

CORPORATE GOVERNANCE

I. CORPORATE GOVERNANCE PRACTICES

Banco de Chile is a company registered in Chile which is listed on the Santiago Stock Exchange, the New York Stock Exchange⁽¹⁾, the London Stock Exchange and Latibex, a dedicated platform belonging to the Madrid Stock Exchange. Our corporate governance practices are covered by our bylaws, the Chilean General Banking Law, the Corporations Law, the Securities Market Law 18,045 and the regulations of the Superintendency of Banks and Financial Institutions.

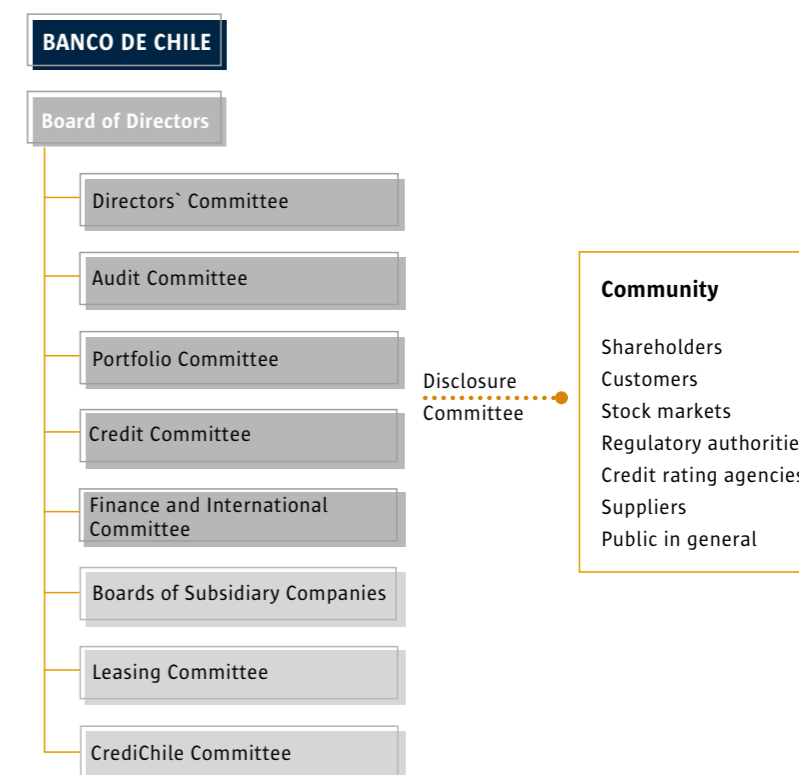
One of the principal objectives of Banco de Chile is to build commercial relationships with its customers, both for their benefit and that of its shareholders, staff and the community in general. Our corporate governance practices are intended to support the board of directors and senior management in their supervisory and management work in order to properly protect the rights of its shareholders and investors. By improving internal self-regulation mechanisms, properly meeting the prevailing regulations and ensuring a consistent respect for our basic values, we create long-term value for our shareholders.

In every aspect of our business, our corporation's priorities are guided by ethical principles. The Bank's Board of Directors has set out and approved our Code of Ethics which establishes the basic principles that guide our decisions and direct the organization's commercial activities. This Code incorporates our basic principles like abiding by the law, confidentiality, integrity and responsibility, both corporate and individual.

Our management is guided by the Bank's Board of eleven directors and two alternate directors. The whole Board is elected every three years and the present one was elected in March 2002 for a period expiring in March 2005. The Chief Executive Officer is appointed by the Board and remains in his position as long as the Board shall decide. Ordinary board meetings are held twice a month and extraordinary meetings can be called by the Chairman, a majority of directors or, in special circumstance, by just one director.

⁽¹⁾ As we are a foreign company, we are not obliged to meet some of the standards covering corporate governance that are established by the New York Stock Exchange (NYSE) while, on the other hand, we can be governed by Chilean practices. However, with the exceptions indicated in our web site, our practices meet the most significant regulations of the NYSE.

The Board delegates certain functions and activities to directors' committees in order to study specific matters in depth and provide the board with the necessary information for discussion and debate of general policies and guidelines affecting the Bank's businesses.



DIRECTORS' COMMITTEE

The Directors' Committee has the powers and duties established in clause 50 bis of the Corporations Law 18,046. It should therefore consist of three members most of whom should be independent of the company's controllers. The Committee's budget is approved annually at the Ordinary Shareholders' Meeting.

