



Risk Management





Risk management is set out in the strategic planning through a rigorous information system that includes all activities of the Bank.

Banco de Chile



Risk Management

Risk management in Banco de Chile is carried out through an integrated management of risk and return focused on the optimization of capital and creation of value, with a corporate vision that includes both the management of the Bank and of its subsidiaries and foreign branches.

We have a highly-integrated system of risk/return information which is set out in the strategic planning based on the creation of value for our shareholders.

The corporation's maximum risk-control authority is the Board which, through its Finance, Credit, Portfolio, Directors' and Audit committees, works through a process of risk identification, quantification and control.

The Corporate Risk Management is the link between these director committees and the management areas specialized in the different risks.

Specific measurement systems are used for risk management, but are unified through the assignment of capital. The strategic planning defines ex-ante the maximum acceptable risk for the corporation and the required capitalization coherent with the Corporation's business strategy in the future.

The specific objectives of the corporation's risk management are:

- To determine the desired level of risk for each line of business.
- To align business strategies with the established level of risk.
- To communicate to the commercial areas the organization's desired risk levels.
- To develop models, processes and tools for evaluating, measuring, controlling and correcting risk in the different business lines and areas.
- To inform the Board of the characteristics and evolution of risk in the different business areas.
- To propose action plans in the event of serious deviations with respect to risk ratios.
- To ensure compliance with the various rules and regulations relating to risk management.

The organizational level that coordinates risk management at the group level is the Corporate Risk Management, whose principal functions are:

- Centralization and coordination of corporate risk management activities.
- Implementation of an integrated risk management system throughout the organization.
- Provide information to the board for managing the optimal use of capital.
- Maintain the Chief Executive Officer and the Board, through the Directors' and Audit Committee, Finance Committee and Loan Portfolio Committee, informed on risk matters.
- Interrelation and coordination with regulatory entities.

The Bank counts with specific measurement systems according to the type of risk, which are unified through the assignment of capital.

This management area reports directly to the Directors' and Audit Committee and the Chief Executive Officer, and is responsible functionally for the credit, financial and operating risk areas.

One of the purposes of risk management is to ensure compliance with the new standards and regulations. In this sense, our Bank takes an active part in the technical committees organized by the SBIF in order to progress toward the adoption of the new accounting rules according to IFRS principles and of Basel II.

With respect to the new accounting principles, we began to use the internationally accepted rules from June 30, 2006 for the trading book, as explained in another note in this annual report, and, regarding the banking book, we have made a series of suggestions to our regulator in order to progress toward the adoption of IFRS.

The new requirements contained in the international agreement known as the Basel II Accord have led Banco de Chile to introduce different initiatives gradually, with respect to technology and staff training, directed to incorporating the new requirement concepts and assignment of capital to its whole business, both commercial and operational.

The timetable for implementation in Chile of the Basel II Accord, contained in the route map issued in January 2005 by the SBIF sets out the periods of quantitative impacts QIS3 and QIS5 and finally the periods of capital stress. All this has been successfully carried out by our Corporation.

For 2007, the SBIF is considering making parallel shifting of capital requirements with the standardized method, including assignment of capital for operational risk. Our Bank is prepared for these parallel exercises. The exercises are carried out in parallel because, in order for their results to be translated into capital requirements,

it is necessary to amend the General Banking Law which is based on Basel I. Nevertheless, internal exercises show us that our present level of capital is sufficient to sustain the current volume of business.

With respect to the SOX certification process (which will be explained below under the section Operating Risks), the principal objective of the exercise carried out was not just the need to comply with a regulatory requirement but was an opportunity to improve the quality of internal controls and instill a discipline of constant self-testing and thus introduce to all levels of the Corporation a culture of mitigation of potential operating risks. The organization described, together with the Corporation's various advances in the area of risk management, is a further reflection of Banco de Chile's commitment to its shareholders in building a leading bank in the Chilean financial industry. The following is a description of each of the Bank's risk control areas, their main functions and their performance during 2006.

Credit Rating at December 2006

Chilean Rating Agencies

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

International Rating Agencies

Instruments	Type of Rating	Current Rating
Standard & Poor's	Long-term Issuer	A
Standard & Poor's	Short-term Issuer	A - 1
Fitch	Long-term Foreign Currency	A
Fitch	Short-term Foreign Currency	F1



Credit Risk

Corporate Principles

Credit risk arises from the partial or total default by one or more customers with respect to their financial obligations with the Bank. This risk is usually the principal source of demand for financial capital for a financial institution, which explains the strategic importance that Banco de Chile gives to its best performance.

The implementation of best practices in credit-risk management is a priority for the Bank and all its subsidiaries, having a global and unified vision and with a strong future orientation, trying to provide a predictive capacity to management of the portfolio. This management has enabled us to consistently maintain high quality levels of our assets, favoring the creation of value to our shareholders.

Banco de Chile recognizes in its credit policies and processes the different nature of the various markets and segments, giving each one the pertinent credit treatment that in general terms translates into the implementation of mass processes for individuals and a case-by-case approach to companies.

