annual report 2000

BANCO security

Contents

A letter from the Chairman

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

In the year 2000 the Chilean economy began a slow recovery from the recession that hit it in 1999. The country regained its leadership position in terms of economic growth in South America, despite some adverse foreign factors and a stagnant domestic demand. This translated into a weak performance of the most labor-intensive sectors of the economy, namely construction, trade, manufacturing, and financial services. As a result, unemployment rates were persistently high throughout the year, generating great frustration among economic authorities and private agents.

In the financial sector, these conditions reflected on a very moderate growth in loans. The larger banks prioritized the control of expenses and risk, which led to a substantial recovery of the banking industry's results and profits. Actually, loans of the overall financial system grew by a real 4.3%, compared with an average annual growth rate of 9.8% during 1990-99. The significant improvement of bank results in 2000 is worth highlighting, with an increase of 42.8% in real terms that resulted in a return on equity ratio of 12.7% for the industry. These figures are partly a bounce back from the 13% drop in profits of the year before, but they also reflect the hard efforts to reduce risk -and especially to improve efficiency- that some banks have been engaging in throughout the year. Figures available as of October 2000 indicate that the system's risk index has begun to subside, down to 2.08% after peaking at 2.14% by mid-year. This figure, although relatively acceptable by international standards, is still high if compared to the risk levels of around 1.25% that the overall financial system had achieved in earlier years.

Although the economic situation was not free of complications during the period, Banco Security's results were once again very satisfactory, showing the strength and development it has attained lately. In fact, Banco Security's net income grew by 8.3% to US$ 16.8 million in 2000, which represents a net income to average equity ratio of 15.5%. At the base of these numbers are the excellent performance of the Bank's different business areas, where it is worth singling out the high earnings obtained by the investment banking division, the strong growth in the activity levels of the corporate banking division, and the favorable development of the personal banking businesses.

It is worth noting that Banco Security's total loans grew in real terms by 18.1% to US$ 1.24 billion as of December 2000, which compares very favorably with the 4.3% real growth of the overall financial system. Thus, Banco Security closed the year with a market share of 2.5%. Such an increase resulted mainly from achieving the Corporate Banking goals and from the significant progress shown by the recently-created Personal Banking division.

To support the Bank's development strategy, Grupo Security made a capital contribution of US$ 10.8 million by the end of the year, to complete a total of US$ 14.8 million in early 2001. In addition, during December, the Bank made a bond issue of US$ 20.7 million in order to strengthen its effective equity. Thus, the Bank's Basle indexes -that measure effective equity over risk-weighted assets- showed substantial leeway over the 10% required to qualify as a first-rate bank.

Banco Security's traditional policies, in terms of excellence in customer portfolio and high efficiency and productivity standards have proved to be important strengths, again this year. In fact, during 2000, Banco Security continued to be, as in earlier years, the lowest-risk bank among Chilean banks operating in the local market, with a risk index of 0,87% of loans as of October 2000, compared with the average of 2.08% for the overall banking industry.

As for efficiency, Banco Security has continued to make cost-reducing efforts, in order to be able to compete with the remarkable efficiency levels of the larger banks operating in the country. The general and administrative (G&A) expenses to gross margin ratio was 52.8% in 2000, after 51.0% in 1999. The 8.5% increase in the Bank's G&A expenses is mainly explained by the costs associated with the technological innovations implemented during the year. On the other hand, Banco Security has kept its traditional first place in the sector in terms of productivity, as measured by loans over number of employees.

In a world of unending technological expansion, Banco Security -together with its own subsidiaries and a number of Grupo Security affiliates- continued to develop during 2000 the three-year Technological Plan it had launched by mid 1998 in order to place the Bank in a privileged position together with other technology-oriented banks.

Thus, Banco Security has continued the path of achievements it began more than a decade ago.

Regarding the financial sector's perspectives for 2001, its evolution will depend on how strongly the economy will recover during the year. In any case, banking activities are expected to grow faster than they did in the previous year, and to return gradually to the near 10% growth rates in loans that prevailed during the nineties. Also, we expect a recovery of the results and profits of the banking industry, to the extent that the system's overall risk rate returns to historical rates.

In this scenario, we project that Banco Security's assets will grow around 18% in the year, which implies to continue increasing our credit market share. In this regard, during the past few years a number of decisions have been made to strengthen the Bank from both the equity and the technological standpoints, and thus support business development and growth for the coming years. The strategy applied so far is consistent with our selective business approach and the integral utilization of the network of products and services throughout Grupo Security's subsidiaries.

As in previous years, we are proud to say that in complying with all our tasks, we have been able to rely on the sustained effort, the humane quality and the professional expertise of all the people that work in Banco Security. Their commitment to the Bank and its goals have been essential in building what is represented in this Annual Report in your hands.

Francisco Silva S.

Chairman

Board of Directors and 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 Corporate Banking Officer	Christian Sinclair M.
Chief Personal Banking Officer	Oscar Brahm G.
Chief Investment Banking Officer	Bonifacio Bilbao H.
Chief Risk Control Officer	José Miguel Bulnes Z.
Chief Operating Officer	Arturo Kutscher H.
Corporate Banking Officer	Alan Lolic Z.
Middle-Market & Branches Officer	Adolfo Tocornal R-T.
Personal Banking & Mortgage Businesses Officer	Gonzalo Baraona B.
Private Banking Officer	Miguel Angel Soto N.
International Relations Officer	Roland Jacob D.
Chief Administration Officer	Manuel José Balmaceda A.
Chief Development & I.T. Officer	Pedro de Tezanos Pinto D.
Comptroller	Sergio Candia A.

Commercial Managers & Agents

El Golf & Vitacura Branches Manager	Juan Carlos Ruiz V.
Temuco Branch Manager	René Melo B.
Santa Elena Branch Manager	Jorge Contreras W.
Concepción Branch Agent	Leoncio Toro F.
Providencia Branch Agent	Hernán Besa D.
Panamericana Branch Agent	Humberto Grattini F.
Quilicura Branch Agent	Felipe Schacht R.
Antofagasta Branch Agent	Guillermo Delgado G.
Puerto Montt Branch Agent	Alberto Apel O.
Ciudad Empresarial Branch Agent	Andrés Llodrá D.

Preferential Banking Agent	Luis Gil del V.
Money Desk Manager	Ricardo Turner O.
Business & Electronic Operations Manager	Marcial Letelier O.
Corporate Assistant Officer	Mauricio Parra L.
Corporate Assistant Officer	Sebastián Covarrubias F.
Corporate Assistant Officer	Ignacio Lecanda R.
Corporate Assistant Officer	Ignacio Prado R.
Real Estate Assistant Officer	Alejandro Arteaga I.
Foreign Trade Assistant Officer	Enrique Covarrrubias F.

Summarized Individual Financial Statements of Banco Security

In millions of December 2000 US dollars

Income Statement	1992	1993	1994	1995	1996	1997	1998	1999	2000
Gross Operating Results (Gross Margin)	18.4	24.2	23.9	27.5	29.1	31.7	35.6	43.3	45.5
Administrative Expenses	7.5	9.7	11.3	13.8	16.2	17.3	18.9	22.1	24.0
Net Operating Results (Net Margin)	10.9	14.6	12.6	13.7	12.9	14.4	16.7	21.2	21.4
Net Income	6.6	9.1	9.7	12.3	10.6	14.4	10.1	15.6	16.8

Closing Balances	1992	1993	1994	1995	1996	1997	1998	1999	2000
Loans	338.3	439.2	565.4	615.6	744.2	931.6	999.1	1,054.1	1,244.4
Financial Investments	301.9	345.1	142.7	261.6	169.9	233.1	195.4	125.6	158.0
Productive Assets	640.1	784.3	708.1	877.2	914.1	1,164.8	1,194.5	1,179.6	1,402.4
Fixed Assets and Investment in Subsidiaries	22.0	26.8	29.4	30.7	35.6	36.5	38.0	43.3	46.2
Total Assets	732.4	932.9	869.8	1,029.1	1,187.6	1,276.8	1,379.3	1,349.4	1,593.9
Cheking Accounts	22.1	28.7	33.5	31.0	46.5	43.5	36.9	50.9	51.3
Deposits and Other Term Obligations	317.4	390.0	438.6	540.9	690.4	674.1	816.8	852.0	1,094.6
Foreign Obligations	81.9	115.1	116.5	110.4	120.8	64.9	76.6	71.0	16.0
Provision for Risk Assets	3.3	5.3	6.1	6.1	7.7	7.5	10.1	9.7	9.5
Capital & Reserves	62.5	63.2	64.1	74.3	75.2	78.5	100.7	100.7	119.4
Equity	69.1	72.3	73.8	86.6	85.8	92.9	111.9	116.4	138.5

Financial Indicators	1992	1993	1994	1995	1996	1997	1998	1999	2000
Productive Assets/Total Assets	87.40%	84.07%	81.41%	85.24%	76.97%	91.22%	86.60%	87.42%	87.98%
Net Income/Equity	10.55%	14.41%	15.07%	16.53%	14.11%	18.39%	9.89%	15.43%	13.84%
Net Income/Productive Assets	1.03%	1.16%	1.36%	1.40%	1.16%	1.24%	0.84%	1.32%	1.20%
Administrative Expenses/Productive Assets	1.17%	1.23%	1.59%	1.57%	1.77%	1.49%	1.58%	1.88%	1.71%
Productive Assets/Number of Employees (millions of December 2000 US dollars)	3.9	4.9	4.1	4.5	4.4	5.0	4.6	4.2	4.3
Loans/Number of Employees (millions of December 2000 US dollars)	2.1	2.8	3.2	3.2	3.5	4.0	3.0	3.7	3.9
Leverage	11.87	14.59	14.2	13.7	14.7				
Number of Employees	163	159	174	195	210	234	257	283	323

Summarized Consolidated Financial Statements of Banco Security

In millions of December 2000 US dollars

Income Statements	1995	1996	1997	1998	1999	2000
Gross Operating Results (Gross Margin)	37.9	39.0	41.7	43.7	56.6	58.2
Administrative Expenses	18.5	21.8	22.6	24.0	28.4	29.7
Net Operating Results (Net Margin)	19.4	17.1	19.2	19.7	28.2	28.5
Net Income	12.3	10.6	14.4	10.1	15.6	16.8

Closing Balances	1995	1996	1997	1998	1999	2000
Loans	673.1	814.1	1,008.9	1,080.5	1,129.9	1,315.9
Financial Investments	275.9	183.7	260.8	203.9	134.1	201.3
Productive Assets	949.0	997.8	1,269.7	1,284.5	1,264.0	1,517.2
Fixed Assets and Investment in Subsidiaries	14.2	19.7	17.5	19.5	23.2	24.0
Total Assets	1,084.9	1,257.1	1,365.1	1,457.3	1,424.9	1,704.3
Cheking Accounts	36.8	46.5	43.5	36.8	50.9	51.3
Deposits and Other Term Obligations	544.8	694.9	693.9	819.9	855.4	1,123.7
Foreign Obligations	85.1	120.8	64.9	76.6	71.0	16.0
Provision for Risk Assets	6.1	7.7	7.5	10.1	10.8	10.6
Capital & Reserves	74.3	75.2	78.5	100.7	100.7	119.4
Equity	86.6	85.8	92.9	119.9	116.4	138.5

Financial Indicators	1995	1996	1997	1998	1999	2000
Productive Assets/Total Assets	87.47%	79.38%	93.01%	88.14%	88.71%	89.02%
Net Income/Equity	16.53%	14.11%	18.39%	9.89%	15.43%	13.84%
Net Income/ Productive Assets	1.29%	1.06%	1.14%	0.78%	1.23%	1.11%
Administrative Expenses/Productive Assets	1.95%	2.19%	1.78%	1.87%	2.25%	1.96%

All the roads are open

Economic Review

During the past year, Chile regained its leadership position in South America in terms of economic growth, despite facing continuing adverse external conditions. Both the slow takeoff after the 1999 recession and the lack of dynamism of the domestic demand resulted in weak performance indicators of the most labor-intensive sectors, namely construction, trade, manufacturing and financial services. Hence, the economy continued to show high and persistent unemployment rates, a situation that generated great frustration among economic authorities and private agents.

On the other hand, economic growth's driving force was foreign demand this year -thanks to the highest world growth rate in over a decade- which reflected on very good export sales. This, combined with weak domestic spending, favored good results in the foreign accounts.

The strength of the world economy not only stimulated export volumes but prices as well, although the latter -especially in the case of copper- somewhat modestly because of the substantial appreciation of the dollar to the euro during most of the year, which at its peak reached 30%.

The devaluation of the European currency prolonged the absorption of foreign deflation (oil excluded). This, combined with stricter monetary conditions on the part of the US Federal Reserve, which brought the federal funds rate to 6.5% to slow down the economy, kept real foreign interest rates above their historical average.

