

BANCO *security*

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A letter from the Chairman

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

The adjustment process and the recession that hit the Chilean economy in 1999, together with the delayed reactivation that began to show up only in the last months of the year, translated into a slowdown in business activity, not free of complications. The financial sector reacted with a reduced increase in financial activities and, above all, with a notorious increase in risk, with the resulting damage to results and bank earnings. The overall financial system's growth in loans was barely 2.7% in real terms, compared to the 10.8% annual average of the 1990 - 1998 period. Available numbers as of October of 1999 indicate that the system's risk rate increased to 1.98% of credits, which is acceptable by international standards, but quite above the 1.25% figure that the country had come to expect in previous years.

Despite this complex situation endured by the economy through 1999, the results of Banco Security were very satisfactory, reflecting the strength and maturity the Bank has reached during the past years. Actually, Banco Security's net income amounted to Ch\$8,509 million in 1999, that is, a return on equity ratio of 15.4%, which compares favorably with the industry's 9.4% average. The 54.5% increase in Banco Security's results over the previous year is mainly explained by the good results in the subsidiaries and by the effects of the interest rate drop on the financial intermediation results, which more than offset the larger provisions made during the year.

Total loans of Banco Security at December of 1999 amounted to Ch\$576.5 billion, with a real 5.5% increase in 12 months, compared to an estimated 2.7% growth for the overall financial system. Banco Security closed the year with a market share of 2.24%.

The traditional policies applied by Banco Security in terms of achieving quality excellence in its client portfolio and keeping high efficiency and productivity standards have proved to be good strengths, even in critical times. In fact, Banco Security still is the lowest-risk bank among the national banks that were operating in the domestic market during 1999, with a risk rate of 1.12% of credits as of October of 1999, a favorable comparison with the industry's average of 1.98%.

In terms of efficiency, Banco Security continued to make cost-reducing efforts and ranks first among large and medium-sized banks, with a support expenses to gross margin ratio of 51.0% in 1999 compared with 53.2% in 1998. On the other hand, Banco Security keeps its first place in the industry in terms of productivity, as measured by credit volume over number of employees.

It must be noted that Banco Security, together with its subsidiaries and other companies of Grupo Security, began developing an ambitious three-year technological plan in 1998, which continued during 1999, with the purpose of placing the bank in a privileged position together with other technology-oriented banks. A future vision, that considers a direct relationship with the clients, based on the latest communication and information technologies, has been for some time a main preoccupation for the Bank. Some of these products have already been launched into the market and have been received very favorably by our clients.

Banco Security operates through a total of 11 branches including the Headquarters. The branch-opening strategy, developed within our technological development vision, has been directed primarily to those sectors or regions that meet the target market of large and mid-sized companies and selected individuals. In

terms of the technologies that the new millennium will bring about, we believe that an agile office structure is an important advantage. Thus, four of the Bank's branches are located away from the capital (i.e. Temuco, Concepción, Antofagasta and Puerto Montt) and the rest in selected districts of the Santiago Metropolitan area (Providencia, El Golf, Panamericana, Quilicura, Santa Elena and Ciudad Empresarial).

So Banco Security has continued along the road to success during a year clouded with difficulties. As for the perspectives for the financial sector in the year 2000, its evolution will depend on how strong is the economic recovery during the year. In any case, the banking activity will expectedly grow by more than it did in 1999, going gradually back to the growth rates of 1990 to 1998, that were around 10%. Similarly, we expect that the banking industry's results and returns will also rebound as soon as the system's risk rates come down to their normal level.

In this scenario, we believe that Banco Security's assets will return back to its historical growth rates, that is, above 20% a year, which means that our share in the credit market will continue to increase. To this end, a series of decisions have been made over the past few years directed at strengthening the Bank's capital and technologies together with supporting business development and growth over the near future. The strategy used so far is consistent with a selective business approach and integral utilization of the product and service network in all Grupo Security subsidiaries. As a result, business relations with the clients of the whole organization have been deepened and enhanced. Accordingly, business integration with subsidiaries will expectedly be consolidated during the year 2000, and new product and service sale technologies will be incorporated, together with opening new distribution channels, such as the internet and others.

Finally, in complying with our tasks we are proud to have, this year as well as in previous ones, the efforts, the humane quality and the professional expertise of Banco Security's staff, whose commitment with the Company and its objectives have been essential to build what we can offer you today.



Francisco Silva S.

Chairman

Board of Directors and Management of Banco Security

Management

| | |
|------------------|---|
| Chairman | Francisco Silva S. |
| Directors | Hernán Felipe Errázuriz C. Jorge Marín C. Gustavo Pavez R. Renato Peñafiel M. Gonzalo Ruiz U. Mario Weiffenbach O. |

Top Management

| | |
|---|---------------------------|
| President | Ramón Eluchans O. |
| Chief Organizational Support Officer | Pedro Barroso V. |
| Chief Financial Officer | Bonifacio Bilbao H. |
| Chief Risk Officer | José Miguel Bulnes Z. |
| Chief Assistant Executive Officer | Margarita Hepp K. |
| Chief Projects Officer | Oscar Brahm G. |
| Chief Corporate Banking Officer | Cristián Valdés B. |
| Chief Personal Banking & Branches Officer | Adolfo Tocornal R-T. |
| Chief Personal Banking & Mortgage Operations Officer | Gonzalo Baraona B. |
| Chief Administration Officer | Manuel José Balmaceda A. |
| Corporate Banking Officer | Cristián Sinclair M. |
| Private Banking Officer | Miguel Angel Soto N. |
| International Relations Officer | Roland Jacob D. |
| Development & I.T. Officer | Pedro de Tezanos Pinto D. |
| Comptroller | Sergio Candia A. |

Commercial Assistant Managers and Agents

| | |
|--|--------------------------|
| 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. |
| El Golf Branch Agent | Juan Carlos Ruiz V. |
| Panamericana Branch Agent | Humberto Grattini F. |
| Quilicura Branch Agent | José Francisco Puelma P. |
| Antofagasta Branch Agent | Guillermo Delgado G. |
| Puerto Montt Branch Agent | Alberto Apel O. |
| Ciudad Empresarial Branch Agent | Andrés Llodrá D. |
| Money Desk Assistant Officer | Ricardo Turner O. |
| Management Assistant Officer | Marcial Letelier O. |
| Corporate Assistant Officer | Ignacio Prado R. |
| Corporate Assistant Officer | Mauricio Parra L. |
| Corporate Assistant Officer | Ignacio Lecanda R. |
| Real Estate Assistant Officer | Alejandro Arteaga I. |
| Foreign Trade Assistant Officer | Enrique Covarrubias F. |

Summarized Individual Financial Statements of Banco Security

(In millions of Chilean pesos as of December 1999)

| Income Statement | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Gross Operating Results (Gross Margin) | 10,049 | 13,260 | 13,044 | 15,026 | 15,906 | 17,365 | 19,462 | 23,710 |
| Administrative Expenses | 4,112 | 5,284 | 6,174 | 7,534 | 8,855 | 9,483 | 10,348 | 12,103 |
| Net Operating Results (Net Margin) | 5,937 | 7,976 | 6,870 | 7,492 | 7,051 | 7,882 | 9,114 | 11,607 |
| Net Income | 3,609 | 4,983 | 5,285 | 6,720 | 5,808 | 7,898 | 5,508 | 8,509 |
| Balances at the end of the year | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
| Loans | 185,066 | 240,246 | 309,182 | 336,740 | 407,207 | 509,717 | 546,606 | 576,546 |
| Financial Investments | 165,133 | 188,777 | 78,038 | 143,092 | 92,966 | 127,538 | 106,900 | 68,681 |
| Productive Assets | 350,199 | 429,024 | 387,220 | 479,833 | 500,173 | 637,255 | 653,506 | 645,227 |
| Fixed Asset & Investment in Subsidiaries | 12,033 | 14,684 | 16,052 | 16,811 | 19,491 | 19,962 | 20,795 | 23,689 |
| Total Assets | 400,673 | 510,301 | 475,616 | 562,918 | 649,827 | 698,557 | 754,588 | 738,060 |
| Checking Accounts | 12,108 | 15,700 | 18,344 | 16,960 | 25,445 | 23,784 | 20,202 | 27,862 |
| Time Deposits | 173,660 | 213,318 | 239,826 | 295,875 | 377,811 | 368,817 | 446,849 | 466,011 |
| Foreign Liabilities | 44,827 | 62,976 | 63,708 | 60,368 | 66,079 | 35,522 | 41,917 | 38,855 |
| Provision for Risk Assets | 1,791 | 2,911 | 3,334 | 3,325 | 4,221 | 4,100 | 5,513 | 5,306 |
| Capital and Reserves | 34,206 | 34,573 | 35,075 | 40,662 | 41,160 | 42,949 | 55,078 | 55,089 |
| Equity | 37,815 | 39,556 | 40,360 | 47,382 | 46,968 | 50,847 | 61,221 | 63,671 |
| Financial Indicators | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
| Productive Assets / Total Assets | 87,40% | 84,07% | 81,41% | 85,24% | 76,97% | 91,22% | 86,60% | 87,42% |
| Net Income / Equity | 10,55% | 14,41% | 15,07% | 16,53% | 14,11% | 18,39% | 9,89% | 15,43% |
| Net Income / Productive Assets | 1,03% | 1,16% | 1,36% | 1,40% | 1,16% | 1,24% | 0,84% | 1,32% |
| Administrative Expenses / Productive Assets | 1,17% | 1,23% | 1,59% | 1,57% | 1,77% | 1,49% | 1,58% | 1,88% |
| Productive Assets /Number of Employees (mill, Pesos Dec. 99) | 2,148 | 2,698 | 2,225 | 2,461 | 2,382 | 2,723 | 2,543 | 2,280 |
| Loans /Number of Employees (mill, Pesos Dec. 99) | 1,135 | 1,511 | 1,777 | 1,727 | 1,939 | 2,178 | 2,127 | 2,037 |
| Leverage | 11,87 | 14,59 | 14,2 | 13,7 | 14,7 | | | |
| Number of Employees | 163 | 159 | 174 | 195 | 210 | 234 | 257 | 283 |

NOTE: The exchange rate is Chilean \$ 527.7 per US dollar as of December 1999.

Summarized Consolidated Financial Statements of Banco Security

(In millions of Chilean pesos as of December 1999)

| Income Statement | 1995 | 1996 | 1997 | 1998 | 1999 |
|---|-------------|-------------|-------------|-------------|-------------|
| Gross Operating Results (Gross Margin) | 20,741 | 21,336 | 22,836 | 23,917 | 30,966 |
| Administrative expenses | 10,116 | 11,956 | 12,346 | 13,139 | 15,544 |
| Net operating Results (Net Margin) | 10,625 | 9,380 | 10,491 | 10,778 | 15,422 |
| Net Income | 6,720 | 5,808 | 7,898 | 5,508 | 8,509 |
| Balances at the end of the year | 1995 | 1996 | 1997 | 1998 | 1999 |
| Loans | 368,157 | 445,449 | 551,972 | 591,148 | 618,040 |
| Financial Investments | 150,902 | 100,545 | 142,680 | 111,570 | 73,331 |
| Productive Assets | 519,059 | 545,994 | 694,651 | 702,718 | 691,371 |
| Fixed Assets & Investments in Subsidiaries | 7,743 | 10,788 | 9,564 | 10,655 | 12,687 |
| Total Assets | 593,410 | 687,858 | 746,856 | 797,289 | 779,380 |
| Checking Accounts | 20,148 | 25,445 | 23,784 | 20,128 | 27,862 |
| Time Deposits | 297,991 | 380,254 | 379,637 | 448,569 | 467,885 |
| Foreign Liabilities | 46,549 | 66,079 | 35,522 | 41,917 | 38,855 |
| Provision for Risk Assets | 3,325 | 4,221 | 4,100 | 5,513 | 5,930 |
| Capital and Reserves | 40,662 | 41,160 | 42,949 | 55,078 | 55,089 |
| Equity | 47,382 | 46,968 | 50,847 | 61,221 | 63,671 |
| Financial Indicators | 1995 | 1996 | 1997 | 1998 | 1999 |
| Productive Assets / Total Assets | 87,47% | 79,38% | 93,01% | 88,14% | 88,71% |
| Net Income / Equity | 16,53% | 14,11% | 18,39% | 9,89% | 15,43% |
| Net Income / Productive Assets | 1,29% | 1,06% | 1,14% | 0,78% | 1,23% |
| Administrative Expenses / Productive Assets | 1,95% | 2,19% | 1,78% | 1,87% | 2,25% |

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Some Remarks on the Economy

The performance of the Chilean economy during 1999 was heavily marked by the adverse international economic situation of the two previous years, and by the monetary adjustment implemented by the Central Bank since early 1998.

The deterioration of the external environment began with the Asian crisis in 1997, continued with the Russian debt freeze in the second half of 1998 and its spreaded effect in terms of foreign financing in emerging economies, and concluded with a strong Brazilian devaluation in early 1999.

The negative effects on Chile were visible in both the trade and the financial area. The reduced growth rates in the world caused a decline in the terms of trade, which resulted in an income loss equal to 3% of the GDP, together with a substantial slowdown in the growth rates of export volumes.

In the financial area, the international interest rates relevant for Chile showed a significant increase in real terms, as a result of a strong foreign deflationary process. This, combined with the increase in the country risk premium, led to expectations for a Chilean peso devaluation that caused a radical reversal of the capital flow, that resulted in losses in international reserves and in a strong increase in interest rates to attenuate the process.

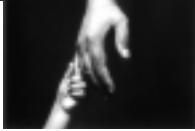
The negative effects of the situation described affected with some lag the country's economic activity, in particular during the first half of 1999. Although some signs of recovery began to show in the third quarter, the recession of the previous months was so strong that GDP for the year fell by 1.1%. This was the first economic contraction since 1983. A violent reduction in domestic spending (-9.9%), a huge adjustment in fixed capital formation (-17.1%) and a reduction in private consumption (-3.0%) accompanied the GDP decline. The only component of domestic demand that showed some increase was government spending (+2.5%).

Breaking down the GDP variation by sectors, it appears that without the mining sector's growth of 16.9%, the GDP's contraction would have been -2.5% in 1999. As for the sectors with the largest share of GDP, namely trade and manufacture, both of them picked up towards the end of the year, with 5.7% and 1% respectively in the fourth quarter, but not enough to prevent them from closing the year with negative figures, of -0,7% and -3,5%, respectively. The hardest hit sector was construction (-10.0%), which showed no increase in the last quarter of the year, because it normally lags behind the rest of the economy.

Taking a closer look at the financial sector in particular, it appears that the Chilean recessive picture froze the expansion that bank loans had been experiencing all along the decade. Thus, as a direct response to the fall in private consumption, but especially in investments, loans increased by barely 2.7% in real terms over 1998.

The drop in domestic spending not only corrected the imbalance in the Balance of Payments' current account, but also caused a heavy contraction of the labor-intensive sectors of non-tradables. As a year average, unemployment rose to 9.7% or 3.5 points above the 1998 figure. Total employment declined by 2.1%, while the labor force grew by 1.8%, that is, similar to the growth rate of population that year. The reduction in employment is explained by the 6.4% reduction in tradables, because employment in the non-tradable sector remained stable.

