

## Comments on the 4Q10 and Year end Results Banco de Chile

Good afternoon ladies and gentlemen.

It's a pleasure for me to share with you our comments on Banco de Chile's fourth quarter and year-end 2010 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](http://www.bancochile.com), within the investor relations site.

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

The presentation begins with a review of the Chilean economy, followed by a discussion of our financial results for the year, comments on key balance sheet figures and finishes off with a summary of our plans for a capital increase which was approved in the Extraordinary Shareholders Meeting held on January 20, 2011.

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Please move forward to the next slide, **number three**. Overall 2010 has been a very positive year in terms of economic activity. In terms of GDP, it is estimated to reach about 5.5% during the fourth quarter and 5.2% for the year. Moving on to 2011, the market is expecting a further expansion of approximately 6% in GDP growth, driven mainly by the retail, services and a greater contribution of the manufacturing and construction industries.

With respect to unemployment, the rate has steadily dropped, reaching a three-month rolling average of 7.1% in December. Also the figure that measures job creation continued to show a positive trend, increasing 2% from the previous quarter, while the

figure for the labour force posted the second largest increase in 2010, up 0.7% from November and 1% from the previous quarter. For 2011, unemployment is expected to continue decreasing as the economy improves.

As for the banking industry, loans again began to grow and increased on a year-on-year basis by about 9%. Consumer loans led the improvement reaching 11.9% year-on-year, followed by mortgage loans and commercial loans which grew at 11.6% and 6.9%, respectively. For 2011, loan growth is expected to reach a rate around 16% nominal when considering an average elasticity of loan growth to GDP of 2 times.

Inflation measured by the consumer price index has also shown a gradual increase reaching 3% at year end and in line with the objectives of the Chilean Central Bank which seeks to maintain annual inflation in a range between 2% and 4%. General consensus expects that inflation in 2011 will be higher than 2010 due mainly to commodity prices, which in turn will increase this figure to at least 3.5% at year end and with a monetary policy rate above 5.0% as the Central Bank continues to withdraw monetary stimulus.

The combination of the rise in inflation and the monetary policy rate should assist the banking industry's 2011 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 having a larger portion of funding based in non-interest bearing deposits and thus take greater advantage of the interest rate hikes.

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On the next slide, **number four**, begins our discussion of our consolidated results. We posted a significant accumulated increase of 47% on non-adjusted net income, reaching Ch\$379 billion pesos. Adjusting for countercyclical provisions and for additional provisions related to anticipating the new provisioning method as set by Chilean Regulators which comes into effect in January 2011, both recorded during the fourth quarter, we obtained a net income of Ch\$417 billion pesos, or a very strong increase of

55% with an adjusted Return-on-Average-Equity of 27.0%, or approximately 9 percentage points gain over 2009. Also, worth mentioning is that we posted the highest return-on-average-equity, adjusted for contingency provisions, amongst our peers.

On a quarterly basis and as mentioned in previous earnings calls, we have managed to consistently post adjusted earnings above Ch\$100 billion pesos. By adjusting our Return-on-Average-Equity for the previously mentioned amounts which were posted against fourth quarter 2010 results, we reached an excellent 26% for the quarter.

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On the following slide, **number five**, is a closer look at our operating revenues. On an accumulated basis, Total Operating Revenues in 2010 increased by 14% over last year and as a percentage of average interest-earning assets also rose reaching 7.2% at year end.

This excellent result in operating revenues was a result of:

1. First, a firm increase in net interest income which rose by 17% and was mainly due to loan growth, active and effective management of our UF gap and other positions and the positive effect that the rise in the monetary policy rate has had on our non-interest deposits.
2. Second, the strong growth in fee based revenues which grew by 15% over the same period last year. This rise was mainly due to a 14% increase in assets under management, a 27% rise in trading turnover in our stock brokerage subsidiary and by a lesser degree an increase in core banking fees.

As a result, our important increase in revenue generation allowed us to take a greater slice of market share based on operating revenues which grew from 19.6% to 20.9%, well above our market share in loans.

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In the next slide, **number six**, demonstrates the excellent results in all of our operating segments.

Before I continue, I would like to mention that the gapping earnings related to the core business which previously was shown under the treasury segment, is now being assigned to each segment according to their contribution to create the gap on the balance sheet. We believe that this new allocation criteria discloses better the revenue generation of each operating segment.

