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Corpbanca S.A.

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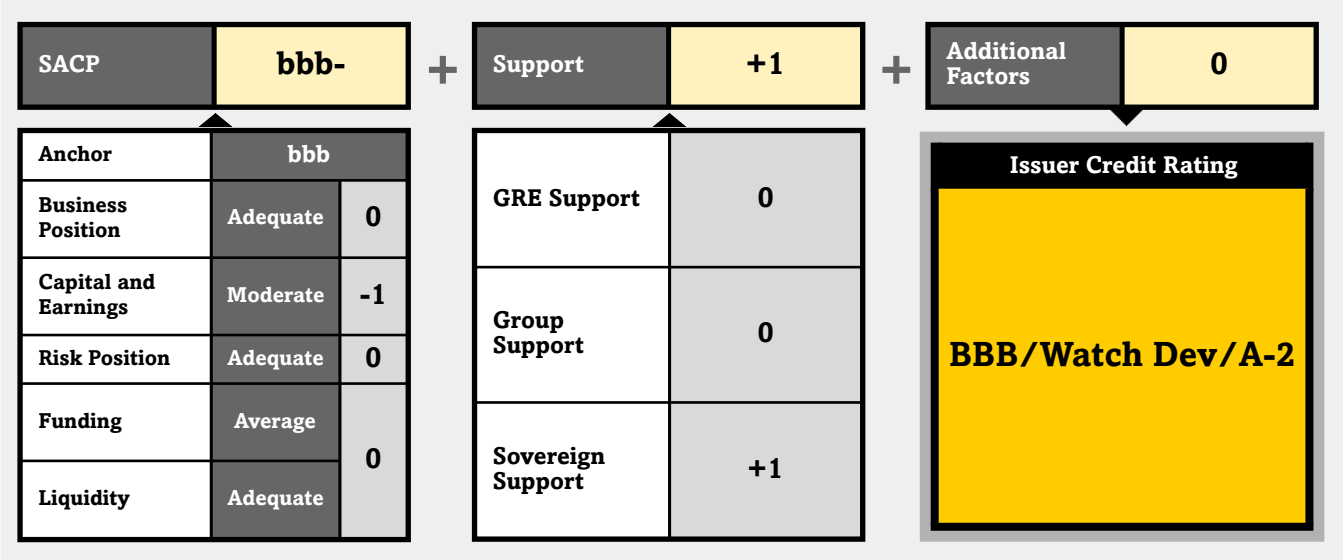
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Corpbanca S.A.



Major Rating Factors

Strengths:	Weaknesses:
<ul style="list-style-type: none"> Good market position as mid-size bank in Chile and Colombia; Low economic and regulatory risks in Chile compared with those in other countries in the region; and Adequate risk profile and healthy asset quality metrics. 	<ul style="list-style-type: none"> Weakener risk-adjusted capital (RAC) ratios, according to Standard & Poor's methodology, after the acquisitions in Colombia; and Intense competition in Chile and Colombia.

CreditWatch

The CreditWatch listing reflects the potential impact of the merger on the ratings on the bank and our assessment of Itau Corpbanca's capital, business strategy, funding and liquidity, and the nature and strength of external support (either from the government or group support) that this new entity may receive.

We intend to resolve the CreditWatch listing once the regulators approve the merger. The ratings on the bank could be negatively impacted if the merger doesn't occur, mainly due to pressures on our RAC ratio estimates, but this scenario is currently less probable. Rating upside depends on the materialization of the merger and the evolution in aspects such as business position and final capital structure and final business plan.

Rationale

The ratings on Corpbanca reflect its "adequate" business position as a mid-size bank both in Chile and Colombia, "moderate" capital and earnings, "adequate" risk position with better-than-average asset quality metrics, "average" funding, and "adequate" liquidity. The stand-alone credit profile (SACP) is 'bbb-', and the issuer credit rating on the bank incorporates one notch from government support. The ratings incorporate our view of a "moderate" likelihood of government support, given Corpbanca's moderate systemic importance to the Republic of Chile (foreign currency: AA-/Stable/A-1+; local currency: AA-/Stable/A-1+) and our assessment of the government as "supportive" of the country's banking system.

