Comments on the 1Q10 Results
Presented by Pablo Mejia, Head of Investor Relations
Banco de Chile

Good morning ladies and gentlemen.

It's a pleasure for me to share with you our comments on Banco de Chile's first quarter 2010 financial results. With me today is Arturo Tagle, Senior Vice President of Institutional and Investor Relations and Pedro Samhan, Chief Financial Officer.

As the operator mentioned, a slide presentation is available at our webpage, www.bancochile.com, within the investor relations site.

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

I will begin with a review of the Chilean economy followed by a discussion of our financial results for the quarter.

On the next slide, **number three,** we can see that the Chilean economy has continued to show positive recovery signals from the financial crisis during the first quarter. Based on our estimates, GDP and Private Consumption will end the quarter at 1.8 percent and 5.5 percent. This is the second quarter in a row to show positive figures. Nevertheless, the recent earthquake experienced in February is contemplated to cost the government about 8.4 billion USD during a period of 4 years. Approximately 5 billion USD will be financed by reallocating the fiscal budget, a temporary increase in taxes to large corporations and the issuance of sovereign debt in foreign markets.

Equally, we will probably see a reduction in GDP during the first semester and we expect that growth will pick up during the second semester with a majority of the reconstruction investment taking part during 2011.

In terms of unemployment, we estimate that it will end the year slightly above 10%, as the earthquake affected an area which concentrates roughly one fifth of the working population. However, this rise will continue to be partially offset by a positive job creation rate which has been growing in an upward trend since the third quarter of 2009.

On the next slide, **number four,** you can see a chart regarding the evolution of inflation and monetary policy interest rate, the chart on the left clearly shows the reaction of the Chilean Government to reactivate the economy 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 and bottoming out at 0.5% in July of 2009. General market consensus believes that inflation will rise above 3% during 2010 and at a faster pace than expected pre-earthquake. As a result, we expect the Chilean Central Bank to increase the Monetary Policy Rate beginning in the second semester and ending the year at around 2.5 percent.

I would like to emphasize the effects that the higher inflation rate and the rise in the monetary policy interest rate will have on banking related revenues. First, inflation increases 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 higher monetary policy interest rate increases the spread obtained from loans funded with non-interest bearing liabilities.

With regards to the Global Emerging Markets Bond Index, as shown in the chart on the right, we see that Chile has maintained a reasonably low risk premium with respect to its peers and has maintained these low levels despite the earthquake; ending the quarter with a spread of 128 basis points.

Now, concerning Banco de Chile, we were able to finish the first quarter with an outstanding net income of Ch$101 billion pesos, or Ch$1.2 pesos per share. The quarter's highlights are summarized on the following slide, **number five**.

- We ended the quarter with an annualized ROE of 26.5 percent,

- Our net interest margin was up by 130 basis points and ended the quarter at 4.86%.

- Non-interest revenue also excelled during the quarter, rising fees by 19.4 percent and financial operations by 16.4 percent.
- We have continued our commitment with expense control, maintaining expenses relatively flat year-on-year and posting an efficiency index of 43% during the quarter.

- Moreover, we maintained our firm growth in mortgage loans during the quarter.

- And have also continued to see positive trends in provisions expenses when removing the effect of a down grade of very few commercial customers.

On the following slide, **number six,** is a review of our financial results. Looking back at the 1Q09, we can easily conclude that it was a complicated quarter for the financial industry and the country as a whole. The first quarter of 2009 was challenged by the global recession and deflation. As a result of improved economic conditions, we more than doubled our net income from a year ago and rose by more than 50% quarter-on-quarter.

The year-on-year rise is explained by operating revenues, rising Ch$ 59 billion year-on-year. Operating expenses, provisions and other expenses remained relatively flat when compared to a year earlier. -----------

The next slide**, number 7**, details the main changes in operating revenues during the two periods.

Net interest revenues increased by $45 billion pesos. This is fundamentally explained by:

1) A positive inflation rate measured by the UF index of 0.3% versus a negative inflation rate 2.3%,
2) Our commercial efforts to raise average spreads in order to maintain an adequate relationship between risk and return, and
3) An improved funding structure through a 23% rise in balances held in sight and demand deposits.

Fee income also rose by $10 billion pesos. This is related to higher core bank fees as well as trading volumes and returns observed in the stock market at the beginning of 2010.

Net financial operations and foreign exchange positions also rose over last year. This rise of Ch$ 5 billion pesos was principally due to better results from our securities portfolio net of financial derivatives.

If we look at the Chart on the right, it shows the distribution of total operating revenue by segment. The largest change can be observed in the Treasury & Money Market Segment, which increased its proportion in revenues from 8% to 15%. This rise is due to the revenues produced by our UF / Peso asset position and in a lesser degree, this also reflects the increase in revenues resulting from the mark to market of our financial securities positions.

Moving forward to slide **number 8**, we can observe that our total operating expenses remained relatively flat year-on-year. However, we noted a significant decrease in administrative expenses as a result of cost reduction projects carried out during 2009 in order to reach a higher efficiency and lower expenses in marketing, technology and infrastructure maintenance.

