



Superintendencia  
de Bancos  
e Instituciones  
Financieras  
Chile

**CHILE DAY: 2009**

**THE CHILEAN BANKING SYSTEM:  
STRUCTURE, STRENGTHS AND PERFORMANCE**

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# STRUCTURE OF THE BANKING MARKET

## Overview:

- Assets, income and risks mainly linked to credit activity.
- Deepness of banking activity indicators above other emerging market economies.
- Market concentration indicators within normal range.
- Foreign banks investments account for a substantial share of banking assets
- Strong internal competition in granting credit to households.
- Substantial external competition in granting credit to corporate entities.

# Assets, Financing and Income within the Banking System

## Consolidated Financial Statements for the Chilean Banking system (May 2009)

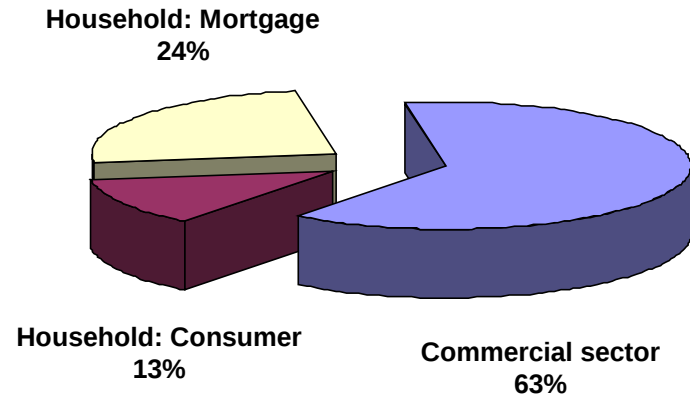
Millions of USD

ASSETS	MUSD	% Total	%GDP
CASH AND CASH EQUIVALENT	7.171	4%	5%
RECEIVABLES ON BANKS	2.483	1%	2%
LOANS	116.786	68%	76%
FINANCIAL INSTRUMENTS	29.955	18%	20%
FIXED ASSETS	2.023	1%	1%
OTHER	12.555	7%	8%
<b>TOTAL ASSETS</b>	<b>170.973</b>	<b>100%</b>	<b>111%</b>

LIABILITIES AND EQUITY	MUSD	% Total	%GDP
DEPOSITS	103.534	61%	67%
LIABILITIES TO BANKS	10.198	6%	7%
DEBT INSTRUMENTS	22.031	13%	14%
DERIVATIVE INSTRUMENTS	7.628	4%	5%
OTHER	13.882	8%	9%
EQUITY	13.700	8%	9%
<b>LIABILITIES AND EQUITY</b>	<b>170.973</b>	<b>100%</b>	<b>111%</b>

INCOME STATEMENT	MUSD	% Total	%GDP
Net interest income	2.221	59,6%	1,4%
Net gains/losses on FX Items	737	19,8%	0,5%
Net Fee and Commission income	711	19,1%	0,5%
Others	59	1,6%	0,0%
<b>Gross Income</b>	<b>3.728</b>	<b>100%</b>	<b>2,4%</b>
Credit risk provision expenses	-1.087	-29%	-0,7%
Operating expenses	-1.678	-45%	-1,1%
<b>Net income</b>	<b>963</b>	<b>26%</b>	<b>0,6%</b>
Share of profit from affiliated companies	4	0%	0,0%
<b>Result before taxes</b>	<b>967</b>	<b>26%</b>	<b>0,6%</b>
Income taxes	-174	-5%	-0,1%
<b>Net Result</b>	<b>792</b>	<b>21%</b>	<b>0,5%</b>

### Loan Distribution

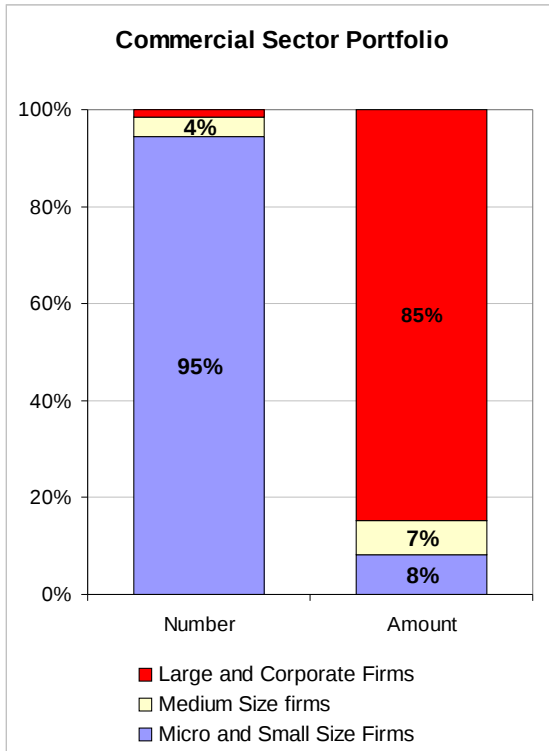


Source: Information system SBIF (Chile)

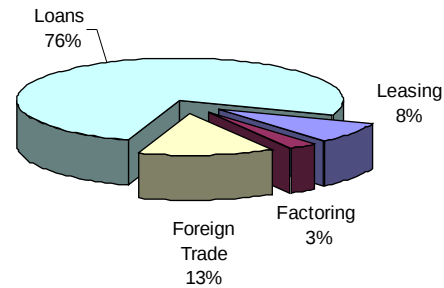
# Bank Financing of Commercial Entities (Non-household)

*By firm size and by source of financing*

Commercial loan portfolio according to firm size



Commercial loan portfolio according to source of financing



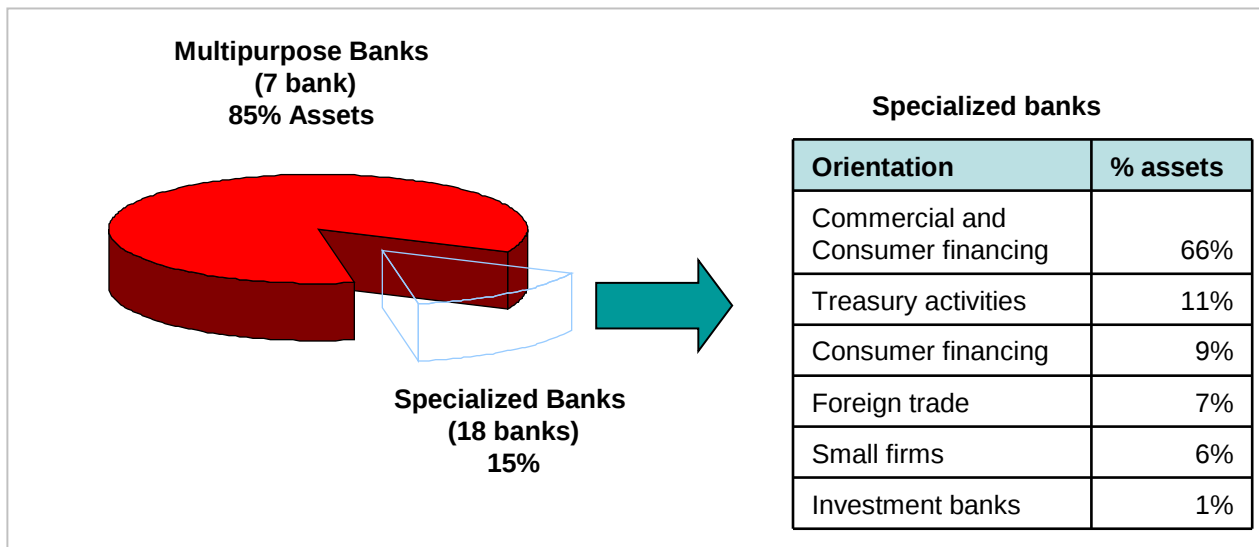
# Participants of the Banking system

*Number of institutions, equity ownership and market orientation (May 2009)*

## Equity ownership

	Institutions	% Institutions	% Assets
Chilean	12	48%	60%
Foreign	13	52%	40%
<b>Total</b>	<b>25</b>	<b>100%</b>	<b>100%</b>

