Liquidity Position of Banco Itaú Corpbanca

As required by the Chilean Central Bank in chapter III B.2, section 1.13 of its regulations and by the Superintendency of Banks and Financial Institutions in title V, chapter 12-20 of the Updated Regulations, the bank's individual liquidity position as of the last day of each quarter must be published on its website or in a nationally circulating newspaper.

This report summarizes the main aspects of Banco Itaú Corpbanca's liquidity position.

I) Definition of Liquidity Risk

Funding liquidity risk is the exposure of the bank and its subsidiaries to events that affect their ability to meet, in a timely manner and at reasonable costs, cash payment obligations arising from maturities of time deposits that are not renewed, withdrawals from demand accounts, maturities or settlements of derivatives, liquidations of investments or any other payment obligation.

Therefore, the basic strategy for managing liquidity risk is aimed at guaranteeing that the bank meets its commitments and maintains an adequate stock of liquidity reserves in order to meet its contractual obligations under normal and stressed conditions. Banco Itaú Corpbanca also looks to optimize and diversify its funding sources (less cost and less risk, respectively) in line with market conditions by using several different risk management tools.

II) Liquidity Risk Management

Specifically, Banco Itaú Corpbanca actively manages liquidity risk using a variety of indicators that are detailed in the following paragraphs, based on an efficient governance model for risk control that enables it to adequately monitor and control liquidity indicators.

The bank's Liquidity Risk Management Policy as well as all models and assumptions used to measure and monitor risk are reviewed by the Liquidity Committee and approved by the Asset and Liability Committee (ALCO) and the Board of Directors. These control policies are reviewed periodically to take into account international best practices and market conditions. This policy clearly establishes regulatory and internal guidelines, stipulating the limits and warnings in effect that involve risk management.

Once the guidelines have been defined and approved by the different bodies, the Financial Risk Management Division is responsible for controlling and monitoring that exposure remains within the set risk appetite and reporting to senior management and the board on the evolution of the bank's liquidity position. Senior management and the board are responsible for defining the bank's risk management strategy. To accomplish this, they use the information available to them and rely on active participation from the areas involved in liquidity management.

III) Quantification and Control of Liquidity Position

Liquidity risk measurements are focused mainly on quantifying whether the institution has sufficient resources to meet its intraday and interday obligations under both normal and stressed conditions. They also include a framework of indicators to forecast the occurrence of liquidity stress scenarios and clarity as to the steps to follow once the risk has occurred. These measurements must be focused on ensuring the following basic principles:

- Complying opportunely with contractual obligations under normal and intraday and interday stressed conditions.
- Minimizing the loss associated with the settlement of positions as a result of liquidity needs.
- Ensuring full compliance with all regulations.
- Competitively financing commercial and financing activities.
- Promoting the diversification of counterparties and maturities in both domestic and foreign markets.

The following section describes the main metrics used to manage liquidity risk. These metrics can be subject to limits or warnings or be used as monitoring indicators:

III.1) Regulatory Liquidity Gap

The liquidity gap provides information regarding contractual cash inflows and outflows expected for a given period in each of the currencies in which the Group operates. It measures the need or the net excess funds at a given date and reflects the level of liquidity maintained under normal market conditions. Two types of liquidity gap analyses are performed based on the balance sheet item in question:

Contractual liquidity gap: In accordance with SBIF chapter 12-20, all on and off-balance-sheet cash flows are analyzed provided that they contribute cash flows at their contractual maturity point. For assets without contractual maturities, it uses an internal analysis model based on a study of the statistical behavior of products and it determines the stable and unstable balance for liquidity purposes. A similar methodology is used to analyze the loan portfolio in order to determine the gap between the assets and their contractual cash flows as a result of payment delinquency.

Adjusted liquidity gap: local regulations establish that, with prior authorization from the regulator, cash outflows to retail counterparties may be assigned a different maturity than their contractual maturity based on their statistical behavior. However, at least 25% of obligations with retailers in local currency should be maintained within contractual maturities and 40% for foreign currency obligations.

