), followed by commercial loans that also fell by -2.57% in 2002. Past-due loans increased by 14.42%, which is a clear reflection of greater portfolio risk. As for personal banking, consumer loans showed remarkable

Efficiency Indicators

Period	% Operative Expenses Gross Margin	% Operative Expenses Assets
1997	66.4%	3.2%
1998	61.4%	3.1%
1999	60.2%	2.9%
2000	60.8%	2.9%
2001	56.1%	2.8%
2002*	55.2%	2.8%

Source: SBIF
* Preliminary figures for 2002.



growth (+11.99%) as did housing loans (+6.06%). In corporate banking, foreign trade loans increased by +2.21%, while 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 (19.12% and 59.90%, respectively).

Risk figures available indicate that the system's risk index continued under control, below the peak of 2.14% of June 2000, moving from 2.08% in October 2000, 1.90% in October 2001 and 1.95% at October 2002. These risk levels, however, although stabilized, still mean 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 loans amounted to 1.82% of the system's credits by the end of 2002, slightly up from the year before. Hence, it can be stated that risk is under control and duly backed by bank provisions, which amount to 2.54% of total loans as of December 2002.

The strength of the financial system as a whole is reflected on the Basle coefficient, which considers effective equity in terms of risk-weighted assets, which reached 13.9% in November of 2002, with respect to 12.7% a year before, showing a wide margin over the legal requirement of 8%. Furthermore, every bank reported 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 has adequately faced the complex economic situation of recent years, tackling the higher risk of the market with the proper provisions and a moderate increase in loans, together with efforts to reduce the high costs inherent to any adjustment process. Efforts have begun to pay off, through the attractive return indexes achieved by the financial system during this year.

ACTIVITIES AND RESULTS OF BANCO SECURITY

The fast process of concentration and mergers has shaped a system dominated by a few large banks, where Banco Security stands out as a different, medium sized bank operating in a clearly defined

market niche, highly efficient and with a powerful technological support. 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. Its solid technological support, comparable to that of the most modern banks operating in the country, makes Banco Security unique in its direct contact with its clients, through commercial platforms created specifically for this purpose. 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, focusing 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 Leasing Security subsidiary was absorbed by the Bank, 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 14% 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 financial interests. An aggressive sales campaign based on quality service and a wide variety of products, have driven the fast development of this division over the past three years. The number of checking account clients is 9,100 clients as of the end of 2002.

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 provides financing for foreign trade businesses, where Banco Security has kept significant market share over the years.

Efforts made in recent years in terms of incorporating the newest technological advances, combined with the changes oriented to creating a structure that enhances and favors the image of good service to firms and individuals that is characteristic of Banco Security, began to pay off during 2002. 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 capable of performing every type of operation and transaction through modern communication systems (i.e. the Internet, WAP and phone banking), all of which resulted in significant costs and time saved. By way of example, 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. The highest interest rates paid on balances and lowest commissions charged are some of the advantages that Banco Security offers to its personal checking account clients.

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 mentioned, Banco Security's 2002 results were very satisfactory, demonstrating the strength and maturity that the Bank has attained in the past few years. In fact, Banco Security & subsidiaries' consolidated income amounted to US\$14.02 million in the year, representing a return on equity of 12.92%. 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 2002 amounted to US\$1.19 billion (including interbank loans), showing a remarkable growth of 9.6% in real terms, substantially higher than the 1.6% increase of the overall banking industry. Thus, Banco Security ended the year with a market share of 2.7% of the system's total loans, and ranked 10th among the 26 banks operating in the market as of the end of 2002.

As for Banco Security's credit portfolio, consistently with its orientation to the corporate market niche, a 65.9% of its loans are commercial, while 10.5% are allocated to foreign trade operations, leasing contracts account for 6.4% and contingent loans represent another 5.5%. Consumer loans granted by the Bank's personal banking division account for only 0.7% and letters of credit account for 5.8% 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 2002, Banco Security has a risk index of 1.21%, the lowest among large and medium sized banks operating in the local market, and ranks ninth if all the banks, both domestic and foreign, are considered. Available risk indicators as of October 2002 indicate that risk levels in the financial system have remained stable, with an average of 1.95% of loans, compared with the 2.14% peak of June 2000 and 1.90% in October 2001. Banco Security's past-due loans at the close of 2002 were 0.89% of total loans, which also compares favorably with the banking system average of 1.83%. 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 2.57% of credits as per October 2002 figures.

In addition, the Bank has continued making cost-controlling efforts, in order to keep its strict

efficiency standards. To that end, during the year 2002 a number of investments and structural changes were made, to allow for direct control and better expense rationalization. It is worth mentioning that several independent units were created to provide and charge their services to all the subsidiaries of the holding company 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, Comptrol and Accounting, Wages and Salaries and the Technological Development unit.

With significant efforts in terms of controlling and rationalizing operative expenses during the year 2002, these increased only 2.1% over 2001, a figure that is explained mainly by depreciations and amortizations related with technological innovations recently implemented. At any rate, Banco Security's efficiency indicators, that measure operative expenses over gross margin, showed significant progress, with 51.8% in 2002, compared with 55.2% the year before, and below the market's average, estimated at 55.2%. On the other hand, Banco Security still maintains its traditional first place in the industry in terms of productivity, as measured by the ratio of loans to number of employees, with loans of US\$3.78 million per employee in 2002.

Regarding solvency, 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 11.42% as of November of 2002, somewhat below the system's average of 13.89%, showing a comfortable margin over the minimum required of 8%. The Bank's base capital accounts for 6.54% of its total assets, much above the legal minimum of 3% set forth by the country's General Banking Act.

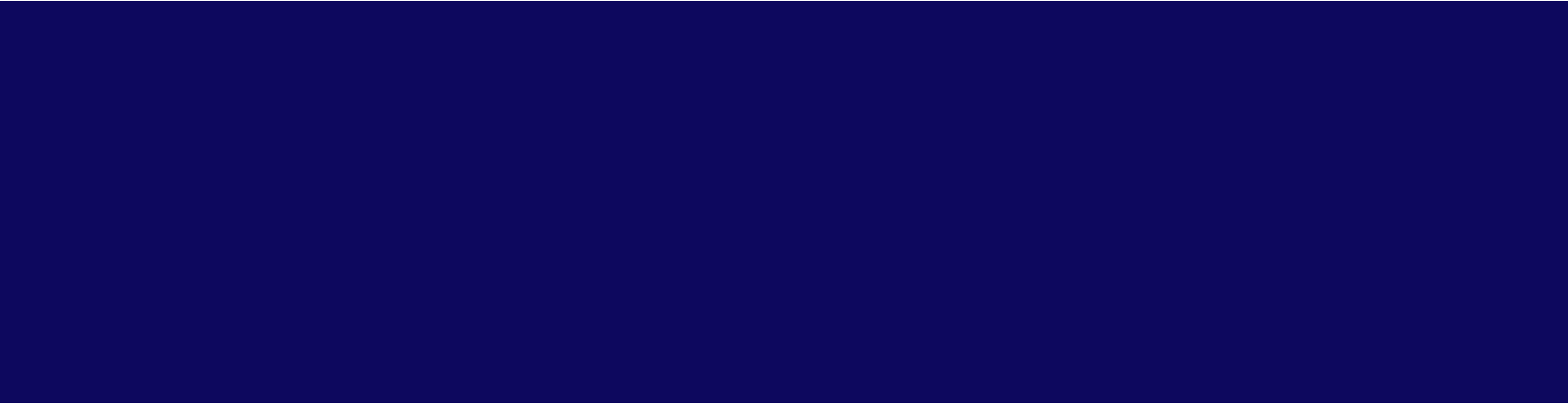
Banco Security's subsidiaries today are the stockbroker Valores Security Corredores de Bolsa and the mutual fund administrator Administradora de Fondos Mutuos Security, whose activities and businesses are described below. As in earlier years, the two contributed significantly to the Bank's activities and results. In fact, earnings from investments in related companies amounted to US\$4.26 million at December 2002, an increase of 64.4% over the year before, accounting for 30.4% of the Bank's consolidated net income.

Branches

Banco Security operates with a total of 12 offices in addition to the Headquarters. Its branch-opening strategy has been framed by a future vision with strong technological development, directed mainly to sectors or regions that are consistent with the target market of large and medium-sized companies and selected individuals. It is our belief that before the technological development that the new millenium has brought about, it is an important advantage for the Bank to rely on an agile office structure. Thus, four of the Bank's branches are located outside Santiago (i.e. Temuco, Concepci n, 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

As in 2001, Banco Security was again included in the Honor role among the 25 best places to work 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.



