Banco de Chile

Results for the Second Quarter of 2009

hosted by

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August 12, 2009

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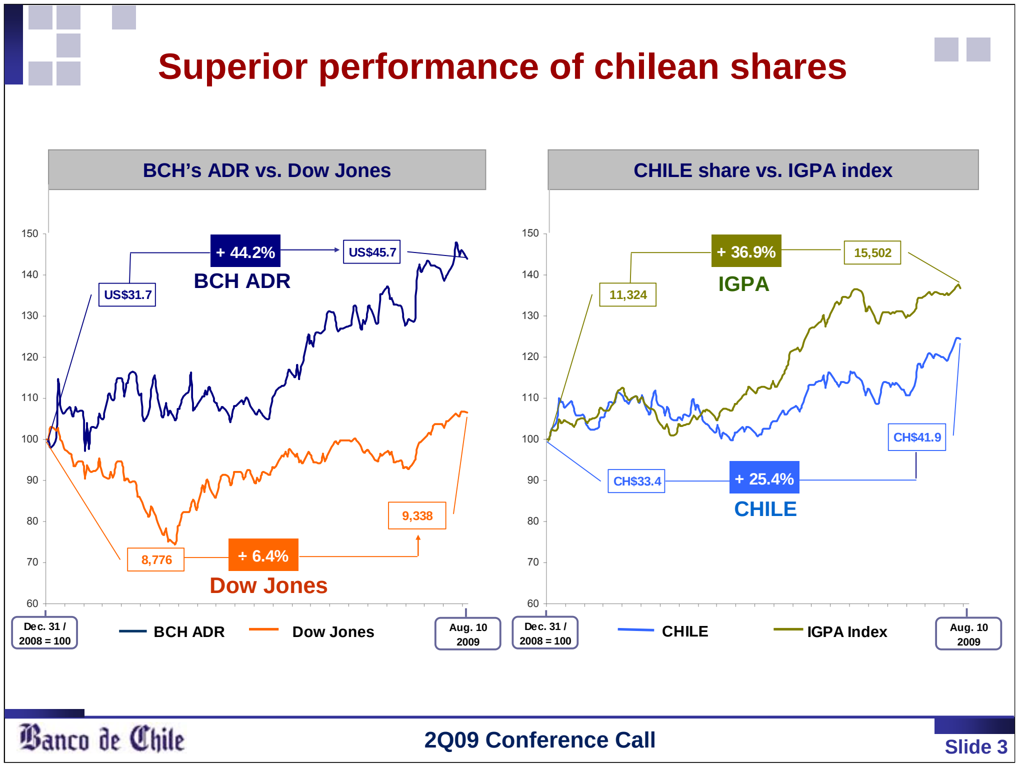
It is a pleasure for me to share with you our comments on Banco de Chile's results for the second quarter of 2009.

As the operator has already mentioned, a slide display, that may allow you to more easily follow some of my comments, can be viewed at our web page, bancochile.cl.

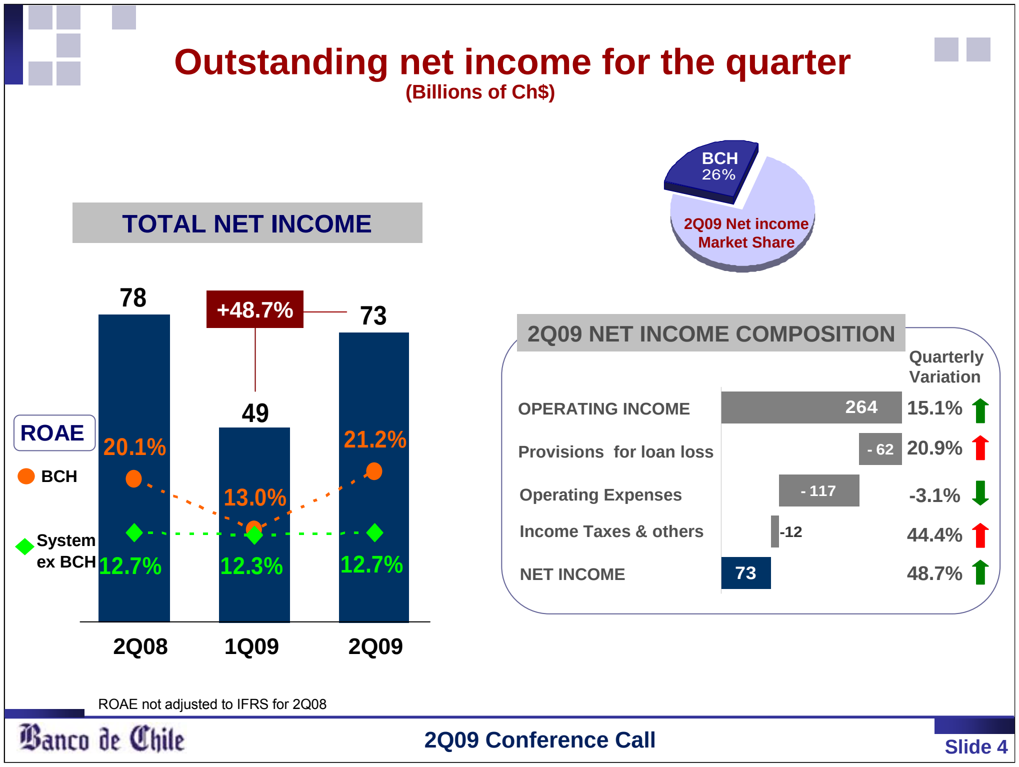
Please move now to our presentation of today starting on **slide number 2** that highlights the main topics to be covered.