Another basic principle of our credit-risk management is its pro-active nature throughout the whole credit cycle (admission, follow-up and recovery). This enables us to constantly evaluate our exposures, actively manage the different portfolios and, should signs of deterioration appear, act in good time, to permit us to mitigate the risks and/or reduce the exposures in order to reduce the potential risk of our portfolio.

The Board of the Bank takes an active part in credit-risk management, specifically through the Directors' Credit Committee and the Portfolio Committee. The former approves large credit facilities while the Portfolio Committee evaluates the behavior of the portfolio monthly, revising all the relevant credit-risk indicators which are compared with the system, for all the segments and products, thus providing guidelines on credit-risk control matters.

How Credit Risk is approached

The purpose of the Credit Risk Division is to contribute to optimizing the risk-return relationship for all the Bank's business areas while maintaining at all times a risk quality consistent with the levels of return sought by Banco de Chile, providing compatible services in agility and specialization meeting the requirements of our different customers.

In line with the Bank's strategic objectives, the Credit Risk Division is functionally independent in order to be able to ensure full compliance with the criteria provided by the board relating to risk quality, which in turn are complementary to the Bank's commercial objectives.

The Credit Risk Division of Banco de Chile therefore has an organization in line with its commercial structure in order to provide suitable credit-risk solutions to each business segment. For the mass markets, we work with automatic evaluation models (scorings), policies and structured procedures and mass follow-up schemes, etc. For the corporate market, in addition

to evaluating the risk, we provide advice in the structuring of each business, from a risk point of view.

Principal objectives of credit Risk management:

- To propose the bank's credit-risk policies to the Board.
- To establish for each business segment the rules and procedures to be followed in the admission, approval, follow-up and recovery.
- To administer the rules set by the board concerning credit discretionary limits that are delegated to Bank executives, applying conservative and prudent criteria.
- To resolve on operations that constitute exceptions to the mass markets credit policies.
- To select creditworthy customers, proposing limits for their operations, in order for the commercial areas to manage associated business with greater flexibility.
- To develop a permanent vigilance function that enables the Bank to anticipate unforeseen events.
- To have an integral concern about the whole credit process in terms of credit-risk, commercial, service-quality and operating-efficiency aspects.

- To identify, quantify and control risks generated by credit operations, of both individuals and conglomerates and by economic sectors and geographical areas.
- To administer the recovery of assets with above-normal risks, directly in the case of commercial loans and through constant supervision in the case of subsidiaries.
- To build up evaluation, approval and follow-up models for the different markets, through expert knowledge and also by using econometric models.
- To provide executive capacity in decision-taking, ensuring there is the knowledge required in the organization for the different products and segments, and develop a credit culture that favors the maintenance of high-quality assets.
- To provide tools for the compatible development of international risk-management models to meet the requirements of Basel II.

Admission Process

The analysis and approval of credits by the Bank operate under a differentiated focus according to each market segment. There are three credit-risk approval models: automated, semi-automated and case by case.

The automated model is directed to mass retail banking markets of a non-business nature and is based on the integral automation of the processes (admission, approval, follow-up and recovery) and

scoring and behavior approval systems. The semi-automated model is applied to small businesses and individual business people. In these segments, the level of automation is lower and the individual case-by-case evaluation carries greater weight, the automated evaluation acting as a support for the decision. Lastly, the case-by-case model is used for the middle and large companies and corporations and is noted for the expert individual evaluation, whether by risk level, the amount of the operation or the complexity of the business, among other variables.

Follow-up and Recovery

The control and follow-up of credit risk is managed in two large groups: the companies market and the retail market. In the first, the control and follow-up is based on a vigilance system that detects in time those customers who present potential risks, through a constant monitoring of bad debts and the quality of the portfolio. In the retail market segment, control and follow-up is carried out through an analysis of batches or vintage through which feed-back is provided to the automated approval and follow-up models. As for the companies market, there is a constant monitoring of bad debts and different risk indicators so that these remain within the margins approved by the management. These models provide for a pro-active management when certain loans deviate from expected behavior, thus in many cases preventing these from deteriorating further.

Allowances and Expected Loss

An allowance is made for the portfolio as a result of an analysis made of the retail and company markets.

For the retail market, comprising the individuals segment, the models used for estimating expected losses are differentiated between individuals without a commercial business belonging to the Individuals Banking portfolio or the portfolio of Banco Credichile. This differentiation arises from the necessary recognition of the different demographic characteristics of the customers that form part of the objective markets of these commercial areas, who have different risk behaviour, whether actual or estimated.

Taking this into account, each model has been designed and programmed to generate an adequate and sufficient level of allowances to cover the expected losses of the loans over a future horizon of at least twelve months. This estimate is in turn made by type of product (instalment loans, credit cards, lines of credit, restructured loans, etc.) and by payment record (current, overdue up to 30 days, overdue between 31 and 60 days, overdue between 61 and 120 days and overdue between 121 and 180 days). The models thus produce risk matrices using the product/payment record tranche combinations as the two principal segmentation variables. In addition, the estimate of expected loss for each product/payment record tranche combination is made taking into account the different dimensions of information like the internal and external payment behavior of the customers and the global level of bank debt of customers compared to their monthly income at the time of analysis (leverage).



Credit Risk

The consistency and coherence of the models is checked periodically through a back-testing analysis which allows the monitoring and comparison of actual loans losses with the expected losses according to the models, generating an environment of continuous feedback that enables us to improve the design of the models used.

