

Outlooks On 12 Chilean Financial Institutions Revised To Stable From Negative On Operating Resilience; Ratings Affirmed

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- Chilean financial institutions have remained resilient--given sound profitability, manageable asset quality metrics, and healthy funding structure and capitalization-- despite the country's challenging economic and political scenario since the social unrest of 2019.
- Although asset quality has recently weakened, it remains manageable and in line with historical levels. Banks have been able to replace the funding facilities provided by the central bank, and have increased their capitalization metrics to align with the implementation of the new banking law.
- Based on their resilient operating performance, we now regard the economic risk trend of Chile's banking system as stable.
- As a result, we revised the outlook on 12 financial institutions to stable from negative. We also affirmed our ratings on these entities.
- At the same time, we affirmed our ratings on Banco Santander-Chile S.A., Banco de Credito e Inversiones, and Banco de Credito e Inversiones - Miami Branch. The outlook on these entities remains stable.

SAO PAULO(S&P Global Ratings) Oct. 28, 2024--S&P Global Ratings revised its outlook to stable from negative and affirmed its ratings on the following 12 entities:

- Banco de Chile;
- LQ Inversiones Financieras S.A. (LQIF);
- Banco Itau Chile;

- Banco BICE;
- Inversiones La Construccion S.A. (ILC);
- Banco Internacional;
- Banco Consorcio;
- Coopeuch;
- Larrain Vial S.A. Corredora de Bolsa (LVCB);
- Tanner Servicios Financieros S.A. (TSF);
- Tanner Banco Digital; and
- Caja de Compensacion de Asignacion Familiar de los Andes (CLA)

At the same time, S&P Global Ratings affirmed its ratings and kept the outlook stable on the following three entities:

- Banco Santander-Chile S.A. (BSCh);
- Banco de Credito e Inversiones (BCI); and
- Banco de Credito e Inversiones - Miami Branch (BCI Miami)

Thanks to its conservative underwriting practices, healthy margins, and prudent regulation, the Chilean banking system has remained resilient to the social unrest and ongoing political impasses that have dented the country's economic performance. Banks in Chile continued to post sound profitability metrics, manageable asset quality metrics, and healthy funding structure and capitalization. Even though they raised provisions to offset the deterioration in asset quality metrics, which was expected, healthy margins have allowed them to still post good bottom-line results. Credit lines, which the central bank offered during the pandemic to enhance liquidity, have matured in July 2024, and banks did not face any difficulties to repay them. Moreover, the implementation of Basel III has prompted banks to strengthen their capitalization metrics. They not only have done so by reducing dividend payments but some banks issued AT1 instruments and/or they were capitalized with fresh new equity.

We expect asset quality metrics to stabilize due to the gradual recovery in credit growth and economic performance, while interest rates will continue decreasing. We expect banks' profitability to slip in the next two years but remain sound with a return on equity of about 15%. Profitability has been solid in the past two years because of low provisioning needs and improved margins that benefit from higher inflation, given that banks tend to have long positions in inflation-adjusted assets.

We expect Chile's growth of 2.4% on average during 2024-2027, with GDP per capita trending toward US\$19,100. A moderate recovery in consumption (amid lower inflation and real wage recovery) and resilient export values (amid supportive copper prices and stabilized production) will contribute to growth. Slower growth and a relatively limited social safety net led to bouts of social unrest in late 2019. Economic growth slowed from 4.8% on average in the commodity cycle decade (2004-2013) to 1.9% in 2014-2019. The discontent resulted in an orderly democratic and institutionalized process that led to two attempts to draft a new constitution, both of which voters rejected.

As a result, we're maintaining our economic risk score for Chile's banking sector at '4', with a stable trend. At the same time, our industry risk score remains at '3' with a stable trend. The Chilean banking sector operates under sound regulatory framework and ample supervisory coverage. Chile's implementation of the new banking law between December 2021 and 2025 would align domestic regulation with Basel III principles and raise capital requirements. Banks' profitability has been healthy, but we expect it to be under pressure. We believe Chile's financial system has an adequate funding mix, and it has remained resilient to the pension fund withdrawals and the expiration of the central bank's pandemic-era funding lines. Chile's banking sector remains in BICRA group '3', and the anchor for banks operating in Chile remains at 'bbb+'.

