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Ratings

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Banco Consorcio

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Ratings Score Snapshot

Issuer Credit Rating
BBB/Negative/--

SACP: bbb → **Support: 0** → **Additional factors: 0**

Anchor	bbb+	
Business position	Moderate	-1
Capital and earnings	Strong	+1
Risk position	Adequate	0
Funding	Moderate	-1
Liquidity	Adequate	
CRA adjustment		0

ALAC support	0
GRE support	0
Group support	0
Sovereign support	0

Issuer credit rating
BBB/Negative/--

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

Credit Highlights

Overview

Key strengths	Key risks
Strong capital base supported by Banco Consorcio's good revenue generation and capital injections, which gives it a comfortable cushion to absorb losses and carry out its business strategy.	Tighter economic prospects in Chile, given investor uncertainty due to political challenges.
Comfortable liquidity that tempers the bank's wholesale funding profile	The banking operations depend heavily on wholesale funding, which we view as less stable than traditional retail deposits.
Important subsidiary of Consorcio Financiero a large financial conglomerate in Chile.	High competition in the Chilean banking industry.

Our 'BBB' long-term issuer credit rating on Banco Consorcio reflects its stand-alone credit profile (SACP). This is because the SACP doesn't incorporate notching from external support from either the government or the parent, Consorcio Financiero (CF; not rated).

Banco Consorcio's strong capitalization is aligned with its growth plan and is comfortably above the regulatory minimum. Our opinion of the bank's capital and earnings stems primarily from our forecast risk-adjusted capital (RAC) ratio of 10.5% for the next 12-24 months. This results from low nominal credit growth in 2022, with growth then recovering to 8%-10% in the next two years. We also expect high profitability in 2022 and then return on equity (ROE) stabilizing at 12%-14%, and dividend distributions of around 40%. The bank is well positioned to adopt new capital requirements related to the implementation of Basel III rules in Chile.

Despite some deterioration, we think asset quality metrics will remain manageable and will move in tandem with those of the Chilean financial system. This is because higher-than-historical interest rates and inflation, coupled with weak economic performance, will pressure borrowers in 2023.

Banco Consorcio has a wholesale-oriented funding profile and a smaller proportion of retail funding than peers. However, this profile is tempered by its liquidity, which provides a solid cushion to cope with unexpected cash outflows in the next 12 months.

Outlook

The negative outlook on Banco Consorcio reflects the downside risks in Chile from the ongoing political uncertainty, which will limit investment and internal demand and drag down economic growth in the next 18-24 months. We reflect this in the negative trend for economic risk in Chile's Banking Industry Country Risk Assessment (BICRA).

Downside scenario

We could lower the ratings on Banco Consorcio in the next 24 months if our view of Chile's financial system worsens (resulting in a higher BICRA category that would reflect increased risk and a lower anchor for banks), which could also cause the bank's RAC ratio to fall below 10%. A potential weakening of Banco Consorcio's intrinsic credit quality wouldn't automatically result in a downgrade because of potential extraordinary support from the parent.

Upside scenario

We could revise the outlook on Banco Consorcio to stable if we were to revise the economic risk trend in Chile's BICRA to stable from negative, while the bank's credit factors remain unchanged.

Key Metrics

Banco Consorcio--Key Ratios And Forecasts

	--Fiscal year ended Dec. 31--				
(%)	**2020a**	**2021a**	**2022f**	**2023f**	**2024f**
Growth in customer loans	8.9	21.4	2.5-3.5	7.5-8.5	9.0-11.0
Net interest income/average earning assets (NIM)	2.3	2.8	2.8-3.0	2.3-2.6	2.2-2.4
Cost to income ratio	24.8	27.4	26.5-27.5	28-30	28-30
Return on average common equity	9.1	12.3	17.0-18.0	12.0-14.0	12.0-14.0
Return on assets	0.9	1.1	1.2-1.4	1.0-1.2	1.0-1.2
New loan loss provisions/average customer loans	0.9	1.8	1.1-1.3	1.0-1.3	1.0-1.3
Gross nonperforming assets/customer loans	1.7	1.4	1.0-1.1	1.2-1.4	1.2-1.5
Net charge-offs/average customer loans	0.3	0.4	0.6-0.8	0.2-0.5	0.2-0.5

Banco Consorcio--Key Ratios And Forecasts (cont.)

