ANNUAL REPORT

2004

BANCO security

BANCO security

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2004

BANCO security

financial summary

UNCONSOLIDATED FINANCIAL SUMMARY, BANCO SECURITY

million US$ as of December 2004

RESULTS FOR THE YEAR	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004[3]
Gross Operating Income (Gross Margin)	30,9	32,7	35,7	40,0	48,7	51,1	61,9	67,3	72,9	88,7
Operating expenses	15,5	18,2	19,5	21,3	24,9	27,0	34,2	34,9	37,2	52,8
Net Operating Income (Net Margin)	15,4	14,5	16,2	18,7	23,9	24,1	27,8	32,4	35,6	35,9
Net Income	13,8	11,9	16,2	11,3	17,5	18,9	18,5	18,6	24,4	25,1
YEAR - END BALANCES										
Loans [1]	692,3	842,5	1.056,0	1.123,8	1.185,4	1.399,5	1.458,1	1.590,0	1.759,8	2.121,4
Financial Investments	294,0	185,5	254,3	219,8	141,2	177,7	249,6	262,3	214,3	413,7
Productive Assets	986,2	1.028,0	1.310,4	1.343,6	1.326,6	1.577,1	1.707,6	1.852,2	1.974,2	2.535,1
Fixed Assets and Investment in Subsidiaries	34,6	40,1	41,0	42,8	48,7	52,0	32,6	38,5	49,9	74,1
Total Assets	1.157,0	1.335,5	1.436,4	1.551,5	1.517,5	1.792,5	1.922,7	2.078,9	2.186,8	2.869,4
Net Sight Deposits	34,9	52,3	48,9	41,5	57,3	57,7	91,1	93,7	105,9	148,7
Term Deposits & Borrowings	608,1	776,5	758,4	918,7	958,1	1.231,0	1.099,6	1.298,5	1.301,0	1.743,7
Borrowings fron abroad	124,1	135,8	73,0	86,2	79,9	18,0	151,0	163,8	169,6	249,9
Provision for Risk Assets	6,8	8,7	8,4	11,3	10,9	10,7	14,4	19,6	21,9	33,2
Capital & Reserves [2]	83,6	84,6	88,3	114,5	113,4	136,9	141,8	144,1	147,6	221,5
Shareholders´ Equity	97,4	96,5	104,	125,9	130,9	155,8	160,3	162,7	172,0	246,6
INDICATORS										
Productive Assets/Total Assets	85,24%	76,97%	91,22%	86,60%	87,42%	87,98%	88,81%	89,10%	90,28%	88,35%
Net Income/Capital & Reserves	16,53%	14,11%	18,39%	9,89%	15,43%	13,84%	13,06%	12,92%	16,53%	11,31%
Net Income/ Productive Assets	1,40%	1,16%	1,24%	0,84%	1,32%	1,20%	1,08%	1,01%	1,24%	0,99%
Operating Expenses/Gross Margin	50,14%	55,67%	54,61%	53,17%	51,05%	52,82%	55,16%	51,82%	51,09%	59,51%
Operating Expenses/Productive Assets	1,57%	1,77%	1,49%	1,58%	1,88%	1,71%	2,00%	1,88%	1,89%	2,08%
Productive Assets/Number of Employees	5,1	4,9	5,6	5,2	4,7	4,9	5,0	5,9	6,4	7,2
Loans/Number of Employees	3,6	4,0	4,5	4,4	4,2	4,3	4,3	5,0	5,7	6,0
Leverage	13,7	14,7								
Basle Index			9,8	12,3	12,3	11,7	11,3	11,6	11,2	12,3
Number of Employees	195	210	234	257	283	323	343	315	310	351

[1] It includes loans to financial institutions
[2] It includes value fluctuations
[3] Banco Security merged with Dresdner Bank Lateinamerika, Chile on October 1st., 2004

financial summary

CONSOLIDATED FINANCIAL SUMMARY, BANCO SECURITY

million US$ as of December 2004

RESULTS OF THE YEAR	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004[3]
Gross Operating Income (Gross Margin)	42,6	43,8	47,0	49,2	63,7	65,4	70,3	79,7	86,4	109,6
Operating expenses	20,8	24,6	25,4	27,0	32,0	33,4	38,8	39,8	43,4	60,7
Net Operating Income (Net Margin)	21,8	19,3	21,6	22,2	31,7	32,1	31,5	39,9	43,0	48,8
Net Income	13,8	11,9	16,2	11,3	17,5	18,9	18,5	18,6	24,4	25,1
YEAR - END BALANCES										
Loans [1]	756,9	909,9	1.142,9	1.215,4	1.270,7	1.479,9	1.458,1	1.589,8	1.759,8	2.121,1
Financial Investments	310,0	212,2	285,5	229,4	150,8	226,4	267,8	326,3	314,4	547,6
Productive Assets	1.066,9	1.122,1	1.428,4	1.444,8	1.421,5	1.706,3	1.725,9	1.916,1	2.074,2	2.668,7
Fixed Assets and Investment in Subsidiaries	15,9	22,2	19,7	21,9	26,1	27,0	22,8	23,0	27,8	38,5
Total Assets	1.219,7	1.413,7	1.535,7	1.639,3	1.602,4	1.916,7	1.935,0	2.131,1	2.269,3	2.987,8
Net Sight Deposits	41,4	52,	48,9	41,4	57,3	57,7	91,1	91,2	105,6	148,1
Term Deposits & Borrowings	612,5	781,5	780,6	922,3	962,0	1.263,8	1.101,7	1.299,2	1.296,0	1.753,9
Borrowings fron abroad	95,7	135,8	73,0	86,2	79,9	18,0	151,0	163,8	169,6	249,9
Provision for Risk Assets	6,8	8,7	8,4	11,3	12,2	11,9	14,4	19,6	21,9	33,2
Capital & Reserves [2]	83,6	84,6	88,3	114,5	113,4	136,9	141,8	144,1	147,6	221,5
Shareholders´ Equity	97,4	96,5	104,6	125,9	130,	155,8	160,3	162,	172,0	246,6
INDICATORS										
Productive Assets/Total Assets	87,47%	79,38%	93,01%	88,14%	88,71%	89,02%	89,19%	89,91%	91,40%	89,32%
Net Income/Capital & Reserves	16,53%	14,11%	18,39%	9,89%	15,43%	13,84%	13,06%	12,92%	16,53%	11,31%
Net Income/Productive Assets	1,29%	1,06%	1,14%	0,78%	1,23%	1,11%	1,07%	0,97%	1,18%	0,94%
Operating Expenses/Productive Assets	1,95%	2,19%	1,78%	1,87	2,25%	1,96%	2,25%	2,08%	2,09%	2,28%

[1] It includes loans to financial institutions
[2] It includes value fluctuations
[3] Banco Security merged with Dresdner Bank Lateinamerika, Chile on October 1st., 2004

01

BANCO SECURITY

chairman's letter to shareholders

chairman's letter to shareholders

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

The year 2004 was particularly notable for Banco Security. It began with the purchase of Dresdner Bank Lateinamerika, Chile, which was announced in April, formalized in June and completed in October. This transaction was an important opportunity for Banco Security as the similarities and differences between the two banks brought significant enhancements to the performance of the merged bank. A similar orientation of the businesses of both banks to large and medium-sized companies provided important synergies in the customer portfolio, offering them now a wider range of products. A timely commercial strategy and an efficient operating program enabled us to maintain the quality of service and retain the valuable customer portfolio of Dresdner Bank, thus avoiding the usual loss or market share generally seen following mergers. Quite to the contrary, the merger of Banco Security and Dresdner Bank meant advancing the Bank's growth by two years, with an increase in market share from 2.82% to 3.36% of total bank lending at September 30, 2004. Also, having absorbed all the merger costs during 2004, the reduced expenses of the merged bank should lead to important progress in terms of efficiency. On the other hand, the valuable experience of Dresdner Bank in matters like risk control and the Basle ratio, plus some competitive advantages such as its modern foreign trade operating systems have already been introduced into the merged bank in order to further improve and broaden the quality and variety of the services offered to our customers.

The results of Banco Security for 2004 were a net income of US$ 25.05 million (Ch$14,024 million) which compares favorably with the net income of US$ 24.40 million (Ch$13,659 million) in 2003, especially considering that all the merger costs were absorbed during 2004. Total loans amounted to US$ 2.12 billion (Ch$1,188 billion) at December 2004 which represents real growth of 20.5% for Banco

chairman's letter to shareholders

Security and a real increase of 1.3% if compared with the loans of the two banks separately a year ago, thus showing the almost nil loss of loans during the merger process.

The objectives of maintaining the traditional characteristics of Banco Security in terms of risk and efficiency also continue to be present as, at the close of 2004, the Bank's risk ratio was 1.52% of the total loan portfolio and overdue loans represented 0.77% of total loans. This placed Banco Security as one of the lowest risk banks in the market. In examining the Bank's efficiency, it should be borne in mind that operating expenses in 2004 include all the merger costs thus increasing to 59.5% of the operating margin for just this year. These should reduce to below 50% in the coming years in view of the cost savings and economies of scale following the merger.

Reaffirming their commitment to Banco Security, its shareholders decided to strengthen the Bank's business base for the next few years with a capital increase of US$ 26.79 million (Ch$15,000 million) in December 2004.

I should also like to mention that one of the pillars of Banco Security is and has been its people. It has historically had a top-class team, both professionally and in human terms, and I venture to say that our achievements are basically explained by this factor. It is therefore no surprise but one of pride to inform you that Banco Security was included in 2004, for the fourth consecutive year, in the table of honor of the "25 best companies to work for in Chile" and, this time, in 7th place. Along similar lines, a survey of "The best companies for working mothers" made by El Mercurio newspaper, Ya magazine and Fundación Chile Unido, Banco Security was again chosen as being among the 5 companies in Chile that provide the best facilities for working mothers, thus promoting an optimum family-work relationship. Banco Security

chairman's letter to shareholders

was also awarded the "Gran Premio Revista Capital", work and the family category, as the Chilean company which best reconciles work and the family.

We are proud of the activities carried out during 2004, the results obtained and the recognitions we have received. This imposes on us and on all those working for the company, a great challenge with respect to our customers, our shareholders and also the market, in performing our work in an increasingly better way.

Francisco Silva S.
Chairman

board and management

board and management

BOARD OF DIRECTORS

- **Chairman:**
  Francisco Silva S.

- **Directors:**
  Hernán Felipe Errázuriz C.
  Jorge Marín C.
  Gustavo Pavez R.
  Renato Peñafiel M.
  Gonzalo Ruiz U.
  Mario Weiffenbach O.

SENIOR MANAGEMENT

- **President:**
  Ramón Eluchans O.
- **Chief Assistant Executive Officer:**
  Margarita Hepp K.
- **Senior Economist:**
  Aldo Lema N.
- **Chief Commercial Officer:**
  Christian Sinclair M.
- **Chief Investment and Finance Banking Officer:**
  Bonifacio Bilbao H.
- **Chief Risk Management Officer:**
  José Miguel Bulnes Z.
- **Chief Operations Officer:**
  Arturo Kutscher H.
- **Corporate Banking and Branches Officer:**
  Adolfo Tocornal R-T.
- **Middle Market and Real Estate Banking Officer:**
  Alejandro Arteaga I.
- **Multinational Companies and Foreign Trade Officer:**
  Mario Alfonso Piriz S.
- **Personal Banking and Mortgage Business Officer:**
  Gonzalo Baraona B.
- **Leasing Area Officer:**
  Ignacio Lecanda R.
- **International Area Officer:**
  Claudio Izzo B.
- **Foreign Trade Officer:**
  Miguel Angel Delpin A.
- **Local Currency Money Desk Officer:**
  Sergio Bonilla B.
- **Performance and Electronic Businesses Officer:**
  Marcial Letelier O.
- **Chief Administration Officer:**
  Manuel José Balmaceda A.

COMMERCIAL MANAGERS AND AGENTS

BRANCHES

- **Antofagasta Branch Manager:**
  Guillermo Delgado G.
- **Concepción Branch Manager:**
  Alberto Apel O.
- **Puerto Montt Branch Manager:**
  Francisco Zañartu F.
- **Agustinas Branch Manager:**
  Margarita Jarpa del S.
- **Temuco Branch Agent:**
  Felipe Schacht R.
- **Ciudad Empresarial Branch Agent:**
  Felipe Oliva L.
- **Head Office Branch Agent:**
  Patricio Gutiérrez P.
- **La Dehesa and Vitacura Platform Head:**
  José Pablo Jiménez U.
- **Private Banking Platform Head**
  Constanza Pulgar G.

BUSINESS PLATFORM

- **Corporate Businesses Assistant Manager:**
  Sebastián Covarrubias F.
- **Multinational Companies Assistant Manager:**
  Erik Möller R.
- **Large Companies Assistant Manager:**
  René Melo B.
- **Businesses Assistant Manager:**
  Humberto Grattini F.
- **Businesses Assistant Manager:**
  Hernán Besa D.
- **Businesses Assistant Manager:**
  Jorge Contreras W.
- **Businesses Assistant Manager:**
  José Luis Correa L.
- **Personal Banking Assistant Manager:**
  Juan Carlos Ruiz V.
- **Businesses Assistant Manager:**
  Mauricio Parra L.
- **Multinational Companies Agent:**
  Juan Pablo Tolosa C.
- **Real Estate Area Agent:**
  Francisco Domeyko C.

INVESTMENT PLATFORM

- **Money Desk Assistant Manager:**
  Ricardo Turner O.

03

BANCO SECURITY

historical summary

historical summary

1981

Banco Urquijo de Chile is formed in August, a subsidiary of Banco Urquijo España.

1987

Security Pacific Corporation, a subsidiary of Security Pacific National Bank, Los Angeles, California, acquires all the shares of Banco Urquijo de Chile whose name is changed to Banco Security Pacific. The same year, Security Pacific National Bank forms a securities trading and stock-broking firm which in 1991 is sold to Banco Security. It is today called Valores Security, Corredores de Bolsa.

1990

A leasing subsidiary, Leasing Security, is formed.

1991

In June 1991, Security Pacific Overseas Corporation sells 60% of the bank to the present controlling shareholders of Grupo Security and its name is changed to Banco Security.

1992

Administradora de Fondos Mutuos Security (a mutual funds management company) is formed as a subsidiary of Banco Security.

1994

Bank of America, the successor of Security Pacific National Bank, sells to Grupo Security the remaining 40% of Banco Security.

2001

In April, the subsidiary Leasing Security is incorporated as a business unit into Banco Security.

2003

In September, the subsidiary Administradora de Fondos Mutuos Security S.A. widens its objects and changes its name to Administradora General de Fondos Security S.A.

2004

In June, Grupo Security acquires 99.67% of Dresdner Bank Lateinamerika, Chile, and merges this with Banco Security on October 1, 2004.

strategy

strategy

DESCRIPTION

Within an industry characterized in recent times for its rapid concentration which has led to the predominance of large banks, Banco Security has continued to stand out as a medium-sized bank operating in a clearly-defined niche with an excellent level of service, controlled risks, high productivity and good technological support.

Banco Security's strategy consists of offering personalized, integral, competitive and timely solutions for the financial needs of large and medium-sized companies, and of high-income individuals, providing them with a service of excellence that enables it to maintain a long-term relationship. The Bank therefore has a complete range of financial products and services backed by first-class technology in all its channels and the necessary support for providing full satisfaction for its customers. The pillars of the competitive strategy of Banco Security are therefore:

- **To maintain and improve the high standard of service**. This is a constant concern for the Bank as it is the principal attribute for maintaining its customers over the long term and the clearest argument for attracting new ones.

- **To increase its customer base within the objective segment.** This has been an invariable objective in the Bank's business areas and it was within this line that the Chilean subsidiary of Dresdner Bank was acquired by Grupo Security and subsequently merged.

- **To expand the range of financial products and services.** While it is not the Bank's strategy to be the pioneer in the development and launching of new products, it is nevertheless its strategy to remain up-to-date in the provision of the products and services that the rest of the banks operating in Chile offer. In addition, there is the Bank's ability to adapt its products and services to the specific requirements of each customer.

- **To increase the penetration of its products and services among its customers.** Based on the high quality of service offered by the Bank, one of the objectives of the commercial efforts is to persuade customers to increase the variety of products and services they use, as well as the volume of financial transactions they channel through the Bank.

- **To continue increasing efficiency in the use of the Bank's resources.** Banco Security aspires to having the special flexibility of a small bank coupled with the efficiency of a large bank. Substantial progress has already been made through the centralization of the human resources, information technology, communications, accounting and audit areas of all the companies of Grupo Security. On the other hand, Banco Security has continued with its policy of outsourcing everything that an external entity is capable of doing more efficiently than the Bank.

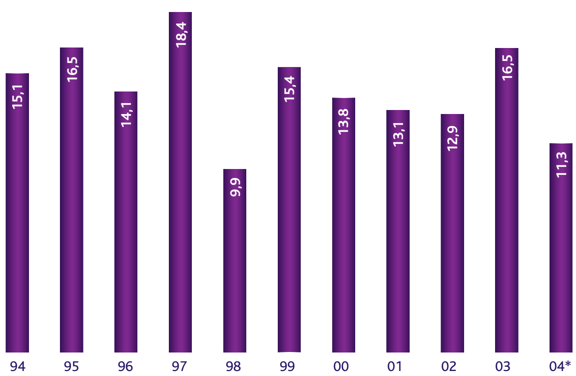
MAIN STRENGTHS

Banco Security has been developing a series of strengths that have enabled it to maintain its competitiveness and a proper level of profitability. Some of these strengths are:

- **High degree of stability in operating flows and profitability.** Banco Security is the bank in Chile with the greatest stability in terms of return on equity. This is basically explained by its low level of credit risk and by the fact that an important part of its revenues is generated by its traditional banking business and not from trading, which by its nature is highly unstable.

strategy

RETURN ON CAPITAL AND RESERVES, BANCO SECURITY
% · (source SBIF)



* IT INCLUDES ONE TIME COSTS FROM THE MERGE WITH DRESDNER BANK

- **Excellent service quality image.** The Bank is recognized by its customers in its objective segment and by its competitors as one that offers the highest quality of service in the market. The Security brand, according to market surveys, is associated with not only high levels of service quality but also for its agility in attention and a high level of trust, attributes widely valued by the market on which the bank is focused.

