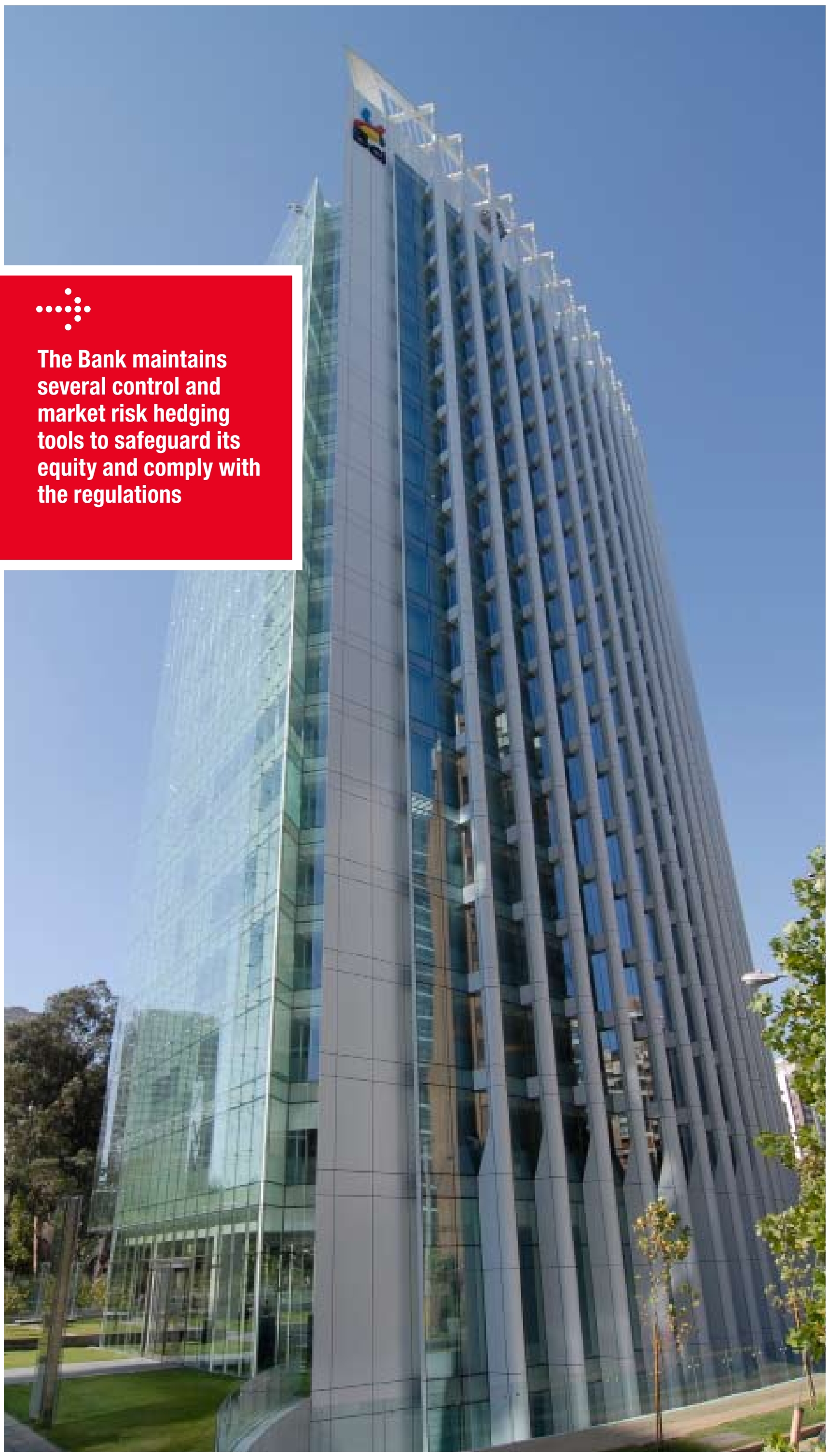
The best balance

We advise our customers as to the efficient and responsible use of the products and services we provide by helping them to confidently look into the future.


We stand by
you every
step of the way

[12] RISK MANAGEMENT



The Bank maintains several control and market risk hedging tools to safeguard its equity and comply with the regulations

The risk of the business is managed by the Corporate Risk Division responsible for assessing and managing credit, financial, liquidity and operational risks.

