

Larrain Vial S.A. Corredora de Bolsa

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Larrain Vial S.A. Corredora de Bolsa

Major Rating Factors

Issuer Credit Rating

BBB/Negative/A-2

Strengths:	Weaknesses:
<ul style="list-style-type: none">• Largest independent brokerage house in Chile with a leading position on the Santiago Exchange equity intermediation; and• Diversified revenues sources that mitigate the cyclical nature of market operations.	<ul style="list-style-type: none">• Significant competition in the Chilean brokerage industry; and• Profitability susceptible to securities market fluctuations and transaction volumes.

Outlook

The negative outlook on LVCB in the next 24 months reflects our view of the negative economic risk trend in our Banking Industry Country Risk Assessment (BICRA) on Chile, and that we could potentially revise downward the bank's and securities firms' anchor if we revise the BICRA to a weaker category. This could result if prolonged adverse economic conditions, due to COVID-19 and social unrest, translate into consistently higher economic and credit risks for entities operating in Chile. This could take a toll on the financial institutions' financial profiles, particularly in terms of asset quality and capital and earnings.

Additionally, we could lower the rating on LVCB if the broker and/or its holding company's currently strong capitalization levels worsen due to softer profitability or higher dividend payments.

Upside scenario

We could revise the outlook to stable in the next 24 months if we revise our BICRA economic risk trend on Chile to stable, which could also signal an improvement of the operating conditions for securities firms, while at the same time we maintain our expectation that the company will preserve strong capitalization levels both at the broker and holding levels.

Rationale

Our ratings on Larrain Vial S.A. Corredora de Bolsa (LVCB) reflect its solid business position as one of the largest brokerage houses and largest independent broker in Chile, its leading position in the equity intermediation market, and

its wide business diversification. Additionally, we expect the firm to maintain its risk-adjusted capital (RAC) ratio at 10%-12% during the next 12-18 months, despite expected softer profitability for 2020, 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 '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, compared with our standard two-notch adjustment. This is 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 its peer countries.

The 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. Recently, the Congress approved a one-time withdrawal of up to 10% of pension savings in the country for individuals to cope with the pandemic on top on measures already taken by the government to give relief to the economy. Pension savings in Chile amount to about \$200 billion, with expected withdrawals of about \$14 billion to \$16 billion.

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 Figures					
--Year ended Dec. 31--					
(000s CLP)	2020*	2019	2018	2017	2016
Adjusted assets	609,236,718.0	538,160,092.0	334,049,306.0	351,023,108.0	288,862,872.0
Adjusted common equity	80,886,945.0	79,990,614.0	70,659,955.0	63,310,800.0	58,835,038.0
Total adjusted capital	80,886,945.0	79,990,614.0	70,659,955.0	63,310,800.0	58,835,038.0
Operating revenues	31,661,681.0	52,758,706.0	45,442,555.0	46,270,426.0	44,232,075.0
Noninterest expenses	17,937,708.0	34,947,160.0	33,384,605.0	28,757,543.0	34,741,754.0
Net income	11,308,421.0	14,930,447.0	11,404,465.0	15,081,551.0	7,374,346.0
Core earnings	11,245,645.5	14,914,780.7	11,254,541.3	14,984,631.5	9,199,103.3

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

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 July 2020, LVCB remained the leader in equity intermediation in Chile, with an 18% share (considering accumulated figures of the Santiago Stock Exchange), while it was the seventh largest in corporate bonds, with a 6% 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 2020, operations from abroad represented about 5% of the brokerage house's total revenue, and we expect this share to rise to about 10% in the next several years. 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. Additionally, during the COVID-19 pandemic, the company has been able to migrate its operations to a work-from-home environment since mid-March 2020 without affecting revenues or operations.

For the short term, we expect LVCB to continue strengthening its digital channels to continue servicing clients during the pandemic. Additionally, we expect the firm to remain the leader in equity intermediation in Chile. Over the next few years, we forecast that LVCB and its holding company will continue expanding its customer base--despite stiff competition--and its geographic diversification in terms of revenues and volumes.

