Comments on the 1Q13 Financial Results
Banco de Chile

Thank you, María.

Good afternoon. It's a pleasure for me to share with you our comments on Banco de Chile's first quarter 2013 financial results. Joining me in this call is Mr. Daniel Galarce, acting Investor Relations manager, who will follow me in presenting our quarterly report today.

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

To begin, please turn to **slide number two** for a summary of the key highlights for this quarter. First of all, I would like to mention that we have continued to see positive economic figures, however slowing to a level that is closer to long-term rates in terms of GDP, domestic demand, investment, etc. This slowdown has also been seen in loan growth across the banking industry, which has been supplemented by stricter credit lending conditions set by banks.

As for our results, we reported earnings of $121 billion pesos for the first quarter of 2013, or $1.32 pesos per share. As we will see, this figure is supported by strong results in core business activities and efficient cost and risk management.

Also, worth noting is that during the 1Q13 we completed the capital increase that began at the end of 2012, which translated into gross proceeds above US$500 million dollars.

Lastly, it is important to mention that we also had an excellent quarter when compared to the largest banks in the industry by ranking first, amongst others, in net income, total loans and return on average capital.

Now, to continue with the presentation, I would like to introduce Daniel Galarce, who will show you the key factors explaining our financial performance for the 1Q13. Daniel, please go ahead.

Thank you, Pedro.

Please turn to **slide number three for our economic review**. During the first quarter of 2013 the economy reduced its pace of growth, achieving a GDP expansion of 4.4% YoY, due to a deceleration in aggregate demand and an external scenario that remains weak. This moderate slowdown was expected by market agents and is in line with long-term growth potential.

Nevertheless, Chilean economy maintains strong fundamentals, which have led market analysts to positively review their GDP growth expectations for 2013. According to the last expectations survey conducted by the Central Bank, Chilean economy would grow around 5.1% this year. We share the optimistic view regarding the Chilean economy, based on the solid trend displayed by the aggregate demand, a positive confidence on the economic outlook held by households and enterprises, as well as excellent conditions in the labour market, reflected by an unemployment rate of 6.2% as of March 31, 2013. We believe these market conditions should not considerably change over the coming quarters.

Regarding inflation, CPI accumulated an increase of 0.7% during 1Q13, but only 0.13% when measured as the variation of the UF (Unidad de Fomento). On a yearly basis CPI remained steady with an annual expansion of 1.5%, mainly as a result of a decline in prices of tradable goods and the one-off effect of the stamp tax reduction for lending operations. As for inflation outlook, we expect that CPI will gradually return to mid-term values, reaching an annual increase of about 2.5% for 2013, fostered by positive figures in private demand and real wages.

Concerning monetary policy, the Central Bank has kept the monetary policy interest rate at 5.0% due to a solid expansion of aggregate demand, low unemployment rates and stable inflation expectations. In this regard, we do not expect significant changes in the coming months.

Going forward to slide number four, we can see the Chilean banking industry's main figures. As depicted by the first chart on the right, after a strong performance during 4Q12, the credit expansion reduced in the 1Q13, growing 1.5% QoQ, aligned with GDP deceleration and stricter credit conditions set by the banking industry. Similarly, total loans show signs of slowdown on a yearly basis by recording an 11.2% annual nominal growth as of March 2013. This figure is consistent with our expectations set at the end of 2012 and the historical average elasticity of approximately two times the GDP growth.

By product, on a yearly basis, commercial loans grew 11.6%, residential mortgage loans posted a 10.4% expansion and consumer loans increased 11.1%. We expect that total loans will continue expanding aligned with local economic activity, so we estimate an annual nominal growth of about 12% for industry's total loans at the end of 2013.

As for results, in the first quarter net income decreased 23% and 12%, on quarterly and yearly basis, respectively. The main drivers of this drop were the lower UF variation posted in the 1Q13, which moderated growth in operating revenues, as well as higher credit risk charges that translated into a ratio of loan loss provisions to average loans of 1.35% in the 1Q13, above the 1.31% and 1.34% shown in the 4Q12 and the 1Q12, respectively. This situation was associated with a tempered deterioration in the overall loan portfolio.

Because of the decrease in earnings and also due to the important expansion of 18.4% in equity across the industry, ROAE reached 12% in the 1Q13, which represents a 378 basis point reduction when compared to the 1Q12 figures.

In coming quarters, especially during the second half of the year, we expect the banking system's net income to increase, based on normalized inflation, loan growth and stable credit risk charges as a result of positive macroeconomic figures.

