

Tear Sheet: LQ Inversiones Financieras S.A.

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What's new: On Oct. 28, 2024, S&P Global Ratings revised its outlook on LQ Inversiones Financieras S.A. (LQIF) to stable from negative, following the same action of its sole operating subsidiary, Banco de Chile (A/Stable/A-1). This came after the revision of our view on the economic risk trend for Chile's banking sector to stable from negative and on the sovereign outlook.

LQIF is a Chilean holding company that directly and indirectly holds 51.15% of the shares in **Banco de Chile**. As a result, LQIF's group credit profile (GCP) mainly reflects Banco de Chile's credit quality. Our issuer credit rating on LQIF is one notch below the 'a' GCP due to the holding company's dependence on the bank upstreaming dividends to service its debt. Our analysis continues to incorporate Citibank N.A.'s (A+/Stable/A-1) and Quiñenco 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.

Why it matters: We believe LQIF has comfortable debt service coverage from Banco de Chile's dividends, assuming 60% of distributable net income in the coming years. As a result, we expect LQIF's debt service payment and expense coverage to dividends to be about 10x. LQIF has two outstanding domestic market issuances: series C notes of Unidad de Fomento (UF; a Chilean unit of account indexed to inflation) 3 million (about \$121 million) maturing in 2039 and series D notes of UF3.0 million (\$119 million after payment of three capital installments) maturing in 2033. The series D notes started to amortize in May 2022, at about 8% of capital, while the series C notes won't start amortizing until 2029.

Ratings Score Snapshot

Issuer Credit Rating

A-/Stable/A-2

GCP: a →			Support: 0 →		Additional factors: -1	
Anchor	bbb+		ALAC support	0	Holding company ICR A-/Stable/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.

Recent Research

- Outlooks On 12 Chilean Financial Institutions Revised To Stable From Negative On Operating Resilience; Ratings Affirmed, Oct. 28, 2024
- Chile Outlook Revised To Stable On Improved Fiscal Trajectory; 'A/A-1' Foreign Currency Ratings Affirmed, Oct 15. 2024
- Banco de Chile, Aug. 21, 2024

Outlook

The stable outlook on LQIF mirrors that on its sole operating subsidiary, Banco de Chile. The stable outlook on Banco de Chile incorporates our expectation that over the next 24 months the bank will maintain sound asset quality metrics, performing somewhat better than the system average with capitalization stronger than other domestic banks, while keeping its dominant business position in the highly competitive Chilean banking system. The stable outlook also incorporates our expectation that the bank will continue to upstream dividends to LQIF to service its financial obligations.

Downside scenario

A downgrade of LQIF could occur in the next 24 months if Banco de Chile's asset quality metrics deteriorate.

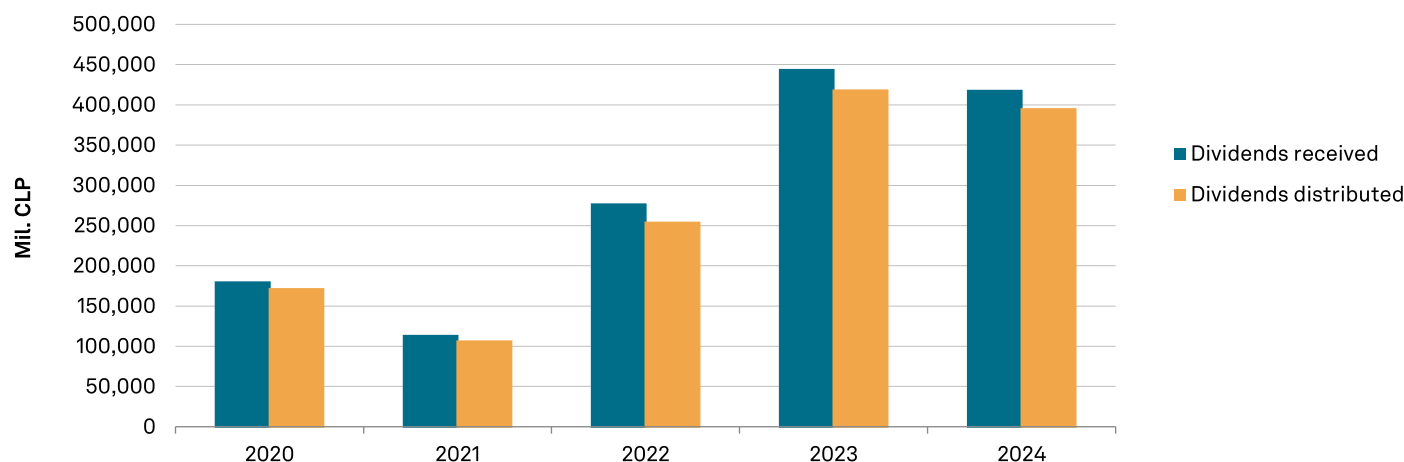
Upside scenario

The possibility of a positive rating action is limited at this point, since it would require an upgrade of the sovereign and stronger intrinsic credit quality at the bank.

Key Metrics

Chart 1

Dividends received and distributed



CLP--Chilean peso. Source: Company filings.

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LQ Inversiones Financieras S.A. (consolidated with Banco de Chile)--Key ratios and forecasts

	--Fiscal year ended Dec. 31 --				
(%)	2021a	2022a	2023a	2024f	2025f
Growth in customer loans	10.7	4.8	2.5	5.5-6.5	7.5-8.5
Net interest income/average earning assets (NIM)	3.6	4.6	3.6	3.3-3.7	3.2-3.6
Cost-to-income ratio	43.8	36.0	41.2	42.0-47.0	42.0-47.0
Return on average common equity	28.7	45.0	36.3	23.0-26.0	20.0-23.0
Return on assets	1.6	2.6	2.2	1.6-2.0	1.6-1.9
New loan loss provisions/average customer loans	1.1	1.2	1.0	1.1-1.2	1.0-1.1
Gross nonperforming assets/customer loans	0.9	1.1	1.5	1.5-1.6	1.4-1.6
Net charge-offs/average customer loans	0.5	0.6	1.0	0.8-1.0	0.8-1.0
Risk-adjusted capital ratio	9.2	9.6	10.0	9.6-9.8	9.6-9.8

All figures include S&P Global Ratings' adjustments. a--Actual. e--Estimate. f--Forecast. NIM--Net interest margin.

Rating Component Scores

LQ Inversiones Financieras S.A.--Rating component scores

Issuer Credit Rating	//--
SACP	a

LQ Inversiones Financieras S.A.--Rating component scores (cont.)

Issuer Credit Rating	//--
Anchor	bbb+
Economic risk	4
Industry risk	3
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

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- 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: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings Detail (As Of November 7, 2024)***LQ Inversiones Financieras S.A.**

Issuer Credit Rating	A-/Stable/A-2
Issuer Credit Ratings History	
28-Oct-2024	A-/Stable/A-2
03-Apr-2020	A-/Negative/A-2
22-Aug-2018	A-/Stable/A-2

Ratings Detail (As Of November 7, 2024)*(cont.)**Sovereign Rating**

Chile

Foreign Currency

A/Stable/A-1

Local Currency

A+/Stable/A-1

Related Entities**Banco de Chile**

Issuer Credit Rating

A/Stable/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.

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