# Banco de Chile

## Results for the First Quarter of 2009

hosted by

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**Chief Financial Officer**

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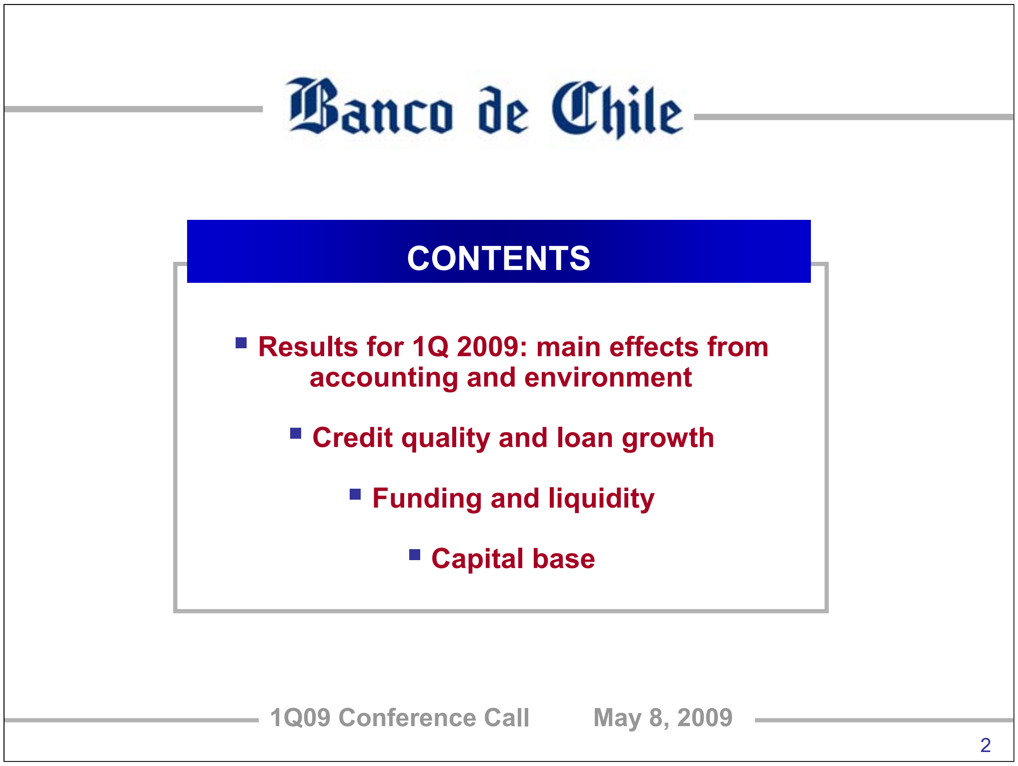
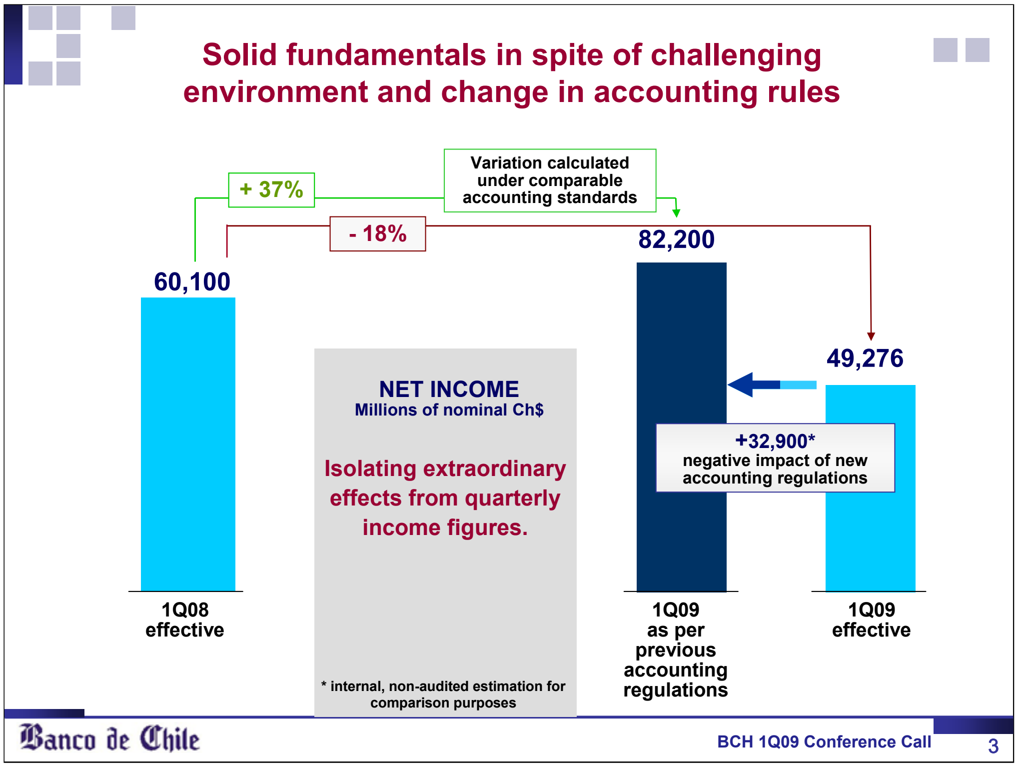



It is a pleasure for me to share with you our comments on Banco de Chile’s results for the first quarter of 2009.

