CHILEAN BANKING SECTOR

Showing Preference over Earnings Delivery and Relative Valuations

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We are re-initiating coverage and introducing 2018YE target prices for the Chilean Banking Sector, selecting Santander and BCI as our top picks. Although the sector has strongly outperformed the IPSA Index during the last 12-months, leading most companies to trade at premiums compared to its last 10-year average multiples, we believe the Chilean Banking sector justifies a premium in the current scenario, considering: (i) the high Industry ROE, which coupled with the current historical low levels of local interest rates, convert it in one of the most attractive and recently increased ROE-COE gaps inside the local stock market, consistent with valuation multiples appreciations; and (ii) the high exposure to both Chilean economic recovery expected for the following years, and the likely pro-market political cycle change. In this regard, the banking sector has demonstrated recently in in the Region to be one of the most attractive vehicles to play low interest rate and economic recovery scenarios.

Our sector top picks are (i) Santander (BUY; T.P. 2018E CL$ 49.1); and (ii) BCI (BUY; T.P. 2018E CL$ 42,260) based on relative valuations and earnings delivery. We highlight Banco Santander´s: (i) strong expected earnings delivery (CAGR 10% 2016-2019E), the largest inside the sector, while trading at an attractive pair trade to Banco de Chile. In the case of BCI, we highlight: (i) its attractive short-term inorganic growth story, double digit CAGR earnings growth 2016-2019E while trading at reasonable valuations (near to its 10Yr Fwd P/E ratio 2018E).

We are Neutral in (i) Banco de Chile (HOLD; T.P. 2018E CL$ 94.2); (ii) SMChile-B (HOLD; T.P. 2018E CL$ 296); and (iii) Itaú Corpbanca (HOLD; T.P. 2018E CL$ 6.7). We highlight Banco de Chile´s overpriced valuations (~28% premium against its 10Yr avrg P/E Fwd), and minor CAGR earnings growth 2016-2019E (+5% vs 10% of BSAN and BCI). On the other hand, we believe Itaú Corpbanca is fairly priced if adjusted by its lower ROE and excluding Goodwill (~35% of total Equity); and also shows a lack of earnings visibility and (according to our estimates) should be the most impacted local bank (after Banco Estado) from the transition to BASEL III standards, according to our estimates.

Under certain scenarios, Banco Estado and Itaucorp would need significant additional capital to meet new banking law's minimum regulatory requirements. If considering conservation buffer, SIFI category and a 10% reduction in the RWA density, both Banco Estado and Itaucorp would need to raise capital by ~US$ 985Mn and ~US$ 929Mn, respectively, representing ~41% and ~19% of current Common Equity TIER I, each case.

SUMMARY

	Current Price	Target Price	Upside	Total Return	Rec.	P/BV 2018E	P/E 2018E
Banco de Chile	95.0	94.2	-0.8%	2.9%	HOLD	2.9x	15.0x
SM Chile-B	280.0	296	5.6%	6.8%	HOLD	-	-
Santander	42.8	49.1	14.6%	18.8%	BUY	2.5x	13.2x
BCI	39,306	42,260	7.5%	10.6%	BUY	1.7x	12.1x
Itaucorp*	6.4	6.7	5.4%	6.7%	HOLD	0.9x	13.5x

** Does not exclude goodwill*

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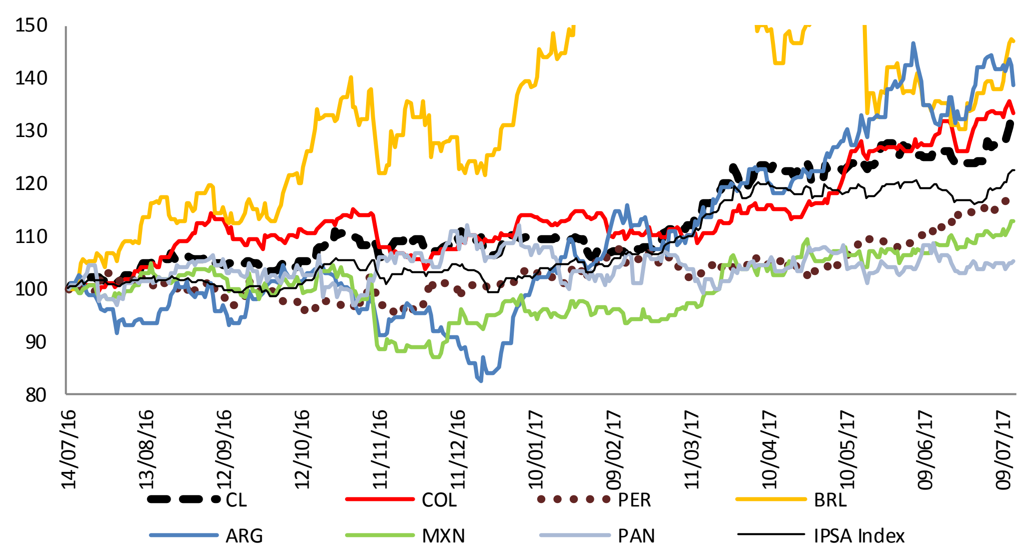
1. INVESTMENT CASE

Chilean Banks has shown a strong outperformance versus the IPSA Index, however it is totally aligned with the recent trend of Regional peers. During the LTM the Chilean Banking sector has shown a strong 32% total return in US$, while outperforming by 9% the local IPSA index. In this regard, although overall valuations seem hefty, we noted that in relative terms the sound performance of Chilean Banks has been totally aligned with its LatAm peers , here we highlight that Brazil (+47%); Argentina (+39%); and Colombia (+33%) all outperformed Chilean Banks in US$, while only Peru (+17%) and Mexico (+13%) were laggards.

LATAM BANKING SYSTEM STOCK PERFORMANCE (100)



Source: Bloomberg, BICE Inversiones

Recent Multiples appreciation was justified regarding the historical low level of local interest rates and the increasing expectancy of a pro market political cycle change. When looking at the last 10-year valuations multiples, most of Chilean Banks are trading with premiums. In our view, in the case of Banks, if looking only to historical valuation multiples one could be always on the sidelines, and never see them as a reasonable or attractive investment alternative. However, if looking to current market conditions there are strong financial reasons to be positive on Banks and justify premiums over historical averages. Here we highlight (i) the historical low level of local interest rates which coupled with the high ROEs of the Banking industry, converts it in one of the most attractive ROE-COE gaps inside the local stock market; and (ii) the increasing noise about a likely pro market political cycle change, which has demonstrated in recent years in the Region (Argentina, Perú, Brasil) to be a strong catalyst for Banking stocks over other sectors. In this regard, Chilean Banks holds both one of the highest exposure to Chile and significant liquidity, so are one of the most attractive vehicles to play economic recovery scenarios.

Considering the high valuations inside the overall market players, we are showing preference over Santander and BCI as our top picks. We highlight Banco Santander´s: (i) strong expected earnings delivery (CAGR 10% 2016-2019E), the largest inside the sector, while trading at an attractive pair trade to Banco de Chile. In the case of BCI, we highlight: (i) its attractive short-term inorganic growth story, double digit CAGR earnings growth 2016-2019E while trading at reasonable valuations (near to its 10Yr Fwd P/E ratio 2018E).

2. INDUSTRY OVERVIEW

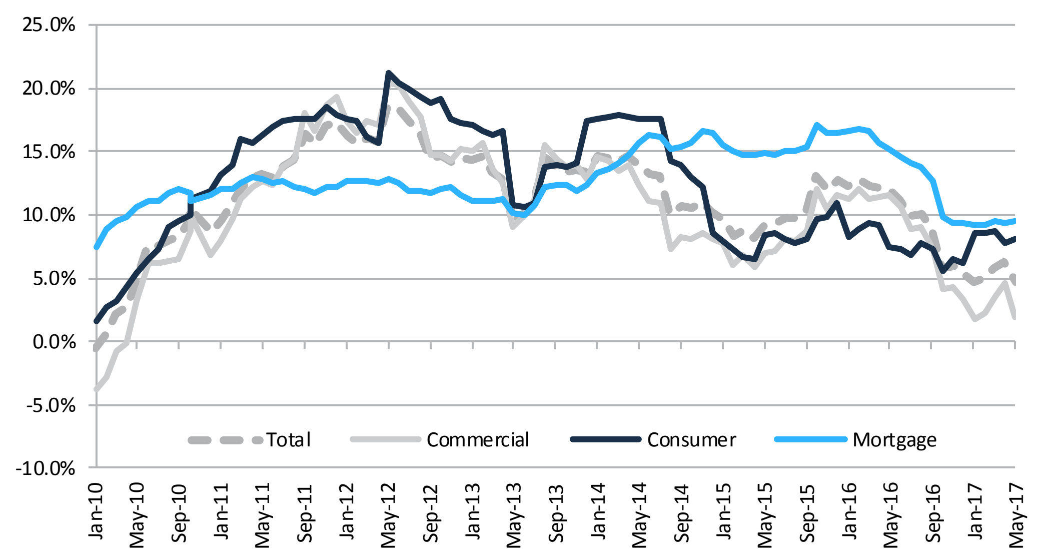
2.1. A PRO-CYCLICAL AND COMMERCIAL ORIENTED INDUSTRY

The Chilean Banking Industry showed 1.5x loans growth elasticity to GDP during the L10Yr

~59% of total loans are related to the comercial segment

During the last 10-year period, the Chilean Banking Industry has shown an ~11% average loan growth YoY, implying a 1.5x elasticity to the Chilean nominal GDP growth during the period (~7.5%). As of May 2017, the Industry loans are breakdown as ~59% commercial (Enterprises), followed by 28% and 14% of Mortgage and Consumer, each case. In this regard, all business segments have shown very similar double digit growth during the last 10-years led by (i) Mortgages (13% L10Yr Avg.), boosted during the last 5-years by the elimination since 2017 (but announced in 2013) of some tributary benefits (VAT for Real Estate and House selling); (ii) Consumer (13% L10Yr Avrg.) which has been also affected by several regulatory issues considering (a) the reduction at the end of 2013 of the interest rate ceiling (TMC) from ~54% (before the reduction) to 36% at the end of 2016; and (b) the introduction (at the end of 2011) of the "Ley DICOM", which eliminated the debtor´s historical data, leading most commercial banks to limit their lending to those high-risk and low-income segments. Both regulatory changes, coupled with a local GDP deceleration during 2013-2016 has resulted in a decreasing trend since 2012 as of now. Lastly, (iii) Commercial (10% L10Yr Avrg.) has been highly impacted by the recent deceleration of the investment component of the GDP (gross -fixed capital formation has shown consistent decreases since the 4Q10 passing from +18% YoY to current –1.8% YoY).

CHILEAN BANKING SYSTEM LOAN GROWTH (% YoY)



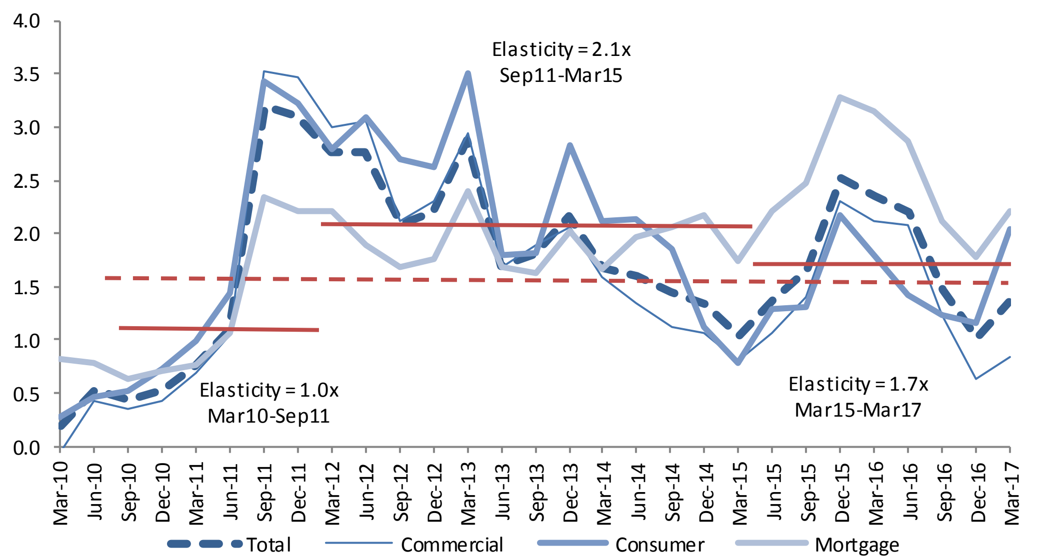
Source: SBIF, BICE Inversiones

2017 should be the bottom in terms of the loans growth decceleration

In 2017, the overall Industry has reached its lowest loan growth rate (~5% YoY) since May 2010. In this regard, if considering our economic forecasts for the following years, we believe 2017 should be the bottom in terms of growth and the Industry should progressively show a recovery going forward (i) GDP growth is expected to accelerate in 2018 (+2.6% YoY) based on the recovery of the investment component (+4.6% YoY in 4Q18E), and (ii) current polls are pointing to a likely pro-market political cycle during this year presidential elections, which could boost the recovery in both corporate and consumer confidence, acting as a strong growth driver for the sector loans down the line.

Loans growth elasticity is very sensitive to economical cycles

CHILEAN BANKING SYSTEM LOANS GROWTH ELASTICITY



Source: SBIF, BICE Inversiones

2.2. MATURE AND CONCENTRATED IN FEW LARGE PLAYERS

~78% of total loans are concentrated only in the five largest Banks

As of May 2017, the Chilean Banking Industry reached US$ 231Bn loans and 12% Return on average Equity (ROAE), being one of the most profitable inside the Chilean stock market. Although banking sector is composed by 20 players, ~78% of total loans are concentrated only in the five largest Banks, including “Banco del Estado” (the only public Bank in Chile, created in 1953) which is subject to a particular regulatory framework. The Chilean Banking Industry is regulated by the SBIF (Chilean Banking Superintendence) which is locally known as very strict and conservative in terms of regulations and also in terms of granting new licenses to operate (especially with foreigners). The latter, has converted the Industry in a very concentrated, locally-owned, and full of Entry Barriers Industry.