Table 2

Larrain Vial S.A. Corredora de Bolsa--Business Position					
	--Year ended Dec. 31--				
(%)	2020*	2019	2018	2017	2016
Net interest income/operating revenues	(3.6)	(6.9)	(8.8)	(7.8)	(8.9)
Fee income/operating revenues	35.5	47.7	54.8	50.1	50.9
Market-sensitive income/operating revenues	46.5	43.8	35.0	46.8	47.7
Pretax profit/operating revenues	43.6	33.8	26.9	38.1	17.2
Core earnings/average adjusted common equity	28.0	19.8	16.8	24.5	15.8

*Data as of June 30.

Table 3

Market Share In Santiago Exchange (Equity)

As of July 2020

Ranking	Entity	Equity share (%)
1	Larrain Vial	18.3
2	JP Morgan	11.7
3	BTG Pactual	10.7
	Banchile	9.0
4	Santander	7.9
5	BCI	7.8
6	Scotiabank	6.3
7	Credicorp	4.7
8	Consortio	4.6

Table 3**Market Share In Santiago Exchange (Equity) (cont.)**

As of July 2020

Ranking	Entity	Equity share (%)
9	Tanner	3.8

Table 4**Market Share In Santiago Exchange (Total)**

As of July 2020

Ranking	Entity	Total share (%)
1	Banco Estado	19.1
2	Banchile	14.5
3	Santander	14.1
4	BCI	12.9
5	Scotiabank	10.7
6	Itau Corpbanca	6.3
7	Banco BICE	6.1
8	Larrain Vial	3.5
9	BTG Pactual	3.1
10	Tanner	2.1

Table 5**Market Share In Colombia Exchange (Equity)**

As of July 2019

Ranking	Entity	Equity Share (%)
1	Credicorp Capital	18.27
2	BTG Pactual S.A. Comisionista de Bolsa	11.75
3	Valores Bancolombia S.A. C.B.	10.66
4	Larrain Vial Colombia S.A. Comisionista de Bolsa	8.98
5	Casa De Bolsa S.A.	7.91
6	Banco Davivienda	7.80
7	Alianza Valores S.A.	6.32

Table 6**Market Share In Peru Exchange (Equity)**

As of July 2020

Ranking	Entity	Equity share (%)
1	BBVA Sociedad Agente de Bolsa	39.83
2	Credicorp Capital Sociedad Agente de Bolsa S.A.	29.98
3	Seminario y Cia. Sociedad Agente de Bolsa S.A.	8.25
4	Scotia Sociedad Agente de Bolsa	6.73
5	BTG Pactual Peru S.A. Sociedad Agente de Bolsa	3.31
6	Larrain Vial Sociedad Agente de Bolsa S.A.	2.70

Table 6**Market Share In Peru Exchange (Equity) (cont.)**

As of July 2020

Ranking	Entity	Equity share (%)
7	Inteligo Sociedad Agente de Bolsa S.A.	2.24

Capital, leverage, and earnings: Capitalization metrics to remain strong despite some expected deterioration, with an RAC ratio of 10%-12%

We assess LVCB's capital, leverage, and earnings as a credit strength based on our expected RAC ratio before diversification of 10%-12% for the next 12-18 months and the firm's strong earnings capacity over the past years. As of June 2020, the firm's RAC ratio was 12.1%, and we expect it to remain within 10%-12% range despite softer expected profitability for this year due to the impact of the pandemic. The company continues to enjoy healthy core earnings, with a core earning to risk weight assets ratio of 2.3% on average over the past three years. Additionally, the company continues to benefit from a stable revenue base of which about 50% of operating revenue stems from recurring fees and commissions and gains from its subsidiaries.

