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Research Update:

Banco del Estado de Chile's Stand-Alone Credit Profile Revised Up To 'a' On Capital Injections, 'A/A-1' Ratings Affirmed

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PRIMARY CREDIT ANALYST

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

SECONDARY CONTACT

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

Overview

- On July 13, 2022, Chile's Ministry of Finance announced that it will provide a capitalization of $500 million to Banco del Estado de Chile (Banco Estado) this year. The government scheduled the capitalization for 2023, but the administration of Gabriel Boric decided to take the action this year. We also expect the government to make an additional capital injection of $500 million in 2024.
- Capital injections will help the bank meet the capitalization requirements under the banking law that aims to align the domestic financial system to Basel III standards, given that Banco Estado's capital ratios will take a hit from deferred tax assets (DTA) deductions that are not guaranteed by the government. This will allow the bank to continue lending in the currently difficult operating conditions, in line with its historical role as a countercyclical tool.
- We revised up our assessment of the bank's capital and earnings to adequate from moderate on stronger risk-adjusted capital (RAC) and earnings prospects, and its stand-alone credit profile (SACP) to 'a' from 'a-'.
- We affirmed the 'A' long-term and 'A-1' short-term issuer credit ratings on the bank. The outlook remains stable.

Rating Action

On Aug. 10, 2022, S&P Global Ratings affirmed its 'A' long- and 'A-1' short-term issuer credit ratings on Banco Estado. The outlook remains stable. We revised up our assessment of the bank's capital and earnings to adequate from moderate and its SACP to 'a' from 'a-'.

Rationale

In our view, the bank's capitalization has improved because of the announcement of a $500 million capital injection the government will make this year and a likely additional one of the same amount by the end of 2024. As a result, we expect Banco Estado's RAC ratio to reach about 8% by 2024. Prior to the capital injection, we expected the bank's RAC ratio to range at 6.4%-6.6%.

We expect Banco Estado's market position to support its earnings stability. Banco Estado is the country's only state-owned bank, and it's also Chile's fourth-largest bank in terms of total loans and the largest one in terms of deposits. These factors differentiate it from peers and underpin the stability of its earnings and balance sheet.

We believe Banco Estado's credit losses will remain contained thanks to high levels of provisions raised last year. The bank raised the provisions to protect its balance sheet because of the pandemic's effects. So far, its asset quality has performed better than we expected, but it's likely to worsen as Chile's economic performance weakens due to the political volatility. In addition, the government's measures to offset the impact of the pandemic will dissipate, hampering the bank's asset quality.

Banco Estado's profitability and capitalization have improved recently. The bank's profitability rose thanks to efforts to improve efficiency and lower provisioning needs, as well as to revenue stemming from higher volumes of transactions and fees from businesses associated with the debit account it offers, "Cuenta Rut." The account is generating higher added value to customers and fostering more purchases, transfers, and service payments.

Banco Estado's credit quality incorporates our view that there's an extremely high likelihood that Chile would provide extraordinary and timely support to the bank in the event of financial distress. According to our criteria for government-related entities, we base our view of government support on our assessment of Banco Estado's very important role as a vehicle in promoting the low-income population's use of banking products and access to home financing. We also account for Banco Estado's integral link with the Chilean government, which fully owns the bank. Banco Estado and the government are integrally linked in terms of management, business strategy, financial monitoring, and the bank's public policy role. There's also a coordination of debt issuances. Given these factors, we believe that there's an extremely high likelihood of government support to the bank in case of financial difficulties. Therefore, our ratings on Banco Estado and its subsidiary will move in tandem with those on the sovereign, as long as the bank maintains its SACP at 'bb-' or above. However, given that the current SACP is at the same level as the sovereign rating, we don't reflect notches of support.

Outlook

The stable outlook on Banco Estado for the next 24 months reflects that on the sovereign, and our expectation that the bank will maintain its strong market position and public policy role. Given that we expect an extremely high likelihood of government support, our ratings on Banco Estado and its subsidiary will move in tandem with those on the sovereign, as long as the bank maintains its SACP at '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 of Chile to a weaker category due to worsening operating conditions for domestic banks won't impact our rating on Banco Estado because we would reflect the government support.

Upside scenario

We could raise the ratings on Banco Estado in the next 24 months if we take 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-
Anchor	bbb+	bbb+
Business position	Strong (+1)	Strong (+1)
Capital and earnings	Adequate (0)	Moderate (-1)
Risk position	Adequate (0)	Adequate (0)
Funding and liquidity	Strong and Strong (+1)	Strong and Strong (+1)
Support	0	+1
ALAC support	0	0
GRE support	0	+1
Group support	0	0
Sovereign support	0	0
Additional factors	0	0

SACP--Stand-alone credit profile.

ESG credit indicators: E-2, S-1, G-2

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/Stable/A-1
Banco del Estado de Chile	
Senior Unsecured	A
Commercial Paper	A-1

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.