On Jan. 29, 2014, Chile-based Corp Group Banking S.A. and Brazil-based Itau Unibanco Holding announced an agreement to merge their respective subsidiaries, Chile-based Corpbanca and Banco Itau Chile. The merger is still pending the approval from regulators in Chile. We intend to resolve the CreditWatch listing after Chilean regulatory approval.

Anchor:blended reflecting exposures in Chile and Colombia

Table 1

Corpbanca S.A. Key Figures					
	--Year-ended Dec. 31--				
(Mil. CLP)	2015*	2014	2013	2012	2011
Adjusted assets	20,195,806.0	19,602,049.0	16,653,125.0	13,046,541.0	8,875,465.0
Customer loans (gross)	14,740,680.0	14,211,349.0	13,085,663.0	10,160,599.0	6,814,445.0
Adjusted common equity	1,002,000.0	1,190,897.0	1,059,584.0	632,386.0	716,973.0
Operating revenues	472,954.0	995,094.0	705,165.0	447,104.0	334,081.0
Noninterest expenses	237,815.0	517,819.0	372,051.0	253,238.0	148,730.0
Core earnings	110,659.0	264,637.0	167,910.0	120,131.0	121,025.0

*Data as of June 30. CLP--CLP-Chilean peso.

Our bank criteria use our Banking Industry Country Risk Assessment (BICRA) economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. Corpbanca's 'bbb' anchor reflects our view of the weighted average economic risk in the countries in which the bank has exposure through its loan book: Chile and Colombia. As of June 2015, the bank's exposure in Chile accounted for about 65% of the loan book and the remainder in Colombia. We score BICRAs on a scale of '1' to '10', ranging from the lowest-risk banking systems (group '1') to the highest-risk (group '10'). The indicative BICRA for Chile is group '3' and for Colombia group '5'. The weighted economic risk score for the bank is at '4.7'.

With regards to economic risk in Chile, the country's economic resilience reflects many years of sound and consistent economic policies, such as strong fiscal performance, low inflation, and the creation of a healthy financial system. We also believe recent economic deceleration doesn't post significant threat to macroeconomic fundamentals. While GDP per capita--approximately \$14,500 as of the end of 2014--remains lower than those of more developed countries or Chile's BICRA peers, it's among the highest in the region. Consequently, private-sector leverage capacity in Chile is comparatively stronger. Chile has manageable economic imbalances, and we don't think there is risk of credit or real

estate bubbles in next two years. Credit and real estate prices growth has been steady but moderate for the past four years. As a small, open economy, Chile is more prone to volatility in the face of exogenous shocks, which somewhat increases economic imbalances risk. Nevertheless, the country's ability to absorb the impact of external shocks has strengthened over time thanks to monetary flexibility, a rules-based fiscal policy, significant external assets, and capital market development.

With regards to industry risk, we believe that Chile has a sound and comprehensive regulatory framework and that regulator has proven supervision capabilities. The banking sector has generated adequate profitability for the past five years. The absence of significant market distortions results in healthy competitive dynamics. We also believe that Chile's financial system has a healthy funding mix consisting of deposits, domestically issued debt, and external debt (banks and market) and that it has flexibility to slightly change the mix depending on market conditions.

Business position: Adequate positioning as a mid-size bank in Chile and Colombia

Table 2

Corpbanca S.A. Business Position					
	--Year-ended Dec. 31--				
(%)	2015*	2014	2013	2012	2011
Total revenues from business line (currency in millions)	472,954.0	995,094.0	705,165.0	447,104.0	334,081.0
Other revenues/total revenues from business line	100.0	100.0	100.0	100.0	100.0
Return on equity	14.5	15.9	13.2	14.4	19.2

*Data as of June 30.

With consolidated assets of \$35.5 billion as of June 30, 2015, Corpbanca is the fifth-largest financial institution in Chile with a market share of 7.4% in terms of loans and of 6.7% in terms of deposits. Corpbanca is the sixth-largest bank in Colombia with a market share of about 6.4% in terms of loans, which bolsters diversification and business stability offsets fluctuations in the cycles in the countries in which the banks operates.