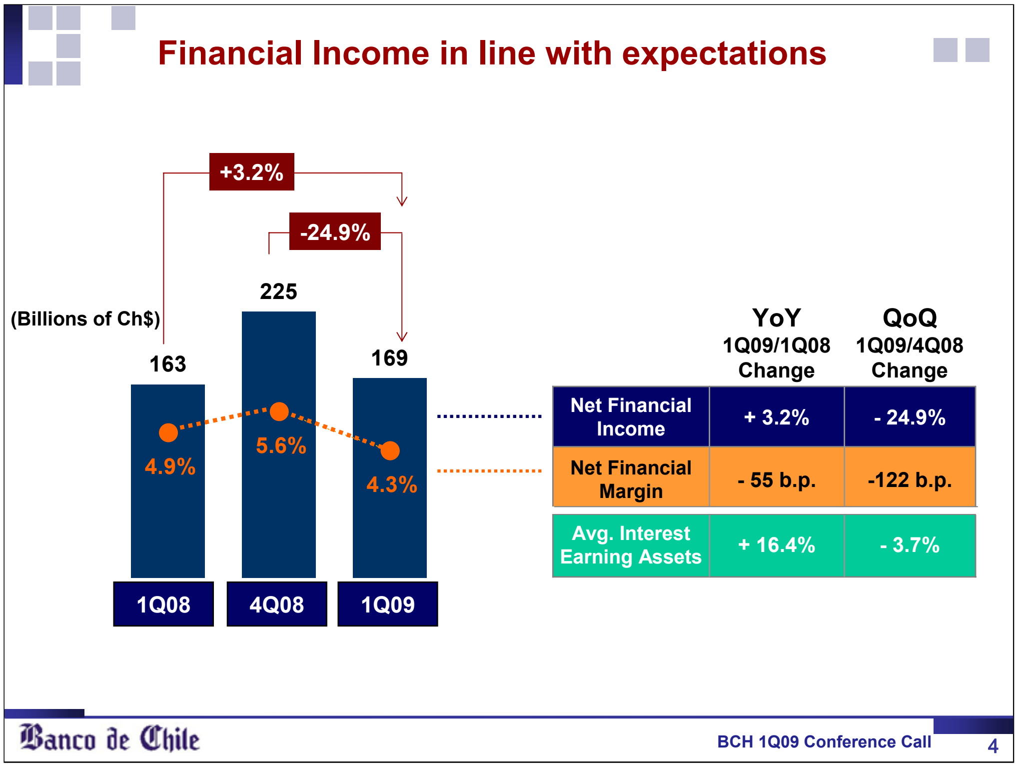
As shown on **slide number 2**, firstly, I intend to go through the outcome and details of Banco de Chile’s quarterly result explaining the impacts of both, a persistently downbeat economic and financial environment, together with changes in accounting and regulatory rules which, in this quarter, have added to the former. Then, we may discuss on how the Chilean financial system, and particularly, Banco de Chile, have fared within this scenario, providing detail on liquidity, funding structure, credit quality and building up of capital .




In the context of a brisk deterioration of the economic scenario, both locally and internationally, Banco de Chile's first quarter results show the effects of subdued activity with a strong focus on maintaining high credit quality standards. As may be appreciated in **slide number 3,** and in spite of experiencing a quarter-on-quarter 5.6% contraction in balance sheet, that has impacted net results, the year-on-year evolution of net income has evidenced quite resilient core earnings.

As mentioned, the more than 49 billion pesos posted as effective net income for the informed quarter, respond to the combined effects, for the one part, of reduced activity levels along the industry and, secondly, to the change of accounting standards. In particular, the application of the new accounting regulations has muffled a sizable result which would have stood above 82 billion pesos, if adjusted to compensate the almost 33 billion pesos negative impact of these new accounting rules, applied as from January first 2009.

This last adjusted figure involves a more than 37% increase, in nominal terms, over the effective net result obtained in the first quarter of 2008. When comparing both effective, year-on-year net income figures, a reduction of 18% was registered in the first quarter of 2009.

