S&P Global Ratings

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Outlooks On Two Chilean Financial Institutions Revised To Negative Following Same Action On Sovereign

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- On Oct. 19, 2023, S&P Global Ratings revised its outlook on Chile to negative from stable on weaker political consensus on key parameters of the country's political and economic agenda, which over time will weigh on Chile's capacity to grow and potentially weaken its credit quality.
- As a result, we revised our outlooks on Banco del Estado de Chile and Scotiabank Chile to negative from stable. We rarely rate financial institutions higher than the sovereign where they operate because we consider it unlikely that these institutions would remain unaffected by developments in domestic economies.
- At the same time, we affirmed our ratings on five Chilean financial entities, incorporating the risks stemming from pressures on the sovereign's credit quality.
- Our ratings on the other nine financial entities we rate in Chile remain unchanged, because their ratings are below those on the sovereign and their outlooks already reflect the pressures on the Chilean financial system.

SAO PAULO (S&P Global Ratings) Oct. 20, 2023--S&P Global Ratings today revised the outlooks on Scotiabank Chile and Banco del Estado de Chile (Banco Estado) to negative from stable and affirmed the ratings on the two entities.

At the same time, we affirmed our ratings on five financial entities in Chile, incorporating the pressures from the sovereign:

- Banco de Chile;
- LQ Inversiones Financieras S.A. (LQIF);
- Banco BICE;
- Banco de Credito e Inversiones (BCI); and
- Banco de Credito e Inversiones - Miami Branch.

The rating actions on the financial entities follow our revision of the outlook on Chile (foreign currency: A/Negative/A-1; local currency: A+/Negative/A-1) to negative from stable, which captures the risks stemming from weakening political consensus on the key parameters of Chile's political and economic agenda. In our view, these difficulties in pushing forward material pieces of legislation might translate over time into weaker economic performance and prospects, as well as slower improvement in social conditions. Moreover, structurally weaker growth will continue to pressure Chile's fiscal and external profiles.

At the same time, our ratings on nine Chilean financial entities are unchanged. This is because our ratings on them are below the sovereign rating and their outlooks already reflect the pressures on the Chilean financial system. These entities are:

- Banco Santander-Chile S.A. (A-/Stable/A-2);
- Inversiones La Construccion S.A. (BBB+/Negative/--);
- Banco Internacional (BBB+/Negative/--);
- Banco Itau Chile (BBB+/Negative/A-2);
- Institución Financiera Cooperativa Coopeuch (BBB+/Negative/A-2);
- Banco Consorcio (BBB/Negative/--);
- Larrain Vial S.A. Corredora de Bolsa (BBB/Negative/A-2);
- Tanner Servicios Financieros S.A. (BBB-/Negative/--); and
- Caja de Compensacion de Asignacion Familiar de los Andes (BBB/Negative/--).

Outlook

Banco Estado de Chile

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.

Scotiabank Chile

The negative outlook on Scotiabank Chile reflects that on Chile, 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. On the other hand, a downward revision of the bank's SACP (for instance, because of increasing risks for banks operating in Chile) wouldn't result in a downgrade, given that Scotiabank Chile is a strategically important subsidiary and we could reflect an additional notch of extraordinary support from its parent, The Bank of Nova Scotia (BNS; A+/Stable/A-1).

Downside scenario

We could lower the rating on Scotiabank Chile if we took the same action on the sovereign rating, because the sovereign will limit the rating on the bank. We rarely rate financial institutions higher than the sovereign where they operate, because we consider it unlikely that these institutions would remain unaffected by developments in domestic economies.

We could also downgrade the bank if we revised down its SACP by two notches. This could occur, for example, if the risks among financial entities operating in Chile increases, prompting us to revise our BICRA to a weaker category, in conjunction with a deterioration in the bank's risk-adjusted capital (RAC) ratio to consistently below 7%.

Upside scenario

We could revise the outlook on Scotiabank Chile to stable if we were to take a similar action on the sovereign, while its SACP remains above 'bbb' and we continue to consider the entity a strategically important subsidiary to BNS.

Banco de Chile

The negative outlook on the bank incorporates the outlook on the sovereign and our view of the economic risk in Chile's BICRA.