Over the short term and until the merger is finally approved and implemented, we expect Corpbanca's existing growth strategy to remain. Its market position and business stability would further consolidate with the merger with Banco Itau Chile. As of June 30, 2015, Corpbanca's and Banco Itau Chile's combined market share in Chile would total 12.5% in terms of loans and 11.3% in terms of deposits, compared with Banco Santander Chile's 19.2% in terms of loans, Banco de Chile's 18.3%, Banco del Estado de Chile's 13.9%, and Banco de Crédito e Inversiones' 13.0%.

Capital and earnings: Moderate reflecting the impact of acquisitions in Colombia

Table 3

Corpbanca S.A. Capital And Earnings					
	--Year-ended Dec. 31--				
(%)	2015*	2014	2013	2012	2011
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	63.4	63.4	64.9	57.5	57.8
Fee income/operating revenues	16.2	16.2	16.7	19.2	18.1
Market-sensitive income/operating revenues	17.2	17.1	12.4	19.2	21.2
Noninterest expenses/operating revenues	50.3	52.0	52.8	56.6	44.5
Preprovision operating income/average assets	2.3	2.5	2.1	1.7	2.3

Table 3**Corpbanca S.A. Capital And Earnings (cont.)**

Core earnings/average managed assets	1.1	1.4	1.1	1.1	1.5
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*Data as of June 30.

We view Corpbanca's capitalization as "moderate," based on expected RAC ratio before diversification for the next 12-18 months. An extraordinary dividend distribution in July 2015 of \$395 million (as part of the amendments incorporated for the merger agreement) and market risk capital requirements related to the bank's exposure to Colombia currently pressure its RAC ratio. The final RAC projections under a merger scenario would incorporate improvements related to the pending \$552 million capital infusion in Itau Chile prior to the merger, and would also depend on the accounting registration of the merger and business plan of the management.

Corpbanca's regulatory capital ratio has deteriorated but still exceeds the 8% minimum capital requirement. As of the end of June 2015, this ratio totaled 9.7%, compared with 11.8% as of the end of March 2015 and 12.4% as of the end of 2014. We expect this ratio to be in the 9.2%-10.2% range in the coming quarters and to significantly improve after the merger materializes between January and May 2016.

The gap between our RAC metrics and regulatory ratios exists because we don't assign equity content to subordinated notes, which we fully deduct intangibles from acquisitions (net of associated deferred taxes). Also, there are differences in weight because we calculate risk-adjusted assets. In addition, we incorporate market risk capital charges submitted by banks in Chile to regulators. These charges are high for Corpbanca due to the exposure to operations in Colombia, which are currently partly hedged.

We consider the bank to have adequate quality of earnings with 79% of the revenues from interest income and fees for the last three fiscal years, compared with market-sensitive revenues, which account for 16% of total revenues. Efficiency metrics remained at about 52%, and return on average assets (ROAA) improved to 1.46% in fiscal 2014 due to the full incorporation of Colombia-based Helm Bank's results and positive impact for Chilean banks Chile from higher inflation (given the larger exposure of assets in Unidad de Fomento, a currency indexed by inflation). We expect the bank's ROAA to be more in line with historical levels of 1.1% in 2015 as a result of a likely low inflation in Chile than in 2014.

Risk position: Adequate with better than average industry asset quality metrics**Table 4****Corpbanca S.A. Risk Position**

(%)	--Year-ended Dec. 31--				
	2015*	2014	2013	2012	2011
Growth in customer loans	7.4	8.6	28.8	49.1	24.6
Total managed assets/adjusted common equity (x)	20.9	17.1	16.5	21.4	12.4
New loan loss provisions/average customer loans	1.1	1.0	0.9	0.6	0.7
Net charge-offs/average customer loans	0.8	0.7	0.9	0.7	0.9
Gross nonperforming assets/customer loans + other real estate owned	1.2	1.3	1.1	1.0	1.6
Loan loss reserves/gross nonperforming assets	191.9	178.1	219.8	161.0	97.3

*Data as of June 30.