In the first place, I will go through the key drivers behind the substantial increase experienced by our financial results, in an environment where core economic indicators are still struggling to improve, while a mood of increased confidence seems to be catching up within the business community.

We may then discuss on how the Chilean financial system, and particularly Banco de Chile, have fared within this scenario along the second quarter and first half of the year, elaborating on the loan market evolution, the impact of subdued activity on credit quality and spreads, as well as comment on our very good figures regarding funding and liquidity.



Within this mixed feelings environment, both globally and locally, the Chilean stock market, as shown in **slide number 3,** has shown a substantially improved behavior posting one of the most successful average performances among exchanges along the current year. An almost 37% IGPA increase along the year, stands as quite an achievement in view of most generalized slowdowns, in particular when compared to the meager 6.4% Dow Jones increase in equal period. In this context, Banco de Chile's ADR has certainly outpaced the market with an appreciation of more than 44% in dollar terms, in the last 7 months. The CHILE share has also shown a quite robust price performance, building up value by more than 25% along the same period. Trailing behind the local index which was, as said, unexpectedly strong, our stock still seems to offer some upside as regards to its solid fundamentals

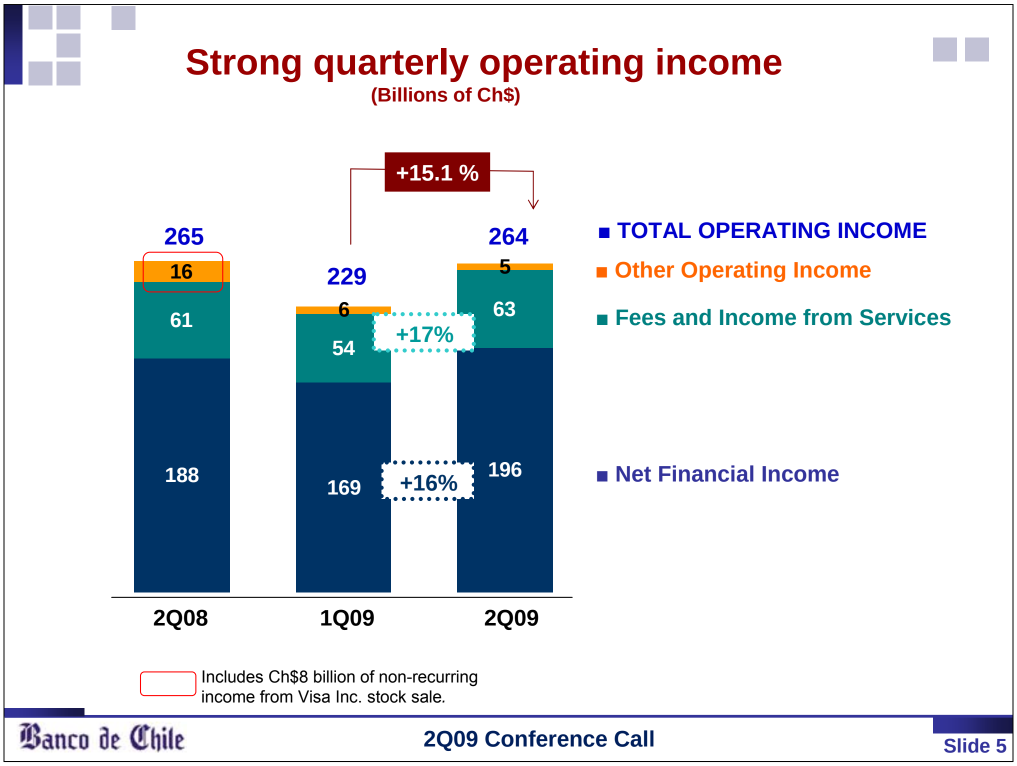


Moving to **slide number 4**, our strong second quarter net profit speaks of Banco de Chile's strong capacities to generate income, enhanced by the advantages brought forth by the Citibank agreement, mostly proficient in providing our clients with enhanced international capabilities.

As a consequence, Banco de Chile showed a superior result during this period. The figure, in excess of 73 billion pesos, stands 49% above the previous quarterly output and follows shortly behind the year-on-year figure, in spite of much less favorable underlying conditions, on which I will expand later.

