

Banco de Chile (BCH)

The Fortress in a Zero-Sum Game

Investment Memorandum:
Fiscal Year 2025 Review & 2026 Outlook

ROE
21.9%

Div Yield
~5.3%

P/B
3.2x

SIGNAL: A masterclass in profitability, trapped by the boundaries of its own success.

Executive Verdict: The Gilded Cage

The Fortress (Operational Perfection)

- ROE: **21.9%** (Industry Leader)
- ROA: **2.2%** (vs 1.3% Avg)
- Zero-Cost Liability Base: **26.8%** of Liabilities
- Brand: "Flight to Quality" Premium

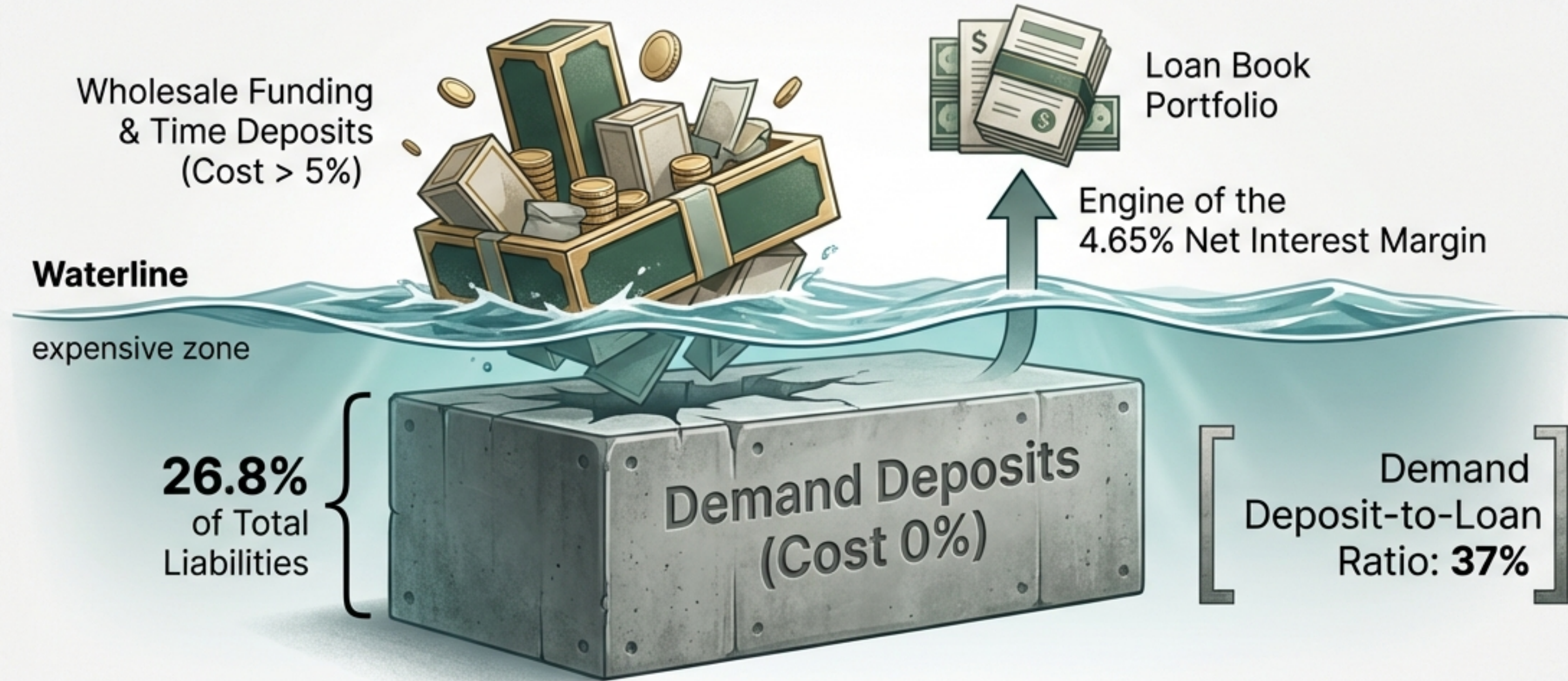
The Cage (Structural Stagnation)

- Loan Growth: **0.8%** (Flatlining)
- Commercial Lending: **-3.0%** (Contracting)
- Market Saturation: **89%** Banked Population
- Reinvestment Rate: **Near Zero**

SIGNAL: BCH is a **high-yield annuity**, not a capital compounder. We recommend an **AVOID / HOLD FOR YIELD** rating based on the lack of reinvestment opportunities.

