

## Corporate Governance Practices

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### Structure and Principles

Banco de Chile is a company constituted in Chile whose shares are 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 governed by our bylaws, the General Banking Law, the Corporations Law, the Securities Market Law and the regulations of the Chilean Superintendency of Banks and Financial Institutions (SBIF) and the Superintendency of Securities and Insurance where applicable.

One of the principal objectives of Banco de Chile is to build business relations with its customers, both for their benefit and that of our shareholders, staff and in general the community in which we operate. Our corporate governance practices are intended to support the board and senior management in their supervision and management roles, in order to properly protect the rights of our shareholders and investors. By improving our internal self-regulation mechanisms, correctly responding to prevailing legislation and ensuring a consistent commitment to our fundamental principles, we reinforce the creation of long term value for our shareholders.

Our corporation's priorities are governed by ethical principles in all aspects of our business. The board of the Bank has explicitly stated and approved our Ethics Code which sets out the fundamental principles that serve to guide our decisions and lead the organization's business activity. This code incorporates our fundamental principles like compliance with the law and internal and external regulations, confidentiality, integrity and responsibility, both corporate and individual.

The board of the Bank, consisting of eleven directors and two alternate directors, is the organ that defines the organization's strategic guidelines. The complete board of directors is elected every three years. The present board was elected in March 2005 for the period until March 2008. The chief executive officer is appointed by the board and remains in that position as long as the board decides. According to the law and the bylaws, ordinary board meetings must be held at least once a month. In practice, the board meets twice a month, except in February. Extraordinary meetings may be called by the chairman of the board or at the request of one or more directors.

The board delegates certain functions and activities to the directors' committees. This provides for an analysis of specific matters in depth by the committees and provides the board with the information necessary for the discussion and debate of the general policies and guidelines covering the Bank's business.



(1) As a foreign company, we are not obliged to comply with some of the corporate governance standards set by the New York Stock Exchange (NYSE) but we can be governed by Chilean practices. However, with the exceptions indicated in our internet page, our practices comply with the regulations of the NYSE in their most significant aspects.

## Directors' and Audit Committee

The board meeting (No.2596) of Banco de Chile held on March 24, 2005 agreed that the Directors' Committee would assimilate the functions of the Audit Committee, assuming the inherent obligations and responsibilities. A new statute was therefore established in accordance with the requirements set out in clause 50 bis of the Corporations Law No.18,046 and Chapter 1-15 of the Current Rules of the Superintendency of Banks and Financial Institutions (SBIF). The committee's operating expenses budget is approved by the ordinary shareholders meeting.

According to clause 50 bis of the Corporations Law No.18,046, this committee is responsible for examining the reports of the external auditors, balance sheets and other financial statements; proposing the external auditors and credit-rating agencies; examining the details of transactions with related parties; and analyzing the senior executives' remuneration systems and compensation plans.

Chapter 1-15 of the Rules of the SBIF, for its part, taking into account the growing trend toward more self-regulation of the financial system and in order to produce greater efficiency in internal control systems and compliance with local and international regulations, states that the committee is responsible for different aspects that involve the maintenance, application and functioning of the Bank's internal controls, the risks of its business activities and compliance with the regulations and procedures.

At its meeting (No.2,643) held on April 12, 2007, the board agreed to appoint as members of the Directors' and Audit Committee, Jorge Awad (chairman), Jaime Estévez and Thomas Fürst. Under Chilean law, the Directors' Committee should comprise three members, the majority of whom should be independent of the controller. The members of the committee will remain in their positions for a maximum term of three years or until the end of the term of the board, if earlier.

As stated in the committee's statutes, the chief executive officer, legal counsel and controller, or their respective deputies, also attend meetings. Meetings may also be attended, as specially invited guests, by a representative at the partner level of the Bank's auditing firm and other persons that the committee may invite for one or more meetings. The committee's organization, objectives, responsibilities and scope of its work are contained in the statutes whose amended and complemented text was agreed at the meeting (CDA-05) held on July 27, 2005.

The committee's objectives are to seek the efficiency, maintenance, application and functioning of the internal control systems and compliance with the rules and procedures; supervise compliance of the rules and procedures governing the banking business and identify the business risks of the Bank and its subsidiaries; supervise the functions of the Risk Control Division, ensuring its independence from the management; supervise the functions of the Global Compliance Division, to serve as a link and coordinator of tasks between the internal audit work and the external auditors, also acting as a link between these and the Bank's board and perform the functions and responsibilities set out in clause 50 bis of the Corporations Law 18,046 and Chapter 1-15 of the Rules of the SBIF

The committee met on 15 occasions during 2007 and the matters examined included:

