FitchRatings

Banco Consorcio

Update

Banks
Universal Commercial Banks
Chile

Key Rating Drivers

Banco Consorcio's (the bank) Issuer Default Ratings (IDRs) are driven by its VR of 'bbb' and do not factor in any extraordinary support from its parent, Consorcio Financiero S.A. However, the bank's IDRs are currently at the same level that would be derived from the institutional support approach given that it remains a core subsidiary for its parent.

Fitch Ratings' assessment of the bank's business profile, which includes a moderate, albeit growing, domestic franchise, is positively influenced by group benefits and risks to reach at 'bbb' business profile score above the implied 'bb' score. The bank benefits significantly from the strong franchise of its ultimate parent, Consorcio Financiero S.A., the largest insurer group in Chile, which has a strong leading franchise with 13.3% of market share in total assets and retained premium, as of September 2022. This improves the bank's access to a very large customer and product base, which could help the bank achieve its growth and diversification targets over the long term. Banco Consorcio had a loan market share of 2.1%, excluding the system's operations abroad at 3Q22. Its operations are highly concentrated in the corporate and real estate segments.

At 3Q22, the bank's a nonperforming loan (NPL) ratio improved to 0.73% from 1.41% at YE21 and loan loss reserve coverage, including additional reserves, rose to a sound 365%. The bank's NPL ratio has declined below its four-year average at 1.4%. Fitch also accounted for the loan portfolio's high level of collateralization, which partly mitigates its high concentration by debtor and in the real estate sector. Nonloan exposures are high in the balance sheet but the bank reduced its corporate securities holdings and replaced them with Central Bank and Treasury notes.

Banco Consorcio's operating profit to risk-weighted assets ratio is adequate and commensurate with its rating level (1.49% four-year average). The bank's profitability has been based on an adequate NIM, good cost efficiency and adequate loan quality. Fitch expects profitability to remain above historical levels in 2022.

Banco Consorcio's capitalization level is strong and compares favorably with its domestic peers. The CET1 (common equity Tier I) ratio increased to 12.3% at 3Q22 (from 10.5% at YE21) and benefited mainly from the bank's lower loan growth detailed in its plan for 2022.

The diversification of its funding structure continues to be one of Banco Consorcio's main challenges due to its reliance on wholesale financing and the still-small proportion of demand deposits. Deposit concentration is high given the bank's size and corporate focus. At 3Q22, the loans to deposits ratio was 134.6%, which is commensurate with the bank's rating. In addition, the liquidity coverage ratio reached a sound 197% at 3Q22.

The Shareholder Support Rating (SSR) reflects the potential support from its parent company, Consorcio Financiero S.A., if needed. Fitch believes the parent's propensity to provide support to Banco Consorcio is high given the bank's important role in the group providing core products and complementary financial services, as well as the potential implications for the parent should the bank default, given the cross-default clauses that exist in Consorcio Financiero's debt instruments.

Rating Sensitivities

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Downward pressure on Banco Consorcio's VR could stem from lower liquidity levels or a higher risk appetite that results in significantly weaker asset quality, which affects the bank's profitability (operating profit/risk-weighted assets falling and remaining below

Ratings

Foreign Currency	
Long-Term IDR	BBB
Short-Term IDR	F3
Local Currency	
Long-Term IDR	BBB
Short-Term IDR	F3
Viability Rating	bbb
Shareholder Support Rating	bbb
National	
National Long-Term Rating	AA–(cl)
National Short-Term Rating	N1+(cl)
Sovereign Risk	
Long-Term Foreign Currency IDR	A–
Long-Term Local Currency IDR	A–
Country Ceiling	A+

Outlooks

Long-Term Foreign Currency IDR	Stable
Long-Term Local Currency IDR	Stable
National Long-Term Rating	Stable
Sovereign Long-Term Foreign Currency IDR	Stable
Sovereign Long-Term Local Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (September 2022)

Related Research

Chilean Banks: 1H22 Review and Update (February 2022)

Fitch Affirms Banco Consorcio's IDR at 'BBB'; Outlook Stable (May 2022)

LatAm Banks Positioned to Weather Deteriorating Economic Backdrop (October 2022)

Analysts

Robert Stoll
+1 212 908 9155
robert.stoll@fitchratings.com

Santiago Gallo
+56 2 2499 3320
santiago.gallo@fitchratings.com

Abraham Martinez
+56 2 2499 3317
abraham.martinez@fitchratings.com

1%) and, ultimately, its capitalization, with its CET1 ratio falling and remaining consistently below 10%;

- Downward potential of Banco Consorcio's IDRs and national rating is limited given that these are at the same level that could be achieved based on parent support.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- A potential VR upgrade for Banco Consorcio is limited given its relatively moderate domestic franchise;
- An upgrade in the bank's SSR, IDR and national ratings could be driven from a similar rating action in their ultimate parent's ratings.

