

**Rating Action: Moody's assigns Aa3 to Banco del Estado de Chile's Japanese yen fixed rate senior notes**

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**Global Credit Research - 10 Jun 2016**

New York, June 10, 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) issuance of JPY10 billion (about USD95 million) of ten-year fixed-rate senior unsecured notes, maturing in 17 June 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 JPY10 billion fixed-rate senior unsecured notes, due 17 June 2026:

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

**RATINGS RATIONALE**

The Aa3 foreign currency senior 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 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 individual client base in Chile as well as to the capital markets, providing it a strong funding profile. While the bank's past due loan ratio of 3.1% as of year-end 2015 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 0.4% of tangible assets is well below that of its peers in Chile. In addition, the bank's Tier 1 capitalization ratio of 7.3% is the country's lowest.

**WHAT COULD CHANGE THE RATING UP OR DOWN**

Banco Estado's deposit and senior debt ratings would likely move in line with the Chilean government's Aa3 bond rating, if it were upgraded or downgraded. Given very high government support, a change of the bank's BCA would not likely affect the bank's debt and deposit ratings.

The last rating action on Banco Estado was on 20 May 2015.

The principal methodology used in this rating was Banks published in January 2016. Please see the Ratings Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

Headquartered in Santiago, Chile, as of March 2016 and on a consolidated basis Banco Estado reported CLP32.6 trillion (USD48.7 billion) in total assets, CLP19.1 trillion in net loans, CLP21.8 trillion in deposits, CLP1.5 trillion in shareholders' equity and CLP56.5 billion in net income.

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