Although the copper price recovered substantially to near 80 cents a pound during the last quarter of the year, this favorable effect was partly offset by the increase in oil prices caused by the production cuts determined by the OPEC. In the end, the level of the terms of trade was very similar in 1999 to 1998, nearly 5% below its historical average. In this context, the current account's adjustment from a deficit of 7.3% of GDP by



mid 1998 to a near equilibrium in 1999 was based primarily on the heavy decline of the spending to product ratio. To a lesser extent, this adjustment was explained by the fall in the level of financial services associated to the reduction in earnings accrued from foreign investment.

The severe adjustment experienced by the economic activity and domestic spending, plus the progressive improvement of the world economy once the negative effects of the January Brazilian devaluation were in place, led policy-makers to adopt expansionary macroeconomic policies beginning in the second quarter of the year. At the same time, world growth accelerated, the foreign US-dollar deflation began to subside, export prices picked up and the foreign interest rate declined in real terms, despite its nominal increase.

The interbanking rate, that had plunged from 14.0% in September of 1998 to 7.8% in December, continued its downtrend in 1999 to 5% by mid June, where it stayed during the rest of the year. Long term rates, on the other hand, declined from slightly more than 7% in January to 6.1% by the middle of the year, and bounced back to 6.75% by year end. This expansionary monetary policy translated into accelerating growth in monetary aggregates. Thus, M1A went from a real 12-month drop of 12% as of December of 1998, to a 17% expansion in 1999.

The monetary relaxation of 1999 was complemented by an expansionary fiscal policy. Public spending with a macroeconomic impact, that is, total spending minus financial investment and interests, showed a real growth rate of 5.5% that, added to a severe contraction of tax income (-6%), brought the overall government's result from a minor surplus in 1998 to a deficit of 2.3% in 1999. This reflected also on a significant reduction in the government's contribution to savings, which went from an annual average of 5.5% during the five-year period of 1993 - 1997 to 1.5% of GDP in 1999. Such a decline is explained in equal parts by the reduction in tax income associated to the GDP's contraction on the one hand, and by the increase of government spending as a percentage of GDP on the other. Therefore, with growth rates going back to normal in the coming years, government spending will not return to the levels of 1993 to 1997 unless spending grows by several percentage points below the expansion of GDP for a number of years.

From the standpoint of the exchange rate and the capital account, 1999 was a very atypical year in contrast with the other years of the nineties. Together with reducing the reserve requirements on foreign loans to zero, the Central Bank drove the controlled exchange rate system into a floating one, by eliminating the former exchange rate band. Such an action completed the process begun in September of 1998 with a widening of the band, that would have put it in +/- 13% with respect to the middle parity in December of 1999. This measure created the necessary leeway to materialize the exchange-rate adjustment that was pending and flared a conformity signal on the part of the monetary authority on the matter. The weak domestic spending in a scenario of foreign deflation and moderate terms of trade recovery was consistent with an exchange rate depreciation (a nominal 12% between December 1998 and 1999), without introducing any severe inflationary pressures.

Actually, the inflation rate ended the year much below the Central Bank's target of 4.3% for the year. The rigorous monetary contraction driven by the entity, which translated into a strong adjustment of domestic spending, caused the 12-month variation of the CPI to fall from 4.7% at the end of 1998 to 2.3% at the end of

1999. This inflation slowdown was strengthened by the continuation of the foreign deflation process that was dragging on since 1996. Both these factors were favoring a steeper increase in the exchange rate than it actually showed. With the floatation band prevailing through early September, the materialization of part of said adjustment would have placed the exchange rate too close to the band's ceiling, taking away some flexibility from the system.

In sum, 1999 was a difficult year for all the areas of the Chilean economy. Forecasts for 2000 project soon economic reactivation, with a GDP increase of around 6% in real terms, and a recovery of the spending level close to 9%. As for inflation, a goal of 3.5% has been proposed for 2000. In such a scenario, a moderate current account deficit is expected, which combined with an increase in domestic saving, will finance the investments that the economy requires to continue growing in the future at the speed of about 7% a year, as it did during most of the nineties.

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Basic Macroeconomic Indicators

| | 1995 | 1996 | 1997 | 1998 | 1999 |
|--|----------|----------|----------|----------|----------|
| PRODUCT AND GROWTH | | | | | |
| GDP (Million US\$) | 65,215.9 | 68,567.6 | 75,284.8 | 72,809.1 | 67,468.6 |
| Per capita GDP (US\$) | 4,589.3 | 4,755.4 | 5,148.6 | 4,912.3 | 4,492.6 |
| Real GDP growth (%) | 10.6 | 7.4 | 7.4 | 3.4 | -1.1 |
| Domestic spending growth, with inventories (%) | 16.2 | 7.9 | 9.1 | 1.9 | -9.9 |
| TERMS OF TRADE (annual averages) | | | | | |
| Terms of trade (1986=100) | 139.8 | 122.3 | 123.6 | 113.3 | 111.9 |
| Copper price (US\$ cents per pound) | 133.1 | 104.1 | 103.3 | 75.0 | 71.3 |
| Oil price (US\$ per barrel) | 16.6 | 19.8 | 19.2 | 12.9 | 16.4 |
| SAVINGS and INVESTMENT (current prices) | | | | | |
| Gross capital formation | 25.8 | 26.9 | 27.2 | 26.5 | 21.1 |
| Gross fixed capital formation | 23.9 | 24.9 | 25.5 | 25.2 | 21.3 |
| Central Government | 2.8 | 3.1 | 3.1 | 3.2 | 3.7 |
| Rest (private sector, Central Bank and state-owned companies) | 21.1 | 21.8 | 22.3 | 22.0 | 17.6 |
| Inventory variation | 1.9 | 2.0 | 1.7 | 1.2 | -0.1 |
| Total saving (domestic + foreign) | 25.8 | 26.9 | 27.2 | 26.5 | 21.1 |
| Gross National Saving | 23.8 | 21.4 | 21.6 | 20.3 | 20.9 |
| Central Government | 6.5 | 6.1 | 5.7 | 3.7 | 1.7 |
| Rest (private sector, Central Bank and state-owned companies) | 17.3 | 15.2 | 15.8 | 16.7 | 19.2 |
| Foreign Saving (Current account deficit) | 2.0 | 5.5 | 5.7 | 6.2 | 0.2 |
| INFLATION | | | | | |
| CPI variation Dec- Dec (%) | 8.2 | 6.6 | 6.0 | 4.7 | 2.3 |
| Relevant foreign inflation (avg %) | 8.3 | -1.7 | -3.4 | -4.7 | -1.3 |
| MONEY MARKET INDICATORS | | | | | |
| PRBC rate 360-day base (avg, %) | 6.1 | 7.3 | 6.8 | 9.0 | 6.7 |
| PRBC rate 360-day base (Dec. avg, %) | 6.9 | 7.3 | 6.7 | 8.0 | 5.7 |
| PRC-8 rate 360-day base (avg, %) | 6.3 | 6.3 | 6.5 | 7.5 | 6.5 |
| PRC-8 rate 360-day base (Dec. avg, %) | 6.9 | 6.1 | 6.8 | 7.2 | 6.7 |
| EXCHANGE RATE MARKET INDICATORS | | | | | |
| Observed exchange rate (avg, Ch\$/US\$) | 396.8 | 412.3 | 419.3 | 460.3 | 508.8 |
| Observed exchange rate (Dec avg, Ch\$/US\$) | 409.0 | 422.4 | 438.3 | 472.4 | 538.2 |
| Real exchange rate (avg, 1986=100) | 89.0 | 84.7 | 78.4 | 78.0 | 82.3 |
| LABOR MARKET INDICATORS | | | | | |
| Population growth (%) | 1.5 | 1.5 | 1.4 | 1.4 | 1.3 |
| Employment growth (%) | 1.2 | 1.4 | 2.1 | 1.8 | -2.1 |
| Labor force growth (%) | 0.7 | 0.4 | 1.7 | 1.8 | 1.8 |
| Unemployment rate (%) | 7.4 | 6.5 | 6.1 | 6.2 | 9.7 |
| Real wage Variation (%) | 4.1 | 4.5 | 4.8 | 2.7 | 2.4 |
| Average labor productivity variation (%) | 9.4 | 5.9 | 5.1 | 1.5 | 1.0 |
| FOREIGN ASSETS & LIABILITIES (Million US\$ at December) | | | | | |
| Net Central Bank's International Reserves | 14,805.0 | 15,474.0 | 17,840.9 | 15,991.8 | 14,710.2 |
| Total gross foreign debt | 21,736.0 | 22,979.0 | 26,701.0 | 31,691.0 | 33,893.0 |
| Total gross foreign debt (% of GDP) | 33.3 | 33.5 | 35.5 | 43.5 | 50.2 |
| Net foreign debt | 6,931.0 | 7,505.0 | 8,860.1 | 15,699.2 | 19,182.8 |
| Net foreign debt (% of GDP) | 10.6 | 10.9 | 11.8 | 21.6 | 28.4 |
| Foreign investment stock | 19,010.0 | 24,303.9 | 31,233.9 | 36,400.6 | 46,063.4 |
| Stock of Investment Overseas | 3,092.3 | 4,410.0 | 6,513.8 | 10,729.9 | 17,950.7 |
| Net foreign investment stock | 15,917.7 | 19,893.9 | 24,720.1 | 25,670.7 | 28,112.7 |
| Net foreign investment stock (% GDP) | 24.4 | 29.0 | 32.8 | 35.3 | 41.7 |

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Banco Security and the Chilean Banking Industry

Prior to discussing Banco Security's activities and results in 1999, below is a brief description of the overall performance of the banking industry during the year.

The Banking Industry in General

The evolution of the Chilean economy during 1999 was marked by the lagged effects of the Asian crisis that had begun in mid 1997 and by the adjustment process of the excessive spending levels that the country had reached in prior years. These effects reflected during 1999 on a drop in product and spending, as well as on a substantial balance of payments adjustment. All in all, the inflation goals were more than met.

In the financial sector, these effects have shown up in a deceleration of financial activities, increased risk level, and the consequent deterioration in the results and earnings of the banking industry.

By the end of 1999, a total of 30 banking institutions were operating in the Chilean financial system, including 9 domestic private banks, 19 foreign banks, one state-owned bank and one financial institution. Among a number of facts worth singling out is a series of property transfers occurred in the banking system during the year, whereby there was a notorious increase in the number of foreign banks, and the purchase of two of the three formerly operating financial institutions by national banks.

Levels of Activity

Available figures for the industry show an increase in total loans of 2.7% in real terms in 1999, quite low compared with the average real annual rate of 10.8% of the 1990 - 1998 period, but consistent with the reduced growth rate of the overall economy. Within this context, the most severe fall was experienced by consumer credits with an estimated reduction of -5.7%, and the -0.2% decline in commercial credits in general. Thus, the lower growth rate of credits is the result of the aforesaid declines in combination with increased foreign trade loans (with an estimated increase of 3.7%) and the estimated 12.3% increase in housing loans, that were favored with tax benefits implemented for a particular type of dwelling, plus an increase in past-due portfolio, consistent with the system's greater risk. Preliminary figures show an increase of 16.5% in the past-due portfolio in 1999 following the 57.4% real increase of 1998, which means that unpaid loans went from 1.00% of total loans in 1997 to 1.69% in 1999.

With a higher risk in the economy, financial institutions took the necessary protection, through significant increases in their provisions. Available figures indicate that the system's risk rate increased to 1.98% of credits in October of 1999, which although acceptable by international standards, it does reflect a worsening of the situation if compared to the 1.25% it had attained in average in the years before the crisis (1995 to 1997).

As a response to increased risk levels, provisions on loans rose by 35.3% during 1999, that is, from 1.6% of total credits in late 1998 to 2.0% in 1999. Some banks, in particular those mostly oriented to consumer credits, showed the highest increases in provisions.

Several banks also strengthened their capital base during the year, in order to be prepared to face the higher potential risk of their portfolios. Thus, the financial system's capital and reserves increased by a real 7.4% during 1999. The strength of the financial system as a whole reflected on the Basle Coefficient (that measures effective equity in terms of risk weighted assets) averaged 13.50% in 1999, showing a wide margin over the



legal minimum of 8%. Furthermore, almost every financial institution showed a Basle index higher than 10%, which is one of the requisites to qualify as a first-rate bank.

Results

As for results, earnings of the overall financial system declined by 12.9% in 1999. Reduced income, combined with the capital increases made by a number of banks during the year, translated into a lower return on equity of 9.4% that year. This figure compares poorly with the financial system's average return on equity of 11.5% in 1998 and substantially worse with the average of 16.85% observed during the 1990 - 1998 period.

Regarding the main factors that explain the reduction in bank earnings in 1999, there are clearly the increased provisions and write-offs for risky assets that banks had to make during the period. In fact, the income statement shows an increase of 34.1% in provisions and write-offs, reflecting the higher incidence of risk on the industry's results. It must be kept in mind that the financial system's risk indicators, according to portfolio risk-rating, increased from 1.50% of total credits in October of 1998 to 1.98% in October of 1999.

However, a closer look to the results shows that the banking industry tackled the economic crisis with the right degree of maturity, reducing the relative weight of administrative expenses, neutralizing hereby to a great extent the increase in provisions and write-offs. With an important step ahead in terms of efficiency, the system's administrative expenses increased by only 0.7% in real terms in 1999. Measured as a ratio to gross margin, administrative expenses declined from 66.4% in 1997 to 60.2% in 1999, while provisions increased from 18.7% of gross margin to 31.4% in the same period.

In sum, it may be stated that the Chilean banking system faced the difficult economic situation of the years 1998 and 1999 appropriately, covering the greater risk existing in the market with increased provisions and strengthened capital base in several banks. All this, added to the efforts in terms of expense control, helped to reduce the high costs inherent to any economic adjustment process.

courtesy



courtesy

courtesy

Results and Activities of Banco Security

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

The recession that hit the Chilean economy in 1999 is definitely present in the analysis of the results and activities of the Bank during the year. At a national level, its effects are reflected on a low growth rate for loans and an increase in risk, with the subsequent deterioration in results and returns.

Results

It is worth noting that, notwithstanding the difficult economic conditions, results of Banco Security in 1999 were quite satisfactory, showing the strength and maturity it has attained in the past years. Net consolidated income of Banco Security and its subsidiaries amounted to Ch\$8,508.8 million in 1999, showing an increase of 54.5% in real terms over the year before and a return on equity of 15.4%. The substantial real growth over 1998 results is explained mainly by the better interest rates prevailing during the year and by the improved results of its subsidiaries, despite the bigger effort in provisions the bank had to make because of the higher risk of the system.

Consistently with the reduced growth in the levels of activity observed in the system, Banco Security's total loans as of December of 1999 amounted to Ch\$576.5 billion, with a real increase of 5.5% in 12 months, compared with an estimated 2.7% growth of the overall financial system. It is worth noting that the real average growth rate of loans had been 24.7% per annum in Banco Security and 10.8% in the system between the years 1990 and 1998. Thus, Banco Security's market share in terms of credit volume was 2.24% in 1999, and was well positioned in its target market. The Bank is currently ranked 13th among the 30 banks and financial institutions operating in the market as of the end of 1999.

As for Banco Security's credit portfolio, the growth in total loans was mainly based on a 7.6% increase in commercial credits and a 27.7% increase in foreign trade loans, together with an increase in the past-due portfolio, due to the higher risk in the market. It is important to note that although the real increase of 30.9% in past-due loans seems quite high, Banco Security's past due loans account for only 0.32% of total loans, which is one of the lowest ratios in the market and compares very favorably with the average ratio of 1.69% for the banking industry in 1999.

