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Larrain Vial S.A. Corredora de Bolsa

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Major Rating Factors

Issuer Credit Rating

BBB/Stable/A-2

Strengths:	Weaknesses:
<p>Leading position on the Santiago Exchange;</p> <p>Strong capitalization metrics with solid earnings capacity; and</p> <p>Low-risk operating conditions in Chile.</p>	<p>Significant competition in the Chilean brokerage industry; and</p> <p>Profitability susceptible to securities market fluctuations and transaction volumes.</p>

Rationale

Our ratings on Larrain Vial S.A. Corredora de Bolsa (LVCB) reflect its solid business position as one of the largest brokerage houses in Chile, leading position in the equity intermediation market, and a wide business diversification. Additionally, we expect the firm to maintain its risk-adjusted capital (RAC) ratio at 10%-15% during the next 12-18 months thanks to solid earnings capacity and its prudent risk management with adequate controls. The ratings also reflect our view of LVCB's stable and long-term funding sources relative to its needs, and its sound ability to meet its liquidity demands under stressful conditions for at least 12 months.

The firm's stand-alone credit profile (SACP) remains at 'bbb'. The long-term issuer credit rating on LVCB is at the same level as its SACP because the latter doesn't incorporate notching from external support from either the government or the group.

Anchor: 'bb+' for securities firms operating in Chile.

The 'bb+' anchor for securities firms indicates our view of Chile's economic and industry risks. The anchor for securities firms in Chile is three notches below our anchor for domestic banks. This is so, compared with our standard two-notch adjustment, to reflect our view of the higher risks for securities firms in Chile, given more volatile and less

liquid domestic capital markets in the country compared with those in other countries.

Our standard two-notch adjustment generally reflects our view that the funding risk for securities firms is higher than for banks because these firms typically lack access to the central bank's credit lines, as is the case in Chile, as well as strong competition from banks and among securities firms. Nonetheless, Chilean securities firms benefit from favorable competitive conditions thanks to the country's privatized pension system. This system has helped diminish cyclicality, even though the sector's revenues are more transactional than those of banks.

While regulatory standards are relatively adequate and oversight is fairly comprehensive, we believe the institutional framework for securities firms is weaker than the one for Chilean banks.

Table 1

Larrain Vial S.A. Corredora de Bolsa Key Financial Data					
	--Year ended Dec. 31--				
(Mil. CLP)	2019*	2018	2017	2016	2015
Adjusted assets**	1,373,283.35	334,049.31	351,023.11	288,862.87	258,566.77
Adjusted common equity	77,110.69	70,659.96	63,310.80	58,835.04	57,610.05
Total adjusted capital	77,110.69	70,659.96	63,310.80	58,835.04	57,610.05
Operating revenues	29,061.07	45,442.56	46,270.43	44,232.08	41,206.23
Noninterest expenses	16,198.50	33,384.61	28,757.54	34,741.75	38,788.30
Net income	10,836.23	11,404.47	15,081.55	7,374.35	3,535.06
Core earnings	10,775.15	11,254.54	14,984.63	9,199.10	3,240.62

*Data as of June 30. **Exceptionally high asset growth in June 2019 corresponds to a punctual operation of approximately CLP524 billion, which was perfected within 48 hours.

Business position: Solid competitive position thanks to a leading position in Chilean market

We view LVCB's business position as a credit strength based on its sound competitive position in the Chilean financial system. LVCB is one of the leading independent brokerage firms in Chile, offering a broad range of financial services and long-term relationships with customers, all of which provide a stable revenue base.

As of June 2019, LVCB remained the leader in equity intermediation in Chile, with a 17% share (considering accumulated figures of only third-party accounts in the Santiago Stock Exchange and Bolsa Electrónica), while it was the eighth largest in corporate bonds, with a 3% share.

LVCB operates in Chile, Peru, Colombia, and the U.S, which provides some diversification, but revenue from Chile continues to make up the bulk of the company's total revenue. As of June 2019, operations from abroad represented about 5% of the brokerage house's total revenue, and we expect this share to rise to about 10% over the medium term. The firm's operations in capital markets, investment banking, trading, and wealth management help mitigate market cycles. In our opinion, LVCB has a qualified management team with extensive experience in financial markets.

