CAVALI S.A. I.C.L.V.

Disclosure Framework
Principles for Financial Market Infrastructures
(PFMI)

December 2022

Reporting entity:	CAVALI S.A. I.C.L.V.
Jurisdiction in which the FMI operates:	PERU
Authority charged with regulating, overseeing or surveillance over the FMI:	SUPERINTENDENCIA DE MERCADO DE VALORES (SMV)
Date of disclosure:	December 2022
The information contained in this disclosure can also be found at:	http://www.cavali.com.pe
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This report has been prepared in the context of an assessment (within the scope of principles applicable to CAVALI).

Exhibit A:
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V. LISTING OF PUBLIC RESOURCES

GLOSSARY

AAFP	Asociación de Administradoras de Fondos de Pensiones
ACSDA	Asociación de Centrales de Depósitos de Valores de las Américas
ASBANC	Asociación de Bancos de Perú
BCRP	Peruvian Central Reserve Bank
BIA	Business Impact Analysis (Análisis de Impacto en el Negocio)
BIS	Bank for International Settlement (Banco de Pagos Internacionales)
BVL	Lima Stock Exchange (Bolsa de Valores de Lima)
CAVALI.WEB	On-line Information Service (Servicio de información en línea)
CDS	The Canadian Depository Securities Limited, por sus siglas en inglés
CEVALDOM	Centralized Securities Depository ("Depósito Centralizado de Valores S. A.") (Dominican Republic)
CONASEV	Peruvian securities commission ("Comisión Nacional de Empresas y Valores" - (currently SMV)
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CPSS	Committee on Payment and Settlement Systems,
DATATEC	Datos Técnicos S.A.
DISPOSICIONES VINCULADAS	Binding Rules, clarifying provisions within the CAVALI's Internal Rules)
DTCC	Depository Trust & Clearing Corporation
DVP	Delivery versus Payment,
DV	Binding provisions: determining the technical and/or operating conditions and procedures to apply the ICLV's Internal Rules
ECE	Delivery versus Delivery
ECP	Delivery versus Payment
EDV	Bolivian Centralized Securities Depository ("Entidad de Depósito de Valores de Bolivia")
EUROCLEAR	Euroclear Bank (Central Securities Depositories International)
FACTRACK	Negotiable invoices registration software
FATCA	Foreign Account Tax Compliance Act
FL	Settlement Fund ("Settlement Fund")
FMI	Financial Market Infrastructure,
FOP	Free of Payment (Libre de pago)
GFI	Centralized Trading Mechanisms no regulado para deuda pública-OTC
GK	Tax on Capital Gains
IBGC	Good Corporate Governance Index
ICLV	Securities Clearing and Settlement Organization (Institución de Compensación y Liquidación de Valores
IMC	Minimum amount of coverage
INDEVAL	Mexican securities depository ("Instituto Central para el Depósito de Valores")
IOSCO	International Organization of Securities Commission
ISIN	International Securities Identification Numbering system
ISO	International Standards Organization
KRI	Key Risk Indicator
LBTR	Real Time Gross Settlement
LSP	Law of the Payment System and Securities Settlement
MCN	Centralized Trading Mechanisms

MIENM	Centralized Trading Mechanisms for Non-mass issued instruments
MILA	Latin America Integrated Market ("Mercado Integrado Latinoamericano" (Peru, Chile, Colombia, Mexico")
MVNET	Extranet for in-bound and out-bound communications with SMV
NIC	Internal Standards of Conduct
OTC	Over the Counter, (outside a stock exchange)
PAI	Internal Audit Plan
PCN	Business Continuity Plan – BCN
PFMI	Principles for Financial Market Infrastructures
PVP	Payment versus Payment
RICLV	Rules of the Securities Clearing and Settlement Institutions
RMCNDP	Rules of the Centralized trading mechanisms for Public Debt
RPMV.	Securities Market Public Registry
RRII	CAVALI's Internal Rules
RSLV	Rules of the Securities Settlement Systems
RSP	Rules of the Payment Systems
RTO	Recovery Time Objective
RUC	Taxpayer's number ("Registro Unico de Contribuyente")
RUT	Single Registration of Holders
SBS	Peruvian Banking, Insurance and Pension Plan Regulator ("Superintendencia de Banca y Seguros y AFP")
SGI	Integrated Management System ("Sistema de Gestión Integrado")
SLV	Securities Settlement System
SMV	Peruvian securities regulator ("Superintendencia del Mercado de Valores" – formerly CONASEV")
SUNAT	Peruvian Tax Authorities ("Superintendencia Nacional de Administración Tributaria")
SWIFT	Society for Worldwide Interbank Financial Telecommunication
IT	Information Technology
WARI	Name of operating Software

I. EXECUTIVE SUMMARY

CAVALI is the Central Securities Depository and Settlement (“Registro Central de Valores y Liquidaciones”) entity engaged in creating, maintaining and developing the Peruvian securities market infrastructure. Its major services are as follows:

- Securities Clearing and Settlement (ICLV, the Spanish acronym)).
  CAVALI engages in the recording, transfer, custody, clearing and settlement of transactions on the centralized mechanism of trading, the Lima Stock Exchange (corporate variable-income and fixed-income securities) and transactions on the trading mechanisms managed by Datos Técnicos S.A. (public-sector fixed-income securities). Accordingly, CAVALI acts as a securities settlement system (SSS) and central securities depository (CSD). It is the only entity in Peru fulfilling those functions. It records the transfers carried out outside the Stock Exchange with the registered securities in its accounting records. In addition, it is charged with managing the centralized records of electronic negotiable invoices using Factrack, its own digital platform linking the various factoring or discounting market participants with those instruments.

  The Accounting Record conducted by CAVALI is a centralized record of book-entry securities (post-on account), that identifies the Issuer, the Securities and Holders. These records consist of two (02) sub-ledgers of identification so that securities can be posted on book-entries. Those subledgers are as follows:

  a. Book-entry record, consisting of the respective issuance, class and series of securities.
  b. Record of Securities Holders

  The accounting system carried by CAVALI is comprehensive and exclusive. A Matrix Account is assigned to each participant or issuer account upon request of issuers; this Matrix Account contains the book-entry securities in the name of each Market Participant and their respective holdings.

- Securities Settlement System Management.

  CAVALI is engaged in managing the securities settlement systems (SLV) in Peru. It coordinates the delivery of securities by transferring to the above-mentioned accounts held by each participant and the cash payment obtained from those participants to the bank account CAVALI has with the BCRP.

- Withholding Agent.

  As required by law, CAVALI was designated as an income tax withholding agent on capital gains and interest arising from the selling of securities through centralized trading mechanisms.

I.1. INCORPORATION

CAVALI was authorized to act as a Securities Clearing and Settlement Organization by means of Resolution CONASEV[1] No 358-97-EF/94.10. Effective April 30, 1997 a stock company (“Sociedad Anónima” in Peru) was formed after split from the Lima Stock Exchange. It is registered with the Peruvian tax regulator (“Superintendencia Nacional de Administración Tributaria -SUNAT) with a single taxpayer number (RUC in Peru) 20346669625.

CAVALI S.A. I.C.L.V. is a stock company under the oversight of the Peruvian securities and Company regulator (“Superintendencia de Mercado de Valores – SMV”). The Lima Stock Exchange owns 97.32% of its share capital; accordingly, CAVALI is a subsidiary of BVL.

[1] Currently, Superintendencia de Mercado de Valores (SMV)

The legal basis governing the core activities of FMIs is based on laws and regulations as well as contracts and agreements entered into by CAVALI with foreign central securities depositories (cross-border linkages), by which specific rules and provisions are set forth to secure CAVALI's legal basis for recording and settling securities transactions. The following are major legal basis instruments:

- Peruvian Securities Market Law (LMV, the Spanish acronym)
- Securities Payment and Settlement System Law (LSP),
- Rules for Securities Clearing and Settlement Organization (RICLV),
- Rules for Payment Systems (RSP), Rules for Securities Settlement Systems (RSLV)
- Rules for Stock Exchange Floor Transactions and Supplementary Provisions.
- Rules for Centralized Trading Mechanisms for Public Debt and related instruments (RMCNDP)
- CAVALI's Internal Rules and Binding Provisions, governing the specific services rendered by CAVALI to customers.

II. SUMMARY OF MAJOR CHANGES FROM LAST DISCLOSURES

There have not been any significant changes since the last disclosure.

III. GENERAL CONTEXT OF FMI

III.1. OVERALL DESCRIPTION OF FMI AND MARKETS IN WHICH IT OPERATES

III.1.1. Overall description

CAVALI is a stock company ("sociedad anónima" in Peru) mainly engaged in the recording, custody, clearing, and settlement of securities and related instruments as authorized by the Peruvian securities and Company regulator ("Superintendencia del Mercado de Valores"), as well as instruments issued by small-sized companies and micro-businesses (known in Peru as "*instrumentos de emisión no masiva*") that meet certain conditions.

Lines of services:

a. Clearing and Settlement: relating to transactions entered into using or not using the centralized trading mechanisms; including DVP and FOP transactions in foreign depositories.
b. Services to market participants: Direct, indirect and special services by virtue of a book-entry system; services to change holding, information service, registration of collateral, among other.
c. Registration of securities to Issuers: Registration of securities. Corporate event processes commissioned by corporate issuers registered with CAVALI: repayment of principal; payment of interest and dividends, delivery certificates of preferred subscription rights, changes in par value, mergers, etc.
d. Providing information to securities holders: CAVALI's information systems allow all securities holders registered with us to obtain more accurate and up-to-date information on balances, movements and rewards.
e. Recording and registration of shareholders: Services of managing registration of shares either by virtue of physical securities and /or book-entries securities rendered by CAVALI to Issuers with an Issuer Account with their securities registered with the RPMV.
f. Recording instruments issued by small-sized companies and micro-businesses ("instrumentos de emisión no masiva"); converged, negotiable invoices and recognition certificates.
g. Recording derivative contracts: Service of registering contracts signed by participants with its counterparties, regardless of whether or not are CAVALI's participants.
h. Recording of bills of exchange: Service of electronic register, issue, acceptance, transfer and custody of bills of exchange ("letras de cambio") as well as the issue of evidence of registration and holder status at request.

III.1.2. Market in which it operates

Transactions are entered into in a number of trading mechanisms. At the present date, we have the following:

a. **Bolsa de Valores de Lima:** This is the centralized trading mechanisms of corporate shares and debt instruments.
b. **Datos Técnicos S.A.**: An entity engaged in providing the electronic trading mechanism for financial instruments in the Peruvian market.
c. **GFI S.A.** The non-regulated Centralized Trading Mechanism for public-sector debt securities - OTC.

Global linkages

CAVALI has developed a platform for the Peruvian capital markets to be connected to over 40 markets worldwide. By virtue of agreements reached with three of the most important Central Securities Depositories in the world, transactions can be entered into involving securities listed both in the local market as well as in the United States, Canada and Europe.

Making an international transaction using the CAVALI's infrastructure provides.

- Security in custody of foreign securities.

- Access to major securities markets worldwide.

These services are offered to all investors, both individuals and legal entities, through any CAVALI's participant operating in Peru.

- United States (DTCC) via Citibank
- Europe (EUROCLEAR)
- Canada (CDS)
- MILA Latin America Integrated Market

III.1.3. CAVALI's customers

a. Participants (at Dec. 31, 2022)

Participants are all those legal entities, local or foreign, accepted by CAVALI as such, given access to the services offered by CAVALI and which will be assigned a Matrix Account.

- **Direct:** All those parties having direct access to the Book Entry service as well as Clearing and Settlement of transactions.
- **Indirect**: All those parties which, even though they have access to services involving the Book-Entry record, as stipulated under the Book-Entry Chapter; they still have to rely on a direct participant to be able to access the services of Settlement and Securities.

Type of Clients	Quantity
Factoring entities	95
Brokerage Entities	20
Banks, financial institutions, trusts	26
Pension Fund Managers	4
Investment Funds	10
Foreign Central Securities Depositories	3
Government-run Entities	1
Insurance companies	1
Trust Service Entities	3
Product Basket (Bolsa de Productos)	1
Total	**164**

b. Issuers (at Dec. 31. 2022)

CAVALI has registered more than 250 companies and issuers. Value-added services are provided to those companies, including processing of corporate events, information services, among others, which enable it to meet its obligations with securities holders.

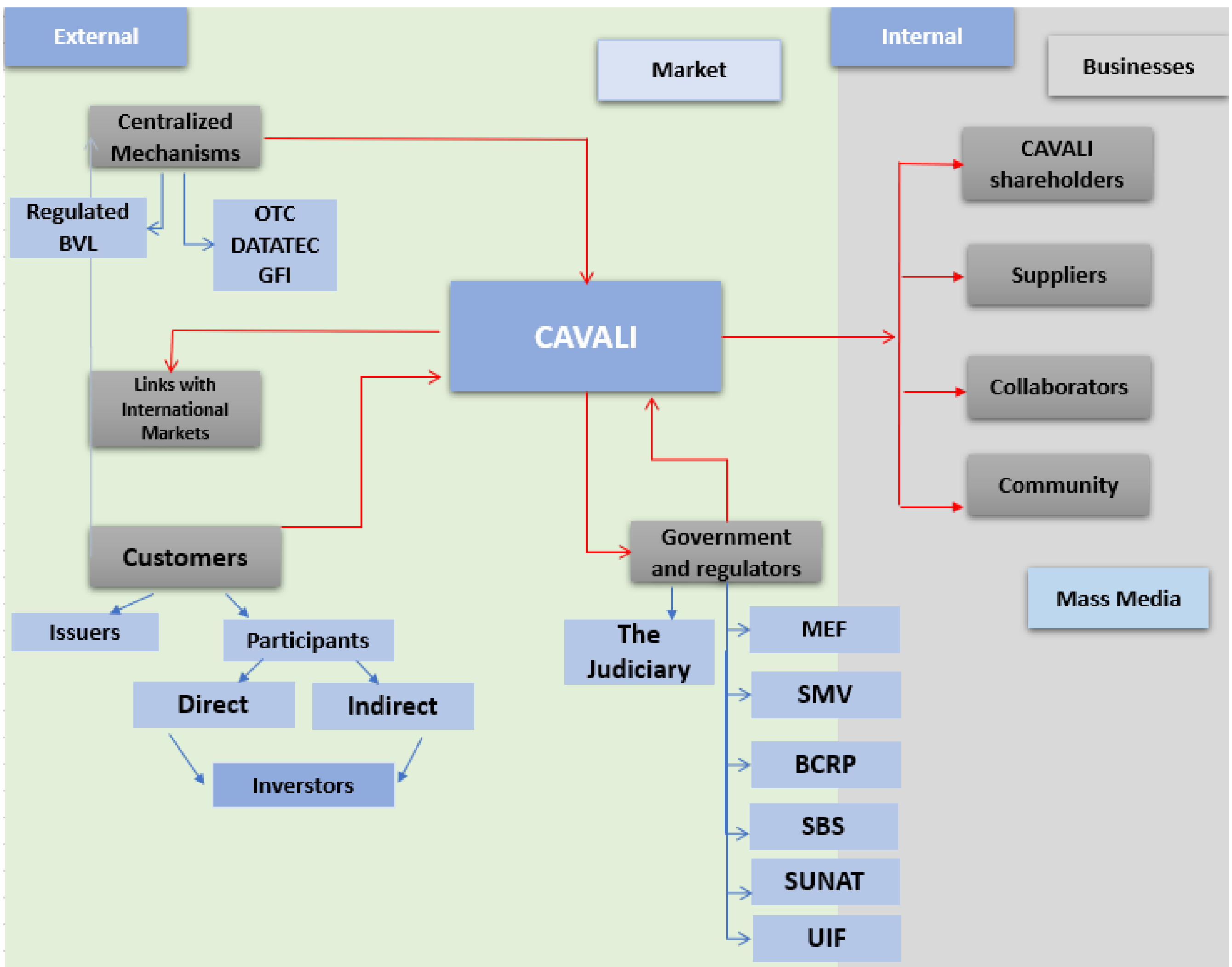
Among major corporate event services are payments of dividends, amortization of principal, delivery of released stock, and others.

III.1.4. Stakeholder flowchart

The flowchart below shows major groups related to the Cavali's core business, such as:

- ✓ Centralized trading mechanisms: BVL, DATATEC and GFI,
- ✓ Regulators and governmental agencies such as SUNAT, SBS, BCRP, SMV, MEF, the Judiciary, UIF (Financial Intelligence Unit.
- ✓ Linkages with global markets (DTCC (Citibank), Euroclear, CDS, MILA).

Additionally, shareholders, collaborators, customers, suppliers, and the public.

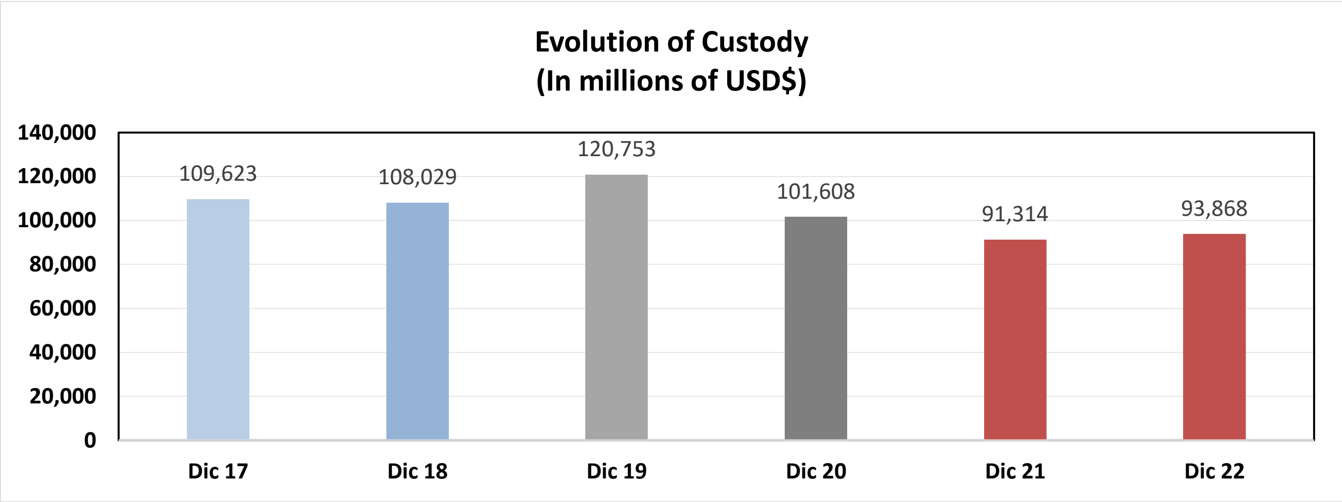


III.1.5. CAVALI's Performance Statistics

At December 31, 2022, CAVALI shows the following statistics:

Valuation of holdings

At December 31, 2022 CAVALI's holdings are stated to be USD 93.9 billion.

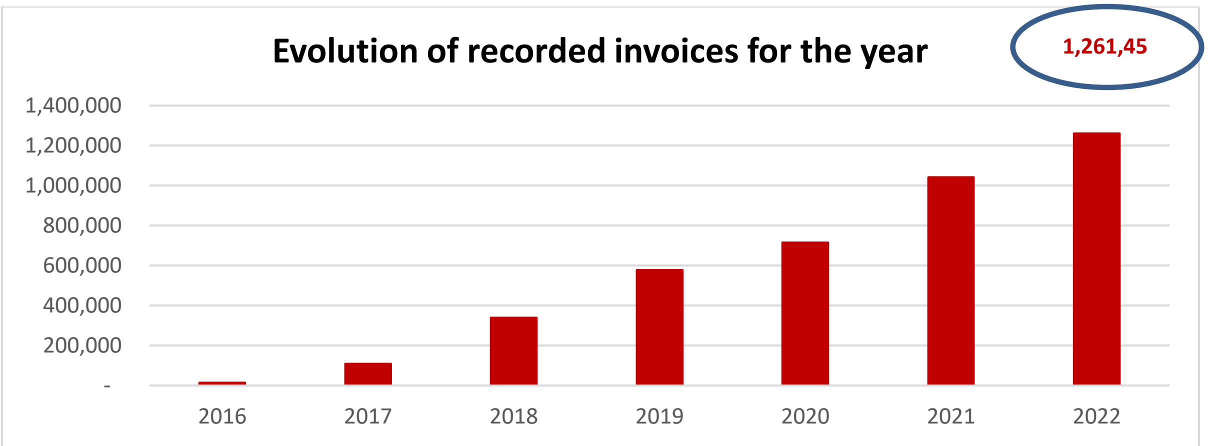


Cash Trade Settlement at the stock exchange

At December 31, 2022 total settlement was USD 5,377 million.

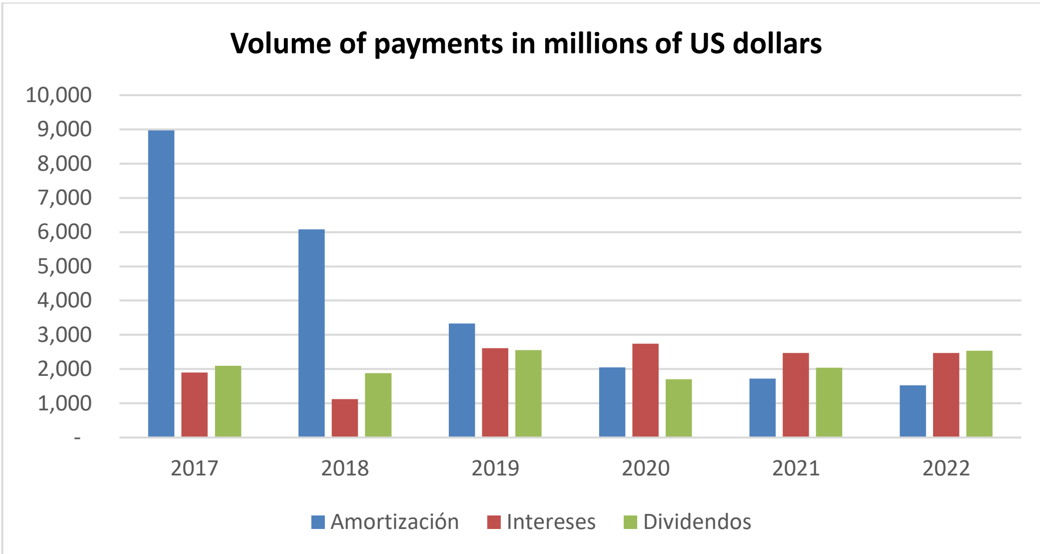
Recording invoices

The number of invoices recorded over the year has increased from 14,401 in 2016 to 1,041,612 in December 2021. At December 2022 the total number of invoices was 1,261,456.



Volumes of payments of rewards

At December 31, 2022, the table below shows the evolution of payments of amortization, interest and dividends.



Evolution in number of holders

At December 31, 2022, the number of registered security holders with a balance was 255,804
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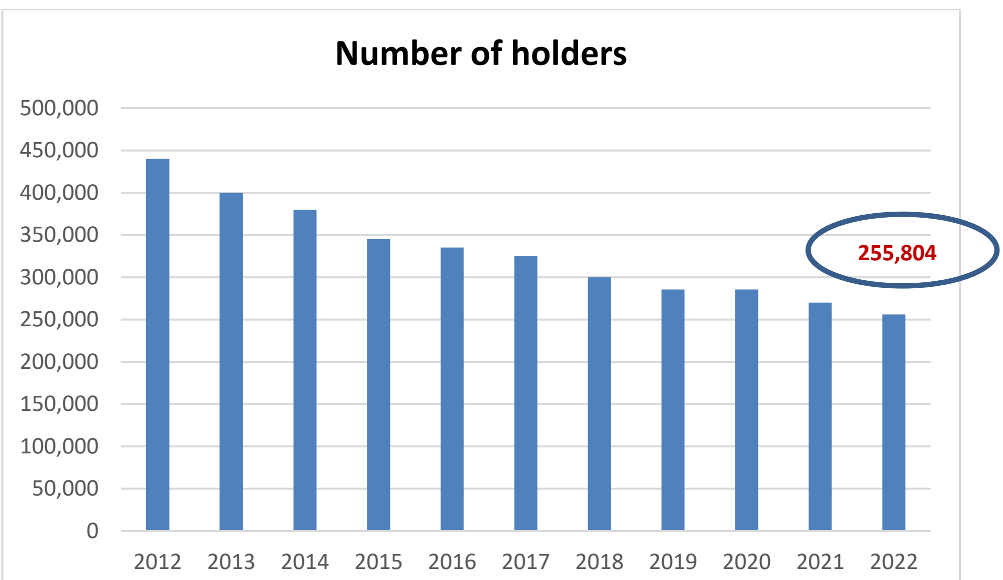
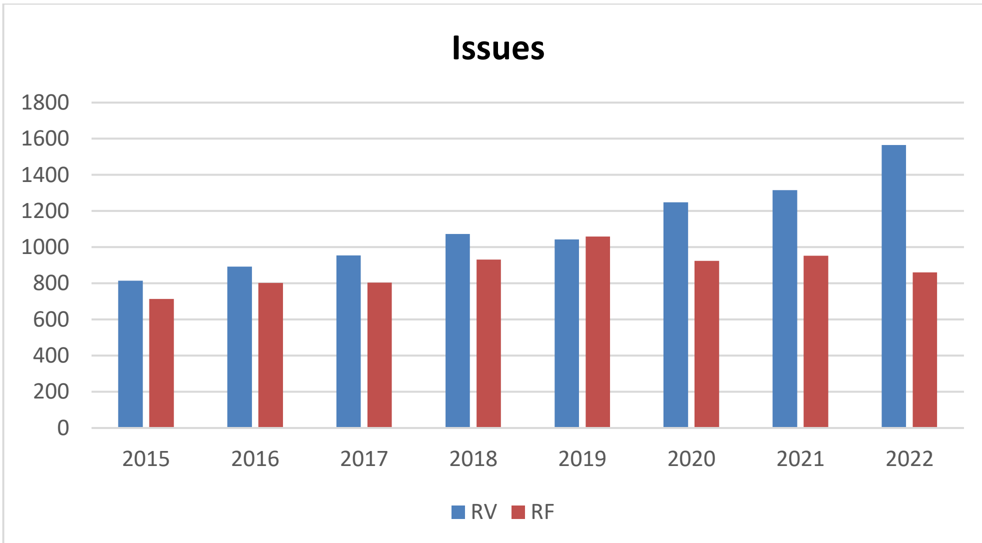


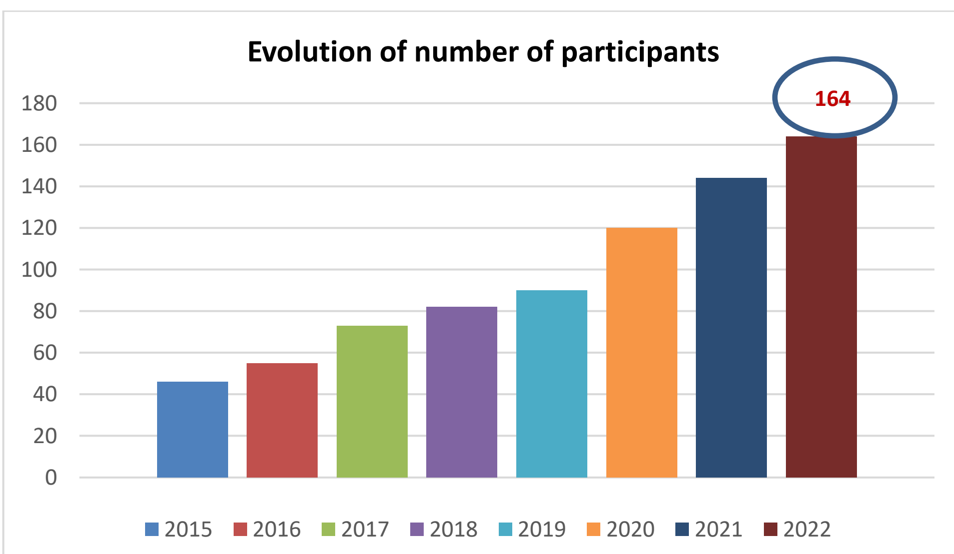
Evolution of total issuances registered

At December 31, 2022, an increase was noted in the total issuances of fixed income securities in relation with prior-year figures.



Evolution in number of participants

At December 31, 2022, the number of Cavali's direct and indirect participants is 164. It should be noted that new special indirect participants were registered over the year, to which the service of negotiable invoice and bills of exchange registration is rendered.



Number of securities, and Holders registered

At December 31, 2022, the number of registered securities and number of holders with a balance was as follows.

Item		December 2022	Variance % at December 2021
Number of securities recorded	Variable income	1,588	20.76%
	Debt instrument	863	-9.44%
	Total	2,451	8.07%
Number of holders registered with a balance		255,804	-5.28%

III.2. OVERALL ORGANIZATION OF THE FMI

CAVALI is an entity listed on the Lima Stock Exchange from 2007. At December 31, 2022, CAVALI's capital stock is USD 7,850,690 (S/. 29'950,385 in Peruvian soles), comprising 29'950,385 shares at S/.1 par value each fully subscribed and paid in. CAVALI has only one type of shares: common shares with voting rights giving holders the same rights and obligations.

At December 31, 2022, Grupo BVL S.A.A. is the only shareholder with more than five percent (5.0%) of the total paid-in capital, a total 97.32%. The remaining capital stock is owned by legally resident individuals and non-domiciled legal entities.

CAVALI's governance structure and composition is based on its own by-laws and the provisions of the Peruvian Securities Market Law.

III.2.1. Governance structure

General Shareholders' Meeting

This is the management body that makes decisions on the direction and operation of the Company.

Board

The Board of CAVALI consists of 5 members, 2 of which are independent directors; board directors are designated by the General Shareholders' Meeting. Board's roles are governed by its own by-laws and Board rules.

Board Committees

At the present date, the Company has the following committees:

Risk and Audit Committee

This committee provides support to the Board in assessing, reviewing, performing or deliberating on the actions delegated to it by the Board as well as in meeting all obligations set out in the SLV Rules and Risk Management Rules. The Risk and Audit Committee reports directly to the Board, via the committee chair, on the agreements reached and recommended actions.

The composition of the committee is established in the Rules for the Risk and Audit Committee, setting a minimum of three (3) members and must be chaired by an independent director.

