S&P Global 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 good revenue generation, providing comfortable cushion to absorb losses and carry out business strategy.	Weak investor sentiment in Chile because of ongoing debate on several reforms.
Comfortable liquidity that tempers wholesale-oriented funding.	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.

We expect Banco Consorcio will maintain its strong capitalization in the next two years. This capitalization is aligned with the bank's growth plan and positions it well to adopt new capital requirements related to Basel III rules in Chile. 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 forecast results from low nominal credit growth in 2023, which we expect to recover to 5%-10% in the next two years. We also expect the return on equity to stabilize at 12%-14% amid inflation returning to normal, moderate economic activity, and dividend distributions of around 50%.

We think asset quality metrics will remain manageable in the next 12-24 months, despite some deterioration, and will move in tandem with those of the Chilean financial system. This is because weak economic activity and still-high interest rates continue to pressure disposable income. In addition, we expect the bank will continue with its strategy to grow in less cyclical sectors, with a falling share of loans to the real estate developer sector. The bank's cost of risk will remain relatively low at 0.5%-0.6%, given that we don't expect large overdue loans and that its adequate financing guidelines and collateral mitigate risks.

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

Outlook

The negative outlook reflects the downside risks in Chile from 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%.

Upside scenario

We could revise the outlook to stable if we revise the economic risk trend for 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--				
(%)	**2021a**	**2022a**	**2023f**	**2024f**	**2025f**
Growth in customer loans	21.4	3.3	2.2-2.7	4.5-5.5	7.5-8.5
Net interest income/average earning assets (NIM)	2.8	2.7	1.6-1.8	1.5-1.7	1.5-1.7
Return on average common equity	12.3	17.5	12.0-14.0	10.0-12.0	10.0-12.0
Return on assets	1.1	1.4	1.0-1.2	0.7-0.9	0.7-0.9
New loan loss provisions/average customer loans	1.8	0.9	0.1-0.2	0.5-0.5	0.5-0.6
Gross nonperforming assets/customer loans	1.4	0.8	1.5-1.6	1.8-2.0	1.8-2.0
Net charge-offs/average customer loans	0.4	0.6	0.2-0.6	0.2-0.6	0.2-0.6
Risk-adjusted capital ratio	9.7	10.1	10.2-10.8	10.2-10.8	10.2-10.8

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

Anchor: 'bbb+', The Strongest Anchor In Latin America, For A Bank Operating Only In Chile

We classify the banking sector of Chile in group '3' under our BICRA. The anchor for banks operating only in Chile is 'bbb+'.

Banks in Chile benefit from a record of sound and consistent economic policies, significant monetary flexibility thanks to a floating exchange rate, an independent central bank, and a healthy financial system. However, weakening political consensus on the key parameters of Chile's political and economic agenda could translate over time into weaker economic performance and prospects. So far banks have had strong performance, but asset quality metrics and profitability are weakening due to the persistently high interest rates and weak economic conditions.

The Chilean banking sector operates under a solid regulatory framework and ample supervisory coverage. Chile's implementation of the new banking law, starting in December 2021 and continuing up to 2025, will align domestic regulation with Basel III principles and raise capital requirements. Banks' profitability has been good, but we expect it to face pressure. We think Chile's financial system has an adequate funding mix and has remained resilient to pension fund withdrawals.

Business Position: Concentrated Business, Though Mortgage Unit Continues To Gain Share

The bank's business position reflects its relatively small scale and limited diversification, given its focus on corporate loans. However, its mortgage business has expanded in recent years, as part of its strategy to improve its business mix. In addition, the bank continues working to strengthen its virtual initiatives, such as its Virtual Branch, with rising usage and income from the application and good feedback from users.

As of the end of September 2023, Banco Consorcio was the ninth-largest bank in loans and the eighth in deposits, with market shares of about 2.0% and 2.2%, respectively (excluding financial institutions' operations outside Chile). The corporate segment represented 68% of Banco Consorcio's exposures as of the same date, down from 73% a year prior (and compared with 55% for the industry average), followed by mortgages (30%) and consumer loans (2%).