Banco de Chile is the undisputed leader in terms of profitability

The market leadership both in market share and profitability, has been historically disputed between (i) Banco de Chile (controlled though a JV between the local group Quiñenco and the U.S. Citigroup, 100% based in Chile); and (ii) Banco Santander (owned by Santander Spain, 100% based in Chile). Both Banks are highly recognized locally as having strong management and a large and successful organic growth story, which has allowed them to become very diversified, gain scale, while preserving its market leadership by implementing the best Industry´s practices in terms of risk and efficiency.

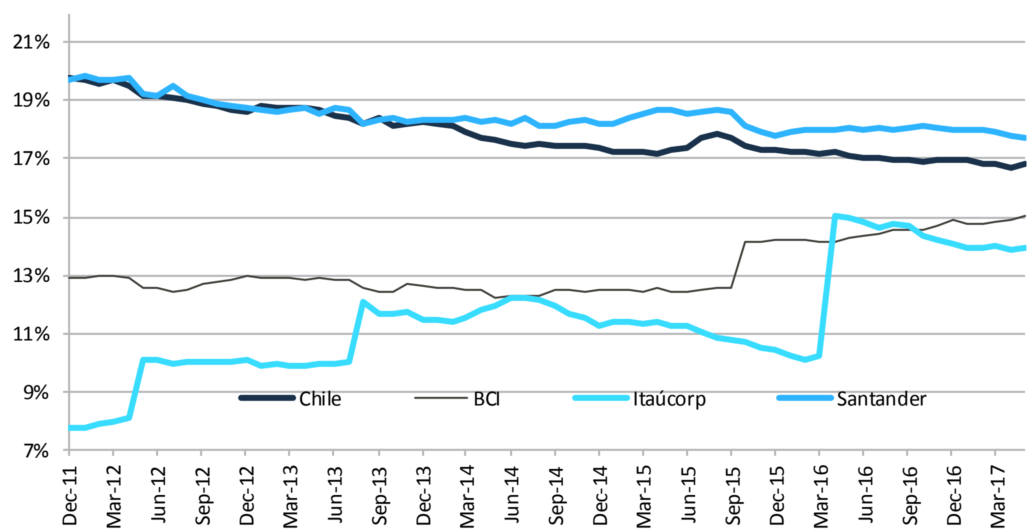
During the last decade, the Industry has been progressively concentrating in less players whose have maintained or slightly decreased their loan market shares throughout the years while most of growth has been related to M&A (a common signal of a mature industry). In this regard, we firstly separate (i) Banco de Chile and Santander (the two largest) that although have slightly decreased their market shares from ~20% to ~18%% between the 2009-2016 period, they both have maintained its leadership. In the case of Banco de Chile, the company is the second largest in terms of market share but it is the undisputed leader in terms of profitability. Banco de Chile´s market share has been slightly decreasing during the last 5-years mostly based on a more conservative macroeconomic outlook, consistent with a lower-than Industry loans growth (prioritizing ROE instead of market share).

CHILEAN BANKING SYSTEM MARKET SHARE BY LOANS (%)

	Loans (US$ Mn)	Mkt Share	ROAE
Banco Santander-Chile	**40,871**	**18%**	**18%**
Banco de Chile	**38,954**	**17%**	**19%**
Banco de Crédito e Inversiones	**34,771**	**15%**	**16%**
Banco del Estado de Chile	**32,852**	**14%**	**9%**
Itaú Corpbanca	**32,237**	**14%**	**1%**
Banco Bilbao Vizcaya Argentaria, Chile	14,475	6%	13%
Scotiabank Chile	14,406	6%	12%
Banco Bice	6,946	3%	14%
Banco Security	6,897	3%	11%
Banco Consorcio	2,910	1%	14%
Banco Falabella	2,377	1%	26%
Banco Internacional	1,491	1%	10%
Banco Ripley	1,159	1%	21%
HSBC Bank (Chile)	298	0%	5%
China Construction Bank, Agencia en Chile	186	0%	-9%
Banco BTG Pactual Chile	96	0%	-1%
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	69	0%	2%
Banco do Brasil S.A.	59	0%	-7%
Banco de la Nación Argentina	17	0%	-1%
JP Morgan Chase Bank, N.A.	0	0%	3%
Banking System	**231,071**	**100%**	**12%**

Source: SBIF, BICE Inversiones

CHILEAN BANKING SYSTEM MARKET SHARE TREND BY LOANS (%)



Source: SBIF, BICE Inversiones

Looking for new sources of growth, BCI and Itaucorp has recently entered to foreign market through M&A.

During the last decade, the industry has shown a significant M&A activity, led by the 3rd and 4th largest players (Itaucorp and BCI), whose have been looking for new sources of growth by means of inorganic growth. The most relevant deal was the Itaú Chile and Corpbanca merger on April 2016, which converted the resulting company (Itaúcorp) in the 4th largest private Bank in Chile, almost reaching BCI´s 14% market share. In this sense, both banks (Itaucorp and BCI) had already been looking for growth outside Chile. This process was led by (i) Itaucorp (prior Corpbanca) after the acquisition of Santander Colombia in 2011, and Helm Bank in the same country in 2013; and (ii) BCI after the acquisition of City National Bank of Florida (CNB) in the U.S. (announced in 2013 and finally executed at the end of 2015).

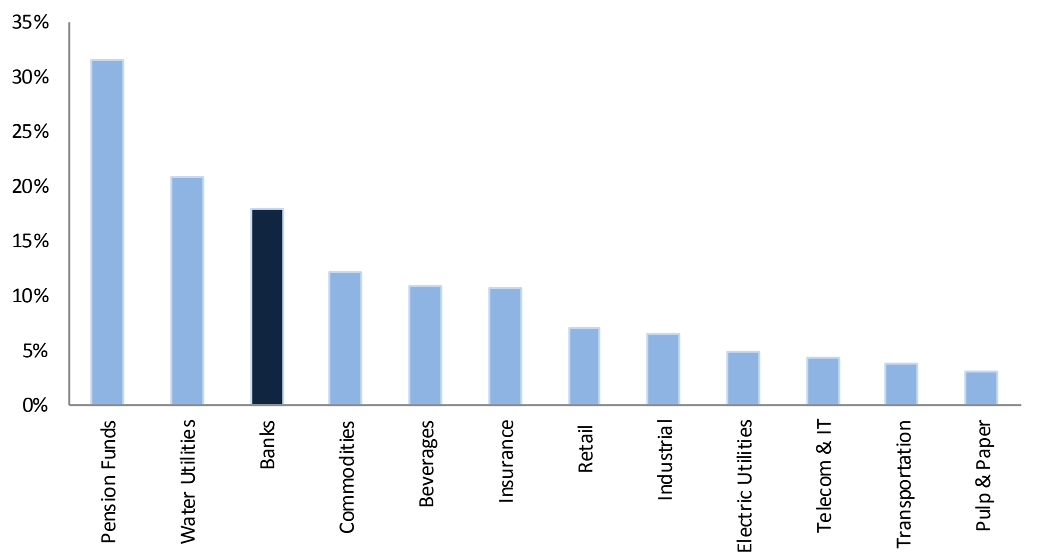
The Banking Industry is the third most profitable Industry inside the Chilean stock market

2.3 HIGHLY-PROFITABLE BUT CHALLENGED AHEAD

According to our estimates, the Chilean Banking Industry is the third most profitable sector in the Chilean stock market (represented by the IPSA Index), reaching a ~13% market-cap-weighted ROE LTM (only below by Water Utilities which is a regulated natural monopoly, and Pension Funds). Here we highlight that (i) Chilean Banking Industry represents ~20% of the IPSA index market cap; (ii) is one of the least exposed to foreign income generation; and (iii) is one of the few Industries that hold a positive ROE-COE spread, which convert it in one of the most attractive Industries to play Chilean stocks at a profitable way.

When looking at its Regional peers, we observe that (using simple averages of normalized ROEs) Chilean (publicly traded) Banks´ profitability are (i) very close to its peers in Peru (19%); (ii) higher-than Colombia (16% ex outliers), Mexico (14%), and Brazil (9% ex outliers); while being (iii) lower-than Argentina´s (35%). In this regard, following both (i) the significant tax reform of 2014; and (ii) the weak macroeconomic environment of recent years, coupled with plenty of other particular issues, etc. the whole system´s profitability has been seriously challenged and put under a significant competitive pressure (passing from a L10Yr average ROAE of 16% to current 12% as of May 2017 LTM).

ROE PER INDUSTRY IN THE CHILE STOCK MARKET* (%)



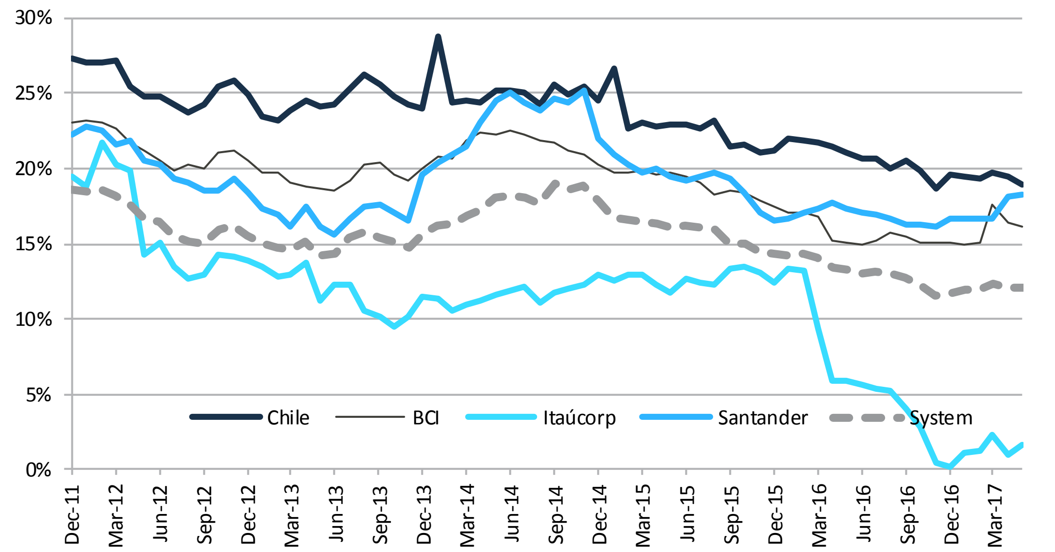
** Normalized ROE LTM adjusted by Outliers*
Source: Bolsa de Santiago, BICE Inversiones

We expect Industry´s profitability to continue being pressured ahead.

Looking forward, we believe that the Industry´s profitability should be highly pressured by (i) an increasing trend of tax rates (given that most local banks are still not paying the local statutory tax rate due to some specific tax benefits); (ii) the introduction BASEL III standards which are pointing to increase capital requirements ahead; and (iii) the increased competition we have observed recently in some Consumer segments (considering that most banks are currently focusing on low-risk and high-income segments) pushing down risk-adjusted spreads. However, we believe this downward trend should be partially offset by (i) better macroeconomic conditions during the following years (higher GDP and inflation); and (ii) higher overall efficiency (given the global trends on digital transformation and less workforce and number of branches). All in all, in our forecasts we are reducing ROEs by ~1%-2% (compared to LTM) for Banco de Chile and Banco Santander in the Long-term, while normalizing trends in both BCI and Itaucorp (maintaining the historical gaps between market players).

We expect Industry´s profitability to continue being pressured ahead.

CHILEAN BANKING SYSTEM ROAE 12M MOV AVG (%)



Source: Bolsa de Santiago, BICE Inversiones

3. REGULATORY FRAMEWORK

3.1. WHAT IS BASEL AND ITS STANDARDS

The Bank for International Settlements (BIS) is an international financial organization created in 1930, based in Basel, Switzerland, whose main target is to act as a Bank for Central Banks while trying to maintain both monetary and financial stability. The BIS has plenty of committees and areas of work. One of them is the Basel Committee on Banking Supervision (BCBS), which is in charge of establishing global standards for the prudential regulation of banks while trying to strengthen the regulation, supervision and practices of banks worldwide with the purpose of enhancing financial stability.

BASEL III was established in 2011, after the 2010's global financial crisis, and is the last series of global banking standards set by the BCBS. BASEL III standards points to improve the banking regulatory supervision and risk management, being the bank's minimum capital requirements its most relevant focus. In this regard, BASEL III standards separates capital in three different types: (i) Common Equity TIER I (CET1), which comprises common shares and retained earnings (the best quality type of capital); (ii) Additional TIER I (AT1) which comprises CET1 in addition to preferred stocks and convertible debt; and (iii) Common Equity TIER II (CET2) which comprises subordinated debt and voluntary provisions. All of the different type of capital has to accomplish certain types of ratios in relation to Risk-Weighted Assets (RWA). Those ratios are defined by BASEL as suitable for the correct functioning of the system.

In addition, BASEL III introduces three further capital requirements: (i) the Capital Conservation buffer, which consists in a 2.5% additional Common Equity TIER I capital (above the 4.5% minimum CET1), and was created to re-capitalize banks organically in periods of stress by limiting dividend payments; (ii) the Countercyclical capital buffer (CCyB), can be up to 2.5% of Risk-Weighted Assets (RWA) and was design to increase capital requirement needs in negative cycles; and (iii) Systemically Important Financial Institutions (SIFI), can be up to 3.5% of RWA, is determined by the regulator and applies only for those larger or relevant banks whose have influence in the whole system risk.

3.2. NEW CHILEAN BANKING LAW SEEKS TO ALIGN WITH BASEL III

On June 12th 2017, the Chilean government sent a new project of law which looks for modernizing and changing the currently existent local Banking Law (LGB), which was created in 1986 after the Banking crisis of the first half of the 80's, and was subject to only one modification in 1997 to adopt BASEL I standards. According to the government, the new draft bill emerges to align the local Industry to global best practices, in particular to BASEL III standards.