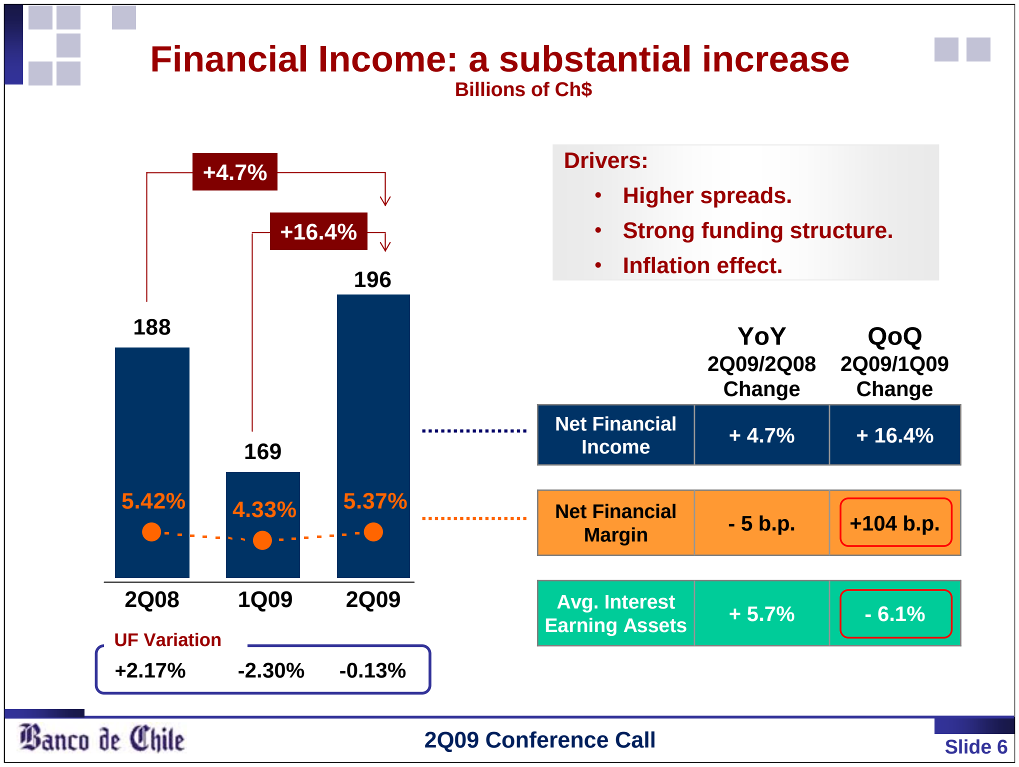
This bottom line result provided for 26% of the system's total net income, amply exceeding our share in total loans and involving an increase over the contribution shown in previous periods. As a consequence, a Return on Average Equity of 21.2% was obtained for the quarter, outperforming by 850 basis points the one offered by the system as an average.

As compared to the previous quarter, the increased net income figure was obtained, as pictured in the chart, in spite of a substantial increase in loan provisions of almost 21%, thus revealing an important strengthening of core income and a successful process of ongoing cost control.



On **slide number 5,** we may observe how the 264 billion pesos of total Operating Income involved a more than 15% increase over the previous quarter, and an almost flat performance on a year-on-year basis, in spite of the non-recurring income effects accounted for in 2008.

Two were clearly the main drivers behind this increase in Total Operating Income: on the one hand, Net Financial Income growing by 16% quarter-on-quarter, and, on the other hand, Income from Fees posting a 17% increase for equal period.

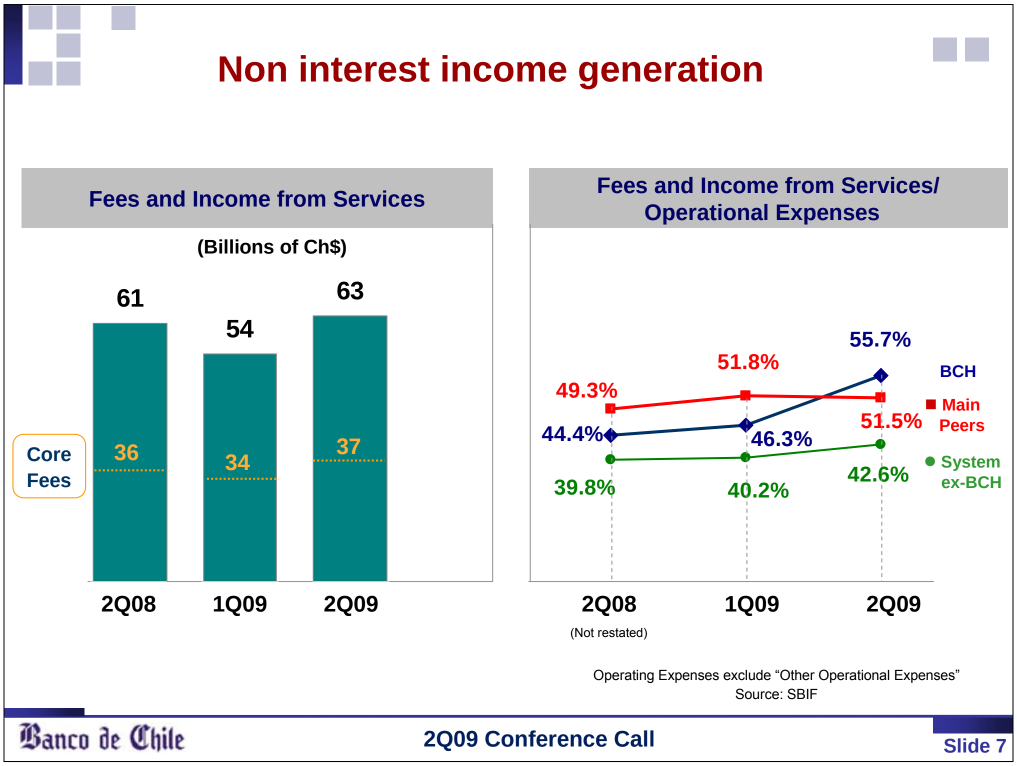


Slide number 6 takes account of the increase on Net Financial Income to 196 billion pesos, up by 16% on a quarter-on-quarter basis and by almost 5% on top of the very favorable figure obtained in the second quarter of 2008.

Several factors rest beneath the quarterly Financial Income increase. For the one part, a less negative UF variation played more favorably on the positive gap management between inflation-linked assets and liabilities non-adjusted by inflation. An improved funding structure, importantly fostering non-interest bearing liabilities, has allowed us to further build up on this effect.

