



Corporate Governance Practices

Structure and Principles

Banco de Chile is a company constituted in Chile and 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 governed by our bylaws, the General Banking Law, the Corporations Law, the Securities Market Law No. 18,045 and the regulations of the Chilean Superintendency of Banks and Financial Institutions.

One of the main 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 regulations 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 justice, confidentiality, integrity and responsibility, both corporate and individual.

The Board of the Bank, comprising 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 alternate directors were elected in March 2006. 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 are held at least once a month. Extraordinary meetings may be called by the Chairman of the Board himself or at the request of one or more directors subject to the Chairman agreeing that there is a need, or by the absolute majority of directors in which case the Chairman does not necessarily have to agree.

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), therefore we can be governed by Chilean practices. However, with the exceptions indicated in our web site, our practices comply with the regulations of the NYSE in their most significant aspects.

The Bank has internal self-regulation mechanisms and a Code of Ethics that serves to guide and conduct the commercial activity of the organization.

Directors' and Audit Committee

The board meeting (No. 2,596) of Banco de Chile held on March 24, 2005 agreed that the Directors' Committee would assimilate the functions of the Audit Committee into its own to form the Directors' and 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. 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; proposition of the external auditors and credit-rating agencies; examining the details of related transactions; and analyzing the senior executives' remuneration systems and compensation plans.

Chapter 1-15 of the Rules of the Superintendency of Banks and Financial Institutions, for its part, and 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.

The same board meeting agreed to appoint Jorge Awad, who presides it and is the expert member in financial matters, Gonzalo Menéndez and Thomas Fürst as members of the Directors' and Audit Committee. 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 established in the Committee's statutes, the Chief Executive Officer, Legal Counsel and Controller, or their respective deputies, also attend these 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 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 No. 18,046 and Chapter 1-15 of the Rules of the Superintendency of Banks and Financial Institutions.

The Committee met on 23 occasions during 2006 and the matters examined included:

- The fees proposals of the external auditor 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 2006 performance self-evaluation process carried out by the Bank;



Corporate Governance Practices

- 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 process, 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 and their application;
- Revision of customer communications made through the Superintendency of Banks and Financial Institutions;
- Analyses related to revisions made by the Superintendency of Banks and Financial Institutions and external regulatory organisms in the case of foreign branches.

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 and line of business point of view. 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 Committee's function to discuss and prepare proposals for approval by the Board with respect to credit policies, portfolio evaluation methods and the calculation of provisions for doubtful accounts; it is also informed of the allowance sufficiency analysis.

In addition, it 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 Restructuring Control manager. Meetings are held monthly.

Credit Committee

This Committee is the highest level of approval for credit operation presentations 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 250 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 areas submitting the proposals also take part. Meetings are held weekly.

Finance and International Committee

The Finance and International Committee is an instance 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, the Chief Executive Officer, the Finance Division manager, the Corporate and International Division manager, the Planning and Management Control Division manager and the Financial Risk manager. 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 businesses.
- 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 exposures.

Asset Laundering Prevention Committee

Banco de Chile set up its 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 to obtain financing 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 and the Global Compliance Division manager are also members of this Committee with voting rights.

The Committee meets monthly and has the following functions:

- To approve the policies and procedures concerning knowledge of the Corporation's 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 revise and 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 specific training plans proposed by the Global Compliance Division.
- 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 detail.

This Committee is composed of the Chief Accountant, the Senior Lawyer for international matters, the Risk Control Division manager, the Planning and Management Control Division manager, the Global Compliance 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 published by the Bank.

Ethics Committee

The Ethics Committee was formed in 2005 to define, promote and regulate in the Corporation's staff a behavior of professional and personal excellence, coherent with the company's philosophy and values, in order to respond to the trust placed in it by its customers.