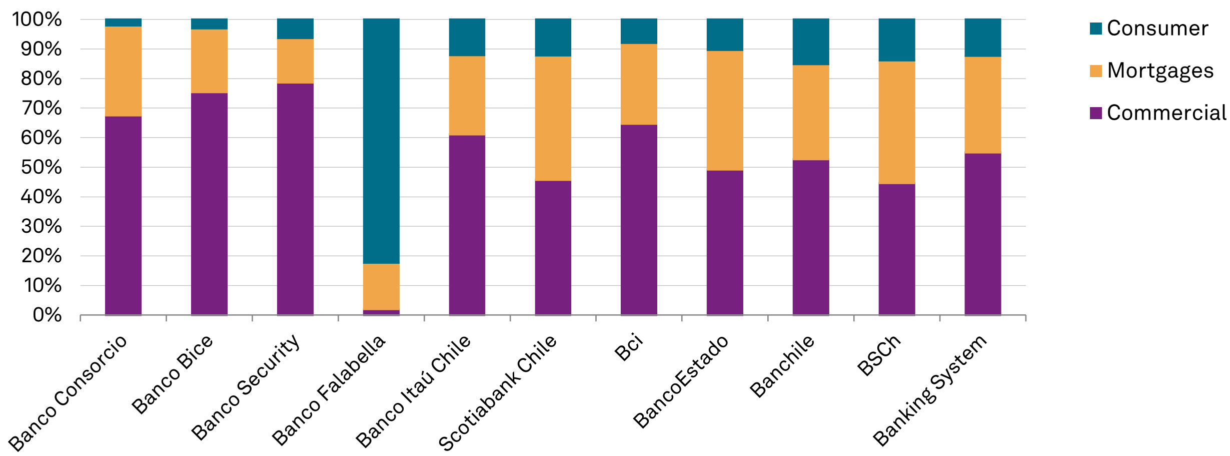
In the first nine months of 2023, the bank's credit portfolio decreased 0.5% in nominal terms, compared with the industry's average growth of 3.1%. The commercial portfolio contracted 5.5%, explained by the bank's conservative credit strategy and lower credit demand amid sluggish economic growth and still-high interest rates. The mortgage segment showed more dynamism, increasing 12% as its demand remained steady despite higher rates.

For the next 12-24 months, we expect Banco Consorcio will continue improving its business mix within its commercial portfolio and reducing its exposure to the real estate developer sector. In addition, the bank will continue focusing on credit management, improving cross-selling by taking advantage of the group's customer base, and will maintain capitalization above the industry average, with nominal credit growth below inflation in 2023 and averaging 6.5%, in line with the industry average, in the following two years.

Chart 1

Loan portfolio breakdown for the 10 largest Chilean banks

As of September 2023



Source: CMF (Comisión del Mercado Financiero).

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 RAC ratio to average 10.5% over the next 24 months. Our RAC ratio forecast incorporates our base-case scenario assumptions:

- Flat GDP growth in 2023 and growth of about 2.0% in 2024 and 2.8% in 2025.
- Inflation returning to historical levels.
- Nominal credit growth of 2.5% in 2023 and 5%-8% growth in 2024 and 2025.
- Compression in margins due to lower expected inflation and still-high, although decreasing, interest rates.
- Return on average common equity (ROAE) of 12-14% in 2023, stabilizing at 10%-12% in 2024-2025.
- Nonperforming loans (NPLs) of 1.5%-2.0% with net charge-offs (NCOs) to average customer loans of less than 1%.
- Cost of risk at 0.2%-0.6%.
- 50% annual dividend payout in 2023-2025, but with flexibility to adjust it, if needed.

Banco Consorcio had a solid regulatory capitalization ratio of 19.9% in September 2023, which is well in excess of the regulator's minimum requirements.