- Examination of the proposed fees of the external auditors and credit-rating agencies;
- Analysis of the reports, content, procedures and scope of the revisions of the external auditors and credit-rating agencies;
- Information on and analysis of the annual internal audit program and the results of internal audits and revisions;
- Analysis of the interim and annual financial statements;
- Analysis of the Bank's financial statements included in the form 20-F, for presentation to the Securities and Exchange Commission – SEC (USA);
- Information on accounting changes occurring during the year and their effects;
- Revision of special cases affecting the internal control systems;

- Analysis of the remuneration systems and compensation plans for managers and senior executives;
- Analysis of the 2007 performance self-evaluation process carried out by the Bank;
- Analysis of related-party transactions, being those referred to in clauses 44 and 89 of the Corporations Law No.18,046;
- Information on and analysis of activities relating to foreign branches;
- Analysis of policies relating to operating risk and progress in the risk-management process and SOX self-evaluation, in the context of Basel II;
- Information on and analysis of matters relating to the Global Compliance Division, related principally to the revision of policies for detecting and sanctioning money-laundering transactions;
- Revision of customer communications made through the SBIF to the customer ombudsman;
- Analysis related to revisions made by the SBIF and external regulatory organisms in the case of foreign branches;
- Analysis of the agreements and contracts related to the merger between Banco de Chile and Citibank Chile;

## Loan Portfolio Committee

The principal function of this committee is to be informed of changes in the composition and risk of the Bank's loan portfolio from both a global perspective and from a sector point of view, segmented by line of business. The committee reviews in detail the principal debtors, the overdue rate, past-due loan indicators, write-offs and allowances for the loan portfolio.

It is also the function of this committee to discuss and prepare proposals to be approved by the board with respect to credit policies, portfolio evaluation criteria and the calculation of allowances to cover expected losses in the portfolio, plus knowing the analyses of the adequacy of allowances.

It also authorizes extraordinary write-offs of loans where recovery efforts have been exhausted, and controls the liquidation of assets received in lieu of payment.

This committee comprises two directors plus the chief executive officer, the Credit Risk Division manager, the Corporate Risks area manager and the Risks and Recovery Control manager. Meetings are held monthly.

## Credit Committee

This committee is the highest level for approval of credit operation in accordance with the discretionary limit scheme defined by the board, deciding on business falling within the corporate credit risk criteria (including the Bank, subsidiaries and foreign branches) whose individual and/or group amount for approval is more than UF 500 thousand.

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

This committee is made up of all the directors (minimum approval quorum of three) and the chief executive officer. The Credit Risk Division manager and the respective commercial area managers submitting the proposals also take part. Meetings are held weekly.

## Finance, Financial Risk and International Committee

The Finance, Financial Risk and International Committee is a level for discussion and analysis for the setting of policies with respect to the Bank's financial management, particularly the level of market risk and the financial business in which the Bank wishes to participate. The committee meets monthly and is composed of the chairman and five directors, an adviser to the board, the chief executive officer, the Finance Division manager, the Corporate and International Division manager, the Planning and Management Control Division manager,

the Corporate Risk manager and the Financial Risk manager. In addition, in 2007, this committee incorporated Juan Andrés Fontaine as an adviser in order to know periodically the conclusions of his analysis of the economic environment.

Detailed explanations are made of each of the matters under its responsibility and analyses are made, including of the following matters:

- Analysis of the economic and financial environment;
- Definition of the policies, procedures and limits with respect to market risk;
- Control and checking of compliance with internal and regulatory limits;
- New operations and financial business;
- Monitoring of positions and related financial risks;
- Monitoring of positions of outstanding derivative transactions;
- Control of the use of financial operation counterparty limits;
- Analysis of requirements and composition of liabilities and equity;
- Definition of financial investments policy;
- Assignment of the Bank's capital for different asset operations;
- Definitions concerning the policy for fixing the cost of funds;
- Financial administration of foreign branches;
- Changes in international exposure;

## Asset Laundering Prevention Committee

Banco de Chile set up a Corporate Asset Laundering and Financing of Terrorism Prevention Committee in April 2006. Its purpose is to define the policies and procedures making up an Asset Laundering and Financing of Terrorism Prevention System, evaluate compliance and decide on all matters related to these subjects.

It is thus sought to prevent the Corporation from being used to legitimate assets deriving from illicit operations and/or obtaining finance for terrorism, in order not to expose it to reputation, operative and/or legal risks and to comply strictly with the present and future law and regulations. This committee comprises the chairman of the board, the chief executive officer, the legal counsel, the Operations and Technology Division manager and the chief executive of Banchile Administradora General de Fondos. The Risk Control Division manager, the Global Compliance Division manager and the Chile Area Compliance manager are also members of this committee with the right to speak.