## Market orientation: universal banking and specialized banks



## Parent company of foreign banks established in Chile

### Total Assets in millions of USD

Branch of a foreign bank	Total Assets (2008)	Top 25*
JP Morgan Chase Bank	2.175.052	✓ 7
Tokyo Mitsubishi UFJ Bank	1.817.943	✓ 8
Do Brasil	225.221	X
DnB NOR Bank	127.423	X

Foreign banks established in Chile	Total Assets (2008)	Top 25*
BBVA	757.132	X
Itau	273.376	X
Santander	1.464.498	✓ 15
Royal Bank of Scotland	3.500.950	✓ 1
Deutsche Bank	3.072.931	✓ 2
Rabobank	854.061	X
HSBC Bank	2.527.465	✓ 5

\* The Banker Ranking : By Total Assets.

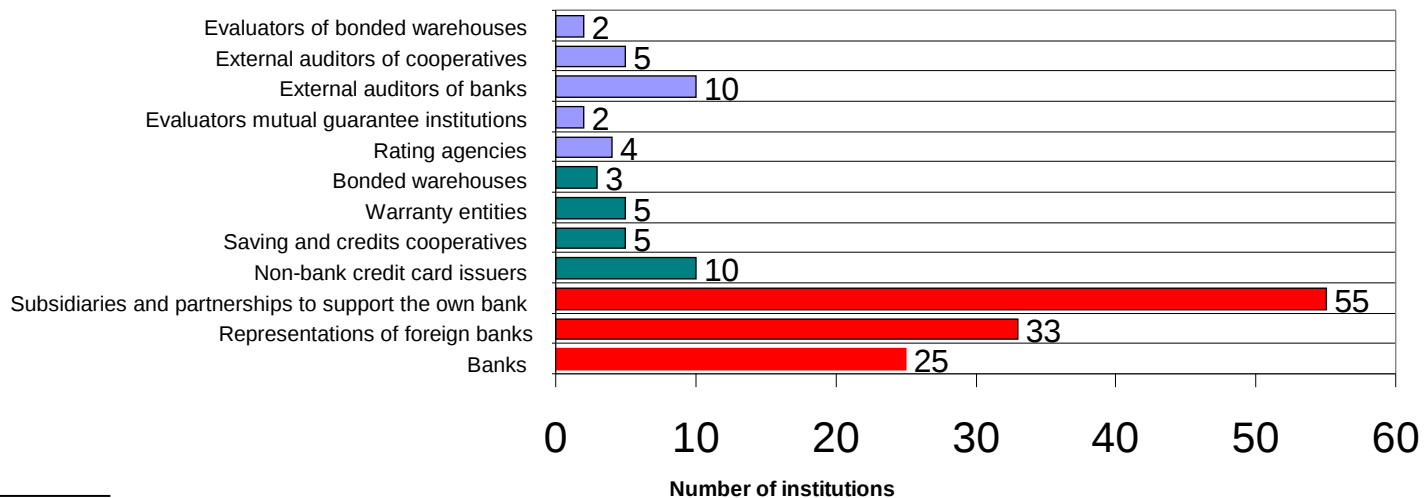
Source: Bloomberg and The Banker

# Other banking activities and other participants

## Share of financial instruments issued in Chile

Instrument	Value (% over total)
Stocks	61%
Corporate bonds	6%
Government Bonds	6%
Mutual mortgage securities	1%
Time Deposits (banks)	21%
Mortgage bills of exchange (banks)	3%
Bonds (banks)	1%
<b>Total</b>	<b>100%</b>

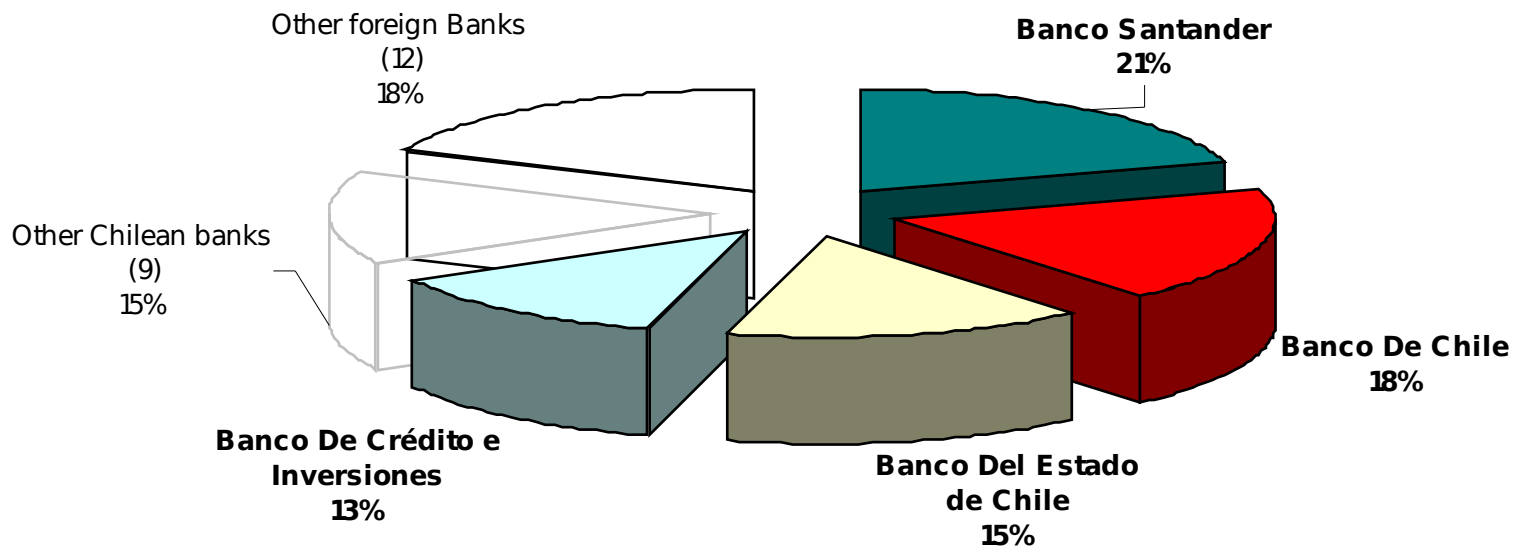
## Other institutions in the financial system supervised by SBIF (May 2009)