The members of the Directors' Committee are appointed by the board and they serve on the Committee for the same term that they serve as directors, and they may be re-elected.

The responsibilities of this Directors' Committee include the examination of the external auditor's reports, balance sheets and other financial statements, the proposing of external auditors and credit-rating agencies, the examination of related-party transactions and an analysis of the remuneration systems and compensation plans for the senior executives.

The Directors' Committee of Banco de Chile in 2004 comprised the director Jorge Awad Mehech (Chairman), Gonzalo Menéndez Duque and Manuel Sobral Fraile. Manuel Sobral Fraile presented his resignation on November 25, 2004, which was accepted, and was replaced by the director Máximo Silva Bafalluy. The Chief Executive Officer, Legal Counsel and the Risk Control Division Manager also participated in Committee meetings.

The Committee this year met on eight occasions, the principal matters examined being:

- Revision and analysis of the financial statements of the Bank and its subsidiaries.
- Examination of the report on related-party transactions, noting legal service contracts with Promarket S.A. and Socofin S.A.; telecommunications services with ENTEL S.A.; fees for special services; agreement of the Banchile Seguros de Vida.
- The proposal of the external auditors and credit-rating agencies.
- Analysis of the remuneration terms and compensation plans of managers and senior executives.
- Analysis of the "Banca Propia" proposal, a platform for introducing non-customer employees and spouses as customers of the Bank.
- Examination of the external auditor's reports.

AUDIT COMMITTEE

This Committee was formed in May 2003 as an essential organ in the corporate reporting process. The Committee's objectives include the attainment of efficiency in, and the maintenance, application and functioning of, the internal control systems and compliance with the rules and procedures and the identification of Bank's business risks, as well as reinforcing and supporting the Bank's Controller office and coordinating the internal and external audit activities.

The members of the Audit Committee in 2004 were Jorge Awad Mehech (Chairman), Gonzalo Menéndez Duque and Manuel Sobral Fraile. Mr Manuel Sobral Fraile presented his resignation on November 25, 2004, which was accepted, and he was replaced as a member of the Audit Committee by the director Mr Máximo Silva Bafalluy. Its meetings are also attended by the Chief Executive Office, Legal Counsel and the Risk Management Division Manager.

PORTFOLIO COMMITTEE

The main function of this Committee is to know about changes in the composition and risk of the Bank's credit portfolio both from a global perspective and from a sector point of view, and also segmented by lines of business. This Committee revises in detail the principal debtors, overdue loan ratios, past-due loan indicators, write-offs and allowances for loan losses.

This Committee also has to discuss and prepare proposals for approval by the Board with respect to credit policies, portfolio evaluation methods and the calculation of allowances for expected loan losses; it is also informed of the analysis of the adequacy of allowances. It also authorizes extraordinary loan write-offs once recovery attempts have been exhausted and controls the disposal of assets acquired in lieu of payment.

This Committee comprises five directors plus the Chief Executive Officer, the Credit Risk Management Division Manager, the Loan Restructuring Division Manager and the Risk Control and Normalization Manager. It meets on a monthly basis.

CREDIT COMMITTEE

This Directors' Credit Committee is the highest level of approval of credit proposals, as established in the powers structure defined by the Board, deciding on operations falling within the framework of the Corporate Credit Risk criteria (including the Bank, subsidiaries and foreign branches), whose individual and/or group approval amount exceeds UF 250 thousand.

It also approves certain qualitative aspects regardless of the amount submitted for approval, like customers whose eventual recovery might cause problems affecting the Bank's image and transactions with related parties.

The Committee comprises all the directors (minimum quorum of three) and the Chief Executive Officer. The Credit Risk Area also takes part together with the commercial officers proposing the operations presented to it. It meets on a weekly basis.

FINANCE AND INTERNATIONAL COMMITTEE

The Finance and International Committee is a discussion and analysis forum for the setting of policies for the Bank's financial management. This Committee meets once every month and comprises five Board directors, the Chief Executive Officer, the Financial Division Manager, the Corporate and International Division Manager, the Planning and Management Control Division Manager and the Financial Risk Manager. These make detailed presentations on each of the matters under their responsibility and make analyses on matters such as:

- Definition of market risk policies, procedures and limits.
- Control and checking on compliance of internal limits and rules.
- New operations and financial businesses.
- Monitoring of positions and related financial risks.
- Control of use of counterparty limits for financial transactions.
- Analysis of the needs and composition of liabilities and equity.
- Assignment of the Bank's capital to different asset operations.
- Definitions about the policy for setting the cost of funds.
- Financial management of foreign branches.