Another adverse foreign factor were insufficient capital flows into Latin America in general, aggravated by political and economic turmoil in several countries in the region and high interest rates in the United States. In fact, the US economy continued to act as a big "vacuum cleaner" sweeping resources into that country, because of the large deficit in the balance of payments' current account. Private financing flows into Latin America during the year 2000 were an estimated 40% below the 1994-1997 annual average, which reflected in high spreads in Latin 10-year bonds, which remained around 800 base points during the past year, twice the premium shown in 1997.

Among foreign factors, it is worth noting the heavy increase of oil prices, a phenomenon that, apart from its hard impact on inflation rates, caused a terms-of-trade loss of 1.2% of GDP (US$850 million) compared to a normal year. This also reflects the influence of weakened prices of the main commodities associated to the aforesaid strength of the dollar against the euro and the oil price shock.

Parallel to these unfavorable foreign conditions, the Chilean economy's results in 2000 were inserted in a domestic scenario marked by discouragement, distrust and uncertainty. A vicious circle was created where high unemployment discouraged consumption and therefore sales, which in turn affected the projections of various businesses and slowed down investments, which hit back on the creation of jobs. In this sense, the different measures adopted by the Government, essentially reactivating and job-creating actions, served only as a palliative, failing to expand the economy and create a significant amount of new jobs.

On the good side was the proper combination of monetary and fiscal policies. The former played an expansionary role through a monetary instance rate that -except from March to August, where it increased to 5.5%- stayed during the rest of the year in 5%, which in turn favored a significant drop in long-term rates. In the case of 8 year Central Bank bonds, the rate receded in almost a full point during the year, from 6.75% to 5.85%.

On the other hand, fiscal policy management was restrictive in order to balance the General Government deficit inherited from the previous year, with spending (net of interests and financial investment) that increased around an estimated 3%, substantially below the growth in GDP. The adjustment was achieved mainly through capital spending, which fell by an estimated 7%, while current spending expanded by an estimated 4.7%. Thanks to this prudent management of public finances, the new administration was able to revert the 1.6% fiscal deficit of 1999 and ensure a balanced budget for 2000.

Thus, the economy closed the year with still below historical average terms of trade and with an estimated growth of around 5.4%, accompanied by a 7.2% increase in spending that was not enough to offset the 10% drop of 1999 and where its main components, namely gross fixed capital formation and private consumption, grew by only 3.6% and 4.6%, respectively.

In the foreign accounts, total exports increased by nearly 16% to around US$18.16 billion, favored by the 15% increase in the price of copper and the 8% growth in physical non-copper shipments. Imports, on the other hand, although 20% larger than the year before at US$16.72 billion, were heavily influenced by the 74% increase in oil prices, considering that in terms of volume, purchases overseas increased by only some 10%. As a result of this combination, the trade balance showed a surplus close to US$1.43 billion, while the current account deficit remained limited -as evidence of steady spending- around 1.3% of GDP.

Contrary to the developments during the Asian crisis, and within the context of the present floating exchange rate regime, rates declined despite the fact that the dollar/peso rate increased by a solid Ch$ 44 (8.3%), closing the year at 573.90 versus 529.50 Chilean pesos to the dollar one year earlier. This increase in the rate of exchange -which was also at the base of the good exporting sector's performance- was encouraged by the international boost of the dollar and the limited capital inflows to Latin America.

However, the same was not true with inflation rates, where although the trend measure was moderate because of weak spending, the official rate exceeded by one-half percentage point the Central Bank's goal, as a result of the direct and indirect effects of the oil shock.

In any case, the peso depreciation did not translate into increased inflation, because the lack of dynamism of the domestic demand caused the economy to adjust essentially through the prices of non tradables. Actually, although the rate for the year was 4.5%, some 3.2 points were accounted for by the direct and indirect effects of the oil price increase, and the underlying measure closed at 3.4% while the CPI X 1 (the same underlying rate but excluding regulated prices, such as bus fares) did at barely 1.5%.

But just as weak spending controlled inflation rates, its most negative consequences manifested in the labor market, where the annual average rate of unemployment was 9.2%. In combination with the failed recovery of the sectors most connected with domestic demand was -at the base of this high unemployment- the inflexibility of remunerations, including both the minimum and the overall economy's average wages.

In brief, during the year 2000 the Chilean economy resumed economic growth in the context of foreign turmoil, a limited current account deficit, high unemployment and a controlled underlying inflation rate. With the confirmation of the fundamental bases of the economic model and a number of economic policy- related uncertainties being clarified by the new authorities, an improvement of the foreign sector is likely to consolidate the above trends for the coming year.

Chile: Basic Macroeconomic Indicators

	1996	1997	1998	1999	2000
GDP (billion US$)	68.8	75.3	72.4	67.2	70.0
Per Capita GDP (US$)	4,774.4	5,148.6	4,888.0	4,476.4	4,598.7
Real GDP Growth (%)	7.4	7.4	3.9	-1.1	5.4
Domestic Spending Growth (%)	7.9	9.1	3.9	-10.0	7.2
Private Consumption	9.4	8.2	4.3	-3.1	4.6
Gross Fixed Capital Formation	8.9	11.5	4.1	-17.4	3.6
Terms of Trade (1986 = 100)	123.2	123.6	116.8	115.5	116.1
Copper Price (US$ cents per pound)	104.1	103.3	75.0	71.3	82.2
Oil Price (US$ per barrel)	19.8	19.2	12.9	16.4	28.5
Trade Balance (billions of US$)	-1.1	-1.6	-2.5	1.7	1.4
Current Account (billions of US$)	-3.5	-3.7	-4.1	-0.1	-0.9
Balance of Payments (billions of US$)	1.2	3.2	-2.1	-0.7	0.2
Total Savings (domestic + foreign)	26.9	27.2	26.8	21.6	23.4
Gross National Savings	21.5	21.6	20.5	21.3	22.1
Central Government	5.8	5.6	4.1	2.4	3.2
Rest (private sector, Central Bank & state-owned companies)	15.7	16.0	16.4	18.9	18.9
Foreign Savings (current account deficit)	5.4	5.7	6.3	0.3	1.3
CPI Variation December - December (%)	6.6	6.0	4.7	2.3	4.5
Relevant Foreign Inflation (Central Bank average %)	-1.7	-3.4	-4.7	-1.4	2.2
90-day Central Bank bond rate (December average %)	7.3	6.7	8.0	5.7	4.9
8-year Central Bank bond rate (December average %)	6.1	6.8	7.2	6.7	5.9
Exchange Rate (average Ch$/US$)	412.3	419.3	460.3	508.8	539.5
Exchange Rate (December average, Ch$/US$)	422.4	438.3	472.4	538.2	574.6
Real Exchange Rate (Central Bank Average Index; 1986 = 100)	84.7	78.4	78.0	82.3	85.9
Employment Growth (%)	1.4	2.1	1.8	-2.1	1.0
Labor Force Growth (%)	0.4	1.7	1.8	1.8	0.5
Unemployment Rate (%)	6.5	6.1	6.2	9.7	9.2
Real Wage Variation (%)	4.5	4.8	2.7	2.4	1.4
Net Foreign Debt (billions of US$)	7.5	8.9	15.7	19.5	21.8
Net Foreign Investment Stock (billions of US$)	19.9	24.7	25.7	28.1	26.2
Total Net Foreign Liabilities (billions of US$)	25.9	29.6	33.7	33.8	34.7
Total Net Foreign Liabilities (% of GDP)	37.6	39.3	46.6	50.3	49.6
Total Net Foreign Liabilities (% of FOB exports)	167.9	177.6	227.5	216.6	191.1

Banco Security and the Chilean Banking Industry

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

The Overall Banking Industry

The evolution of the Chilean economy during 2000 was marked by slower-than-expected growth together with inflation rates influenced by world oil prices. The most severe problem was high unemployment, that reached two-digit figures during the winter months. The climate of economic uncertainty created by announcements of labor and tax reforms affected the expectations of entrepreneurs, who then decided to shelve many investment projects in various economic areas.

In the banking sector, these effects have manifested in a cautious growth in financial activities, where efforts have focused on controlling expenses and risk levels, in order to improve results and profits.

At the end of the year 2000, the Chilean financial system was made up of 29 institutions, including 9 domestic private banks, 18 foreign banks, one state-owned bank and one financial institution.

Levels of Activity

Available numbers for the industry show a real increase in total loans of 4.3% in 2000 after a mere 2.7% real growth in 1999, both substantially lower than the real annual average growth of 10.8% that predominated during 1990-98, but consistent with the prevailing economic climate. Within this context, the most severe fall was again accounted for by consumer credits (estimated in -1.8%), generating and increase (estimated in 3.2%) in overall commercial credits. Thus, the growth in total loans was based on increased foreign trade loans (estimated in 8.3%), housing loans (5.0%) and an increase in the past-due portfolio, consistent with the increased risk of the system. Preliminary figures show an 8.7% increase in past-due credits for the year 2000 which, combined with the strong growth of previous years, results in an increase from 1.00% of total loans in 1997 to 1.73% in 2000.

As for risk, available figures indicate that the system's risk rate continued to increase peaking at 2.14% of credits in June 2000, to later decline to 2.08% of total loans in October. Although this can be seen as relatively acceptable by international standards, it is poor compared with the average risk levels of around 1.25% that the financial system had attained in the years before the crisis (1995-1997 average).

During 2000 there was some relief in the provisions on loans index, which declined by 21.32% after the heavy increase of 35.3% it had shown in 1999. This relief explains to some extent the improvement of the banking industry's results of the year.

In general, several banks also strengthened their capital base in order to resist the increased potential risk of their portfolios. Thus, capital and reserves of the financial system increased by a real 5.3% in the year. The strength of the overall financial industry reflects on the Basle index, which measures effective equity in terms of risk-weighted assets and that reached a level of 13.39% in November of 2000, showing a wide margin over the legal minimum of 8%. Furthermore, virtually all the financial institutions showed a Basle index of more than 10%, which is one of the requisites to qualify as a first-rate bank.

Results

Earnings of the overall financial system increased by 42.8% during 2000, after the 12.9% drop experienced in 1999. These increased earnings translated into a higher return on equity, which reached 12.7% in the year, compared with 9.4% in 1999. It is worth noting that the highest earnings rates correspond to the 3 largest sized private banks operating in the market, which had suffered the effects of mergers and acquisitions in prior years.

Regarding the main items that explain the increase in bank earnings in the year 2000, it must be mentioned that while the gross operating margin (that includes interests, commissions, other operating income, and price-level restatement) remained fairly stable, operating general and administrative expenses showed an increase of only 1.5%, which is lower than the increase in loans. On the other side is the drop in provisions already mentioned and a 27.2% increase in other net income (that includes mainly the better results of the subsidiaries), all resulting in the aforesaid increase in earnings.

Consequently, from the analysis to the results it can be concluded that the Chilean banking industry undertook the complex economic scenario of the year 2000 with the proper maturity, since it reduced the relative weight of G & A expenses, while controlling at the same time the levels of risk with a moderate increase in loans. Thus, operating G & A expenses of the system increased by a real rate of 1.5% during the year, a big step forward in terms of efficiency, since the ratio of these expenses to gross margin declined from 66.4% in 1997 to 60.8% in 2000.

In sum, it can be said that the Chilean banking system has managed to endure the complex economic conditions of the past few years in an adequate manner, with the proper level of provisions to confront the increased risks of the market, also making big efforts to control expenses, thereby smoothing the high costs associated with any adjustment process.

All your operations in one hand

Activities and Results of Banco Security

Banco Security's strategy is directed at large and medium-sized companies and a select group of high-income individuals. The wide range of financial products and services provided by Banco Security is markedly oriented to the client, providing customized, integral, flexible and timely services.

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

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

- Large corporations, that focuses on the larger private enterprises and state-owned companies, with annual sales of US$25 million or more, also including real estate companies.
- Medium-sized companies, that services enterprises with sales between US$5 and 25 million, through its branches in Santiago and other Regions.
- During 2001 the Leasing Security subsidiary is planned to be absorbed by the Bank, in order to provide the leasing services directly through the Corporate Banking division.

The **Personal Banking** division is directed at high-income individuals, and today it accounts for 12% of the Bank's loans. It is made up of the department of Personal Banking and Mortgage Businesses, oriented at meeting the financial needs of high-income individuals in general, through either the Preferential Banking or the Private Banking areas, which focus on managing private investors' personal finances.

Finally, the **Investment Banking** division has traditionally been of great importance in the Bank's businesses, especially through its active Money Desk that operates both domestically and internationally. It also includes the International Executive Office that focuses on financing foreign trade operations, where Banco Security has kept significant market share over the years.

Results

Although the economic scenario was not free of complications during the year 2000, Banco Security's results were very satisfactory, demonstrating the strength and maturity it has attained in the past few years. In fact, Banco Security and subsidiaries' consolidated income amounted to US$ 16.8 million in the year, with a real increase of 8.3% over the year before, representing a return on equity of 15.5%. This real growth in results from 1999 is mainly explained by the strong increase in business activities, with controlled levels of risk and expenses, as well as by the good results of the Money Desk and the earnings of the Bank's subsidiaries.