The limits that govern the bank are:

- **Foreign Currency Liquidity Gap - 30 days (adjusted):** This requirement must also be met for the sum of foreign currency mismatches for those maturity tranches.

- **Total Liquidity Gap - 30 days (adjusted):** The sum of the maturity mismatches for local and foreign currency, corresponding to the maturity tranches up to 30 days, may not exceed core capital.

- **Total Liquidity Gap - 90 days (adjusted):** The sum of the maturity mismatches for tranches up to 90 days in both local and foreign currency may not exceed twice core capital.

The bank's adjusted liquidity gaps and limit consumption safety margins as of 30/06/2018 are detailed as follows:

Mismatches - Standalone Adjusted Basis

	Net Position (MCh$)			
Consolidated Currencies	**Up to 7 Days**	**Up to 15 Days**	**Up to 30 Days**	**Up to 90 Days**
Income	2.514.819	3.045.795	3.787.629	5.380.698
Expenses	3.464.115	3.997.703	4.860.294	7.078.488
Net Mismatch	**949.296**	**951.909**	**1.072.664**	**1.697.791**

Regulatory Clearance	
Up to 30 Days	**Up to 90 Days**
2.197.895	**4.843.328**

	Net Position (MCh$)			
Local Currency	**Up to 7 Days**	**Up to 15 Days**	**Up to 30 Days**	**Up to 90 Days**
Income	1.620.043	2.101.855	2.638.695	3.874.620
Expenses	2.585.222	2.904.062	3.465.980	4.973.357
Net Mismatch	**965.179**	**802.207**	**827.285**	**1.098.737**

Regulatory Clearance	
Up to 30 Days	**Up to 90 Days**

	Net Position (MCh$)			
Foreign Currency	**Up to 7 Days**	**Up to 15 Days**	**Up to 30 Days**	**Up to 90 Days**
Income	894.777	943.939	1.148.935	1.506.077
Expenses	878.893	1.093.641	1.394.314	2.105.131
Net Mismatch	**- 15.883**	**149.702**	**245.379**	**599.054**

Regulatory Clearance	
Up to 30 Days	**Up to 90 Days**
6.295.739	

1x Core Capital	3.270.559
2x Core Capital	6.541.118

Mismatches - Local Consolidated Adjusted Basis

	Net Position (MCh$)			
Consolidated Currencies	**Up to 7 Days**	**Up to 15 Days**	**Up to 30 Days**	**Up to 90 Days**
Income	2.514.819	3.045.795	3.787.629	5.380.698
Expenses	3.464.115	3.997.703	4.860.294	7.078.488
Net Mismatch	**949.296**	**951.909**	**1.072.664**	**1.697.791**

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Regulatory Clearance	
Up to 30 Days	**Up to 90 Days**
6.295.739	

1x Core Capital	3.270.559
2x Core Capital	6.541.118

III.2 Liquidity Warnings

Warning levels seek to provide evidence or signs of potential adverse liquidity events. The most relevant warning levels include:

- **Counterparty and Maturity Concentration:** Maps are used to monitor counterparty deposit resources and maturities in order to detect concentrations that can compromise minimum cash levels.

- **Currency Concentration**: The preceding concentration is also analyzed by currency to identify any currency mismatch that cannot be covered due to a tight currency market.

- **Product Concentration:** The bank also studies the concentration of deposits by product and the evolution of this type of funding. Monitoring product concentration enables us to further diversify our funding sources and focus strategies to improve the quality and quantity of the resources obtained. Studying stocks also enables us to both identify abnormal volatilities in these funding sources that can quickly become possible undesired liquidity problems and also to suggest action plans for managing them. The following figure shows the composition of the main funding sources:

Liquid Assets (in MCh$) June 2018		
	Standalone	Consolidated
Level 1 assets	2.303.333	2.318.328
Level 2 assets	0	0
Other liquid assets	2.138.307	2.172.073

The volume and composition of Banco Itaú Corpbanca's liquid assets as of 30-06-2018 are disclosed in accordance w ith Chapter III B.2.1 of the Compendium of Financial Standards of the Chilean Central Bank.