On the next slide**, number five,** we show a snapshot of Banco de Chile's main figures for the first quarter, in comparison with the 4Q12 and a year earlier. Although we will analyze these figures in more detail, I would like to highlight the following elements regarding our quarterly performance:

- A loan book that grew 8% year-on-year and fostered the increase in revenues by maintaining a balanced risk-return relationship.
- Total operating revenues that rose 2% annually, despite a scenario of low inflation – measured as UF variation – and tiny term gapping opportunities.
- Provisions for loans losses increased 6% YoY and kept consistency with a larger loan portfolio and greater mix of retail loans.
- Operating expenses that remained flat year-on-year despite a larger customer base and an increasing business activity.
- A higher effective tax rate due to the increase in the corporate tax rate that was passed by law in 2012.
- In summary, our results were flat on a year-on-year basis, demonstrating that a consistent commercial strategy that selectively prioritizes determined business segments, along with solid risk and cost control policies, have permitted us to cope with less favourable market variables such as low inflation and flat interest rate yield curves.

In detail, **on slide six** we show a breakdown on Operating Revenues. As you can see, our customer revenues, which comprise interest income from loans, deposits and net fee income, have increased consistently during the last four quarters from $258 billion pesos in the 1Q12 to $282 billion pesos in the 1Q13, representing a 9.3% annual increase. This annual advance was principally prompted by a 9% annual increase in average loans – that was sustained by a careful commercial strategy intended to privilege growth in more profitable segments and then keeping a fair risk-return relationship in our loan book. Similarly, worth mentioning is the 9% annual increase in average non-interest bearing current accounts and demand deposits, which provided us with an advantageous funding source. Besides, net fee income affirmed its condition of a stable income source by increasing 2% YoY.

Conversely, non-customer revenues, which are mainly composed of income from the contribution we generate by managing the Bank's term and currency mismatches on our balance sheet as well as trading activities executed by our Treasury, decreased sharply due to the lower contribution from our net asset position indexed to the UF, as this currency recorded a variation of only 0.13% this quarter as compared to the 1.1% posted in the 1Q12 and also because of lack of term spread gapping opportunities caused by a flat yield curve. And, to a lesser extent, revenues from the management of our investment portfolio also shrank as compared to the 1Q12, primarily as a result of unfavourable shifts in the CLP yield curve that affected our positions in derivatives. Consequently, non-customer revenues totalled $62 billion pesos in the 1Q13, which was $18 billion pesos less than the same period last year.

Moving forward to slide seven, you can see the evolution of our loan loss provisions, broken down by business segments.

As depicted by the chart on the left hand side, loan loss provisions amounted to $50 billion pesos in the 1Q13, versus $47 billion pesos reported a year earlier. The $3 billion pesos increase, or 6%, had mainly to do with our strategic priority of growing in retail loans. This annual increase was partially offset by better than usual wholesale provisions related to an upgrade in credit classification of a specific customer, which resulted in an allowance release of $8.6 billion pesos during this quarter.

As for our credit risk indicators, as shown by the chart on the right hand side, we have continued to record good asset quality. Actually, our ratio of loan loss provisions to average loans decreased from 1.08% to 1.05%, which continues to compare us favourably to other Chilean and LatAm peers. This improving trend can also be seen in our total past-due loans ratio which moved from 1.15% in the first quarter of 2012 to 1.06% in the first quarter of 2013. The improvement in delinquent loans was pointed out by all major product lines and allowed us to post a coverage ratio above 200% that significantly outperforms the level posted by all of our peers. It is important to mention that on a quarter-on-quarter basis, NPLs increased due to seasonal effects, as customers generally have worse payment behaviour during summer months than other months of the year.

Our outstanding asset quality figures, which reflect the bank's prudent and effective risk approach, are the result of well-designed risk policies and processes that combine:

- Strict admission criteria,
- Close debtor monitoring and
- Effective and reinforced collection processes.

Without a doubt, the financial resources that we have invested in this area, together with increased staff, have allowed us to achieve the highest operating margin – net of credit risk expenses – within our peer group. This topic, along with our strong earnings-generating capacity, suitable capital adequacy and diversified loan portfolio, are the basis for our excellent international credit rating, which – among others – has been a key element in our aim of funding diversification.

Slide **number eight** provides you with an overview of our operating expenses. As demonstrated by the chart on the right hand side, our operating expenses have recorded a flat trend over the last five quarters, although posting a slight 0.5% annual decrease as compared to the 1Q12.