■ Subsidiaries of Banco Security

- Boards of Directors and Management
- Activities and Results

VALORES SECURITY S.A., CORREDORES DE BOLSA

BOARD OF DIRECTORS

Chairman	Ramón Eluchans O.
Directors	Bonifacio Bilbao H. Javier Gómez C. Enrique Menchaca O. Luis Montalva R.

MANAGEMENT

President	Nicolás Ugarte B.
Chief Operating Officer	Juan Adell S.
Money Desk Officer	Cristián Pinto M.

During the year 2002, Valores Security S.A. Corredores de Bolsa had very satisfactory results, with net income of US\$2.83 million, more than double the results of the previous period, an increase of 156% in real terms, showing a return on equity of 54.94%.

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

¥Fixed-income instruments yielded gross income of US\$4.81 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\$0.26 million from stock intermediation, stock-exchange rights, and from the earnings of the Company's own stock portfolio.

These favorable results were achieved despite the sluggish local stock exchanges, that continued deteriorating during 2002, and in spite of reforms to the capital market implemented in late 2001, and of the recovery observed in international markets. Total traded volume in the local exchanges amounted to US\$ 3.29 billion, with an overall market capitalization of US\$48.46 billion. The local exchanges reduced



traded volumes by 15.8% in one year. Prices of the shares considered in the selective stock price index IPSA fell by 18.33% in real terms, while the comprehensive index, IGPA, declined by 10.37%.

Valores Security traded shares worth US\$718.38 million during 2002, half the volume of the previous year, consistently with the reduced trading in the local exchanges, and kept its 10th place among the 38 stockbrokers operating domestically. Its average market share for the year was 2.0%, considering transactions performed in the Santiago Stock Exchange and the Chilean Electronic Stock Exchange where the company operates.

ADMINISTRADORA DE FONDOS MUTUOS SECURITY S.A.

BOARD OF DIRECTORS

Chairman	Francisco Silva S.
Directors	Carlos Budge C. Felipe Larraín M. Renato Peñafiel M. Gonzalo Ruiz U.

MANAGEMENT

President	Alfredo Reyes V.
Chief Commercial Officer	Juan Pablo Lira T.
Chief Investment Officer	Rodrigo Fuenzalida B.

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 2002, the company administers nine 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 firms;
- **Security Acciones**, a variable-income fund, with A and B series;
- **Security Global Investment**, a fund that is authorized to invest 100% of its portfolio in foreign instruments, also with A and B series;
- **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, with A and B series;
- **Security Bond**, a fund that invests in long-term Chilean and foreign bonds; and
- **Security Plus**, a short-term fund oriented at firms or individuals.

The A series differs from the B series in that the latter accumulate the voluntary pension fund savings (APV) of participants.

Administradora de Fondos Mutuos Security showed very satisfactory results, with net income worth US\$1.43 million in 2002, representing a 19.7% increase over the year before, with a return on equity ratio of 47.7%.

This was a good year for the mutual fund industry in general and for Administradora de Fondos Mutuos Security in particular. Thus, funds managed by the system amounted to nearly US\$7.0 billion, an increase of over 43% in volume, with a total number of participants of more than 383.000 people. Among the most relevant facts of the year, it is worth mentioning the creation in March 2002 of the voluntary pension fund saving system (APV) with the participation of mutual funds, whereby a substantial amount of resources was captured (close to US\$3.48 million in the first six months).

At December 2002 Administradora de Fondos Mutuos Security was managing an average equity of US\$325.19 million, practically double the amount of the previous year. Thus, AFM Security's market share went from 3.56% in 2001 to 4.84% by the end of 2002, and ranked ninth among the 19 mutual fund administrators operating in the local market. The company's strategy, in terms of having good 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 8,902 of the nearly 383,000 of the whole system. It should be noted that AFM Security has attracted a total of US\$0.64 million in APV at December 2002, which accumulate in B-series funds that exist for these purposes.

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

Mutual Funds						
Millions of US dollars of December 2002 purchasing power	1997	1998	1999	2000	2001	2002
Mutual Fund Industry	2,003.9	1,372.7	2,107.1	2,642.0	3,364.2	4,829.1
Administradora de Fondos Mutuos Security	57.6	57.2	90.5	101.4	119.8	233.6
AFM Security's market share	2.9%	4.2%	4.3%	3.8%	3.6%	4.8%

Finally, it must be noted that Administradora de Fondos Mutuos Security has a highly qualified sales force, specializing 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.

■ Financial Statements



- Individual Financial Statements of Banco Security
- Consolidated Financial Statements of Banco Security and Subsidiaries
- Summarized Financial Statements of Banco Security & Subsidiaries

■ Individual Financial Statements of Banco Security

December 31, 2002 and 2001 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 of
Banco Security

We have audited the balance sheets of Banco Security as of December 31, 2002 and 2001, and the related statements of income and of cash flows for the years then ended. Preparation of these financial statements (including the related notes) is 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, 2002 and 2001, 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.



Jorge Rodríguez



Deloitte & Touche
January 10, 2003

Note: in the event of any discrepancy or difference of interpretation between this English translation and the original financial statements in Spanish, the latter prevails.

■ Balance Sheets

As of December 31, 2002 and 2001 (In millions of Chilean pesos —MCh\$)

	2002	2001
Assets	MCh\$	MCh\$
Liquid Assets	93,584.6	86,628.0
Loans:		
Commercial	566,989.7	530,811.6
Foreign trade	90,651.9	85,256.9
Consumer	5,664.8	4,030.1
Letter of credit loans	49,844.5	31,940.9
Leasing contracts	54,669.0	41,403.2
Contingent	46,870.1	40,251.9
Other outstanding loans	33,849.6	38,454.3
Past-due	7,687.5	9,104.6
Total loans	856,227.1	781,253.5
Less: allowance for loan losses	(10,572.2)	(7,802.6)
Total loans-net	845,654.9	773,450.9
Other loan operations:		
Loans to financial institutions	3,586.7	7,215.2
Credits arising from trading securities	—	721.9
Total other loan operations	3,586.7	7,937.1
Investments:		
Banco Central de Chile and Treasury Securities	10,115.6	12,403.0
Other financial investments	120,971.6	81,008.0
Trading securities	3,575.3	32,055.5
Assets for leasing	2,510.9	2,731.9
Assets received in settlement or awarded	4,647.4	6,046.9
Total investments	141,820.8	134,245.3
Other Assets	18,809.9	19,833.0
Fixed Assets:		
Premises and equipment	11,809.0	11,723.3
Investments in related companies	8,990.7	5,932.8
Total fixed assets	20,799.7	17,656.1
Total Assets	1,124,256.6	1,039,750.4

The accompanying notes are an integral part of these financial statements

	2002	2001
Liabilities and Shareholders' equity	MCh\$	MCh\$
Liabilities:		
Deposits and other liabilities:		
Checking accounts	50,678.7	49,265.0
Deposits and savings	628,961.6	534,540.3
Other time and demand liabilities	73,247.1	60,107.4
Liabilities arising from trading securities	3,342.5	32,394.5
Mortgage note liabilities	49,960.1	33,107.3
Contingent liabilities	47,701.4	40,700.6
Total deposits and other liabilities	853,891.4	750,115.1
Bonds:		
Current bonds	10,528.1	11,932.1
Subordinated bonds	36,020.9	36,409.3
Total bonds	46,549.0	48,341.4
Borrowings from Banco Central de Chile and other financial institutions:		
Other Banco Central de Chile borrowings	660.7	880.3
Domestic borrowings	776.4	6,794.9
Foreign borrowings	88,556.7	81,678.7
Other borrowings	17,238.7	42,239.8
Total borrowings from financial institutions	107,232.5	131,593.7
Other liabilities	28,566.2	23,004.6
Total liabilities	1,036,239.1	953,054.8
Voluntary provisions	33.0	–
Shareholders' equity		
Capital and reserves	76,040.4	75,074.1
Other reserves	1,875.5	1,607.8
Net income for the year	10,068.6	10,013.7
Total shareholders' equity	87,984.5	86,695.6
Total liabilities and shareholders' equity	1,124,256.6	1,039,750.4

The accompanying notes are an integral part of these financial statements

■ Statements of Income

For the years ended December 31, 2002 and 2001 (In millions of Chilean pesos —MCh\$)