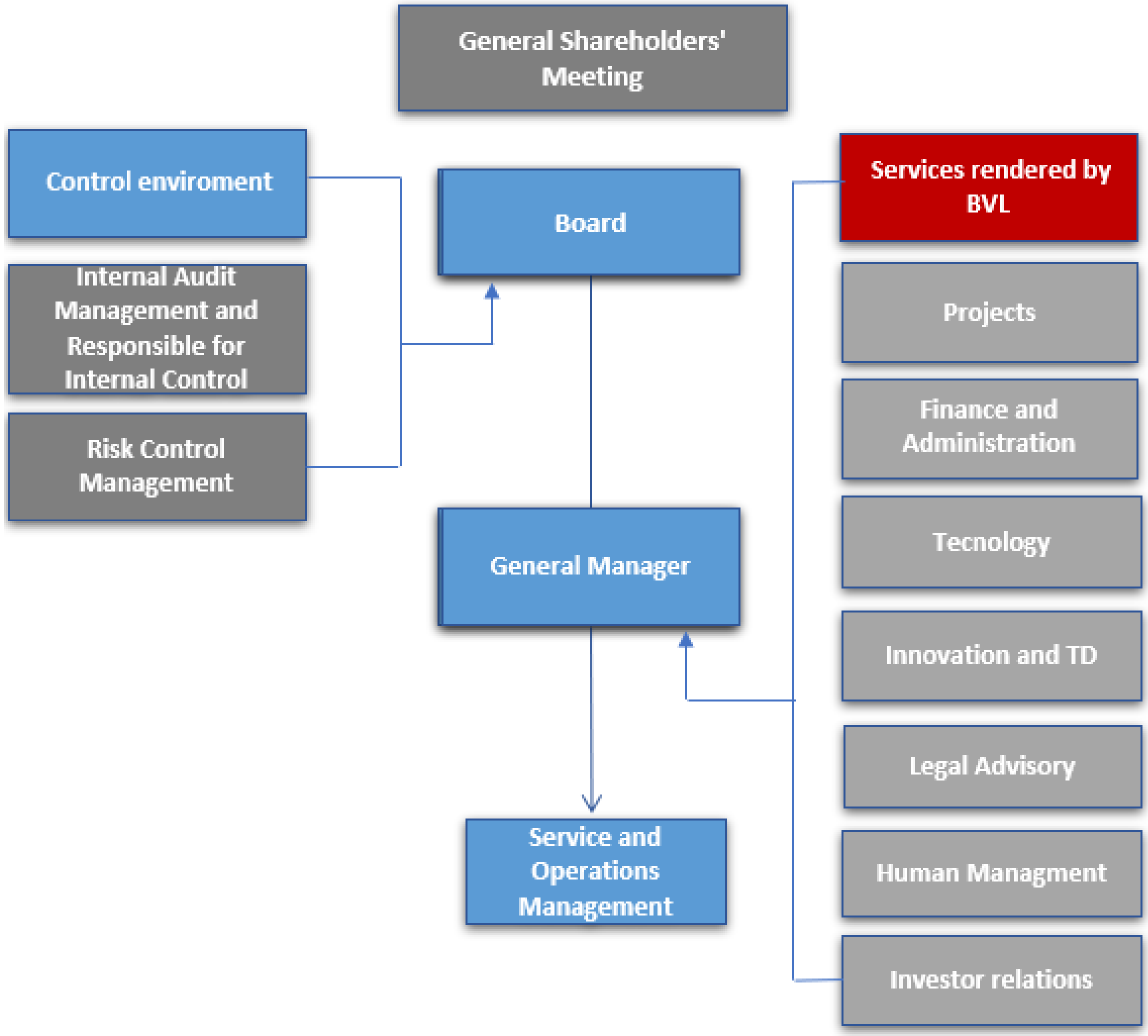
The major duties of the committee are as follows:

- Safeguarding the completeness and timing of the financial statement issuance, establishing and monitoring compliance with the Entity´s internal control, effecting adequate auditing process.
- Approving the overall risk management policies and organization, including the risk tolerance and exposure which the entity is willing to take on behalf of the shareholders.
- Monitoring and assessing the responsibilities and performance of the administrative area based on the reports prepared by Internal Audit, Risk Management, External Auditors and-or individual responsible for Internal Control, among others.

III.2.2. Organizational chart by function

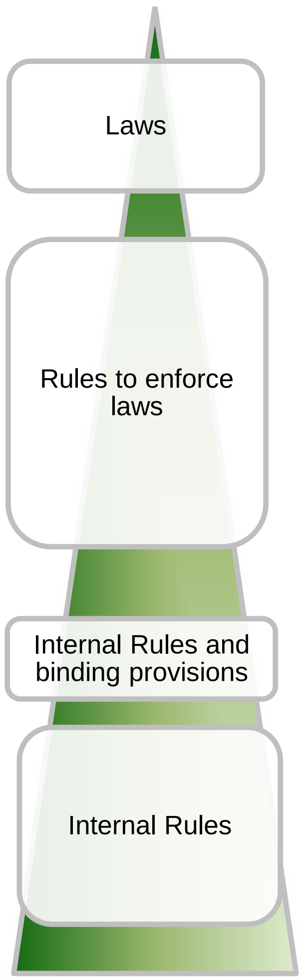
The FMI’s organizational structure consists of three departmental management offices reporting directly to the Board: Internal Audit Management, Risk Control Management and Compliance Management.

Also, there is one departmental management office that reports directly to General Management. At December 31, 2022 its functional structure is as follows:



III.3. LEGAL AND REGULATORY FRAMEWORK

Laws, regulations and related binding and contractual provisions that govern Securities Clearing and Settlement Institutions (ICLV in Peru), as well as those that govern the individuals/entities that manage those institutions set forth clear pieces of legislation that provide for their safety and legal existence, specifically to the Clearing and Settlement process involving listed transactions and public-debt securities. The legal framework applicable to CAVALI is as follows:



- Peruvian Corporate Law (“Ley General de Sociedades)
- Peruvian Securities Market Law (“Ley de Mercado de Valores9
- Peruvian Securities Law (“Ley de Títulos Valores)
- Securities Clearing and Settlement Law (“Ley Sistemas de pagos y Liquidación de Valores”)
- Income Tax Law
- Law promoting financing using a trade invoice

- Rules applicable to ICLV
- Rules of the Securities Settlement System
- Payment System rules
- The Rules for Centralized Trading Mechanisms involving public debt and related instruments
- BVL Operating Rules
- Rules for Law promoting financing using a trade invoice
- Penalty Rules
- Major Event rules
- Financial reporting rules
- Manuals for financial reporting

- CAVALI’s rules and Binding provisions

- Bylaws
- General shareholders’ meeting rules
- Board rules
- Board committee rules
- Contracts
- Internal rules of conduct
- Internal rules for the workplace
- Manual of Policies and Procedures

Legal basis of major aspects

In respect of dematerialization of securities, the Peruvian Securities Market Law and ICLV Rules, the ICLV internal regulations support the dematerialization of securities and their transfer via a book entry.

- ✓ Articles 209 and 218 of the Peruvian Securities Market Law states that for a security to be traded at the stock Exchange must be previously registered with an ICLV, on a mandatory basis and be immediately represented with a book entry so that their transfer can be via an accounting transfer.
- ✓ Article 44 of the ICLV Rules states the requirements to substitute paper-form securities by book-entry securities, including the related detailed procedures for this change in CAVALI’s internal rules.
- ✓ Article 4, Chapter III Internal Rules for Issuers and Securities sets out the conditions to be met to substitute paper-form by book-entry securities.

In respect of the Settlement Finality of transactions, the Payment System and Securities Settlement Laws and the rules for the Securities Settlement Systems support these aspects.

- ✓ Article 6 of the above-mentioned law states that funding or securities transfer orders placed by market participants become firm and irrevocable once they are accepted by the respective System.

- ✓ Article 17 of the Rules for the Securities Settlement System states that for the purpose of firmness, irrevocability, enforceability and acceptability by third parties of the Funding or Securities Transfer Orders as well as the fact they are not subject to court or administrative order, those orders will become as accepted by the respective system in respect of stock exchange transactions, whenever the buyer and seller Participants are verified to have made available to the SLV Management Entity, that is, CAVALI, the sufficient funds and securities to secure that transactions are settled.

Strategic guidelines

- Strengthening of business (c*ore)*
- Diversifying towards to segments and products
- Organic and inorganic growth
- Strengthening internal capacities

III.4. DESIGN OF THE FMI SYSTEM AND ACTIVITIES

III. 4.1. Transaction system

By the end of 2009 one of the most important projects was completed at CAVALI: the implementation of the WARI system; the new technological platform used in the Company's core business. WARI is a software developed for recording, transferring, clearing and settlement of securities as well as instruments issued by the acceptable small companies and microbusinesses (non-mass issued securities.

Major internal processing capabilities as per the internal manuals are as follows:

- ✶ Oversight
- ✶ Participants and Holders
- ✶ Issuers and Securities (Asset Management)
- ✶ Transaction Recording
- ✶ Clearing and Settlement
- ✶ Collateral Management
- ✶ Finance
- ✶ Accounting
- ✶ Safety and Control

III. 4.2 Services

Services rendered by CAVALI are grouped into the following:

a. Clearing and Settlement

a.1. Clearing and Settlement process:

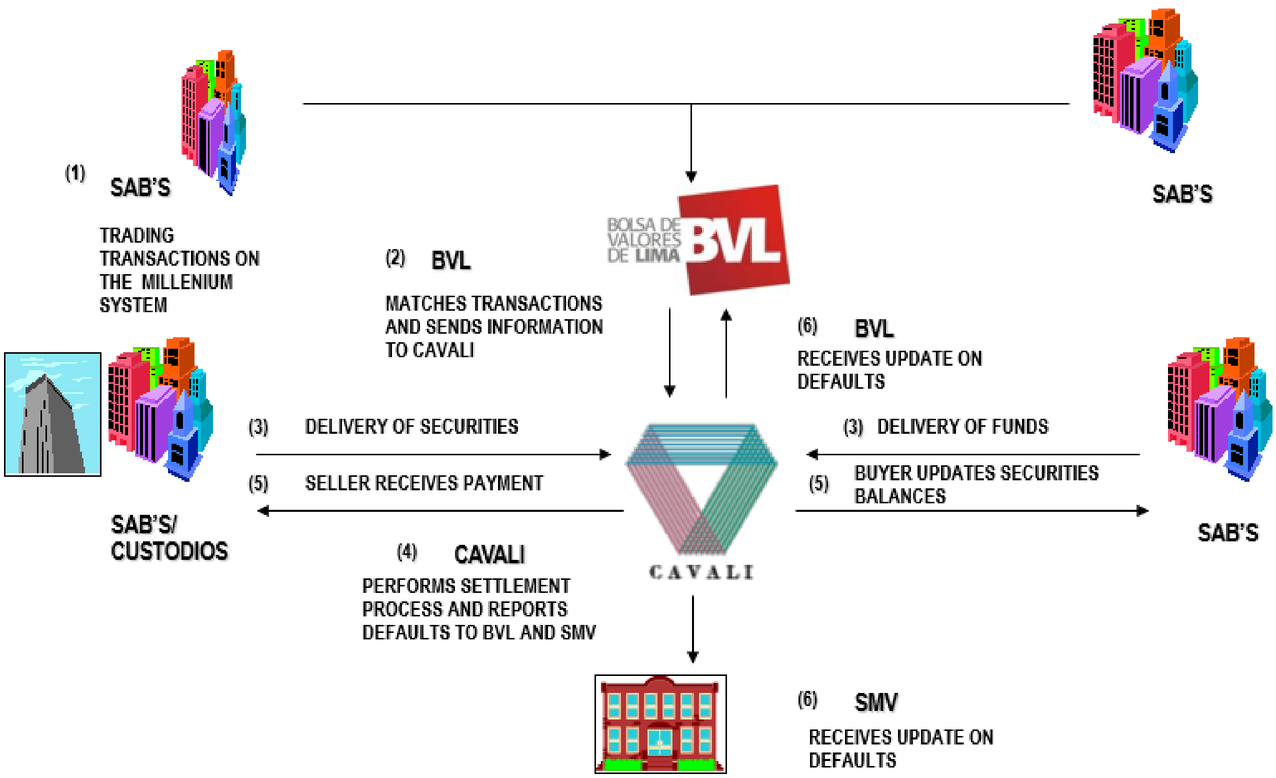
Clearing is the process by which CAVALI updates the accounts (debit or credit positions) of the trading parties or participants. This netting process is performed based on day-to-day buying and selling transactions in the trading market (or secondary market).

Settlement is the process by which Participants with debit positions transfer the funds or securities to CAVALI so that it can make payment effective to Participants with credit positions.

a.2. Settlement models used by CAVALI

a. For transactions involving variable-income securities and debt instruments on the Lima Stock Exchange, CAVALI settles securities on a gross basis and settles obligations to transfer funds on a net basis; transfer is completed on a simultaneous basis under the DVP method (following the BIS Model 2).
b. For transactions completed on the Centralized Trading System for Public Debt Instruments, CAVALI settles both securities and funds under the DVP method (BIS Model 1).

a.3. Players in the Clearing and Settlement Process



a.4. Settlement cycle

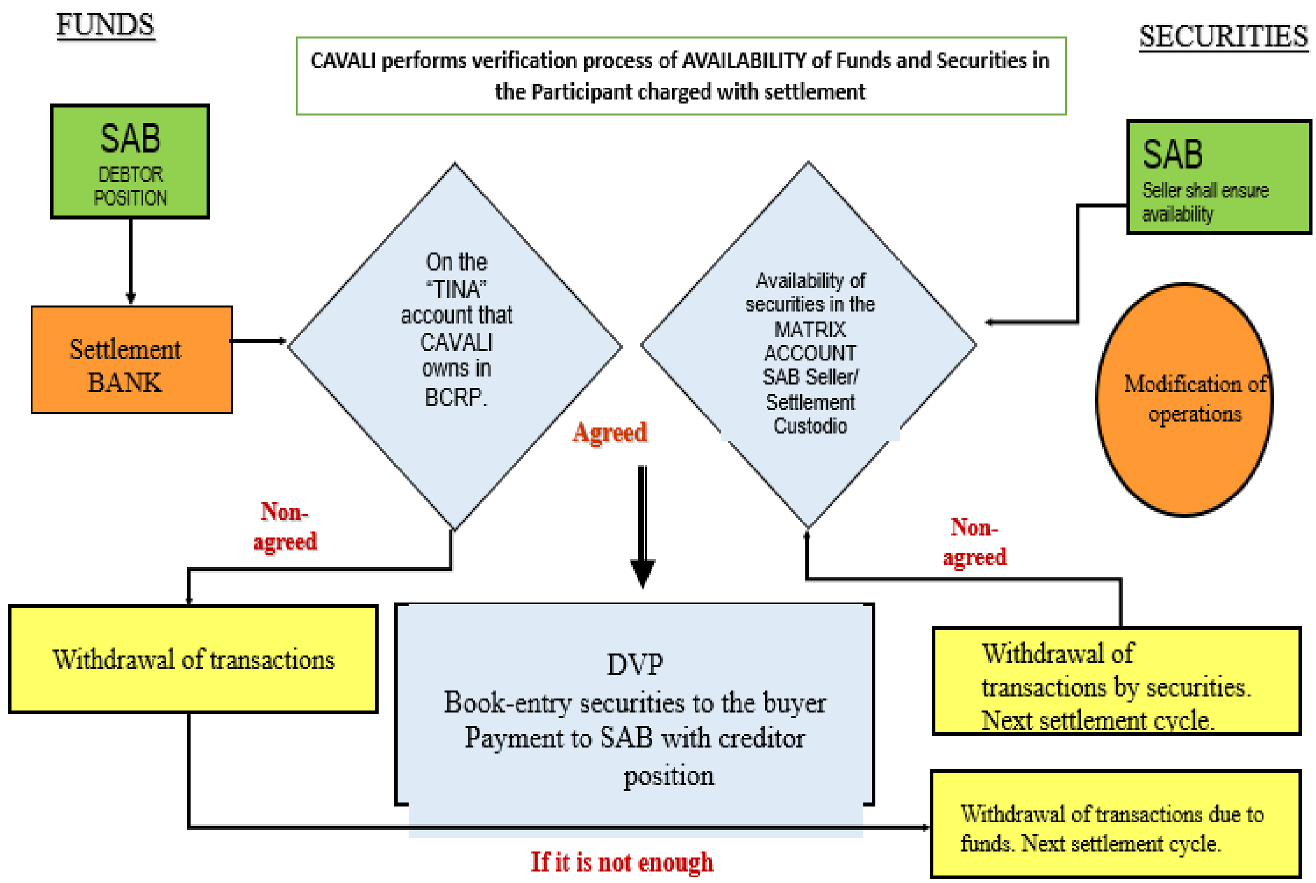
Settlement of stock exchange trades and debt transactions
This is an automated process that settles all transactions that qualify as Funds covered by their cash account balances and accepted Securities per trade. (Maximum performance term: 30m). a process is completed in each currency (Peruvian soles and U.S. dollars).

The volume of settled transactions over cycles until 11 a.m. (Lima, Perú time) ranges from 35% in U.S. dollars and 55% in Peruvian soles of total trades. The remaining balance of transactions are settled on a continuing cycle basis in consistency with a given algorithm.

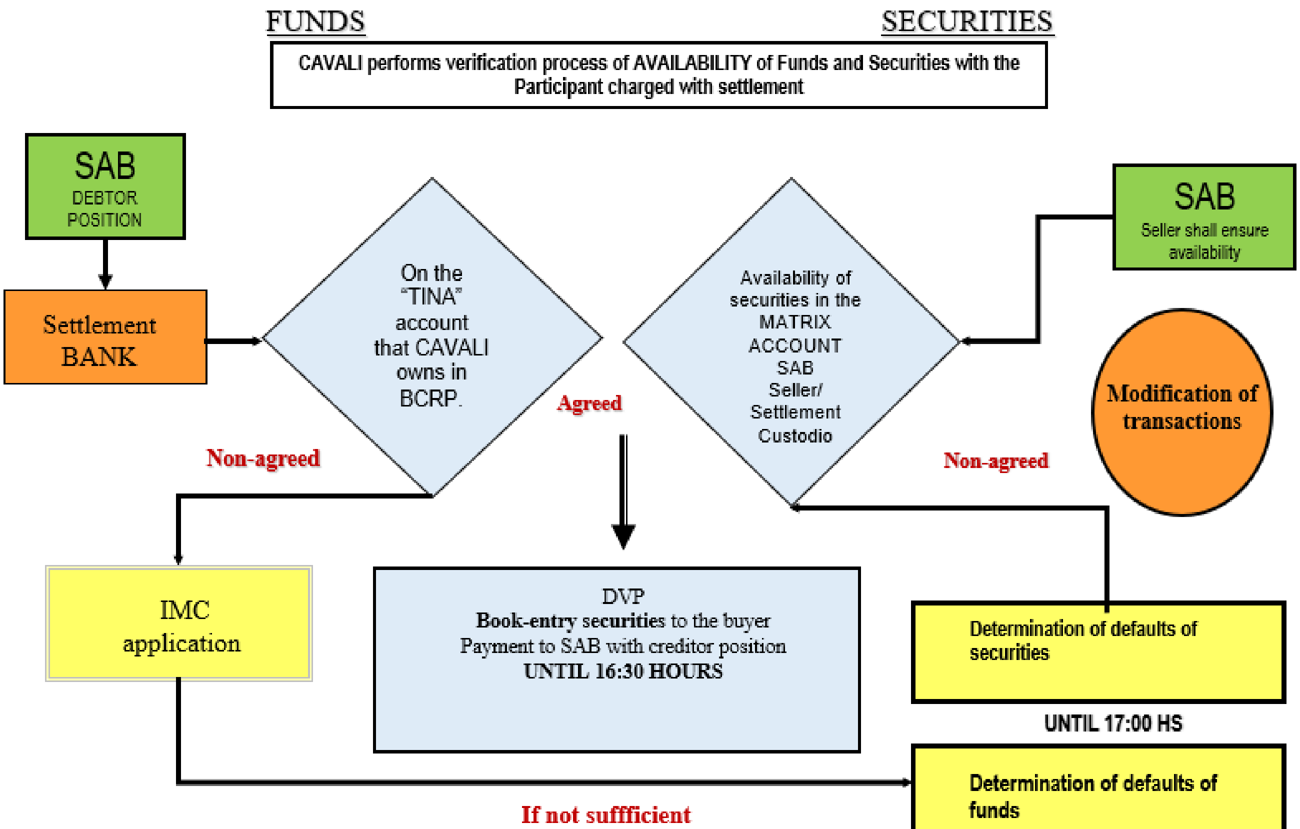
The automated settlement cycle process obtains the Final Balances of creditor Participants; once the final process is completed; those balances will be fed to the LBTR system of the Peruvian Central Reserve Bank for effective payment.

Settlement cycle flowchart

Intraday settlement cycles



Last settlement cycle



a.5. Clearing and Settlement Flows

Process is as follows:

- A participant buys securities on the T Day (transaction day); on the same date, CAVALI reconciles buyer and seller positions on a net basis. This information is available to each participant on T+1 day, so that on T+2 day the respective participant can discharge payment obligations.

- On T+2 day, the participant with a debit position instructs the settlement bank to credit the respective amount to the account held by CAVALI in the Peruvian Central Reserve Bank; later on, that amount is transferred to the settlement bank of the participant with a net credit position.

- Simultaneously to the settlement of funds, CAVALI transfers the securities recording a book entry on a Matrix Account in the name of the selling participant and with a charge to the involved holders in both cases.

a.6. Types of transactions that are settled

- Stock exchange transactions with variable-income securities: A mechanism by which securities registered with the Lima Stock Exchange are traded.

- Stock exchange cash transactions with debt instruments: A mechanism by which securities registered with the Lima Stock Exchange are traded.
- Repo transactions with debt securities or variable-income securities: agreement with a commitment by the seller to buy a security back from the purchaser (customer) at a specified price at a designated future date
- MIENM transactions: Those transactions that involved issuance of those specific instruments called “instrumentos de emisión no masiva” – non-mass issued securities.
- Forward market with a premium: Cash trade in which the buyer has the right to unilaterally terminate the transaction prior payment of a premium.
- Transfer of over-the-counter securities: Transfers of book-entry securities, those listed on a Centralized Trading Mechanism, and those outside those mechanisms.
- Private placement: A mechanisms in which securities registers with the Lima Stock Exchange are traded.

a.7. Settlement entities

CAVALI settles cash using the following settlement financial institutions:

- The Peruvian Central Reserve Bank, through the LBTR system, is a settlement agent for all transactions except for report transaction.
- A local financial institution, Scotiabank Perú S.A, is the settlement bank for repo transactions and short-selling transactions.

a.8. Changes in trading data and allocation data

Each and every change relating to transactions shall only be made before the transaction is settled. Changes may include:

- Trade data
  Applications for and timing of changes in trade data should be authorized by the BVL.
- Allocation data
  The following applications for changes in the data stated in the transaction can be made by the intermediary participant and prior consent, as appropriate, of direct Participants to be involved in settlement.
  a. Re-designation of Holders to transaction.
  b. Change in commission to be obtained by a participant.
  c. Change in Settlement party.
  d. Change in unsecured transaction: from a collateral-backed transaction to regular.
  e. Change in secured transaction: from regular to collateral-backed transaction.
  f. Change in due date of collateral.
  g. Change in code of collateral-backing bank.

a.9.Default

Each and every Direct Participant charged with settlement that fails to discharge its obligations to deliver securities or funds will be subject to the related standards and rules, including the respective penalties. Regularization of those failures shall be reported to the Stock Exchanges since the process of managing failures to meet obligations is performed by them. CAVALI shall not acknowledge settlement of a failed transaction once it has received notice of confirmation that the transaction was abandoned or enforced by the stock exchanges.

a.10. Mechanism to secure risks

- IMC

Each Direct Participant should cover a Minimum Coverage Amount (IMC, la sigla del ingles) to be calculated by CAVALI on the basis of the formula that takes into account the activity carried out by Direct Participants over the last 2 years. This amount is covered with cash and lines of credit and it is a mechanism to risk of fund settlement risk derived from transactions completed on the centralized trading mechanisms managed by the stock exchanges. This a way to prevent transactions under their management from being withdrawn from the automated settlement processes.

This coverage mechanism will be set up to reduce the exposure of market to potential liquidity risk of transactions settled through CAVALI.

- Settlement Fund

This fund was set up to cover any differences resulting from the enforcement of cash transactions or otherwise cover any net balance not covered by the direct participant charged with settlement. The fund balance consists of contributions made by the Direct participants in transactions completed on centralized trading mechanisms managed by stock exchanges, including Participants' direct contributions and daily contributions calculated by CAVALI based on the amounts settled by each of them.

b. Services to market participants:

The book entry system carried by CAVALI is comprehensive and exclusive; a Matrix Account is designated to each participant, at request, in which the book-entry securities were recorded in the name of each holder and related holdings.

Maintenance services are rendered to direct, indirect and special participants involving the securities stated on their Matrix Account. Participants are entitled to request a change in the holders of the benefits stated in that account.

c. Recording Securities to Issuers

Issuers who may have been assigned an issuer account, are entitled to assign codes to Holders of securities issued by them performing the procedures and imposing the obligations applicable to Participants, in accordance with the Internal Rules.

Services

The services that are available to Issuers are those relating to corporate events requested by issuers and registered with CAVALI are: payment of principal, payment of interest and dividends, certification of preferred subscription, discount-based deductions, delivery of shares, change in par value, mergers, etc.

d. Information Services to Holders

CAVALI's information services enable all Holders of securities registered with it to obtain the most accurate information on their balances, movements and benefits.

CAVALI offers the service of CAVALI.WEB, an online information service for holders to see the balance of its securities and the last transactions conducted, the benefits obtained and the repo transactions entered into over the last three months. Also, holders are entitled to download a certificate of the tax withholding on capital gains and interest.

e. Recording stock registration

This is the service of managing stock registration in the form of paper-form securities and book-entry securities, to Issuers with an Issuer Account and with securities recorded under the RPMV. The Service includes direct management of stock issuer registration as well as person-to-person service to Shareholders, providing them with relevant advisory in each of the transactions they plan to enter into under the provisions of the Internal Rules.

f. Record of non-mass issued instruments

CAVALI renders this Service of recording its qualifiable negotiable invoices, as well as recognition bonds and promissory notes.

For negotiable invoices, CAVALI has made available to the market an online system called Factrack, by which suppliers of goods and services, buyers of goods and services and financing institutions are able to record, transfer and manage Negotiable invoices. Users of the Service are suppliers of goods and Services, buyers of goods and services and participants of CAVALI's.

The benefit of obtaining this service is that negotiable invoices are converted into securities, which makes it easier for their transfer in factoring transactions. Additionally, when these documents are registered with CAVALI and have enforceable status, the debt recovery time is reduced.

g. Recording derivative contracts

This is the service of recording the contracts of transactions with derivatives that are entered by Participants with their counterparties, regardless of whether they are CAVALI's participants or not.

Contracts to be register with CAVALI will be Specific Contracts signed under the provisions of the Framework Agreement for Transactions with Derivatives set forth by the SBS, provided that digital signature is confirmed via the means established by CAVALI A book-entry of transactions involving related contracts is created by CAVALI (Accounting Record).

h. Recording of bills of exchange

This is the service comprising the electronic registration, issue, acceptance, transfer and custody of bills of exchange ("letras de cambio") as well as issuing evidence of registration and holder status at request.

III.5. MAJOR RISKS AND RISK MANAGEMENT PRACTICES

a) Overall Business Risk

The overall business risk involves losses that may eventually arise form a deficient execution of the business strategy, negative cash flows, excess expenses and investment risk. Major measures adopted are as follows:

Implementation of the Liquidity Contingency Plan: The major measure is to define the actions that will be necessary to be taken by CAVALI whenever liquidity issues arise to comply with short-term obligations and respond promptly to stressing conditions.

b) Control over Systemic Risk

This is the risk that occurs whenever the liquidity risk and the credit risk affect one or more organizations (domino effect) preventing them from meeting their obligations. Specific measures taken are:

Ongoing improvement of security mechanisms and risk controls: CAVALI is permanently improving its mechanisms to mitigate the risk of exposure to the systemic risk.

c) Clearing and Settlement Risk

The clearing and settlement risk of financial loss in the event of a participant's failure to meet its obligations. Major risks in the Clearing and Settlement process as well as the measures taken by CAVALI to mitigate them are as follows:

i) **Market Risk**

This is the risk of changes in the prices of securities and currencies from the trade date until the trade settlement date. Measures adopted:

a. Creating the Settlement Fund (Settlement Fund - FL)

The FL is capital that is segregated and separated from that of CAVALI but managed by the latter. This FL is intended to safeguard participants covering any difference that may result from price changes from the date of default to the date of actual settlement.

The minimum amount held with the FL should be enought to fulfill the FL's core purpose; CAVALI determined that minimum amount and updates it every year.

ii) **Asset Commitment Risk**

The asset commitment risk determines the time frame over which securities and money are tied between the central securities depository and the payment system over the settlement process, assuming that funds and securities are settled as previously scheduled.

Risk is in the period of time over which the Participants' assets, both securities or funding, are restricted to be used within the process of clearing and settlement of the underlying transactions. The risk exposure period extends until the actual transfer of securities or funds is completed. Specific measures are as follows:

a. Impact of Settlement Cycles in Asset Commitment:

The period of asset commitment changes depending on the kind of securities and transaction. Selling participants have an intra-day exposure from the time securities are blocked (on the settlement date) until they obtain money (between 1 and 6.5 hours); also, a commitment period of time is set for buying participants since funds have to be available to CAVALI's account with the BCR before settlement.

The asset commitment period for sovereign securities is immaterial since there is no blockage of securities or funds.

For OTC transactions, they are settled based on a Free-of Payment Mechanism (FOP) for a variable asset commitment period since the exact time at which funds are settled is not known given the fact, they are traded outside CAVALI's systems.

iii) **Credit Risk**

This is the risk that a transaction counterparty may default payment of its total obligation on the settlement date or on any subsequent date.

Measures adopted:

a. Implementation of transaction netting:
In order to reduce the flow of cash transactions at the time of settlement, CAVALI carries out a clearing process, which is netting off the payment obligations of Participants.

b. Setting minimum requirements and ongoing monitoring of Participants
Participants are required to meet pre-acceptance minimum requirements to CAVALI as well as periodic after becoming a participant regarding its financial, operating and technological capacities.

c. Setting a minimum amount of coverage (IMC, the Spanish acronym)
This IMC is an amount that each participant should credit to CAVALI to be used to mitigate its market risk conditions exposure. This minimum requirement is updated every three months.

d. Short selling
Lending of securities is permitted under the Peruvian legislation and this is a service rendered by the BVL for short selling to be viable. Short selling with borrowed securities is only permitted with highly liquid securities, as included in the TVR (Reference Security Table), as well as public debt securities.

iv) **Liquidity risk**

The liquidity risk is the risk that a counterparty defaults an obligation in full at due date but on a subsequent date.

Measures adopted:

a. Implementing netting off
In order to mitigate the liquidity risk (lack of cash) in participants, CAVALI carries out a netting of past due payment obligations held by participants as part of its clearing process.

b. Cash settlement through Peruvian Central Reserve Bank
CAVALI settles funds using account with Peruvian Central Reserve Bank (BCRP), which reduces the risk of a commercial bank acting as a settling agent (private bank).

c. Applying Delivery vs. Payment (DvP) setlement system
CAVALI has adopted the settlement system of Delivery vs. Payment (DvP) or cash on delivery by which there is a link between the transfer of securities and funds to deter each participant to keep an excess number of securities or an excess amount of funding to prevent the risk of default of payment from occurring.

d) **Bribery Risk**

The Anti-bribery System in place enables CAVALI to manage the bribery risk it is exposed to considering the activities it carries out.