In this regard, the new bill has three main pillars: (i) strengthening the regulator's corporate governance by means of giving all regulatory duties of the current regulator, the Chilean Banking Superintendence (SBIF) to the new independent "Financial Market commission" (CMF), which was already created in March 2017; (ii) strengthening the capital structure of the system by means of adopting BASEL III standards; and (iii) increasing the flexibility of the system, by providing faster and adjustable mechanisms, to proactively prevent crisis scenarios in its early stage´s.

New regulator (CMF) will be more Independent and Macroprudential, but also less predictable from an investor standpoint. The CMF was created by the current government in the law 21,000 (March 2017). CMF was established as a public, decentralized, and technical organism in charge of the correct functioning and supervision of the whole Financial System. In this regard, by giving all of the current responsibilities of the SBIF (current Banking regulator) to the new CMF, the future regulator will be an a lot more macropru-dential and independent organism, given that it will not only be focused on the Banking System but the whole Financial System (including Investors, Insured persons, and depositors). In addition, the new law stresses the fact that by giving these duties to the CMF, there are also gains in legal coordination, con-sistency and integration, while reducing some conflicts of interest. In our view, this change is positive for the long-term safety of the local Banking system, although by giving the regulatory duty to an external and decentralized organism as the CMF, resolutions in some scenarios may be less predictable compared to the current SBIF, an only-Bank regulator, locally known as very conservative, rational and always trying to pro-mote changes in the less disruptive way. This fact could be a source of uncertainty (from an investor stand-point) given that there's still significant definitions that the new regulator (along with the local Central Bank) will have to determine, for example the Risk Weighted assets (RWA) and discretionary resolutions such as the amount and timing of new buffers, and also wheter Goodwill and Intangibles are excluded or not, etc.

Main changes to the existing Chilean Banking Law are the additional TIER I capital (AT1) and the new buffers. The Current Chilean law establishes two types of capital: (i) "Basic Capital" which is similar to the BASEL III's CET1 and also requires 4.5% of RWA; and (ii) the "Regulatory Capital" which is similar to CET2 and adds up to 8% of RWA. Both local requirements are very similar to BASEL capital standards but with slight different compositions. In this regard, the main changes under BASEL III are: (i) additional TIER I capi-tal (AT1) up to 1.5% so minimum TIER I increases from 4.5% to 6.0%; (ii) the conservation buffer, so total capital requirement increases from 8.0% to 10.5%; and (iii) both countercyclical buffer and SIFI.

MAIN CHANGES OF THE NEW LOCAL BANKING LAW

	Current Law	BASEL III
Common Equity Tier 1 (CET1)	4.5%	4.5%
Additional Tier 1 (AT1)	-	1.5%
Common Equity Tier 2 (CET2)	3.5%	2.0%
Regulatory Capital	**8.0%**	**8.0%**
Conservation buffer	-	2.5%
CET1 + AT1 + Consevation buffer	-	8.5%
Capital minimum requirement	**8.0%**	**10.5%**
Countercyclical buffer (CCyB)	-	Up to 2.5%
SIFI	Up to 6.0%	Up to 3.5%

Source: SBIF, BICE Inversiones

In addition to new capital requirements, BASEL III also adds two liquidity ratios. (i) the liquidity coverage ratio (LCR) that aims to guarantee high quality liquid assets (HQLA) that could be easily converted in cash to satisfy its liquidity needs in a 30-day calendar stress scenario; and (ii) the net Stable funding ratio (NSFR) which is intended to encouraging banks to have stable sources of funding. NSFR is defined as the amount of available stable funding relative to the amount of required stable funding. In our view this another signifi-cant source of uncertainty, since liquidity ratios are not possible to estimate because most banks do not report HGLA neither in its quarterly releases nor in the SBIF regulatory monthly reports.

Real effects on capitalization are not possible to determine yet, since the Local Risk-Weighted Assets methodology has still not been released. Besides the different types of capital and ratios of the new BASEL III standards, a key element to measure the real effect on capitalization is the methodology that the new law is going to use to calculate Risk-weighted assets (RWA). In this sense, given that the current Chilean regulatory framework is very strict in terms of RWA (density of RWA in Chile is ~70% of assets, significantly higher than most BASEL III countries that are between 50%-60%). In addition, the new banking law will not only considers credit risk to determine RWA but also will add "market" and "operating" risks (whose methodology has also not been released yet). In our opinion, the most likely resolution should be a reduction in RWA to bridge the gap with the rest of BASEL countries (this opinion is shared by most local Banks) so the real final effects on capitalization cannot be determined yet, and could even be neutral for the vast majority in certain scenarios, especially considering that the new law is intended to be passed progressively during the following 6 years.

RISK WEIGHTED ASSETS DENSITY (% of TOTAL ASSETS)

	Density of RWA	BIS ratio*
Banco do Brasil S.A.	89%	60%
Banco Security	79%	13%
Banco Ripley	78%	19%
Banco de Chile	75%	14%
Banco de Crédito e Inversiones	74%	13%
Banco Bice	73%	14%
Itaú Corpbanca	73%	14%
Banco Internacional	72%	12%
Banco Santander-Chile	71%	13%
Scotiabank Chile	70%	11%
Banco Consorcio	70%	21%
Banco Bilbao Vizcaya Argentaria, Chile	69%	12%
Banco Falabella	63%	16%
Banco del Estado de Chile	60%	11%
JP Morgan Chase Bank, N.A.	57%	46%
Banco de la Nación Argentina	55%	158%
China Construction Bank, Agencia en Chile	41%	110%
Banco BTG Pactual Chile	36%	77%
HSBC Bank (Chile)	35%	25%
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	23%	130%
Banking System	**70%**	**13%**

* BIS ratio is current law´s capital minimum requirement (>= 8%)

Source: SBIF, BICE Inversiones

In order to measure potential effects of the new banking law in capitalization, we performed a basic sensitivity analysis where in first place we calculate each bank's risk-weighted asset density to total assets (as of May 2017), and then assumed two scenarios: (i) the "Acid" scenario (less likely) considers RWA to remain as they currently are, while converging to BASEL III capitalization standards immediately; and (ii) the "Base-case" scenario (most likely) which considers RWA to decrease its density to total assets in 10% reaching 60% for the whole banking system (aligned with most BASEL III countries).

In our estimates, we assume all banks need to have (CET1 +AT1) higher than 8.5% of total RWA (which includes a 2.5% of conservation buffer), while assuming a 2.0% additional (BASEL considers it to be up to 3.5%) at 10.5% for those considered SIFI banks (in our estimates we considered Banco Estado, Banco de Chile, Santander, BCI, and Itaucorp).

According to our estimates, under an "acid" scenario Banco Estado, Itaucorp, and Scotiabank Chile would need significant additional capital to meet new law's minimum regulatory requirements. Under our acid scenario Banco Estado would need to raise ~US$ 1,423Mn (~60% of its current CET1), which is an amount similar to the bank´s own calculus appeared recently in local press. According to our estimates, under the same scenario Itaucorp would need to raise US$ 1,307Mn (~27% of its current CET1); followed by Scotiabank Chile (US$ 138Mn) representing ~11% of its current CET1. Under this acid scenario, there are other banks that would also need to raise capital but being significantly lower in relation to its current CET1 (BCI, BBVA Chile, Banco Internacional, Banco Santander Chile, and Banco Security). **In this regard, we have to consider that these are only scenarios and not necessarily means capital increases given that we still need further significant definitions in other areas such as RWA and the timing of the transition** (initially expected to be 6 years), considering that the last banking law had a higher-than previously announced period of transition (intended to not be disruptive for the banking system).

CAPITAL REQUIREMENTS SENSITIVITY - ACID SCENARIO

Acid Scenario	CET1 + AT1 + 2.5% >= 8.5%*	Capital Requirements**	% of current CET1
Banco Bice	9.5%		
Banco Bilbao Vizcaya Argentaria, Chile	8.1%	63	5%
Banco BTG Pactual Chile	77.1%		
Banco Consorcio	15.7%		
Banco de Chile* **	10.8%		
Banco de Crédito e Inversiones* **	9.6%	353	9%
Banco de la Nación Argentina	157.9%		
Banco del Estado de Chile* **	6.3%	1,423	60%
Banco do Brasil S.A.	59.5%		
Banco Falabella	12.6%		
Banco Internacional	8.2%	4	3%
Banco Ripley	15.9%		
Banco Santander-Chile* **	10.2%	106	2%
Banco Security	8.3%	13	2%
China Construction Bank, Agencia en Chile	110.1%		
HSBC Bank (Chile)	24.9%		
Itaú Corpbanca* **	6.8%	1,307	27%
JP Morgan Chase Bank, N.A.	45.6%		
Scotiabank Chile	7.5%	138	11%
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	123.5%		
Banking System	**9.2%**	**3,408**	**13%**

* Minimum TIER I Capital + 2.5% conservation buffer

** We include 2.5% additional for SIFI banks

*** Considered SIFI banks

USD = 666

Under our base-case scenario only Banco Estado and Itaucorp would need significant additional capital to meet new law's minimum regulatory requirements. Our base-case scenario considers the same capital requirements but also a 10% reduction in the risk-weighted assets density. Under this scenario (most likely) only Banco Estado and Itaucorp would need to raise capital by ~US$ 985Mn and ~US$ 929Mn, respectively, which is ~41% and ~19% of current CET1, each case.

CAPITAL REQUIREMENTS SENSITIVITY - BASE CASE SCENARIO

Base Case Scenario	CET1 + AT1 + 2.5% >= 8.5%*	Capital Requirements**	% of current CET1
Banco Bice	11.0%		
Banco Bilbao Vizcaya Argentaria, Chile	9.5%		
Banco BTG Pactual Chile	106.9%		
Banco Consorcio	18.3%		
Banco de Chile* **	12.5%		
Banco de Crédito e Inversiones* **	11.1%		
Banco de la Nación Argentina	192.9%		
Banco del Estado de Chile* **	7.6%	985	41%
Banco do Brasil S.A.	67.0%		
Banco Falabella	15.0%		
Banco Internacional	9.5%		
Banco Ripley	18.2%		
Banco Santander-Chile* **	11.9%		
Banco Security	9.5%		
China Construction Bank, Agencia en Chile	145.0%		
HSBC Bank (Chile)	35.0%		
Itaú Corpbanca* **	7.9%	929	19%
JP Morgan Chase Bank, N.A.	55.4%		
Scotiabank Chile	8.8%		
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	220.6%		
Banking System	**10.8%**	**1,914**	**7%**

* Minimum TIER I Capital + 2.5% conservation buffer

** We include 2.5% additional for SIFI banks

*** Considered SIFI banks

USD = 666

4. INDUSTRY COMPARABLES

LATAM BANKING INDUSTRY VALUATIONS

Company	Industry sub group	Mkt Cap USDM	Country	P/E LTM	P/E 2017E	P/E 2018E	Price/Book LTM	Price/Book 2017E	Price/Book 2018E
BANCO DE CHILE	Commer Banks Non-US	14,062	CHILE	16.6x	16.0x	15.0x	3.2x	3.0x	2.9x
BANCO SANTANDER	Commer Banks Non-US	12,427	CHILE	16.7x	14.3x	13.2x	2.8x	2.6x	2.5x
BANCO CRED INVER	Commer Banks Non-US	7,305	CHILE	12.0x	11.2x	12.1x	1.9x	1.8x	1.7x
ITAU CORPBANCA	Commer Banks Non-US	4,940	CHILE	115.4x	23.6x	13.5x	1.0x	1.0x	0.9x
Chile Avrg				40.2x	16.3x	13.4x	2.2x	2.1x	2.0x
CREDICORP LTD	Commer Banks Non-US	14,738	PERU	13.3x	13.0x	11.3x	2.4x	2.2x	1.9x
INTERGROUP FIN S	Diversified Finan Serv	3,846	PERU	12.9x	12.5x	10.0x	2.3x	2.1x	1.9x
BANCOLOMBIA-PREF	Commer Banks Non-US	10,499	COLOMBIA	11.2x	12.2x	10.8x	1.6x	1.5x	1.3x
BANCO DAVIVIENDA	Commer Banks Non-US	5,029	COLOMBIA	9.4x	9.7x	8.4x	1.6x	1.4x	1.2x
GRUPO AVAL ACCIO	Commer Banks Non-US	9,596	COLOMBIA	-	11.6x	10.3x	-	1.8x	1.7x
BANCO BOGOTA	Commer Banks Non-US	7,066	COLOMBIA	5.0x	-	-	1.3x	-	-
Andean Avrg				10.4x	11.8x	10.2x	1.8x	1.8x	1.6x
BANCO DO BRASIL	Commer Banks Non-US	26,372	BRAZIL	10.0x	7.5x	6.4x	0.9x	0.9x	0.8x
BANCO SANTA-UNIT	Commer Banks Non-US	31,755	BRAZIL	-	11.6x	11.0x	-	1.7x	1.6x
ITAU UNIBAN-PREF	Commer Banks Non-US	72,679	BRAZIL	10.3x	10.1x	9.7x	2.0x	1.9x	1.8x
BANRISUL-PREF B	Regional Banks-Non US	2,099	BRAZIL	9.9x	7.8x	7.0x	0.9x	0.9x	0.8x
BANCO MACRO SA-B	Commer Banks Non-US	6,059	ARGENTINA	13.0x	11.1x	9.9x	3.7x	2.7x	2.3x
GRUPO GALICIA-B	Commer Banks Non-US	5,199	ARGENTINA	14.0x	12.9x	10.6x	4.3x	3.2x	2.5x
GRUPO F BANORT-O	Commer Banks Non-US	19,038	MEXICO	17.7x	14.6x	12.8x	2.4x	2.2x	2.0x
GRUPO F SANTAN-B	Commer Banks Non-US	13,832	MEXICO	13.9x	13.9x	12.6x	2.1x	2.0x	1.9x
GRUPO FIN INB-O	Commer Banks Non-US	12,044	MEXICO	13.4x	14.1x	13.1x	1.7x	1.7x	1.6x
BANCO LATINOAM-E	Supranational Bank	1,077	PANAMA	-	10.6x	9.1x	1.1x	1.0x	1.0x
LatAm Avrg				12.8x	11.4x	10.2x	2.1x	1.8x	1.6x

