Comments on the 2Q11 Financial Results
Banco de Chile

Good afternoon. It's a pleasure for me to share with you our comments on Banco de Chile's second 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 2,** second quarter 2011 highlights.

- During 2Q11, the local economy in an environment of monetary tightening has continued showing strong GDP growth and an outstanding performance in the labour market.
- In terms of the bank, we have continued posting excellent results this quarter reaching a net income of Ch$114 billion pesos and a return-on-average equity that exceeded 26%
- We also recorded double digit growth figures in loans and had attractive gains in market share this quarter. We believe that this is evidence that we have entered into a solid growth cycle.
- Finally, we have successfully completed the last step of our equity offering, collecting roughly US$450 million through the placement of 3.4 billion shares.

Please move forward to the next slide, **number 3.**

The local economy continues to grow steadily while moderating its velocity due to a slowdown in consumption and the continued withdrawal of monetary and fiscal stimulus. Notwithstanding, sectors associated to private consumption, such as commerce and services, continue to lead growth. Meanwhile, investment continues to grow strong due to positive business sentiment and expenses associated with the post-earthquake reconstruction process. We expect that GDP during the second semester will moderate growth and converge towards 5%, ultimately recording a growth above 6% for 2011 and about 5% by 2012.

In terms of employment, as shown on the second chart on this slide, one of the key factors of the rapid recovery of the local economy has been the strong creation of jobs which has kept the unemployment rate around 7%, holding the dynamism of private consumption.

The outlook for the remainder of 2011 is positive; making it possible to expect that the unemployment rate will be located below 7%, reflecting the positive seasonal effect of agriculture's activities during the last quarter of the year.

On the following slide **number 4,** shows the upward trend that has been observed in inflation as measured by the consumer price index during the last 12 months, accumulating 2.2% between December and June, and 3.4% year-on-year. However, the "Core" CPI rate which excludes volatile components such as food and fuel, experienced more limited growth.

Importantly, inflation expectations after a rise during the first quarter, that accelerated the rate hikes of the monetary policy interest rate in the 2Q11, have trended downward. Indicators are now pointing to an inflation rate of about 3.5% in one year and 3.0% in two years.

During the second half we expect inflation to be lower than in the first half, accumulating at the end of 2011 an annual increase of 3.5% to 4.0%. According with that, we expect more moderate increments in the policy rate for second semester, ending the year at around 5.75%.

In relation to the performance of the banking system, the next slide, **number 5**, demonstrates the positive evolution of the banking industry in terms of results and business volumes. If you look at the chart on the left, you will see that net income reached $488 billion pesos in 2Q11, up by 12% over the same quarter last year and equivalent to a return-on-average-equity of 21%. This performance is due totally to higher operating revenue.

In terms of volumes, loans increased 13% year-on-year, in line with the macroeconomic performance. By product, consumer loans led growth with a 17% increase year-on-year, substantially higher than what was recorded in mortgage and commercial loans.
For the remainder of the year, we expect a slight moderation in the growth rate, where total loans should grow at an annual rate around 14% to 15% nominal year-on-year.

In terms of P&L, we should see a positive effect in net interest revenues due to the rise in loans and the higher margins on deposits due to the related increase in interest rates and a negative effect due to lower inflation revenues from the net UF gap position. Undoubtedly, the bottom line for the future quarters will depend on the ability of banking industry to keep credit costs low and maintain high levels of efficiency.

On the next slide**, number 6,** begins our discussion of our consolidated results.

- We posted another solid quarter with net income of 114 billion pesos, which represents a 6% year-on-year increase.
- The chart on the right provides a brief introduction to our results. As one can observe, the rise in net income was driven by a strong increase in operating revenues and a moderate improvement in credit quality which were partially offset by an increase in operating expenses related to certain extraordinary provisions. The latter will be discussed in greater detail further on in the presentation.

On the following slide, **number 7,** is a closer look at our operating revenues.

- On a quarterly basis, we have been able to consistently raise our operating revenues over the last few quarters. When compared to the 2Q10, we raised this figure by 10%. This was primarily due to our high growth in net interest revenues and fees, as shown on the chart on the right, which generated 18% more over the same period last year. The rise in net interest revenue was supported by our strong growth in loans, the effect of the monetary policy rate hikes which permitted us to generate higher interest revenues due to our excellent funding structure in non-interest bearing liabilities and the rise in inflation due to our net UF asset position. These gains were partially offset by temporary repricing effects as our interest bearing liabilities reprice more quickly than our interest earning assets.

- Similar to the 1Q11, our financial operating income and foreign exchange transactions have generated less than our historical running rate. This is mainly due to the strong rise in interest rates and its effect on our fixed income securities and derivatives which resulted in lower trading revenues and realized gains from AFS instruments. Additionally, the lower volatility in different market factors has negatively impacted the results from trading positions during the quarter.

On the following slide, **number 8,** is a closer look at our operating revenues from our core business segments.

- Operating revenues from our core business segments rose 15% over last year representing 97% of our total revenue generation versus 92% in the 2Q10.
- The key drivers for these figures were:
  - A firm rise in loan volumes,
  - A strong increase in fee revenue especially from our retail segment,
  - Higher business activity in most of our subsidiaries,
  - The positive effect of the increase in the monetary policy rate on demand deposit accounts which rose from 0.5% in the 2Q10 to 5.25% in the 2Q11,
  - And finally, the positive effect of inflation on our net UF denominated asset position.

These drivers were partially offset by lower spreads due to the higher competitive environment.

