

Rating Action: Moody's assigns Aa3 to Banco del Estado de Chile's AUD40 million fixed rate senior issuance

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New York, January 24, 2018 -- Moody's Investors Service today assigned a long-term foreign currency senior unsecured debt rating of Aa3 to Banco del Estado de Chile's (Banco Estado) twelve-year AUD40 million fixed rate senior unsecured notes. The rating has a negative outlook.

The notes are being issued under Banco Estado's \$3.5 billion global medium-term note program.

The following rating was assigned to Banco del Estado de Chile's twelve-year AUD40 million fixed rate senior unsecured note, due January 2030:

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

RATINGS RATIONALE

The Aa3 long-term ratings of Banco Estado incorporate the very high probability that the bank would receive government support if it faces severe financial stress, even though the bank's obligations do not benefit from an explicit guarantee. Banco Estado's superior access to deposit funding, strong liquidity, and improved asset quality, compensate for the lower-than-peers capital ratio and its modest profitability. Banco Estado is 100% owned by the Government of Chile, and is the sole government bank and the country's largest deposit-taking institution and mortgage lender. It plays a significant 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 financial institutions.

The bank's dominant market share in savings deposits means it has low reliance on market funds and ample holdings of high quality liquid assets, which equaled 34.8% of tangible banking assets as of September 2017, a level that is well above that of its local peers. The bank's market funding is also well-diversified and is comprised mainly of long-term, domestic debt issuances, reducing the bank's exposure to refinancing risks.

Asset quality has improved consistently over the past five years, evidenced by much lower nonperforming loans of 2.9% of total loans as of September 2017, down from 4.1% as of year-end 2012. Despite the slowdown of Chile's economy in recent years and a modest expected recovery, during the next 12 to 18 months, Moody's does not expect the bank's overall asset risk to deteriorate substantially because of the strong performance of its commercial loan portfolio and the substantial government guarantees on its most vulnerable portfolios of SMEs and residential mortgages.

As a government-owned bank with an important social mission, Banco Estado's net income of just 0.35% of tangible assets as of September 2017 was well below that of its private-sector peers in Chile. The bank's low profitability results from high operating expenses related to the large branch network needed to fulfill its mandate, a loan mix geared towards low-yielding commercial and mortgage financing, its high liquidity, and higher tax burden.

Although Banco Estado's total regulatory capital ratio of 11.2% as of September 2017 remains comfortably above current regulatory minima, it is the lowest in the Chilean banking system, in part due to its inherent low profitability and internal capital generation. Tangible core capital is just 6.8% of risk-weighted assets and would be even lower if Banco Estado's deferred tax assets, which represent about 60% of common equity, were excluded.

The bank's long-term ratings have a negative outlook in line with the negative outlook on Chile's sovereign rating, reflecting a potential deterioration in the government's capacity to provide support.

WHAT COULD CHANGE THE RATING UP OR DOWN

Given Moody's view that Banco Estado is government-backed, its ratings are not likely to be affected by any

change in the bank's intrinsic financial strength. However, the bank's rating would likely be lowered if the rating of the Government of Chile is downgraded.

While there is no upward ratings pressure at the present time given the negative outlook, the outlooks could be stabilized if and when Chile's sovereign outlook stabilizes.

The principal methodology used in this rating was Banks published in September 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Headquartered in Santiago, Chile, on a consolidated basis Banco Estado reported CLP36.7 trillion (USD57.4 billion) in total assets, CLP22.0 trillion in gross loans, CLP24.5 trillion in deposits, CLP1.6 trillion in shareholders' equity and CLP86.1 billion in net income, as of September 2017.

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