Issuer Ratings (Including Main Issuing Entities)

Rating Level	Rating
Long-Term Foreign Currency IDR	BBB
Short-Term Foreign Currency IDR	F3
Long-Term Local Currency IDR	BBB
Short-Term Local Currency IDR	F3
Viability Rating	bbb
Shareholder Support Rating	bbb
National Long-Term Rating	AA–(cl)
National Short-Term Rating	N1+(cl)
Outlook/Watch	Stable

Source: Fitch Ratings

Debt Rating Classes

Rating Level	Rating
Senior Unsecured: National Long Term	AA–(cl)
Subordinated: National Long Term	A(cl)

Source: Fitch Ratings

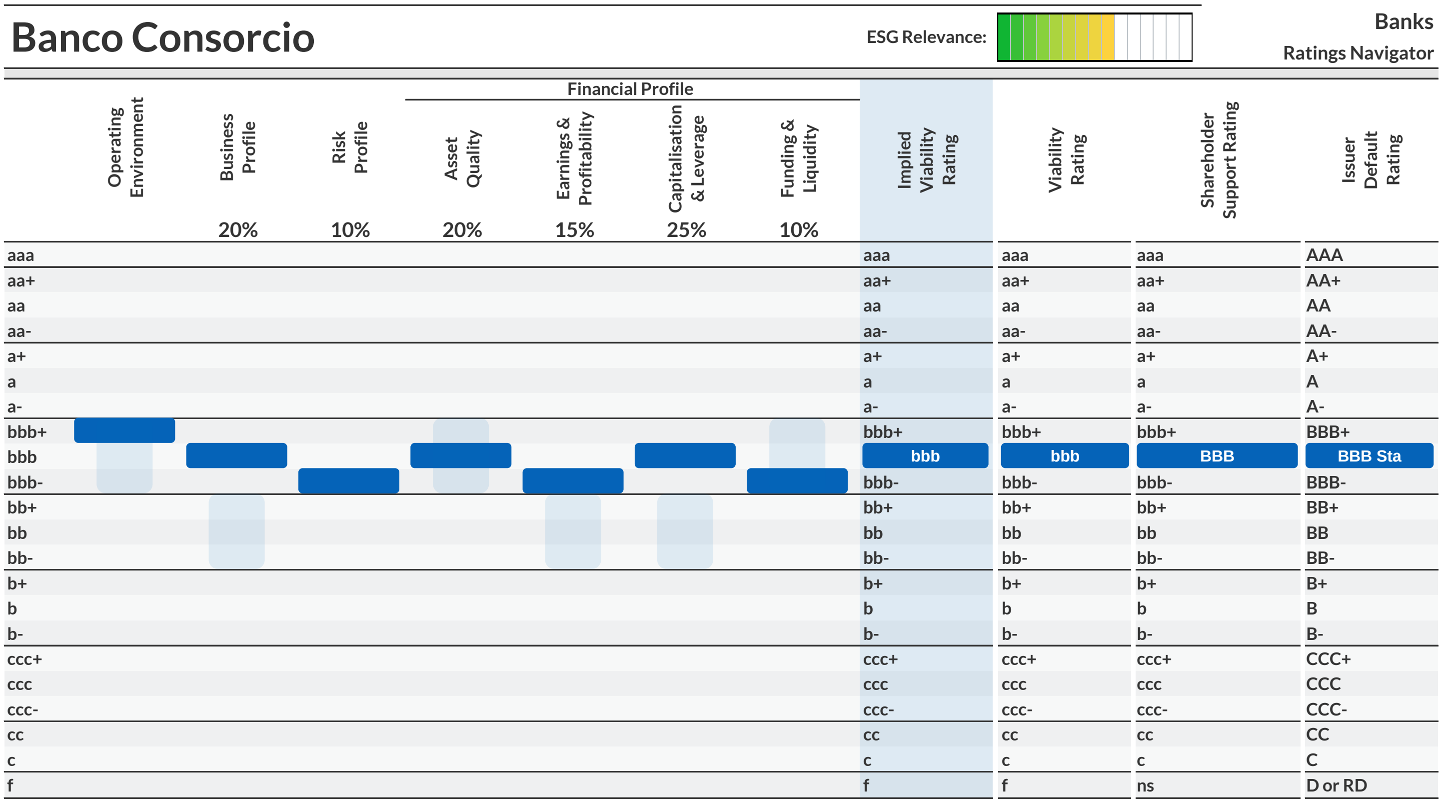
Other Debt and Issuer Ratings

Senior unsecured debt ratings are at the same level as Banco Consorcio's National Ratings, as the likelihood of default of the senior debt is the same as that of the issuer.

Fitch rates Banco Consorcio's subordinated debt two notches below its National Long-Term IDR. The two-notch difference considers the loss severity due to its subordinated nature (after default), and no additional notching for nonperformance risk given that the subordinated debt absorbs losses after the point of nonviability.

The ratings of Banco Consorcio's senior and subordinated debt will move in line with any changes to the bank's National Long Term Rating.

Ratings Navigator



VR — Adjustments to Key Rating Drivers

- The Business Profile score of 'bbb' has been assigned above the 'bb' category implied score due to the following adjustment reasons: Group benefits and risks (positive).
- The Earnings and Profitability score of 'bbb-' has been assigned above the 'bb' category implied score for the following adjustment reasons: Historical and future metrics (positive).
- The Capitalization and Leverage score of 'bbb' has been assigned above the 'bb' category implied score for the following adjustment reasons: Capital flexibility and ordinary support (positive).

Significant Changes from Last Review

- **Operating Environment for Chilean Banks:** Fitch expects the operating and business environment to remain more challenging over the next 18 months as economic growth decelerates sharply, to 1.9% in 2022 and just 0.5% in 2023, per Fitch's forecast. Although economic and financial risks remain, the agency does not anticipate a material deterioration relative to banks' recent performance. Fitch still believes any impact on banks' financial profiles will remain manageable and that, despite any potential deterioration in 2022–2023, core financial metrics will remain in line with current bank ratings. This weighs in Fitch's 'stable' assessment of the Chilean banks' OE.