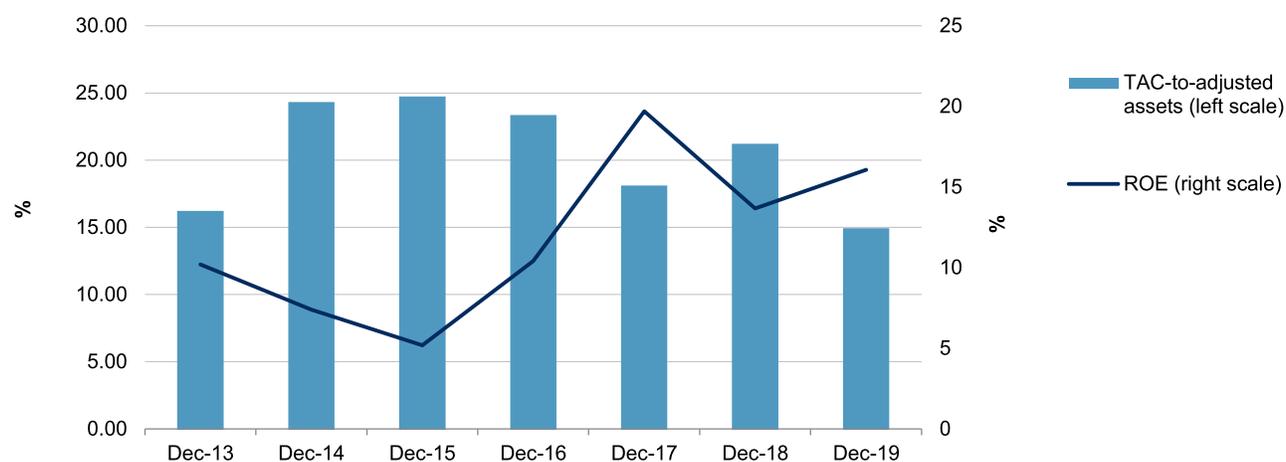
In 2019, LVCB's net income increased 31% due to higher income from its investment portfolio, which offset sluggish results from the brokerage commission, while administrative expenses declined 1%. In the first half of 2020, results increased 4% compared to the same period in 2019 due to higher income from results from unconsolidated subsidiaries and a recovery in its investment portfolio (which had reported a loss in the first quarter). These results offset the sluggish results from the brokerage and increase of 11% administrative expenses (mainly due to other expenses).

We expect LVCB's net income to remain positive but lower than a year before, due to still soft market performance, which will affect its proprietary portfolio revenues and the proceeds related to the brokerage business.

Table 7**Larrain Vial S.A. Corredora de Bolsa--Capital And Earnings**

(%)	--Year ended Dec. 31--				
	2020*	2019	2018	2017	2016
Leverage ratio (IFRS)	13.5	15.8	21.7	19.2	20.6
Adjusted total equity/adjusted assets	13.3	14.9	21.2	18.0	20.4
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Personnel expenses/operating revenues	24.1	29.1	29.1	10.2	10.0
Cost-income ratio	56.7	66.2	73.5	62.2	78.5
Core earnings/operating revenues	35.5	28.3	24.8	32.4	20.8
Internal capital generation/prior year's equity	28.3	21.1	18.0	25.6	12.8
Net interest income/average earning assets	(1.7)	(2.5)	(2.8)	(3.0)	(3.2)
Core earnings/S&P Global Ratings' RWA before diversification	--	2.3	2.0	2.9	--

*Data as of June 30. RWA--Risk-weighted assets. IFRS--International financial reporting standards.

Chart 1**LVCB's Capital Generation**

TAC--Total adjusted capital. ROE--Return on equity. 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 adequate risk management practices and a comprehensive risk approach. LVCB's proprietary portfolio is invested in low-risk and mainly fixed-income instruments. This portfolio is registered at market value and as a result, in the first quarter of 2020 the company reported losses from its proprietary portfolio (but positive bottom-line results), related to the market valuations and the negative impact of COVID-19 on prices in Chile (in line with the impact globally). However, at the end of June 2020, the proprietary position reverted its loss, although earnings are still below last year's levels.