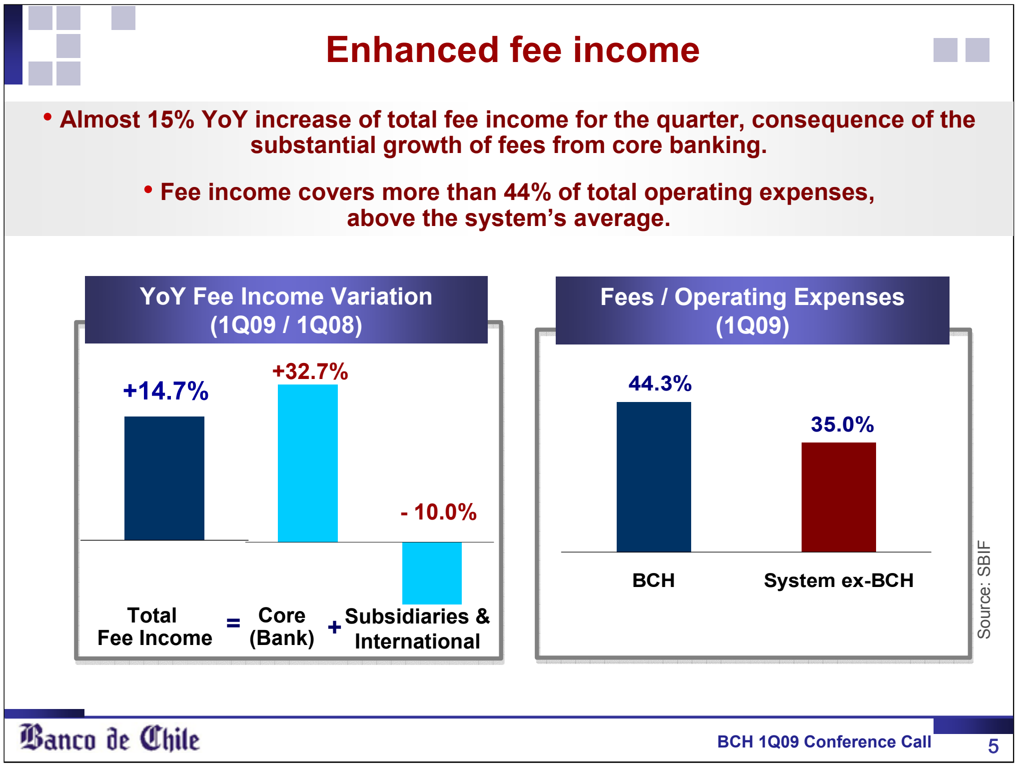



Throughout the last quarters, Net Financial Income has been a constant as well as an important source of Operating Income. Along most part of 2008, the positive impact of inflation on our structural UF position - at times further enhanced in view of our Treasury's accurate CPI forecasts – together with increased nominal interest rates, contributed to explain important outcomes as far as Net Financial Income was concerned.

As for the last two quarters, however, and mostly on the first three months of 2009, as may be seen in **slide number 4,** Net Financial Income only grew by a nominal rate of 3.2% on a yearly period, and showed a quarter-on-quarter reduction of almost 25%. These figures reveal the strong shift experienced by inflation during the latter part of 2008 and first three months of this year, where a 2.3% reduction in the UF - our local CPI correction unit - in the first quarter of 2009, compares quite unfavourably, for these purposes, to a 1% increase in the same period of 2008.

This adverse effect was reinforced by a lower interest rate involving a more than 130 basis point differential, in a twelve month period, dampening down the income contribution of non-interest bearing liabilities, quite relevant in the case of our Bank.

On its part, the steady increase of 23 basis points in our average commercial spread, observed along the last twelve months, was also unable to counterbalance the mentioned impact of reduced inflation.

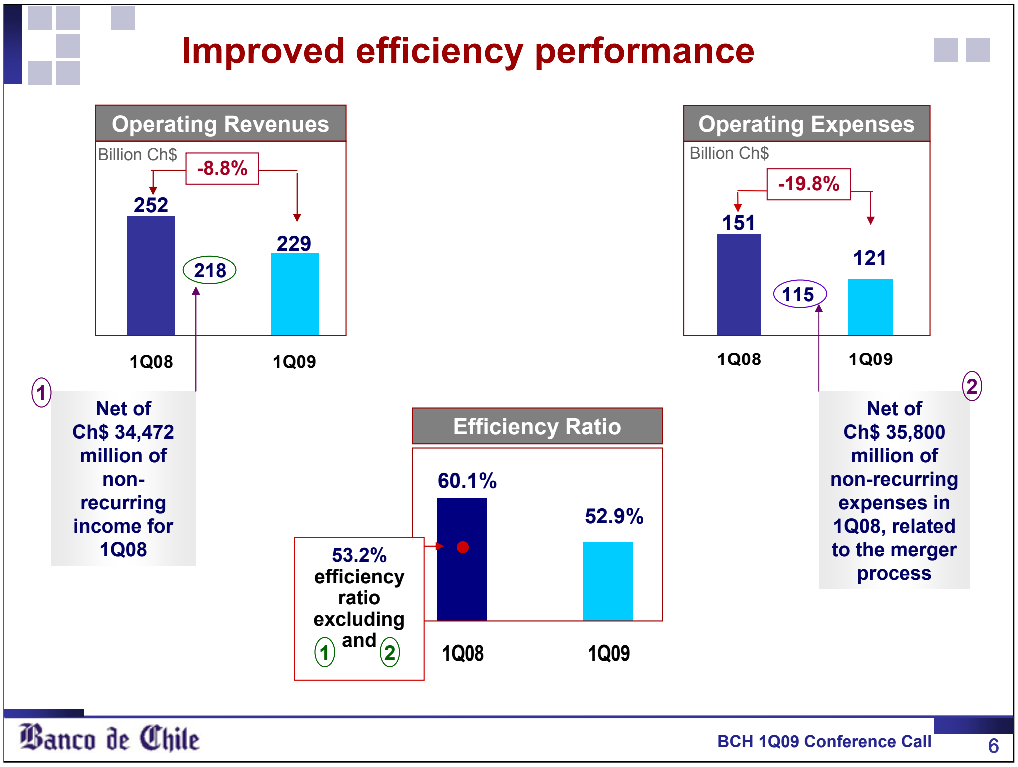



In contrast to the previous financial income effect, mostly associated to a concept of non-client income source, fee income, essentially a client-related income source, showed a very strong performance along the last twelve months, as may be appreciated in **slide number 5.**

As far as total fee income is concerned, a year-on-year increase of 14.7% confirms our Bank's intensified cross-selling, product diversification and segmented pricing strategy. Indeed, this increase almost fully stems from the core clients of the Bank as core fee income grew by almost 33% along the last twelve months.

On its part, fees coming from our subsidiaries showed a 10% year-on-year reduction, largely revealing the relevant 2.2% GDP contraction estimated for the first quarter, on a yearly comparison.

