FitchRatings

Banks
Universal Commercial Banks
Chile

Banco Consorcio

Key Rating Drivers

IDR Based on Viability Rating: Banco Consorcio's (BC) Issuer Default Ratings (IDRs) are driven by its intrinsic financial profile (measured by its Viability Rating [VR] of bbb). While the ratings do not reflect any extraordinary support from its parent Consorcio Financiero S.A., BC remains a strategically important subsidiary for its parent.

Moderate Franchise: The VR is highly influenced by the bank's moderate, though growing, market position. BC is a medium-to small-size bank, and had a loan market share of 1.94% at December 2019, excluding the system's international operations. As part of the bank's strategy, the lending portfolio is highly concentrated in the corporate and real estate segments.

Adequate Financial Profile: BC's financial profile is driven by good profitability, solid capitalization, adequate credit-risk management and improved liquidity. BC's main challenge is to improve its funding structure, due to its reliance on wholesale funding and high deposit concentration - which is reasonable given its business model and the size of its franchise. Fitch Ratings will continue to monitor the impact of the global health crisis for increasing pressures on the bank's financial performance which could negatively affect its ratings.

Asset Quality a Main Strength: With a non-performing loan (NPL) ratio of 0.87% over the past four years, the bank's asset quality remains solid. Loan loss allowances dropped to 94.7% at December 2019 from 271.04% in December 2018. This mainly reflects a deterioration in the loan portfolio since the last quarter of 2019 caused by the impact of social protests. Fitch is nonetheless expecting a cyclical deterioration in asset quality due to deteriorating economic prospects.

Sound Capitalization: The bank's capital adequacy metrics are solid and above those of its closest peers. The Fitch core capital (FCC) to risk weighted assets (RWA) ratio was 11.33% at December 2019. Fitch estimates that the bank's capitalization will remain at satisfactory levels for the rating category, although it may decrease gradually as the bank meets its growth targets.

Wholesale Funding: The bank's main challenge continues to be diversifying the funding structure. It aims to reach a liability structure similar to that of the banking system as a whole, but for now it relies on wholesale funding and a small proportion of no-cost sight deposits. Deposit concentration is high because of the bank's size and relatively short operational record. At December 2019, its liquidity coverage ratio (LCR) rose to 192%.

Rating Sensitivities

The bank's VR upside potential is fairly limited. Downward pressure on the VR would stem from lower liquidity levels or a higher risk appetite that results in a significantly weaker asset quality. This would affect the bank's profitability (operating profit/RWA falling and remaining below 1%) and, ultimately, its capitalization, with its FCC ratio falling consistently below 10%.

Ratings

Foreign Currency	
Long-Term IDR	BBB
Short-Term IDR	F3
Local Currency	
Long-Term IDR	BBB
Short-Term IDR	F3
Viability Rating	bbb
Support Rating	2
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	AA
Outlooks	
Long-Term Foreign-Currency IDR	Stable
Long-Term Local-Currency IDR	Stable
National Long-Term Rating	Stable

Applicable Criteria

Bank Rating Criteria (February 2020)

Related Research

Fitch Ratings 2020 Outlook: Latin American Banks (December 2019)

Fitch Ratings: Chilean Protests Unlikely to Affect Bank Creditworthiness (November 2019)

Peer Review Dashboard: Chilean Midsized Banks (March 2020)

Fitch Rtgs Revises Bank Sector Outlook in Chile, Colombia and Peru on Coronavirus Risks (March 2020)

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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
Support Rating	2
National Long Term Rating	AA-(cl)
National Short Term Rating	N1+(cl)
Outlook	Stable