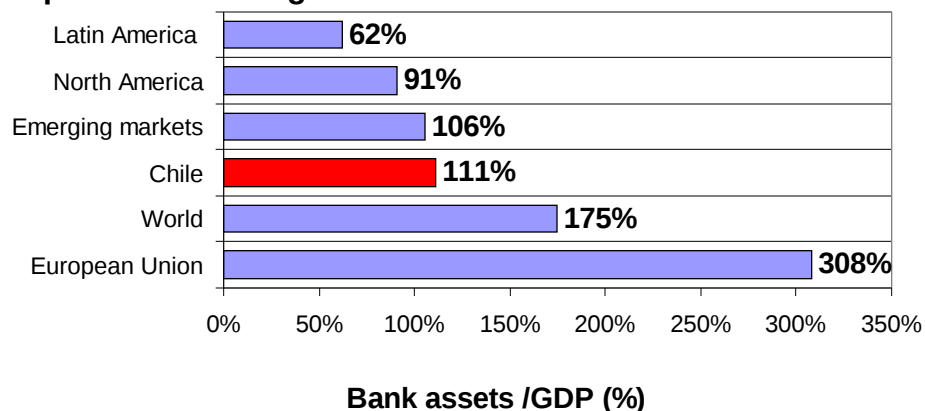
# Concentration of the Banking Market

Market share of the top 4 banks: May 2009 (% total assets)



# Deepness and Coverage of Banking Services

## Deepness of banking market



**Source:** research department of SBIF, using data from internal information system - may 2009- and Global Financial Stability Report (Abril 2009).

## Coverage of banking services

	Number (thousands)	Number (every million of persons)
ATM	7,3	434
POS	57,2	3.407
Payment cards	12.672,6	755.176
Savings accounts	13.000	774.686
Sight account	780	46.481
Branches	2,0	117
Current account	2.380,2	141.838
E-banking	2.365,7	140.977
Mortgage Loans	846,9	
Consumer loans	3.071,1	
Commercial sector entities	815,0	

**Source:** Estimations using data since Dec-2008 until May-2009 (SBIF- Chile).

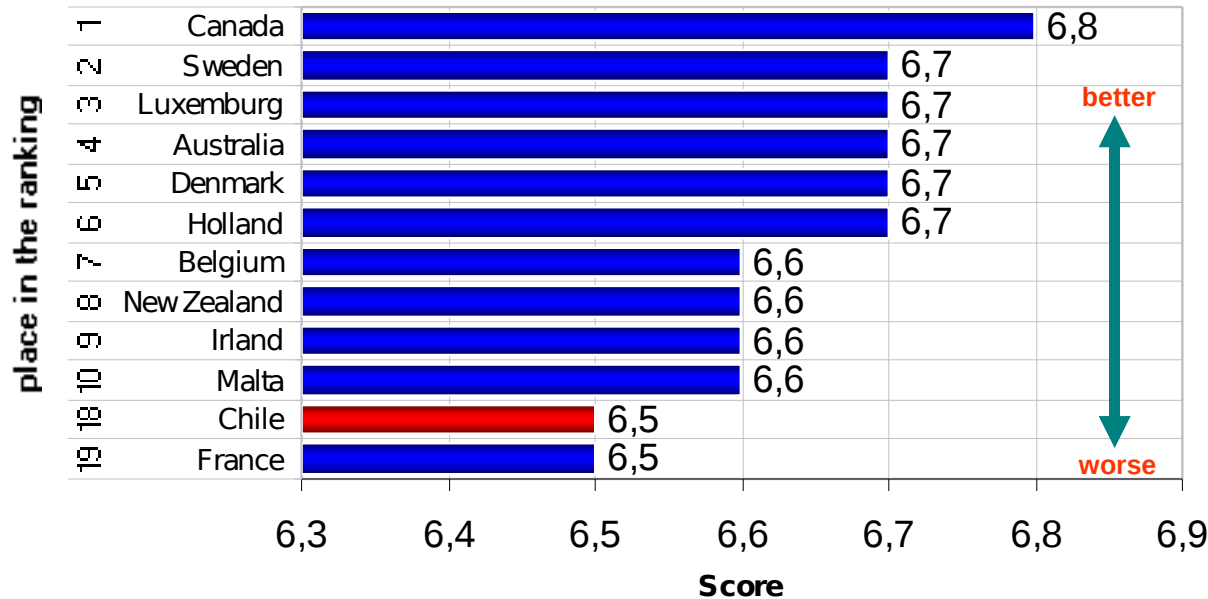
# STRENGTHS OF THE CHILEAN BANKING SYSTEM

## Overview

- Modern and specialized bank regulation and supervision:
  - Fulfillment of basic principles for effective banking supervision
  - Adoption of International Financial Reporting Standards (IFRS)
  - Guidelines for advancing to Basel II
- Preconditions for effective bank supervision:
  - Independent Central Bank
  - Government commitment for a public sector structural surplus
  - Substantial Macroeconomic stability
- Strong bank solvency
- Competitive banking markets
- Banking entrepreneurship experience
- Private – Public Relationship

# International assessment of solvency

## International bank solvency ranking



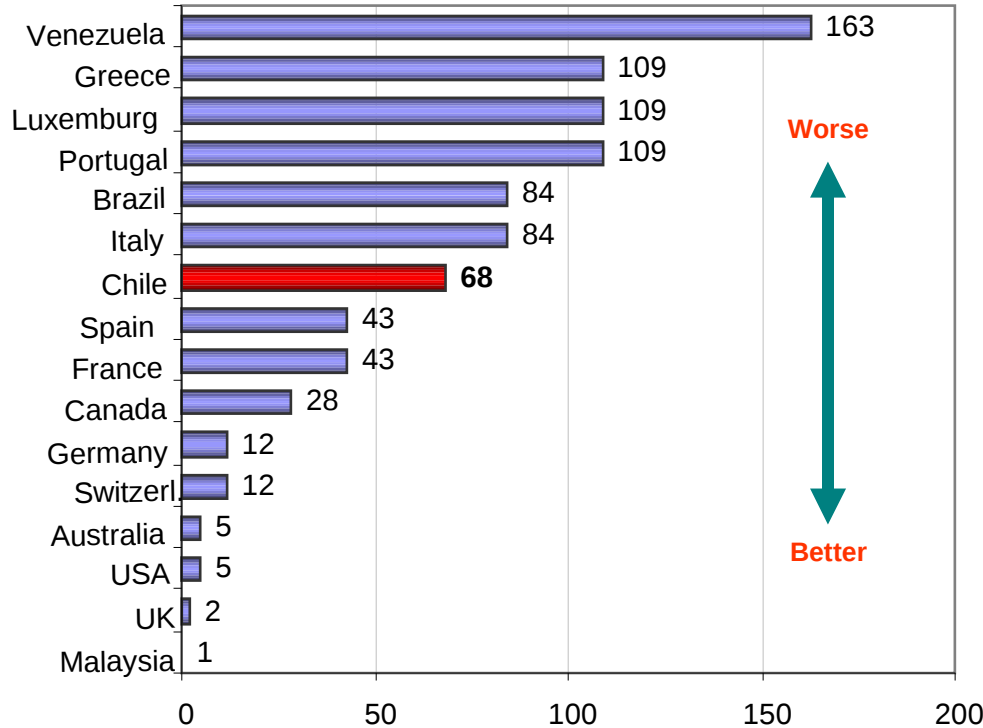
**Banks established in Chile take up the first place in Latin America and counts among the first 20 banks in international bank solvency ranking.**

The ranking gives to each country a score between 1 -7. It includes 134 countries, and the average score is 5,6. Chile improved by 3 places its place according to the previous ranking.