Company	Industry sub group	Mkt Cap USDM	Country	ROE LTM	ROE 2017E	ROE 2018E	Dividend Yield LTM	Dividend Yield 2017E	Dividend Yield 2018E
BANCO DE CHILE	Commer Banks Non-US	14,062	CHILE	19.9%	19.0%	19.0%	-	3.1%	4.0%
BANCO SANTANDER	Commer Banks Non-US	12,427	CHILE	16.8%	18.3%	18.9%	-	4.1%	4.6%
BANCO CRED INVER	Commer Banks Non-US	7,305	CHILE	17.4%	16.2%	14.2%	-	2.5%	3.1%
ITAU CORPBANCA	Commer Banks Non-US	4,940	CHILE	3.2%	4.1%	6.8%	-	0.0%	2.2%
Chile Avrg				14.3%	14.4%	14.7%	-	2.4%	3.5%
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GRUPO AVAL ACCIO	Commer Banks Non-US	9,596	COLOMBIA	16.1%	15.5%	16.3%	-	4.2%	4.6%
BANCO BOGOTA	Commer Banks Non-US	7,066	COLOMBIA	26.8%	-	-	-	-	-
Andean Avrg				18.7%	15.6%	16.6%	-	3.0%	3.6%
BANCO DO BRASIL	Commer Banks Non-US	26,372	BRAZIL	9.3%	12.0%	12.6%	-	3.5%	4.0%
BANCO SANTA-UNIT	Commer Banks Non-US	31,755	BRAZIL	8.8%	14.7%	14.8%	-	5.7%	5.7%
ITAU UNIBAN-PREF	Commer Banks Non-US	72,679	BRAZIL	20.5%	19.6%	17.7%	-	4.4%	4.8%
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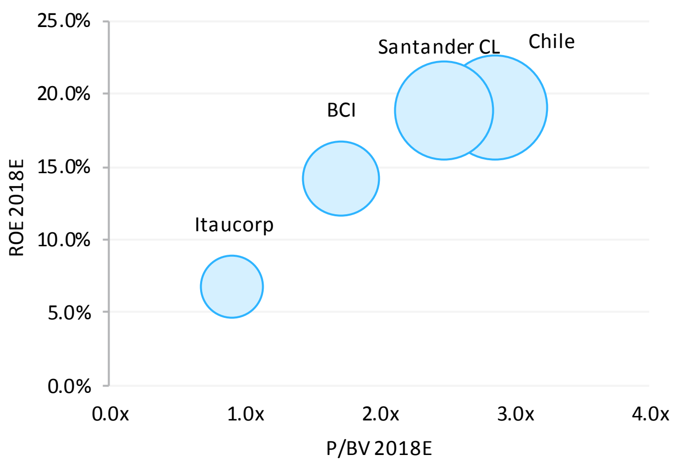
GRUPO FIN INB-O	Commer Banks Non-US	12,044	MEXICO	13.8%	11.6%	11.5%	-	1.6%	2.1%
BANCO LATINOAM-E	Supranational Bank	1,077	PANAMA	-	9.9%	11.0%	-	5.7%	6.1%
LatAm Avrg				17.7%	17.1%	17.2%	-	3.6%	4.0%

Source: Bloomberg, BICE Inversiones

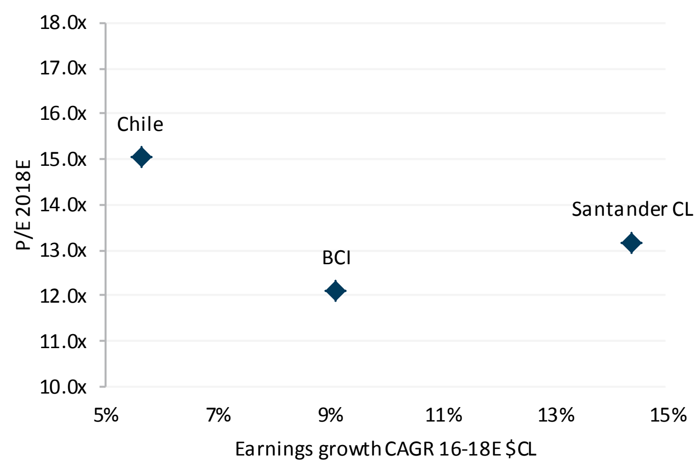
4. INDUSTRY COMPARABLES

ROE 2018E VS P/BV 2018E - CHILEAN BANKS



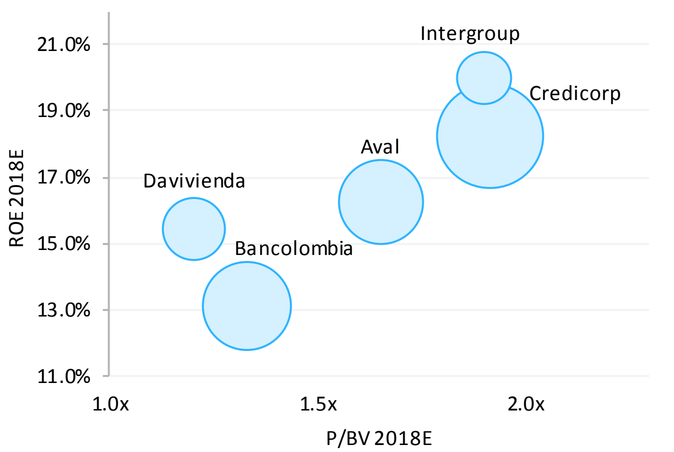
Source: Bloomberg, BICE Inversiones estimates

P/E 2018E VS GROWTH 2018E - CHILEAN BANKS



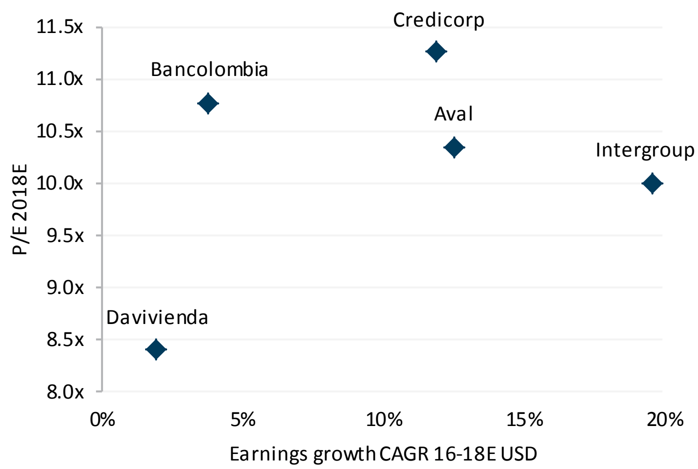
Source: Bloomberg, BICE Inversiones estimates

ROE 2018E VS P/BV 2018E - ANDEAN BANKS



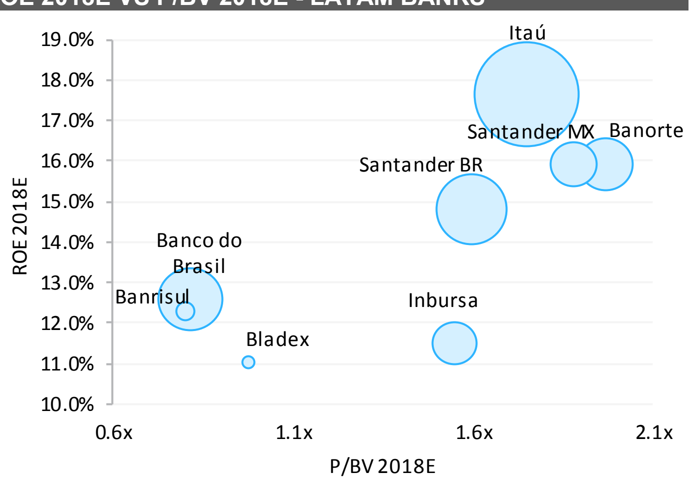
Source: Bloomberg, BICE Inversiones

P/E 2018E VS GROWTH 2018E - ANDEAN BANKS



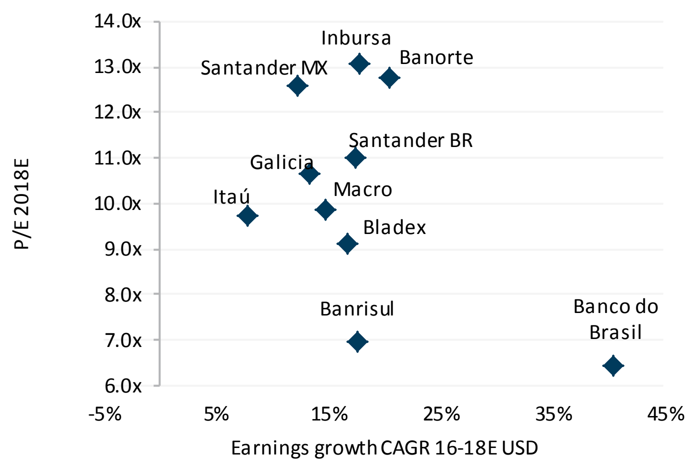
Source: Bloomberg, BICE Inversiones

ROE 2018E VS P/BV 2018E - LATAM BANKS



Source: Bloomberg, BICE Inversiones

P/E 2018E VS GROWTH 2018E - LATAM BANKS



Source: Bloomberg, BICE Inversiones

BUY

BANCO SANTANDER

Target Price: CL$ 49.1
Current Price: CL$ 42.8

Strong Earnings Delivery at a Reasonable Price

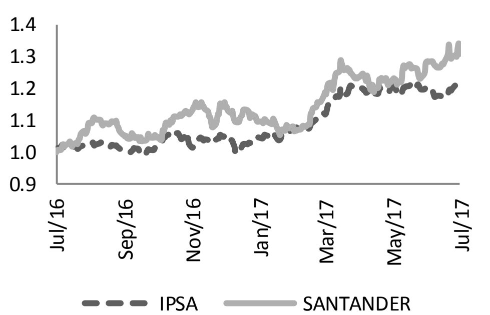
SUMMARY

Bloomberg	BSAN CI
Reuters	STG.SN
Credit risk rating	A
52 weeks high/low (CLP)	44-33
ADVT 6M (USD M)	4.4
Free float (%)	33.0%
# stocks (M)	188,446
Market Cap (USD M)	12,141
Target price (CLP)	49.1
Current price (CLP)	42.8
Upside potential	14.6%
Div. Yield (%)	4.2%
Total Return	18.8%

RATIOS

	2015	2016	2017E	2018E
P/E	13.3x	14.8x	14.3x	13.2x
P/B	2.2x	2.4x	2.6x	2.5x
Div. Yield	5.5%	4.8%	4.1%	4.6%
ROE	16.2%	16.3%	18.3%	18.9%
RORWA	1.7%	1.7%	2.0%	2.0%

STOCK PERFORMANCE



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WHAT´S NEW

We are re-initiating coverage of Banco Santander Chile with a BUY recommendation, introducing our YE18 target price of CLP $49.1. Despite the strong over-performance against local peers and IPSA Index LTM, we highlight: (i) Santander is expected to post a significant 10% earnings CAGR between 2016-2019, being one of the largest inside the local Banking Industry; (ii) is currently trading at a significant discount over Banco de Chile´s 10-year average pair trade; and (iii) its expected ROE turnaround is consistent with a significant multiples expansion.

In a context of increasing local inflationary trends, Santander is the Chilean bank with the highest asset-liabilities gap exposed to inflation (UF mismatch). In our estimates, we expect Santander´s NIM to increase from 4.2% to 4.4% during the next two years (2016-2018) based on inflation increases from 2.7% to 3.0% during the period.

Banco Santander is currently the Chilean most efficient bank, while it is still working to continue improving its productivity by plenty of new initiatives. During recent years the company has been focused on plenty of corporate efforts trying to reduce operating expenses and increase productivity. We highlight 1Q17´s ~11% YoY reduction of branches, coupled with ~17% higher productivity per office.

Normalization in provisions and operating expenses should provide a significant CAGR 10% earnings delivery in the 2016-2019 period, being the largest inside our Chilean bank's sample. In our estimates we are including: (i) LLP to normalize from 1.3% in 2016 to 1.1% in 2017E and so forth (in line with the company´s conservative guidance); coupled with (ii) efficiency ratio to decrease from ~43% in 2016 to ~40.5% in 2018; supporting a 19% net income growth 2017E, and 10% CAGR in the 2016-2019 period, being the largest inside our sample of Chilean Banks.

Despite the substantial over-performance against local peers and IPSA Index LTM, valuations still seem attractive when including new estimates. Although Banco Santander has shown a significant 12.57% over-performance against IPSA Index during the LTM, when including our revised estimates the stock is trading close to its 10Yr P/E average; and (ii) the pair trade with Banco de Chile is signaling a highly positive bias for Santander (the L10Yr ~3% premium is currently ~5% discount) when looking 2018YE P/E ratios

RISKS

Our estimates and conclusions are highly dependent on both macroeconomic and regulatory drivers such as: (i) Chilean economic growth (we expect 1.7% and 2.6% real GDP growth for 2017 and 2018); (ii) Chilean Inflation rates (we expect 3% for 2017 and 2018); Regulatory issues such as (iii) Basel III implementation (in our DDM incorporates a TIER I of 10.5% in 2021); and (iv) local tax rates (we use a 3% monetary correction benefit from the 27% tax rate for Chilean operations in 2021.

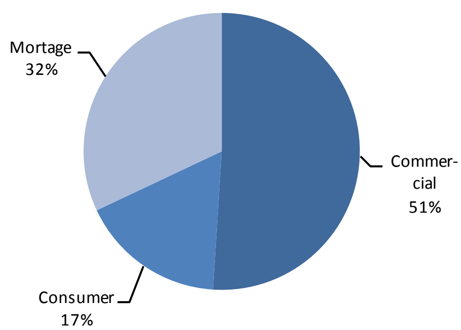
BANCO SANTANDER

BUY

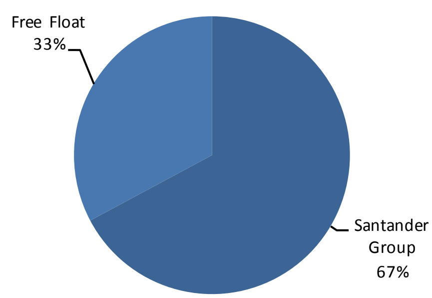
Target Price: CL$ 49.1
Current Price: CL$ 42.8

Santander is the largest bank in Chile regarding assets, loans, and equity. Operates in every major region of Chile providing commercial and retail bank services. Santander competes actively in all loan and client segments. The bank has the highest levels of profitability in comparison with its peers due to the efficiencies in cost and the large scale. It's long term Standard & Poor´s credit risk rating is A, with a negative outlook. Banco Santander-Chile is a subsidiary of Banco Santander from Spain.

