
The Chilean Bond Market

April 2007

The Chilean Bond Market: Importance for Foreign Investors

The local bond market is the most developed bond market in Latin America, and has been a key aspect for foreign investors when looking at Chile, providing them with diversification of financing sources, and availability and confidence of long-term financing.

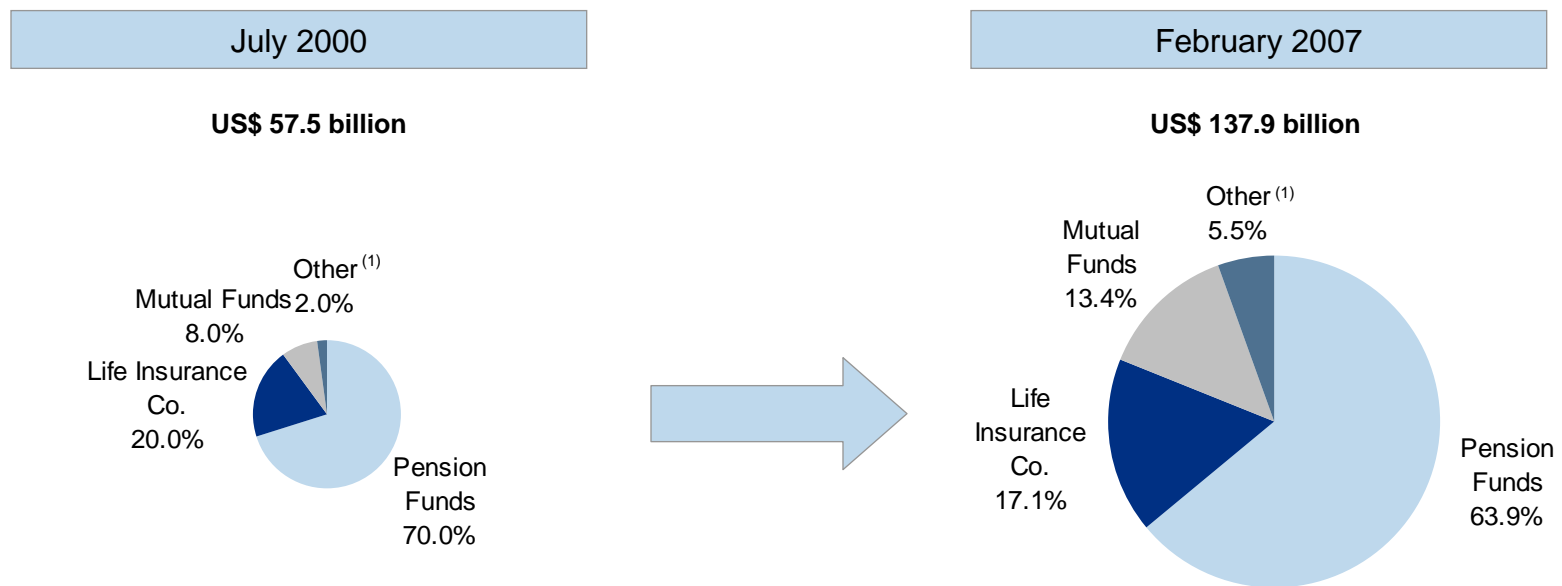
- The Chilean bond market is the most developed market in Latin America:
 - Source of funding for acquisition financing, project financing, refinancing, and growth financing
 - Different structures and longer tenors available (up to 30 years)
- It provides corporations with diversification of their financing sources:
 - This allows them to reserve available capacity in the bank sector
 - Provides stable and competitive financing conditions (in terms of cost and tenors available)
- The local bond market has been a key aspect for foreign investors when looking at Chile. Almost 50% of local corporate and infrastructure bonds outstanding today in the Chilean market have been issued by:
 - Multinational companies with presence in Chile
 - Consortiums led by foreign investors

The Chilean Capital Markets

Chilean institutional investors maintain investment portfolios for approximately US\$138 billion, which is equivalent to approximately 96% of the 2006 Chilean GDP.

- Main institutional investors are pension fund managers (“AFPs”) and life insurance companies, which concentrate around 83% of total institutional investors’ funds (vs. 90% in 2000)

Institutional Investors Assets Under Management



(1) “Other” includes investment funds, foreign capital investment funds, and banks.

