

April 27th, 2021

Ministry of Finance announces bill to capitalize Banco Estado, in line with Basel III standards

Santiago, April 27th, 2021. The Ministry of Finance sent a bill to Congress last week that includes the authorization for an extraordinary capital increase in Banco del Estado de Chile (“Banco Estado”) for up to USD1.5 billion, to be carried out by December 31, 2025, in order to comply with capital requirements in the banking legislation, in line with Basel III standards.

Banco Estado must report on the evolution of its capital on an annual basis to the House and Senate Finance Committees.

The bill also proposes a legal adjustment that will allow Banco Estado to issue perpetual bonds, under the same conditions as other banks. These types of bonds, constitute under Basel III standards, an additional source of financing to comply with regulatory capital. The issuance of these instruments, will allow for the suspension of interest payments in these bonds and limit dividend payments, under exception financial circumstances, subject to the approval of the financial market regulator (Comisión para el Mercado Financiero).

The bill also proposes the reduction of capital surcharges that the regulator applies to Banco Estado due to deferred tax assets, generated by temporary differences between the financial recognition of provisions for credit risk and their tax recognition. As a result of Banco Estado’s additional tax burden – generated by its 40% income tax surcharge– its stock of deferred tax assets is greater than the banking average, currently representing 58% of the basic capital, while the rest of the industry averages 10%. Basel III standards require discounting part of these assets from basic capital, due to the loss of value that these may have in circumstances of financial stress. Thus, the bill generates an obligation for the State to capitalize Banco Estado in an amount equivalent to the portion of the deferred tax assets generated by the tax surcharge, when certain regulatory capital thresholds established in the General Banking Law are not met. As such, the regulator will limit capital deductions generated by the deferred tax assets account of Banco Estado.