	2002	2001
	MCh\$	MCh\$
Operating revenue:		
Interest and indexation income	77,826.2	86,892.6
Earnings from intermediation	3,144.8	3,126.3
Commissions earned	2,451.4	1,557.7
Exchange income-net	—	2,577.6
Other operating income	748.1	245.8
Total operating revenue	84,170.5	94,400.0
Less:		
Interest and indexation expense	(45,340.2)	(59,170.3)
Loss from intermediation	(1,792.7)	(1,599.8)
Commissions paid	(44.0)	(45.3)
Net exchange loss	(274.6)	—
Other operating expenses	(322.1)	(88.2)
Gross operating margin	36,396.9	33,496.4
Remuneration and personnel expenses	(7,682.9)	(8,934.9)
Administrative and other expenses	(9,082.8)	(8,310.0)
Depreciation and amortization	(2,094.1)	(1,230.3)
Net operating margin	17,537.1	15,021.2
Provisions for assets at risk	(7,526.5)	(6,849.1)
Recovery of loans written off	239.5	261.9
Operating income	10,250.1	8,434.0
Other income and expenses:		
Non-operating income	1,636.6	2,018.8
Non-operating expense	(1,728.0)	(581.7)
Equity in earnings of related companies	3,060.2	1,861.3
Monetary correction	(1,605.6)	(1,686.4)
Income before income taxes	11,613.3	10,046.0
Income taxes	(1,511.7)	(32.3)
Income before voluntary provisions	10,101.6	10,013.7
Voluntary provisions	(33.0)	—
Net income	10,068.6	10,013.7

The accompanying notes are an integral part of these financial statements

■ Statements of Cash Flows

For the years ended December 31, 2002 and 2001 (In millions of Chilean pesos —MCh\$)

	2002	2001
	MCh\$	MCh\$
Cash flows from operating activities:		
Net income	10,068.6	10,013.7
Charges (credits) to income that do not represent cash flows:		
Depreciation and amortization	2,094.1	1,230.3
Provisions for assets at risk	7,526.5	6,849.1
Equity in earnings of related companies	(3,060.2)	(1,861.3)
Monetary correction	1,605.6	1,686.4
Other charges that do not represent cash flows	2,110.7	949.8
Net variation in interest, indexation and commissions accrued on assets and liabilities	(1,135.0)	5,209.2
Net cash provided by operating activities	19,210.3	24,077.2
Cash flows from investing activities:		
Charges in assets affecting cash flow:		
Net increase in loans	(94,318.0)	(45,610.2)
Net (increase) decrease in other loan operations	4,483.3	(7,302.3)
Net increase in investments	(10,003.6)	(39,197.3)
Decrease in leasing assets	157.3	—
Purchase of fixed assets	(2,298.7)	(4,935.7)
Sale of fixed assets	—	5,285.2
Investments in related companies	462.3	—
Dividends received from investments in related companies	—	1,802.2
Sale of assets received in settlement of loans	5,611.1	743.7
Net increase in other assets and liabilities	6,732.2	2,160.5
Net cash used in investing activities	(89,174.1)	(87,053.9)
Cash flows from financing activities:		
Net increase in checking accounts	1,435.0	18,308.0
Net increase (decrease) in deposits and savings	94,216.8	(71,717.6)
Net increase in other time and demand liabilities	13,665.5	3,622.3
Net increase (decrease) in other liabilities arising from trading activities	(29,385.8)	21,839.5
Net increase in short-term foreign borrowings	6,782.0	71,681.0
Mortgage notes issued	17,811.7	16,642.7
Bonds issued (redeemed)	(2,527.7)	2,909.3
Long-term borrowings from financial institutions	14,240.7	6,644.0
Repayment of other long-term loans	(31,507.9)	(256.2)
Increase in other short-term liabilities	—	562.1
Dividends paid	(9,047.2)	(7,564.3)
Net cash provided by financing activities	75,683.1	62,670.8
Net positive (negative) in Cash flow	5,719.3	(305.9)
Effect of inflation on cash and cash equivalents	1,237.3	1,050.2
Increase in cash and in cash equivalents	6,956.6	744.3
Cash and cash equivalents at beginning of year	86,628.0	85,883.7
Cash and cash equivalents at end of year	93,584.6	86,628.0

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 Superintendency of Banks and Financial Institutions (hereinafter, 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 net income or 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 2001 Chilean peso amounts have been monetarily corrected for the year's change in the Consumer Price Index used for monetary correction (3.0%).

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 discontinuing 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 change in the Chilean Consumer Price Index (CPI). The application of monetary correction results in a net charge to income of MCh\$1,605.6 (MCh\$1,686.4 in 2001).

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\$712.38 = US\$1 and Ch\$656.20 = US\$1 in 2001).

The net loss from foreign exchange of MM\$274,6 (gain of MCh\$2,577.6 in 2001), 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. Financial investments

The financial investments that are traded in the secondary market are stated at market value, in accordance with instructions of the Superintendencia. Such instructions call for the recognition of the adjustments to market value against income for 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 on the shareholders' equity accounts.

The application of the adjustment to market value resulted in a net credit of MCh\$314.5 (MCh\$227.0 (historic) in 2001).

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

f. Physical fixed assets

Physical fixed assets 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 assets.

g. 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.

h. 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.

i. 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. The amount constituted at the end of each year, and its effects on income, are shown in the Balance Sheet and the Statement of Income, respectively.

j. 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 2002, 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.

k. Employees vacations

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

l. 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

During fiscal years ended December 31, 2002 and 2001, the accounting principles have been consistently applied in relation to the prior year.

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, 2002 and 2001 loans outstanding to related parties are as follows:

	Current Portfolio		Past due Portfolio		Total		Guarantees (*)	
	2002 MCh\$	2001 MCh\$	2002 MCh\$	2001 MCh\$	2002 MCh\$	2001 MCh\$	2002 MCh\$	2001 MCh\$
Individuals	90.0	180.6	—	—	90.0	180.6	511.5	180.6
Operating companies	17,008.1	16,176.2	13.9	14.3	17,022.0	16,190.5	10,821.1	8,643.1
Investment companies	6,460.3	4,231.0	—	—	6,460.3	4,231.0	3,986.2	2,385.8
Total	23,558.4	20,587.8	13.9	14.3	23,572.3	20,602.1	15,318.8	11,209.5

(*) 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 2002 and 2001, the Bank entered into the following transactions in excess of UF1,000 with related parties:

Company	Item	Credit to income		Charge to income	
		2002 MM\$	2001 MM\$	2002 MM\$	2001 MM\$
Invest Security S.A.	Advisory services	—	—	750.0	380.3
Seguros de Vida Security Previsión S.A.	Office rentals	16.7	16.3	—	—
Seguros Security Previsión Generales S.A.	Office rentals	5.9	13.0	—	—
Merchant Security S.A.	Advisory services	—	3.2	—	172.9
	Office rentals	22.9	17.1	—	—
Global Security S.A.	Advisory services	—	—	518.5	841.5
Virtual Security S.A.	Advisory services	—	—	1,803.2	—
Inmobiliaria Security S.A.	Sale of fixed assets	—	900.9	—	—

These transactions were realized at prevailing market terms.

NOTE 4. INVESTMENTS IN RELATED COMPANIES

Participation in companies

Under the heading of Fixed Assets, there are investments in affiliates amounting to MCh\$8,990.7 (MCh\$5,932.8 in 2001), the detail of which is as follows:

Company	Bank's ownership		Equity		Investment Value		Income	
	2002 %	2001 %	2002 MCh\$	2001 MCh\$	2002 MCh\$	2001 MCh\$	2002 MCh\$	2001 MCh\$
Valores Security S.A.								
Corredores de Bolsa	99.900	99.900	5,740.3	3,704.7	5,734.5	3,701.0	2,033.5	794.2
Leasing Security S.A. (1)	—	—	—	—	—	—	—	209.6
Administradora de Fondos								
Mutuos Security S.A.	99.990	99.990	3,179.0	2,152.0	3,176.9	2,151.8	1,026.7	857.5
Subtotal					8,911.4	5,852.8	3,060.2	1,861.3
Shares and rights in other companies					79.3	80.0	—	—
Total					8,990.7	5,932.8	3,060.2	1,861.3

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

NOTE 5. PROVISIONS

a. Provisions for assets at risk

At December 31, 2002, the Bank has accrued provisions for MCh\$10,572.2 (MCh\$7.834,2 en 2001) which correspond to the minimum provisions required by the Superintendencia to cover possible losses.

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

	Provisions for			Total MCh\$
	Loans MCh\$	Assets received in settlement	Other assets	
		MCh\$	MCh\$	
Historical balances, December 31, 2000	5,465.2	58.9	—	5,524.1
Provisions applied	(4,538.9)	(90.2)	—	(4,629.1)
Provisions established	6,649.0	62.0	—	6,711.0
Balances, December 31, 2001	7,575.3	30.7	—	7,606.0
Updated balances for comparative purposes	7,802.6	31.6	—	7,834.2
Historical balances, December 31, 2001	7,575.3	30.7	—	7,606.0
Provisions applied	(4,529.6)	(30.7)	—	(4,560.3)
Provisions established	7,526.5	—	—	7,526.5
Balances, December 31, 2002	10,572.2	—	—	10,572.2

In the opinion of the Board of Directors, 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

At December 31, 2002, the Bank has voluntary provisions for MCh\$33 (MCh\$0 in 2001).