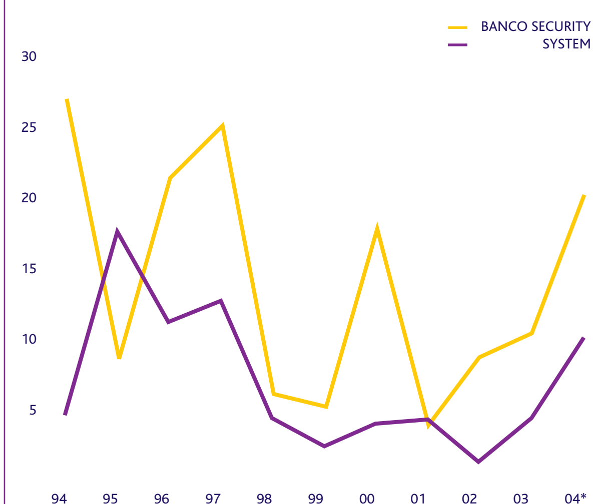
- **Directors and senior management have relevant shareholdings.** This is a guarantee of management's commitment to results and a correct structure of incentives.

- **Great human capital and excellent working environment**. One of the Bank's principal assets is its human team and the excellent working climate it has achieved. This reflects the institutional values and is the result of a proper human resources plan implemented with perseverance over the years. A direct result of this is that the Bank has been among the 25 best companies to work for in Chile ever since Great Place to Work Institute began to prepare this ranking in Chile, attaining 7th place in 2004.

- **Broad know-how of the financial system.** Partners, directors and management have a vast experience in the financial business, averaging more than 15 years experience in banking and related institutions. Their permanence in this business has enabled them to develop a great capacity to respond correctly to the needs of its objective market and to identify the main trends in the Chilean financial industry.

- **Evident capacity to grow faster than the market.** Over the period 1994-2004, the average annual growth in the loans of Banco Security was 11.6% while the sector grew by 6.7%, expanding at an average of 1.73 times the sector's growth rate.

REAL LOAN GROWTH
% · (source SBIF)

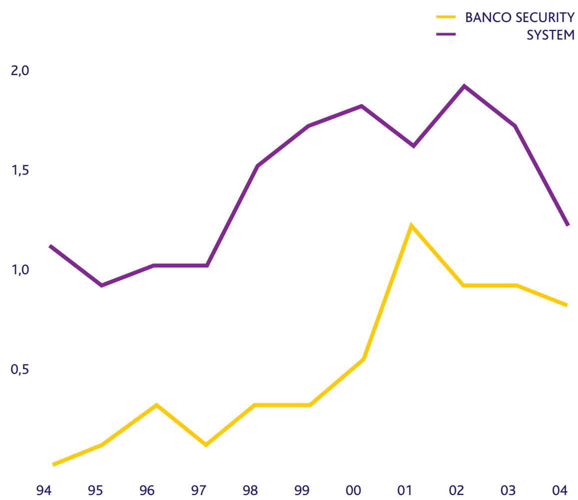


* IT INCLUDES DRESDNER BANK'S LOANS

- **High degree of efficiency.** Banco Security has shown very good levels of efficiency compared to the sector throughout its history. This is because of the constant effort to achieve a proper use of resources and a high level of productivity (it is the bank in Chile with the highest level of loans per employee).

- **Prudent risk management.** The Bank has been noted historically for maintaining a low-risk loan portfolio for which it has a first-class risk management system. It has also been introducing new elements for managing market and operating risks in order to meet the requirements set out in the Basle II Agreement.

PAST-DUE LOANS / TOTAL LOANS
% · (source SBIF)



COMMERCIAL STRUCTURE

In order to best exploit its strengths and carry out the above strategy, the Bank in 2004 made some adjustments to its commercial structure as follows:

- **Corporate Banking** represented around 83% of the Bank's loans and 58% of operating revenues at the end of 2004. This comprises the following areas:

  a.- Corporate Banking and Branches: specializes in meeting the financial needs of companies whose annual sales exceed US$ 26.79 million (Ch$15,000 million) and who typically require highly-specialized financial products and services. This management is also responsible for ensuring proper attention for regional customers distributed among the Bank's present 4 regional branches in Antofagasta, Concepción, Temuco and Puerto Montt.

  b.- Multinational Companies and Foreign Trade: this manages an important part of the portfolio of European and multinational customers introduced to the Bank through the merger with Dresdner Bank. Advantage was taken of the know-how of that bank's business platform in order to attend the specific needs of this customer category with the standard of service that characterizes the Bank.

  c.- Middle Market and Real Estate: this management seeks to provide special attention to the financial requirements of the middle/large-sized companies having sales of between US$ 2.68 million (Ch$1,500 million) and US$ 26.79 million (Ch$15,000 million). Given this segment's high growth potential, the objective is to offer the best service in the market and thus attract new customers and intensify relationships with them.

- **Personal Banking,** oriented on attracting and attending the demanding needs of high-income individuals. This area currently represents around 17% of the Bank's total loans and 18% of its operating revenues. This area is structured as follows:

  a.- Preferential Banking and Private Banking: specializes in attending high-income individuals requiring an optimum quality of service.

  b.- Mortgage Business: concentrates on attracting and attending high-income individuals who need mortgage finance.

strategy

- **Investment Banking** is an area of great importance in the Bank's business strategy, complementing the service provided by the commercial areas. It makes a large contribution to the results, reaching close to 24% of the bank's operating revenues in 2004. This area includes:

  a.- Money Desk which actively trades in foreign exchange and financial instruments in both the domestic and international markets, and manages the Bank's exposures in currencies, maturities and interest rates. The area therefore is split into the Trading Desk, Positions Desk and Distribution Desk.

  b.- International Management, dedicated to exploring the external financial markets and seeking funding for the bank's foreign trade business in which Banco Security significantly increased its share following the merger with Dresdner Bank.

STRATEGIC HIGHLIGHTS OF 2004: MERGER WITH DRESDNER BANK LATEINAMERIKA, CHILE

In June 2004, Grupo Security acquired 100% of the partnership rights in Inversiones DBLA Limitada, an entity that controlled approximately 88.3% of Dresdner Bank Lateinamerika, Chile and 100% of Dresdner Lateinamerika S.A. Corredores de Bolsa. This transaction also contemplated, in accordance with the law, the making of a public offering for acquiring the remaining shareholdings in Dresdner Bank, through which it acquired a further 11.4% of its share capital. Later, on October 1, 2004, the Dresdner and Security banks were merged.

Dresdner Bank has a business focus very similar to that of Banco Security, concentrating heavily on the segment of commercial loans to medium to large-sized companies, thus generating important potential for operating synergies. Dresdner Bank also offered very attractive characteristics and strengths to Banco Security like know-how in the foreign trade business and exchange hedging, its proximity to certain foreign communities resident in Chile, a highly-specialized staff and advanced systems in certain areas.

The purchase of Dresdner Bank and its later merger with Banco Security thus fits within the strategy of growth with controlled risk. Dresdner Bank's loans of US$ 0.36 billion (Ch$199 billion) at September 2004 were equivalent to advancing the Banco Security growth by about 2 years, and made it the eighth largest bank (sixth among those with Chilean capital) with a market share of around 3.4%.

In analyzing the purchase, it was estimated that the merger of the two banks would generate savings of approximately 50% of the operating expenses of Dresdner Bank. Having completed the merger, the results indicate that the savings are around 60% of those expenses.

strategy

FINANCIAL SUMMARY DRESDNER BANK

million US$ as of September 2004 · (source SBIF)

	2000	2001	2002	2003	SEP 2004(*)
Total Loans	416,4	449,9	407,1	334,5	355,7
Capital and Reserves	47,6	47,9	47,9	48,0	47,8
Net Income	4,3	5,0	7,4	4,6	-5,4
Return on Capital and Reserves	9,1%	10,4%	15,5%	9,7%	-11,2%
Basle Index	11,4%	10,9%	13,3%	14,1%	13,4%

* IT INCLUDES ONE TIME COSTS FROM THE MERGE WITH BANCO SECURITY

country, industry and banco security 2004

country, industry and banco security 2004

ECONOMIC SCENARIO

GENERAL PERSPECTIVE

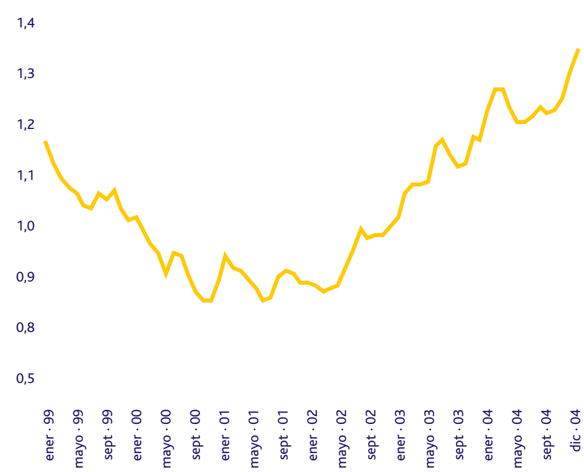
Chile returned to an expansive economic cycle during 2004, leaving behind six years of slow growth and deteriorating confidence in the market place. Within a broadly favorable international context, the country reaped the benefits of preserving a healthy and strong economic structure characterized fundamentally for its considerable commercial and financial opening up, stable political institutions, fiscal solvency and the strength of the banking system. Economic growth moved from less to more during the year, stimulated also by the sharp fall in local interest rates influenced by benign inflation rates and the low cost of external financing.

EXCEPCIONAL EXTERNAL ENVIRONMENT

The international environment faced by Chile during 2004 can be considered as one of the most favorable seen in the last thirty years. Firstly, global growth returned to above its historical average, even reaching one of the highest rates in two decades. Expansion was robust and at the same time generalized. USA, with a growth rate of around 4.5%, and the Asian countries, with an expansion of 7.6% led by China, made the largest contributions to this expansive cycle. Latin America and Japan showed their best performance in 4 years, with growth rates of 5.4% and 3% respectively.

The second factor that benefited Chile and other emerging economies was the intensification of the global weakening of the US dollar which began in February 2002. While the dollar appreciated moderately in the second quarter, partly due to an overreaction in expectations of FED interest rate adjustments, it reverted in June to its downward trend, affected by the worsening of imbalances in the USA and the absence of clear indications for their correction. The dollar-euro exchange rate graph clearly shows this process. The euro appreciated from its record low in 2002 (US$ 0.85) to US$ 1.29 in February 2004; it then fell to USS$ 1.17 in May, before returning to its strengthening path and reaching US$ 1.36 by the year end. This movement acted as a brake on the European export sector which, in the context of weak domestic demand, limited economic growth of the zone to rates of below 2%.

DOLAR / EURO EXCHANGE RATE
US$ per Euro monthly average
(source Banco Central de Chile)



Thirdly, the stronger global economy generated a large increase in volumes exported which, together with the weak dollar, led to a recovery in export prices. The average copper price was US$ 1.3 per pound in circumstances when, at the start of the year, price projections were around one dollar. Non-copper export prices showed an increase of around 16% over 2003. Despite oil prices rising almost US$ 10 (in annual average terms) from US$ 28 to US$ 38 a barrel, the

country

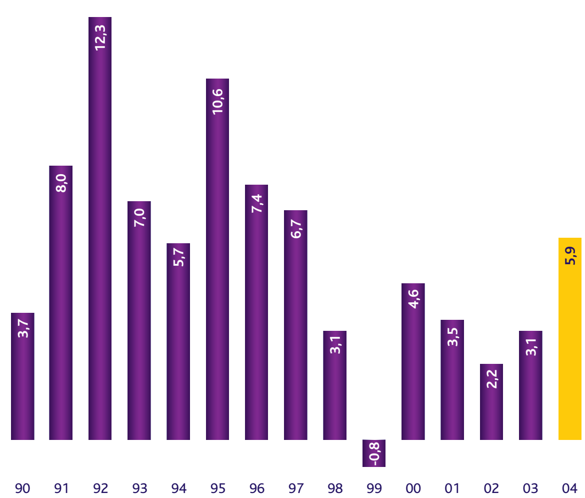
terms of trade showed an increase of 21% during 2004. The country therefore received incremental income of almost US$ 5,500 million (5.5% of GDP) compared to a normal year.

Lastly, all the above took place in broadly favorable financial conditions for emerging countries despite the start of the monetary normalization process by the FED. With its decision to gradually and moderately increase the federal funds rate, long-term rates, which rose strongly prior to entering the second quarter due to the initial uncertainty about the interest-rate adjustment process, returned to within the 4% - 4.5% range during that quarter. At the same time, sovereign risk spreads fell sharply. This improvement in macroeconomic and financial conditions reintroduced pressures for revaluing the Chilean peso and other regional currencies, a process that was temporarily interrupted by the appreciation of the dollar and the rise in FED interest rates. As a result, gross capital flows recovered their dynamism with the prices of the main market and debt instruments appreciating. The Chilean sovereign risk thus declined from 90 basis points to close to 70 basis points, supported by the positive market contagion, improved macroeconomic prospects, the differentiating signs resulting from the trade agreements and the maintenance of an orderly and responsible fiscal policy. The combination of low international interest rates and further falls in sovereign-risk spreads led the cost of external financing to record low levels.

DYNAMIC DOMESTIC SCENARIO

The combination of a broadly positive external environment and very favorable domestic financial conditions strengthened the Chilean economy's expansive cycle. Economic growth accelerated from 4% at the end of 2003 to more than 7% at the end of 2004, the highest rate since 1997. As a result, GDP grew by slightly below 6% which, in per capita terms, indicates a return to levels close to US$ 6,000, thus reaffirming the country's regional leadership position. For the first half of the year, exports were the growth motor, reflecting the forces of external demand and the improved terms of trade. Total exports increased by more than 50% to a record level of US$ 32 billion, favored by the 60% improvement in copper prices and the strong increase in volumes shipped of copper (17%) and the rest (11%).

ANNUAL CHANGES IN GDP
annual change % · (source Banco Central de Chile)



Starting in the second half, the expansion became more balanced, with greater dynamism in domestic spending, especially in capital expenditure. From July onward, investment grew at rates of close to 15% which produced an average for the year of over 11% which corresponds to over 24% of GDP. While this performance was led by strong growth in purchases of imported machinery and equipment, construction also made a healthy contribution. All of this is sustained on positive economic prospects and on the expansive nature of credit conditions.

Private consumption, for its part, was relatively stable during the year, with average expansion slightly below that of domestic product.

By sectors, the growth was relatively balanced between tradable and no-tradable items. While the former were strongly influenced by the favorable external scenario, the latter received the stimulus of the acceleration noted in domestic demand in the second half. Notable was the growth in fishing (23.2%), manufacturing (7.3%), retail (7.3%), mining (6.2%) and, since mid year, construction (over 8% in that period).

For the second year running, the financial sector showed high levels of activity, with significant growth in bank lending, a large increase in the volumes traded on the stock market and a strong recovery in funds managed on behalf of third parties.

Improved expectations and the maintenance of historically-low interest rates led to a 10% real increase in bank lending. While consumer and mortgage loans maintained dynamic growth, with growth rates of 17.3% and 18.9% respectively, the recovery in investment reactivated commercial loans (6.2%).

Despite the strong increase in spending and product, unemployment remained systematically above the levels seen in 2003, averaging 8.8% during the year. This reflected sluggish growth in employment in the first half, although improving toward the end of the year, which was insufficient to offset the increase in the workforce's participation rate. The latter however is indicative of more promising expectations in the population.

Fiscal policy management remained guided by the 1% structural surplus rule for the general government. As a result, the increase in tax collections resulting from accelerated economic growth and the higher copper prices produced a fiscal surplus of around 2% of GDP. Despite the greater dynamism in investment, this public sector increase resulted, in a context of stability in private sector savings, in the current account of the balance of payments moving from a deficit of 0.8% of GDP in 2003 to a surplus of 2% of GDP in 2004. This strength in the external accounts does no more than reflect compliance with this rule, which requires that above-normal surpluses should be saved. This marks a clear difference compared to Chile's performance in past decades.

Inflation during 2004 was again volatile, reflecting the exchange rate and international fuel prices. The threat of deflation in late 2003, shown in a 12-month change in CPI of –0.7% at March, was quickly dissipated once the Central Bank reduced the monetary policy reference interest rate by 100 basis points between December and January, to a level of 1.75%. This decision, linked to the spurt in oil prices (from US$ 33 p/b in March to over US$ 50 p/b in October), helped to realign the 12-month CPI rate to within the target range (between 2% and 4%), closing the year at 2.4%. The rise in the rate of underlying inflation however was less pronounced, basically the result of the absorbing role of the peso appreciation, the fall in unit labor costs and the moderate decompression in margins. The CPIX, which eliminates fruit, vegetables and fuels, and the CPIX1, which also excludes regulated public-utility tariffs and other volatile prices, ended 2004 below the floor of the target range, at levels of 1.8% and 1% respectively.

country

This moderate rebound in underlying inflation allowed the Central Bank to start reducing the monetary stimulus only toward the end of the third quarter once the growth in domestic demand was consolidated, and the slack began to be taken up quickly. The monetary normalization cycle began gradually and cautiously so the reference interest rate closed the year at a similar level to that which it had begun (2.25%). This had no major impact on nominal long-term rates which, although with sharp fluctuations related to changes in expectations about Central Bank rate adjustments and short-term inflation, also closed the year with little change compared to December 2003 (slightly below 5% in the case of "BCP5" securities). Long-term rates in UF, for their part, fell by more than a percentage point between December and August, to later show a slight recovery in the last quarter. Specifically, "BCU 5" securities moved from 3.3% to a record low of 1.8%, and closed at around 2.7%.

CONCLUSION

For economic historians, the year 2004 will be remembered for an exceptionally favorable external scenario, a significant recovery in consumer and business confidence, the joint reactivation of spending and product, improved labor conditions (despite the moderate rise in unemployment), higher investment, fiscal and external account surpluses and controlled inflation. The consolidation of the external market-oriented economic model and a high degree of credibility in the institutions and economic policies, particularly fiscal and monetary policies, could maintain these trends in 2005.