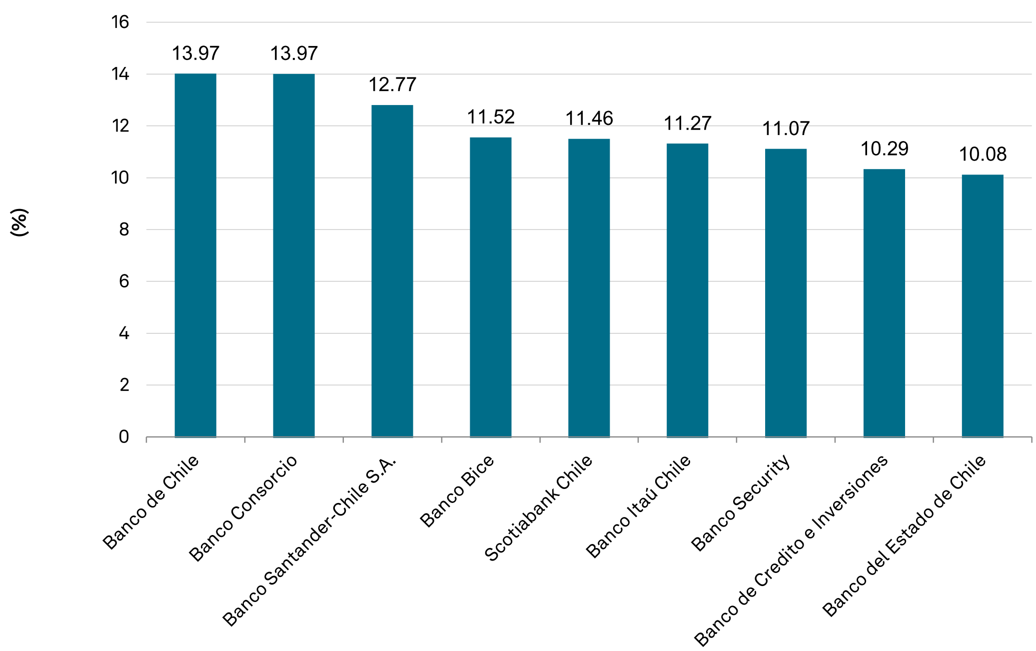
The bank generates relatively stable operating revenue, mostly from its lending operations. In the first nine months of 2023, Banco Consorcio posted a return on average assets of 1.1% and ROAE of almost 14%, down from 1.4% and 18.3%, respectively, a year before. The lower results mainly stem from tighter margins, given inflation's gradual return to normal and its impact on the bank's long positions in inflation-adjusted assets (UF, Unidad de Fomento, currency indexed by inflation) as well as higher funding costs due to elevated interest rates.

On the other hand, the bank's cost of risk this year included the release of reserves due to better-than-expected credit portfolio performance and the high recovery of a charged-off case.

Chart 2

Banco Consorcio has sound capitalization compared with peers

Tier 1 ratios



As of September 2023. Source: Comision para el Mercado Financiero.

Risk Position: Asset Quality Metrics Will Remain Manageable Despite Some Deterioration

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 32% 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 collateral that mitigate risks.

