

RatingsDirect®

Banco BICE

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Banco BICE

Ratings Score Snapshot

Issuer Credit Rating
 BBB+/Negative/--

SACP: bbb → **Support: +1** → **Additional factors: 0**

Anchor	bbb+		<table border="1"> <tr> <td>ALAC support</td> <td>0</td> </tr> <tr> <td>GRE support</td> <td>0</td> </tr> <tr> <td>Group support</td> <td>0</td> </tr> <tr> <td>Sovereign support</td> <td>+1</td> </tr> </table>	ALAC support	0	GRE support	0	Group support	0	Sovereign support	+1
ALAC support	0										
GRE support	0										
Group support	0										
Sovereign support	+1										
Business position	Moderate	-1									
Capital and earnings	Adequate	0									
Risk position	Strong	+1									
Funding	Moderate	-1									
Liquidity	Adequate										
CRA adjustment	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

Key strengths

Stronger-than-industry average asset quality indicators; and

Moderate systemic importance for the Chilean government, which is supportive of its financial system.

Key risks

Tighter economic prospects in Chile, given investor uncertainty due to the recent change in political leadership and the writing of a new constitution; and

The banking operations depend heavily on wholesale funding, which we view as less stable.

The long-term rating on Banco BICE is one notch above its stand-alone credit profile (SACP) due to external support. This is because of the bank's moderate systemic importance to the Chilean financial system. The government is supportive of the system.

We forecast Banco BICE's asset quality metrics to remain stronger than those of other banks in Chile. This stems from its conservative underwriting standards. Also, it offers plain vanilla products mostly loans, which are diversified by economic sector and single exposures.

The bank's capitalization levels are in line with its growth plan. But they're still close to the 7% bottom threshold for the rating. We expect Banco BICE's risk-adjusted capital (RAC) ratio to be 7.3%-7.5% in the next 24 months, given nominal consolidated loan growth of 15% in 2022 and 5% in 2023, with a higher dividend payment in 2023.

Profitability metrics improved in 2022. The bank's profitability rose thanks to higher lending, low-cost funding, and lower provision requirements. Profitability has also strengthened because of increasing interest rates and the positive effect of inflation on the bank's net interest margin, in line with the industry trend. However, we expect Banco BICE's profitability to soften in 2023-2024, in line with the industry average, mostly due to the expected lower inflation.

Outlook

The negative outlook on Banco BICE reflects risks stemming from the ongoing constitutional amendment in Chile, pension system reform, sluggish economic growth and investment prospects in the next 18-24 months, which we reflect in the negative trend for economic risk in Chile's Banking Industry Country Risk Assessment (BICRA).

Downside scenario

We could lower the ratings on the bank if we revise the economic risk score in Chile's BICRA to a weaker category, which could also cause the bank's RAC ratio to fall below 7% because we would apply higher credit risk charges in our capital model.

Upside scenario

We could revise the outlook on Banco BICE to stable if pressures on the financial system decrease, prompting us to revise the negative trend in the economic risk in Chile's BICRA to stable, while all other fundamentals remain unchanged.

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 BICE, is 'bbb+', the strongest anchor in Latin America. (Please see [S&P Global Ratings > Commentaries \(capitaliq.com\)](#))