For the next 12-18 months, we expect the firm to remain the leader in equity intermediation in Chile, expanding its customer base--despite stiff competition--and its geographic diversification in terms of revenue and volumes. We expect that despite weaker performance of Chile's market over the last past quarters, which will affect the broker

commission, LVCB will be able to post healthy revenues driven by its investment portfolio.

Table 2

Larrain Vial S.A. Corredora de Bolsa Business Position					
	--Year ended Dec. 31--				
(%)	2019*	2018	2017	2016	2015
Net interest income/operating revenues	(6.77)	(8.79)	(7.84)	(8.93)	(9.83)
Fee income/operating revenues	38.44	54.85	50.14	50.88	53.59
Market-sensitive income/operating revenues	(1.52)	2.67	(2.78)	(3.47)	11.37
Pretax profit/operating revenues	44.51	26.89	38.09	17.20	6.40
Core earnings/average adjusted common equity	29.17	16.80	24.54	15.80	5.48

*Data as of June 30.

Table 3

Market Share In Santiago Exchange (Equity)

As of July 2019

Entity	Equity share (%)
Larrain Vial	16.58
Banchile	11.27
BTG	11.18
JPMorgan	9.68
Credicorp	8.29
BSCh	7.77
Bci	7.14
Scotiabank	5.51
Itau	4.51
Tanner	4.38

Table 4

Market Share In Santiago Exchange (Total)

As of July 2019

Entity	Total Share (%)
Banchile	15.81
BancoEstado	15.63
Scotiabank	14.15
BSCh	12.67
Bci	12.61
Itau	6.43
Bice	5.25
BTG	3.35
Larrain Vial	3.28
Tanner	2.05

Table 5**Market Share In Mercado Integrado Latinoamericano (MILA)****As of July 2019**

Entity	Chile	Colombia	Perú	MILA 2019
Larrain Vial	17.20	9.10	3.10	14.90
BTG Pactual Chile S.A. Corredores de Bolsa	11.00	16.50	15.60	12.20
Credicorp Capital S.A. Corredores de Bolsa	7.50	21.90	31.50	11.50
Banchile Corredores de Bolsa S.A.	13.30	0.00	0.00	10.20
JPMorgan Corredores de Bolsa SPA	7.70	0.00	0.00	5.90
Santander Corredores de Bolsa Limitada	6.70	0.00	0.00	5.20
Others	36.60	52.50	49.80	40.10

Capital, leverage, and earnings: Sound capitalization metrics with RAC ratio of 11%-15%.

We assess LVCB's capital, leverage, and earnings as a credit strength based on our expected RAC ratio before diversification of 10%-15% for the next 12-18 months and the firm's strong earnings capacity. As of March 2019, the firm's RAC ratio was 12.5%. We expect LVCB's shareholders to continue to support the company so it can maintain sound capital metrics through moderate and flexible dividend distributions. The company continues to enjoy healthy core earnings (with core earnings to risk-weighted assets averaging about 2.3% as of March 2019), with about 50% of operating revenue from recurring fees and commissions.

In 2018, LVCB's net income declined 24% due to a 16% jump in noninterest expenses following a one-off effect of an internal reallocation of costs, which exacerbated the already weaker operating results due to lower income from its proprietary trade position than that in 2017. In the first half of 2019, results increased 48% compared to the same period 2018, due to higher income from its investment portfolio, which offset sluggish results from the brokerage commission, while administrative expenses declined 1%.

We expect LVCB to continue to posting high net income in the coming quarter stemming from its investment portfolio, which helps the company mitigate volatility from its brokerage commissions under a scenario of frail performance of the Chilean stock exchange as a result of global economic unease including trade tensions between the U.S. and China.