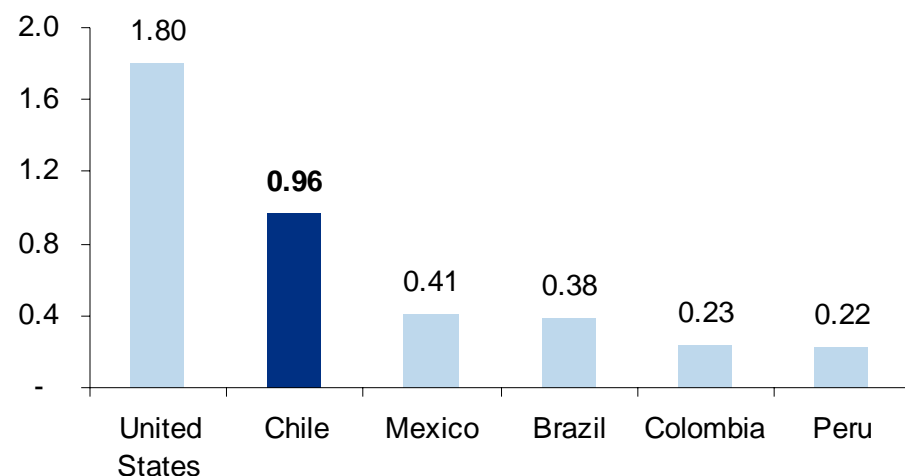
Source: Superintendencia de Valores y Seguros (“SVS”), Superintendencia de Administradoras de Fondos de Pensión (“SAFP”) and Chilean Central Bank.

The Chilean Market: Institutional Investors as Main Developers

The increase of the Institutional Investors' portfolio has helped to develop the local capital markets in terms of liquidity and tenors.

- The size of the portfolio managed by institutional investors has been the main driver for developing the local capital market, providing:
 - Liquidity
 - Development of a market yield curve for all tenors

Institutional Investors Assets Under Management / GDP



Country	GDP	AUM ⁽¹⁾	AUM/GDP
United States	12,455.8	22,420.5	1.80
Chile	143.2	137.9	0.96
Mexico	768.4	317.6	0.41
Brazil	795.7	304.0	0.38
Colombia	122.3	28.2	0.23
Peru	79.4	17.7	0.22

Figures in US\$ billions.

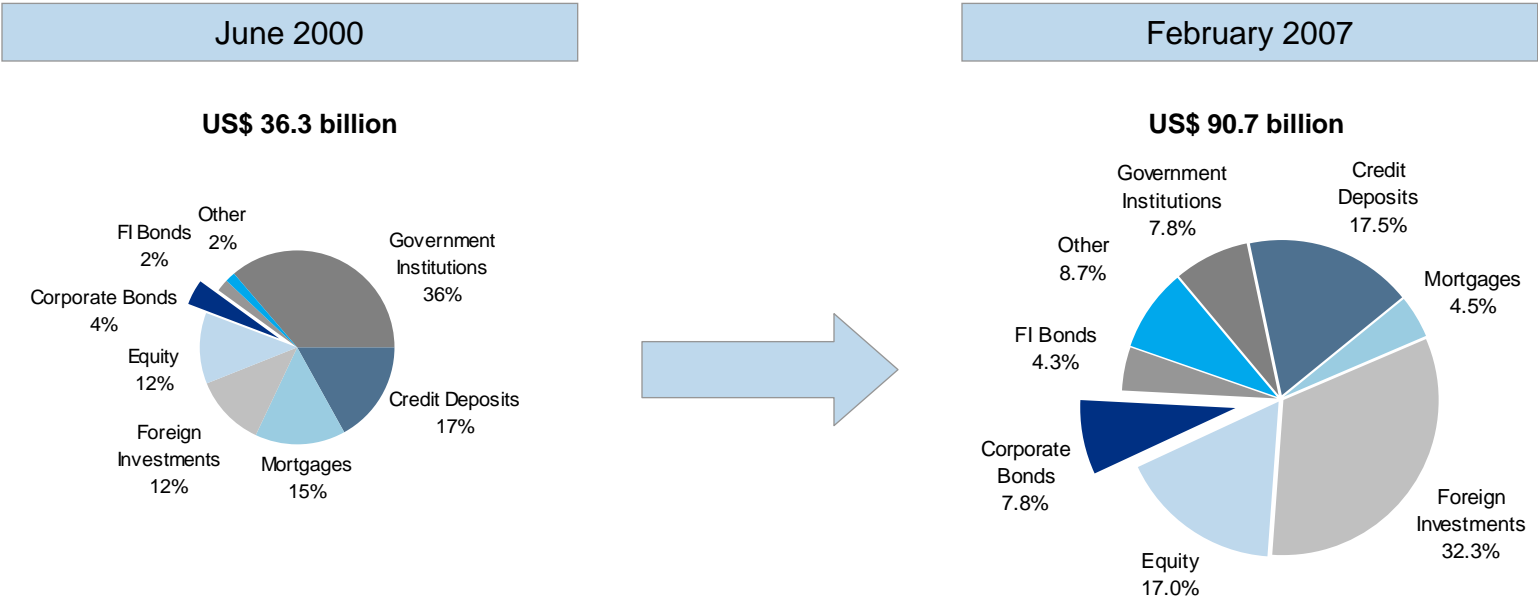
Source: Citigroup estimates as of February 2007.