Our retail segment is growing very strongly at 14% year-over-year, representing approximately 57% of our total operating revenues while our wholesale segment rose 9% during the same period and represented 24% of total operating revenues. The increase in our retail division is mainly due to loan growth, expansion in non-interest bearing deposits and its business contribution to gap earnings which grew accumulated net interest revenues by 19% and fee income which grew 7% during the same period. The growth mentioned in our wholesale segment was also due to net interest income which grew 11% and fee income which rose by 29%. The growth in fee income was in line with our cross-sell strategy for this segment and was mainly related to credit, factoring, and a rise in activity related to cash management services.

Subsidiaries also grew strong during the year, increasing operating revenues by 15%. This rise was mainly due to fee income which rose by 22% and was related to the previously mentioned increases in assets under management - that was also more concentrated in variable income than fixed income funds - , higher transactions from our stock brokerage area, and to a lesser degree revenues from our insurance brokerage area.

Lastly, the Treasury segment increased operating revenues by 26%, reaching Ch\$64 billion pesos at year end and was the result of a proactive and effective management of intraday trading and overnight positions, including derivatives and fixed-income securities.

With regards to asset quality, as shown in the next slide, **number seven**, provision expenses, in line with a more optimistic outlook for the local economy, remain low at a ratio of provisions to average loans of 0.9% during the quarter and 1.2% for the year. This compares favourably to the average of the financial system, ex Banco de Chile, which posted 1.0% for the quarter and 1.3% for the year.

The very positive provision for loan loss figures reflects both the ability of our credit risk models to interpret the economic momentum, its impact on our customers' risk profiles and the improved financial situation of certain corporate customers which has reduced provision charges associated to their loans.

Also worth noting is the level of our past-due coverage ratio which has reached almost 5 times by the end of the fourth quarter versus the average in the banking industry which is 1.8 times, ex Banco de Chile, and the continual improvement in delinquent loans, in terms of past due loans to total loans, which dropped to 0.51% versus the average in the banking industry of 1.45%.

I should also mention that we have anticipated the regulatory accounting changes related to the individual commercial portfolio, recording Ch\$22 billion in additional provisions during the quarter. It is important to note that these charges relate to regulatory changes and not to higher credit risk of our loan portfolio, which remains healthy. Specifically, this new rule introduced a set of modifications oriented principally to the method used to evaluate the individual debtor portfolio which now considers a wider range of categories and imposes a minimum provision for each of these categories. The rule also permits the use of countercyclical provisions which may be established to safeguard against the risk of macroeconomic fluctuations. Accordingly, the Board agreed to establish countercyclical provisions for \$20 billion during the fourth quarter.

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Moving on to slide **number 8**, we can observe that our efficiency ratio increased from 49.3% to 50.3% due to an unusually high increase in certain expenses which occurred during fourth quarter that went from a quarterly running rate of around \$130 billion to almost \$200 billion pesos. This rise was principally due to certain expenses charged during the quarter amounting to approximately Ch\$42 billion pesos and a total for the year for about Ch\$55 billion pesos. These charges mainly related to the previously mentioned anticipation of regulatory changes to the individual loan portfolio of \$22 billion, countercyclical allowances for \$20 billion, write-offs of Ch\$6 billion related to commissions over-accrued during prior periods and earthquake expenses net of insurance recoveries, of \$3 billion. Adjusting our efficiency ratio by these charges, we reach a level of 45.6% for the year, well below 2009's accumulated adjusted ratio of 48.1%.

When excluding these non-recurring items from operating expenses, we posted a controlled 8% annual growth which was related to higher business activity incurring greater variable expenses, our efforts to enhance customer loyalty programs which resulted in higher marketing expenses, and the effect of inflation on most of our line items.

However, I would like to stress that one of our main strategic focuses is to continue improving our operating efficiency through many projects which aim, among others to increase the productivity in our branches, improve online sales channels, redesign core processes and automate back office activities.

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Now, moving on to balance sheet figures, loans continued their trend growing firmly during the quarter and picking up speed as our total loan portfolio grew by about 9% year-on-year, **as described in slide number 9**.

This strong growth which we continue to experience is clearly led by our retail banking portfolio, as demonstrated on the chart on the right, which grew 14% year-on-year and is consistent with the improved unemployment figures and the firm economic growth which Chile has experienced throughout the year and is expected to continue throughout the next years.

On the next slide, **number 10**, is a breakdown of the retail loan portfolio. Both these charts demonstrate that loans to individuals and to SMEs are growing at an equal pace of 14%. However, mortgage loans are leading growth and reached almost 16% year-on-year. Consumer loans as mentioned in previous calls, continue to increase their pace of growth, reaching a rate of 12% year-on-year. It is important to mention, that our CrediChile division, which attends lower income customers and represents approximately one third of our consumer loan book, is growing 9% year-on-year in consumer loans, but showed a strong fourth quarter growth of 6%.