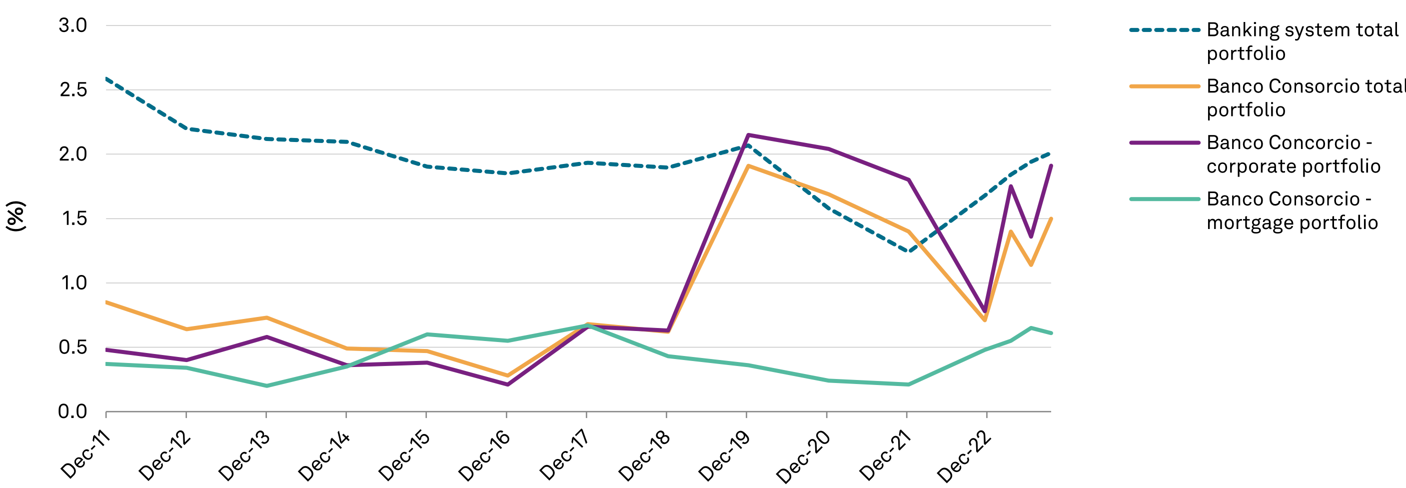
As of the end of September 2023, the bank's NPLs had deteriorated to 1.5%, from 0.7% in 2022 and 1.4% in 2021, but this was still better than the industry's 2.0%. In addition, NCOs reached 0.1%, down from 0.6% in 2022, and loan loss reserves covered 293% of total NPLs.

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, given the historically high interest rates, coupled with weak economic performance, which will pressure borrowers. Moreover, we expect portfolio growth in less cyclical sectors, with a falling share of loans to the real estate developer sector.

Chart 3

Banco Consorcio nonperforming loans evolution

90-days-past-due loans



Source: CMF (Comisión del Mercado Financiero).

Funding And Liquidity: Prudent Liquidity Management Mitigates Wholesale-Oriented Funding

The bank's funding base has a large share of wholesale and institutional clients and a smaller proportion of retail deposits than peers have. Nonetheless, in the past several years, Banco Consorcio has been diversifying its funding, 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 sight deposits.

By the end of September 2023, customer deposits remained Banco Consorcio's main funding source, accounting for 52% of its total funding base (6% sight deposits and 46% time deposits), below the Chilean banking system's average of 64%. The other main funding sources are bonds (senior and subordinated; 32% of total funding base), the central bank's pandemic-related lines (FCIC, Financing Facility Conditional on Increased Lending ; 12%), and bank loans (4%).

