

**Rating Action: Moody's affirms Itaú CorpBanca's ratings, outlook remains negative**

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15 Jul 2021

New York, July 15, 2021 -- Moody's Investors Service ("Moody's") has today affirmed all ratings assigned to Itaú CorpBanca (Itaú), including the A3 long-term deposit ratings and A2 counterparty risk ratings, the bank's baa3 baseline credit assessment (BCA) and baa2 adjusted BCA. Moody's also affirmed Itaú's short-term deposit and counterparty risk ratings of Prime-2 and Prime-1, respectively, as well as its long- and short-term counterparty risk assessments of A2(cr) and Prime-1(cr).

The outlook on Itaú remains negative in line with the negative outlook on the Government of Chile's debt ratings.

**LISTED OF AFFECTED RATINGS AND ASSESSMENTS**

The following ratings and assessments were affirmed:

Itaú CorpBanca

Baseline credit assessment of baa3

Adjusted baseline credit assessment of baa2

- . Long-term local and foreign currency deposit ratings of A3, negative outlook
- . Short-term local and foreign currency deposit ratings of Prime-2
- . Long-term local and foreign currency counterparty risk ratings of A2
- . Short-term local and foreign currency counterparty risk ratings of Prime-1
- . Long-term counterparty risk assessment of A2(cr)
- . Short-term counterparty risk assessment of Prime-1(cr)

Outlook actions:

Itaú CorpBanca, outlook remains negative

**RATINGS RATIONALE**

By affirming Itaú CorpBanca's baa3 standalone BCA, Moody's acknowledges the expected improvement in the bank's loss absorption stemming from the announced \$1.15 billion capital injection, and its proactive and disciplined risk management, together with recent improvements in the bank's core earnings generation, factors that will support its stronger capitalization going forward. The affirmation also incorporates Itaú's focus on enhancing its position in the Chilean retail banking industry, a strategy that will strengthen the bank's future profitability, but, which, will likely take longer to result in effective improvements given the competitive landscape and tight margins in the segment.

The affirmation of the BCA follows the announcement on 13 July 2021 that Itaú's board approved a \$1.15 billion capital injection that will result in a substantial increase in capitalization, after the regulatory approvals and completion of the public offer period. The capital injection indicates the controlling shareholders' willingness to provide a more consistent protection of senior bondholders and depositors. Moody's preferred capitalization ratio of tangible common equity to adjusted risk-weighted assets will increase to about 9%, from 6.6% as of March 2021. This TCE ratio estimate considers the expected acquisition of minority shareholders in the bank's Colombian subsidiary, Itaú CorpBanca Colombia S.A. (Itaú Colombia) that should take place in early 2022, and also the benefit of a lower dividend payout, as outlined at the board of directors' announcement, and a moderate growth strategy.

In 2021, Itaú's profitability will likely benefit from lower loan loss provisions supported by the economic recovery, higher interest rates in Chile and declining operating costs on the back of its digitization strategy. The bank's cautious growth plans into retail banking and its strategic focus on wholesale lending in Colombia, will reinforce future earnings recurrence resulting from higher-margin consumer loans and higher fee income business. Itaú's net income to tangible assets increased to 1% for the first five months of 2021, resulting from lower funding costs and releases of loan loss provisions related to loans sold in the period (0.4% of total loans in March 2021). The increase in profitability contrasts sharply with the deep loss reported in 2020, equivalent to 2.69% of tangible assets, that was driven by a conservative adjustment to loan loss provisions, and a one-off impairment charge of goodwill related to Itaú Colombia. In March 2021, Itaú Colombia represented 19% of gross loans.

Itaú's enhanced origination criteria, restrictive risk limits and conservative provisioning policies, as well as the temporary government support extended for troubled borrowers in Chile and Colombia, resulted in limited increase of asset risks in 2020. As clients' payment behavior and market liquidity normalizes, Moody's expects a contained increase to Itaú's nonperforming loans (NPLs) given the bank's proactive risk management and its high loan loss reserve coverage at 154% of NPLs in May 2021. Despite improvement since 2019, Itaú's NPL ratio remained at a high 2.45% as of May 2021, still well above the 1.2% average reported by the largest commercial banks in Chile, resulting from exposure to high risk corporate names in the country and high NPL level in its Colombian operations (3.58% as of March 2021).

The bank's funding mix incorporates a large share of market funds, at 38% of tangible banking assets as of March 2021, as management focuses on replacing high-cost, short-term institutional deposits with lower cost, longer term market funds, which will help the bank as interest rates begin to rise in Chile. The bank's retail strategy also will help to improve the funding structure with more stable and cheaper retail deposits, a positive credit driver. The bank's liquidity coverage ratio remained high at 179% in Chile and 117% in Colombia, as of March 2021.

The negative outlook on Itaú's A3 deposit rating reflects the negative outlook on the Government of Chile (A1 negative). The incorporation of a high government support provides a two-notch uplift from Itaú's adjusted BCA of baa2, which also considers a very high probability of support from its Brazilian parent Itaú Unibanco Holding S.A. (Itaú Unibanco, Ba3 stable), that uplifts the bank's baa3 standalone BCA.

#### FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

At this point in time there is limited probability for an upgrade in the bank's deposit ratings, given the existing negative outlook aligned to Chile's sovereign rating. However, upward pressure on the bank's BCA would stem from sustainable improvement in asset risks and a consistent decline in single borrower concentration, that would result in lower provisioning needs and, consequently, an improvement in profitability metrics. A successful implementation of the bank's retail banking strategy, that would add recurring earnings and more stable and low-cost deposit mix would also imply upward pressure on the standalone BCA.

Conversely, Itaú's A3 deposit rating would face downward pressure if Chile's sovereign rating is downgraded, which is reflected by the current negative outlook. A downgrade of the BCA of the bank, after the completion of the capital injection, is less likely. However, a deterioration in the asset quality metrics, that would again affect its profitability and hence capitalization, would pressure the Itaú's BCA again.

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at [https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC\\_1269625](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1269625). Alternatively, please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

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