

**Rating Action: Moody's assigns Aa3 to Banco del Estado de Chile's Japanese Yen Senior Notes**

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New York, September 15, 2017 -- 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 JPY10 billion, maturing on 15 September 2027. The outlook on the rating is negative.

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

The following rating was assigned to Banco Estado's ten-year JPY 10 billion senior unsecured notes, due 15 September 2027:

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

**RATINGS RATIONALE**

The Aa3 debt rating incorporates the very high probability that the bank would receive government support if it faces severe financial stress. Together with Banco Estado's superior access to deposit funding, strong liquidity, and improved asset quality, this compensates for the limited loss absorption capacity of the bank's capital and its low profitability.

Moody's incorporates a very high probability of government support to Banco Estado's debt and deposit ratings, although the bank's obligations do not benefit from an explicit guarantee. Banco Estado is 100% owned by the Republic of Chile, and is the sole government bank and 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 sector alternatives.

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 35.6% of tangible banking assets as of June 2017, a level that is well above that of its local peers. The bank's market funding is also well-diversified and 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 3.1% of total loans as of June 2017, down from 4.1% as of year-end 2012. Despite the slowdown of Chile's economy in recent years and modest recovery, 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 the bank has 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 0.4% of tangible assets as of June 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 11.1% as of June 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. The bank's tangible core capital is 6.6%, but falls further after adjusting for Banco Estado's deferred tax assets which represent about 60% of common equity.

**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 ratings will face downward pressure if Chile's government bond rating 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 January 2016. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

Headquartered in Santiago, Chile, as of June 2017 and on a consolidated basis Banco Estado reported CLP36.6 trillion (USD55.1 billion) in total assets, CLP21.8 trillion in gross loans, CLP24.7 trillion in deposits, CLP1.6 trillion in shareholders' equity and CLP69.7 billion in net income.

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