Summary Financials

	9/30/22 Nine Months — Third Quarter		2021	2020	2019
(Year End as of Dec. 31, Not Disclosed)	(USD Mil.)	(CLP Bil.)	(CLP Bil.)	(CLP Bil.)	(CLP Bil.)
Summary Income Statement					
Net Interest and Dividend Income	155	150.0	178.2	126.4	93.8
Net Fees and Commissions	9	8.4	10.5	9.1	8.9
Other Operating Income	12	11.3	26.6	53.5	51.3
Total Operating Income	176	169.6	215.4	189.0	154.1
Operating Costs	49	47.2	59.0	46.9	33.7
Pre-Impairment Operating Profit	127	122.5	156.4	142.2	120.4
Loan and Other Impairment Charges	35	33.7	74.2	83.4	44.2
Operating Profit	92	88.8	82.2	58.8	76.2
Other Non-Operating Items (Net)	N.A.	N.A.	N.A.	N.A.	N.A.
Tax	8	7.5	10.9	8.2	13.0
Net Income	84	81.3	71.3	50.6	63.2
Other Comprehensive Income	58	56.4	(100.6)	21.0	(2.0)
Fitch Comprehensive Income	143	137.7	(29.3)	71.5	61.2
Summary Balance Sheet					
Assets					
Gross Loans	4,850	4,685.4	4,591.3	3,783.1	3,473.4
- of which impaired	36	34.3	64.9	63.9	66.2
Loan Loss Allowances	114	109.8	125.4	81.7	62.7
Net Loan	4,737	4,575.6	4,466.0	3,701.4	3,410.7
Interbank	139	134.2	41.1	29.9	40.1
Derivatives	162	156.9	108.2	109.4	91.4
Other Securities and Earning Assets	2,296	2,217.6	1,700.4	1,657.0	1,815.4
Total Earning Assets	7,334	7,084.3	6,315.7	5,497.7	5,357.6
Cash and Due From Banks	602	581.5	817.7	302.2	208.7
Other Assets	319	308.2	271.0	116.6	190.5
Total Assets	8,255	7,974.0	7,404.3	5,916.5	5,756.9
Liabilities					
Customer Deposits	3,603	3,480.0	3,638.7	2,686.8	3,095.9
Interbank and Other Short-Term Funding	1,581	1,527.2	1,298.4	1,046.3	787.8
Other Long-Term Funding	2,087	2,015.6	1,660.6	1,388.0	1,109.1
Trading Liabilities and Derivatives	172	166.0	112.1	80.2	80.6
Total Funding and Derivatives	7,442	7,188.8	6,709.9	5,201.4	5,073.4
Other Liabilities	165	159.6	134.8	117.7	164.8
Preference Shares and Hybrid Capital	N.A.	N.A.	N.A.	N.A.	N.A.
Total Equity	648	625.5	559.7	597.4	518.6
Total Liabilities and Equity	8,255	7,974.0	7,404.3	5,916.5	5,756.9
Exchange Rate		USD1 = CLP966.00	USD1 = CLP866.25	USD1 = CLP728.96	USD1 = CLP744.62