DISCLOSURE COMMITTEE

In May 2003, Banco de Chile established a Disclosure Committee, a management entity to formalize the tasks necessary for ensuring that information provided to the market is suitably accurate and detailed.

This Committee comprises the Chief Accountant, the Senior Lawyer responsible for international matters, the Risk Control Division Manager, the Planning and Management Control Division Manager, the Planning and Studies Area Manager and the Investor Relations Manager, who revise reports quarterly as well as all financial information published by the Bank.

DIRECTORS' REMUNERATION

During the year ended December 31, 2004, the total remuneration paid to the directors amounted to Ch\$ 2,180 million for their services and attendance at meetings. There are no provisions for pensions, retirement payments or other similar benefits for the directors or other senior executives. The Corporations Law contains no requirement to have a Remunerations Committee, but does state that the Directors' Committee should approve the remuneration of the senior management.

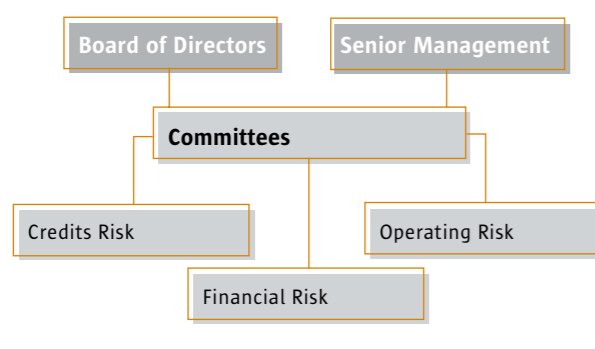
Further information is provided in Note 24 to our financial statements for 2004.

II. RISK MANAGEMENT

The mission of the risk management function is to build value through properly controlling and managing risk in all its forms. At least the following objectives therefore have to be included in its functions:

- Determine the desired risk level for each line of business.
- Align business strategies to the established level of risk.
- Advise the commercial areas what the desired risk levels are in the organization.
- Inform the senior management and the Board of the characteristics and trends in the risks of the different business areas.
- Invest in processes and tools for measuring, controlling and correcting the risk in the lines of business.

Our activities are exposed to the risks shown below which are supervised as shown.



The basis for the effective management of risk is the development and constant strengthening of a risk management concept that is firmly embedded throughout the organization and which is administered jointly by professionals in risk management and the commercial areas. Both parties employ portfolio analysis techniques in an effort to optimize risk-benefit profiles and determine the appropriate and efficient assignment of capital.

A structure of committees comprising directors and senior management provide an adequate combination of supervision and commercial impetus.

1. CREDIT RISK MANAGEMENT

Structure and responsibilities of the Credit Risk function

In order to ensure the generation of long-term value, the credit risk management provides a mirror organization to the commercial area in each of the credit process stages (admission, approval, follow-up and recovery) and for each of the segments in which the Bank operates.

Under this scheme, there is an effective counterpart in the Credit Risk Division for every credit decision. This organization is applied equally to the Bank, subsidiaries and foreign branches, facilitating risk management throughout the whole Corporation.

The principal functions of the Credit Risk Division include:

- Proposing credit risk policies for the Bank to the Board.
- Establishing rules and procedures for all business segments covering the admission, approval, follow-up and recovery.
- Setting credit limits to be delegated to Bank executives.
- Resolving operations with individual or group debtors that, because of their amount, have to be approved - for amount and/or level of risk - or have to be taken to a higher level for approval because of their amount.
- Resolving operations that are exceptions to the mass markets credit policies.
- Based on individual and market information, and maintaining the character of an effective counterparty to the commercial line, collaborating with area business targets in terms of choosing debtors where a commercial relationship is feasible, or should be limited.
- Arranging training together with the commercial line.
- In approvals, identifying and quantifying the risks at the individual or group level, and by economic sectors and geographical areas, in order to ensure the recovery of the exposures in the established conditions and terms.
- Periodically following up the credit risk levels assumed with individual and group debtors, economic sectors and geographic areas.
- Maintaining a constant supervision of the collections subsidiary and its relationship with the Bank in order to optimize recoveries and reduce potential losses.
- Providing relevant information on economic sectors with respect to their present situation, prospects and technical-financial parameters in which the Bank-debtor relationship is recommendable.
- Supervising compliance with the risk objectives approved by the Board, through periodic performance reports and implementing corrective measures that are approved or proposed.
- Checking the correct valuation of assets given as collateral through the approval of appropriate external professionals and in accordance with internal definitions.