The Economic Moat: Zero-Cost Liabilities

Tiempos Headline



SIGNAL: In a rate environment fluctuating between 4.5% and 11.25%, the ability to acquire zero-cost funding is **the bank's only true competitive moat**.

Competitive Benchmarking: The Efficiency Gap Has Closed

Metrics	BCH	Santander	BCI	Industry
ROE	21.9%	23.5% ★	12.2%	14.7%
ROA	2.2% ★	1.6%	0.87%	1.3%
Efficiency Ratio	37.4%	36.0% ★	48.8%	45.4%
Parity Reached				
NPL Ratio	1.7%			~2.5%

SIGNAL: The Efficiency Gap is gone. Santander now matches BCH on execution. BCH's premium valuation now relies solely on risk-aversion and funding costs.

The Fortress Balance Sheet: Overcapitalized by Design

CET1 Capital Ratios



- NPL Coverage Ratio: 223% (Sector Leading)
- Voluntary Provisions: CLP 661 Billion (Hidden Reserves)
- Regulatory Catalyst: CMF removed 0.13% Pillar II charge (Jan 2026)

SIGNAL: Management prioritizes solvency over efficiency, creating a balance sheet that is effectively bulletproof against sovereign shocks.

The Growth Trap: Hitting the Saturation Wall

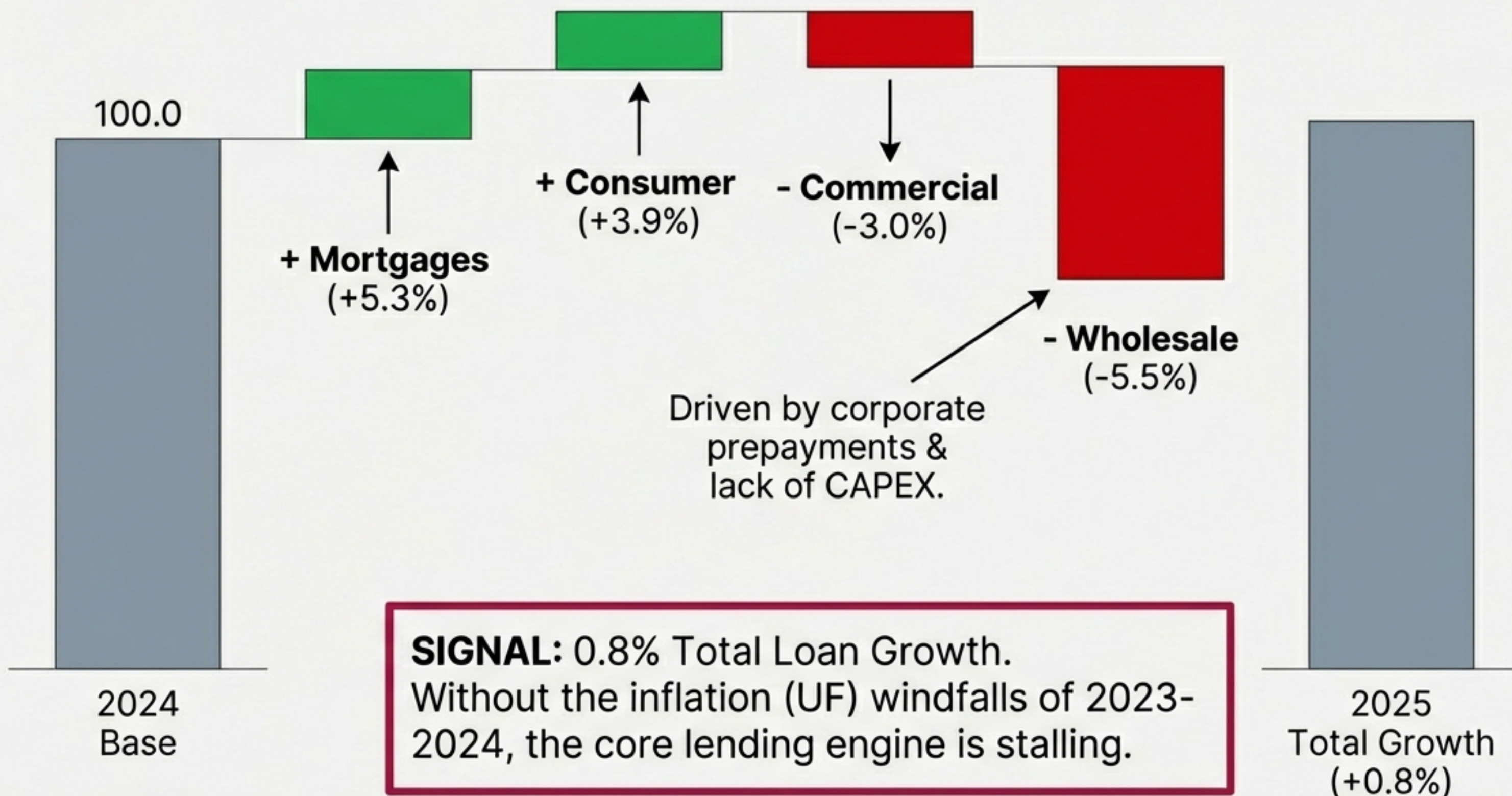


Debit Card Penetration: 90%

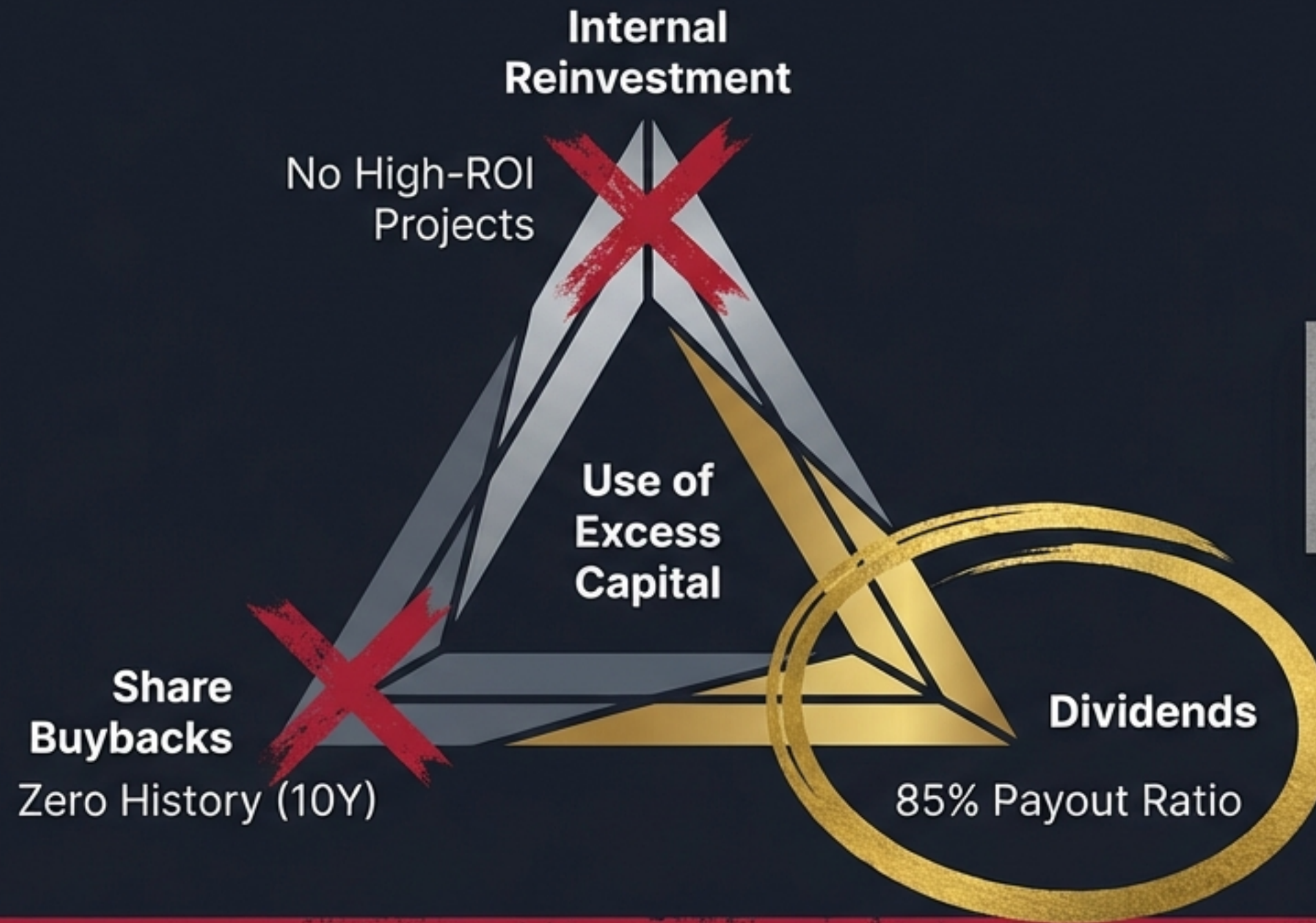
Credit expansion is now strictly
bounded by nominal GDP.