ECONOMIC INDICATORS

	2000	2001	2002	2003	2004
· Nominal GDP (US$ Bill)	75,2	68,4	67,4	72,1	92,6
· GDP per capita (US$)	4.944,4	4.442,2	4.321,4	4.568,2	5.804,6
· Real GDP (% oya)	4,5	3,4	2,2	3,3	5,8
· Domestic Demand (% oya)	6,0	2,3	2,5	3,5	6,8
- Private Consumption (% oya)	3,7	2,8	1,9	3,7	6,0
- Fixed Investment (% oya)	8,9	3,6	1,4	4,8	10,8
· Exports (% oya)	5,1	7,5	1,5	7,8	13,0
· Imports (% oya)	10,1	4,1	2,4	8,8	16,2
· World GDP PPP (% oya)	4,7	2,3	3,0	3,9	4,7
· Terms of Trade (1996=100)	102,8	98,2	101,4	104,4	126,1
· Copper Price (US$ Cents per pound)	82,3	71,6	70,7	80,7	130,0
· Oil Price (US$ per barrel)	28,3	24,4	25,0	28,8	38,3
· Federal Funds Rate (eop,%)	6,5	1,8	1,3	1,0	2,3
· Libor 180d (eop,%)	6,4	2,0	1,4	1,2	2,8
· BT-10 (eop,%)	5,1	5,1	3,8	4,3	4,2
· Euro (eop,US$)	0,9	0,9	1,0	1,2	1,4
· Yen (eop,¥/US$)	112,0	127,0	122,2	107,9	103,0
· Trade Balance (US$ Bill)	2,1	1,8	2,3	3,0	9,0
- Exports (US$ Bill)	19,2	18,3	18,2	21,0	32,0
- Imports (US$ Bill)	17,1	16,4	15,9	18,0	23,0
· Current Account Balance (US$ Bill)	-1,1	-1,5	-0,9	-0,6	2,4
· Balance of Payments (US$ Bill)	0,3	-0,6	0,2	-0,3	0,5
· Investment Rate, % of GDP	21,9	22,0	22,0	21,8	20,9
- National Savings	20,6	20,5	20,6	21,0	23,4
Public Sector (Current Account)	1,8	2,4	1,8	2,9	5,2
Private Sector	19,2	18,1	18,8	18,1	18,2
- External Savings	1,2	1,5	1,4	0,8	-2,5
· Central Government Balance (% of GDP)	-0,7	-0,5	-1,2	-0,5	2,0
· CPI (%, Dec-Dec)	4,5	2,6	2,8	1,1	2,4
· Core Inflation (% Dec-Dec)	3,4	3,2	1,8	1,6	1,8
· External Inflation, CB measure (av,%)	2,4	-1,9	-4,6	10,5	8,8
· Monetary Policy Interest Rate (eop,%, $)	8,3	6,5	3,0	2,3	2,3
· Long Term Interest Rate, BCU-5 (eop, %, UF)	5,9	4,9	3,2	3,2	2,4
· Long Term Interest Rate, BCP-5 (eop, %, $)	nd	nd	5,6	4,6	5,0
· Exchange Rate (annual average, $/US$)	539,5	634,9	688,9	691,4	609,5
· Exchange Rate (end of period, $/US$)	572,7	656,2	712,4	599,4	559,8
· Employment (% oya)	1,1	0,3	1,1	3,1	1,7
· Workforce (% oya)	0,3	0,3	0,9	2,6	2,0
· Unemployment Rate (%)	9,2	9,0	8,9	8,5	8,8
· Real Wages (% oya)	1,4	1,6	2,1	1,0	1,9
· External Debt (US$ Bill)	37,2	38,5	41,0	43,4	45,8
· Net Foreign Liabilities (US$ Bill)	29,3	29,5	28,0	28,6	26,2
· Net Foreign Liabilities (% GDP)	39,0	43,1	41,5	39,7	28,3
· Net Foreign Liabilities (% Export of goods)	127,8	133,6	124,3	110,7	69,4
· International Net Reserves	14,7	14,4	15,4	15,9	16,0

industry

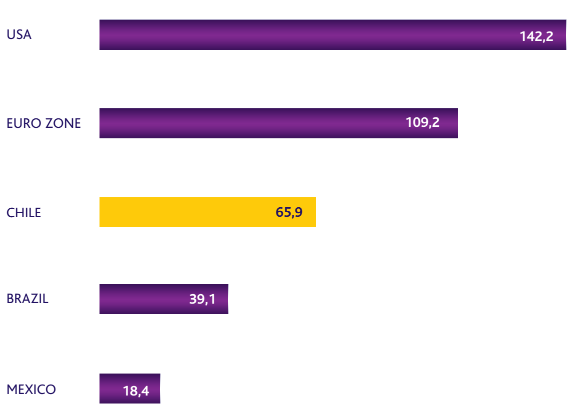
ANALYSIS OF THE INDUSTRY

The Chilean banking industry at the close of 2004 comprises 26 financial institutions of which 20 are banks established in the country (including 6 controlled by foreign shareholders and 1 by the state) and 6 corresponding to foreign bank branches. Total loans at that date amounted to US$ 67.58 billion (Ch$37,833 billion) and financial investments to US$ 16.64 billion (Ch$9,316 billion), while aggregate earnings for the year were US$ 1,188.17 million (Ch$665,176 million). This represents real 12-month growth of 4.4% and an annualized return on equity of 16.8%.

The Chilean banking system is well advanced, measured as a function of the bank-use index, defined as the ratio of total loans to GDP, which reached 67.5% in 2003 (51% in 1991). Chile therefore shows the highest level of development among Latin American countries but still has important potential if compared to the level reached in the most developed economies like USA (142.2%) and the Euro zone (109.2%).

BANK-USE RATIO WORLDWIDE

2003 · % · (source Bear Stearns)



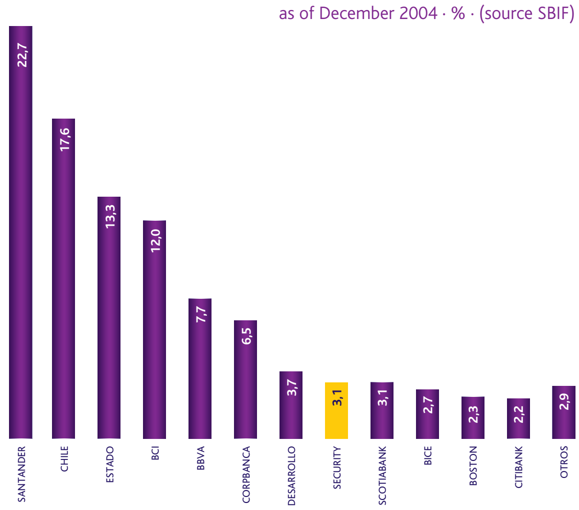
TRENDS

One of the main trends observed in the banking industry in recent years has been the growing concentration of total loans in a smaller number of banks. This has been the result of a marked process of consolidation, basically motivated by rationalization of costs and greater competition within the industry. For example, in 1994 there were 4 principal banks which represented 44.7% of total loans, whereas at December 2004, these represented 65.7% of total loans. During 2002, the Superintendency of Banks and Financial Institutions (SBIF) authorized the mergers of Banco de Chile with Banco de A. Edwards, and Banco Santander with Banco Santiago, thus producing the largest banks in the sector. Later, in May 2003, Banco del Desarrollo acquired Banco Sudameris and, in November that year, Banco de Crédito e Inversiones acquired Banco Conosur. Lastly, in June 2004, Grupo Security acquired Dresdner Bank Lateinamerika and then merged it with Banco Security.

Despite the trend to greater concentration, there have also been new entrants into the sector. New banks have been formed to meet the financing needs of specific market niches. In recent years, the SBIF has granted seven new banking licenses, being Deutsche Bank, Banco HNS, Banco Ripley, Banco Monex, Banco Conosur, Banco Paris and Banco Penta.

MARKET SHARE

as of December 2004 · % · (source SBIF)



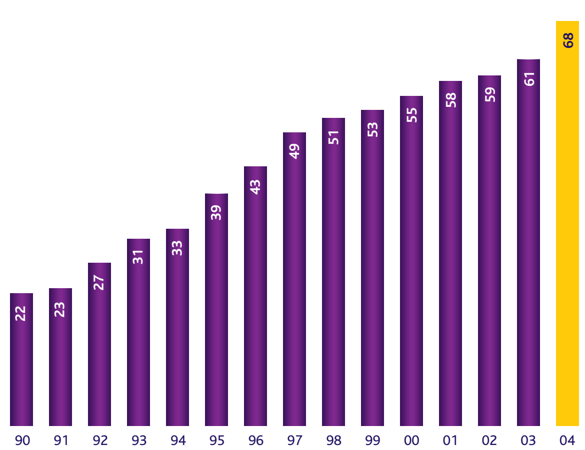
industry

Another of the relevant trends refers to the entry of new competitors to the banking business, principally by insurance companies and retail stores which currently offer credit cards, consumer loans, mortgage loans, etc. In November 2003, for example, Almacenes Paris acquired the Consumer Loans Division of Banco Santander Santiago, "Santiago Express", in order to support the growth of the future Banco Paris. Another example is the impulse that Distribución y Servicio D&S S.A. is giving to its "Presto" credit card for supporting its financial business, directed principally to the more mass sectors of the population. In July 2004, D&S signed an agreement with Banco Estado that contemplates, among other things, access by all holders of the Presto card to the bank's automatic teller machines and mortgage loans.

LOANS

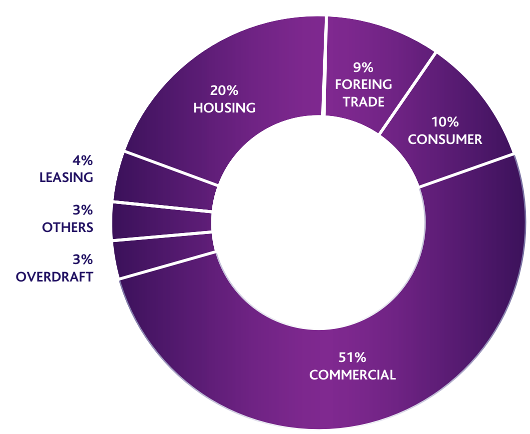
The system's total loans have shown sustained growth since 1990, mainly explained by the country's economic growth and the stability of the domestic banking system, principal factors for this industry's growth worldwide. The annual growth rate for loans during the period 1990 – 2004 was a real 8.1% while annual GDP growth in the same period is estimated to be about a real 6.0%.

FINANCIAL SYSTEM LOANS
billion US$ as of December 2004 · (source SBIF)



Analyzing in detail the performance of loans during 2004, the most important growth rates relate to housing loans (18.9%), consumer loans (17.3%) and foreign trade financing (14.1%). The first two are the direct consequence of the reactivation in consumption as a result of people's better economic conditions and expectations, and, in the case of foreign trade financing, the increased trade with countries with which free trade agreements have been signed.

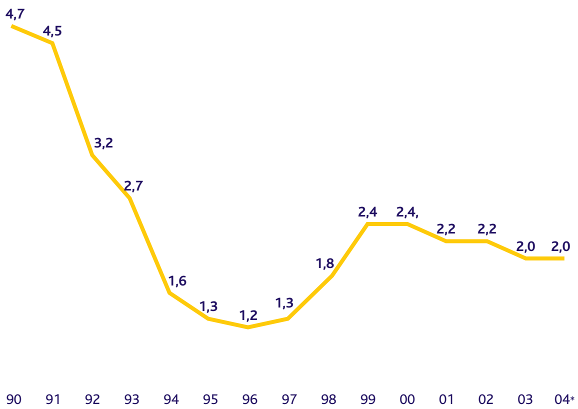
LOAN DISTRIBUTION
(source SBIF)



The strong growth in loans has been accompanied by a fall in the levels of credit risk. For example, the ratio of allowances for loan losses to total loans reached 1.99% at December 2004, compared to 4.72% at December 1990, and the ratio of overdue loans to total loans was 1.20% at December 2004 compared to 2.10% at December 1990. The following graph shows that the system is gradually returning to the risk levels prior to the economic crisis affecting the country between 1998 and 2003.

industry

ALLOWANCES / TOTAL LOANS
% · (source SBIF)

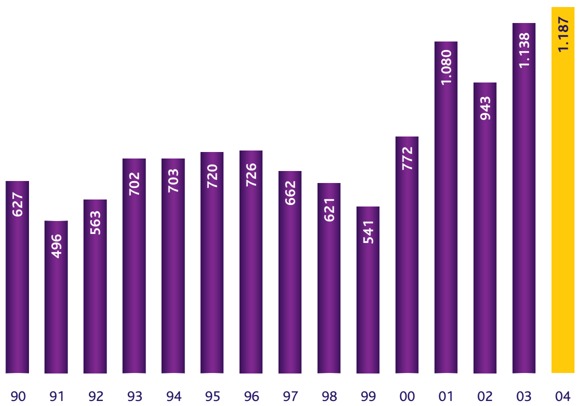


* ALLOWANCES CALCULATION METHODOLOGY WAS MODIFIED IN 2004

RESULTS

Results for the year 2004 were excellent for banks in general as they again reached record levels with a return of 16.8%, the industry consolidating its position as one of the most stable and profitable sectors in the economy. The industry's aggregate net income was US$ 1.19 billion (Ch$665 billion), representing 4.4% real growth over the year before. 66.2% of this figure was generated by the 3 largest private-sector banks, which in turn account for 52.4% of the sector's total loans. The difference between these percentages is largely due to the greater efficiency achieved by these 3 banks compared to the industry average.

ANNUAL PROFITS OF THE FINANCIAL SYSTEM
million US$ as of December 2004



The sector's average efficiency has continued to progress well. According to the latest information published by the SBIF, the efficiency ratio (operating expenses to gross operating margin) for 2004 was 53.5% which compares favorably with 53.8% the previous year. As already mentioned, the main explanation for this is the process of concentration of loans in just a few large banks which has generated considerable economies of scale.

REGULATORY FRAMEWORK

The Chilean banking system is regulated and supervised by the Central Bank of Chile and the Superintendency of Banks and Financial Institutions (SBIF). These institutions ensure compliance with sector regulations as contained in Constitutional Law of the Central Bank of Chile, the General Banking Law, the Corporations Law No.18,046 and the Corporations Regulations, to the extent that the latter complement the Banking Law. The regulatory framework has permitted the sector's positive development in recent years in terms of growth, risk control and competition, and is considered today to be one of the most stable and transparent in Latin America.

Under the banking law, the SBIF is responsible for supervising and controlling the banking industry and has to interpret the sector regulations, evaluate the granting of banking licenses and monitor the performance of the banks. Banks have to send to the SBIF monthly complete information about their operations and their financial statements and, annually, their audited financial statements. The SBIF's powers include requests for additional information when required, proposing corrective actions, imposing sanctions and, in extreme cases, appointing a provisional administrator.

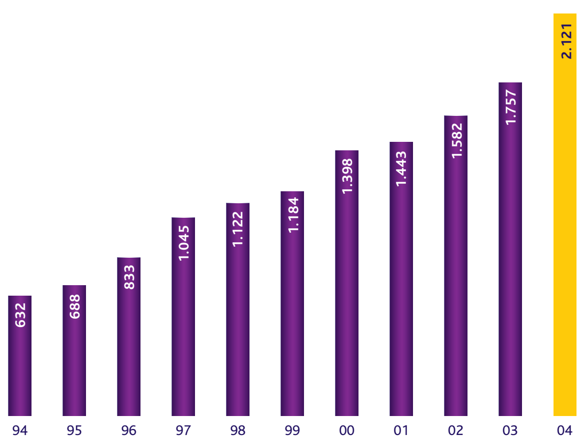
PERFORMANCE OF BANCO SECURITY IN 2004

LOANS

In analyzing the changes in the Bank's loans during 2004, it is important to remember that it was merged with Dresdner Bank in October, whose loan portfolio at that date amounted to US$ 355,65 million (Ch$199,104 million).

The Bank's total loans at December 31, 2004 amounted to US$ 2,121.37 million (Ch$1,187,606 million), showing real growth of 20.5% in the year. When compared to the total loans at the end of 2003 of Banco Security and Dresdner Bank, the real growth amounted to 1.3%. Recalling what happened in other bank mergers which resulted in large losses of portfolio, it can be said that it is a great achievement to have closed the year 2004 with more loans than the sum of both banks at the end of the previous year. In fact, this was the objective set in taking the decision to purchase Dresdner Bank.

BANCO SECURITY LOANS
million US$ as of December 2004 · (source SBIF)



The Bank has a market share of 3.14% of total bank loans at December 31, 2004, occupying 8th place among the 26 banks operating in the local market.

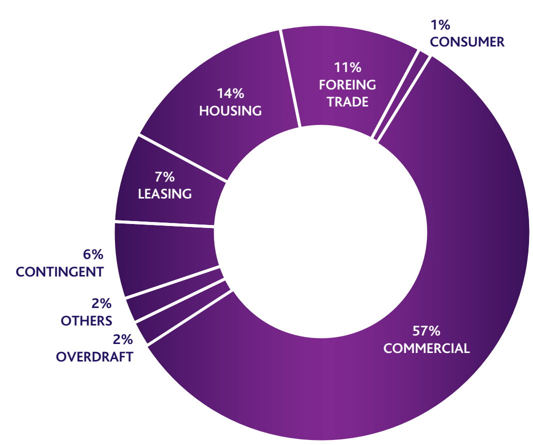
Regarding the composition of the loan portfolio, the most notable feature in 2004 was the increase in the relative importance of foreign trade financing as a result of the inclusion of the portfolio of Dresdner Bank (representing 10.8% of the Bank's lending) and growth in loans to individuals above the growth rate for the Bank's total loans.

LOAN DISTRIBUTION

million US$ as of December 2004

	2004		2003	
	US$	%	US$	%
Overdraft	43	2,0%	35	2,0%
Commercial	1.222	57,6%	1.099	62,5%
Consumer	22	1,0%	13	0,7%
Foreing Trade	229	10,8%	142	8,1%
Housing	291	13,7%	238	13,5%
Leasing	147	7,0%	114	6,5%
Contingent	125	5,9%	82	4,6%
Others	42	2,0%	36	2,0%
TOTAL LOANS	**2.163**	**100,0%**	**1.796**	**100,0%**

LOAN DISTRIBUTION
(source Banco Security)



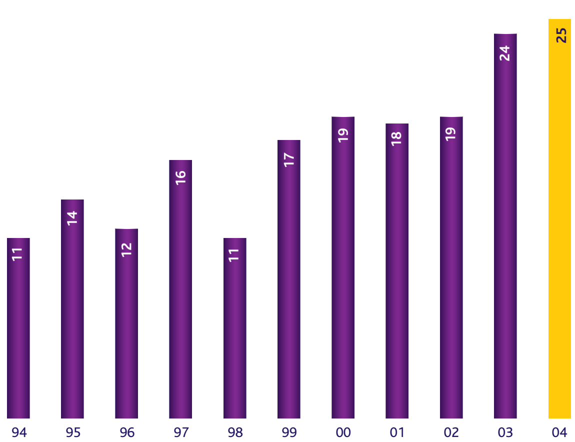
RESULTS

In comparing the results for 2004 with the previous year, it is important to bear in mind that a series of costs associated with the merger with Dresdner Bank (severance payments, provisions, write-offs, etc.), amounting to approximately US$ 8.93 million (Ch$5,000 million), were a one-off charge to income.

banco security

The consolidated income of the Bank and its subsidiaries was US$ 25.05 million (Ch$14,024 million), including the merger-related costs, thus exceeding the result for 2003. The return on capital and reserves was 11.3%, below the level of previous years because of the merger costs and the capital increases made at the time of the merger of US$ 47.81 million (Ch$26,766 million) and in December of US$ 26.79 million (Ch$15,000 million). Extracting these effects, the estimated return on equity reaches around 18%, with which the Bank would have occupied 6th place in the sector's profitability ranking. This notable performance is largely explained by the results obtained from the management of positions and growth in the personal banking area. Corporate banking, for its part, achieved considerable progress in diversifying its sources of income in order to offset the fall in spreads in the last few years.