Loan growth has definitively been one of the key drivers for revenue generation this semester and we expect this for the coming periods. This quarter, as demonstrated on slide, **number 9,** was outstanding in terms of growth.

- On a year-on-year basis, we grew 18% and quarter-on-quarter, an impressive 7%.
- When compared to the top five banks, we ranked first in terms of quarter-on-quarter volume growth and in terms of market share expansion, where we captured 47 basis points during the period and 76 basis points in 12 months.

In addition, we have maintained our solid growth figures in retail banking, as demonstrated on the following slide, **number 10**

- Both of these charts demonstrate that loans to individuals and to SMEs are growing at a very strong year-on-year pace of 19% and increasing their velocity during the quarter to 4% and 6% respectively.
- Of this growth, mortgage loans continued to excel and have captured 90 basis points in market share, reaching 15.7% at June.
- As for consumer lending, the positive economic environment has maintained strong loan growth, posting a 19% year-on-year increase in instalment loans and 24% rise in credit cards loans.
- As for our loans to SMEs, this area is leading our commercial loan growth with a rate of 19% year-on-year and represents roughly 13% of our total loan portfolio. Our strategy is focused on 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.

One of the key competitive advantages of Banco de Chile is based on our more profitable funding structure as demonstrated on the following slide, **number 11.**

- Our solid brand has permitted us to obtain the highest market share in zero interest bearing demand deposits of 24.2%. In other words, almost one of every four pesos deposited in the banking system are trusted at Banco de Chile.
- As a result, these funds account for 25% of our total funding, as demonstrated on the chart on the right, which is substantially higher than our closest competitors and the average in the banking industry.
- Thus, this funding structure allows us to capitalize more effectively the rise in nominal interest rates, generating higher revenues from our demand deposit accounts.

Another key competitive strength is our solid fee based revenue generation capability, as demonstrated on the following slide, **number 12.**

- Our solid growth in fees is based on our attractive value offering which we provide our customers and thus generating opportunities to increase cross-sell and up-sell ratios in every segment we serve. Most importantly:
    1. Checking accounts and credit card fees grew by 11% year-on-year thanks to a rise in product usage rates and an expansion of our ATM network
    2. Mutual fund fee generation also grew strong as a result of an improved offering that translated in to higher margins
    3. Our firm growth in retail products drove an increase in insurance revenues, as a result of our ability to effectively cross-sell customers,
    4. And the strong year-on-year rise of 57% in trading turnover rose fees in our stock brokerage business by an impressive 30%.

- As compared to our peers, we are the leading bank in terms of fee generation. Our ability to capture 26% of market share in fees which generates 25% of our operating revenues clearly sets us apart from the competition.

On the next slide, **number 13**, begins our discussion of credit quality which is another key competitive advantage of Banco de Chile.

- In terms of delinquencies, as measured by our 90 day past-due loan portfolio and demonstrated on the chart on the upper left, we have consistently improved the ratio from 1.55% in the 2Q10 to 1.00% in the 2Q11, in line with the better economic situation seen during these last twelve months.

- This improvement in asset quality has translated into lower loan loss provisions as a percentage of average loans when comparing the current quarter to a year earlier.
- To date and when compared to our peers and the banking system, we continue to maintain the lowest loan loss provisions ratio as demonstrated on the chart on the right. In this regards, 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 aligned with our segmentation policy; firm controls to guarantee proper application of credit policies; and detailed monitoring of changes in portfolio risk.

Moving on to slide **number 14**, we can observe that our efficiency ratio dipped during the second quarter reaching 50.2%.

- This rise in costs was mainly due to a $22.4 billion pesos provision to partially recognize the effect of collective bargaining agreements. To date, we have reached agreements with two of three groups that represent our unions and which amount to 74% of the unionized workforce, anticipating the related collective bargaining process. The collective bargaining process for the other group which corresponds to approximately 1,600 employees is still in progress.
- The remaining rise in expenses is primarily from IT, marketing, outsourced sales force expenses and our distribution network as a result of higher business activity.

- Excluding the temporary effect of the provision for collective bargaining agreements, our cost to income ratio would have been 43.3% in the 2Q11.

- I would also like to stress that our strategy continues to search for new ways to improve 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.

Moving on to slide **number 15**, I would like to discuss our successful equity offering.

- The process was formally approved at an extraordinary shareholders' meeting held on January 20th and was fully completed in July, successfully collecting approximately $450 million US dollars.

- The offering had an extraordinary reception from the market, reflecting the great confidence that exists in our management, in our financial strength, our growth strategy, and our competitive position to achieve the goals we set.

- This offering allowed us to increase the capitalization of the bank with a rise of approximately 1.2% in our Basel index without considering the usage of subordinated bonds, and increased our free float from 12.1% to 15.5%.

Now to finish off, I would like to hand over the call over to Pedro Samhan, Chief Financial Officer.

Pedro Samhan:

Thank you Pablo. Please move to the next slide, **number 16.** First, I would like to emphasize that our net income has been very strong during the quarter, in spite of the extraordinary provisions expenses. We recorded solid balance sheet figures with an impressive 7% growth in loans during the quarter and captured 47 basis points of market share. In addition, our equity offering provided us with sufficient regulatory capital to continue growing strong without restrictions. As shown on this slide, in spite of our capital increase, we have retaken our leadership position in return on average capital, posting an excellent return of 30.4% for the first semester of 2011, clearly demonstrating our ability to implement our solid strategy. Now if you have any questions we would be happy to answer them.