Despite the difficult times the Chilean economy lived all through 1999, Banco Security has 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 least risky bank among the national banks that were operating in the local market in 1999, and ranks in a good eighth place if all the banks, both national and foreign operating locally are considered. Risk rates available for October 1999 indicate that the financial system's risk has increased from 1.50% in October of 1998 to 1.98% of loans one year later. Banco Security's risk rate is equal to 1.12% of loans as of October of 1999, compared with 0.86% a year before. Banco Security has, as has the rest of the banking industry, made significant efforts in terms of provisions and write-offs during the year (Ch\$4,663.3 million at December of 1999 compared with Ch\$3,407.7 million at December of 1998), as a way to respond to the higher risk situation in place.

In addition, the Bank continued making efforts to reduce expenses, both administrative and labor, to keep its traditional high efficiency standards. Thus, efficiency improved in 1999 placing Banco Security as the most efficient among the large and medium-sized banks operating in the local market, with administrative expenses to gross margin ratio of 51.0%, compared with 53.2% in 1998. On the other hand, Banco Security keeps its traditional first place in the industry in terms of productivity, as measured by credits over number of employees.

In terms of solvency, Banco Security's Basle coefficient of 11.30% by the end of 1999, that measures effective equity in terms of risk weighted assets, shows a comfortable margin over the legal minimum of 8%. Basic capital, in turn, represents 7.47% of total assets, comfortably higher than the 3% minimum required by the General Banking Act.

Finally, it must be mentioned that Banco Security's subsidiaries made a substantial contribution to the Bank's activities and results, with a significant increase over 1998. In fact, earnings from investments in related companies increased by a real 103% to Ch\$2,677.8 million in one year, and accounted for 31.5% of the Bank's consolidated income, compared with 23.9% of consolidated income the year before.



Activities

It is important to note that Banco Security, together with its subsidiaries and other companies in the Group, began developing an ambitious three-year Technological Plan in 1998, which should place the Bank in a privileged position in the market, together with other technically-oriented banks. A future vision, that considers a direct relationship 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. To that end, a team of professionals was formed, assigned to study the market in order to become familiar with the needs of current and potential clients of the Bank and its subsidiaries, to research new technologies and design new processes to support its products and services, ensuring the top quality, efficiency and agility standards demanded by our clients. Some of these products have already been placed in the market and have been received very favorably by the users.

In an industry that becomes more competitive and demanding every year, Banco Security has had to face new and varied challenges, such as strengthening its corporate banking area, the development of selected individual banking services and increase the Bank's share in international businesses. All of this has been possible thanks to the improved use of the synergy that comes from the permanent cooperation and mutual support shown by the subsidiaries of Banco Security and its respective business areas, where it can offer timely, integral, and agile service to its clients.

Branches

Banco Security operates with a total of 11 offices, including the Headquarters. The branch-opening strategy has been oriented to regions or sectors that are consistent with the target market of medium-sized to large companies and selected individuals. Thus, it has four branches outside of greater Santiago, namely in the cities of Temuco, Concepción, Antofagasta and Puerto Montt, and the rest in the Santiago Metropolitan Area (in Providencia, El Golf, Panamericana, Quilicura, Santa Elena and Ciudad Empresarial).

Human Resources

Among the most significant activities in the human resources area of the Bank during 1999, it is worth singling out a few:

- Executive Meeting: During the year there were seminars for chief officers, managers and branch agents called "orienting business toward the client and service" presented by Professor Rodrigo Morrás from the Adolfo Ibáñez University.
- Training: With the purpose of relying on skilled and updated employees, the Bank continued to provide training courses to its and its subsidiaries' personnel, in matters such as information technology, specific regulations, customer service, foreign languages, management control, and other matters. It also continued with its ongoing program of technical careers for its employees, such as foreign trade and financial techniques.
- Staff Assessment: As in previous years, the Bank's personnel were assessed twice in the year.
- Catholic University's Business Fair: For the fifth consecutive year, the Bank took part in the Business Fair (Expo-Empresa) organized by the Catholic University's School of Economic and Administrative Sciences. The purpose is to make contact with senior year students and select interns for professional practice during the summer months.

• Recreational Events

Securitylandia: Like in earlier years there was the recreational summer program for employee's children in the month of January. This program was implemented at the Casona de Las Condes with a duration of two weeks. Here, participating youngsters took swimming and tennis lessons together with a number of recreational activities. There was also a winter program, for children between 8 and 13 years old, under the name of "mountain adventure", that took place in the lower Andean zone of Río Colorado, Cajón del Maipo near Santiago.

Family Outing: By the end of the year the traditional family excursion was made to Ruca Mapu in Pirque, a rural area near Santiago. In this recreational day all the Company's employees participate with their families.

Sports: Throughout the whole year 1999 sporting activities were organized. Worth singling out was the baby-football championship in which the teams of the various companies and areas participated. In soccer, the Bank participated in the Banking Institutions' Sports League. In tennis, a two-category singles championship and one doubles championship were organized.

A Meaningful Christmas: The Bank adhered, together with other companies, to the "Meaningful Christmas" campaign to celebrate the Jubilee of the year 2000.

service



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service

Subsidiaries of Banco Security

Valores Security S.A.

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 Commercial Officer: Rodrigo Vicuña B.

Chief Operating Officer: Juan Adell S.

During 1999 Valores Security S.A. Corredores de Bolsa showed very satisfactory results, with net income of Ch\$901.1 million, compared with Ch\$103.4 million a year before, that is, a real increase of 771.4% and a return on equity of 40.5%. These favorable results of 1999 are directly related to the positive evolution of stock exchanges during the year, as well as with higher earnings from investments due to the increased stability and reduced levels of interest rates. Actually, transactions in the local exchanges amounted to US\$ 6,477 million, 68% above the year before, heavily influenced by a series of tender offers that were performed particularly during the first half of 1999. Worth mentioning were the tender offers of Endesa, Enersis, Banco Sudamericano and Banco de A. Edwards. At the same time, stock prices, measured by the general stock index (IGPA) or through the selected stock index (IPSA), increased by 43% during the year and a similar variation was experienced by market capitalization, which reached US\$67.607 million in 1999.

During 1999, Valores Security traded stocks amounting to a combined Ch\$343.946 billion, coming 5th among the 38 stockbroker offices in operation, with an average annual market share of 4.19%, considering transactions performed in the Santiago Stock Exchange and in the Chilean Electronic Exchange, where the Company operates. The two business areas where Valores Security S.A. Corredores de Bolsa performs its activities showed the following performance during the year just ended:

- Variable-income instruments (stocks) generated gross income of Ch\$765.6 million to the Company, from stock intermediation and stock exchange rights, as well as from the results of the Company's own portfolio.
- The fixed-income area grossed Ch\$1,401.2 million during 1999, which may be seen as an important achievement in a period not free of complications in handling positions in both fixed-income instruments and US dollars.



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 operations on new and used goods, and real-estate leasing of offices and industrial properties. Its target market is made up of large and medium-sized companies, which it serves with a strong client orientation, providing an integral service, and taking advantage of the synergy with the Bank and the rest of the subsidiaries of Grupo Security.

The leasing industry is one of the activities most severely affected by economic cycles and market conditions, because it is associated to purchases of capital goods, such as real estate properties and machinery, primarily. Thus, again in 1999, after a bad year in 1998, the leasing industry showed a reduction in credits of 8.1% and a decline of its net income of 42.3% over the previous year.

In this context, Leasing Security's net income for the year 1999 amounted to Ch\$777.1 million, a slight increase of 1.1% in real terms over 1998, which compares favorably with the drop in the overall industry's earnings. The Company's return on equity was 12.6%.

The Company's leasing contracts amounted to Ch\$40,360 million at December of 1999, 8.6% lower in real terms than the year before, a reduction similar to the rest of the industry. Preliminary data disclosed by the Chilean Association of Leasing Companies show Leasing Security with a 3.9% share among the 16 leasing companies operating in the local market. At December of 1999, the Company maintains 674 leasing contracts (752 contracts in 1998) with a total of 391 debtors (446 debtors in 1998).

During 1999 Leasing Security made provisions amounting to Ch\$87.1 million (Ch\$247.8 million in 1998), whereby it attained an actual provision coefficient equal to 1.51% of its total leasing contract portfolio (1.34% in 1998), which compared with the risk rate coefficient of 1.06% shows substantial leeway.

At year-end, the Company's leverage is 5.75 times its equity. Therefore, Leasing Security has a very strong equity structure, together with low risk levels in its credit operations, and low payment delays. Its wide array of clients operating in the biggest variety of economic activities translates into a diversified portfolio in terms of both goods and contract duration. Add to this the diversity of the Company's sources of financing and a flexible provision policy, and a promising growth scenario can be projected for the coming years.

Finally, it must be mentioned that the new Banks Law contained in a November 1998 circular allows banks to perform leasing operations directly, without the need to create subsidiaries, thereby permitting the absorption of these subsidiaries by the banks, if they are already in place. Thus, several banks transferred their subsidiaries to the bank's activities during 1999, in order to take advantage of the economies of scale generated by the use of the bank's infrastructure and improved access to financing.



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.

This company was created as a subsidiary of Banco Security in May 1992, and has grown sustainably since, incorporating new funds. As of the end of 1999, the Company manages six funds, namely:

- "Security Check", a short term fixed-income fund oriented to medium-sized to large 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 the world markets,
- "Security Gold", a fixed-income fund oriented at individuals wishing to invest for the medium and long term.

At the mutual fund industry level, the effects of the complex financial situation of 1998 had reflected on a 31.5% drop in assets managed during that year. In such a scenario, it is worth highlighting the recovery of 1999, with an increase close to 50% in real terms, which permitted to go back to the level of mutual funds managed before the crisis.

Administradora de Fondos Mutuos Security showed net income of Ch\$649.3 million in 1999, with a real increase of 76.4% over the previous year and with a return on equity of 56.8%.

In line with the overall mutual fund industry, Administradora de Fondos Mutuos Security also shows a remarkable recovery in funds managed, with a 53.9% growth in the year. As of the end of December 1999 the Company was managing an average volume of Ch\$90,257 million, which represented an increase in market share from 2.9% in 1997 to 4.2% in 1998 and 4.3% in 1999. The Company's strategy, in terms of showing attractive returns on the various funds it manages, and directing its sales force to companies and high-income individuals, has resulted in a large number of participants, that equaled 5,868 clients at the end of 1999.

The 1998 slump and the subsequent recovery of mutual fund assets in 1999, is shown in the table below (billions of Ch\$):

| | December | December | December | % Variation | % Variation |
|--|-------------|-------------|-------------|------------------|------------------|
| Mutual Funds | 1999 | 1998 | 1997 | 1998-1999 | 1997-1998 |
| Mutual fund industry | 2,107.1 | 1,372.7 | 2,003.9 | 49.6% | - 31.5% |
| Administradora de Fondos Mutuos Security | 90.3 | 57.2 | 57.6 | 53.9% | - 0.7% |
| AFM Security's market share | 4.3% | 4.2% | 2.9% | | |

It must be noted that Administradora de Fondos Mutuos Security has a highly qualified sales force, specialized in financial and tax matters. This is one valuable asset of the Company, because of the knowledge they have of their clients and their investment needs. Around 25 % of total sales are made in Banco Security's branches, in each of which the Company has at least one investment agent assigned for its operations.



Asesorías Security S.A.

Board of Directors:

Chairman: Ramón Eluchans O.

Directors: Bonifacio Bilbao H.
José Gabriel Palma A.
Adolfo Tocornal R-T.
Cristián Valdés B.

Management:

President: Claudio Izzo B.

This subsidiary of Banco Security focuses on risk-hedging operations and provides advise to its customers in foreign financial asset management. To this end it has the support of Morgan Stanley Dean Witter Discover & Co., which has grown to be one of the largest companies in the world in the area. Asesorías Security is its representative for Chile in the aforesaid business areas.

The year 1999 was a good one for Asesorías Security. The prevailing uncertainty of the previous year generated very interesting business opportunities. Although amounts traded in the markets were not as good as expected, the returns on businesses outdid every expectation by far.

The risk-hedging area reactivated significantly, mainly due to the strong appreciation of the US dollar with respect to the Chilean peso. The Company advised in several businesses, interesting in their structures and durations that involved currency exchange risks.

Advisories in foreign asset management continued growing, as projected a year ago. In 1999, it was possible to incorporate every pension fund managing organization but one to the Company's client portfolio, and intense efforts are being made to increase services in order to better differentiate the Company from its competitors.

In sum, Asesorías Security had net earnings of Ch\$320,7 million in 1999, a figure that is larger by 312.4% than that of 1998.

Financial Statements 1999-1998

Individual Financial Statements

Consolidated Financial Statements

Summary Financial Statements

Individual Financial Statements

December 31, 1999 and 1998.
With Independent Auditors' Report Thereon

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Ch\$ = Chilean pesos
ThCh\$ = Thousands of Chilean pesos
MCh\$ = Millions of Chilean pesos
UF = Price-level restatement unit
US\$ = United States dollar

Independent Auditors Report

**Deloitte &
Touche**



To the Shareholders and Directors of Banco Security

We have audited the balance sheets of Banco Security as of December 31, 1999 and 1998, and the related statements of income for the years then ended and the statement cash flows for the year ended December 31, 1999. These financial statements (including the related notes) are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

In our opinion, such individual financial statements present fairly, in all material respects, the financial position of Banco Security as of December 31, 1999 and 1998, and the results of its operations for the years then ended, and its cash flows for the year ended December 31, 1999, in conformity with the basis of accounting described in Note 1 to the financial statements.

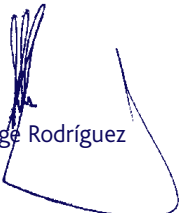
As stated in Note 2 to the financial statements, from January 1, 1999, the Bank implemented standards for the recording of deferred taxes. In addition, from 1999, the Bank has incorporated the statement of cash flows as part of its basic financial statements.

As explained in Note 2 to the financial statements, in 1998, pursuant to instructions issued by the Superintendency of Banks and Financial Institutions, the Bank changed the method of accounting for the adjustment to market value of financial investments classified as permanent.

