RISK MANAGEMENT

The global increase in the loan portfolio was mainly in loans rated in the normal-risk categories, A and B.

CREDIT RISK

Responsibility for credit risk evaluation and control is that of the Corporate Risk Area. During 2002, this Area maintained different risk classification vigilance processes for the principal debtors and economic groups that work through different productive and commercial companies.

Control is effected through a certification system that executives with credit discretion should follow for ensuring that the portfolio is revised and duly classified; a periodic evaluation of these executives to measure their credit performance using a combination of loan management indicators; and a centralized follow-up process for knowing how well debtors with long-term or large loans are meeting agreed conditions or covenants.

Regarding short-term loan products, Retail Banking uses a qualification system of behavior points that enables it to evaluate the conduct of debtors and assign credit margins according to their habits and economic reality.

For the Business Banking portfolio, a qualification system was introduced that classifies debtors into numerous categories within a range of 1 to 10, for debtors of over a certain amount.

The Corporate Risk Area also maintains a constant watch over the degree of concentration of the portfolio on different economic sectors, the levels of medium and long-term loans, and the accumulation of debt by the large business groups, in order to adopt preventive measures in time, especially in the face of economic, social, environmental and regulatory changes that could affect debtors. This evaluation is known to and weighted periodically by the Bci board.

Care for the commercial relationship with debtors has been exercised while maintaining these controls. A structure was established for granting credit discretionary powers to commercial executives in all the banking divisions in order to permit a greater proximity to customers and a reduction in response times, as well as reducing the work-load on the different credit committees.

At the same time, more training was provided to commercial executives to provide them with the analytical tools by computer systems and a program of risk instruction given by the Universidad Adolfo Ibañez, prepared jointly with Bci and given by staff of the Corporate Risk Area to commercial executives of the Corporate and Real Estate, Medium and Large Corporate, and Small Businesses banking divisions and to the Leasing and Factoring Divisions.

With respect to the strong growth in loans in 2002, shown in the chapter Performance of this annual report, it should be explained that the global increase in the portfolio was mostly centered on loans classified in Categories A and B, of normal risk. In contrast, loans classified in Categories C and D, of higher risk, showed a sharp fall. The risk composition assumed by Bci in the increase in the portfolio is noted by distributing the percentage increase of its market share, classified by risk category, compared to the loans of the banking sector similarly distributed, as the following table shows:

CATEGORY	PARTICIPATION Bci		
	OCT'01	OCT'02	%CHANGE
A	9.32%	11.24%	+1.92
B	7.69%	8.94%	+1.25
B-	8.79%	9.53%	+0.74
C	8.92%	6.40%	-2.52
D	3.25%	1.91%	-1.34

Regarding the composition of the whole portfolio, Bci has a better position in the risk classification than the average of the sector, as the following table shows.

Risk percentage classification

CATEGORY	OCT'01		OCT'02	
	Bci	SECTOR	Bci	SECTOR
A	66.75	62.58	66.33	60.80
B	29.02	32.96	29.99	34.57
B-	3.11	3.09	2.96	3.20
C	0.96	0.94	0.65	1.05
D	0.16	0.43	0.07	0.38
	100.00%	100%	100%	100%

FINANCIAL RISK

Bci maintained the market risk control tools during the year which it had established to check the effects of fluctuations in the liquidity of the financial securities portfolio or in the exchange rate, interest rates and market prices, variables that in 2002 suffered from high volatility.

Liquidity risk is that assumed by the Bank and some of its subsidiaries by maintaining a position in a certain currency that prevents it from meeting its commitments with a creditor, investor or customer. Interest rate and exchange risks make the generation of expected profits uncertain due to adverse movements in these variables, plus their volatility.

Market risk is managed on the basis of a structure of limits, procedures, controls and policies defined by an assets and liabilities committee comprising senior management and ratified by the Bank's board.

A unit independent from the treasury area is responsible for controlling positions, with powers and professional skills sufficient to identify, evaluate and control the risk exposure of the market.

Interest rates and currency risks are controlled by the use of the Value at Risk (VaR), Spread at Risk (SaR) and Sensitivity of the balance sheet to Market Values (MVS) tools. All these measurements have limits set by the board, generally in relation to the basic capital.

The spread at risk (SeR) quantifies the impact on 12-month forecasted profits of a specific movement in the interest rate curve of a given currency. The sensitivity of the balance sheet to market values (MVS) quantifies the same effect but on all the Bank's financial assets and liabilities, a measurement that could affect the economic value of the basic capital.

The value at risk (VaR) of the trading portfolio of Bci and its subsidiaries Bci Corredor de Bolsa and Bci Administradora de Fondos Mutuos is watched daily on an unconsolidated and consolidated basis, measuring the potential losses in market value of securities in the portfolio.

The value at risk of the treasury positions (VaR) is known and analyzed periodically by the Bank's board which sets limits and maintains as a function of market characteristics.

The following graph shows the behavior of VaR during 2002, in local and foreign currency.

Changes in the Bank's VaR