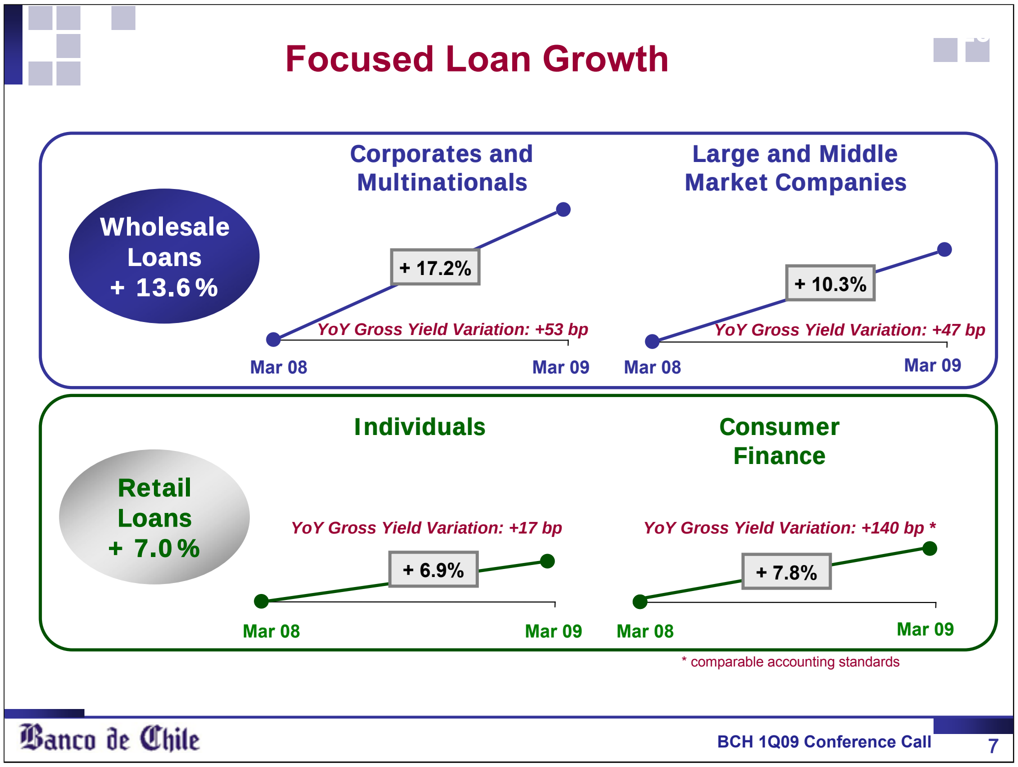
As a consequence, total fee income for the quarter, on a non-consolidated basis, covers 44% of total operating expenses, well above the 35% average for the rest of our competitors. Moreover, Banco de Chile's fee to expense ratio has shown an important improvement of 149 basis points along the last four quarters.




As regards to Operating Expenses, and as pictured on **slide number 6,** a year-on-year reduction of almost 20% was observed, mainly reflecting the full synergies from the mentioned merger. Should we wish to compare to an adjusted operating expenses figure which excludes the merger costs in the first quarter, a slight increase of roughly 5% is observed. Nevertheless, this expansion speaks of an improved cost structure as it stands quite below the more than 16% increase experienced by total interest-earning assets, in the same period.

On the Operating Revenue side, extraordinary income for almost 40 billion dollars was accounted for on the first quarter of 2008, thus masking the real ongoing revenue generation and artificially aggravating the fall of operational revenues. Isolating this effect, revenues would have shown an annual 8% increase.

Consequently, the efficiency ratio, which stood to an effective 52.9% for this year's first quarter, compares favourably to a year-ago - both effective and merger-corrected - efficiency ratios. No doubt that this performance speaks well of the Bank's efforts in reducing non-personnel costs and taking advantage of already ingrained IT developments.




Let us now take a closer look to the Bank's loan portfolio and how it has evolved in view of the quite lingering downcast scenario of: lower activity, higher unemployment, reduced consumption and lower commodity prices. As can be seen on **slide number 7**, loans to the wholesale market have expanded along the year at a much faster pace than those granted to retail customers. Indeed, total corporate loans grew more than twice as fast than retail loans, thus evidencing a more bearish demand for credit from individuals, as well as a prudent risk management in face of the negative outlook.

On the positive side, this keener focus on the corporate segments, rather than on the retail ones, has given way to a higher yielding portfolio as spreads in the former have increased the most, possibly as a result of more restricted international financial markets, involving reallocation of the companies' financing demands back to local markets. As an average, Banco de Chile's total spread has increased by 37 basis points along the last four quarters, under comparable accounting standards.

## Loan portfolio adjustments in those more sensitive economic activities

| Loan allocation per economic activity | March 2009 |
|---|---|
| Financial Services | 16.7% |
| Retail Stores | 12.7% |
| Construction | 8.1% |
| Industrial | 7.9% |
| Transport & Telco | 6.8% |
| Forestry & Agriculture | 5.9% |
| Social & Personal Services | 5.4% |
| Mining | 2.5% |
| Fishing | 2.3% |
| Individuals | 28.9% |
| Others | 2.8% |

| Year on Year exposure reduction (Mar 09/ Mar 08) | |
|---|---|
| Retail Stores | - 50 bp. |
| Construction | - 40 bp. |
| Social & Personal Services | - 230 bp. |
| Forestry & Agriculture | - 110 bp. |