	--Fiscal year ended Dec. 31--				
(%)	**2020a**	**2021a**	**2022f**	**2023f**	**2024f**
Risk-adjusted capital ratio	10.3	9.7	10.2-10.6	10.2-10.5	10.2-10.5

All figures are S&P Global Ratings-adjusted. a--Actual. f--Forecast. NIM--Net interest margin.

Anchor: 'bbb+' For Banks Operating In Chile

Our bank criteria use our BICRA economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. The anchor for banks operating only in Chile, like Banco Consorcio, is 'bbb+', the strongest anchor in Latin America. (Please see "Banking Industry Country Risk Assessment: Chile," published July 26, 2022.)

Business Position: Banco Consorcio Focuses On The Corporate Segment, Although Its Mortgage And Consumer Loan Units Have Grown Recently

The bank's business position reflects its relatively small scale and limited diversification, given its focus on corporate loans, although its mortgage business has expanded in recent years. As of September 2022, Banco Consorcio was the nineth largest bank in Chile, with a market share of about 2.1% in terms of both loans and deposits. The corporate segment has been the bank's traditional business, representing 73% of its loan portfolio (compared to 57% for the industry average), followed by mortgages (26%) and personal loans (2%) as of September 2022. This has shifted from its portfolio makeup in December 2017 of 92% corporate loans, 5% mortgages, and 3% personal.

The bank increased its exposure to the mortgage segment by taking advantage of the 2020 Financial Portability Law and low interest rates, which allowed clients to switch from one bank to another. In addition, until 2018, most of the mortgage portfolio was registered in the group's life insurance company, which had the long-term funding for this loan type. However, since then, Banco Consorcio has improved its funding profile, allowing it to incorporate mortgages on its books.

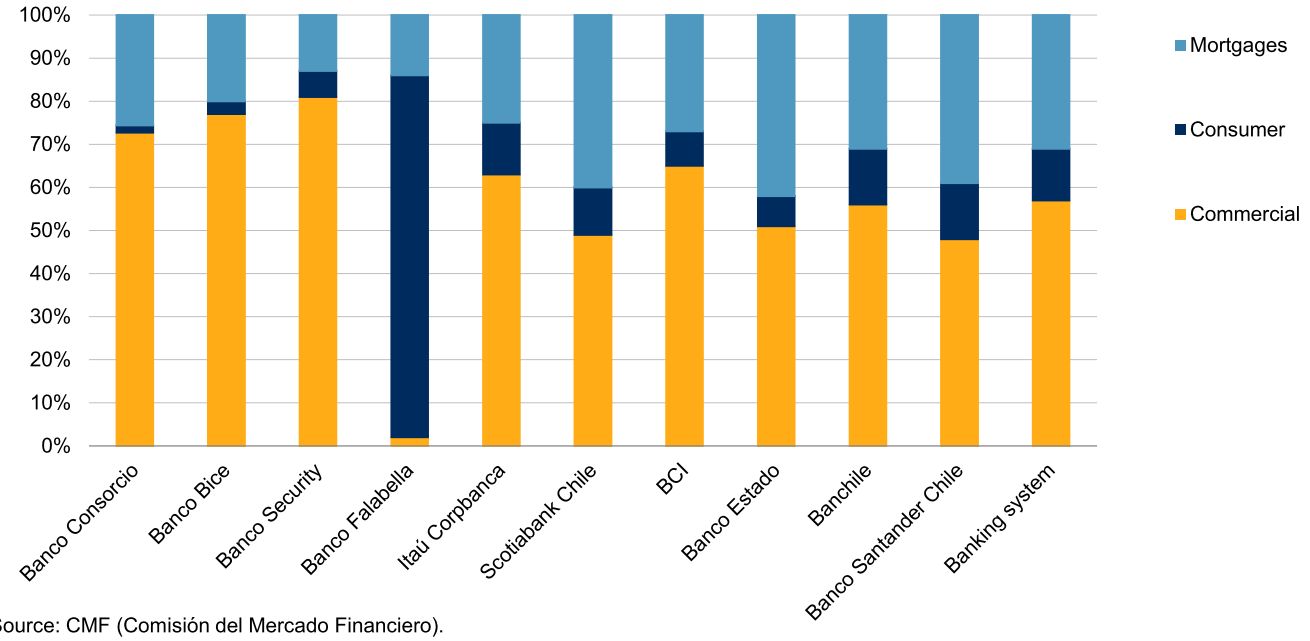
For the next 12-24 months, we expect the bank will continue improving its business mix, with the commercial portfolio representing 65%-68% of total loans--lowering its exposure to real estate developers--the mortgage portfolio representing about 30%, and personal loans the remainder. In addition, Banco Consorcio will continue focusing on credit management and strengthening capitalization, with nominal growth below inflation in 2022 and then in line with the industry average.