Total loans of Banco Security as of December 2000 amounted to US$ 1.24 billion, a real growth of 18.1% in 12 months, compared with an estimated real growth of 4.3% in the overall financial system. It must be noted that the average real annual growth in loans during the 1990-99 period was 22.4% for Banco Security and 9.9% for the system. Thus, Banco Security's credit market share was 2.5% in 2000, being well positioned in its target market. Comparatively, Banco Security is currently ranked 13th among the 29 banks and financial institutions operating in the market as of the end of 2000.

As for Banco Security's credit portfolio, the 18.1% growth in total loans was based mainly on the 24.5% increase in commercial credits, with the launching of letters of credit, with an increase of 10.6% in foreign trade loans and a 78.4% increase in the past-due portfolio. Although the latter figure seems quite high, it must be noted that Banco Security's past-due portfolio is still one of the lowest in the market with

0.48% of its loans, which compares very favorably with the banking industry's average of 1.73% of total credits for the year 2000.

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

In fact, if measured by the portfolio risk rate, Banco Security is the lowest risk bank among all the domestic banks that operated in the local market during 2000, and ranks fourth if all banks, both domestic and foreign, are considered. Available risk indicators at October 2000 indicate that risk levels in the financial system have begun to subside, down to 2.08% of loans, compared with a peak of 2.14% in June 2000 and 1.98% in October of 1999. Banco Security's risk indicator is 0.87% of loans as of October 2000, compared with 1.12% one year earlier. It must be noted here that Banco Security -and the rest of the banking system- had to make significant efforts, although smaller than last year, in terms of provisions and write-offs during 2000 (US$ 6.6 million at December 2000 and US$ 8.5 million at December 1999).

In addition, the Bank has continued striving to control expenses, both administrative and labor-related, to retain its traditional high efficiency standards. The real increase of 8.5% in general and administrative expenses of the Bank is notoriously lower than the increase in its levels of activity (loans grew by 18.1%). This is explained mainly by increased expenses associated with technological innovations. In any case, Banco Security's efficiency indicators, that measure G&A expenses over gross margin, were 52.8% in 2000 compared with 51.0% in 1999, still among the lowest in the market. On the other hand, Banco Security maintained its traditional first place in the industry in terms of productivity, as measured by the loans to number of employees ratio (US$ 3.9 million per employee in the year 2000).

To strengthen the base of the Bank's development strategy, Grupo Security made a capital increase of US$ 10.8 million by the end of 2000, to complete a total of US$ 14.8 million by early 2001. In addition, during December the Bank issued subordinate bonds worth US$ 20.7 million in order to reinforce its effective equity. Thus, Banco Security's Basle indexes -that measure effective equity over risk-weighted assets- showed significant leeway above the 10% level required by the law to qualify as a first-rate bank. Hence, Banco Security's Basle index is 11.81% as of December 2000, showing a comfortable margin over the minimum required of 8%. In turn, base capital accounts for 7.64% of total assets, much above the legal minimum of 3% set forth by the General Banking Act.

Finally, it must be mentioned that Banco Security's subsidiaries made -as in earlier years- a substantial contribution to the Bank's activities and results. In fact, earnings from investments in related companies increased by a real 5.7% during the year to US$ 5.2 million at December 2000, and accounted for 30.7% of the Bank's consolidated income of the period, compared with 31.5% of consolidated income the year before. It is worth noting here that by the close of 2000 the subsidiary Asesorías Security became a subsidiary of Merchant Security, and that during 2001 all the operations and activities of Banco Security's subsidiary Leasing Security are planned to be merged into the Bank's Corporate Banking Division.

Other Activities

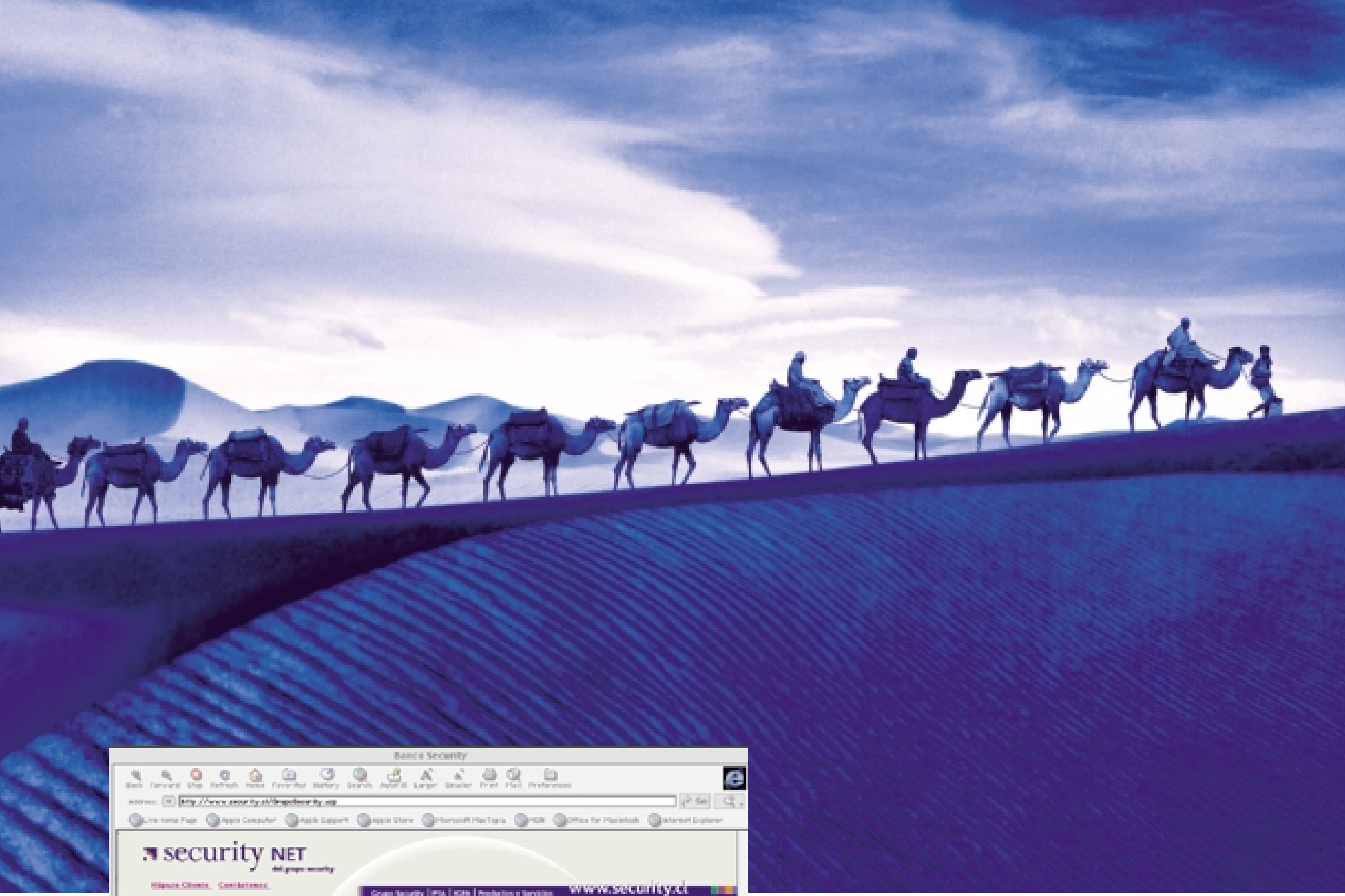
It is important to note that Banco Security, together with its subsidiaries and other companies in the Group, started an ambitious three-year Technological Plan in 1998, aimed at placing the Bank in a privileged position in the market, together with the other banks that have chosen the path of modernization.

A vision of future, that enhances direct communication with the clients, based on state-of-the-art information and communication technologies has been present for some time in the Bank's development plans. This includes bringing to the clients all the banking services possible through the Internet and cellular telephones, constantly alert to new developments. To that end, a team of professionals was formed, assigned to study the market and become familiar with the needs of current and potential customers of the Bank and its subsidiaries, to investigate new technologies and design new processes to support all products and services, ensuring the top quality, efficiency and agility standards demanded by the clients. Some of these products are already operative and have been received very favorably by the users.

In an industry that becomes more competitive and demanding every year, Banco Security faces new and varied challenges. Worth singling out are the strengthening of its corporate banking division, further developing its banking services for selected individuals and increasing the Bank's participation in international operations. All of this has been possible thanks to the improved use of the synergy that results from the subsidiaries' permanent cooperation and mutual support with their respective business areas, whereby it can provide timely, integral and agile services to its clients.

Branches

Banco Security operates through a total of 12 offices, including the Headquarters. Its branch-opening strategy has been framed by our vision of future technological development, and is directed mainly towards sectors or regions that are consistent with the target market of large and medium-sized companies and selected individuals. It is our belief that before the technological development that will come with the new millennium, it is an important advantage for the Bank to have an agile office structure. Thus, four of the Bank's branches are located outside Santiago (i.e. Antofagasta, Concepción, Temuco and Puerto Montt) and the rest in the Metropolitan Region of Santiago with the Providencia, El Golf, Vitacura, Panamericana, Quilicura, Santa Elena and Ciudad Empresarial branches.



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Subsidiaries of Banco Security

Valores Security S.A. Corredores de Bolsa

Board of Directors:

Chairman:	Ramón Eluchans O.
Directors:	Claudio Berndt C.
	Guillermo Correa S.
	Javier Gómez C.
	Luis Montalva R.
	Juan Oehninger M.
	Mario Weiffenbach O.

Management:

President:	Nicolás Ugarte B.
Chief Operating Officer:	Juan Adell S.

During the year 2000 Valores Security S.A. Corredores de Bolsa showed very satisfactory results, with net income of US$ 1.7 million, compared with US$ 1.6 million a year before, showing a real increase of 3.5% and a return on equity of 36.7%. These favorable results of the Company are directly related with the increased dynamism and activities of foreign exchange and fixed income securities operations, and to a lesser extent with variable income transactions. The amount traded in the local stock exchanges during the year was US$5,878 million, 7.9% down from 1999, despite the purchase offers of Chilectra, Río Maipo, Gener and Banco de Chile stocks that reactivated the market in the latter months of 2000. Stock prices, as measured by the general price index IGPA and the selective price index IPSA declined by 3.64% and 5.78% during the year, respectively.

Valores Security performed stock transactions amounting to a total of US$ 595.5 million during the year, not a significant difference from 1999, ranking 8th among the 38 existing stockbroker offices. Its average market share for the year was 4.18% considering transactions performed at the Santiago Stock Exchange and the Chilean Electronic Exchange where the Company operates. The two business areas of Valores Security S.A. Corredores de Bolsa showed the following performance in the year just ended:

- Fixed income instruments produced gross income of US$ 2.3 million during the year, which may be seen as an important achievement considering the difficult conditions for handling positions in fixed income securities and dollars.
- Variable income instruments (stocks) grossed US$ 1.3 million from stock intermediation and stock exchange rights, as well as from the earnings of the Company's own portfolio.

Leasing Security S.A.

Board of Directors:

Chairman:	Renato Peñafiel M.
Directors:	Claudio Berndt C.
	Ramón Eluchans O.
	Naoshi Matsumoto T.
	Luis Montalva R.
	Horacio Pavez G.
	Gonzalo Ruiz U.

Management:

President:	Alan Lolic Z.
Chief Financial Officer:	Thomas de la Mare P.

This subsidiary of Banco Security performs leasing operations concerning machinery and equipment, heavy trucks and freight vehicles, as well as lease-back of new and used goods and real-estate leasing of office space and industrial properties. Its target market is formed by large and medium-sized companies, which it services with a strong client orientation, providing integral service while taking advantage of the synergy with the Bank and other subsidiaries of the Grupo Security holding company.

The leasing industry is one of the activities that are hardest hit by economic cycles and market conditions because it is associated to purchases of and investment in capital goods, primarily real estate properties and machinery. Thus, during 2000, as in 1999 and 1998, the leasing industry once again failed to recover, except for a slight improvement of real estate leasing businesses during the second half of the year.

Within this context, Leasing Security S.A.'s net income for the year 2000 increased by 57% in real terms to US$ 2.2 million, in one year. The Company's return on equity was 19.6%.

The Company's leasing contracts amounted to US$ 72.4 million as of December 2000, a drop of 4.3% from the year before. During 2000, Leasing Security made provisions on contracts amounting to US$ 233 thousand (US$ 159 thousand in 1999), showing an effective provision coefficient of 1.43% of its total lease contract portfolio (1.51% in 1999), a good margin over the risk-rate coefficient of 1.3%.

At year-end, the Company's leverage is 5.41 times its equity. Hence, Leasing Security has a very solid equity structure, together with low risk levels in its credit operations, reduced payment delay and a large number of clients operating in a vast variety of economic activities, which translates into a diversified portfolio in terms of both goods and contract duration.

As of December 2000, the Company has in effect 623 lease contracts (674 in 1999) with a total of 369 debtors (391 in 1999).