The trend in operating expenses is explained by controlled personnel expenses, in spite of a mild rise in headcount in our commercial and collection areas. This is especially significant if you note that our loan book has grown by 8% year-over-year, while our customer base has enlarged by 7% within the same period.

Administrative and other operating expenses also grew quite controlled, increasing only $2 billion year-over-year largely due to greater expenses on collections duties, donations and other general expenses.

Also we recorded a year-on-year drop of 32% in other operating expenses, mainly due to contingency provisions of $5.3 billion pesos set in the 1Q12.

Regarding efficiency, our cost – to – income indicator improved from 46.0% in the 1Q12 to 44.9% in the 1Q13. This figure also compares very favourably to the 50.8% posted by the industry on average. We can detect two positive forces benefiting our efficiency ratio, namely, our income-generating capacity and our cost control discipline.

The former is the result of a focused business growth oriented to increase our penetration of profitable segments while maintaining a suitable risk-return relationship. In the same line, we have been able to build a robust and stable fee income base that relies on comprehensive financial service offerings. This strategy is also backed by a significant competitive advantage in terms of funding cost.

Regarding our cost control discipline, we can mention the economies of scale that have arisen from our growth in the retail business segment, which has permitted us to take advantage of available capacity in our branch network and back-office procedures, productivity gains in sales based on a consolidated CRM system, as well as the implementation of a full management information system for expenses, and a culture oriented to cost control that has been gradually adopted across the corporation.

Moving on to **slide number nine**, you will see the evolution of our loan portfolio.

During the 1Q13 we surpassed the threshold of $19 trillion pesos, a figure that permitted us to retake the leading position in the Chilean banking industry in total loans with a market share of 19.1%, excluding operations of subsidiaries abroad.

The expansion of our loan book has been determined by a long-term business strategy, which focuses on profitable growth and compels us to conduct a selective commercial approach in order to ensure a balanced risk-return relationship in all of our lending activities. Hence, although our loan expansion of 8% year-on-year may seem modest, we think it is completely consistent with our strategy to privilege the retail segment and carry out commercial transactions that are in line with our net operating margins.

As for our retail segment, as seen on the chart on the left hand side, during 1Q13 we have continued to grow at double-digit rates in individual loans by recording a 13% annual expansion. This positive outcome is the result of a consistent and focused business strategy that is sustained by competitive advantages that we have been able to build and preserve over time. In this regard, we believe that our corporate reputation, a well-respected brand, a large customer base and distribution network, prudent risk management policies and a large business scale are key attributes that allow us to suitably compete in personal and SME banking segment.

As for the latter, our total loans granted to SMEs grew well above the average of the total loan book by recording an annual expansion of 14%, reflecting the Bank's consistent focus on this segment through the implementation of innovative financial solutions that comprise a specialized area into the corporation, specific account officers and sales force, as well as improved and tailored credit processes. Also, we have been very proactive in taking advantage of government-backed guarantees for SMEs, which reduce the credit risk exposure to this segment. As a result, SME's loans have become

increasingly important in our portfolio of commercial loans, rising from a 17% share three years ago to 21% in the 1Q13.
Overall, during the last 12 months we have increased the retail segment proportion from 49% to 51% of our total loan portfolio and we estimate a similar growing trend for the future given the positive outlook in consumption fundamentals and private and public policies oriented to strengthen entrepreneurship through the creation of new SMEs.

In terms of our wholesale segment, after a moderate slowdown in total loans during last year, the segment returned to an upward trend in business activity, which is reflected by a loan book growing 4.0% YoY in the 1Q13 and – more importantly - by a 2% increase QoQ.

The lower pace in the wholesale segment in relation with the dynamism displayed by the retail segment was the result of our commercial decisions made in order to preserve a suitable risk-return balance in our whole portfolio. In this regard, worth noting are the forces behind the wholesale market, where banks are facing significant competition from public and private debt markets that have become attractive funding sources for Chilean large companies and corporations, given the international financial environment. As a result, lending spreads in this segment – especially among corporations – have turned narrower, which has led us to focus on fee income and loan growth centered in medium and large companies, with annual sales between $1.6 billion pesos and $70.0 billion pesos, in which we have grown 11% in the last 12 months.

On slide **number ten**, we show a breakdown on liabilities and the importance that we assign to our leadership in current account deposits, which provides us with a strong competitive advantage over our peers.