Outlook

Banco de Chile

The stable outlook on Banco de Chile incorporates our expectation that it will maintain sound asset quality metrics, performance somewhat better than the system average, and capitalization stronger than those of other domestic banks, while keeping its dominant business position in the highly competitive Chilean banking system in the next 24 months.

Downside scenario.

We could lower the ratings on Banco de Chile in the next 24 months if its asset quality metrics deteriorate, with ratios aligning with the industry average.

Upside scenario.

The likelihood of a positive rating action is limited at this point, as it would require an upgrade of the sovereign and the bank's intrinsic credit quality to strengthen.

LQIF

The stable outlook on LQIF reflects the outlook on that of its sole operating subsidiary, Banco de Chile. The stable outlook also incorporates our expectation that the bank will continue to upstream dividends to LQIF to service its financial obligations.

Downside scenario.

A downgrade of LQIF could occur in the next 24 months if Banco de Chile's asset quality metrics deteriorate.

Upside scenario.

The possibility of a positive rating action is limited at this point, as it would require the sovereign's upgrade and stronger intrinsic credit quality of the bank.

Banco Itau Chile

The stable outlook on Banco Itau Chile incorporates our expectation that it

will maintain asset quality metrics consistent with the system average in the next 24 months, while it continues to gradually improve its capitalization and maintains a relatively stable proportion of loans in Colombia.

Downside scenario.

We could lower the ratings on Banco Itau Chile in the next 24 months if its capitalization deteriorates and asset quality weaken below the industry average.

Upside scenario.

We could upgrade Banco Itau Chile in the next 24 months if its capitalization significantly improves, leading to a risk-adjusted capital (RAC) ratio above 7.5%, and we expect its loan exposures in Colombia to consistently represent less than 15%. This would result in a lower risk profile, as Colombia has higher industry risk than Chile.

Banco BICE

The stable outlook on Banco BICE for the next 24 months reflects our view that it will remain a moderately systemically important entity in the Chilean financial system. The outlook also reflects our expectation that the bank will keep stable intrinsic creditworthiness, including a RAC ratio above 7% in the next two years, with asset quality indicators stronger than the industry average. In addition, we expect Banco BICE and its parent, Bicecorp, to manage transition risks following their plan to integrate their operations with Grupo Security in 2025 and 2026.

Downside scenario.

A downgrade is possible if the bank's intrinsic credit quality deteriorates, for example, its RAC ratio drops below 7% or if its asset quality indicators converge with the industry average. We could also downgrade the bank if its credit profile deteriorates following the merger with Banco Security, for example, by weakening its asset quality.

Upside scenario.

A rating upside is limited at this point because it would require an upward revision of the bank's stand-alone credit profile (SACP) and the upgrade of Chile.

ILC

The stable outlook on ILC reflects our expectation that it will keep stable intrinsic credit quality in the next 24 months, including sound business diversification, profits, and capitalization.

Downside scenario.

We could downgrade ILC if dividend sources become less diversified, ILC increases its debt, or its subsidiaries upstream fewer dividends, reducing the holding company's debt service coverage ratio to below 4x.

Upside scenario.

A rating upside is limited at this point because we expect intrinsic factors to remain stable in the next 24 months.

Banco Internacional

The stable outlook on Banco Internacional for the next 24 months reflects that on its parent, ILC.

Downside scenario.

We could downgrade the bank if we take the same action on ILC.

Upside scenario.

We could upgrade the bank if we do the same on ILC.

Banco Consorcio

The stable outlook on Banco Consorcio reflects our expectation that it will maintain its strong capitalization, with its RAC ratio above 10%, and asset quality metrics aligning with the banking industry average in the next 24 months.

Downside scenario.

We could lower the ratings on Banco Consorcio in the next 24 months if its strength related to capitalization diminishes. This could happen if its RAC ratio falls and remains consistently below 10%, which could result from higher-than-expected portfolio growth, greater exposure to the real estate sector, and/or lower internal capital generation. In addition, we could lower the rating if the bank's loan portfolio concentration further increases or if asset quality metrics worsen and losses significantly widen.

Upside scenario.