It seems relevant to mention that the Financial Income increase for the quarter under review, as compared to that of 2008 equal period, came about even in spite of the negative effect of the UF decrease experienced in the quarter, against a UF increase for the year-ago period. This remark brings us to a second factor behind financial income expansion, namely, the relevant increase in spreads which have taken shape along the last quarters. Let us save for a while a deeper analysis on yields, and may I only point out that the steady increase by 71 basis points in the average spread of our loan portfolio, observed along the last twelve months, has been able to partially counterbalance the unfavorable impact of reduced inflation. On its part, rising spreads have been for sure the result of risk relapse throughout all the system and markets, as well as a tighter grip on liquidity, consequence of the general financial disruption.

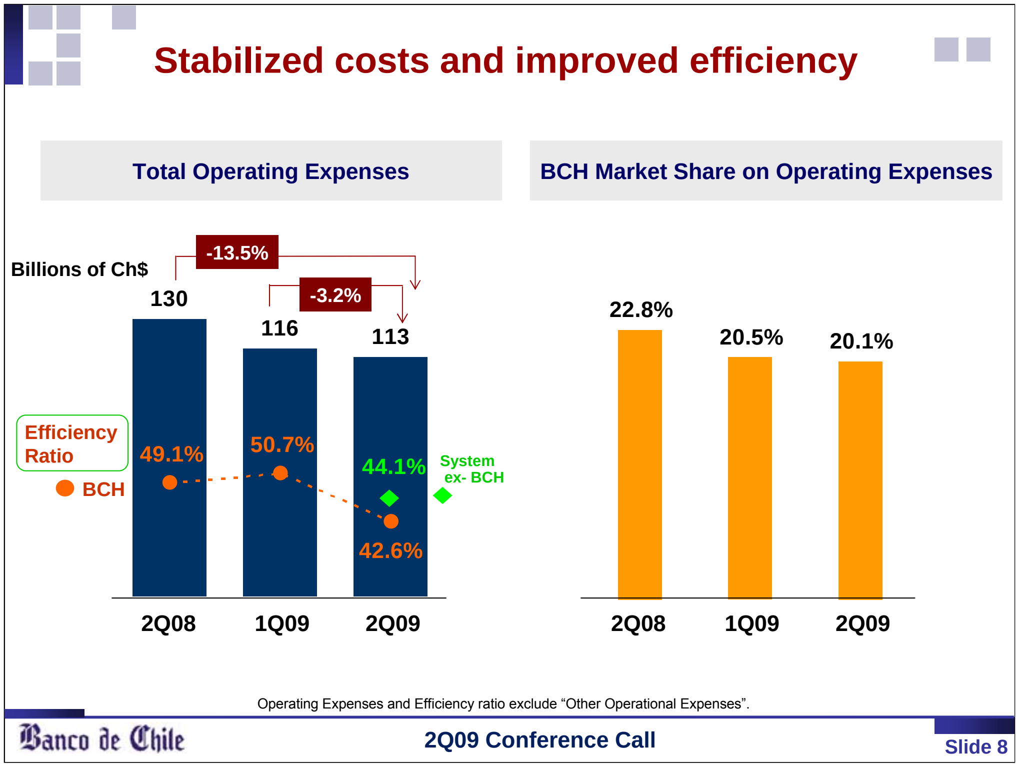
In sum, we have experienced an important expansion of Net Financial Margin by 104 basis points, on a quarter-on-quarter basis, regardless of the more than 6% reduction in Average Interest Earning Assets.



A second driver boosting the Total Operating Income line was the important increase experienced by fee income, as pictured in **slide number 7**. On a quarterly basis, this line of income grew by more than 16%, speaking of an enhanced customer base, together with strengthened lines of business and improved products and services, in spite of regulatory guidelines involving limits to some fee income lines.

Core fee income coming from the Bank's main products and services, mainly checking accounts and credit card growth, involved some 58% of consolidated fee income. Other important sources of enhanced fee income were the Stock Brokerage and the Financial Advisory companies, in response to heightened market activity. The latter showed an almost three times increase and involved an 18% contribution to the quarter-on quarter expansion in total fee income.

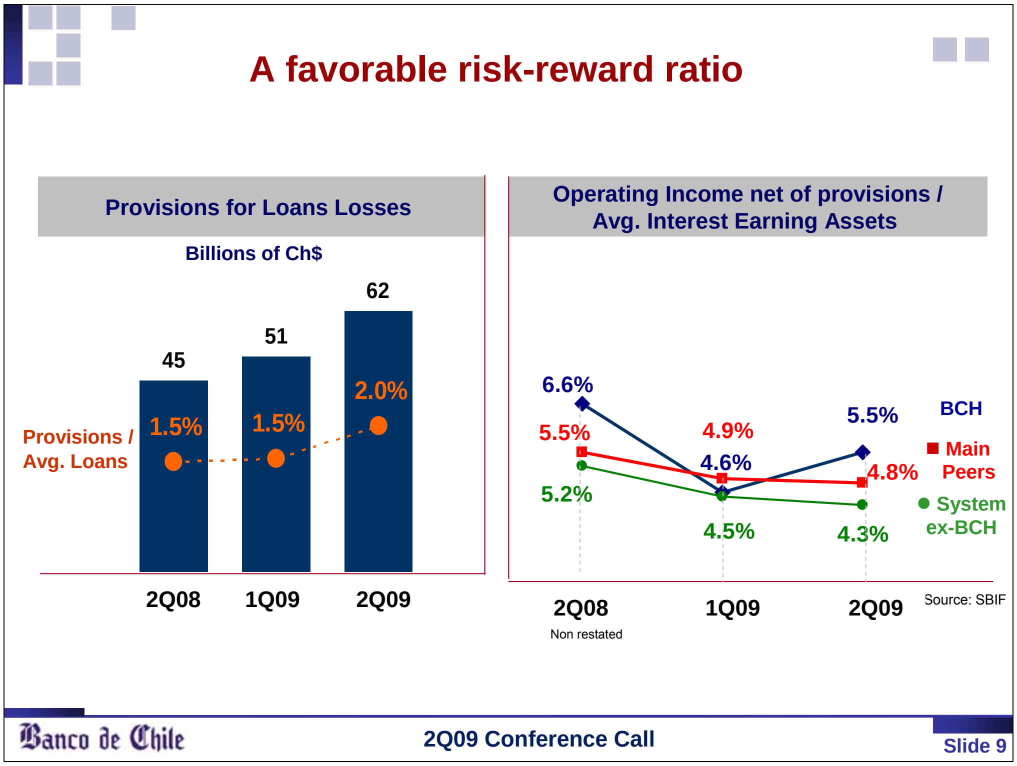
Thus, fee income for the quarter now covers almost 56% of Banco de Chile's total operating expenses excluding other operating expenses, well above the 43% average for the rest of our competitors and 420 basis points above our main peers' average.



