Comments on the 4Q09 Results
Presented by Arturo Tagle, Senior Vice President of Institutional and Investor Relations, Banco de Chile

Good morning ladies and gentlemen.

It is a pleasure for me to share with you our comments on Banco de Chile's fourth quarter 2009 financial results.

As the operator mentioned, a slide presentation is available to download at our webpage, www.bancochile.com

To begin, on **slide number two** you can see a list of the main topics which will be covered in today's presentation.

I will begin with a review of the Chilean economy in a more optimistic global environment, followed by a discussion of our financial results for the quarter and year-end.

On the next slide, **number three,** we can see that the Chilean economy has continued to show positive recovery signals during the fourth quarter. GDP and Private Consumption ended the year at minus 1.7 percent and minus 0.2 percent. Nevertheless, both these indicators picked up speed during the third and fourth quarters. Most economists also agree that Chile will continue to rebound and GDP in 2010 should be in a range of 5% to 6%. In fact the newly elected President has stated that his government will provide Chile with an annual growth rate of 6% during his four years in office.

In terms of unemployment, this also reached its peak in 2009 with a rate of 10.7 percent during the second quarter; dropping to 8.6 percent in December. Job creation also began to rise during the year after reaching a low of minus 2 percent in the first quarter and ending the year at 2.1 percent.

With regards to the evolution of inflation and the monetary policy interest rate, the chart on the bottom left clearly shows the reaction of the Chilean Government to reduce inflation and to mitigate other negative economic factors through, among others, the sharp reduction in the monetary policy interest rate from 8.25% in December 2008 to 0.75 in June 2009 and bottoming out at 0.5% in July. This response, along with the improved economic environment, was able to end the three quarter deflationary trend by posting a positive UF indexed inflation unit of 0.5% during the fourth quarter of 2009.

I would like to emphasize the effects that the annual deflation and the reduction in the monetary policy interest rate had on banking related revenues. First, deflationary periods reduce the Chilean banking system's revenues because banks operating in Chile generally have a long structural position in inflation indexed assets, as long-term loans are generally indexed to inflation through the UF Chilean currency unit. Second, the lower monetary policy interest rate reduces the spread obtained from loans funded with non interest bearing liabilities.

As for 2010, we expect that inflation will begin to pickup during the second quarter, reaching a level of about 2.5% at year end.

The market has also taken note of these positive recovery signals. This has led to a sharp drop in Chile's risk premium, more so than the rest of Latin America, as seen in the Global Emerging Markets Bond Index shown on the chart at the bottom right. Spreads between Sovereign bonds and US bonds have been decreasing since the beginning of 2009. In fact, Chile's sound economic policies have limited the rise in the spread to only 351 basis points, about 2 times its previous size, as opposed to the Latin American index, whose rate more than tripled its previous size during the same period.

By the end of 2009, Chile was also able to quickly reduce this spread to about a third of its size.

Now concerning Banco de Chile, we were able to overcome important obstacles during 2009. These highlights are summarized on the following slide, **number four**.

- We ended the fourth quarter with a net income of $67 billion pesos and the year with $258 billion pesos. These results were achieved through a focus on profitability, credit risk control, productivity improvements and cost reductions.

- Treasury excelled during the year, in part reflecting the added benefit of the integration with Citibank Chile. Revenues increased by 60% over last year, taking advantage of the greater volatility of the financial markets and the reduction of the interest rates, compensating the effect of deflation on our net interest revenues. Additionally, we were very active in the financial market, increasing our presence through the sale of more complex financial products, including derivatives.

- Moreover, during the first half of 2009, both commercial and retail segments incurred important increases in risk levels. However, during the second semester, we witnessed a downward trend in risk, resulting in lower provision expenses.

- We and the banking system experienced strong growth during the second semester in all loans. This was due to improved economic perspectives which caused a rise in demand and to some clients' interest in anticipating loans due to the gradual reimplementation of the stamp tax that is levied on loans and that had been temporarily suspended.

- We have also taken large strides in improving our funding mix during 2009 by continuing to diversify our foreign financing sources and increasing our balances in current accounts. During the year we acquired new sources of foreign funds and increased our market share in current accounts balances by 100 basis points or to 24.2%.

On the following slide, **number five,** is a review of our financial results. Looking back at 2009, we can easily conclude that it was a complicated year for Chile. The country and the local banking system were challenged by the Chilean Salmon industry crisis, the global recession and deflation. However, despite these challenges, we were able to more than adequately provision our perceived risks and maintain profitability above the average posted by the Chilean financial system during such an uncertain year.