Business Position: Niche Bank With Moderate Market Share

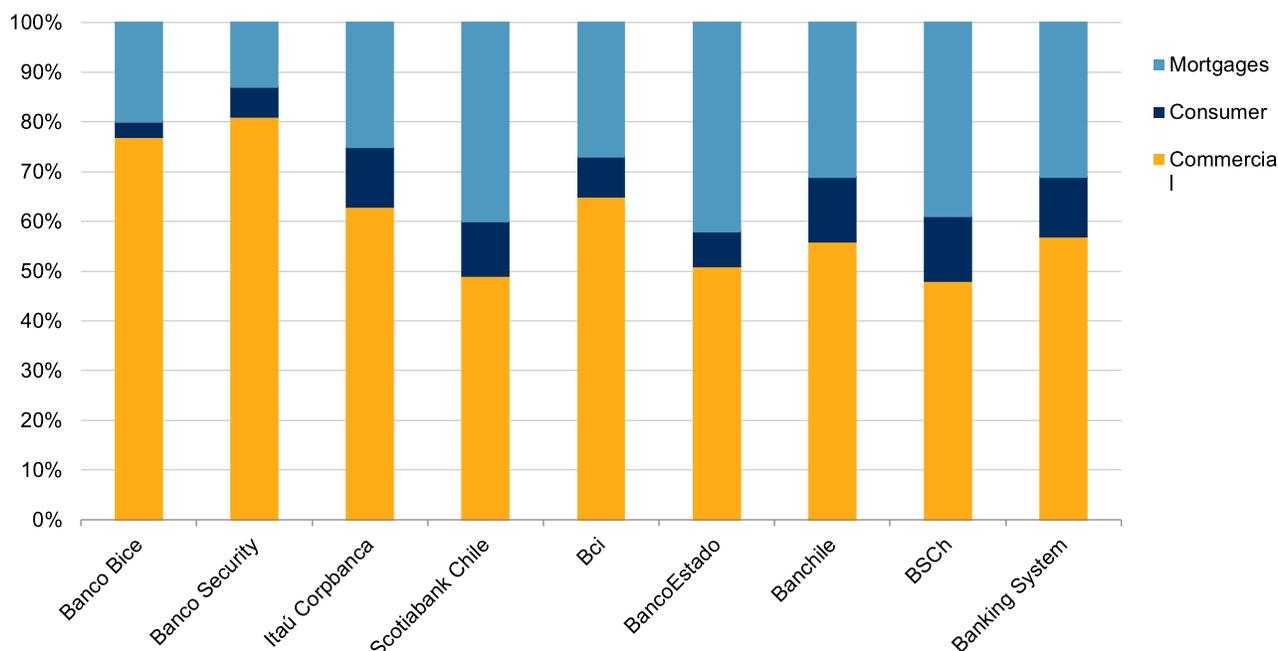
Our rating on Banco BICE reflects its smaller scale and narrower business diversification than those of universal multipurpose banks operating in Chile, given its focus on the corporate lending segment. As of September 2022, Banco BICE was the seventh-largest bank in terms of loans and deposits, with market shares in both of 3.5% (excluding offshore operations of domestic peers). As of the same date, the bank's loan portfolio expanded about 12.1% (year-to-date), above the industry average of 10.6%, as corporate lending demand continues recovering. Corporate lending continues to represent 77% of Banco BICE's exposures, followed by mortgages (20%), and consumer loans (3%) that center on high-net worth individuals.

As of September 2022, the bank reported a return on average adjusted assets (ROAA) of 1.5%, above 1.1% for the

same date last year, thanks to loan growth, relatively low cost of funding, and the positive effect of inflation on the bank's net interest margin. On the other hand, temporarily higher operating costs, in part for digitalization, are limiting the bottom-line results this year. We expect Banco BICE to maintain its competitive position through its conservative credit growth strategy in terms of risk, with some growth in loans to medium enterprises and medium- to high-net worth individuals, focusing on cross-selling among segments and strengthening its digital capabilities.

Chart 1

Loan Portfolio Breakdown For The Largest Eight
As of September 2022



Source: CMF (Comisión del Mercado Financiero).

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Capital And Earnings: Capitalization Levels In Line With Growth Plan

We expect the bank to remain well capitalized to maintain its credit growth, given our forecast for its RAC ratio of 7.3%-7.5% for the next 24 months. Our RAC ratio forecast incorporates our base-case assumptions:

- Chile's real GDP growth of 2.4% in 2022, 0.3% in 2023, and 2.9% in 2024.
- Inflation reaching 12% this year and falling to 8% in 2023 and 5% in 2024.
- Nominal loan growth of about 15% in 2022, and about 5% in the following two years, above the banking industry average.
- ROAA of 1.0%-1.2%.
- Nonperforming assets (NPAs) below 1%, with net charge-offs to average customer loans below 0.1% and high levels

of loan-loss reserves.

- A 30%-40% dividend payout during 2023 of consolidated net income in 2022. However, the dividend payout will decrease to about 30% in the following year.