NOTE 6. SHAREHOLDERS' EQUITY

a. Equity

The movements in the shareholders' equity accounts during 2002 and 2001 are summarized as follows:

	Paid-in capital MCh\$	Reserves MCh\$	Other reserves MCh\$	Income for the year MCh\$	Total MCh\$
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
Capital increase	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
Updated balances for comparative purposes	58,053.3	17,020.8	1,607.8	10,013.7	86,695.6
Balances, December 31, 2001, historical	56,362.4	16,525.0	1,561.0	9,722.0	84,170.4
Distribution of 2001 income	—	9,722.0	—	(9,722.0)	—
Dividends paid	—	(8,749.7)	—	—	(8,749.7)
Fluctuation in value of financial investments	—	—	314.5	—	314.5
Monetary correction of capital	1,690.9	489.8	—	—	2,180.7
Net income	—	—	—	10,068.6	10,068.6
Balances, December 31, 2002	58,053.3	17,987.1	1,875.5	10,068.6	87,984.5

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 2002 and 2001, net profits from 2001 and 2000 of MCh\$9,722.0 and MCh\$9,644.1 (historical), respectively, were transferred to reserves.

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 each year-end, the Bank's situation is as follows:

	2001	2000
	MCh\$	MCh\$
Basic capital (*)	77,915.9	76,681.9
Total assets	1,155,843.9	1,040,259.1
Percentages	6.74%	7.37%
Actual equity (**)	110,263.3	105,845.7
Risk weighted assets	949,595.3	853,926.7
Percentages	11.61%	12.40%

(*) 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.

(1) In conformity with Circular N°3,178 of the Superintendencia dated June 7, 2002, at December 31, 2002, the Bank determined basic capital, total assets, effective equity, and risk - weighted assets based on the consolidated Balance Sheet of the Bank.

NOTE 7. INVESTMENTS

At December 31, 2002 and 2001, the Bank holds the following investments:

a. Financial Investments

At December 31, 2002

	Type of portfolio						Adjustment to market value					
	Permanent(**)		Non-Permanent		Subtotal		Against income		Against Equity		Total	
	2002 MCh\$	2001 MCh\$	2002 MCh\$	2001 MCh\$	2000 MCh\$	2002 MCh\$	2001 MCh\$	2002 MCh\$	2000 MCh\$	2001 MCh\$	2002 MCh\$	2001 MCh\$
Securities (*)												
Banco Central de Chile	178.8	5,480.0	13,250.0	37,868.7	37,868.7	43,348.7	386.7	666.2	9.2	113.0	37,877.9	779.2
Local financial institutions	5,206.9	5,501.0	30,082.6	5,965.5	5,965.5	11,466.5	106.9	15.1	273.8	250.3	6,239.3	265.4
Other local investments	1,568.7	—	33,783.3	1,484.0	1,484.0	1,484.0	242.0	45.9	(95.7)	—	1,388.3	45.9
Investments abroad	37,142.9	36,650.8	10,838.1	29,384.8	29,384.8	66,035.6	—	796.7	1,688.3	1,244.5	31,073.1	2,041.2
Company issued mortgage loans (***)	—	—	—	—	—	—	—	—	—	—	—	—
Total	44,097.3	47,631.8	87,954.0	74,703.0	74,703.0	122,334.8	735.6	1,523.9	1,875.6	1,607.8	76,578.6	3,131.7

(*) Classification according to issuers or those obliged to pay. The above mentioned amounts, in total, include MCh\$3,575.3 (MCh\$32,055.5 in 2001) 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 1e.

(***) In conformity with Circular N°3,196 of the Superintendencia of October 31, 2002, the accounting procedure was modified for investments in Company issued mortgage notes, and the related liabilities. Such modification considers them recorded in memorandum accounts. In 2001, the Bank did not have Company issued mortgage notes in its financial investment portfolio.

b. Other investments

	2002 MCh\$	2001 MCh\$
Assets for leasing	2,510.9	2,731.9
Assets received in settlement or awarded in payment (*)	4,647.4	6,046.8
Total	7,158.3	8,778.7

(*) 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 table below shows loans and financial investments grouped in accordance with their remaining term until maturity. The balances which include interest accrued at December 31, 2002 and 2001, are shown below.

	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	
	2002 MCh\$	2001 MCh\$	2002 MCh\$	2001 MCh\$	2002 MCh\$	2001 MCh\$	2002 MCh\$	2001 MCh\$	2002 MCh\$	2001 MCh\$
Loans (1):										
Commercial and other	448,856.0	497,635.4	75,072.2	107,511.4	103,296.5	42,918.0	117,140.0	46,403.6	744,364.7	694,468.4
Mortgage loans	—	242.8	182.1	339.8	824.1	797.3	48,838.3	30,561.0	49,844.5	31,940.9
Consumer loans	1,293.8	853.4	2,811.4	2,231.5	1,034.7	945.2	524.9	—	5,664.8	4,030.1
Other lending operations:										
Loans to other										
financial institutions	3,586.7	7,215.2	—	—	—	—	—	—	3,586.7	7,215.2
Credits arising from										
intermediation	—	721.9	—	—	—	—	—	—	—	721.9
Financial investments:										
Permanent portfolio (2)	11,006.3	2,011.6	3,429.5	13,788.6	15,409.7	22,752.0	14,251.8	9,079.6	44,097.3	47,631.8
Non-permanent portfolio (3)	88,689.6	76,226.9	—	—	—	—	—	—	88,689.6	76,226.9

(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\$1,795.5 (MCh\$1,457.6 in 2001), of which MCh\$590.0 (MCh\$513.7 in 2001) have been delinquent less than 30 days, have been excluded.

(2) Includes securities classified as permanent investments, as described in Note 1e, 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 table below shows deposits, borrowings and other liabilities in accordance with the remaining term until maturity. The balances, which include interest accrued at December 31, 2002 and 2001, 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	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
Deposits and other obligations (*):										
Deposits and savings	554,162.5	512,647.4	62,957.0	16,241.1	11,842.1	5,651.8	—	—	628,961.6	534,540.3
Obligations arising from intermediation	3,342.5	32,394.5	—	—	—	—	—	—	3,342.5	32,394.5
Mortgage notes	—	—	183.2	—	826.6	525.7	48,950.3	32,581.6	49,960.1	33,107.3
Bonds issued	1,075.3	2,252.8	381.4	3,912.2	3,374.0	5,601.9	41,718.3	36,574.5	46,549.0	48,341.4
Loans from financial entities and Banco Central de Chile:										
Other obligations with Banco Central	—	137.6	660.7	742.7	—	—	—	—	660.7	880.3
Loans from local financial institutions	674.4	1,559.6	102.0	5,235.3	—	—	—	—	776.4	6,794.9
Obligations abroad	88,556.7	80,780.4	—	898.3	—	—	—	—	88,556.7	81,678.7
Other obligations	712.8	2,635.3	4,239.3	7,577.4	4,765.4	13,129.0	7,521.2	18,898.1	17,238.7	42,239.8

(*) 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 (*)		2002 ThUS\$	2001 ThUS\$
	2002 ThUS\$	2001 ThUS\$	2002 ThUS\$	2001 ThUS\$		
Assets						
Liquid assets (*)	23,391	22,315	—	—	23,391	22,315
Loans	158,371	159,677	19,251	34,414	177,622	194,090
Contingent loans	19,903	25,008	2,725	3,657	22,628	28,666
Financial investments:						
Foreign	67,353	100,722	—	—	67,353	100,722
Other assets	166,663	122,762	12,177	17,371	178,840	140,133
Total assets	435,681	430,484	34,153	55,442	469,834	485,926
Liabilities						
Deposits and savings	17,906	12,560	—	—	17,906	12,560
Contingent liabilities	21,149	25,788	2,722	—	23,871	25,788
Time deposits and savings	87,959	104,585	—	92	87,959	104,677
Liabilities with foreign banks	124,301	120,811	—	—	124,301	120,811
Other liabilities	209,253	234,269	7,383	31,532	216,636	265,801
Total liabilities	460,568	498,013	10,105	31,624	470,673	529,637

(*) 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:

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	
	2002	2001	2002 ThUS\$	2001 ThUS\$	2002 ThUS\$	2001 ThUS\$
Local market:						
Future purchase of foreign currency in Chilean pesos	39	29	37,450.0	64,500.0	93,682.0	36,619.7
Future sale of foreign currency in Chilean pesos	75	60	16,154.4	68,751.1	149,219.5	140,500.0
Sale of foreign currency forwards	6	1	6,271.4	615.9	3,367.2	—
Foreign market:						
Purchase of foreign currency forwards	6	1	6,263.2	615.9	3,360.0	—