Finally, it must be noted that the new Banking Act reform contained in a November 1998 circular permits banks to perform their leasing operations directly, without the need to create subsidiaries for that purpose, and to absorb these subsidiaries if they already exist. Thus, most banks have merged their subsidiaries into the Bank's activities over the past two years, in order to take advantage of economies of scale from using the bank's infrastructure and improved access to funds. Banco Security is no exception and plans to incorporate the Leasing Security subsidiary to its commercial network during the course of 2001.

Administradora de Fondos Mutuos Security S.A.

Board of Directors:

Chairman:	Oscar Brahm G.
Directors:	Francisco Juanicotena S. Gonzalo Ruiz U. Miguel Angel Soto N. Adolfo Tocornal R-T.

Management

President:	Alfredo Reyes V.
Chief Commercial Officer:	Juan Pablo Lira T.

The Company was created as a Banco Security subsidiary in May of 1992, and has grown steadily since, incorporating new funds. As of December 2000, the company manages seven funds, namely

- **Security Check**, a short term fixed-income fund oriented to 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 to individuals and small companies;
- **Security Acciones**, a variable-income fund;
- **Security Global Investment**, a fund that is authorized to invest 100% of its portfolio in foreign instruments;
- **Security Gold,** a fixed-income fund oriented to individuals wishing to invest for the medium and long term; and
- **Security Explorer**, an international variable-income fund.

Administradora de Fondos Mutuos Security's net income of the year 2000 amounted to US$ 1.5 million, a 22.2% increase from the previous year, showing a return on equity ratio of 68.5%.

At December 2000, Administradora de Fondos Mutuos Security was managing an average equity of US$ 177.1 million, which account for a market share of 3.8%, somewhat lower than the 4.3% figure of 1999. The Company's strategy of having attractive returns on all the various funds it manages and orienting its sales force to higher-income individuals and companies has resulted in a large number of participants, specifically 6,695 clients compared to 5,868 by the end of 1999.

The table below shows the evolution of Mutual Funds during the past four years (in millions of US dollars of each year):

Mutual Funds	December 1997	December 1998	December 1999	December 2000
Mutual fund industry	4,556.3	2,897.4	3,993.0	4,613.4
Administradora de Fondos Mutuos Security S.A.	131.0	120.7	171.5	177.1
AFM Security's market share	2.9%	4.2%	4.3%	3.8%

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 of the Company, because of the knowledge they have of their clients and their specific investment needs. One quarter of total sales are performed at the branches of Banco Security, in each of which AFM Security has at least one investment agent assigned for its operations.

2000-1999 Financial Statements

Individual Financial Statements of Banco Security

December 31, 2000 and 1999 with Independent Auditors' Report Thereon

Contents

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 Board of Directors and Shareholders of
Banco Security

We have audited the balance sheets of Banco Security as of December 31, 2000 and 1999, and the related statements of income and cash flows for the years then ended. These financial statements (including the notes thereto) are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Chile. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Bank's management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

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

In our opinion, such individual financial statements present fairly, in all material respects, the financial position of Banco Security as of December 31, 2000 and 1999, and the results of its operations and its cash flows for the years then ended, in conformity with the basis of accounting described in Note 1 to the financial statements.

As explained in Note 2 to the financial statements, in accordance with instructions of the Superintendence of Banks and Financial Institutions, in 2000 the Bank changed the method used to account for financial investments that are traded in the secondary market and mature in less than one year.

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

Deloitte & Touche
January 10, 2001

Jorge Rodríguez

Deloitte Touche Tohmatsu

Balance Sheets

As of December 31, 2000 and 1999 (in millions of Chilean pesos - MCh$)

Assets	2000 MCh$	1999 MCh$
Current Assets	**80,874.9**	**67,105.7**
Loans:		
Commercial	508,775.2	408,647.1
Foreign trade	94,507.9	85,468.5
Consumer	2,593.5	1,811.3
Mortgage	14,475.0	554.4
Contingent	46,831.9	57,889.6
Other outstanding loans	42,036.4	47,346.3
Past-due	3,436.9	1,926.8
Total loans	**712,656.8**	**603,644.0**
Less: provisions for loan losses	**(5,465.2)**	**(5,024.3)**
Total loans-net	**707,191.6**	**598,619.7**
Other loan operations:		
Credits for intermediation	–	–
Total other loan operations	**–**	**–**
Investments:		
Banco Central de Chile and Treasury Securities	11,214.1	24,688.6
Other financial investments	67,225.7	38,437.1
Intermediation	10,635.9	7,186.3
Assets received in settlement or awarded	1,393.0	1,596.6
Total investments	**90,468.7**	**71,908.6**
Other assets	**7,809.8**	**10,312.1**
Fixed assets:		
Premises and equipment	12,963.4	12,043.5
Investments in related companies	13,497.3	12,758.8
Total fixed assets	**26,460.7**	**24,802.3**
Total assets	**912,805.7**	**772,748.4**

The accompanying notes are an integral part of these financial statements

Liabilities and shareholders' equity	2000 MCh$	1999 MCh$
Liabilities:		
Deposits and other obligations:		
Checking accounts	29,369.5	29,171.5
Deposits and banker drafts	573,640.8	452,879.9
Other time and demand liabilities	53,234.0	35,033.6
Liabilities arising from intermediation	10,456.1	7,286.9
Mortgage notes	14,705.8	554.4
Contingent liabilities	46,921.8	57,762.0
Total time and demand deposits	**728,328.0**	**582,688.3**
Bonds:		
Current bonds	6,782.7	6,970.3
Subordinated bonds	33,951.4	23,390.6
Total bonds	**40,734.1**	**30,360.9**
Borrowing from financial institutions and Banco Central de Chile:		
Other obligations with Banco Central de Chile	1,037.6	1,242.9
Domestic borrowing	–	5,244.9
Foreign borrowing	9,170.2	40,680.8
Other borrowing	37,606.2	25,746.9
Total borrowing from financial institutions	**47,814.0**	**72,915.5**
Other liabilities	**16,591.3**	**19,589.8**
Total liabilities	**833,467.4**	**705,554.5**
Voluntary provisions	**–**	**530.9**
Shareholders' equity:		
Capital and reserves	68,360.2	57,678.4
Other reserves	1,334.0	75.9
Net income	9,644.1	8,908.7
Total shareholders' equity	**79,338.3**	**66,663.0**
Total liabilities and shareholders' equity	**912,805.7**	**772,748.4**

The accompanying notes are an integral part of these financial statements

Statements of Income

For the years ended December 31, 2000 and 1999 (in millions of Chilean pesos - MCh$)

	2000 MCh$	1999 MCh$
Operating income:		
Interest and indexation income	81,335.5	66,694.5
Gains from intermediation	1,025.0	1,560.3
Commissions earned	1,679.4	1,567.6
Exchange income-net	3,528.5	2,254.9
Other operating income	83.2	84.7
Total operating income	**87,651.6**	**72,162.0**
Less:		
Interest and indexation expense	(61,441.1)	(46,976.9)
Loss from intermediation	(63.9)	(165.6)
Commissions paid	(66.6)	(39.4)
Other operating expenses	(51.4)	(156.1)
Gross operating margin	**26,028.6**	**24,824.0**
Remunerations and personnel expenses	(7,566.1)	(6,862.9)
Administration and other expenses	(5,279.6)	(5,048.3)
Depreciation and amortization	(901.6)	(760.6)
Net operating margin	**12,281.3**	**12,152.2**
Provisions for assets at risk	(3,791.5)	(4,882.5)
Recovery of loans written off	149.3	34.6
Operating income	**8,639.1**	**7,304.3**
Other income and expenses:		
Non-operating income	726.9	804.6
Non-operating expense	(273.9)	(16.5)
Share in earnings of related companies	2,964.6	2,803.7
Monetary correction	(1,769.1)	(941.2)
Income before income taxes	**10,287.6**	**9,954.9**
Income tax provision	(643.5)	(612.0)
Income before voluntary provisions	9,644.1	9,342.9
Voluntary provisions	–	(434.2)
Net income	**9,644.1**	**8,908.7**

The accompanying notes are an integral part of these financial statements

Statements of Cash Flows

For the years ended December31, 2000 and 1999 (in millions of Chilean pesos - MCh$)

	2000 MCh$	1999 MCh$
Cash flows from operating activities:		
Net income	9,644.1	8,908.7
Charges (credits) to income that do not represent cash flows:		
Depreciation and amortization	901.6	760.6
Provisions for assets at risk	3,791.5	4,882.5
Voluntary provisions	–	434.2
Share in earnings of related companies	(2,964.6)	(2,803.7)
Net loss from sale of assets received in settlement of loans	87.7	16.5
Monetary correction	1,769.1	941.2
Other charges that do not represent cash flows	3,485.2	397.6
Net change in interest, indexation and commissions accrued on assets and liabilities	(4,691.2)	(4,041.1)
Net cash provided by operating activities	**12,023.4**	**9,496.5**
Cash flows from investing activities:		
Changes in assets affecting cash flows:		
Net increase in loans	(118,300.6)	(51,099.9)
Net decrease in other loan operations	–	8,093.2
Net decrease (increase) in investments	(18,128.8)	29,544.7
Purchase of fixed assets	(3,735.7)	(3,023.0)
Sale of fixed assets	1,890.0	537.7
Sale of investments in related companies	145.1	–
Dividends received from investments in related companies	2,081.1	1,509.0
Sale of assets received in settlement of loans	1,480.9	533.1
Net decrease (increase) in other assets and liabilities	(508.2)	2,760.9
Net cash used in investing activities	**(135,076.2)**	**(11,144.3)**
Cash flows from investing activities:		
Net increase in checking accounts	202.6	8,122.9
Net increase in deposits and banker drafts	118,323.2	31,584.1
Net increase (decrease) in other time and demand liabilities	18,628.2	(7,780.7)
Net increase (decrease) in other liabilities arising from trading activities	3,567.5	(27,349.7)
Increase (decrease) in short-term foreign borrowing	1,521.8	(5,594.5)
Mortgage notes issued	14,594.4	559.5
Bonds issued	12,074.8	–
Payment of long-term loans	(32,474.9)	–
Issue of shares	6,206.2	–
Decrease in other short-term liabilities	(4,466.8)	(8,035.9)
Dividends paid	(4,508.9)	(5,756.0)
Net cash provided by (used in) financing activities	**133,668.1**	**(14,250.3)**
Net increase (decrease) in cash flows	10,615.3	(15,898.1)
Effect of inflation on cash and cash equivalents	**3,153.9**	**2,163.9**
Net increase (decrease) in cash and cash equivalents	13,769.2	(13,734.2)
Cash and cash equivalents at beginning of year	**67,105.7**	**80,839.9**
Cash and cash equivalents at end of year	**80,874.9**	**67,105.7**

The accompanying notes are an integral part of these financial statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Information provided

The financial statements have been prepared in accordance with accounting regulations issued by the Superintendence of Banks and Financial Institutions (hereinafter, the Superintendence). Such regulations agree with Chilean generally accepted accounting principles, except for investments in subsidiaries, which are recorded in one 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 for the year 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 1999 Chilean peso amounts have been price-level restated, for changes in the Consumer Price Index (CPI) used for monetary correction (4.7%).

b. Interests and indexation

The amounts recorded in the balance sheet for loans, investments, and liabilities include interest and indexation accrued until the end of the year.

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 changes in the Chilean Consumer Price Index (CPI). The application of monetary correction results in a net charge to income of MCh$1,769.1 (MCh$941.2 in 1999).

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$572.68 = US$1 in 2000 and Ch$527.70 = US$1 in 1999).

The net gain from foreign exchange of MCh$3,528.5 (net gain of MCh$2,254.9 in 1999) shown in the income statement includes the net gains obtained from foreign exchange transactions, as well as the recognition of the effects of exchange rate variations on net assets or liabilities denominated in foreign currency.

e. Financial investments

Long-term investments that are traded in the secondary market are stated at market value, in accordance with instructions of the Superintendence. Such instructions call for the recognition of the adjustments to market value to be recognized against income of the year, unless permanent investments are involved, in which case, with certain limitations, the aforementioned adjustments may be made directly against the "Fluctuation in value of financial investments" equity account.

The application of the adjustment to market value resulted in a net credit of MCh$1,261.5 (net charge of MCh$545.4 in 1999) to income of the year.

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

f. Premises and equipment

Premises and equipment are stated at monetarily corrected cost and are shown net of accumulated depreciation, calculated on a straight-line basis, over the estimated useful lives of the corresponding assets.

g. Investments in related companies

The shares or rights in related companies where 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 Superintendence. 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 establish special provisions, called "Voluntary Provisions", which can be considered as part of the equity for purposes of complying with certain regulations of the General Banking Law.