For the companies market, the rating process is implicit in the approval process, taking into account aspects of commercial behavior and payment, as well as financial, sector and business management factors. The rating is made according to the risk categories set out in the regulations. Given the follow-up and continual vigilance made of this market, these categories are constantly being updated according to the favorable or unfavorable evolution of our customers and their environment.

In recent years, rating models have been developed and tested, built with expert knowledge for this market, but they still require a statistical follow-up for judging their predictive capacity for different economic cycles, in order to keep developing an “estimated losses” model.

The Bank therefore, through these analysis mechanisms, is responding to the route map of the Basel Accord II defined together with the SBIF.

Adequacy of Allowances

Allowances are related to the expected risks, which are modelled according to the different markets and segments related to the portfolio. The proper management of allowances is essential for advancing in the adoption of the new capital adequacy framework proposed by the SBIF.

In order to check the processes of risk evaluation and the expected portfolio losses estimate, a test of allowance adequacy is made annually; this includes the broadest tests for each segment of the portfolio. The Credits Division carries out tests including migratory analysis, random samples and case-by-case evaluations, that enable it to confirm with a high degree of confidence that the Bank's present allowances are sufficient to cover the expected losses of the different segments. This analysis includes loans with normal risk and those that are sub-standard. This is presented to the board which should express its opinion about the adequacy of the allowances for each year.

The Bank also makes additional allowances responding to conservative criteria and in anticipation of sporadic and foreseeable events in the economic environment that might involve a potential increase in portfolio risk. These additional allowances are determined on the basis of econometric models.

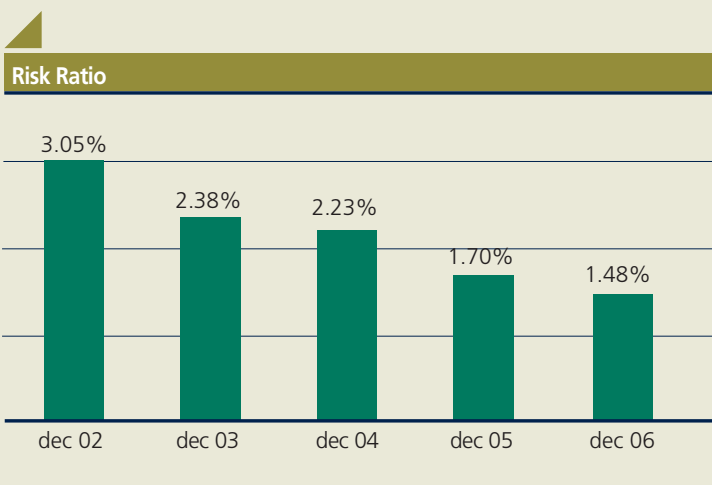
Finally, the revisions made, both by the external and internal auditors, confirm that the credit risk of Banco de Chile is widely known.

International Risk

Country risk is the factor that interlinks the international scales with the local risk scale for a given country. The essential difference between both scales is that the risk ratings of the former include the country risk as a credit-risk factor, whereas the latter do not take this into account as there is no such risk within the jurisdiction of a sovereign nation if the exposure is denominated in local currency.

A proper credit-risk management ensures the maintenance of the best quality of the cross-border portfolio, whether for operations granted in Chile or those granted by the foreign branches. The methodology used takes into account for each country an integral analysis of political, economic and social aspects, which generates its own country credit rating, which is complemented by the ratings granted by the principal international credit-rating agencies. The objective of this function is to minimize the risks inherent in resources committed through loans or investments abroad.

The respective commercial divisions and the Credit Risk Division propose to the Directors' Credit Committee a global foreign exposure framework which includes the internal risk rating by country, limits, products and terms. Also proposed case-by-case to the Directors' Credit Committee are facilities for operating with different debtors, whether financial institutions or individual companies, based on their credit fundamentals.



Principal Initiatives Developed During 2006

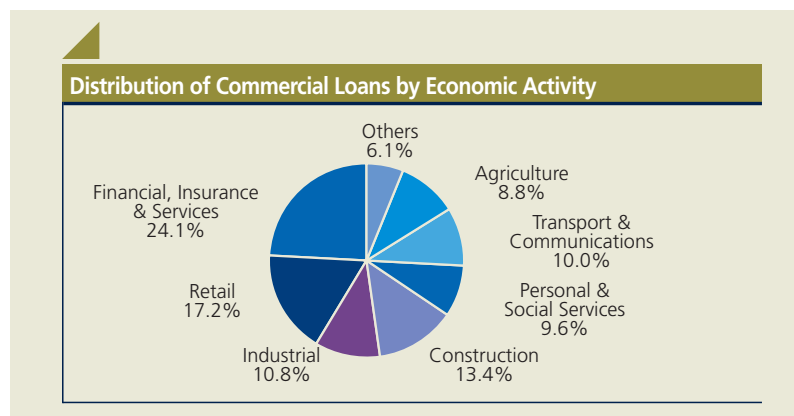
During 2006, Banco de Chile has perfected and improved the technical and statistical methodologies and tools that support the evaluation, approval, follow-up and recovery processes in all the segments. This has also covered the treatment of new segments with lower levels of bank penetration, where we have begun to participate gradually, consistent with our global strategy.