The amount refers to either the US dollar futures bought or sold, or the equivalent in US dollar 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	2002	UF	UF
Purchase of UF/Chilean peso forwards	—	4	—	600

NOTE 11. COMMITMENTS, CONTINGENCIES AND RESPONSIBILITIES

Commitments and responsibilities recorded in memorandum accounts

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

	2002 MCh\$	2001 MCh\$
Mortgage and pledge guarantees	493,458.3	481,759.5
Credit lines obtained	243,179.8	231,103.7
Securities and notes in guarantee	126,736.6	115,024.2
Securities held in custody	61,392.0	81,945.7
Loans approved and not disbursed	44,211.2	31,916.4
Foreign collections	26,993.3	14,479.0

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 statements of income are as following:

	Income		Expense	
	2002 MCh\$	2001 MCh\$	2002 MCh\$	2001 MCh\$
Commissions earned or paid on:				
Foreign trade transactions	—	79.7	—	—
Collection of documents	644.9	304.8	—	—
Letters of credit, guarantees, pledges and other contingent loans	393.3	406.7	—	—
Credit cards	211.0	86.7	—	—
Credit lines	65.9	187.5	—	—
Checking accounts	266.9	14.5	—	—
Private banking	222.6	—	—	—
Other	646.8	477.8	44.0	45.3
Total	2,451.4	1,557.7	44.0	45.3

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

NOTE 13. NON-OPERATING INCOME

The detail of non-operating income is as follows:

	2002	2001
	MCh\$	MCh\$
Sale of fixed assets	66,8	900,9
Recovery of expenses	808,8	717,9
Rents received	77,7	107,4
Recovery of written-off assets received in settlement	46,7	59,9
Other	636,6	232,7
Total	1.636,6	2.018,8

NOTE 14. NON-OPERATING EXPENSES

The detail of non-operating expenses is as follows:

	2002	2001
	MCh\$	MCh\$
Loss on sale of assets received in settlement of loans	689,8	355,0
Write-off of assets received in settlement of loans	717,8	—
Loss from assets recovered in leasing	306,6	226,5
Other	13,8	0,2
Total	1,728,0	581,7

NOTE 15. INCOME TAXES

The Bank has accrued a provision for corporate income tax of MCh\$1,634.2 (MCh\$17.1 in 2001).

NOTE 16. DEFERRED TAXES

As explained in Note 1j, 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:

2002:	Balance as of	
	January 1, 2002 (historical)	December 31, 2002
	MCh\$	MCh\$
Item		
Debit differences:		
Global portfolio provision	611.8	1,015.8
Recovered asset provisions	30.0	28.1
Leasing contract provisions	102.9	101.9
Leasing taxable assets	4,550.7	6,758.3
Market adjustment of non-permanent investments	227.9	133.9
Written-off assets received in settlement	43.0	308.6
Other	1.9	20.5
Subtotal	5,568.2	8,367.1
Complementary account	(3,482.5)	(3,368.2)
Net difference	2,085.7	4,998.9
Credit differences:		
Leasing contracts	(6,828.5)	(9,020.4)
Depreciation of fixed assets	(522.3)	(560.6)
Other	(13.4)	(48.4)
Subtotal	(7,364.2)	(9,629.4)
Complementary account	6,006.0	5,502.3
Net difference	(1,358.2)	(4,127.1)

2001:	Balance as of	
	January 1, 2001 (historical)	December 31, 2001
	MCh\$	MCh\$
Item		
Debit differences:		
Global portfolio provision	651.8	630.2
Recovered assets provision	—	30.9
Leasing contracts provision	—	106.0
Leasing taxable assets	—	4,687.2
Market adjustment of non-permanent investments	—	234.7
Adjustment for futures contracts	203.1	—
Written-off assets received in settlement	42.4	44.3
Other	2.9	2.0
Subtotal	900.2	5,735.3
Complementary account	—	(3,587.0)
Net difference	900.2	2,148.3
Credit differences:		
Leasing contracts	—	(7,033.4)
Depreciation of fixed assets	(411.3)	(538.0)
Other	—	(13.8)
Subtotal	(411.3)	(7,585.2)
Complementary account	275.6	6,186.2
Net difference	(135.7)	(1,399.0)

The tax expense for each year is as follows:

	2002	2001
Item	MCh\$	MCh\$
Current tax expense	(1,634.2)	(17.1)
Effect on assets or liabilities for deferred taxes of the year	587.6	(2,338.8)
Effect of amortization of complementary assets and liabilities accounts for deferred taxes for the year	(465.1)	2,323.6
Total	(1,511.7)	(32.3)

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

In 2002 and 2001, the Bank traded loan portfolio as follows:

2002:

Purchase MCh\$	Effect on sale MCh\$	Effect on income MCh\$	Provisions MCh\$
473.6	2,894.2	(447.0)	—

2001:

Purchase MCh\$	Effect on Sale MCh\$	Effect on Income MCh\$	provisions MCh\$
10,769.6	7,330.4	44.7	—

NOTE 18. DIRECTORS' EXPENSES AND FEES

During the years 2002 and 2001, the Bank has paid, with a charge to results, the following directors' fees and expenses:

	2002 MCh\$	2001 MCh\$
Per diem	61,4	74,6
Advisory service fees	384,4	298,8
Total	445,8	373,4

NOTE 19. SUBSEQUENT EVENTS

During the period between January 1 and 10, 2003, date of issue of the financial statements, there have been no subsequent events that might affect financial statements significantly.

HORACIO SILVA C.
Accounting Officer

RAMON ELUCHANS O.
General Manager

■ Consolidated Financial Statements of Banco Security and Subsidiaries

December 31, 2002 and 2001 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 of
Banco Security


We have audited the consolidated balance sheets of Banco Security and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of income and of cash flows for the years then ended. Preparation of these consolidated financial statements (including the related notes) is 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 management, as well as evaluating the overall consolidated 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, 2002 and 2001, and 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 Superintendency of Banks and Financial Institutions.



Jorge Rodríguez



Deloitte & Touche
January 10, 2003

Note: In the event of any discrepancy or difference of interpretation between this English translation and the original financial statements in Spanish, the latter prevails.

■ Consolidated Balance Sheets

As of December 31, 2002 and 2001 (In millions of Chilean pesos —MCh\$)

	2002	2001
	MCh\$	MCh\$
Assets		
Liquid Assets	93,584.6	87,519.1
Loans:		
Commercial	566,989.7	530,811.6
Foreign trade	90,651.9	85,256.9
Consumer	5,664.8	4,030.1
Mortgage loans	49,844.5	31,940.9
Leasing contracts	54,669.0	41,403.2
Contingent	46,870.1	40,251.9
Other outstanding loans	33,729.6	38,454.3
Past-due	7,687.5	9,104.6
Total loans	856,107.1	781,253.5
Less: allowance for loan losses	(10,572.2)	(7,802.6)
Total loans-net	845,534.9	773,450.9
Other Loan Operations:		
Loans to financial institutions	3,586.7	7,215.2
Credits arising from trading securities	4,159.9	721.9
Total other loan operations	7,746.6	7,937.1
Investments:		
Banco Central de Chile and Treasury Securities	15,669.5	15,672.2
Other financial investments	127,215.5	86,705.7
Intermediation	22,256.2	33,666.1
Assets for leasing	2,510.9	2,731.9
Assets received in settlement or awarded	4,647.4	6,046.9
Total investments	172,299.5	144,822.8
Other Assets	20,787.0	20,307.0
Fixed Assets:		
Physical fixed assets	12,001.2	11,862.6
Investments in related companies	459.7	462.0
Total fixed assets	12,460.9	12,324.6
Total Assets	1,152,413.5	1,046,361.5

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

	2002	2001
	MCh\$	MCh\$
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits and Other Liabilities:		
Checking accounts	49,300.7	49,265.0
Deposits and savings	628,961.6	534,540.3
Other time and demand liabilities	73,618.4	61,209.7
Liabilities arising from intermediation	25,176.3	32,394.5
Mortgage notes	49,960.1	33,107.3
Contingent liabilities	47,701.4	40,700.6
Total deposits and other liabilities	874,718.5	751,217.4
Bonds:		
Current bonds	10,528.1	11,932.1
Subordinated bonds	36,020.9	36,409.3
Total bonds	46,549.0	48,341.4
Borrowings from Banco Central de Chile and other Financial Institutions:		
Other Banco Central de Chile borrowings	660.7	880.3
Domestic borrowings	4,045.8	12,137.2
Foreign borrowings	88,556.7	81,678.7
Other borrowings	20,265.3	42,239.8
Total borrowings from financial institutions	113,528.5	136,936.0
Other liabilities	29,592.1	23,165.1
Total liabilities	1,064,388.1	959,659.9
Voluntary provisions	33.0	–
Minority interest	7.9	6.0
Shareholders' Equity:		
Capital and reserves	76,040.4	75,074.1
Other reserves	1,875.5	1,607.8
Net income	10,068.6	10,013.7
Total shareholders' equity	87,984.5	86,695.6
Total Liabilities and Shareholders' Equity	1,152,413.5	1,046,361.5