The good news from the previous ratio is twofold, giving proof not only of enhanced fees but, also, of successful efforts in the control of expenses, as is made evident in **slide number 8**.

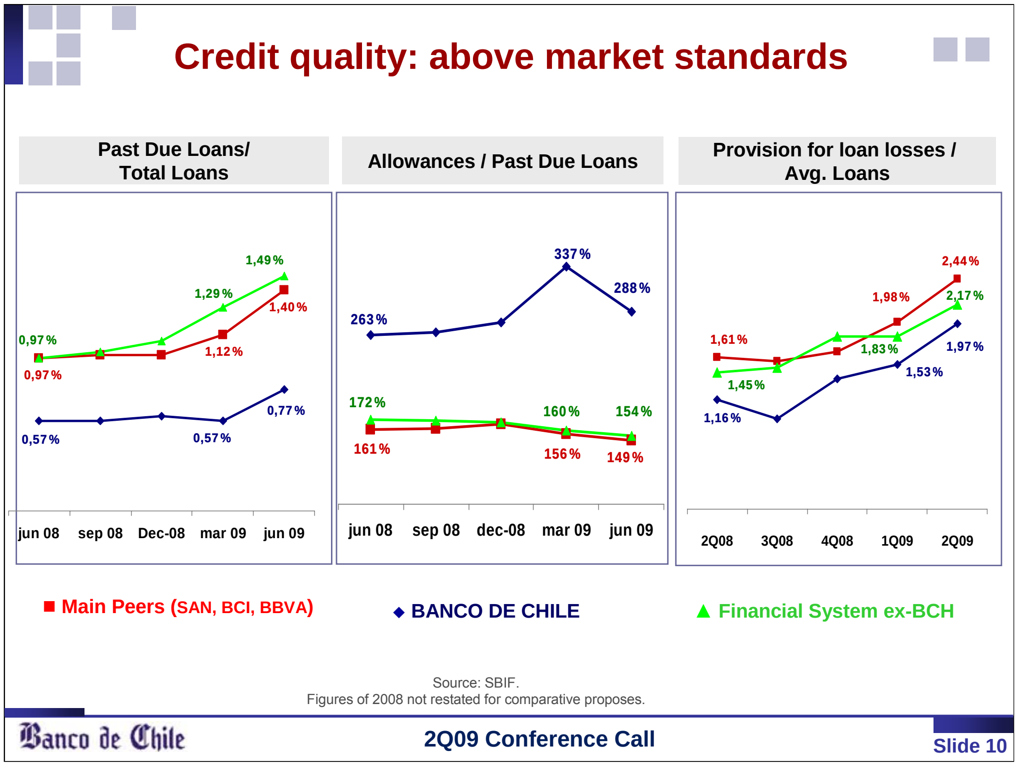
With a decrease of more than 3% along the quarter, over an operating expense base, excluding other operating expenses, already quite stabilized, our serious commitment to cost control has given space to progress in our efficiency ratio, thus building on top of the quarter-on-quarter 15% enhanced operating income figure. As a consequence, efficiency ratio improved by 810 basis points along the quarter and stood some 150 basis points below the system's average.

The improved cost base has been the result of a long lasting and consistent effort of adding intelligence and updated technology to operational processes. Our aim is to reach a market share participation in costs closer to that of our global loan market share. Having said this, the said market share has been persistently giving in and shows a cutback to 20.1% for the reported quarter, from 22.8% twelve months ago.



Another relevant driver acting on Net Income is related to credit quality and provisions. **Slide number 9** shows how provisions have evolved, posting, during the second quarter, an increase of almost 21% quarter-on-quarter, and more than 36% on a year-on-year basis, evidencing the impact of a less dynamic economic environment, plus the Bank's consistency in maintaining high credit quality standards.

Nonetheless, and responding to a profitable business model that has been able to consistently preserve a healthy risk-reward ratio, Banco de Chile has been capable of showing, as an average, higher net yields as related to its productive assets than those obtained by the remaining competitors and our main peers. With operating income, clean of provisions, in excess of 5.5 pesos per each 100 pesos of assets that earn interest, Banco de Chile makes 1.2 pesos more than the remaining competitors, as an average.