To meet these objectives and promote a culture of ethical behavior, activities are arranged on regulatory, training and communicational scope. It sets policies and ensures their compliance, develops training plans related to ethics in our business and publishes, informs and reinforces the different behavioral dimensions. It is also the level for resolving the various situations where there is a conflict between a certain conduct and the values that the bank promotes.

This Committee is presided by the Human Resources Division manager and comprises the Risk Control manager, Legal Counsel, the managers of the Risk Control, Individuals and Companies, Operations and Large Corporations divisions.



Corporate Governance Practices

Risk and Compliance

It is also a function of the Board to be informed about the general practices of risk management and compliance. The Corporation has therefore created structures which, 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 Compliance

The Global Compliance Division was created in April 2005 to define policies and procedures, jointly with the commercial and operations areas, and to check compliance with specific aspects of the regulatory requirements established for preventing asset laundering. The Division operates independently and reports directly to the Directors' and Audit Committee. It is responsible for all the businesses of Banco de Chile, in Chile and the United States of America, including all the subsidiaries of Banco de Chile.

That same year, Banco de Chile began a program called Global Policy for the Prevention of Asset Laundering and Financing of Terrorism. This is applicable to all its businesses, foreign branches and subsidiaries, and seeks to apply all the measures necessary to further and ensure compliance with the regulations, with emphasis on the international regulations of this subject. This policy was designed to meet the regulatory requirements of all the jurisdictions in which Banco de Chile has a presence. This implies that it extends to the regulatory requirements of the legislation in Chile and the United States of America, as well as the principal international regulations on the subject.

In March 2006, the Superintendency of Banks and Financial Institutions introduced an amendment to Chapter 1-14 of its Current Regulations. This has implied redefining some of the program guidelines to adapt them to the new requirements.

During 2006, the actions of the Global Compliance Division in Chile were focused on generating a compliance culture in prevention matters and developing the activities necessary for implementing the new above-mentioned requirements and ensure their compliance. This has required constant training of Bank staff and the designing of a communications plan for transmitting all the information necessary to the organization's personnel.

In the case of the operation in Chile, the Board in October 2006 approved the modification of the Asset Laundering and Financing of Terrorism Prevention Policy for the businesses of Bank in Chile, whose original version had been approved and implemented in April 2001 and later revised in September 2005. The number of area analysts dedicated to monitoring transactions was increased in 2005 and 2006, and their functions were restructured, segmenting the analysts by individuals, companies and private banking.

Additionally a regulatory monitoring and testing unit was also formed to ensure compliance with the policy's requirements. Furthermore, a training plan was formalized which includes new recruits to the Corporation and periodic training sessions. The main focus in the United States branches was centered on the implementation of activities defined in the action plans agreed with the US regulatory authorities the year before for correcting the deficiencies detected by The Office of the Comptroller of the Currency (OCC) and the Board of Governors of the Federal Reserve (FED) in the New York and Miami branches respectively. Great progress was achieved in 2006 with the action plan agreed with the regulators and it is planned to complete the updating of customer information in 2007, this being the last point whose implementation has not yet been finished.

The Global Compliance Division showed progress in 2006 in the construction of a product and service risk evaluation for making periodic checks of regulatory compliance. Also contributing to this was the incorporation of specific matters which are revised by the Risk Control Division.

In October 2006, an additional restructuring was begun which meant incorporating a new area manager in Chile and creating a coordination function for those matters relevant to the United States and Chile. The Division may thus provide better risk analysis coverage and monitoring of customer transactions. It will also help to prepare the necessary technological developments for fully complying with the regulatory requirements and whose implementation is foreseen for 2007.

Directors' Remuneration and Expenses

The total amount paid as directors' remuneration during 2006 amounted to Ch\$ 2,126.4 million, as compensation for their services and attending meetings. No provision has been established for pensions, retirement or other similar benefits for the directors or other senior executives. The Corporations Law makes no provision for the need to have a Remunerations Committee. By that law, the Directors' Committee should approve the remuneration and compensation plans of senior management.

Further details are provided in Note 25 of our financial statements for 2006.