- **Reserve Management:** Accumulated reserves (surplus or deficit) must be compared with reserve requirements for the full remainder of the period. In addition to preventing regulatory violations, it aims to optimize resources.

- **Evolution of Funding Rates:** The bank's cost of funding is studied by segment and is also compared with industry figures. This indicator enables us to demonstrate any rise in the cost of funding for the market or a relative rise in the bank's cost of funding and, based on this, to identify the reasons underlying this rise and take the proper corrective actions.

- **Diversification of Liquid Assets:** the bank continuously monitors the composition and amount of its liquid assets in order to maintain a balanced composition to better meet its liquidity needs. The following table details the composition and amount of our liquid assets as defined by the Chilean Central Bank:

Funding Sources (%) June 2018		
	Standalone	Consolidated
Current accounts and demand deposits	7%	7%
Transactions pending settlement	3%	3%
Receivables from repurchase agreements and securities borrowing	2%	2%
Savings accounts and time deposits	39%	39%
Term savings accounts	0%	0%
Borrowings from financial institutions	6%	6%
Debt issued	29%	29%
Other financial liabilities	14%	14%
Banco Itaú Corpbanca's funding sources as of 30-06-2018 are disclosed in accordance with Chapter III B.2.1 of the Compendium of Financial Standards of the Chilean Central Bank.		

III.3) Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR)

These are liquidity ratios proposed by the "Basel III Committee on Banking Supervision" ("BIS III") that were adopted by the Chilean Central Bank and the SBIF with some minor local adjustments. The LCR aims to measure the sufficiency of high-quality assets to face a 30-day funding stress scenario. At a minimum, the institution must survive until the thirtieth day of the stress scenario with funding from liquid assets in its portfolio because, as described in the standard, managers and/or supervisors would have been able to establish timely corrective measures. On the other hand, the NSFR focuses on maintaining sufficient stable funding to meet (long-term) stable funding needs. The bank calculates LCR and NSFR using the methodologies defined by the local regulator and the Brazilian regulator. In both cases, LCR has a limit of 100%.

In addition to calculating the daily LCR, the bank forecasts the indicator under different assumptions and considering the maturity structure. This tool enables the ratio to be effectively managed by providing evidence of potential maturity concentrations.

III.4) Stress Tests

Stress testing is a tool that complements the analysis of liquidity risk management as it enables the bank to know its ability to respond in the event of extreme illiquid conditions and to trigger its contingency plans, if necessary, to address such conditions.

In particular, three types of scenarios are modeled:

- **Individual Crisis:** the financial system losses confidence in the bank, which translates into important withdrawals from demand accounts, decreases in deposits and bond investments by customers and penalties to its funding rates.

- **Systemic Crisis:** The weakening (whether local, global or both) of financial, economic and credit conditions that causes the market to seek refuge in the U.S. dollar and leads to greater restrictions on access to credit from abroad, massive outflows of capital, increases in the use of lines of credit, decreases in credit risk exposure (which is replaced by sovereign risk) and downward adjustments in expectations for the monetary policy rate.

- **Systemic Crisis combined with Individual Crisis:** situation that combines characteristics of an individual crisis and a systemic crisis. In this situation, the bank would be in an even more difficult situation since, for example, the system would take conservative positions and that would decrease the resources obtained from selling loan portfolios with high credit quality.

III.5) Contingency Plan

Liquidity management at Banco Itaú Corpbanca is focused on taking all measures necessary to prevent a crisis. The causes of a liquidity crisis cannot always be predicted. As a result, contingency plans focus on modeling actions to be taken in the event of potential crisis by analyzing different scenarios, identifying types of crises, designing internal and external communication plans and assigning individual responsibilities. At the first sign of crisis, it specifies clear lines of communication and suggests a broad range of responses to different severity levels. Since crises can evolve locally and/or globally, each local unit must prepare a funding contingency plan that details the amount of assistance or funding it might potentially need from the central unit during a crisis. The contingency plan must be presented to the ALCO at least twice a year in order to be reviewed and updated. However, these plans must be updated more frequently if the need is suggested by market circumstances.