Comments on the 4Q12 and Year-end Financial Results
Banco de Chile

Good afternoon and welcome to our fourth quarter and year-end 2012 conference call. It's a pleasure for me to share with you our comments on this quarter's financial results.

As in other calls, I would like to begin by outlining the main topics which we will go through. First we will present the highlights of the economic environment and the banking industry in Chile, followed by a review of our financial results and the progress of our recent equity offering and finish off with a review of the most significant achievements in 2012.

Please turn to **slide number three**. During the last quarter of 2012 the economy consolidated its resilience to the downturn in the global activity, achieving a GDP growth of 5.6% YoY, maintaining the pace of the two previous quarters and accumulating an annual expansion of 5.6% during 2012. As a result, Chile ranked among the countries with the highest GDP growth within Latin America.

The positive expansion of the Chilean economy is explained by its well known strong fundamentals and a solid trend of the aggregate demand which boosted sectors such as commerce, construction and services, which led economic activity and more than offset the effects of a weak external scenario.

In fact, aggregate demand continued posting expansions above GDP, reaching an annual growth of over 6% in 2012, driven by higher activity in private consumption and investment. This was generated by the excellent conditions in the labour market and higher confidence levels of consumer and enterprises.

As you can see in the chart on the bottom, the recent performance in the Chilean economy has raised expectations for Chilean GDP in 2013. In fact, the improvement in the external scenario, associated with the measures of the European Central Bank to preserve the financial stability in the Eurozone and a better performance in the Chinese and US economy, would permit Chile to maintain a solid GDP growth during this year with an expansion of around 4.8% according to the last surveys.

Please turn to **slide number four.** We think it's worth to mention the outstanding figures of labor market. In the last quarter, unemployment reached 6.1%, posting an annual average of 6.4% in 2012, the lowest figure in more than a decade for our economy. Moreover, job creation has been driven by good quality employment, encouraging the increase in real wages during the entire year. In addition to supporting the solid performance in private consumption, the current unemployment levels should allow to maintain a positive scenario for retail loan expansion in 2013.

Regarding inflation, CPI grew a moderate 1.5% during 2012 and 2.5% as measured by UF. This was mainly due to lower fuel and energy prices, which offset the rise in prices of food and non-tradable goods. For 2013, it's expected that inflation will return to midterm levels, posting an annual increase of around 3% by the end of the year.

As for monetary policy, the Central Bank has kept interest rate in a neutral value at 5.0% for the last year due to a solid expansion of aggregate demand, lower unemployment rates and stable inflation expectations. Regarding this, the market doesn´t expect changes in the coming months.

Please turn to **slide number five.** After a moderate slowdown in the third quarter, loan volumes recovered during 4Q12 growing 3.6% QoQ. With this, total credit reached a 12.4% YoY increase in nominal terms as of December, in line with our expectation and posting elasticity close to two times the expansion of GDP.

On a yearly basis, total loan growth was explained by double digit growth rates in commercial, residential mortgage and consumer loans, reflecting the positive Chilean macroeconomic environment.

In terms of results, fourth quarter net income recorded an increase of 60% compared to the third quarter, mainly due to a positive UF variation which boosted operational income and in a lesser extent to lower provisions. On an accumulated basis, the Chilean banking system reached a total net income of Ch$1.6 trillion, 5% lower than last year due to higher provisions and operating expenses, and the negative effects of the lower inflation in the UF asset position maintained by the banking system.

Consequently, the Chilean banking industry posted a ROAC of 16.2% in 2012, which translates into 340 basis point reduction compared with 2011 figures, due to the lower net income and a stronger capital base.

Please turn to **the next slide number six,** which begins our discussion of our consolidated results.

- As you can see on the left, this quarter was excellent in terms of net income. We posted Ch$138 billion in the bottom-line, a historical quarterly record, which translated into an increase of 38% over the same period last year and the prior quarter.
- On a yearly basis, we posted a 9% increase over last year, reaching Ch$466 billion in net income.
- This is a result of our higher commercial activity in terms of a larger loan portfolio, our focus in proactively managing lending spreads, a change in mix towards becoming a more retail oriented bank, our growth in non-interest bearing deposits and to improvements in efficiency.
- As you can see on the chart on the right, our solid business model has consolidated our position, ranking us first –with a substantial gap to our competitors – in terms of net income, in return on average capital and in annual net income growth.

In terms of operating income, **slide number 7** demonstrates how we have grown core income over the last few quarters and on a yearly basis. I should mention for the purposes of this analysis, that on this slide we have added back a $42 billion charge in the 4Q11 related to the effect of a sale of a loan portfolio, which was recognized as a loss in net financial operating income and simultaneously released in loan loss provisions.