The amount and effect on income are shown directly on each year's balance sheets and statements of income.

j. Deferred taxes

The effects of deferred taxes arising from differences between the tax and the book bases are recorded on the accrual basis in conformity with Technical Bulletins N^{os}60 and 69 of the Chilean Institute of Certified Public Accounts.

k. Employee vacations

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

l. Cash and cash equivalents

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

NOTE 2. ACCOUNTING CHANGES

In accordance with the Superintendence's Circular N° 3096 , the Bank modified the accounting treatment of financial investments that are traded in the secondary market and mature in less than one year. The new accounting policy calls for such investments to be adjusted to market value. This accounting change resulted in a credit of MCh$54.7 to income for the year 2000.

NOTE 3. RELATED PARTY TRANSACTIONS

Pursuant to the General Banking Law and the Superintendence's instructions, individuals and companies that are related, either directly or through a third party, to the Bank's owners or management are considered related parties.

a. Loans to related parties

At December 31, 2000 and 1999, loans to related parties are as follows:

	Current portfolio		Past due portfolio		Total		Collateral pledged (*)	
	2000 MCh$	1999 MCh$	2000 MCh$	1999 MCh$	2000 MCh$	1999 MCh$	2000 MCh$	1999 MCh$
Individuals	358.1	534.7	–	–	358.1	534.7	203.8	425.4
Productive companies	6,661.0	2,985.2	–	–	6,661.0	2,985.2	290.9	983.4
Investment companies	4,403.7	9,139.5	–	–	4,403.7	9,139.5	1,490.3	7,132.1
Total	**11,422.8**	**12,659.4**	**–**	**–**	**11,422.8**	**12,659.4**	**1,985.0**	**8,540.9**

(*) 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 Superintendence's instructions.

b. Other transactions with related parties

During 2000 and 1999, the Bank entered into the following transactions in excess of UF1,000 with related parties:

		Credit to income		Debit to income	
Related party	Description	2000 MCh$	1999 MCh$	2000 MCh$	1999 MCh$
Previsión Vida S.A.	Office rentals	19.7	17.3	–	–
Previsión Generales S.A.	Office rentals	16.4	17.3	–	–
Merchant Security S.A.	Advisory services	–	–	15.7	304.0
Grupo Security S.A.	Advisory services	15.6	–	–	93.0

These transactions were realized at prevailing market terms.

NOTE 4. INVESTMENTS IN RELATED COMPANIES

a. Participation in the companies

Under the heading of fixed assets, there are investments in affiliates amounting to MCh$13,497.3 (MCh$12,758.8 in 1999), the detail of which is as follows:

					Investment value			Income		
	Ownership		Equity		With deferred taxes		Without deferred taxes	With deferred taxes		Without deferred taxes
	2000	1999	2000	1999	2000	1999	1999	2000	1999	1999
Company	%	%	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$
Valores Security S.A.										
Corredores de Bolsa	99.900	99.900	3,633.9	3,272.0	3,630.3	3,305.2	3,268.6	938.9	972.9	942.5
Leasing Security S.A.	99.999	99.999	7,745.9	7,280.5	7,745.7	7,280.5	7,280.5	1,270.3	813.6	813.6
Administradora de Fondos										
Mutuos Security S.A.	99.990	99.990	2,043.9	1,876.5	2,043.7	1,897.6	1,876.3	808.2	698.1	679.7
Asesorías Security S.A. (*)	–	95.000	–	204.6	–	194.3	194.3	(52.8)	319.1	319.0
Subtotal	–	–	–	–	**13,419.7**	**12,677.6**	**12,619.7**	**2,964.6**	**2,803.7**	**2,754.8**
Shares and rights										
in other companies	–	–	–	–	77.6	81.2	81.1	–	–	–
Total	–	–	–	–	**13,497.3**	**12,758.8**	**12,700.8**	**2,964.6**	**2,803.7**	**2,754.8**

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

b. Related companies' information

	Assets				Liabilities			
	Totals		% with the Bank		Totals		% with the Bank	
	2000	1999	2000	1999	2000	1999	2000	1999
Company	MCh$	MCh$			MCh$	MCh$		
Valores Security S.A.								
Corredores de Bolsa	120,547.7	38,766.1	–	–	116,913.8	35,494.1	–	–
Leasing Security S.A.	43,372.4	49,141.6	–	–	35,626.6	41,860.9	–	–
Administradora de Fondos								
Mutuos Security S.A.	2,202.5	2,014.2	–	–	158.5	137.6	–	–
Asesorías Security S.A.	–	250.3	–	87.9	–	45.7	–	–

NOTE 5. PROVISIONS

a. Provisions for assets at risk

At December 31, 2000, the Bank has accrued provisions for a total of MCh$5,465.2 (MCh$5,024.3 in 1999) which correspond to the minimum provisions required by the Superintendence to cover possible losses.

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

	Provisions for			
	Loans MCh$	**Assets received in settlement MCh$**	**Other assets MCh$**	**Total MCh$**
Historical balances, December 31, 1998	5,281.2	–	–	5,281.2
Write offs	(5,145.7)	–	–	(5,145.7)
Increase in provision	4,663.3	–	–	4,663.3
December 31, 1999 balances	**4,798.8**	**–**	**–**	**4,798.8**
Updated balances for comparative purposes	**5,024.3**	**–**	**–**	**5,024.3**
Historical balances, December 31, 1999	4,798.8	–	–	4,798.8
Write offs	(3,125.1)	–	–	(3,125.1)
Increase in provision	3,791.5	58.9	–	3,850.4
December 31, 2000 balances	**5,465.2**	**58.9**	**–**	**5,524.1**

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

b. Voluntary provision

The Bank has no voluntary provisions at December 31, 2000 (MCh$530.9 in 1999).

NOTE 6. SHAREHOLDERS' EQUITY

a. Movements in the shareholders' equity accounts during each year are summarized as follows:

	Paid-in capital MCh$	Other reserves MCh$	Other accounts MCh$	Income of the year MCh$	Total MCh$
Historical balances, December 31, 1998	45,129.4	8,553.3	617.9	5,368.8	59,669.4
Distribution of 1998 income	–	5,368.8	–	(5,368.8)	–
Dividends paid	–	(5,368.8)	–	–	(5,368.8)
Fluctuation in value of financial investments	–	–	(545.4)	–	(545.4)
Capital revaluation	1,169.0	237.5	–	–	1,406.5
Net income	–	–	–	8,508.8	8,508.8
December 31, 1999 balances	**46,298.4**	**8,790.8**	**72.5**	**8,508.8**	**63,670.5**
Updated balances for comparative purposes	**48,474.4**	**9,204.0**	**75.9**	**8,908.7**	**66,663.0**
Historical balances, December 31, 1999	46,298.4	8,790.8	72.5	8,508.8	63,670.5
Distribution of 1999 income	–	8,508.8	–	(8,508.8)	–
Dividends paid	–	(4,254.4)	–	–	(4,254.4)
Fluctuation in value of financial investments	–	–	1,261.5	–	1,261.5
Capital increase	6,206.2	–	–	–	6,206.2
Capital revaluation	2,168.2	642.2	–	–	2,810.4
Net income	–	–	–	9,644.1	9,644.1
December 31, 2000 balances	**54,672.8**	**13,687.4**	**1,334.0**	**9,644.1**	**79,338.3**

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 procedure being applied to the reserves.

During February of 2000 and 1999, net profits from 1999 and 1998 of MCh$8,508.8 and MCh$5,368.8 (historical), respectively were transferred to other reserves.

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

b. Minimum basic capital and effective equity

According to the General Banking Law, a financial institution's minimum basic capital may not be lower than 3% of its total assets, while the effective equity may not be lower than 8% of its risk weighted assets. At year-end of 2000 and 1999, Banco Security ratios were as follows:

	2000 MCh$	1999 MCh$
Basic capital (*)	69,694.2	57,754.3
Total assets	912,805.7	772,748.4
Percentages	7.64%	7.47%
Effective equity (**)	88,742.0	69,646.8
Risk-weighted assets	751,374.0	616,365.9
Percentages	11.81%	11.30%

(*) 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 companies and capital assigned to foreign branches must be subtracted, whereas subordinated bonds and voluntary provisions, within certain limits, should be included.

NOTE 7. INVESTMENTS

As of December 31, 2000 and 1999, the Bank has the following investments:

a. Financial investments

At December 31, 2000 and 1999

	Type of portfolio						Adjustment to market value					
	Permanent(**)		Non-permanent		Subtotal		Credit (charge) to income		Credit (charge) to equity		Total	
	2000 MCh$	1999 MCh$	2000 MCh$	1999 MCh$	2000 MCh$	1999 MCh$	2000 MCh$	1999 MCh$	2000 MCh$	1999 MCh$	2000 MCh$	1999 MCh$
Securities (*)												
Banco Central de Chile	891.3	5,997.9	20,587.4	25,842.4	21,478.7	31,840.3	80.1	–	50.0	42.0	21,608.8	31,882.3
Local financial institutions	5,585.1	1,543.8	–	4,348.5	5,585.1	5,892.3	14.6	–	97.4	33.9	5,697.1	5,926.2
Other investments in Chile	1,592.5	41.1	8,140.3	5,237.4	9,732.8	5,278.5	8.3	–	54.0	–	9,795.1	5,278.5
Investments abroad	25,648.9	21,823.0	25,116.6	5,402.0	50,765.5	27,225.0	76.6	–	1,132.6	–	51,974.7	27,225.0
Total	**33,717.8**	**29,405.8**	**53,844.3**	**40,830.3**	**87,562.1**	**70,236.1**	**179.6**	**–**	**1,334.0**	**75.9**	**89,075.7**	**70,312.0**

(*) Classification according to the issuers or those obliged to pay. The above mentioned amounts include MCh$10,635.9 (MCh$7,186.3 in 1999) 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.

b. Other investments

	2000 MCh$	1999 MCh$
Assets received in settlement or awarded in payment (*)	1,393.0	1,596.6

(*) 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. ANALYSIS OF ASSETS AND LIABILITIES BY MATURITY

a. Maturities of loans and financial investments

The information below shows assets and liabilities at December 31, 2000 and 1999 in accordance with the remaining term until maturity. The balances, which include interest accrued at year end, are as follows:

	Due within one year		More than 1 year up to 3 years		More than 3 years up to 6 years		More than 6 years		Total	
	2000 MCh$	1999 MCh$	2000 MCh$	1999 MCh$	2000 MCh$	1999 MCh$	2000 MCh$	1999 MCh$	2000 MCh$	1999 MCh$
Loans (1):										
Commercial and others	439,817.8	379,342.8	71,974.7	39,922.1	74,991.0	62,108.0	49,551.4	31,441.4	636,334.9	512,814.3
Mortgage loans	220.0	1,119.2	580.4	2,130.6	774.0	3,717.9	20,625.4	21,612.2	22,199.8	28,579.9
Consumer loans	1,388.6	1,257.6	1,048.8	536.1	155.6	17.8	–	–	2,593.0	1,811.5
Other lending operations:										
Credits for intermediation	–	–	–	–	–	–	–	–	–	–
Financial investments:										
Permanent portfolio (2)	26,062.1	5,599.1	24.9	17,813.7	481.1	5,987.8	7,149.7	5.2	33,717.8	29,405.8
Non-permanent portfolio (3)	54,023.9	40,830.3	–	–	–	–	–	–	54,023.9	40,830.3

(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$1,260.3 (MCh$621.9 in 1999), of which MCh$328.3 (MCh$226.2 in 1999) have been delinquent less than 30 days, have been excluded.
(2) Includes securities classified as permanent investments, as described in Note 1, without adjustments to market value and non-transferable notes.
(3) Includes all the other financial investments, with adjustments to market value.

b. Maturities of deposits, borrowing and other financing operations

The information detailed below shows deposits, borrowing and other liabilities at December 31, 2000 and 1999 in accordance with the remaining term until maturity. The balances, which include interest accrued at year end, are as follows:

	Due within one year		More than 1 year up to 3 years		More than 3 years up to 6 years		More than 6 years		Total	
	2000 MCh$	1999 MCh$	2000 MCh$	1999 MCh$	2000 MCh$	1999 MCh$	2000 MCh$	1999 MCh$	2000 MCh$	1999 MCh$
Deposits and other obligations (*):										
Deposits and banker drafts	551,620.5	443,689.3	19,330.2	9,190.6	2,690.1	–	–	–	573,640.8	452,879.9
Obligations arising from trading activities	10,456.1	7,286.9	–	–	–	–	–	–	10,456.1	7,286.9
Mortgage notes	–	55.4	–	166.2	289.1	166.2	14,416.7	166.6	14,705.8	554.4
Obligations for bonds issued	399.5	258.6	3,175.8	2,663.6	8,113.7	7,838.9	29,045.1	19,599.8	40,734.1	30,360.9
Loans from financial institutions and Banco Central de Chile:										
Other obligations with Banco Central de Chile	1,037.6	171.7	–	1,071.2	–	–	–	–	1,037.6	1,242.9
Loans from local financial institutions	–	5,244.9	–	–	–	–	–	–	–	5,244.9
Obligations abroad	8,597.6	40,679.1	254.5	1.7	318.1	–	–	–	9,170.2	40,680.8
Other obligations	7,591.4	2,130.6	18,474.9	2,362.0	7,611.2	13,107.4	3,928.7	8,146.9	37,606.2	25,746.9