Institutional Investors: Pension Funds

Pension funds investment portfolio has increased due to an increase in the inflow of resources from affiliates and due to higher returns. Additionally, there has been a change in the portfolio mix, decreasing government paper and mortgages and increasing corporate paper.

- The implementation of the multi-fund system and tax incentives have continued to attract more resources from affiliates. From Jun-00 to Feb-07, pension funds' portfolio has grown app. 150%, to US\$ 90.7 billion
- Additionally, there has been a change in the portfolio composition, with an increase in equity, foreign investments and corporate bonds, and a decrease in government papers and mortgages. As the credit profile of the corporations strengthens, pension funds are migrating towards higher return securities

Pension Funds Portfolio



Source: SAFF.

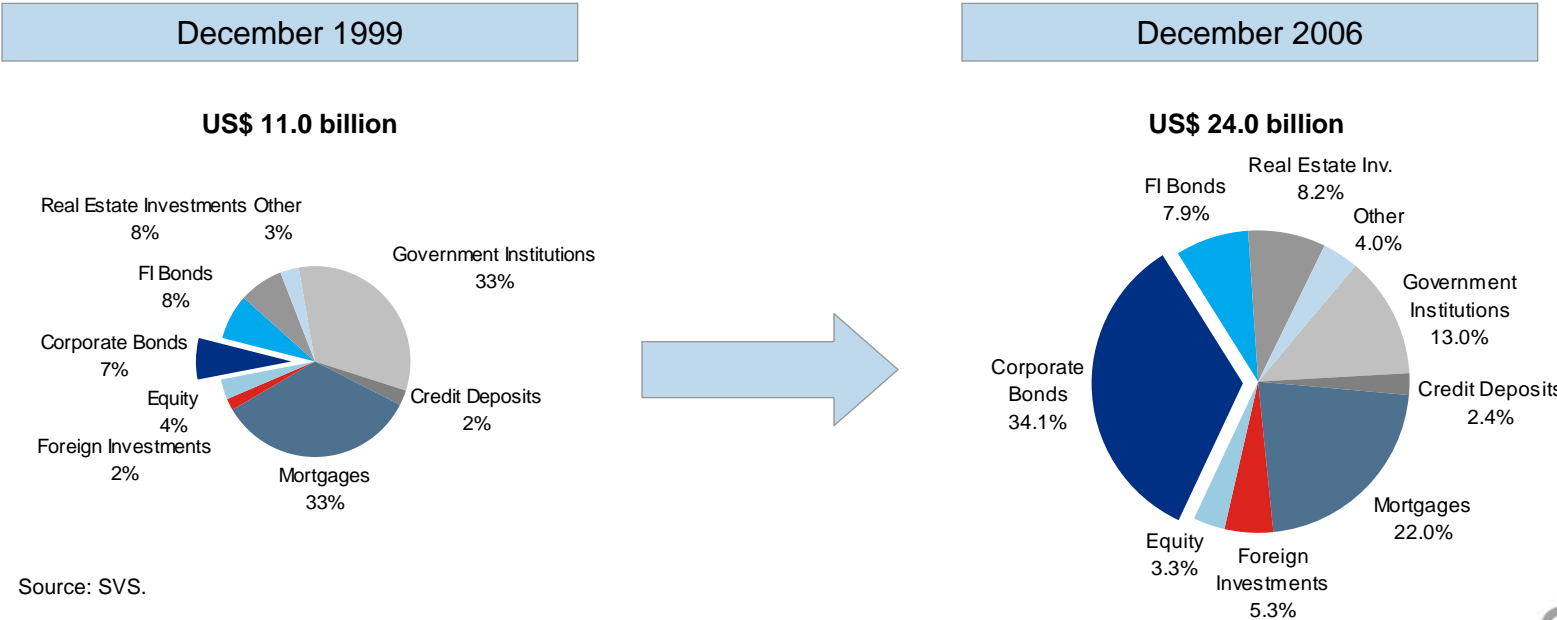


Institutional Investors: Life Insurance Companies

