

Update: LQ Inversiones Financieras S.A.

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Table Of Contents

Ratings Score Snapshot

Credit Highlights

Outlook

Environmental, Social, And Governance

Key Statistics

Related Criteria

Related Research

Update: LQ Inversiones Financieras S.A.

Ratings Score Snapshot

Issuer Credit Rating

A-/Negative/A-2

GCP: a

Support: 0

Additional factors: -1

Anchor	bbb+		ALAC support	0	Holding company ICR A-/Negative/A-2
Business position	Strong	+1	GRE support	0	
Capital and earnings	Adequate	0	Group support	0	
Risk position	Adequate	0	Sovereign support	0	
Funding	Adequate	0			
Liquidity	Adequate				
CRA adjustment		+1			

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	Key risks
Strong business stability from its sole operating subsidiary, Banco de Chile.	High reliance on dividend flows for debt repayment.
Solid earnings and cash flow underpinned by Banco de Chile's good earnings capacity.	Tempered economic prospects given weak investor sentiment in Chile due to the political uncertainty caused by the proposed constitutional amendments and government's pension and tax reform proposals.

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 credit quality. In addition, our issuer credit rating (ICR) on LQIF is one notch below the 'a' group credit profile (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.

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.

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) due 2039 and series D for UF3.62 million (\$134 million) due 2033, both with annual amortizing maturities. Series D started to amortize last May, 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 a 60% dividend payout in upcoming years, we expect LQIF's debt service payment and expenses coverage to dividends to remain between 8.0x and 10.0x.

We believe Banco de Chile will continue providing solid dividends to LQIF in the next few years. Our base-case scenario assumption for Banco de Chile includes strong results in 2022, driven by higher net interest income results stemming from high inflation due to the long positions in assets in indexed currency (UF; Unidad de Fomento), higher interest rates in its investment portfolio, its funding mix, high share of sight deposits, and contained administrative expense growth. For the next 24 months, we expect Banco de Chile to maintain its competitive position, with return on average assets of 1.4%-1.5% and return on equity at 18%-20%, considering lower inflation. We also forecast contained administrative expenses and cost of risk between 1.0% and 1.2%.

LQIF's GCP reflects Banco de Chile's credit quality. 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 healthy asset quality metrics due to prudent and conservative underwriting standards and its well-diversified risk exposure by economic sector and customer. As of September 2022, nonperforming loans (NPLs) remained low at 1.1%, better than the 1.5% industry average, and with good NPLs coverage of about 200%. We expect some weakening in Banco de Chile's asset quality metrics as they move in tandem with those of the Chilean financial system, mainly due to low expected economic growth and normalization of customer payment behavior as the excess of liquidity in the economy (related to pandemic-related support measures) diminishes. We also consider Banco de Chile's ample access to deposits, diversified funding structure, and adequate liquidity.

LQIF's capitalization metrics continue to strengthen, largely reflecting Banco de Chile's balance sheet growth and profitability. We project LQIF's risk-adjusted capital (RAC) ratio to be 9.5%-9.8% in the next 24 months. However, we expect LQIF to distribute to shareholders any excess liquidity from Banco de Chile's dividend payout.

Outlook

The negative outlook on LQIF reflects the outlook on Banco de Chile. The outlook on the bank reflects the potential impact of higher risks on our Banking Industry Country Risk Assessment (BICRA) of Chile.

Downside scenario

A downgrade at the holding level could occur in the next 18-24 months if we revise the industry risk score in Chile's BICRA to a weaker category (raising the average risk for banks operating in the country) or if we revise Banco de Chile's stand-alone credit profile downward by one notch. The latter could happen if Banco de Chile's structural strength, related to risk management and capitalization, diminishes.

Upside scenario

We could revise the outlook on the entity to stable if we were to revise the trend on the economic risk in Chile's BICRA to stable from negative, while all other credit fundamentals remain unchanged.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	E-2	E-3	E-4	E-5	S-1	S-2	S-3	S-4	S-5	G-1	G-2	G-3	G-4	G-5
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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 LQIF.

Key Statistics

Table 1

LQ Inversiones Financieras S.A. Key Figures					
	--Year-ended Dec. 31--				
(Mil. CLP)	2022*	2021	2020	2019	2018
Adjusted assets	54,225,102.6	51,630,267.8	46,037,792.0	41,216,744.3	35,876,605.3
Customer loans (gross)	34,974,339.1	34,256,182.0	30,936,966.8	30,019,466.0	27,914,325.6
Adjusted common equity	4,206,453.4	4,047,862.0	3,524,865.2	3,374,743.9	3,131,577.4
Operating revenues	1,597,508.1	2,352,741.1	2,041,639.8	2,116,603.3	1,938,798.9
Noninterest expenses	556,543.7	1,031,296.3	988,966.8	1,036,285.5	989,599.0
Core earnings	704,413.1	771,331.4	466,161.6	565,119.6	512,300.1

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

Table 2

LQ Inversiones Financieras S.A. Business Position					
	--Year-ended Dec. 31--				
(%)	2022*	2021	2020	2019	2018
Return on average common equity	49.0	28.7	17.9	22.8	22.0

*Data as of June 30.

