Comments on the 1Q11 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 2011 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, I would like to share with you, on **slide number two,** first quarter 2011 highlights. As we can see, the Chilean economy continued showing firm signs of improvement during the quarter; this assisted us to begin the year with outstanding figures. We obtained a record quarterly net income and the highest return on equity in the Chilean financial system. During the quarter we also posted excellent core banking revenue growth, based on a significant rise in retail lending that is very in line with our overall strategy, and successfully placed almost two hundred million dollars in the first stage of our equity offering with a demand that far exceeded the issuance, clearly demonstrating investor appetite for our stock.

Please move forward to the next slide, **number three.** Before going further into our results for the quarter, I would like to briefly discuss the positive expectations for 2011 and the coming years. In terms of GDP growth, the consensus is expecting a figure around 6% for 2011. For the next three years, GDP growth is expected to stay above 5%.

With respect to unemployment, the average rate has steadily dropped, and is expected to reach a level near 7.5% for 2011. In 2010, the main drivers for employment creation were the retail and construction sectors, in part due to reconstruction efforts and the better expectations for the economy. Obviously, the lower unemployment rate estimated for 2011 should continue to translate into decreasing delinquencies, which is very important for our figures. For example, if provisions for loan losses decrease by 10 basis points, we increase earnings before tax by about $30 million dollars. This effect is very noticeable within our risk figures as you will see later in the presentation.

In addition, inflation measured by the consumer price index reached 3% at the end of 2010, in line with the objectives of the Chilean Central Bank which seeks to maintain annual inflation in a range between 2% and 4%. However, in 2011, inflation is expected to reach above 4%. This is mainly due to increases in commodity prices, especially food prices. As a result, the Chilean Central Bank has withdrawn stimulus, rising the monetary policy rate quicker than the market expected, reaching in April 4.5% and is expected to reach a level around 5.5% to 6.0% at year-end.

The combination of rises in inflation and the monetary policy rate should assist the banking industry's revenue generation as banks have a long structural position in UF and a significant portion of funding from non-interest bearing deposits. Banco de Chile should especially benefit from this scenario, because we have the largest portion of funding based in non-interest bearing deposits in the financial system, therefore we can take greater advantage of the higher inflation and the nominal interest rate hikes.

On the next slide**, number four,** begins our discussion of our consolidated results. As mentioned, we began the year very strong, posting record earnings of 117 billion pesos. I would also like to emphasize that during the quarter we achieved two other records. In January we recorded our highest monthly net income figure of about $44 billion pesos and in March we recorded earnings before tax of $51 billion pesos. These results were achieved through strong growth in core business operating income and a significant decrease in credit risk provisions. As a result, we recorded an outstanding return on average equity of 28.1%, placing us as the leader in the Chilean Banking Industry.

Also, worth noting is the effect of the 3% increase in the statutory corporate tax rate which rose income tax expenses for this quarter as compared to a year earlier.

On the following slide, **number five,** is a closer look at our operating revenues. On a quarterly basis and despite the excellent level that we achieved in the first quarter of 2010 related to higher than average revenues from net financial and foreign exchange transactions, we posted a rise of 5% in Total Operating Revenues, as demonstrated on the chart on the left.

This rise was primarily due to a firm increase in net interest income and fee based revenues, which rose by 12% as you can see on the chart on the upper right corner. This positive evolution in net interest revenue was prompted by a higher yield associated with our non-interest bearing current accounts and demand deposit balances which grew by 13% year-on-year, in an environment of increasing nominal interest rates. In addition but to a lesser extent, our net interest income was fuelled by a 13% year-on-year rise in total loans that more than offset a decrease in lending spreads which is explained by the higher competition within the Chilean financial system from traditional banks and other market players, as well as improved risk profiles as a result of the economic recovery.

The strong 17% growth in fee revenues was the result of higher commercial activity in our insurance business, greater revenues from mutual fund management, a rise in the stock trading turnover, and a greater activity in credit cards based on the positive trend of the economy and household consumption, along with our commercial initiatives intended to reinforce the use of this payment channel.

In summary, 2011 revenues are more focused on the recurring core business and less on financial operating income and foreign exchange transactions as you can see the evolution of these items on the chart on the bottom right.

With regards to asset quality, as shown in the next slide, **number six,** loan loss provisions, in line with a more optimistic outlook for the local economy, have decreased by more than 50 percent when compared to the same quarter last year and as a percentage of average loans, we reached a figure of 0.7%. This favourably compares to the figure posted by the financial system, ex Banco de Chile, which equalled 1.0% for the quarter.

In addition, the better economic conditions and our improved collection processes which are based on a strategy that groups customers on their profile, length of time that they are delinquent, and the exposure level, among other elements, has assisted in a strong increase in recoveries of nearly 66% over the same period last year.

Thus, we are very confident that we maintain a superior and efficient risk-return ratio within both our retail and wholesale segments. This includes our ability to manage effectively all aspects of the credit cycle, including a rigorous credit assessment before approving loans to ensure customers fall within the predefined target market; firm controls to guarantee proper application of credit policies; and detailed monitoring of changes in portfolio risk.

Moving on to slide **number 7**, we can observe that our efficiency ratio during the first quarter has remained stable at 46.6%, in line with our 2010 average and despite the year-over-year increase in operating expenses. As you can see on the chart on the upper right, this was mainly attributable to administrative items, principally from outsourced sales force, IT and marketing expenses as a result of higher business activity.