RESULTS OF BANCO SECURITY AND SUBSIDIARIES
million US$ as of December 2004 · (source SBIF)

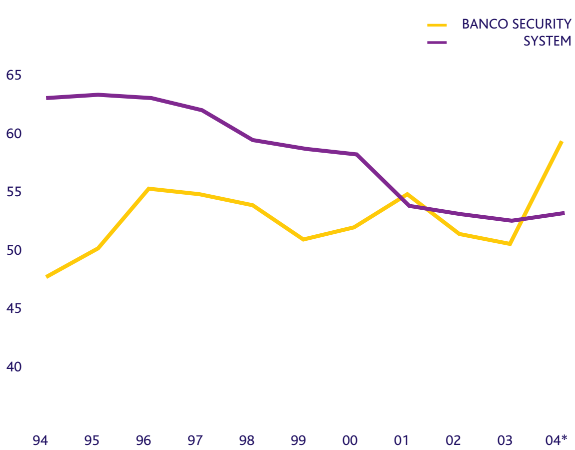


The following were the most notable effects on the operating margin:

- Strong growth in the net result of trading and exchange gains which together represented 13.8% of income before expenses.
- Net commission income grew by a real 32.6% to reach 9.8% of the operating margin (9.0% the year before). The efforts in this respect made in recent years has enabled the Bank to treble revenues from this source and gradually close the gap with the sector average (around 18% of the operating margin), but the Bank still has plenty of scope for further increasing its commission income.

Operating expenses showed strong growth, basically explained by the merger with Dresdner Bank. As mentioned above, it is important to bear in mind that the figures for 2004 included the normal operating expenses of Dresdner Bank and, additionally, the merger itself generated a series of one-off costs. What is important is that the efficiency ratio (operating expenses to operating margin) was 49.5% in September 2004 (prior to the merger), maintaining the positive trend shown in recent years and below the sector average of 52.0% at that date. This trend will be strengthened from 2005 onward as a result of the cost savings and greater economies of scale resulting from the merger with Dresdner Bank and the Bank's efforts will continue in this direction in order to maintain its competitiveness in the face of the larger banks.

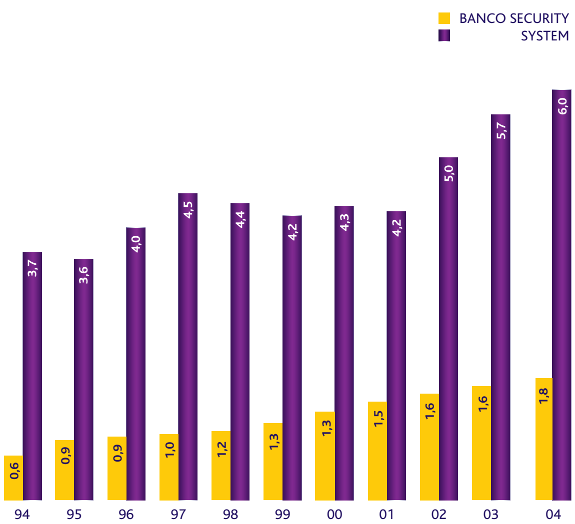
EFFICIENCY (OPERATING EXPENSES / GROSS MARGIN)
% · (source SBIF and Banco Security)



* IT INCLUDES ONE TIME COSTS FROM THE MERGE WITH DRESDNER BANK

Banco Security held its market leadership in terms of productivity in 2004, measured as loans to number of employees, reaching an average of almost US$ 6.07 million (Ch$3,400 million) in loans for each of its 351 employees at December 31, 2004, a higher figure than the year before.

LOANS PER EMPLOYEE
million US$ as of December 2004 · (source SBIF)

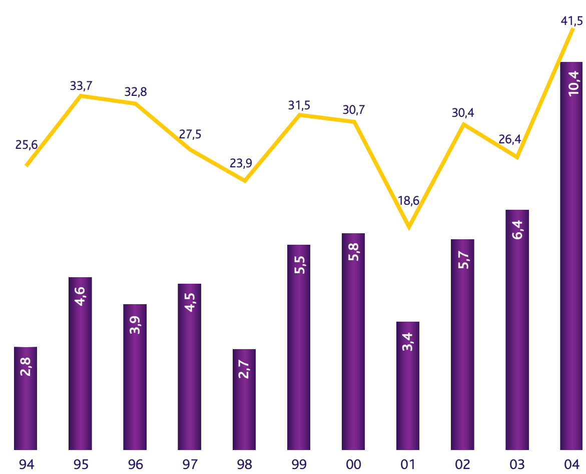


With respect to credit risk, Banco Security continued to be among the banks with the lowest risk in the sector. At December 31, 2004, the overdue portfolio represented just 0.77% of total loans (0.94% in 2003) and is covered 203% by loan loss allowances at that date. However, it should be noted that the Bank reported an important increase in its losses for risk (allowances plus write-offs) which is basically explained by the extraordinary allowances made at the time of the merger in adjusting the portfolio of Dresdner Bank to the risk standards of Banco Security.

The Bank's solvency, measured by the Basle ratio (effective equity to risk-weight assets) showed a strong improvement during 2004 as a result of the merger with Dresdner Bank, whose capital and reserves at September 30, 2004 amounted to US$ 47.81 million (Ch$26,766 million), and the capital increase of US$ 26.79 million (Ch$15,000 million) made in December. The Bank's capital and reserves thus increased by around 50% in real terms and its Basle ratio at the year-end resulted at 12.3% (against 11.2% in 2003). It is therefore in a very comfortable position with respect to the 10% level demanded by local regulations for classification as a first-category bank.

The results of the subsidiaries Valores Security Corredores de Bolsa and Administradora General de Fondos Security, as has been the case in recent years, made very important contributions to the Bank's results. The equity in income of related companies amounted US$ 10.41 million (Ch$5,826 million), a 61.3% increase over the year before and representing 41.5% of the Bank's consolidated net income (26.4% in 2003).

INCOME FROM SUBSIDIARIES
million US$ as of December 2004 · (source SBIF)
% of consolidated income



subsidiaries

VALORES SECURITY S. A., CORREDORES DE BOLSA

DIRECTORS

- **Chairman:**
  Ramón Eluchans O.

- **Directors:**
  Bonifacio Bilbao H.
  Javier Gómez C.
  Enrique Menchaca O.
  Luis Montalva R.

MANAGEMENT

- **President:**
  Nicolás Ugarte B.
- **Chief Operations Officer:**
  Juan Adell S.
- **Investments Assistant Manager:**
  Cristián Pinto M.

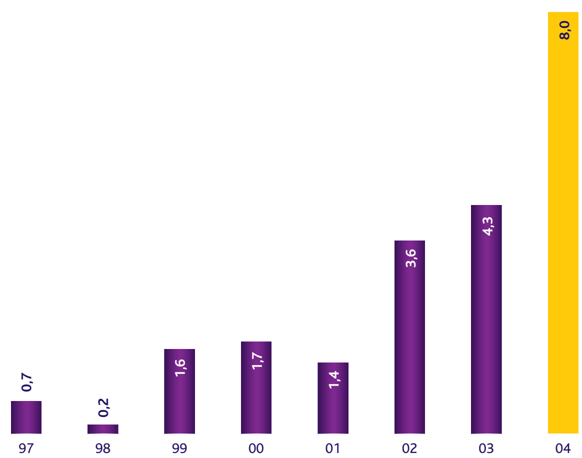
Valores Security S.A., Corredores de Bolsa was formed in 1987 by Security Pacific National Bank as a stock-broking firm. It was sold to Banco Security in 1991 and changed its name to its present one. With the passing of time and mainly motivated by the fluctuations that have characterized the Chilean stock market, the company started to look for new business opportunities in order to diversify its revenue sources. Now the stock trading represents just 8.4% of its total revenues.

Valores Security currently divides its activities into two business areas: fixed income and variable income. The first relates mainly to managing the company's own positions, trading in financial securities, foreign exchange dealing and US dollar futures contracts. Variable-income securities transactions relate basically to the company's original business of stock broking.

On October 1, 2004, Valores Security S.A. Corredores de Bolsa was merged with Dresdner Lateinamerika S.A. Corredores de Bolsa, the former absorbing all the latter's assets and liabilities.

During 2004, Valores Security S.A. Corredores de Bolsa produced a net income of US$ 8.04 million (Ch$4,501 million), with a spectacular real 82.9% increase over the year before. This result includes the net income of US$ 0.57 million (Ch$320 million) of Dresdner Lateinamerika S.A. Corredores de Bolsa between January and September 2004. The return on equity for 2004 therefore reached 45.4% and its contribution to the net income of Banco Security reached almost 30%.

NET INCOME VALORES SECURITY
million US$ as of December 2004 · (source SBIF)



In terms of share in the variable income market, the company in 2004 achieved an average of 1.52% of the trading volume on the Santiago Stock Exchange and Chilean Electronic Exchange, on which it trades, which compares favorably with the 1.14% achieved in 2003.

subsidiaries

ADMINISTRADORA GENERAL DE FONDOS SECURITY S.A.

DIRECTORS

- **Chairman:**
  Francisco Silva S.

- **Directors:**
  Carlos Budge C.
  Felipe Larraín M.
  Renato Peñafiel M.
  Gonzalo Ruiz U.

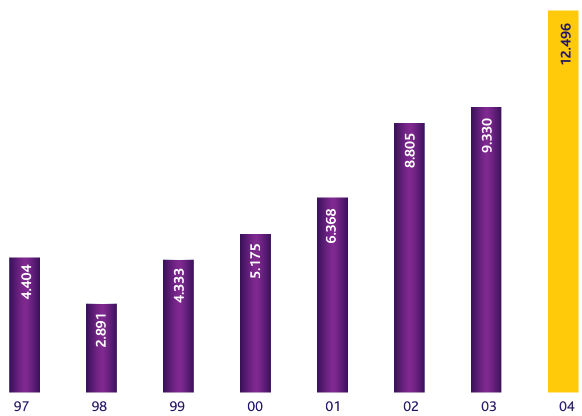
MANAGEMENT

- **President:**
  Alfredo Reyes V.
- **Chief Commercial Officer:**
  Juan Pablo Lira T.
- **Investment Assistant Manager:**
  Rodrigo Fuenzalida B.

The mutual funds industry is highly competitive, with 19 participants in December 2004 of which 13 are subsidiaries of or related to banks. The 4 largest firms manage 65.2% of total funds.

2004 was a very dynamic year as, according to preliminary figures at December 2004, the total funds managed by the industry reached US$ 12,496.40 million (Ch$6,995,859 million), with a total of 557,011 investors. This represents real growth of 41.5% in terms of funds managed and 31.5% in terms of number of investors. These excellent industry results were mainly due to the good performance of the stock market and improved economic prospects.

FUNDS MANAGED BY THE INDUSTRY
million US$ as of December 2004
(source Administradora General de Fondos Security)



Administradora General de Fondos Security S.A. was formed in 1992 as a mutual funds management company and a subsidiary of Banco Security; its business was broadened in September 2003 and its name changed to its present one. From the start, it has grown consistently in terms of number of funds managed, assets managed and number of investors. By the close of 2004, funds managed were US$ 525.61 million (Ch$294,250 million), with real growth of 51.2% and a market share of 4.25%; the number of investors reached 11,781, i.e. 12.7% more than the year before.

The funds themselves and assets managed at December 31, 2004 were:

- **"Security Check"**, a short-term fixed-income fund focused on medium and large-sized companies, with an equity of US$ 53.24 million (Ch$29,806 million) at December 31, 2004,
- **"Security First"**, a medium and long-term fixed-income fund, with an equity of US$ 59.53 million (Ch$33,325 million) at December 31, 2004,
- **"Security Premium"**, a short-term fixed-income fund mainly focused on individuals and small businesses,

with an equity of US$ 6.11 million (Ch$3,421 million) at December 31, 2004,

- **"Security Acciones",** a variable-income fund (with A and B series), with an equity of US$ 38.13 million (Ch$21,348 million) at December 31, 2004,
- **"Security Global Investment",** fund authorized to invest all its assets abroad (also with A and B series), with an equity of US$ 2.96 million (Ch$1,659 million) at December 31, 2004,
- **"Security Gold",** fixed-income fund focused on individuals with a medium and long-term investment horizon, with an equity of US$ 124.35 million (Ch$69,617 million) at December 31, 2004,
- **"Security Explorer",** an international variable-income fund, with an equity of US$ 1.34 million (Ch$749 million) at December 31, 2004,
- **"Security Plus",** short-term fund focused on companies and individuals, with an equity of US$ 116.05 million (Ch$64,971 million) at December 31, 2004,
- **"Security Dólar Bond",** fund invests mainly in Chilean and foreign long-term corporate bonds, with an equity of US$ 36.97 million (Ch$20,697 million) at December 31, 2004,
- **"Security Value",** national medium and long-term fixed-income fund directed to companies and individuals, with an equity of US$ 86.91 million (Ch$48,657 million) at December 31, 2004.

The year 2004 was also an excellent one for Administradora General de Fondos Security as its net income rose to US$ 2.93 million (Ch$1,640 million), a real increase of 42.2% compared to the previous year and a return on equity of 36.9%.

Regarding the company's participation in APV (Voluntary Pension Savings), the mutual funds industry at September 2004 was managing a total of US$ 84.40 million (Ch$47,251 million) of which 12.8% corresponded to Administradora General de Fondos Security S.A.

ADMINISTRADORA GENERAL DE FONDOS DE SECURITY S.A.

million US$ as of December 2004

	1997	1998	1999	2000	2001	2002	2003	2004
Industry	4.404,1	2.891,1	4.333,5	5.175,9	6.368,2	8.805,2	9.330,8	12.496,4
Administradora General de Fondos Security	111,0	106,4	175,3	183,2	213,1	431,6	347,1	525,6
Market Share	2,5%	3,7%	4,0%	3,5%	3,3%	4,9%	3,7%	4,2%

07

BANCO SECURITY

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financial statements

financial statements

7.1

BANCO SECURITY

annual report 2004

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ThCh$: Thousands of Chilean pesos
MCh$: Millions of Chilean pesos
UF: Unidad de Fomento (an official inflation-indexed monetary unit)
US$: United States dollars
ThUS$: Thousands of US dollars

Deloitte.

Deloitte & Touche
Sociedad de Auditores y Consultores Ltda.
RUT: 80.276.200-3
Av. Providencia 1760
Pisos 6, 7, 8 y 9
Providencia, Santiago, Chile
Fono: (56-2) 270 3000
Fax: (56-2) 374 9177
e-mail: deloittechile@deloitte.com
www.deloitte.cl

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Banco Security:

We have audited the balance sheets of Banco Security as of December 31, 2004 and 2003, and the related statements of income and of cash flows for the years then ended. These financial statements (including the related notes) are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

The present financial statements have been prepared to reflect the stand-alone 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 5 to the financial statements. Therefore, in order for these stand-alone financial statements to be fully 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 stand-alone financial statements present fairly, in all material respects, the financial position of Banco Security at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended , in conformity with the basis of accounting described in Note 1 to the financial statements.

As explained in Note 2, as of January 1, 2004, the Bank amended the criteria for calculating provisions for loan losses. In addition, the presentation in the income statements of provisions established and results from setting up and releasing provisions for loan losses was modified.

As explained in Note 3 to the financial statements, on October 1, 2004, the Bank merged with Dresdner Bank Lateinamerika.

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

Deloitte.