Source: The Global Competitiveness Report 2008-2009. World Economic Forum.

# International assessment of regulations and credit practices

## Ranking of regulations and procedures in relation to getting access to a loan



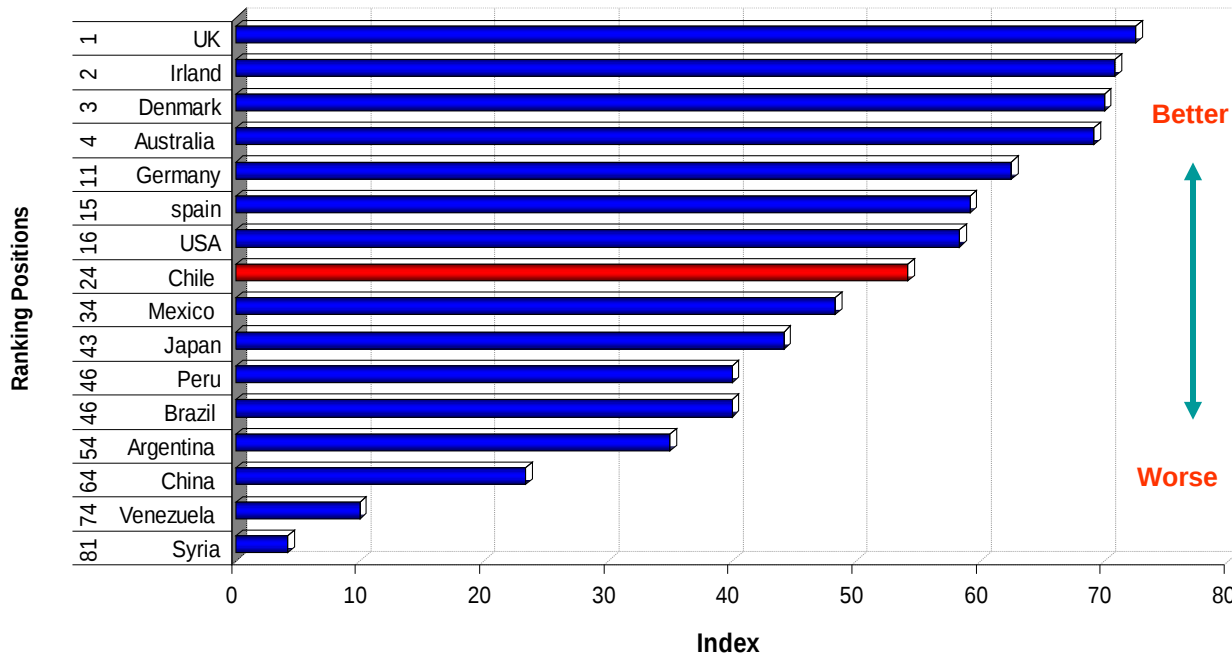
**Banks established in Chile take up place 68 at international level when considering regulations and practices regarding the access to financial services.**

Doing Business has classified 181 countries according to steps needed to start a business. One of the steps is related to the difficulty to access to financial services. The ranking has category variables such as strength of legal system and deepness of loan information.

**Source:** Made on data from Business 2009 (World Bank), since April 2007 to June 2008

# International assessment of financial stability conditions

## Adequacy of international standards linked to financial stability index



**The Chilean economy ranks first in Latin America in keeping standards linked to financial stability, while it ranks 24 at international level. UK ranks first with a 70,50 index.**

The index range goes between 0 and 100 points. A higher index indicates a better adequacy to international standards regarding regulation, supervision and financial stability.

**Source:** Financial Standard Foundation (April 2009)

# PERFORMANCE OF THE CHILEAN BANKING SYSTEM

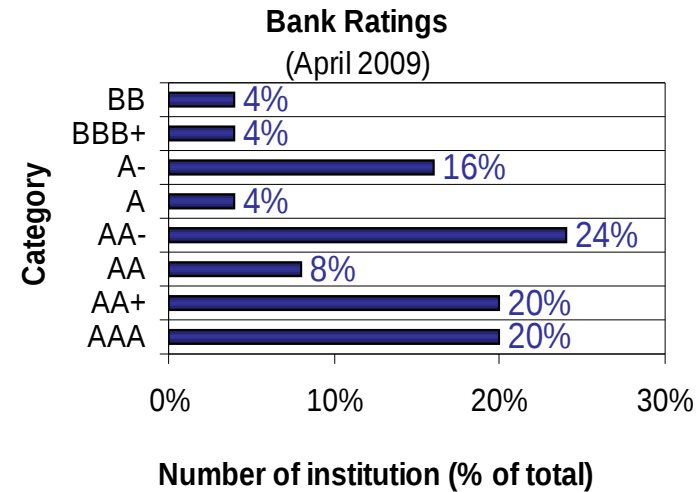
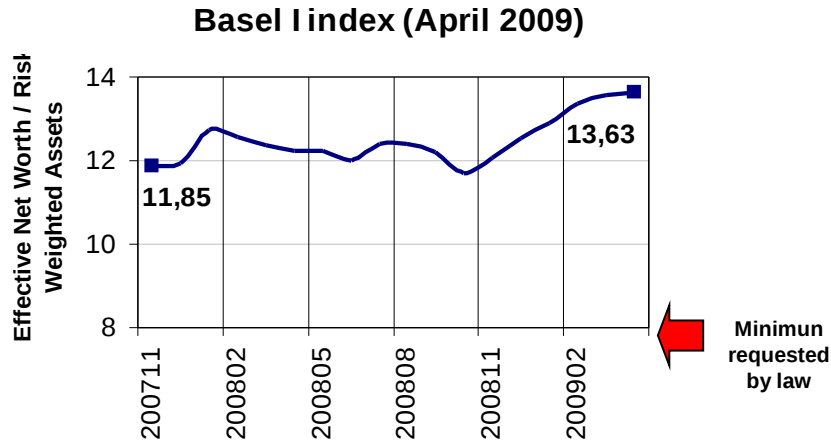


## Overview

- Basel I capital ratios are significantly above required minimum ratios.
- Continuous improvement in operational efficiency indicators.
- High profitability ratios
- Slow growth in loan portfolios
- Credit risk has been on the rise but within boundaries.
- Non-banking institutions play an important role in household financing.

