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Ratings

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LQ Inversiones Financieras S.A.

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LQ Inversiones Financieras S.A.

SACP	a
Anchor	bbb+	
Business Position	Strong	+1
Capital and Earnings	Adequate	0
Risk Position	Strong	+1
Funding	Average	0
Liquidity	Adequate	

\+

Support	0
ALAC Support	0
GRE Support	0
Group Support	0
Sovereign Support	0

\+

Additional Factors	0

Issuer Credit Rating

A-/Negative/A-2

Credit Highlights

Key strengths	Key risks
Strong business stability from its sole operating subsidiary, Banco de Chile.	High reliance on dividends flow for debt repayment.
Solid earnings underpinned by Banco de Chile's good earnings generation capacity.	Downside risks until the economic recovery and prospects for the medium term become clearer in the context of the potential amendment of the Chilean constitution and political uncertainty.

The ratings on LQ Inversiones Financieras S.A.(LQIF) reflect its status as a nonoperating holding company. LQIF is a Chilean holding company that directly and indirectly holds 51.15% of shares in Banco de Chile (A/Negative/A-1), its sole operating subsidiary. As a result, LQIF's group credit profile (GCP) mainly reflects Banco de Chile's stand-alone credit profile (SACP). In addition, our issuer credit rating (ICR) on LQIF is one notch below the GCP due to the holding company's dependence on the bank's upstream dividends to service its debt. Our analysis continues to incorporate Citibank N.A.'s (A+/Stable/A-1) and Quinenco S.A.'s (not rated) ownership of LQIF.

LQIF has comfortable debt service coverage from Banco de Chile's dividends. LQIF has two outstanding domestic market issuances: series C for UF3 million (about $111 million) and series D for UF3.95 million ($146 million), both with amortizing maturities. Starting next May, series D will start amortizing annually about 8% of capital while series C won't start amortizing until 2029. Nonetheless, given Banco de Chile's good profitability and our expectations that the bank will maintain 60% dividend payout in upcoming years, we expect LQIF's debt service payment and expenses coverage to dividends to remain above 6x.

We believe Banco de Chile will continue providing adequate flow of dividends to LQIF in the next few years. Our base-case scenario assumption for Banco de Chile includes profitability recovering significantly in 2021 from a slump last year due to higher inflation, positive effect of higher interest rate on the bank's margins, and lower cost of risk compared to 2020. We expect the bank's return on equity to be near 20% in 2021 and 2022 (compared to 13% in 2020) and converging to 16%-18% after that. In addition, because Banco de Chile should have comfortable capital levels that will allow it to face additional Basel III requirements, we forecast dividends to remain in line with historical levels of 60%.

LQIF's GCP reflects Banco de Chile's intrinsic credit factors. LQIF's GCP benefits from Banco de Chile's well-established brand and significant footprint in the Chilean financial system, as well as its digitalization initiatives in recent years that will allow the bank to handle the new competitive digital landscape and clients' needs. In addition, the GCP incorporates Banco de Chile's asset quality metrics that continue to perform better than the system average, despite some convergence to closer to the system average levels. Both the system and the bank's asset quality metrics significantly improved in 2020 and 2021 due different support measures from the Chilean government (including multiple pension savings withdrawals). In addition, the bank has good NPLs coverage of more than 200% when including additional provisions. We also consider Banco de Chile's ample access to deposits, diversified funding structure, and adequate liquidity. (For additional information, see "Banco de Chile," June 21, 2021).

Finally, we anticipate LQIF's consolidated risk-adjsuted capital (RAC) ratio will remain above 7.0% for the next 24 months, largely reflecting Banco de Chile's balance sheet growth and profitability. However, we expect LQIF to distribute any excess liquidity from Banco de Chile's dividend payout. The GCP doesn't include potential extraordinary government support because we expect such support would flow to the bank but wouldn't be extended to LQIF.

The pandemic is still evolving and could pose additional risks. S&P Global Ratings believes the new Omicron variant is a stark reminder that the COVID-19 pandemic is far from over. Although already declared a variant of concern by the World Health Organization, uncertainty still surrounds its transmissibility, severity, and the effectiveness of existing vaccines against it. Early evidence points toward faster transmissibility, which has led many countries to close their borders with Southern Africa or reimpose international travel restrictions. Over coming weeks, we expect additional evidence and testing will show the extent of the danger it poses to enable us to make a more informed assessment of the risks to credit. Meanwhile, we expect the markets to take a precautionary stance in markets and governments to put into place short-term containment measures. Nevertheless, we believe this shows that, once again, more coordinated, and decisive efforts are needed to vaccinate the world's population to prevent the emergence of new, more dangerous variants.

Outlook: Negative

The negative outlook on LQIF for the next 18-24 months reflects the outlook on that of its sole operating subsidiary, Banco de Chile. The outlook on the bank reflects that of the banking industry, which in turn reflects downside risks until Chile's economy fully recovers and prospects for the next few years become clearer amid the potential amendment of the constitution, a polarized political landscape after upcoming presidential elections, and/or other global developments.