As for our loans to small and mid sized companies, this segment is leading our commercial loan growth with a rate of 14% year-on-year. We obtained this excellent growth by investing in improving products and value added services such as taking greater advantage of the FOGAPE program - a government fund created to encourage banks to lend to SMEs through partial credit guarantees - which increased loans related to this program by 100%, optimizing service models – especially in areas outside of Santiago - and improving response times with regards to credit approvals.

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On the next slide, **number 11**, is a description of our funding structure. This is one of our competitive advantages as we are the market leader in terms of non-interest bearing deposits with 23% market share and in terms of the proportion of these deposits to total funding which reaches 26% and lowers significantly our costs. Moreover, we were able to increase the proportion of these deposits by 3% during the year versus the industry, ex Banco de Chile, which only grew by 2% and accounts for only 18% of its total funding.

In addition, as the Chilean Central Bank continues to increase the monetary policy rate, the significant size of non-interest bearing deposits in the balance sheet becomes even more important and is a differentiating factor amongst the banks in Chile. Through a conscious effort, we have successfully improved our funding structure to take advantage of these hikes and consider that our asset and liability structure will benefit positively during 2011 in this environment. As previously mentioned, we expect that the monetary policy rate will end 2011 above 5%.

Also during 2010, we continued to diversify our funding sources of which the most important achievements were the placement of senior and subordinated bonds for approximately \$1 billion US dollars, attaining a loan from the China Development Bank for \$ 100 million US dollars, and recently closing a working capital syndicated loan entirely from Asia for \$200 million US dollars.

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Now to finish off, I would like to hand over the call over to Pedro Samhan, Chief Financial Officer to discuss our plans for the Capital Increase in more detail.

The next **slide number 12**, lists the reasons and the main facts of this initiative.

Good afternoon ladies and gentlemen, to begin, I would like to emphasize that our plans in the mid-term are ambitious. As a result, our medium-term strategic objectives are aimed at positioning Banco de Chile as the Leading Financial Institution in the country in terms of: loans, profitability, efficiency and service quality. We believe that not only

do we have the strategic skills to attain this objective, but also are faced with a positive economic and financial environment that will aid in the advancement of these goals.

- 1) First, as was mentioned the positive projections for the Chilean economy and financial system in coming years leads us to project a 6.0% growth rate for GDP in 2011 and approximately 5.0% for 2012 and 2013. For the period, we estimate an annual average real growth rate of 10.4% for total loans of the system to achieve approximately \$ 100 billion by 2013. This implies a total industry growth of 34% in real terms over the next three years, and assuming an average annual inflation rate of at least 3%, nominal growth reaches around 48% for that period. The Bank's goal is to capture part of this growth, by strengthening our value propositions and through a more aggressive commercial strategy, but within the standards that characterize us in risk management.
  
- 2) Second, to capture part of this growth we have focused our efforts in the medium term to expand the retail business through comprehensive value propositions that cover the entire spectrum of customer relation, from which we will continue enhancing our distribution network, foster the development of our debit and credit card business, as well as strengthen our strategy and mix of products targeted to SMEs.

On the wholesale side, our objective is to maintain our leadership, but with a clear focus on initiatives to achieve higher profitability based on greater commercial synergies between divisions, increasing cross-selling and prioritizing a comprehensive service and product offering to the customer.

Based on these elements and assuming a theoretical scenario where we maintain market share, total loans should increase nominally by about \$ 6.6 trillion pesos by 2013, which, like the industry, would imply a nominal growth of about 48 % from the year 2010.

- 3) Third, our medium-term goals, require an appropriate balance between growth and capital adequacy. If our growth reaches the previously mentioned rate during the next three years and if we hypothetically capitalized 30% of the distributable income of each financial year, by 2013 our Total Capital Ratio would reach near 10%, the minimum required by the local regulator.
  
- 4) Finally, the Capital Increase will aid in improving the liquidity of the shares of Banco de Chile in the stock markets, especially due to the decision of LQIF to not subscribe their preferential right to their shares held directly and indirectly through SM Chile. We consider this decision to be beneficial to all shareholders of Banco de Chile.

In summary, the capital increase is for the amount of \$ 240 billion pesos, approximately \$500 million USD, by issuing about 3.4 billion common shares.

The price of the issuance will be set within 120 days of the extraordinary shareholders' meeting and an Order Book Auction may be opened prior to the preferential rights offering for the sale of waived rights. As mentioned, LQIF has an intention to waive its preferential right to the offering period.

**End of Presentation**