# Private credit risk ratings and Basel I capital ratios

## Basel I ratios and bank ratings

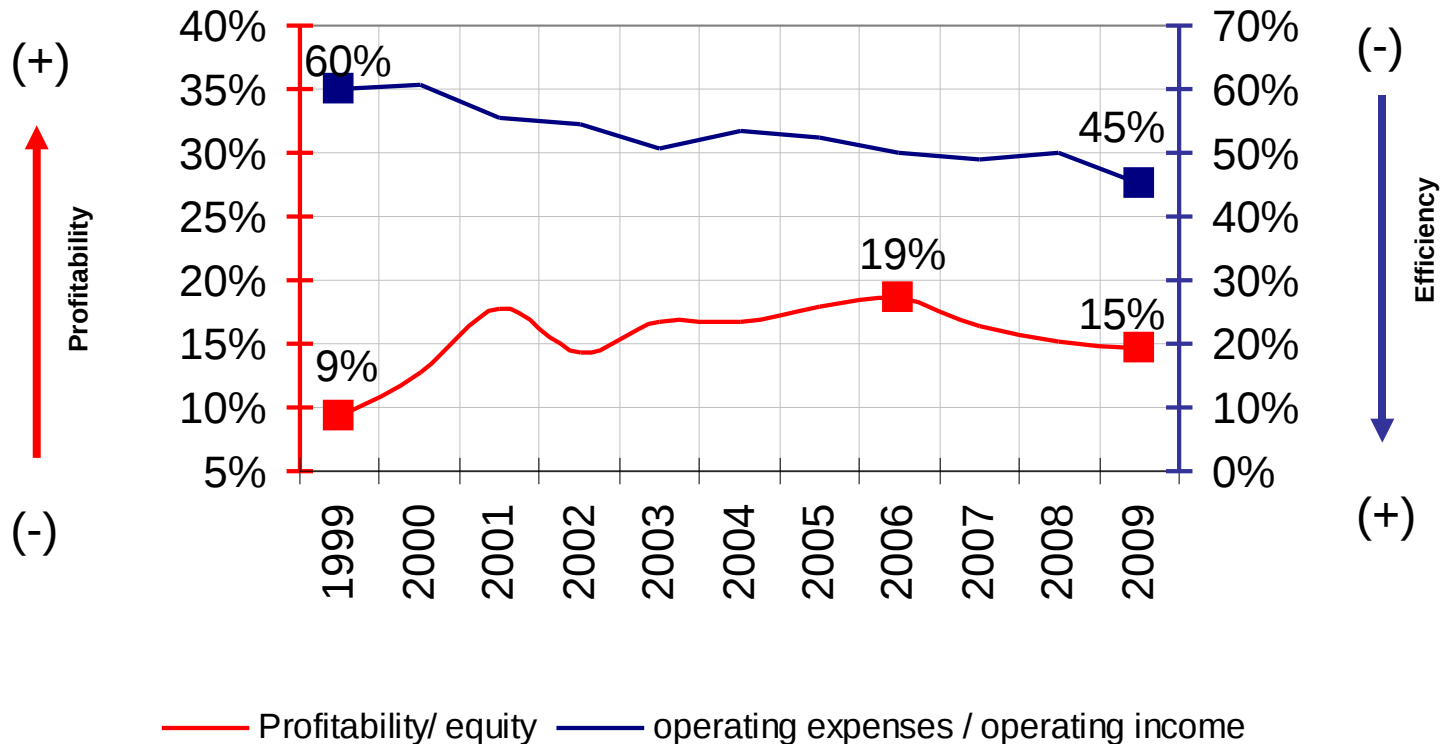


Basel Index	Number of Institutions	% Total Assets in Banking system
8 - 10	0	0%
10 - 12	5	38%
12 - 14	5	30%
14 - 18	4	27%
18 or more	11	5%
<b>Total</b>	<b>25</b>	<b>100%</b>

# Profitability and Efficiency

*Profitability (ROE) y Operational Efficiency (operating expenses/ operating income)*

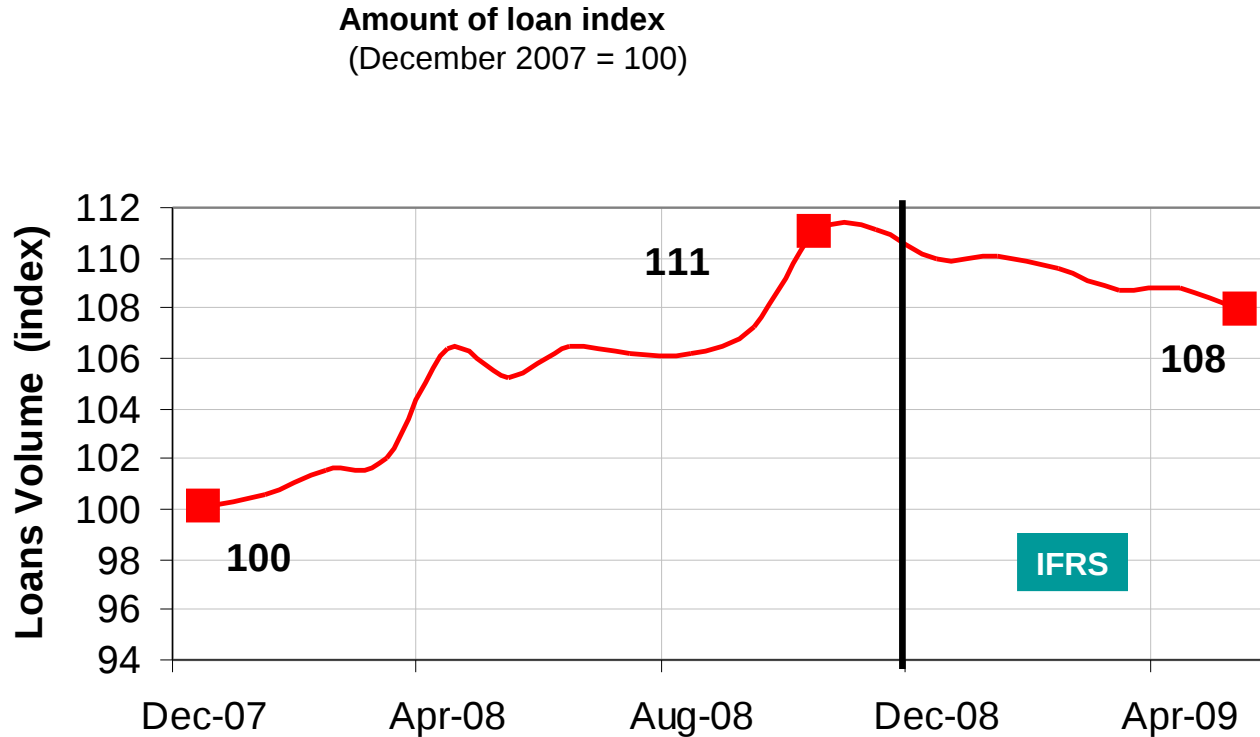
Profitability and Operational Efficiency (May 2009)