Measures adopted:

In compliance with anti-bribery laws in Peru, CAVALI has implemented an Anti-Bribery Management System in consistency with ISO 37001:2016 ("Anti-Bribery Management System"). CAVALI wants to proactively take part in fighting bribery and setting a culture of integrity, transparency, honesty and compliance.

e) Operational Risk

The operational risk addresses the risk arising from mistakes made by personnel, deficiencies in organizational processes, IT-related failures, and external events. It includes the legal risk but excludes the strategic and reputational risk.

CAVALI has automated its major processes to reduce the potential occurrence of events that may impact adversely on its accomplishing of objectives. Also, as part of the Operational risk management, it has taken a number of measures across the entity's core business processes.

Measures taken:

a. <u>Self-assessment of risks and controls</u>

   Self-assessments are conducted on processes, new services and significant changes. These assessments are completed with the involvement of the user areas, setting up workshops to identify risks and controls. The way to proceed is decided based on the risk that leads to action plans and improvement opportunities with individuals taking the responsibility for and committed to timetables.
b. <u>Critical supplier management</u>
   Suppliers considered as critical are identified based on qualitative criteria and guidelines are set forth to manage the relationship with them. For contractual relations, special clauses are considered based on the level of services, penalties, audits, performance evaluations, among other criteria, to adequately manage the risk exposure arising from contracting them.
c. <u>Management and follow up on keyrisk indicators (KRI)</u>
   This indicator enable the entity to measure the periodic occurrence of certain events derived from an existing risk, analyze trends and coordinate action plans to mitigate the associated risks.
d. <u>Loss database management</u>
   Setting the policies, accountability and criteria for identifying, analyzing, recording and monitoring the loss events resulting from the operational risk.
e. <u>Operational risk training</u>
   CAVALI's collaborators received training on operational risk management via self-assessment workshops, email tips and feedback and annual general training session.

Good Practices: International Recommendations:

CAVALI's risk management, information security, and business continuity strategy is governed by recommendations of specialized international institutions, namely:

IOSCO: The International Organization of Securities Commissions, is intended to contribute to the establishment of an efficient central securities depository to mitigate the systemic risk and promote financial transparency and stability. IOSC's standards and recommendations have been taken by CAVALI for implementation and self-assessment.

COSO: CAVALI's initiative to set internal controls are governed by the Internal Control Framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) that promotes efficiency, minimizes risk, ensures reliability of the financial statements and their adherence to the applicable laws and regulations.

ISO 31000: This standard provides CAVALI with principles, framework and a process for managing risk.

ISO 27001: CAVALI meets ISO 27001 that sets out a system to set up, implement, maintain and improve a management system that is intended to bring Information Security Management system. control and gives specific requirements.

ISO 22301: CAVALI meets the ISO 22301 standard that specifies requirements to plan, establish, implement, operate, monitor, review, maintain and continually improve a documented Business Continuity Plan.

ISO 9001: CAVALI meets the ISO 9001 standard that specifies the requirements for establishing, implementing, maintaining and continually improving a Quality Management System.

ISO 37001: CAVALI meets the ISO 37001 standard that sets out the requirements for setting up, implementing and improving an Anti-Bribery Management System.

IV. PRINCIPLE-BY- PRINCIPLE DISCLOSURE

The IOSCO's principles are applicable to entities engaged in payment system activities, central securities depositories, securities settlement system, transaction counterparty central and trade repositories.

CAVALI is a stock company ("sociedad anónima" in Peru) engaged in recording, custody, clearing and settlement of securities, by the Peruvian company and securities regulator ("Superintendencia del Mercado de Valores"), as well as issue non-massive instruments; accordingly, 20 of the 24 Principles of IOSCO are applicable. In this sense, the following principles applicable to central securities depositories are not applicable:

Principle 6: margins (Applicable only by counterparty chamber").

Principle 14: Segregation and Portability (Applicable only by counterparty chamber).

Principle 19: Tiered participation arrangements (indirect participants can obtain access to Clearing and Settlement services rendered by CAVALI through a direct participant prior CAVALI'S assessment and authorization.)

Principle 24: Disclosure of market data by the trade repositories (this principle is only applicable to Trade Repositories (TRs).

Principle 1: LEGAL BASIS

A Financial Market Infrastructure (FMI) should have a well-founded, clear, transparent, and enforceable legal basis for each material aspect of its activities in all relevant jurisdiction

Key consideration 1: The legal basis should provide a high degree of certainty for each material aspect of an FMI's activities in all relevant jurisdictions

Material aspects and relevant jurisdiction

CAVALI S.A I.C.L.V. as a Central Securities Depository authorized to operate by the SMV under Resolution CONASEV No 358-97-EF/94.10 it is engaged in recording, custody, clearing and settlement of transactions involving book-entry securities. These activities need to have a sound legal basis that ensures legal stability. In Peru, all these activities, including the settlement finality of transactions in the centralized trading mechanisms, as well as matters related to securities dematerialization, DvP settlement, and protecting the rights of securities holders, are governed by the relevant laws and regulations, approved by the head of the securities market oversight entity ("Superintendencia del Mercado de Valores – SMV"), and the Central Reserve Bank, i.e., the body overseeing the payment system, which eliminates or reduces the legal risk, which provides high level of legal confidence on the above-mentioned processes.

The legal basis that governs the FMI's core activities is contained in laws and regulations as well as agreements signed by CAVALI with its participants, which are customers who are rendered the services of recording, custody, clearance and settlement as well as foreign central securities depositories (cross-border linkages), which are governed by specific rules to secure legal stability, most noticeable regarding recording and settling transactions. The relevant legal basis governing CAVALI's activities as FMI consists of the following:

- The single text of the Peruvian Securities Market Law (LMV)
- Payment System and Securities Settlement Law ("Ley Sistemas de pagos y Securities Settlement" (LSP)
- The Rules of the Securities Clearing and Settlement Institutions (RICLV),
- The Rules of Payment System (RSP),
- The Rules of the Securities Settlement System (RSLV)
- The Operating Rules of the Stock Exchange transactions and supplementary provisions.
- The Rules of the Centralized Trading Mechanisms of Public Debt and derivative contracts (RMCNDP)
- CAVALI's Internal Rules and Supplementary provisions, governing the specific services rendered by CAVALI to customers. It should be noted that Related Provision complements an article of CAVALI's Internal Rules. An article of the Internal Rules governs the general framework and is approved by the SMV while a related provision addresses specific matters of the general framework, and it is approved by General Management of the Central Securities Depository.

For example, article 70 of the Rules of the Securities Clearing and Settlement Institutions states the definition of Clearing and Settlement as follows:

- Clearing of transactions involves a process carried out after the transaction has been entered by which the involved participants confirmed the details of the transaction, report on the assignment to buying and selling holders as well as Participants charged with settling, as applicable, and the respective settlement obligations are settled by each participant; the objective is that each participant is fully aware of its final settlement obligations.

- The settlement of securities is the process by which obligations are discharged as a result of negotiation with the transfer of the selling party to the buying party and the transfer of funds from buyer to seller.

Also, Article 17 of the Rules of the Securities Settlement System states that for the purpose of firmness, irrevocability, enforceability and acceptability by third parties of the Funding and Securities Transfer Orders, well as the fact they are not subject to court or administrative order, those orders will become as accepted by the respective system in respect of stock exchange transactions, whenever the buying and selling Participants are verified to have made available to the SLV Management Entity, that is, CAVALI, the sufficient funds and securities to secure that transactions are settled.

There are two relevant jurisdictions for each material aspect in the activities carried out by the FMI:

1. Local Jurisdiction: For transactions entered into and settled within the Peruvian territory; in this scenario, CAVALI acts as a central securities depository and signs contracts with its customers, that is, Issuers and participants.
2. Foreign Jurisdiction: For transactions entered into and settled outside the Peruvian territory; in this scenario, CAVALI is a participant to certain deposits completed in other markets with whom cross-border linkages are kept and those transactions are governed by the laws and regulations of a give jurisdiction. In this regard, jurisdictions to which CAVALI has been subject to under relevant agreements with foreign central securities depositories are the U.S.A., Canada, Europe, Mexico, Chile and Colombia.

At the present date, CAVALI has agreements with foreign central securities depositories to ease the settlement of transactions with securities traded in the local and international market, and in certain cases, to settle DVP transactions of transactions with those securities.

For this purpose, CAVALI has cross-border agreements with DTCC, via Citibank, (EEUU), Euroclear (Europe), CDS (Canada), and with the “Mercado Integrado Latinoamericano con Indeval” (México), DCV (Chile), and DECEVAL (Colombia). It should be noted that under the agreements with DTCC (Citibank), Euroclear, Indeval and DCV there are provisions for the recognition of DVP settlement of transactions with securities traded in local or foreign stock exchanges. For CDS and DECEVAL, the relevant agreement contains provisions for FOP settlement).

Enforceable legal basis for each material aspect

Laws, regulations, related supplementary and contractual provisions that govern the activities of Securities Clearing and Settlement Institutions (ICLV), as well as those that govern the operations of Securities Settlement Systems (SLV) managed by the ICLV are clear and provide protection and legal stability to the process of the Clearing and Settlement of securities traded on stock exchanges and those with public-sector debt securities.

The Peruvian Securities Market Law (LMV), the Rules of the Securities Clearing and Settlement Institutions (RICLV), la Law of the Payment System and Securities Settlement (LSP), the Rules of the Payment Systems (RSP), the Rules of the Securities Settlement Systems (RSLV), the Rules of the Centralized trading mechanisms of public-sector debt and related instruments (RMCNDP) and the CAVALI’s Internal Rules provide the different economic players with certainty and security that their funding and securities transfer orders will be fully processed on the SLV and the Multi-bank Securities Settlement Payment System managed by CAVALI. It should be noted that the legal framework applicable to the securities and payment and systems settlement adopts the acceptable international standards applicable to financial market infrastructures promoted by the International Organization of Securities Commissions – IOSCO. In this respect, the Peruvian Securities Market Law and ICLV's Rules govern the dematerialization of securities and transfer in the form of a book entry.

In this sense, articles 205 and 214 the single text of the Peruvian Securities Market Law states that for securities to be traded on a stock exchange they need to be previously registered with an ICLV in the form of a book entry so that any future transfer of those securities is completed via accounting account transfers. Also, article 44 of the ICLV's Rules states the requirements to convert paper-form securities into book-entry securities, including detailed procedures under the CAVALI's Internal Rules.

De On the other hand, with respect to the Settlement Finality of transactions, including those arising from an insolvent participant the Peruvian Law for the Payment System and Securities Settlement and the Rules of Securities Settlement Systems govern these aspects. In this sense article 6 of that Law states the funding or securities transfer orders entered into by Participants are consider a firm and irrevocable commitment once they are accepted by the related system. Those orders will not be amended, superseded, or impaired in any way, not even by court or administrative order. The Accepted Transfer Orders, the net balances (debit or credit balance) resulting from those orders are cleared, and the obligations and rights under the System to secure settlement will be considered firm, binding and enforceable for the obliged party to comply with and enforceable to third parties; they will not be made void or challenged by any grounds, not even by court order or administrative decision or in the framework of an Creditor or Liquidation Intervention as long as those orders had been accepted before the relevant notice was served to communicate the respective process. Settlement of the Accepted Transfer Orders and the net balances resulting from clearing cannot be reversed or impaired by court or administrative decision, not event in the framework of Creditor or Liquidation Intervention process.

Supplementary to the above-stated, article 17 of the Rules of Securities Settlement Systems sets forth that for the purpose of the firmness, irrevocability, enforceability and acceptability by third parties of the Funding and Securities Transfer Orders as well as the fact that those orders cannot be affected by court or administrative orders, those orders will be considered as accepted by the respective system if they were transacted on a stock exchange, whenever, confirmation is obtained by the SLV managing entity, that is, CAVALI, that the buying and selling participants have made available, the funds and securities required to secure the settlement of transactions.

Key consideration 2: An FMI should have rules, procedures, and contracts that are clear, understandable, and consistent with relevant laws and regulations.

Laws, rules and supplementary and contractual provisions that govern the activities of the Securities Clearing and Settlement Institutions (ICLV) as well as those governing the operations of the Securities Settlement Systems (SLV) managed by the ICLV are approved by the Peruvian securities market regulator (SMV, the Spanish acronym), which gives greater transparency, protection and legal stability to the Clearing and Settlement process of transactions traded on stock exchanges and those including public-debt debt securities. It should be noted that, with respect to the Internal Rules, in the event matters relating to the Securities Settlement System, the Peruvian Central Reserve Bank (BCRP) must issue a favorable opinion on the standard to be applied under the Internal Rules; this is a requirement for the SMV to approve that regulation.

The Peruvian Securities Market Law (LMV), the Rules of the Securities Clearing and Settlement Institutions (RICLV), the Law for the Payment System and Securities Settlement (LSP), the Rules of the Payment Systems (RSP), the rules of the Securities Settlement Systems (RSLV), the Rules of the Centralized Trading Mechanisms of Public-sector Debt and related instruments (RMCNDP) and the CAVALI's Internal Rules provide the different economic players with certainty and security that their funding and securities transfer orders will be fully processed on the SLV and the Multi-bank Securities Settlement Payment System (SPLMV), managed by CAVALI. It should be noted that the legal framework applicable to the securities and payment and systems settlement adopts the acceptable international standards applicable to financial market infrastructures promoted by the International Organization of Securities Commissions – IOSCO.

Also, contracts signed with other foreign central securities depositories by CAVALI as well as the contracts signed with customers are clear and understandable and are communicated to the SMV, as appropriate. No conflict of interest has arisen relating to the interpretation of the agreed contractual clauses which reflects the clarity of our agreements.

Legal relationships between CAVALI and Participants are governed by contracts and addendums thereto. Agreements/contracts with Participants are standardized and include provisions y which Participants adhere to CAVALI's Internal Rules and other standards comprising the legal basis underlying CAVALI's activities. These standard contracts secure equal a non-discriminatory treatment of and among all participants; the contract template to be signed with Participants, and any amendments thereto are communicated to the SMV within a period of 5 days from their inception or amendment, as appropriate.

The rules and procedures underlying the services rendered by CAVALI to Issuers and Participants are approved or observed by the SMV. In this respect, the Internal Rules consists of articles and Binding Provisions. Articles are approved by the SMV, while the Binding Provisions contain the specific details and procedures of the services that are approved by CAVALI's General Management, 4 business days prior release to the public. However, the SMV has a period of 30 business days to submit observations to the Binding Provision, in the event a form-content misstatement is found; if that is the case, that Complementary Provision is made void until the misstatement or error is corrected.

On the other hand, for contracts signed or amended by CAVALI, the contract templates must be reported to the SMV. Despite the fact CAVALI does not need SMV's authorization to sign or amend contracts, once the contract templates are submitted to the SMV, SMV has actual ultimate regulatory power over CAVALI's templates.

The Rules of the Securities Clearing and Settlement Institutions state the following regarding the contracts signed by CAVALI:

- Issuers - Article 41**:** The legal relations between the ICLV and Issuers are governed by the agreement to be signed between them and other provisions established by law, the Rules, and the Internal Rules. The service agreement between the CLV and Issuers should secure an equal and non-discriminatory treatment among issuers to ensure that securities market standards are not violated. This contract should state an acknowledgement of article 44 of the Rules. The ICLV should submit for the consideration of the SMV the contract template and any amendments thereon within the five (5) days after their inception or amendment.

Participants – Article 38**:** The legal relations between the ICLV and Participants are governed by the relevant agreement/contracts as well as the applicable laws and regulations and Internal Rules. The Service Agreement between the respective ICLV and Participants The service agreement between the CLV and Issuers should secure an equal and non-discriminatory treatment among issuers to ensure that securities market standards are not violated. For direct participants, this contract should include the participant's acknowledgement of the settlement risk mitigating mechanisms under the provisions of articles 74, 76, 83 and second paragraph of article 86 of the Rules. The ICLV should submit for the consideration of the SMV the contract template, and any amendments thereon within the five (5) days after their inception or amendment.

It should be noted that in March 2022, in compliance with the provisions of article 38 of the ICLV rules, CAVALI reported to the SMV on its new issuer contract template, which includes special clauses for the prevention of money laundering, anticorruption, confidentiality and personal data.

Key consideration 3: An FMI should be able to articulate the legal basis for its activities to relevant authorities, participants, and, where relevant, participants' customers, in a clear and understandable way

Changes in the Internal Rules are previously approved by CAVALI's Board; then, they are released to the market within a period of ten (10) business days; subsequently, they are submitted for approval of the SMV. The Binding Provisions set out the operating aspects, working hours of the system and conditions for amendments. The Binding Provisions, as amended, are approved by CAVALI's General Management; then they are communicated to the SMV and released to the market for five (05) business days before they come in full force. Release is accessible to the public on CAVALI's website.

Releases to the market are conducted via CAVALI's website, which is accessible to the public. Also, amendments to the Internal Rules and Binding Provisions are communicated to participants with a notice sent via the MVNET system (the SMV's communications platform); in the event a participant does not have that system, information is provided in physical format or other electronic means. If the Binding Provisions involve time schedules or procedures that need more detail; apart from the communication of the amended standard or rule that is being sent to a participant or Issuer, CAVALI's Operations and Services Management will prepare a circular to be disseminated via the MVNET system or otherwise in physical format or other electronic means.

Key consideration 4: An FMI should have rules, procedures, and contracts that are enforceable in all relevant jurisdictions. There should be a high degree of certainty that actions taken by the FMI under such rules and procedures will not be voided, reversed, or subject to stays.

Enforceability of rules, procedures and contracts

CAVALI achieves a high degree of certainty that the rules, procedures and contracts related to the operations are enforceable in all relevant jurisdictions, national and foreign.

- At the national level, CAVALI assesses the enforceability of its rules and procedures from the time they are issued and approved by the Peruvian regulator. At the current date, no matters have come to our attention regarding the enforceability of CAVALI's rules, procedures and contracts on the part of Participants and Issuers.

- At the foreign jurisdiction level, before signing any agreement and/or contract that are to be governed under a different jurisdiction, CAVALI prepares an internal report to assess the legal risk arising from legislation effective in other countries, including court-ordered or administrative seizures, exercise of holders' rights regarding their securities kept on the aggregated account that CAVALI holds with the foreign central securities depositories, based on cross-border relationships; and bankruptcy procedures or intervention of a foreign depository that should not impair the Participant's holdings.

Degree of certainty for rules and procedures

The agreements signed by CAVALI reflect Services governed by the SMV, and therefore, they cannot be voided or reversed by the parties, but only based on grounds specifically stated in the standards applicable to CAVALI. It should be noted that for services rendered to private issuers (not registered with the SMV's Public Record of the Securities Market), contracts could be terminated by mutual agreement of the parties or unilaterally.

It should be noted that contracts, procedures and rules enforced by CAVALI are communicated to the Peruvian regulator; and in some cases, they are previously approved by the regulator. This fact provides certainty that CAVALI's contracts, procedures and rules will not be voided or reversed since they have been previously reviewed by or communicated to the Peruvian regulator.

For a foreign jurisdiction, before signing any agreement and/or contract that are to be governed under a different jurisdiction, CAVALI prepares an internal report to assess the legal risk arising from legislation effective in other countries.

There is not even one event reported in which a court in a foreign jurisdiction has refused to recognize the enforceability of the FMI's rules and procedures underlying its core activities or mechanisms.

Key consideration 5: An FMI conducting business in multiple jurisdictions should identify and mitigate the risks arising from any potential conflict of laws across jurisdictions.

When CAVALI is conducting business in a different jurisdiction/country, we adhere to the rules or regulations or the other jurisdiction / country.

With respect to a foreign jurisdiction, before signing any agreement and/or contract that are to be governed under a different jurisdiction, CAVALI prepares an internal report to assess the legal risk arising from legislation effective in other countries. Major aspects assessed in the report include court-ordered or administrative seizures, exercise of holders' rights regarding their securities kept on the aggregated account that CAVALI holds with the foreign central securities depositories, based on cross-border relationships; and bankruptcy procedures or intervention of a foreign depository that should not impair the Participant's holdings. Additionally, there is a procedure in place to follow up on major changes in the regulatory framework that may affect the relationships with foreign entities.

Related documentation

Public information:

- Laws and regulations applicable to CAVALI's activities:
  - **Enlace de CAVALI:** http://www.cavali.com.pe/marco-legal/normativa/regulacion.html

    - **Enlace de BOLSA:** http://www.bvl.com.pe/acercamarcolegal.html
    - **Enlace de SMV:** http://www.smv.gob.pe/
- Templates of agreements that are signed by CAVALI with Issuers and Participants: **http://www.cavali.com.pe/nuestros-servicios/registro-de-valores/descarga-de-formatos.html**

Principle 2: GOVERNANCE

An FMI should have governance arrangements that are clear and transparent, promote the safety and efficiency of the FMI, and support the stability of the broader financial system, other relevant public interest considerations, and the objectives of relevant stakeholders. In reviewing this principle, it should be noted that if an FMI is wholly owned or controlled by another entity, the governance arrangements of that entity should also be reviewed to ensure that they do not have adverse effects on the FMI's observance of this principle. As governance provides the processes through which an organization sets its objectives, determines the means for achieving those objectives and monitors performance against those objectives, this principle should review holistically with the other principles

Key consideration 1: An FMI should have objectives that place a high priority on the safety and efficiency of the FMI and explicitly support financial stability and other relevant public interest considerations.

Under CAVALI's by-laws, it is engaged in recording, custody, clearing and settlement of securities and non-mass issued instruments as well as other derivative instruments as authorized by the Peruvian securities and company regulator ("Superintendencia del Mercado de Valores – SMV")

CAVALI's mission is "leading the development of an inclusive capital market, deep and integrated, in consistency with the global best practices". Its vision is stated as "being the access door to the Peruvian and regional capital markets."
The organization's conduct must adhere to the following principles:

- Discretion: confidentiality and security of information is at the core of CAVALI's business.
- Transparency: Customers and collaborators are informed with transparency and honesty on CAVALI's management.
- Customer satisfaction: CAVALI is committed to maintaining the highest standards of quality of the Services rendered to customers and collaborators.
- Risk management: Risk management is critical to ensure excellence and continuity of Service.

CAVALI is reviewing its strategic guidelines that underlie its Strategic Business Plan on an ongoing basis. CAVALI conducts an overall assessment of those guidelines in conjunction with the BVL Group companies; based on that, CAVALI's board approves the update. Major strategic guidelines for 2022 are as follows:

- Revenue /Profitability
- Businesses
- Trade strategy
- Maximizing capabilities
- Regional integration
- ESG drive
- ICLV priorities

Further, on a quarterly basis, the BVL Group's Business Units inform the Board on the progress made in accomplishing the strategic business objectives.

On the other hand, Managers and/or Departmental heads and their teams follow up on the progress made in fulfilling their commitments to accomplishing the strategic business objectives. Periodically, Managers make a statement on accomplishments of the management work objectives; and Internal Audit corroborates such progress, on a supplemental basis.

Under the applicable legal framework, CAVALI provides its regulator with an Annual Self-Assessment of Compliance with the Principles of Securities Settlement Systems, the purpose of which is to disclose the ICLV's level of compliance with the global standards applicable to financial market infrastructures.

Also, CAVALI makes a statement of compliance with its core purpose by using its Integrated Management Systems Policy and using state-of-the-art technology platforms that meet global standards of safety and reliability. CAVALI states its commitment to:

- Meeting the expectations of all its customers, both internal and external.
- Safeguarding the life and health of its collaborators; encouraging a prevention culture and ensuring active involvement of its collaborators
- Protecting the confidentiality, integrity, and availability of its information, including information accessed, gathered, broadcasted, processed or stored on the internet.
- recovering the critical business processes over an acceptable period of time in the event of incidents that may impair the continuity of the business.
- Zero tolerance for corruption events and setting a culture that promotes communication of concerns on a good faith basis, with no fear of reprisals.
- Comprehensive management of risks, on an autonomous and independent basis, to ensure alignment of the risk management objectives with the organization's vision to help accomplishing the strategic objectives and preventing systemic risk from arising.

BVL / CAVALI Group is committed to:

- Improving its processes and services on a continuing basis
- Meeting the requirements of the applicable standards, ISO 9001, ISO 27001, ISO 22301 and ISO 37001.
- Meeting the principles and legal requirements related to occupational safety and health, personal data protection, bribery prevention and other regulatory standards, as applicable.

We are aware that deviation or noncompliance with this policy or the provisions of our Management Systems may give rise to disciplinary actions or sanctions to be ordered, as appropriate.

CAVALI reinforces its commitment to safeguarding the organization with an Internal Control and Risk Management System safety, an Information Security System to safeguard information, a Business Continuity Plan, and an IT Service Recovery Plan. It also has obtained the ISO 27001:2013 credential on Information Security Management Systems and it is subject to external financial, operating, IT money laundering and terrorism financing audits, on an annual basis. On the other hand, CAVALI seeks to ensure the efficiency of the entire organization, implementing business process automation and driving innovation to take advantage of new technology tools that are needed to improve its internal processes and come up with new products and services that meet the expectations of all stakeholders.

Key consideration 2: An FMI should have documented governance arrangements that provide clear and direct lines of responsibility and accountability. These arrangements should be disclosed to owners, relevant authorities, participants, and, at a more general level, the public.

Governance arrangements

1. Once the integration of CAVALI and Bolsa de Valores de Lima S.A.A. was completed in 2015, CAVALI's Board reiterated its commitment to having its governance practices up to date all the time, and the decision was made to increase the level of compliance with the principles of good corporate governance ("Code of good corporate governance applicable to Peruvian Companies" in Peru) applicable to Peruvian companies and replicating the Corporate Sustainability initiatives its parent company may implement.

   Also, the Strategic Planning approved every year involves promoting Environmental, Social or Governance (ESG) initiatives.

   The Code of Good Corporate Governance applicable to Peruvian Companies ("The Code") contains all the Corporate Governance Principles that were prepared based on OCED's principles. Even though listed companies must disclose their compliance with corporate governance principles on a mandatory basis, compliance with the Code is not mandatory. This code constitutes general guidelines for companies who wish to implement Corporate Governance practices in their own companies.

   In this order of ideas, CAVALI keeps its corporate practices up to date and discloses them in adherence to the highest standards of transparency and reliability before its shareholders and all other market stakeholders.

2. The Peruvian Corporate Law (Ley General de Sociedades), article 177 governs the responsibilities of the director before the public interest, shareholders and third parties, stating that a director shall be held accountable for damages that may eventually be caused resulting from acts or agreements that go against the law, its own bylaws, or those resulting from fraud, abuse of powers or gross negligence.

   Under the provisions of CAVALI's bylaws and in compliance with article 177 of the Peruvian Corporate Law, the Board is charged with the overall management of the entity; management members are jointly and severally responsible for any damages that may eventually be caused resulting from acts or agreements that go against the law, its own bylaws, or those resulting from fraud, abuse of powers or gross negligence. It is the Board's responsibility to comply with the decisions made at the General Shareholders' Meeting. CAVALI's Board has an Audit and Risk Committee that supports its oversight and ensures compliance with the applicable legal regulations contained in the SLV rules and the Comprehensive Risk Management rules. That Audit and Risk Committee reports to the Board and its standards are set out in the rules for the Audit and Risk Committee.

   For General Management, this is the chief executive management body charged with leading and managing the operating activities that are required in consistency with the agreements/decisions made by the General Shareholders' Meeting and the Board.

The mechanisms in place to carry out CAVALI's good corporate governance are governed by CAVALI Bylaws, Rules of the General Shareholders' Meeting, Rules of the Board, Rules of the Audit and Risk Committees, Internal Rules of Conduct and Policies that are approved by the Board of Directors.

3. Also, as a regulated entity, CAVALI files with the SMV together with its annual report its Report on Compliance with the Code of good corporate governance applicable to Peruvian companies and a Report on Corporate Sustainability report on an annual basis and as a significant event.

   The above-mentioned documents are found on CAVALI's website.

CAVALI holds an Annual Mandatory General Shareholders' Meeting in accordance with the Peruvian Corporate Law, at which shareholders make decisions on CAVALI's way forward and are informed of the activities carried out over the year. General Management is charged with following up on the decisions made at the General Shareholders' Meeting, providing reports to the Board on compliance; in addition, that report is disclosed on the Company's website and such information is emailed to those shareholders who requested so.

Furthermore, service is provided to shareholders through the Office of Investor Relations, the activities of which are regulated by the Information Policy disclosed on the Company's website. The Stock Exchange Representative of CAVALI is charged with the customer service duties in respect of shareholders. A representative of the office of Investor Relations reports to the BVL Group´s Sustainability Committee and CAVALI´s Board of Directors, on an annual basis, detailing the requests responded, the period to respond and the actual response provided.

Disclosure of governance arrangements

CAVALI discloses its corporate governance mechanisms on its website on an ongoing basis; in addition, relevant information is emailed to those registered email addresses regarding its directors and shareholders.

On the other hand, within the regulatory framework, CAVALI releases together with its annual report its Report on Compliance with the Code of good corporate governance applicable to Peruvian companies and a Report on Corporate Sustainability. The above-mentioned documents are found on CAVALI's and the regulator's website as a significant matter.

Key consideration 3: The roles and responsibilities of an FMI's board of directors (or equivalent) should be clearly specified, and there should be documented procedures for its functioning, including procedures to identify, address, and manage member conflicts of interest. The board should review both its overall performance and the performance of its individual board members regularly.

Roles and responsibilities of the board

CAVALI's Board consists of 5 members, 2 of which are independent directors, who are designated at the General Shareholders' Meeting. In this way, CAVALI meets the requirement of the Code that states that at least 1/3 of the Board members should be independent directors.

The Board's functions and powers are governed by CAVALI's bylaws (Fifth chapter) and the rules of the Board (Title IV). The chairman, vice president and secretary to the Board have specific powers, as set out in the Board rules. Both documents are public record on CAVALI's website. Some of its major functions and responsibilities are to: approve the annual budgets, business plans and corporate strategies; ensure the effectiveness of the Corporate Governance practices implemented and the evaluation of Senior Management's performance; identifying the risks to which the Company is exposed, submit to the consideration of the General Shareholders' Meeting the Company's Annual Report and Financial Statements; fund accountability and explain the balances that are needed or requested on the transactions as well as making all decisions for the adequate operation of the Company.

CAVALI's Board holds meeting once a month; meetings are called for via electronic means with a prior notice of not less than five (5) calendar days. Together with the meeting invitation, directors are provided with all information relating to the board meeting agenda.

With respect to the conflicts of interest within the Board, the rules for the Board of Directors (article twenty-fourth) set forth that the relevant meeting minute book should clearly state whether any board member recused from taking part in the discussions relating any matter on the grounds of conflict of interest. A director that does not adhere to this rule will be held accountable for the damages that may be caused to the Company and will be subject to penalties.

Furthermore, CAVALI has a policy in place to manage Conflicts of Interest using the Internal Conduct Standards stating that it is the responsibility of the Internal Audit Management to record a conflict-of-interest event and it is the Internal Conduct Standards Committee which would assesses those situations. On a semiannual basis, the Internal Auditor shall communicate with the Audit and Risk Committee and the Board about any conflict-of-interest situations arising in the company.

CAVALI's Board has in place a risk and audit committee which is governed by the provisions of CAVALI´s Rules for Board Committees, which is made public on the entity´s website.

The Committee's function is to support the Board in assessing, reviewing, performing or discussing the matters or acts that are delegated to it by the Board. The Audit and Risk Committee reports to the Board, through the Committee's Chair, on the decisions made and proposed recommendations.