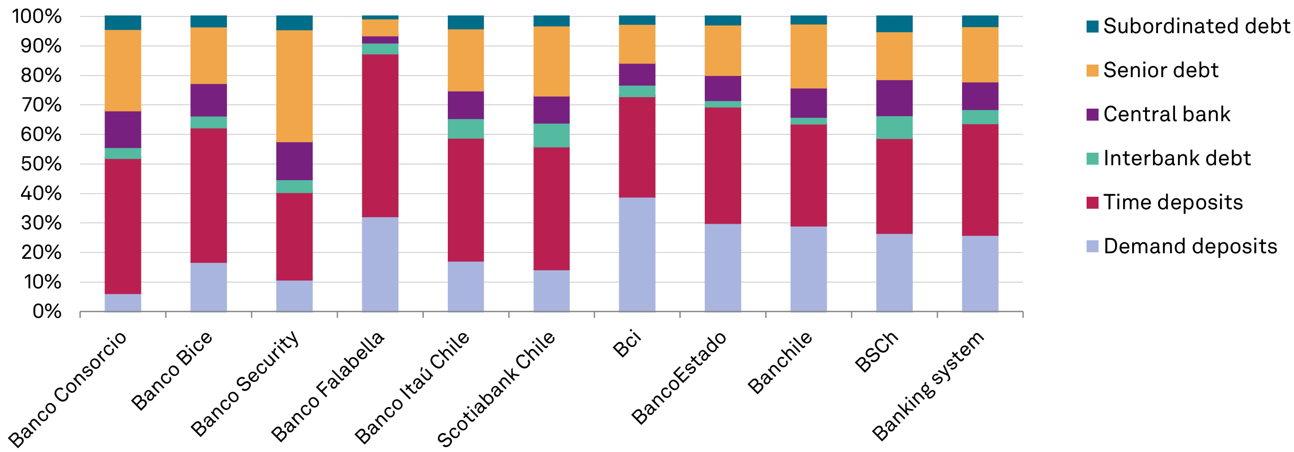
The bank's stable funding ratio was 140% in September 2023, which is in line with the system average. For the next 24 months, we expect Banco Consorcio to maintain its funding with some increase in its debt issuances (mainly in the local market but also in the international market) and deposits as the maturity date of the FCIC approaches in April and July 2024. We consider the bank prepared to meet these maturities.

In our opinion, Banco Consorcio will cover its liquidity needs in a timely manner in the next 12 months, with its ratio of broad liquid assets to short-term wholesale funding ratio at 3.3x in September 2023. Moreover, broad liquid assets to total assets reached 31%, 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 4

Funding breakdown for the 10 largest Chilean banks

As of September 2023



Source: CMF (Comisión del Mercado Financiero).

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 the 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 variety 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

Environmental, social, and governance (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 with those of neighboring countries, and banks' balance sheets reflect that diversity.

Banco Consorcio proactively works on ESG initiatives. In 2023, its environmental committee became a corporate committee with the presence of directors and senior management from CF, the bank, and the insurance companies. In addition, it has expanded the environmental focus in its business, with most loans granted to projects with low socioenvironmental risk, and it currently finances eight renewable energy projects.

Banco Consorcio has independent directors elected by shareholders who participate in many committees, including audit and compliance, operational risk, prevention of money laundering and terrorist financing, and environmental risks.

Key Statistics

Table 1

Banco Consorcio key figures

		--Year ended Dec. 31--			
(Mil. CLP)	**2023***	**2022**	**2021**	**2020**	**2019**
Adjusted assets	8,747,439.1	7,935,869.7	7,401,636.0	5,913,730.0	5,754,951.0
Customer loans (gross)	4,717,081.2	4,741,672.5	4,591,338.0	3,783,109.0	3,473,357.0
Adjusted common equity	705,026.9	662,556.8	625,659.9	573,635.0	518,725.0
Operating revenues	135,626.9	223,584.8	215,392.0	189,034.0	154,079.0
Noninterest expenses	55,815.1	66,440.3	58,983.0	46,884.0	50,793.0
Core earnings	67,710.1	106,151.3	71,291.0	100,665.0	67,833.0

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

Table 2

Banco Consorcio business position

		--Year ended Dec. 31--			
(%)	**2023***	**2022**	**2021**	**2020**	**2019**
Loan market share in country of domicile	2.1	2.1	2.2	2.0	1.9
Deposit market share in country of domicile	2.2	2.0	2.3	1.8	2.2
Return on average common equity	13.6	17.5	12.3	9.1	10.8

*Data as of Sept. 30. N/A--Not applicable. N.M.--Not meaningful.