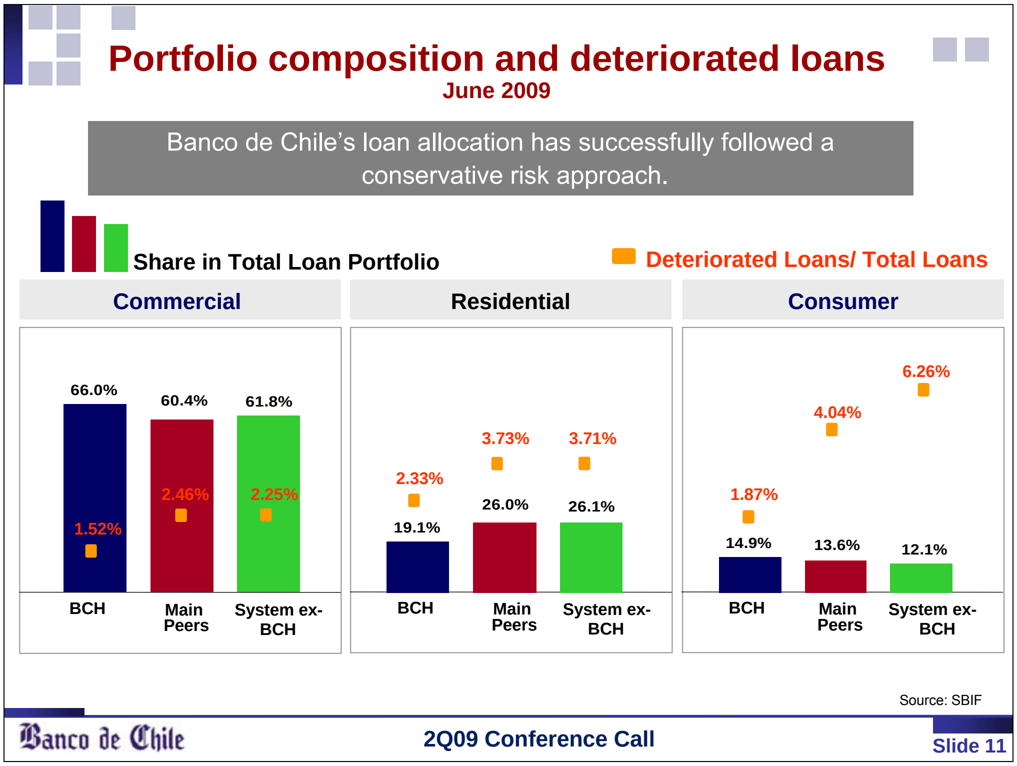


This result is yet worthier when we observe, on **slide number 10,** how allowances have been build up permanently above the system's average and that of our main peers. As I have mentioned in previous occasions, Banco de Chile will strive to build and maintain a strong and focused coverage for eventually impaired loans, for as long as needed, and we will not ease in our efforts until signs of improvement in activity levels are perceived.

This prudent bearing on credit risk has allowed the Bank to show lower levels of delinquency, both in absolute terms and also in relation to our peers. As of last June, the past due ratio for Banco de Chile stood 63 basis points below the average ratio for our main peers and 72 basis points under the industry average. As may be appreciated, past due loans experienced, all across the system, a substantial increase during the quarter. For Banco de Chile, the increase reached 20 basis points of added past due ratio, similar to the average of our main peers and below the 28 basis points increase experienced by the rest of the system as an average.

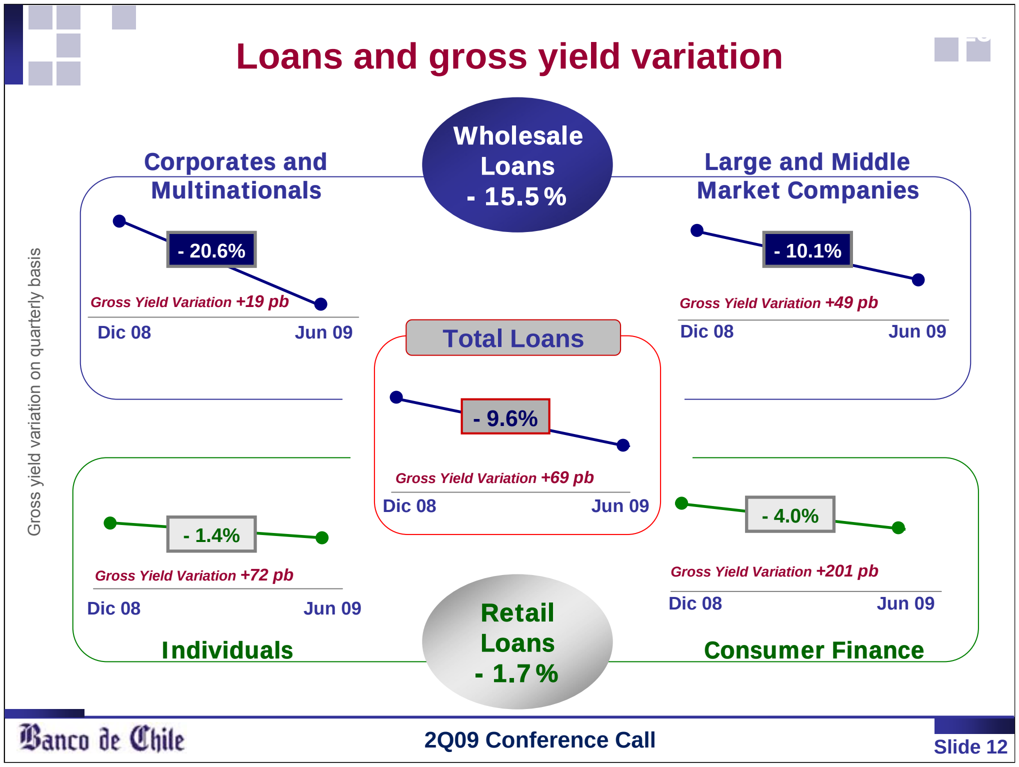
For Banco de Chile, the main contribution to the global past due loan portfolio came, as has been commented on previous calls, from the fishing sector and, in particular, from the salmon industry, with a more than five time increase in past due loans since last march 2009. This sector represents less than 2% of the total loan book of the Bank, being the salmon industry and its related companies, some 70% of the fishing sector. Banco de Chile holds allowances for 17% of total loans granted to the salmon industry, following a cautious and preventive approach, started quite early in time. As you may be aware, an agreement was reached between the main companies in the sector and its banking counterparts that will allow the companies to restructure its obligations in conditions such as to assure business continuity.