The Rules for Audit and Risk Committee sets forth that the members of the Committee shall consist of at least three (3) members and the chair should be an Independent Director.

Major duties of the Audit and Risk Committee are as follows:

Safeguarding the integrity and timeliness of the issuance of the financial statements, establishing and following up on compliance with the Company's internal control, and the adequate performance of an audit of the company, Approving the Comprehensive Risk Management policies and operation. Defining the risk tolerance of the Company and the exposure to risk the Company is willing to take on behalf of shareholders. Overseeing and assessing the obligations and responsibilities in consistency with the reports prepared by Internal Audit, Risk Management, External Audit, and/or those prepared by Internal Control, among others.

Nonetheless the above, CAVALI currently has a Settlement Fund Management Committee until the SMV approves the amendments to the relevant Internal Rules and the duties of this Committee are transferred to the Board.

It is also worth underscoring that CAVALI is a company of the economic group called “Grupo BVL” (BBL Group), to which Grupo BVL S.A.A. is the parent company and CAVALI is one of its subsidiaries. In this context, the Board Committees of the parent company establish the guidelines and policies to be followed by the boards to the subsidiaries.

Review of performance

An evaluation of the Board’s performance is conducted on annual basis, the purpose of which is to determine the level of achievement of the commitments assumed by the Board; the value added by its performance to the public interest and recommendations to ensure the Board becomes a highly effective body.

The Sustainability Committee of the BVL Group recommends the overall guidelines of the process of Annual Evaluation of the Board Performance.

This evaluation can be conducted alternatively under the self-assessment methodology, or an assessment performed by a third-party advisor. In both cases, an evaluation is conducted of the Board, as a collegiate body, the board members individually, the Board committees and CEO (general manager).
The results of the evaluation – completed by any of the methodologies – are disclosed at a Board Meeting and the Board approves the Actions Plan for any eventual improvement opportunity.

Key consideration 4: The board should contain suitable members with the appropriate skills and incentives to fulfil its multiple roles. This typically requires the inclusion of non-executive board member(s).

To qualify for becoming a director for CAVALI, nominees need to meet a list of requirements set out in Exhibit 1 to the Board Rules. Directors shall not be subject to any of the restrictions set out in subsection i), article 161 of the Peruvian Corporate Law (Law No 26887); (ii) article 150 of the Peruvian Securities Market Law, applicable to the CAVALI director under the provisions of the last paragraph of article 226, subsection j) of that Law; (iii) article 15 of the Rules of Institutions of Securities Clearance and Settlement; (iv) article thirty-seven of the Bylaws; (v) Exhibit B to the Standards for organizations subject to the oversight of the SMV under the provisions of article 2 of resolution SMV No034-2018; and (vi) not having police and criminal background. Further, a director should meet the requirements set out in article 6 of the Rules of the Securities Settlement Systems for directors of an entity that manages SVL and other relevant requirements that are set forth in article seventh of the CAVALI’s Board Rules

Additionally, an Independent Director should meet the following requirements: (i) having the specific characteristics demanded for an independent director position, according to article Thirty-three of its bylaws: and (ii) qualifying as an independent director under the provisions of subsection 3.2.10 of the explanatory note to Principle 2: Good Governance of the Principles for Financial Market Infrastructures (IOSCO).

In electing directors, the Sustainability Director of the BVL Group carries out inquiries to ensure that the nominees to be proposed to the CAVALI Board and then to the Shareholders' Meeting match the profile and meet the requirements set by the organization. The selected candidates submit the Shareholders' Meeting a sworn statement to acknowledge being aware and comply with the requirements set for a CAVALI director by the current standards and l regulations, which is binding to directors. On the other hand, in the event the Company or the director becomes aware that he/she is no longer compliant with the requirements established to be a director for the Company; the director vacancy process will then proceed.

Economic compensations for attending meetings of the Board and Board Committees are based on the relevant policy established annually at the General Shareholders' Meeting.

The economic compensations are proposed by the BVL Group Sustainability Committee to the Board, and then the latter submits the proposal to the General Shareholders' Meeting. The board compensation proposal is disclosed in the agenda items when calling in the Board meeting, and it is finally approved at the General Shareholders' Meeting.

On the other hand, as part of its action plan on the Board performance evaluation results, the Company makes investments in training and induction programs oriented to its directors to ensure Board members have up-to-date knowledge, are innovative and with a wide range of professional backgrounds to best support the organization's best interest.

CAVALI's Board consists of 5 members, 2 of which are independent directors, who are elected at the General Shareholders' Meeting as established in its Bylaws (article 31) and the Board rules (article 4). Thus, CAVALI meets the requirements of the Corporate Governance Code for Peruvian Companies that states that at least a 1/3 of the Board members should be independent directors.

CAVALI defines independent directors in its Bylaws (article thirty-third) as those selected based on their guidelines contained in the SMV standards, as amended, applicable to organizations under the oversight of the SMV. At the present date, these are the guidelines for independent director qualifications ("Lineamientos para la Calificación de Directores Independientes"), approved under Resolution SMV 016-2019.

Once the General Shareholders' Meeting elects its Board, such an agreement is reported as a Significant Matter, stating the list of directors and specifying those who are independent or not. Also, in compliance with the Principles of the Code of good corporate governance applicable to Peruvian Companies, the names and bios of the directors comprising the Board are disclosed on CAVALI's website.

Key consideration 5: The roles and responsibilities of management should be clearly specified. An FMI's management should have the appropriate experience, a mix of skills, and the integrity necessary to discharge their responsibilities for the operation and risk management of the FMI.

Roles and responsibilities of management

Company Management consists of General Management and those managers appointed by the Board to fulfill their duties for an indefinite period of time. until the Board decides otherwise. General Management is the top executive hierarchy and directs and manages the Company’s activities and operations based on the guidelines and agreements reached at the Shareholders’ and Board’s Meetings.

Its major roles and responsibilities are specified in the Company’s bylaws, most noticeably, being responsible for the accuracy of the accounting system, establishing an internal control structure to safeguard the Company’s assets adequately; of the accuracy of the information reported to the Board and the General Shareholders’ Meeting, among others.

Under the Performance Evaluation Policy, performance of the different departmental management offices is evaluated at least twice a year, however, this could change based on the Company’s eventual needs to follow up on their collaborators’ performance. Human Management is the department charged with carrying count the performance evaluation process.

The purpose of a performance evaluation is to detect strengths and improvement opportunities for each collaborator, measure the management progress made and compliance indicators, as well as the development of competences for a departmental head to be able to provide those collaborators with feedback, that may lead to action plans and/or commitments to reach the proposed objectives. Major dimensions assessed are (i) profitability, (ii) Entity-wide Compliance, (iii) General indicator (iv) Competences, (v) Management Commitments. An additional dimension will only be considered when assessing the departmental heads.

On the other hand, the Board evaluates General Management performance, on an annual basis, in order to determine the degree of compliance with the performance and management commitments assumed with the Board.

Experience, skills and integrity

The Company has a document in place called “Definition of job category profiles” which sets out the major features and skill sets that individual working for the Company should have.

The Company provides training to managers in matters such as “Prevention of Money Laundering and Terrorism Financing” (AML), on an annual basis. Also, managers take a test, twice a year, on AML standards and regulations as well as the business conduct standards set by the Company.

Additionally, management members are evaluated by the ISO auditors; also, training is provided by the risk management area, which is charged with providing the training in the CAVALI-accredited ISOs.

Annually, Managers are evaluated on their meeting their objectives through their committed management milestones.

Under CAVALI's bylaws and the hierarchy in place at the Company, the Board is the only with the powers to contract or terminate the General Manager and the other Managers.

Also, there is even a procedure in place, "personnel termination", to follow when r terminating personnel working for CAVALI. This procedure is also applicable to management members, as appropriate.

Key consideration 6: The board should establish a clear, documented risk-management framework that includes the FMI's risk-tolerance policy, assigns responsibilities and accountability for risk decisions, and addresses decision making in crises and emergencies. Governance arrangements should ensure that the risk-management and internal control functions have sufficient authority, independence, resources, and access to the board

Risk management framework

The risk management framework sets out the responsibilities, policies and methodology used in managing risks within the organization. The relevant information is duly documented in the Manual of Comprehensive Risk Management.

The Manual of Comprehensive Risk Management is reviewed in the Audit and Risk Committee and is approved by the Board.

Under local laws and regulations currently in force, the risk management framework defines the risk appetite risk tolerance; there are policies in place to address those risks that are beyond the pre-defined risk appetite, these are submitted for the approval of the Audit and Risk Committee for review and subsequent approval by the Board.

In managing the operational risk, a tolerance level was established. Both risk appetite and risk tolerance are monitored over the year. In the event the Loss Events in the year exceed the risk appetite and tolerance, actions will be analyzed and propose to mitigate the root causes of those events and control timing will be managed before changing those thresholds. In this way we will be able to validate whether the loss events reflect a trend or pattern or an isolated case that justifies not changing our thresholds.

With respect to the business continuity risks, these are submitted to the Business Continuity Committee for review of those risks that become scenarios that lead us to active a strategy to be followed for any eventual disruptive incident.

Authority and independence of risk management and risks functions

The Audit and Risk functions are set in the Manual of Comprehensive Risk Management.

The Board

This is the top governance body over the comprehensive risk management. Among its major responsibilities are approving the (risk appetite, risk tolerance and risk capacity) thresholds, approving the risk management budget and resources, and reviewing the results of the management performance evaluations.

Audit and Risk Committee
Some of its major roles and responsibilities is to implement a comprehensive risk management system based on the nature, size and complexity of the Entity's operations; also, as part of its functions, it reviews or amend the content of the Manual of Comprehensive Risk Management to recommend approval by the Board.

The Audit and Risk Committee keeps the Board informed on the decisions made in its meetings and compliance with the internal policies and procedures to be performed to detect internal control and management issues, together with the corrective measures taken considering the assessments conducted by Internal Audit, external auditors and the SMV.

Risk Control Management
Some of its major roles and responsibilities are to propose policies, procedures and methodologies that are adequate for Comprehensive Risk Management; promote the alignment of the measures to address risk under the entity's defined risk tolerance, as well as, implementing relevant controls, keeping risk information up-to-date on the entity-wide business processes, among other duties.

Comprehensive Risk Management is ultimately under the oversight of the Board. The Board approves the basis and budget for the operation of this management area. It also has the support of the Audit and Risk Committee which is charged with the responsibility of reviewing the content, amendments and updates on comprehensive risk management.

The risk management model used by CAVALI is based on ISO 31000. Also, an external operating and IT audit is performed, on an annual basis, as well as a follow-up on key risk indicators, follow-up on loss events, among other procedures.

It should be noted that once the annual assessment is completed, improvements may arise that are to be included in the manual of comprehensive risk management; the Risk Control Management office puts forward improvement opportunities, as appropriate.

Key consideration 7: The board should ensure that the FMI's design, rules, overall strategy, and major decisions reflect appropriately the legitimate interests of its direct and indirect participants and other relevant stakeholders. Major decisions should be clearly disclosed to relevant stakeholders and, where there is a broad market impact, the public.

Identification and consideration of stakeholder interests

The Company's shareholders can express their opinion on the activities of the Company following the Information Policy. Also, those shareholders who individually or in the aggregate account for not less than 1% of the stock capital are entitled to request that significant event, as deemed relevant, be included in the agenda of the General Shareholders' Meeting. The procedure to include matters in the agenda is governed by the Rules of the General Shareholders' Meeting.

Under the provisions of the CAVALI's Internal Rules, Chapter I, article 5 and 6, whenever CAVALI amends its

Internal Rules or Binding Provisions, CAVALI shall communicate the market, through its website, the proposed amendments. This is done so to enable the market to express its points of view regarding the changes proposed by CAVALI in its internal rules. This procedure enables CAVALI to take stock of the market's perspective and consider them before making any changes in those internal rules.

Also, whenever CAVALI's customers require it, its officials are available to respond to consultations via meetings, calls, emails, or other means of communication.

Regarding Conflicts of Interest:
The management team and other collaborators that may be in a situation of conflicts of interest should receive themselves from getting involved in matters that are inherent to the position they hold and shall communicate this to the upper hierarchy. This situation shall be recorded by the Internal Audit Management and be reported to the Internal Conduct Standards Committee for evaluation, as appropriate.

In the event the individual is a CAVALI Shareholder or director, he/she has to recuse himself from voting at the relevant meeting, leaving written evidence of the cause of his recusal, as established in the Rules for the Board and Shareholder meetings.

Nonetheless the above, there is a hotline in place to report on violations of the Internal Conduct Standards, including events of conflicts of interest that may arise.

This policy related to Conflicts of Interest is governed by the Internal Conduct Standards.

Disclosure

The Company makes available to all interested parties the decisions made by the Board; whenever those decisions qualify as a significant event, it will be disclosed to the public.

All communications shall be made following the mechanisms set by the Peruvian Corporate Law (the call for a Board meeting shall be published in the most widely read newspaper); a critical matter shall be communicated via the Mvnet system, email and website.

Related documentation:

Internal documents:

- Results of Management Performance Evaluation.
- CAVALI's Strategic Plan
- Business Continuity Plan.
- ISO 27001:2013 Official Certification.
- IT Service Recovery Plan.
- Company's hierarchical order.
- Conflict Management Policy.
- Annual Evaluation of the Board.
- Minutes of Annual Mandatory General Shareholders' Meeting.
- Manual of Comprehensive Risk Management.
- Manual of Functions of Management Members.

Public access documents:

- The CAVALI's Internal Rules: http://www.cavali.com.pe
- Código de Buen Gobierno Corporativo para la Sociedades Peruanas: **http://www.smv.gob.pe/**
- Bylaws, Rules of the General Shareholders' Meeting, Rules of the Board, de Committees del Board, Internal Standards of Conduct, Corporate Governance Report of CAVALI: http://www.cavali.com.pe/gobierno-corporativo/marco-general/marco-juridico-nterno.html
- Investors relations office: **http://www.cavali.com.pe/gobierno-corporativo/atencion-al-accionista-de-cavali.html**
- Company information policy: http://www.cavali.com.pe/gobierno-corporativo/transparencia/politicas.html
- Link of the Significant Events of CAVALI, with meeting calls: **http://www.cavali.com.pe/gobierno-corporativo/informacion-al-accionista/hechos-de-importancia.html**
- Policy of Management Performance Evaluation, as contained in the Rules of the Board: http://www.cavali.com.pe/gobierno-corporativo/marco-general/marco-juridico-interno.html

Principle 3: FRAMEWORK FOR THE COMPREHENSIVE MANAGEMENT OF RISKS
An FMI should have a sound risk-management framework for comprehensively managing legal, credit, liquidity, operational, and other risks.

Key consideration 1: An FMI should have risk-management policies, procedures, and systems that enable it to identify, measure, monitor, and manage the range of risks that arise in or are borne by the FMI. Risk-management frameworks should be subject to periodic review.

Risks that arise in or are borne by the FMI

CAVALI has a comprehensive risk management framework to enable it to identify, measure, mitigate and monitor the risks associated to its activities; based on it, the following risks have been identified:

- Market risk.
- Liquidity risk.
- Operational risk.
- Information security and cybersecurity.
- Business continuity risk.

Risk management policies, procedures and systems

The FMI's policies, procedures, and controls to help identify, measure, monitor and manage the risks that arise in or are borne by the FMI are contained in the following documents:

There is an Integrated Policy in place approved by the Board and comprising the general guidelines for the systems of Business Continuity Management, Information Security, Anti-bribery and Operational Risk.

Management of Operational, Information Security and Business Continuity Risks
There is a Manual of Comprehensive Risk Management that sets out the general framework and policies of risk management. There is also a Manual of Operational Risk that sets the framework for the management of operational risks.

There is a risk analysis and assessment procedure in place (operational, information security and business continuity), a loss-event-management procedure, a critical vendor management procedure, and a procedure of significant change risk management.

Financial Risks Management
There is a Liquidity Contingency Plan in place as well as a Directive for Clearing and Settlement risk report. Also, a manual of Clearing and Settlement Financial Risk has been implemented setting out the general framework and policies for Financial Risks management as well as the Manual of Own Portfolio Financial Risk Management setting out the policies and framework to manage the financial risks of the Company's portfolio. There are entity-wide key risk indicators.

The risk management systems used by the FMI to identify, measure, monitor and manage the risk range are as follows:

Financial Risks
COSO ERM

Operational risk
COSO ERM and ISO 31000:2018

Information Security and Business Continuity risk
ISO 27001:2013, ISO 22301:2019 and ISO31000:2018

The organization's risks and opportunities are reviewed, on an annual basis, and actions are planned to address them. Monitoring is performed on an ongoing basis on the clearing and settlement process, which, in turn, helps in warning participants and clients in the eventual materialization of the underlying risks. Management systems help in safeguarding the confidentiality, integrity and availability of the information, recover the critical processes in acceptable timing conditions in dealing with situations that affect the business continuity, managing the risks to ensure compliance with the strategic objectives and prevent systemic risk.

Review of risk management policies, procedures and systems

For the purpose of approving and maintaining the risk management policies, procedures and systems, there is a procedure in place, Documented Information Management and a Directive for the Preparation of Management Systems Documents, which set out the process of developing, updating, approving and disseminating risk policies and procedures. Further, changes made in the Manual of Comprehensive Risk Management are approved by the Board.

CAVALI's Comprehensive Risk Management requires the involvement of all levels of the organization, each with its own well-defined responsibilities and previously established activities. Below are the major roles and responsibilities of the parties involved in implementing a Comprehensive Risk Management:

- **Board**: Approving the risk appetite, audit reports, the annual risk report and statement of compliance and approving the Manual of Comprehensive Risk Management.
- **BVL Group Audit and Risk Committee:** Approving the resources for implementing and maintaining the Comprehensive Risk Management; and taking knowledge of the related manual that contains the relevant methodology.
- **General Management**: Reviewing and taking stock of the organization risks. Reviewing the results of monitoring on performance and requesting additional information at its discretion.
- **Risk Control Management:** Proposing policies, procedures and methodologies that are adequate for Comprehensive Risk Management; as well as revisiting and updating them.
- **All Departmental management offices:** Approving the related risk matrices inherent to their areas; approving the relevant action plans as per the pre-established risk appetite.
- **All personnel:** Adhering to all the established policies and procedures

CAVALI assesses the effectiveness of its policies, procedures and risk management systems as follows:

- Loss Event Management
- Improvement Action Management
- Auditing Management
- Follow-up on adhering to the Risk Appetite
- At a minimum, a review is conducted annually or whenever any significant change in circumstances or

regulations occurs.
- The Information Security policies are reviewed at least once a year and they are updated, as necessary.
- Risk analysis in conducted annually and the relevant action plans are prepared.
- Procedures are updated, as necessary.

Changes in the environment are analyzed on an annual basis, as part of each department's planning process, in accordance with the requirements of ISO 27001 and ISO 22301 standards.

Key consideration 2: An FMI should provide incentives to participants and, where relevant, their customers to manage and contain the risks they pose to the FMI

The information offered by the FMI to Participants and, when applicable, their customers to enable risk management and containment of risks borne by the FMI is made available on the Company's website. Whenever consultations are made by Participants, information on management is provided to them.

The following is the major information provided by CAVALI to Direct participants:

- Training in the WARI system.
- Communicating amendments to the Internal Rules and Binding Provisions.
- Reporting on book-entry securities stated on its Matrix Account.
- Record of corporate events announced by the Issuer.

The incentives or penalties provided by the FMI to Participants and, when applicable, to their customers, to manage and monitor the risks they originate in the FMI are as follows:

Whenever a participant does not meet its settlement obligations, CAVALI reports it to the Lima Stock Exchange, which penalizes the participant who has defaulted on funds or securities relating to a transaction.

On the other hand, participants are required to maintain a minimum amount of coverage (IMC), which among other variables, depends on the percentage share in the traded amounts, net debit balances and withdrawal of transactions; therefore, the higher the interest held in those variables, the higher the IMC to be required.

CAVALI designs policies and systems to allow participants and their customers, as appropriate, to manage and contain their risks. An analysis of major global trends is conducted to mitigate the risks borne by the Participants. On the other hand, CAVALI conducts a verification of the operating and financial capacity of the direct participants on an annual basis.

Key consideration 3: An FMI should regularly review the material risks it bears from and poses to other entities (such as other FMIs, settlement banks, liquidity providers, and service providers) as a result of interdependencies and develop appropriate risk-management tools to address these risks.

Material risks

CAVALI identifies the material risks it bears from and poses to other entities and the risks as a result of their interdependencies, as follows:

Financial Risks

- An assessment is performed of the Participants' operating and financial capabilities.
- An assessment is performed of the movement in replenishing the collateral margins.
- An assessment is performed of direct participant's defaults/ extensions.
- An assessment s is performed of compliance with the regulatory limits of exposure in time transactions.
- A follow-up is performed on own account transactions of Direct participants.

Operational Risk

- Monitoring of the platform availability, management of events and management of critical vendors.
- Audit of critical vendors to assess their capabilities in the event of disruptions.

The identified risks are measured and monitored as follows:

Financial risk

- By means of a monthly follow-up on the established indicators.

Operational risk

- By performing a follow-up on the platform availability and event management
- By auditing key suppliers.

Risk management tools

Risk management tools used by the FMI to address those risks arising from its interdependencies with other entities are:

Matrix of needs and expectations of stakeholders used as input in identifying risks arising from stakeholders. In addressing the risks and opportunities, the relevant plan is prepared annually.

The FMI assesses the effectiveness of risk management tools based on a monitoring, measuring, analyzing and assessing activities. Metrics are set annually to evaluate performance and effectiveness at pre-established periods of time.

Key consideration 4: An FMI should identify scenarios that may potentially prevent it from being able to provide its critical operations and services as a going concern and assess the effectiveness of a full range of options for recovery or orderly wind-down. An FMI should prepare appropriate plans for its recovery or orderly wind-down based on the results of that assessment. Where applicable, an FMI should also provide relevant authorities with the information needed for purposes of resolution planning.

Scenarios that may prevent an FMI from providing critical operations and services

CAVALI has a Business Continuity Risks assessment and analysis methodology to identify the risk of disruption of the business-critical activities. For this purpose, a business impact assessment is first performed, and the business disruption threats are assessed. Based on this analysis, scenarios will be defined. The result of this analysis is used to define operating disruptive scenarios. The following scenarios have been identified:

- Office facilities unavailability
- Critical area space unavailability
- Mandatory social distancing
- Remote work disruption

All defined scenarios are derived from separate threats. The occurrence of these threats would cause a disruption of critical business activities.

Recovery or orderly wind-down plans

CAVALI has in place an ‘orderly wind-down plan’. In addition, as part of the business continuity plan, there are procedures for the recovery of critical activities, such as settlement and clearing =.

In the event of a wind-down, two liquidating entities shall be designated by the regulator, which will decide on whether the recording, clearing and settlement functions will be temporarily managed by CAVALI. .

No established frequency has been set for a review of an ‘Orderly Wind-up Plan’ to be completed. A review is performed only if a significant change has been introduced.

Related documentation:

Internal documents:

- Minutes of Management Committee meetings.
- Minutes of Audit and Risk Committee meetings.
- Documented Information Management document
- Document of Monitoring, Measurement, Analysis and Assessment of the Management Systems.
- Risk Management System Planning.
- Documento de Gestión de necesidades y expectativas de partes interesadas y planificación del SGI.
- Risk assessment of critical suppliers.
- Document of scenarios and protection and mitigations measures.
- Clearing and Settlement Quarterly Reports.
- Annual Risk Management Report
- Audit Report on Critical Suppliers.

- Manual of Comprehensive Risk Management.
- Manual de Information Security.
- Business continuity manual.
- Risk and Control Self-Assessment Matrix, database of loss events, Operational Risk incident database.
- Business impact assessment Matrix
- Business Continuity Risks assessment and analysis matrix
- Action Plan Follow-up Matrix.
- Liquidity Contingency Plan.
- Business Continuity Plan
- Information Security Policies.
- Operational Risk assessment and analysis Procedure.
- Supplier Management Procedure.

Public access documents:

- Risk section at: www.cavali.com.pe

Principle 4: CREDIT RISK

An FMI should effectively measure, monitor, and manage its credit exposure to participants and those arising from its payment, clearing, and settlement processes. An FMI should maintain sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence. In addition, a CCP that is involved in activities with a more-complex risk profile or that is systemically important in multiple jurisdictions should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the two largest participants and their affiliates that would potentially cause the largest aggregate credit exposures to the CCP in extreme but plausible market conditions. All other CCPs should maintain, at a minimum, total financial resources sufficient to cover the default of the one participant and its affiliates that would potentially cause the largest aggregate credit exposures to the CCP in extreme but plausible market conditions. Because of the extensive interactions between the financial risk management and financial resources principles, this principle should be reviewed in the context of Principle 5 on collateral, Principle 6 on margin and Principle 7 on liquidity risk, as appropriate. This principle should also be reviewed in the context of Principle 13 on participant default rules and procedures, Principle 23 on disclosure of rules, key procedures and market data, and other principles, as appropriate

Key consideration 1: An FMI should establish a robust framework to manage its credit exposures to its participants and the credit risks arising from its payment, clearing, and settlement processes. Credit exposure may arise from current exposures, potential future exposures, or both.

The coverage tools and mechanisms in place to manage the credit risk are described in the CAVALI's Internal Rules; specifically, Article 8, Chapter VII Clearing and Settlement setting out the mechanism to cover this risk and how participants should implement it.

On the other hand, the approval of the Financial Risks Manual is currently in progress; this manual will set out the credit risk management framework.

There is no established frequency to conduct a review of the risk management framework. Reviews are conducted whenever a significant change occurs.

Key consideration 2: An FMI should identify sources of credit risk, routinely measure and monitor credit exposures, and use appropriate risk-management tools to control these risks.

In identifying the credit risk sources, the following procedures are performed:

1) An analysis is conducted of the financial capabilities of Participants. Also, participants' compliance with the minimum requirements is verified before admission, including financial, operating and technological capacities, among other aspects, as well as an ongoing assessment of the effectiveness of those requirements.

2) A monthly monitoring is conducted to each direct participant's compliance with the minimum capital

requirement set forth by the Peruvian securities regulator (SMV).

3) A monthly monitoring is conducted on each direct participant's leverage in time transactions given that said leverage cannot be 10 times above its capital.

4) CAVALI determines the obligations of funds by direct participants charged with settlement and by type of trade and makes them available one day after the transaction date using the system.

5) A monthly follow-up is performed on the amounts settled by each direct participant, by type of trade.

6) Defaults are assessed and followed up.

The risk sources identified are associated with eventual defaults of funding, securities and collateral margin. Also, defaults (most of them) are associated with foreign securities. Major causes of defaults are as follows:

- Default based on cancellation of ADRs.
- Default of transactions with non-resident depository and holder.
- Default from failures to received securities from abroad.
- A participant's default risk resulting from insolvency, liquidity difficulties and/or operating deficiencies.

CAVALI measures and monitors its credit exposures determining the obligation to provide funding of participants charged with settlement and by each type of trade and release them one day after the transaction has been completed through the system.

a) Stock Exchange cash transactions with variable-income securities and debt instruments

Determination of obligations to deliver funds relating to stock exchange cash transactions is performed using a multilateral netting system, including for that purpose buy and sell transactions with a clearance date (due date) that is the same day of the netting process, regardless of the date of transaction (date of negotiation). Nonetheless the above, CAVALI will provide information on its initial net positions for each mode of transaction on a separate basis, at 09:00 hours, one day after the transaction has been completed, at the latest.

Also, CAVALI conducts a monitoring on the exposures of each participant over a day; for that purpose, the WARI system has an option "Online Position" or "online position" (that is found in the Clearing and Settlement module) where funds to be settled and securities to be withdrawn by each participant can be checked from the beginning of the day and by currency (Peruvian soles and U.S. dollars).

b) Repo transactions with variable-income securities and debt instruments

Determination of obligations to deliver funds is performed using a multilateral netting system, considering for that purpose transactions remaining to be settled with cash settlement date (FL1) and/or due date (FL2), is the date the information is delivered.

c) Securities lending transactions

Determination of obligations to deliver funds is performed using a multilateral netting system, considering for that purpose transactions remaining to be settled with cash settlement date (FL1) and/or due date (FL2), is the date the information is delivered.

CAVALI's credit risk is controlled by setting a multilateral netting system, a delivery versus payment (DVP) settlement system, securities lending system and setting minimum requirements to Participants, which are described as follows:

Multilateral netting system

By means of multilateral netting, under Model 2, gross in securities and net in funds, the total amount of funds to be exchanged is minimized. In this sense, buy Participants are only asked their net funding debit position; also, the exchange of the required securities in the specific transaction is ensured.

It should be noted that in the event a participant does not have sufficient funds cover the net balances arising from the transactions, this Participant is allowed to use its minimum coverage amount (IMC) and, if not enough, it will be allowed to use the Settlement Fund.

Delivery versus payment (DVP) settlement system

Direct participants are recipients of DVP settlement. Among participants, cash is transferred once the securities have been made available. Some transactions made via depository banks are no completed on a DVP basis since the transfer of cash between broker and depository is carried outside the CAVALI process.

Securities lending

Securities lending is permitted by the Peruvian legislation and this service is provided by the BVL to enable short selling. Securities lending and short selling through the BVL is only permitted to highly liquid securities included in the TVR (Reference value index), as well as public-sector debt securities.

Setting minimum requirements to Participants

CAVALI monitors compliance on the part of the participants with the applicable requirements at the time they register with CAVALI; their financial and operating capabilities, among other aspects, are assessed to determine whether they will fulfill their duties as expected.

Key consideration 3: A payment system or Securities Settlement System (SSS) should cover its current and, where they exist, potential future exposures to each participant fully with a high degree of confidence using collateral and other equivalent financial resources (see Principle 5 on collateral). In the case of a DNS payment system or DNS SSS in which there is no settlement guarantee but where its participants face credit exposures arising from its payment, clearing, and settlement processes, such an FMI should maintain, at a minimum, sufficient resources to cover the exposures of the two participants and their affiliates that would

create the largest aggregate credit exposure in the system.

Coverage of exposures to each participant

Once the settlement process is begun, prior to withdrawing a transaction resulting from a participant's delay or default of its net settlement obligations, CAVALI will make use of the following coverage mechanisms. Direct participants should have the following mechanisms to obtain financial resources sufficient to cover the automated payment, clearing and settlement processes:

Minimum Amount of Coverage (IMC)

The IMC is an amount that each participant should established individually with CAVALI and which is to be used to reduce the credit risk exposure. The IMC can be constituted with cash or committed lines of credit.

Setlement Fund

This Fund is made up of capital fully segregated and differentiated from CAVALI's. This fund is intended to protect the direct participant charged with settlement against the risks arising from counterparty defaults in cash-settled transactions involving variable-income securities and debt instruments, traded in the centralized trading mechanisms to which CAVALI provides funding and securities settlement services.

Guarantees (Time transactions)

CAVALI has procedures in place to meet the requirements set by the BVL; once a participant has given the required guarantees, CAVALI conducts a daily valuation of the current transactions and verifies whether they are duly covered. The coverage amount, and initial collateral margin will be calculated in a daily basis, in accordance with the complementary provisions set by the BVL. It should be noted that guarantees are used in transactions such as repo and short selling. CAVALI does not have own financial resources to mitigate the credit risk exposure.

