

FEDERAL RESERVE SYSTEM

Banco de Chile
Santiago, Chile

Order Approving Establishment of a Branch

Banco de Chile (“Bank”), Santiago, Chile, a foreign bank within the meaning of the International Banking Act (“IBA”), has applied under section 7(d) of the IBA (12 U.S.C. § 3105(d)) to establish a branch in Miami, Florida. The Foreign Bank Supervision Enhancement Act of 1991, which amended the IBA, provides that a foreign bank must obtain the approval of the Board to establish a branch in the United States.

Notice of the application, affording interested persons an opportunity to comment, has been published in a newspaper of general circulation in Miami, Florida (*The Miami Herald*, October 2, 2003). The time for filing comments has expired, and all comments have been considered.

Bank, with total assets of \$15.3 billion, is one of the largest banks in Chile.¹ Three Chilean entities, LQ Inversiones Financieras S.A., Sociedad Matriz del Banco de Chile S.A., and Sociedad Administradora de la Obligacion Subordinada, directly own 20.2 percent, 18.5 percent, and 42 percent, respectively, of the Bank’s shares.² These three entities are directly or indirectly controlled by Quiñenco S.A., Santiago, Chile, which, in turn, is indirectly controlled by the Luksburg Foundation (“Luksburg”), Vaduz, Liechtenstein,

¹ Asset data are as of December 31, 2003.

² No other shareholder owns directly more than 10 percent of Bank’s shares.

Bank's ultimate parent.³ Bank provides a wide variety of financial services, including retail and corporate banking, insurance and brokerage services, fund management, financial advisory services, securitization, and trade-related financing. Bank operates approximately 240 branches in Chile, as well as representative offices in Argentina, Brazil, and Mexico. Luksburg and Bank are qualifying foreign banking organizations pursuant to Regulation K.

In the United States, Bank operates a branch office in New York, New York, and an agency in Miami, Florida. New York is Bank's home state. Bank proposes to establish a branch outside of its home state by upgrading its Miami agency into a branch pursuant to section 5(a)(7)(B) of the IBA (12 U.S.C. § 3103(a)(7)(B)). The proposed branch would continue the business of Bank's Miami agency, but would also enable Bank to accept at its Miami office wholesale and other limited deposits from U.S. residents.

In order to approve an application by a foreign bank to establish a branch in the United States, the IBA and Regulation K require the Board to determine that the foreign bank applicant engages directly in the business of banking outside of the United States and has furnished to the Board the information it needs to assess the application adequately. The Board also shall take into account whether the foreign bank and any foreign bank parent is subject to comprehensive supervision or regulation on a consolidated basis by

³ Mr. Andronico Luksic Abaroa indirectly controls 56 percent of the shares of Quiñenco through Luksburg. Two other members of the Luksic family each indirectly control approximately 13.2 percent of Quiñenco's shares. The remainder of Quiñenco's shares are publicly traded on the New York and Chilean Stock Exchanges and no other shareholder owns more than 5 percent of those shares.

its home country supervisor (12 U.S.C. § 3105(d)(2); 12 C.F.R. 211.24).⁴ The Board may also take into account additional standards as set forth in the IBA and Regulation K (12 U.S.C. § 3105(d)(3)-(4); 12 C.F.R. 211.24(c)(2)-(3)).

As noted above, Bank engages directly in the business of banking outside the United States. Bank also has provided the Board with information necessary to assess the application through submissions that address the relevant issues.

With respect to supervision by home country authorities, the Board previously has determined that Bank is subject to comprehensive supervision and regulation on a consolidated basis by its home country supervisor, the Superintendencia de Bancos e Instituciones Financieras ("SBIF").⁵ Bank continues to be supervised by the SBIF on substantially the same terms and conditions. Based on all the facts of record, it has been determined that Bank

⁴ In assessing this standard, the Board considers, among other factors, the extent to which the home country supervisors: (i) ensure that the bank has adequate procedures for monitoring and controlling its activities worldwide; (ii) obtain information on the condition of the bank and its subsidiaries and offices through regular examination reports, audit reports, or otherwise; (iii) obtain information on the dealings with and relationship between the bank and its affiliates, both foreign and domestic; (iv) receive from the bank financial reports that are consolidated on a worldwide basis or comparable information that permits analysis of the bank's financial condition on a worldwide consolidated basis; (v) evaluate prudential standards, such as capital adequacy and risk asset exposure, on a worldwide basis. These are indicia of comprehensive, consolidated supervision. No single factor is essential, and other elements may inform the Board's determination.

