Comments on the 3Q10 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 third quarter 2010 financial results. With me today 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, on **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 an overview of the financial highlights of Banco de Chile and finishes off with a discussion on our financial results for the quarter and key balance sheet figures.

Please move forward to the next slide, **number three.** Overall, the third quarter has been very positive in terms of economic activity. GDP remained extremely strong during the quarter which is estimated to be above 7%. For the year, this growth has been driven by domestic demand and in particular private consumption and investment. For year-end, market consensus estimates a GDP growth of about 5 to 5.5%.

With respect to unemployment, the rate has steadily dropped, offsetting the typical increase during winter months and reaching 8.0% in September. This decrease is thanks to reconstruction efforts due to the earthquake and a better overall economic environment. Unemployment is expected to continue decreasing as the economy improves and as the summer months approach, which generally result in higher seasonal employment. The year is expected to close around 7.5%.

For the consumer price index, measured using the UF currency unit, has also remained at more normal levels, accumulating 2.14% in October 2010. In line with rising inflation, the monetary policy rate reached 2.75% in October from an all time low of 0.5%. The general consensus expects the inflation will reach slightly above 3% and the monetary policy rate to end at approximately 3.25%.

On the next slide, **number four,** is a brief overview of our financial highlights during the period. This quarter marks the third quarter in a row which we have posted above $100 billion pesos in net income, this translates to earnings per local share of 1.21 pesos and an excellent return on average equity of 26.1%. This was accomplished with solid capital ratios, which remained strong at 8.8% for tier 1 capital over total risk-weighted assets and 13.6% for our total capital ratio.

On the next slide, **number five,** are the highlights of our operating segments. Retail Banking, has posted a very strong performance, growing 15% overall and in each loan product line, growing 17% in mortgage loans, 11% in consumer loans, and 16% in commercial loans which are related to small and medium sized companies. In terms of asset quality, there has been a significant improvement with a reduction of 20% in provision expenses over the same quarter last year. This high growth combined with lower provision expenses has assisted in attaining a net income before tax figure that is 67% above that posted during the same quarter last year.

As per our wholesale divisions, worth noting is the very strong performance in fee revenue which has continued to increase quarterly and post a 33% increase over the same period last year. Provision expenses for this segment have also decreased in line with the improving environment, reaching a level that is 48% lower than the same period last year. Moreover, operating expenses decreased by 23%.

Taking a look at Treasury, this segment also made important contributions during the quarter, posting revenues that are 65% higher than the same quarter last year and has placed two bonds in the local market for a total amount of US$339 million dollars, denominated in Chilean currency, with a spread between 51 basis points and 70 basis points above the central bank bench mark rate, once again demonstrating the confidence that the market maintains with the bank.

Our subsidiaries have also achieved important accomplishments during the period. Stock brokerage volumes are up 25%, assets under management in our mutual fund business have also grown strongly by 20%. This has led to a healthy increase in net income from our subsidiary operations of 16% when compared to the same quarter last year.

On the next slide**, number six,** begins our discussion on our consolidated results. As mentioned, the third quarter was the third time in a row that we consistently posted above Ch$100 billion pesos in net income. This marks a rise of 46% over the same quarter last year and allowed us to reach an excellent return on average equity of 26.1% during the quarter and 27.5% for the year. This rise is due to:

- Higher net interest income of 18% related to loan growth and from inflation indexed revenues which are due to the successful balance sheet management of our long position in UF currency,

- Consistent and strong fee revenue growth of 21%, and

- An important improvement in asset quality reflected in a 32% decrease in provision charges, and

- Offset partially by a controlled increase in expenses of 8%.

On the following slide, **number seven,** is a closer look at our operating revenues. The chart on the left clearly demonstrates our relatively stable revenue generation. To note are:

1. Net interest revenues, including revenues from inflation indexed assets, grew by $30 billion pesos over last year, or 19%.
2. Net fee revenue posted a $12 billion pesos growth, equal to 20%.

This growth was partially offset by the income statement line items, net financial operating and foreign exchange income, which decreased by $11 billion pesos when compared to the same quarter last year.

With regards to net interest income, the chart on the right shows the composition of this figure. The rise of $30 billion pesos is due to a 6% rise in average interest earnings assets and to more than a 40 basis point rise in our net interest margin, as a result of our proactive approach in managing our balance sheet UF gap in a more normalized inflationary scenario. With respect to the prior quarter, the decrease is mainly due to the lower inflation rate posted during the third quarter of 0.65% as opposed to the 0.97% recorded during the prior period.

The next slide, **number 8**, demonstrates the capability of our treasury area to generate complementary revenue which increased by 55% when compared to the same period last year. This growth was due to the proactive and strategic management of the UF GAP balance sheet position as previously mentioned and the positive effect associated to funding Ch$ denominated assets by US$ denominated liabilities hedged with derivatives.

On the next slide, **number 9,** demonstrates our strong growth in all our transactional products and the significance of our retail bank in this figure. Total fee revenue grew by about 20% over the same period last year, mainly driven by our retail segment. The most significant gains were seen in trading and securities management and portfolio management which together made up almost $9 billion pesos of growth, or a 47% increase. Additionally, card services also grew strongly over last year with a growth of $2 billion, or 21.4%.