Life insurance companies have changed their investment portfolio mix, increasing the weight of long term corporate and infrastructure bonds. This allows them to match better their liabilities with securities that offer attractive rates with high rating standards.

- The development of the life insurance companies industry has permitted their portfolio to grow from Dec-99 to Dec-06 app. 118% to US\$ 24.0 billion
- They have increased their portfolio weight towards corporate and infrastructure bonds from 7% in Dec-99 to 34% as of Dec-06
 - Corporate bonds constitute an attractive alternative for matching their liabilities (mainly by annuities)
 - Recent legislation modifications have allowed them to expand investment limits on an specific issuer

Life Insurance Companies Portfolio

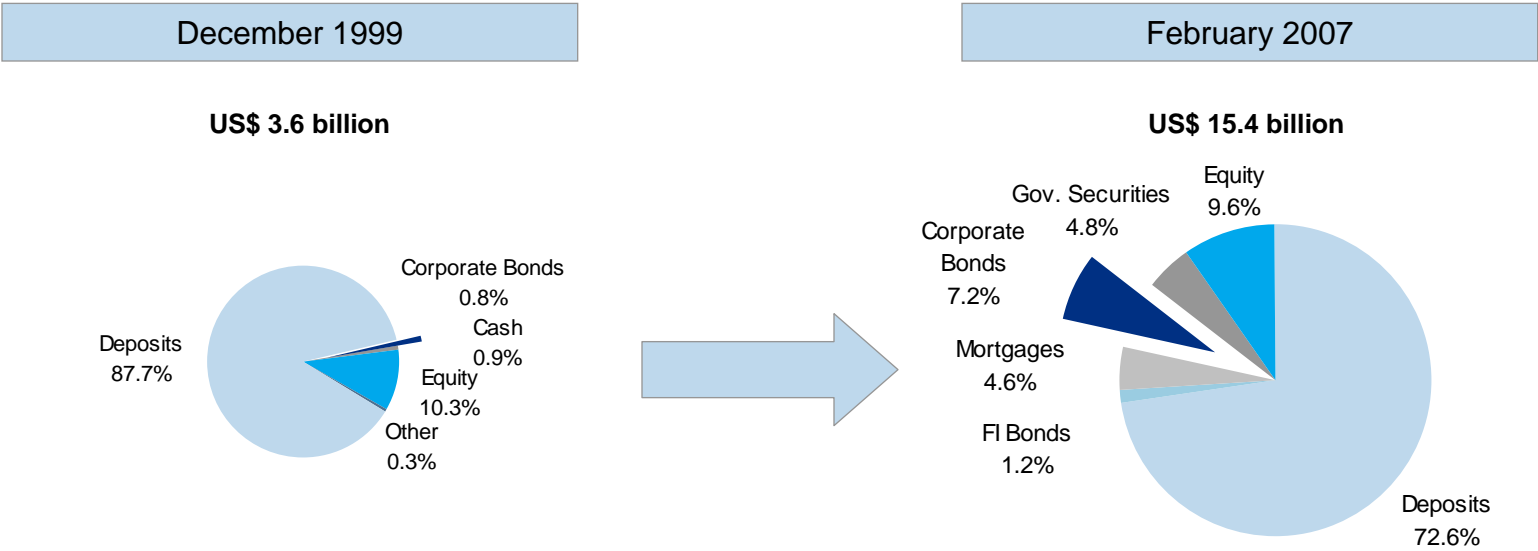


Institutional Investors: Mutual Funds

Mutual funds explosive growth has largely contributed to the development of the corporate and infrastructure bond market.