In the individuals market, a new business model is fully operational in which information, analysis and approval is entered and made centrally with specialized teams, ensuring the best quality in credit processing. The automatic evaluation and pre-approval models were improved for this segment during 2006, with the introduction of new world-class technologies.

In the wholesale market, new evaluation and semi-automatic capability models have been developed, mainly for the mass segments. These include three modules: evaluation of compliance, evaluation of the business and financial evaluation. A regional network of credit-risk specialists with higher discretionary powers have been further developed which has improved agility and customer proximity. In addition the Restructuring Area, which manages the recovery of doubtful commercial loans and the recovery of

assets received in lieu of payment, became part of the Credit Risk Division in 2006. This restructuring has provided a greater coordination in the timely transfer of cases, thus reducing the negative impact on the quality of the assets.

The Bank has also taken care to have a balanced commercial portfolio, participating in all sectors of economic activity in a balanced way, according to the different risks inherent in each sector.





Credit Risk

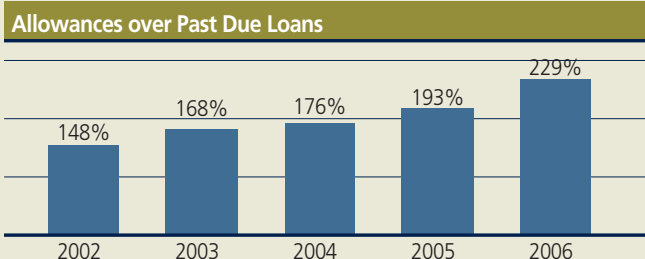
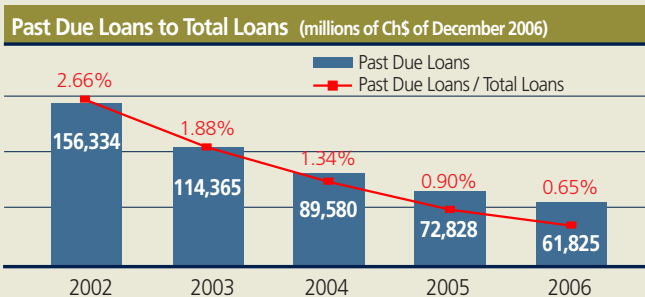
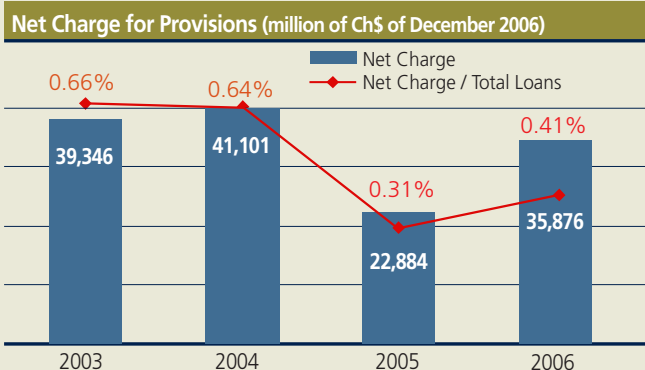
Credit Risk Performance in 2006

Over the last five years, Banco de Chile has kept to a consistently favorable trend in all its credit-risk indicators. The past-due portfolio has thus reduced both in absolute and relative terms, the rate of

recovery of doubtful loans has continued at high levels and the level of allowances comfortably covers the overdue portfolio.

This performance, consistent with the country's macro-economic performance and the product of the implementation

of best practices in credit-risk management, places Banco de Chile as leader in risk indicators such as the level of the gross and net charge for the portfolio. We have also maintained a conservative policy in total allowances, represented by a risk ratio similar to the industry average.



This indicator, measured according to the methodology of the SBIF, has fallen consistently by 13%, from 1.70% at the end of 2005 to 1.48% in 2006.

The net charge for provisions, despite being slightly higher than the year before, from Ch\$ 22.9 billion in 2005 to Ch\$ 35.9 billion this year, is still at a relatively low level compared to the industry, the net charge to total loans ratio being 0.41% compared to 0.67% for the system as a whole (at Nov'06). This is also due to a good performance in the recovery of doubtful debts which have remained high in recent years.

The low charge ratios are in line with a consistent reduction in overdue loans which have fallen by a real 15.3% year on year and by 60.5% over the last four years. Consequently, the overdue loan to total loans ratio fell from 2.66% at December 2002 to just 0.65% at December 2006.

The consistent reduction on overdue loans, plus a conservative policy for making provisions, enables the Bank to show an allowances to overdue loans ratio rising to 229%, even higher than the 193% of the previous year and above the system average.