The Committee meets monthly and has the following functions:

- To approve the policies and procedures concerning knowledge of the customers and their activities, and the acceptance and follow-up of their accounts, products and operations;
- To approve policies and procedures concerning unusual transaction detection systems, formal channels of information to senior levels and monitoring, analysis and reporting mechanisms;
- To approve policies and procedures concerning vigilance methods and relations with correspondent banks;
- To approve policies and procedures concerning staff selection, training programs and code of conduct;
- To approve a policies and procedures manual for Asset Laundering and Financing of Terrorism Prevention;
- To appoint persons to perform specific functions in accordance with current regulations concerning the prevention of asset laundering and financing of terrorism;
- To analyze the results of the revisions made to verify compliance with current policies and procedures;

- To be informed of the transactions analyzed and decisions taken by the Transactions Analysis Committee;
- To be informed of and approve modifications to procedures proposed by the Global Compliance Division to improve present controls for the prevention of asset laundering and financing terrorism.
- To inform the Board of regulatory changes related to the prevention of asset laundering and financing of terrorism.

## Disclosure Committee

In May 2003, Banco de Chile set up a Disclosure Committee to formalize the steps necessary for ensuring that information given to the market has the necessary accuracy and depth.

This committee comprises the chief accountant, the senior lawyer for international matters, the Risk Control Division manager, the Planning and Management Control Division manager, the Planning and Research area manager, and the Investor Relations manager, who review the quarterly reports and in general all the financial information disclosed by the Bank.

## Ethics Committee

The Ethics Committee, formed in 2005, has the mission of defining, promoting and regulating in the corporation a behavior of professional and personal excellence coherent with the company's philosophy and values, so as to respond to the trust deposited in it by customers. To comply with these objectives and promote a culture of ethical behavior, it is developing activities in the areas of rules, training and communications. It sets policies and ensures their compliance, prepares training plans related to ethics in our business and publishes, informs and reinforces the various dimensions of ethical behavior. It represents a level for the resolution of different situations in which there is a conflict between a certain conduct and the values promoted by the Bank.

This committee is presided over by the manager of the Human Resources Division and comprises the legal counsel and the managers of the Risk Control, Retail and Companies, Operations and Technology and Large Companies divisions.

## Risk and Compliance

It is also a function of the Board to be informed about the general risk management and compliance practices. Structures have therefore been created that, reporting directly to the Directors' and Audit Committee, enable it to monitor and guide these processes on behalf of the shareholders.

## Corporate Risk Management

During December 2005, the Bank set up the Corporate Risk Management that reports to the Directors' and Audit Committee in order to carry out the following functions:

- Centralization and coordination of the activities of corporate risk management;
- Implementation of an integrated risk management scheme throughout the organization;
- Provide information to the Board for permitting the optimal use of capital;
- Maintain the chief executive officer, and the board, through the Audit Committee, Finance Committee and
- Loan Portfolio Committee, informed on risk matters;
- Liaising with regulatory entities;
- Global responsibility for the implementation of new accounting rules (IFRS) and the preparation of the Bank for Basel II.

## Global Compliance

The Global Compliance Division is responsible for defining the policies and procedures, and ensuring compliance with the regulatory requirements established for preventing asset laundering and financing of terrorism. The Division operates independently and reports directly to the Directors' and Audit Committee. It is responsible for these matters in the Bank and its subsidiaries.

Banco de Chile has a program called Policy for the Prevention of Asset Laundering and Financing of Terrorism, which contains the measures necessary for strengthening and ensuring compliance with the regulations on this matter, in the businesses of both the Bank and its subsidiaries.

In order to carry out the functions of transaction control, analysis and monitoring by the division more efficiently, a restructuring was carried out during 2007 which resulted in the establishment of three lines of action separated by functions: transaction, risk and systems analysis, and internal management control. A new manager was also appointed in April 2007 whose principal mission is adapting to the rules issued by the SBIF in Chapter 1-14 of its Updated Rules.

The actions of the Global Compliance Division in 2007 were focused on implementing processes and controls for complying with the above-mentioned requirements. Projects begun in 2006 were completed referring to a risk model which permitted the segmentation of the corporation's customer portfolio as a function of the risk of asset laundering; a monitoring system based on historic transaction profiles; automation in the preparation of regulatory reports sent to the Financial Analysis Unit and implementation of filters for payment orders sent abroad.

In the last months of 2007, two divisional projects were concluded related to the campaign for updating customer information and implementation of a world-class system for transaction monitoring which will assist the organization to continue maintaining its high standards of compliance with external regulations referring to the prevention of asset laundering.

## Directors' Remuneration and Expenses

The total amount paid as directors' remuneration during 2007 amounted to Ch\$ 2,300.1 million, as compensation for their services and attendance at meetings. No provision has been established for pensions, retirement or other similar benefits for the directors or other senior executives. The law makes no provision for the need to have a Remunerations Committee, but the Directors' Committee should approve the remuneration and compensation plans of managers and senior executives.

Further details of directors' expenses and remuneration are provided in Note 25 to our financial statements for 2007.