Focus Differentiated by Segment

The Bank's risk management is noted for having a differentiated focus depending on the segment in question. It is thus possible to identify three risk models:

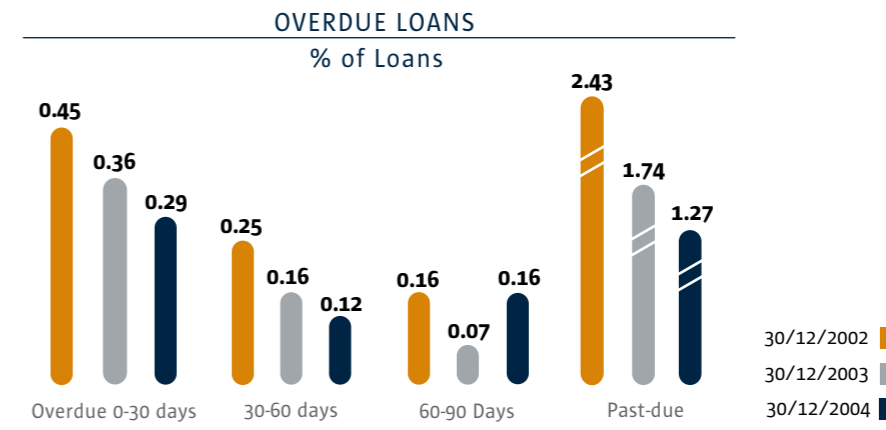
- Automated Model: which serves for the mass markets of individuals of a non-business nature, which are in turn sub-segmented.

The basis of these models is the integral automation of the process (admission, approval, follow-up and recovery) with approval models via scoring and behavior. These tools are complemented by an analysis of portfolio behavior which allows the feed back of the approval models, the credit process, the credit policy and maximum exposure levels by debtor.

- Semi-Automated Model: relates basically to a profile of income and qualification of debtors which serves for small businesses and non-business individuals. In these segments, the degree of automation is less and the case-by-case individual evaluation carries a greater relevance than in the automated model.

Operations approved under this model include the evaluation of quantitative and qualitative variables, particularly the debtor's cash flows, their commercial behavior and payment record and a suitable collateral cover (which are evaluated in terms of liquidity and stability of value).

- Case by Case Model: a personalized model with an individual expert evaluation (by risk level, amount of the operation, business complexity, etc.), which serves for the middle market and large businesses and corporations.
Operations approved under this model take into account the analysis of quantitative and qualitative factors while maintaining an adequate risk-return ratio.



Credit Management Control

The follow-up of debtors is the responsibility of the commercial areas because of their proximity to and direct contact with the customers. The Credit Risk Division controls the portfolio management on the basis of two large groups:

- Corporations Market: The control and follow-up of this group is based on a "Vigilance System" under which action plans are established and controlled for those customers about whom potential risks are detected.

There is also a permanent monitoring of past-due loans (including overdue loans) and portfolio quality through automatic evaluations and the establishment of risk committees.

Transfers of debtors with higher than normal risks to specialist collection and recovery units are made through formal credit committees in which executives of the Credit Risk Division take part.

- Mass Markets: Tools are available for this market for making an analysis of "stratum" or "vintage", by which the automatic approval and follow-up models are fed back. As for the businesses market, monitoring is constantly carried out of overdue loans and various risk indicators so that these fall within the margins approved by the management.

Risk classification, for its part, is calculated automatically as well as the management of early collections and transfers to the collections subsidiary company.

Risk Management 2004

The actions taken and strategies followed during 2004 in terms of credit risk management were concentrated both in support for achieving commercial targets, pre-selecting customers where the risk-return ratio is feasible, and in the management of transactions with above-normal risks and in the implementation of increasingly more timely preventive risk measures, which has enabled us to maximize recoveries.

Training sessions were held during the year for both the commercial areas and the operating support units, concentrating on strengthening coordination between the areas forming part of the business.

The combination of these actions, together with the more favorable global and regional economic environment, was reflected in the positive change in all the Bank's risk indicators.