It is important to mention that personnel expenses, which represent almost 50% of our total cost base, experienced moderate growth that is in line with the evolution recorded by inflation. This cost control is the result of improvements in productivity that has enabled us to overcome the higher commercial activity with a steady headcount.

I would also like to stress that one of our main strategic focuses is to continue improving our operating efficiency 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 growing firmly during the quarter and picking up speed as our total loan portfolio grew by about 13% year-on-year and 4% in the quarter, **as described in slide number 8.**

This growth, which we expect to maintain, is clearly being led by our retail banking portfolio, as demonstrated on the chart on the right, which grew almost 18% year-on-year and 5% quarter-on-quarter. This strong rise is consistent with the improved unemployment figures, the firm economic growth and the positive expectations for the following years that have encouraged individuals and SMEs to increase their borrowings.

The evolution shown by our retail lending products has permitted us to increase its proportion in our total loan portfolio from 46.7% in the first quarter of 2010 to 48.5% in the first quarter of 2011, which is in line with our mid-term strategic objectives.

On the next slide, **number 9,** is a breakdown of our retail loan portfolio. Both these charts demonstrate that loans to individuals and to SMEs are growing at a very strong year-on-year pace of 18% and 17%, respectively. Of this growth, mortgage loans continue to lead, rising 19% year-on-year. Consumer loans, as mentioned in previous calls, continue to increase its velocity, growing at a rate of 16% year-on-year and approximately 6% quarter-on-quarter. It's important to emphasize, that our consumer finance division (CrediChile) which serves lower income individuals and represents approximately one third of our consumer loan book, is also growing at 16% year-on-year.

As for our loans to small and mid sized companies, this area is leading our commercial loan growth with a rate of 17% year-on-year. Our strategy is focused on investing in improving products and value added services, optimizing service models – especially in areas outside of Santiago - and improving response times with regards to credit analysis and approvals.

Our focus on retail banking has translated not only into loan growth but also into a higher market share, as demonstrated on the next slide, **number 10**. Particularly, in mortgage loans we have increased our market share to 15.3%, which is 37 basis points above our December 2010 figure and regarding our consumer loans, we increased our market share by 23 basis points during the same period.

Overall, our results have outperformed the competition in a diverse range of variables, as shown on the following slide, **number 11**. The bars of each chart, except the chart on return on capital, represent market share as of the first quarter and the column to the right of each chart represents the change in basis points with respects to the year-end market share of each bank.

As you can see, we are the second largest bank in terms of Operating Income, net of loan loss provisions with a market share of 22%. However, its important to note that we were the leader in terms of growth during the quarter with a rise of 101 basis points over December 2010, considerably shrinking the market share gap with the leader from 220 basis points to a mere 20 basis points.

In Operating Expenses, we obtained a market share of 19.7%, 50 basis points below last year and considerably lower than our market share in Operating Income net of loan losses.

This in turn led to a considerable rise in net income, with market share of 26.3%, which is almost equal to the market leader.

Finally, where we truly stood apart from the competition is on return-on-capital with a figure of 34.1% and a rise over December of 426 basis points, clearly demonstrating our sound and effective business strategy.

Now to finish off, I would like to hand over the call over to Pedro Samhan, Chief Financial Officer to discuss in greater detail our successful advances in the implementation of our mid-term financial and commercial strategies.

Pedro Samhan:

Thank you Pablo. Please move to the following slide, **number 12.** As Pablo mentioned earlier in the presentation and in prior conference calls, we have directed our efforts in growing our market position in retail banking. This segment offers attractive and recurring returns and important growth expectations for individuals and SMEs. Moreover, our effective penetration in this segment has permitted us to post significant results in the first quarter of this year, increasing our EBIT in this segment by 66% over last year's figure. We aim to continue growing our customer base in both individuals and SMEs and we are paying special attention to enhancing our payment products, including credit and debit cards. In order to achieve this goal, we are not only reinforcing our marketing efforts, but we are also enhancing our distribution network, as we firmly believe that customers require easy access to branches and ATMs to meet their everyday banking needs. Accordingly, during the last 12 months, we added 24 branches and 275 new ATMs to our local network.

As for our wholesale strategy, we currently hold the highest market share in commercial loans of 20.1%. As opposed to our strategy in the retail segment, the focus in this area is to increase cross-selling. In addition, it's important to emphasize that the merger with Citi provided us with important improvements in terms of our cost structure and commercial synergies, which combined the know-how of Citi and Banco de Chile's distribution network and customer base. As you can see, this strategy improved EBIT from this segment by 30% over the same period last year. Also, the merger has provided important future growth opportunities which we will continue to leverage in order to develop more international business and implement best practices for internal processes and service quality, among others.

Looking forward, we are optimistic with regards to the future economic environment and the growth expectations of the banking industry which we expect, based on historical average elasticity of loans to GDP, a growth of around 46% nominal in the next three years. Due to these expectations, as demonstrated on the following slide**, number 13,** at the beginning of this year we announced a capital increase of approximately US$500 million dollars and successfully issued the first stage of this offering of about US$186 million dollars with a demand of 1.4 billion dollars that exceeded the supply by more than seven times.

It's also important to mention that on April 29, 2011, we completed the second step of the three stage process, associated with the preemptive rights of our remaining shareholders (with exception of SAOS), reaching a subscription of 84% which raised approximately US$92 million dollars. Stocks related to the non-exercised preemptive rights portion will be issued to the market on a future date. The final stage related to the shares of our shareholder SAOS, which are pledged to Chilean Central Bank and of which accounts for about US$158 million dollars should begin in Mid-May.
Now if you have any questions we would be happy to answer them.