The extent to which coverage mechanisms cover exposures varies per each participant since there is a number of pre-determined variables that are used in determining the coverage mechanisms and they are different in quantity depending on each participant.

Minimum Amount of Coverage

CAVALI sets out the minimum coverage amount (IMC) applicable to each participant, based on the following factors:

a) Direct participant's proportional interest in the amount settled for the last two (2) years in the transaction types to be covered.
b) Direct participant's proportional interest in the net debit balances for the last two (2) years, in the transaction types to be covered.
c) Direct participant's proportional interest in the cancellation of transactions due to delays in the first automated settlement process and default in delivering funding or securities over the last two (2) years in the transaction types to be covered.

Accordingly, the IMC's extent of credit risk coverage is different for each participant. The IMC is adjusted every month (Article 8, Chapter VII, Clearing and Settlement of CAVALI's Internal Rules).

Settlement Fund

The Settlement Fund is calculated on the basis of changes in the prices of the cancelled securities and transactions (a detail can be seen in Complementary Provision No 03 Chapter IX: Settlement Fund). The Settlement Fund is adjusted every quarter.

Guarantees

CAVALI values current transactions, on a daily basis, to make sure they are covered adequately.

For DNS payment systems and DNS SSSs in which there is no settlement guarantee

CAVALI settles transactions using settlement cycles every 20 minutes under the DVP method, using the DVP model 2.

Participants are subject to credit risk exposures; in monitoring these exposures, CAVALI performs an ongoing follow-up on the following items:

- Monitoring the debit balance to be settled, based on which a follow-up is conducted on Direct participants charged with settlement with net debit positions which have exceed the available line of credit with its settlement bank or funding on behalf of CAVALI.
- Following up on lines of credit that are credited by the Direct participants charged with settlement with CAVALI, with a settlement bank, to ensure they keep the credited amounts and the established due dates.
- Transactions that may have been withdrawn from the automated settlement processes due to insufficient funding or delay in delivery of securities in respect with their total settlement obligations.
- Default with settlement of transactions for insufficiency of funds and/or securities as well as failing in replenishing the collateral margins, for those transactions that required so.
- The frequency of use of the Settlement Fund to cover eventual differences is whenever the securities of defaulted transactions are to be enforced.

In the event of default, there is an IMC, and if this is insufficient, there is a Settlement Fund to cover the net balances that cannot be covered by the participant.

The strategy to update the Coverage Funds is to be determined.

Key consideration 4: NOT APPLICABLE (solely to CCP)

A CCP should cover its current and potential future exposures to each participant fully with a high degree of confidence using margin and other prefunded financial resources (see Principle 5 on collateral and Principle

6 on margin). In addition, a CCP that is involved in activities with a more-complex risk profile or that is systemically important in multiple jurisdictions should maintain additional financial resources to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the two participants and their affiliates that would potentially cause the largest aggregate credit exposure for the CCP in extreme but plausible market conditions. All other CCPs should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would potentially cause the largest aggregate credit exposure for the CCP in extreme but plausible market conditions. In all cases, a CCP should document its supporting rationale for, and should have appropriate governance arrangements relating to, the amount of total financial resources it maintains.

Key consideration 5: <u>NOT APPLICABLE</u> (solely to CCP)
A CCP A CCP should determine the amount and regularly test the sufficiency of its total financial resources available in the event of a default or multiple defaults in extreme but plausible market conditions through rigorous stress testing. A CCP should have clear procedures to report the results of its stress tests to appropriate decision makers at the CCP and to use these results to evaluate the adequacy of and adjust its total financial resources. Stress tests should be performed daily using standard and predetermined parameters and assumptions. On at least a monthly basis, a CCP should perform a comprehensive and thorough analysis of stress testing scenarios, models, and underlying parameters and assumptions used to ensure they are appropriate for determining the CCP's required level of default protection in light of current and evolving market conditions. A CCP should perform this analysis of stress testing more frequently when the products cleared, or markets served display high volatility, become less liquid, or when the size or concentration of positions held by a CCP's participants increases significantly. A full validation of a CCP's risk-management model should be performed at least annually.

Key consideration 6: <u>NOT APPLICABLE</u> (solely to CCP)
In conducting stress testing, a CCP should consider the effect of a wide range of relevant stress scenarios in terms of both defaulters' positions and possible price changes in liquidation periods. Scenarios should include relevant peak historic price volatilities, shifts in other market factors such as price determinants and yield curves, multiple defaults over various time horizons, simultaneous pressures in funding and asset markets, and a spectrum of forward-looking stress scenarios in a variety of extreme but plausible market conditions.

Key consideration 7: An FMI should establish explicit rules and procedures that address fully any credit losses it may face as a result of any individual or combined default among its participants with respect to any of their obligations to the FMI. These rules and procedures should address how potentially uncovered credit losses would be allocated, including the repayment of any funds an FMI may borrow from liquidity providers. These rules and procedures should also indicate the FMI's process to replenish any financial resources that the FMI may employ during a stress event, so that the FMI can continue to operate in a safe and sound manner.

Allocation of credit losses

Once the settlement process is begun, prior to withdrawing a transaction resulting from a participant's delay or default of its net settlement obligations, CAVALI will make use of the following coverage mechanisms, as appropriate.

Chapter VII of the CAVALI's Internal Rules sets forth that for the IMC to be enforceable direct participants can be use of the following mechanisms:

a) Committed line of credit or cash: Direct participants should keep committed lines of credits with its settlement bank to be able to have immediate financial resources to meet its payment obligations demanded by CAVALI as a part of a settlement process. Lines of credit, cash funds, or a combination of both, should cover, at a minimum, 20% of the IMC calculate and reported by CAVALI.

b) Amount available in the Individual Account of the Settlement Fund: In covering the IMC, direct participants will use the amount available in its Individual Account comprising the Settlement Fund.

c) Amount of the global settlement account of the Settlement Fund: In the event, direct participants had not yet covered the IMC, they will be able to access its Global Account to the Settlement Fund.

d) Additional lines of credit or cash: A direct participant that may not have covered the IMC will have to demonstrate it has an additional committed line of credit or cash.

Replenishment of financial resources

In the event a direct participant charged with settlement had used the Fund's resources to cover new balances, CAVALI will not release the securities related to that transaction until the total amount of the used funds are replenished. If only a partial portion is replenished, only those securities whose transactions had been fully covered will be released.

In the event a direct participant charged with settlement fails to replenish the related funds at due date, CAVALI will report on this participant's failure to replenish de amount due to the stock exchanges. That communications will be addressed to the SMV on the same day the event occurred.

In addition, in the event a direct participant charged with settlement fails to replenish the Fund's resources, CAVALI will be entitled to enforce the respective securities

Related documentation:

Internal documents

- Clearing and Settlement Risk Quarterly Report.

Public access documents:

- The CAVALI's Internal Rules: http://www.cavali.com.pe/marco-legal/normativa/reglamento-interno-de-cavali.html

Principle 5: COLLATERAL
An FMI that requires collateral to manage its or its participants' credit exposure should accept collateral with low credit, liquidity, and market risks. An FMI should also set and enforce appropriately conservative haircuts and concentration limits. Because of the extensive interactions between the financial risk management and financial resources principles, this principle should be reviewed in the context of Principle 4 on credit risk, Principle 6 on margin and Principle 7 on liquidity risk, as appropriate. This principle should also be reviewed in the context of Principle 14 on segregation and portability, Principle 16 on custody and investment risk, and other principles, as appropriate.

Key consideration 1: An FMI should generally limit the assets it (routinely) accepts as collateral to those with low credit, liquidity, and market risks.

In the Peruvian stock market, collaterals are only accepted on time transactions (repo and short selling transactions). However, for stock exchange transactions, there is a requirement of a Minimum Coverage Amount (IMC) and there is the Settlement Fund to secure defaults; these mechanisms act as a collateral in this type of transactions.

On the other hand, CAVALI does not determine which assets are acceptable as collateral because this is a responsibility of the Bolsa de Valores de Lima, which sets out which are the assets that qualify as a collateral under its rules for transactions. Also, CAVALI has procedures in place to ensure adherence to the BVL rules regarding management of collaterals; these are set out in the Binding Provision No 01, CHAPTER VIII: COLLATERAL MANAGEMENT to CAVALI's internal rules.

I) Under the Complementary Provision to article 28 of the Rules of BVL transactions, those assets that may eventually be used as collaterals in Repo transactions are as follows:

1) Cash: Peruvian soles or U.S. dollars
2) Securities and other equity instruments included in the reference securities schedule (TVR, the Spanish acronym).
3) Debt securities as included in the TVR.
4) Performance bond, issued by local Banks with a grade of B+ or above under the rules of the Peruvian Banking, insurance and pension plan regulator (SBS). This performance bond must be issued on behalf of the ICLV, on a jointly and severally, unconditional, irrevocable and automated basis. Due date should be at least 15 business days after the settlement date of the last secured forward transaction.
5) Surety policy, issued by a local insurance Company with a grade of B+ or above, under the rules of the Peruvian banking, insurance and pension plan regulator – ("SBS"). Major features required are those stated in the paragraph above.

II) Also, under the complementary provision to article 28 of the BVL's rules of operations, assets that may be used as main collateral in a securities lending transaction are as follows:

1) Cash
2) Shares and equity shares, as included in lists 1, 2 and 3 of TVR.

3) Debt securities, as included in the TVR

Ultimately, BVL has the responsibility to update the reference securities table (TVR) every quarter. The TVR calculation methodology is set out in the Complementary provision to article 27 del BVL Rules of Operations. Finally, the TVR calculation results are given to the market director to determine any changes, additions or removals as deemed necessary.

CAVALI has a module on the WARI to manage collaterals, including the configuration of those assets that can be used as (under the TVR provisions). Also, every time the TVR is updated (quarterly or whenever a significant change occurs) the up-to-date table is uploaded on WARI; this is the way confidence is obtained that the assets used as collaterals are the right ones. Additionally, the WARI takes cash collaterals.

Key consideration 2; An FMI should establish prudent valuation practices and develop haircuts that are regularly tested and take into account stressed market conditions.

Valuation practices

The frequency at which CAVALI marks its collaterals to market is as follows:

REPO TRANSACTIONS

Once a participant has delivered the assets, the margin of guarantee of both the reporting party and the reported party, CAVALI will conduct the daily valuation of the transactions that are current to verify that they are duly covered. The amount of the coverage and the initial margin will be calculated on a daily basis.

Coverage amount" is the addition of the amount of the first sell trade plus the initial collateral margin of the reported party. During the current reporting period, the valuation of the assets delivered as a collateral margin, (reporting and reported party) should be, at least, equal to the amount of coverage.

SECURITIES LENDING TRANSACTIONS

Once a participant has delivered the assets, both the securities to be lent as well as the collateral margin of the borrower and lender, CAVALI will value current transactions daily to verify these are duly covered. The amount of coverage and collateral initial margin will be calculated on a daily basis.

Over the current period of the securities lending transactions, the value of the assets delivered as a (primary and additional) should be always equal or above the amount of coverage.

Haircutting practices (price haircuts)

Under the COMPLEMENTARY PROVISION TO ARTICLE 27 (amended by Resolution SMV No 008-2015- SMV/01), the haircut percentages applicable to Shares and Securities in the TVR are calculated based on the following: Trading frequency 40%, Number of transactions 30%, Actual amount traded 30%. These factors are used to determine a score and depending on these scores different percentages of haircuts are applicable, up to 50% of the securities value.

The CAVALI's Internal Rules (Binding Provision No 01, Chapter VIII: COLLATERAL MANAGEMENT SYSTEM) states the following:

For Repo transactions

CAVALI will value the collateral margin assets of the reporting and reported party, in consistency with the provisions set forth by the BVL, as follows:

a.1 Collateral margin of reporting party

To be valued at the market price, calculated as required by the BVL and delivered to CAVALI.

a.2 Reported party 's collateral margin

a. Cash at 100% its value.

b. Shares and equity shares, based on the haircut percentages stated in the Reference Value Table (TVR), applied on the price indicated by the BVL, which is to be obtained following BVL rules.

c. Bank performance bonds at 100% their value

d. Surety bonds issued by insurance companies at 100% their value.

e. Debt securities, based on the haircut percentages stated in the Reference Value Table (TVR), applied on the price indicated by the BVL, which is to be obtained following BVL rules.

For security lending transactions

a.1 Collateral margins on behalf of the lender (primary collateral), CAVALI will value the primary collateral margin as follows:

a. Cash at 100% its value

b. Shares and equity shares, based on the 100% their value considering the prices indicated by the BVL, under the provisions of its Complementary standards.

c. Debt securities, discounting on 100% their value, the haircut percentages stated in the TVR (Explain the underlying factors) based on a score with a haircut of up to 50% on the price indicated by the BVL or Par Value, under the provisions of its Complementary standards.

a.2 Collateral margins on behalf of the lender, CAVALI values the additional collateral as follows:

a. Cash at 100% its value

b. Shares and equity shares, based on the 100% their value under the haircut percentages stated in the TVR applied on the prices indicated by the BVL, under the provisions of its Complementary standards.

c. Bank performance bonds at 100% their value.

d. Surety bonds issued by insurance companies at 100% their value.

e. Debt securities, discounting on 100% their value, the haircut percentages stated in the TVR applied on the price indicated by the BVL or Par Value, under the provisions of its Complementary standards.

It should be noted that for cash trade transactions ("operaciones de rueda contado") there is the IMC and the Settlement Fund, which are to be used in the event of defaults, so they are somewhat sort of guarantees that secure this mechanism.

As mentioned above, the Lima Stock Exchange is responsible for updating the TVR; accordingly, it determines the applicable haircut as well as the securities used as a collateral. In this sense, CAVALI only effects the haircuts and performs no validation.

Key consideration 3: In order to reduce the need for procyclical adjustments, an FMI should establish stable and conservative haircuts that are calibrated to include periods of stressed market conditions, to the extent practicable and prudent.

CAVALI is not charged with identifying and assessing the possible proclivity of the haircut calibrations because management and determination of haircuts (discounts) applied to the securities delivered as collaterals on Repo transactions and securities lending transactions are at the discretion of the BVL.

Key consideration 4: An FMI should avoid concentrated holdings of certain assets where this would significantly impair the ability to liquidate such assets quickly without significant adverse price effects.

As indicated in the complementary provision to Article 26 of the rules of operations, in avoiding concentrated holdings of certain assets and preventing significant adverse price effects from occurring at settlement, the following limits have been set:

By securities:

Repo transactions and securities lending transactions are permitted with shares issued by local companies; those shares can also be delivered as a collateral or collateral margin for up to 20% of the total book-entry securities registered with CAVALI. In respect of foreign securities, the amount to be permitted is 20% of the total amount of shares register with the stock exchange.

By broker:

Each broker /intermediary will be able to carry out Repo and securities lending transactions with securities issued by local or foreign entities as well as deliver them as collateral or collateral margin, for up to 50% of the established limit (that is, 10% the book-entry shares registered with CAVALI).

The review of the levels of exposure by securities and by broker is monitored on a daily basis by the relevant department at the Lima stock exchange ("Dirección de Mercados"). CAVALI does not have a policy in place to assess concentration policies and practices.

Key consideration 5: An FMI that accepts cross-border collateral should mitigate the risks associated with its use and ensure that the collateral can be used in a timely manner.

The procedure to consider foreign securities as collateral in a report or securities lending transaction considers or seeks to mitigate the market risk.

Since this type of transaction is carried out via the BVL, CAVALI has not implemented any controls to mitigate the legal, operational, market and other risks assumed by the FMI when taking cross-border collaterals. CAVALI secures the use of the foreign securities given as collateral by blocking the balance delivered so it can be used immediately.

Key consideration 6: An FMI should use a collateral management system that is well-designed and operationally flexible.

Collateral management system design

CAVALI has implemented the WARI system to manage collaterals and carry out the following validations:

1) The system validates that the initial collaterals entered by the participant actually cover the initial margin required for Repo and securities-lending transactions.
2) Over the period transactions are current, the system carries out a valuation on a daily basis to ensure they are covered sufficiently. Otherwise, margin replenishment will be required (margin calls).
3) For margin replenishment requirements, the system will validate that the additional collaterals entered by a participant actually cover the required amount.
4) For withdrawals of collaterals, apart from validating that the transaction is covered, the system validates that the collateral margin valuation equals or exceeds the initial collateral margin.
5) In the event of failure to present or replenish the collateral, the system will issue the respective non-compliant reports.

The collaterals received are not re-used because the securities are blocked as part of the Repo transactions; however, Participants have a choice to change margin as long as the transactions remains adequately covered, as validated by the collateral management system (WARI).

Operational flexibility

Whenever changes in the regulatory framework occurs, that may require changes on the management of collaterals, the WARI is customized to address those changes and meet the required regulations.

CAVALI has a business continuity plan in place to ensure the continuity of its operations, including lack of collateral management human resources to ensure smooth operations; for that purpose, primary and alternative holders of job positions have been defined.

Related documentation:

Public access documents:

- Chapter IX, CAVALI's Internal Rules: www.cavali.com.pe

Principle 7: LIQUIDITY RISK

An FMI should effectively measure, monitor, and manage its liquidity risk. An FMI should maintain sufficient liquid resources in all relevant currencies to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate liquidity obligation for the FMI in extreme but plausible market conditions. Because of the extensive interactions between the financial risk management and financial resources principles, this principle should be reviewed in the context of Principle 4 on credit risk, Principle 5 on collateral and Principle 6 on margin, as appropriate. This principle should also be reviewed in the context of Principle 8 on settlement finality, Principle 13 on participant default rules and procedures, Principle 23 on disclosure of rules, key procedures and market data, and other principles, as appropriate.

Key consideration 1: An FMI should have a robust framework to manage its liquidity risks from its participants, settlement banks, nostro agents, custodian banks, liquidity providers, and other entities

In managing its liquidity risks, in all relevant currencies, from its participants, settlement banks, nostro agents (correspondent banks), custodian banks (depositories), liquidity providers and other entities, there is a Financial Risk Manual containing the framework for liquidity risk management and setting out the definition, principles and controls to mitigate the liquidity risk in the process of Clearing and Settlement borne by CAVALI.

The nature and size of the CAVALI's liquidity needs is varied given that the balances to be settled change from one day to the other; also, these liquidity needs arise in Peruvian Sol and U.S. dollars.

Also, the associated sources of liquidity risk are the reasons for defaults in the identified funding, the volatility of the shares contained in the TVR (since they can give rise to margin calls) and volatility of the exchange rates.

CAVALI has taken into account the potential aggregate liquidity risk resented by Participants to the market; for that reason, an assessment is conducted of their financial sufficiency, including monitoring its liquidity ratios.

Additionally, an analysis of the concentration of the amounts settled by participant to identify which are the participants with the largest need for liquidity for them to be able to meet their obligations; and thus, identify which Participants' liquidity difficulties would have the largest impact on the market.

Key consideration 2: An FMI should have effective operational and analytical tools to identify, measure, and monitor its settlement and funding flows on an ongoing and timely basis, including its use of intraday liquidity.

In identifying, measuring, and monitoring its settlement and funding flows, the WARI system is used; it has a Clearing and Settlement module which has an option called "on-line position" "Posición en línea") intended to measure and monitor netting of funding flows and securities to be withdrawn (in amount). This module is used in stock exchange cash transactions and repo transactions with variable-income securities.

On Wari's on-line position, we can visualize intra-day settled transactions, which are separated in 3 groups: "settled Transactions" ("Operaciones liquidadas"), "transactions to be settled" ("Operaciones a Liquidar") and Transactions to be withdrawn ("Operaciones a retirar") for both buy and /or sale transactions.

Control and monitoring are ongoing; that is, before and after the settlement process; at present, each cycle is completed every 30 minutes.

Key consideration 3: A payment system or SSS, including one employing a DNS mechanism, should maintain sufficient liquid resources in all relevant currencies to effect same-day settlement, and where appropriate intraday or multiday settlement, of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate payment obligation in extreme but plausible market conditions.

At the end of one day of stock exchange trading, Participants confirm CAVALI the transactions they have completed by type of trade by sending files with a detail of those transactions, which are uploaded on the WARI. The next day, based on the uploaded data, the system determines the size of funding and securities to be settled. WARI has the "Online Position" (contained in the Clearing and Settlement module) where you can see, at the beginning of the day, the funds to be settled and securities to be withdrawn y each participant and relevant currency (Peruvian soles y U.S. dollars).

CAVALI does not use stress scenarios to calculate the size of liquid resources to be used in a given day.

Since no stress scenarios are used, no determination was conducted of the estimated size of liquidity needs per relevant currency that would be covered by the payment system.

Key consideration 4: NOT APPLICABLE (Solely to CCP)
A CCP should maintain sufficient liquid resources in all relevant currencies to settle securities-related payments, make required variation margin payments, and meet other payment obligations on time with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate payment obligation to the CCP in extreme but plausible market conditions. In addition, a CCP that is involved in activities with a more-complex risk profile or that is systemically important in multiple jurisdictions should consider maintaining additional liquidity resources sufficient to cover a wider range of potential stress scenarios that should include, but not be limited to, the default of the two participants and their affiliates that would generate the largest aggregate payment obligation to the CCP in extreme but plausible market conditions.

Key consideration 5: For the purpose of meeting its minimum liquid resource requirement, an FMI's qualifying liquid resources in each currency include cash at the central bank of issue and at creditworthy commercial banks, committed lines of credit, committed foreign exchange swaps, and committed repos, as well as highly marketable collateral held in custody and investments that are readily available and convertible into cash with prearranged and highly reliable funding arrangements, even in extreme but plausible market conditions. If an FMI has access to routine credit at the central bank of issue, the FMI may count such access as part of the minimum requirement to the extent it has collateral that is eligible for pledging to (or for conducting other appropriate forms of transactions with) the relevant central bank. All such resources should be available when needed.

Size and composition of qualifying liquid resources

The size and composition of CAVALI's qualifying liquid resources are as follows:

- Minimum amount of coverage: Direct participants are required to keep with its settlement bank committed lines of credit to be used immediately in meeting their payment obligations as required by CAVALI in a settlement process. This line of credit can be supplemented with cash deposits with CAVALI.

- Settlement Fund: This is a fund set up to cover product price differences in an enforcement given a default or to cover net balances of one or several transactions. These resources are time deposits held with certain local commercial bank. These funds are available on the same day or the next day depending on the time of the day cash calls are requested.

- Lines of credit: There is a $ 7,000,000 U.S. dollar committed line of credit with Citi NY to be used in the event of delay in delivering funds from CAVALI to DTC (Citibank) and vice versa. Additionally, there is a $ 2,000,000 U.S. dollar committed line of credit with Scotiabank del Perú to be used in the event of delays in delivering funding from DTC (Citibank) to CAVALI. These lines of credit are available immediately when needed.

Availability and coverage of qualifying liquid resources

In converting its highly liquid collaterals and investments into cash, CAVALI has time deposits which are also highly liquid deposits. Also, there are other committed lines of credit that are immediately available when needed.

Time deposits are held with prime commercial Banks, rated A and B, as required under the investment policy of the Settlement Fund.

CAVALI does not carry out stress tests on the minimum requirements of liquid resources in each relevant currency; therefore, it is not possible to determine, to what extent the IMC and Settlement Fund cover this requirement.

Key consideration 6: An FMI may supplement its qualifying liquid resources with other forms of liquid resources. If the FMI does so, then these liquid resources should be in the form of assets that are likely to be saleable or acceptable as collateral for lines of credit, swaps, or repos on an ad hoc basis following a default, even if this cannot be reliably prearranged or guaranteed in extreme market conditions. Even if an FMI does not have access to routine central bank credit, it should still take account of what collateral is typically accepted by the relevant central bank, as such assets may be more likely to be liquid in stressed circumstances. An FMI should not assume the availability of emergency central bank credit as a part of its liquidity plan.

Size and composition of supplemental liquid resources

CAVALI does not have supplemental liquid resources.

Availability of supplemental liquid resources

CAVALI does not have supplemental liquid resources.

Key consideration 7: An FMI should obtain a high degree of confidence, through rigorous due diligence, that each provider of its minimum required qualifying liquid resources, whether a participant of the FMI or an external party, has sufficient information to understand and to manage its associated liquidity risks, and that it has the capacity to perform as required under its commitment. Where relevant to assessing a liquidity provider's performance reliability with respect to a particular currency, a liquidity provider's potential access to credit from the central bank of issue may be taken into account. An FMI should regularly test its procedures for accessing its liquid resources at a liquidity provider

Use of liquidity providers

In respect of liquidity providers, the settlement fund has time deposits with A-and B risk-rated commercial banks, as required under the investment policy of the Settlement Fund. These liquidity providers are assessed periodically to check they meet the investment policy requirements.

On the other hand, the IMC is available with commercial banks that were assessed to fulfill settlement bank duties.

Reliability of liquidity providers

Commercial banks with which the Settlement Fund resources are held were selected so that they qualify under the investment policy of the Settlement Fund; further, those banks with which the IMC balances are held are settlement banks, which meet the relevant requirements.

The Peruvian Central Reserve Bank does not grant lines of credit to CAVALI.

CAVALI does not test regularly the reliability of the procedures for accessing liquid resources at a liquidity provider, the date of availability of time deposits can be anticipated in the event of need to use those resources. On the other hand, IMC deposits are lines of credit and/or cash that is available at any time.

Key consideration 8: An FMI with access to central bank accounts, payment services, or securities services should use these services, where practical, to enhance its management of liquidity risk.

CAVALI, as a clearing and settlement management entity, has linkages to the Central Reserve Bank's LBTR system. For payment services (cash receipts and deliveries) it has an LBTR account in Peruvian soles and U.S. dollars.

CAVALI uses the services rendered by the Central Reserve Bank for intra-day settlement. At the beginning of a LBTR day, the payment services are open to send funding from CAVALI to the settlement banks and receive funds by CAVALI from the settlement banks. At the end of a settlement day, CAVALI monitors that the statement of account of funds both in Peruvian soles as well as U.S. dollars be zero ("0"); further, the Central Bank verifies that the balance is accurate. It should be noted that in monitoring fund settlement, the WARI system provides an account balance extract in Peruvian soles and U.S. dollars (cash receipts and disbursements).

CAVALI has a committed service other than the Central Bank to be used only in the event of any contingency in the settlement process. For that reason, Scotiabank was chosen as a contingent Settlement bank, under a relevant agreement by which the parties agreed on the services to be rendered as well as the time schedule for fund settlement.

The Central Bank was noted that as a settlement bank, it centralizes the payments of financial institutions (commercial banks) and Clearing and Settlement (CAVALI, settlement banks) entities; for CAVALI, the central bank conducts a verification of incoming and outgoing cash on the settlement day. This a doublecheck procedure conducted to ensure that the settlement day has been adequately closed in terms of funding.

Key consideration 9: An FMI should determine the amount and regularly test the sufficiency of its liquid resources through rigorous stress testing. An FMI should have clear procedures to report the results of its stress tests to appropriate decision makers at the FMI and to use these results to evaluate the adequacy of and adjust its liquidity risk-management framework. In conducting stress testing, an FMI should consider a wide range of relevant scenarios. Scenarios should include relevant peak historic price volatilities, shifts in other market factors such as price determinants and yield curves, multiple defaults over various time horizons, simultaneous pressures in funding and asset markets, and a spectrum of forward-looking stress scenarios in a variety of extreme but plausible market conditions. Scenarios should also take into account the design and *operation* of the FMI, include all entities that might pose material liquidity risks to the FMI (such as settlement banks, nostro agents, custodian banks, liquidity providers, and linked FMIs), and where appropriate, cover a multiday period. In all cases, an FMI should document its supporting rationale for, and

should have appropriate governance arrangements relating to, the amount and form of total liquid resources it maintains.

Stress test programme

CAVALI does not perform stress testing on the sufficiency of its liquid resources.

Stress test scenarios

CAVALI does not perform stress testing on the sufficiency of its liquid resources.

Review and validation

CAVALI does not perform stress testing on the sufficiency of its liquid resources.

CAVALI reviews the liquidity risk management model when every time an amendment to the model is deemed necessary. CAVALI performs a calculation of the target amount of the Settlement Fund to compare it to the balances held in time deposits. This calculation is documented and completed on a quarterly basis using the methodology described in Chapter IX of the CAVALI's Internal Rules.

Key consideration 10: An FMI should establish explicit rules and procedures that enable the FMI to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations on time following any individual or combined default among its participants. These rules and procedures should address unforeseen and potentially uncovered liquidity shortfalls and should aim to avoid unwinding, revoking, or delaying the same-day settlement of payment obligations. These rules and procedures should also indicate the FMI's process to replenish any liquidity resources it may employ during a stress event, so that it can continue to operate in a safe and sound manner.

Same-day settlement

The CAVALI's Internal Rules, article 8 of Chapter VII Clearing and Settlement, set out the procedures, conditions and terms to be used in the process of using the coverage mechanisms as well as the order in which they should be used.

The FMI address unforeseen and potentially uncovered liquidity shortfalls and aim to avoid unwinding, revoking, or delaying the same-day settlement of payment obligations by using the following.

Minimum Amount of Coverage

Article 8, Chapter IX: Clearing and Settlement states that the first coverage mechanism to be used is the IMC.

<u>Settlement Fund</u>

Under the provisions of the Complementary Provision No 2, Chapter IX Settlement Fund, the CAVALI's Internal Rules, state that the liquidity shortfalls are covered as follows:

- **In the event of a forced execution t of transactions**

After a forced execution of transactions, a determination is conducted of whether there is shortfall of the amount due by a direct participant charged with the unfulfilled settlement. That participant must pay the resulting difference amount the day immediately after the enforcement was completed, until the 10:00 hours, to the account to be set by CAVALI for that purpose.

In the event a direct participant charged with the unfulfilled settlement does not pay the difference referred to in the paragraph above, the fund balances will be used; for that purpose, the necessary resources will be transferred from the Fund's bank account to the relevant account for settlement of the unfulfilled transaction, provided there is enough allocated to the Fund resources.

- **In the event a participant is not able to cover the net funding balances of transactions**
  In the event a participant is not able to cover the net balances of stock exchange cash transactions within the due period using the committed credit facilities with its settlement bank and cash deposits made on behalf of CAVALI and if net balances continue to remain to be covered, the Fund resources can be used to meet those obligations; in this case, the relevant securities associated with those transactions will be considered unavailable.

Replenishment of liquidity resources

Under the provisions of the Complementary Provision No 2, Chapter IX Settlement Fund, of CAVALI's Internal Rules, after the use of the Settlement Fund, replenishment should be conducted as follows:

- **In the event of an enforcement of transactions**
  After settlement of the transactions involved in default, CAVALI will calculate the total amount to be replenished to the Fund, considering for that the penalty applicable to the use of the Fund's resources. That penalty will be equal to 1% on the amount that was used. It will also communicate the direct participant charged with the unfulfilled settlement about the settlement that has been completed as well about the use of the Fund, the total amount to be replenished, and the bank account designated for such a purpose.

  Replenishment of Fund's resources should be completed until at the latest at 17:30 hours of the same date they were used; for this purpose, the defaulting direct participant will credit the amount of the fund used plus the penalty applicable to the use of the Fun to the designated bank account.