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

Deloitte & Touche

January 10, 2000


Jorge Rodríguez

**Deloitte Touche
Tohmatsu**

Balance Sheets

As of December 31, 1999 and 1998 (In millions of Chilean pesos - MCh\$)

| | 1999 | 1998 |
|---|------------------|------------------|
| Assets | MCh\$ | MCh\$ |
| Liquid Assets | 64,093.3 | 77,211.0 |
| Loans: | | |
| Commercial | 390,302.9 | 362,581.0 |
| Foreign trade | 81,631.8 | 63,922.9 |
| Consumer | 1,730.0 | 1,084.6 |
| Mortgage | 529.5 | – |
| Contingent | 55,290.9 | 69,790.3 |
| Other outstanding loans | 45,220.9 | 47,821.0 |
| Past-due | 1,840.3 | 1,406.3 |
| Total loans | 576,546.3 | 546,606.1 |
| Less: allowance for loan losses | (4,798.8) | (5,418.5) |
| Total loans-net | 571,747.5 | 541,187.6 |
| Other Loan Operations: | | |
| Investment purchased under agreement to resell | – | 7,645.3 |
| Total other loan operations | – | 7,645.3 |
| Investments: | | |
| Banco Central de Chile and Treasury Securities | 23,580.3 | 10,523.5 |
| Other financial investments | 36,711.7 | 55,312.4 |
| Investment collateral under agreement to repurchase | 6,863.7 | 33,179.9 |
| Assets received in settlement or adjudicated | 1,524.9 | 239.2 |
| Total investments | 68,680.6 | 99,255.0 |
| Other Assets | 9,849.2 | 8,493.8 |
| Fixed Assets: | | |
| Premises and equipment | 11,502.9 | 9,845.4 |
| Investments in related companies | 12,186.1 | 10,949.7 |
| Total fixed assets | 23,689.0 | 20,795.1 |
| Total Assets | 738,059.6 | 754,587.8 |

The accompanying notes are an integral part of these financial statements

| | 1999 | 1998 |
|--|------------------|------------------|
| Liabilities and Shareholders' Equity | MCh\$ | MCh\$ |
| Liabilities: | | |
| Deposits and Other Obligations: | | |
| Checking accounts | 27,862.0 | 20,201.7 |
| Deposits and banker drafts | 432,550.0 | 406,050.5 |
| Other time and demand | 33,460.9 | 40,798.4 |
| Investments sold under agreements to repurchase | 6,959.8 | 33,912.2 |
| Mortgage notes | 529.5 | - |
| Contingent liabilities | 55,169.1 | 69,730.1 |
| Total time and demand deposits | 556,531.3 | 570,692.9 |
| Bonds: | | |
| Current bonds | 6,657.4 | 6,810.4 |
| Subordinated bonds | 22,340.6 | 22,201.0 |
| Total bonds | 28,998.0 | 29,011.4 |
| Borrowing from Financial Institutions and Banco Central de Chile: | | |
| Other obligations with Banco Central de Chile | 1,187.1 | 1,233.9 |
| Domestic borrowings | 5,009.5 | 12,892.4 |
| Foreign borrowings | 38,854.6 | 41,916.7 |
| Other borrowings | 24,591.1 | 22,774.4 |
| Total borrowings from financial institutions | 69,642.3 | 78,817.4 |
| Other Liabilities | 18,710.4 | 14,750.5 |
| Total liabilities | 673,882.0 | 693,272.2 |
| Voluntary Provisions | 507.1 | 94.8 |
| Shareholders' Equity: | | |
| Capital and reserves | 55,089.2 | 55,078.4 |
| Other reserves | 72.5 | 634.0 |
| Net income for the year | 8,508.8 | 5,508.4 |
| Total shareholders' equity | 63,670.5 | 61,220.8 |
| Total Liabilities and Shareholders' Equity | 738,059.6 | 754,587.8 |

The accompanying notes are an integral part of these financial statements

Statements of Income

For the years ended as of December 31, 1999 and 1998 (In millions of Chilean pesos - MCh\$)

| | 1999 | 1998 |
|--------------------------------------|-----------------|-----------------|
| | MCh\$ | MCh\$ |
| Operating Income | | |
| Interest and indexation income | 63,700.6 | 79,772.5 |
| Gains from trading securities | 1,490.3 | 1,846.5 |
| Commission income | 1,497.2 | 1,159.1 |
| Exchange income-net | 2,153.7 | 2,767.6 |
| Other operating income | 80.9 | 652.1 |
| Total operating revenue | 68,922.7 | 86,197.8 |
| Less: | | |
| Interest and indexation expense | (44,868.1) | (64,203.7) |
| Loss from trading securities | (158.2) | (2,261.9) |
| Commission expense | (37.6) | (24.5) |
| Other operating expenses | (149.1) | (245.6) |
| Gross operating margin | 23,709.7 | 19,462.0 |
| Remunerations and personnel expenses | (6,554.8) | (5,655.4) |
| Administration and other expenses | (4,821.7) | (3,934.5) |
| Depreciation and amortization | (726.5) | (758.5) |
| Net operating margin | 11,606.7 | 9,113.6 |
| Provisions for assets at risk | (4,663.3) | (3,407.7) |
| Recovery of loans written off | 33.0 | 0.3 |
| Operating income | 6,976.4 | 5,706.2 |
| Other Income and Expenses: | | |
| Non-operating income | 768.5 | 630.1 |
| Non-operating expense | (15.8) | (35.1) |
| Gain on permanent investments | 2,677.8 | 1,314.3 |
| Monetary correction | (898.9) | (1,281.6) |
| Income Before Income Taxes | 9,508.0 | 6,333.9 |
| Income Taxes | (584.5) | (825.5) |
| Income Before Voluntary Provisions | 8,923.5 | 5,508.4 |
| Voluntary Provisions | (414.7) | - |
| Net Income for The Year | 8,508.8 | 5,508.4 |

The accompanying notes are an integral part of these financial statements

Statements of Cash Flows

For the years ended as of December 31, 1999 and 1998 (In millions of Chilean pesos - MCh\$)

| | MCh\$ |
|--|-------------------|
| Cash Flows From Operating Activities: | |
| Net income for the year | 8,508.8 |
| Charges (credits) to income that do not represent cash flows: | |
| Depreciation and amortization | 726.5 |
| Provisions for assets at risk | 4,663.3 |
| Voluntary provisions | 414.7 |
| Equity in earnings of related companies | (2,677.8) |
| Net loss from sale of assets received in settlement of loans | 15.8 |
| Monetary correction | 1,070.8 |
| Other charges that do not represent cash flows | 207.8 |
| Net change in interest, indexation and commissions accrued on assets and liabilities | (3,859.6) |
| Net cash provided by operating activities | 9,070.3 |
| Cash Flows from Investing Activities: | |
| Changes in assets affecting cash flows: | |
| Net increase in loans | (48,806.0) |
| Net decrease in other loan operations | 7,729.9 |
| Net decrease in investments | 28,218.4 |
| Purchase to fixed assets | (2,887.3) |
| Sale of fixed assets | 513.6 |
| Dividends received from investments in related companies | 1,441.3 |
| Sale of assets received in settlement of loans | 509.2 |
| Net decrease in other assets and liabilities | 2,637.0 |
| Net cash used in investing activities | (10,643.9) |
| Cash Flows from Financing Activities: | |
| Net increase in checking accounts | 7,758.3 |
| Net increase in deposits and banker drafts | 30,166.3 |
| Net decrease in other time and demand liabilities | (7,431.4) |
| Net decrease in other liabilities arising from trading activities | (26,122.0) |
| Decrease in short-term foreign borrowings | (5,343.4) |
| Mortgage notes issued | 534.4 |
| Decrease in other short-term liabilities | (7,675.2) |
| Dividends paid | (5,497.6) |
| Net cash used in financing activities | (13,610.6) |
| Net Decrease in Cash Flows for the Year | (15,184.2) |
| Effect of Inflation on Cash and Cash Equivalents | 2,066.5 |
| Net Decrease Cash and Cash and Cash Equivalents During the Year | (13,117.7) |
| Cash and Cash Equivalents at Beginning of Year | 77,211.0 |
| Cash and Cash Equivalents at End of Year | 64,093.3 |

The accompanying notes are an integral part of these financial statements

Notes to the Individual Financial Statements

(In millions of Chilean pesos - MCh\$)

Note 1. Summary of Significant Accounting Policies

a. Information provided

The financial statements have been prepared in accordance with accounting regulations issued by the Superintendency of Bank's and Financial Institutions (hereinafter, the Superintendency). Such regulations agree with generally accepted accounting principles, except for the investments in subsidiaries, which are recorded on a single line on the balance sheet using the equity method of accounting, and therefore have not been consolidated on a line by line basis. This procedure does not modify net income for the year nor 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 1998 Chilean peso amounts have been price level restated, for changes in the Consumer Price Index (CPI) used for monetary correction (2.6%).

b. Interest and indexation

The amounts included in the balance sheet for loans, investments and liabilities are presented with interest and indexation accrued until the end of the year.

However, the Bank has followed the conservative policy of suspending the accrual of interest and indexation on high risk or past due loans.

c. Monetary correction

The Bank's equity, premises and equipment and other non-monetary assets and liabilities have been restated for the change in the Consumer Price Index (CPI). This restatement represented a net charge to income of MCh\$898.9 (MCh\$1,281.6 in 1998).

The statements of income are not price-level adjusted.

d. Foreign Currency

Assets and liabilities in foreign currencies are shown at their Chilean peso equivalent, converted at the exchange rate prevailing at year end of Ch\$527.70=US\$1, (Ch\$473.77=US\$1 in 1998).

The net gain of MCh\$2,153.7 (MCh\$2,767.6 in 1998), presented as foreign exchange income-net, includes both transaction gains and losses, as well as recognition of the effects of exchange rate fluctuations on net assets and liabilities denominated in foreign currencies.

e. Financial investments

Long-term investments that mature after one year and are traded in the secondary market are stated at market value, in accordance with instructions of the Superintendency. Such instructions call for the recognition of the adjustments to market value against income for the year, unless investments are considered as permanent, 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 this adjustment resulted in a net charge to stockholders' equity for the year of MCh\$545.4 (net credit of MCh\$634.0 in 1998).

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 valued at cost, net of accumulated depreciation calculated on the straight-line basis, over the estimated useful lives of the corresponding assets.

g. Investments in related Companies

The shares or rights in affiliated companies which represent more than 10% of the invested capital, are valued using the Chilean equity method of accounting.

h. Provisions for doubtful Assets

The Bank has established all the provisions that are required to cover the risks of loss on assets, in accordance with the rules established by the Superintendency. Assets are stated net of such provisions or deducting from the assets in the case of loans.

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 liquid equity for purposes of complying with certain regulations of the General Banking Law.

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

j. Deferred taxes

The effect of deferred taxes have been recorded on the accrual basis as from January 1, 1999, pursuant to Technical Bulletin N°60 of the Chilean Institute of Certified Public Accountants. The effects of the existing deferred taxes as of January 1, 1999, not previously recorded, have been recognized in income at the beginning of 1999, to the measure that such temporary differences are reversed.

k. Income Taxes

The Company calculates its income tax in accordance with Current Chilean Tax Law.

l. Employee Vacations

The cost of annual vacations and related benefits are recognized on an accrual basis.

m. Cash and cash equivalents

For purposes of the cash flow statement, cash and cash equivalents include the balance of liquid assets, in accordance with the rules established in Chapter 18-1 of the Superintendency's Compendium of Regulations.

Note 2. Accounting Changes

1999:

According to Circular N° 2,984 of the Superintendency of Bank's and Financial Institutions, and in Technical Bulletin N° 60 of the Chilean Institute of Certified Public Accountants, as from January 1, 1999, the Bank has accounted for deferred taxes arising from timing differences, tax losses and other events that create differences between the accounting and tax bases for assets and liabilities. Up to December 31, 1998 the Bank did not record any effect from such deferred taxes. The application of this accounting principle did not have an accumulated effect as of the beginning of the year. The effects for the current year are explained in Note 15 to the financial statements.

As from January 1, 1999, Technical Bulletin N° 65, issued by the Chilean Institute of Certified Public Accountants, stated as mandatory for banks and financial institutions to present the Statement of Cash Flows. Consequently, this financial statement was incorporated by the Bank as part of its basic financial statements for the year ended December 31, 1999.

1998:

In 1998 the Bank applied Circular N°2,960 issued by the Superintendency, which changed the accounting treatment of financial investments considered as permanent. The new accounting criteria allowed the adjustment to market value of permanent investments to be recorded in an equity account rather than against income for the year. The effect of this accounting change is discussed in Note 1e.

Note 3. Related Party Transactions

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

a. Loans to related parties

At December 31, 1999 and 1998, loans to related parties are as follows:

| | Current portfolio | | Past due portfolio | | Total | | Collateral pledged (*) | |
|----------------------|-------------------|----------------|--------------------|----------|-----------------|----------------|------------------------|----------------|
| | 1999 | 1998 | 1999 | 1998 | 1999 | 1998 | 1999 | 1998 |
| | MCh\$ | MCh\$ | MCh\$ | MCh\$ | MCh\$ | MCh\$ | MCh\$ | MCh\$ |
| Individuals | 510.7 | 329.4 | – | – | 510.7 | 329.4 | 406.3 | 233.5 |
| Operating companies | 2,851.2 | 2,853.6 | – | – | 2,851.2 | 2,853.6 | 939.3 | 1,687.9 |
| Investment companies | 8,729.2 | 3,203.1 | – | – | 8,729.2 | 3,203.1 | 6,811.9 | 1,866.1 |
| Total | 12,091.1 | 6,386.1 | – | – | 12,091.1 | 6,386.1 | 8,157.5 | 3,787.5 |

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

b. Other transactions with related parties

During 1999 and 1998, the Bank's transactions with related parties for amounts in excess of UF1,000 are as follows:

| Related party | Description | Credit to income | | Debit to income | |
|----------------------------|-------------------------------------|------------------|-------|-----------------|-------|
| | | 1999 | 1998 | 1999 | 1998 |
| | | MCh\$ | MCh\$ | MCh\$ | MCh\$ |
| Previsión Vida S.A. | Office rentals | 16.5 | – | – | – |
| Previsión Generales S.A. | Office rentals | 16.5 | – | – | – |
| Inmobiliaria Security S.A. | Sales of assets received in payment | – | 206.0 | – | – |
| Merchant Security S.A. | Advisory services | – | – | 290 | – |
| Grupo Security S.A. | Advisory services | – | – | 89 | – |

These transactions were realized on terms customarily prevailing in the market.

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\$12,186.1 (MCh\$10,949.7 in 1998), the detail of which is as follows:

| Company | Ownership | | Equity | | Investment value | | | Income | | |
|--------------------------|-----------------|-----------------|-----------------|----------------|------------------|------------------|-----------------|----------------|------------------|----------------|
| | 1999 % | 1998 % | 1999 MCh\$ | 1998 MCh\$ | With | Without deferred | | With | Without deferred | |
| | | | | | deferred taxes | taxes | taxes | deferred taxes | taxes | |
| | 1999 | 1998 | 1999 | 1998 | 1999 | 1999 | 1998 | 1999 | 1999 | 1998 |
| Valores Security S.A. | | | | | | | | | | |
| Corredores de Bolsa | 99.900 | 99.900 | 3,125.1 | 2,229.3 | 3,156.8 | 3,121.9 | 2,227.1 | 929.2 | 900.2 | 103.3 |
| Leasing Security S.A. | 99.999 | 99.999 | 6,953.7 | 6,943.4 | 6,953.7 | 6,953.7 | 6,943.2 | 777.1 | 777.1 | 769.0 |
| Administradora de Fondos | | | | | | | | | | |
| Mutuos Security S.A. | 99.990 | 99.990 | 1,792.3 | 1,511.2 | 1,812.5 | 1,792.1 | 1,511.0 | 666.8 | 649.2 | 368.1 |
| Asesorías Security S.A. | 95.000 | 95.000 | 195.4 | 198.6 | 185.6 | 185.6 | 188.7 | 304.7 | 304.7 | 73.9 |
| Subtotal | 12,108.6 | 12,053.3 | 10,870.0 | 2,677.8 | 2,631.2 | 1,314.3 | - | - | - | - |
| Shares and rights | | | | | | | | | | |
| in other companies | 77.5 | 77.5 | 79.7 | - | - | - | - | - | - | - |
| Total | - | - | - | - | 12,186.1 | 12,130.8 | 10,949.7 | 2,677.8 | 2,631.2 | 1,314.3 |

b. Related companies' information

| Company | Assets | | | | Liabilities | | | |
|--------------------------|----------|----------|------------|------|-------------|----------|------------|------|
| | Totals | | % with the | | Totals | | % with the | |
| | | | Bank | | | | Bank | |
| | 1999 | 1998 | 1999 | 1998 | 1999 | 1998 | 1999 | 1998 |
| | MCh\$ | MCh\$ | | | MCh\$ | MCh\$ | | |
| Valores Security S.A. | | | | | | | | |
| Corredores de Bolsa | 37,025.9 | 43,703.1 | - | - | 33,900.8 | 41,473.8 | - | - |
| Leasing Security S.A. | 49,935.6 | 46,588.3 | - | 1.5 | 39,981.8 | 39,644.9 | - | - |
| Administradora de Fondos | | | | | | | | |
| Mutuos Security S.A. | 1,923.8 | 1,584.9 | - | - | 131.4 | 73.7 | - | - |
| Asesorías Security S.A. | 239.1 | 206.3 | 84.0 | 43.7 | 7.6 | - | - | - |

Note 5. Provisions

a. Provisions for assets at risk

At December 31, 1999, the Bank maintains a provision for potential losses for MCh\$4,798.8 (MCh\$5,418.5 in 1998) representing the minimum provisions required by the Superintendency.

