

Research Update:

Four Chilean Financial Institutions Downgraded On Same Action On The Sovereign

March 25, 2021

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.

PRIMARY CREDIT ANALYST

Ivana L Recalde
Buenos Aires
+ 54 11 4891 2127
ivana.recalde@spglobal.com

SECONDARY CONTACTS
Sergio A Garibian
Sao Paulo
+ 55 11 3039 9749
sergio.garibian@spglobal.com

Cynthia Cohen Freue
Buenos Aires
+ 54 11 4891 2161
cynthia.cohenfreue@spglobal.com

Sofia Ballester
Buenos Aires
+ 54 11 4891 2136
sofia.ballester@spglobal.com

Maria M Cangueiro
Buenos Aires
+ 54 11 4891 2149
maria.cangueiro@spglobal.com

Nicole Lazari
Sao Paulo
nicole.lazari@spglobal.com

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.

Research Update: Four Chilean Financial Institutions Downgraded On Same Action On The Sovereign

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

Research Update: Four Chilean Financial Institutions Downgraded On Same Action On The Sovereign

- 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		
Issuer Credit Rating	A/Stable/A-1	A+/Negative/A-1
Senior Unsecured	A	A+

Ratings Affirmed

	To	From
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

Research Update: Four Chilean Financial Institutions Downgraded On Same Action On The Sovereign

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.

Copyright © 2021 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. **S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION.** In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.