(*) 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					
	Foreign currency		Chilean currency (*)		Total	
	2000	1999	2000	1999	2000	1999
	ThUS$	ThUS$	ThUS$	ThUS$	ThUS$	ThUS$
Assets						
Current assets (*)	20,665	45,999	–	–	20,665	45,999
Loans	184,032	158,542	47,131	38,873	231,163	197,415
Contingent loans	43,194	67,914	1,389	6,304	44,583	74,218
Financial investments:						
Abroad	90,757	49,276	–	–	90,757	49,276
Other assets	65,008	38,003	–	–	65,008	38,003
Total assets	**403,656**	**359,734**	**48,520**	**45,177**	**452,176**	**404,911**
Liabilities						
Demand deposits	12,128	12,811	–	–	12,128	12,811
Contingent obligations	43,535	67,914	–	–	43,535	67,914
Time deposits	94,884	85,411	263	–	95,147	85,411
Liabilities with foreign banks	15,958	72,263	–	–	15,958	72,263
Other liabilities	245,009	123,651	33,166	–	278,175	123,651
Total liabilities	**411,514**	**362,050**	**33,429**	**–**	**444,943**	**362,050**

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

NOTE 10. TRANSACTIONS WITH DERIVATIVE INSTRUMENTS

Purchases and sales of foreign currency futures and other derivative products at year end, are summarized below:

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

			Amount of the contracts			
	Number of operations		Up to 3 months		More than 3 months	
	2000	1999	2000	1999	2000	1999
Type of future operation			ThUS$	ThUS$	ThUS$	ThUS$
Local market:						
Purchase of Chilean peso futures	14	6	31,500.0	4,007.7	23,201.4	10,000.0
Sales of Chilean peso futures	49	29	35,200.0	19,000.0	182,800.0	58,700.0
Sales of foreign currency forwards	2	5	211.0	918.8	211.0	3,256.4
Foreign markets:						
Purchase of foreign currency forwards	2	5	209.9	917.3	209.9	32,553.0

The amounts refer to the US dollar futures bought or sold, 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 contract duration from the transaction date.

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

			Contract amounts	
	N° of Operations		Up to 3 months	More than 3 months
	2000	1999	UF	UF
Purchase of UF/Chilean peso forwards	–	–	–	–

NOTE 11. COMMITMENTS, CONTINGENCIES AND RESPONSIBILITIES

a. Commitments and Responsibilities Recorded in Memorandum Accounts

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

	2000 MCh$	1999 MCh$
Mortgage and pledge guarantees	417,272.0	337,176.0
Credit lines obtained	188,825.0	182,422.0
Securities and drafts in guarantee	112,158.0	107,660.0
Securities held in custody	85,588.0	86,127.0
Loans approved but not disbursed	22,339.0	19,330.0
Foreign collections	15,912.0	13,058.0

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 on the statement of income are as follows:

	Income		Expenses	
	2000 MCh$	1999 MCh$	2000 MCh$	1999 MCh$
Commissions earned/paid on:				
Foreign exchange operations	105.6	435.8	16.8	–
Collection of documents	662.6	728.8	–	–
Letters of credit, guarantees, securities,				
and other contingent loans	351.5	50.5	–	–
Credit cards	90.2	30.5	–	–
Lines of credit	52.5	44.2	–	–
Current accounts	67.9	21.4	–	–
Other	349.1	256.4	49.8	39.4
Total	**1,679.4**	**1,567.6**	**66.6**	**39.4**

The commissions earned on mortgage note transactions are included in "Interest and Indexation Income" in the statement of income.

NOTE 13. NON-OPERATING INCOME

The detail of non-operating income is as follows:

	2000 MCh$	1999 MCh$
Recovered expenses	351.8	376.3
Rents received	91.3	121.2
Recovered written off assets received in settlement	64.6	–
Other	219.2	307.1
Total	**726.9**	**804.6**

NOTE 14. INCOME TAXES

The Bank has accrued a provision for Corporate Income Tax of MCh$1,268.4 (MCh$734.9 in 1999).

NOTE 15. DEFERRED TAXES

As explained in Note 1j, the Bank has applied the accounting criteria of Technical Bulletins N^{os}60 and 69 of the Chilean Institute of Certified Public Accountants. The deferred taxes originating as a result of temporary differences are presented below:

Year 2000:	**Balance at**	
	January 1 2000 (historical)	**December 31 2000**
Item	**MCh$**	**MCh$**
Debit differences:		
Global loan loss provision	349.2	632.8
Country risk provision	10.7	2.8
Voluntary provision	76.2	–
Adjustment for futures contracts	–	197.2
Written off assets received in settlement	–	41.2
Subtotal	436.1	874.0
Complementary account	(297.9)	–
Net difference	**138.2**	**874.0**
Credit differences:		
Accrual of suspended interest and indexation	(0.8)	–
Depreciation of fixed assets	(214.5)	(399.3)
Adjustment for futures contracts	(96.9)	–
Subtotal	(312.2)	(399.3)
Complementary account	291.4	267.6
Net difference	**(20.8)**	**(131.7)**

Year 1999:	Balance at	
	January 1 1999 (historical)	December 31 1999
Item	MCh$	MCh$
Debit differences:		
Global loan loss provision	605.3	365.6
Accrual of suspended interest and indexation	3.9	–
Contingency provision	26.3	–
Country risk provision	0.3	11.2
Voluntary provision	14.6	79.8
Adjustment for futures contracts	45.8	–
Subtotal	696.2	456.6
Complementary account	(696.2)	(311.9)
Net difference	**–**	**144.7**
Credit differences:		
Accrual of suspended interest and indexation	–	(0.8)
Depreciation of fixed assets	(330.0)	(224.6)
Adjustment for futures contracts	–	(101.5)
Subtotal	(330.0)	(326.9)
Complementary account	330.0	305.1
Net difference	**–**	**(21.8)**

Tax expense for each year is as follows:	2000 MCh$	1999 MCh$
Current tax expense	(1,268.4)	(734.9)
Effect of deferred taxes on assets and liabilities of the year	350.8	(236.5)
Effect of deferred taxes on amortization of asset and liability complementary accounts	274.1	359.4
Total	**(643.5)**	**(612.0)**

NOTE 16. DIRECTORS' EXPENSES AND FEES

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

	2000 MCh$	1999 MCh$
Per diems	55.4	56.0
Advisory fees	293.5	297.2
Total	**348.9**	**353.2**

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

In 2000, the Bank sold endorsable mortgage loans portfolio as follows:

Sale MCh$	Effect on income MCh$	Effect on provisions MCh$
10,704.0	512.0	–

HORACIO SILVA C.
Accounting Officer

RAMON ELUCHANS O.
President

Consolidated Financial Statements of Banco Security and Subsidiaries

December 31, 2000 and 1999 with Independent Auditors' Report Thereon

Contents

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 Board of Directors and Shareholders of
Banco Security

We have audited the accompanying consolidated balance sheets of Banco Security and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of income and cash flows for the years then ended. These consolidated financial statements (including the notes thereto) are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Chile. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Bank's management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Banco Security and subsidiaries as of December 31, 2000 and 1999 and the consolidated results of their operations and their consolidated cash flows for the years then ended in conformity with generally accepted accounting principles in Chile and regulations issued by the Superintendence of Banks and Financial Institutions.

As explained in Note 2 to the financial statements, in accordance with instructions of the Superintendency of Banks and Financial Institutions, in 2000 the Bank changed the method used in accounting for financial investments that are traded in the secondary market and mature in less than a year.

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

Deloitte & Touche

January 10, 2001

Jorge Rodríguez

Deloitte Touche Tohmatsu

Consolidated Balance Sheets

December 31, 2000 and 1999 (In millions of Chilean pesos - MCh$)

Assets	2000 MCh$	1999 MCh$
Current Assets	**81,212.4**	**67,473.1**
Loans:		
Commercial	508,775.2	408,647.1
Foreign trade	94,507.9	85,468.5
Consumer	2,593.5	1,811.3
Mortgage	14,475.0	554.4
Leasing contracts	40,951.4	43,400.1
Contingent	46,831.9	57,933.2
Other outstanding loans	42,036.4	47,346.3
Past-due	3,436.9	1,926.8
Total loans	**753,608.2**	**647,087.7**
Less: provisions for loan losses	**(6,056.2)**	**(5,677.9)**
Total loans-net	**747,552.0**	**641,409.8**
Other loan operations:		
Credits for intermediation	–	–
Total other loan operations	**–**	**–**
Investments:		
Banco Central de Chile and Traeasury securities	11,214.1	25,257.0
Other financial investments	71,343.3	42,726.4
Intermediation	31,335.3	7,197.0
Assets received in settlement or awarded	1,393.0	1,596.8
Total investments	**115,285.7**	**76,777.2**
Other assets	**18,224.7**	**17,036.3**
Fixed assets:		
Premises and equipment	13,678.9	12,793.1
Investment in related companies	78.4	489.9
Total fixed assets	**13,757.3**	**13,283.0**
Total assets	**976,032.1**	**815,979.4**

The accompanying notes are an integral part of these financial statements

Liabilities and shareholders' equity	2000 MCh$	1999 MCh$
Liabilities		
Deposits and other liabilities:		
Cheking accounts	29,369.5	29,171.6
Deposits and banker drafts	573,640.8	452,879.9
Other time and demand liabilities	69,908.2	36,996.0
Liabilities arising from trading securities	29,902.4	7,286.9
Mortgage notes	14,705.8	554.4
Contingent liabilities	49,921.8	57,762.0
Total time and demand deposits	**767,448.5**	**584,650.8**
Bonds:		
Current bonds	12,766.1	14,445.0
Subordinated bonds	33,951.4	23,390.6
Total bonds	**46,717.5**	**37,835.6**
Borrowings from Financial Institutions and Banco Central de Chile:		
Other obligations with Banco Central de Chile	1,037.6	1,242.9
Domestic borrowing	10,133.7	32,736.5
Foreign borrowing	9,170.2	40,680.8
Other borrowing	44,159.0	31,499.0
Total borrowing from financial institutions	**64,500.5**	**106,159.2**
Other liabilities	**18,013.7**	**20,129.0**
Total liabilities	**896,680.2**	**748,774.6**
Voluntary provisions	**–**	**530.9**
Minority interest	**13.6**	**10.9**
Net shareholders' equity:		
Capital and reserves	68,360.2	57,678.4
Other accounts	1,334.0	75.9
Net income	9,644.1	8,908.7
Total shareholders' equity	**79,338.3**	**66,663.0**
Total liabilities and shareholders' equity	**976,032.1**	**815,979.4**

The accompanying notes are an integral part of these financial statements

Statements of Income

For the years ended December 31, 2000 and 1999 (In millions of Chilean pesos - MCh$)

	2000 MCh$	1999 MCh$
Operating income:		
Interest and indexation income	88,371.4	73,878.2
Net gains from intermediation	4,038.7	2,204.1
Commissions earned	2,927.8	2,909.7
Exchange income-net	3,813.7	2,254.9
Other operating income	1,398.6	7,375.6
Total operating income	**100,550.2**	**88,622.5**
Less:		
Interest and indexation expenses	(65,545.4)	(51,393.0)
Loss from intermediation	(356.4)	(279.9)
Commissions paid	(226.2)	(177.9)
Other operating expenses	(1,094.7)	(4,350.4)
Gross operating margin	**33,327.5**	**32,421.3**
Remunerations and personnel expenses	(8,978.6)	(9,043.9)
Administration and other expenses	(7,041.1)	(6,365.9)
Depreciation and amortization	(982.0)	(864.6)
Net operating margin	16,325.8	16,146.9
Provisions for assets at risk	(3,925.0)	(4,973.8)
Recovery of loans written off	149.3	34.6
Operating income	**12,550.1**	**11,207.7**
Other income and expenses:		
Non-operating income	986.0	948.6
Non-operating expenses	(326.0)	(584.0)
Gain on permanent investments	38.7	70.3
Monetary correction	(2,242.1)	(1,183.4)
Income before income taxes	11,006.7	10,459.2
Income tax provision	(1,353.0)	(1,099.6)
Income before voluntary provisions and minority interest	9,653.7	9,359.6
Minority interest	(9.6)	(16.8)
Voluntary provisions	–	(434.1)
Net income	**9,644.1**	**8,908.7**

The accompanying notes are an integral part of these financial statements

Statements of Cash Flows

For the years ended December 31, 2000 and 1999 (In millions of Chilean pesos - MCh$)