LOANS BREAKDOWN (%)



OWNERSHIP (%)



FINANCIAL STATEMENTS (CL$ Mn)

P&L	2015	2016	2017E	2018E
Net Financial Income	1,255,206	1,281,366	1,371,581	1,504,385
Net FX Profit + Interm.	145,499	140,358	130,731	131,527
Net commisions	237,627	254,424	274,215	290,184
Other	-38,576	-67,133	-62,092	-47,792
Gross Op. Result	1,599,756	1,609,015	1,714,434	1,878,303
Net Provisions	-413,694	-343,286	-304,430	-322,849
Operating Expenses	-661,208	-686,905	-701,597	-759,124
Net Op. Result	524,854	578,824	708,408	796,330
Related companies	2,588	3,012	2,841	3,194
Tax	-75,301	-107,120	-146,863	-185,288
Minority Interest	3,263	2,365	1,484	1,668
Net Income	448,878	472,351	562,902	612,568
Net Margin	27.4%	28.2%	31.7%	31.8%
% YoY	-18.4%	5.2%	19.2%	8.8%

BALANCE SHEET	2015	2016	2017E	2018E
Loans	25,289,880	26,933,624	28,534,183	30,175,632
Investments	2,368,682	3,785,893	4,010,874	4,241,602
Productive Assets	27,658,562	30,719,517	32,545,056	34,417,234
Total Assets	34,654,105	37,006,645	39,205,804	41,461,145
Total Liabilities	31,889,225	34,108,598	36,135,537	38,214,259
Equity	2,764,880	2,898,047	3,070,266	3,246,886
Equity + Liabilities	34,654,105	37,006,645	39,205,804	41,461,145

RATIOS	2015	2016	2017E	2018E
NIM	4.5%	4.2%	4.2%	4.4%
LLP Ratio (Net provision to Loans)	-1.6%	-1.3%	-1.1%	-1.1%
Efficiency Ratio	-41.3%	-42.7%	-40.9%	-40.4%
ROE	16.2%	16.3%	18.3%	18.9%
ROA	1.3%	1.3%	1.4%	1.5%
Tier 1	10.5%	10.6%	10.6%	10.6%

5.1.1 INVESTMENT THESIS

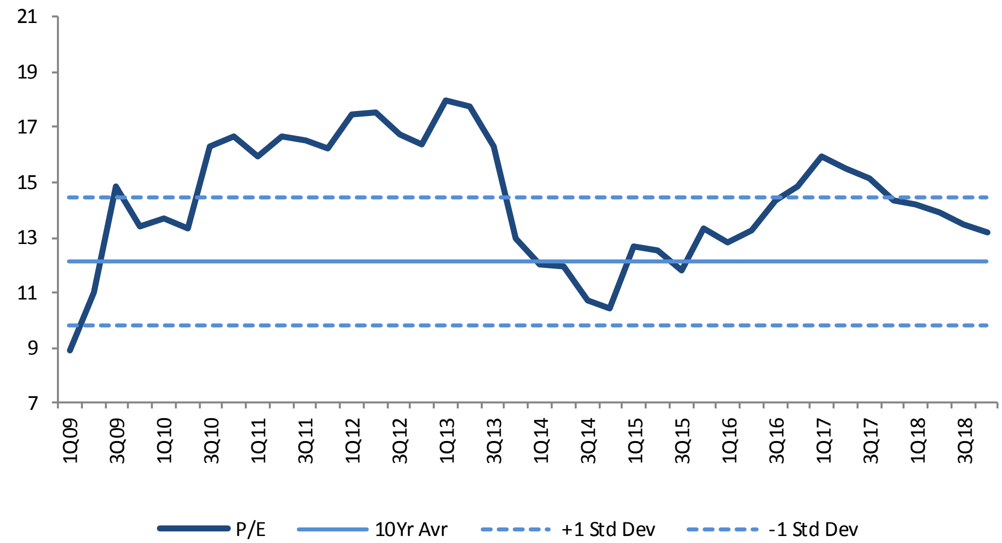
In a context of increasing local inflationary trends, Santander is the Chilean bank with the highest asset-liabilities gap exposed to inflation (UF mismatch). In the long-term, Inflationary pressures are negative for all industries because of its detrimental effect on the economy. However, in the case of Chilean Banks, short-term inflationary pressures have a positive impact on net interest margin (NIM) because of its asset to liabilities gap in UF (Chilean inflation-linked unit of measure), given that assets tend to adjust faster than liabilities to inflation. In this regard, according to our estimates, Santander holds ~CL$ 7.800Bn asset to liabilities mismatch in UF, compared to Banco de Chile (CL$ 5.600Bn) and BCI (CL$ 5.500Bn), so the increasing trend of local inflation should be more active to Santander than to its local peers. In our estimates, we expect Santander´s NIM to increase from 4.2% to 4.4% during the next two years (2016-2018) based on inflation increases from 2.7% to 3.0% during the period.

Banco Santander is currently the Chilean most efficient bank, while it is still working to continue improving its productivity by plenty of new initiatives. We highlight that although Banco Santander has been historically well-known inside the local banking industry as one of the most efficient companies, it is also the bank with the highest ability to adapt quickly and reduce expenses faster than others. The latter is the result of its "corporate culture" which intends to boost efficiency at the whole corporate structure. In this regard, during recent years the company has been focused on plenty of corporate efforts trying to reduce operating expenses and increase productivity by reducing both branches and automated teller machines (ATMs). In particular, we highlight 1Q17´s ~11% YoY reduction of some branches (at 415), coupled with ~17% higher productivity per office (commercial activity). Looking forward, efficiency should be additionally boosted by its new branch concept "Work Cafe" whose innovative concept tries to increase the commercial area in detriment of back office and other support areas (Work café is intended to reach at least 5%-10% of total branches).

Normalization in provisions and operating expenses should provide a significant CAGR 10% earnings delivery in the 2016-2019 period, being the largest inside our Chilean bank's sample. During recent years, Banco Santander has seen affected its profitability by plenty of issues such as (i) a relevant change in their client´s focus to a more high-end profile (Santander Select), which lowered its risk-adjusted NIM (from 3.5% during 2010-2014 to 2.9% in 2015-2016); (ii) Strong efforts in non-performing loans (NPL) coverage specially in its consumer segment "Banefe" (being the local bank with the highest increase during the L3Yr from 110% in 2014 to 135% at the end of 2016); and (iii) several one-offs mostly related to severance payments in order to reduce its corporate structure and increase efficiency (~CL$ 11Bn pre-tax in both 2Q16 and 2Q17E). All in all, in our estimates we are including: (i) LLP to normalize from 1.3% in 2016 to 1.1% in 2017E and so forth (in line with the company´s conservative guidance); coupled with (ii) efficiency ratio to decrease from ~43% in 2016 to ~40.5% in 2018; supporting a 19% net income growth 2017E, and 10% CAGR in the 2016-2019 period, being the largest inside our sample of Chilean Banks.

Despite the strong over-performance against local peers and IPSA Index LTM, valuations still seem attractive when including new estimates. Although Banco Santander has shown a significant 12.57% over-performance against IPSA Index during the LTM, when including our revised estimates (we increased net income 17E and 18E by +9% and 17% each case) the stock is: (i) trading close to its 10Yr P/E average (12.1x P/E 2018E); and (ii) the pair trade with Banco de Chile is signaling a highly positive bias for Santander (the L10Yr ~3% premium is currently ~5% discount) when looking 2018YE P/E ratios. In addition, given that Santander is the bank with the highest expected ROE improvement during the next 12-months, our "fair/target" P/BV signals a formal justification for some significant and higher-than-peers "multiples" expansion (from 1.9x in 2016 to 2.5x in 2018YE) which in our view continues supporting further relevant upside on the stock. Finally, we believe that (i) the highest expected earnings momentum for the next years; (ii) and the fewer challenges (considering BSAN´s already made strong efficiency efforts) compared to peers should justify a premium over local peers.

BANCO SANTANDER VALUATION - BICE ESTIMATES



Source: Bolsa de Comercio de Santiago, BICE Inversiones estimates

5.1.2 VALUATION & SENSITIVITY ANALYSIS

Our target price is based on a blended 50%/50% between (i) 10-Yr dividend discount model (DDM); and (ii) 2018E target P/E multiples (using a Premium of 1STD deviation to the L10Yr average P/E LTM). In particular, in our DDM we are using a 4.0% risk free rate (based on local BCP10), and a Beta of 1.0 which is consistent with a 10.0% Cost of Equity (Ke). In addition, we are using a 4.0% nominal growth rate (1.0% real based on a 3% long term inflation rate). We are adjusting our discounted dividends by a targeted 10.5% TIER I in 2021 (based on new BASEL III standards), so dividends will be affected upward or downward depending on current TIER I ratio.

VALUATION - BANCO SANTANDER

BANCO SANTANDER - DDM (1)	
Free Risk Rate	4.0%
Beta	1.00
Risk Premium	6.00%
Ke	10.0%
G	4.0%
NPV Dividends	3,607,125
Perpetuity	4,969,068
# Stocks (MM)	188,446
P° Target - DDM (1)	45.5
NPV Implicit P/B 2018E	2.6x
NPV Implicit P/E 2018E	14.0x

BANCO SANTANDER - MULTIPLES (2)	
P° Target - 16.2x P/E 2018E (2)	52.7

BANCO SANTANDER - BLENDED (1)(2)	
P° Target	49.1
Current Price	42.8
Upside	14.6%
Div. Yield 18E	4.2%
Total Return 18E	18.8%

SENSITIVITY ANALYSIS - BANCO SANTANDER

GROWTH (G) \ DISCOUNT RATE (Ke)	11.0%	10.5%	10.0%	9.5%	9.0%
3.0%	44.4	45.7	47.1	48.7	50.7
3.5%	45.1	46.4	48.0	49.9	52.0
4.0%	45.8	47.3	**49.1**	51.2	53.7
4.5%	46.6	48.3	50.4	52.8	55.7
5.0%	47.6	49.6	51.9	54.7	58.2

HOLD

BANCO DE CHILE

Target Price: CL$ 94.2
Current Price: CL$ 95.0

Weighed Down by Hefty Valuations

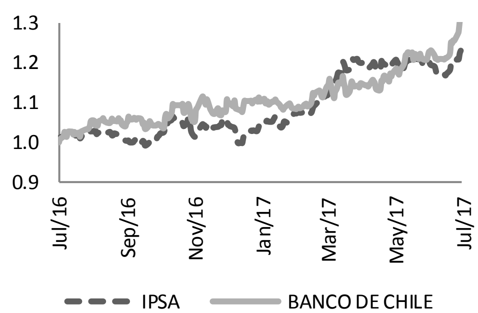
SUMMARY

Bloomberg	CHILE CI
Reuters	CHI.SN
Credit risk rating	A
52 weeks high/low (CLP)	95-71
ADVT 6M (USD M)	4.9
Free float (%)	32.0%
# stocks (M)	99,444
Market Cap (USD M)	13,249
Target price (CLP)	94.2
Current price (CLP)	95.0
Upside potential	-0.8%
Div. Yield (%)	3.7%
Total Return	2.9%

RATIOS

	2015	2016	2017E	2018E
P/E	12.4x	13.8x	16.0x	15.0x
P/B	2.5x	2.6x	3.0x	2.9x
Div. yield	4.8%	4.3%	3.1%	4.0%
ROE	20.4%	19.1%	19.0%	19.0%
RORWA	2.0%	2.1%	2.0%	2.0%

STOCK PERFORMANCE



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WHAT´S NEW.

We are re-initiating coverage of Banco de Chile with a HOLD recommendation, introducing our YE18 target price of CLP $94.2. After a significant over-performance against IPSA Index during the LTM, we believe Banco de Chile´s current valuations are difficult to justify from a fundamental standpoint so we remain on the sidelines. We highlight Banco de Chile: (i) is expected to report minor CAGR earnings growth 2016-2019E (+5% vs 10% of BSAN and BCI); (ii) is currently trading at ~28% premium against its 10Yr avrg P/E Fwd; and (iii) looks significantly expensive when looking at its BSAN historical pair trade.

Banco de Chile should be the best prepared local bank to face new regulatory changes regarding the transition to BASEL III standards. We believe Banco de Chile does not need neither capitalization nor changing its current payout policy (even in an acid stress scenario), which converts it in the safer bet for investors looking for certainty regarding the current regulatory changes ahead in the country.

Commercial loans seem have been left aside during recent years; new corporate guidance looks for alignment with the Industry trend. During the 2012-2016 period, Banco de Chile has reported a 410bp market share loss reaching 16% (including foreign subsidiaries) in the Commercial segment (~59% of total Industry loans). In our estimates, we include a +5% YoY growth in this segment for both 2017-2018 (aligned with guidance), which points to a relevant recovery for the second half.

We expect Banco de Chile to finish its subordinated debt payment on 2019, deriving on a lower ROE while being partially offset by higher stock liquidity. according to our estimates of 5.1% and 6.5% earnings growth for 2017 and 2018 respectively, and if maintaining the current 60% payout (including both cash and paid-in shares dividend), we believe the subordinated debt will be solved on 2019, while pressuring the bank´s profitability.

Our updated figures are aligned with both the company´s guidance and market consensus estimates for 2018. We believe the increasing trend of the tax rate should weigh significantly on Banco de Chile´s profitability, so we do not discard downward revisions to our estimates, specially for 2018 regarding the expected 4-year re-negotiation with labor unions planned for the next year.

RISKS.

