

Research Update:

LQ Inversiones Financieras Outlook Revised To Stable From Negative, 'A-/A-2' Ratings Affirmed

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Overview

- LQ Inversiones Financieras (LQIF) remains the nonoperating holding company of its sole operating subsidiary, Banco de Chile.
- Following the upgrade of the bank and our view of Citibank's indirect ownership of LQIF, we are revising the outlook on LQIF to stable from negative and affirming our 'A-/A-2' issuer credit ratings.
- We consider that its parent companies' creditworthiness continue to constrain the ratings on LQIF.

Rating Action

On June 19, 2012, Standard & Poor's Ratings Services revised the outlook on LQ Inversiones Financieras S.A. (LQIF) to stable from negative. At the same time, we affirmed our 'A-' long- and 'A-2' short-term issuer credit ratings on LQIF.

Rationale

The outlook revision follows the upgrade of its sole operating subsidiary, Banco de Chile (A+/Stable/A-1), and our view of Citibank N.A. (A/Negative/A-1) indirect ownership of LQIF. The ratings on LQIF continue to reflect its status as a nonoperating holding company. Consequently, the ratings on LQIF benefit from Banco de Chile's "strong" business position, "adequate" capital and earnings, "strong" risk position, and "average" funding with "adequate" liquidity (as our criteria define these terms).

However, the ratings on LQIF are two notches below those on Banco de Chile and reflect the following factors:

- Its structural subordination to Banco de Chile as a result of its dependence on the bank's dividend upstream to service debt; and
- Structural subordination reflects Banco de Chile's 'a' stand-alone credit profile (SACP), not its issuer credit rating because, if required, we believe Banco de Chile will receive support from the government, not LQIF.

Our opinion of the creditworthiness of its parent companies, Quiñenco S.A. (not rated) and indirectly Citibank, also constrain our ratings on LQIF. This stems from our view that if they were to come under financial stress, there could be the incentive to upstream cash from LQIF, which could hamper its financial standing and worsen its credit quality.

Quiñenco and indirectly Citibank own LQIF in equal proportions. Quiñenco, which we view as having an aggressive financial policy, holds 59.33% of the voting rights in Banco de Chile. Nonetheless, in our view, the shareholders' agreement providing that Citibank's consent is required in LQIF's key strategic decisions, including the definition of its dividend policy, mitigates this risk.

Outlook

The stable outlook reflects that on Banco de Chile, and our expectation that it will continue to upstream dividends to LQIF to service its financial obligations. If there is deterioration in Banco de Chile's SACP due to lower risk-adjusted capitalization levels as a result of weakening earnings and internal capital generation or LQIF's higher debt, or if we downgrade Citibank below 'A-', there could be negative rating implications.

Related Criteria And Research

- Banco de Chile Long-Term Rating Raised To 'A+' From 'A', 'A-1' Short-Term Rating Affirmed; Outlook Stable, June 18, 2012
- 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
- BICRA On Chile Maintained At Group '3', Nov. 9, 2011
- Analytical Approach To Assessing Nonoperating Holding Companies, March 17, 2009

Ratings List

LQ Inversiones Financieras	To	From
Issuer credit rating	A-/Stable/A-2	A-/Negative/A-2

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

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