The overdue portfolio as a percentage of total loans fell in the ranges 1 and 2, in line with the trend seen in recent years. There has been relative stability in the 60 to 90 days range, while the past-due portfolio showed an important decline to 1.27% in 2004 (according to the Bank's unconsolidated figures).

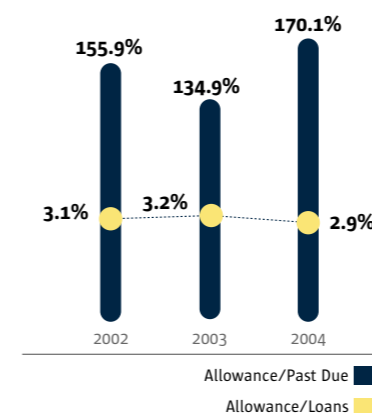
Allowances over Past Due loans reached 170.1% as of December 2004 (134.9% as of 2003) while the ratio of Allowances to Total Loans was reduced from 3.2% in 2003 to 2.9% in 2004.

As mentioned above, the focus on preventive risk measures provided a further increase in the recovery of loans written off.

Regarding loan portfolio concentration, there are no risk situations with respect to individual or group debtors; sector exposures are related to the country's productive structure.

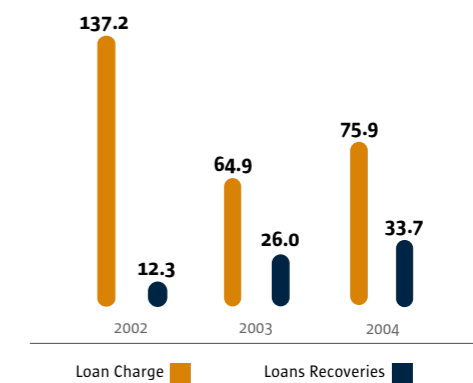
In the mass banking units, efforts have continued to correct the portfolio carrying higher-than-normal risk and admission, approval, follow-up and recovery systems were improved; the latter through the consolidation of scoring systems, segmentation of customers, analysis of "stratum" or "vintage", and the introduction of statistical behavior analysis tools that have enabled us to direct and focus sales efforts on pre-selected customer segments.

ALLOWANCES OVER PAST-DUE LOANS AND OVER TOTAL LOANS



LOAN CHARGE AND RECOVERIES

(billions of Ch\$ at December 2004)



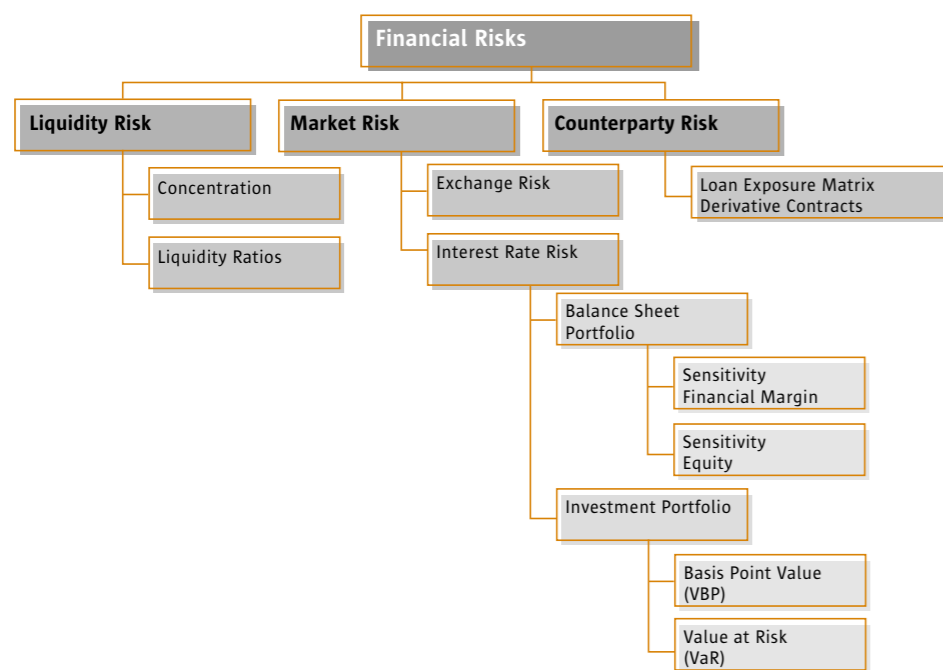
FINANCIAL RISK MANAGEMENT

The financial risk management of Banco de Chile is based on the concept that risk generates business opportunities but that these should be planned and limited as they need to be managed. We know that risk is the force that generates the returns required by our shareholders but we also know that the capital has a limited capacity to support losses.