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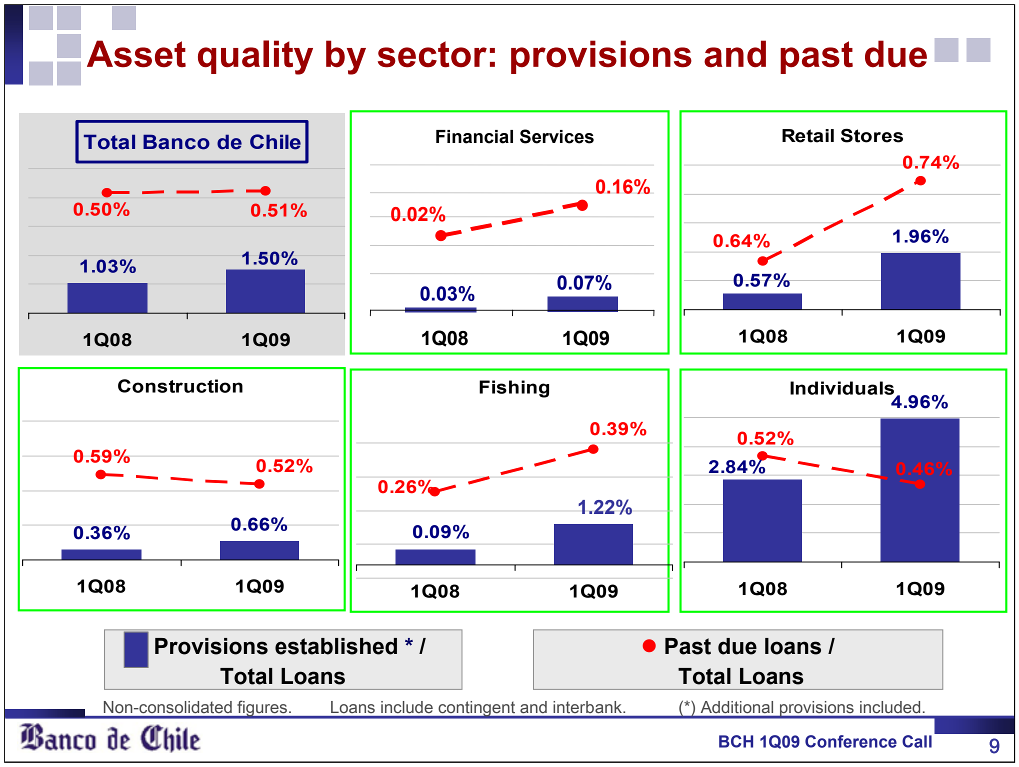
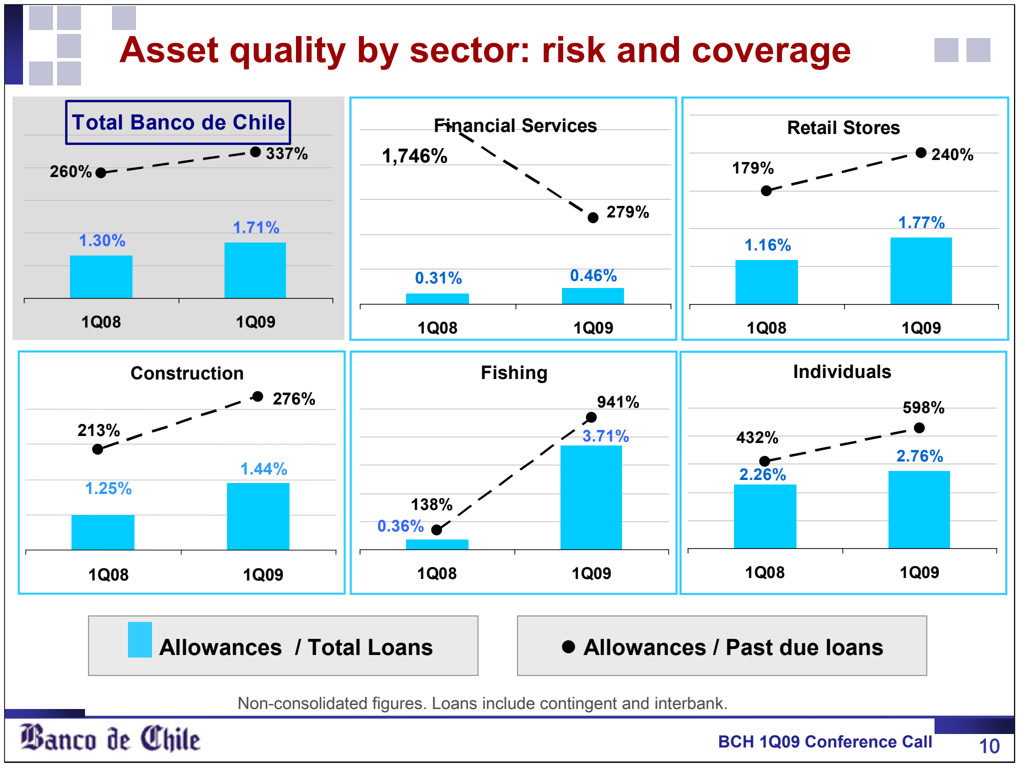
However, and as may be appreciated in **slide number 8,** Banco de Chile has shown, along the last twelve months, a cautious approach to portfolio expansion by fostering those more defensive economic sectors and slowing down those sectors with a less favorable outlook. As was commented earlier, our portfolio has been steering towards the corporate sector, mostly represented by the Industrial, Transportation and Telecom businesses. Conversely, areas such as Retail Stores, Construction, Social and personal services, as well as Forestry and Agriculture, show a reduction in portfolio share, on a year-on-year basis.




As said, this evolution responds to the Bank's risk perception supported by the observed behavior of the different sectors. On **slide number 9**, the evolution of risk indicators, mainly provisions established and past due loans, respective to total loans, have been pictured. The chart includes those more sensitive sectors where the general trend is an increase, either in net provisions - consequence of a dimmer risk perception -, in the past due ratio, or in both.

In particular, as far as the Fishing sector is concerned, and though Banco de Chile is present in this subsector in a much lower proportion than our global market share, the incidence of this group of debtors in our loan portfolio was reduced by 40 basis points during the first quarter of 2009.