Source: Fitch Ratings

Debt Ratings

Senior Usecured and Subordinated Debt

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

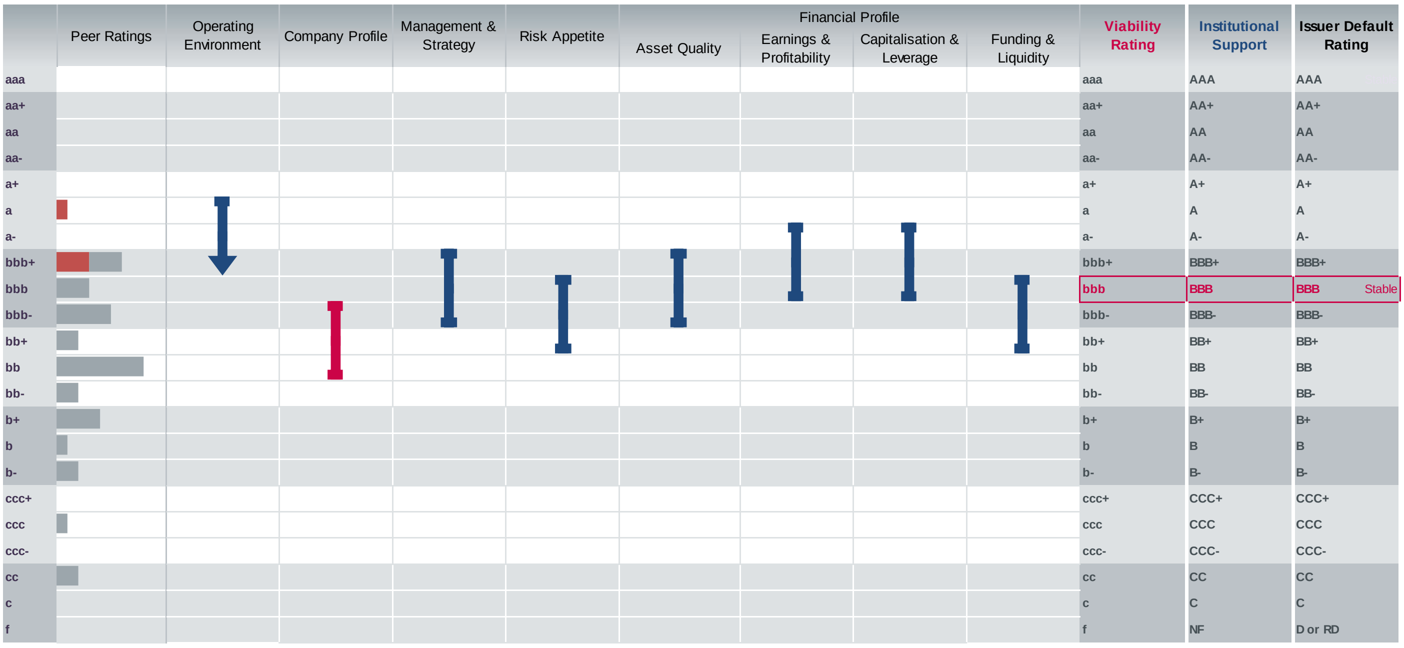
Fitch rates the bank's National scale subordinated debt two notches below its National Long-Term Rating. The two-notch difference considers the loss severity due to its subordinated nature (after default), and no additional notching for non-performance risk given the subordinated debt's gone concern feature (triggered after the point of non-viability).

Ratings Navigator

Banco Consorcio

ESG Relevance:

Banks
Ratings Navigator



Sovereign / Institutional Support Assessment

Support Rating Floor	Value
Typical D-SIB SRF for sovereign's rating level (assuming high propensity)	A or A-
Actual country D-SIB SRF	NF
Support Rating Floor:	**NF**

Support Factors	Positive	Neutral	Negative
Sovereign ability to support system			
Size of banking system relative to economy			✓
Size of potential problem	✓		
Structure of banking system			✓
Liability structure of banking system		✓	
Sovereign financial flexibility (for rating level)	✓		
Sovereign propensity to support system			
Resolution legislation with senior debt bail-in			✓
Track record of banking sector support		✓	
Government statements of support			✓
Sovereign propensity to support bank			
Systemic importance		✓	
Liability structure of bank		✓	
Ownership		✓	
Specifics of bank failure		✓	
Policy banks			
Policy role			
Funding guarantees and legal status			
Government ownership			