January 12, 2005

Juan Carlos Cabrol Bagnara

unconsolidated financial statements

BALANCE SHEETS

as of December 31, 2004 and 2003 (in millions of chilean pesos · MCh$)

ASSETS	2004 MCh$	2003 MCh$
LIQUID ASSET	129.626,2	87.103,8
LOANS:		
Commercial	716.718,6	635.210,3
Foreign trade	128.234,0	79.627,8
Consumer	19.668,6	7.448,3
Mortgage	95.208,1	99.110,6
Leasing contracts	82.785,2	64.203,5
Contingent	69.807,2	45.638,3
Other outstanding loans	61.097,1	44.709,0
Past-due	9.140,5	9.264,8
TOTAL LOANS	1.182.659,3	985.212,6
Less: allowance for loan losses	(18.560,1)	(12.259,8)
TOTAL LOANS-NET	1.164.099,2	972.952,8
OTHER LOAN OPERATIONS:		
Loans to financial institutions	4.946,5	-
Securities trading	7.749,8	904,4
TOTAL OTHER LOAN OPERATIONS	12.696,3	904,4
INVESTMENTS:		
Chilean Central Bank and Treasury Securities	21.069,1	357,3
Other financial investments	191.384,9	97.871,1
Trading securities	2.886,3	11.650,4
Assets for leasing	4.303,6	5.566,8
Assets received in settlement or adjudication	4.207,2	3.638,8
TOTAL INVESTMENTS	223.851,1	119.084,4
OTHER ASSETS	34.585,1	16.250,1
FIXED ASSETS:		
Premises and equipment	20.902,0	15.011,9
Investment in related companies	20.601,9	12.919,3
TOTAL FIXED ASSETS	41.503,9	27.931,2
TOTAL ASSETS	**1.606.361,8**	**1.224.226,7**

The accompanying notes are an integral part of these financial statements

unconsolidated financial statements

BALANCE SHEETS

as of December 31, 2004 and 2003 (in millions of chilean pesos · MCh$)

	2004	2003
LIABILITIES AND SHAREOLDERS' EQUITY	**MCh$**	**MCh$**
LIABILITIES		
DEPOSITS AND OTHER OBLIGATIONS:		
Checking accounts	83.234,9	59.299,5
Time and demand deposits	911.194,4	682.299,5
Other demand and term liabilities	64.980,7	46.017,0
Liabilities arising from trading securities	2.905,6	11.180,8
Mortgage notes	102.477,6	103.152,1
Contingent liabilities	71.162,3	46.157,5
TOTAL DEPOSITS AND OTHER LIABILITIES	1.235.955,5	948.106,4
BONDS:		
Ordinary bonds	8.580,7	9.726,3
Subordinated bonds	36.100,1	36.708,4
TOTAL BONDS	44.680,8	46.434,7
BORROWINGS FROM FINANCIAL INSTITUTIONS AND CHILEAN CENTRAL BANK:		
Other obligations with Chilean Central Bank	231,3	457,8
Domestic borrowings	1.411,1	3.187,1
Foreign borrowings	139.924,8	94.959,3
Other borrowings	14.917,0	21.271,9
TOTAL BORROWINGS FROM FINANCIAL INSTITUTIONS	156.484,2	119.876,1
OTHER LIABILITIES	31.213,4	13.529,4
TOTAL LIABILITIES	1.468.333,9	1.127.946,6
NET SHAREHOLDERS' EQUITY:		
Capital and reserves	121.582,5	79.735,3
Other equity accounts	2.421,6	2.885,6
Net income for the year	14.023,8	13.659,2
TOTAL SHAREHOLDERS' EQUITY-NET	138.027,9	96.280,1
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1.606.361,8**	**1.224.226,7**

The accompanying notes are an integral part of these financial statements

unconsolidated financial statements

STATEMENTS OF INCOME

for the years ended December 31, 2004 and 2003 (in millions of chilean pesos · MCh$)

	2004	2003
OPERATING REVENUES	MCh$	MCh$
IInterest and indexation income	78.525,6	58.262,6
Gains from trading securities	5.980,0	1.941,4
Commission income	5.222,8	3.890,0
Exchange income-net	4.098,3	5.398,0
Other operating income	2.940,0	1.398,0
TOTAL OPERATING REVENUE	96.766,	7 70.890,0
LESS:		
Interest and indexation expense	(41.136,2)	(27.643,5)
Loss from trading securities	(3.207,0)	(896,0)
Commission expenses	(367,7)	(229,0)
Other operating expenses	(2.425,1)	(1.328,9)
OPERATING MARGIN	49.630,7	40.792,6
Remuneration and personnel expenses	(14.466,7)	(9.181,5)
Administrative and other expenses	(11.621,0)	(9.494,5)
Depreciation and amortization	(3.236,9)	(2.164,4)
NET OPERATING MARGIN	20.306,1	19.952,2
Provisions for assets at risk	(9.524,6)	(6.337,5)
OPERATING INCOME	10.781,5	13.614,7
OTHER INCOME (EXPENSES)		
Non-operating income	1.266,1	1.218,2
Non-operating expenses	(608,1)	(1.648,3)
Equity in income of related companies	5.826,3	3.612,4
Monetary correction	(1.516,7)	(515,3)
INCOME BEFORE INCOME TAXES	15.749,1	16.281,7
INCOME TAXES	(1.725,3)	(2.622,5)
NET INCOME FOR THE YEAR	**14.023,8**	**13.659,2**

The accompanying notes are an integral part of these financial statements

unconsolidated financial statements

STATEMENTS OF CASH FLOWS

for the years ended December 31, 2004 and 2003 (in millions of chilean pesos · MCh$)

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES	MCh$	MCh$
Net income for the year	14.023,8	13.659,2
CHARGES (CREDITS) TO INCOME THAT DO NOT REPRESENT CASH FLOWS		
Depreciation and amortization	3.236,9	2.164,4
Provisions for assets at risk	9.524,6	6.337,5
Equity in income of related companies	(5.826,3)	(3.612,4)
Monetary correction	1.516,7	515,3
Other credits to income that do not represent cash flows	(499,5)	(637,9)
Net change in interest, indexation and commissions		
accrued on assets and liabilities	2.974,7	1.808,6
NET CASH PROVIDED BY OPERATING ACTIVITIES	24.950,9	20.234,7
CASH FLOWS FROM INVESTING ACTIVITIES		
CHANGES IN ASSETS AFFECTING CASH FLOWS		
Net increase in loans	(180.621,3)	(112.873,7)
Net (increase) decrease in other loan operations	(5.009,8)	3.656,1
(Increase) decrease in investments	(111.322,5)	29.200,0
Decrease (increase) in leased assets	1.263,2	(3.008,4)
Purchase of fixed assets	(9.129,0)	(4.951,1)
Purchase of investments in related companies	(1.855,2)	-
Sale of assets received in settlement of loans	1.231,9	2.288,6
Net decrease (increase) in other assets and liabilities	5.706,3	(12.885,1)
NET CASH USED IN INVESTING ACTIVITIES	(299.736,4)	(98.573,6)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in checking accounts	24.241,8	6.868,5
Increase in time and demand deposits	224.258,9	36.426,6
Increase (decrease) in other term and demand liabilities	19.206,4	(29.961,6)
(Decrease) increase in other liabilities arising from trading activities	(8.096,6)	7.773,5
Increase in short-term foreign borrowings	11.642,9	3.188,6
(Decrease) increase in mortgages notes issued	(683,1)	49.118,5
Bonds issued	-	(1.755,1)
Long-term bank loans obtained	36.243,6	-
Increase in other short-term liabilities	7.597,5	5.665,1
Issue of paid-up shares	14.989,8	-
Dividends paid	(13.725,9)	(9.288,2)
NET CASH PROVIDED BY FINANCING ACTIVITIES	315.675,3	68.035,9
NET POSITIVE (NEGATIVE) CASH FLOW FOR THE YEAR	40.889,8	(10.303,0)
Effect of inflation on cash and cash equivalents	1.632,6	523,4
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE YEAR	42.522,4	(9.779,6)
Cash and cash equivalents at beginning of year	87.103,8	96.883,4
CASH AND CASH EQUIVALENTS AT END OF YEAR	**129.626,2**	**87.103,8**

The accompanying notes are an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Information provided

The financial statements have been prepared in accordance with accounting regulations issued by the Superintendence of Banks and Financial Institutions (hereinafter, the Superintendence). Such regulations concur with generally accepted accounting principles in Chile, except for the investments in subsidiaries, which are recorded in one line on the balance sheet using the equity method of accounting, and therefore have not been consolidated on a line by line basis. This treatment does not modify the net income for the year or the shareholders' equity.

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

The 2003 Chilean peso amounts have been price level restated for changes in the Consumer Price Index (CPI) used for monetary correction (2.5%).

b. Interest and indexation

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

c. Monetary correction

Shareholders' equity, fixed assets, and other non-monetary assets and liabilities have been monetarily corrected on the basis of variations in the Chilean Consumer Price Index (CPI). The applications of monetary correction resulted in a net charge to income of MCh$1,516.7 in 2004 (MCh$515.3 in 2003).

The income statements of the Bank are not monetarily corrected.

d. Foreign Currency

Assets and liabilities denominated in foreign currency are stated in Chilean pesos at the exchange rate prevailing at year-end (Ch$559.83 per US$1 in 2004 and Ch$599.42 per US$1 in 2003).

The net gain from exchange loss and income of MCh$4,098.3 (MCh$5,398.0 in 2003) shown in the income statement includes the net gains and losses on foreign exchange transactions, as well as the recognition of the effects of exchange rate variations on net assets or liabilities denominated in foreign currency.

e. Conversion - Assets and liabilities denominated in Unidades de Fomento (inflation index-linked units of account) are stated at the following year-end rates: $17,315.38 in 2004 and $16,920.00 in 2003.

f. Financial investments

The financial investments that are traded in the secondary market are stated at market value, in accordance with instructions of the Superintendence. These instructions call for recognition of 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" in the shareholders' equity accounts.

The application of the adjustment to permanent portfolio resulted in a net charge of MCh$393.6 (a net credit of MCh$939.7 in 2003) to equity.

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

g. Premises and equipment

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

h. Investments in related companies

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

i. Allowances for assets at risk

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

j. Deferred taxes

The effects of deferred taxes arising from temporary differences between the tax and the book basis are recorded on an accrual basis in conformity with Technical Bulletin N° 60 of the Chilean Institute of Certified Public Accountants and its supplements, and the Superintendence's instructions.

k. Employee vacation

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

l. Cash and cash equivalents

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

2. ACCOUNTING CHANGES

As stipulated in Circulars 3.189 and 3.246 of the Superintendence of Banks and Financial Institutions, as of January 1, 2004, the criteria for calculating provisions for loan losses were amended. Said circulars represent a substantial change since they stipulate that provisions must be set up by applying models and methods of evaluation developed by the institutions themselves, which must be approved by the Bank's Board of Directors.

At December 31, 2004, application of this criterion has no significant effect on the Bank's income.

As stipulated in Circular 3.246 of the Superintendence of Banks and Financial Institutions, starting in 2004, provisions for assets at risk are presented net of income from recovery of written-off credits. This income was reclassified in the 2003 income statement for comparative purposes.

3. RELEVANT EVENTS

Merger - The Extraordinary Shareholders' meeting held on August 27, 2004, approved the absorption through merger of Dresdner Bank Lateinamerika with Banco Security, which acquired all of the formers' assets and liabilities and including all its rights and obligations. The merger was authorized by the Superintendence of Banks and Financial Institutions in Resolution No. 128 dated September 21, 2004 and it was effective October 1, 2004. For comparative purposes, the statements of income and cash flows of both Banks were merged from January 1, 2004.
In conformity with the agreement adopted during this Meeting, the Bank proceeded to increase the capital by MCh$26,477.4, through the issue of 29,071,336 no-par value shares of a single series with the purpose of exchanging and distributing said new shares to the shareholders of the 150,000,000 shares of Dresdner Bank Lateinamerika.
Capital increase - The Extraordinary General Shareholders' Meeting held on December 29, 2004, agreed to an increase the Bank's capital of MCh$30,000.0 through the issue of 32,880,563 shares. At December 31, 2004, there are 16,429,155 subscribed and paid-in shares equivalent to MCh$14,989.8.

4. TRANSACTIONS WITH RELATED PARTIES

In accordance with the General Banking Law in Chile and the Superintendence'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, 2004 and 2003, loans to related parties are as follows:

	Current portfolio		Past due portfolio		Total		Collateral (*)	
	2004 MCh$	2003 MCh$	2004 MCh$	2003 MCh$	2004 MCh$	2003 MCh$	2004 MCh$	2003 MCh$
Operating companies	34.879,9	29.657,8	-	-	34.879,9	29.657,8	30.031,9	17.214,9
Investment companies	15.085,4	17.819,6	-	-	15.085,4	17.819,6	4.804,7	4.566,7
Individuals (**)	3.387,4	3.812,3	-	-	3.387,4	3.812,3	1.679,7	3.299,7
TOTALS	53.352,7	51.289,7	-	-	53.352,7	51.289,7	36.516,3	25.081,3

(*) 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 Superintendence's instructions.
(**) Loans to individuals include only those debts equal to or greater than the equivalent of UF3,000. The UF is an accounting unit that is indexed to the changes in the Consumer Price Index.

b. Other transactions with related parties
During 2004 and 2003, the Bank entered into the following transactions in excess of UF1,000 with related parties:

		Credit to income		Debit to income	
Company	Description	2004 MCh$	2003 MCh$	2004 MCh$	2003 MCh$
Inversiones Invest Security Ltda.	Advisory services	-	-	1.003,9	700,4
Seguros de Vida Security Previsión S.A.	Office rentals	22,8	20,5	-	-
Penta Security Compañía de Seguro General S.A. (former Seguros Security Previsión Generales S.A.)	Office rentals	14,8	10,4	-	-
Asesorías Security S.A.	Advisory services	-	-	350,0	-
Global Mandato Security S.A.	Advisory services	-	-	703,5	534,7
Virtual Security S.A.	Advisory services	-	-	1.423,4	1.721,1
Inmobiliaria Security S.A.	Advisory services	-	-	195,4	185,0
	Loans	122,3	143,5	-	-
Factoring Security S.A.	Advisory services	-	-	-	34,4

The Bank has a balance and progress payment for MCh$1,256.7 (MCh$4,925.3 in 2003) payable to Inmobiliaria Security S.A., falling due in 2005.
The Bank has paid MCh$9,446.2 (MCh$4,138.0 in 2003) Inmobiliaria Security Once Limitada as advances for fixed assets.
These transactions were carried out on prevailing market terms.

5. INVESTMENTS IN RELATED COMPANIES

Participation in the companies - In the balance sheets, there are investments in affiliates for MCh$20,601.9 (MCh$12,919.3 in 2003), the detail of which is as follows:

Company	Ownership interest		Equity		Investment value		Income	
	2004 %	2003 %	2004 MCh$	2003 MCh$	2004 MCh$	2003 MCh$	2004 MCh$	2003 MCh$
Valores Security S.A. Corredores de Bolsa [1]	99,900	99,900	14.414,8	8.403,8	14.400,4	8.395,4	4.186,4	2.458,8
Administradora General de Fondos Security S.A.	99,990	99,990	6.085,0	4.444,9	6.084,4	4.444,5	1.639,9	1.153,6
Subtotal					20.484,8	12.839,9	5.826,3	3.612,4
Shares and rights in other companies					117,1	79,4	-	-
TOTAL					20.601,9	12.919,3	5.826,3	3.612,4

[1] The Extraordinary Shareholders' meeting held on August 27, 2004, approved the absorption through merger of Dresdner Latinamerika S.A. Stockbrokers with Valores Security S.A. Stockbrokers. The result of the merged Bank was recognized as pre-adquisition income and recorded in the investment account, and therefore equity in income, mentioned in this note corresponds to the period between October 1 and December 31, 2004.

6. ALLOWANCES

Allowances for assets at risk - At December 31, 2004, the Bank has recorded allowances for MCh$20,572.9 (MCh$12,698.5 in 2003) which correspond to the minimum allowances required by the Superintendence to cover possible losses.

During each year, the changes in the allowances are as follows:

	Allowances for			
	Loans MCh$	Assets received in settlement MCh$	Other assets MCh$	Total MCh$
Historical balances, December 31, 2002	10.605,2	-	192,0	10.797,2
Provisions applied	(4.959,6)	-	-	(4.959,6)
Provisions established	6.315,2	-	236,0	6.551,2
Balances, December 31, 2003	11.960,8	-	428,0	12.388,8
Updated balances for comparative purposes	12.259,8	-	438,7	12.698,5
Historical balances, December 31, 2003	11.960,8	-	428,0	12.388,8
Provisions from merger	7.143,9	-	-	7.143,9
Provisions applied	(8.484,4)	-	-	(8.484,4)
Provisions released	(2.080,0)	-	-	(2.080,0)
Provisions established	10.019,8	212,8	1.372,0	11.604,6
Balances, December 31, 2004	18.560,1	212,8	1.800,0	20.572,9

In the opinion of the Bank's Board, the allowances established cover all possible losses that might result from non-recovery of assets, based on the information examined by the Bank.

7. SHAREHOLDERS' EQUITY

a. Equity

Changes in capital and reserves for the years ended December 31, 2004 and 2003 are as follows:

	Paid-in capital	Other reserves	Otrher accounts	Net income for the year	Total
	MCh$	MCh$	MCh$	MCh$	MCh$
Historical balances, December 31, 2002	58.053,3	17.987,1	1.875,5	10.068,6	87.984,5
Distribution of 2002 income	-	10.068,6	-	(10.068,6)	-
Dividends paid	-	(9.061,7)	-	-	(9.061,7)
Fluctuation in value of financial investments	-	-	939,7	-	939,7
Monetary correction of capital	588,8	154,4	-	-	743,2
Net income for the year	-	-	-	13.326,1	13.326,1
Balances, December 31, 2003	58.642,1	19.148,4	2.815,2	13.326,1	93.931,8
Updated balances for comparative purposes	60.108,2	19.627,1	2.885,6	13.659,2	96.280,1
Historical balances, December 31, 2003	58.642,1	19.148,4	2.815,2	13.326,1	93.931,8
Distribution of 2003 income	-	13.326,1	-	(13.326,1)	-
Dividends paid	-	(13.326,1)	-	-	(13.326,1)
Fluctuation in value of financial investments	-	-	(393,6)	-	(393,6)
Capital increase as a result of the merger	20.130,6	6.139,3	-	- 2	6.269,9
Capital increase	14.989,8	-	-	-	14.989,8
Monetary correction of capital	1.895,9	636,4	-	-	2.532,3
Net income for the year	-	-	-	14.023,8	14.023,8
Balances, December 31, 2004	95.658,4	25.924,1	2.421,6	14.023,8	138.027,9

· **Subscribed and paid-in shares -** The Bank's authorized capital is divided into 152,193,531 shares, of which 135,753,250 are fully subscribed and paid.

· **Merger -** The Extraordinary Shareholders' meeting held on August 27, 2004 approved the absorption through merger of Dresdner Bank Latineamerika S.A., which increased the paid-in capital by MCh$19,958.4. This absorption through was authorized by the Superintendence in Resolution No. 128 dated September 21, 2004.

· **Capital increase -** The Extraordinary General Shareholders' Meeting held on December 29, 2004, agreed to increase the Bank's capital by MCh$30,000.0 through merger the issue of 32,880,563 shares. At December 31, 2004, 16,429,155 shares have been subscribed and paid-in, equivalent to MCh$14,989.8.

