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## Research Update:

# LQ Inversiones Financieras S.A. 'A-/A-2' Ratings Affirmed; Outlook Stable

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## Research Update:

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## Overview

- Chile-based non-operating holding company LQIF will continue its less aggressive financial policy.
- We expect a lower debt burden that should reduce double leverage and ease dividend upstream from Banco de Chile.
- We are affirming our 'A-' long-term and 'A-2' short-term issuer credit ratings on LQIF.
- The stable outlook continues to mirror that of Banco de Chile, LQIF's main operating entity.

## Rating Action

On March 14, 2013, 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 is stable.

## Rationale

The ratings on LQIF continue to reflect its status as a non-operating holding company. Consequently, the ratings on LQIF benefit from Banco de Chile's "strong" business position, "adequate" capital and earnings, "strong" risk position, "average" funding, and "adequate" liquidity (as our criteria define these terms). We also consider in our analysis that Citibank N.A. (A/Negative/A-1) (indirectly) and Quiñenco S.A. (not rated) own LQIF.

The ratings on LQIF are two notches below those on Banco de Chile and reflect the company's structural subordination to Banco de Chile as a result of its dependence on the bank's dividend upstream to service debt. The structural subordination reflects Banco de Chile's 'a' stand-alone credit profile (SACP) and not the issuer credit rating on the bank because, if required, we believe that Banco de Chile would receive support from the government in the event of financial stress but LQIF would not.

Over the past two years, LQIF's shareholders have implemented a less aggressive financial policy by maintaining Banco de Chile's dividend payout and, most recently, by participating in a capital increase at the bank. This capital increase did not imply further leverage and was practically without dilution.

Furthermore, we expect less debt burden at LQIF as a result of the solid

earnings cash flow from Banco de Chile. We forecast a significant reduction in its subordinated debt by 2016 which could also ease the cash upstream from Banco de Chile and significantly reduce double leverage.

Our opinion of the creditworthiness of its parent companies, Quiñenco and Citibank N.A., also constrain our ratings on LQIF. This stems from our view that if its parent companies were to come under financial stress, there could be the incentive to upstream cash from LQIF, which could hamper LQIF financial standing and worsen its credit quality.

LQIF is owned by Quiñenco and indirectly by Citibank N.A. in equal proportions, and it holds 59.86% of the voting rights in Banco de Chile. The shareholders' agreement providing that Citibank N.A.'s consent is required in LQIF's key strategic decisions, including the definition of its dividend policy, mitigates our view of Quiñenco's aggressive financial policy.

## **Outlook**

The stable outlook on LQIF reflects that on Banco de Chile, its main operating entity, and our expectation that it will continue to upstream dividends to LQIF so that it can service its financial obligations. If there is deterioration in Banco de Chile's stand-alone credit profile (SACP) due to lower risk-adjusted capitalization levels as a result of weakening earnings and internal capital generation, or increased debt at LQIF, we could lower the ratings. If we were to revise Banco de Chile's SACP upward, we could raise the ratings on LQIF.

## **Ratings Score Snapshot**

As a non-operating holding company, there is no ratings score snapshot.

## **Related Criteria And Research**

- Analytical Approach To Assessing Nonoperating Holding Companies, March 17, 2009
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Group Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011

## **Ratings List**

Ratings Affirmed

LQ Inversiones Financieras S.A.

*Research Update: LQ Inversiones Financieras S.A. 'A-/A-2' Ratings Affirmed; Outlook Stable*

Counterparty Credit Rating

A-/Stable/A-2

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