On a year-on-year basis, we decreased our net income by 26% in IFRS comparable figures. Under IFRS, 2008 figures do not include an expense for price-level adjustments. In summary, this drop was due to lower operating revenues mainly as a consequence of deflation on our interest revenues and a rise in risk which was partly offset by cost reductions and improvements in productivity.

On a quarter-on-quarter basis, our 4Q09 net income reached $67 billion pesos with a return-on-average-equity of 17.4%, in line with the prior quarter and the same period last year. However, it's worth mentioning that this result includes voluntary provisions which amounted to $20 billion pesos and were recorded to offset any unpredictable events which could occur in the medium term.

On the next slide**, number 6**, is a detail of the two main causes for the decrease of $88 billion pesos in operating revenues.

Net interest revenues decreased by $103 billion pesos and other revenues dropped by $47 billion pesos.

The former is fundamentally explained by two macroeconomic variables. First, the reduction in internal demand, exchange rates and commodity prices provoked a persistent reduction in inflation, reducing our interest revenues from inflation indexed assets.

Second, the expansive policies put in place by the Chilean government to improve the economy brought forth an important reduction in the monetary policy interest rate which on average was 7.1% in 2008 and dropped to an average of 1.8% in 2009. This change implied a reduction in the contribution in net interest margin that our leadership offers in non-interest bearing demand deposits.

However, these factors were partially offset with a rise in the spread charged to customers in order to maintain an adequate relationship between risk and return, an improved funding structure through a 23.6% rise in the average balances held in demand deposits, and a 3% rise in average interest earning assets.

The drop in other revenues is only due to the nonrecurring sale of our US branches in 2008 to Citigroup and the partial liquidation of our shares in Visa, both for a total of about $50 billion pesos.

These decreases were partly offset by an improvement in our fee structure and treasury activities. Fees increased year-on-year by $15 billion pesos, or 6.5%. This change was driven by our subsidiaries and through our traditional banking services.

Our securities brokerage unit and our mutual fund subsidiary increased fees by 54% and 9% year-on-year.

The securities brokerage unit especially benefited from the improved market conditions and the consequent higher trading volumes. Its outstanding performance was achieved through an increase in 10% in trading volumes and a rise of 47% in transactions.

With regards to the mutual fund subsidiary, its growth was due to an incredible 31% increase in assets under management which especially picked up speed during the second semester. Accordingly, this rise is due to the increasing appetite for risk shown by the investors, low nominal interest rates that discouraged fixed-income investments and the introduction of new mutual funds launched to meet our customers' needs.

The rise in traditional banking fee revenues was accomplished in spite of the new regulation, effective July 1st, which restricted the variety of fees that banks charge customers on checking and sight accounts. We introduced a new product called "overdraft credit line agreement" which we developed as an instrument to cover unexpected overdrafts.

Our goal is to continue to reinforce our fee based income through an enhanced customer base, together with strengthened lines of business and improved products and services.

In the second quarter of 2009, we redefined our customer segments in individual banking in order to better serve our customers' needs. Through this initiative, we aim to improve our customer relationships and increase cross-selling and customers' loyalty.

Additionally, and as explained earlier, results coming from our financial operations increased significantly as a result of the excellent year for treasury activities.

Moving forward to slide **number 7**, we can see that operating expenses have decreased year-on-year by 13% and on a quarterly basis, we have continued to maintain lower expenses than the average posted last year. In 2009, we placed exceptional effort to focus on cost control. Specifically, these reductions were achieved through a decrease in the size of our workforce by 5.9% due to a rise in productivity and lower business activity in 2009 and a 5% decrease in administration expenses due to lower marketing, supplies and technology related expenses.

Although, I must recall that 2008 figures include some one-time expenses related to the merger with Citibank Chile of approximately $45 billion pesos and $13 billion pesos related to collective bargaining agreements. I should also mention that the fourth quarter of 2009 includes roughly $5.4 billion in severance pay and employee incentive provisions.

Consequently, we have reduced our participation in annual expenses by almost 309 basis points, reaching 19.8% market share and an accumulated efficiency ratio of 48.8% as compared to 2008 with a ratio of 51.9%.