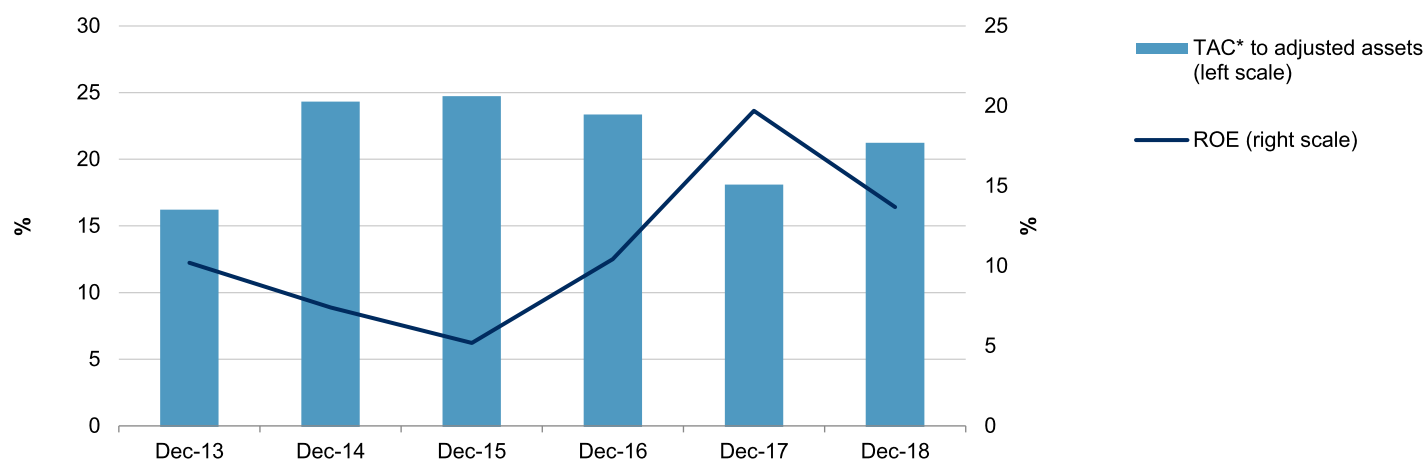
Table 6**Larrain Vial S.A. Corredora de Bolsa Capital And Earnings**

(%)	--Year ended Dec. 31--				
	2019*	2018	2017	2016	2015
Leverage ratio (IFRS)	5.66	21.73	19.21	20.60	22.51
Adjusted total equity/adjusted assets	5.62	21.15	18.04	20.37	22.28
Adjusted common equity/total adjusted capital	100.00	100.00	100.00	100.00	100.00
Personnel expenses/operating revenues	21.58	29.13	10.20	9.99	10.71
Cost-income ratio	55.74	73.47	62.15	78.54	94.13
Core earnings/operating revenues	37.08	24.77	32.38	20.80	7.86
Internal capital generation/prior year's equity	30.67	18.01	25.63	12.80	5.83

Table 6

Larrain Vial S.A. Corredora de Bolsa Capital And Earnings (cont.)					
	--Year ended Dec. 31--				
(%)	2019*	2018	2017	2016	2015
Net interest income/average earning assets	(2.59)	(2.81)	(2.98)	(3.16)	(2.82)

*Data as of June 30.

Chart 1**LVCB's Capital Generation**

TAC--Total adjusted capital. Source: S&P Global Ratings.

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Risk position: Prudent risk management

We believe LVCB has a prudent risk profile consistent with historical levels and those of peers. In our view, LVCB manages principal risks appropriately because it has strengthened its risk management practices and taken a comprehensive risk approach. The firm applies formal market risk controls based on value-at-risk measures and stress-testing analysis, incorporating major transaction risks. We also consider LVCB's operations are diversified in terms of geography, clients, and sectors.

Table 7

Larrain Vial S.A. Corredora de Bolsa Risk Position					
	--Year ended Dec. 31--				
(%)	2019*	2018	2017	2016	2015
Annualized adjusted assets growth rate**	622.20	(4.84)	21.52	11.72	(3.71)
Adjusted common equity/managed assets	5.60	20.86	17.77	20.01	21.92

*Data as of June 30. **Exceptionally high asset growth in June 2019 corresponds to a punctual operation of approximately CLP524 billion, which was perfected within 48 hours.