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

■ Consolidated Statements of Income

For the years ended December 31, 2002 and 2001 (In millions of Chilean pesos —MCh\$)

	2002	2001
	MCh\$	MCh\$
Operating Revenue:		
Interest and indexation income	80,509.9	87,421.7
Gains from intermediation	10,524.3	6,059.7
Commission income	2,631.2	2,177.1
Exchange income-net	363.4	2,843.9
Other operating income	1,100.1	3,049.8
Total operating revenue	95,128.9	101,552.2
Less:		
Interest and indexation expenses	(47,363.9)	(59,170.3)
Loss from intermediation	(4,282.8)	(2,930.0)
Commission expense	(44.0)	(166.7)
Other operating expenses	(322.1)	(1,261.3)
Gross operating margin	43,116.1	38,023.9
Remuneration and personnel expenses	(9,314.9)	(10,302.7)
Administrative and other expenses	(10,091.0)	(9,421.0)
Depreciation and amortization	(2,142.8)	(1,284.9)
Net operating margin	21,567.4	17,015.3
Provisions for assets at risk	(7,554.8)	(6,849.1)
Recovery of loans written off	239.5	261.9
Operating income	14,252.1	10,428.1
Other income and expenses:		
Non-operating income	1,686.2	2,055.3
Non-operating expense	(1,970.3)	(615.6)
Equity in earnings of related companies	44.1	276.1
Monetary correction	(1,835.7)	(1,823.9)
Income before income taxes	12,176.4	10,320.0
Income taxes	(2,072.5)	(305.2)
Income before minority interest and voluntary provision	10,103.9	10,014.8
Minority interest	(2.3)	(1.1)
Voluntary provisions	(33.0)	—
Net Income	10,068.6	10,013.7

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

Consolidated Statements of Cash Flows

For the years ended December 31, 2002 and 2001 (In millions of Chilean pesos —MCh\$)

	2002	2001
	MCh\$	MCh\$
Cash flows from operating activities:		
Net income	10.068.6	10.013.7
Charges (credits) to income that do not represent cash flows:		
Depreciation and amortization	2.142.8	1.284.9
Provisions for assets at risk	7.554.8	6.849.1
Equity in earnings of related companies	(44.1)	(276.1)
Minority interest	2.3	1.1
Monetary correction	1.835.7	1.823.9
Other charges (credits) that do not represent cash flows	2.154.7	(3.979.4)
Net variation in interest, indexation and commissions accrued on assets and liabilities	(1.135.0)	5.209.2
Net cash provided by operating activities	22.579.8	20.926.4
Cash flow from investing activities:		
Net increase in loans	(94.852.8)	(4.206.3)
Net (decrease) increase in other loan operations	4.483.3	(7.302.3)
Net increase in investments	(10.171.3)	(18.992.0)
Decrease of leasing assets	157.3	—
Purchase of fixed assets	(2.371.6)	(4.953.5)
Sale of fixed assets	9.1	5.285.2
Decrease of investments in related companies	462.2	312.9
Dividends received from investments in related companies	49.5	70.5
Sale of assets received in settlement of payment	5.611.1	743.7
Net (increase) decrease in other assets and liabilities	5.945.8	(2.091.6)
Net negative cash flow used in investing activities	(90.677.4)	(31.133.4)
Cash flows from financing activities:		
Net increase in checking accounts	1,435.0	18,308.0
Net increase (decrease) in deposits and savings	94,216.8	(71,717.6)
Net increase (decrease) in other time and demand liabilities	13,665.5	(12,982.2)
Net (decrease) increase in other liabilities arising from trading activities	(29,385.8)	916.4
Net increase in short-term foreign borrowings	14,338.4	71,681.0
Mortgage notes issued	17,811.7	16,642.7
Increase in other short-term liabilities	—	221.6
Borrowings from Banco Central de Chile (long-term)	—	340.5
Repayment of loans from Banco Central de Chile (long-term)	—	(256.2)
Bonds redeemed	(2,527.7)	(1,941.0)
Borrowings from financial institutions - net	101,781.1	1,293.7
Repayment of other long-term loans	(128,354.0)	(4,450.0)
Dividends paid	(9,047.2)	(7,564.3)
Net cash provided by financing activities	73,933.8	10,492.6
Net positive cash flow	5,836.2	285.6
Effect of inflation on cash and cash equivalents	229.3	991.6
Increase in cash and in cash equivalents	6,065.5	1,277.2
Cash and cash equivalents at beginning of year	87,519.1	86,241.9
Cash and cash equivalents at end of year	93,584.6	87,519.1

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

These financial statements have been prepared in accordance with the accounting regulations issued the Superintendency of Banks and Financial Institutions (hereinafter, Superintendencia). Such regulations agree with accounting principles generally accepted in Chile.

b. Basis of Consolidation

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

	Ownership	
	2002	2001
	%	%
Valores Security S.A. Stock Brokers	99.900	99.900
Administradora de Fondos Mutuos Security S.A.	99.990	99.990

Assets of subsidiaries represent 3.3% of the consolidated balance sheet (0.6% in 2001), and income of subsidiaries represents 14.9% of the consolidated income (7% in 2001).

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

The figures corresponding to the year 2001 are presented updated by 3%, the year's variation of the Consumer Price Index.

c. Interest and indexation

The loans, investments and liabilities include interest and adjustments accrued until year end.

However, in the case of past-due loans and current loans with a high risk of uncollectibility the banks has taken the conservative position of discontinuing the accrual of interest.

d. Monetary correction

Shareholders' equity, fixed assets and other non-monetary balances are 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\$1,835.7 (MCh\$1,823.9 in 2001).

The income statements of Banco Security are not monetarily corrected.

e. Foreign Currency

Assets and liabilities denominated in foreign currency are stated in Chilean pesos at the exchange rate of Ch\$712,38 for US\$1 (Ch\$656,2 for US\$1 in 2001).

The net gain from foreign exchange of MCh\$363.4 (MCh\$2,843.9 in 2001), shown in the consolidated income statement includes the net gains obtained from foreign exchange transactions, as well as the effects of exchange rate variations on assets or liabilities denominated in foreign currency.

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. Such instructions call for the recognition of the adjustments to market value against income for the year, unless permanent investments are involved, in which case, with certain limitations, the aforementioned adjustments can be made directly against fluctuation in value of financial investments on the shareholders' equity accounts.

The application of the adjustment to market value resulted in a net credit of MCh\$314.5 (MCh\$227.0 (historical) in 2001) to income of the year.

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

g. Physical fixed assets

The fixed assets are valued at monetarily corrected cost and net of depreciation calculated on the straight line basis over the useful life of the corresponding assets.

h. 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.

i. 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.

The balance and its effects on income are shown in the Balance Sheet and Statement of Income, respectively.

j. 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 Chilean Institute of Certified Accountants and its supplements, and instructions of the Superintendencia. Technical Bulletin No. 71, also issued by the same institute, states that, effective in 2002, 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 reverse.

k. Employee vacations

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

l. 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

During the years ended December 31, 2002 and 2001, the accounting principles have been consistently applied in relation to the prior year.

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 2002 and 2001 loans outstanding to related parties are as follows:

	Current Portfolio		Past Due portfolio		Total		Guarantees (*)	
	2002 MCh\$	2001 MCh\$	2002 MCh\$	2001 MCh\$	2002 MCh\$	2001 MCh\$	2002 MCh\$	2001 MCh\$
Individuals	90.0	180.6	—	—	90.0	180.6	511.5	180.6
Operating companies	17,008.1	16,176.2	13.9	14.3	17,022.0	16,190.5	10,821.1	8,643.1
Investment companies	6,460.3	4,231.0	—	—	6,460.3	4,231.0	3,986.2	2,385.8
Total	23,558.4	20,587.8	13.9	14.3	23,572.3	20,602.1	15,318.8	11,209.5

(*) 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 2002 and 2001, the Group entered into the following transactions in excess of UF1,000 with related parties:

Company	Item	Credit to income		Charge to income	
		2002 MCh\$	2001 MCh\$	2002 MCh\$	2001 MCh\$
Invest Security S.A.	Advisory services	—	—	750.0	380.3
Seguros Vida Previsión S.A.	Office rentals	16.7	16.3	—	—
Seguros Security Previsión Generales S.A.	Office rentals	5.9	13.0	—	—
Merchant Security S.A.	Advisory services	—	3.2	—	172.9
	Office rentals	22.9	17.1	—	—
Global Security S.A.	Advisory services	—	—	518.5	841.5
Virtual Security S.A.	Advisory services	—	—	1,803.2	—
Inmobiliaria Security S.A.	Sale of fixed asset	—	900.9	—	—
Grupo Security S.A.	Advisory services/transactions				
	financial instruments	20.0	—	—	—
Factoring Security S.A.	Transactions				
	financial instruments	—	—	208.5	—
Travel Security S.A.	Transactions				
	financial instruments	24.1	—	—	—

These transactions were realized at prevailing market terms.