Navigator Peer Comparison

Peer Group Summary

	Operating Environment	Company Profile	Management & Strategy	Risk Appetite	Asset Quality	Earnings & Profitability	Capitalisation & Leverage	Funding & Liquidity	Viability Rating
BTG Pactual Chile	a- ▼	bb+	bbb-	bbb-	bbb+	bbb+	bbb+	bb+	bbb-
Banco Consorcio	a- ▼	bb+	bbb	bbb-	bbb	bbb+	bbb+	bbb-	bbb
Banco Security	a- ▼	bbb	bbb	bbb+	a-	bbb+	bbb	bbb	bbb+
Banco BICE	a- ▼	bbb	bbb+	a-	a	bbb+	bbb ▼	bbb+	bbb+
Scotiabank Chile	a- ▼	bbb+	a-	bbb+	a-	bbb ▲	bbb-	bbb	bbb+
Banco de Credito e Inversiones	a- ▼	a	a	a-	a	a-	bbb+	a-	a
Banco Santander Chile	a- ▼	a	a	a	a-	a	a-	a-	a

Source: Fitch Ratings

Company Summary

BC is a small-to-medium-sized bank that has its origin in the acquisition of the banking license of Banco Monex by Consorcio Financiero in 2009. The bank is 100%-owned by Consorcio Financiero, one of the most important financial conglomerates in Chile, with a leading franchise in the insurance business.

At June 2019, Consorcio Financiero was the largest insurance group in the country by equity and total assets, with a 16% market share in the insurance business and more than 1 million clients. The group is 84% owned by three families, 8.2% by the International Finance Corporation (IFC) and 7.8% by current and former executives of the group. In June 2016, IFC made a capital injection of USD140 million in Consorcio Financiero. Since then, it has held its current stake. Consorcio Financiero injected USD70 million of these funds into the bank and USD70 million into Consorcio Vida.

At December 2019, BC was the 10th largest Chilean bank by total loans with a domestic market share of 1.94%. Its target remains to continue to grow strongly and achieve a 2% market share in total loans in all segments in the medium term, which is more challenging within the consumer loan segment, where it has a more limited presence.

Business Model

BC is a universal bank, with commercial lending the main focus, and has grown strongly since its inception (CAGR 2015–2019 of 19.0%). At December 2019, the loan portfolio was broken down as follows: large corporates and commercial 85%; real estate and construction 12%; and consumer lending 3%. Commercial lending consists mainly of working capital, syndicated loans, project finance and guarantees. It entered the SME segment in 2016, exclusively with factoring operations.

Retail lending includes mortgage loans (81% of total retail loans) and consumer loans (19% of total retail loans). The former is mainly composed of loans to retirees and personal loans to low-and medium-income individuals. But the bank has discontinued this segment and is now in the process of relaunching the business with a focus on medium-and higher-income individuals, taking advantage of the large database of the group's life insurance companies.

Until 2018, the group's strategy regarding mortgage loans had been to book them in the life insurance companies, as these companies have the long-term funding needed for this business. Therefore, the bank had originated these loans and then sold them to the insurance companies. However, in 2018 this strategy changed. The bank now retains these loans on its balance sheet, so this type of lending will grow stronger than in the past. The total mortgage loan portfolio managed by the bank shows a CAGR of 53.9% for 2015–2019.

In addition, the bank offers treasury products to its clients and has a stock brokerage subsidiary. These businesses accounted for 12.8% and 5.8% of the bank's consolidated operational revenues at December 2019.

Key Assessment Factors

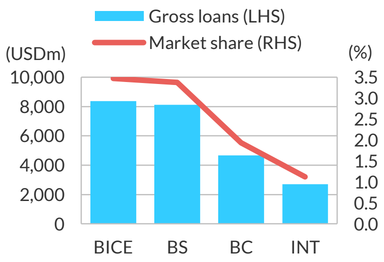
Operating Environment

Fitch has revised the Chilean banking sector outlook for 2020 to negative from stable as the weaker operating environment will increase asset quality deterioration and weigh on profitability. The impact of the coronavirus on the real economy, as well as a sharp fall in commodity prices, oil and copper in particular, will challenge the financial profiles of Chilean banks. Fitch will monitor the impact of the pandemic for any increasing pressures on banks' financial performance which could negatively affect their ratings.