Source: : SBIF

# Loan Portfolio

## Loan portfolio volume development: 2007-2009



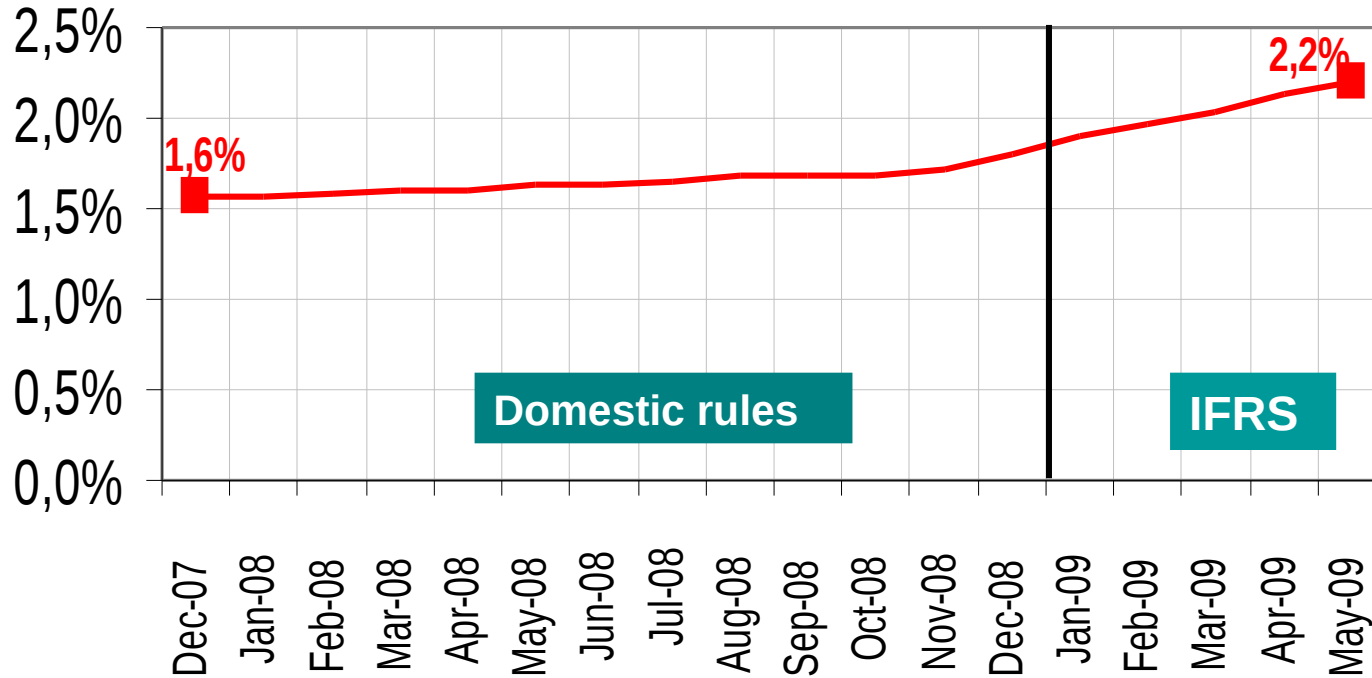
Previous to year 2008 (2005-2007), the loan portfolio volume growth was on average 14% annually.

Source: : SBIF

# Credit Risk

## Loan Provision Coefficient (2007-2009)

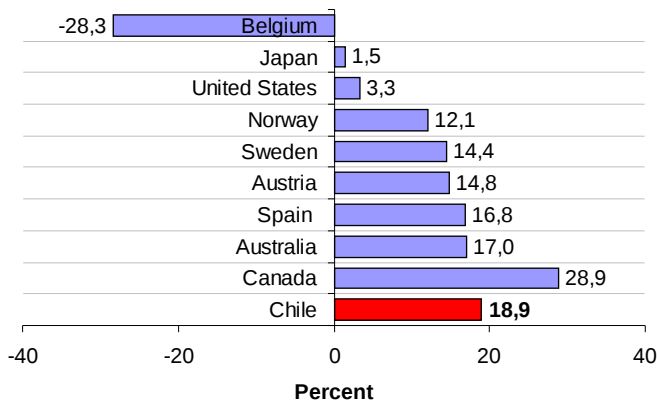
Credit risk provisions to Loans in %



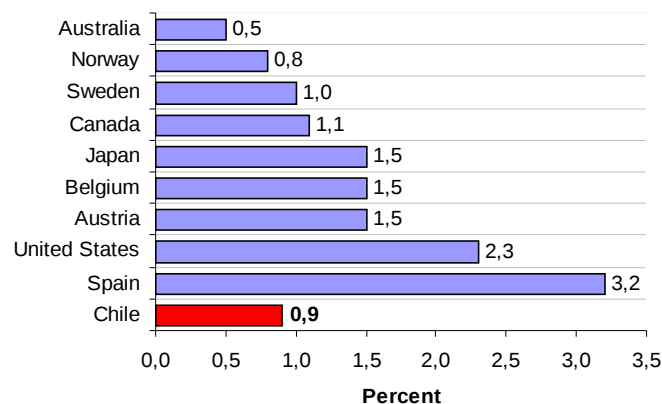
Source: : SBIF

# Performance Benchmarking: International Figures (2008)

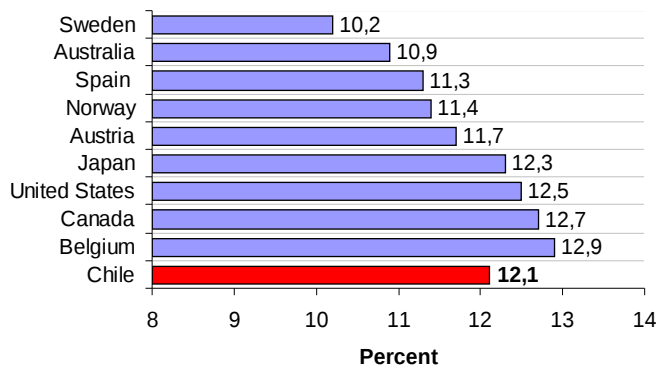
### Bank Return on Equity (2008)



### Bank non-performing loans to total loans (2008)

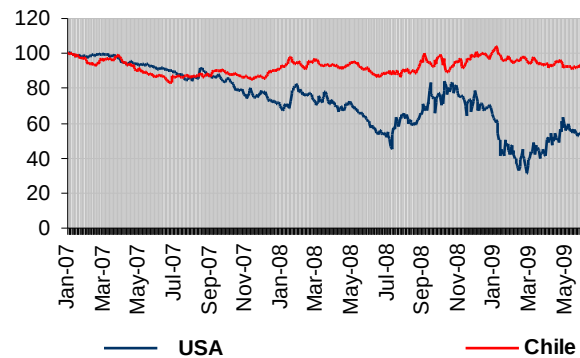


### Bank regulatory capital to risk-weighted assets (2008)



### Relative evolution of banks' stock price

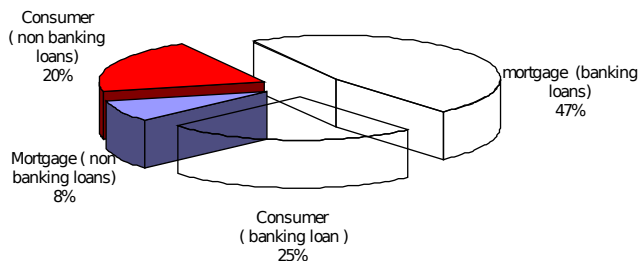
CL Bank Index / IP SA Index and US Bank Index / S&P 500