Table 3

LQ Inversiones Financieras S.A. Capital And Earnings					
	--Year-ended Dec. 31--				
(%)	2022*	2021	2020	2019	2018
S&P Global Ratings' RAC ratio before diversification	N/A	9.2	N/A	7.6	N/A
S&P Global Ratings' RAC ratio after diversification	N/A	7.7	N/A	6.3	N/A
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	70.3	66.3	63.9	63.0	63.6
Fee income/operating revenues	20.5	24.8	27.5	27.8	26.1
Market-sensitive income/operating revenues	8.3	7.3	7.1	7.0	7.4

Table 3

LQ Inversiones Financieras S.A. Capital And Earnings (cont.)					
	--Year-ended Dec. 31--				
(%)	2022*	2021	2020	2019	2018
Cost to income ratio	34.8	43.8	48.4	49.0	51.0
Preprovision operating income/average assets	3.9	2.7	2.4	2.7	2.7
Core earnings/average managed assets	2.6	1.6	1.0	1.4	1.5

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

Table 4

LQ Inversiones Financieras S.A. Risk Position					
	--Year-ended Dec. 31--				
(%)	2022*	2021	2020	2019	2018
Growth in customer loans	4.2	10.7	3.1	7.5	9.7
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	19.6	N/A	21.1	N/A
Total managed assets/adjusted common equity (x)	13.1	13.0	13.3	12.5	11.7
New loan loss provisions/average customer loans	1.2	1.1	1.5	1.2	1.1
Net charge-offs/average customer loans	0.4	0.5	0.9	0.9	0.9
Gross nonperforming assets/customer loans + other real estate owned	1.0	0.9	1.0	1.4	1.2
Loan loss reserves/gross nonperforming assets	207.1	237.9	244.7	159.0	188.2

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

Table 5

LQ Inversiones Financieras S.A. Funding And Liquidity					
	--Year-ended Dec. 31--				
(%)	2022*	2021	2020	2019	2018
Core deposits/funding base	63.0	64.4	63.0	66.2	67.4
Customer loans (net)/customer deposits	124.4	121.2	125.4	132.2	134.9
Long-term funding ratio	95.1	93.5	96.9	92.0	91.0
Stable funding ratio	110.0	118.6	122.2	105.2	103.1
Short-term wholesale funding/funding base	5.4	7.1	3.4	8.8	9.9
Broad liquid assets/short-term wholesale funding (x)	5.1	3.8	7.9	2.1	1.7
Broad liquid assets/total assets	21.7	22.1	22.0	14.6	13.8
Broad liquid assets/customer deposits	43.5	41.9	42.9	27.8	25.1
Net broad liquid assets/short-term customer deposits	61.9	46.0	59.4	14.8	10.6
Short-term wholesale funding/total wholesale funding	14.6	20.0	9.3	26.0	30.4

*Data as of June 30.

LQ Inversiones Financieras S.A.--Rating Component Scores	
Holding Company Issuer Credit Rating	A-/Negative/A-2
SACP	a
Anchor	bbb+
Economic risk	4
Industry risk	3

LQ Inversiones Financieras S.A.--Rating Component Scores (cont.)

Holding Company Issuer Credit Rating	A-/Negative/A-2
Business position	Strong
Capital and earnings	Adequate
Risk position	Adequate
Funding	Adequate
Liquidity	Adequate
Comparable ratings analysis	+1
Support	0
ALAC support	0
GRE support	0
Group support	0
Sovereign support	0
Additional factors	-1

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Update: Banco de Chile, Aug. 30, 2022
- Banking Industry Country Risk Assessment: Chile, July 26, 2022
- Banco de Chile, Feb. 24, 2022

Ratings Detail (As Of November 10, 2022)***LQ Inversiones Financieras S.A.**

Issuer Credit Rating A-/Negative/A-2

Issuer Credit Ratings History

03-Apr-2020 A-/Negative/A-2

Ratings Detail (As Of November 10, 2022)*(cont.)

22-Aug-2018	A-/Stable/A-2
04-Aug-2017	A-/Negative/A-2
Sovereign Rating	
Chile	
<i>Foreign Currency</i>	A/Stable/A-1
<i>Local Currency</i>	A+/Stable/A-1
Related Entities	
Banco de Chile	
Issuer Credit Rating	A/Negative/A-1
Commercial Paper	
<i>Foreign Currency</i>	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.

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