- **In the event a participant is not able to cover the net funding balances of transactions**
  For the use of the Fund's resources, the defaulting direct participant will credit the amount of the fund used plus the penalty applicable to the use of the Fun to the designated bank account; that is, 0.5% on the amount of the fund used. In the event the Fund's resources are not replenished up until the 10:00 hours the day following the day it was used, the defaulting direct participant will have to pay the applicable delinquent interest.

Related documentation:

Public Access Document:

- Chapter IX Del Settlement Fund del The CAVALI's Internal Rules: www.cavali.com.pe

Principle 8: SETTLEMENT FINALITY

An FMI should provide clear and certain final settlement, at a minimum by the end of the value date. Where necessary or preferable, an FMI should provide final settlement intraday or in real time. In reviewing this principle, it should be noted that this principle is not intended to eliminate failures to deliver in securities trades. The occurrence of non-systemic amounts of such failures, although potentially undesirable, should not by itself be interpreted as a failure to satisfy this principle. This principle should be reviewed in the context of Principle 9 on money settlements, Principle 20 on FMI linkages, and other principles, as appropriate.

Key consideration 1: An FMI's rules and procedures should clearly define the point at which settlement is final.

Point of settlement finality

Unconditional irrevocable transfer order

The Law of the Payment System and Securities Settlement sets forth that funding and securities transfer orders are irrevocable once they are accepted by the respective SLV. Timing of acceptance is defined in Article 17 , of the SLV's Rules that states that on the Clearing and Settlement system of stock exchange transactions, orders will be deemed as accepted whenever the transfer of funding and securities is previously verified on the day of settlement to secure clearing of the confirmed transactions through the process of designation to T-day; with respect to Repo transactions involving variable-income securities lending; and those involving a forward transaction obligations regulated by the SMV, the existence of the collateral margins should also be confirmed.

The LBTR operating rules set forth that settlement of transactions is performed on an immediate and irrevocable basis. Once the finding settlement process is begun, CAVALI meets its obligations to have defined the irrevocable nature of the transfer orders, once the requirements of article 17 of the SLV rules are met.

CAVALI has included an amendment to Chapter VII Clearing and Settlement of its Internal Rules stating the finality of the transactions is realized whenever the Participants have provided funding and securities to ensure settlement of a transaction. In this sense, the CAVALI validates by default the timing a transaction is current both in funding and securities; then it makes it irrevocable and allows for the settlement process to be accessed in the pre-established time schedules.

On the other hand, in December 2016, CAVALI implemented settlement cycles of transactions completed on a Centralized Trading Mechanisms, for CAVALI participants to be able to Access an automated settlement of their transactions. Based on this upgrade, CAVALI has continuing processes of settlement, every 30 minutes, which enables Participants to access funding and securities arising from settlement sooner over the same day.

The final and irrevocable nature is supported in the following rules and available to the Participant entities on the following websites:

- Rules of the Securities Settlement System (SLV): http://www.smv.gob.pey CAVALI.

- Operating Rules of the Gross Settlement in Real Time (LBTR), website of the Peruvian Central Reserve Bank: http://www.bcrp.gob.pe
- The CAVALI's Internal Rules: http://www.cavali.com.pe

The legal basis and legislation applicable to CAVALI consists of:

- Securities Settlement Systems (SLV): http://www.smv.gob.pe
- Law for the Payment System and Securities Settlement (LSP), The Rules of the Payment Systems (RSP), Rules of the Securities Settlement Systems (RSLV): http://www.bcrp.gob.pe

In respect of Repo transactions that are settled via a commercial bank, the best settlement alternative will be determined and assessed, either through a Commercial Bank or through a Central bank.

Direct participants charged with settlement of transactions of different types of trading via the centralized trading mechanisms led by the stock exchanges, meet their obligation to deliver funding and securities within the due date and conditions set forth in the CAVALI Rules. In order to be able to settle transactions, payment of funding and delivery of securities should be available immediately within the period set for each type of transaction. For settlement of transactions carried out through mechanisms other that those managed by the stock exchanges, the requirement to deliver securities and/or paying funding will be met within the periods, time schedules and conditions set forth in the relevant Binding Provisions. After verifying the existence of funding and/or securities to perfect the transaction, CAVALI will proceed to settle transactions, verifying that payments were made effective and making bank transfers from the account held by CAVALI with the Settlement Agent, to the accounts held by the direct participants charged with settlement with their respective Settlement banks. Simultaneously, the ownership of the acquired securities is granted, and they are recorded in the Matrix Account of those Direct participants charged with settlement and buying Holders; care is exercised in applying the principle of delivery versus payment; then the final settlement of the transaction is completed.

Determination of the payment obligations and receipt of funding is conducted after the information is recorded. CAVALI determines the funding obligations by the direct participant charged with settlement by type of trade and makes them available from the 09:00 hours of the day following the day with the transaction was carry out on the system.

For stock exchange cash transactions with debt securities with a settlement date that is the same as the day the transaction was completed, CAVALI will inform the participant about its obligations, once the information recording is ended.

On the other hand, the SVL management entity uses preventive measures to minimize events of default of securities and funding on the part of Participants. These mechanisms involve giving information to the Direct participants on the positions of their securities on T+1; that is, they are entitled to make amendments to the agreed transactions (RUT, term, etc.) whenever those changes are deemed necessary. On the other hand, Participants have access to the online positions of their funds for them to be able take steps with their settlement banks to obtain funding missing to cover shortfalls to settle transactions.

SLV participants secure those obligations contracted are met for up to the total amount held in their individual accounts with the Settlement Fund and the relevant IMC (for obligations contracted by participants in the centralized trading mechanisms, such as the stock exchange trading). In the event a participant does not meet its obligation, its settlement activities will be suspended for the types of transactions covered by this mechanism, until the respective obligation is actually discharged.

Procedures related to default of transactions settled by CAVALI are set out in articles 9 and 18, Chapter VII "Clearing and Settlement" of the CAVALI's Internal Rules.

In respect of the legal basis of the finality of the transactions in all jurisdictions, as part of its assessment of the linkages with which agreements have been agreed, CAVALI conducts an identification of the major risks those linkages pose, including legal, operational, credit and liquidity risk. A review of the legal implications as well as operating effects is performed.

At the present date work is ongoing on the depth and continuity of the risk assessment CAVALI performs of the linkages with which agreements have been signed.

CAVALI has signed agreements with the relevant CSDs in the region, most notably, DTC (via Citibank custody), CDS and EUROCLEAR, with which linkages are working and balances are held.

Those agreements consider the relevant legal basis effective in each jurisdiction or country in which the CSD operate. Also, each CSD has a legal basis that support it, reinforced by the existence of an oversight entity, a regulator, a treasury institution, etc.

***Finality in the case of linkages*.**

CAVALI ensures the settlement finality in the case of linkages with other FMIs by securing the receipt of funding and delivery of securities, as appropriate.

For settlement finality of transactions with foreign linkages, CAVALI shows no credit or liquidity risk; however, for the purpose of mitigating the operational risk (due to failures of our settlement bank) has a committed credit line of up to US$ 7,000,000 locally.

Linkages we have with Citibank (DTC), CDS, EUROCLEAR y MILA have high levels of protection of Participants which are also CAVALI's customers. The Internal Rules set forth that it is the Participant's obligations to refund CAVALI for any charges made by the foreign entities for corporate events or other special corporate events.

CAVALI carries out transactions of delivery and receipt of securities, delivery versus payment agreed between one individual local participant and an international broker through their omnibus accounts with Citibank (DTC) and EUROCLEAR.

Local participants record a request for delivery / receipt of securities on the WARI system using the information required in Chapter III of the Internal Rules. For DVP receipts, CAVALI verifies the availability of the funds credited by a participant to the bank accounts indicated in the contract and delivers the funds to the depository within the established time schedules. Depending on the market (country) in which a participant has bought securities, the relevant funding is required with due anticipation (24 hours) to secure settlement of the transaction with the depository (CSD). Settlement of this type of transaction is affected using Model 1, gross funding and gross securities.

For DVP deliveries, funding reached the CAVALI's accounts recorded with the depositories and custody (and credited by the international counterparties) and then they are returned to the local participants at day-close as indicated in our internal rules.

Once the delivery or receipt transaction is settled with the CAVALI's account with the depository, confirmation is recorded on the WARI system.

It should be noted that the flow of the resources involved in these transactions is conducted via local and international banks selected by CAVALI for those purposes and with which agreements have been signed.

Key consideration 2: An FMI should complete final settlement no later than the end of the value date, and preferably intraday or in real time, to reduce settlement risk. An LVPS or SSS should consider adopting RTGS or multiple-batch processing during the settlement day.

Final settlement on the value date

As part of the processes managed by the FMI to monitor settlement, CAVALI has initial processes involving certain control procedures and activities to both, stock Exchange trades and debt cash transactions.

In this sense, CAVALI has a process in place called "bachero de Ventas", by which the balances available on a sell participant's Matrix Account are validated. Also, CAVALI has processes in place to validate the position of securities and funding by transaction and by participant, in such a way that it allows for monitoring of transactions to be conducted, inter-alia, transactions to be cleared and transactions that may be withdrawn from the process due to lack of securities.

The automated settlement cycles begin at 10:00 am and are conducted one every 20 minutes.

The Clearing and Settlement system of transactions conducted through the stock exchange trade is designed to be a final settlement, where transactions will be deemed as accepted whenever the actual delivery of securities or funding has occurred to ensure settlement of the transactions confirmed via the T-day allocation process; with respect to the transactions of the type of Repos with variable-income securities and securities lending, as well as those that involved forward transaction obligations regulated by the SMV, the existence of the collateral margins have to be additionally verified.

In securing settlement, CAVALI has implemented the final settlement at date values through Delivery *versus Payment* (DvP) mode, which is governed by Chapter VII “Clearing and Settlement”, articles 7 and 17 of the Internal Rules. By this principle, the risk of settlement after the date value is removed, at the settlement finality of an obligations is ensured.

Settlement of transactions have not experienced delays that had not been considered in its rules, procedures or contracts.

Intraday or real-time final settlement

CAVALI offers intraday final settlement. Information about the final settlement is reported to participants through the Securities Settlement System (the SLV proprietary system).

For government debt securities transactions, settlement occurs by processing multiples lots, for stock Exchange transactions, upon delivery of funding and securities.

At the present date, the frequency of the settlement cycles is every 20 minutes; those transactions that do not have sufficient funding and/or securities are withdrawn on an automated basis and are included in the next cycles of settlement until the last clearing and settlement cycle are completed (final process), as required by our Internal Rules.

On the last settlement cycle if a participant does not have the sufficient funds or securities, then a default event occurs relating to the agreed procedures, due dates and time schedules; this is reported to the Centralized Trading Mechanisms and SMV; as a result, one of the measures taken is withdrawing the participant entity from the trading process on the Lima Stock Exchange (“Bolsa de Valores de Lima – BVL”).

CAVALI’s settlement process is intraday, through the settlement cycles of transactions completed via Centralized Trading Mechanisms, so that CAVALI’s participants may access the automated settlement of transactions. Also, CAVALI has continuing processes of settlement, every 20 minutes, which enables Participants to access funding and securities arising from settlement sooner over the same day.

Key consideration 3: An FMI should clearly define the point after which unsettled payments, transfer instructions, or other obligations may not be revoked by a participant.

The point at which the payments, transfer instructions and other obligations that are not settled cannot be revoked by a participant is defined as the point at which orders are accepted, that is, the point at which the transfer of funding and securities was actually received and confirmed on the systems. From that point in time, despite a transaction is not settled, it can be revoked by a participant.

Obligations can be revoked to the extent they are accepted by the SLV. The Law of the Payment System and Securities Settlement sets for that las transfer orders of funds and securities are irrevocable once accepted by the respective SLV.

At the time of system's acceptance of the transfer orders involving funding and securities, those orders cannot be modified, revoked or affected in any way, even by court or administrative order, as established in the Law for the Securities Settlement System and Payment System.

In the event a transaction performed in a centralized trading mechanism does not encounter accepted and confirmed funding and securities transfer orders, the SLV will permit revocations to be carry out. These revocations can only be made on the day of transaction.

CAVALI's internal rules contain provisions regarding exceptions. This information is available to the market and market participants.

Related documentation:

Public access documents:

- Law for the Payment System and Securities Settlement (LSP), the Rules of the Payment Systems (RSP), Rules of the Securities Settlement Systems (RSLV): http://www.bcrp.gob.pe
- Article 17 Rules of the SLV: http://www.smv.gob.pe y http://www.cavali.com.pe/
- Law 29440, Law of the Securities Settlement System and Payment system and Rules of the Securities Settlement System: http://www.smv.gob.pe
- The CAVALI's Internal Rules: http://www.cavali.com.pe/
- The Rules of the Payment Systems (RSP): http://www.bcrp.gob.pe

Principle 9: MONEY SETTLEMENT
An FMI should conduct its money settlements in central bank money where practical and available. If central bank money is not used, an FMI should minimize and strictly control the credit and liquidity risk arising from the use of commercial bank money. This principle should be reviewed in the context of Principle 8 on settlement finality, Principle 16 on custody and investment risks, and other principles, as appropriate.

Key consideration 1: An FMI should conduct its money settlements in central bank money, where practical and available, to avoid credit and liquidity risks.

CAVALI conducts its money settlement both in Peruvian soles and U.S. dollars, via the Peruvian Central Reserve Bank, except for cash Repo transactions and securities lending, which are settled through a Commercial Bank chosen by CAVALI.

CAVALI uses the multilateral netting system, taking into account the results of the net positions obtained in the clearing process. In this sense, it verifies the availability of funding on the part of those direct participants charged with settlement that may have net debit positions at the beginning of the settlement process.

The payment process on the agreed settlement date is as follows.

1. A direct participant charged with settlement that has a net debit position instructs its settlement banks to pay CAVALI the net debit position.
2. CAVALI receives the funding via an account held with the Settlement Agent (BCRP).
3. The cash account balances held by the direct participant charged with settlement is debited.
4. CAVALI, once verification has been conducted of the existence of funding and/or securities to perfect the transactions, carries out the actual transaction settlement y grant ownership of the securities bought, recording the securities bailable on the Matrix Account of the Direct participants charged with settlement and buyer holders, taking care that the delivery versus payment principle is met; then the settlement finality occurs.
5. Once the final settlement of transactions is completed, funds are transferred to the cash account direct participant charged with settlement with a net credit position, for subsequent deposits to the settlement bank.

Repo transactions are currently carried out via a commercial bank. This is so because of their flexibility in managing the collateral margins, which must be eventually covered on a daily basis by the Participants whenever the securities pledged as collaterals are impaired.

On the other hand, settlement of Repo transactions is carried out via a commercial bank because almost an 85% of them are cross referenced, which implies a lower risk since the same participant is involved and there are no movements of funds. Also, there is a high correlation among the stock exchange transactions and Repo transactions; that is, participants use the balance of securities obtained from a Repo transaction to settle a stock exchange transaction.

Chapter XII, Banks and Agents and the related complementary provisions sets forth that at inception or implementation of the multi-bank settlement system via the BCRP, Repo transactions and securities lending y are settled through settlement banks to facilitate the funding settlement process involving transactions by the direct participants as well as the management of collaterals**.**

Key consideration 2: If central bank money is not used, an FMI should conduct its money settlements using a settlement asset with little or no credit or liquidity risk.

For Repo transactions with variable-income securities and securities lending CAVALI uses the SCOTIABANK, a Commercial Bank, for settlement.

At the present date, there is no system in place to control the liquidity Risk and Credit risk; therefore, work is conducted internally on the determination of credit and liquidity risk assessment of the settlement assets. (See Principles 4 and 7).

Chapter XII Settlement banks and agents, Complementary Provision No 1 sets forth the criteria and variables to be taken into account in the process of selecting the Settlement Agents, Settlement banks and Payer Banks, whichever are applicable. The selection criteria are as follows:

1. Risk classification
   - 1.1 Institutional: This classification is given by the risk-rating agencies registered with the Record of Risk-Rating Agencies of the SBS and it enables us to identify the financial and economic structure of a bank as well as its future credit risk. The minimum required rating is B for a Settlement Agent, Contingent Settlement Agent and Settlement bank and A for a Payer Bank.
   - 1.2. Short-term obligations: This classification is assigned to the instrument issued by the Bank Banco with due date of one year or less. This classification is given by the risk-rating agencies registered with the Record of Risk-Rating Agencies registered with the SBS; it enables us to identify the risk associated with the bank's short-term obligations. The minimum required classification is B for a Settlement Agent, Contingent Settlement Agent and Settlement bank and A for a Payer Bank.
2. <u>Operating capacity</u>
   - 2.1 Functionality: Relating to an optimal design of a software application, easily accessible and management of the involved entities that ensure effective online processes that contain the relevant operating safeguards.
   - 2.2. Experience: Relating to the bank's experience in integrated systems of collection obligations and automated payment system, as well as the extent of its familiarity with transactions conducted on the securities market.
   - 2.3. Linkage system: Relating to the availability of the communication systems for interconnection among Settlement banks, Payer Banks, Settlement Agents, CAVALI and Direct participants, as appropriate.
   - 2.4. Availability of resources: Relating to the facilities granted to entities involved in settlement process and payment of benefits to carry out several transactions when needed. This includes the timing of the measures to be taken by officials to prevent difficulties from occurring in the settlement process and benefit payment process. In addition, resources will be available to

CAVALI and direct participants, when needed.

2.5. Reach: Relating to the network of offices the bank must serve CAVALI and direct participants.

2.6. Monitoring of transactions: Involving the adequate monitoring mechanisms to ensure the transactions requested by CAVALI or the direct participants are affected following its instructions.

2.7. Remuneration rates/fees: Remuneration rated granted by the bank to CAVALI and/or Participants on the funds it manages in savings or checking accounts.

2.8. Cost of Service: Cost incurred by CAVALI to contract the Service of Settlement Agent, Contingent Settlement Agent and Payer Bank.

3. Confidentiality and Information Security

3.1 Confidentiality: These are the policies and mechanisms used by the bank to keep the security and confidentiality of the information processed in rendering services such as Settlement Agent, Contingent Settlement Agent, Payer Bank and/or Settlement bank, as applicable.

3.2. Authentication: Relating to the restriction of access to the systems to individuals who are duly authorized.

3.3. Completeness: Relating to the sufficiency and accuracy of the information ´provided by banks.

3.4. Security: Relating to the internal standards in place to protect access with the internal and external communication networks.

4. Contingent measures

4.1 Technology: Relating to the existence of plans to recover information and activate the service in the event of lack of major servers because of unforeseen events.

4.2. Communications: Relating to the existence of alternative lines for interconnection between CAVALI and direct participants in the event of disruption of the primary communication channels.

Key consideration 3: If an FMI settles in commercial bank money, it should monitor, manage, and limit its credit and liquidity risks arising from the commercial settlement banks. In particular, an FMI should establish and monitor adherence to strict criteria for its settlement banks that take account of, among other things, their regulation and supervision, creditworthiness, capitalisation, access to liquidity, and operational reliability. An FMI should also monitor and manage the concentration of credit and liquidity exposures to its commercial settlement banks

Chapter XII Banks and Settlement Agents, Article 9 Ongoing Assessment sets forth the criteria use in selecting the settlement banks.

In compliance with article 81, Rules of the Settlement Agent, Contingent Settlement Agent, Settlement banks and Payer Banks should be assessed by CAVALI on an objective basis, at least once a year; this assessment should be intended to verify fulfillment of the commissions activities as previously agreed.

For this purpose. The Settlement Agent, Settlement bank or Payer Bank should meet the requirements set by CAVALI in article 4 Chapter XII, and present evidence in the form of an affidavit, which has to be signed by the duly appointed legal representative stating that it has complied with subsections 1, 2, and 3 of that articles;

nonetheless the above, CAVALI is entitled to conduct a verification that the relevant requirements have been met.

In the event the above-mentioned entities do not meet any of the established minimum requirements, CAVALI will report those results to them, and to the SMV; a period of up to thirty (30) days can be granted, prior consent, to correct the condition. If after that period of time is elapsed the bank has not met the expected requirement, it will lose the condition granted by CAVALI, by default; then, the exit procedures referred to in the preceding article will be triggered.

If the circumstances require so and prior supported request to CAVALI, the SMV can extend the due date for correction of deficiencies.

Under the provisions of article 81A of the Rules, in the event the BCRP acts as a Settlement Agent, this will not be subject to the provisions of that article.

CAVALI has a framework in place to manage the liquidity risk posed by the settlement banks; this framework is governed by its Internal Rules. This framework to manage the Liquidity Risk focuses on an assessment of a financial institution's capacity in the following aspects:

a) The risk rating given to the financial institutions by the risk-rating agencies correspond to the institutional category and comprise short-term obligations.

b) Ensure that the funds intended for the settlement process will be solely used for that purpose; in this sense, the Settlement bank recognizes and requires de funds stated in the direct participant's settlement accounts comprising third-party resources cannot be used to cover obligations contracted by a direct participant as a legal entity.

c) Ensure the timely availability of the resources credited to the direct participant's accounts as well as timely transfer the funds following the relevant instructions.

There is no contingent mechanism in place for Settlement Agent.

Key consideration 4: NOT APPLICABLE CAVALI OPERATES NO CASH ACCOUNTS. If an FMI conducts money settlement on its own books, it should minimize and strictly control its credit and liquidity risks.

Key consideration 5: An FMI's legal agreements with any settlement banks should state clearly when transfers on the books of individual settlement banks are expected to occur, that transfers are to be final when effected, and that funds received should be transferable as soon as possible, at a minimum by the end of the day and ideally intraday, in order to enable the FMI and its participants to manage credit and liquidity risks

The legal agreements with any settlement banks are clearly governed by Chapter VII “Clearing and Settlement” of the CAVALI’s Internal Rules. These Internal Rules state that the transfers are final in terms of the transfers received and delivered.

The Internal Rules also set out the coverage mechanisms and the required periods of time for replenishment of the cash amount, in the event default involves failure to deliver funds.

In the event a participant does not meet its obligations, its settlement activities are suspended for the types of trade covered by the given mechanism, until default is corrected.

On the agreed settlement date, that is, on T-day T+1, T+2, CAVALI will credit to the direct participant’s account, up until 17:30 hours of the same day of settlement, provided they have met their obligations to deliver securities and the counterparty has met the obligation to deliver funding. Those funding are available to the accounts of CAVALI’s participants up until before the close of the settlement day.

In the event of failure to deliver the securities and funding for settlement of a transaction, the amounts given by the buyer for settlement of the relevant transaction will be kept blocked at CAVALI until the date the respective obligations are met.

Related documentation:
Public access documents:

- The CAVALI’s Internal Rules: http://www.cavali.com.pe/

Principle 10: PHYSICAL DELIVERIES
An FMI should clearly state its obligations with respect to the delivery of physical instruments or commodities and should identify, monitor, and manage the risks associated with such physical deliveries. This principle should be reviewed in the context of Principle 15 on general business risk, Principle 23 on disclosure of rules, key procedures and market data, and other principles, as appropriate.

Key consideration 1: An FMI's rules should clearly state its obligations with respect to the delivery of physical instruments or commodities.

The physical paper-securities are accepted to convert them into book-entry securities. No settlement of physical securities is permitted.

With respect to obligations and responsibilities of the FMI's in the physical deliveries of securities, based on a service agreement, the Issuer, promoting agent or the BVL, as appropriate, maintain a contractual relationship with CAVALI, all of which are subject to each and all of the provisions contained in that service agreement, the Internal Rules and the Binding Provisions.

In the event a CAVALI's participant requests that certain physical securities be converted into book-entry securities, such an activity will be carried out prior consent of the Issuer on the authenticity of the physical securities and the condition of securities; the applicable period of time is that stated in article 44 of the Internal Rules; issuers will have a period of three (03) from receipt of the securities to confirm their authenticity.

Issuers, the promoting agent, or the BVL, takes full responsibility before CAVALI for any claims or actions that may be brought against CAVALI by any third parties, in the event that Issuers, the promoting agent, or the BVL failed to meet any of their obligations as set out in the Internal Rules. In the event the issuer, the promoting agent, or the BVL does not comply with the Law, Rules, Internal Rules, or any of their obligations, CAVALI will report such failure to the SMV, for the latter to take the required corrective actions and order penalties, as applicable.

The activities and procedures regarding conversion of physical securities into book-entry securities are duly regulated by the CAVALI's Internal Rules.

Key consideration 2: An FMI should identify, monitor, and manage the risks and costs associated with the storage and delivery of physical instruments or commodities.

CAVALI does not store or maintain the physical securities; those items have only a short passage through CAVALI. CAVALI has a procedure in place to deliver and receive the physical certificate and keeps evidence of the delivery of the physical document.

A CAVALI's participant records a request for dematerialization and it later sends the physical certificate together with a schedule to the Issuer for the latter to authorize dematerialization. This process is completed over a period of 48 hours, at a maximum, and the costs associated with the service of document transportation are assumed by CAVALI.

It should be noted that dematerialization is the electronic book-entry securities recorded by CAVALI, eliminating physical securities that used to demonstrate ownership. Book-entry securities are a form of representing physical securities by which they are recorded in special accounting records.

In the event the delivery of securities is completed through CAVALI, a participant will re-send CAVALI, together with the securities, a list of all requests recorded on the system up until the 17:00 hours of the day following the day the request was submitted. CAVALI will revoke the securities it receives, stating the caption “security invalidated for dematerialization” and will send them to the Issuer via the regular document delivery procedure.

It should be noted that a participant will use all means that CAVALI indicates to reach the physical securities to CAVALI. A participant has the option to select via the system made available by CAVALI how securities will be delivered; the participant enters the request for dematerialization or book entry. In the event a participant selects the option by which the security passes physically through CAVALI, the participant will have to prepare and send the relevant request duly signed by is legal representatives to CAVALI, enclosing the physical securities and sending them to CAVALI using the means of delivery that is deemed convenient by CAVALI at its own responsibility.

CAVALI validates the signatures and matches the information recorded on the system by the participant against the physical securities; subsequently, it sends the securities to the Issuer using an internal document courier Service referred to above. Handling of the physical securities from their receiving at CAVAL is CAVALI’s responsibility and there are security procedures in place including approvals.

Related documentation:

Public access documents:

- Procedimiento interno Desmaterialización de valores y Reglamento de ICLV Artículo 44°: http://www.cavali.com.pe/userfiles/cms/pagina/documento/reglamentoiclvmayo2016.pdf
- Artículo 44° del Reglamento Interno de CAVALI: http://www.cavali.com.pe/userfiles/cms/pagina/documento/reglamentoiclvmayo2016.pdf
- Procedimiento interno Desmaterialización de valores y Reglamento de ICLV Artículo 44°: http://www.cavali.com.pe/userfiles/cms/pagina/documento/reglamentoiclvmayo2016.pdf

Principle 11: CENTRAL SECURITIES DEPOSITORIES
CSD should have appropriate rules and procedures to help ensure the integrity of securities issues and minimize and manage the risks associated with the safekeeping and transfer of securities. A CSD should maintain securities in an immobilized or dematerialized form for their transfer by book entry. In reviewing this principle, where an entity legally defined as a CSD or an SSS does not hold or facilitate the holding of assets or collateral owned by its participants, the CSD or SSS in general would not be required to have arrangements to manage the safekeeping of such assets or collateral. This principle should be reviewed in the context of Principle 17 on operational risk, Principle 20 on FMI linkages, and other principles, as appropriate.

Key consideration 1: A CSD should have appropriate rules, procedures, and controls, including robust accounting practices, to safeguard the rights of securities issuers and holders, prevent the unauthorized creation or deletion of securities, and conduct periodic and at least daily reconciliation of securities issues it maintains.
Safeguarding the rights of securities issuers and holders
Safeguarding the rights of securities issuers and holders

CAVALI has a sound, transparent and enforceable legal basis (see Principle 1) that governs each one of the activities it carries out as a Securities Clearing and Settlement Organization and as the entity that manages Securities Settlement Systems and the Multi-bank Securities Settlement System.

CAVALI's Internal Rules contain the standards that govern the activities CAVALI carries out as Securities Clearing and Settlement Organization, charged with providing the service of recording, transfer and custody of book-entry securities as well as clearing and settlement transactions that are traded in the centralized trading mechanisms or elsewhere.

CAVALI's duties consist of ensuring that the information stated in its records is consistent with that held by Issuers, Participants, stock exchanges and other entities involved in managing the centralized trading mechanisms and foreign central securities depositories with which CAVALI has signed agreements and providing Issuers with information about the transfers of their securities.

The Accounting Record consists of two (02) subledgers of identification for book-entry securities:

a. Book-entry, comprising the respective issue, class and series, governed by the Internal Rules, Chapter II Issuers and Securities.
b. Record of holders, governed by article 4, Chapter II, Accounting Record. Also, for Participants and Issuers with an Issuer account be able to control book-entry securities stated on Holders' accounts, and the relevant holdings, CAVALI assigns them accounts by which they can manage those Holders' securities, following the provisions of the Internal Rules provisions.

The accounting record system carried by CAVALI is comprehensive and exclusive; for that purpose, a Matrix

Account is assigned to each participant or Issuer account, at the request of Issuers, in which the book-entry securities are recorded on behalf of each holder and their holdings.

The record of the Issuer and the registration of securities is based on a service agreement signed with CAVALI; for this purpose, the Issuer, the promoting agent, or the relevant stock exchange, as appropriate, will submit the relevant legal instrument, following the provisions of the Internal Rules. Based on the Service agreement signed, the Issuer, the promoting agent, or the relevant stock exchange, as appropriate, have a contractual relationship with CAVALI, both parties expressly subject to all and each of the provisions contained in the service agreement, Internal Rules and Binding Provisions currently in force.

CAVALI's rules, procedures and controls in place ensure that the book-entry securities kept in the name of its participants are adequately accounted for and are safeguarded against the risks associated with other Services that may be rendered.

Controls in place consists of the validation of the several situations in which securities balances are recorded, which should match the total balance held for the same securities.

In making sure the information contained in the Accounting Record is complete and accurate, under the provisions of article 65 of the Rules of ICLV, CAVALI verifies that:

a. In respect of Participants: the balances of Holder's accounts on its Matrix Account, and the status of book-entry securities are consistent with the Participants' internal records.
b. In respect of Issuers: consistency exists between the total balance of book-entry securities and the total number of securities comprising an issuance, class or series.

Both reconciliations are performed on a monthly basis. Participants acknowledge the totals of their holdings and the total balances of securities issued.

CAVALI ensures that robust accounting practices exist as demonstrated on the basis of audits and that sufficient securities exist to safeguard the rights of its customers.

Based on the best practices of control, and specifically within the International Framework for the Professional Practice of Internal Audit (IPPF – Global Institute of Internal Auditors), a risk assessment is conducted each period to determine which audits will be included in the "Internal Audit Plan" (PAI in Spanish). With this aim, processes assessed in prior periods are considered as well as the results and degree of materiality of those assessments; the changes in procedures or in key personnel charged with performing those procedures and the frequency or last time a given process was assessed. Based on these inputs, a selection is conducted of which processes to be included in a given PAI.