Other sensitive economic sectors are Retail Stores and related Services with a 2% risk index, and Social and Personal Services with 2.2%. Past due loans of both sectors are covered by allowances in 264% and 184%, respectively. As for the Bank as a whole, allowances cover 288% of past due loans, a robust ratio compared to an average coverage of 154% for the rest of the banks and an even lower figure for our main competitors.



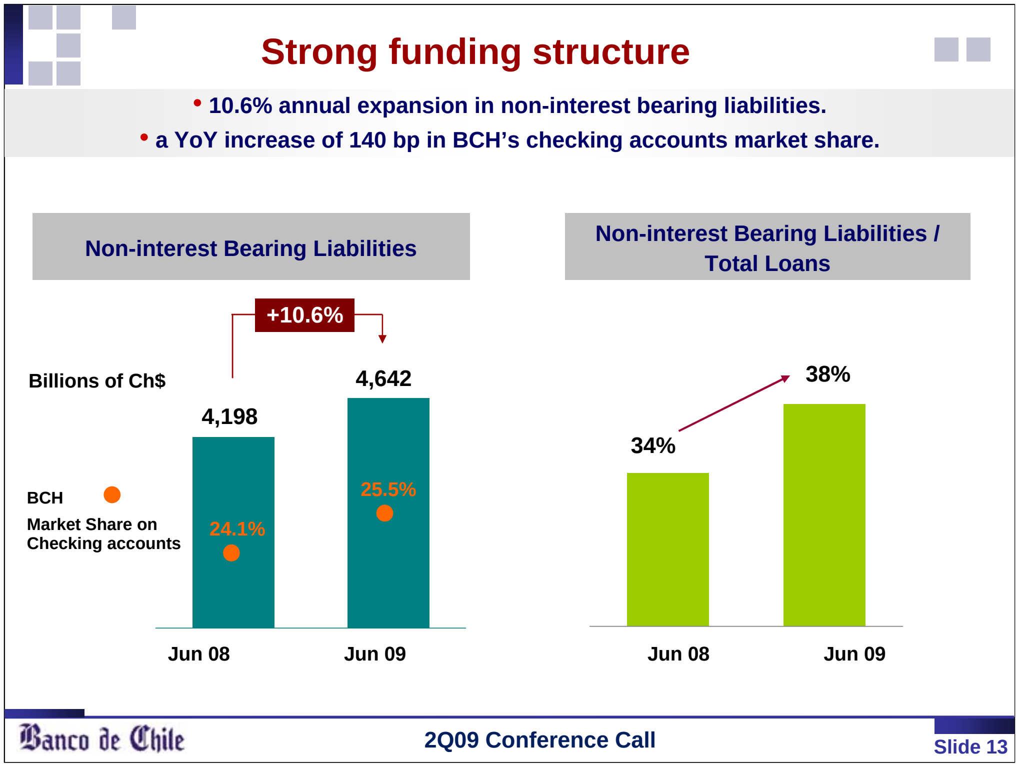
This very controlled performance, as far as risk is related, is partly sustained in the composition of the Bank's portfolio, as shown in **slide number 11**, which leans more intensively on commercial loans which, in turn, show a better risk standing. With commercial loans involving 66% of our total loan book, a higher proportion than that of the system's average portfolio, and corresponding impaired loans for a low 1.52%, a resulting lower risk mix is obtained. A similar situation can be observed with residential and consumer loans where, either the loan proportion or the related risk ratio, proves to be lower for Banco de Chile. As a result, our Bank's overall ratio for impaired loans stands to 1.7%, well below the almost 3.2% posted by the system as an average.

Having said this, we still consider the possibility of further portfolio deterioration, though market signals seem to be looking more promissory.