Structure

Financial risk management is carried out mainly through the setting of a series of limits which are approved by the Finance and International Committee on the basis of the business strategy, market volatility, the liquidity of the products involved and risk tolerance.

Financial risk is managed by the Finance Division within the limits and in accordance with the policies set by the Finance Committee and the Board. The Finance Division manages the Bank's financial positions and its liquidity. It also manages the Bank's investment portfolio in order to maintain liquidity reserves, obtain profits on the trading of securities and maintain long-term positions to produce margins. For this, the Division sets funds transfer pricing that applies to the Bank's commercial areas.



Banco de Chile also has a Financial Risk Management whose main activities are:

- Monitoring the financial positions.
- Daily up-dating the data bases with market prices.
- Revisions of market valuations of financial investments
- Quantification of the financial risk under normal and stress conditions.
- Development of risk models.
- Monitoring of different risk levels.
- Generation and distribution of risk reports.
- Checking of compliance with limits set by the Finance Committee.

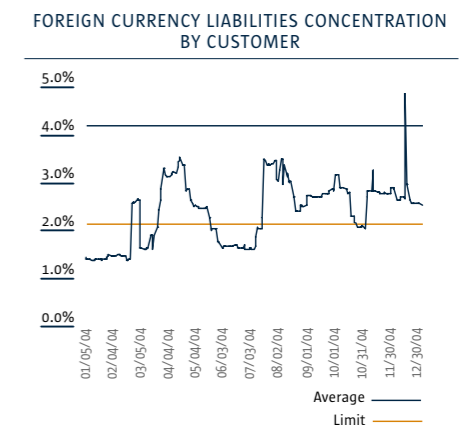
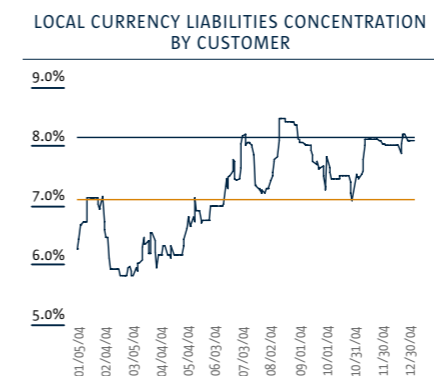
Measurement of Financial Risks

Financial risk management is mainly based in the measurement of Liquidity, Market and Counterparty risks.

i) Liquidity Risk

The proper management of liquidity allows us to adequately finance asset growth and meet our financial commitments acquired under the originally agreed conditions. Banco de Chile therefore seeks to diversify its sources of funds, establishing limits to concentration by counterparty. The following graphs show that the Bank has a well spread deposit base in both local and foreign currencies.

30-day liquidity ratios have also been established by currency, which limit current liabilities as a percentage of liquid assets.



To determine the degree of permanence of a liability, Banco de Chile makes behavior studies for quantifying the renewal rate of its obligations.

To cover its short-term liabilities, the Bank maintains a short-term financial investment portfolio comprising securities issued by the Central Bank of Chile. These securities have a high level of liquidity due to their market depth and their low "bid-offer" spreads.

Finally, Banco de Chile has also established a contingency plan that sets out a strategy to be followed when an event occurs that causes financial commotion, such as the following situations:

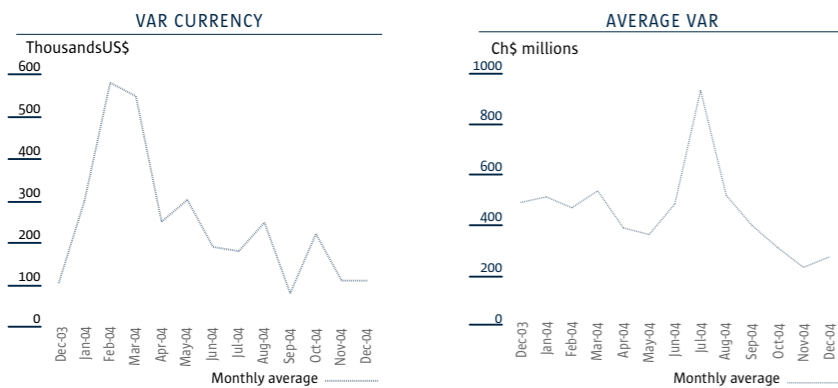
- A significant contraction in the liquidity of the financial sector as a result of monetary policy.
- A global liquidity crisis (e.g. the Mexican, Asian, Russian, etc. crises).
- A run on banks.