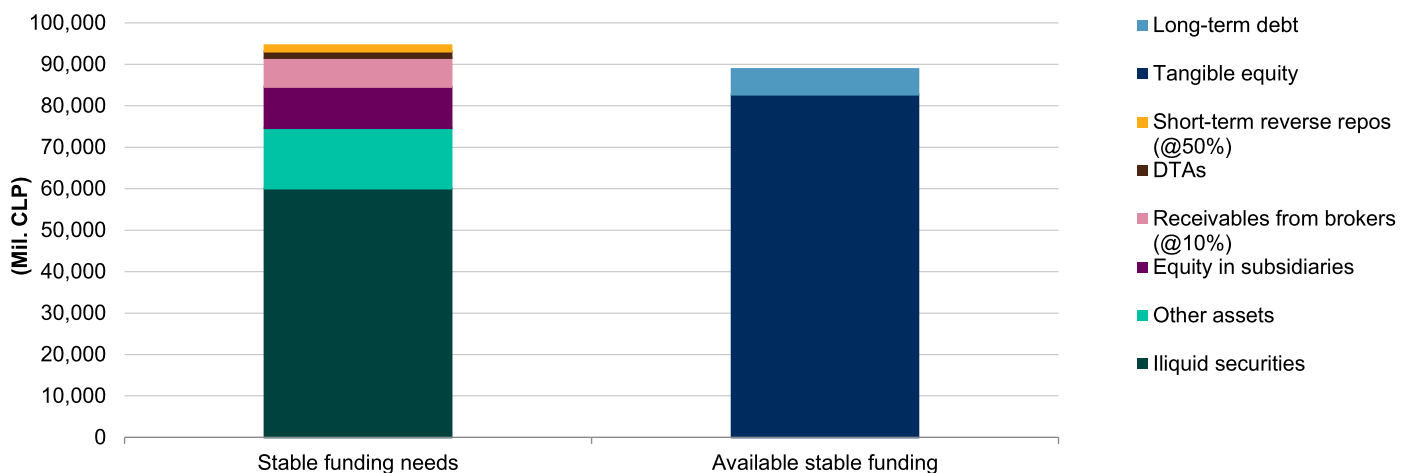
Funding and liquidity: Stable and long-term funding sources and sound ability to meets its liquidity demands

Our assessment of LVCB's funding reflects its stable and long-term funding sources relative to its needs. As of March 2019, the company's gross stable funding ratio (GSFR) was 93%, averaging 124% for the past three fiscal years. LVCB's GSFR declined due to a greater duration of the company's investment portfolio. However, we expect this ratio to be above 90% in the next 12-18 months and to increase to historical levels once duration declines to prior levels. The firm also has access to intra-day liquidity through credit facilities from several Chilean banks.

Our liquidity assessment reflects our view of LVCB's ability to meet its liquidity demands. Our liquidity cover metric (LCM) on the firm has been above 100% over the last few years, reaching 101% as of June 2019, and 153% as of December 2018. LVCB's broad liquid assets mainly consist of its investment portfolio, which is mainly allocated in government bonds and corporate and bank securities. Its liquidity needs are mainly short-term repurchase agreements. We expect the firm to maintain its LCM above 100% and to comply with its liquidity needs under potential stressful market conditions for the next 12 months.

