Comments on the 1Q12 Financial Results
Banco de Chile

Good afternoon. It's a pleasure for me to share with you our comments on Banco de Chile's first quarter 2012 financial results. Joining me in this call is Mr. Pedro Samhan, Chief Financial Officer of Banco de Chile.

As a reminder, a link to the slide presentation is available on our webpage, www.bancochile.com, within the investor relations site.

To begin, on **slide number two**, is an overview of the topics which we will discuss. First, as in previous calls, we will begin with a discussion on the economy and the banking sector followed by key financial figures for the Bank and finish off with a discussion on our superior performance.

Please turn to **slide number three,** on first quarter 2012 economic highlights. According to the latest figures released by the Chilean Central Bank, the local economy grew by 6.0% in 2011, consolidating 2 years of high economic growth. This demonstrates the strength of our economy despite a period of high volatility that has affected developed nations as well as the earthquake we experienced in 2010.

On a quarterly basis, during 2011 the highest growth was concentrated in the first 2 quarters, followed by a quick downturn in the second semester, associated with a process economic stimulus withdrawal in terms of the nominal interest rates, specific issues related to certain economic sectors and an increase of international tensions.

However, during the last 2 quarters, the economy has retaken dynamism, reaching an annual rate above 5% during the first quarter of 2012, boosted strong growth in all economic sectors and supported by internal demand. This is explained in part, by low unemployment rates which have supported the growth of private consumption and positive expectations of companies which have supported the increase in investment. As a result, growth expectations have risen to around 4.5% for 2012.

With regards to inflation, after reaching a peak of 4.4% in December of 2011, the CPI has shown a downward trend during the 1Q12 associated with declines in food and energy prices. It is also important to mention that a new tax law is currently being discussed and if it is approved, the planned reductions, mainly to stamp tax, gasoline prices and import duties, could reduce CPI to a level around 3% for 2012. As a result, consensus estimates that the Chilean Central Bank will maintain the monetary policy rate relatively flat throughout the remainder of the year.

On the next slide, **number four,** is a brief overview of the main highlights in the banking system during the quarter

After reaching a peak of 4.8% in the third quarter of 2011, quarterly growth in loans has slowed, reaching a growth of 2.6% in the first quarter of 2012. In terms of loans by product, commercial loans posted the lowest quarterly growth rate while mortgage loans continued to grow at a relatively stable rate. In turn, the banking system posted a strong 12 month growth rate of 16%, with double digit growth figures in all products.

With regards to financial results, the system continued to post a moderate upward trend during the quarter in terms of net income, mainly due to higher operating revenues and lower operating costs.

However, when compared to the first quarter of 2011, the 3% reduction or $14 billion pesos is mostly explained by higher loan loss provision expenses, which experienced an annual growth of 61% associated with a less dynamic economic environment. This, together with higher operating expenses more than offset the 9% increase in operating revenues.

In terms of profitability, the banking system continued to post strong return on average capital but lower than the levels reached in the same quarter last year.

Before we begin to talk about Banco de Chile, I would like to briefly speak about new regulations related to the financial system.

In March, the new consumer financial protection law went into effect. This body aims to increase transparency in the financial industry especially in contracts between consumers and banks. The new law also prohibits, among others, irrevocable or blank mandates, modification of fees unless mechanisms to do so are based on objective factors and with the consent of the consumer and that a customer has the right to terminate a service at their discretion.

In 2011 the Chilean Congress debated bills regulating the maximum interest rates for consumer loans and insurance fees related to loans for housing.

Currently there are many bills under discussion in Congress related to the maximum legal interest rate. The most well known proposal contemplates a reduction of the factor used to calculate the maximum interest rate. This change is expected to reduce the ceiling from around 50% to a level near 35% for loans up to about US$8.500 dollars. Since the Government's proposal is currently under discussion in Congress, we can not determine the outcome of the law or its real impact on interest rates. For Banco de Chile, we expect based on preliminary estimates that around 2% of our loans will be affected by this new ceiling.

Also, the law regulating insurance fees was passed in 2011 and is effective beginning July 2012. This new law imposes restrictions and obligations to lenders, such as mandatory bidding process for insurance associated with home loans and a general prohibition on committees for the organization that makes loans. At Banco de Chile, we renew our collective insurance programs on a yearly basis; therefore this change will affect us beginning 2013.

These changes, which affect the Banking industry in Chile, are however not expected to have a material effect on the operating results of Banco de Chile. In addition, its important to mention that we have always promoted initiatives which contribute to greater transparency which directly benefit our customers. Nevertheless, we can't rule out that these new regulations may have undesired effects on the banking penetration in Chile which is a process that we have worked diligently in incorporating customers into the formal banking market.

On the next slide**, number five,** begins our discussion of our consolidated results.

- We began the year with a bang, posting record earnings of $121 billion pesos equal to an increase of 4% year on year and 21% quarter on quarter.
- This translated into the highest net income figure in the industry, equal to a market share of 28%, and the highest Return on Average Capital of almost 26%.
- It's important to mention that our profitability has been achieved through a sustainable business model aimed at maintaining an adequate risk/return ratio, where we have placed the objective to lead retail banking, increase profitability in our wholesale business and improve operating efficiency. Our results this quarter are clearly a result of this strategy.

On the following slide, **number six,** is a closer look at our operating revenues.

- We posted an 11% year-on-year increase in operating revenues during the first quarter. This was due to an important increase in net interest income of 21% in line with higher nominal interest rates, higher inflation, strong growth in loans and a rise in non-interest bearing deposits.