Risk Appetite

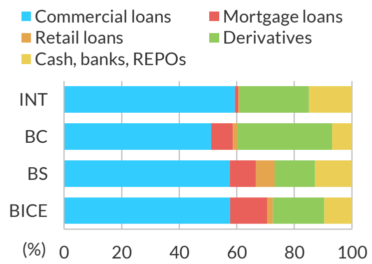
The bank's risk appetite is considered moderate, based on good underwriting standards and risk controls, although credit growth has been relatively aggressive, but expected, when considering the bank's short history, small size and growth strategy. Risk policies and exposure limits are reasonable and in line with industry standards. Favorably, the entity does not engage in complex financial practices. The investment portfolio is healthy and adequately managed.

Market Share at end-2019



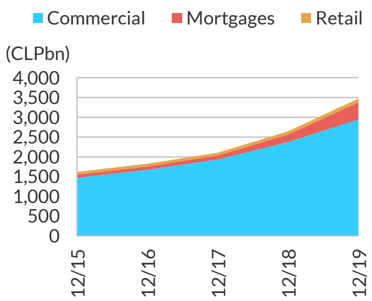
Market share excluding operations abroad.
Source: Fitch Ratings, Fitch Solutions

Assets Breakdown at end- 2019



Source: Fitch Ratings, Fitch Solutions

Evolution of Loan Portfolio



Source: Fitch Ratings, Fitch Solutions.

The loan-approval process is centralized, with members of the board forming part of the various committees in charge of approving credit operations. The approval of corporate loans is done by hierarchy, according to the involved amount. The superior credit committee, which includes three board members, the CEO and the risk and commercial managers, approves all credits over USD1 million. BC's financing portfolio has a high level of collateral, usually mortgages and stock pledges. In the retail segment, the origination process is standard and aligned with the industry. BC has parameterized scoring systems, developed internally with the help of a specialized advisor.

The bank has a special team specialized in the real estate business, where it has a relatively high concentration, as it accounted for 31.5% of the loan portfolio in December 2019. For this sector, the main policies are:

- financing only the construction cost;
- while the land can be financed in special cases, this financing has to be cancelled once the construction is financed;
- a focus on financing residential developments projects (85.1% at May 2019). It is also required a percentage of pre-sales - minimum debt/collateral is 2.0x. During 2019 the company tightened the origination requisites and the control of projects. At December 2019, the portfolio had, on average, a 68% construction advance and were 74% sold (this shows an improvement on 2018).

Until early-2018, most of the residential mortgages were sold to the group's insurance company. However, this strategy has since changed, and the bank keeps these loans on the balance sheet. For individual mortgages, the maximum LTV ratio is generally 90%.

In Fitch's opinion, the bank has a relatively higher risk appetite in the credit area compared to its local peers because of its growth expectations above the industry average and high concentrations on both sides of the balance sheet. Although the bank's loan portfolio is still concentrated in larger corporates, Fitch expects a slight decrease in its consolidated asset quality ratios in the medium term due to the expected economic slowdown in Chile. In addition the relatively small size of the institution gives it a competitive advantage because of its committees' agility, easy access to top management and directors, and rapid internal communication, which allow for fast decisions compared to larger peers.

Growth

BC has been characterized by accelerated credit growth, with rates higher than those of the local industry and closest peers and above its internal capital generation. This high growth has allowed the bank to acquire its current franchise in a short period. The bank's adequate risk management policies, together with the economic environment, have made possible the growth at high rates while maintaining good asset quality. The bank plans to continue growing and gaining market share based on organic growth, although at slower rates than in the initial years.