Furthermore, LVCB 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 as diversified in terms of geography, clients, and sectors.

Over the past year, LVCB has been focusing on risk management concentrating mainly on information security and technological risk. Additionally, since mid-March, following the need to operate remotely due to the pandemic, LVCB has also focused on improving connectivity, cybersecurity, and remote operations, which allowed the broker's employees to operate from home without major disruptions.

Table 8

Larrain Vial S.A. Corredora de Bolsa--Risk Position					
	--Year ended Dec. 31--				
(%)	2020*	2019	2018	2017	2016
Annualized adjusted assets growth rate	26.4	61.1	(4.8)	21.5	11.7

Table 8

Larrain Vial S.A. Corredora de Bolsa--Risk Position (cont.)					
--Year ended Dec. 31--					
(%)	2020*	2019	2018	2017	2016
Adjusted common equity/managed assets	13.2	14.8	20.9	17.8	20.0

*Data as of June 30.

Funding and liquidity: Stable funding sources and adequate ability to meets its liquidity demands

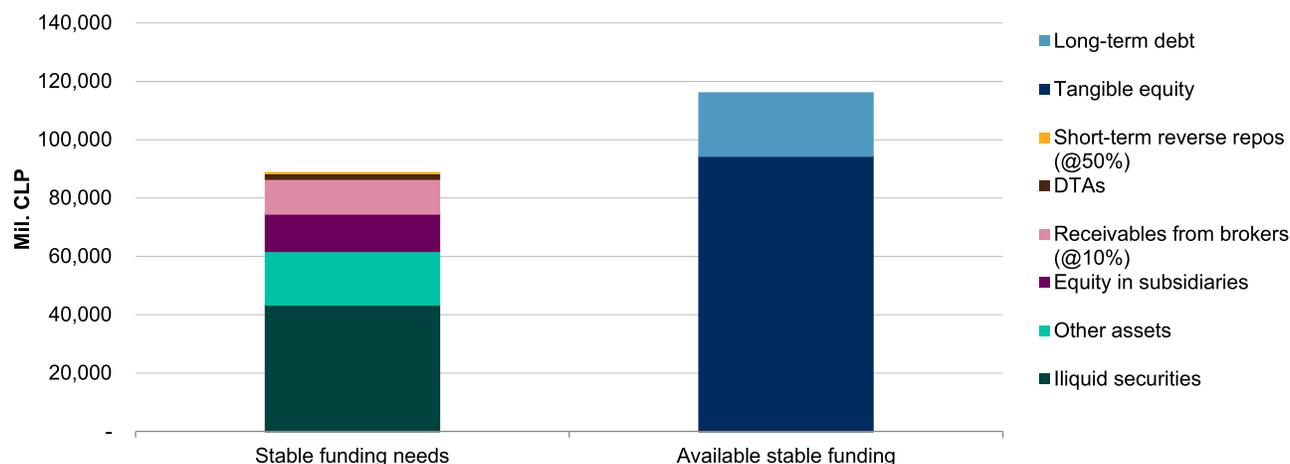
Our assessment of LVCB's funding reflects its stable funding sources relative to its needs, which are adequately matched in term of duration. As of June 2020, the company's gross stable funding ratio (GSFR) was 100%, and averaged 100% for the past three fiscal years. LVCB mainly funds its operations through its common equity and, to a lesser extent, with repos with clients. 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 coverage metric (LCM) on the firm has been above 100% over the last few years, reaching 230% as of June 2020 and as of December 2019. 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 keep 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 Dec. 2019)