[Credit Risk]

The Corporate Risk Division in tandem with the commercial areas evaluates ongoing projects and companies from several sectors of the domestic economy, such as power generation, manufacturing, mining, and infrastructure. The Division has an international risk unit that evaluates the economic, political and social situation of each of the countries in which Bci has a presence so as to reduce the risk that might derive from external financing transactions.

In order to honor our environmental care strategy, the Bank has continued financing projects relative to the sustainable management of natural resources in accordance with the standards established by the authorities and pertinent organizations in this matter.

As regard retail credit risk, and particularly consumer and mortgage loans, an allowances model based on the expected loss is applied, which is estimated by tools that measure debtors' behavior and the odds of default occurrences. The program is continually revised at a predictive level and seeks to prevent future losses within a twelve-month period. The models implemented in this regard, have deemed the bank an active player in the industry and a reliable yardstick for credit risk policies.

Sophisticated models have also been developed and implemented for consumer loans of Bci Nova which allow for a specialized assessment and measure of the risks associated to this segment.

[Financial Risk]

The Treasury Division manages in a centralized manner the funds raised domestically as well as their investment in different products and asset transactions. It also manages the funds that foreign banks provide Bci with and their investment in several transactions effected in foreign exchange and foreign trade.

Additionally, the area acts directly in the holding and trading of derivatives and financial instruments, thus controlling the balance between asset and liability transactions, cash reserve, technical reserve and the expected results of financial operations.

In order to comply with its functions and safeguard its capital, the Bank utilizes several tools to control and hedge market risks, focused on the control of assets and liabilities registered on an accrual basis as well as the ones reflected at a fair or market value.

To carry out these controls, it is necessary to apply the fair value of the financial instruments to the portfolio, defined as the price an instrument would reach in a free and voluntary transaction between interested, duly informed and independent parties. To measure the fair value, the Superintendency of Banks and Financial Institutions (Sbif) considers that an instrument is priced in an active market provided there are updated quotes coming from stock markets, brokers, traders and regulatory agencies; that such prices reflect voluntary transactions effected regularly in the markets; and that they can be obtained in a systematic and expedite manner. The methods utilized reflect international best practices and abide by the highest standards in the domestic banking industry.

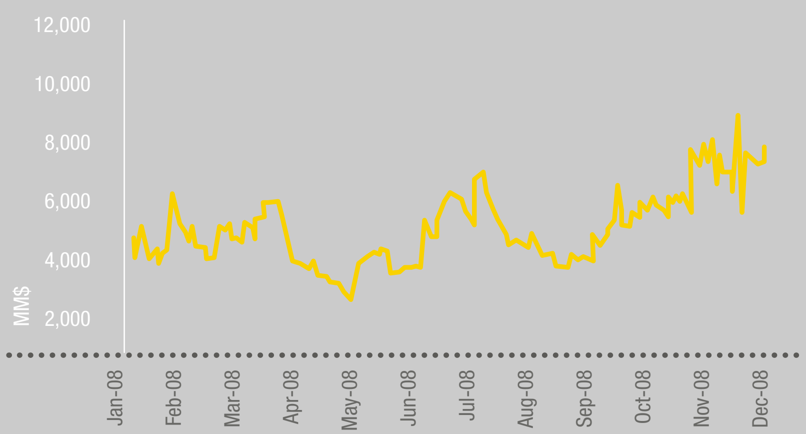
Based on these principles, the Bank controls the ALM risk inherent to assets and liabilities registered on an accrual basis by using the following models:

- ***Spread en Riesgo, SeR,*** *which quantifies the impact on profits caused by the specific movement in short-term interest rates over a twelve-month horizon.*

- ***Market Value Sensitivity, MVS,*** *which quantifies the effect on the economic value of the equity capital produced by the fluctuations in long-term interest rates on the total assets and liabilities of the Bank.*

The Bank's own portfolio of financial instruments available for trading is controlled by the Value at Risk (VaR) model which calculates the potential losses in the market value of this portfolio. The following graph shows the VaR level of the businesses of the Bank's Treasury in 2008.

VaR Bank 2008



This unit is responsible for controlling the liquidity position by classifying debtors' obligations as well as depositors and creditors' accruals into retail and wholesale

At the same time, the regulatory models established by the Central Bank of Chile and the Superintendency of Banks and Financial Institutions (Sbif) are used; i.e., the short and long term exposure to interest rates and readjustability of the Bank's book or accrued base (X1 and X2, respectively) which are equivalent to the internal models of Spread at Risk and Market Value Sensitivity.