	2000 MCh$	1999 MCh$
Cash flow from operating activities:		
Net income	9,644.1	8,908.7
Charges (credits) to income that do not represent cash flows:		
Depreciation and amortization	982.0	864.6
Prrovisions for assets at risk	3,925.0	4,973.8
Voluntary provisions	–	434.1
Share in earnings of related companies	(38.7)	(70.3)
Net loss from sale of assets received in settlement of loans	87.7	16.5
Minority interest	9.6	16.8
Monetary correction	2,242.1	1,183.4
Other charges that do not represent cash flows	230.5	1,112.0
Net change in interest, indexation and commissions accrued on assets and liabilities	(4,506.0)	(4,256.4)
Net cash provided by operating activities	**12,576.3**	**13,183.2**
Cash flow from investment activities:		
Net increase in loans	(116,262.8)	(49,249.3)
Net decrease in other loan operations	–	8,093.2
Net decrease (increase) in investments	(18,128.8)	27,743.3
Purchase of fixed assets	(3,789.1)	(3,067.3)
Sale of fixed assets	1,890.0	537.7
Sale of assets received in settlement of loans	–	533.1
Net decrease in other assets and liabilities	3,766.5	2,951.1
Net cash used in investing activities:	**(132,524.2)**	**(12,458.2)**
Cash flow from financing activities:		
Net increase in checking accounts	202.6	6,927.9
Net increase in deposits and bankers drafts	116,326.7	31,584.1
Net increase (decrease) of other sight or term obligations	18,628.2	(7,780.7)
Net increase (decrease) from obligations arising from intermediation	3,567.5	(27,349.7)
Increase (decrease) in short-term foreign borrowings	1,521.8	(5,594.5)
Mortgage notes issued	14,594.4	559.5
Increase (decrease) in other short-term liabilities	20,206.9	(8,311.7)
Borrowing from financial institutions and CORFO (long-term)	–	17,518.4
Repayment of borrowing from financial institutions and CORFO (long-term)	(23,865.8)	(18,082.5)
Dividends paid	(4,508.9)	(5,756.0)
Bonds issued	12,074.8	–
Repayment of long-term loans	(34,438.2)	–
Shares issued	6,206.2	–
Net cash used in financing activities	130,516.2	(16,285.2)
Net increase (decrease) in cash flows	**10,568.3**	**(15,560.2)**
Effect of inflation on cash and cash equivalents	**3,171.0**	**2,113.0**
Net decrease in cash and cash equivalents	13,739.3	(13,447.2)
Cash and cash equivalents at beginning of year	**67,473.1**	**80,920.3**
Cash and cash equivalents at end of year	**81,212.4**	**67,473.1**

The accompanying notes are an integral part of these 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 Superintendence of Banks and Financial Institutions (hereinafter, the Superintendence). Such regulations agree with Chilean generally accepted accounting principles.

b. Basis of consolidation

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

	Ownership	
	2000	1999
	%	%
Leasing Security S.A	99.999	99.999
Valores Security S.A. Corredores de Bolsa	99.900	99.900
Administradora de Fondos Mutuos Security S.A.	99.990	99.990
Asesorías Security S.A. (*)	–	95.000

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

Assets of subsidiaries represent in total 17.1% of the consolidated balance sheet (6.8% in 1999), and income of such subsidiaries represents 15.9% of the consolidated income (14.8% in 1999).

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

The 1999 Chilean pesos amounts have been price-level restated according to changes in the Chilean Consumer Price Index used for monetary correction (4.7%).

c. Interests and indexation

The amounts recorded in the balance sheet for loans, investments, and liabilities include interest and indexation accrued until the end of the year.

However, the Bank has taken the conservative position of discontinuing the accrual of interest and indexation on high-risk or past-due loans.

d. Monetary correction

Shareholders' equity, fixed assets, and other non-monetary balances have been monetarily corrected, considering the changes in the Chilean Consumer Price Index (CPI). The application of monetary correction results in a net charge to income of MCh$2,242.1 (MCh$1,183.4 in 1999).

The income statements of the Bank and the subsidiary Leasing Security S.A., are not monetarily corrected. The other subsidiaries' income statements accounts are monetarily corrected.

e. Foreign currency

Assets and liabilities denominated in foreign currency are stated in Chilean pesos at the exchange rate prevailing at year end (Ch$572.68 = US$1 in 2000 and Ch$527.70 = US$1 in 1999).

The net gain from foreign exchange of MCh$3,813.7 (net gain of MCh$2,254.9 in 1999) shown in the consolidated income statement includes the net gains obtained from foreign exchange transactions, as well as the recognition of the effects of exchange rate variations on net assets or liabilities denominated in foreign currency.

f. Finance leases

These operations are, for all purposes, shown net of provisions and deferred taxes, according to accounting regulations issued by the Superintendence and applicable to these companies.

g. Financial investments

Long-term investments that are traded in the secondary market and mature after one year are stated at market value, in accordance with instructions of the Superintendence. Such instructions call for the recognition of the adjustments to market value against income of the year, unless permanent investments are involved, in which case, under certain limitations, the aforementioned adjustments can be made directly against the "Fluctuation in value of financial investments" equity account.

The application of the adjustment to market value resulted in a net credit of MCh$1,261.5 (net charge of M$545.4 in 1999) to income of the year.

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

h. Premises and equipment

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

i. Provisions for assets at risk

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

j. Voluntary provisions

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

The amount and effect on income are shown directly on each year's consolidated balance sheet and the consolidated statement of income.

k. Deferred taxes

The effects of deferred taxes arising from differences between the tax and the book bases are recorded on the accrual basis in conformity with Technical Bulletins N^{os}60 and 69 of the Chilean Institute of Certified Public Accounts.

l. Employee vacations

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

m. Cash and cash equivalents

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

NOTE 2. ACCOUNTING CHANGES

In accordance with Circular N° 3096 issued by the Superintendence, the Bank modified the accounting treatment of financial investments that are traded in the secondary market and mature in less than a year. The new accounting policy calls for such investments to be adjusted to market value. This accounting change resulted a credit of MCh$54.7 to income of the year 2000.

NOTE 3. RELATED PARTY TRANSACTIONS

In accordance with the General Banking Law and the Superintendence's instructions, individuals and companies that are related, directly or through a third party, to the Bank's owners or management are considered related parties.

a. Loans to related parties

At December 31, 2000 and 1999, loans to related parties are as follows:

	Current Portfolio		Past due Portfolio		Total		Guarantees (*)	
	2000 MCh$	1999 MCh$	2000 MCh$	1999 MCh$	2000 MCh$	1999 MCh$	2000 MCh$	1999 MCh$
Individuals	358.1	534.7	–	–	358.1	534.7	203.8	425.4
Productive companies	6,661.0	2,985.2	–	–	6,661.0	2,985.2	290.9	983.4
Investment companies	4,403.7	9,139.5	–	–	4,403.7	9,139.5	1,490.3	7,132.1
Total	**11,422.8**	**12,659.4**	**–**	**–**	**11,422.8**	**12,659.4**	**1,985.0**	**8,540.9**

(*) 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 Superintendence's instructions.

b. Other transactions with related parties

During 2000 and 1999, the Group entered into the following transactions in excess of UF1,000 with related parties:

		Credit to Income		Charge to Income	
		2000	1999	2000	1999
Company	**Item**	**MCh$**	**MCh$**	**MCh$**	**MCh$**
Previsión Vida S.A.	Office rentals	19.7	17.3	–	–
Previsión Generales S.A.	Office rentals	16.4	17.3	–	–
Merchant Security S.A.	Advisory services	–	–	15.7	303.6
Grupo Security S.A.	Advisory services	15.6	–	–	93.2

These transactions were realized at prevailing market terms.

NOTE 4. PROVISIONS

a. Provisions for assets at risk

At December 31, 2000, the Bank and its subsidiaries have accrued provisions for a total of MCh$6,115.1 (MCh$5,423.0 in 1999) which correspond to the minimum provisions required by the Superintendence to cover possible losses.

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

	Provisions for			
	Loans MCh$	Assets received in settlement MCh$	Other assets MCh$	Total MCh$
Historical balances, December 31, 1998	5,870.0	–	–	5,870.0
Write offs	(5,197.5)	–	–	(5,197.5)
Increase in provisions	4,881.8	–	–	4,881.8
Provision released	(131.3)	–	–	(131.3)
December 31, 1999 balances	**5,423.0**	**–**	**–**	**5,423.0**
Updated balances for comparative purposes	**5,677.9**	**–**	**–**	**5,677.9**
Historical balances, December 31, 1999	5,423.0	–	–	5,423.0
Write offs	(3,292.0)	–	–	(3,292.0)
Increase in provisions	3,925.2	58.9	–	3,984.1
December 31, 2000 balances	**6,056.2**	**58.9**	**–**	**6,115.1**

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

b. Voluntary provision

The Bank maintains no voluntary provisions at December 31, 2000 (MCh$530.9 in 1999).

NOTE 5. SHAREHOLDERS' EQUITY

a. Accounting equity

The activity in the shareholders' equity and reserve accounts during 2000 and 1999 are summarized as follows:

	Paid-in capital MCh$	Other reserves MCh$	Other accounts MCh$	Income of the year MCh$	Total MCh$
Balances, December 31, 1998, historical	45,129.4	8,553.3	617.9	5,368.8	59,669.4
Distribution of 1998 income	–	5,368.8	–	(5,368.8)	–
Dividends paid	–	(5,368.8)	–	–	(5,368.8)
Fluctuation in value of financial investments	–	–	(545.4)	–	(545.4)
Capital revaluation	1,169.0	237.5	–	–	1,406.5
Net income	–	–	–	8,508.8	8,508.8
December 31, 1999 balances	**46,298.4**	**8,790.8**	**72.5**	**8,508.8**	**63,670.5**
Updated balances for comparative purposes	**48,474.4**	**9,204.0**	**75.9**	**8,908.7**	**66,663.0**
Balances, December 31, 1999, historical	46,298.4	8,790.8	72.5	8,508.8	63,670.5
Distribution of 1999 income	–	8,508.8	–	(8,508.8)	–
Dividends paid	–	(4,254.4)	–	–	(4,254.4)
Fluctuation in value of financial investments	–	–	1,261.5	–	1,261.5
Capital increase	6,206.2	–	–	–	6,206.2
Capital revaluation	2,168.2	642.2	–	–	2,810.4
Net income	–	–	–	9,644.1	9,644.1
December 31, 2000 balances	**54,672.8**	**13,687.4**	**1,334.0**	**9,644.1**	**79,338.3**

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 procedure being applied to the reserves.

During February of 2000 and 1999, net profits from 1999 and 1998 of MCh$8,508.8 and MCh$5,368.8 (historical), respectively were distributed.

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

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, 2000, the Bank has the following parameters: 7.64% (7.47% in 1999) and 11.81% (11.30% in 1999), respectively.

NOTE 6. INVESTMENTS

At December 31, 2000 and 1999, balances in financial investments are as follows:

a. Financial investments

	Type of investment						Adjustment to market value					
	Permanent (**)		Non-permanent		Subtotal		Credit (charge) to income		Credit (charge) to equity		Total	
	2000 MCh$	1999 MCh$	2000 MCh$	1999 MCh$	2000 MCh$	1999 MCh$	2000 MCh$	1999 MCh$	2000 MCh$	1999 MCh$	2000 MCh$	1999 MCh$
Securities (*)												
Banco Central de Chile, Tesorería General de la República & other	891.3	5,997.9	21,099.3	26,411.8	21,990.6	32,409.7	80.1	–	50.0	42.0	22,120.7	32,451.7
Chilean financial institutions	5,585.1	1,543.8	4,014.6	8,470.1	9,599.7	10,013.9	14.6	–	97.4	33.9	9,711.7	10,047.8
Other investments	1,592.5	41.0	28,430.8	5,414.9	30,023.3	5,455.9	8.3	–	54.0	–	30,085.6	5,455.9
Investments abroad	25,648.9	21,823.0	25,116.6	5,402.0	50,765.5	27,225.0	76.6	–	1,132.6	–	51,974.7	27,225.0
Total	**33,717.8**	**29,405.7**	**78,661.3**	**45,698.8**	**112,379.1**	**75,104.5**	**179.6**	**–**	**1,334.0**	**75.9**	**113,892.7**	**75,180.4**

(*) Classification according to issuers or those obliged to pay. This amount includes, in total, MCh$31,335.3 (MCh$7,197.0 in 1999) for securities sold under repurchase agreements.