Our estimates and conclusions are highly dependent on both macroeconomic and regulatory drivers such as: (i) Chilean economic growth (we expect 1.7% and 2.6% real GDP growth for 2017 and 2018); (ii) Chilean Inflation rates (we expect 3% for 2017 and 2018); Regulatory issues such as (iii) Basel III implementation (in our DDM incorporates a TIER I of 10.5% in 2021); and (iv) local tax rates (we use a 3% monetary correction benefit from the 27% tax rate for Chilean operations in 2021.

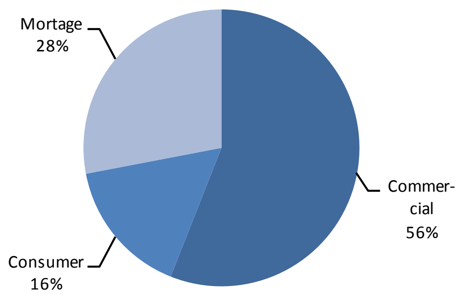
BANCO DE CHILE

HOLD

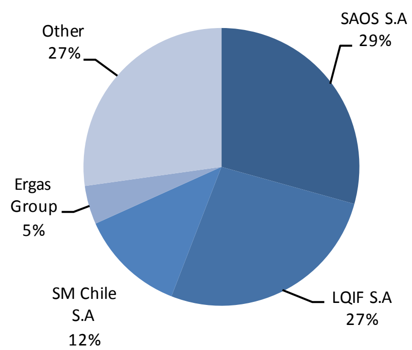
Target Price: CL$ 94.2
Current Price: CL$ 95.0

Banco de Chile is the second largest bank in Chile. Is a full-service financial institution that provides a broad range of different financial products, financial services and loans across all segments. Its main activity is commercial banking in Chile, offering traditional products and specialized financial services for its customers base. The bank is controlled by joint venture betwen Quinenco (Luksic group) and Citi group through LQIF investment.

LOANS BREAKDOWN (%)



OWNERSHIP (%)



SM CHILE-B - VALUATION

3.38 Chile Shares	321
Debt / Share	19
NAV	**302**
Market Price	280
Discount	-7.4%
Chile Target	94
3.38 Chile Shares	319
18E Debt / Share	8
NAV	311
Discount	-5.0%
Target Price	**296**
Upside	5.6%

FINANCIAL STATEMENTS (CL$ Mn)

P&L	2015	2016	2017E	2018E
Net Financial Income	1,219,133	1,221,369	1,304,286	1,423,739
Net FX Profit + Interm.	93,857	161,288	105,228	112,142
Net commisions	305,979	321,271	343,828	369,056
Other	2,047	134	997	997
Gross Op. Result	1,621,016	1,704,062	1,754,339	1,905,935
Net Provisions	-303,062	-309,735	-281,288	-297,706
Operating Expenses	-700,899	-757,551	-786,883	-855,462
Net Op. Result	617,055	636,776	686,168	752,767
Related companies	3,672	4,513	4,062	4,456
Tax	-61,730	-89,040	-109,763	-139,088
Minority Interest	2	0	0	0
Net Income	558,995	552,249	580,467	618,134
Net Margin	34.5%	32.4%	33.1%	32.4%
% YoY	-5.4%	-1.2%	5.1%	6.5%

BALANCE SHEET	2015	2016	2017E	2018E
Loans	24,558,041	25,385,534	26,898,167	28,448,765
Investments	1,866,655	1,773,766	1,879,458	1,879,458
Productive Assets	26,424,696	27,159,300	28,777,626	30,508,972
Total Assets	31,292,944	31,558,000	33,438,429	35,291,901
Total Liabilities	28,552,857	28,670,589	30,378,967	32,045,679
Equity	2,740,087	2,887,411	3,059,462	3,246,222
Equity + Liabilities	31,292,944	31,558,000	33,438,429	35,291,901

RATIOS	2015	2016	2017E	2018E
NIM	4.6%	4.5%	4.5%	4.7%
LLP Ratio (Net provision to Loans)	-1.2%	-1.2%	-1.0%	-1.0%
Efficiency Ratio	-43.2%	-44.5%	-44.9%	-44.9%
ROE	20.4%	19.1%	19.0%	19.0%
ROA	1.9%	2.1%	1.7%	1.8%
Tier 1	10.0%	10.8%	10.8%	10.7%

5.2.1 INVESTMENT THESIS

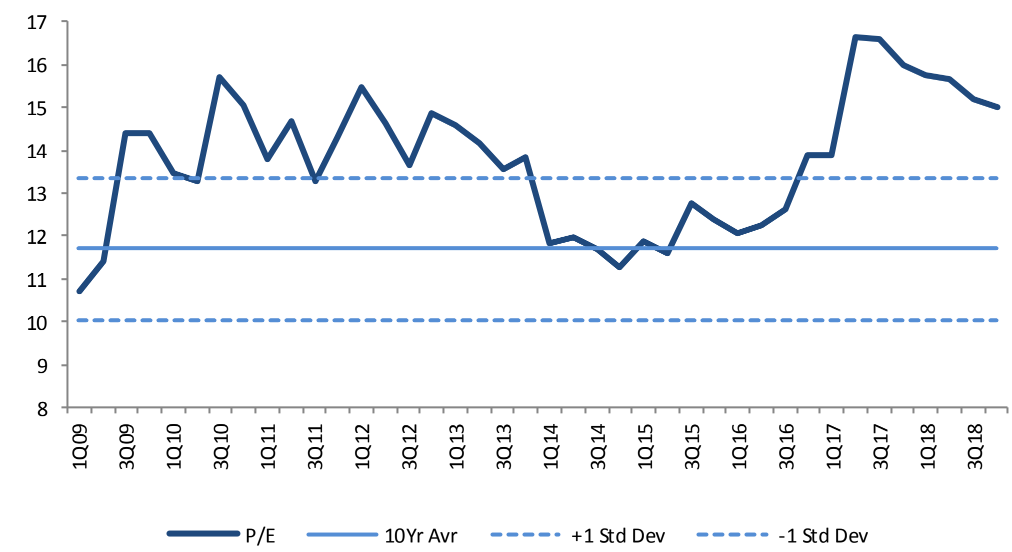
Banco de Chile should be the best prepared local bank to face new regulatory changes regarding the transition to BASEL III standards. Banco de Chile has been historically the local bank with the highest profitability and greater capitalization ratios, averaging 22.3% and 9.7% during the L8Yr each case. In this regard, according to our estimates, if BASEL III capitalization standards were applied today, Banco de Chile would have a 10.7% TIER I ratio, which is the largest inside the industry followed by Banco Santander (considering only those larger banks with publicly traded stocks). In addition, in an extreme case, if current capitalization were not enough to accomplish minimum regulatory standards, Banco de Chile is also the traded local bank with (i) the largest payout ratio (63.4% average during the L5Yr) compared to Banco Santander (63%) and BCI (35.9%), and (ii) the highest ROE, which converts BCHI in the one with the largest alternatives to be re-capitalized with no need of capital issuances. In our estimates, we assume that all banks must tend to 10.5% TIER I ratio in 2021 (with no changes in risk-weighted assets), so discounted dividend are affected by this issue. In this regard, we believe Banco de Chile does not need neither capitalization nor changing its current payout policy (even in an acid stress scenario), which converts it in the safer bet for investors looking for certainty regarding the current regulatory changes ahead in the country.

Commercial loans seem have been left aside during recent years; new corporate guidance looks for alignment with the Industry trend. During the 2012-2016 period, Banco de Chile has reported a 410bp market share loss reaching 16% (including foreign subsidiaries) in the Commercial segment (~59% of total Industry loans), which according to the bank was related to unattractive market conditions to growth at the company´s profitability standards. In this regard, in our meetings with the IR team, the company mentioned they see a huge source of growth by only re-aligning to the Industry recent trend in commercial loans (~10% average growth during 2012-2016 versus ~5% of BCHI). Here, SMEs (small and medium enterprise) are signaled as an attractive source of growth down the line considering its relatively low penetration inside the country. However, despite 1Q17´s results showed a strong +16% YoY growth in SMEs, they represent only ~2.7% of total commercial loans and the overall trend (in commercial loans) is still slow and below Industry as of May-2017 (+0.3% YoY versus +1.9% YoY). In this regard, in our estimates, we include a +5% YoY growth in this segment for both 2017-2018 (aligned with guidance), which points to a relevant recovery for the second half.

We expect Banco de Chile to finish its subordinated debt payment on 2019, deriving on a lower ROE while being partially offset by higher stock liquidity. Because of the 80´s salvage made by the Chilean Central Bank, Banco de Chile keep a subordinated debt whit it through SAOS S.A. a spin-off created solely to pay-back Central Bank´s borrowing. Despite the subordinated debt was originally a salvage, it is today an expensive debt if considering the high liquidity inside financial markets, so Banco de Chile has tried unsuccessfully to pre-paid it during last years. In this regard, the payment will have the following effects on results: (i) an ~5.5% increase in the bank´s effective tax rate due to the elimination of its current tax benefit; and (ii) an increase of the stock´s liquidity (likely gaining weight in local stock indexes such as IPSA and MSCI) given that current SM-Chile stocks will be converted into 3.38 new Banco de Chile´s. All in all, according to our estimates of 5.1% and 6.5% earnings growth for 2017 and 2018 respectively, and if maintaining the current 60% payout (including both cash and paid-in shares dividend), we believe the subordinated debt will be solved on 2019, while pressuring the bank´s profitability. Lastly, we do not see BCHI post 5% ROE decrease after the payment, but we acknowledge that it will be challenging to defend that ROE points on the market.

Our updated figures are aligned with both the company´s guidance and market consensus estimates for 2018. Our estimates are break-down as follow: (i) 1.0% Loan loss provisions (20bps lower than 16YE); (ii) 20Bps NIM increase at 4.7% (based on a regression model that includes 30bps higher inflation compared to 16YE); while being partially offset by (iii) 450bps higher tax rate at 18.5% (compared to 14% of 16YE). We believe the increasing trend of the tax rate should weigh significantly on Banco de Chile´s profitability, so we do not discard downward revisions to our estimates, specially for 2018 regarding the expected 4-year re-negotiation with labor unions planned for the next year.

BANCO DE CHILE VALUATION - BICE ESTIMATES



Source: Bolsa de Comercio de Santiago, BICE Inversiones estimates

5.2.2 VALUATION & SENSITIVITY ANALYSIS

Our target price is based on a blended 50%/50% between (i) 10-Yr dividend discount model (DDM); and (ii) 2018E target P/E multiples (using a Premium of 1STD deviation to the L10Yr average P/E LTM). In particular, in our DDM we are using a 4.0% risk free rate (based on local BCP10), and a Beta of 1.0 which is consistent with a 10.0% Cost of Equity (Ke). In addition, we are using a 4.0% nominal growth rate (1.0% real based on a 3% long term inflation rate). We are adjusting our discounted dividends by a targeted 10.5% TIER I in 2021 (based on new BASEL III standards), so dividends will be affected upward or downward depending on current TIER I ratio.

VALUATION - BANCO DE CHILE

BANCO DE CHILE - DDM (1)	
Free Risk Rate	4.0%
Beta	1.00
Risk Premium	6.00%
Ke	10.0%
G	4.0%
NPV Dividends	3,680,567
Perpetuity	5,783,403
# Stocks (MM)	99,444
P° Target - DDM (1)	95.2
NPV Implicit P/B 2018E	2.9x
NPV Implicit P/E 2018E	15.3x

BANCO DE CHILE - MULTIPLES (2)	
P° Target - 15.0x P/E 2018E (2)	93.2

BANCO DE CHILE - BLENDED (1)(2)	
P° Target	94.2
Current Price	95.0
Upside	-0.8%
Div. Yield 18E	3.7%
Total Return 18E	2.9%

SENSITIVITY ANALYSIS - BANCO DE CHILE

GROWTH (G) \ DISCOUNT RATE (Ke)	11.0%	10.5%	10.0%	9.5%	9.0%
3.0%	90.6	92.2	93.9	95.7	97.6
3.5%	90.7	92.4	94.1	95.9	97.7
4.0%	90.8	92.5	**94.2**	96.0	97.9
4.5%	91.0	92.6	94.3	96.1	98.0
5.0%	91.1	92.8	94.5	96.3	98.2

BUY

BCI

Target Price: CL$ 42,260
Current Price: CL$ 39,306

Strong Upside Risk if Efficiency shows up

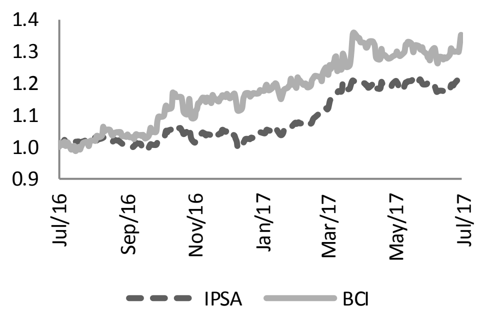
SUMMARY

Bloomberg	BCI CI
Reuters	BCI.SN
Credit risk rating	A
52 weeks high/low (CLP)	39990-28378
ADVT 6M (USD M)	2.8
Free float (%)	36.0%
# stocks (M)	0
Market Cap (USD M)	6,995
Target price (CLP)	42,260.2
Current price (CLP)	39,306.0
Upside potential	7.5%
Div. Yield (%)	3.1%
Total Return	10.6%

RATIOS

	2015	2016	2017E	2018E
P/E	8.9x	12.3x	11.2x	12.1x
P/B	1.5x	1.7x	1.8x	1.7x
Div. yield	3.7%	2.9%	2.5%	3.1%
ROE	16.5%	13.5%	16.2%	14.2%
RORWA	1.6%	1.4%	1.6%	1.4%

STOCK PERFORMANCE



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WHAT´S NEW.

We are re-initiating coverage of BCI with a BUY recommendation, introducing our YE18 target price of CLP $42,260. Although BCI has shown a 38.5% total return LTM, and valuations seem priced-in, we like BCI´s sound growth performance in CNB while not discard further upward revisions to our estimates considering that (i) our figures are highly lower than the company´s target in terms of efficiency for the following years; and (ii) we do not discard further inorganic growth considering BCI´s publicly announced target of having ~30% total loans outside Chile.