ii) Market Risk

Exchange Risk

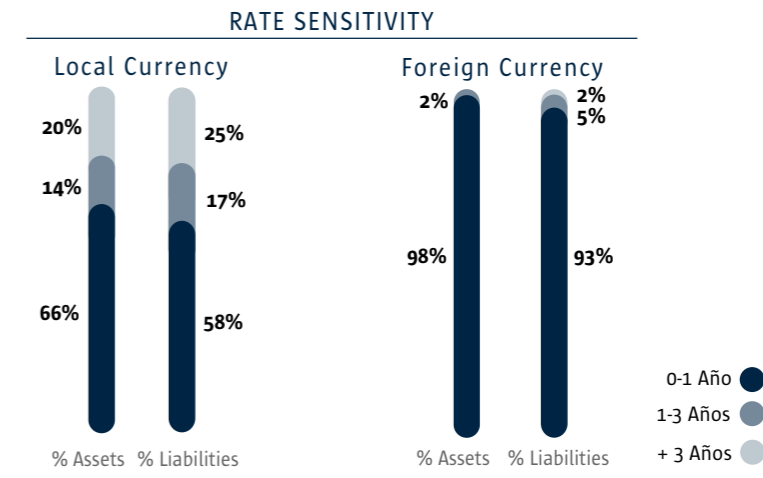
Banco de Chile manages its exchange risk exposure by means of an absolute limit on the maximum mismatch and also through the Value at Risk (VaR) methodology. This methodology is a statistical estimation of maximum potential losses given a level of confidence and a time horizon. Banco de Chile uses a 95% confidence level and a horizon of one day.

During 2004, the average monthly daily VaR related to the exchange position was 195 thousand dollars, achieving a peak of 898 thousand dollars in February.



Interest Rate Risk

• **Balance Sheet Portfolio:** The balance sheet of Banco de Chile is composed of assets and liabilities with differing maturity dates. Depending on whether it has an asset or liability position, fluctuations in the interest rate structure can adversely affect the Bank's gross margin and its economic value. To manage these risks, the Bank controls the sensitivity of the financial margin and the value of its equity in the face of changes in interest rates, by means of an analysis of the gap between assets and liabilities.



The sensitivity of the financial margin is a short-term measure of the change in the accrual of interest over a 12-month horizon in the face of a given change in interest rates. The sensitivity of the value of the equity is a long-term measure of the economic risk of the equity, i.e. the change in the present value in the face of changes in the interest rate structure.

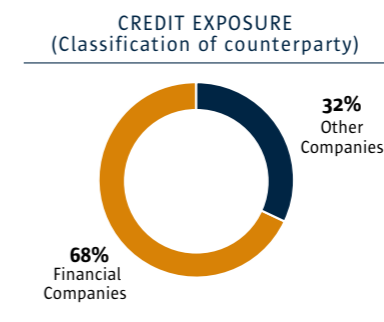
The Finance Committee has established limits for the sensitivity of the financial margin and economic value for both local and foreign currency. The following graphs show that, at the end of 2004, Banco de Chile has a low exposure to interest rate risk. The difference between assets and liabilities for the maturity bands: 0-1 year, 1-3 years and over 3 years, for both local and foreign currencies, is minimal.

- **Investment Portfolio:** Banco de Chile quantifies the interest rate risk on its investment portfolio by means of the Value at Risk (VaR) and the basis point value, which measures the variation in the present value of future cash flows in the event of a 0.01% change in the interest rate. During 2004, the maximum daily VaR was Ch\$1,222 million, with a minimum of Ch\$150 million and a declining trend as a result of the reduced volatility in interest rates.

iii) Counterparty Risk

Measurement of counterparty risk is the mechanism used to define the credit facilities granted to our customers when carrying out financial transactions, particularly derivatives.

At December 2004, 68% of the credit risk of our derivative contracts was with companies in the financial sector which includes banks, pension funds, insurance companies, stockbrokers, mutual fund managers, etc.