NOTE 4. PROVISIONS

a. Provisions for assets at risk

At December 31, 2002, the Bank has accrued provisions for a MCh\$10,572.2 (MCh\$7,834.2 in 2001) which correspond to the minimum provisions required by the Superintendencia to cover possible losses.

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

	Provisions for			Total MCh\$
	Loans MCh\$	Assets received in settlement MCh\$	Other assets MCh\$	
Historical balances, December 31, 2000	5,465.2	58.9	—	5,524.1
Provisions applied	(4,538.9)	(90.2)	—	(4,629.1)
Provisiones established	6,649.0	62.0	—	6,711.0
Balances, December 31, 2001	7,575.3	30.7	—	7,606.0
Updated balances for comparative purposes	7,802.6	31.6	—	7,834.2
Historical balances, December 31, 2001	7,575.3	30.7	—	7,606.0
Provisions applied	(4,529.6)	(30.7)	—	(4,560.3)
Provisions established	7,526.5	—	—	7,526.5
Balances December 31, 2002	10,572.2	—	—	10,572.2

In the opinion of the Board of Directors, 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 voluntary provisions at December 31, 2002 equivalent to MCh\$33 (MCh\$0 in 2001).

NOTE 5. SHAREHOLDERS' EQUITY

a. Equity

The movements in shareholders' equity accounts during each year are summarized as follows:

	Paid-in capital MCh\$	Reserves MCh\$	Other reserves MCh\$	Income for the year MCh\$	Total MCh\$
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 for the year	—	—	—	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
Updated balances for comparative purposes	58,053.3	17,020.8	1,607.8	10,013.7	86,695.6
Balances, December 31, 2001, historical	56,362.4	16,525.0	1,561.0	9,722.0	84,170.4
Distribution of 2001 income	—	9,722.0	—	(9,722.0)	—
Dividend paid	—	(8,749.7)	—	—	(8,749.7)
Fluctuation in value of financial investments	—	—	314.5	—	314.5
Monetary correction of capital	1,690.9	489.8	—	—	2,180.7
Net income for the year	—	—	—	10,068.6	10,068.6
Balances, December 31, 2001	58,053.3	17,987.1	1,875.5	10,068.6	87,984.5

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 2002 and 2001, net profits from 2001 and 2000 of MCh\$9,722.0 and MCh\$9,644.1 (historical), respectively, were transferred to reserves.

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, 2002, the Bank has the following parameters: 6.74% (7.37% in 2001) and 11.61% (12.40% in 2001), respectively.

In accordance with the Circular No 3,178 of the Superintendency dated June 7, 2002, at December 31, 2002, the Bank has determined the minimum basic capital, the total assets, effective equity and risk weighted assets based on the consolidated Balance Sheet of the Bank.

NOTE 6. INVESTMENTS

At December 31, 2002 and 2001, the Bank holds the following investments:

a. Financial investments

At December 31, 2002

	Type of portfolio						Adjustments to market value					
	Permanent (**)		Non-permanent		Subtotal		Against income		Against equity		Total	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
Instruments (*)												
Banco Central de Chile	178.8	5,480.0	19,865.7	41,137.9	20,044.5	46,617.9	386.7	666.2	9.2	113.0	20,440.4	47,397.1
Local financial institutions	5,206.9	5,501.0	33,061.3	11,663.2	38,268.2	17,164.2	106.9	15.1	273.8	250.3	38,648.9	17,429.6
Other investments												
in the country	1,568.7	—	54,667.6	3,094.6	56,236.3	3,094.6	242.0	45.9	(95.7)	—	56,382.6	3,140.5
Investments abroad	37,142.9	36,650.8	10,838.1	29,384.8	47,981.0	66,035.6	—	796.7	1,688.3	1,244.5	49,669.3	68,076.8
Mortgage notes												
own issuance (***)	—	—	—	—	—	—	—	—	—	—	—	—
Total	44,097.3	47,631.8	118,432.7	85,280.5	162,530.0	132,912.3	735.6	1,523.9	1,875.6	1,607.8	165,141.2	136,044.0

(*) Classification according to issuers or those obliged to pay. This amount includes, in total, MCh\$22,256.2 (MCh\$33,666.1 in 2001) 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.

(***) In accordance with Circular No.3,196 of the Superintendencia, starting December 31, 2002, the accounting treatment for investments in mortgage notes of its own issuance and the related liabilities was modified. Said change considers their recording in memorandum accounts. In 2001 the Bank did not have mortgage notes of its own issuance in its financial investments.

b. Other investments

	2002	2001
	MCh\$	MCh\$
Assets for leasing	2,510.9	2,731.9
Assets received in settlement or awarded in payment (*)	4,647.4	6,046.9
Total	7,158.3	8,778.8

(*) 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. MATURITIES OF ASSETS AND LIABILITIES

a. Maturities of loans and financial investments

The table below shows loans and financial investments in accordance with the remaining term until maturity. The balances, which include interest accrued at December 31, 2002 and 2001, are as follows:

	Due within		More than 1 year		More than 3 years		More than		Total	
	one year		up to 3 years		up to 6 years		6 years			
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
Loans (1):										
Commercial and others	448,736.0	497,635.4	75,072.2	107,511.4	103,296.5	42,918.0	117,140.0	46,403.6	744,244.7	694,468.4
Mortgage loans	—	242.8	182.1	339.8	824.1	797.3	48,838.3	30,561.0	49,844.5	31,940.9
Consumer loans	1,293.8	853.4	2,811.4	2,231.5	1,034.7	945.2	524.9	—	5,664.8	4,030.1
Other lending operations:										
Loans to other										
financial institutions	3,586.7	7,215.2	—	—	—	—	—	—	3,586.7	7,215.2
Credits arising from										
intermediation	4,159.9	721.9	—	—	—	—	—	—	4,159.9	721.9
Financial investments:										
Permanent portfolio (2)	11,006.3	2,011.6	3,429.5	13,788.6	15,409.7	22,752.0	14,251.8	9,079.6	44,097.3	47,631.8
Non-permanent portfolio (3)	119,168.3	86,804.4	—	—	—	—	—	—	119,168.3	86,804.4

(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\$1,795.5 (MCh\$1,457.6 in 2001), of which MCh\$590.0 (MCh\$513.7 in 2001) have 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 adjustments to market value.

b. Maturities of deposits, borrowings and other financing operations

The table below shows deposits, borrowings and other liabilities in accordance with the remaining term until maturity. The balances, which include interest accrued at December 31, 2002 and 2001, 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	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
Deposits and other obligations (*):										
Deposits and savings	554,162.5	512,647.4	62,957.0	16,241.1	11,842.1	5,651.8	—	—	628,961.6	534,540.3
Obligations arising from intermediation	25,176.3	32,394.5	—	—	—	—	—	—	25,176.3	32,394.5
Mortgage notes	—	—	183.2	—	826.6	525.7	48,950.3	32,581.6	49,960.1	33,107.3
Bonds issued	1,075.3	2,252.8	381.4	3,912.2	3,374.0	5,601.9	41,718.3	36,574.5	46,549.0	48,341.4
Loans from financial entities and Banco Central de Chile:										
Other obligations with Banco Central	—	137.6	660.7	742.7	—	—	—	—	660.7	880.3
Loans from local financial institutions	3,943.8	6,901.9	102.0	5,235.3	—	—	—	—	4,045.8	12,137.2
Obligations abroad	88,556.7	80,780.4	—	898.3	—	—	—	—	88,556.7	81,678.7
Other obligations	3,739.4	2,635.3	4,239.3	7,577.4	4,765.4	13,129.0	7,521.2	18,898.1	20,265.3	42,239.8

(*) 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					
	Foreign currency		Chilean currency (*)		Total	
	2002 ThUS\$	2001 ThUS\$	2002 ThUS\$	2001 ThUS\$	2002 ThUS\$	2001 ThUS\$
Assets						
Liquid assets(*)	23,391	22,315	—	—	23,391	22,315
Loans	158,371	159,677	19,251	34,414	177,622	194,090
Contingent loans	19,903	25,008	2,725	3,657	22,628	28,666
Financial investments:						
Foreign	67,353	100,722	—	—	67,353	100,722
Other assets	166,663	122,762	12,177	17,371	178,840	140,133
Total assets	435,681	430,484	34,153	55,442	469,834	485,926
Liabilities						
Deposits and savings	17,906	12,560	—	—	17,906	12,560
Contingent liabilities	21,149	25,788	2,722	—	23,871	25,788
Time deposits and savings	87,959	104,585	—	92	87,959	104,677
Liabilities with foreign banks	124,301	120,811	—	—	124,301	120,811
Other liabilities	209,253	234,269	7,383	31,532	216,636	265,801
Total liabilities	460,568	498,013	10,105	31,624	470,673	529,637