The activity in this provision during the years was as follows:

| | Provisions for | | | Total MCh\$ |
|--|-----------------------|------------------|-----------------|----------------|
| | Assets received in | | Other assets | |
| | Loans MCh\$ | payment MCh\$ | | |
| Historic balances, December 31, 1997 | 3,601.4 | – | – | 3,601.4 |
| Writte offs | (1,641.5) | – | – | (1,641.5) |
| Provisions created | 3,321.3 | – | – | 3,321.3 |
| Balances, December 31, 1998 | 5,281.2 | – | – | 5,281.2 |
| Updated balances for comparative purposes | 5,418.5 | – | – | 5,418.5 |
| Historical balances, December 31, 1998 | 5,281.2 | – | – | 5,281.2 |
| Writte offs | (5,145.7) | – | – | (5,145.7) |
| Provisions created | 4,663.3 | – | – | 4,663.3 |
| Balances, December 31, 1999 | 4,798.8 | – | – | 4,798.8 |

In the opinion of management, based on information examined by the Bank, the provisions shown above are sufficient to cover any eventual losses from the non-recovery of the assets.

b. Voluntary provision

In addition to the provision to cover risk assets indicated in a) above, the Bank maintains voluntary reserves for a total of MCh\$507.1 (MCh\$94.8 in 1998).

Note 6. Shareholders' Equity

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

| | Paid-in capital MCh\$ | Other reserves MCh\$ | Other accounts MCh\$ | Income for the year MCh\$ | Total MCh\$ |
|--|-----------------------------|----------------------------|----------------------------|---------------------------------|-----------------|
| Historical balances, December 31, 1997 | 34,197.5 | 5,941.7 | – | 7,381.5 | 47,520.7 |
| Transfer to legal reserve | – | 7,381.5 | – | (7,381.5) | – |
| Capital increase | 9,294.0 | – | – | – | 9,294.0 |
| Dividends paid | – | (5,167.1) | – | – | (5,167.1) |
| Fluctuation in value of financial investments | – | – | 617.9 | – | 617.9 |
| Monetary correction of capital | 1,637.9 | 397.2 | – | – | 2,035.1 |
| Net income for the year | – | – | – | 5,368.8 | 5,368.8 |
| Balances, December 31, 1998 | 45,129.4 | 8,553.3 | 617.9 | 5,368.8 | 59,669.4 |
| Updated balances for comparative purposes | 46,302.7 | 8,775.7 | 634.0 | 5,508.4 | 61,220.8 |
| Historical balances, December 31, 1998 | 45,129.4 | 553.3 | 617.9 | 368.8 | 59,669.4 |
| Transfer to legal reserve | – | 5,368.8 | – | (5,368.8) | – |
| Dividends paid | – | (5,368.8) | – | – | (5,368.8) |
| Fluctuation in value of financial investments | – | – | (545.4) | – | (545.4) |
| Monetary correction of capital | 1,169.0 | 237.5 | – | – | 1,406.5 |
| Net income for the year | – | – | – | 8,508.8 | 8,508.8 |
| Balances, December 31, 1999 | 46,298.4 | 8,790.8 | 72.5 | 8,508.8 | 63,670.5 |

Pursuant to Article 10 of Law N° 18.046, the monetary correction of capital has been included in paid-in capital, which is represented by 78,971,120 no-par-value shares with the same treatment being applied to the reserves.

During February of 1999 and 1998, net profits from 1998 and 1997 of MCh\$5,368.8 and MCh\$5,167.1 (historical), respectively were distributed as dividends.

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, leaving the subscribed capital at Ch\$49,697,533,082 divided in 90,241,632 shares. Of the subscribed shares, 16,877,928 were distributed among the current shareholders at the price of \$550.66 each, on a pro-rata basis, and which were paid-in in cash on August 3, 1998. The remaining 11,270,512 must should be paid-in within three years.

b. Minimum Basic Capital and Effective Equity

Pursuant to the General Banking Law, a financial institution's minimum basic capital may not be less than 3% of its total assets, while the effective equity may not be less than 8% of its risk weighted assets. At year-end 1999 and 1998, Banco Security ratios were as follows:

| | 1999 | 1998 |
|-----------------------|--------------|--------------|
| | MCh\$ | MCh\$ |
| Basic capital (*) | 55,161.7 | 55,712.5 |
| Total assets | 738,059.6 | 754,587.8 |
| Percentages | 7.47% | 7.38% |
| Effective equity (**) | 66,520.3 | 67,058.5 |
| Risk weighted assets | 588,697.1 | 545,862.8 |
| Percentages | 11.30% | 12.28% |

(*) For these effects, 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, and subordinated bonds and voluntary provisions, up to a certain limit, loss be included.

Note 7. Investments

At December 31, 1999 and 1998, the Bank had the following investments:

a. Financial Investments

| | Type of portfolio | | | | | | Adjustment to market | | | | | | |
|------------------------------|-------------------|-----------------|-----------------|-----------------|-----------------|-----------------|----------------------|----------|-----------------|--------------|-----------------|-----------------|--|
| | Permanent (**) | | Non permanent | | Subtotal | | Credit (charge) | | Credit (charge) | | Total | | |
| | | | | | | | to income | | to equity | | | | |
| | 1999 | 1998 | 1999 | 1998 | 1999 | 1998 | 1999 | 1998 | 1999 | 1998 | 1999 | 1998 | |
| MCh\$ | MCh\$ | MCh\$ | MCh\$ | MCh\$ | MCh\$ | MCh\$ | MCh\$ | MCh\$ | MCh\$ | MCh\$ | MCh\$ | MCh\$ | |
| Securities (*) | | | | | | | | | | | | | |
| Banco Central de Chile | 5,728.7 | 28,634.3 | 24,682.3 | 14,789.3 | 30,411.0 | 43,423.6 | - | - | 40.1 | 688.0 | 30,451.1 | 44,111.6 | |
| Local financial institutions | 1,474.5 | 1,704.4 | 4,153.3 | 21,277.4 | 5,627.8 | 22,981.8 | - | - | 32.4 | (54.0) | 5,660.2 | 22,927.8 | |
| Other investments | | | | | | | | | | | | | |
| in Chile | 39.2 | - | 5,002.3 | 11,303.5 | 5,041.5 | 11,303.5 | - | - | - | - | 5,041.5 | 11,303.5 | |
| Investments abroad | 20,843.4 | 3,672.6 | 5,159.5 | 17,000.3 | 26,002.9 | 20,672.9 | - | - | - | - | 26,002.9 | 20,672.9 | |
| Total | 28,085.8 | 34,011.3 | 38,997.4 | 64,370.5 | 67,083.2 | 98,381.8 | - | - | 72.5 | 634.0 | 67,155.7 | 99,015.8 | |

(*) Classification according to the issuers or those obliged to pay. The above mentioned amounts include MCh\$6,863.7 (MCh\$33,179.9 in 1998) for securities sold under repurchase agreements.

(**) Permanent investments include securities for which the adjustment to market value is charged or credited to the account "Fluctuation in value of financial investments" as described in Note 1e.

b. Other investments

| | 1999 | 1998 |
|--|---------|--------|
| | ThCh\$ | ThCh\$ |
| Assets received in lieu or adjudicated in payment(*) | 1,524.9 | 239.2 |

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

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

Note 8. Maturities of Assets and Liabilities

a. Maturities of loans and financial investments

The following table shows the remaining term to maturity of loans and financial investments. The balances include accrued interest to December 31, 1999 and 1998, respectively.

| | Within one year | | More than 1 year up to 3 years | | More than 3 years up to 6 years | | More than 6 years | | Total | |
|---|--------------------|-----------------|-----------------------------------|----------|------------------------------------|----------|----------------------|----------|-----------------|-----------------|
| | 1999 | 1998 | 1999 | 1998 | 1999 | 1998 | 1999 | 1998 | 1999 | 1998 |
| | MCh\$ | MCh\$ | MCh\$ | MCh\$ | MCh\$ | MCh\$ | MCh\$ | MCh\$ | MCh\$ | MCh\$ |
| Loans (1): | | | | | | | | | | |
| Commercial and hers | 362,314.0 | 333,006.0 | 38,130.0 | 44,231.0 | 59,320.0 | 35,093.0 | 30,030.0 | 26,932.0 | 489,794.0 | 439,262.0 |
| Mortgage loans | 1,069.0 | 1,224.0 | 2,035.0 | 2,310.0 | 3,551.0 | 4,126.0 | 20,642.0 | 25,361.0 | 27,297.0 | 33,021.0 |
| Consumer loans | 1,201.1 | 513.0 | 512.0 | 525.0 | 17.0 | 29.0 | — | 18.0 | 1,730.1 | 1,085.0 |
| Other lending operations: | | | | | | | | | | |
| Investment purchased under agreement to resell | — | 7,645.3 | — | — | — | — | — | — | — | 7,645.3 |
| Financial investments: | | | | | | | | | | |
| Permanent portfolio (2) | 5,347.8 | 11,295.3 | 17,014.0 | 15,866.0 | 5,719.0 | 6,670.0 | 5.0 | 180.0 | 28,085.8 | 34,011.3 |
| Non-permanent portfolio (3) | 38,997.4 | 64,370.5 | — | — | — | — | — | — | 38,997.4 | 64,370.5 |

(1) Includes only credits existing at the end of the period with due dates as indicated in the above table. Therefore, amounts do not include contingent loans and loans transferred to past-due portfolio, as well as the past-due loans which have not as yet been transferred to the past-due portfolio, for MCh\$594.0 (MCh\$2,041.5 in 1998), of which MCh\$216 (MCh\$698 in 1998) were past-due by less than 30 days.

(2) Includes securities from the permanent investment portfolio as explained in Note 1, but does not include market value adjustments and non-transferable instruments.

(3) Includes the remainder of the financial investment portfolio, with the respective adjustments to market value.

b. Maturities of deposits, loans and other financing operations

The following table shows the deposits, loans and other obligations grouped in accordance with their remaining term. The balances include accrued interest up to December 31, 1999 and 1998:

| | Within one year | | More than 1 year up to 3 years | | More than 3 years up to 6 years | | More than 6 years | | Total | |
|--|--------------------|-----------|-----------------------------------|----------|------------------------------------|----------|----------------------|----------|-----------|-----------|
| | 1999 | 1998 | 1999 | 1998 | 1999 | 1998 | 1999 | 1998 | 1999 | 1998 |
| | MCh\$ | MCh\$ | MCh\$ | MCh\$ | MCh\$ | MCh\$ | MCh\$ | MCh\$ | MCh\$ | MCh\$ |
| Deposits and other obligations (*): | | | | | | | | | | |
| Deposits and banker drafts | 423,772.0 | 395,750.0 | 8,778.0 | 10,300.5 | – | – | – | – | 432,550.0 | 406,050.5 |
| Obligations under repurchase agreements | 6,959.8 | 33,912.2 | – | – | – | – | – | – | 6,959.8 | 33,912.2 |
| Amortgage notes | 52.9 | – | 158.7 | – | 158.7 | – | 159.2 | – | 529.5 | – |
| Obligations for bonds issued | 247.0 | 234.0 | 2,544.0 | 508.0 | 7,487.0 | 3,477.0 | 18,720.0 | 24,792.4 | 28,998.0 | 29,011.4 |
| Loans from financial institutions and Banco Central de Chile: | | | | | | | | | | |
| Other obligations with the Banco Central de Chile | 164.0 | 334.0 | 1,023.1 | 899.9 | – | – | – | – | 1,187.1 | 1,233.9 |
| Loans from local financial institutions | 5,009.5 | 12,892.4 | – | – | – | – | – | – | 5,009.5 | 12,892.4 |
| Obligations abroad | 38,853.0 | 11,725.0 | 1.6 | 5,455.0 | – | 24,736.7 | – | – | 38,854.6 | 41,916.7 |
| Other obligations | 2,035.0 | 15,435.0 | 2,256.0 | 5,957.0 | 12,519.0 | 1,382.4 | 7,781.1 | – | 24,591.1 | 22,774.4 |

(*) Excludes at sight and contingent obligations.

Note 9. Foreign Currency Balances

The balance sheet, includes assets and liabilities denominated in foreign currencies or which are adjusted in accordance with the variation of the foreign currency parity for amounts as shown below:

| | Payable in | | | | Total | |
|--------------------------------|------------------|----------------|----------------------|---------------|----------------|----------------|
| | Foreign currency | | Chilean Currency (*) | | 1999 | 1998 |
| | 1999 MUS\$ | 1998 MUS\$ | 1999 MUS\$ | 1998 MUS\$ | 1999 MUS\$ | 1998 MUS\$ |
| Assets | | | | | | |
| Liquid assets (*) | 45,999 | 59,269 | – | – | 45,999 | 59,269 |
| Loans | 158,542 | 132,924 | 38,873 | 20,212 | 197,415 | 153,136 |
| Contingent loans | 67,914 | 101,751 | 6,304 | – | 74,218 | 101,751 |
| Financial investments: | | | | | | |
| Foreign | 49,276 | 42,528 | – | – | 49,276 | 42,528 |
| Other assets | 38,003 | 78,886 | – | – | 38,003 | 78,886 |
| Total assets | 359,734 | 415,358 | 45,177 | 20,212 | 404,911 | 435,570 |
| Liabilities | | | | | | |
| Sight deposits | 12,811 | 9,317 | – | – | 12,811 | 9,317 |
| Contingent obligations | 67,914 | 101,951 | – | – | 67,914 | 101,951 |
| Term deposits | 85,411 | 59,924 | – | 26,535 | 85,411 | 86,459 |
| Liabilities with foreign banks | 72,263 | 84,867 | – | – | 72,263 | 84,867 |
| Otros pasivos | 123,651 | 153,489 | – | – | 123,651 | 153,489 |
| Total liabilities | 362,050 | 409,548 | – | 26,535 | 362,050 | 436,083 |

(*) Includes operations denominated in foreign currencies and repayable in Chilean Pesos and others which readjust based on exchange rate fluctuations.

