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## Research Update:

# LQ Inversiones Financieras 'A-/A-2' Ratings Affirmed On Banco de Chile Ratings Affirmation; Outlook Remains Stable

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## Research Update:

# LQ Inversiones Financieras 'A-/A-2' Ratings Affirmed On Banco de Chile Ratings Affirmation; Outlook Remains Stable

## Overview

- Chile-based nonoperating holding company, LQ Inversiones Financieras, has lower debt burden and adequate financial policies.
- We are affirming our 'A-' long-term and 'A-2' short-term issuer credit ratings on the company.
- We continue to expect gradual reduction in the company's debt burden, which could ease what we consider an aggressive dividend payment from the company's subsidiary, Banco de Chile.
- We also expect prudent and adequate financial policies to remain for the next two years.

## Rating Action

On March 26, 2015, Standard & Poor's Ratings Services affirmed its 'A-' long-term and 'A-2' short-term issuer credit ratings on LQ Inversiones Financieras S.A. (LQIF). The outlook remains stable.

## Rationale

The ratings on LQIF reflect its status as a nonoperating holding company. As a result, the company is subordinated to its main and sole operating subsidiary, Banco de Chile. The ratings on the bank, on the other hand, reflect our assessment of its "strong" business position, "adequate" capital and earnings, "strong" risk position, "average" funding, and "adequate" liquidity (as our criteria define these terms). Our analysis continues to incorporate Citibank N.A.'s indirect and Quiñenco S.A.'s (not rated) ownership of LQIF.

LQIF's shareholders have implemented prudent and adequate financial policies for the past 24 months, which continue to maintain a lower debt burden. We expect the company to continue reducing its subordinated debt for the next two to three years, which represents 43% of its total liabilities. The lower debt burden could reduce what we consider an aggressive dividend payment from Banco de Chile, which will benefit the bank's overall capital structure.

Despite these improvements, the ratings on LQIF remain one notch below Banco de Chile's 'a' stand-alone credit profile (SACP) due to the holding company's dependence on the bank's dividend upstream to service debt. Also, the structural subordination is based on the bank's SACP and not on the issuer credit rating, because we believe Banco de Chile would receive support from

the government in the event of financial stress, but LQIF wouldn't.

## Outlook

The stable outlook on LQIF reflects the outlook on that of its sole operating subsidiary, Chile-based universal bank, Banco de Chile. It also incorporates our expectation that the bank will continue to upstream dividends to LQIF to service its financial obligations.

### Upside scenario

We could raise the ratings on Banco de Chile, and on LQIF, in the next 18-24 months following an improved capital and earnings assessment on the bank due to its risk-adjusted capital (RAC) ratio that's consistently higher than 10%. This could occur if the bank's internal capital generation is stronger than in our base case scenario due to better net interest margins, or the bank's provisions consume fewer operating revenues, or credit growth is slower than we currently expect. An upgrade is possible if an additional capital injection boosts the bank's total capital base.

### Downside scenario

We could lower the ratings on both entities if Banco de Chile weakens its risk position, stemming from credit losses of more than 3% for the next 18-24 month due to relaxed underwriting policies or if the bank enters more risky segments of the economy, such as the low-income borrowers. Nonetheless, we view this scenario as less likely in the short term. If LQIF significantly increases its debt, causing leverage to increase above 120%, we could also lower the ratings.

## Related Criteria And Research

### Related Criteria

- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Capital Methodology and Assumptions, Dec. 6, 2010

### Related Research

- Banco de Chile 'A+/A-1' Credit Ratings And All Issue-Level Ratings Affirmed, Outlook Remains Stable, March 26, 2015

## Ratings List

Ratings Affirmed

LQ Inversiones Financieras S.A.

Counterparty Credit Rating

A-/Stable/A-2

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