Our risk position assessment for Corpbanca is "adequate." Corpbanca's core business is corporate lending, which represented about 72% of its total loan portfolio as of June 30, 2015. The bank's exposure to the corporate sectors is higher than the system's 60% average both in Chile and Colombia. We consider Corpbanca's corporate loan portfolio to be relatively well diversified by customers and economic sectors, with the largest 20 credits representing about 13% of total loans. After the merger with Banco Itau Chile, portfolio mix would remain similar with about 70% allocated among corporate and small and medium companies, 12% in consumer lending, and 18% in mortgages.

The bank maintained good asset quality metrics, posting nonperforming loans (NPLs) of 1.3% as of June 2015 and December 2014, compared with 1.1% as of December 2013. These metrics are better than the system average of 2.0% as of June 2015, given the bank's prudent credit origination standards and a higher-than-average exposure in corporate segment. Also, net charge-offs represented less than 1% of average customer loans and loan loss reserves were 1.9x of NPLs as of June 2015. We expect asset quality metrics to remain at similar levels after the merger.

Funding and liquidity: Adequate and in levels in line with rated peers

Table 5

Corpbanca S.A. Funding And Liquidity					
	--Year-ended Dec. 31--				
(%)	2015*	2014	2013	2012	2011
Core deposits/funding base	70.3	69.9	72.8	73.9	70.4
Customer loans (net)/customer deposits	116.4	115.5	118.4	113.6	121.8
Long term funding ratio	90.2	89.9	90.0	90.2	89.2
Stable funding ratio	104.1	107.3	100.8	104.8	108.3
Short-term wholesale funding/funding base	10.2	10.7	10.6	10.2	11.8
Broad liquid assets/short-term wholesale funding (x)	1.9	1.9	1.4	1.7	1.7
Net broad liquid assets/short-term customer deposits	16.0	N.M.	N.M.	N.M.	N.M.
Short-term wholesale funding/total wholesale funding	34.4	35.4	38.9	39.2	39.9

*Data as of June 30. N.M.--Not meaningful.

We consider the bank to have "average" funding, with stable funding ratios of 104% as of June 2015 and 107% as of December 2014, values which are in line with the industry.

Deposits account for 70% of the bank's funding as of June 2015, and averaging 72% in the past three fiscal years. The remainder of funding is made up of bonds issued in the domestic and international markets (accounting for 18% of the funding base), bank lines for working capital and trade finance (9% of the base) and repos (3%). Deposit concentration on a consolidated basis is in line with other rated banks in the system, with the 20 largest depositors accounting for about 27% of total consolidated deposits as of June 2015.

We view Corbanca's liquidity as "adequate" with broad liquid asset ratios of 1.9% as of June 2015, 2.0x as of December 2014, and averaging 1.7x in the past three fiscal years, which is rather in line with peers in the country.

External support: Issuer credit rating on the bank incorporates notch of support from the government

The issuer credit rating on the bank is one notch higher than the SACP, reflecting our view of moderate likelihood of government support, owing to Corpbanca's moderate systemic importance in Chile.

Related Criteria And Research

Related Criteria

- Group Rating Methodology, Nov. 19, 2013
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011 Bank Hybrid Capital Methodology And Assumptions, Nov. 1, 2011
- Bank Capital Methodology and Assumptions, Dec. 6, 2010

Anchor Matrix										
Industry Risk	Economic Risk									
	1	2	3	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of August 20, 2015)

Corpbanca S.A.

Counterparty Credit Rating

BBB/Watch Dev/A-2

Senior Unsecured

BBB/Watch Dev

Counterparty Credit Ratings History

30-Jan-2014

BBB/Watch Dev/A-2

23-Aug-2013

BBB/Stable/A-2

10-Oct-2012

BBB+/Watch Neg/A-2

22-Aug-2012

BBB+/Stable/A-2

21-Dec-2011

A-/Watch Neg/A-2

06-Dec-2011

A-/Stable/A-2

11-May-2011

BBB+/Positive/A-2

Sovereign Rating

Chile (Republic of)

Foreign Currency

AA-/Stable/A-1+

Local Currency

AA/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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