As of September 2022, Banco BICE's regulatory capitalization was 12.5%, well above the regulator's minimum capital requirement of 8.0%.

Risk Position: Stronger Credit Risk Profile Than The Industry Average

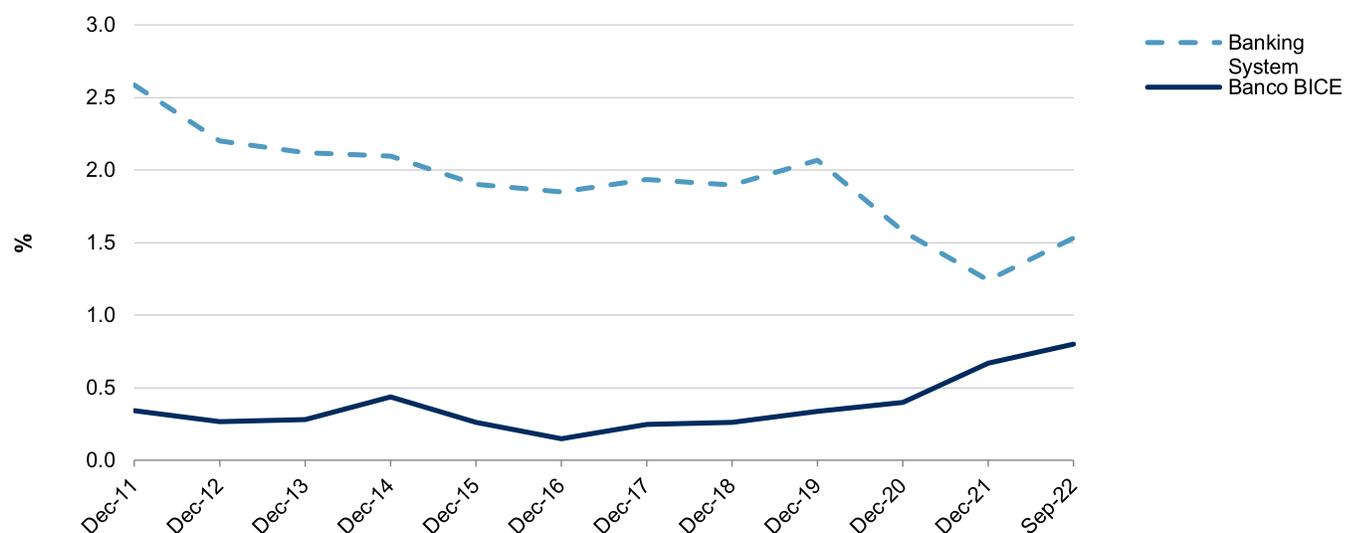
We view Banco BICE's risk position as a credit strength, given its stronger asset quality indicators than those of the Chilean banking system average due to its conservative underwriting standards. Furthermore, the assessment reflects the bank's low complexity operations and its diversified lending portfolio by economic sector and single exposures, with top 20 exposures representing less than 10% of its loan portfolio. The bank has a relatively high exposure to real-estate developers, but our capital model already reflects higher credit risk in this segment. Banco BICE also has lower exposures to energy (3.5%) and construction (3.3%), economic sectors that are struggling.

The bank's nonperforming loans (NPLs) reached 0.8% in September 2022 due to punctual cases in the corporate sector, slightly above 0.7% at the end of 2021 and the 0.5% average in the past three years, but better than the 1.6% industry average. Although the gap in this metric for Banco BICE and the system is narrowing, we expect the bank's NPLs to decrease in the coming few months, once it resolves a punctual problematic loan that's currently influencing the metric. In addition, as of September 2022, net charge-offs to total loans ratio remained low at 0.1%. Additionally, we expect loan-loss reserves will be above 2x NPLs in 2023-2024, above those of rated peers.

Chart 2

NPLs Among Peers With Strong Risk Positions

90-day past-due loans



Source: CMF (Comisión del Mercado Financiero).