Apart from these tools, the Bank has a centralized management and control of the effectiveness of financial hedges so as to mitigate the effect of risks described above.

[Liquidity Risk]

This unit is responsible for the management and control adequacy of operational risks which are closely related with the criteria established by the Basle Committee.

The Operational Risk Committee evaluates and defines the strategic risks and critical processes of the Corporation, as well as the design of the methodology to diagnose risks. In order to manage operational risk, the unit is divided into areas specialized in businesses, technological, regulatory, individuals, business continuity, asset laundering, and management self-evaluation processes.

Within the specialized areas, it is worth mentioning the most critical controls:

• Regulatory management control not only identifies regulatory risks but also ensures that the defined planning is in line with both the legal regulatory framework and also with the internal regulations of the Corporation. The responsibility is complementary to the assistance of the regulatory compliance area.

• The control of asset laundering and terrorism financing applies a model that allows for follow-up, controls, detection and action plans segmented by type of customer and risk, supported by technological instruments for detecting irregular transactions by means of a demanding monitoring and management model.

In addition, the Bank periodically trains team members through annual training programs as a complement to the rigorous control of the procedures.

• The technological control and security of customers, businesses and strategies provides Bci with policies and information security guidelines, with tools for protecting resources, followed in accordance with ISO 27001 standards, already certified for the Bank. Additionally, every year the Bank carries out a self-evaluation management process that assesses eight types of control on an equal number of areas responsible for the development of the operations and their oversight.

[Economic Environment]

This unit is responsible for controlling the liquidity position by classifying debtors' obligations and the outstanding debts to depositors and of creditors in two categories: retail and wholesale. This is carried out by a structured model in accordance with regulations of the Central Bank of Chile.

The model allocates part of the cash flows corresponding to the retail category, to temporary bands other than those that should be allocated, according to the contractual maturity date of the obligations on the basis of the forecast behavior of the flows. This measurement is dubbed liquidity position calculated on an adjusted basis.

Liquidity control considers three fundamental pillars: the setting of internal limits by the Board of Directors, the use of early warnings, and the constitution of a contingency plan, which allows for the anticipation to illiquidity periods and for an adequate decision making when necessary.

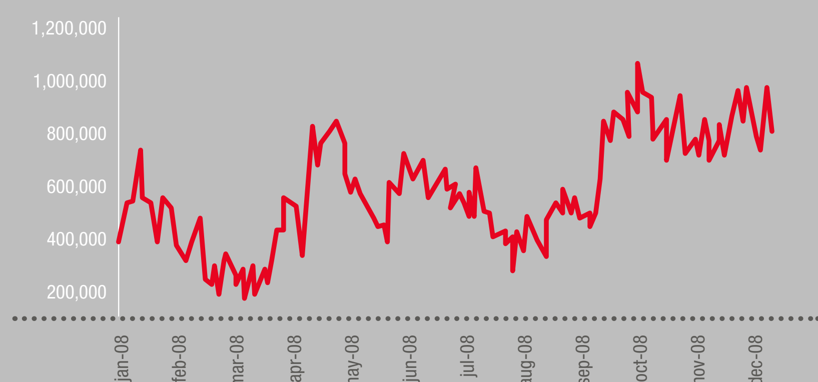
As a fundamental part of the contingency plan, the Bank has defined Liquidity Barriers comprised of highly liquid assets whose objective is to provide reserves in case of either illiquidity of the system or of the Bank itself. In 2008, additional liquidity allowances were allocated for Ch$400,000 million.

IN 2008,
$400,000
MILLION WERE ALLOCATED
AS ADDITIONAL LIQUIDITY RESERVES

As part of the transparency policy, the Bank publishes on the web the liquidity situation calculated on contractual and adjusted bases of the last day of each calendar quarter.

The Assets and Liabilities Committee defines the minimum level of liquidity the Treasury Division must assure for its daily operation. As can be seen in the graph, Bci showed high liquidity levels in 2008.

Liquidity ALCO 2008



The C08 regulatory report shows the mismatching level of asset and liability operations at 30 and 90 days, by domestic and foreign currencies. The graph shows that in 2008 Bci's mismatch stood at 60% of the limit established by the regulation.

Liquidity C08 2008