Note 10. Operations with Derivative Instruments

The Bank has carried out the following futures operations for the purchase and sale of currencies and other operations with derivative Instruments at each year end.

a. Currency and interest contracts

| Type of future operation | Amount of the contracts | | | | | |
|---------------------------------------|-------------------------|------|----------------|----------------|--------------------|----------------|
| | Number of operations | | Up to 3 months | | More than 3 months | |
| | 1999 | 1998 | 1999 ThUS\$ | 1998 ThUS\$ | 1999 ThUS\$ | 1998 ThUS\$ |
| Local market: | | | | | | |
| Purchase of Chilean peso futures | 6 | 13 | 4,007.7 | 18,000 | 10,000.0 | 8,005 |
| Sales of Chilean peso futures | 29 | 19 | 19,000.0 | 37,000 | 58,700.0 | 20,305 |
| Sales of foreign currency forwards | 5 | 13 | 918.8 | 16,422 | 3,256.4 | 16,422 |
| Foreign markets: | | | | | | |
| Purchase of foreign currency forwards | 5 | 13 | 917.3 | 16,642 | 32,553.0 | 2,166 |

The amounts refer to dollars bought or sold or the equivalent in dollars of the foreign currency bought or sold in the future or the amount in dollars as specified in the interest rate contracts, as the case may be. Amounts have been classified according to the duration of the contracts since the inception date.

b. UF forward contracts:

| | Contract amounts | | | |
|--------------------------------------|------------------|------|----------------|--------------------|
| | N° of Operations | | Up to 3 months | More than 3 months |
| | 1999 | 1998 | UF | UF |
| Purchase of UF/Chilean peso forwards | – | 3 | – | 400,000 |

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:

| | 1999 MCh\$ | 1998 MCh\$ |
|------------------------------------|---------------|---------------|
| Mortgage and pledge guarantees | 322,040 | 302,983 |
| Credit lines obtained | 174,233 | 161,436 |
| Securities and drafts in guarantee | 102,827 | 113,843 |
| Securities held in custody | 82,261 | 89,295 |
| Loans approved but not disbursed | 18,462 | 15,497 |
| Foreign collections | 12,472 | 10,586 |

The above includes only the most significant balances. Contingent loans and obligations are stated on the balance sheet.

Note 12. Commissions

Commission income and expense recorded in the statements of income are as follows:

| | Income | | Expenses | |
|--|----------------|----------------|---------------|---------------|
| | 1999 MCh\$ | 1998 MCh\$ | 1999 MCh\$ | 1998 MCh\$ |
| Commissions earned/paid on: | | | | |
| Foreign exchange operations | 416.2 | 498.2 | – | – |
| Other | 245.0 | 375.8 | 37.6 | 24.5 |
| Collection of documents | 696.1 | 144.7 | – | – |
| Letters of credit, guarantees, securities, and other contingent loans | 48.2 | 57.1 | – | – |
| Credit cards | 29.1 | 30.5 | – | – |
| Lines of credit | 42.2 | 28.1 | – | – |
| Current accounts | 20.4 | 24.7 | – | – |
| Totals | 1,497.2 | 1,159.1 | 37.6 | 24.5 |

Commissions earned on operations with letters of credit are presented in the statements of income under the heading "Interest and inflation adjustment".

Note 13. Non Operating Income

Amounts for non-operating income shown on the income statement are as follows:

| | 1999 | 1998 |
|----------------------|--------------|--------------|
| | MCh\$ | MCh\$ |
| Recovery of expenses | 359.4 | 391.5 |
| Rents received | 115.8 | 139.2 |
| Others | 293.3 | 99.4 |
| Total | 768.5 | 630.1 |

Note 14. Income Taxes

The Bank has accrued a provision for first category income tax to income in accordance with current tax legislation, the amount charged during the year was MCh\$584.5 (MCh\$825.6 in 1998).

Note 15. Deferred Taxes

As explained in Note 2, the Bank has applied the accounting criteria of Technical Bulletin N°60 of the Chilean Institute of Certified Public Accountants as from January 1, 1999. The deferred taxes originating as a result of such temporary differences are presented below:

| Item | Balance at | | Average term of reversal (months) |
|--|------------|---------------|-----------------------------------|
| | January 1 | December 31 | |
| | 1999 | 1999 | |
| | MCh\$ | MCh\$ | |
| Assets: | | | |
| Global loan loss provision | 578.1 | 349.2 | – |
| Accrual of suspended interest and indexation | 3.7 | – | – |
| Contingency provision | 25.1 | – | – |
| Country risk provision | 0.3 | 10.7 | – |
| Voluntary provision | 13.9 | 76.2 | – |
| Adjustment for futures contracts | 43.7 | | |
| Subtotal | 664.8 | 436.1 | – |
| Supplementary account | (664.8) | (297.9) | 22 |
| Net difference | – | 138.2 | – |
| Liabilities: | | | |
| Accrual of suspended interest and indexation | – | (0.8) | – |
| Depreciation of fixed assets | (315.2) | (214.5) | – |
| Adjustment for futures contracts | – | (96.9) | – |
| Subtotal | (315.2) | (312.2) | – |
| Supplementary account | 315.2 | 291.4 | 314 |
| Net difference | – | (20.8) | – |

Tax expense for the year had the following effects:

| Item | MCh\$ |
|--|----------------|
| Current tax expense | (701.9) |
| Effect of deferred taxes on assets and liabilities of the year | (225.7) |
| Effect of deferred taxes on amortization of asset and liability supplementary accounts | 343.1 |
| Total | (584.5) |

Note 16. Directors' Expenses and Fees

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

| | 1999 | 1998 |
|---------------|--------------|--------------|
| | MCh\$ | MCh\$ |
| Per diems | 53.5 | 52.9 |
| Advisory fees | 283.9 | 280.8 |
| Total | 337.4 | 333.8 |

Note 17. Purchases, Sales, Substitutions or Trades in the Loan Portfolio

In 1999 the Bank sold endorsable mortgage loans from its loan portfolio as follows:

| Sale | Effect on | Effect on |
|--------------|------------------|-------------------|
| MCh\$ | income | provisions |
| | MCh\$ | MCh\$ |
| 13.047,2 | 589,4 | 0.0 |

Note 18. Year 2000 Project

The Bank has designed a comprehensive project to deal with the Year 2000 issue and, to develop this project, made the following investments in 1999 and 1998:

| | Assets | | Liabilities | |
|---------------|---------------|--------------|--------------------|--------------|
| | 1999 | 1998 | 1999 | 1998 |
| | MCh\$ | MCh\$ | MCh\$ | MCh\$ |
| Hardware | 62.7 | 23.1 | - | - |
| Software | - | - | 40.8 | 16.8 |
| Other | 21.9 | - | - | 13.3 |
| Totals | 84.6 | 23.1 | 40.8 | 30.1 |

To date these investments represent 100% of the total investment budget for the project.

HORACIO SILVA C.
Accounting Officer

RAMON ELUCHANS O.
President

Consolidated Financial Statements

December 31, 1999 and 1998.
with Independent Auditors' Report Thereon

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Ch\$ = Chilean pesos
ThCh\$ = Thousands of Chilean pesos
MCh\$ = Millions of Chilean pesos
UF = Price-level restatement unit
US\$ = United States dollar

Independent Auditors Report

**Deloitte &
Touche**



To the Shareholders of
Banco Security

We have audited the accompanying consolidated balance sheets of Banco Security and subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of income for the years then ended and the consolidated statement of cash flows for the year ended December 31, 1999. These consolidated financial statements (including the related notes) 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, 1999 and 1998 and the results of their operations for the years then ended, and their consolidated cash flows for the year ended December 31, 1999 in conformity with generally accepted accounting principles in Chile and regulations issued by the Superintendency of Banks and Financial Institutions.

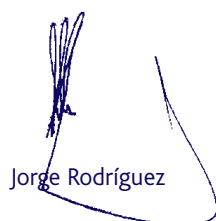
As stated in Note 2 to the financial statements, from January 1, 1999, the Bank and its subsidiaries implemented standards for the recording of deferred taxes. In addition, from 1999, the Bank has incorporated the statement of cash flows as part of its basic financial statements.

As explained in Note 2 to the financial statements, in 1998 pursuant to instructions issued Superintendency of Bank and Financial Institutions, the Bank changed the method of accounting for the adjustment to market value of financial investments classified as permanent.

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

January 10, 2000

Deloitte & Touche


Jorge Rodríguez

**Deloitte Touche
Tohmatsu**

Consolidated Balance Sheets

December 31, 1999 and 1998 (In millions of Chilean pesos - MCh\$)

| | 1999 | 1998 |
|---|------------------|------------------|
| Assets | MCh\$ | MCh\$ |
| Liquid Assets | 64,444.2 | 77,287.6 |
| Loans: | | |
| Commercial | 390,302.9 | 362,581.0 |
| Foreign trade | 81,631.8 | 63,922.9 |
| Consumer | 1,730.0 | 1,084.6 |
| Mortgage | 529.5 | - |
| Leasing contracts | 41,451.9 | 45,228.9 |
| Contingent | 55,332.6 | 69,790.3 |
| Other outstanding loans | 45,220.9 | 47,738.3 |
| Past-due | 1,840.3 | 1,406.3 |
| Total loans | 618,039.9 | 591,752.3 |
| Less: allowance for loan losses | (5,423.0) | (6,022.7) |
| Total loans-net | 612,616.9 | 585,729.6 |
| Other Loan Operations: | | |
| Investment purchased under agreement to resell | - | 7,625.8 |
| Total other loan operations | - | 7,625.8 |
| Investments: | | |
| Banco Central de Chile and Treasury securities | 24,123.2 | 11,927.8 |
| Other financial investments | 40,808.5 | 58,597.3 |
| Investment collateral under agreement to repurchase | 6,874.0 | 33,179.9 |
| Assets received in sellement or adjudicated | 1,524.9 | 239.2 |
| Total investments | 73,330.6 | 103,944.2 |
| Other Assets | 16,271.5 | 12,046.8 |
| Fixed Assets: | | |
| Premises and equipment | 12,218.8 | 10,587.6 |
| Investment in related companies | 467.9 | 67.2 |
| Total fixed asset | 12,686.7 | 10,654.8 |
| Total Assets | 779,349.9 | 797,288.8 |

The accompanying notes are an integral part of these financial statements

| | 1999 | 1998 |
|--|------------------|------------------|
| Liabilities and Shareholders' Equity | MCh\$ | MCh\$ |
| Liabilities: | | |
| Deposits and Other Liabilities: | | |
| Checking accounts | 27,862.1 | 20,128.3 |
| Deposits and banker drafts | 432,550.0 | 405,887.5 |
| Other time and demand liabilities | 35,335.2 | 42,681.4 |
| Investment sold under agreement to repurchase | 6,959.8 | 36,120.8 |
| Mortgage notes | 529.5 | – |
| Contingent liabilities | 55,169.1 | 69,730.1 |
| Total time and demand deposit | 558,405.7 | 574,548.1 |
| Bonds: | | |
| Current bonds | 13,796.6 | 15,504.7 |
| Subordinated bonds | 22,340.6 | 22,201.0 |
| Total bonds | 36,137.2 | 37,705.7 |
| Borrowings from Financial Institutions and Banco Central del Chile: | | |
| Other obligations with Banco Central de Chile | 1,187.1 | 1,233.9 |
| Domestic borrowings | 31,267.0 | 36,960.4 |
| Foreign borrowings | 38,854.6 | 41,916.8 |
| Other borrowings | 30,085.0 | 28,857.9 |
| Total borrowings from financial institutions | 101,393.7 | 108,969.0 |
| Other Liabilities | 19,225.3 | 14,716.5 |
| Total Liabilities | 715,161.9 | 735,939.3 |
| Voluntary Provisions | 507.1 | 94.8 |
| Minority Interest | 10.4 | 33.9 |
| Net Shareholders' Equity: | | |
| Capital and reserves | 55,089.2 | 55,078.5 |
| Other accounts | 72.5 | 634.0 |
| Net income for the year | 8,508.8 | 5,508.3 |
| Total shareholders' equity | 63,670.5 | 61,220.8 |
| Total Liabilities and Shareholders' Equity | 779,349.9 | 797,288.8 |

The accompanying notes are an integral part of these financial statements

Statements of Income

For the years ended as of December 31, 1999 and 1998 (In millions of Chilean pesos - MCh\$)

| | 1999 | 1998 |
|--|-----------------|-----------------|
| | MCh\$ | MCh\$ |
| Operating Income: | | |
| Interest and indexation income | 70,561.8 | 86,702.8 |
| Gains from trading securities | 2,105.2 | 1,846.5 |
| Commission income | 2,779.1 | 1,834.2 |
| Exchange income-net | 2,153.7 | 2,767.6 |
| Other operating income | 7,044.5 | 3,245.4 |
| Total operating revenue | 84,644.3 | 96,396.5 |
| Less: | | |
| Interest and indexation expenses | (49,086.0) | (69,064.8) |
| Loss from trading securities | (267.3) | (2,261.9) |
| Commission expense | (169.9) | (172.5) |
| Other operating expenses | (4,155.1) | (980.5) |
| Gross operating margin | 30,966.0 | 23,916.8 |
| Remunerations and personnel expenses | (8,637.9) | (6,707.2) |
| Administration and other expenses | (6,080.1) | (5,640.5) |
| Depreciation and amortization | (825.8) | (791.5) |
| Net operating margin | 15,422.2 | 10,777.6 |
| Provisions for assets at risk | (4,750.5) | (3,655.5) |
| Recovery of loans written off | 33.0 | 0.3 |
| Operating income | 10,704.7 | 7,122.4 |
| Other Income and Expenses: | | |
| Non-operating income | 906.0 | 1,050.2 |
| Non-operating expenses | (557.8) | (135.4) |
| Gain on permanent investments | 67.1 | 47.6 |
| Monetary correction | (1,130.3) | (1,652.0) |
| Income Before Income Taxes | 9,989.7 | 6,432.8 |
| Income Taxes | (1,050.2) | (920.5) |
| Income Before Voluntary Provisions and Minority Interest | 8,939.5 | 5,512.3 |
| Minority Interest | (16.0) | (4.0) |
| Voluntary Provisions | (414.7) | - |
| Net Income for The Year | 8,508.8 | 5,508.3 |

The accompanying notes are an integral part of these financial statements

Statement of Cash Flows

For the years ended as of December 31, 1999 and 1998 (In millions of Chilean pesos - MCh\$)

| | MCh\$ |
|--|-------------------|
| Cash Flow from Operating Activities: | |
| Net income for the year | 8,508.8 |
| Charges (credits) to income that do not represent cash flows: | |
| Depreciation and amortization | 825.8 |
| Provisions for assets at risk | 4,750.5 |
| Voluntary provisions | 432.8 |
| Equity in earnings of related companies | (67.1) |
| Net loss from sale of assets received in settlement of loans | 15.8 |
| Minority interest | 16.0 |
| Monetary correction | 1,300.9 |
| Other charges that do not represent cash flows | 873.4 |
| Net change in interest, indexation and commissions accrued on assets and liabilities | (4,065.3) |
| Net cash provided by operating activities | 12,591.6 |
| Cash Flow from Investment Activities: | |
| Net increase in loans | (47,038.5) |
| Net decrease in other loan operations | 7,729.9 |
| Net decrease in investments | 26,497.9 |
| Purchase of fixed assets | (2,929.6) |
| Sale of fixed assets | 513.6 |
| Sale of assets received in settlement of loans | 509.2 |
| Net decrease in other assets and liabilities | 2,818.6 |
| Net cash used in investing activities | (11,898.9) |
| Cash Flow Financing Activities: | |
| Net increase in checking accounts | 6,616.9 |
| Net increase in deposits and bankers drafts | 30,166.3 |
| Net decrease of other at sight or term obligations | (7,431.4) |
| Net decrease from obligations arising from trading securities | (26,122.0) |
| Decrease in short-term foreign borrowings | (5,343.4) |
| Mortgage notes issued | 534.4 |
| Decrease in other short-term liabilities | (7,938.6) |
| Borrowings from financial institutions and CORFO (long-term) | 16,732.0 |
| Payment of borrowings obtained from financial institutions and CORFO (long-term) | (17,270.8) |
| Dividends paid | (5,497.6) |
| Net cash used in financing activities | (15,554.2) |
| Net Decrease in Cash Flows for The Year | (14,861.5) |
| Effect the Inflation on Cash and Cash Equivalents | 2,018.1 |
| Net Decrease in Cash and Cash Equivalents During the Year | (12,843.4) |
| Cash and Cash Equivalents at Beginning of Year | 77,287.6 |
| Cash and Cash Equivalents at End of Year | 64,444.2 |

The accompanying notes are an integral part of these financial statements

Notes to Consolidated Financial Statements

(In millions of Chilean pesos - MCh\$)

Note 1. Summary of Significant Accounting Policies

a. Information provided

The financial statements have been prepared in accordance with accounting regulations issued by the Superintendency of Bank's and Financial Institutions (hereinafter, the Superintendency). Such regulations agree with generally accepted accounting principles in Chile.

b. Basis of consolidation

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

| | Ownership | |
|---|-----------|--------|
| | 1999 | 1998 |
| | % | % |
| 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 | 95.000 |

Assets of subsidiaries represent in whole a 6.8% of the consolidated balance (6.7% in 1998), and income of such subsidiaries represent 14.8% of the consolidated income (10.6% in 1998).