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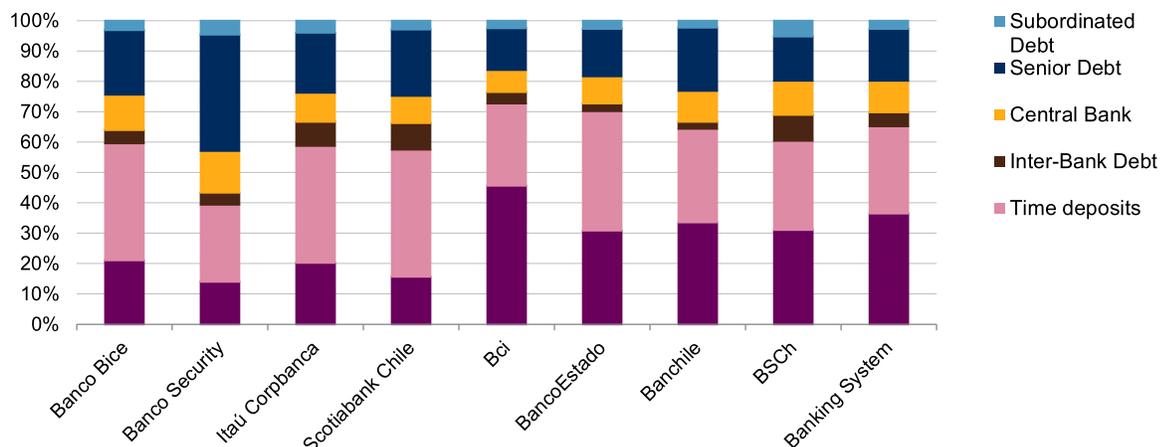
Funding And Liquidity: Mostly Wholesale Deposits, But A Prudent Liquidity Management

Customer deposits account for 60% of Banco BICE's total funding base, as of the end of September 2022. The other funding sources are bonds (senior and subordinated; 24% of total funding base), central bank lines (12%), and bank loans (4%). The bank's sight deposit base grew in 2021 as individuals deposited some of their pension savings withdrawals at the bank, and also due to actions taken by companies to preserve their liquidity. However, like peers, Banco BICE's sight deposits slipped during 2022, in part due to lower liquidity in the economy. In this sense, the percentage of sight deposits to total deposits decreased to 27% as of September 2022 from 32% in 2021, in line with the trend in the banking industry.

According to our methodology, the bank's stable funding ratio (SFR) was 111% as of September 2022, and it has averaged 117% for the past three fiscal years, which is in line with the system average. We expect retail deposits to continue growing and the SFR to remain at its current level in the next 12-18 months. We believe the bank will cover its liquidity needs in a timely manner in the next 12 months, with a broad liquid assets to short-term wholesale funding ratio of 2.3x as of September 2022, in line with those of other rated banks in the country. Similar to other banks operating in Chile, Banco BICE uses central bank securities and Chilean bank time deposits as primary instruments for liquidity management.

Chart 3

Funding Breakdown For The Largest Eight
As of September 2022



Source: CMF (Comisión del Mercado Financiero).
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Support: Moderate Systemic Importance To The Chilean Financial System

As the seventh-largest Chilean bank in terms of loans, we view Banco BICE as moderately systemically important for the domestic financial system. We have also assessed the Chilean government as supportive to domestic banks. Due to these two factors, we believe there's a moderate likelihood of extraordinary government support to Banco BICE if it experiences financial stress. As a result, the rating receives one notch of uplift from the SACP due to sovereign support.

Environmental, Social, And Governance (ESG)

ESG Credit Indicators



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 alphanumeric 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 no material influence on our credit rating analysis of Banco BICE.

Key Statistics

Table 1

Banco BICE Key Figures					
	--Year-ended Dec. 31--				
(Mil. CLP)	2022*	2021	2020	2019	2018
Adjusted assets	11,442,970.7	9,982,412.0	9,135,690.0	8,590,797.0	7,399,406.0
Customer loans (gross)	7,919,855.5	7,061,910.0	6,235,961.0	6,228,650.0	5,510,770.0
Adjusted common equity	769,123.1	684,823.0	648,180.0	597,743.0	547,273.0
Operating revenues	287,397.4	319,439.0	255,348.0	240,871.0	214,858.0
Noninterest expenses	124,552.7	144,418.0	131,022.0	116,165.0	108,901.0
Core earnings	129,979.9	105,140.0	79,412.0	72,900.0	70,626.0

*Data as of Sept. 30.