During the fourth quarter, we continued to observe improvements in credit risk. This resulted in a 28% quarter-on-quarter reduction in provision expenses and a drop in our provision expenses to total loans from 2.1% in the third quarter to 1.5%, as shown on **slide number 8**. The improvement of credit risk remains even after excluding what we consider extraordinary items related to the fishing sector and a one-time charge of $5 billion pesos due to an accounting change related to the method used to evaluate the SME portfolio which changed from individual to group analysis.

Likewise, delinquencies after deteriorating during 2008 and the first half of 2009; began to show signs of improvement during the second semester and closed the year, in the most part, lower than 2008.

As the economy continues to improve, delinquencies should continue to decrease. Accordingly, lower provision expenses should be expected for 2010.

It’s important to mention that for the first time, banks will disclose their impaired loan portfolio in their 2009 year-end financial statements.

The main difference between past due and impaired loan portfolio is that the past-due portfolio only includes the payment that is 90 days or more over due and does not consider the principal amount outstanding. On the other hand, impaired loans, in addition to considering the principal amount outstanding and the customer's other loans, evaluates past payment behaviour, the generation of cash flows, credit classification and breaches of contract to determine the inclusion or not in this impaired portfolio.

As per coverage ratios, we've maintained a healthy past due coverage ratio of 360%. Besides, the ratio of total allowances to total impaired loan portfolio is 52%. We consider that both indicators are in line with the bank's conservative credit risk standards and well above the 178% average "past due loan coverage ratio" posted by the Chilean banking system. Our impaired loan ratio should also compare positively with industry's average ratio. However, there is no public information available at this time.

Regarding our loan portfolio, we grew significantly, **as described in slide number 9,** during the second semester of 2009.

During the first semester of 2009, there was a general negative trend in loan growth. However this changed during the following semester with the banking system posting loan growth of $2.2 trillion pesos. According, the quarterly survey prepared by the Chilean Central Bank revealed that the second semester was the beginning of a rise in demand, which was not seen since the third quarter of 2007. We were no exception and in fact, we were the leader in loan growth with a quarter-on-quarter increase of 2.8% in the third quarter and 4.7% in the fourth quarter. We acquired over 40% of the industry's loan growth during the second semester, increasing our market share by 75 basis points.

This growth was led by commercial loans with an increase of $635 billion followed by mortgage and consumer loans with increases of $183 billion and $108 billion, respectively. We continue to be the second largest bank in terms of total loans and the financial leader in commercial loans with a participation of 20.4%.

On the liability side, as described on **slide number 10**, quarterly average current account balances have increased significantly over last year. Current accounts held by companies have increased by 16% and individuals by 27%.

In addition to the lower interest rates, these increases are due to our successful cross-selling initiatives and our selective expansion in current account customers. Accordingly, we are the market leader in terms of balances held in our accounts and at December 31, 2009 we had a market share of 29% in individual current accounts and 22% in commercial accounts.

This funding base is one of our major competitive advantages. Our demand deposits to loans ratios are also superior to the Chilean banking industry with a prominent year-on-year rise to 28.2%.

In response to the improved market conditions in Chile, our capital adequacy ratios provide us with ample room for growth as presented on **slide number 11.** At the end of 2009, we had a tier one capital ratio of 8% and a total capital ratio of 12.7%, both well above the legal required limits of 10% and 3%, respectively. The application of the new accounting rules regarding capital requirements for contingent loans implies a decrease of our total capital ratio by 0.5%. Should a capital increase be necessary, we have about $260 billion pesos to grow in subordinated bonds.

With this in consideration, the board of directors has recently proposed a dividend payment of approximately $3.49 pesos per share. This payment includes a pending amendment to the by laws of the bank which will adjust distributable earnings by an amount equal to the effect of inflation on our capital and reserves. This change will allow the bank to maintain capital and reserves constant in real terms. For 2009, this means an increase in distributable earnings of $30.7 billion pesos and a nominal payout ratio based on last year's ex dividend share price of approximately 10.0%, an historic high for the bank.

Summing up, our results have been quite positive during the year, despite the economic environment, negative inflation and the salmon fishing crisis. Our higher level of loans coverage ratio provide an excellent ability to cope with any eventual implications which could occur in any industry. Additionally, our sound risk policies are in line with our profitable business model which has consistently preserved a healthy risk-reward ratio. Moreover, we aim to continue to improve our cross-selling, to progress in streamlining processes, to maintain our excellent funding base and to preserve an adequate level of capital, thus providing our stakeholders confidence in our ability to grow and to cover risks.

Thank you.