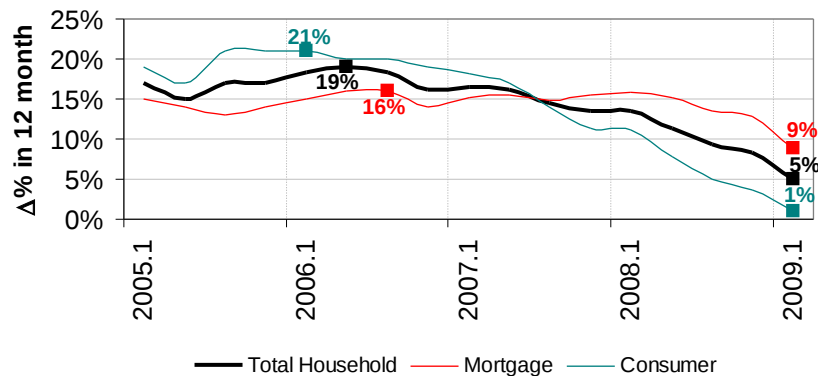
# Household Debt

## Household: financing structure, development and debts relevancy on households debts

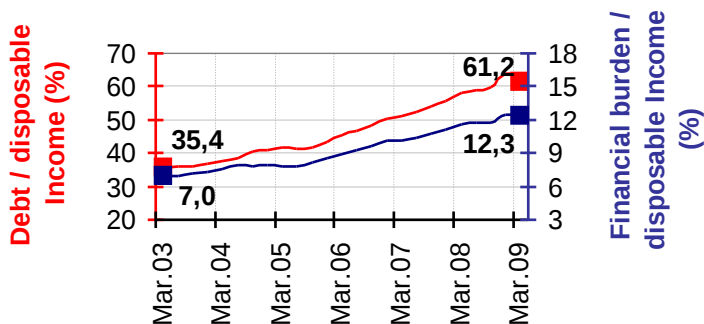
Households: debt by portfolio and financing source



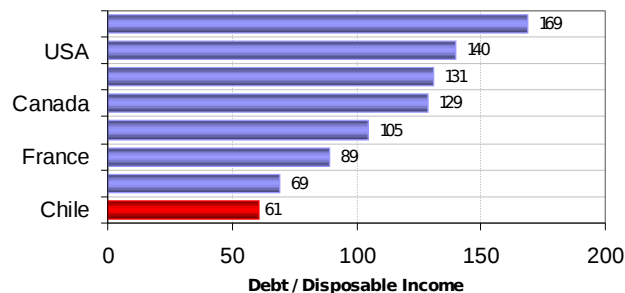
Household: debt development (annual real rate)



Household: Indebtedness and financial burden

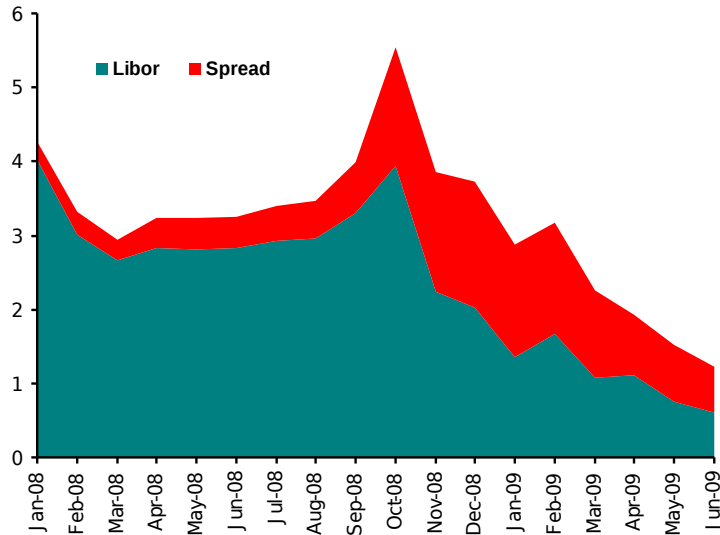


Household: international comparison



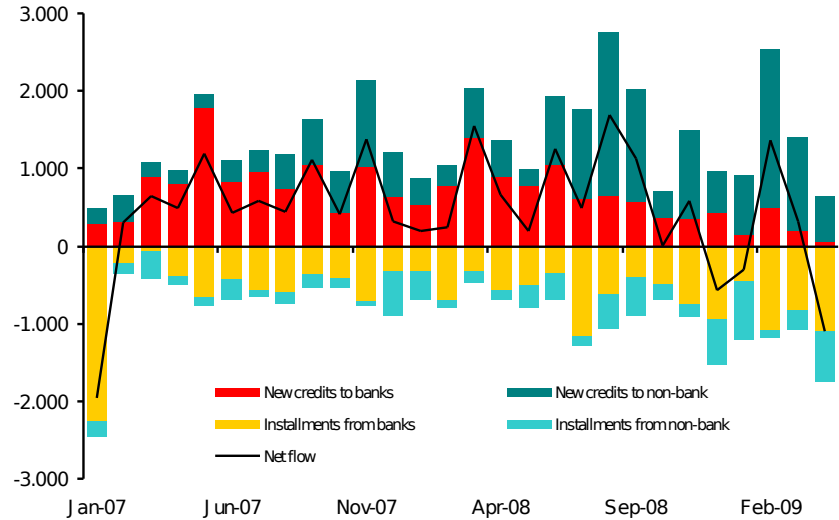
# Liquidity: Financing abroad

**Cost of external financing (Short-term): Resident Banks**  
(monthly average, percent)



Source: Central Bank and Bloomberg

**Flows of external loans to resident banks and non-banks**  
(millions of USD)



Source: Central Bank and Bloomberg

Although the more restrictive credit conditions, banks have been able to renovate and / or obtain new debt in the external environment. The new credit conditions are mainly present in the shorter maturity time on the loans contracted. The average time between January and May 2009 amounted to 7 months, exceeding the level at the end of 2008, but below the usual term, closer to 13 months.

The high spreads of the foreign debt of the local banking sector, observed through the end of last year, have been declining from a peak of 170 basis points in December 2008 to 62 basis points in June 2009



**The banks have changed strategies in financing and investment and risk management to cope with the effects of a more complex scenario**

- Extension of maturity deadlines for their deposits and bonds issues
- Shield, through increasing positions in highly liquid instruments
- Incorporated stress test on liquidity risk management
- Monitoring the availability of lines of correspondent banking
- Greater involvement of corporate government
- Integrated risk management

**The Banking Supervision Agency (SBIF) stepped up its monitoring of liquidity since the announcement of the expansion of investment limits for pension funds in foreign instruments (May 2007)**

- Allowed to anticipate the effects of turbulence in foreign markets
- Strengthening of the off-side supervision
- Regular stress test of liquidity
- Detection of banks with potential vulnerabilities
- Information on the results
- In-situ supervision of the situation of each institution

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STRUCTURE, STRENGTH AND PERFORMANCE**

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## **Outline**

### **I. Introduction**

### **II. Structure of bank market**

- Overall features
- Assets, financing and bank income
- Bank financing of real sector firms
- Participants of the banking system
- Other bank activities and other participants
- Bank market concentration
- Deepness and coverage of banking services

### **III. Strength of the Chilean banking system**

- Overall features
- International assessments of solvency
- International assessments of rules and credit practices
- International assessments of financial stability conditions

### **IV. Performance of the Chilean banking system**

- Overall features
- Private credit risk ratings and Basel I capital ratios
- Profitability and efficiency
- Loan portfolios
- Credit risk
- Household debt

## **I. INTRODUCTION (SLIDE 1)**

We have had our own financial crisis during the 80's and it was one of the biggest in the world financial history.

Chilean banks have not experienced insolvency and resolutions, either due to idiosyncratic or systemic risks, in the last decades. This outcome is due to various factors among which the following stand out:

- i) A modern and specialized regulatory and supervisory regimen, which is neutral as regards national or foreign capital invested in banks.
- ii) The banking system has learnt from the severe financial crisis of the eighties of last century. It has steadily improved its risk management capabilities, reached additional market segments, and remained solvent, competitive and dynamic over time.
- iii) A macro-economic policy framework made up of monetary and fiscal policies geared to achieving low inflation rates, moderating economic cycles and fostering long term growth.