The bank generates relatively stable operating revenues, most of which stem from its lending operations. As of September 2022, Banco Consorcio posted a return on average assets of 1.4% and ROE of almost 18%, compared with 1.3% and 14%, respectively, a year before. The bank's profitability improved along with that of the banking industry, benefiting from high inflation due to the long positions in assets in indexed currency (UF; Unidad de Fomento) and contained administrative and credit costs. However, these factors were partly undermined by higher funding expenses following interest rate growth. We expect Banco Consorcio's ROE to be 17%-18% in 2022 and then to stabilize at

12%-14%, with tighter margins, given gradual normalization of inflation, higher interest expenses due to high interest rates, and contained administrative expenses.

Chart 1

Loan Portfolio Breakdown For The 10 Largest Chilean Banks
As of September 2022



Source: CMF (Comisión del Mercado Financiero).
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Capital And Earnings: Sound Regulatory And RAC Ratios

We expect the bank to remain well capitalized to sustain its credit growth strategy, given our forecast for its risk-adjusted capital (RAC) ratio to average 10.5% over the next 24 months. Our RAC ratio forecast incorporates our base-case scenario assumptions:

- Chile's real GDP growing 2.5% in 2022, contracting 0.4% in 2023, and then expanding 2.9% in 2024. We expect domestic demand in Chile to contract in 2023, following very strong growth in 2021 and early 2022 that was fueled by pension withdrawal allowances.
- High inflation in 2022 of 12.5%, and then decreasing to 5.5% in 2023 and 3.5% in 2024.
- Nominal loan growth of about 3% in 2022, 8% in 2023, and 10% in 2024. In addition, part of the growth is explained by inflation because about 62% of the loan portfolio is denominated in UF.
- Higher margins in 2022, benefiting from inflation, but falling in 2023 and 2024 given slower inflation and higher interest expenses amid increasing interest rates.

- ROE of 17%-18% in 2022 and then stabilizing at 12%-14%--still slightly above historical levels.
- Nonperforming loans (NPLs) of 1.0%-1.5% with net charge-offs (NCOs) to average customer loans of less than 1%.
- 40% annual dividend payout in 2022-2024.

Banco Consorcio had a solid regulatory capitalization ratio of 18.2% as of September 2022, which is well in excess of the regulator's minimum requirements.