- Between Dec-99 and Feb-07, mutual funds' portfolio has grown app. 328% to US\$ 15.4 billion
 - This represents a compound annual growth of app. 23.1%
 - Until year 2000, mutual funds had virtually no exposure to corporate and infrastructure bonds
 - Currently, 7.2% of their portfolio is invested in these securities, especially nominal papers
 - Mutual funds' portfolio is composed essentially by credit deposits

Mutual Funds Portfolio



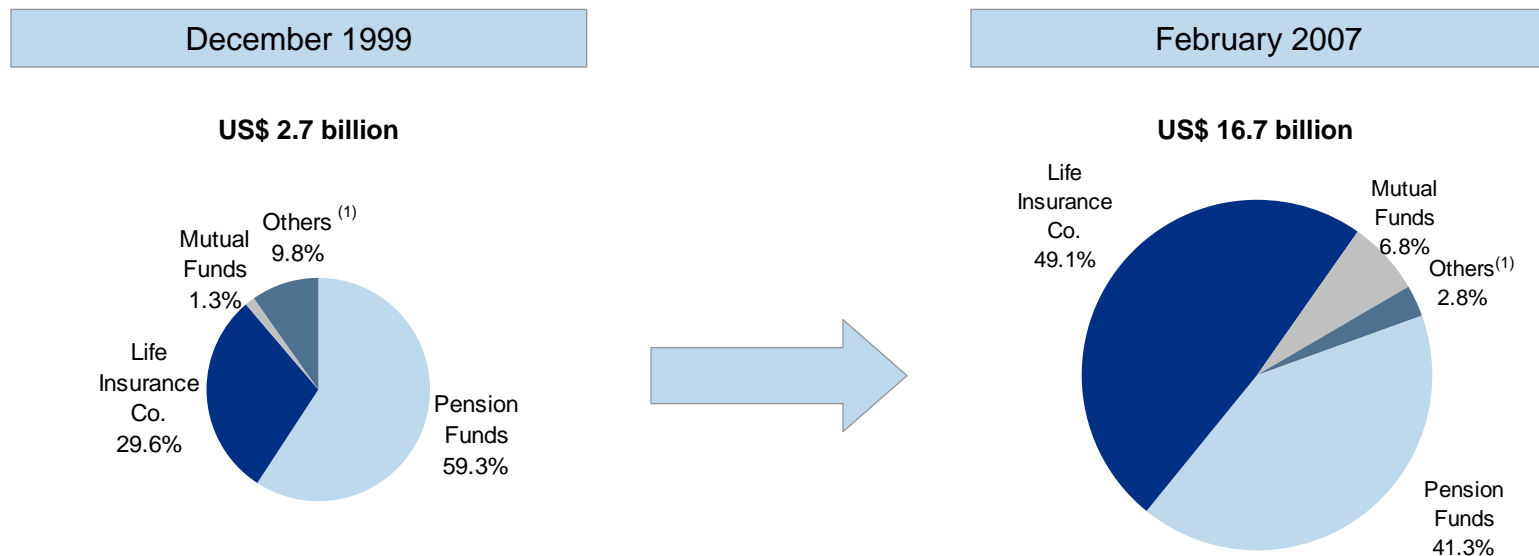
Source: SVS.

The Chilean Bond Market

The local bond market has been the preferred financing alternative for Chilean issuers during the last 6 years, lead by the development of pension funds and life insurance companies.

- The local corporate bond market in Chile has the equivalent to US\$16.7 billion in outstanding issues, held mainly by pension funds (approx. US\$7.0 billion), life insurance companies (approx. US\$ 8.1 billion), mutual funds (approx. US\$1.1 billion) and other players such as banks and stock brokers
- Almost 80% of these issues have been placed within the last five years, proving to be a market under quick development

Local Market Bondholders



(1) "Others" includes investment funds, FICE and banks.
Source: SVS, SAFP and Superintendencia de Bancos e Instituciones Financieras ("SBIF").