Table 2

Banco BICE Business Position					
	--Year-ended Dec. 31--				
(%)	2022*	2021	2020	2019	2018
Loan market share in country of domicile	3.5	3.4	3.3	3.4	3.3
Deposit market share in country of domicile	3.2	3.3	3.4	3.9	3.5
Total revenues from business line (currency in millions)	287,397.4	319,439.0	255,348.0	240,871.0	214,858.0
Commercial banking/total revenues from business line	45.3	37.3	37.6	38.2	38.7
Retail banking/total revenues from business line	23.2	19.7	17.7	20.8	21.0
Commercial & retail banking/total revenues from business line	68.5	57.0	55.3	59.0	59.7
Brokerage/total revenues from business line	18.6	27.7	17.3	23.0	20.1
Other revenues/total revenues from business line	12.9	15.4	27.4	18.1	20.1
Return on average common equity	23.3	16.1	11.9	12.0	12.7

*Data as of Sept. 30.

Table 3

Banco BICE Capital And Earnings					
	--Year-ended Dec. 31--				
(%)	2022*	2021	2020	2019	2018
Tier 1 capital ratio	11.0	8.7	10.0	9.0	9.4
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	80.2	69.8	68.5	66.6	62.2
Fee income/operating revenues	16.7	20.9	19.5	20.4	23.0
Market-sensitive income/operating revenues	1.2	5.1	9.6	10.5	12.6
Cost to income ratio	43.3	45.2	51.3	48.2	50.7
Provision operating income/average assets	2.0	1.8	1.4	1.6	1.5
Core earnings/average managed assets	1.6	1.1	0.9	0.9	1.0

*Data as of Sept. 30.

Table 4

Banco BICE Risk Position					
	--Year-ended Dec. 31--				
(%)	2022*	2021	2020	2019	2018
Growth in customer loans	16.2	13.2	0.1	13.0	15.4
Total managed assets/adjusted common equity (x)	14.9	14.6	14.1	14.4	13.5
New loan loss provisions/average customer loans	0.4	0.7	0.4	0.4	0.3
Net charge-offs/average customer loans	0.1	0.2	0.1	0.1	0.0
Gross nonperforming assets/customer loans + other real estate owned	0.8	0.7	0.4	0.3	0.3
Loan loss reserves/gross nonperforming assets	161.7	247.7	379.8	378.9	467.6

*Data as of Sept. 30.

Table 5

Banco BICE Funding And Liquidity					
	--Year-ended Dec. 31--				
(%)	2022*	2021	2020	2019	2018
Core deposits/funding base	52.9	59.4	63.1	70.9	67.2
Customer loans (net)/customer deposits	146.7	131.4	119.0	113.2	122.0
Long-term funding ratio	90.0	96.7	97.7	92.8	90.4
Stable funding ratio	110.8	115.9	125.7	109.7	105.4
Short-term wholesale funding/funding base	10.7	3.5	2.5	7.8	10.4
Broad liquid assets/short-term wholesale funding (x)	2.3	6.3	10.8	2.6	1.8
Broad liquid assets/total assets	21.8	19.7	24.3	18.1	16.8
Broad liquid assets/customer deposits	46.9	37.3	43.0	28.7	27.9
Net broad liquid assets/short-term customer deposits	23.7	31.7	40.4	18.0	12.5
Short-term wholesale funding/total wholesale funding	22.8	8.7	6.8	26.6	31.8
Narrow liquid assets/3-month wholesale funding (x)	2.3	6.3	10.8	4.8	2.6

*Data as of Sept. 30.

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: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, 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 8, 2022)*

Banco BICE

Issuer Credit Rating	BBB+/Negative/--
Senior Unsecured	BBB+

Issuer Credit Ratings History

03-Apr-2020	BBB+/Negative/--
22-Aug-2018	BBB+/Stable/--
04-Aug-2017	BBB+/Negative/--

Sovereign Rating

Chile	
<i>Foreign Currency</i>	A/Stable/A-1
<i>Local Currency</i>	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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