

Rating Action: Moody's assigns Aa3 to Banco del Estado de Chile's US dollar senior notes

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New York, November 09, 2016 -- Moody's Investors Service has assigned a Aa3 long-term foreign currency senior unsecured debt rating to Banco del Estado de Chile's (Banco Estado) ten-year senior unsecured notes of USD100 million, maturing in 9 November 2026. The outlook on the rating is stable.

The notes are being issued under Banco Estado's USD3 billion global medium-term note program.

The following rating was assigned to Banco Estado's ten-year USD100 million senior unsecured notes, due 9 November 2026:

Long-term foreign currency senior unsecured debt rating: Aa3, stable outlook

RATING RATIONALE

The Aa3 debt rating incorporates the bank's baseline credit assessment (BCA) of baa2, and the very high probability that the bank would receive government support if it faces severe financial stress in line with the bank's 100% ownership by the Republic of Chile, its significant policy role, and its status as Chile's largest deposit-taking institution and mortgage lender.

As Chile's sole government-owned bank, Banco Estado plays an important public policy role by (i) catering to low-income individuals with an explicit mandate towards promoting home ownership and national savings, (ii) offering financing to small and mid-sized enterprises (SMEs) and (iii) providing banking services to remote rural areas that are not served by private sector alternatives. The bank's mandate also includes the promotion of entrepreneurship and microfinance.

The bank's large branch network and the expectation that it would receive government support ensures it advantageous access both to stable core deposits from the largest client base in Chile as well as to the capital markets, providing it a strong funding profile. While the bank's nonperforming loan ratio of 3.2% as of June 2016 remains above the system average, it has improved steadily over the past four years. However, the baa2 BCA also considers the bank's weak capitalization and profitability. As a result of high operating expenses related to the bank's mandate and extensive geographic coverage, a loan mix geared towards low-yielding commercial and mortgage financing, its high liquidity, and higher tax burden, the bank's net income of just 0.6% of tangible assets is well below that of its peers in Chile. In addition, the Superintendencia de Bancos e Instituciones Financieras (SBIF) reports a Tier 1 capitalization ratio of 7.0%, the country's lowest.

WHAT COULD CHANGE THE RATING UP OR DOWN

The bank's low capitalization is a significant constraint on its standalone BCA. Given very high government support, an upward movement on Chile's government bond rating of Aa3 would lead to upwards ratings pressure on the bank's debt and deposit ratings.

Downward pressure on the bank's BCA would emerge if the bank's profitability and asset quality deteriorate substantially. Given very high government support, a downgrade of the bank's BCA would not likely translate into a downgrade of the bank's debt and deposit ratings.

The last rating action on Banco Estado was on 10 June 2016.

The principal methodology used in this rating was "Banks" published in January 2016. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

Headquartered in Santiago, Chile, as of June 2016 and on a consolidated basis Banco Estado reported CLP32.7 trillion (USD49.3 billion) in total assets, CLP19.7 trillion in net loans, CLP21.5 trillion in deposits, CLP1.5 trillion in shareholders' equity and CLP98.7 billion in net income.

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