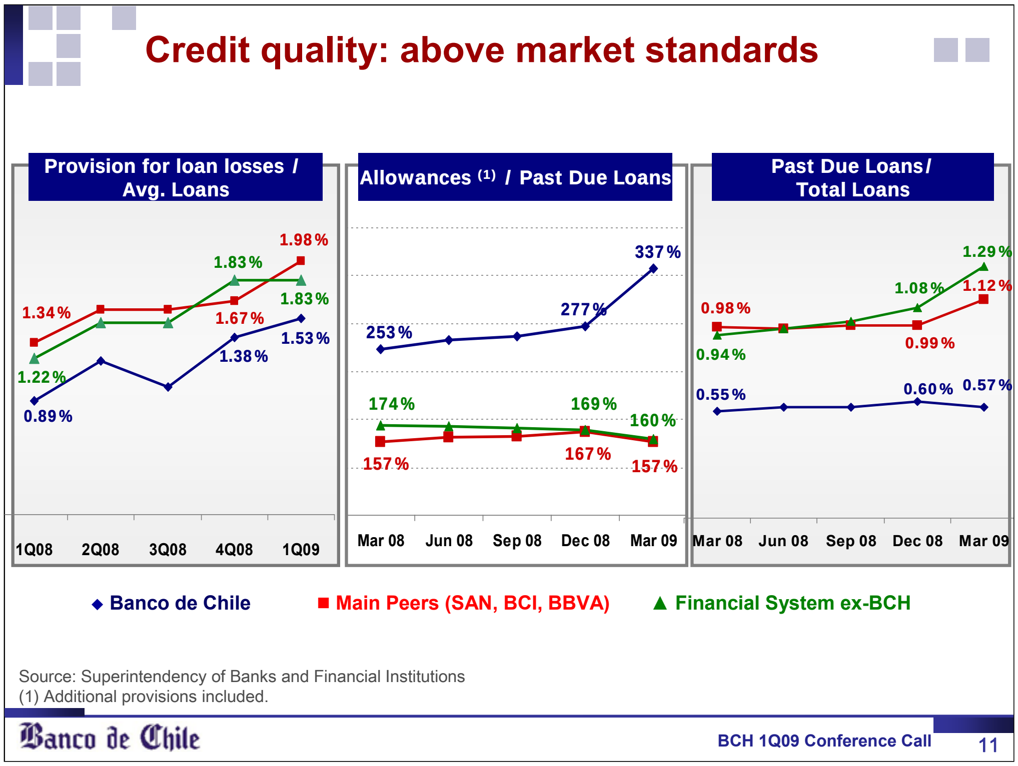
However, early in time, and as a consequence of a bearish stance towards the industry, the Bank importantly increased the provisions related to the fishing industry establishing, during the fourth quarter of last year, provisions for more than 10% of the loans to the fishing sector. On top of these, an equivalent amount of 1.2% of the loans to the fishing sector loans was established as provisions during the analyzed quarter. More than 90% of those provisions relate to salmon farming companies.




As a result of a combined effort of several banks within the financial industry, a restructuring program is currently being discussed with the purpose of alleviating the salmon crisis. In the case of Banco de Chile, the past due ratio of the sector has fallen by 99 basis points to 0.39% along the quarter, although the risk perception of the sector, as may be seen in **slide number 10,** has not yet eased, and shows a risk ratio of 3.71%. Following our conservative stance, allowances for loan losses cover the sector's past due loans by more than 9 times.

Another activity group also experiencing an increase in risk perception is retail stores. In a similar fashion to the previous case, the sector has reduced its incidence in the Bank's portfolio by 80 basis points, during the last three months. Provisions have been established by almost 2% of the sector's loans, though past due has shown a quite stable performance. Anyhow, as risk perception has increased, the stock of allowances for this portfolio now covers nearly 2.5 times the amount of past due loans.

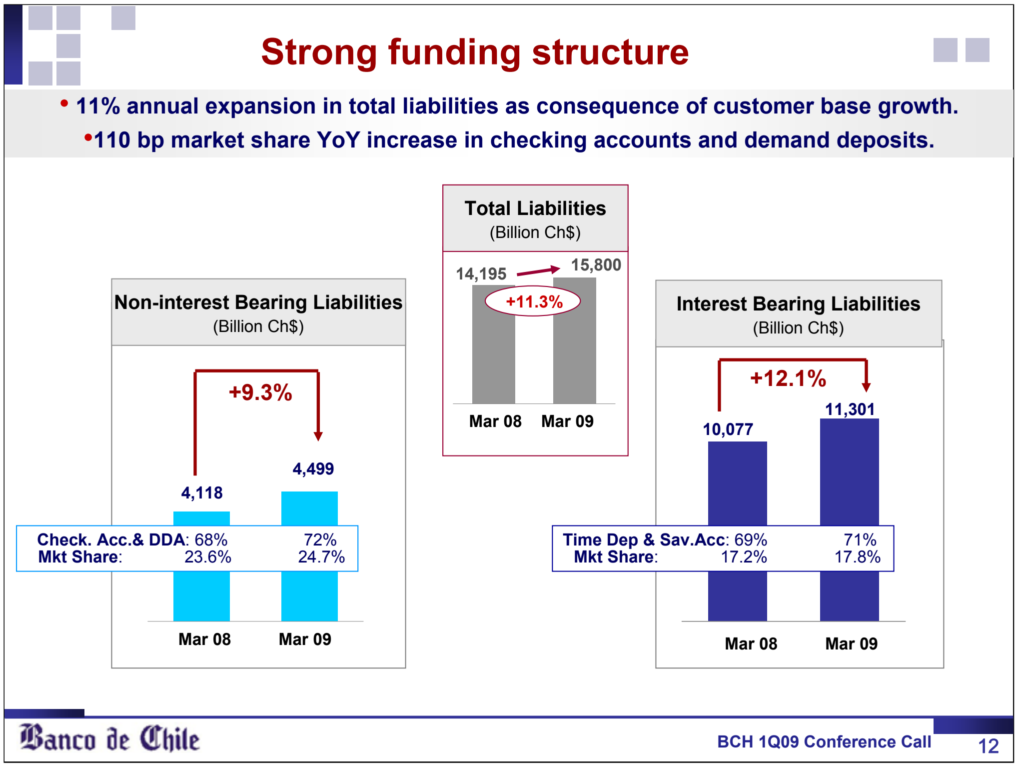
As I have mentioned in previous occasions, Banco de Chile will strive to build and maintain a strong and focused coverage for eventually impaired loans for as long as needed, and we will not ease in our efforts until signs of improvement in activity levels are perceived.