Financial Risk

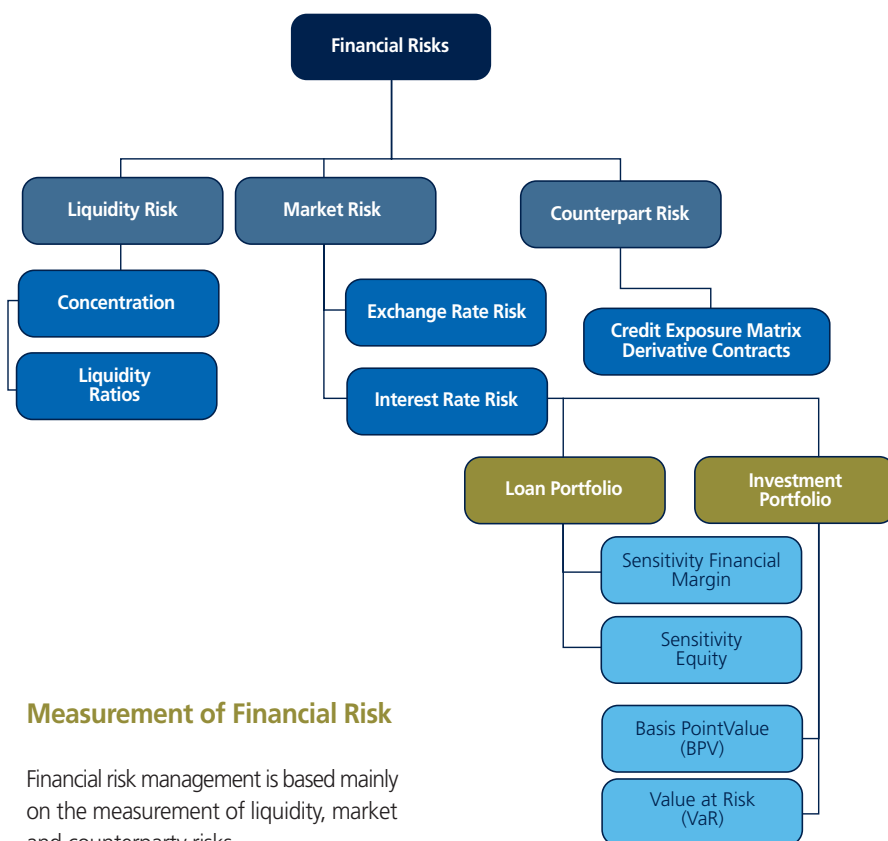
The financial risk management of Banco de Chile is based on the fact that risk is the force that generates the returns required by our shareholders by generating new business opportunities. But, as our shareholders have a limited capacity to endure losses, the risks we take should be known, understood and narrowed, i.e. managed by limits, policies and procedures.

Financial risk management is carried out mainly through the setting of a series of limits which are approved by the Board Finance Committee based on the business strategy, market volatility, the liquidity of the products involved and risk tolerance. This Committee is composed of 4 directors, including the Chairman of the Board. Committee meetings are also attended by the Chief Executive Officer and the managers of the Studies and Performance, Finance and Large Corporations and International Divisions.

The financial risk is administered by the Finance Division within the limits and according to the policies set by the Finance Committee. The Finance Division administers all the Bank's financial positions and manages its liquidity. It also manages the Bank's financial investment portfolio with the purpose of maintaining liquidity reserves, obtaining gains from securities trading and maintaining long-term positions to obtain margins. To meet these objectives, the Division sets funds transfer prices which apply to the Bank's commercial areas.

The limits, policies and procedures for financial risk control are designed by the Financial Risk Management, dependent on the Studies and Performance division. For this effect, the main activities performed by this area are:

- Monitoring of financial positions.
- Daily updating of data bases with market prices.
- Daily production of zero curves, with and without risk, used in the market valuation of the financial investments and the position in derivatives.
- Quantification of the financial risk under normal and stress events.
- Development of risk models.
- Monitoring of the different levels of risk.
- Preparation and distribution of risk reports.
- Checking compliance with the limits set by the Finance Committee.



Measurement of Financial Risk

Financial risk management is based mainly on the measurement of liquidity, market and counterparty risks.



Financial Risk

The following is a brief description of the risks mentioned and their management by Banco de Chile.

Liquidity Risk

A suitable liquidity management enables the proper funding of asset growth and the meeting of financial commitments acquired under previous agreements. Banco de Chile therefore seeks to diversify its sources of funding, establishing two kinds of limits for both local and foreign currencies: first, that total deposits and repurchase agreements taken from any one institutional investor do not exceed a certain percentage of the Bank's current liabilities; and second, that the sum of deposits and repurchase agreements taken from all institutional investors do not exceed a certain percentage of current liabilities. The following graphs show that the Bank has a well-spread base of depositors, both on local and foreign currency.