Ratio construction



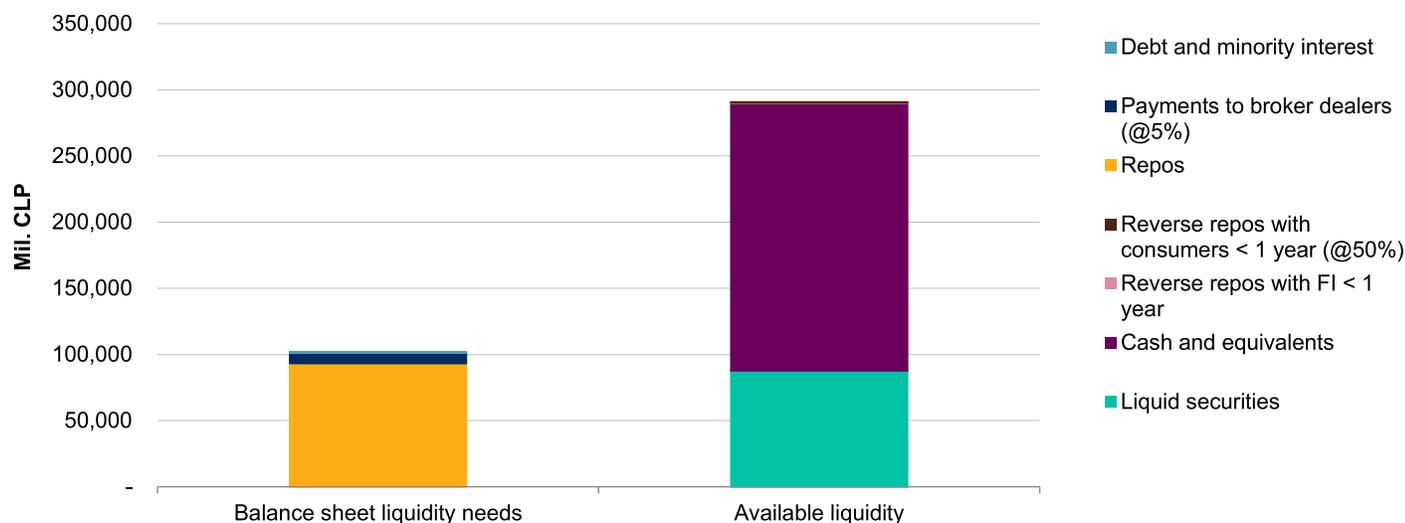
CLP--Chilean peso. Source: S&P Global Ratings.

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Chart 3

Liquidity Coverage Metric (As Of Dec. 2019)

Ratio construction



FI--Financial institution. CLP--Chilean peso. Source: S&P Global Ratings.

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Table 9

Larrain Vial S.A. Corredora de Bolsa--Funding And Liquidity

(%)	--Year ended Dec. 31--				
	2020*	2019	2018	2017	2016
Gross stable funding ratio	100.6	131.0	93.9	135.8	142.5
Short-term wholesale funding/adjusted assets	14.6	17.8	25.2	23.1	29.6
Liquidity coverage metric (x)	2.3	2.8	1.5	2.2	1.8

*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 issuer credit rating on LVCB, because the latter is the group's main subsidiary that accounts for about 70% of total consolidated assets. However, Larrain Vial SPA has relatively lower capitalization levels than the broker, which could decline further in coming years due to the high dividend payout ratio.

Ratings Score Snapshot

Issuer credit rating: BBB/Negative/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: Issue Credit Rating Methodology For Nonbank Financial Institutions And Nonbank Financial Services Companies, Dec. 9, 2014
- 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

Related Research

- Chilean Banks' Asset Quality Hasn't Slumped Yet Due To COVID-19--Helped By Government Measures, Aug. 13, 2020

- Scope Of Policy Responses To COVID-19 Varies Among Latin America's Central Banks, June 3, 2020
- Outlook On 11 Chilean Financial Entities Revised To Negative On Higher Economic Risk, Ratings Affirmed, April 3, 2020

Ratings Detail (As Of September 2, 2020)*

Larrain Vial S.A. Corredora de Bolsa

Issuer Credit Rating BBB/Negative/A-2

Issuer Credit Ratings History

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

Sovereign Rating

Chile

Foreign Currency A+/Negative/A-1

Local Currency AA-/Negative/A-1+

*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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