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

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:

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

Type of future operation	Amount of the contracts					
	Number of operations		Up to three months		More than three months	
	2002	2001	2002 ThUS\$	2001 ThUS\$	2002 ThUS\$	2001 ThUS\$
Local market:						
Future purchase of foreign currency in Chilean pesos	39	29	37,450.0	64,500.0	93,682.0	36,619.7
Future sale of foreign currency in Chilean pesos	75	60	16,154.4	68,751.1	149,219.5	140,500.0
Sale of foreign currency forwards	6	1	6,271.4	615.9	3,367.2	—
Foreign markets:						
Purchase of foreign currency forwards	6	1	6,263.2	615.9	3,360.0	—

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			
	No of operations		1 to 3 months	Over 3 months
	2001	2002	UF	UF
Purchase of UF/Chilean peso forwards	—	4	—	600

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:

	2002 MCh\$	2001 MCh\$
Mortgage and pledge guarantees	493,458.3	481,759.5
Credit lines obtained	243,179.8	231,103.7
Securities and notes in guarantee	126,736.6	115,024.2
Securities held in custody	61,392.0	81,945.7
Loans approved and not disbursed	44,211.2	31,916.4
Foreign collections	26,993.3	14,479.0

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

b. Direct commitments of the subsidiary Valores Security S.A. Corredores de Bolsa

Guarantees for overdraft facility: At December 31, 2002, the Company has approved overdraft facilities with the banks: Sudamericano, Bice, Citibank, BHIF, Edwards and Santander, for which promissory notes have been signed equivalent to MCh\$1,400,000, MCh\$3,000,000, MUS\$3,000, MCh\$1,500,000, MCh\$500,000 and MCh\$8,500,000, respectively.

NOTE 11. COMMISSIONS

Commissions earned and paid shown in the consolidated statements of income correspond to the following:

	Income		Expenses	
	2002 MCh\$	2001 MCh\$	2002 MCh\$	2001 MCh\$
Commissions earned or paid on:				
Stock exchange transactions	173.8	598.6	—	121.3
Foreign trade transactions	—	79.7	—	—
Mutual funds transactions	6.0	20.7	—	—
Collection of documents	644.9	304.8	—	—
Letters of credit, guarantees, pledges and other contingent loans	393.3	406.7	—	—
Credit cards	211.0	86.7	—	—
Credit lines	65.9	187.5	—	—
Checking accounts	266.9	14.5	—	—
Private banking	222.6	—	—	—
Other	646.8	477.9	44.0	45.4
Total	2,631.2	2,177.1	44.0	166.7

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

NOTE 12. NON-OPERATING INCOME

The detail of non-operating income shown in the consolidated statements of income is as follows:

	2002 MCh\$	2001 MCh\$
Sale of fixed assets	66.8	900.9
Recovery of expenses	808.8	717.9
Rents received	61.2	143.9
Recovery of written off assets received in settlement	46.7	59.9
Others	702.7	232.7
Total	1,686.2	2,055.3

NOTE 13. NON OPERATING EXPENSES

The amount of non operating expenses shown in the consolidated statements of income:

	2002	2001
	MCh\$	MCh\$
Loss on sale of assets recieved in payment	689.8	355.0
Write-off-assets received in payment	717.8	—
Loss for assets recovered in leasing	306.6	226.5
Others	256.1	34.1
Total	1,970.3	615.6

NOTE 14. INCOME TAX

The Bank and its subsidiaries have accrued a provision for Corporate Income Tax, of MCh\$2,289.7 (MCh\$324.9 in 2001).

NOTE 15. DEFERRED TAXES

As explained in Note 1j, the Bank and its subsidiaries have applied the accounting criteria in 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:

2002:	Balances as of	
	January 1 2002 (historical) MCh\$	December 31 2002 MCh\$
Debit differences:		
Global portfolio provision	611.8	1,015.8
Recovered asset provisions	30.0	28.1
Leasing contract provisions	102.9	101.9
Leasing taxable assets	4,550.7	6,758.3
Market adjustment of non-permanent investments	227.9	133.9
Written-off assets received in settlement	43.0	308.6
Other	35.8	150.1
Subtotal	5,602.1	8,496.7
Complementary account	(3,482.5)	(3,368.2)
Net difference	2,119.6	5,128.5
Credit differences:		
Leasing contracts	(6,828.5)	(9,020.4)
Depreciaton of fixed assets	(522.3)	(560.6)
Other	(13.4)	(48.4)
Subtotal	(7,364.2)	(9,629.4)
Complementary account	6,006.0	5,502.3
Net difference	(1,358.2)	(4,127.1)

2001:	Balances as of	
	January 1,	December 31,
	2001	2001
Item	MCh\$	MCh\$
Debit differences:		
Global portfolio provision	651.8	630.2
Recovered assets provision	—	30.9
Leasing contracts provisions	—	106.0
Leasing taxable assets	—	4,687.2
Market adjustment of non-permanent investments	—	234.7
Adjustment of future transactions	203.1	—
Written-off assets received in settlement	42.4	44.3
Other	2.9	36.9
Subtotal	900.2	5,770.2
Complementary account	—	(3,587.0)
Net difference	900.2	2,183.2
Credit differences:		
Leasing contracts	—	(7,033.4)
Depreciation of fixed assets	(411.3)	(538.0)
Other	—	(13.8)
Subtotal	(411.3)	(7,585.2)
Complementary account	275.6	6,186.2
Net difference	(135.7)	(1,399.0)

Tax expense during 2002 and 2001 is as follows:

Item	2002	2001
	MCh\$	MCh\$
Current tax expense	(2,289.7)	(324.9)
Effect on assets or liabilities for deferred taxes of the year	682.3	(2,303.9)
Effect of amortization of complementary assets and liabilities accounts for deferred taxes for the year	(465.1)	2,323.6
Total	(2,072.5)	(305.2)

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

In 2002 and 2001, the Bank traded loan portfolio as follows:

2002:

Purchase	Sale	Effect on	Effect on
MCh\$	MCh\$	Income	provisions
		MCh\$	MCh\$
473.6	2,894.2	(447.0)	—

2001:

Purchase	Sale	Effect on	Effect on
MCh\$	MCh\$	Income	provisions
		MCh\$	MCh\$
10,769.6	7,330.4	44.7	—

NOTE 17. DIRECTORS' EXPENSES AND FEES

During each year, the Bank has paid the following directors' fees and expenses:

	2002	2001
	MCh\$	MCh\$
Per diem	61.4	74.6
Advisory service fees	384.4	298.8
Total	445.8	373.4

NOTE 18. SUBSEQUENT EVENTS

During the period between January 1 and 10, 2003, issue date of the financial statements, no subsequent events that might significantly affect them have occurred.

HORACIO SILVA C.
Accounting Officer

RAMON ELUCHANS O.
President

■ Summarized Financial Statements of Banco Security Subsidiaries

As of December 31, 2002 and 2001.



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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, 2002 and 2001.

Balance Sheet

	2002	2001
Assets	M\$	M\$
Liquid assets	95,778,800	74,439,112
Fixed assets	96,097	79,354
Other assets	395,149	401,454
Total assets	96,270,046	74,919,920
Liabilities		
Current liabilities	90,529,795	71,215,189
Capital and reserves	3,704,731	2,909,727
Net income	2,035,520	795,004
Total liabilities and equity	96,270,046	74,919,920
Statement of income		
Operating result	2,396,639	881,379
Non-operating result	14,729	41,769
Net income before taxes	2,411,368	923,148
Income tax	-375,848	-128,144
Net income	2,035,520	795,004

■ Administradora de Fondos Mutuos Security S.A.

Financial Statements as of December 31, 2002 and 2001.

Balance Sheet

	2002	2001
	M\$	M\$
Assets		
Liquid assets	3,503,249	2,199,312
Long-term	83,272	60,064
Fixed assets		
Total assets	3,586,521	2,259,376
Liabilities		
Current liabilities	407,488	107,365
Capital and reserves	2,152,201	1,294,125
Net income	1,027,023	857,886
Total liabilities and equity	3,586,521	2,259,376
Statements of income		
Operating result	1,038,571	838,720
Non-operating result	173,496	163,873
Net income before taxes	1,212,067	1,002,593
Income tax	-185,044	-144,707
Net income	1,027,023	857,886

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