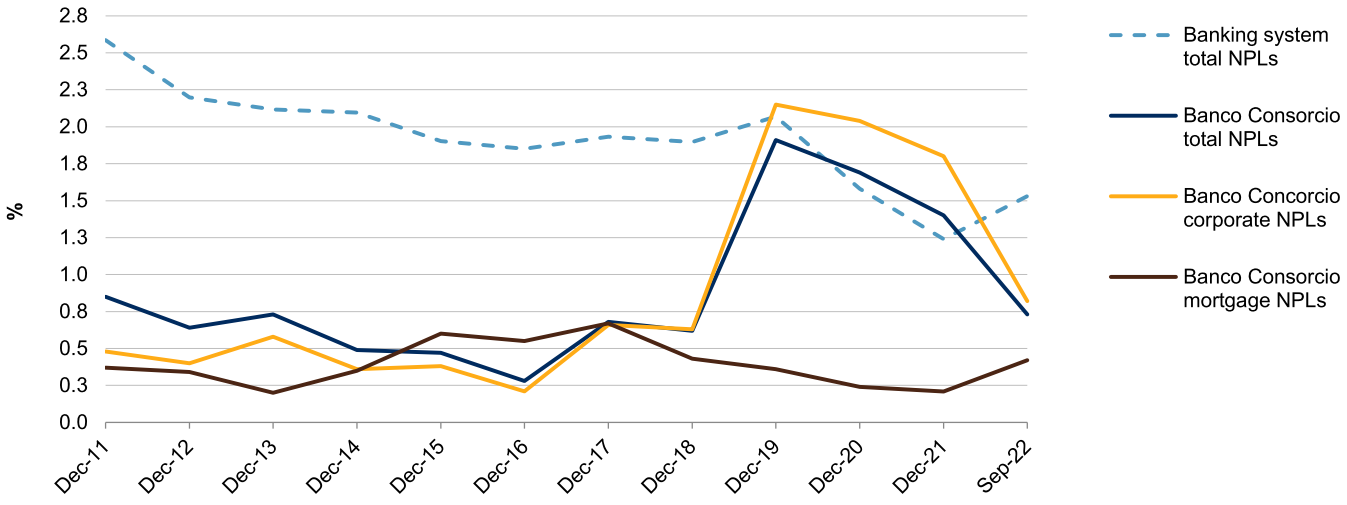
Risk Position: Healthy Asset Quality Metrics After Absorbing The Effect Of Punctual Corporate Loans

Banco Consorcio has a diversified client base, with the top 20 exposures representing about 17% of its loan portfolio. The bank has a large exposure to real estate developers--about 33% of its credit portfolio--but we capture this risk in our RAC ratio, which uses a much higher risk weight for this exposure than for other sectors. In addition, the bank has adequate financing guidelines and collaterals that mitigate risks.

Banco Consorcio has healthy asset quality metrics because it finished absorbing punctual corporate loan cases, and it has a prudent lending approach. As of September 2022, the bank's NPLs improved to 0.7% from 1.4% in 2021 and 1.7% in 2020, and were better than the industry's 1.5% average in 2022. In addition, NCOs increased to 0.7% of average customer loans in September 2022 from 0.4% in 2021, and loan-loss reserves covered 314% of total NPLs. For the next 12-24 months, we expect some deterioration in Banco Consorcio's asset quality metrics, as they move in tandem with those of the Chilean financial system. In addition, we expect portfolio growth in less cyclical sectors with the falling share of loans to the real estate developer sector.

Chart 2

NPLs Evolution
90-days past due loans



NPL--Nonperforming loan. Source: CMF (Comisión del Mercado Financiero).

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Funding And Liquidity: Wholesale-Oriented Funding, But Mitigated By Prudent Liquidity Management