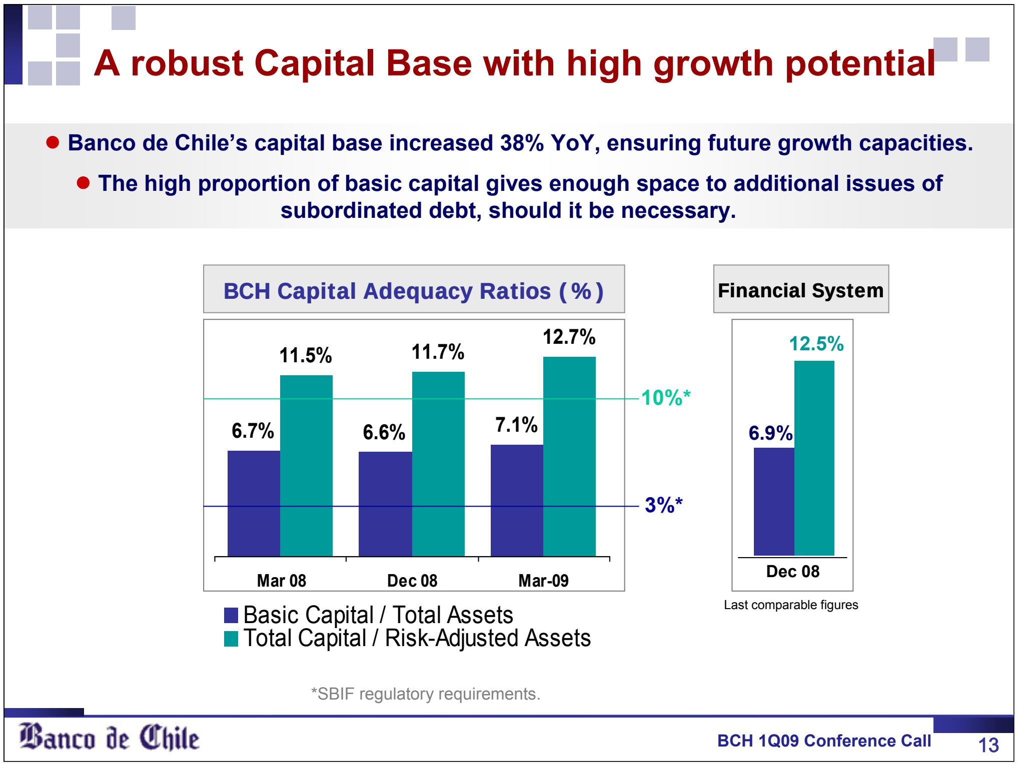

This prudent bearing on credit risk has allowed the Bank to show lower levels of delinquency, both in absolute terms while also in relation to our peers. As pictured in **slide number 11,** as of last March, the past due ratio for Banco de Chile stood 55 basis points below the average ratio for our main peers and 72 basis points under the industry average. After all the changes related to new accounting principles, Banco de Chile posted a past due ratio of 0.57%, a trifle below that of the previous quarter and the lowest among all large and medium sized banks; a huge achievement considering the dimension and stretch of our bank.

As a consequence, these very low impairment rates have also allowed the Bank to show more moderate provision requirements than most of our peer competitors. For quite some years now, Banco de Chile's provisions for loan losses have stood below the rest, being our current 1.53% over average loans, 45 basis points below our main peers' ratio, as an average. Moreover, and what decisively speaks of an above- average loan portfolio in terms of credit quality is that, in spite of lower delinquency, the Bank's past due portfolio enjoys a robust coverage ratio of 337%, more than twice as large than  the average of our main peers.

We still consider the possibility of further deterioration of credit ratio, though market signals seem to be looking more promissory.