The rating upside is limited at this point, given the relatively limited room for improvement in Banco Consorcio's SACP because of its narrower scale and diversification than those of domestic peers.

Coopeuch

The stable outlook on Coopeuch for the next 24 months reflects our expectation that it will maintain stable creditworthiness, including sound capitalization, and steady business position, asset quality, and funding base.

Downside scenario.

We could lower the ratings on Coopeuch if its intrinsic credit quality deteriorates. In such a scenario, the downgrade would depend on how its credit standing evolves relative to those of the rated peers.

Upside scenario.

We could upgrade Coopeuch if it achieves a wider scale and diversification, similar to domestic peers that have stronger rating. An upgrade could also occur depending on how its credit profile compares to those of the rated banks.

LVCB

The stable outlook on LVCB incorporates our expectation that for the next 24 months it will maintain its business position in the Chilean market, as one of the leaders in the equity intermediation, stable revenue, a healthy mix from broker fees, and gains from its proprietary investment portfolio. We also expect LVCB will maintain strong capitalization metrics with the RAC ratio of 10%-15% thanks to adequate internal capital generation and flexible dividend policy. We expect the company to maintain an adequate risk management, funding, and liquidity.

Downside scenario.

We could lower the ratings if risks for the firm increase if capital drops sharply (resulting in a RAC ratio consistently less than 10%), or if funding and liquidity weaken to levels no longer consistent with an adequate category.

Upside scenario.

We expect stable conditions for the securities firms in Chile. Additionally, we are not envisioning changes in LBCV's intrinsic credit quality, thus limiting the rating upside.

TSF

The stable outlook on TSF for the next 24 months reflects our expectation that it will maintain an adequate competitive position in its core businesses--factoring and auto loan segments--while keeping diversified operations. Additionally, we expect that the company will have manageable asset quality metrics and sound capitalization. TSF's ongoing restructuring doesn't immediately affect its creditworthiness, in our view. The stable outlook also mirrors our expectation that the entity will manage risks during its transition to a banking operating model during 2025-2026.

Downside scenario.

We could lower the ratings on the company if its intrinsic creditworthiness deteriorates, for example, if capitalization consistently erodes, or if its asset quality remains pressured.

Upside scenario.

We could raise the ratings on TSF if its SACP improves, for example, if the scale and diversification of its business base widens, resulting in sound and steady profitability metrics over the business cycle, while its capitalization remains sound.

Tanner Banco Digital

The stable outlook on Banco Tanner Digital for the next 12-24 months reflects that on its parent, TSF.

Downside scenario.

We could downgrade the bank if we take the same action on TSF.

Upside scenario.

We could upgrade the bank if we do the same on TSF.

CLA

The stable outlook on CLA reflects our expectation that it will keep stable credit fundamentals in the next 24 months, including sound business position and capitalization, along with stable asset quality.

Downside scenario.

We could downgrade CLA if its creditworthiness weakens, for example, stemming from pressures on liquidity or asset quality, such as net charge-offs increasing and consistently remaining above 6% of the total loan portfolio.

Upside scenario.

We are not envisioning changes in CLA's intrinsic credit quality because of the business focus of compensation funds in Chile, which would limit further business and risk diversification compared to those of peers.

BSCh

The stable outlook on BSCh indicates that we expect it to remain a strategically important subsidiary of its parent, Banco Santander (A+/Stable/A-1) in the next 24 months. The outlook also incorporates our expectation that BSCh will maintain its sound market position in the Chilean commercial and retail banking sectors, along with its diversified business lines.

Downside scenario.

We believe the likelihood of a downgrade of BSCh is limited in the next two years because the ratings on it could reflect up to three notches of support from the parent or potential support from the government, given its systemic importance to the Chilean financial system.

Upside scenario.

The rating upside is limited at this point, but possible if the bank bolsters its capitalization, with its RAC ratio consistently above 10%, or if the parent's group credit profile improves.

BCI and BCI Miami.

The stable outlook on BCI and BCI Miami reflects our expectation that the bank will maintain its sound asset quality metrics on its consolidated loan portfolio and healthy profitability metrics. We also expect its subsidiary City National Bank of Florida (CNB) to maintain conservative loan-to-value and debt-service coverage ratios, good diversification by customer exposure and property type, and geographic diversification across Florida in its commercial real estate (CRE) exposures. We also expect CNB to maintain sound liquidity and stable deposits.

