



Preserving Access to Finance During the Global Crisis

Session 3: 1

Crisis Resilience of Financial Institutions and Its Management

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Chilean Financial Sector

	Bank	Branches	Employees	Assets	Loans	Deposits
Local private banks	11	892	24.470	80,9	58,6	49,6
Foreign private banks	14	713	17.143	73,0	48,4	40,0
BancoEstado	1	2.930	8.678	28,9	20,4	18,8
Total system	26	4.535	50.291	182,8	127,4	108,4

Source: SBIF www.sbif.cl Amounts in billions of US dollars

- Mainly commercial banking activities, derivatives only for hedging
- Highly regulated securitizations. Mortgages are strictly regulated, we can only finance 75% of the value
- Government provides credit guarantees through Guarantee Funds like Fogape, Fogain, Corfo and Minvu.
- Central Bank is completely independent from the government.
- Government finances up to USD 20.000 of the acquisition if the house value is under USD 80.000 and the buyer meets some social and family related conditions.
- Central Bank accumulated 25% of annual GDP in reserves from the period of high prices for copper, and the government created some sovereign funds to administrate them.



The Chilean Experience

- The crisis did not hit the Chilean financial sector directly. Chilean FIs had low to zero exposure on complex derivatives and structured instruments.
 - Some exposure to US FIs caused minor losses through depreciation of investments.
 - The reaction to the crisis in many international banks caused a liquidity crunch at a local level, particularly in foreign currency. Measures taken but the Central Bank to provide liquidity to the financial sector helped solve the problem.
 - Uncertainty created a high appetite for liquidity and increased aversion to risk. FIs raised their requirements for credits and lowered the amount of placed loans.



Government Measures During the Crisis

- Monetary Policy:
 - Central Bank decreased the monetary policy rate in 775 bps, from 8.25% to 0.5%
 - Dollar swap in local market for injecting liquidity and strengthening the Chilean peso
- Fiscal Policy (among others):
 - US\$ 700 million for increasing public investments and more guarantees for small companies through Corfo, Sercotec , Fosis, Minvu and Fogape.
 - Transitory elimination of the tax applied to loans (~ US\$ 650 million).
 - Capitalization of US\$ 500 million in BancoEstado
 - Subsidies for employment and training, economic help for people with low income.
 - Increased subsidies for housing purchases, from USD 15.000 to USD 20.000..
 - Unemployment insurance for dividend payments.



BancoEstado Facts

- Chile's only government-owned commercial bank established in 1953
- Competes on equal standing with private sector banks in Chile
- Third largest banking franchise in Chile with assets of US\$ 29 billion.
- Professional management.
- Focused on underserved low and middle income segments, promotes the access of these people to financial products and services.
- Successful in microfinance (300.000 clients in small businesses) and micro insurance (1.8 million clients, 4 million insurance policies).



BancoEstado Role in the crisis

The bank played a social and anti-cyclical role through the crisis:

- Made the credit flow in the financial system, anticipating the pass through of Central Bank interest rate reductions.
- Rescheduled credits to viable clients with cash flow problems
- Provide the big companies with the funding that was usually taken abroad
- Facilitate trade operations using agreements among Latin-American central banks (ALADI)
- Promote the use of guarantees from Fogape, Corfo and Minvu
- All the above while maintaining controlled risk levels
- As a consequence, we increased the bank's overall market share, passing from 13.3% in December 08 to 16.5% in August 09



Lessons from the crisis

The bank sailed through the crisis without much suffering. Why?

- Management practices such as monitoring world markets allowed us to detect problems since early 2007 (April - Citigroup losses, August – BNP Investment funds). We observed great uncertainty at international banking meetings in 2007, and that drove us to apply more restrictive policies.
- As soon as we detected the problems, we started reducing our exposure to FIs in the most affected markets. Thus, our exposure at the moment of the Lehman Brothers fall was minimal.
- Strict regulations and conservative bank policies allowed us to weather the crisis even though we, as most everyone else, could not foresee the depth and width of it. For instance, on March 18 2008 we decided to go case-by-case on credit lines for many FIs from abroad.
- Time before the crisis we adopted a policy that proved material: we reduced our net FX position to near zero, hedging the “real” position with simple derivatives such as forwards and swaps.
- Stress tests did not help to anticipate the crisis.



Lessons from the crisis

- Due to our balance sheet structure, we keep a high proportion of very liquid investments. This portfolio helped us to avoid cash-flow pressures.
- We have always tried to secure long term financing by issuing long term debt such as bonds and keeping close and active relationships with our correspondent banks and institutional investors.
- We usually have higher management involvement in our operations, particularly after the Lehman Brothers fall. The assets & liabilities committee and the highest level of the administration formed a joint team with Treasury in order to monitor the events and take immediate decisions as the situation required.
- Last, but not least, we have maintained a question-all policy. **Usually, when things are going well, nobody cares to ask about details. We never get tired of asking. We have models, and we use them, but models are based on assumptions and those assumptions never reflect the “true” reality. We always question everything and always contrast models with facts and with common sense.**



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