- Saying that, on a quarterly basis, we improved total operating income by 14% when compared to the same period last year and 22% when compared to the prior quarter. The latter is mainly due to the large variation in inflation that moved from minus 0.2% in the third quarter to 1.1% in the fourth quarter.
- In terms of the yearly figure, we increased operating income by 6%.
- As you can see in the chart on the bottom right, these figures are very noteworthy as we were able to continue growing our business even in a complex regulatory environment, with lower inflation that was 1.5% less than the prior year and flatter yield curves that reduced the possibilities for term gapping.
- In terms of Core Customer Revenue, we managed to grow consistently every quarter and on a yearly basis, we grew by almost 12%. This expansion is a product of our strong 14% loan growth in retail loans, stable credit spreads, excellent funding base from non-interest bearing deposits that grew almost 11% in average balances and our first class credit ratings, which provide us with lower cost of funds.

Please turn to the following slide, **number eight**, which shows our loan portfolio growth and composition.

- Total loan volumes grew by 8% in 2012 and 2% quarter on quarter.

- However, our retail banking segment drove growth at a rate of 14% percent per year and 4.4% quarter-on-quarter.

- This annual growth was led by mortgage loans at 16.4%, followed by commercial loans to SMEs at 15.3% and consumer loans at 10.2%. We have achieved these figures through successful initiatives that continue increasing our penetration in the retail segment. For example, we have improved our loyalty programs in order to increase usage rates in our credit cards, we have built a higher presence in residential mortgage loans based on comprehensive plans to attract customers, as well as our competitive rates. Also, we have continued our strategy to increase our penetration in the SME and Microenterprise segments by a relationship-based service model that has prospered especially in areas outside of Santiago.

  The moderate growth in consumer loans was due to our prudent approach regarding our lower income consumer division which was put in place at the end of 2011 due to changes in regulations and other events that adversely affected the payment behavior of individuals. Excluding this division, consumer loans to middle and upper income individuals grew 13% year-over-year. However, due to the solid economic figures and the better outlook for 2013, particularly in employment, we retook growth during the 4Q12, ranking number 1 in the industry by increasing almost 5% in consumer loans during the quarter.

- In terms of our wholesale portfolio, loans have grown at a slower pace of 2% year-on-year and remained relatively flat quarter-on-quarter. This was primarily a consequence of our decision to balance growth and return. Nevertheless, we continued to actively manage lending spreads during the year and promoting the growth in higher profitable segments and products such as leasing and factoring. Saying that, our strategy continues to target wholesale companies and to maintain our leadership position in terms of commercial loans.

- Finally, I would like to emphasize that our consistent commercial strategy has successfully continued to improve the mix of our loan portfolio, with retail loans increasing from 49% of total loans in 2011 to 52% in 2012. This is very important for us because the retail segment offers greater growth potential, more stable earnings and deposits, and higher profitability.

- In terms of penetration, as most of you know Chile has a ratio of over 70% of loans to GDP which is easily the highest in LATAM. However, if we break this figure down, one sees that commercial loans to SMEs are less penetrated in Chile with a ratio lower than 10%. This is one of our target areas. On the other hand, individual loans have a higher penetration in comparison to peers, especially in mortgage loans. Despite this, we believe that as the country continues to grow, there will be room to expand individual banking, especially in the middle income segment.

In relation to asset quality, as shown in the next slide, **number nine.** It's important to mention, that we have also adjusted these figures in order to analyze LLPs clean of extraordinary events. So, we have adjusted 4Q11 by $45 billion for the same event that we mentioned earlier on in the presentation in Operating Income and we have excluded Counter Cyclical Provision Expenses of $24 billion in 2011 and $2 billion in 2012.

Saying that, adjusted LLPs reached $48 billion in 4Q12 and on a yearly basis increased 28%, reaching $186 billion at year end.

The increase in the full year figures was mainly due to:

1. The growth we experienced in our loan portfolio of 8%
2. Greater mix of retail loans in our overall loan book
3. And the gradual deterioration in consumer loan payment behavior, which occurred at the industry level, and that began in the second half of 2011. This was stabilized in the 2Q of 2012 after we reinforced our acceptance criteria and collection strategies.

The increase in LLP to individuals was partially offset by lower provisions from companies as they continued to show strong balance sheets and good payment behavior versus 2011.

In summary, we continued to post solid figures when compared to the industry with NPLs to total loans and LLP to average loans, both at 1% and both significantly below our peers and the average in the industry as you can see on the charts at the bottom of the slide. Additionally, we remain as one of the safest banks in the local industry with a coverage ratio of over 2 times and we are the private bank with the highest level of countercyclical allowances in the industry equivalent to 0.5% of total loans.

Moving on to slide **number ten**, we can see that our operating expenses remain under control, recording a 4% increase in the 4Q12 over last year and only 3% when comparing the full 12 month period.