During February 2004 and 2003, 100% and 90% of net profits from 2003 and 2002 amounting to MCh$13,326.1 and MCh$10,068.6 (historical), respectively, were distributed.

b. Minimum basic capital and effective equity

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

	At December 31, 2004	At December 31, 2003
	MCh$	MCh$
Basic capital (*)	124.004,1	82.620,9
Total assets	1.662.116,0	1.271.658,1
Percentages	7,46%	6,50%
Effective equity (**)	160.227,6	115.394,5
Risk weighted assets	1.306.659,2	1.032.804,4
Percentages	12,26%	11,17%

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

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

8. INVESTMENTS

At December 31, 2004 and 2003, the Bank had the following balances included under investments:

a. Financial Investments

	Type of portfolio						Adjustment to market value					
	Permanent (**)		Non Permanent		Subtotal		Credit (charge) to income		Credit (charge) to equity		Total	
	2004 MCh$	2003 MCh$	2004 MCh$	2003 MCh$	2004 MCh$	2003 MCh$	2004 MCh$	2003 MCh$	2004 MCh$	2003 MCh$	2004 MCh$	2003 MCh$
Securities (*)												
Chilean Central Bank	1.843,2	154,0	21.061,5	11.376,8	22.904,7	11.530,8	(23,0)	257,5	(12,9)	7,1	22.868,8	11.795,4
Chilean Treasury or other Government Entities	-	-	462,9	-	462,9	-	1,1	-	-	-	464,0	-
Chilean financial institutions	9.832,0	8.045,8	78.771,6	46.983,7	88.603,6	55.029,5	1.054,5	553,4	189,4	262,3	89.847,5	55.845,2
Other investments in Chile	18.185,7	3.471,7	47.249,0	8.403,4	65.434,7	11.875,1	100,7	287,1	797,9	60,7	66.333,3	12.222,9
Investments abroad	13.057,5	20.412,5	13.975,5	2.878,5	27.033,0	23.291,0	1.539,9	339,5	1.447,2	2.555,5	30.020,1	26.186,0
Mortgage notes issued	-	-	5.616,7	3.790,8	5.616,7	3.790,8	189,9	38,6	-	-	5.806,6	3.829,4
TOTAL	42.918,4	32.084,0	167.137,2	73.433,2	210.055,6	105.517,2	2.863,1	1.476,1	2.421,6	2.885,6	215.340,3	109.878,9

(*) Classification according to issuers or those obliged to pay. The abovementioned amounts include MCh$2,886.3 (MCh$11,650.4 in 2003) for securities sold under repurchase agreements.

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

b. Other Investments

	2004 MCh$	2003 MCh$
Assets for leasing	4.303,6	5.566,8
Assets received in settlement or adjudication (*)	4.207,2	3.638,8
TOTALS	8.510,8	9.205,6

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

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

9. MATURITIES OF ASSETS AND LIABILITIES

a. Maturities of loans and financial investments

The following is a breakdown of loans and financial investments at December 31, 2004 and 2003, classified through their maturity. Balances include accrued interest at each year-end.

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	Due within one year		More than 1 year up to 3 years		More than 3 years up to 6 years		More than 6 years		Total	
	2004 MCh$	2003 MCh$	2004 MCh$	2003 MCh$	2004 MCh$	2003 MCh$	2004 MCh$	2003 MCh$	2004 MCh$	2003 MCh$
Loans (1):										
Commercial and others	582.738,7	485.460,0	95.860,8	94.402,1	130.450,2	110.586,7	177.044,4	131.267,3	986.094,1	821.716,1
Mortgage	39,6	-	278,6	225,8	2.526,7	2.170,2	92.363,2	96.714,6	95.208,1	99.110,6
Consumer	10.347,3	2.074,0	5.019,6	3.452,1	3.432,0	1.059,4	869,7	862,7	19.668,6	7.448,2
Other lending operations:										
Loans to other financial institutions	4.946,5	-	-	-	-	-	-	-	4.946,5	-
Credits arising from trading securities	7.749,8	904,4	-	-	-	-	-	-	7.749,8	904,4
Financial investments:										
Permanent portfolio (2)	2.108,8	395,8	3.112,6	10.852,7	11.774,3	2.632,2	25.922,7	18.203,3	42.918,4	32.084,0
Non-permanent portfolio (3)	170.000,3	74.909,3	-	-	-	-	-	-	170.000,3	74.909,3

(1) Considers only those loans outstanding at year-end that fall due within the indicated periods. Consequently, contingent loans and loans transferred to the past-due portfolio, as well as delinquent debts that have not been transferred to the past-due portfolio amounting to MCh$2,740.8 (MCh$2,034.6 in 2003), of which MCh$1,251.4 (MCh$713.6 in 2003) have been delinquent less than 30 days, have been excluded.

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

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

b. Maturities of deposits, borrowings and other financing operations

The information detailed below shows deposits, borrowings and other liabilities through their maturity. Balances include interest accrued at each year-end.

	Due within one year		Over 1 year up to 3 years		Over 3 years up to 6 years		Over 6 years		Total	
	2004 MCh$	2003 MCh$	2004 MCh$	2003 MCh$	2004 MCh$	2003 MCh$	2004 MCh$	2003 MCh$	2004 MCh$	2003 MCh$
Deposits and other liabilities (*):										
Time and demand deposits	871.809,2	635.547,4	38.838,8	38.776,7	546,4	7.975,4	-	-	911.194,4	682.299,5
Liabilities arising from trading securities	2.905,6	11.180,8	-	-	-	-	-	-	2.905,6	11.180,8
Mortgage notes	539,4	-	310,3	230,0	2.828,3	2.175,6	98.799,6	100.746,5	102.477,6	103.152,1
Obligations for bonds issued	-	1.194,5	501,1	811,1	1.614,8	2.017,2	42.564,9	42.411,9	44.680,8	46.434,7
Loans from financial institutions and Chilean Central Bank:										
Other obligations with the Chilean Central Bank	231,3	457,8	-	-	-	-	-	-	231,3	457,8
Loans from local financial institutions	1.411,1	3.187,1	-	-	-	-	-	-	1.411,1	3.187,1
Obligations abroad	128.977,0	94.959,3	10.947,8	-	-	-	-	-	139.924,8	94.959,3
Other obligations	2.738,0	798,5	1.546,5	1.890,2	5.783,2	8.705,2	4.849,3	9.878,0	14.917,0	21.271,9

(*) Excludes all sight and contingent obligations.

10. FOREIGN CURRENCY POSITION

The balance sheets include assets and liabilities that are denominated in foreign currencies or are indexed fluctuations in exchange rates. These amounts are summarized below:

	Payable in					
	Foreing currency		Chilean currency (*)		Total	
	2004 ThUS$	2003 ThUS$	2004 ThUS$	2003 ThUS$	2004 ThUS$	2003 ThUS$
ASSETS						
Liquid assets (*)	127.238	26.030	-	-	127.238	26.030
Loans	260.956	147.406	29.081	19.128	290.037	166.534
Contingent loans	46.752	23.415	4.408	1.587	51.160	25.003
Financial investments:						
Foreign	48.287	42.620	-	-	48.287	42.620
Other assets	371.619	139.570	11.701	17.447	383.320	157.017
TOTAL ASSETS	854.852	379.042	45.190	38.162	900.042	417.204
LIABILITIES						
Demand deposits	18.512	19.504	-	-	18.512	19.504
Contingent liabilities	49.319	24.351	3.698	1.586	53.017	25.937
Time deposits	167.905	109.630	-	-	167.905	109.630
Liabilities with foreign banks	249.895	154.551	-	-	249.895	154.551
Other liabilities	389.722	92.317	8.077	9.535	397.799	101.852
TOTAL LIABILITIES	875.353	400.353	11.775	11.121	887.128	411.474

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

11. 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:

			Contract amounts			
	Number of operations		Up to 3 mounths		More than 3 mounths	
	2004	2003	2004 ThUS$	2003 ThUS$	2004 ThUS$	2003 ThUS$
Type of future operation						
Local market:						
Purchase of Chilean peso futures	136	59	118.194,1	69.599,9	94.700,7	51.345,6
Sales of Chilean peso futures	254	77	105.515,8	27.803,1	92.305,9	46.950,0
Sales of foreign currency forwards	48	7	48.124,0	3.276,8	2.095,4	634,7
Foreign markets:						
Purchase of foreign currency forwards	45	7	77.544,6	3.299,3	3.701,3	525,8

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

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

			Contract amounts			
	Number of operations		Up to 3 mounths		More than 3 mounths	
	2004	2003	2004 UF	2003 UF	2004 UF	2003 UF
Purchase of UF/Chilean peso forwards	9	5	900.000	1.200.000	1.200.000	200.000
Sale of UF/Chilean peso forwards	18	-	1.400.000	-	3.100.000	-

12. CONTINGENCIES, COMMITMENTS AND RESPONSIBILITIES

Commitments and responsibilities accounted for in memorandum accounts - The Bank has recorded the following balances in memorandum accounts, which are related to commitments or responsibilities related to the business activity:

	2004 MCh$	2003 MCh$
Mortgage and pledge guarantees	771.110,4	644.190,3
Securities and drafts in guarantee	308.689,7	203.839,8
Credit lines obtained	253.399,7	210.458,3
Securities held in custody	224.630,9	451.992,9
Loans approved but not disbursed	79.575,0	55.720,0
Foreign collections	27.176,7	23.752,1

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

13. COMMISSIONS

Commission income and expenses shown in the statements of income are as follows:

	Income		Expenses	
	2004 MCh$	2003 MCh$	2004 MCh$	2003 MCh$
Commissions earned/paid on:				
Collection of documents	718,3	428,9	-	-
Letters of credit, guarantees, securities, and other contingent loans	782,6	514,9	-	-
Credit cards	524,8	356,3	-	-
Lines of credit	165,2	129,8	-	-
Loan commission	1.392,6	1.049,6	-	-
ATM commission	75,6	76,9	226,6	186,0
Current accounts	952,3	621,3	-	-
Branch services	142,9	132,1	-	-
Foreign correspondments	-	-	49,4	-
Other	468,5	580,2	91,7	43,0
TOTALS	5.222,8	3.890,0	367,7	229,0

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

14. NON-OPERATING INCOME

The detail of non-operating income is as follows:

	2004 MCh$	2003 MCh$
Sale of fixed assets	2,5	-
Recovery of expenses	867,3	648,5
Rents received	115,6	82,7
Recovery of written-off assets received in settlement	26,9	122,9
Others	253,8	364,1
TOTAL	1.266,1	1.218,2

15. NON-OPERATING EXPENSES

The detail of non-operating expenses is as follows:

	2004 MCh$	2003 MCh$
Loss on sale of assets received in settlement	303,1	647,0
Write-off of assets received in settlement	156,2	427,2
Loss on assets recovered in leasing	130,2	564,8
Others	18,6	9,3
TOTAL	608,1	1.648,3

16. INCOME TAX

The Bank provided for First Category Income Tax of MCh$2,623.5 in 2004 (MCh$3,019.4 in 2003).

17. DEFERRED TAXES

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

	balance at	
2004 Item	January 1, 2004 (historical) MCh$	December 31, 2004 MCh$
Debit differences:		
Loan portfolio, global provision	1.203,9	2.410,3
Provision for assets recovered	24,6	23,4
Provision for leasing contracts	103,3	139,1
Leased assets tax basis	8.901,8	14.018,5
Adjustment of non-permanent investments to market	119,8	486,7
Written-off assets received in settlement	70,9	169,8
Others	205,3	171,5
Subtotal	10.629,6	17.419,3
Complementary account	(3.608,4)	(3.434,5)
Net difference	7.021,2	13.984,8
Credit differences:		
Lease contracts	(10.648,4)	(16.087,2)
Depreciation of fixed assets	(569,0)	(675,9)
Others	(59,6)	(316,5)
Subtotal	(11.277,0)	(17.079,6)
Complementary account	5.628,0	5.365,2
Net difference	(5.649,0)	(11.714,4)

2003 Item	Balance al January 1, 2003 (historical) MCh$	December 31, 2003 MCh$
Debit differences:		
Loan portfolio, global provision	1.041,2	1.234,0
Provision for assets recovered	28,8	25,2
Provisions for leasing contracts	104,4	105,9
Leased assets tax basis	6.927,3	9.124,3
Adjustment of non-permanent investments to market	137,2	122,8
Written-off assets received in settlement	316,3	72,7
Others	21,0	210,4
Subtotal	8.576,2	10.895,3
Complementary account	(3.807,6)	(3.698,6)
Net difference	4.768,6	7.196,7
Credit differences:		
Lease contracts	(9.245,9)	(10.914,6)
Depreciation of fixed assets	(574,6)	(583,2)
Others	(49,6)	(61,1)
Subtotal	(9.870,1)	(11.558,9)
Complementary account	6.111,1	5.768,7
Net difference	(3.759,0)	(5.790,2)

Tax expense in 2004 and 2003 is as follows:

Concept	2004 MCh$	2003 MCh$
Provision for income tax	(2.623,5)	(3.019,4)
Effect of deferred taxes on assets and liabilities of the year	987,1	630,3
Effect of amortization of deferred tax asset and liability complementary accounts	(88,9)	(233,4)
TOTAL	(1.725,3)	(2.622,5)

18. PURCHASES, SALES, SUBSTITUTIONS OR TRADES IN THE LOAN PORTFOLIO

In 2004 and 2003, the Bank purchased and sold loans as follows:

2004:

Purchase MCh$	Sale MCh$	Effect on income MCh$	Effect on Provisions MCh$
9.940,2	11.189,4	16,1	16,1

2003:

Purchase MCh$	Sale MCh$	Effect on income MCh$	Effect on Provisions MCh$
11.038,8	7.513,7	45,8	-

19. DIRECTORS' EXPENSES AND FEES

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

	2004 MCh$	2003 MCh$
Per diems	98,8	62,2
Advisory fees	428,3	375,2
TOTAL	527,1	437,4

20. SUBSEQUENT EVENTS

During the period between January 1 and 12, 2005, there have been no subsequent events that have had a material impact on these financial statements.

RAMON ELUCHANS O.
President

HORACIO SILVA C.
Accounting Officer

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ThCh$: Thousands of Chilean pesos
MCh$: Millions of Chilean pesos
UF: Unidad de Fomento (an official inflation-indexed monetary unit)
US$: United States dollars
ThUS$: Thousands of US dollars

Deloitte & Touche
Sociedad de Auditores y Consultores Ltda.
RUT: 80.276.200-3
Av. Providencia 1760
Pisos 6, 7, 8 y 9
Providencia, Santiago, Chile
Fono: (56-2) 270 3000
Fax: (56-2) 374 9177
e-mail: deloittechile@deloitte.com
www.deloitte.cl

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Banco Security

We have audited the balance sheets of Banco Security as of December 31, 2004 and 2003, and the related statements of income and of cash flows for the years then ended. These financial statements (including the related notes) are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

The present financial statements have been prepared to reflect the stand-alone 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 5 to the financial statements. Therefore, in order for these stand-alone financial statements to be fully 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 stand-alone financial statements present fairly, in all material respects, the financial position of Banco Security at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended , in conformity with the basis of accounting described in Note 1 to the financial statements.

As explained in Note 2, as of January 1, 2004, the Bank amended the criteria for calculating provisions for loan losses. In addition, the presentation in the income statements of provisions established and results from setting up and releasing provisions for loan losses was modified.

As explained in Note 3 to the financial statements, on October 1, 2004, the Bank merged with Dresdner Bank Lateinamerika.

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

Deloitte.

January 12, 2005

Juan Carlos Cabrol Bagnara

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CONSOLIDATED BALANCE SHEETS

as of December 31, 2004 and 2003 (in millions of chilean pesos · MCh$)

	2004	2003
ASSETS	MCh$	MCh$
LIQUID ASSETS	129.642,7	87.177,9
LOANS		
Commercial	716.579,7	635.210,3
Foreign trade	128.234,0	79.627,8
Consumer	19.668,6	7.448,3
Mortgage	95.208,1	99.110,6
Leasing contracts	82.785,2	64.203,5
Contingent	69.807,2	45.638,3
Other outstanding loans	61.097,1	44.709,0
Past-due	9.140,5	9.264,8
TOTAL LOANS	1.182.520,4	985.212,6
Less: allowance for loan losses	(18.560,1)	(12.259,8)
TOTAL LOANS - NET	1.163.960,3	972.952,8
OTHER LOAN OPERATIONS		
Loans to financial institutions	4.946,5	-
Securities trading	28.820,3	1.304,5
TOTAL OTHER LOAN OPERATIONS	33.766,8	1.304,5
INVESTMENTS:		
Chilean Central Bank and Treasury securities	28.399,7	8.505,3
Other financial investments	225.801,7	106.619,9
Trading securities	15.023,4	50.350,8
Assets for leasing	4.303,6	5.566,8
Assets received in settlement or adjudication	4.207,2	3.638,8
TOTAL INVESTMENTS	277.735,6	174.681,6
OTHER ASSETS	46.014,3	18.740,0
FIXED ASSETS		
Premises and equipment	21.116,5	15.112,9
Investments in companies	450,4	446,2
TOTAL FIXED ASSETS	21.566,9	15.559,1
TOTAL ASSETS	**1.672.686,6**	**1.270.415,9**

The accompanying notes are an integral part of these financial statements

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CONSOLIDATED BALANCE SHEETS

as of December 31, 2004 and 2003 (in millions of chilean pesos · MCh$)

LIABILITIES AND SHAREHOLDERS' EQUITY	2004 MCh$	2003 MCh$
LIABILITIES		
DEPOSITS AND OTHER LIABILITIES		
Checking accounts	82.933,4	59.108,3
Time and demand deposits	911.194,4	682.299,5
Other demand and term liabilities	70.709,2	46.309,2
Liabilities arising from trading securities	44.721,1	54.332,4
Mortgage notes	102.477,6	103.152,1
Contingent liabilities	71.162,3	46.157,5
TOTAL DEPOSITS AND OTHER LIABILITIES	1.283.198,0	991.359,0
BONDS:		
Ordinary bonds	8.580,7	9.726,3
Subordinated bonds	36.100,1	36.708,4
TOTAL BONDS	44.680,8	46.434,7
BORROWINGS FROM FINANCIAL INSTITUTIONS AND CHILEAN CENTRAL BANK:		
Other obligations with Chilean Central Bank	231,3	457,8
Domestic borrowings	13.372,7	3.350,0
Foreign borrowings	139.924,8	94.959,3
Other borrowings	14.927,8	21.944,5
TOTAL BORROWINGS FROM FINANCIAL INSTITUTIONS	168.456,6	120.711,6
OTHER LIABILITIES	38.230,0	15.621,2
TOTAL LIABILITIES	1.534.565,4	1.174.126,5
MINORITY INTEREST	93,3	9,3
SHAREHOLDERS' EQUITY		
Capital and reserves	121.582,5	79.735,2
Other equity accounts	2.421,6	2.885,6
Net income for the year	14.023,8	13.659,3
TOTAL SHAREHOLDERS' EQUITY- NET	138.027,9	96.280,1
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1.672.686,6**	**1.270.415,9**

The accompanying notes are an integral part of these financial statements

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CONSOLIDATED STATEMENTS OF INCOME

for the years ended December 31, 2004 and 2003 (in millions of chilean pesos · MCh$)