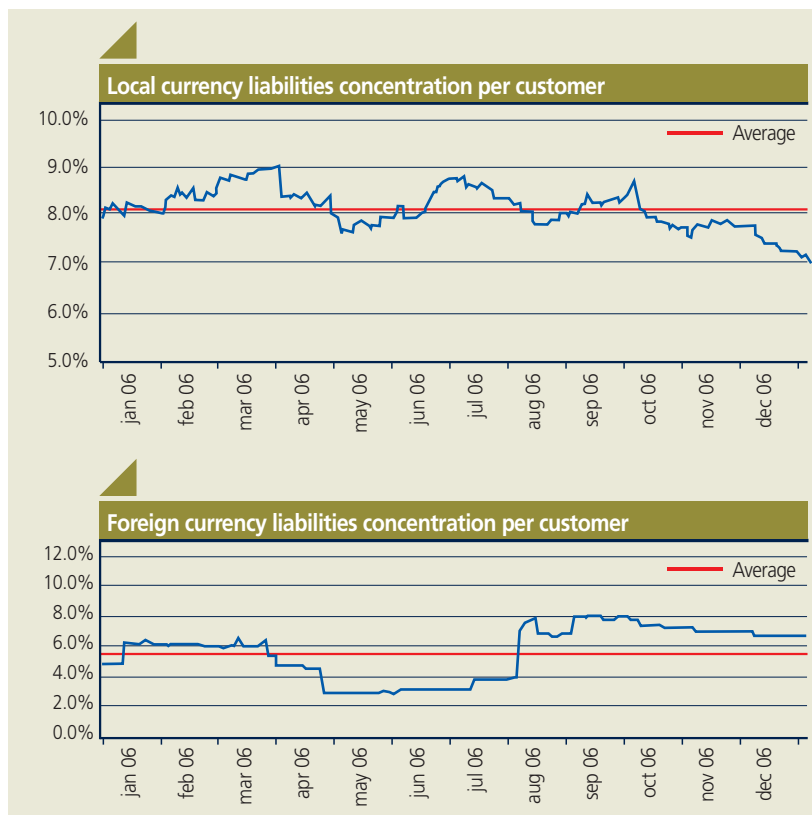
30-day liquidity ratios allow the Bank to limit volatile liabilities to a percentage of liquid assets. In order to determine

the degree of volatility of a liability, behavioral studies are made in order to quantify the rate of renewal of its obligations.

In order to face its current liabilities, the Bank maintains a short-term financial investment portfolio composed of securities issued by the Central Bank of Chile. These instruments have a high degree of liquidity due to the great depth of the market and the low "bid-offer" spreads.

Finally, Banco de Chile has also set up a contingency plan that establishes the strategy to follow when an event occurs that causes financial commotion, i.e.:

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

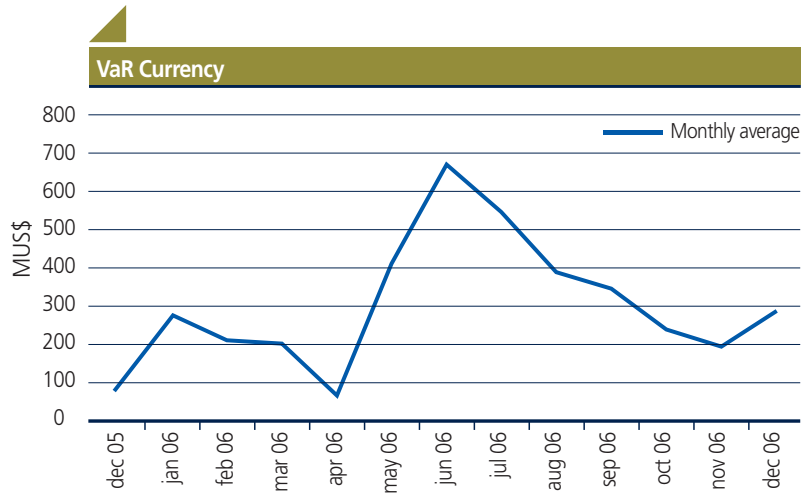


Market Risk

a) Exchange Rate Risk

Banco de Chile manages its exposure to exchange risk through an absolute limit on the maximum mismatch and also through the Value at Risk (VaR) methodology. The latter is a statistical estimate of the potential losses taking into account a level of confidence and a time horizon. Banco de Chile uses 95% of confidence and a horizon of one day.

During 2006, the average monthly VaR related to the exchange position was 311 thousand dollars, reaching a peak of 635 thousand dollars in June.



b) Interest Rate Risk

Loan Portfolio: The balance sheet of Banco de Chile is composed of assets and liabilities with different maturity dates. Depending on whether it has a net asset or liability position, variations in the interest-rate structure can impact negatively on the Bank's gross margin and on its economic value. To manage these risks, the Bank controls the sensitivity of the financial margin and the value of the equity in the face of interest rate changes, by analyzing the gap between assets and liabilities.

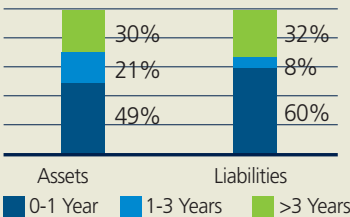
The sensitivity of the financial margin is a short-term measure that measures the change in the accrual of expected interest for a horizon of 12 months in the event of a change in interest rates. The sensitivity to economic value is a long-term measurement that calculates the economic risk of the equity, i.e. the change in the present value in the face of variations in the interest-rate structure.

The Finance Committee sets limits of sensitivity of the financial margin and economic value, for both local and foreign currencies. The following graphs show that at the end of 2006, Banco de Chile shows a low exposure to the interest rate risk: the difference between assets and liabilities for the time bands: 0-1 year, 1-3 years and more than 3 years, both for local and foreign currency, are insignificant.