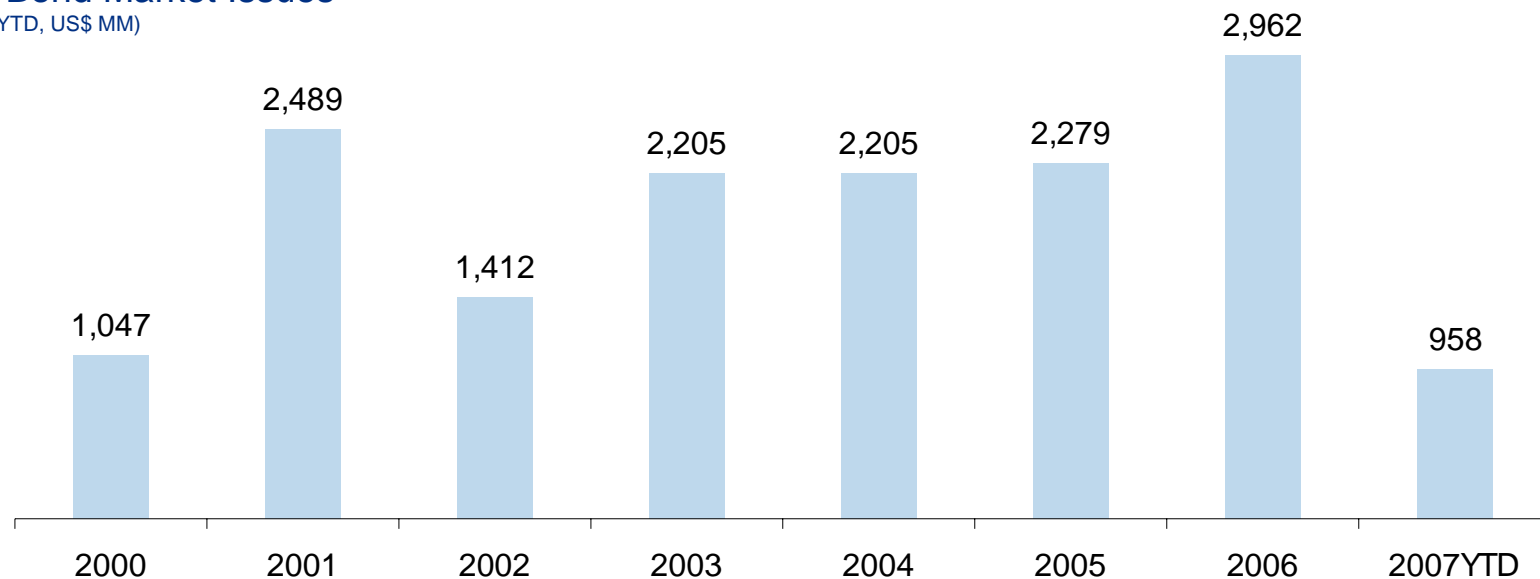
Local Bond Issues Evolution

Market depth has been improving during the last years, with capacity to absorb bond placements for up to US\$ 450 – 500 million in a single transaction.

- The Chilean Market is an investment grade market, exhibiting much longer tenors than other countries in the region (up to 30 years)
- During 2006, a total of UF 86.2 million (app. US\$ 3.0 billion) were placed in the local bond market in 24 issues. Of these, 19 were corporate bonds (app. US\$ 2.6 billion) and 5 were infrastructure bonds (app. US\$ 0.4 billion)

Chilean Bond Market Issues

(2000 – 2007YTD, US\$ MM)



Source: SVS. Includes corporate and infrastructure bonds.