In the consolidation process, all significant intercompany balances and transactions have been eliminated. The amounts of 1998 are shown price-level restated according to changes in the IPC (Chilean Consumer Price Index) use for monetary correction (2,6%).

c. Interest 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\$1,130.3 (MCh\$1,652.0 in 1998).

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\$527.70 = US\$1 in 1999 and Ch\$473.77 = US\$1 in 1998).

The net gain from foreign exchange of MCh\$2,153.7 (net gain of MCh\$2,767.6 in 1998) 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 lease

These operations are, for all purposes, shown net of provisions and deferred taxes, according to accounting regulations issued by the Superintendency 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 Superintendency. Such instructions call for the recognition of the adjustments to market value against income for the year, unless permanent investments are involved, in which case, 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 charge of MCh\$545.4 (net credit of MCh\$634.0 in 1998) 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 doubtful assets

The Bank has established all the provisions that are required to cover the risk of loss on assets, in accordance with the rules established by the Superintendency. Assets are stated net of such provisions or deducting from the asset in the case of loans.

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

k. Deferred taxes

The effects of deferred taxes arising from temporary differences between the tax and the book bases are recorded on the accrual basis as from January 1, 1999, in conformity with Technical Bulletin N° 60 of the Chilean Institute of Certified Public Accountants. The effects of deferred taxes existing at January 1°, 1999 and not previously recorded are recognized in 1999 income, as these timing differences reverse.

l. Employee vacations

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

m. Cash and cash equivalents

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

Note 2. Accounting Changes**1999:**

According to Circular N°2.984 of the Superintendency and the Technical Bulletin N°60 of the Chilean Institute of Certified Public Accountants (Chilean Accountants Association), the Bank accounted for, from January 1° 1999, all deferred taxes due to temporary differences, tax losses and other events that create differences between the book and taxable bases of assets and liabilities. To December 31, 1998, the effect of deferred taxes was not recorded. The application of this accounting principle did not have an accumulated effect at the beginning of the year. The 1999 effects are shown in Note 14 to the financial statements.

As of January 1°, 1999, the Technical Bulletin N°65 of the Chilean Institute of Certified Public Accountants, stated as mandatory the presentation of the Statement of Cash Flows for Banks and Financial Institutions. Consequently, this financial statement was incorporated by the Bank as part its the basic financial statements for the year ended December 31, 1999.

1998:

In 1998 the Bank applied Circular form N°2.960 of the Superintendency, which modified the accounting treatment of financial investments considered as permanent. The new accounting criteria allowed the adjustment to market value of permanent investments to be charged against an equity account rather than against income for the year. The effect of this accounting change is shown in Note 1g.

Note 3. Related Parties Transactions

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

a. Loans to related parties

At December 31, 1999 and 1998, loans to related parties are as follows:

| | Current Portfolio | | Past due Portfolio | | Total | | Guarantees (*) | |
|----------------------|-------------------|----------------|--------------------|----------|-----------------|----------------|----------------|----------------|
| | 1999 | 1998 | 1999 | 1998 | 1999 | 1998 | 1999 | 1998 |
| | MCh\$ | MCh\$ | MCh\$ | MCh\$ | MCh\$ | MCh\$ | MCh\$ | MCh\$ |
| Individuals | 510.7 | 329.4 | – | – | 510.7 | 329.4 | 406.3 | 233.5 |
| Operating companies | 2,851.2 | 2,853.6 | – | – | 2,851.2 | 2,853.6 | 939.3 | 1,687.9 |
| Investment companies | 8,729.2 | 3,203.1 | – | – | 8,729.2 | 3,203.1 | 6,811.9 | 1,866.1 |
| Total | 12,091.1 | 6,386.1 | – | – | 12,091.1 | 6,386.1 | 8,157.5 | 3,787.5 |

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

b. Other transactions with related parties

During 1999 and 1998, the Group entered into the following transactions in excess of UF1,000 with related parties:

| Company | Item | Credit to income | | Charge to income | |
|----------------------------|---|------------------|-------|------------------|-------|
| | | 1999 | 1998 | 1999 | 1998 |
| | | MCh\$ | MCh\$ | MCh\$ | MCh\$ |
| Previsión Vida S.A. | Office rentals | 16.5 | – | – | – |
| Previsión Generales S.A. | Office rentals | 16.5 | – | – | – |
| Inmobiliaria Security S.A. | Sale of asset received in lieu of payment | – | 206.0 | – | – |
| Merchant Security S.A. | Advisory services | – | – | 290.0 | – |
| Grupo Security S.A. | Advisory services | – | – | 89.0 | – |

These transactions were realized on terms customarily prevailing in the market.

Note 4. Provisions

a. Provisions for assets at risk

At December 31, 1999, the Bank and its subsidiaries have accrued provisions for a total of MCh\$5,423.0 (MCh\$6,022.7 in 1998) which correspond to the minimum provisions required by the Superintendencia to cover possible losses.

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

| | Provisions for | | | Total MCh\$ |
|---|----------------|------------------------------------|--------------------------|----------------|
| | Assets | | Other assets MCh\$ | |
| | Loans MCh\$ | received in settlement MCh\$ | | |
| Historic balances, December 31, 1997 | 4,018.2 | – | – | 4,018.2 |
| Writte offs | (1,711.0) | – | – | (1,711.0) |
| Provisions created | 3,562.8 | – | – | 3,562.8 |
| Balances, December 31, 1998 | 5,870.0 | – | – | 5,870.0 |
| Updated balances for comparative purposes | 6,022.7 | – | – | 6,022.7 |
| Historical balances, December 31, 1998 | 5,870.0 | – | – | 5,870.0 |
| Writte offs | (5,197.5) | – | – | (5,197.5) |
| Provisions created | 4,881.8 | – | – | 4,881.8 |
| Provision released | (131.3) | – | – | (131.3) |
| Balance, December 31, 1999 | 5,423.0 | – | – | 5,423.0 |

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

b. Voluntary provisions

In addition to the provisions for assets at risk indicated in a) above, the Bank has accrued voluntary provisions totaling MCh\$507.1 (MCh\$94.8 in 1998).

Note 5. Shareholders' Equity

a. Accounting equity

The activity in the shareholders' equity and reserve accounts during 1999 and 1998 are summarized as follows:

| | Paid-in capital MCh\$ | Other reserves MCh\$ | Other accounts MCh\$ | Income for the year MCh\$ | Total MCh\$ |
|--|--------------------------------------|-------------------------------------|-------------------------------------|--|------------------------|
| Balances, December 31, 1997, historic | 34,197.5 | 5,941.7 | – | 7,381.5 | 47,520.7 |
| Transfer to legal reserve | – | 7,381.5 | – | (7,381.5) | – |
| Capital increase | 9,294.0 | – | – | – | 9,294.0 |
| Dividends paid | – | (5,167.1) | – | – | (5,167.1) |
| Fluctuation in value of financial investments | – | – | 617.9 | – | 617.9 |
| Monetary correction | 1,637.9 | 397.2 | – | – | 2,035.1 |
| Net income for the year | – | – | – | 5,368.8 | 5,368.8 |
| Balances, December 31, 1998 | 45,129.4 | 8,553.3 | 617.9 | 5,368.8 | 59,669.4 |
| Updated balances for comparative purposes | 46,302.7 | 8,775.7 | 634.0 | 5,508.4 | 61,220.8 |
| Balances, December 31, 1998, historic | 45,129.4 | 8,553.3 | 617.9 | 5,368.8 | 59,669.4 |
| Transfer to legal reserve | – | 5,368.8 | – | (5,368.8) | – |
| Dividends paid | – | (5,368.8) | – | – | (5,368.8) |
| Fluctuation in value of financial investments | – | – | (545.4) | – | (545.4) |
| Monetary correction | 1,169.0 | 237.5 | – | – | 1,406.5 |
| Net income for the year | – | – | – | 8,508.8 | 8,508.8 |
| Balances, December 31, 1999 | 46,298.4 | 8,790.8 | 72.5 | 8,508.8 | 63,670.5 |

According to Article 10 of law N° 18.046, the amount corresponding to revaluation of paid-in capital has been incorporated to such capital, which is now represented by 78,971,120 of no-par-value shares, and the same occurred with reserves.

In February 1999 and 1998, the net income for MCh\$5,368.8 and MCh\$5,167.1, respectively were distributed.

The Extraordinary Meeting of The Board of Shareholders held on July 27, 1998, agreed to increase the capital by Ch\$15,500,000,000, issuing 28,148,440 net no-par-value shares of the same series. The subscribed capital results in Ch\$49,697,533,082 divided in 90,241,632 shares. From the subscribed shares, 16,877,928 were placed among present shareholders for Ch\$550.66 each, on a pro-rata basis. The shares were paid-in-cash on August 3, 1998; the other 11,270,512 should be paid in cash within three years.

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, 1999, the Bank has the following parameters 7.47% and 11.30%, respectively.

Note 6. Investments

At December 31, 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 | |
| | 1999 | 1998 | 1999 | 1998 | 1999 | 1998 | 1999 | 1998 | 1999 | 1998 | 1999 | 1998 |
| | MCh\$ | MCh\$ | MCh\$ | MCh\$ | MCh\$ | MCh\$ | MCh\$ | MCh\$ | MCh\$ | MCh\$ | MCh\$ | MCh\$ |
| Securities (*) | | | | | | | | | | | | |
| Banco Central de Chile, Tesorería General de la República and other Chilean financial institutions | 5,728.7 | 28,634.3 | 25,226.2 | 16,193.6 | 30,954.9 | 44,827.9 | - | - | 40.1 | 688.0 | 30,995.0 | 45,515.9 |
| Other investments | 1,474.5 | 1,704.4 | 8,089.9 | 21,277.4 | 9,564.4 | 22,981.8 | - | - | 32.4 | (54.0) | 9,596.8 | 22,927.8 |
| Investments abroad | 39.2 | - | 5,171.8 | 14,588.4 | 5,211.0 | 14,588.4 | - | - | - | - | 5,211.0 | 14,588.4 |
| Total | 28,085.8 | 34,011.3 | 43,647.4 | 69,059.7 | 71,733.2 | 103,071.0 | - | - | 72.5 | 634.0 | 71,805.7 | 103,705.0 |

(*) Classification according to issuers. This amount includes, in total, an amount of MCh\$6.874,0 (MCh\$33.179,9 in 1998) 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

| | 1999 | 1998 |
|---|---------|-------|
| | Th\$ | Th\$ |
| Assets received in lieu or adjudicated in payment (*) | 1,524.9 | 239.2 |

(*) The amount shown on the balance sheet corresponds to the estimated realizable value of these assets taken as a whole. In addition to the assets received in settlement of loans that are recorded as assets, the Group owns properties and other assets that have been written-off but have not yet been 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, 1999 and 1998 in accordance with the remaining term until maturity. The balances, which include interest accrued at year end, are as follows:

| | Within one year | | More than 1 year but up within | | More than 3 years 6 years | | More than six years | | Total | |
|---|--------------------|-----------|-----------------------------------|----------|------------------------------|----------|------------------------|----------|-----------|-----------|
| | 1999 | 1998 | 1999 | 1998 | 1999 | 1998 | 1999 | 1998 | 1999 | 1998 |
| | MCh\$ | MCh\$ | MCh\$ | MCh\$ | MCh\$ | MCh\$ | MCh\$ | MCh\$ | MCh\$ | MCh\$ |
| Loans (1): | | | | | | | | | | |
| Commercial and other | 362,314.1 | 332,923.0 | 38,130.0 | 44,231.0 | 59,320.0 | 35,093.0 | 30,030.0 | 26,914.8 | 489,794.1 | 439,161.8 |
| Mortgage loans | 1,069.0 | 1,224.0 | 2,035.0 | 2,310.0 | 3,551.0 | 4,126.0 | 20,642.0 | 25,361.0 | 27,297.0 | 33,021.0 |
| Consumer loans | 1,201.0 | 513.0 | 512.0 | 525.0 | 17.0 | 29.0 | – | 18.0 | 1,730.0 | 1,085.0 |
| Lease contract | 11,679.9 | 12,197.6 | 14,577.1 | 15,725.2 | 15,194.9 | 17,306.1 | – | – | 41,451.9 | 45,228.9 |
| Other loans: | | | | | | | | | | |
| Investment purchased under agreement to resell | – | 7,625.8 | – | – | – | – | – | – | – | 7,625.8 |
| Financial Investments: | | | | | | | | | | |
| Permanent investments (2) | 5,347.8 | 11,295.3 | 17,014.0 | 15,866.0 | 5,719.0 | 6,670.0 | 5.0 | 180.0 | 28,085.8 | 34,011.3 |
| Non-permanent investments (3) | 43,647.4 | 69,059.7 | – | – | – | – | – | – | 43,647.4 | 69,059.7 |

(1) Considers only those loans outstanding at year end that fall due within the indicated periods. Consequently, contingent loans and loans transferred to the past-due portfolio, as well as delinquent debts that have not been transferred to the past-due portfolio amounting to MCh\$594,0 (MCh\$2,041,5 in 1998), of which MCh\$216,0 (MCh\$698,0 in 1998) 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, borrowings and other financing operations

The information detailed below shows deposits, borrowings and other liabilities at December 31, 1999 and 1998 in accordance with the 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 | |
|--|--------------------|-----------|-----------------------------------|----------|------------------------------------|----------|----------------------|----------|-----------|-----------|
| | 1999 | 1998 | 1999 | 1998 | 1999 | 1998 | 1999 | 1998 | 1999 | 1998 |
| | MCh\$ | MCh\$ | MCh\$ | MCh\$ | MCh\$ | MCh\$ | MCh\$ | MCh\$ | MCh\$ | MCh\$ |
| Borrowings and other obligations (*): | | | | | | | | | | |
| Deposits and banker drafts | 423,772.0 | 395,587.0 | 8,778.0 | 10,300.5 | – | – | – | – | 432,550.0 | 405,887.5 |
| Obligations under repurchase agreements | 6,959.8 | 36,120.8 | – | – | – | – | – | – | 6,959.8 | 36,120.8 |
| Obligations on mortgage notes | 52.9 | – | 158.7 | – | 158.7 | – | 159.2 | – | 529.5 | – |
| Obligations on bonds issued | 1,805.2 | 1,960.7 | 3,396.0 | 4,151.0 | 8,229.0 | 4,253.0 | 22,707.0 | 27,341.0 | 36,137.2 | 37,705.7 |
| Loans from financial Entities and Banco Central de Chile: | | | | | | | | | | |
| Other obligations with Banco Central | 164.1 | 333.9 | 1,023.0 | 900.0 | – | – | – | – | 1,187.1 | 1,233.9 |
| Loans from financial institutions | 20,754.0 | 28,778.9 | 10,423.0 | 7,759.1 | 90.0 | 422.4 | – | – | 31,267.0 | 36,960.4 |
| Obligations abroad | 38,853.0 | 11,725.0 | 1.6 | 5,455.0 | – | 24,736.8 | – | – | 38,854.6 | 41,916.8 |
| Other obligations | 6,890.0 | 18,799.0 | 2,895.0 | 8,676.0 | 12,519.0 | 1,382.9 | 7,781.0 | – | 30,085.0 | 28,857.9 |

(*) Excluding at sight and contingent obligations.