Worth noting is that approximately $2.8 billion pesos in expenses in the item "other" are directly related to the earthquake. This amount comprises of charges related to infrastructure impairment for Ch$1.1 billion, certain extra contributions to support our personnel in the most affected areas and cash donations.

Due to this catastrophe, as of the end of April, we still have 8 branches closed of a total of 60 in the affected area. Nonetheless, today we have complete coverage in those areas affected by the earthquake; where some customers are being attended to in other branches in those areas or, in certain cases, we have setup temporary branches. This total coverage of the affected area has maximized our customer retention during this crisis.

Similarly to our total operating revenue, operating expenses are mainly related to our retail banking areas. The higher amount of expenses assigned to the retail segment in 2010 is due to higher demand which influences product processing costs.

However, on an overall basis, we have maintained expenses flat year-on-year and raised operating revenues, thus providing us with an excellent efficiency index of 42.6%; a significant reduction when compared to the 53% posted last year.

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During the quarter we have continued to observe improvements in credit risk. However, **as the next slide demonstrates, number 9,** during February and March we downgraded certain large customers which rose provision expenses significantly during the quarter.

When adjusting provisions by this extraordinary charges and the fourth quarter by what we consider an extraordinary item associated to 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, we see a flat quarter-on-quarter and a 20% year-on-year decrease in provision expenses. The effect of this downgrades are observed on the charts on the right which show our wholesale banking segment increasing their proportion of provisions from 19% to 35% in 2010.

As per retail banking, we improved our credit risk, reducing provision expenses from Ch$42 billion pesos to Ch$35 billion pesos, a year-on-year decrease of 16%. With regards to the earthquake, although it will have some impact on credit risk, we expect that it will not severely affect our loan portfolio growth or credit quality. Loans in the affected areas account for approximately 8% of our total loan book.

Now, regarding our loan portfolio, we grew by about 2% year-on-year, **as described on slide number 10,**

The year-on-year rise was driven by the individual portfolio which accounts for 28% of our total loan book. On a quarterly basis, it remained relatively flat. As mentioned, we expect that the economy will continue to grow in 2010, despite the recent earthquake. The second semester should partially offset the effect of the quake due to higher investment activities and, in the mid-term, we should see a more robust demand for commercial loans; as long as the rebuilding and reconstruction process is underway.

The composition of our retail banking book **is described on the following slide number 11,**

As mentioned, the retail portfolio grew by nearly 10% year-on-year and by 2% quarter-on-quarter. This robust growth was principally due to a rise in mortgage loans of 14% from a year ago and just over 2% quarter-on-quarter. Our growth in this product is thanks to our aggressive sales strategy and firm focus to deliver our products with excellent customer service. This has allowed us to capture approximately 50 basis points in market share over the last 12 months, ending the quarter with a participation of 14.5%.

Consumer loans have also grown during the 12 month period with an increase of 4% while loans to SMEs grew 9% over the same period. This trend is in line with the recovery signals observed during the second semester of 2009 which showed positive signals regarding consumer confidence on the economy's outlook and the positive signals regarding unemployment, higher inflation and business sentiment.

On the liability side, as described on **slide number 12**, our quarterly average current account balances have continued to increase with a 29% rise in balances held with individuals and a 15% rise in balances held with companies.

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 March 2010 we had a market share of 29% in individual current accounts and 23% 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 30.5%.

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 13.**

At the end of quarter, we had a tier one capital ratio of 6.5% and a total capital ratio of 11.9%, both well above the legal required limits of 10% and 3%. The application of the new accounting rules regarding capital requirements for contingent loans implied a decrease in our opening balances of our total capital ratio by 0.5% and the dividend distribution of 100% of 2009 earnings, in a addition to a charge of approximately Ch$31 billion pesos related to a transitory article in our bylaws to adjust capital and reserves by inflation, also put pressure on both these capital ratios.

Nonetheless, it's worth mentioning that in April 2010, we issued long-term subordinated bonds in UF amounting to about $110 billion pesos at a rate of 60 basis points above the Central Bank long term rate, clearly showing the markets confidence in our solvency. This placement will increase our solid total capital ratio by about 60 basis points.

Finishing up on the following slide, **number 14**, shows our excellent dividend payout history.

In 2010, we provided our shareholders with an excellent 10.0% dividend yield or a payment of approximately $3.49 pesos per share. This is historic for the bank. Since 2005, we have provided our shareholders with consistently high yields on their investments.

In 2009, we were faced with an adverse scenario which we confronted by provisioning our risks appropriately and by growing selectively during the first three quarters of that year. This approach assisted us to provide a head start when we began to see recovery signals at the end of 2009. Our plan for the short and mid-term is to grow in market share with a special focus in our retail segments and to continue to streamline processes, thereby improving our efficiency ratios.

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

Questions….

Closing Remarks.

Now, for closing remarks, I'll pass the floor to Arturo Tagle.

Our results have been quite positive during the quarter, the higher inflation, yet lower than the historic average, and improved economic conditions has benefited our bottom line. As mentioned during the rest of 2010, we plan to continue growing strongly in mortgage and consumer loans and pick up the pace in commercial loans. Credit risk cost should continue to decline and inflation and the monetary policy rate should pick up during the year. All these factors should provide us with an attractive profitability basis for next few quarters.

Thank you and we look forward to our next conference call on our second quarter results.