SIGNAL: The Blue Ocean is gone. Growth now requires stealing market share from highly capable incumbents like Santander, likely compressing margins.

The Stagnation Reality: Loan Book Analysis



Capital Allocation Dead End



Controller Constraint:
Luksic Group relies on upstreamed cash.

SIGNAL: An 85% payout ratio is a surrender flag. It confirms management cannot deploy retained earnings at high rates of return internally.

The Macro Variable: The Kast Catalyst

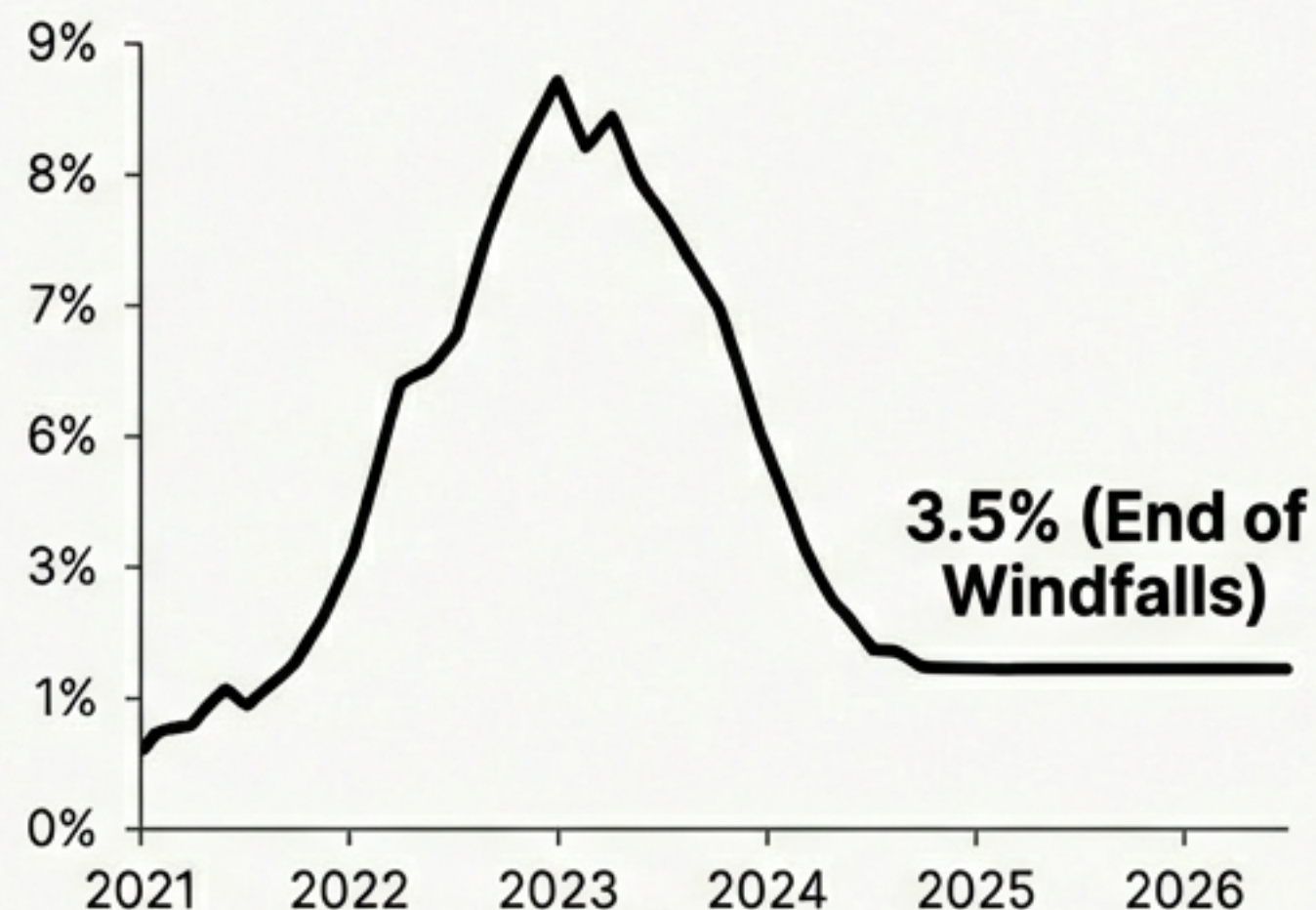


SIGNAL: The 2026 Bull Case rests entirely on supply-side reforms unlocking corporate CAPEX. If Kast's agenda stalls, the 8% corporate loan growth target fails.