Internal Audit conducts at least once a year, or, on a monthly basis, depending on inputs received from Operations, an independent confirmation of the participants' matrix account balances and those of Issuers'

accounts; as a result, a balance confirmation is obtained.
Other assessments that have been included in the PAI are validations of the IT environment, by which validation is conducted over the control implemented to safeguard the confidentiality and integrity of the (Creating, modifying or removing unauthorized information). An assessment was also conducted of the process of securities settlement, reconciling the omnibus account securities held by CAVALI with foreign depositories.

External Audits

CAVALI is subject to the following annual external audits to be conducted by independent audit firms: operating and IT audits, financial audits, audits of the Settlement Fund, audits of the system of Anti-Money laundering and Terrorism Financing.

Prevention of the unauthorized creation or deletion of securities

CAVALI has the following procedures in place to authorize the creation and removal of securities:

In recording Securities
Subject to accounting recording are securities that are consumable, their characteristics and conditions are set out in Internal Rules. CAVALI is also allowed to record derivative instruments prior authorization of the SMV, as well as non-mass issued instruments.

Representation in the form of book entries of foreign securities that will be stated in an Accounting Records does not determine a change in the representation system under the respective origin legislation under the provisions of articles 102 and 103 of the Internal Rules.

Securities will be thus recorded based on a Service Agreement, by which the Issuer, the promoting agent, or the stock exchange submits a copy of the deeds of creation, issuance contract or the relevant legal instrument stating the characteristics and conditions of those securities, as indicated in Binding Provision No 01.

For issuance programs, only the relevant legal instrument is required as long as it shows the major characteristics of the program; supplemental documents need to be attached stating the differentiating characteristics of each issuance.

In removing book-entry securities from the Accounting Record
All book-entry securities that are also recorded with the Record of Securities of the BVL for trading in the Centralized Trading Mechanisms can also be removed from an Accounting Record on the grounds set out in the Rules of Registration and Removal of Securities from the Public Record of the Securities Market and the stock exchange, as issued by the SMV.

Giving the fact these are book-entry securities that are not recorded with the Securities Record of the BVL and are not traded in a Centralized Trading Mechanisms, CAVALI will remove a given security from the Accounting

Record, at the request of the authorized entities or in the event of default of the obligations established in article 9, of this Chapter. Once the security is removed from the Accounting Record, CAVALI has the responsibility to provide the information that may be needed for the Issuer to proceed to issuance of the physical deliveries, if appropriate.

The detail of the information to be communicated is set out in the Complementary Provision No 03. In addition, it is the sole responsibility of the Issuer, to state the information given by CAVALI in the securities registration document.

For those securities that are to be removed from the Accounting Record based on the condition of their issuance, a document supporting the settlement of the relevant obligation must be submitted; this procedure is set out in Complementary Provision No 03.

In the event the Issuer, the sponsoring agent, or the stock exchange had any obligation outstanding with CAVALI at the time the security is removed; a written notice will be served for immediate correction; a copy of such notice must be sent to the SMV.

Periodic reconciliation of securities issues

CAVALI performs periodic reconciliations with issuers to validate the total balance of issuances.

The Issuer, nonetheless the obligations established by law and rules for application, are subject to the following obligations relating to its issuances:

a) Furnish the required information and information that may eventually be required by CAVALI, in its legal capacity, on a timely basis following the provisions of the Internal Rules.
b) Confirm CAVALI all the information that were sent to regarding the identity of the Holders on a timely basis as requested. In the event an Issuer Account is still held, the issuer will have to update the personal data contained in the Accounting Record, whenever this Issuer becomes aware of a change in the Holders' personal data.
c) In the event of Issuers who still hold an Issuer account, they will have to verify the identity and legal capacity of the Holders that are recorded to its account; and they will be responsible for the information to be stated in the Single Record of Holders of the Accounting Record. Issuers who still hold an Issuer account are required to unify the RUT codes of Holders that resulted duplicated in the Single Record of Holders, under the provisions of Chapter: Accounting Record.
d) Meet the conditions set in the undersigned Securities Record Service Agreement.
e) Inform about the decisions or agreements, regardless of the competent body for adoption, which may affect the Book-Entry Securities that may have been issued or Holders, under the provisions of the Complementary Provision No 06 in this Chapter.
f) Confirm the information required by CAVALI, as set out in Chapter VI Services relating to the Accounting Record, for compliance with the corporate agreements that may affect the Book-Entry Securities.

g) Make available to CAVALI the amounts required for timely payment, as commissioned by the Issuer, within the due dates established in Chapter VI Services Relating to the Accounting Record.
h) Confirm CAVALI the effectiveness and good standing of the Book-Entry Securities, within the periods set in the Binding Provision No 02 in this Chapter, as applicable. Issues with remote access to the CAVALI system are required to confirm using this means.
i) Confirm CAVALI the requests for book-entries by electronic means, unless they this means of communication is not available; otherwise using other means.
j) Inform CAVALI about the balance of the Book-Entry Securities within the period set forth in Chapter IV Accounting Record of the Internal Rules so that the CAVALI's are adequately reconciled.
k) Count on with a communications and HR infrastructure to ensure their obligations are met so that the Services offered by CAVALI are rendered on a normal basis.
l) Have remote Access to the CAVALI system. For Issuers registered in the Alternative Market of Securities; this requirement will be made effective at the time the relevant technology infrastructure required by CAVALI is m obtained. This requirement will not be applicable to those Issuers that demonstrate to CAVALI that they do not have sufficient resources.
m) Issuer is required to inform CAVALI about any liens on the Securities that are to be recorded, as well as maintaining the relevant supporting documentation, which should be delivered to CAVALI, at request.
n) For shares, ownership interest units in Investment Funds or certificates of interest in trust funds, partly paid, the Issuer is required to communicate CAVALI any default at the day following the due date.
o) Honor payment of the considerations set forth in Chapter, Rates within the time periods set forth in the Complementary Provisions to that Chapter.
p) Enter into the Accounting Record true and sufficient information on holders of the securities that may have been issued; they are responsible before CAVALI and third parties for failures to meet this requirement, provided the relevant information was provided to the Issuer.
q) Keep and submit to CAVALI, at the request of the latter, documentation that supports all record, transaction or act requested by CAVALI; this documentation should be kept for ten (10) years. In the event over that period a court action is brought to challenge such a record, transaction or act, the obligation will continue to be enforceable over the period court action is not resolved.
r) Designate its representatives who will be authorized to use the Information Service, corporate event conformation, monthly processing and other Services with CAVALI. For that purpose, the Issuer should indicate via a written document addressed to CAVALI, the individuals who will have access to obtaining such information. An Issuer will be responsible for a user password that may be eventually assigned to it to Access the information to be made available by CAVALI.
s) Keep confidential the password to be assigned to it as part of the Information Service via electronic means.
t) Honor the confidentiality of information as required to all Issuers who obtain access to the information.
u) Open an Issuer Account in the event there are Holders with incomplete data as required for the process of recording book-entry securities on a comprehensive basis. The purpose is to enable them to record its securities holdings on an exceptional basis until the necessary information is regularized.

The sponsoring agent or the stock exchange will have the same obligations as the Issuer, as stated in subsections a, b, d, e, f, j, o, p, r and s to this article.

CAVALI is the official registrar of the issues held on its books and it performs daily and monthly reconciliations of its records with the official registrar/depositories (DTCC, CDS, EUROCLEAR, MILA), on a semi-automated basis, obtaining from the systems of such depositories the daily position in real time of those securities and then compares them with the relation of Holders and WARI system balances.

In the event any differences are detected, the procedure of analysis is detected to determine the underlying cause and perform an update, if appropriate.

Key consideration 2: A CSD should prohibit overdrafts and debit balances in securities accounts

CAVALI does not permit overdrafts or debit balances in securities accounts. Neither does CAVALI permit transfer nor re-transfers of securities before an initially agreed transfer has been completed.

Key consideration 3: A CSD should maintain securities in an immobilized or dematerialized form for their transfer by book entry. Where appropriate, a CSD should provide incentives to immobilize or dematerialize securities.

Securities stated in the Accounting Record of CAVALI's are maintained in a dematerialized form 100%. CAVALI does not hold or transfer securities held in physical form.

The securities stated in the Accounting Record of CAVALI's are book-entry securities.

Incentives are provided to Participants to dematerialize securities in the CAVALI's system. These incentives include low-cost transfers via book entries and allowing for the record to be kept on the system. In addition, holders are provided with online information of the positions held at the level of balances, movements and delivery of benefits. For this purpose, Holders can enroll to access the CAVALI WEB free of charge and they can obtain statement of accounts.

At the present date, there is no penalty applicable to a holder who keeps physical certificates. Work is being conducted with issuers so that changes are made in their own bylaws to change the form of representation of the securities issued.

Key consideration 4: A CSD should protect assets against custody risk through appropriate rules and procedures consistent with its legal framework.

CAVALI has current the following international and local insurance policies to protect its assets against the custody risk:

INTERNATIONAL

Fidelity insurance:

3D Insurance, max US$ 150 000

Deducible 15% min US$ 500

Insurance against Operational losses:

3B bank policy, US$ 8 000 000.00: A. BBB Bankers, Blanket, Bond, B. Computer crime, Professional Liability US$ 75,000 Sections A and B

Insurance against omissions:

3B bank policy, Section c D US$ 3,500,000.

Deducible; Directors & Officers responsibility, US$ 10,000

LOCAL
Property insurance with a coverage of USD$ 4 567 323
Deducible: 5% / 10%, 15% depending on damage (min US$ 1 000 of deductible, only in the event of flooding and storms min US$ 2500.00 deductible)

INTERNATIONAL (CYBER)
Civil responsibility, Cyber Risk, destruction and disappearance.
Civil responsibility USD$ 1,500,000, Cyber Risk USD$5,000,000
Deductible: Civil liability 10% material damage and 15% personal harm (minimum USD$ 500), Cyber Risk US$ 100,000

INSURANCE COMPANY AND BROKER
Rímac (BBB, CC, and D&O) through Marsh broker.
Parent Company: AIG

Records are reconciled to the deposits in which CAVALI holds accounts, to issuers and to participants.
The internal control system and the strategic, operational, financial, legal, technological and business risk management is consistent with the requirements of the Rules of Securities Clearing and Settlement Institutions and the Rules of the Securities Settlement Systems. The internal control system and risk management system is carried out by the Risk Control Management (ex ante) and the Internal Audit Management (ex post).

CAVALI has an official charged with internal control who safeguards adherence to the internal standards and procedures. CAVALI's corporate governance guarantees that the control and risk management functions are fulfilled with authority and Independence.

CAVALI has security systems in place to safeguard information (control over access to information prevents it from being lost or stolen); in addition, there is a Business Continuity Plan and an IT Service Recovery Plan, to ensure recovery of its operating capacity as soon as possible so that the normal course of securities market is not disrupted. These plans are reviewed, updated and tested once a year, at least. In addition, any significant change in these plans is communicated to the SMV on a timely basis, as required.

CAVALI has determined that the rules and procedures that protect assets against the custodian risk are consistent with the current legal framework, since they are aligned to the ICLV Rules, as authorized and approved by the Peruvian regulator SMV and the Peruvian Securities Market Law.

In protecting its Participants against the default risk, CAVALI has a fund ("Fondo – Patrimonio") that is independent and separated from its own and intended to protect the direct participants against the risks derived from counterparty's defaults in cash settlement transactions, traded in the centralized trading mechanisms to which CAVALI provides funding and securities settlement services.

This Fund covers any differences arising from enforcement of the cash transactions with funding and securities that are settled via CAVALI, for up to the pre-established limits. In addition, this Fund covers any delinquency interest that may have been accrued from default, at a rate that is set in the Complementary Provision No 02, Chapter IX, Settlement Fund.

The Fund can also be used to cover the net balance not covered by a direct participant charged with settlement of the transactions that entered the automated settlement process and with funding and securities to be settled via CAVALI, in adherence to the provisions of article 8, Chapter VII, up to the limits set in article 10, Chapter Settlement Fund.

The Peruvian regulator, at the request of CAVALI, or when deemed convenient considering current market conditions can set other assumptions to be covered by the Fund. Since the Fund is a separate equity differentiated from CAVALI's, its resources are not subject to confiscatory measures against CAVALI or to secure obligations that are CAVALI's. Management of the Fund is CAVALI's responsibilities.

On the other hand, CAVALI has established an anticorruption and anti-fraud policy to prevent, identify, analyze, and address corruption/fraud cases. This policy goes along an adequate Comprehensive Risk Management in place that reinforces transparency at the Company.

CAVALI has a Compliance Officer to prevent money laundering and terrorism financing from occurring, charged with implementing the anti-money laundering system throughout the Company. This system is set out in the Manual of Prevention of Money Laundering and Terrorism Financing, and it is updated on an ongoing basis.

Key consideration 5: A CSD should employ a robust system that ensures segregation between the CSD's own assets and the securities of its participants and segregation among the securities of participants. Where supported by the legal framework, the CSD should also support operationally the segregation of securities belonging to a participant's customers on the participant's books and facilitate the transfer of customer holdings.

CAVALI has mechanisms in place to segregate its own assets from the securities of its Participants.

CAVALI has matrix accounts per participant. A statement of account is available to each participant to check their position in all securities / account Holders. Also, CAVALI has a current individual account per each holder of its Accounting Record within its Matrix Account.

CAVALI makes the WARI system available for all its Participants to be able to transfer Holders among matrix account.

In the event of insolvency or default and the Participant has no other choice that winding down, the securities will be easily transferred from its Matrix Account to another account to be designated by the regulator.

Key consideration 6: A CSD should identify, measure, monitor, and manage its risks from other activities that it may perform; additional tools may be necessary in order to address these risks.

At the present date, CAVALI has additional services to those of clearing, settlement and custodian including record of negotiable invoices and settlement of international transactions. Therefore, CAVALI has developed additional tools to control and manage those effects. In this sense, daily and monthly reconciliations are performed on the positions of the accounts held by CAVALI with foreign central securities depositories; also, reconciliations are performed on the funding for cash accounts held for DVP transactions. Additionally, there are controls and account management activities for transactions entered with foreign securities in the Integrated Latin American Market Del ("Mercado Integrado Latinoamericano") comprising countries such as Peru, Chile, Colombia and México.

It should be noted that in all cases involving book-entry securities giving rise to a delivery by an Issuer of cash benefits, redemptions, or any other similar rights, this delivery will have to be conducted via CAVALI, because it is the ICLV with which those book-entry securities are recorded.

All risks posed by these services will have no impact on the Custodian or Securities Management Service.
In addition, a Proxy Voting service was implemented over the year for securities that are stated within the Deposito DTC (Citibank); which will be rendered by means of our Citibank Global custody services, which provides us with the Custody service since August 2020.

CAVALI has a Liquidity Contingency Plan in place comprising performance indicators that monitor the performance of the services rendered by CAVALI and its revenue; these indicators issue an alert whenever negative trends are detected.

Related documentation:

Internal documents:

- Manual of Procedures.
- Annual external audit reports.

- Contracted insurance policies.

Public access documents:

- The CAVALI's Internal Rules: http://www.cavali.com.pe/
- Rules of Securities Clearing and Settlement Entities: http://www.cavali.com.pe/
- Link of SMV: http://www.smv.gob.pe/
- Law for the promotion of the Securities Market, Law No 30050, that amended article 209 of the text of the Peruvian Securities Market Law, as approved under Supreme Decree No 093-2002-EF.

Principle 12: EXCHANGE-OF-VALUE SETTLEMENT SYSTEMS
If an FMI settles transactions that involve the settlement of two linked obligations (for example, securities or foreign exchange transactions), it should eliminate principal risk by conditioning the final settlement of one obligation upon the final settlement of the other. This principle should be reviewed in the context of Principle 4 on credit risk, Principle 7 on liquidity risk, Principle 8 on settlement finality, and other principles, as appropriate.

Key consideration 1: An FMI that is an exchange-of-value settlement system should eliminate principal risk by ensuring that the final settlement of one obligation occurs if and only if the final settlement of the linked obligation also occurs, regardless of whether the FMI settles on a gross or net basis and when finality occurs.

CAVALI secures the final settlement of an obligation when the settlement finality is reached by implementing the settlement mechanisms called *Delivery versus Payment* (DvP) as a way to reduce the major risks and ensure settlement finality. This Principle es applied both in settlement of variable-income securities as well as settlement of fixed-income securities, provided that the transactions are entered in centralized trading mechanisms.

Under the applicable legal framework, this principle is Principle is supported by the Law of the Payment Systems and Securities Settlement, Law 29440 Article 5, subsection d). In addition, the first final complementary provision of the Rules of the Securities Settlement System, pursuant to Resolution SMV No027-2012-SMV/01 also refers to this Principle; the second transitional Complementary provision of that resolution sets the elimination of the direct settlement (free of charge).

The rules of Sovereign bonds, article 1 subsection 1.18 and the rules of the Treasury Bills of Exchange, article 1 subsection 1.16 about the trading regime, Clearing and Settlement, states that all resulting transactions, both in the primary and secondary markets, regardless of the means of trading used, will be settled under the delivery versus payment mechanisms through CAVALI.

On the other hand, for securities lending transactions, settlement is affected via CAVALI under the delivery versus delivery (DVD) and delivery versus payment (DVP) methods. In this respect, settlement of the DVD transactions is affected directly on the CAVALI's systems, where the availability of the securities to be lent are validated, as well as those that will be used as collaterals. In this sense, securities lending transactions are settled over a period of T+2 (cash transaction) and up to 360 days subsequent to initial settlement for equity forward transactions. Likewise, for transactions that were settled DVP, CAVALI ensures the cash settlement when the relevant securities subject to lending are delivered versus the necessary funding to be given as collaterals. The standards governing this type of transactions is contained in the Rules of Transactions of the BVL (article 26, 27, 28, 42, 43, 46, 47, 49, 50 and 51).

Finally, this Principle is also governed by Chapter VII "Clearing and Settlement", in articles 7 and 17 of the CAVALI's Internal Rules to ensure the settlement finality of two linked transactions.

Linked transactions: in gross terms (transaction by transaction) or in net terms is carried out as follows:

- For transactions arising from stock exchange trades, funding is settled net and securities are settled gross (Model 2). However, for transactions coming from DATATEC, basically sovereign bonds transactions, settlement of both funding and securities is performed on a gross basis (model 1); that is, transaction by transaction.
- In respect of securities lending transactions, settlement of funding and securities is on a gross basis; that is, transaction by transaction. CAVALI ensures that all funding and securities are available to be used as collaterals, as appropriate.

The CAVALI settlement process blocks securities on a continuing basis, to ensure these securities will be available to cover a transaction immediately; as soon as the participants deliver the fund needed to cover a given transaction, the settlement process begins. At the present date, the settlement cycles are executed on an automated basis every 20 minutes; this is the maximum time over which a settlement transaction would be affected if transactions are adequately covered.

If no securities have been blocked, and due date for settlement close is out, the relevant funding is collected and transferred to a special account to ensure that once the securities are delivered over the extended period of time, as authorized by the entity that manages the MCN, the transaction will be settled.

In respect of safeguarding assets from third parties, the Law for the Payment System and Securities Settlement states that transfer orders of funds and securities are irrevocable once they are accepted by the respective SLV. Timing of acceptance is defined in Article 17 in the SLV rules.

CAVALI has included an amendment to Chapter VII, Internal Rules, specifying in its article about the transfer orders of funding and securities, that a transfer is completed whenever CAVALI verifies that both counterparties, buyer and seller, have made sufficient funding and securities available to secure the settlement of the confirmed transactions. The accepted transfer orders cannot be modified, revoked or challenged and the Settlement Finality of the related transactions should occur. This revised Chapter is expected to be approved over the current year.

As noted above for securities lending, the relevant collaterals are verified to be sufficient in the borrower's account and then the securities are transferred from the lender's account. As per the proposal of the same Chapter VII Clearing and Settlement in the Internal Rules, in the event CAVALI is notified of court or administrative actions brought involving an intervention, refinancing or liquidation of a participant of the SLV, after its transfer orders of funding and securities have been accepted by the SLV, the linked transaction will continue with its settlement process. CAVALI does not act as Central Counterparty Entity and there is no such entity operating in the local securities market.

Related documentation:

Public access documents:

- The CAVALI's Internal Rules: http://www.cavali.com.pe/

Principle 13: PARTICIPANT-DEFAULT RULES AND PROCEDURES
An FMI should have effective and clearly defined rules and procedures to manage a participant default. These rules and procedures should be designed to ensure that the FMI can take timely action to contain losses and liquidity pressures and continue to meet its obligations.

Key consideration 1: An FMI should have default rules and procedures that enable the FMI to continue to meet its obligations in the event of a participant default and that address the replenishment of resources following a default.

Participant-default Rules and Procedures

Default is defined as failure to deliver the funding or securities expected for settlement of a transaction or to be used in establishing a collateral or replenishing the collateral margin to the ICLV over the established periods of time, as well as partial, delayed or defective delivery.

All those transactions that are not settled within the maximum due dates will be reported as defaulted to the BVL and the SMV for the relevant penalties to be ordered.

Determination of defaults of funding and securities occurs at the 16:00 hours.

The final information about defaults will be given at the latest at 17:00 hours, considering the following:

1. All transactions identified at 16:00 hours will be reported as outstanding.
2. Those transactions identified as having funds that remained to be delivered, but which were covered with the application of the coverage mechanisms until the 17:00 hours will be excluded from the default information.
3. Additional to the transactions reported as outstanding at the 16:00 hours, also defaulted will be those transactions whose funding was not covered by the affected participant until 17:00 hours, these defaulted transactions will be included in the group of transactions withdrawn for shortfall of funding and/or securities.

In addition, CAVALI offers its Participants the possibility to perform securities lending transactions to cover defaulted transactions.

CAVALI will not accept the settlement of a defaulted transaction once it was confirmed by the stock exchange that the affected party is requesting withdrawal or enforcement of that transaction.

Rules and procedures of the FMI take into account the following aspects of a participant's default:

a) <u>The measures to be adopted by the FMI whenever default is reported:</u>

Involving transactions carried out in the centralized trading mechanisms, led by the stock exchanges and which were not settled within the deadline set in Binding Provision No 03, Chapter VI, Clearing and Settlement in the CAVALI's Internal Rules will be subject to the Rules of Stock Exchange transactions of the BVL. the entity charged with performing a follow-up and validation of the remediating the reported defaults.

b) The extent to which those measures can be automated or discretionary:

Those participants responsible for trading whose transactions have not been settled by the counterparty direct participant charged with settlement may, as the party affected by the defaulted transaction, opt to abandon or enforce the transaction under the terms, procedures, and due dates set under the BVL standards, even if they had transferred the responsibility for settlement to another direct participant.

BVL is the entity charged with follow-up and validation of the correction of the defaults previously reported by CAVALI.

c) Changes in regular settlement practices:

The procedure set in the BVL's operations rules is performed. The regular flow of a defaulted transaction (not settled timely), once reported to the BVL, as described above, is to be corrected (completed after the regular term) or otherwise the participant may choose to abandon or enforcement of the transaction.

d) Management of transactions in the different processing stages

e) The planned treatment of the own accounts and transactions and those of customers:

Treatment of the RUT codes will be the same for own accounts, holders' accounts, individuals /legal entities, or third parties.

f)The likely sequence of the measures:

The ICLV will report immediately when default occurs to the Entity affected for it to choose for abandonment or enforcement of the transaction. Additionally, the ICLV will report the situation to the Market Direction (Dirección de Mercados), stating all details of the transactions, including the involved parties, the securities and those that comprise the collateral margin, as appropriate. If the decision of the affected entity is not reported to the BVL's Market Direction up until the 17:45 hours on the same date, it will be assumed to have opted for enforcement of the transaction. Nonetheless the above, the affected entity will be able to decide on abandonment of the transaction and inform it to the Markets Direction as long as no enforcement has been carried out.

g) The functions, obligations and responsibilities of the different parties, including participants that do no default and the BVL's Market Direction.

h) <u>Existence of other mechanisms that can be activated to contain the impact of default.</u>

There are preventive measures implemented by CAVALI to minimize defaults of securities and funding by the Participants.

These mechanisms consist of providing the direct participants with information about the positions of their securities on T+1; based on this information direct participants are able to make changes in the agreed transactions (RUT, term, etc.) if necessary. Further, participants have access to their fundings online so that they can manage to cover any shortfalls with their respective settlement banks to meet their transaction obligations.

On the other hand, the direct participants (securities brokerage entities, banks) have the chance to access the system and block the securities needed to secure settlement. Participants prepare reports regarding their transactions and their current statuses; they have also direct access to CAVALI's automated systems.

As part of the integration of CAVALI and BVL, arrangements will be made with the relevant institutions to assess the most adequate alternative available to transfer to ICLV the management of the transaction default process.

Use of financial resources

The FMI default rules and procedures provide for it to use promptly all financial resources available to cover losses and contain liquidity pressures arising from default, including liquidity facilities.

The IMC (Minimum amount of coverage) will be used whenever differences are verified that were not covered by the defaulted participant, in the event the affected direct participant had opted to enforce the defaulted transaction. This difference will be covered up to the amount the defaulted direct participant would have established as IMC with CAVALI.

Default rules and procedures specified the order in which the relevant financial resources can be used:

1. IMC (Minimum amount of coverage) and
2. Settlement Fund

Default rules and procedures are contained in Chapter IX Settlement Fund in the Internal Rules.

In addressing replenishment of resources following a default, the Internal Rules specify the coverage mechanisms and time periods for the replenishment of cash whenever default involves lack of funding.

In the event the participant does not meet its obligation, its settlement activities will be suspended as to the types of transactions covered by a given mechanism until default is corrected.

The Settlement Fund can be used to cover differences in prices arising from the enforcement or to cover net balances of Direct participants. In the event funds are not replenished, CAVALI will report such a failure to the relevant stock exchanges to be subject to the provisions of Article 52 of the Rules of Stock Exchange Transactions (BVL), regardless of compliance with the obligations contracted with the market.

Additionally, in the event the Fund is used to cover the net balances of debit, but it is not replenished over the expected period of time, CAVALI will request BVL to order enforcement of the securities defaulted by the direct participant, so as to replenish the amount used, under the provisions of article 49 of the Rules of Stock Exchange Transactions (BVL), as applicable.

The Fund resources used will be replenished and deposited by the defaulted Direct participant to one of its relevant accounts, including the respective penalty and delinquent interest and over the time period set in the Internal Rules, as applicable.

Replenishments should be completed with the following order of priority:

a. Resources of the Individual Account of the defaulted Direct participants in the order they were authorized.

b. Resources of the Individual Account of the defaulted Direct participants.

The securities involved in the defaulted transactions that were covered by the Fund will not be released until the Fund is replenished.

In order to affect the replenishment of the funds used to cover a default, CAVALI controls the risk associated with Clearing and Settlement carrying out the following activities:

a. Monitoring the debit balance to be settled, involving a follow-up of the Direct participants charged with settlement of the net positions with exceeded lines of credit with their settlement bank or funds held with CAVALI.
b. Performing a follow-up on the lines of credit, which are supported by the Direct participants charged with settlement to CAVALI, to the settlement bank, so that the amounts of those lines of credit are kept at the agreed levels and due dates.
c. Determining the frequency of use of the Individual and Global Fund to prevent the withdrawal of transactions from the automated settlement processes, as well as the use of cash money credited by the Direct Participants on behalf of CAVALI.
d. Determining transactions that may have been withdrawn from the automated settlement processes due to insufficiency of the funds or delays in delivery of securities, in respect of the total of their settlement obligations.
e. Determining failure to settle transactions due to insufficient funds and/or securities as well as replenishment of the collateral margins, for the applicable transactions.

f. Determining the frequency of us of the Settlement Fund to cover differences that may arise from enforcement of the securities of defaulted transactions.

Key consideration 2: An FMI should be well prepared to implement its default rules and procedures, including any appropriate discretionary procedures provided for in its rules.

The CAVALI's Internal Rules contain the application of discretionary procedures to address default.

The Services and Operations Management is charged with overseeing the determination of a default event and the Risk Control Management is charged with following up on the flow of information.

Defaults are managed solely by the BVL.

Participants have reports with information about transactions and their statuses as well as direct access to the CAVALI's information system.

The BVL is reported at 16:00 hours on all transactions identified as outstanding through the WARI system; further, the defaulting and affected party are informed by the same means.

Management of defaults is carried out by the BVL. The BVL internal procedures are applicable.

Key consideration 3: An FMI should publicly disclose key aspects of its default rules and procedures

The CAVALI's Internal Rules and BVL Rules of Transactions contain the default rules and procedures. Both are of public access on the respective websites.

Key consideration 4: An FMI should involve its participants and other stakeholders in the testing and review of the FMI's default procedures, including any close-out procedures. Such testing and review should be conducted at least annually or following material changes to the rules and procedures to ensure that they are practical and effective.

Involvement of the FMI participants in the testing and review of the FMI's default procedures are carried out by the BVL. The testing and review scenarios and procedures that address defaults is carried out by the BVL.

Related documentation:
Public access documentation:

- The CAVALI's Internal Rules: http://www.cavali.com.pe/
- BVL rules of operations: http://www.bvl.com.pe/

Principle 15: GENERAL BUSINESS RISK
An FMI should identify, monitor, and manage its general business risk and hold sufficient liquid net assets funded by equity to cover potential general business losses so that it can continue operations and services as a going concern if those losses materialise. Further, liquid net assets should at all times be sufficient to ensure a recovery or orderly wind-down of critical operations and services

Key consideration 1: An FMI should have robust management and control systems to identify, monitor, and manage general business risks, including losses from poor execution of business strategy, negative cash flows, or unexpected and excessively large operating expenses.

CAVALI's Senior Management carries out a strategic plan to identify the general business risks based on an internal analysis of the internal and external contexts to identify the associated risks. Additionally, every time a new project is introduced to CAVALI, the associated risk is assessed and how the impact they may have on CAVALI's financial sustainability.

There is a Risk Matrix based on which the strategic, operational and financial entity-wide risks are monitored. Also, every time a new project is undertaken by CAVALI, the associated risks are assessed as part of the entity´s process of managing significant changes.

Key consideration 2: An FMI should hold liquid net assets funded by equity (such as common stock, disclosed reserves, or other retained earnings) so that it can continue operations and services as a going concern if it incurs general business losses. The amount of liquid net assets funded by equity an FMI should hold should be determined by its general business risk profile and the length of time required to achieve a recovery or orderly wind-down, as appropriate, of its critical operations and services if such action is taken.

CAVALI shows liquidity (mainly in "cash and banks") to be used to cope with events that may have a negative impact on the organization and give rise to losses. This is a way to ensure the continuity of the services rendered by the Company. The liquidity ratio is focused on validating that the organization has sufficient liquidity to meet its operating needs for six months.

CAVALI Has sufficient assets to cover 6 months of operations, as measured based on the IOSCO liquidity ratio. Such a ratio is calculated basically using most current assets or assets which despite the fact they are not current assets, are rapidly realizable without write-offs (such as, time deposits). These liquid assets are compared to the expenses budgeted for the next 6 months.

Key consideration 3: An FMI should maintain a viable recovery or orderly wind-down plan and should hold sufficient liquid net assets funded by equity to implement this plan. At a minimum, an FMI should hold liquid net assets funded by equity equal to at least six months of current operating expenses. These assets are in addition to resources held to cover participant defaults or other risks covered under the financial resources

principles. However, equity held under international risk-based capital standards can be included where relevant and appropriate to avoid duplicate capital requirements.