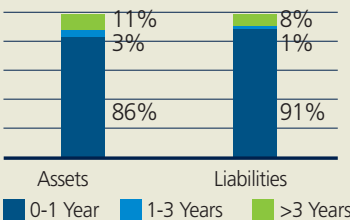
Investment portfolio: Banco de Chile quantifies the interest-rate risk of its investment portfolio by means of value at risk (VaR) and base point value, which measure the change in of the present value of future flows in the event of a 0.1% change in the interest rate.

During 2006, the maximum daily VaR was Ch\$ 789 million, with a minimum of Ch\$ 225 million and with a declining trend as a result of a reduction in interest rate volatility.

Rate Sensitivity (Local currency)



Rate Sensitivity (Foreign currency)





Financial Risk

Counterparty Risk

The measurement of the equivalent risk is the mechanism used to define the limits assigned to our customers when carrying out financial transactions, particularly in derivatives.

At December 2006, 82% of the derivative contract credit risk is with companies in the financial sector which includes banks, pension funds, insurance companies, stockbrokers and mutual funds.

This section has described the principal financial risks to which Banco de Chile is exposed and the mechanisms used to measure and control them. As already commented, the objective of the financial risk management is to improve decision taking by being able to identify the strategies that optimize the risk return ratio, creating value for our shareholders.

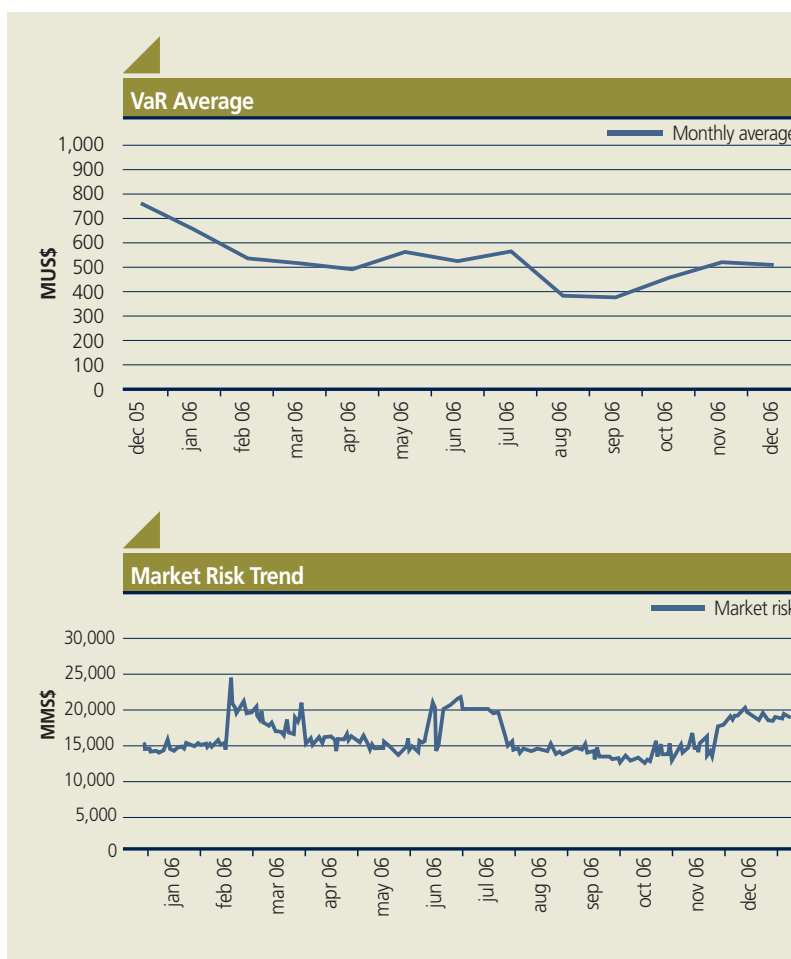
Financial Risk according to the regulatory model

In parallel to its internal risk measurements, the Bank also calculates its exposures to interest rate and currency risks in accordance with the regulatory criteria which began to be applied in September 2005. The limits to these exposures, as well as the market risk management policies, are approved by the Bank's board and reported quarterly to the public as from December 2005. The following table shows that during 2006, the level of market risk according to the regulatory criteria reached an average of Ch\$ 16 billion, with a maximum of almost Ch\$ 24 billion.

New Regulations

A new regulation for valuing financial instruments and derivatives came into effect in June 2006. Briefly, the regulation states that the bank's financial investment portfolio should be classified at the time of purchase and according to the management strategy

of that portfolio by the bank, in any of the following three categories: a) trading; b) available for sale; c) to maturity. The regulation also establishes accounting coverage with derivative instruments. Finally, financial investments classified as for trading and all derivative instruments should be marked to market daily.





Operating Risk

Operating Risk

Given the importance of maintaining a proper management of operating risk in the multiple processes and systems that Bank maintains, there is an Operating Risk Area whose obligations include adopting all the criteria required by the Basel Committee on this matter and the corresponding adequacy of capital, which the market now calls Basel II.

According to the definition provided by the Basel Committee, operating risk is made up of the risk of losses resulting from an inadequacy or a fault in processes, from staff, from internal systems, from information technologies or due to external incidents, including legal risk.