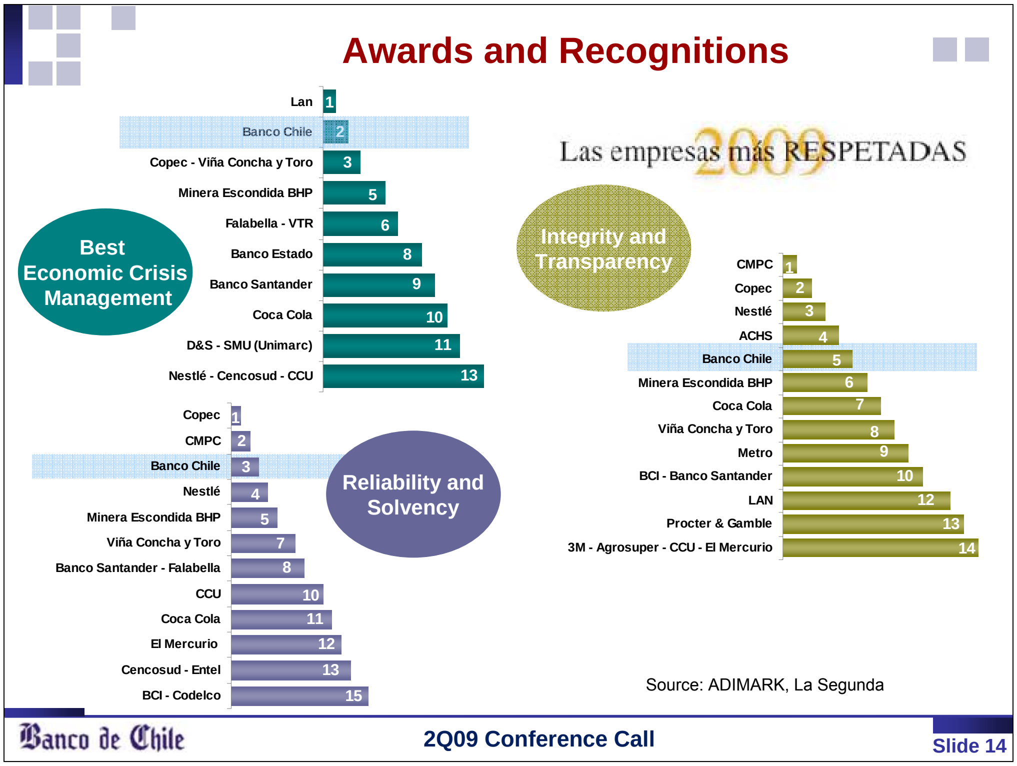


Let us now take a closer look to the Bank's loan portfolio and how it has evolved in view of the still deprived scenario involving lower activity, higher unemployment, reduced consumption and lower commodity prices. As can be seen on **slide number 12**, total loans have shown a meaningful reduction of almost 10% along the six month period of 2009. This behavior has repeated across all market segments though more intensively in the wholesale market and, with special vigor, in the larger corporations and multinationals. These companies, better prepared financially and enjoying superior risk ratings, have increased liquidity through debt issuances or have simply avoided, when possible, the overall more stringent financial conditions, thus heavily prepaying outstanding loans.

However, on the positive side, and in spite of this behavior, a more cautious approach to lending has given way to a higher yielding portfolio, with spreads increasing at total loan book level, as well as for most of market segments. As may be seen in the chart, gross spread for total loans grew by 69 basis points in the first half of 2009, while gross yields associated to the retail market have increased the most. Consistently, these market segments posting larger increases in spreads, namely individuals and consumer finance, are the ones showing lower reductions in volumes loans. This coherent behavior has allowed the bank to maintain a very favorable risk to return ratio.



On the liability side, as may be seen in **slide number 13**, and as we commented in previous calls, the process of reallocation of funds along the system, consequence of a more risk averse approach from the part of customers and depositors, has kept going, though at a slower pace. As a result, and added to the impact of lower interest rates which have jeopardized clients' alternative investments, those larger and deeply rooted banking names have emphasized their advantage and, as such, Banco de Chile's non-interest bearing liabilities have grown by almost 11% along the last twelve months. Non interest bearing liabilities now involve 38% of total loans, up from 34% a year ago, thus providing a lower cost funding structure.



Finally, and in a very relevant note, I will devote a moment to comment on some outstanding awards Banco de Chile has recently obtained. In a poll conducted by the most recognized company in the field of measuring market opinion, the most respected companies operating in Chile were rated and Banco de Chile stood among the best evaluated companies in several of the most relevant features measured. Answering to the question of “how well the companies fared through the financial disruption”, Banco de Chile held the second place; we ranked third in “reliability and solvency”; and reached a fifth position in “integrity and transparency”. Banco de Chile employees, together with its managers and board members, cherish these awards with great pride as they lie in the base of our relationship with our customers and the general public. We expect to keep up with these very favorable assessments.

FORWARD-LOOKING INFORMATION

The information contained herein incorporates by reference statements which constitute "forward-looking statements," in that they include statements regarding the intent, belief or current expectations of our directors and officers with respect to our future operating performance. Such statements include any forecasts, projections and descriptions of anticipated cost savings or other synergies. You should be aware that any such forward-looking statements are not guarantees of future performance and may involve risks and uncertainties, and that actual results may differ from those set forth in the forward-looking statements as a result of various factors (including, without limitations, the actions of competitors, future global economic conditions, market conditions, foreign exchange rates, and operating and financial risks related to managing growth and integrating acquired businesses), many of which are beyond our control. The occurrence of any such factors not currently expected by us would significantly alter the results set forth in these statements.
Factors that could cause actual results to differ materially and adversely include, but are not limite to:

- *changes in general economic, business or political or other conditions in Chile or changes in general economic or business conditions in Latin America;*
- *changes in capital markets in general that may affect policies or attitudes toward lending to Chile or Chilean companies;*
- *unexpected developments in certain existing litigation;*
- *increased costs; and*
- *unanticipated increases in financing and other costs or the inability to obtain additional debt or equity financing on attractive terms.*

You should not place undue reliance on such statements, which speak only as of the date that the were made. Our independent public accountants have not examined or compiled the forward-lookin statements and, accordingly, do not provide any assurance with respect to such statements. Thes cautionary statements should be considered in connection with any written or oral forward-lookin statements that we may issue in the future. We do not undertake any obligation to release public any revisions to such forward-looking statements after completion of this offering to reflect late events or circumstances or to reflect the occurrence of unanticipated events.

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