Conservative Market Risk

Market risks are relatively limited because of the short term of the bank's assets (most long-term assets are liquid fixed-rate securities) and the strict limits for interest rate and currency mismatches imposed internally and by regulation. Trading activities are limited and low risk. The bank does not assume significant foreign-exchange risks. Although the management has authorization to take longer-term positions, in normal circumstances the bank usually takes intraday positions.

The asset and liability committee is responsible for assigning the limits defined by the board and managing the financial business of the bank, and controls and develops the policies for monitoring interest rate, foreign-currency and liquidity risk. Interest rate risk is moderate, with a short-term limit of 30% of the bank's net interest margin; this position has been stable, above 17% during 2019 and a long-term limit of 25% of regulatory capital (it remained below 15% in 2019). In addition to complying with market risk regulatory limits, the bank uses a VAR methodology (historic simulation, 99%) for its investment portfolio with very conservative limits (approximately 1% of the bank's Tier I capital for the global VAR limit).

As with most Chilean financial institutions, BC maintains a long net position in Chilean inflation-indexed UF monetary units, actively managed according to inflation expectations and, therefore, do not represent a material risk for the bank. In 2019, the bank modified the inflation banking book mismatches limit from 2.0x equity to 1.0x equity.

Summary Financials and Key Ratios – Banco Consorcio

	31 Dec 19		31 Dec 18	31 Dec 17	31 Dec 16
	Year end (USDm)	Year end (CLPb)	Year end (CLPb)	Year end (CLPb)	Year end (CLPb)
Summary income statement					
Net interest and dividend income	126,0	93,8	80,7	47,0	53,1
Net fees and commissions	12,0	8,9	8,2	7,0	5,7
Other operating income	68,9	51,3	14,9	51,0	42,1
Total operating income	206,9	154,1	103,7	104,9	100,9
Operating costs	68,2	50,8	40,0	34,1	31,6
Pre-impairment operating profit	138,7	103,3	63,7	70,9	69,3
Loan and other impairment charges	36,4	27,1	9,5	9,4	10,2
Operating profit	102,3	76,2	54,2	61,5	59,1
Other non-operating items (net)	n.a.	n.a.	n.a.	n.a.	n.a.
Tax	17,4	13,0	11,1	12,8	11,4
Net income	84,9	63,2	43,1	48,7	47,7
Other comprehensive income	-2,7	-2,0	-5,8	8,8	-3,7
Fitch comprehensive income	82,2	61,2	37,3	57,5	44,0
Summary balance sheet					
Assets					
Gross loans	4.664,6	3.473,4	2.644,4	2.103,3	1.824,7
- Of which impaired	88,9	66,2	16,5	14,4	5,2
Loan loss allowances	84,2	62,7	44,8	38,4	31,7
Net loans	4.580,4	3.410,7	2.599,6	2.064,9	1.793,0
Interbank	53,9	40,1	30,0	57,1	92,7
Derivatives	122,7	91,4	26,0	35,3	13,5
Other securities and earning assets	2.438,1	1.815,4	1.704,0	1.452,1	1.238,0
Total earning assets	7.195,1	5.357,6	4.359,7	3.609,3	3.137,2
Cash and due from banks	280,3	208,7	127,1	104,6	27,4
Other assets	255,9	190,5	124,0	38,8	73,9
Total assets	7.731,3	5.756,9	4.610,8	3.752,7	3.238,5
Liabilities					
Customer deposits	4.157,7	3.095,9	2.455,0	2.037,5	1.807,1
Interbank and other short-term funding	1.058,0	787,8	734,1	623,1	524,1
Other long-term funding	1.489,4	1.109,1	833,4	606,8	456,1
Trading liabilities and derivatives	108,3	80,6	48,0	15,5	10,2
Total funding	6.813,5	5.073,4	4.070,4	3.282,8	2.797,5
Other liabilities	221,3	164,8	120,40	49,2	54,8
Preference shares and hybrid capital	n.a.	n.a.	n.a.	n.a.	n.a.
Total equity	696,5	518,6	420,0	420,7	386,1
Total liabilities and equity	7.731,3	5.756,9	4.610,8	3.752,7	3.238,5
Exchange rate	USD1 = CLP744,62		USD1 = CLP695,69	USD1 = CLP615,22	USD1 = CLP667,29