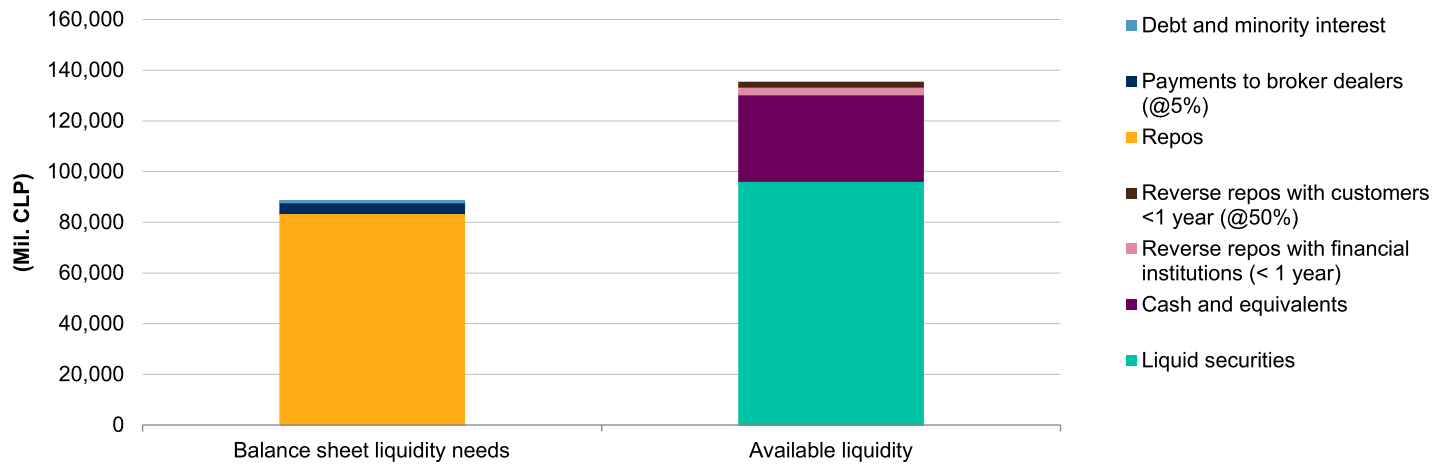
Chart 2

Global Stable Funding Ratio As Of December 2018
Ratio Construction



Source: S&P Global Ratings.

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Chart 3**Liquidity Coverage Metric As Of December 2018**
Ratio Construction

Source: S&P Global Ratings.

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Table 8**Larrain Vial S.A. Corredora de Bolsa Funding And Liquidity**

(%)	--Year ended Dec. 31--				
	2019*	2018	2017	2016	2015
Gross stable funding ratio	--	93.91	135.41	142.47	141.74
Short-term wholesale funding/adjusted assets	6.55	25.18	23.22	29.57	38.36
Liquidity coverage metric (x)	1.01	1.53	2.15	1.84	1.54

*Data as of June 30.

Support: No additional notches for external support

We don't incorporate notching for external support into the issuer credit ratings on LVCB. Larrain Vial S.P.A.--a private holding company specializing in financial services and investment, and finance consultancy--directly and indirectly owns 100% of LVCB. Larrain Vial's group credit profile is at the same level as the credit rating on LVCB, because the latter is the group's main subsidiary that accounts for about 80% of total consolidated assets.

Outlook

The stable outlook on LVCB incorporates our expectation that for the next 24 months it will maintain its business position in the Chilean market, as one of the leaders in the equity intermediation, stable revenue, a healthy mix from broker fees, and gains from its proprietary investment portfolio. We also expect LVCB's RAC ratio to remain at 10%-15%, which are in line with our strong capital and earnings assessment thanks to adequate internal capital generation. We expect the company to maintain an adequate risk management, and funding and liquidities profile.

Downside scenario

We could lower the ratings if risks for the firm increase, if capital drops sharply (resulting in a RAC ratio of less than 10%), or if funding and liquidity weaken to levels we no longer consider adequate.

Upside scenario

Possibility of an upgrade is limited at this point and would depend on the improvement of the anchor for security firms operating in Chile, while LVCB's credit factors remain unchanged.

Ratings Score Snapshot

Issuer credit rating: BBB/Stable/A-2

SACP: bbb

Anchor: bb+

Business position: Strong (+1)

Capital and earnings: Strong (+1)

Risk position: Adequate (0)

Funding and liquidity: Adequate and Adequate -High (0)

Support

GRE support: 0

Group support: 0

Government support: 0

Additional factors: 0

Related Criteria

- 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 | General: Nonbank Financial Institutions Rating Methodology, Dec. 9, 2014
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings Detail (As Of September 16, 2019)*

Larrain Vial S.A. Corredora de Bolsa

Issuer Credit Rating	BBB/Stable/A-2
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Issuer Credit Ratings History

22-Aug-2018	BBB/Stable/A-2
08-Aug-2017	BBB/Negative/A-2
14-Jul-2017	BBB/Watch Neg/A-2
27-Jan-2017	BBB/Negative/A-2
10-Dec-2014	BBB/Stable/A-2

Sovereign Rating

Chile

<i>Foreign Currency</i>	A+/Stable/A-1
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<i>Local Currency</i>	AA-/Stable/A-1+
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*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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