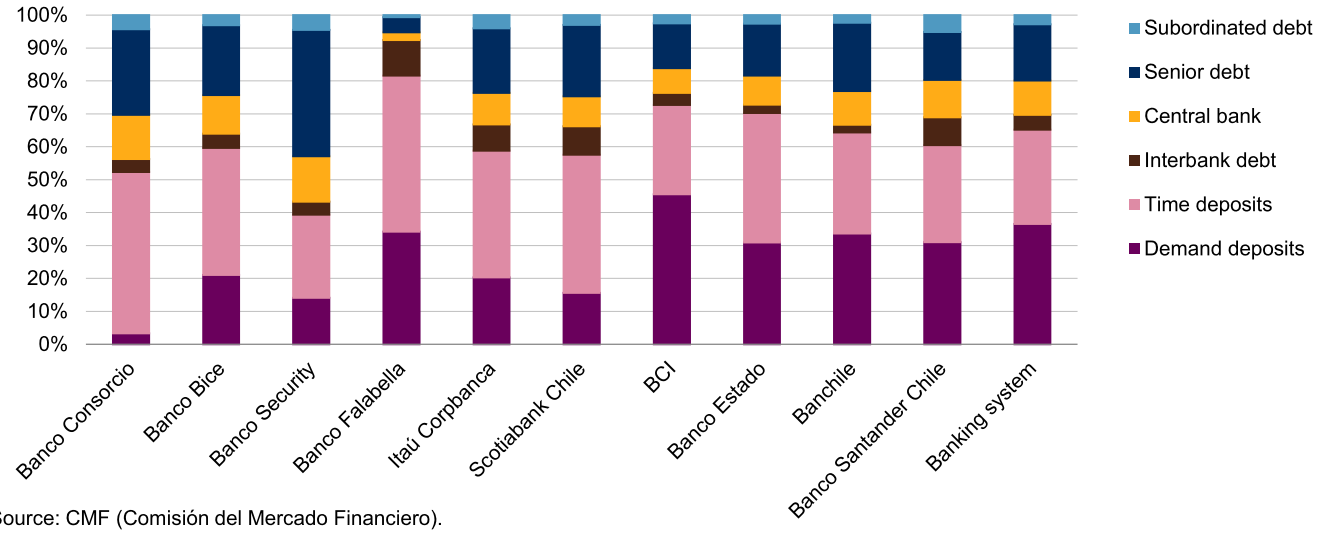
The bank's funding base has a large share of wholesale and institutional clients and a smaller proportion of retail deposits than those of peers. Nonetheless, in the last several years, Banco Consorcio has been diversifying its funding base, reducing the share of time deposits by issuing debt in the local market as its mortgage portfolio expands, increasing its use of central bank lines (like the industry), and gradually raising the share of retail deposits. As of September 2022, customer deposits remain Banco Consorcio's main funding source, accounting for 52% of its total funding base (3% sight deposits and 49% time deposits); below the Chilean banking system's average of 64%. The other main funding sources are bonds (senior and subordinated; 31% of total funding base), the central bank's pandemic-related lines (13%), and bank loans (4%).

The bank's stable funding ratio (SFR) was 130 % as of September 2022, and it has averaged 114% for the past three fiscal years (ended Dec. 31), which is in line with the system average. For the next 24 months, we expect Banco Consorcio to maintain its current funding profile, with a SFR above 100%, and that it will quickly replace central bank lines as they expire with issuances and a larger deposit base.

The bank has a broad liquid asset-to-short-term wholesale funding ratio of 3.7x as of September 2022, and it averaged 2.7x in the last three fiscal years. Also, broad liquid assets to total assets reached 24%, in line with those of other rated banks in the country. Like domestic peers, Banco Consorcio uses sovereign and central bank securities as a primary instrument for liquidity management.

Chart 3

Funding Breakdown For The 10 Largest Chilean Banks
As of September 2022



Source: CMF (Comisión del Mercado Financiero).
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Support: No Uplift To The SACP

Banco Consorcio is fully owned by Consorcio Financiero (CF; not rated), a large financial conglomerate in Chile, and we view the bank as an important subsidiary. CF underwrites insurance policies in Chile through its operating subsidiaries, Consorcio Seguros VIDA--one of largest underwriters of pensions--CN Life Seguros de Vida, and Consorcio Seguros Generales. CF provides banking products and services through Banco Consorcio. As a result, CF's wide range of business lines provide revenue stability. Banco Consorcio complements CF's financial services operations and represents a sizable share of the group's equity and assets.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

ESG factors have an overall neutral influence on our credit rating analysis of Banco Consorcio. The bank has manageable exposure to environmental risk. It has no significant direct corporate sector lending concentrations or

exposures to risky segments. Still, Chilean banks are indirectly exposed to the commodities and mining sectors through the whole supply chain. However, Chile's economy is diverse compared to those of neighboring countries, and the banks' balance sheets reflect that diversity. The bank has an environmental committee consisting of senior management, and its role is to understand and supervise the bank's environmental management.

Key Statistics

Table 1

Banco Consorcio--Key Figures

		--Year-ended Dec. 31--			
(Mil. CLP)	**2022***	**2021**	**2020**	**2019**	**2018**
Adjusted assets	7,970,995.2	7,401,636.0	5,913,730.0	5,754,951.0	4,608,540.0
Customer loans (gross)	4,685,378.5	4,591,338.0	3,783,109.0	3,473,357.0	2,644,392.0
Adjusted common equity	644,645.6	625,659.9	573,635.0	518,725.0	423,567.0
Operating revenues	169,645.9	215,392.0	189,034.0	154,079.0	103,744.0
Noninterest expenses	46,609.6	58,983.0	46,884.0	50,793.0	40,039.0
Core earnings	81,808.5	71,291.0	100,665.0	67,833.0	43,119.0

*Data as of Sept. 30. CLP--Chilean peso.