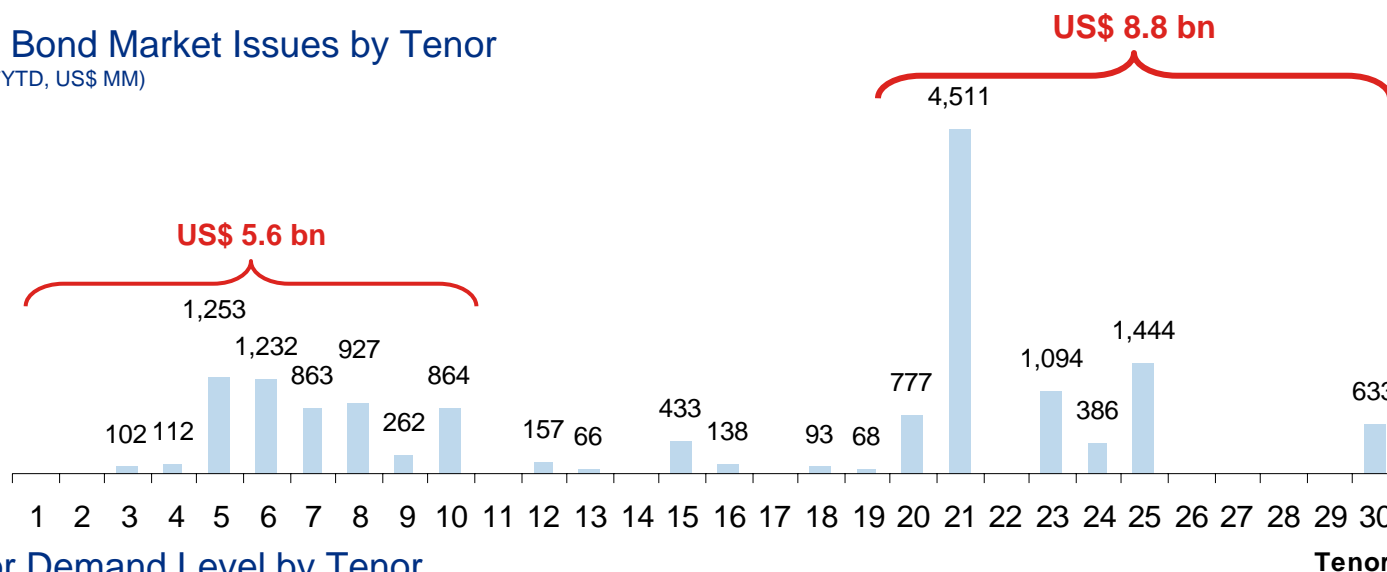
Local Bond Issues by Tenor

The corporate bond market exhibits greater liquidity in bonds with tenors below 10 years and between 20 to 25 years. This explains why most issues are structured with two tranches, maximizing the potential demand by generating anxiety between both types of investors (mid-term and long-term).

- In terms of tenor, the local bond market can be split into two segments depending on the type of investor:
 - **Short tenor:** App. 36% of local issues have been structured with tenors of up to 10 years, in both nominal and real-denominated issues. Main investors are pension funds, mutual funds and banks
 - **Long tenor:** App. 58% of local issues have had tenors between 20 – 25 years (and some guaranteed issues at 30 years), in real-denominated issues. Main investors are life insurance companies

Chilean Bond Market Issues by Tenor

(2000 – 2007YTD, US\$ MM)



Investor Demand Level by Tenor

Investor Type	1-10	11-20	21-25	26-30
Pension Funds	High	Medium	Medium	
Life Insurance Cos.	Medium	Low	High	
Mutual Funds	High	Low	Low	