Source: Fitch Ratings

Summary Financials and Key Ratios – Banco Consorcio

	31 Dec 19	31 Dec 18	31 Dec 17	31 Dec 16
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	1,67	1,45	2,03	2,18
Net interest income/average earning assets	2,01	2,06	1,38	1,88
Non-interest expense/gross revenue	32,97	38,59	32,46	31,31
Net income/average equity	12,64	10,16	12,01	14,27
Asset quality				
Impaired loans ratio	1,91	0,62	0,68	0,28
Growth in gross loans	31,35	25,73	15,27	12,86
Loan loss allowances/impaired loans	94,68	271,04	266,75	610,92
Loan impairment charges/average gross loans	0,91	0,41	0,48	0,60
Capitalisation				
Common equity Tier 1 ratio	n.a.	n.a.	n.a.	n.a.
Fully loaded common equity Tier 1 ratio	n.a.	n.a.	n.a.	n.a.
Fitch Core Capital ratio	11,33	11,16	13,83	14,24
Tangible common equity/tangible assets	8,98	9,07	11,18	11,89
Basel leverage ratio	8,90	n.a.	n.a.	n.a.
Net impaired loans/common equity Tier 1	n.a.	n.a.	n.a.	n.a.
Net impaired loans/Fitch Core Capital	0,68	-6,76	-5,72	-6,88
Funding and liquidity				
Loans/customer deposits	112,19	107,72	103,23	100,97
Liquidity coverage ratio	192,00	n.a.	n.a.	n.a.
Customer deposits/funding	62,01	61,03	62,36	64,83
Net stable funding ratio	n.a.	n.a.	n.a.	n.a.

Source: Fitch Ratings

Key Financial Metrics – Latest Developments

Asset Quality

At the end-December 2019, the company reported a 90-day NPL ratio of 1.9% showing a deterioration from previous level of 0.62% at end-2018. The quality of BC's loan book has been one of the bank's historical main strengths; the NPL average - over the past four years - ratio is still at a solid 0.87% at end-December 2019. In addition, coverage of loan loss reserves dropped to 94.7% and guarantees covered about 67% of the commercial loan. Fitch expects a cyclical deterioration in asset quality during 2020 and to return gradually to more normal levels in the medium term.

BC shows a high concentration of debtors, with the 20 largest group exposures representing 37.4% of gross loans and 2.5x FCC in December 2019 which is normal. This concentration has increased in recent reporting periods.

The commercial loan portfolio shows a relatively high concentration in the real estate sector, with the rest of the industry concentrations well diversified. At December 2019, the real estate sector accounted for 31.5% of the total, followed by mortgages (13%) retail trade (10.9%), financial services (10.3%, mainly banks and holdings), energy (7.9%), agriculture (4.9%), services (3.9%), transport and storage (3.8%), and other sectors (13.8%).

Non-loan exposures are high in the balance sheet. At December 2019, the bank's investment portfolio accounted for 34.3% of total assets, with the entity having some appetite for local corporates and banking bonds, mainly for securities rated at 'BBB(cl)' or higher. At December 2019, HY securities represented 9% and IG instruments represented 91% of the investment portfolio. This portfolio is strategically important for BC, as it provides a cushion of liquidity and makes the bank's equity profitable. Fitch is not expecting this portfolio to change in the future.

Profitability

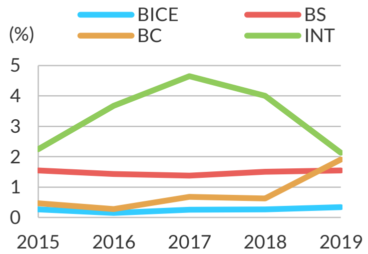
BC's profitability is adequate and similar to that of its closest peers, based on strong loan growth, good cost-efficiency levels, good loan quality and relatively good income diversification. During 2019, the operating profit to RWA ratio stood at 1.67% in line with the bank's current rating level and comparing favorably to its domestic peers, the Chilean mid-sized commercial banks. Fitch expects profitability to decline in 2020 as weaker economic conditions weigh on growth and asset quality, and affecting the bank's earnings.