The acquisition of City National Bank (CNB) in Miami demonstrated to be accretive and has shown sound growth and profitability trends. Since the merger up to now, CNB has shown (i) ~213bps ROE increase at 6.9% as of 1Q17 (excluding the non-recurrent sale of a building in US$ 6.5Mn); and (ii) ~37% increase in total assets (~23% YoY average during the last 6 quarters), which convert it in an ex-post very accretive transaction.

New Inorganic growth announcements are not discarded considering BCI´s management plan to reach ~30% of total loans outside Chile by 2020. According to our estimates, if BCI would go for Total Bank at a range between 1.0x-1.25x P/BV (CNB was acquired at 1.0x P/BV), BCI should have to pay out between ~US$ 484Mn-US$ 605Mn which is totally feasible considering BCI´s US$ 2,025Mn current cash and ~US$ 2,300Mn further room to increase liabilities as of 1Q17.

Despite our upward revision to estimates, valuations seem priced-in. After a 38.5% total return during the LTM (16.0% above IPSA Index), BCI´s valuations seem highly priced-in, although if CNB continues its strong growth path and the company accomplishes its corporate guidance in terms of efficiency, valuation multiples would not be weighing on a further relevant upside.

Efficiency improvements are a key value driver to monitor in 2018, considering that if including BCI´s long-term expectations our target price would be seriously increased. We believe efficiency ratio is a key value driver to monitor for the next years given that if including the company´s efficiency expectations, we would reach an 18% ROE in the long-term which would increase our Target price 2018E by ~15% at CLP 48,000. For the moment, we still are waiting for more delivery before including it in our forecast

RISKS.

Our estimates and conclusions are highly dependent on both macroeconomic and regulatory drivers such as: (i) Chilean economic growth (we expect 1.7% and 2.6% real GDP growth for 2017 and 2018); (ii) Chilean Inflation rates (we expect 3% for 2017 and 2018); Regulatory issues such as (iii) Basel III implementation (in our DDM incorporates a TIER I of 10.5% in 2021); and (iv) local tax rates (we use a 3% monetary correction benefit from the 27% tax rate for Chilean operations in 2021.

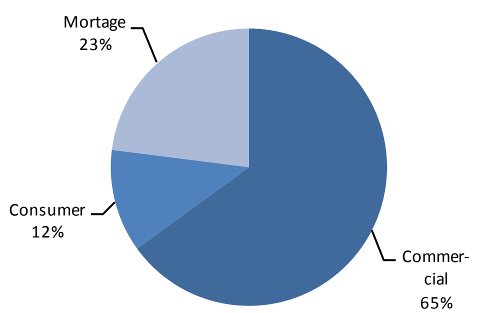
BCI

BUY

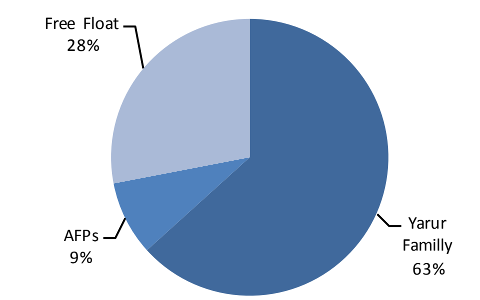
Target Price: CL$ 42,260
Current Price: CL$ 39,306

BCI is a Chile-based financial institution. The primary operations are commercial banking providing financing, cash management, factoring, leasing among others to differents size companies. Regarding loans is the third major bank in Chile. BCI acquired City National Bank in Florida giving the company presence in the United States. Empresas Juan Yarur SAC controls Banco de Credito e Inversiones.

LOANS BREAKDOWN (%)



OWNERSHIP (%)



FINANCIAL STATEMENTS (CL$ Mn)

P&L	2015	2016	2017E	2018E
Net Financial Income	800,506	905,053	958,496	1,059,918
Net FX Profit + Interm.	91,900	80,264	143,982	140,370
Net commisions	234,270	271,629	286,588	303,715
Other	-12,750	-14,553	-9,182	-9,182
Gross Op. Result	1,113,926	1,242,393	1,379,884	1,494,820
Net Provisions	-189,206	-183,412	-209,706	-222,267
Operating Expenses	-537,503	-653,228	-719,961	-772,399
Net Op. Result	387,217	405,753	450,217	500,155
Related companies	13,495	19,136	116,666	19,175
Tax	-69,889	-84,724	-134,893	-118,093
Minority Interest	4	44	59	65
Net Income	330,819	340,121	431,931	401,171
Net Margin	29.4%	27.1%	31.1%	26.7%
% YoY	-3.5%	2.8%	27.0%	-7.1%

BALANCE SHEET	2015	2016	2017E	2018E
Loans	20,134,981	22,324,012	23,675,636	25,076,259
Investments	3,706,721	3,793,351	4,023,022	4,261,020
Productive Assets	23,841,702	26,117,363	27,698,658	29,337,279
Total Assets	28,772,766	30,935,232	32,808,229	34,749,126
Total Liabilities	26,772,241	28,416,555	30,137,056	31,919,930
Equity	2,000,525	2,518,677	2,671,172	2,829,196
Equity + Liabilities	28,772,766	30,935,232	32,808,229	34,749,126

RATIOS	2015	2016	2017E	2018E
NIM	3.8%	3.5%	3.5%	3.6%
LLP Ratio (Net provision to Loans)	-1.1%	-0.8%	-0.9%	-0.9%
Efficiency Ratio	-47.9%	-52.6%	-52.2%	-51.7%
ROE	16.5%	13.5%	16.2%	14.2%
ROA	1.3%	1.1%	1.4%	1.1%
Tier 1	10.0%	10.1%	10.1%	10.1%

5.3.1 INVESTMENT THESIS

The acquisition of City National Bank (CNB) in Miami demonstrated to be accretive and has shown sound growth and profitability trends. After a 2-year delay from the original announcement, BCI acquired CNB during the 4Q15 in US$ 946Mn (0.9x P/BV and 20.5x P/E according to our estimates). Since the merger up to now, CNB has shown (i) ~213bps ROE increase at 6.9% as of 1Q17 (excluding the non-recurrent sale of a building in US$ 6.5Mn during the quarter); and (ii) ~37% increase in total assets (~23% YoY average during the last 6 quarters), which convert it in an ex-post very accretive transaction. In this regard, BCI has publicly stated that the corporate strategy in Miami is to reach ROE aligned to the local Industry (~10% considering the 10 largest banks based in Florida). Despite we do not incorporate the latter in estimates yet, it seems to be very feasible considering the strong performance LTM and the size CNB has reached (becoming the 5th largest in Florida). All in all, if CNB continue showing its current strong trend in results and it align with Industry´s ROE we do not discard further upward revisions to our estimates.

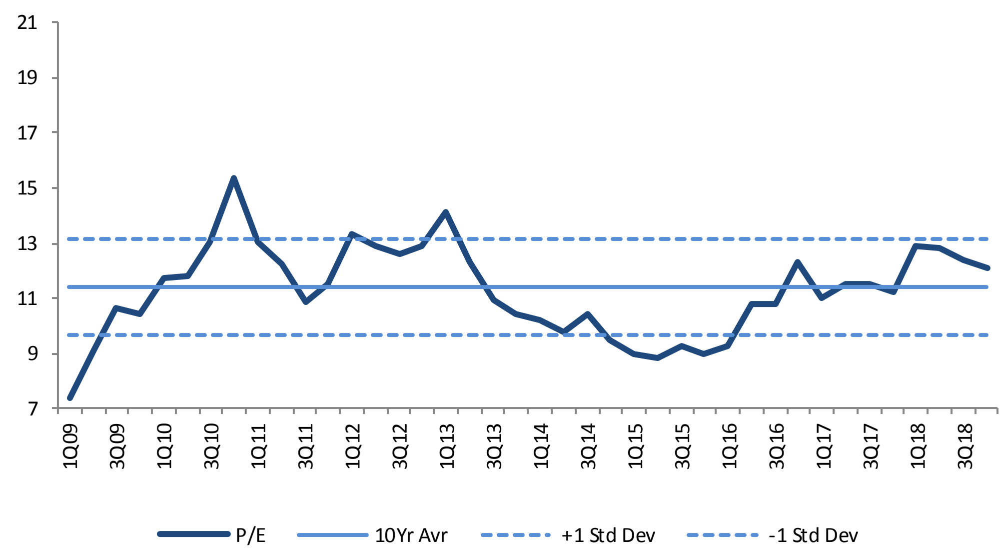
New Inorganic growth announcements are not discarded considering BCI´s management plan to reach ~30% of total loans outside Chile by 2020. BCI management has publicly shown its serious intention to reach ~30% of total assets from foreign subsidiaries as of 2020, which according to our estimates would be only accomplished if CNB grows by 25% YoY for the next four years (which is not a base-case scenario neither for us nor the company). In this regard, there has been lot of rumors regarding a likely acquisition of Total Bank, which is located in Florida as the same as CNB and is owned by the Spanish "Banco Popular" (currently being acquired by Santander Spain). In particular, at the end of 3Q17, Total Bank is the 13th largest Bank based in the State of Florida (CNB is the 5th largest) with ~US$ 2,968Mn assets (~34% of CNB´s total assets), operates both retail and commercial segments through its 19 branches in the South Miami. According to our estimates, if BCI would go for Total Bank at a range between 1.0x-1.25x P/BV (CNB was acquired at 1.0x P/BV), BCI should have to pay out between ~US$ 484Mn-US$ 605Mn which is totally feasible considering BCI´s US$ 2,025Mn current cash and ~US$ 2,300Mn further room to increase liabilities as of 1Q17.

We have updated our estimates for 2017 to include current year´s one-offs, and reached a 27% net income increase 2017E YoY. During the 1Q17, BCI announced a CL$54,781Mn (~16% of 2016´s net income) as a non-recurrent income due to the resignation of Luis Enrique Yarur (BCI´s Chairman) to the board of directors of Credicorp. In this regard, our revised net income growth increased from +11% YoY to +27% YoY in 2017E, and we expect normalization in 2018 (-7% YoY at CL$401Bn). Moreover, our revised estimates are ~11% average higher-than both Reuters and Bloomberg consensus forecast, so we do not discard new upward revision down the line.

Despite our upward revision to estimates, valuations seem priced-in. Even after the significant upward revision in estimates, BCI´s valuation seems highly priced in at both own and relative historical levels. In this regard, according to our estimates: (i) BCI is trading at 12.1x P/E 2018E (slightly above its L10Yr average); and (ii) BCI´s pair trade to BCHI/BSAN is also highly aligned with historical levels (the ~20% discount in P/E LTM, is very similar to ~15% implicit when including our updated estimates). All in all, we believe that after a 38.51% total return during the LTM (15.96% above IPSA Index), BCI´s valuations seem highly priced-in, although if CNB continues its strong growth path and the company accomplishes its corporate guidance in terms of efficiency, valuation multiples would not be weighing on a further relevant upside.

Efficiency improvements are a key value driver to monitor down the line, considering that if including BCI´s long-term expectations our target price would be seriously increased. One of the key strategic pillars of BCI is to boost its digital platform and consequently improve efficiency in the long-term. In this regard, since a time up to now the company has been doing strong efforts in this matter, reflected in an increased expense in consultancy (affecting efficiency ratio from 47% during 2009-2014 to 52.6% at the end of 2016). According to the company, they expect to improve efficiency ratio to ~42% in 2020. In this sense, our valuation model is not incorporating those improvements yet (we only include ~400bps improvement at 48% in 2018 and reached a 16% ROE in the long-term). We believe efficiency ratio is a key value driver to monitor for the next years given that if including the company´s efficiency expectations, we would reach an 18% ROE in the long-term which would increase our Target price 2018E by ~15% at CLP 48,000. For the moment, we still are waiting for more delivery before including it in our forecast, especially considering that BCI´s has historically maintain a high-quality relationship with its employees (the company had its first strike in 2016, after 79 years of history), so the transition could be a lot more challenging for BCI compared to the Industry.

BCI VALUATION - BICE ESTIMATES



Source: Bolsa de Comercio de Santiago, BICE Inversiones estimates

5.3.2 VALUATION & SENSITIVITY ANALYSIS

Our target price is based on a blended 50%/50% between (i) 10-Yr dividend discount model (DDM); and (ii) 2018E target P/E multiples (using a Premium of 1STD deviation to the L10Yr average P/E LTM). In particular, in our DDM we are using a 4.0% risk free rate (based on local BCP10), and a Beta of 1.27 which is consistent with a 11.6% Cost of Equity (Ke). In addition, we are using a 4.0% nominal growth rate (1.0% real based on a 3% long term inflation rate). We are adjusting our discounted dividends by a targeted 10.5% TIER I in 2021 (based on new BASEL III standards), so dividends will be affected upward or downward depending on current TIER I ratio.

VALUATION - BCI

BCI - DDM (1)	
Free Risk Rate	4.0%
Beta (Chile + U.S.A.)	1.27
Risk Premium	6.00%
Ke	11.6%
G	4.0%
NPV Dividends	2,161,165
Perpetuity	2,987,077
# Stocks (MM)	124
P° Target - DDM (1)	41,664
NPV Implicit P/B 2018E	1.8x
NPV Implicit P/E 2018E	12.8x

BCI - MULTIPLES (2)	
P° Target - 13.2x P/E 2018E (2)	42,856

BCI - BLENDED (1)(2)	
P° Target	42,260
Current Price	39,306
Upside	7.5%
Div. Yield 18E	3.1%
Total Return 18E	10.6%

SENSITIVITY ANALYSIS - BCI

GROWTH (G)	DISCOUNT RATE (Ke) 12.6%	12.1%	11.6%	11.1%	10.6%
3.0%	38,429	39,523	40,750	42,136	43,712
3.5%	38,950	40,128	41,459	42,971	44,704
4.0%	39,532	40,809	**42,260**	43,923	45,846
4.5%	40,185	41,579	43,175	45,020	47,176
5.0%	40,925	42,457	44,228	46,297	48,743

HOLD

ITAÚ CORPBANCA

Target Price: CL$ 6.7
Current Price: CL$ 6.4

Fairly Valued when Adjusted by ROE and Goodwill

SUMMARY

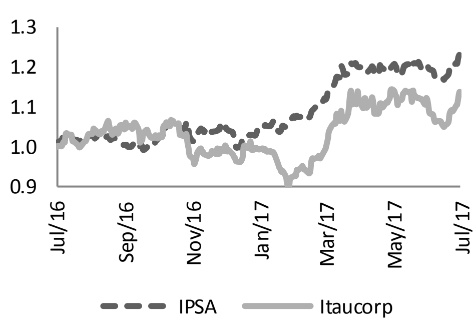
Bloomberg	ITAUCORP CI
Reuters	ITC.SN
Credit risk rating	BBB+
52 weeks high/low (CLP)	6.5-5.0
ADVT 6M (USD M)	4.4
Free float (%)	36.0%
# stocks (M)	512,408
Market Cap (USD M)	4,759
Target price (CLP)	6.7
Current price (CLP)	6.4
Upside potential	5.4%
Div. Yield (%)	1.3%
Total Return	6.7%

RATIOS

	2015	2016	2017E	2018E
P/E	8.7x	1393.6x	23.6x	13.5x
P/B*	1.3x	0.8x	1.0x	0.9x
Div. Yield	18.2%	5.5%	0.0%	2.2%
ROE*	14.8%	0.1%	4.1%	6.8%
RORWA	1.3%	0.0%	0.6%	0.9%

** Does not exclude goodwill*

STOCK PERFORMANCE



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WHAT´S NEW.