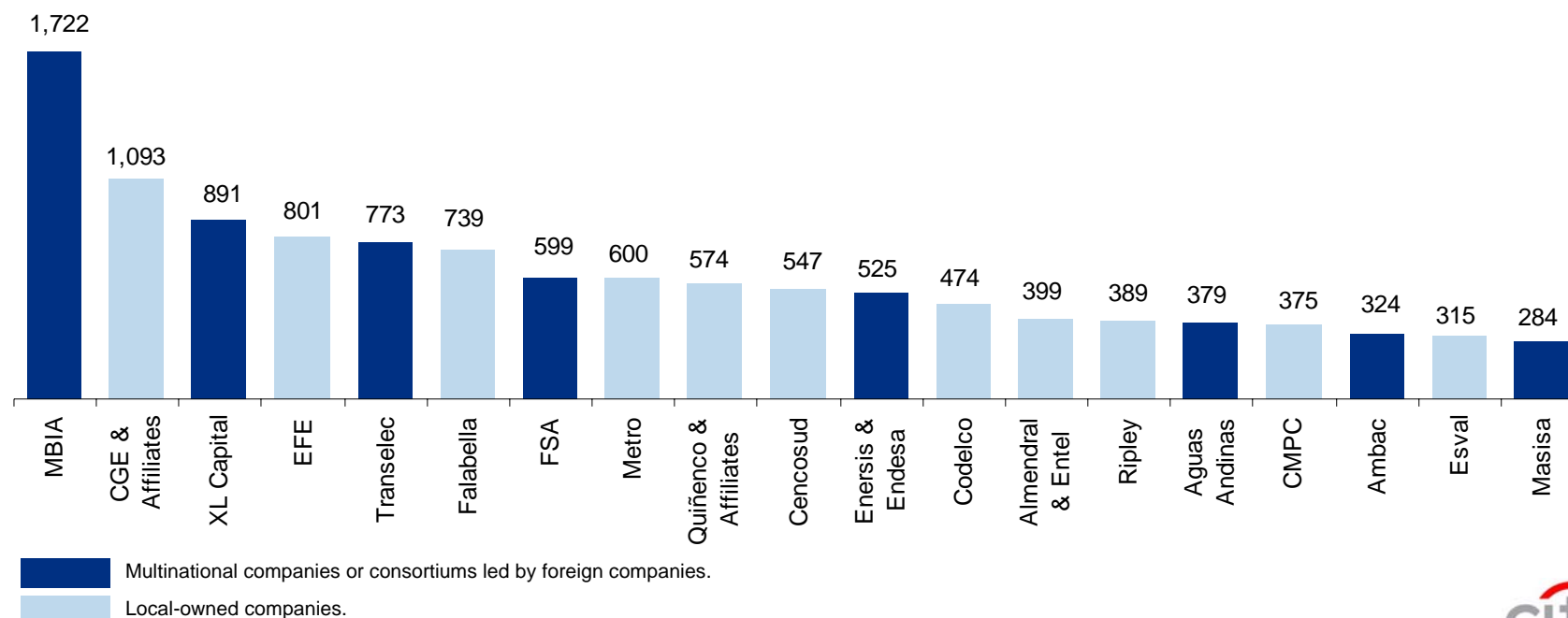
Main Bond Issuers

After the Vespucio Norte Express' UF 16 million (app. US\$ 427 million) bond issue, and other infrastructure bond issues, MBIA became the main issuer of corporate debt in Chile.

- There are approximately US\$ 16.7 billion in outstanding corporate and infrastructure bonds
 - Nearly 50% of these issues correspond to multinational companies or to consortiums led by foreign companies
- The market currently has large exposure to infrastructure names – 23% of the outstanding issues correspond to the infrastructure sector (MBIA, XL, FSA and Ambac) – which implies that new well known players could be welcomed among investors

Chilean Bond Market Main Outstanding Issuers

(February 2007, US\$ MM)



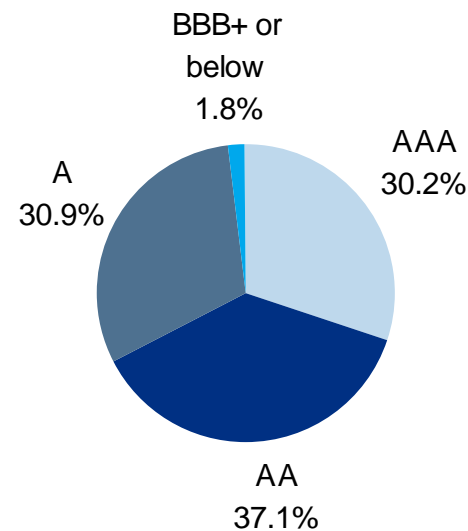
Local Bond Issues by Rating

The local bond market has developed only for issuers with local investment grade rating, while the high yield bond market has not yet developed. Most bond issues have locally been rated A or above.

- Institutional investors are subject to several regulatory limits, that allow them to invest mainly in investment grade securities (local rating of BBB or higher)
 - Hence, the liquidity available in the bond market is generated for issuers locally rated A- and above
 - App. 30% of bond issues have been locally rated AAA, explained by the several large infrastructure issues that have been structured with a monoliner guarantee

Chilean Bond Market Issues by Rating

(2000 – 2007YTD)



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