N.A. – Not applicable
Source: Fitch Ratings

Key Ratios

(%, Year End as of Dec. 31)	9/30/22	2021	2020	2019
Ratios (annualized as appropriate)				
Profitability				
Operating Profit/Risk-Weighted Assets	2.3	1.5	1.3	1.7
Net Interest Income/Average Earning Assets	2.9	3.0	2.3	2.0
Non-Interest Expense/Gross Revenue	27.8	27.4	24.8	21.9
Net Income/Average Equity	17.3	12.5	9.7	12.6
Asset Quality				
Impaired Loans Ratio	0.7	1.4	1.7	1.9
Growth in Gross Loans	2.0	21.4	8.9	31.4
Loan Loss Allowances/Impaired Loans	319.9	193.3	128.0	94.7
Loan Impairment Charges/Average Gross Loans	1.0	1.8	0.9	0.9
Capitalization				
Common Equity Tier 1 Ratio	12.3	10.5	13.1	N.A.
Fully Loaded Common Equity Tier 1 Ratio	N.A.	N.A.	N.A.	N.A.
Fitch Core Capital Ratio	N.A.	10.5	13.0	11.3
Tangible Common Equity/Tangible Assets	7.8	7.5	10.1	9.0
Basel Leverage Ratio	7.8	7.5	10.0	8.9
Net Impaired Loans/Common Equity Tier 1	(12.1)	N.A.	N.A.	N.A.
Net Impaired Loans/Fitch Core Capital	N.A.	(10.9)	(3.0)	0.7
Funding and Liquidity				
Gross Loans/Customer Deposits	134.6	126.2	140.8	112.2
Liquidity Coverage Ratio	197.0	257.0	212.0	192.0
Customer Deposits/Total Non-Equity Funding	49.6	55.2	52.5	62.0
Net Stable Funding Ratio	N.A.	N.A.	N.A.	N.A.

N.A. – Not applicable
Source: Fitch Ratings

Government/Shareholder Support

Shareholder Support	
Shareholder IDR	BBB
Total Adjustments (notches)	0
Shareholder Support Rating	BBB
Shareholder ability to support	
Shareholder Rating	BBB/ Stable
Shareholder regulation	1 Notch
Relative size	2+ Notches
Country risks	Equalised
Shareholder propensity to support	
Role in group	Equalised
Reputational risk	Equalised
Integration	1 Notch
Support record	Equalised
Subsidiary performance and prospects	Equalised
Legal commitments	Equalised

The colours indicate the weighting of each KRD in the assessment.
Higher influence Moderate influence Lower influence

Environmental, Social and Governance Considerations

FitchRatings **Banco Consorcio**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Banco Consorcio has 5 ESG potential rating drivers

- Banco Consorcio has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
	5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
				1

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, due to either their nature or the way in which they are being managed by the entity.

For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

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