S&P Global
Ratings

Research

Research Update:

Four Chilean Financial Institutions Downgraded On Same Action On The Sovereign

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Overview

- On March 24, 2021, we downgraded Chile , reflecting the marked erosion of its public finances to a structurally weaker level amid countercyclical policies taken to cushion the harsh economic and social impact of the global pandemic and recession.
- Following the sovereign action, we're lowering the ratings on four domestic banks, the likelihood of extraordinary government support for which has diminished.
- The outlook on Banco del Estado de Chile and its New York branch is stable, mirroring the outlook on the sovereign, given the status of the bank as a government related entity.
- The outlook on the rest of the financial entities is negative, incorporating the deterioration stemming from pandemic and other internal events.

Rating Action

On March 25, 2021, S&P Global Ratings lowered its ratings on the following entities (refer to ratings list below):

- Banco del Estado de Chile (Banco Estado) and its New York branch;
- Banco Santander-Chile S.A. (BSCh);
- Banco de Credito e Inversiones (BCI); and
- Itau CorpBanca .

The outlook on Banco Estado and its New York branch is now stable, while the outlook on the other entities is negative.

Rationale

The rating actions on four banks followed the downgrade of Chile. We're lowering the ratings on these entities, given that likelihood of extraordinary government support for them has diminished.

The downgrade of the sovereign reflects the marked erosion of public finances that began prior to the pandemic and is likely to stabilize at a weakened level once the pandemic recedes and the economy recovers. While economic recovery will help reduce recently high fiscal deficits, persistent political pressure to boost social spending is likely to weigh upon Chile's public finances for the next two to three years. We expect the annual increase in debt to approach 4% of GDP in 2022 and hover just below that level in the next couple of years.

Outlook

Banco Estado and its New York branch. The stable outlook on both entities for the next 24 months reflects that on the sovereign, and our expectation that the bank will maintain its strong market presence and public policy role. Given that we expect an extremely high likelihood of government support, our ratings on Banco Estado and its branch will move in tandem with those on the sovereign, as long as the bank maintains its intrinsic credit quality (stand-alone credit profile) at 'bb-' or above (it's currently at 'bbb'). This support allows the bank to absorb potential deterioration in credit fundamentals.

Downside scenario

We could lower the ratings on the bank in the next 24 months if we downgrade the sovereign.

Upside scenario

We could raise the ratings on Banco Estado in the next 24 months if we take a similar action on the sovereign

BSCh. The negative outlook on the bank reflects the negative trend on the economic risk of Chile's Banking Industry Country Risk Assessment (BICRA) and on the bank's parent, Banco Santander S.A. (A/Negative/A-1).

Downside scenario

We could lower the ratings on BSCh in a scenario where our view of the domestic financial entities' risk increases due to weaker BICRA score and capital metrics, and where a downgrade of its parent occurs. We expect the bank to maintain its leading position in Chile and its important role in the group's overall strategy.

Upside scenario

We could revise the outlook on BSCh to stable in the next 24 months if we were to revise the negative trend on Chile's economic risk in the BICRA to stable, while the bank's all other fundamentals remain unchanged. We could also revise the outlook on BSCh if we revise the outlook on the parent to stable.

BCI. The negative outlook on BCI for the next 18-24 months reflects our view of the risk of prolonged recession, which could heighten economic risks for entities operating in Chile. This could take a toll on the financial institutions' financial profiles, particularly in terms of asset quality and capital and earnings.

Downside scenario

A downgrade of BCI could occur if our view of domestic financial entities' risk increases due to the weaker BICRA score and capital metrics and the bank's risk-adjusted capital (RAC) ratio consistently below 7%.

Upside scenario

We could revise the outlook on the bank to stable if we were to revise the negative trend on the economic risk in Chile's BICRA to stable, while BCI's all other fundamentals remain unchanged.

Itau CorpBanca. The negative outlook on the bank for the next 18-24 months reflects our view of the risk of prolonged economic downturn, which could translate into consistently higher economic risks for entities operating in Chile. This could take a toll on the financial institutions' financial profiles, particularly in terms of asset quality and capital and earnings.

Downside scenario

A downgrade of Itau CorpBanca could occur if our view of domestic financial entities' risk rises, following a weaker BICRA score and the bank's capital metrics, with its RAC consistently below 5%.

Upside scenario

We could revise the outlook on the bank to stable in the next 24 months if we revise our BICRA economic trend on Chile to stable while Itau CorpBanca's all other factors remain unchanged.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Financial Institutions | Banks: Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011

- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, March 23, 2004

Related Research

- Chile Long-Term Foreign Currency Rating Lowered To 'A' On Weaker Fiscal Flexibility; Outlook Stable, March 24, 2021
- Outlook On 11 Chilean Financial Entities Revised To Negative On Higher Economic Risk, Ratings Affirmed, April 3, 2020

Ratings List

Downgraded		
	To	**From**
Banco Santander-Chile S.A.		
Issuer Credit Rating	A-/Negative/A-2	A/Negative/A-1
Senior Unsecured	A-	A
Commercial Paper	A-2	A-1
Downgraded		
	To	**From**
Banco de Credito e Inversiones		
Issuer Credit Rating	A-/Negative/A-2	A/Negative/A-1
Senior Unsecured	A-	A
Commercial Paper	A-2	A-1
Downgraded; CreditWatch/Outlook Action; Ratings Affirmed		
	To	**From**
Banco del Estado de Chile		
Banco del Estado de Chile Sucursal New York		
Issuer Credit Rating	A/Stable/A-1	A+/Negative/A-1
Senior Unsecured	A	A+
Ratings Affirmed		
Banco del Estado de Chile		
Commercial Paper	A-1	
Banco del Estado de Chile Sucursal New York		
Short-Term Debt	A-1	
Downgraded; Ratings Affirmed		
	To	**From**
Itau CorpBanca		
Issuer Credit Rating	BBB/Negative/A-2	BBB+/Negative/A-2

Senior Unsecured	BBB	BBB+

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.