Net interest income is the main contributor to gross revenues and accounted for 60.9% of total operating revenues at December 2019 (December 2018: 64%). The bank's net interest income to average earning assets ratio (NIM) shows a rising trend over the past five years as it consolidates its business strategy. The indicator stood at 2.01% at the end of December 2019 compared to a five-year average of 1.79%. The bank's NIM is supported by its loan diversification, reaching different sectors, and its expertise in its niche sector – construction – the key to maintaining healthy margins during 2020. Fitch does not expect the bank's NIM to reach higher levels in the medium term.

Non-interest income mainly comprises treasury results (32.87% of non-interest revenues at December 2019) and fees and commissions (14.8%). Treasury results mainly stem from the accrual of the investment portfolio, and the remainder is mainly the results of distributions to clients and trading income. The bank's investment portfolio represented 34.3% of the total asset at the end of December 2019. The size of this portfolio and the contribution to the bank's results are part of the business strategy and Fitch does not expect this portfolio to decrease in size or contribution.

The bank's cost efficiency is good and one of the pillars of its adequate profitability. This is based on being part of a strong franchise such as Consorcio Financiero, allowing the bank to achieve operating and marketing synergies and access to a very large customer base offering them a wide range of financial products under the Consorcio brand. This should contribute to achieving the bank's growth and diversification over the long term.

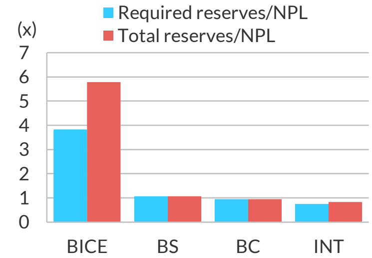
Impaired Loans/Gross Loans



BS – Banco Security. BC – Banco Consorcio.
INT. – Banco Internacional
Source: Fitch Ratings, Fitch Solutions

Reserve Coverage

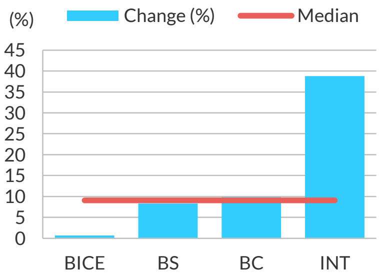
(As of 31 December 2019)



NPL Loans past due 90 days
Source: Fitch Ratings, Fitch Solutions

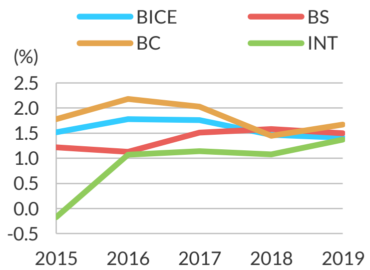
Net Income CAGR

(2016 - 2019)



Source: Fitch Ratings, Fitch Solutions.

Operating Profit/RWA



RWA – Risk weighted asset
Source: Fitch Ratings, Fitch Solutions

Capitalization

The bank's capital adequacy metrics are solid and continue above those of its closest peers. The FCC to RWA ratio was 11.33% at December 2019. Fitch estimates that the capitalization of the bank will remain at adequate levels for its rating category. Nevertheless, this ratio has been decreasing gradually over the past five years as the bank has been achieving successfully its growing targets. Good earnings generation and the dividend policy of 50%, the quality of capital and Chile's higher RWA density will also support capital levels. Fitch expects the bank's capitalization to remain relatively stable amid our expectations for lower growth.