The ongoing financial crises have impacted the Chilean economy quite strongly.

Banks established in Chile have felt the crisis through a number of channels: an increase in the cost of external financing, a reduction in domestic credit and an increase of credit risk and provisions, sporadic liquidity problems in September – October 2008 in some banks, and a drop in some banks profitability. However, no bank is showing solvency problems nor is the banking system exposed to systemic risk factors.

Based on the above, there follows a brief presentation of the structure of bank markets and its main features, the strength of Chilean banks and its performance.

## **II. Structure of bank markets (Slide 2)**

### **Overall features (Slide 3)**

1. Assets, risks and income mainly linked to credit.
2. Deepness of banking indicators above other emerging market economies.
3. Market concentration indicators within normal range.
4. Foreign banks account for a substantial share of bank assets
5. Hefty internal competition in granting credit to households.
6. Substantial external competition in granting credit to corporate firms.

### **Assets, financing and bank income (Slide 4)**

Banks assets have reached the equivalent of US\$ 171 billion, which in turn is equivalent to 111% of GDP. Loan portfolios stand for a 68% of these assets, of which a 63% is made up of commercial credit and a 37% consists of consumer and mortgage loans.

The main financing channels of banks in the domestic market are deposits (61%), and the issuing of debt instruments (13%).

Interest gained from loan portfolios are the main source of bank income (60%). Fees on transactions and on insurance are an important complementary source of income (19%).

### **Bank financing of real sector firms (Slide 5)**

Of the loans to real sector firms an 85% is channeled to corporate or large firms. However, small scale firms make up a 99% of commercial debtors.

### **Participants of the banking system (Slide 6)**

There are currently 25 banks established in Chile. More than half of them are foreign and they manage a 40% of bank assets.

Seven out the 25 banks are multipurpose banks. They concentrate around 85% of bank assets. The other 18 banks have specialized such as in treasury activities and consumer financing.

### **Parents company of foreign banks established in Chile (Slide 7)**

Six of the foreign bank established in Chile count among the first twenty five larger financial institutions on the planet

The equity of the parent companies of foreign banks established in Chile, considered together, is more of 70 times superior to the total equity of bank national market.

Despite of stronger credit conditions, the banks have been able to renovate and / or to obtain new obligations in the exterior. The most restrictive external environment are mainly present in the shorter period of the contracted credits. The average time between

January and May 2009 amounted to seven months, exceeding the end of 2008 but below the usual term, closer to thirteen months.

The high spreads of the foreign debt of the local bank, observed up to last year, have been declining from a maximum of 170 points base in December, 2008 up to 62 points base in June, 2009

### **Other bank activities and other participants (Slide 8)**

Banks play an important role in the issuing of debt instruments in the domestic capital market. At least a 25% of the outstanding stock stems from banks.

Banks complement their main business through 65 affiliate and supporting firms which carry out complementary activities such as brokerage of securities and insurance, management of mutual funds, credit collection and others.

Non bank issuers of credit cards have become important in consumer financing, and contributed to competition in the consumer market segment.

### **Bank market concentration (Slide 9)**

The main four banks stand for a 67% of the outstanding loan portfolio. Of these, one is foreign-owned, two are private-locally owned, and one is State owned.

### **Deepness and coverage of banking services (Slide 10)**

Indicators of the deepness and coverage of domestic banking services, stand as a general rule, above the average of emerging market economies. Particularly noteworthy are the widespread use of savings accounts and credit cards.

## **III. Strength of the Chilean Banking System (Slide 11)**

### **Overall features (Slide 12)**

1. Modern and specialized bank regulation and supervision:
  - Fulfillment of basic principles for effective bank supervision
  - Adoption of International Financial Reporting Standards (IFRS)
  - Guidelines to advance to Basel II
2. Preconditions for effective bank supervision:
  - Independent Central Bank
  - Commitment to a public sector structural deficit
  - Substantial Macroeconomic stability
3. Strong bank solvency.
4. Competitive bank markets
5. Banking entrepreneurship experience
6. Private – Public Relationship

**International assessment of solvency (Slide 13)**

Banks established in Chile take up first place in Latin America and count among the first twenty in international bank solvency ranking (World Economic Forum: The Global Competitiveness Report 2008-09).

**International assessment of rules and credit practices (Slide 14)**

Banks established in Chile take up place 68 at international level when considering rules and practices regarding access to financial services (World Bank, 2009, Doing Business).

**International assessment of financial stability conditions (Slide 15)**

The Chilean economy ranks first in Latin America in keeping standards linked to financial stability, while it ranks 24 at international level (Financial Standard Foundation, 2009, Compliance of Financial Stability Ratios).

**IV. Performance of the Chilean Banking System (Slide 16)****Overall Features (Slide 17)**

1. Basel I capital ratios are significantly above minimum ratios.
2. Continuous improvement of operational efficiency.

Main effects of the crises:

3. Low rate of growth of loan portfolios.
4. Moderate increase of credit risk
3. Drop in high profitability rates.

**Private credit risk rating and Basel I capital ratios (Slide 18)**

The following factors stand for a strong solvency position of banks: high private credit risk ratings which have been kept in the crises; Basel I capital ratios significantly above required minimums, and which a number of banks have recently increased.

**Profitability and efficiency (Slide 19)**

Operational efficiency has increased steadily and has been important in keeping high profitability rates.

**Loan portfolios (Slide 20)**

An important outcome of the financial crisis since 2008 has been a slow growth of loan portfolios.

### **Credit risk (Slide 21)**

Credit risk has been on the rise but within boundaries.

### **Comparing performances: internacional Figures (Slide 22)**

Despite the impact of the current crisis, the financial system shows indicators of profitability, risk and solvency according to international levels.

The stock price of domestic bank has been stable regarding the most important financial entities of USA.

### **Household debt (Slide 23)**

Non bank suppliers play an important role in household financing (28%). Among these, issuers of credit cards stand out.

The rate of growth of household debt has slowed in recent years, particularly, consumer credit. Consumer credit has diminished in 2009 also reducing its financial charge.

### **Liquidity: Financing abroad (slide 25)**

Although the more restrictive credit conditions, banks have been able to renovate and / or obtain new debt in the external environment. The new credit conditions are mainly present in the shorter maturity time on the loans contracted. The average time between January and May 2009 amounted to 7 months, exceeding the level at the end of 2008, but below the usual term, closer to 13 months.

The high spreads of the foreign debt of the local banking sector, observed through the end of last year, have been declining from a peak of 170 basis points in December 2008 to 62 basis points in June 2009.

### **Liquidity: management and supervision (slide 25)**

The banking has adapted its strategies of financing and investment and its management of risks in a way of facing the effects of the most complex environment: lengthening the term of the deposits, issuing debt instruments of long term, intensifying its relation with banks foreign correspondents, increasing the positions in liquid assets, etc.

The Organism o f Bank Supervision intensified its monitoring on the liquidity from the advertisement of extension of the limits of investment of the Pension funds in foreign instruments (May, 2007). Before the restrictions of financing were demonstrating on the international market, the bank supervisors and the banks were waiting for an adjustment



in the sources of financing. The preparations helped to be in a better position to face the external shock.