We are re-initiating coverage of Itaú Corpbanca with a HOLD recommendation, introducing our YE18 target price of CLP $6.7. Although we ackowledge that this year the company has shown an interesting results improvement, we remain on the sidelines considering: (i) the lack of earnings visibility, considering the high amount of non recurrent ítem in results as of may which make very difficult to have a real sense of future forecasts; and also (ii) when adjusted by ROE and excluding goodwill, the stock seems totally fair value. On the other hand, according to our estimates Itaucorp is one of the most exposed Chilean Banks to the new banking law which is intended to transit towards BASEL III standards.

Although results have improved compared to 2016, Itaucorp shows a significant lack of earnings visibility. By breaking down results we noted that (i) ~CL$ 21Bn came from one-time event related to the reversed of some provisions; and (ii) ~CL$ 20Bn (according to our estimates) related to different types of one-time derivatives renegotiations. In this sense, according to our estimates, the adjusted net income was ~CL$ 40Bn.

According to our estimates, BASEL III is a relevant source of uncertainty for Itaucorp, and we do not rule out the need for capital increases under certain scenarios. Under our base case scenario for BASEL III, which considers a 10% decrease in risk-weighted assets and including both the conservation buffer and SIFI, Itaucorp would need ~US$ 929Mn which represents ~19% of the bank´s current Common Equity TIER I capital (CET1). Our calculations are only made for sensitivity analysis and do not necessarily implies a capital increase.

Although the stock has significant upside if synergies materialize, Itaucorp is not the cheapest local Bank when adjusted by ROE and Goodwill. Although Itaucorp´s generic P/BV 2018E is below 1.0x and the company exhibits the cheapest valuation multiples, we believe it is consistent with its lowest profitability (measured by ROE). After adjusting by goodwill (~35% of total Equity), Itaucorp trades at 1.4x P/BV 2018E with a 10.2% ROE, which is aligned with Industry´s current relative multiples.

RISKS.

Our estimates and conclusiones are highly dependent on both macroeconomic and regulatory drivers such as: (i) Chilean economic growth (we use 1.7% and 2.6% real GDP growth for 2017 and 2018); (ii) Chilean Inflation rates (we use 3% for 2017 and 2018); and Regulatory issues such as (iii) Basel III implementation (in our DDM incorporates a TIER I of 10.5% in 2021); and (iv) local tax rates (we use 27% tax rate for Chilean operations in 2021, however we are assuming a 3% lower tax rate on Banks due to monetary correction.

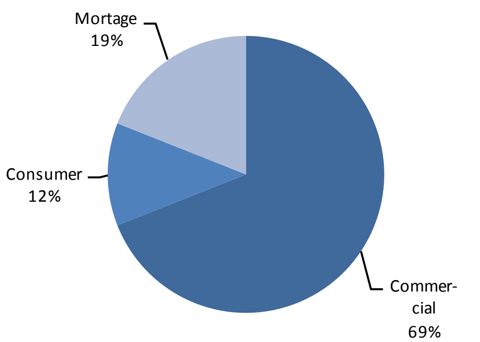
ITAÚ CORPBANCA

HOLD

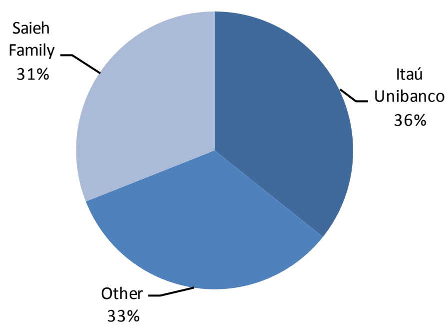
Target Price: CL$ 6.7
Current Price: CL$ 6.4

BCI is a Chile-based financial institution. The primary operations are commercial banking providing financing, cash management, factoring, leasing among others to differents size companies. Regarding loans is the third major bank in Chile. BCI acquired City National Bank in Florida giving the company presence in the United States. Empresas Juan Yarur SAC controls Banco de Credito e Inversiones.

LOANS BREAKDOWN (%)



OWNERSHIP (%)



FINANCIAL STATEMENTS (CL$ Mn)

P&L	2015	2016	2017E	2018E
Net Financial Income	620,579	621,458	774,979	874,926
Net FX Profit + Interm.	189,328	63,537	85,089	79,194
Net commisions	152,847	150,796	185,205	196,475
Other	5,022	-57,989	-2,209	-10,000
Gross Op. Result	967,776	777,802	1,043,064	1,140,594
Net Provisions	-166,190	-251,128	-250,945	-259,205
Operating Expenses	-457,262	-544,561	-656,635	-606,281
Net Op. Result	344,324	-17,887	135,484	275,109
Related companies	1,300	544	2,092	4,123
Tax	-98,986	14,435	-4,855	-44,628
Minority Interest	23,102	-4,967	-6,142	-8,235
Net Income	223,536	2,059	138,864	242,840
Net Margin	23.2%	0.2%	13.3%	21.1%
% YoY	-1.2%	-99.1%	6644.3%	74.9%

BALANCE SHEET	2015	2016	2017E	2018E
Loans	14,810,136	21,048,484	22,359,070	23,704,896
Investments	2,418,878	2,913,089	3,094,473	3,280,734
Productive Assets	17,229,014	23,961,573	25,453,543	26,985,630
Total Assets	20,896,631	29,133,024	30,946,995	32,809,741
Total Liabilities	19,388,169	25,728,728	27,575,881	29,235,715
Equity	1,508,462	3,404,296	3,371,114	3,574,026
Equity + Liabilities	20,896,631	29,133,024	30,946,995	32,809,741

RATIOS	2015	2016	2017E	2018E
NIM	3.6%	2.6%	3.0%	3.2%
LLP Ratio (Net provision to Loans)	-1.1%	-1.2%	-1.1%	-1.1%
Efficiency Ratio	-47.2%	-70.0%	-63.0%	-53.2%
ROE	14.8%	0.1%	4.1%	6.8%
ROA	1.1%	0.0%	0.5%	0.7%
Tier 1*	8.6%	14.7%	13.7%	13.7%

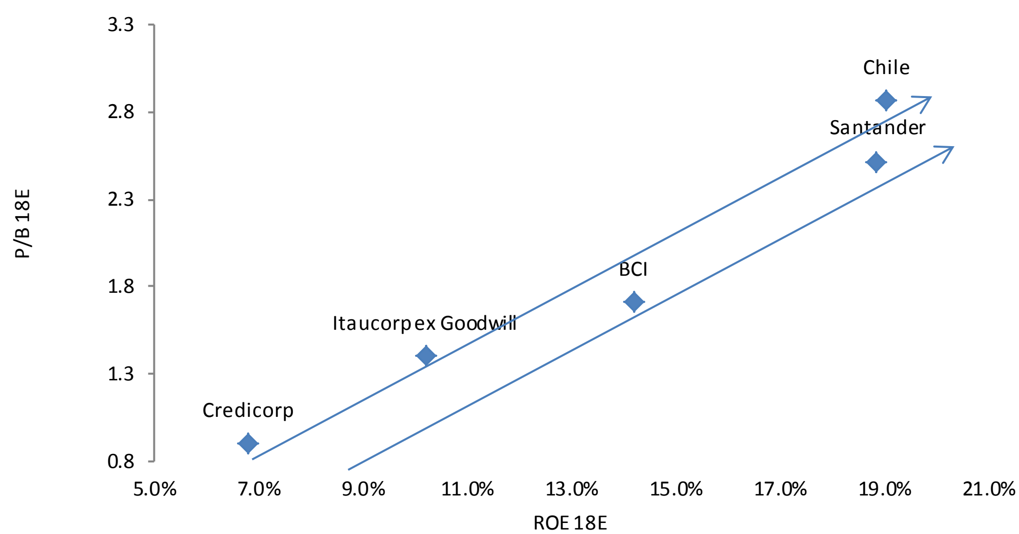
** Does not exclude goodwill*

5.4.1 INVESTMENT THESIS

Although results have improved compared to 2016, Itaucorp shows a significant lack of earnings visibility, in our view. As of May 2017, Itaucorp reported CL$ 81Bn (+194% compared to CL$ 28Bn accrued as of May 2016), which came in above ours and market expectations. In particular, by breaking down results we noted that (i) ~CL$ 21Bn came from one-time event related to the reversed of some provisions made at the end of 2015 due to a demand from the current local regulator (SBIF); and (ii) ~CL$ 20Bn (according to our estimates) related to different types of one-time derivatives renegotiations (CVA). In this sense, according to our estimates, the adjusted net income was ~CL$ 40Bn. On the other hand, since the merger, market estimates have been showing a strong variance (abnormal for the banking Industry) moving between CL$80Bn and CL$200Bn which reflects a strong lack of earnings visibility (the company is not providing short-term guidance but only a 3 to 5 years plan) which seems totally reasonable considering current early stage of merger. In our view, although the current lack of earnings visibility could not be a problem for certain long-term investors, for all the rest (including us) it makes very difficult to have a serious bet on the company´s future 12-month forecasts, so making us be on sidelines at the moment.

Although the stock has significant upside if synergies materialize, Itaucorp is not the cheapest local Bank when adjusted by ROE and Goodwill. Although Itaucorp´s generic P/BV 2018E is below 1.0x and the company exhibits the cheapest valuation multiples, we believe it is consistent with its lowest profitability (measured by ROE). In particular, according to our estimates, the P/BV 2018E is 0.9x (versus 1.7x of BCI and 2.9x Banco de Chile) while ROE 2018E is ~6.8% (versus 14.2% of BCI and 19% Banco de Chile). However, after adjusting by goodwill (~35% of total Equity), Itaucorp trades at 1.4x P/BV 2018E with a 10.2% ROE, which is aligned with Industry´s current relative multiples. Based on our estimates, we don't buy the thesis of Itaucorp being the cheapest bet within the local banking industry and believe it´s (apparently) discounted valuations stand from lower ROE and earnings visibility. Lastly, in a long-term scenario where synergies materialize, we believe there is significant upside risk to our estimates.

ITAUCORP VALUATION - BICE ESTIMATES



Source: Bolsa de Comercio de Santiago, BICE Inversiones estimates

According to our estimates, BASEL III is a relevant source of uncertainty for Itaucorp, and we do not rule out the need for capital increases under certain scenarios. As we discussed in the regulatory framework of this report, under our base case scenario for BASEL III, which considers a 10% decrease in risk-weighted assets and including both the conservation buffer and SIFI, Itaucorp would need ~US$ 929Mn which represents ~19% of the bank´s current Common Equity TIER I capital (CET1). Our calculations are only made for sensitivity analysis and do not necessarily implies a capital increase. There are still significant discretional decisions that the new regulator (CMF) would have to take, including whether it would consider buffers, SIFI, goodwill, or the final timing for making organic recapitalizations, etc. (all of the latter could produce drastically different results). All in all, we believe BASEL III could act as another relevant source of uncertainty from an investor standpoint.

5.4.2 VALUATION & SENSITIVITY ANALYSIS

Our target price is based on a blended 50%/50% between (i) 10-Yr dividend discount model (DDM); and (ii) 2018E target P/E multiples (using a Premium of 1STD deviation to the L10Yr average P/E LTM). In particular, in our DDM we are using a 4.0% risk free rate (based on local BCP10), and a Beta of 1.29 which is consistent with a 11.7% Cost of Equity (Ke). In addition, we are using a 4.0% nominal growth rate (1.0% real based on a 3% long term inflation rate). We are adjusting our discounted dividends by a targeted 10.5% TIER I in 2021 (based on new BASEL III standards), so dividends will be affected upward or downward depending on current TIER I ratio.

VALUATION - ITAUCORP

ITAUCORP - DDM (1)	
Free Risk Rate	4.0%
Beta (Chile + U.S.A.)	1.29
Risk Premium	6.00%
Ke	11.7%
G	4.0%
NPV Dividends	1,736,576
Perpetuity	1,594,982
# Stocks (MM)	512,408
P° Target - DDM (1)	6.5
NPV Implicit P/B 2018E	0.9x
NPV Implicit P/E 2018E	13.7x

ITAUCORP - MULTIPLES (2)	
P° Target - 14.7x P/E 2018E (2)	7.0

ITAUCORP - BLENDED (1)(2)	
P° Target	6.7
Current Price	6.4
Upside	5.4%
Div. Yield 18E	1.3%
Total Return 18E	6.7%

SENSITIVITY ANALYSIS - BCI

GROWTH (G) \ DISCOUNT RATE (Ke)	12.7%	12.2%	11.7%	11.2%	10.7%
3.0%	6.2	6.4	6.5	6.7	6.9
3.5%	6.3	6.5	6.6	6.8	7.1
4.0%	6.4	6.5	**6.7**	6.9	7.2
4.5%	6.5	6.6	6.9	7.1	7.4
5.0%	6.6	6.8	7.0	7.2	7.6

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