Note 8. Foreign Currency Position

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

| | To be paid in | | | | Total | |
|--------------------------------|------------------|----------------|----------------------|----------------|----------------|----------------|
| | Foreign currency | | Chilean currency (*) | | 1999 | 1998 |
| | 1999 ThUS\$ | 1998 ThUS\$ | 1999 ThUS\$ | 1998 ThUS\$ | 1999 ThUS\$ | 1998 ThUS\$ |
| Assets | | | | | | |
| Liquid assets (*) | 45,999 | 59,269 | – | – | 45,999 | 59,269 |
| Loans | 158,542 | 132,924 | 38,873 | 20,212 | 197,415 | 153,136 |
| Contingent loans | 67,914 | 101,751 | 6,304 | – | 74,218 | 101,751 |
| Financial investments: | | | | | | |
| Foreign | 49,276 | 42,528 | – | – | 49,276 | 42,528 |
| Other assets | 38,003 | 78,886 | – | – | 38,003 | 78,886 |
| Total assets | 359,734 | 415,358 | 45,177 | 20,212 | 404,911 | 435,570 |
| Liabilities | | | | | | |
| Deposits and banker drafts | 12,811 | 9,317 | – | – | 12,811 | 9,317 |
| Contingent liabilities | 67,914 | 101,951 | – | – | 67,914 | 101,951 |
| Time and demand deposits | 85,411 | 59,924 | – | 26,535 | 85,411 | 86,459 |
| Liabilities with foreign banks | 72,263 | 84,867 | – | – | 72,263 | 84,867 |
| Other liabilities | 123,651 | 153,489 | – | – | 123,651 | 153,489 |
| Total liabilities | 362,050 | 409,548 | – | 26,535 | 362,050 | 436,083 |

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

Note 9. Transactions with Derivative Instruments

Transactions for the purchase and sale of foreign currency futures and other derivative products at year end, are summarized below:

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

| Type of futures operation | Amount of the contracts | | | | | |
|--|-------------------------|------|--------------------|----------------|------------------------|----------------|
| | Number of operations | | Up to three months | | More than three months | |
| | 1999 | 1998 | 1999 ThCh\$ | 1998 ThCh\$ | 1999 ThCh\$ | 1998 ThCh\$ |
| Local market: | | | | | | |
| Future purchase of foreign currency in Chilean pesos | 6 | 13 | 4,007.7 | 18,000 | 10,000.0 | 8,005 |
| Future sale of foreign currency in Chilean pesos | 29 | 19 | 19,000.0 | 37,000 | 58,700.0 | 20,305 |
| Forward in foreign currency (sales) | 5 | 13 | 918.8 | 16,422 | 3,256.4 | 16,422 |
| Foreign market: | | | | | | |
| Forward in foreign currency (purchases) | 5 | 13 | 917.3 | 16,642 | 32,553.0 | 2,166 |

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

b. Contracts on the value of Unidad de Fomento (Inflation index-linked units of accounts):

| | Contract Amounts | | | |
|-------------------------------|------------------|------|----------------|--------------------|
| | N° of Operations | | Up to 3 months | More than 3 months |
| | 1999 | 1998 | UF | UF |
| Purchase of UF/pesos forwards | - | 3 | - | 400,000 |

Note 10. Contingencies Commitments and Responsibilities

a. Commitments and responsibilities recorded in memorandum accounts:

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

| | 1999 MCh\$ | 1998 MCh\$ |
|-----------------------------------|---------------|---------------|
| Mortgage and pledge Guarantees | 322,040 | 302,983 |
| Credit lines obtained | 174,233 | 161,436 |
| Securities and notes in guarantee | 102,827 | 113,843 |
| Securities held in custody | 82,261 | 89,295 |
| Loans approved and not disbursed | 18,462 | 15,497 |
| Foreign collections | 12,472 | 10,586 |

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

Note 11. Commissions

Commission income and expenses shown on the statement of income are as follows:

| | Income | | Expenses | |
|---|----------------|----------------|---------------|---------------|
| | 1999 MCh\$ | 1998 MCh\$ | 1999 MCh\$ | 1998 MCh\$ |
| Commissions earned or paid on: | | | | |
| Stock exchange transactions | 1,028.8 | 573.0 | 132.3 | 147.9 |
| Foreign transactions | 416.2 | 498.2 | - | - |
| Lease transactions | 160.4 | 103.0 | - | - |
| Mutual funds transactions | 92.7 | - | - | - |
| Collection of notes | 696.1 | 144.7 | - | - |
| Letters of credit, guarantees, pledges and othe contingent loans | 48.2 | 57.1 | - | - |
| Credit cards | 29.1 | 30.3 | - | - |
| Lines of credit | 42.2 | 28.1 | - | - |
| Checking accounts | 20.4 | 24.7 | - | - |
| Others | 245.0 | 375.1 | 37.6 | 24.6 |
| Totals | 2,779.1 | 1,834.2 | 169.9 | 172.5 |

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:

| | 1999 | 1998 |
|-----------------------|--------------|----------------|
| | MCh\$ | MCh\$ |
| Financial investments | 48.6 | 72.6 |
| Recovery of expenses | 359.4 | 391.5 |
| Rents received | 147.7 | 168.2 |
| Others | 350.3 | 417.9 |
| Total | 906.0 | 1,050.2 |

Note 13. Income tax

The Bank and its subsidiaries has accrued a provision for First Category Income Tax, originating a charge to income for MCh\$1,050.2 (MCh\$920.5 in 1998).

Note 14. Deferred Taxes

As described in Note 2 to the financial statements, the Bank applied the accounting criteria of Technical Bulletin N°60 of the Colegio de Contadores de Chile A.G. from January 1, 1999. The deferred taxes due to the following temporary differences are as follows:

| Item | Balance at | | Average term of reversal (months) |
|--|-----------------------|-------------------------|--|
| | January 1 1999 | December 31 1999 | |
| | MCh\$ | MCh\$ | |
| Assets: | | | |
| Global loan loss provision | 578.1 | 349.2 | – |
| Accrual of suspended interest and indexation | 3.7 | – | – |
| Tax asset | 4,193.0 | 4,073.0 | – |
| Contingency provision | 38.1 | 13.0 | – |
| Country risk provision | 0.3 | 10.7 | – |
| Voluntary provision | 13.9 | 76.2 | – |
| Others | 9.3 | 104.1 | – |
| Subtotal | 4,836.4 | 4,626.2 | – |
| Supplementary account | (4,880.1) | (4,314.6) | 104 |
| Net difference | (43.7) | 311.6 | – |
| Liabilities: | | | |
| Accrual of suspended interest and indexation | – | (0.8) | – |
| Lease contract | (6,457.7) | (6,054.0) | – |
| Fixed assets depreciation | (315.2) | (214.5) | – |
| Adjustment for futures contracts | 43.7 | (96.9) | – |
| Others | – | (0.4) | – |
| Subtotal | (6,729.2) | (6,366.6) | – |
| Supplementary account | 6,772.9 | 6,451.3 | 253 |
| Net difference | 43.7 | 84.7 | – |

Tax expense for the year is as follows:

| Item | MCh\$ |
|---|------------------|
| Current tax | (1,446.5) |
| Effect on assets and liabilities for deferred tax of the year | 152.4 |
| Effect of amortization of supplementary accounts of assets and liabilities due to deferred taxes of the year | 243.9 |
| Total | (1,050.2) |

Note 15. Directors' Expenses and Fees

During 1999 and 1998, the following expenses and fees paid to the Directors have been charged to income during each year:

| | 1999 | 1998 |
|------------------------|--------------|--------------|
| | MCh\$ | MCh\$ |
| Per diem | 53.5 | 52.9 |
| Advisory services fees | 283.9 | 280.8 |
| Total | 337.4 | 333.7 |

Note 16. Purchases, Sales, Substitutions or Trades in The Loan Portfolio

In 1999, the Bank sold from the endorsable mortgage loans portfolio as follows:

| Sale | Effect on | Effect on |
|--------------|------------------|-------------------|
| MCh\$ | income | provisions |
| | MCh\$ | MCh\$ |
| 13,047.2 | 589.4 | 0.0 |

Note 17. Year 2000 Project

The Bank and its subsidiaries have designed a comprehensive project to deal with the Year 2000 Issue and, to develop this project, made the following investments in 1999 and 1998:

| | Assets | | Liabilities | |
|---------------|---------------|--------------|--------------------|--------------|
| | 1999 | 1998 | 1999 | 1998 |
| | MCh\$ | MCh\$ | MCh\$ | MCh\$ |
| Hardware | 62.7 | 35.4 | – | – |
| Software | – | – | 40.8 | 16.8 |
| Others | 21.9 | – | – | 13.3 |
| Totals | 84.6 | 35.4 | 40.8 | 30.1 |

To date these investments represent 100% of the total investment budget for the project.

HORACIO SILVA C.
Accounting Officer

RAMON ELUCHANS O.
President

Summary of Financial Statements

as of December 31, 1999 and 1998

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Ch\$ = Chilean pesos
ThCh\$ = Thousands of Chilean pesos
MCh\$ = Millions of Chilean pesos
UF = Price-level restatement unit
US\$ = United States dollar

Valores Security S.A. Corredores de Bolsa

Financial Statement as of December 31, 1999 and 1998

Balance

| Assets | 1999 ThCh\$ | 1998 ThCh\$ |
|---------------------|------------------------------|------------------------------|
| Current Assets | 36,556,335 | 43,143,541 |
| Fixed Assets | 93,440 | 99,283 |
| Other Assets | 376,117 | 460,290 |
| Total Assets | 37,025,892 | 43,703,114 |

Liabilities

| | | |
|---------------------------------------|-------------------|-------------------|
| Current Assets | 33,900,781 | 41,473,823 |
| Capital & Reserves | 2,223,969 | 2,125,878 |
| Net Income | 901,142 | 103,413 |
| Total Liabilities & Equity | 37,025,892 | 43,703,114 |

Income Statement

| | | |
|--------------------------------|------------------|----------------|
| Operating Income | 1,020,266 | 86,896 |
| Non Operating Income | 55,896 | 31,470 |
| Net Income before Taxes | 1,076,162 | 118,366 |
| Taxes | (175,020) | (14,953) |
| Net Income | 901,142 | 103,413 |

Leasing Security S.A.

Financial Statement as of December 31, 1999 and 1998

Balance

| | 1999 | 1998 |
|---------------------|-------------------|-------------------|
| Assets | ThCh\$ | ThCh\$ |
| Current Assets | 15,253,300 | 13,660,064 |
| Long Term Assets | 31,126,809 | 32,343,767 |
| Fixed Assets | 555,507 | 584,480 |
| Total Assets | 46,935,616 | 46,588,311 |

Liabilities

| | | |
|---------------------------------------|-------------------|-------------------|
| Current Assets | 20,745,217 | 21,080,888 |
| Long Term Assets | 19,236,632 | 18,564,030 |
| Capital & Reserves | 6,176,627 | 6,174,378 |
| Net Income | 777,140 | 769,015 |
| Total Liabilities & Equity | 46,935,616 | 46,588,311 |

Income Statement

| | | |
|--------------------------------|----------------|----------------|
| Operating Income | 1,543,901 | 966,170 |
| Non Operating Income | (591,256) | (141,160) |
| Net Income before Taxes | 952,645 | 825,010 |
| Taxes | (175,505) | (55,995) |
| Net Income | 777,140 | 769,015 |

Administradora de Fondos Mutuos Security S.A.

Financial Statement as of December 31, 1999 and 1998

Balance

| | 1999 | 1998 |
|---------------------|------------------|------------------|
| Assets | ThCh\$ | ThCh\$ |
| Current Assets | 1,862,047 | 1,528,152 |
| Long Term Assets | – | – |
| Fixed Assets | 61,738 | 56,773 |
| Total Assets | 1,923,785 | 1,584,925 |

Liabilities

| | | |
|---------------------------------------|------------------|------------------|
| Current Liabilities | 131,438 | 73,734 |
| Capital & Reserves | 1,069,619 | 1,069,619 |
| Retained net Income | 73,436 | 73,436 |
| Net Income | 649,292 | 368,136 |
| Total Liabilities & Equity | 1,923,785 | 1,584,925 |

Income Statement

| | | |
|--------------------------------|----------------|----------------|
| Operating Income | 385,545 | 268,100 |
| Non Operating Income | 378,328 | 166,345 |
| Net Income before Taxes | 763,873 | 434,445 |
| Taxes | (114,581) | (66,309) |
| Net Income | 649,292 | 368,136 |

Asesor as Security S.A.

Financial Statement as of December 31, 1999 and 1998

Balance

| | 1999 | 1998 |
|---------------------|----------------|----------------|
| Assets | ThCh\$ | ThCh\$ |
| Current Assets | 235,208 | 204,632 |
| Fixed Assets | 3,865 | 1,621 |
| Other Assets | – | – |
| Total Assets | 239,073 | 206,253 |

Liabilities

| | | |
|---------------------------------------|----------------|----------------|
| Current Liabilities | 43,653 | 7,639 |
| Capital & Reserves | 177,668 | 177,668 |
| Provisional Dividends | (302,978) | (56,822) |
| Net Income | 320,730 | 77,768 |
| Total Liabilities & Equity | 239,073 | 206,253 |

Income Statement

| | | |
|--------------------------------|----------------|---------------|
| Operating Income | 365,522 | 80,513 |
| Non Operating Income | 11,100 | 10,941 |
| Net Income before Taxes | 376,622 | 91,454 |
| Taxes | (55,892) | (13,686) |
| Net Income | 320,730 | 77,768 |

Locations of Banco Security and affiliates

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