Funding and Liquidity

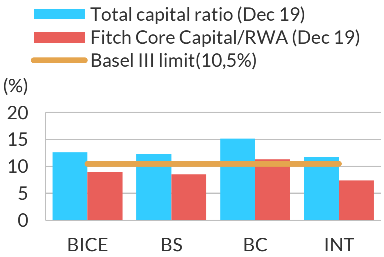
Fitch believes the bank's main challenge continues to be the improvement of its funding structure to progressively achieve a liability structure similar to the wider Chilean banking system. Funding sources rely heavily on wholesale funding and small proportion of non-remunerated sight deposits. Deposits are highly concentrated due to the size of the bank and its short operational record. At December 2019, according to the Reporte de Situacion Trimestral de Liquidez, on a contractual basis, the bank's liability structure was 55.8% time deposits, 21.2% bonds, 9.0% repos agreements, 3.3% sight deposits and 10.7% other, of total liabilities.

At December 2019, BC's main funding source was time deposits, the loans to deposits ratio was 112.2%. The bank's 20 largest depositors (excluding deposits from stock brokerage houses, which are sold in the stock exchange very fragmented) accounted for 47.0% of total deposits. The largest depositor accounted for 6.8% of total deposits and no other depositor exceeded 5% of the total.

At December 2019, the bank's largest deposits were split 24% mutual fund managers (December 2018: 23%), 20% stock brokerage houses and 10% corporates. The bank is looking to increase deposits from pension funds and insurance companies, which currently represent 6% and 8% respectively.

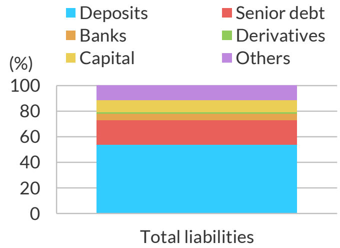
The bank closely monitors its liquidity levels and compliance with internal and regulatory limits. In addition, it works with different stress tests, which assume very conservative parameters. At December 2019, the bank had CLP652 billion in highly liquid assets (cash plus central bank and sovereign treasury securities), which covered 22.3% of time deposits from a minimum liquidity buffer of CLP400 billion. The increase in highly liquid assets led to an improvement in its liquidity coverage ratio, which was 192% at a consolidated level at the end of 2019; on a minimum regulatory of 70%, the internal limit is 100%. Fitch considers BC's liquidity levels as moderate given the high concentration of its deposits.

Capitalization Ratios



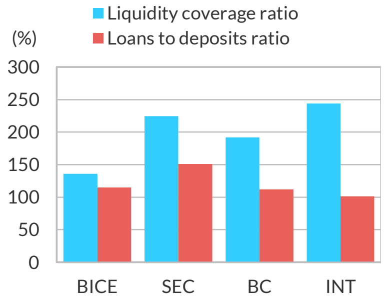
Total Capital Ratio : CET1+T2. RWA- including credit and market risk.
Source: Fitch Ratings, Fitch Solutions.

Funding Structure
(As of 31 December 2019)



Source: Fitch Ratings, Banco Consorcio financial statements

Liquidity Ratios



Source: Fitch Ratings, Fitch Solutions

Institutional Support Assessment

The bank's support rating reflects the potential support from its parent company, Consorcio Financiero SA, 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.

Fitch believes the parent has an adequate ability to provide support, which is also reflected in Consorcio Financiero's current National Long-Term Ratings of 'AA-(cl)', although the relative size of the subsidiary in respect to the parent in terms of assets (40%) and income (17.8%) could limit this ability.

Environmental, Social and Governance Considerations

FitchRatings **Banco Consorcio**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Banco Consorcio has 6 ESG potential rating drivers

- Banco Consorcio has exposure to impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations but this has very low impact on the rating.
- 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	6	issues	3
not a rating driver	3	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	3	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Company Profile; Management & Strategy; Risk Appetite; Asset Quality	1

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	Company Profile; Management & Strategy; Risk Appetite	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; Company Profile; Management & Strategy; Risk Appetite	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy	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	Company Profile; Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Management & Strategy	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	Management & Strategy; Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy	2
				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 Priniciples 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.

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.

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.