Downside scenario

We could lower the ratings on Banco de Chile in the next 24 months if the economic risk of the financial entities operating in Chile increases, indicated by a reduced capacity of the country to face external shocks or by a larger deterioration than we expect in the credit quality of Chilean corporates or retail segment, or if we downgrade the sovereign. In addition, we could downgrade Banco de Chile if its structural strength--related to risk management and capitalization--diminishes.

Upside scenario

We could revise the outlook on the bank to stable if we were to revise the trend on the economic risk in Chile's BICRA to stable from negative, while all the bank's fundamentals remain unchanged, in conjunction with the revision of the sovereign outlook to stable.

LQIF

The negative outlook on LQIF incorporates our view of the economic risk in Chile's BICRA and that of its sole operating subsidiary, Banco de Chile, which also reflects the negative sovereign rating.

Downside scenario

A downgrade at the holding level could occur in the next 24 months if we revise the economic risk score in Chile's BICRA to a weaker category (raising the average risk for banks operating in the country) or if we revise Banco de Chile's SACP downward by one notch. In addition, we could lower the rating if we took the same action on Banco de Chile following a downgrade of the sovereign.

Upside scenario

We could revise the outlook on the holding to stable if we took the same action on Banco de Chile, following the revision of the outlook on the sovereign. At the same time, we would need to revise the economic risk in Chile's BICRA to stable, while all the bank's fundamentals remain unchanged.

BCI and BCI Miami

The stable outlook on BCI and BCI Miami reflects our view that BCI will maintain its current portfolio mix and that its business operations in the U.S. should offset the increasing operating risks in Chile. We expect the bank will be able to issue fresh new capital, which will give additional buffer to its credit quality.

If we were to revise Chile's BICRA to a weaker category but the bank's operations in the U.S. remain unchanged or increase, the bank's anchor wouldn't be affected thanks to BCI's diversification into the U.S. In addition, BCI's RAC ratio would remain above 7% considering the capital infusion, so the rating wouldn't be affected. Because the rating on BCI does not reflect notches of support for being a systemically important bank for the Chilean government and the rating is below the sovereign rating, it would remain unchanged following a downward revision of the BICRA and a sovereign downgrade.

Downside scenario

We could downgrade BCI and BCI Miami in the next 24 months if the bank's credit fundamentals worsen, leading to a downward revision of the SACP (for example, due to a weaker capital ratio and a deterioration of our view of the banking system) while at the same time, the sovereign's capacity to provide extraordinary support drops.

Upside scenario

Any rating upside is limited at this point considering the negative trend on Chile's BICRA and the negative outlook on the sovereign.

Banco BICE

We could lower the ratings on Banco BICE in the next 24 months if the economic risk of the financial system in Chile increases, indicated by a reduced capacity of the country to face external shocks or by a higher deterioration than we expect in the credit quality of the Chilean corporates or retail segment, or if we downgrade the sovereign, which would lower the capacity of the government to provide extraordinary support to the bank.

Downside scenario

We could lower the ratings on the bank if we revise the economic risk score in Chile's BICRA to a weaker category, which could also cause the bank's RAC ratio to fall below 7% because we would apply higher credit risk charges in our capital model. In addition, we could lower the rating if we took the same action on the sovereign.

Upside scenario

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

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, 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: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

Related Research

- Research Update: Chile Outlook Revised To Negative On Weaker Political Consensus; 'A/A-1' Foreign Currency Ratings Affirmed, Oct. 19, 2023

Ratings List

Ratings Affirmed/Outlook Action

	To	From
Scotiabank Chile		
Issuer credit rating	A/Negative/--	A/Stable/--
Banco del Estado de Chile		
Issuer credit rating	A/Negative/A-1	A/Stable/A-1
Ratings Affirmed		
Banco de Chile		
Issuer credit rating	A/Negative/A-1	
LQ Inversiones Financieras S.A.		
Issuer credit rating	A-/Negative/A-2	
Banco BICE		
Issuer credit rating	BBB+/Negative/--	
Banco de Credito e Inversiones		
Issuer credit rating	A-/Stable/A-2	
Banco de Credito e Inversiones - Miami Branch		
Issuer credit rating	A-/Stable/--	

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.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.