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

b. Other investments

	2000 MCh$	1999 MCh$
Assets received in settlement or awarded in payment (*)	1,393.0	1,596.8

(*) The amount shown on the balance sheet corresponds to 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. ANALYSIS OF ASSETS AND LIABILITIES BY MATURITY

a. Maturity of loans and financial investments

The information below shows assets and liabilities at December 31, 2000 and 1999 according to their remaining term until maturity. The balances, which include interest accrued at year end, are as follows:

	Within one year		More than 1 year up to 3 years		More than 3 years up to 6 years		More than six years		Total	
	2000 MCh$	1999 MCh$	2000 MCh$	1999 MCh$	2000 MCh$	1999 MCh$	2000 MCh$	1999 MCh$	2000 MCh$	1999 MCh$
Loans (1):										
Commercial and other	439,817.8	379,342.8	71,974.7	39,922.1	74,991.0	62,108.0	49,551.4	31,441.4	636,334.9	512,814.3
Mortgage loans	220.0	1,119.2	580.4	2,130.6	774.0	3,717.9	20,625.4	21,612.2	22,199.8	28,579.9
Consumer loans	1,388.6	1,257.6	1,048.8	536.1	155.6	17.8	–	–	2,593.0	1,811.5
Lease contract	12,298.8	12,228.9	14,395.7	15,262.2	14,256.9	15,909.0	–	–	40,951.4	43,400.1
Other loans:										
Credits for intermediation	–	–	–	–	–	–	–	–	–	–
Financial investments:										
Permanent investments (2)	26,062.1	5,599.1	24.9	17,813.7	481.1	5,987.8	7,149.7	5.2	33,717.8	29,405.8
Non-permanent investments (3)	78,661.3	45,698.8	–	–	–		–	–	78,661.3	45,698.8

(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$1,260.3 (MCh$621.9 in 1999), of which MCh$328.3 (MCh$226,2 in 1999) have been delinquent less than 30 days, have been excluded.
(2) Includes securities classified as permanent investments, as described in Note 1 g, without adjustments to market value and excluding non-transferable notes.
(3) Includes all the other financial investments, with adjustments to market value.

b. Maturities of deposits, borrowing and other financing operations

The table below shows deposits, borrowing and other liabilities at December 31, 2000 and 1999 according to their remaining term until maturity. The balances, which include interest accrued at year end, are as follows:

	Within one year		More than 1 year up to 3 years		More than 3 years up to 6 years		More than 6 years		Total	
	2000 MCh$	1999 MCh$	2000 MCh$	1999 MCh$	2000 MCh$	1999 MCh$	2000 MCh$	1999 MCh$	2000 MCh$	1999 MCh$
Borrowing and other obligations (*):										
Deposits and banker drafts	551,620.5	443,689.3	19,330.2	9,190.6	2,690.1	–	–	–	573,640.8	452,879.9
Liabilities arising from intermediation	29,902.4	7,286.9	–	–	–	–	–	–	29,902.4	7,286.9
Obligations on mortgage notes	–	55.4	–	166.4	289.1	166.4	14,416.7	166.2	14,705.8	554.4
Obligations on bonds issued	1,841.1	1,890.0	4,057.1	3,555.6	9,314.9	8,615.8	31,504.4	23,774.2	46,717.5	37,835.6
Loans from financial entities and Banco Central de Chile:										
Other obligations with Banco Central	1,037.6	171.7	–	1,071.2	–	–	–	–	1,037.6	1,242.9
Loans from local financial institutions	10,133.7	21,729.4	–	10,912.9	–	94.2	–	–	10,133.7	32,736.5
Obligations abroad	8,597.6	40,679.1	254.5	1.7	318.1	–	–	–	9,170.2	40,680.8
Other obligations	9,746.4	7,213.8	18,474.9	3,031.1	7,611.2	13,107.4	8,326.5	8,146.7	44,159.0	31,499.0

(*) Excluding all demand 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:

	To be paid in					
	Foreign currency		Chilean currency (*)		Total	
	2000	1999	2000	1999	2000	1999
	ThUS$	ThUS$	ThUS$	ThUS$	ThUS$	ThUS$
Assets						
Current assets (*)	20,665	45,999	–	–	20,665	45,999
Loans	184,032	158,542	47,131	38,873	231,163	197,415
Contingent loans	43,194	67,914	1,389	6,304	44,583	74,218
Financial investments:						
Abroad	90,757	49,276	–	–	90,757	49,276
Other assets	65,008	38,003	–	–	65,008	38,003
Total assets	**403,656**	**359,734**	**48,520**	**45,177**	**452,176**	**404,911**
Liabilities						
Deposits and banker drafts	12,128	12,811	–	–	12,128	12,811
Contingent liabilities	43,535	67,914	–	–	43,535	67,914
Time and demand deposits	94,884	85,411	263	–	95,147	85,411
Liabilities with foreign banks	15,958	72,263	–	–	15,958	72,263
Other liabilities	245,009	123,651	33,166	–	278,175	123,651
Total liabilities	**411,514**	**362,050**	**33,429**	**–**	**444,943**	**362,050**

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

NOTE 9. DERIVATIVE INSTRUMENTS TRADED

Purchases and sales of foreign currency futures and other derivative products at year end, are summarized below:

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

	Number of operations		Amount of the contracts: Up to three months		Amount of the contracts: More than three months	
Type of futures operation	**2000**	**1999**	**2000 ThUS$**	**1999 ThUS$**	**2000 ThUS$**	**1999 ThUS$**
Local market:						
Future purchase of foreign currency in Chilean pesos	14	6	31,500.0	4,007.7	23,201.4	10,000.0
Future sale of foreign currency in Chilean pesos	49	29	35,200.0	19,000.0	182,800.0	58,700.0
Forward in foreign currency (sales)	2	5	211.0	918.8	211.0	3,256.4
Foreign markets:						
Forward in foreign currency (purchases)	2	5	209.9	917.3	209.9	32,553.0

The amounts refer to the US dollar futures bought or sold, 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" (CPI-linked unit of account):

	N° of Operations		Contract Amounts: Up to 3 months	Contract Amounts: More than 3 months
	2000	**1999**	**UF**	**UF**
Purchase of UF/peso forwards	–	–	–	–

NOTE 10. CONTINGENCIES, COMMITMENTS AND RESPONSIBILITIES

a. Commitments and responsibilities recorded in memorandum accounts:

The Bank and its subsidiaries have recorded the following commitments and responsibilities in memorandum accounts:

	2000 MCh$	1999 MCh$
Mortgage and pledge guarantees	417,272.0	337,175.9
Credit lines obtained	188,825.0	182,422.0
Securities and notes in guarantee	112,158.0	107,659.9
Securities held in custody	85,588.0	86,127.3
Loans approved and not disbursed	22,339.0	19,329.7
Foreign collections	15,912.0	13,058.2

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

NOTE 11. COMMISSIONS

Commissions earned and paid shown on the statement of income are as follows:

	Income		Expenses	
	2000	**1999**	**2000**	**1999**
	MCh$	**MCh$**	**MCh$**	**MCh$**
Commissions earned or paid on:				
Stock exchange transactions	1,210.1	1,077.2	176.6	138.5
Foreign trade operations	105.6	435.8	–	–
Lease transactions	–	167.9	–	–
Mutual funds transactions	–	97.1	–	–
Collection of notes	662.6	728.8	–	–
Letters of credit, guarantees, pledges and other contingent loans	351.5	50.5	–	–
Credit cards	90.2	30.5	–	–
Lines of credit	52.5	44.2	–	–
Checking accounts	67.9	21.4	–	–
Others	387.4	256.3	49.6	39.4
Total	**2,927.8**	**2,909.7**	**226.2**	**177.9**

The commissions earned on mortgage note transactions are included in "Interest and Indexation Income" in the consolidated statement of income.

NOTE 12. NON-OPERATING INCOME

The detail of non-operating income is as follows:

	2000	**1999**
	MCh$	**MCh$**
Financial investments	407.5	50.9
Recovered expenses	351.8	376.3
Rents received	–	154.6
Others	226.7	366.8
Total	**986.0**	**948.6**

NOTE 13. INCOME TAX

The Bank and its subsidiaries have accrued a provision for Corporate Income Tax, of MCh$2,342.1 (MCh$1,514.5 in 1999)

NOTE 14. DEFERRED TAXES

As explained in Note 1k, the Bank and its subsidiaries have applied the accounting criteria of Technical Bulletin N^{os}60 and 69 of the Chilean Institute of Certified Public Accountants. The deferred taxes originating as a result of temporary differences are presented below:

Year 2000:	**Balance at**	
	January 1 2000 (historical)	**December 31 2000**
Item	**MCh$**	**MCh$**
Debit differences:		
Global loan loss provision	349.2	632.8
Country risk provision	10.7	2.8
Voluntary provision	76.2	–
Adjustment for futures contracts	–	197.2
Written off assets received in settlement	–	41.2
Tax assets	4,073.0	4,757.3
Other	117.1	34.7
Subtotal	4,626.2	5,666.0
Supplementary account	(4,314.6)	(3,714.4)
Net difference	**311.6**	**1,951.6**
Credit differences:		
Accrual of suspended interest and indexation	(0.8)	–
Depreciation of fixed assets	(214.5)	(399.3)
Adjustment for futures contracts	(96.9)	–
Lease contracts	(6,054.0)	(6,054.0)
Liabilities arising from bonds issued	–	(3.9)
Other	(0.4)	(204.4)
Subtotal	(6,366.6)	(6,661.6)
Supplementary account	6,451.3	6,095.4
Net difference	**84.7**	**(566.2)**

Year 1999:	Balance at	
	January 1 1999 (historical)	December 31 1999
Item	**MCh$**	**MCh$**
Debit differences:		
Global loan loss provision	605.3	365.6
Accrual of suspended interest and indexation	3.9	–
Tax assets	4,390.1	4,264.4
Contingency provision	39.9	13.6
Country risk provision	0.3	11.2
Voluntary provision	14.6	79.8
Adjustment for futures contracts	45.8	–
Other	9.7	109.0
Subtotal	5,109.6	4,843.6
Supplementary account	(5,109.6)	(4,517.4)
Net difference	**–**	**326.2**
Credit differences:		
Accrual of suspended interest and indexation	–	(0.8)
Lease contracts	(6,761.2)	(6,338.5)
Depreciation of fixed assets	(330.0)	(224.6)
Adjustment for futures contracts	–	(101.5)
Other	–	(0.4)
Subtotal	(7,091.2)	(6,665.8)
Supplementary account	7,091.2	6,754.5
Net difference	**–**	**88.7**

Tax expense for the year is as follows:

Item	**2000 MCh$**	**1999 MCh$**
Current tax	(2,342.1)	(1,514.5)
Effect on assets and liabilities for deferred tax of the year	744.8	159.4
Effect of deferred taxes on amortization of asset and liability complementary accounts	244.3	255.5
Total	**(1,353.0)**	**(1,099.6)**

NOTE 15. DIRECTORS' EXPENSES AND FEES

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

	2000 MCh$	1999 MCh$
Per diem	55.4	56.0
Advisory services fees	293.5	297.2
Total	**348.9**	**353.2**

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

In 2000, the Bank sold endorsable mortgage loans portfolio as follows:

Sale MCh$	Effect on income MCh$	Effect on provisions MCh$
10,704.0	512.0	–

HORACIO SILVA C.
Accounting Officer

RAMON ELUCHANS O.
President

Summarized Financial Statements of Banco Security's Subsidiaries

As of December 31, 2000 and 1999

Contents

Ch$ = Chilean pesos

ThCh$ = Thousands of Chilean pesos

MCh$ = Millions of Chilean pesos

UF = Price-level restatement unit

US$ = United States dollar

Balance Sheet

	2000	1999
Assets	**ThCh$**	**ThCh$**
Current Assets	120,072,738	38,274,482
Fixed Assets	90,580	97,832
Other Assets	384,371	393,794
Total Assets	**120,547,689**	**38,766,108**
Liabilities		
Current Liabilities	116,913,763	35,494,117
Capital & Reserves	2,657,591	2,328,495
Net Income	976,335	943,496
Total Liabilities & Equity	**120,547,689**	**38,766,108**
Income Statement		
Operating Income	1,109,816	1,068,218
Non Operating Income	(15,735)	58,524
Net Income Before Taxes	**1,094,081**	**1,126,742**
Taxes	(117,746)	(183,246)
Net Income	**976,335**	**943,496**

Balance Sheet

Assets	2000 ThCh$	1999 ThCh$
Current Assets	13,822,912	15,970,205
Long Term Assets	28,995,610	32,589,770
Fixed Assets	553,907	581,616
Total Assets	**43,372,429**	**49,141,591**
Liabilities		
Current Liabilities	20,951,063	21,720,242
Long Term Liabilities	14,675,502	20,140,755
Capital & Reserves	6,475,477	6,466,928
Net Income	1,270,387	813,666
Total Liabilities & Equity	**43,372,429**	**49,141,591**
Income Statement		
Operating Income	1,696,510	1,616,465
Non Operating Income	26,199	(619,045)
Net Income Before Taxes	**1,722,709**	**997,420**
Taxes	(452,322)	(183,754)
Net Income	**1,270,387**	**813,666**

Balance Sheet

Assets	2000 ThCh$	1999 ThCh$
Current Assets	2,131,335	1,949,563
Long Term Assets	–	–
Fixed Assets	71,083	64,639
Total Assets	**2,202,418**	**2,014,202**
Liabilities		
Current Liabilities	158,516	137,615
Capital & Reserves	1,119,891	1,119,891
Retained Net Income	93,120	76,887
Net Income	830,891	679,809
Total Liabilities & Equity	**2,202,418**	**2,014,202**
Income Statement		
Operating Income	697,002	403,666
Non Operating Income	270,935	396,109
Net Income Before Taxes	**967,937**	**799,775**
Taxes	(137,046)	(119,966)
Net Income	**830,891**	**679,809**

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