Table 3

Banco Consorcio capital and earnings

		--Year ended Dec. 31--			
(%)	**2023***	**2022**	**2021**	**2020**	**2019**
Tier 1 capital ratio	13.5	13.2	10.6	13.1	11.4
S&P Global Ratings' RAC ratio before diversification	N/A	10.1	9.7	10.3	N/A
S&P Global Ratings' RAC ratio after diversification	N/A	7.1	N/A	N/A	N/A
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0

Table 3

Banco Consorcio capital and earnings (cont.)

	--Year ended Dec. 31--				
(%)	**2023***	**2022**	**2021**	**2020**	**2019**
Net interest income/operating revenues	74.5	86.1	82.7	66.9	60.9
Fee income/operating revenues	5.3	4.9	4.9	4.8	5.8
Market-sensitive income/operating revenues	18.0	4.6	11.1	27.4	32.2
Cost to income ratio	41.2	29.7	27.4	24.8	33.0
Preprovision operating income/average assets	1.3	2.0	2.3	2.4	2.0
Core earnings/average managed assets	1.1	1.4	1.1	1.7	1.3

*Data as of Sept. 30. N/A--Not applicable. N.M.--Not meaningful.

Table 4

Banco Consorcio risk position

	--Year ended Dec. 31--				
(%)	**2023***	**2022**	**2021**	**2020**	**2019**
Growth in customer loans	(0.7)	3.3	21.4	8.9	31.3
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	42.2	42.0	44.3	N/A
Total managed assets/adjusted common equity (x)	12.4	12.0	11.8	10.3	11.1
New loan loss provisions/average customer loans	(0.2)	0.9	1.8	0.9	0.9
Net charge-offs/average customer loans	0.1	0.6	0.4	0.3	0.3
Gross nonperforming assets/customer loans + other real estate owned	1.5	0.8	1.4	1.7	1.9
Loan loss reserves/gross nonperforming assets	139.4	293.4	190.4	128.6	94.7

*Data as of Sept. 30. N/A--Not applicable.

Table 5

Banco Consorcio funding and liquidity

	--Year ended Dec. 31--				
(%)	**2023***	**2022**	**2021**	**2020**	**2019**
Core deposits/funding base	47.8	48.3	55.1	52.7	62.2
Customer loans (net)/customer deposits	123.3	136.7	122.7	137.8	110.2
Long-term funding ratio	89.8	90.7	92.4	88.7	85.0
Stable funding ratio	141.7	129.5	126.4	116.4	108.5
Short-term wholesale funding/funding base	11.1	10.2	8.2	12.6	16.6
Broad liquid assets/short-term wholesale funding (x)	3.8	3.5	3.8	2.3	1.7
Broad liquid assets/total assets	37.2	31.1	28.0	24.8	23.7
Broad liquid assets/customer deposits	87.0	72.8	56.9	54.6	44.1
Net broad liquid assets/short-term customer deposits	65.1	53.5	42.7	31.8	17.7
Short-term wholesale funding/total wholesale funding	21.2	19.7	18.3	26.7	44.0

*Data as of Sept. 30. N/A--Not applicable.

Banco Consorcio--Rating component scores

Issuer credit rating	**BBB/Negative/--**
SACP	bbb

Banco Consorcio--Rating component scores (cont.)	
Issuer credit rating	**BBB/Negative/--**
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
Sovereign support	0
Additional factors	0

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

Related Criteria

- Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- 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

Related Research

- Banking Industry Country Risk Assessment: Chile, Oct. 31, 2023
- Outlooks On Two Chilean Financial Institutions Revised To Negative Following Same Action On Sovereign, Oct. 20, 2023
- Chile Outlook Revised To Negative On Weaker Political Consensus; 'A/A-1' Foreign Currency Ratings Affirmed, Oct. 19, 2023

Ratings Detail (As Of December 13, 2023)*	
Banco Consorcio	
Issuer Credit Rating	BBB/Negative/--
Issuer Credit Ratings History	
27-Jan-2022	BBB/Negative/--
Sovereign Rating	
Chile	
Foreign Currency	A/Negative/A-1
Local Currency	A+/Negative/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.