Downside scenario

A downgrade at the holding level could occur if Banco de Chile's SACP drops by one notch or if we revise the banking industry risk in Chile to a weaker category.

Upside scenario

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

Key Statistics

Table 1

LQ Inversiones Financieras S.A. Key Figures

	--Year-ended Dec. 31--				
(Mil. CLP)	**2021***	**2020**	**2019**	**2018**	**2017**
Adjusted assets	49,151,318.4	46,037,792.0	41,216,744.3	35,876,605.3	32,785,968.8
Customer loans (gross)	33,080,857.8	30,936,966.8	30,019,466.0	27,914,325.6	25,439,533.6
Adjusted common equity	3,829,559.1	3,524,865.2	3,374,743.9	3,131,577.4	2,882,405.7
Operating revenues	1,602,398.4	2,041,639.8	2,116,603.3	1,938,798.9	1,759,310.9
Noninterest expenses	753,936.7	988,966.8	1,036,285.5	989,599.0	918,096.3
Core earnings	496,461.7	466,161.6	565,119.6	512,300.1	492,555.4

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

Table 2

LQ Inversiones Financieras S.A. Business Position

	--Year-ended Dec. 31--				
(%)	**2021***	**2020**	**2019**	**2018**	**2017**
Return on average common equity	25.2	17.9	22.8	22.0	23.0

*Data as of Sept. 30.

Table 3

LQ Inversiones Financieras S.A. Capital And Earnings

	--Year-ended Dec. 31--				
(%)	**2021***	**2020**	**2019**	**2018**	**2017**
S&P Global Ratings' RAC ratio before diversification	N/A	N/A	7.6	N/A	N/A
S&P Global Ratings' RAC ratio after diversification	N/A	N/A	6.3	N/A	N/A
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	64.8	63.9	63.0	63.6	65.3
Fee income/operating revenues	26.7	27.5	27.8	26.1	26.8
Market-sensitive income/operating revenues	7.1	7.1	7.0	7.4	5.5
Cost to income ratio	47.1	48.4	49.0	51.0	52.2
Preprovision operating income/average assets	2.3	2.4	2.7	2.7	2.5
Core earnings/average managed assets	1.4	1.0	1.4	1.5	1.5

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

Table 4

LQ Inversiones Financieras S.A. Risk Position

	--Year-ended Dec. 31--				
(%)	**2021***	**2020**	**2019**	**2018**	**2017**
Growth in customer loans	9.2	3.1	7.5	9.7	0.2
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	N/A	21.1	N/A	N/A
Total managed assets/adjusted common equity (x)	13.1	13.3	12.5	11.7	11.7

Table 4

LQ Inversiones Financieras S.A. Risk Position (cont.)					
		--Year-ended Dec. 31--			
(%)	**2021***	**2020**	**2019**	**2018**	**2017**
New loan loss provisions/average customer loans	0.9	1.5	1.2	1.1	0.9
Net charge-offs/average customer loans	0.6	0.9	0.9	0.9	1.1
Gross nonperforming assets/customer loans + other real estate owned	1.0	1.0	1.4	1.2	1.2
Loan loss reserves/gross nonperforming assets	215.0	244.7	159.0	188.2	184.5

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

Table 5

LQ Inversiones Financieras S.A. Funding And Liquidity					
		--Year-ended Dec. 31--			
(%)	**2021***	**2020**	**2019**	**2018**	**2017**
Core deposits/funding base	64.9	63.0	66.2	67.4	69.2
Customer loans (net)/customer deposits	121.9	125.4	132.2	134.9	131.1
Long-term funding ratio	92.8	96.9	92.0	91.0	92.1
Stable funding ratio	118.5	122.2	105.2	103.1	103.6
Short-term wholesale funding/funding base	7.9	3.4	8.8	9.9	8.7
Broad liquid assets/short-term wholesale funding (x)	3.5	7.9	2.1	1.7	1.9
Net broad liquid assets/short-term customer deposits	45.4	59.4	14.8	10.6	11.8
Short-term wholesale funding/total wholesale funding	22.4	9.3	26.0	30.4	28.3

*Data as of Sept. 30.

Related 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: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, March 23, 2004

Related Research

- Banco de Chile, June 21, 2021

Anchor Matrix

Industry Risk	Economic Risk									
	1	2	3	**4**	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	**bbb+**	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of December 7, 2021)*

LQ Inversiones Financieras S.A.	
Issuer Credit Rating	A-/Negative/A-2
Issuer Credit Ratings History	
03-Apr-2020	A-/Negative/A-2
22-Aug-2018	A-/Stable/A-2
04-Aug-2017	A-/Negative/A-2
14-Jul-2017	A-/Watch Neg/A-2
27-Jan-2017	A-/Negative/A-2
Sovereign Rating	
Chile	
Foreign Currency	A/Stable/A-1
Local Currency	A+/Stable/A-1
Related Entities	
Banco de Chile	
Issuer Credit Rating	A/Negative/A-1
Commercial Paper	
Foreign Currency	A-1
Senior Unsecured	A

*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.