- This rise was partially offset by lower other revenues related to net financial operating and foreign exchange income as a result of a less favourable yield curve and lower fee revenues from mutual funds and stock brokerage. Nevertheless, fees from traditional banking products continued growing strongly as we expand our core business.

- Now if we take a closer look at our core business segments one can note that the retail business had the strongest growth of $24 billion pesos. In addition, our wholesale and treasury business also grew strong, posting a year-on-year increase of $12 billion pesos and $3 billion pesos, respectively.

With regards to asset quality, as shown in the next slide, **number seven,** loan loss provisions, following the slowdown in the local economy, have increased from an exceptionally low level of $26 billion pesos to $47 billion pesos. Nevertheless, the ratio of loan loss provisions over average loans remains very healthy at 1.08% when compared to our peers and other major banks in the region.

- This increase in LLP is mainly explained by the trend posted in the local industry of higher delinquent consumer loans, which for Banco de Chile went from 1.4% of loans in the first quarter of 2011 to 1.7% in the first quarter of 2012, yet still substantially below the average rate of 2.4% posted by the banking system. The higher delinquent loans resulted in higher provisions for expected loan losses as this is an important factor in our group-based credit risk provisioning model. Consequently, we have tightened our credit risk criteria during the assessment stage, adjusted our pricing and we have reinforced our collection efforts with a rise in headcount of 8% in that area.

- We continue to be very confident that we maintain a superior and efficient risk-return ratio within both our retail and wholesale segments. Moreover, we consider that we remain as one of the safest banks in the local industry with a coverage ratio of nearly 2 times and a the private bank with the highest level of countercyclical allowances in the industry of $95 billion pesos equal to almost 50% of our total past-due loans.

Moving on to slide **number eight**, operating expenses recorded a 10% year over year growth.

- The increase is in line with the increment shown by our commercial activity, growing proportionately at a lower rate than our operating income.

- It is important to mention that personnel expenses, which represent almost 50% of our total cost base, experienced a 9% year over year growth which was fuelled by inflation since wages are indexed to inflation, salary increases related to the collective bargaining process and greater headcount in our sales areas which resulted in higher variable expenses related to the greater business activity.

- On the other hand, administration and other operating expenses grew as a result of the expansion of our branch and ATM network and other operating expenses.

- In terms of efficiency, this indicator dropped to 46%, despite the year-on-year increase in operating expenses and it compared very favourably to the 49.6% posted by the average in the industry. I would also like to stress that our business strategy is even more superior to the banking industry when we consider loan loss provisions in our cost to income ratio. Under this calculation, we recorded an almost 10 percentage point difference with the industry average in terms of efficiency, net of provisions. Nevertheless, we continue to believe that we can improve these levels through projects that aim, among other objectives, to continue to increase productivity in our branches, improve online sales channels, redesign core processes and automate back office activities.

Now, moving on to balance sheet figures, loans continued their upward trend, albeit a slower rate during the first quarter of 2012, growing by about 19% year-on-year and 2% in the quarter, **as described in slide number nine.**

This profitable growth, which has a potential upside as we continue to see a positive economic scenario in the local market, is being led by our retail banking portfolio. We firmly believe in our strategy to accompany and build long-term relationships with both our retail and corporate customers. Along these lines, our outlook during the last 12 months has remained in line with the Chilean economic reality and we have adjusted our risk policies accordingly, maintaining an adequate risk-return relationship. In turn, we have continued to grow profitably and have maintained our market share during this period at 19.7%.

On the next slide, **number ten,** is a breakdown of our loan portfolio. As one can clearly see, individuals and SMEs are growing at a very strong pace of 20% year-on-year and 4% quarter-on-quarter, despite the fact that we have tightened our credit risk criteria. It is important to highlight, that the quarterly Chilean Central Bank survey states that the industry has taken a more restrictive stance in terms of credit risk. On the other hand as a result of positive employment and wage figures, demand for credit from individuals has increased during quarter, although at a slower rate than in prior quarters.

In terms of wholesale lending, growth year-over-year reached 18% and was relatively flat during the quarter. Nevertheless, we are focusing our efforts on improving profitability of this segment in terms of loan products which provide more attractive spreads such as leasing and factoring and increasing cross-selling in non interest earning products.

Now to finish off, I would like to hand over the call over to Pedro Samhan, Chief Financial Officer to discuss our superior performance during the first quarter of 2012.

Pedro Samhan:

Our strategic focus has permitted Banco de Chile to outperform our peers in many different indicators, as demonstrated on the next slide, **number eleven**.

The bars of each chart, except the last chart on Return on Average Assets, represent market share as of the first quarter and the column to the right of each chart represents the change in basis points with respect to last year's figure for the same period.

In terms of Operating Income, net of loan loss provisions, we continued our trend and ranked first with a market share of 22.8%, growing 75 basis points over the same period last year.

In Operating Expenses, we obtained a market share of 20.2%, 50 basis points above last year's figure but growing significantly less than most of our main competitors.

In Net Income, we placed first with a market share of 28.4% and a gain of 185 basis points.

Finally, where we continue to stand apart from the competition is in Return-on-Average Assets, which reached an outstanding 2.2% in the quarter, far exceeding all of our competitors.

I firmly believe that all of these indicators clearly demonstrate how we have effectively implemented our sound and effective business strategy to grow our retail portfolio, increase profitability of our wholesale segment and effectively control operating expenses.

Now if you have any questions we would be happy to answer them.