It’s important to mention that in 2011, we had a collective bargaining agreement with our Bank unions which increased 2011 operating expenses and certain expenses going forward. Additionally, in 2012 two of our subsidiaries also had collective bargaining agreements. If we exclude these charges in operating expenses of $28 billion for 2011 and $4 billion in 2012, the increase for 2012 would have been closer to 8%. The rise is due to greater salary expenses due to a larger workforce in commercial and collection areas and to higher admin expenses from our larger distribution network, additional IT expenses associated to new technology projects and higher marketing expenses related to sales campaigns.

All in all, this moderate growth in expenses has translated into an excellent cost to income ratio which closed 2012 at 47.2% and compares very well with the average in the industry of 51.2% and the increasing trend showed by our peers in 2012. Additionally, we recorded an even better efficiency ratio in the 4Q2012 of 43.5%, substantially below the average of the banking industry. Saying that, I want to emphasize that management continues to maintain a firm commitment to improve gradually our cost to income ratios.

On the following slide, **number eleven,** is a review of our recent equity offering of US$530 million.

- The fundamentals of this equity offering are:
  - The positive outlook for the economy and financial system for the next three years.
  - To sustain business growth in the midterm, in line at least with the banking industry's growth rate.
  - To strengthen our capital base in order to continue growing without deteriorating our capital ratios.
  - And finally, to continue increasing the liquidity and market depth of our shares. This is especially important because this makes our stock more attractive to investors, particularly foreign funds.

- This offering will allow us to increase our capital ratios by about 1.1% and our free float by around 2.6%, reaching above 17% once we issue all of the shares.

- The equity raising process has two main steps, first the Ordinary Preemptive Option Period which occurred between December 5, 2012 and January 4, 2013 for Shareholders of Banco de Chile and SM Chile. This period was very successful with an exercise rate of 94%, of a total of US$355 million of this stage.

- The second step of the offering called the Special Preemptive Option Period, began on January 19, 2013 and will end on February 17, 2013. This period is related to the shares that one of our shareholders, SM Chile, has pledged in favor to the Chilean Central Bank and represents around 33% of issued shares. To date, we have been also very successful during this period with an exercise rate of roughly 60% of a total of US$171 million.

- After these two periods occur, any shares and options which were not exercised will be auctioned to the market.

Now to finish off, I would like to pass the call over to Pedro Samhan, Chief Financial Officer of Banco de Chile.

Thank you Pablo. Please move to slide **number twelve**. 2012 was another year full of achievements. I would like to go briefly over 10 of the most important achievements for this period.

1. This was the first time in our recent history that we became the undisputed leader in terms of both Net Income & Profitability. We posted a net income figure of $466 billion, that is, almost $1 billion US dollars, with an excellent market share of 28.6% and a return on average capital of 26.4%. All of these figures were substantially higher than our closest competitors.

2. We also became the safest bank in LatAm as we were upgraded to "A+" by Standard and Poor's in 2012. This rating distinguished us locally and internationally and has been especially noteworthy when considering that the recent trend has been to downgrade banks.

3. Consequently, due to in part of this excellent credit rating, we have begun a strategy to diversify our funding base, which has been very successful in accessing international markets such as USA, Mexico, Hong Kong and Peru. We plan to continue searching for new markets which provide attractive funding conditions.

4. In terms of commercial loans to SMEs, we have been focused in strengthening relationships with these customers by providing products and services which better fit our customer's needs, increasing pre-approved loans, optimizing government backed loans, and incorporating firmly products such as leasing and factoring. In fact, we outgrew the competition and ended the year with a market share of over 20% in this segment.

5. We also continued our goals in deepening our footprint in areas outside of Santiago in both retail and wholesale products. This initiative began three years ago in order to increase the market share that the Bank had nationwide. The goal was to achieve a

market share of 19% by 2012, requiring significant growth in all products and which was overcome by the bank.

6. Additionally we had important growth in the mortgage loans, with a rise 82 basis points in market share thanks to a diverse set of strategies which include commercial synergies between segments, marketing efforts, sales incentives and competitive rates.

7. In line with our commitment in assisting Chile to shift towards becoming a more developed country, we initiated a project called Caja Chile which through POS terminals provides financial services in communities where there is no or limited bank presence. At the end of 2012 we have 1000 points in more than 320 communities nationwide.

8. During the year, we invested significantly in technology to increase processing capacity, enhance our data center network as well as to improve our current account services via internet and mobile phone banking platform, where we have been ranked the best in the country.

9. As mentioned, we also started an equity offering for a total of roughly $530 million dollars due to the positive growth outlook for the economy and business volumes in the banking industry. This issuance has been received very well by investors due to their confidence in the Bank to quickly make the raise profitable.

10. And finally, our excellent performance has awarded the confidence of investors resulting in an outstanding performance in our stock price. In 2012, the total return for our share rose 16% and significantly outperformed the IPSA’s 3% growth. Consequently, at year-end we positioned ourselves as the largest bank in Chile in terms of Market Cap and the fourth largest in LATAM excluding Brazil.

Thank you. If you have any questions we would be happy to answer them.