The SBIF has now established (in Chapter 1-13 of its Regulations, "Classification of Performance and Solvency") essential aspects of operating risk management that are included in the Basel II Accord. This chapter contains the benchmark and provides the basic guidelines for an adequate administration and management of operating risk, for which the degree of compliance conditions the result of the Bank's annual performance and solvency self-evaluation process, and also permits progress in the establishment of the global standard.

On the other hand, the Superintendency requires for 2007, that the assignment of capital for the Bank's operating risk be calculated using the alternative standard method and that this be integrated, together with credit risk and financial or market risk, as a global indicator of the exposure to risk (exercise of shifting in parallel).

In addition, and in accordance with the provisions of the SEC (Securities and Exchange Commission), registered companies that are quoted on United States' stock exchanges are obliged to report on their internal controls that directly affect the financial statements. Banco de Chile, being subject to the supervision of the United States Securities and Exchange Commission (SEC) since 2001 and as it is also registered on the New York Stock Exchange (NYSE) through its American Depository Receipt (ADR) program, has been preparing the necessary activities for the application of the new regulations set out in Section 404 (Sarbanes-Oxley Act), so that the management can be certified by external auditors from the fiscal year 2007 on the effectiveness of the internal controls related to the financial statements, which permits having a concrete processing base for compliance with Basel II.



Operating Risk

Objectives of operating risk management

To identify the critical processes and transactions that directly affect the financial statements and the operations of the Bank and its subsidiaries and foreign branches.

- To identify present and potential operating risks, based on constant analysis, in order to generate indicators for measuring them, establishing the levels of control and mitigation and monitoring the exposure to them. Effective operating risk management will permit the elimination, reduction, transfer or acceptance of operating risks.
- To continuously improve the operative processes and control mechanisms and monitoring to finally minimize the organization's operating risks and reduce the use of capital for this concept.
- To improve the effectiveness of the design and/or operation of the controls.
- To establish processes for assigning allowances (for expected losses) and capital (for unexpected losses) for achieving the requirements demanded by the Basel II Accord.
- To identify the possibilities of cost reductions in the accounting processes, given the continuous analysis of the processes involved, and identify established control procedures that are redundant, inefficient or ineffective.

Three lines of work have been defined in order to make operating risk administration and management more efficient:

- Security of information
- Operating control
- Business continuity

These functions are centralized in the Operating Risk area, reporting to the Operations and Technology Division, which in turn reports periodically to the Operating Risk Executive Committee.

Operating Risk Management

The appropriate area for the administration and management of operating risk is centered on the execution (functioning) of the Operating Risk Executive Committee, comprising the Chief Executive Officer and the divisional managers. This Executive Committee reports to the Bank's Directors' and Audit Committee.

The Operating Risk Executive Committee relates to the internal committee structures with respect to risks (the Fraud Prevention Committee, Ethics Committee and the Security Committee) and also to representatives of the organization's transversal functions like Human Resources, Technology, Administration and Legal.

The principal activities of the Operating Risk Area with respect to the administration and management of risk, are:

- To propose to the Operating Risk Executive Committee policies and strategies for the proper administration and management of operating risk.
- To ensure the correct implementation and compliance of operating risk policies and strategies.
- To implement a suitable operating control model for the Bank.
- To maintain data bases in the event of losses due to operating risks.
- Centralized coordination of the development, maintenance, training and testing of business continuity plans.
- Control and monitoring of operating risk in outsourcing companies for services critical to the Bank.
- To provide consolidated management information to the Operating Risk Executive Committee.
- To participate in the evaluation of new products and services, and of new processes, activities and systems.
- To analyze exposure to operating risk of the Bank's critical business processes, establishing suitable control and risk mitigation measures.
- To lead in the development of initiatives and/or projects of an operating nature to mitigate risks.

Achievements in 2006:

- Definition and re-documentation of all the critical processes affecting the Corporation's financial statements.
- Implementation of operational risk global policies, business continuity policies and critical processes outsourcing risk policies, approved by the Board.
- Implementation of an internal control evaluation model at the company level, integrating risks at the operating and technological level in order to certify the Banco de Chile Corporation under Section 404 of the Sarbanes-Oxley Act.
- Completion of an evaluation of all the critical processes for the Corporation, obtaining a ranking of compliance with the efficiency of the design and the effectiveness of the operation of the defined controls.
- Definition of a model for evaluating the risk of outsourcing services that support critical processes.

- Production of a model for evaluating qualitative risk, identifying action plans and proposals for improving critical processes.
- Definition of the bases of a quantitative risk management model for each line of business, adjusted to the provisions of the Basel II Accord, by recording the incidents of risk and losses in a centralized base.
- Definition of those organizationally responsible for each of the critical processes and development of a program of informative meetings in order to spread and train with respect to the form of evaluating the risks of each of the assigned processes.
- Preparation of a method for updating documentation of all the processes, for the evaluation of risks.
- Incorporation of the operating risk evaluation of the processes associated with new products and/or services.
- Incorporation of deferred funds electronic transfer transactions in the fraud prevention processes. This, together with the improvements in the internal processes, enabled the Bank to avoid losses on these transactions.
- Incorporation of performance indicators into the fraud prevention alert system.

Operational Risk			
	Processes Evaluated	Transactions Evaluated	# Controls Evaluated
Banco de Chile	46	207	639
Subsidiaries	53	171	1,443