Downside scenario.

A rating downside in the next two years is limited at this point because the bank has multiple risk mitigators such as: its status as a systemically

important bank and it could receive support if its SACP deteriorates; its capitalization is well above the threshold of its current assessment; and the bank's healthy geographic and business diversification.

Upside scenario.

Although unlikely in the next two years, an upgrade could occur if the bank bolsters its capitalization. But given its recent capitalization, we don't expect this scenario. Additionally, our rating already incorporates the bank's stronger-than-industry-average asset quality metrics, which are offset by its exposure to CRE in the U.S.

Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

* * * * * Banco BICE * * * * *

Ratings Affirmed

Banco BICE
Senior Unsecured BBB+

Ratings Affirmed; CreditWatch/Outlook Action	To	From
Banco BICE		
Issuer Credit Rating	BBB+/Stable/--	BBB+/Negative/--

* * * * * Banco Consorcio * * * * *

Ratings Affirmed; CreditWatch/Outlook Action	To	From
Banco Consorcio		

Issuer Credit Rating	BBB/Stable/--	BBB/Negative/--
* * * * * Banco Itau Chile * * * * *		

Ratings Affirmed; CreditWatch/Outlook Action		
	To	From
Banco Itau Chile		
Issuer Credit Rating	BBB+/Stable/A-2	BBB+/Negative/A-2
* * * * * Banco Santander S.A. * * * * *		

Ratings Affirmed

Banco Santander-Chile S.A.	
Issuer Credit Rating	A-/Stable/A-2
Banco Santander-Chile S.A.	
Senior Unsecured	A-
Commercial Paper	A-2

* * * * * Banco de Credito e Inversiones * * * * *

Ratings Affirmed

Banco de Credito e Inversiones	
Issuer Credit Rating	A-/Stable/A-2
Banco de Credito e Inversiones - Miami Branch	
Issuer Credit Rating	A-/Stable/--

Banco de Credito e Inversiones	
Senior Unsecured	A-
Subordinated	BB+
Junior Subordinated	BB+

Banco de Credito e Inversiones - Miami Branch	
Commercial Paper	A-2

* * * * * Coopeuch * * * * *

Ratings Affirmed; CreditWatch/Outlook Action		
	To	From
Coopeuch		
Issuer Credit Rating	BBB+/Stable/A-2	BBB+/Negative/A-2

* * * * * Inversiones La Construcccion S.A. * * * * *

Ratings Affirmed

Banco Internacional
Senior Unsecured BBB+

Caja de Compensacion de Asignacion Familiar de los Andes
Senior Unsecured BBB

Inversiones La Construccion S.A.
Senior Unsecured BBB+

Ratings Affirmed; CreditWatch/Outlook Action
To

From

Banco Internacional
Inversiones La Construccion S.A.
Issuer Credit Rating BBB+/Stable/-- BBB+/Negative/--

Caja de Compensacion de Asignacion Familiar de los Andes
Issuer Credit Rating BBB/Stable/-- BBB/Negative/--

* * * * * LQ Inversiones Financieras S.A. * * * * *

Ratings Affirmed

Banco de Chile
Senior Unsecured A
Commercial Paper A-1

Ratings Affirmed; CreditWatch/Outlook Action
To

From

Banco de Chile
Issuer Credit Rating A/Stable/A-1 A/Negative/A-1

LQ Inversiones Financieras S.A.
Issuer Credit Rating A-/Stable/A-2 A-/Negative/A-2

* * * * * Larrain Vial S.A. Corredora de Bolsa * * * * *

Ratings Affirmed; CreditWatch/Outlook Action
To

From

Larrain Vial S.A. Corredora de Bolsa
Issuer Credit Rating BBB/Stable/A-2 BBB/Negative/A-2

* * * * * Tanner Servicios Financieros S.A. * * * * *

Ratings Affirmed; CreditWatch/Outlook Action
To

From

Tanner Banco Digital
Tanner Servicios Financieros S.A.
Issuer Credit Rating BBB-/Stable/-- BBB-/Negative/--

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