⁵ See Banco de Chile, 80 Federal Reserve Bulletin 179 (1994); See also, Banco de Credito e Inversiones S.A., 85 Federal Reserve Bulletin 446 (1999).

continues to be subject to comprehensive supervision and regulation on a consolidated basis by its home country supervisor.⁶

The additional standards set forth in section 7 of the IBA and Regulation K (*see* 12 U.S.C. § 3105(d)(3)-(4); 12 C.F.R. 211.24(c)(2)-(3)) have also been taken into account. SBIF has no objection to the establishment of the proposed branch.

Chile's risk-based capital standards are consistent with those established by the Basle Capital Accord ("Accord"). Bank's capital is in excess of the minimum levels that would be required by the Accord and is considered equivalent to capital that would be required of a U.S. banking organization. Managerial and other financial resources of Bank also are considered consistent with approval, and Bank appears to have the experience and capacity to support the proposed branch. Bank has established controls and procedures for the proposed branch to ensure compliance with U.S. law and for its operations in general.

Chile is a member of GAFISUD (Financial Action Task Force for South America), which is an observer organization to the Financial Action Task Force. Chile has enacted laws and adopted regulations to deter money laundering. Money laundering is a criminal offense in Chile, and financial institutions are required to establish internal policies, procedures, and

⁶ In reaching this view, the oversight of Bank's parent companies has been considered. Under the Chilean General Banking Law, Bank's two immediate parent holding companies, Sociedad Matriz del Banco de Chile S.A. and Sociedad Administradora de la Obligacion Subordinada, are subject to supervision by the SBIF. In addition, under the Chilean General Banking Law, the SBIF has authority to request that Bank provide information to the SBIF concerning any of its parent holding companies. The Chilean General Banking

systems for the detection and prevention of money laundering throughout their worldwide operations. Bank has policies and procedures to comply with these laws and regulations. Bank's compliance with applicable laws and regulations is monitored by its auditors and SBIF.

With respect to access to information about Bank's operations, the restrictions on disclosure in relevant jurisdictions in which Bank operates have been reviewed and relevant government authorities have been communicated with regarding access to information. Bank and its ultimate parent, Luksburg, have committed to make available to the Board such information on the operations of Bank and any of its affiliates that the Board deems necessary to determine and enforce compliance with the IBA, the Bank Holding Company Act, and other applicable federal law. To the extent that the provision of such information to the Board may be prohibited by law or otherwise, Bank and its ultimate parent have committed to cooperate with the Board to obtain any necessary consents or waivers that might be required from third parties for disclosure of such information. In addition, subject to certain conditions, SBIF may share information on Bank's operations with other supervisors, including the Board. In light of these commitments and other facts of record, and subject to the condition described below, it has been determined that Bank has provided adequate assurances of access to any necessary information that the Board may request.

In order to approve a proposal to establish a branch in a state outside a foreign bank's home state by upgrading an agency pursuant to

Law and the Chilean Corporations Law also contain restrictions on transactions with affiliates.

section 5(a)(7)(B) of the IBA (12 U.S.C. § 3103(a)(7)(B)), the Board is required to determine that (i) the establishment of such branch is permitted by the state where the branch is to be established; and (ii) the agency to be upgraded was in operation in that state on the day before September 29, 1994, or has been in operation in that state for a period of time that meets the state's minimum age requirement permitted under 12 U.S.C. § 1831u(a)(5). These requirements have been met in this case.

On the basis of all the facts of record, and subject to the commitments made by Bank and its ultimate parent, as well as the terms and conditions set forth in this order, Bank's application to establish a branch is hereby approved.⁷ Should any restrictions on access to information on the operations or activities of Bank and its affiliates subsequently interfere with the Board's ability to obtain information to determine and enforce compliance by Bank or its affiliates with applicable federal statutes, the Board may require termination of any of Bank's direct or indirect activities in the United States. Approval of this application also is specifically conditioned on compliance by Bank and its ultimate parent with the commitments made to the Board in connection with this application and with the conditions in this order.⁸ These commitments and conditions are deemed to be conditions imposed in writing by

⁷ Approved by the Director of the Division of Banking Supervision and Regulation, with the concurrence of the General Counsel, pursuant to authority delegated by the Board.

⁸ The Board's authority to approve the establishment of the proposed branch parallels the continuing authority of the State of Florida to license offices of a foreign bank. The Board's approval of this application does not supplant the authority of the State of Florida to license the proposed office of Bank in accordance with any terms or conditions that it may impose.

the Board in connection with this decision and, as such, may be enforced in proceedings under applicable law against Bank and its affiliates.

By order, approved pursuant to authority delegated by the Board, effective July 27, 2004.

(signed)

Robert deV. Frierson
Deputy Secretary of the Board