	2004	2003
OPERATING REVENUE	MCh$	MCh$
Interest and indexation income	81.779,9	59.940,3
Net gains from trading securities	22.583,8	10.669,0
Commission income	5.362,5	4.366,5
Exchange income - net	5.564,8	6.690,0
Other operating income	6.762,5	4.185,0
TOTAL OPERATING REVENUE	122.053,5	85.850,8
LESS:		
Interest and indexation expenses	(42.135,0	(28.640,1)
Loss from trading securities	(15.789,8)	(7.191,5)
Commission expense	(367,7)	(306,7)
Other operating expenses	(2.425,1)	(1.328,9)
GROSS OPERATING MARGIN	61.335,9	48.383,6
Remuneration and personnel expenses	(17.229,4)	(11.289,5)
Administrative and other expenses	(13.299,9)	(10.784,0)
Depreciation and amortization	(3.262,5)	(2.218,4)
NET OPERATING MARGIN	27.544,1	24.091,7
Provisions for assets at risk	(9.524,6)	(6.337,5)
OPERATING INCOME	18.019,5	17.754,2
OTHER INCOME AND EXPENSES		
Non-operating income	1.424,2	1.397,7
Non-operating expenses	(608,1)	(1.648,3)
Equity in income of related companies	49,0	42,9
Monetary correction	(1.875,5)	(594,2)
INCOME BEFORE INCOME TAXES	17.009,1	16.952,3
INCOME TAXES	(2.980,6)	(3.291,7)
INCOME BEFORE MINORITY INTEREST	14.028,5	13.660,6
MINORITY INTEREST	(4,7)	(1,3)
NET INCOME FOR THE YEAR	**14.023,8**	**13.659,3**

The accompanying notes are an integral part of these financial statements

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CONSOLIDATED STATEMENT OF CASH FLOW

for the years ended December 31, 2004 and 2003 (in millions of chilean pesos · MCh$)

	2004	2003
CASH FLOW FROM OPERATING ACTIVITIES	MCh$	MCh$
Net income for the year	14.023,8	13.659,3
CHARGES (CREDITS) TO INCOME THAT DO NOT REPRESENT CASH FLOWS		
Depreciation and amortization	3.262,5	2.218,4
Provisions for assets at risk	9.524,6	6.337,5
Equity in income of related companies	(49,0)	(42,9)
Minority interest	4,7	1,3
Monetary correction	1.875,5	594,2
Other charges that do not represent cash flows	91,2	851,6
Net change in interest, indexation and commission		
accrued on assets and liabilities	2.974,7	1.808,6
Net cash provided by operating activities 31.708,0 25.428,0		
CASH FLOW FROM INVESTMENT ACTIVITIES		
Net increase in loans	(180.621,3)	(117.164,6)
Net (increase) decrease in other loan operations	(5.009,8)	3.656,1
Net (increase) decrease in investments	(128.269,9)	26.815,5
Decrease in leased assets	1.263,2	
Purchase of fixed assets	(9.221,6)	(4.979,0)
Sale of fixed assets	75,3	
Purchase of investments in related companies	(1.855,2)	
Dividends received from investments in related companies		94,8
Sale of assets received in settlement of loans	1.231,9	2.288,6
Net decrease (increase) in other assets and liabilities	5.013,3	(5.274,5)
NET CASH USED IN INVESTING ACTIVITIES	(317.394,1)	(94.563,1)
CASH FLOW FROM FINANCING ACTIVITIES		
Net increase in checking accounts	24.241,8	6.868,5
Net increase in time and demand deposits	224.258,9	36.426,6
Net increase (decrease) of other sight or term liabilities	20.046,1	(29.961,6)
Net (decrease) increase from obligations arising from trading securities	(7.758,9)	7.773,5
Increase in short-term foreign borrowings	184.307,1	138.678,8
(Decrease) increase in mortgage notes issued	(683,1)	49.118,5
Redemption of bonds	-	(1.755,1)
Long-term foreign borrowings obtained	36.243,6	-
Decrease in loans from financial institutions - net	-	(101,6)
Increase in other short-term loans	8.316,0	-
Payment of other long-term loans	(160.484,5)	(138.835,5)
Issue of paid-up shares	14.989,8	-
Dividends paid	(13.725,9)	(9.288,2)
NET CASH PROVIDED BY FINANCING ACTIVITIES	329.750,9	58.923,9
NET TOTAL CASH FLOW FOR THE YEAR	44.064,8	(10.211,2)
EFFECT OF INFLATION ON CASH AND CASH EQUIVALENTS		
DURING THE YEAR	(1.600,0)	505,7
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	42.464,8	(9.705,5)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	87.177,9	96.883,4
CASH AND CASH EQUIVALENTS AT END OF YEAR	**129.642,7**	**87.177,9**

The accompanying notes are an integral part of these financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Information provided

The consolidated financial statements have been prepared in accordance with accounting regulations issued by the Superintendence of Banks and Financial Institutions (hereinafter, the Superintendence). Such regulations concur with generally accepted accounting principles in Chile.

b. Basis of consolidation

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

	Ownership	
	2004 %	2003 %
Valores Security S.A. Corredores de Bolsa	99,900	99,900
Administradora General Fondos Security S.A.	99,990	99,990

Assets of subsidiaries represent in total 4.0% of the consolidated balance sheet (3.6% in 2003), and revenue of such subsidiaries represents 19.0% of the consolidated revenues (20.0% in 2003).
In the consolidation process, all significant intercompany balances and transactions have been eliminated.
The 2003 Chilean peso amounts have been price-level restated by 2.5% to reflect changes in the CPI (Chilean Consumer Price Index).

c. Interest and indexation

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

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 resulted in a net charge to income of MCh$1,875.5 (MCh$594.2 in 2003).
The income statements of Banco Security are not monetarily corrected.

e. Conversion

Assets and liabilities in inflation index-linked units of accounts (UF) are stated at their year end conversion rate of Ch$17,315.38 (Ch$16,920.00 in 2003).

f. Foreign currency

Assets and liabilities denominated in foreign currency are stated in Chilean pesos at the exchange rate prevailing at year end Ch$559.83 per US$1 (Ch$599.42 per US$1 in 2003).
The net gain from foreign exchange of MCh$5,564.8 (MCh$6,690.0 in 2003) shown in the consolidated income statements 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.

g. Financial investments

Long - term investments that are traded in the secondary market of the Bank are stated at market value, in accordance with instructions of the Superintendence of Banks and Financial Institutions. Such instructions call for the recognition of the adjustments

to market value against income for the year, unless permanent investments are involved, in which case, with certain limitations, the aforementioned adjustments can be made directly against the equity account "Fluctuation in value of financial investments".
The application of the permanent portfolio adjustment resulted in a net charge of MCh$393.6 (a net credit of MCh$939.7 in 2003) to equity.
Other financial investments are stated at cost plus accrued interest and indexation.

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

i. Provisions for assets at risk
The Bank has established all the provisions that are required to cover the risk of loss on assets, in accordance with the standards issued by the Superintendence of Banks and Financial Institutions. The assets are shown net of such provisions or, in the case of loans, as a deduction there from.

j. Deferred taxes
The effects of deferred taxes arising from temporary differences between the tax and the book basis are recorded on an accrual basis in conformity with Technical Bulletin N°60 of the Chilean Institute of Certified Public Accountants and its supplements, and the Superintendence's instructions.

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

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

2. ACCOUNTING CHANGES

As stipulated in Circulars 3.189 and 3.246 of the Superintendence of Banks and Financial Institutions, as of January 1, 2004, the criteria for calculating provisions for loan losses were amended. Said circulars represent a substantial change since they stipulate that provisions must be set up by applying models and methods of evaluation developed by the institutions themselves, which must be approved by the Bank's Board of Directors.
At December 31, 2004, application of this criterion had no significant effect on the Bank's income.
As stipulated in Circular 3.246 of the Superintendence of Banks and Financial Institutions, starting in 2004, provisions for assets at risk are presented net of income from recovery of written-off credits. This income was reclassified in the 2003 income statement for comparative purposes.

3. RELEVANT EVENTS

Merger
The Extraordinary Shareholders' Meeting held on August 27, 2004, approved the absorption through merger of Dresdner Bank Lateinamerika by Banco Security, Bank which acquired all of the formers assets and liabilities and including all its rights and obligations. The merger was authorized by the Superintendence of Banks and Financial Institutions in Resolution N°128 dated

September 21, 2004 and it was effective October 1, 2004. For comparative purposes, the statements of income and cash flows of both Banks were merged from January 1, 2004.
In conformity with the agreement adopted during this Meeting, the Bank proceeded to increase the capital by MCh$26,477.4, through the issue of 29,071,336 no-par value shares of a single series with the purpose of exchanging and distributing said new shares to the holders of the 150,000,000 shares of Dresdner Bank Lateinamerika.

Capital increase
The Extraordinary General Shareholders' Meeting held on December 29, 2004 agreed to an income of the Banks capital of MCh$30,000.0 through the issue of 32,880,563 shares. At December 31, 2004, there are 16,429,155 subscribed and paid-in shares, equivalent to MCh$14,989.8.

Merger of the subsidiary Valores Security S.A. Corredores de Bolsa
The Tenth First Extraordinary Shareholders' Meeting held on August 27, 2004, agreed to the merger between the Company and Dresdner Lateinamerika S.A. Corredores de Bolsa.
In ordinary resolution N°10098 dated October 27, 2004, the Superintendence of Securities and Insurance approved the absorption through merger of Dresdner Lateinamerika S.A. Corredores de Bolsa by Valores Security S.A. Corredores de Bolsa, Company which acquired all of the formers assets and liabilities and including all its rights and obligations as of October 1, 2004.
Relevant event in the subsidiary Administradora General de Fondos Security S.A.
In Exempt Resolutions No. 545 and 546, both dated December 3, 2004, the Superintendence of Securities and Insurance approved the following:

a. The internal policy of the new mutual funds, denominated "Security Trade Mutual Funds" and "Security Euro Bond Mutual Funds" respectively, in conformity with the standardized format established in Circular No. 1,633 dated December 2, 2002.

b. The subscription contract of units with its corresponding appendixes of the new mutual funds denominated "Security Trade Mutual Funds" and "Security Euro Bond Mutual Funds", respectively, in conformity with the standardized format established in Circular No. 1,633 dated December 2, 2002.

4. TRANSACTIONS WITH RELATED PARTIES

In accordance with the General Banking Law in Chile and the Superintendence'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, 2004 and 2003, loans to related parties are as follows:

	Current portfolio		Past-due portfolio		Total		Collateral(*)	
	2004	2003	2004	2003	2004	2003	2004	2003
Operating companies	34.879,9	29.657,8	-	-	34.879,9	29.657,8	30.031,9	17.214,9
Investment companies	15.085,4	17.819,6	-	-	15.085,4	17.819,6	4.804,7	4.566,7
Individuals (**)	3.387,4	3.812,3	-	-	3.387,4	3.812,3	1.679,7	3.299,7
TOTAL	53.352,7	51.289,7	-	-	53.352,7	51.289,7	36.516,3	25.081,3

(*) 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 Superintendence's instructions.

(**) Loans to individuals include only those debts equal to or greater than the equivalent of UF3,000. The UF is an accounting unit that is indexed to the changes in the Consumer Price Index.

b. Other transactions with related parties

During 2004 and 2003, the Bank entered into the following transactions in excess of UF1,000 with related parties:

		Credit to income		Change to income	
Company	Item	2004 MCh$	2003 MCh$	2004 MCh$	2003 MCh$
Inversiones Invest Security Ltda.	Advisory services	-	-	1.144,0	811,9
Seguros Vida Security Previsión S.A.	Office rentals	22,8	20,5	-	-
Penta Security Compañía de Seguros Generales S.A. (former seguros Security Previsión Generales S.A.)	Office rentals	14,8	10,4	-	-
Asesorías Security S.A.	Advisory services	-	-	317,7	-
Global Mandatos Security S.A.	Advisory services	627,4	189,5	872,1	534,7
Global Security Gestión y Servicios Ltda.	Advisory services	60,0	-	-	-
Virtual Security S.A.	Advisory services	-	-	1.382,0	1.750,4
Inmobiliaria Security S.A.	Advisory services	-	-	195,4	185,0
	Loans	122,3	143,5	-	-
Factoring Security S.A.	Advisory services	-	-	-	34,4
Grupo Security S.A.	Advisory services	-	-	605,6	-

These transactions were carried out on prevailing market terms.

The Bank has a balance and progress payment for MCh$1,256.7 (MCh$4,925.3 in 2003) payable to Inmobiliaria Security S.A., falling due in 2005.

The Bank has paid MCh$9,466.2 (MCh$4,138.0 in 2003) to Inmobiliaria Security Once Limitada as an advances for fixed assets.

5. ALLOWANCES

Allowances for assets at risk - At December 31, 2004, the Bank has recorded allowances for MCh$20,572.9 (MCh$12,698.5 in 2003) which correspond to the minimum allowances required by the Superintendence to cover possible losses.

During each year, the changes in the allowances are as follows:

	Provisions for			
	Loans MCh$	Asset received in settlement MCh$	Other assets MCh$	Total MCh$
Historical balances, December 31, 2002	10.605,2	-	192,0	10.797,2
Provisions applied	(4.959,6)	-	-	(4.959,6)
Increase in provisions	6.315,2	-	236,0	6.551,2
Balances, December 31, 2003	11.960,8	-	428,0	12.388,8
Updated balances for comparative purposes	12.259,8	-	438,7	12.698,5
Historical balances, December 31, 2003	11.960,8	-	428,0	12.388,8
Provisions from merger	7.143,9	-	-	7.143,9
Provisions applied	(8.484,4)	-	-	(8.484,4)
Provisions released	(2.080,0)	-	-	(2.080,0)
Increase in provisions	10.019,8	212,8	1.372,0	11.604,6
Balances, December 31, 2004	18.560,1	212,8	1.800,0	20.572,9

In the opinion of the Board of Directors, the allowances established cover all possible losses that might result from non-recovery of assets, based on the information examined by the Bank.

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6. SHAREHOLDERS' EQUITY

a. Equity

Changes in the shareholders' equity during each year are summarized as follows:

	Paid-in capital MCh$	Other reserves MCh$	Other accounts MCh$	Net income for the year MCh$	Total MCh$
Balances, December 31, 2002, historic	58.053,3	17.987,1	1.875,5	10.068,6	87.984,5
Distribution of 2002 income	-	10.068,6	-	(10.068,6)	-
Dividends paid	-	(9.061,7)	-	-	(9.061,7)
Fluctuation in value of financial investments	-	-	939,7	-	939,7
Monetary correction	588,8	154,4	-	-	743,2
Net income for the year	-	-	-	13.326,1	13.326,1
Balances, December 31, 2003	58.642,1	19.148,4	2.815,2	13.326,1	93.931,8
Updated balances for comparative purposes	60.108,1	19.627,1	2.885,6	13.659,3	96.280,1
Balances, December 31, 2003, historic	58.642,1	19.148,4	2.815,2	13.326,1	93.931,8
Distribution of 2003 income	-	13.326,1	-	(13.326,1)	-
Dividends paid	-	-	(13.326,1)	-	(13.326,1)
Fluctuation in value of financial investments	-	-	-	(393,6)	(393,6)
Increase as a result of merger	20.130,6	6.139,3	-	-	26.269,9
Capital increase	14.989,8	-	-	-	14.989,8
Monetary correction	1.895,9	636,4	-	-	2.532,3
Net income for the year	-	-	-	14.023,8	14.023,8
Balances, December 31, 2004	95.658,4	25.924,1	2.421,6	14.023,8	138.027,9

Subscribed and paid-in shares:
The Bank's authorized capital is divided into 152,193,531 shares, of which 135,753,250 are fully subscribed and paid.

Merger:
The Extraordinary Shareholders' meeting held on August 27, 2004, approved the absorption through merger of Dresdner Bank Latineamerika S.A., which increased the paid-in capital by MCh$19,958.4. In Resolution N°128 dated September 21, 2004, the Superintendence authorized this absorption through merger.

Capital increase:
The Extraordinary General Shareholders' Meeting held on December 29, 2004, agreed to increase the Bank's capital by MCh$30,000.0 through the issue of 32,880,563 shares.

During February 2004 and 2003, 100% and 90% of net profits from 2003 and 2002 amounting to MCh$13,326.1 and MCh$10,068.6 (historical), respectively, were distributed.

b. Minimum basic capital and effective equity

According 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 December 31, 2004, the Bank has the following parameters: 7.46% (6.50% in 2003) and 12.26% (11.17% in 2003), respectively.
Following Circular Letter N°3,178 of the Superintendence dated June 7, 2003, the Bank has determined its minimum basic capital, total assets, effective equity and risk weighted assets based on the Bank's consolidated balance sheet.

7. INVESTMENTS

At December 31, 2004 and 2003, the Bank had the following balances included under investments:

a. Financial Investments

	Type of portfolio						adjustment to market value					
	Permanent (**)		Non permanent		Subtotal		Credit (charge) to income		Credit (charge) to equity		Total	
	2004 MCh$	2003 MCh$	2004 MCh$	2003 MCh$	2004 MCh$	2003 MCh$	2004 MCh$	2003 MCh$	2004 MCh$	2003 MCh$	2004 MCh$	2003 MCh$
Securities (*)												
Chilean Central Bank	1.843,2	154,0	36.959,0	42.493,2	38.802,2	42.647,2	(23,0)	257,5	(12,9)	7,1	38.766,3	42.911,8
Chilean Treasury or other Government Entities	-	-	462,9	-	462,9	-	1,1	-	-	-	464,0	-
Chilean financial institutions	9.832,0	8.045,8	113.181,4	62.242,2	123.013,4	70.288,0	1.054,5	553,4	189,4	262,3	124.257,3	71.103,7
Other investments in Chile	18.185,7	3.471,7	50.826,2	17.625,7	69.011,9	21.097,4	100,7	287,1	797,9	60,7	69.910,5	21.445,2
Investments abroad	13.057,5	20.412,5	13.975,5	2.878,5	27.033,0	23.291,0	1.539,9	339,5	1.447,2	2.555,5	30.020,1	26.186,0
Mortgage notes issued	-	-	-	5.616,7	3.790,7	5.616,7	3.790,7	189,9	38,6	-	5.806,6	3.829,3
TOTAL	42.918,4	32.084,0	221.021,7	129.030,3	263.940,1	157.323,6	2.863,1	1.476,1	2.421,6	2.885,6	269.224,8	165.476,0

(*) Classification according to issuers or those obliged to pay. The abovementioned amounts include MCh$15,023.4 (MCh$50,350.8 in 2003) 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:

	2004 MCh$	2003 MCh$
Assets for leasing	4.303,6	5.566,8
Assets received in settlement of loans or adjudication (*)	4.207,2	3.638,8
TOTAL	8.510,8	9.205,6

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

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

8. MATURITIES OF ASSETS AND LIABILITIES

a. Maturity of loans and financial investments

The information below shows loans and financial investments through maturity. Balances include accrued interest at each year-end.