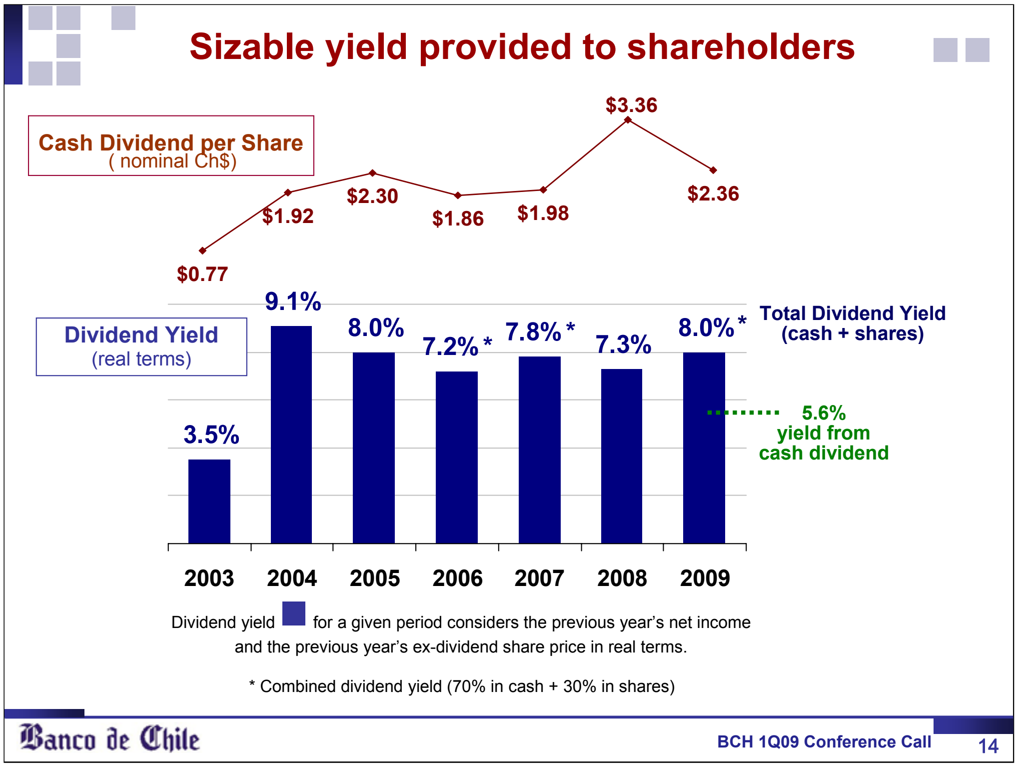



On the funding side, and as we commented in previous calls, the process of reallocation of funds along the system, consequence of a more risk averse approach from the part of customers and depositors has kept going, though at a slower pace. As a result, those larger and deeply rooted banking names have emphasized their advantage. As may be seen on **slide number 12**, the Bank's total liabilities grew by more than 11% in twelve months, with a 9% increase in non-interest bearing liabilities, on top of a very substantial increase at the beginning of 2008. As a consequence, checking accounts and demand deposits, the most appreciated liability class, now concentrates 72% of our Bank's total pool of non-interest liabilities, up from 68% a year ago. Thus, Banco de Chile, holds 24.7% of the market's non-interest paying customer funds, together with an almost 18% of interest-bearing funds.




Along with the strength in our funding structure, and as pictured in **slide number 13**, it is important to highlight Banco de Chile's solid capital base. As of last March, Total Capital ratio stood at 12.7%, an increase of 100 basis points during the quarter. This ratio involves a high proportion of Basic Capital standing to 7.1% of Total Assets, which may eventually allow an important increase of total capital through the potential issue of subordinated bonds, should it be required.

At the time, the Bank importantly exceeds the regulatory adequacy ratios; however, under new accounting rules, price level adjustments were eliminated so the UF asset portfolio will no longer be supported by capital adjustment. Bearing this in mind, together with other considerations, for fiscal year 2008 the Bank decided to capitalize a portion of the resulting net income, as approved in the Shareholder Meeting held on March 26, 2009.




As may be appreciated in **slide number 14,** Shareholders approved a combined dividend program involving a cash dividend in the equivalent of 70% of the 2008 per share net income, equivalent to 2.36 pesos per share, plus a dividend in the form of shares for the remaining 30%. As a consequence, the Bank's total capital was increased by an additional amount of 52.3 billion Chilean pesos.

The 30% portion to be distributed in shares was valued at the price of 31.26 pesos, resulting from the weighed average of the share price on the last 90 days of 2008, less the per share income of the period. It is worth mentioning that an additional benefit will be added if it were the case that the ex-dividend price of the share, after the new shares distribution - to be announced in a Board Meeting to come - exceeds the 31.26 pesos.

Banco de Chile has again been successful in offering its shareholders an above-market dividend yield to their investment. As shown in the slide, a combined 8% annual yield - involving cash plus shares - stands as one of the largest in the market, not only locally but also abroad. Should we consider only the cash dividend, the annual yield stands at a very attractive level of 5.6%.

## FORWARD-LOOKING INFORMATION

*The information contained herein incorporates by reference statements which constitute "forward-looking statements," in that they include statements regarding the intent, belief or current expectations of our directors and officers with respect to our future operating performance. Such statements include any forecasts, projections and descriptions of anticipated cost savings or other synergies. You should be aware that any such forward-looking statements are not guarantees of future performance and may involve risks and uncertainties, and that actual results may differ from those set forth in the forward-looking statements as a result of various factors (including, without limitations, the actions of competitors, future global economic conditions, market conditions, foreign exchange rates, and operating and financial risks related to managing growth and integrating acquired businesses), many of which are beyond our control. The occurrence of any such factors not currently expected by us would significantly alter the results set forth in these statements.*
*Factors that could cause actual results to differ materially and adversely include, but are not limite to:*

- *changes in general economic, business or political or other conditions in Chile or changes in general economic or business conditions in Latin America;*
- *changes in capital markets in general that may affect policies or attitudes toward lending to Chile or Chilean companies;*
- *unexpected developments in certain existing litigation;*
- *increased costs; and*
- *unanticipated increases in financing and other costs or the inability to obtain additional debt or equity financing on attractive terms.*

*You should not place undue reliance on such statements, which speak only as of the date that the were made. Our independent public accountants have not examined or compiled the forward-lookin statements and, accordingly, do not provide any assurance with respect to such statements. Thes cautionary statements should be considered in connection with any written or oral forward-lookin statements that we may issue in the future. We do not undertake any obligation to release public any revisions to such forward-looking statements after completion of this offering to reflect late events or circumstances or to reflect the occurrence of unanticipated events.*

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