OPERATING RISK

The Bank Supervision Commission of the Bank for International Settlements (BIS) recently issued a new Basle Agreement, known as Basle II, which is expected to apply from the year 2006. This agreement establishes a clear operating risk definition, like the risk of losses as the result of inadequate and/or erroneous internal processes, persons, systems or external events. It includes the grouping of loss events into seven categories covering the whole field of operation with which it is proposed to establish an integral management function of operating risk that will allow it to be measured and to determine the regulatory capital requirement for this concept.

Objectives of operating risk management

- To detect risks (actual and potential) for taking decisions in the operating risk management process: eliminate, reduce, accept and transfer the risks.
- To continually improve the control and monitoring processes and mechanisms in order finally to minimize the risks that could affect it.
- To correctly measure operating efficiency in the lines of business.
- To establish processes for assigning funds (expected losses) and capital (unexpected losses) for meeting the requirements of Basle II.

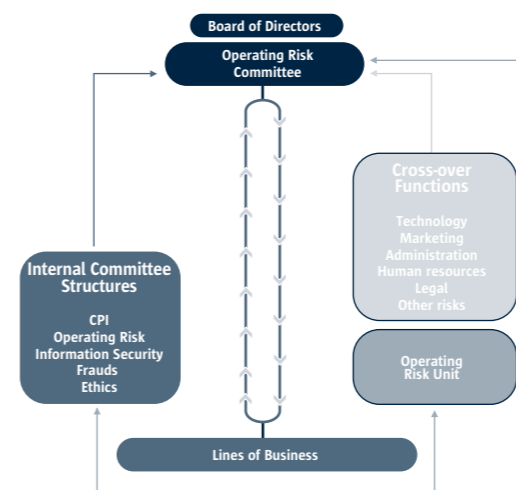
In order to cover the functions associated with the measure and control of operating risk, three lines of work have been defined:

- Security of information
- Operating control
- Continuity of business

Each of these tasks focuses on managing the operating efficiency associated with certain types of events of losses and has its own organizational structure, led by someone responsible with powers who will attend periodically the Division's Operating Risk Committee. There is also a unit that consolidates, manages and reports everything related to operating risk, called the Operating Risk Unit.

Governance environment at the Bank level

Governance of the operating risk function is established in a Committee responsible to the Bank's Board of Directors, which relates to the internal committee structures referring to risks (Committee for the Prevention of Irregularities-CPI, Fraud Prevention Committee-CPF, Ethics, Security) and is also linked with representatives of the functions that are transversal to the organization, like Human Resources, Technology, Administration and Legal.



The Operating Risk Unit in the Operations and Technology Division, consolidates and reports periodically to the Directors' Committee.

The principal activities of the Operations and Technology Division, operating risk management unit regarding risk matters, are:

- To propose to the board policies and rules for the management of operating risk.
- To ensure the correct implementation and compliance with policies and rules.
- To establish the adequate operating control model for the Bank's needs.

- Administration of loss event data bases.
- Administration of business continuity plans.
- Administration of the operating risk of outsourcing and business support companies.
- To provide consolidated risk management information to the Directors' Committee.
- To organize work meetings for defining and analyzing the measurement and mitigation of risks.
- To lead the development of initiatives and/or projects of an operating nature for mitigating risks.

The work carried out during 2004 included:

- Approval of fraud prevention and interchange models (monetary transaction customer claims) integrated at the Bank level, in order to have a global vision from the customer's point of view.
- Mapping of operating risks of 40% of the processes defined as critical.
- Implementation of the loss events data base.
- Implementation of fraud control in the payment of cheques.
- Development of an e-learning course and an induction plan for operating risk.
- Development of information security projects like the coding project with branches and access control over the production network; Digipass project; remote access model; security management portal and an e-learning course and induction plan.
- Development and approval of strategic information security plan year 2005.

III. RISK RATINGS

DOMESTIC RATINGS

Instruments	Feller Rate	Fitch - Chile
Time deposits up to 1 year	Level 1 +	Level 1
Time deposits of over 1 year	AA+	AA+
Mortgage-funding notes	AA+	AA+
Subordinated bonds	AA	AA
Shares	1 st Class Level 2	Level 2

INTERNATIONAL RATINGS

Instruments	Type of Rating	Current Rating
Standard & Poor's	Long-term issuer	A-
Standard & Poor's	Shot-term issuer	A-2
Fitch	Long-Term Foreign Currency	A-
Fitch	Shot-Term Foreign Currency	F2