	Due within one year		More than 1 year up to 3 years		More than 3 years up to 6 years		More than 6 years		Total	
	2004 MCh$	2003 MCh$	2004 MCh$	2003 MCh$	2004 MCh$	2003 MCh$	2004 MCh$	2003 MCh$	2004 MCh$	2003 MCh$
Loans (1)										
Commercial and others	582.738,7	485.460,0	95.860,8	94.402,1	130.311,2	110.586,7	177.044,4	131.267,3	985.955,1	821.716,1
Mortgage	40	-	278,6	225,8	2.526,7	2.170,2	92.363,2	96.714,6	95.208,1	99.110,6
Consumer	10.347,3	2.074,0	5.019,6	3.452,1	3.432,0	1.059,4	869,7	862,7	19.668,6	7.448,2
Other loans:										
Other financial institutions	4.946,5	-	-	-	-	-	-	-	4.946,5	-
Credits arising from trading securities	28.820,3	1.304,5	-	-	-	-	-	-	28.820,3	1.304,5
Financial investments:										
Permanent investments (2)	2.108,8	395,8	3.112,6	10.852,7	11.774,3	2.632,2	25.922,7	18.203,3	42.918,4	32.084,0
Non-permanent investments (3)	223.884,8	130.506,4	-	-	-	-	-	-	223.884,8	130.506,4

(1) Considers only those loans outstanding at year-end that fall due within the indicated periods. Consequently, contingent loans and loans transferred to the past-due portfolio, as well as delinquent debts that have not been transferred to the past-due portfolio amounting to MCh$2,740.9(MCh$2,034.6 in 2003), of which MCh$1,251.4 (MCh$713.6 in 2003) have been delinquent less than 30 days, have been excluded.
(2) Includes securities classified as permanent investments, as described in Note 1 g, without adjustments to market value, and non-transferable notes.
(3) Includes all other financial investments, with their respective adjustment to market value.

b. Maturity of deposits, borrowings and other financing operations

The information detailed below shows deposits, borrowings and other liabilities through their maturity. Balances include interest accrued at each year-end.

	Due within in one year		More than 1 year up to 3 years		More than 3 years up to 6 years		More than 6 years		Total	
	2004 MCh$	2003 MCh$	2004 MCh$	2003 MCh$	2004 MCh$	2003 MCh$	2004 MCh$	2003 MCh$	2004 MCh$	2003 MCh$
Borrowings and other obligations (*):										
Time and demand deposits	871.779,2	636.455,8	38.838,8	39.971,5	576,4	5.872,1	-	-	911.194,4	682.299,4
Other demand and term liabilities	70.709,2	46.309,2	-	-	-	-	-	-	70.709,2	46.309,2
Liabilities arising from trading securities	44.721,1	54.332,4	-	-	-	-	-	-	44.721,1	54.332,4
Mortgage notes	539,4	-	310,3	230,0	2.828,3	2.175,5	98.799,6	100.746,6	102.477,6	103.152,1
Obligations for bonds issued	-	1.194,5	502,0	811,1	1.614,8	2.017,7	42.564,0	42.411,4	44.680,8	46.434,7
Loans from financial institutions and Chilean Central Bank:										
Other obligations with Chilean Central Bank	231,3	457,8	-	-	-	-	-	-	231,3	457,8
Loans from local financial institutions	13.372,7	3.350,0	-	-	-	-	-	-	13.372,7	3.350,0
Obligations abroad	128.977,0	94.959,3	10.947,8	-	-	-	-	-	139.924,8	94.959,3
Other obligations	2.738,0	798,5	1.546,5	1.890,2	5.783,2	8.705,2	4.860,1	10.550,6	14.927,8	21.944,5

(*) Excludes all sight and contingent obligations.

9. FOREIGN CURRENCY POSITION

The balance sheets include assets and liabilities that are denominated in foreign currencies or are indexed fluctuations in exchange rates. These amounts are summarized below:

	To be paid in					
	Foreing Currency		Foreing Currency (*))		Total	
	2004 ThUS$	2003 ThUS$	2004 ThUS$	2003 ThUS$	2004 ThUS$	2003 ThUS$
ASSETS						
Liquid assets (*)	127.238	26.030	-	-	127.238	26.030
Loans	260.956	147.406	29.081	19.128	290.037	166.534
Contingent loans	46.752	23.415	4.408	1.587	51.160	25.002
Financial investments:						
Foreign	48.287	46.620	-	-	48.287	46.620
Other assets	371.619	139.570	11.701	17.447	383.320	157.017
TOTAL ASSETS	854.852	383.041	5.190	38.162	900.042	421.203
LIABILITIES						
Demand deposits	18.512	19.504	-	-	18.512	19.504
Contingent liabilities	49.319	24.351	3.698	1.586	53.017	25.937
Time deposits	167.905	109.630	-	-	167.905	109.630
Liabilities with foreign banks	249.895	154.551	-	-	249.895	154.551
Other liabilities	389.722	92.317	8.077	9.535	397.799	101.852
TOTAL LIABILITIES	875.353	400.353	11.775	11.120	887.128	411.473

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

10. 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:

			Contract amounts			
	Number of operations		Up to three months		More than three months	
	2004	2003	2004 ThUS$	2003 ThUS$	2004 ThUS$	2003 ThUS$
Type of future operations						
Local market:						
Future purchase of foreign currency in Chilean pesos	177	59	160.069,1	69.599,9	127.405,6	51.345,6
Future sale of foreign currency in Chilean pesos	314	77	136.597,4	27.803,1	125.602,8	46.950,0
Forwards in foreign currency (sales)	48	7	48.124,0	3.276,8	2.095,4	634,7
Foreign market:						
Forwards in foreign currency (purchases)	45	7	77.543,5	6,0	3.701,3	525,8

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

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

			Contract amounts			
	Number of operations		From 1 to 3 months		Over 3 months	
	2004	2003	2004 UF	2003 UF	2004 UF	2003 UF
Purchase of UF/ Chilean peso forwards	17	5	1.800.000	1.200.000	1.900.000	200.000
Sale of UF/ Chilean peso forwards	65	-	20.586.400	-	53.320.500	-

11. CONTINGENCIES, COMMITMENTS AND RESPONSIBILITIES

a. Commitments and responsibilities recorded in the Bank's memorandum account

The Institution has recorded the following commitments and responsibilities in memorandum accounts related to the business activity:

	2004 MCh$	2003 MCh$
Mortgage and pledge guarantees	771.110,4	644.190,3
Securities and notes in guarantee	308.689,7	203.839,8
Credit lines obtained	253.399,7	210.458,3
Securities held in custody	224.630,9	451.991,9
Loans approved but not disbursed	79.575,0	55.720,0
Foreign collections	27.176,7	23.752,1

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

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

Guarantees for overdraft lines: At December 31, 20004 the Company has overdraft lines approved with the following Banks: Scotiabank, Bice, Citibank, Security and Santander, to which effect promissory notes have been signed for ThCh$1,400,000, ThCh$2,500,000, ThUS$3,000, ThCh$2,100,000 and ThCh$1,500,000, respectively.

consolidated financial statements

12. OTHER OPERATING INCOME

The detail of operating income is as follows:

	2004 MCh$	2003 MCh$
Exchange difference	4.214,3	805,5
Monetary adjustment	-	6,8
Gain on sale of assets received in settlement of loans	86,9	2,0
Others	2.461,3	3.370,8
	6.762,5	4.185,1

13. COMMISSION

Commission income and expenses shown in the statements of income are as follows:

	Income		Expenses	
	2004 MCh$	2003 MCh$	2004 MCh$	2003 MCh$
Commissions earned or paid on:				
Stock exchange transactions	-	439,6	-	-
Mutual funds transactions	-	34,4	-	-
Collection of documents	718,3	428,9	-	-
Letters of credit, guarantees, pledges and other contingent loans	782,6	514,9	-	-
Credit cards	524,8	356,3	-	-
Lines of credit	165,2	129,8	-	-
Loan commission	1.392,6	1.051,9	-	-
ATM commission	75,6	76,9	226,6	186,0
Checking accounts	952,3	621,3	-	-
Branch services	142,9	132,1	-	-
Foreign correspondents	-	-	49,4	-
Financial advisory services	139,2	-	-	-
Others	469,0	580,4	91,7	120,7
TOTAL	5.362,5	4.366,5	367,7	306,7

Commission earned on mortgage note transactions is included in "Interest and Indexation Income" in the consolidated statement of income.

14. NON-OPERATING INCOME

The detail of non-operating income is as follows:

	2004 MCh$	2003 MCh$
Sale of fixed assets	2,5	-
Recovery of expenses	867,3	648,6
Rentals received	115,6	70,8
Recovery of written-off assets received in payment	26,9	22,9
Financial advisory services		178,0
Others	411,9	377,4
TOTAL	1.424,2	1.397,7

15. NON-OPERATING EXPENSES

The detail of non-operating expenses is as follows:

	2004 MCh$	2003 MCh$
Loss on sale of assets received in settlement	303,1	647,0
Writte-offs of assets received in settlement	156,2	427,2
Loss for assets recovered in leasing	130,2	564,8
Others	18,6	9,3
TOTAL	608,1	1.648,3

16. INCOME TAX

The Bank and its subsidiaries provided for First Category Income Tax, of MCh$4,156.6 (MCh$3,688.9 in 2003).

17. DEFERRED TAXES

As explained in Note 1j, the Bank has applied the accounting criteria of Technical Bulletin N°60 of the Chilean Institute of Certified Public Accountants and its supplements.

Deferred taxes on temporary differences are presented below:

	Balance at	
2004 Item	January 1, 2004 (historical) MCh$	December 31, 2004 MCh$
Debit differences:		
Global loan loss provision	1.203,9	2.410,3
Provisions for assets recovered	24,6	23,4
Provision for leasing contracts	103,3	139,1
Leased assets tax basis	8.901,8	14.018,5
Adjustment to market of non-permanent investments	119,8	486,7
Written-off assets received in settlement	70,9	169,8
Others	334,2	575,2
Subtotal	10.758,5	17.823,0
Complementary account	(3.608,4)	(3.434,5)
Net difference	7.150,1	14.388,5
Credit differences:		
Lease contracts	(10.648,4)	(16.087,2)
Depreciation of fixed assets	(569,0)	(675,9)
Others	(59,6)	(314,0)
Subtotal	(11.277,0)	(17.077,1)
Complementary account	5.628,0	5.365,2
Net difference	(5.649,0)	(11.711,9)

2003 Item	Balance at January 1, 2003 (historical) MCh$	December 31, 2003 MCh$
Debit differences:		
Global loan loss provision	1.041,2	1.234,0
Provisions for assets recovered	28,8	25,2
Provision over leasing contracts	104,4	105,9
Leased assets tax basis	6.927,3	9.124,3
Adjustment to market of non-permanent investments	137,2	122,8
Written-off assets received in settlement	316,3	72,7
Others	152,9	342,6
Subtotal	8.708,1	11.027,5
Complementary account	(3.807,6)	(3.698,6)
Net difference	4.900,5	7.328,9
Credit differences:		
Lease contracts	(9.245,9)	(10.914,6)
Depreciation of fixed assets	(574,6)	(583,2)
Others	(49,6)	(61,1)
Subtotal	(9.870,1)	(11.558,9)
Complementary account	6.111,1	5.768,7
Net difference	(3.759,0)	(5.790,2)

Tax expense in 2004 and 2003 is as follows:

	2004 MCh$	2003 MCh$
Provision for income tax	(4.156,6)	(3.688,9)
Effect for deferred tax assets and liabilities for the year	1.264,9	630,6
Effect for amortization of deferred tax asset and liability complementary accounts	(88,9)	(233,4)
TOTAL	(2.980,6)	(3.291,7)

18. PURCHASES, SALES, SUBSTITUTIONS OR TRADES IN THE LOAN PORTFOLIO

In 2004 and 2003, the Bank purchased and sold loans as follows:

2004: Purchase MCh$	Sale MCh$	Effect on income MCh$	Effect on Provisions MCh$
9,940.2	11,189.4	16.1	16.1

2003: Purchase MCh$	Sale MCh$	Effect on income MCh$	Effect on Provisions MCh$
11,038.8	7,513.7	45.8	-

19. DIRECTORS' EXPENSES AND FEES

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

	2004 MCh$	2003 MCh$
Per diem	98,8	62,2
Advisory services fees	428,3	375,2
TOTAL	527,1	437,4

20. SUBSEQUENT EVENTS

During the period between January 1 and 12, 2005, there have been no subsequent events that have had a material impact on these financial statements.

RAMON ELUCHANS O.
President

HORACIO SILVA C.
Accounting Officer

summarized financial statements of the subsidiaries

ThCh$: Thousands of Chilean pesos
MCh$: Millions of Chilean pesos
UF: Unidad de Fomento (an official inflation-indexed monetary unit)
US$: United States dollars
ThUS$: Thousands of US dollars

summarized financial statements of the subsidiaries

VALORES SECURITY S.A., CORREDORES DE BOLSA

BALANCE SHEET

summarized financial statements at December 31, 2004 and 2003 (in millions of chilean pesos · MCh$)

	2004	2003
ASSETS	MCh$	MCh$
Current	354.484,1	160.671,0
Premises & equipment	125,0	92,4
Other Assets	355,0	386,2
Total Assets	354.964,1	161.149,6
LIABILITIES		
Current	340.549,3	152.745,8
Capital & reserves	9.913,5	5.942,6
Net income for the year	4.501,3	2.461,2
Total Liabilities & Shareholders' Equity	354.964,1	161.149,6
STATEMENT OF INCOME		
Operating income	5.521,0	2.888,6
Non-operating income	(118,3)	33,6
Income before taxes	5.402,7	2.922,2
Income tax	(901,4)	(460,9)
Net income for the year	4.501,3	2.461,3

ADMINISTRADORA GENERAL DE FONDOS SECURITY S.A.

BALANCE SHEET

summarized financial statements at December 31, 2004 and 2003 (in millions of chilean pesos · MCh$)

	2004	2003
ASSETS	MCh$	MCh$
Current	6.341,3	4.656,5
Premises & equipment	81,6	90,4
Total Assets	6.422,9	4.746,9
LIABILITIES		
Current	338,0	302,0
Capital & reserves	1.231,0	1.231,2
Retained earnings	3.213,7	2.059,9
Net income for the year	1.640,2	1.153,8
Total Liabilities & Shareholders' Equity	6.422,9	4.746,9
STATEMENT OF INCOME		
Operating income	1.462,2	1.090,0
Non-operating income	513,5	283,1
Income before taxes	1.975,7	1.373,1
Income tax	(335,5)	(219,3)
Net income for the year	1.640,2	1.153,8

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BANCO SECURITY

annual report 2004

formal information

formal information

FORMAL INFORMATION

Name:
BANCO SECURITY

Type of Corporation:
Banking Corporation

Objects:
Carry out all the acts, contracts, operations and activities of a commercial bank in accordance with current legislation.

Tax N°:
97.053.000-2

Domicile:
Apoquindo 3150 piso 15, Santiago, Chile

Telephone:
(56-2) 584 4000

Fax:
(56-2) 584 4001

Mail:
banco@security.cl

Web:
www.security.cl

Constitution:
The corporation was formed under public deed dated August 26, 1981. Documents were signed before the notary Enrique Morgan Torres. The extract of this deed was published in the Official Gazette on September 23, 1981.

DIRECTORY OF BANCO SECURITY AND SUBSIDIARIES

Head Office
Apoquindo 3100 · Las Condes
Phone: (56-2) 584 4100
Fax: (56-2) 584 4058
Web: www.security.cl
e-mail: banco@security.cl

Agustinas Branch
Agustinas 621 · Santiago
Phone: (56-2) 584 4000
Fax: (56-2) 584 4001

Providencia Branch
Av. 11 de Septiembre 2289 · Providencia
Phone: (56-2) 233 1580
Fax: (56-2) 251 5929

Vitacura Branch
Av. Nueva Costanera 3750 · Vitacura
Phone: (56-2) 207 0719
Fax: (56-2) 207 5890

La Dehesa Branch
Av. La Dehesa 1744 · Lo Barnechea
Phone: (56-2) 2168701
Fax: (56-2) 2168699

Panamericana Norte Branch
Av. Presidente E. Frei M. 3016 · Renca
Phone: (56-2) 641 6055
Fax: (56-2) 641 5640

Santa Elena Branch
Santa Elena 2400 · San Joaquín
Phone: (56-2) 555 0081
Fax: (56-2) 555 7798

Quilicura Branch
Av. Presidente E. Frei M. 9950 · Quilicura
Phone: (56-2) 738 6650
Fax: (56-2) 738 6654

Ciudad Empresarial Branch
Av. Santa Clara 354 · Huechuraba
Phone: (56-2) 738 4310
Fax: (56-2) 738 4308

Antofagasta Branch
Av. San Martín 2511 · Antofagasta
Phone: (56-55) 28 2824
Fax: (56-55) 22 1771

Concepción Branch
Av. Bernardo O'Higgins 428 · Concepción
Phone: (56-41) 22 6801
Fax: (56-41) 22 4237

Temuco Branch
Manuel Bulnes 701 · Temuco
Phone: (56-45) 23 6300
Fax: (56-45) 21 1359

Puerto Montt Branch
Guillermo Gallardo 132 · Puerto Montt
Phone: (56-65) 29 4000
Fax: (56-65) 29 4001

Leasing Module
Apoquindo 3150 piso 4 · Las Condes
Phone: (56-2) 584 4000
Fax: (56-2) 584 4001
Web: www.security.cl
e-mail: leasing@security.cl

SUBSIDIARY COMPANIES

Valores Security S.A., Corredores de Bolsa
Apoquindo 3150 piso 7 · Las Condes
Phone: (56-2) 584 4000
Fax: (56-2) 584 4015
Web: www.security.cl
e-mail: valores@security.cl

Administradora General de Fondos Security S.A.
Apoquindo 3150 piso 7 · Las Condes
Phone: (56-2) 584 4000
Fax: (56-2) 584 4015
Web: www.security.cl
e-mail: fmutuos@security.cl

BANCO security