Table 2

Banco Consorcio--Business Position

		--Year-ended Dec. 31--			
(%)	**2022***	**2021**	**2020**	**2019**	**2018**
Loan market share in country of domicile	2.1	2.2	2.0	1.9	1.6
Deposit market share in country of domicile	2.1	2.3	1.8	2.2	1.9
Return on average common equity	18.3	12.3	9.1	10.8	10.3

*Data as of Sept. 30.

Table 3

Banco Consorcio--Capital And Earnings

		--Year-ended Dec. 31--			
(%)	**2022***	**2021**	**2020**	**2019**	**2018**
Tier 1 capital ratio	12.3	10.6	13.1	11.4	11.2
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	88.4	82.7	66.9	60.9	77.8
Fee income/operating revenues	4.9	4.9	4.8	5.8	7.9
Market-sensitive income/operating revenues	2.2	11.1	27.4	32.2	13.3
Cost to income ratio	27.5	27.4	24.8	33.0	38.6
Preprovision operating income/average assets	2.1	2.3	2.4	2.0	1.5
Core earnings/average managed assets	1.4	1.1	1.7	1.3	1.0

*Data as of Sept. 30.

Table 4

Banco Consorcio--Risk Position

	--Year-ended Dec. 31--				
(%)	**2022***	**2021**	**2020**	**2019**	**2018**
Growth in customer loans	2.7	21.4	8.9	31.3	25.7
Total managed assets/adjusted common equity (x)	12.4	11.8	10.3	11.1	10.9
New loan loss provisions/average customer loans	1.0	1.8	0.9	0.9	0.4
Net charge-offs/average customer loans	0.7	0.4	0.3	0.3	0.1
Gross nonperforming assets/customer loans + other real estate owned	0.7	1.4	1.7	1.9	0.6
Loan loss reserves/gross nonperforming assets	314.3	190.4	128.6	94.7	271.0

*Data as of Sept. 30.

Table 5

Banco Consorcio--Funding And Liquidity

	--Year-ended Dec. 31--				
(%)	**2022***	**2021**	**2020**	**2019**	**2018**
Core deposits/funding base	49.5	55.1	52.7	62.2	61.4
Customer loans (net)/customer deposits	131.5	122.7	137.8	110.2	105.9
Long-term funding ratio	91.2	92.4	88.7	85.0	84.6
Stable funding ratio	130.6	126.4	116.4	108.5	110.1
Short-term wholesale funding/funding base	9.6	8.2	12.6	16.6	17.0
Broad liquid assets/short-term wholesale funding (x)	3.7	3.8	2.3	1.7	1.7
Broad liquid assets/total assets	31.2	28.0	24.8	23.7	25.8
Broad liquid assets/customer deposits	71.4	56.9	54.6	44.1	48.4
Net broad liquid assets/short-term customer deposits	55.1	42.7	31.8	17.7	21.4
Short-term wholesale funding/total wholesale funding	19.1	18.3	26.7	44.0	44.0

*Data as of Sept. 30.

Banco Consorcio--Rating Component Scores

Issuer Credit Rating	**BBB/Negative/--**
SACP	bbb
Anchor	bbb+
Economic risk	4
Industry risk	3
Business position	Moderate
Capital and earnings	Strong
Risk position	Adequate
Funding	Moderate
Liquidity	Adequate
Comparable ratings analysis	0
Support	0
ALAC support	0
GRE support	0
Group support	0

Banco Consorcio--Rating Component Scores (cont.)

Issuer Credit Rating	**BBB/Negative/--**
Sovereign support	0
Additional factors	0

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. 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
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- 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

Ratings Detail (As Of December 21, 2022)*

Banco Consorcio	
Issuer Credit Rating	BBB/Negative/--
Issuer Credit Ratings History	
27-Jan-2022	BBB/Negative/--
Sovereign Rating	
Chile	
Foreign Currency	A/Stable/A-1
Local Currency	A+/Stable/A-1

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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