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Research Update:

Banco del Estado de Chile 'A/A-1' Ratings Affirmed On Correction Of Criteria Misapplication; Outlook Still Negative

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Overview

- We're correcting a previous misapplication of our criteria "Rating Government-Related Entities: Methodology And Assumptions" by changing the preliminary long-term local currency rating on state-owned Banco del Estado de Chile (Banco Estado) to 'A+' from 'A', in accordance with paragraph 55 of this criteria.
- However, we're applying a negative adjustment to this rating for government-support related factors by using our Financial Institutions criteria. In our view, the bank can't continue honoring local currency obligations if it defaults on a foreign currency obligation, because it may enter into a liquidation process.
- As a result, we're affirming our 'A/A-1' issuer credit ratings on Banco Estado.
- The negative outlook on Banco Estado reflects that on the sovereign, which captures weakening political consensus on key parameters of Chile's political and economic agenda, which over time will weigh on Chile's capacity to grow and potentially weaken its credit quality.

Rating Action

On Nov. 3, 2023, S&P Global Ratings affirmed its 'A/A-1' issuer credit ratings on Banco Estado. We also corrected a previous misapplication of our government-related entity (GRE) criteria, which occurred when we assigned the same long-term ratings to the bank's local currency and foreign currency obligations.

Rationale

The correction changes the preliminary long-term rating on the bank's local currency obligations to 'A+' from 'A', in accordance with paragraph 55 of the GRE criteria. However, we're applying a negative adjustment to this rating for government-support related factors by using our Financial Institutions criteria. This reflects the fact that the bank's failure to pay any obligation could be considered as a severe regulatory non-compliance under the Chilean General Banking Law, possibly prompting any bank operating in Chile to enter a liquidation process. Therefore, we affirmed the long-term rating on Banco

Estado's local and foreign currency obligations at 'A'.

Under our GRE criteria, the local currency rating on a GRE, which we view as having an extremely high likelihood of extraordinary government support, could be higher than the foreign currency rating. However, we consider that, given the General Banking Law in Chile, both local currency and foreign currency ratings on banks should be at the same level. As such, the correction of criteria misapplication didn't lead to a rating change on Banco Estado. We generally don't rate local currency ratings on Chilean banks higher than foreign currency ratings on these entities, as failure to pay an obligation in foreign currency will likely be considered as a severe regulatory non-compliance, and consequently, the bank could enter a liquidation process. Moreover, we believe that a deposit taking institution's failure to pay debt would likely trigger a run on deposits, prompting regulatory actions to avoid withdrawals of funds in any currency.

Outlook

The negative outlook on Banco Estado reflects that on the sovereign, which captures weakening political consensus on key parameters of Chile's political and economic agenda, which over time will weigh on Chile's capacity to grow and potentially weaken its credit quality. We expect the bank will maintain its strong market position and public policy role. Given an extremely high likelihood of government support in case of financial distress, in our view, our ratings on Banco Estado will move in tandem with those on the sovereign, as long as the bank's stand-alone credit profile (SACP) remains 'bb-' or above. This support allows the bank to absorb a potential deterioration of its credit fundamentals.

Downside scenario

We could lower the ratings on Banco Estado in the next 24 months if we downgrade the sovereign. A revision of our Banking Industry Country Risk Assessment (BICRA) of Chile to a weaker category due to worsening operating conditions for domestic banks wouldn't affect our rating on Banco Estado because we incorporate the potential government support.

Upside scenario

We could revise the outlook on Banco Estado to stable following a similar action on the sovereign.

Ratings Score Snapshot

	To	From
Issuer credit rating	A/Stable/A-1	A/Stable/A-1
SACP	a	a

	To	From
Anchor	bbb+	bbb+
Business position	Strong (+1)	Strong (+1)
Capital and earnings	Adequate (0)	Adequate (0)
Risk position	Adequate (0)	Adequate (0)
Funding and liquidity	Strong and Strong (+1)	Strong and Strong (+1)
Support	0	0
ALAC support	0	0
GRE support	0	0
Group support	0	0
Sovereign support	0	0
Additional factors	0	0

SACP--Stand-alone credit profile.

Related Criteria

- 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
- 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
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed

Banco del Estado de Chile	
Issuer Credit Rating	A/Negative/A-1
Banco del Estado de Chile	
Senior Unsecured	A
Commercial Paper	A-1

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