Regarding our funding, worth mentioning are the changes experienced by our financing structure, particularly in terms of the large increase in bonds as a percentage of our total liabilities, which turned from 11% into 15% in the last twelve months. As we have commented in previous quarters, we have been very active in debt markets, placing bonds by US$3.2 billion dollars locally and US$1.1 billion dollars internationally since December 2010. These actions have been oriented to diversify our funding sources, maintain a competitive cost of funding and improve our liquidity ratios by increasing the duration of our liabilities. More importantly, these initiatives have been executed within favorable market factors, as we have taken advantage of the liquidity present in the international markets that has translated into low interest rates, all of which has been amplified by our excellent business model and top-tier credit ratings from S&P and Moody's that have permitted us to be subject to very attractive risk premiums.

As for our funding from non-interest bearing current account deposits, as you can see on the right hand side, we continue to rank first in the Chilean banking industry – and well above our peers – by holding a 24% market share. Another important aspect to note is that we have by far the largest mix of individuals in this matter, representing 38% of our total current account deposits, substantially above all of our competitors.

On slide eleven, we show the main highlights of the equity offering that we recently completed.

As mentioned in previous calls, this equity offering began late 2012 and – after two preemptive right offering periods – it was completed during the month of March 2013. Therefore, we successfully placed all of the shares offered – equivalent to approximately 3.9 million Banco de Chile–T shares that permitted us to raise capital for an amount of approximately $253 billion pesos, equivalent to about US$530 million dollars.

This equity offering allowed us to increase our total capital ratio by about 1.2%, all things equal, which will enable us to support our expected business growth within the mid-term, under the current regulatory standards. This capital increase is part of a comprehensive capital strategy that also comprises earnings retention and recognition of inflation effect on our shareholders' equity. In this regard, this offering has been recently supplemented by the retention of approximately $86 billion pesos corresponding to 30% of our 2012 distributable net income. As a result, in the 1Q13 we significantly improved our capital adequacy ratios by adding 122 bp to our Tier I ratio and 74 bp to our BIS ratio as compared to the figures recorded a year earlier.

Also, the mentioned capital increase process allowed us to augment the free float of our stocks by almost 200 basis points, which permits us to deepen their liquidity and make them more attractive for Chilean and foreign investors.

Now to finish off, Pedro Samhan will go over the solid and consistent business strategy that has permitted us to outperform our peers in many different indicators, as demonstrated on the next slide, **number twelve**. Pedro, please go ahead.

Thank you, Daniel.

Let me summarize the main factors that sustain our successful financial performance.

First of all, as shown by the chart on the upper left hand, our net operating margin, measured as operating revenues over average interest earning assets, reached 6.3% at the end of the quarter, above all of our competition. Nevertheless, this figure is very impressive as we still have space to continue becoming a more retail focused bank, and therefore there is room to continue increasing this figure.

In loan loss provisions to average loans, upper right hand chart, we obtained the best figure amongst our peers, reaching 1.05%. Thus, our net interest margin, net of loan losses, is significantly higher than all of our main competitors thanks to a sound business model and a prudent credit risk approach.

In terms of cost - to - income, we significantly closed the gap with our main competitor this quarter, posting a figure of 44.9%, or 60 basis points higher than their ratio. This ratio has been achieved through projects that aim, among other objectives, to increase productivity in our branches, improve online sales channels, redesign core processes and automate back office activities. More importantly, as mentioned earlier, this also has to do with a notable commercial strategy that has resulted in an unparalleled income-generating capacity, based on selective loan growth to preserve our risk-return relationship, a comprehensive portfolio of fee-based services and a very favorable funding structure.

As a result, in Net Income, we stood far apart from our peers with an impressive market share of 32% and a return-on-average equity of 20% in the 1Q13.

These indicators clearly demonstrate our ability to effectively implement our business strategy by growing our retail portfolio, increasing profitability of our wholesale segment, controlling operating expenses effectively and maintaining a prudent risk approach.

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

Concluding Remarks

Thanks María. Before ending this call I would like to stress that we have achieved an excellent result of $121 billion pesos this quarter, amid an unfriendly environment of inflation and interest rate yield curves, which tell us that our strategy is bringing the expected profits. Accordingly, I am confident that a normalized scenario in terms of the main market variables that affect our performance should permit us to continue achieving superior results in the coming quarters and make profitable our recent equity offering, coming back gradually to return ratios of about 25%, which is in line with our track record. Thank you again and we look forward to discussing our second quarter financial results.