Macro Headwinds: The End of Free Money

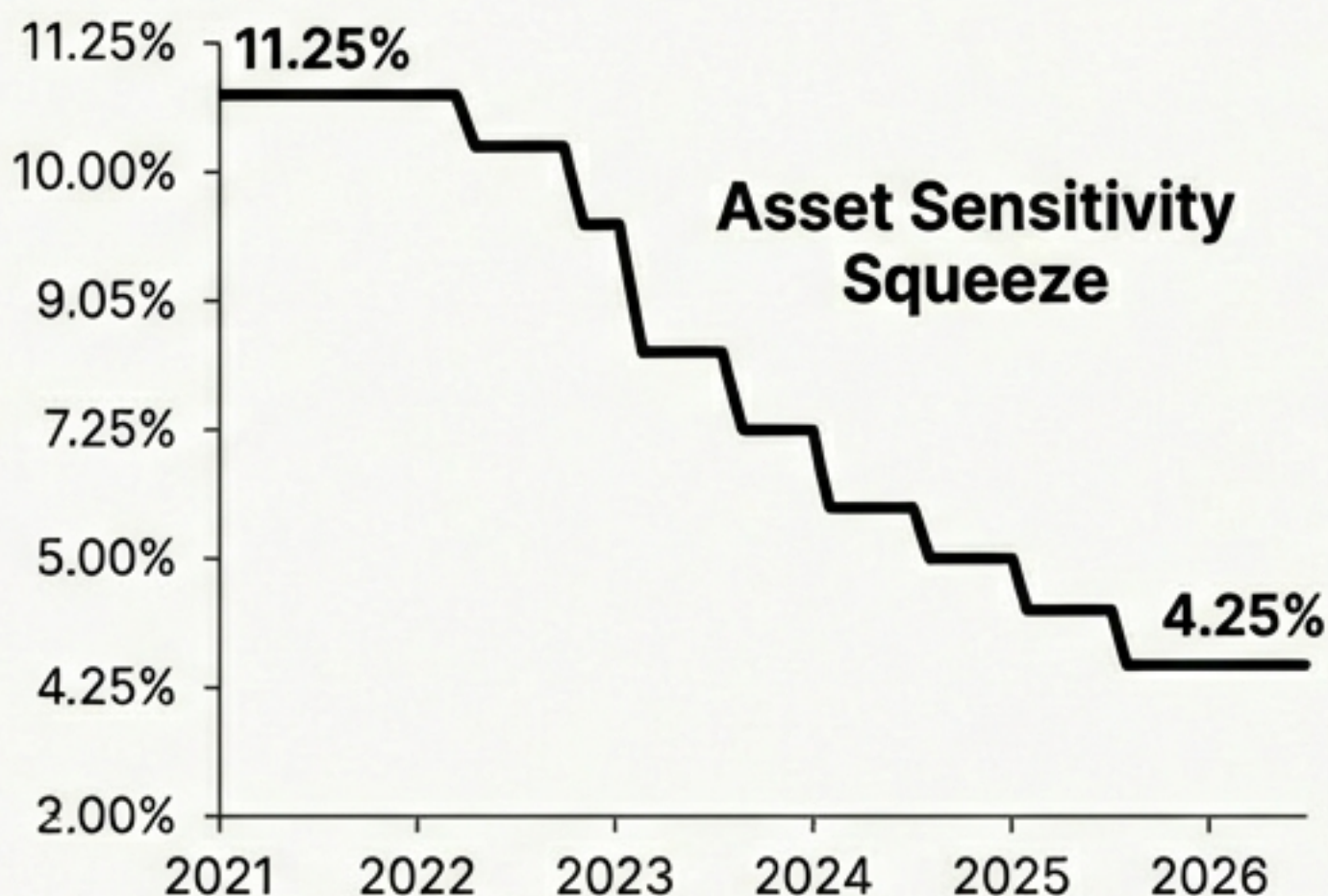
Inflation (UF) Normalization

in Inter



NIM Compression

in Inter



SIGNAL: The 'Free Lunch' of inflation-indexed asset repricing is over. 2026 earnings must be driven by volume, which is scarce.

The Existential Threat: The Deposit Yield War



SIGNAL: A 50bps compression in NIM destroys the premium ROE. If the 0% deposit base reprices to compete with Fintechs, the Moat evaporates.

Valuation Context: Priced for Perfection

Current P/B: 3.2x

The Bull Case

Input: ROE 20% (Maintained)

Result: Fair Value ~3.55x (Undervalued)

The Bear Case (Yield War)

Input: ROE 16% (NIM Compression)

Result: Fair Value ~2.66x (Overvalued)

SIGNAL: At 3.2x Book, the market assumes perpetual 20% ROE. There is zero margin of safety for the 'Yield War' scenario.

Investment Scorecard: The LRT Framework

1. Competitive Advantage (MOAT)

Zero-cost funding, Scale, Brand.

PASS

2. Capital Allocation

Safe but uncreative. No buybacks. Cash cow for parent co.

**MARGINAL
FAIL**

3. Sustainable Growth

Saturated market, flat loan book, reliance on macro cycles.

FAIL

SIGNAL: BCH passes the quality test but fails the compounding test.
It is a bond proxy, not a growth stock.

AVOID / HOLD FOR YIELD

Banco de Chile is an operational fortress, but an investment dead end. The combination of market saturation, a lack of reinvestment mechanism, and the looming repricing of liabilities makes it unsuitable for long-term capital compounding.

"A Gilded Cage is still a cage. We prefer assets that can deploy capital, not just return it."