Moving forward to the next slide, **number 10,** demonstrates our superior asset quality and the continual improvements in risk, given the better overall economic environment and the benefit we received on provisions from the lower Peso/USD exchange rate on US dollar denominated loans. This led us to record 32% less in provision expenses when we compare this quarter to the same period last year, and if we remove a set of particular downgrades in risk ratings to a specific wholesale debtor, we see a clear downward tendency in risk.

I should also mention that we have completely recorded the new rule established by the Chilean Superintendency of Banks to provision 0.5% of the “normal” individually analyzed portfolio. Also, 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. These categories are classified into three groups: “Normal”, “Substandard” and “In Default”. The rule also permits the use of counter-cyclical provisions which may be established to safeguard against the risk of macroeconomic fluctuations. The full effects of this new risk model and the use of counter cyclical allowances are being evaluated, so we cannot rule out any potential impact on our results.

As per our asset quality ratios, provisions to average loans increased during the quarter when compared to the prior quarter but is significantly less than that was recorded during the same period last year. This rise is mainly due to the previously mentioned wholesale debtor which has led us to recognize $14 billion pesos in provisions during the quarter.

Also worth noting is the level of our coverage ratio as shown on the chart on the right which reached 410% during the 3Q10 and the continual improvement in past-due loans which fell to 0.64% during the period. The latter measure is based on the instalment that is past-due and does not include the principal amount. When calculated on the principal amount, this figure decreases from 1.55% in the 2Q10 to 1.41% in the 3Q10.

Moving on to slide **number 11**, we can observe that our total operating expenses decreased quarter-on-quarter to 127 billion pesos, posting a lower efficiency ratio of 45.4%. When compared to last year, this figure remained relatively stable. Moreover, if we adjust these figures by the costs of the earthquake and other non-recurring items, one notes a subtle rise from the 3Q09 to 3Q10 which is related to bonuses due to higher commercial activity and our improved performance, advertising expenses due to more aggressive marketing campaigns intended to take advantage of the economic "momentum", and higher IT expenses as a result of a more dynamic business activity.

The chart on the right details our adjusted operating expenses and illustrates the effect of the earthquake and other non-recurring items. The earthquake cost the bank a total of 8.4 billion pesos. Of this amount, 6 billion pesos can be traced back to operating expenses related to maintenance repairs, asset impairments, donations and assistance to our employees. The remaining 2 billion pesos is the effect of the earthquake on credit provision expenses related to both retail and wholesale segments and were recorded as such.

As per non-recurring items and as a reminder, the second quarter includes $4 billion pesos related to an adjustment of commissions over-accrued during prior periods, greater expenses of $5 billion pesos related to a customer loyalty program intended to reinforce the use of our credit cards and charges related to contingency provisions for $6 billion pesos which was reversed and charged to provisions during the third quarter. Also in the third quarter, we incurred approximately $3 billion pesos in extraordinary bonuses granted to our staff for commemorating Chile's bicentennial.

Now, moving on to balance sheet figures, our loan portfolio grew by about 9% year-on-year, **as described on slide number 12,**

This growth was primarily a result of the very strong growth rate we have experienced in our retail banking portfolio which grew 15% year-on-year and is consistent with the improved unemployment figures and the firm economic growth which Chile has experienced throughout the year.

On the next slide, **slide number 13,** 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 15%. However, mortgage loan growth reached 17.5% is outpacing the growth of consumer loans which are growing at a rate of 11.5%. This strong growth has led to a market share increase of 67 basis points for mortgage loans and 35 basis points for consumer loans. Nonetheless, consumer loans have been picking up speed during the year and we expect that they will lead growth during 2011 because currently growth to lower income individuals still reflects this segment's uncertainty to the economic outlook.

On the liability side, as described on **slide number 14**, is another one of our competitive advantages. We have the highest market share in non-interest bearing deposits in the industry and we managed to increase the proportion of this lower cost of funding from 22% in September 2009 to 26% in September 2010.

The chart on the right shows that we moved from maintaining 3.4 trillion pesos in non interest bearing deposits to 4.3 trillion pesos, which translated to a 26% increase and funds 31% of our loan book versus the industry, excluding Banco de Chile, which only funds 23%. Moreover, our market share in balances held in checking accounts amounted to 24.3% and increased on a 12 month basis by 72 basis points.

In relation to our capital adequacy ratios, we have ample room for growth as presented on **slide number 15.**

At the end of the quarter, we had a tier one capital to risk weighted assets of almost 9% and a total capital ratio of 13.6%. Worth mentioning is the composition of our effective equity or total capital which is composed principally of capital and reserves and subordinated debt. Chilean banks are not permitted to use hybrid capital instruments.

Finishing up on the following slide, **number 16**, shows our excellent share performance during the year.

As of yesterday, November 2nd, the IPSA showed a strong gain of 38%, Banco de Chile compared favourably with an increase of 66% during the year. We believe that this upward trend is proof of the market's confidence on the Chilean economy, on our Bank's strength to adjust and capture this upturn in economic performance and our ability to provide our shareholders with consistently high yields on their investments.