Recovery or orderly wind-down plan

CAVALI has an '*orderly wind-down plan*' that sets out the activities to be carried out in the event of a process of wind-up or liquidation. It is based on current laws and regulations, setting out details of the wind-up, liquidation and extinction of the entity.

Resources

CAVALI has sufficient assets to cover 6 months of operations. Financial assets are evaluated periodically (monthly) setting a liquidity ranking which includes a predetermined liquidity threshold.

The Company segregated the resources held to cover general business risk and losses from the resources intended to cover defaults of participants and other risk under the provisions of the Principles relating to the financial resources.

There is a "Settlement Fund" to cover default, which is equity capital fully separated from CAVALI's, but managed by it.

Key consideration 4: Assets held to cover general business risk should be of high quality and sufficiently liquid in order to allow the FMI to meet its current and projected operating expenses under a range of scenarios, including in adverse market conditions.

CAVALI's assets are mostly invested in time deposits and fixed-income instruments. Further, in order to cash those time deposits (in Peruvian soles and U.S. dollars), the related contracts with the financial institutions would need to be terminated early, which would only result in losses/ lower collections of all the expected future interest. On the other hand, in order to cash fixed-income instruments, they should be sold to the market, with the consequential gains or losses depending on their prevailing prices at the date of disposal. It should be noted that there is an investment policy that establishes in which types of instruments or investments should be made, their required rate and concentration, among other characteristics.

CAVALI assesses, on a periodic basis, the quality and liquidity of its liquid net assets stated in its equity.

Time deposits are not assessed since they are highly liquid assets; they are only monitored to be aware of their due dates and renew or sign new term contracts. The money invested in this kind of assets is transferred the same day or next day after settlement. It should be noted that there is a policy of investments that sets forth the types of allowable investments and levels of concentration (both in currency and type of Issuer).

Debt instruments and other kind of assets are valued monthly, and their investment risk rating are updated in the event the decision is made to dispose of them. Further, a follow-up is performed of risk rating grades of banks that issued the time deposits and the debt instruments that are held as investments.

Key consideration 5: An FMI should maintain a viable plan for raising additional equity should its equity fall close to or below the amount needed. This plan should be approved by the board of directors and updated regularly.

Laws and regulations currently in force contain no minimum regulatory capital requirement applicable to CAVALI and neither do they require liquid net assets. CAVALI has a Liquidity Contingency Plan. This plan sets out the policy for a potential use of resources and/or cut of costs, indicating the order of priorities to obtain financing and be able to raise additional capital in the event of any contingencies, such as: lines of credit, liquidation of assets, and/or capital increases (shareholder capital contributions).

There is no plan to raise additional capital; there is a Liquidity Contingency Plan that establishes how the entity can use resources to honor obligations.

Related documentation (Internal documents):

Strategic Plan. Liquidity Contingency Plan. Business Continuity Plan.

Principle 16: CUSTODY AND INVESTMENT RISK

An FMI should safeguard its own and its participants' assets and minimise the risk of loss on and delay in access to these assets. An FMI's investments should be in instruments with minimal credit, market, and liquidity risks.

Key consideration 1 An FMI should hold its own and its participants' assets at supervised and regulated entities that have robust accounting practices, safekeeping procedures, and internal controls that fully protect these assets

The settlement Fund, comprising Participant's contributions and intended to protect the direct participant charged with settlement, is a separate and segregated fund from CAVALI's equity but is managed by CAVALI. CAVALI invest the amounts in this Fund to obtain returns in consistency with its investment policy; in this sense, CAVALI selects that the entities with which it will hold its Settlement Fund meet the qualifications and requirements set forth in the investment policy and that no investment concentration limit is exceeded per Issuer and/or currency. Also, a follow up is performed of the entities in which investments are held to check that the policy is adhered to while funds are kept with them.

On the other hand, the cash money provided to participants to cover the IMC, is held with high credit quality banks, such as BBVA Continental, Scotiabank, Interbank and Banco de Crédito, which meet the investment policy requirements. In addition, cash provided by participants as collateral on Repo transactions and/or securities lending transactions is also held with Scotiabank

CAVALI verifies that banks meet the criteria set forth in the investment policy; for example, it monitors the risk rating these banks have and whether they meet all other investment policy requirements.

Key consideration 2: An FMI should have prompt access to its assets and the assets provided by participants, when required.

CAVALI has its own assets (Treasury bills of exchange, short-term instruments) that are in the hands of "Sociedades Agentes de Bolsa", acting as a custodian, and have a Matrix Account with CAVALI. It should be noted that when investments are made, the "Sociedades Agentes de Bolsa" issue an investment policy comprising the securities they buy. This document entitles CAVALI to demand ownership rights on those assets.

It should be noted that most investments are held in time deposits with commercial banks (which safeguard these investments).

CAVALI holds quick-access investments given that investments in securities are based on a policy and investments in deposits are supported by contracts with the financial institutions; and cash can be made available on the same day or the day after a request is made.

Key consideration 3: An FMI should evaluate and understand its exposures to its custodian banks, considering the full scope of its relationships with each.

As referred to in the above item, CAVALI has investments that are held by “Sociedades Agentes de Bolsa” and commercial banks, acting as custodians; these investments are held in line with the requirements of the investment policy, which sets forth the relevant investment concentration limits.

Key consideration 4: An FMI’s investment strategy should be consistent with its overall risk-management strategy and fully disclosed to its participants, and investments should be secured by, or be claims on, high-quality obligors. These investments should allow for quick liquidation with little, if any, adverse price effects.

Investment strategy

There is an investment policy in place which sets forth the restrictions in place to invest in its own portfolio; this investment policy is approved by the Board. Additionally, all investments made are monitored to check whether they meet the investment policy requirements. For this purpose, investment risk indicators have been set up together with thresholds and warnings in these indicators, such as VAR, term and ranking of illiquidity. Risks are periodically analyzed to verify whether they all meet, always, all the investment policy requirements.

Risk characteristics of investments

All investment policies are subject to the following limits:

- Currency,
- Instrument category,
- Issuer category,
- Term,
- Concentration,
- Securities.

The Settlement Fund, a fund structured with Participant’s contributions, is managed by CAVALI, and therefore, the balances of this Fund are invested to obtain returns in adherence to the guidelines in the investment policy.

The investment policy es very conservative; and thus, investments may pose low risks. Investments in the funds managed by CAVALI and the Settlement Fund, are mostly held in the form of time deposits. Time deposits, they are highly liquid; however, Treasury bills of exchange are subject to gains or losses resulting from changes in the market price at the time of disposal.

Related documentation:
Internal documentation:
Investment Policy.

Principle 17: OPERATIONAL RISK

An FMI should identify the plausible sources of operational risk, both internal and external, and mitigate their impact through the use of appropriate systems, policies, procedures, and controls. Systems should be designed to ensure a high degree of security and operational reliability and should have adequate, scalable capacity. Business continuity management should aim for timely recovery of operations and fulfilment of the FMI's obligations, including in the event of a wide-scale or major disruption

Key consideration 1: **An FMI should establish a robust operational risk-management framework with appropriate systems, policies, procedures, and controls to identify, monitor, and manage operational risks.**

Identification of Operational Risk

In identifying plausible sources of operational risk, we follow the guidelines of our Operational Risk Assessment and Analysis Procedures. Other sources of operational risk included are loss events and lessons learned from the overall industry.

A review is conducted of the existing processes and procedures existing to identify possible deficiencies or lack of controls that may give rise to risks; we reviewed CAVALI's loss event database, the regulators' penalty rules; the internal/external audit result reports. Additionally, operational risk self-assessment workshops are performed to identify other internal and external sources of Operational Risk.

Four major sources of operational risk have been identified: internal processes, technology, people, and external events. Failure in transactions can be derived from those sources.

Management of operational risk

The identified operational risks are monitored based on the results of the operational risk self-assessment matrices (available on the documentary management ISOTools), follow-up on action plans, follow-up on loss events (Excel loss event databases), risk management in significant changes (confluence -wiki), and risk management in significant subcontracting (critical service matrix, Excel, workflow on Atlassian – JIRA).

Policies, processes and controls

In ensuring that the FMI's procedures are implemented appropriately, we adhere to the Manual of Comprehensive Risk Management containing the risk management framework. The legal basis of this manual includes the rules set forth by the Peruvian securities and company regulator SMV and international standards such as COSO and ISO 31000.

Our Operational Risk Assessment and Analysis Procedures sets out the policies to carry out risk self-assessment and control workshops and a definition of the relevant action plans. Also, there is a procedure implemented to Manage loss events.

The Operational Risk Assessment and Analysis Procedures sets outs the specific tasks to identify risks, the analysis, assessment and response to the Operational Risks.

The Loss Event Management Procedures sets out how a log of loss event investigations is kept as well as the update of the operational risk matrix, as appropriate.

The procedure for risk management on significant changes that sets out how we identify, analyze, evaluate and address risks in significant changes.

The Human Management department has a policy in place with recruitment and selection and training policies to meet the changing needs of training of the organization's personnel.

There are policies to back up key personnel; in fact, all positions are backed up in the event of absentees or turnover of critical staff.

In respect of the risk management and human resources policies relating to preventing fraud they are defined in the Internal Rules of Conduct (NIC, the Spanish acronym) and contains provisions for the use of insider privileged information and obligations applicable to all personnel. These policies are approved by the Board. Additionally, all collaborators have to sign non-disclosure / confidentiality agreements and a statement of compliance with IAS.

The change management and project management policies implemented by the FMI mitigate the risks that implementation of changes and large project may bring and inadvertently impact the operations of the system.

Risks self-assessment workshops are held to identify or detect the Operational Risk of new services, projects and significant changes using the methodology defined in the Manual of Comprehensive Risk Management and Operational Risk Assessment and Analysis.

CAVALI analyzes the impact significant changes may have on business continuity and a risk report is prepared using the same methodology used in the self-assessment of critical processes; that is, identifying risk and root causes, the assessment of those root causes; then recommendations are proposed. Later, a follow-up on the status of those recommendations is conducted.

Key consideration 2: An FMI's board of directors should clearly define the roles and responsibilities for addressing operational risk and should endorse the FMI's operational risk-management framework. Systems, operational policies, procedures, and controls should be reviewed, audited, and tested periodically and after significant changes.

Roles, responsibilities and framework

The Board through the Audit and Risk Committee defines the roles and responsibilities addressing the Operational Risk, as defined in the Manual of Comprehensive Risk Management.

The board ensures adequate governance of the Comprehensive Risk Management.

The board ensures the Comprehensive Risk Management is adequately implemented and approves the level of risk appetite and risk capacity of the organization, as well as the operational risk policies. Also, the Board sets up an Audit and Risk Committee, which is commissioned to ensure that those policies, processes and controls are aligned with the overall organization's strategy and risk appetite and that risk management is carried out in a satisfactory manner.

Review, audit and testing

CAVALI reviews, audits and tests its systems, policies, procedures and controls, including Operational Risk management mechanisms. There is also an annual internal audit program comprising an Operating and IT audit.

A review of compliance with the Operational Risk management with Participants is conducted at the date a new participant is accepted and followed up on an annual basis. The operating and IT capacity is reviewed. Also, Business Continuity is tested together with the Participants, and incidents are controlled and followed-up to identify potential disruption. Events or incidents, as applicable, will be used as a reference to feed the operational risk analysis and assessment matrix of the Business Continuity Risks.

External operating audits are conducted of the operational management framework. These audits are performed on an annual basis by an independent auditor. Also, the Business Continuity Management and Information Security systems are audited periodically by external auditors as part of the process of maintaining ISO 22301 and ISO 27001 certifications. Those audits comprise a review of the risks associated with business continuity management and information security.

Key consideration 3: An FMI should have clearly defined operational reliability objectives and should have policies in place that are designed to achieve those objectives

The FMI's operational reliability objectives are as follows:

- 99.9% access to Wari and Factrack platforms
- 0 high or very high criticality Information Security incidents that affect the Confidentiality or integrity of CAVALI's information.

These objectives are documented as part of formal management systems.

The current objectives are aligned to the organization's overall strategic planning.
Transactions are carried out and processed using two major platforms: Wari and Factrack, monitored by different areas (IT Database, IT infrastructure, and IT Operations), which perform a follow-up on the operations of these platforms, by means of their availability, control over findings with an impact on information

confidentiality or completeness and tests that prepare the organization to better react to events that may affect our business continuity.

Further, there is a real-time monitoring solution to track performance of the CAVALI's systems to detect when the operational reliability objectives are being compromised.

On the other hand, we have in place an outsourced Cybersecurity Center that fulfills the major function to orchestrate and monitor cybersecurity events to prevent potential disruption events from occurring.

Apart from the above paragraph, in making sure the reliability objectives are achieved, and the FMI takes the necessary measures on a timely basis, a follow-up on management system objectives is performed 2 times per year.

The monitoring results are submitted to the Management Committee to act on the finding, as appropriate

Key consideration 4: An FMI should ensure that it has scalable capacity adequate to handle increasing stress volumes and to achieve its service-level objectives

In order to ensure that CAVALI's technological infrastructure capacity is adequate to effectively support the services provided to customers there is Capacity Management Process implemented that considers the consumption of resources by the communications and linkage servers.

Reviews of consumptions are performed on an ongoing basis using an automated monitoring tool. Additionally, reviews are aggregated into monthly reports to make projections or forecasts of trends of consumption; on that basis, needs for technological resources are determined so that purchasing decisions are made for the FMI to be able to meet the needs of larger volumes of transactions.

An assessment of the information collected in reports is affected based on the following consumption thresholds:

- Processor: lower than 40%, lower consumption; lower than 80%, medium-sized consumption and more than 80%, high consumption.
- RAM: lower than 40%, low consumption; lower than 80%, medium-sized consumption and more than 80%, high consumption.

Finally, for all new projects implemented by CAVALI, a forecast is prepared of the potential demand for technological resources; and based on that, purchasing needs are determined.

The current process of Capacity Management ensures that no limits are exceeded that may put at risk the serves provided by CAVALI to customers. At the present date, all technological equipment and communications linkages that are operating at an average 60% of their maximum capacity; the potential transactional increases derived from higher demand for the services provided to customers are also identified. Also, there is a procedure in place to set the time thresholds to take corrective actions or immediate actions; for example, if capacity reaches 80%, additional storage capacity is immediately acquired.

In the event larger capacity is determined to be needed to meet the operational volume needs; such a need would be detected with sufficient time in advance to allow for corrective actions to be taken.

Key consideration 5: An FMI should have comprehensive physical and information security policies that address all potential vulnerabilities and threats.

Physical security

In respect of change and Project management, all CAVALI's significant change or Project is subject to a risk assessment to identify potential vulnerabilities and physical threats and relevant controls are planned to be implemented as needed.

There are Information Security Policies to protect physical and digital information.

Major controls implemented over the physical security of information are as follows:

- A physical security perimeter with restricted controlled access.
- Ongoing monitoring by the CCTV over all Access areas and within premises.
- Control over Access areas by security guards working 24x7x365 shifts.
- Log of entrances and exits of all individuals.
- Log of entrances and exits of all technological equipment.
- Mandatory use of identification batches required to all collaborators, suppliers and guest.
- Biometric control over physical Access to all office facilities – digital fingerprint.
- Physical protection measures against different forms of threats such as: fire, blackouts, flooding, earthquake, explosions, social unrest and other forms of natural or human-caused disasters.
- Restriction in use of photographic, video, audio and other equipment, in the physical spaces in which sensitive information is processed.

For remote work, controls were strengthened d to safeguard information confidentiality and workspace, which are monitored periodically by the relevant control areas and logs are under custody in consistency with the information security policies.

Additionally, improvements were made in security of collaborators' remote access: VPN under ISO 27001, Exhibit 1 (Physical security and A11 environment. Additionally, improvements have been performed in the collaborators' remote access, such as: VPN with strong encryption, threat analysis within linkages, double-factor authentication, restrictions to use only authorized equipment.

Physical security policies and controls in place hold international certifications such as ISO 27001 in respect of Exhibit A (Physical and environmental security). Additionally, the physical security controls have been designed in alignment to the global best practices set forth in ISO 27002 – Information Technology – Security

Techniques – Information Security Control Practices.

The comprehensive management system policy is consistent with ISO 27001. ISO 9001 and ISO 22301 and ISO 37001.

Information Security

The FMI's policies and processes, including the change management and project management policies and processes, to address the plausible sources of vulnerabilities and threats to Information Security are as follows:

There is an Information Security Management System (SGSI) that is certified by SGS and compliant with internationally recognized ISO 27001:2013, which include policies and procedures to safeguard the Company's information. This involves management of the Information Security Risks under a methodology based on ISO 31000, significant change and project management, monitoring of management's performance and continuing improvement, among other aspects.

Also, CAVALI's information security supplier monitors management and responded on a 24x7x365 basis to keep check over any potential event of any incident or threat against the Company's Information Security.

The SGSI is compliant with the international ISO 27001:2013.

In respect of regulations, the SGSI considers compliance with all laws and regulations applicable to Information Security, as required by ISO 27001.

Key consideration 6: An FMI should have a business continuity plan that addresses events posing a significant risk of disrupting operations, including events that could cause a wide-scale or major disruption. The plan should incorporate the use of a secondary site and should be designed to ensure that critical information technology (IT) systems can resume operations within two hours following disruptive events. The plan should be designed to enable the FMI to complete settlement by the end of the day of the disruption, even in case of extreme circumstances. The FMI should regularly test these arrangements.

Objectives of business continuity plan

The Business Continuity Plan (PCN) reflects the roles and responsibilities of each individual critical collaborator in the event of an identified external condition of disruption. These scenarios have a target recovery time that should not surpass the maximum disruption period. Also, it should be noted that the PCN is activated by the Business Continuity Committee.

In addition, in the context of the mandatory confinement since 2020, we implemented remote work via VPN and other controls; remote work is now part of the established strategy.

Design of business continuity plan

In order to ensure that the IT critical systems can resume operations over a period of two hours after any disruption to enable the FMI to arrange or complete settlement before the end of the day; even in extreme circumstances, there is an IT Service Recovery Plan that contains and sets out the scenarios of IT alteration or disruption. Each IT scenario has a target recovery period that shall not exceed the target recovery period for critical processes. .

In the event of circumstances disrupting the core IT Operations Data Center (a robust data center that holds the TIER III certification), there is a back-up server located in a different site to secure 5 minutes of data loss.

Procedures implemented to recover that information loss includes data reconciliations with participants, who would input again the transactions for the day of loss, in the event those transactions were not saved.

Internal communications for an immediate response and activation of the data-recovery strategies, use a communications crisis software. This tool enables the FMI to activate simultaneous alerts to all collaborators by different means of communications: cell phone, email, texting and fixed telephone.

Also, communications with authorities and other external interested parties are conducted via email or any other available means of communication. The individuals responsible for keeping other interested parties informed and respond to them have been designated. This is done through the Communications Committee.

Secondary site

The FMI's service continuity plan does not incorporate the use of a secondary site. At the present date, we have other strategies for the recovery of critical activities, including the use of VPN for remote work. This strategy was coordinated at the beginning of the National Emergency. From the time we began working remotely, we have had no service disruptions.

It is worth mentioning that we have evaluated the possibility to use of an Alternative Business Center (as we have had in previous years) as soon as the National Emergency is over.

No alternative manual paper-based procedures have been considered to allow for the processing of time-critical transactions in extreme circumstances. All transactions will be processed solely using the WARI or Factrack. No transactions can be processed manually.

No transactions can be completed via VPN in places in which there is no physical security needed for the data to be processed.

The only process that can be completed manually is the approval of payments via letters rather than via the WARI system.

Review and testing

In order to review and testing the contingency and continuity mechanisms of the FMI services, including scenarios of wide-scale and major disruptions, there is an annual program of Business Continuity Testing. All scenarios are tested periodically.

The involvement of participants, suppliers of critical services and the FMI's services with which linkages are maintained are subject to the following test:

Overall Disaster (Wari Crash) Involvement of suppliers, regulators and customers is included. This is a way to test the effectiveness of the strategies/plans. It is performed annually.

In addition, Internal Audit performs an annual review of the suppliers' ability to continue providing the critical services.

Key consideration 7: An FMI should identify, monitor, and manage the risks that key participants, other FMIs, and service and utility providers might pose to its operations. In addition, an FMI should identify, monitor, and manage the risks its operations might pose to other FMIs

Risks to the FMI's own operations

CAVALI has identified major risks service providers pose to the FMI's own operations.

Potential failure of suppliers affecting the FMI's operations have been identified. The measure taken is having an alternative supplier for each of those services. In addition, there is an alternate Data Center in the alternate site and an international back-up.

Redundancies in all technological components exist, including telecommunications and servers. All redundancies are tested annually.

An audit of the organization's key suppliers is performed annually, involving a review of the capacity of the services rendered by these suppliers.

CAVALI does not outsource any of its core services.

CAVALI ensures that the operations of a critical service provider meet the same reliability and contingency requirements they would need to meet if they were provided internally.

There is a process of stock exchange services ("Servicios Bursátiles") outsourced to the Lima Stock Exchange, which support corporate events of Issuers with impact on the securities (such as the delivery of benefits, change in par values, mergers, spin-offs, preferred subscription rights, amortizations and redemptions, among others), but no impact on Clearing and Settlement.

These collaborators are identified, they take part in the CAVALI business continuity process, and they all have an alternative supplier option.

Also, a key supplier performance evaluation is performed periodically.

Risks posed to other FMIs

Disruption of our services will affect our stakeholders, such as: Brokerage Entities, AFP (private pension plan managers), financial institutions, among others. In identifying, monitoring and mitigating the risks posed to other FMIs, CAVALI has a Business Continuity Plan and Liquidity Contingency Plan, which contain the disruption scenarios considered and tested annually.
Measurement is performed of the performance and follow-up on the business continuity management.

CAVALI holds the ISO 22301 certification based on which we keep up to date our business continuity management system.

Tests are performed involving SAB´s, AFPs and banks as users to check whether our contingency measures are operating as expected. Tests are performed on an annual basis.

Related documentation:

Internal documents:

- Manual of Comprehensive Risk Management.
- Operational Risk Assessment and Analysis Procedures.
- Policies related to the identification of the Operational Risk included in the Manual of Operational Risk.
- Operational Risk Matrix.
- Procedures of Information Security Incident and Event Management.
- Internal Conduct Standards.
- Recrutiment Internal Procedure.
- Plan to achieve Management Systems objectives.
- KRI monitoring matrix.
- Capacity and Availability Management Document.
- Monitoring report on production capacity.
- Report on monitoring capacity of the communications linkages.
- Annual Capacity Plan.
- General Information Security Policies.
- Supplier Policies.

- Physical Security Management Document.
- IT Service Recovery Plan.
- Business Continuity Plan.
- Crisis Management Plan.
- Crisis Communications Procedure.
- Annual Business Continuity Plan Testing.
- Report on Business Continuity Plan.

Principle 18: ACCESS AND PARTICIPATION REQUIREMENTS
An FMI should have objective, risk-based, and publicly disclosed criteria for participation, which permit fair and open access.

Key consideration 1: An FMI should allow for fair and open access to its services, including by direct and, where relevant, indirect participants and other FMIs, based on reasonable risk-related participation requirements.

Participation criteria and requirements

El The level of compliance with the requirement imposed to Participants are directly related to the services to be provided. The entities that want to be CAVALI's Participants need to meet the requirements set in the ICLV's Rules and the Internal Rules.

CAVALI has included in its Internal Rules the requirements to become a Participant, including, among others, the following:

a) Entrance application signed by the legal representative or attorney in-fact with enough powers to legally represent a legal entity.
b) Enforceability of power of attorney given to the legal representative or proxy signing the application, registered with the Public Registry, as appropriate, with no more than thirty (30) calendar days from issuance.
c) An authorized copy of the registration issued by the Public Registry or equivalent entity if a foreigner.
d) Simple copy of the Resolution the relevant oversight entity granted license of operation, or similar document, as appropriate.
e) A simple copy of the Audited Financial Statements at the end of the last year, as filed with the relevant oversight regulator.
f) Sworn statement stating that all operating and IT requirements set for an entity to become a Participant have been met.
g) Sworn statement of compliance with the FATCA regulations
h) Document evidencing registration of signatures of duly authorized individuals before CAVALI, as filled out and signed by the legal representative.
i) Sworn statement stating that participant's directors and managers meet the moral adequacy criteria. (Sworn statement of enough aptitude or capacity of enough Good moral conduct).

These requirements are intended to ensure participation in terms of safety and efficiency as tailored to the FMI's specific risks.

CAVALI has procedures in place set to ensure fair and open and non-discriminatory access. Those entrance requirements for a participant of CAVALI's are available to the public on its corporate website. They justify participation in terms of safety and safety.

The following legal entities are eligible as CAVALI's participants:

a. Securities brokers (stock exchange intermediaries)
b. Banking and financial institutions.
c. Insurance and reinsurance companies.
d. Fund Manager Entities (“Sociedades administradoras”).
e. Investment Funds (“Sociedades administradoras de fondos de inversión”).
f. Pension Fund Administrators (“Administradoras de Fondos de Pensiones”).
g. Securities Clearing and Settlement institutions.
h. Entities incorporated abroad in the business of recording, custody, settlement, clearing or transfer of securities.
i. The Peruvian Ministry of Economy and Finance
j. The Peruvian Central Reserve Bank
k. Factoring entities within the scope of Law No 26702 or registered with the SBS, under the Rules of Factoring, Discount and Factoring entities, as approved under Resolution SBS No 4358-2015 as amended.
l. Municipal Building Societies (“Cajas Municipales de Ahorro y Crédito”)
m. Rural building societies (“Cajas Rurales de Ahorro y Crédito”)
n. Trust Service entities
o. Securitizating entities, among others.

Key consideration 2: An FMI’s participation requirements should be justified in terms of the safety and efficiency of the FMI and the markets it serves, be tailored to and commensurate with the FMI’s specific risks and be publicly disclosed. Subject to maintaining acceptable risk control standards, an FMI should endeavor to set requirements that have the least-restrictive impact on access that circumstances permit.

Justification and rationale of participation criteria

CAVALI has a new framework contained in its Internal Rules setting out the services it provides to its customers.

Participants, both direct and indirect, have Access to the Internal Rules and services, since relevant information is available on CAVALI’s corporate website.

As part of CAVALI’s “Know your customer” policies and entrance procedures for direct and indirect participants, a review is performed of the information provided by the prospective Participants on their operating capacity, technological sufficiency, legal representatives, shareholding structure, financial information, among others.

This information enables CAVALI to keep control over each of its Participants. In addition, a control procedure is run on a daily basis over each participant level of trading and settlement, as well as over the risk of default they may pose to the System.

Some of the requirements for participation that are not based on risks are based on current legislation and are as follows:

a. A simple copy of the Resolution the relevant oversight entity granted license of operation, or similar document, as appropriate.
b. Sworn statement of compliance with the FATCA regulations, under the Peruvian laws and regulations, signed by the legal representative or proxy with the enough powers to legally represent the legal entities, enclosing the required supporting documentation.

There are similar requirements to Participants. Participants are subject to similar access criteria:

Legal entities, local and foreign, as well as special indirect participants within the scope of article 1, Chapter II of the Internal Rules who want to be accepted as direct or indirect participants should submit the following documentation for CAVALI's approval:

Entrance process requirements.

- For national legal entities, those stated in 18.1.1 above.
- For foreign legal entities, in addition of those stated in 18.1.1 above, they should meet the following requirements:
  - i. Sworn statement signed by the legal representative or proxy with sufficient powers stating that it will abide to the Peruvian jurisdiction; in the event of any dispute or conflict arises it will be resolved in Peruvian courts.
  - ii. Communication from the regulator or oversight entity over the foreign legal entity stating that the license of operation granted to the prospective participant is in good standing and expressly stating that it is the agency/body charged with regulating the operations of the prospective participants.
  - iii. Legal counsel report issued by an external law firm stating, among other matters that, at the satisfaction of CAVALI, the agreements signed by the foreign prospective participant are valid and enforceable in its country of origin, or in other foreign jurisdictions in which the prospective participant may be operating.
  - iv. Communication designating a contact person in Perú, stating address and other contact data, which will be allowed to request information from CAVALI or be updated on the entrance process.
  - v. The documents submitted by foreign prospective participants should bear the relevant consular authentications and certifications of the Peruvian Ministry of Foreign Affairs as well as the required Spanish translation, as applicable.

- For Factoring entities that are not within the scope of Law No 26702 apart from the items stated in 18.1.1 they should meet the following requirements to be accepted as participants:

  - i. A simple copy of the registration with the relevant Factoring entities Registry not within the scope of Law No 26702, as issued by the SBS.

Least restrictive access

CAVALI has implemented procedures to ensure open and non-discriminatory access; there are no access restrictions. Requirements of legal, operating and financial nature are based on the Rules of Securities Clearing and Settlement Institutions under Resolution CONASEV 031-99-EF/94.10. Foreign legal entities should meet additional requirements, which may be considered as more restrictive. Requirements are reviewed based on any observation made to prospective participants.

Key consideration 3: An FMI should monitor compliance with its participation requirements on an ongoing basis and have clearly defined and publicly disclosed procedures for facilitating the suspension and orderly exit of a participant that breaches, or no longer meets, the participation requirements

Monitoring compliance

Chapter II, the Participants, of the CAVALI's Internal Rules sets forth an annual assessment to be performed (based on a report to be submitted by the participant) the economic financial and operating and IT capacity of participants as well as their capacity in terms of anti-money laundering. For this purpose, participants are required to submit the following:

a. Annual report issued by an independent entity on the participant's compliance with the requirements of operating and IT capacity; if a brokerage entity under the oversight of the SMV, it will have to submit an Annual Report on Compliance to the SMV.
b. A copy of its Audited Financial Statements to support its financial capacity. There is no requirement for a participant to furnish its audited financial statements to CAVALI, when those statements have been filed with the oversight authority and are public record.
c. In case a participant is subject to Anti-Money Laundering and Terrorism Financing requirements under the applicable legislation, as applicable, it must submit a copy of the Annual Report on Compliance with the applicable regulations and standards including Money Laundering and Terrorism Financing issued by an external independent audit firm.

CAVALI reviews the information provided by the Participants to impose additional controls over a particular participant with an impaired risk profile.

In the event the respective report does not meet CAVALI's requirements, the observations raised by CAVALI will be reached to the participant for adjustments over a maximum period term of three (3) months. If adjustments are not made within the due period, CAVALI will communicate that to the SMV and will coordinate with the SMV on any potential applicable penalties to be ordered.

CAVALI is entitled to request Participants additional information as considered relevant to complete the assessment process.

Suspension and orderly exit

Suspension and orderly exit of a participant, is governed by articles 7, 8 and 9 of Chapter II, Participants of the Internal Rules.

The FMI's procedures for managing the suspension and orderly exist of a participant are governed by Chapter II of the Internal Rules, which is a Public Document available on CAVALI's website.

Related documentation:

Public access documents:

- **The CAVALI's Internal Rules : http://www.cavali.com.pe**
- **Downloading documents – Participants (Contrato Marco y Registro de Firmas): http://www.cavali.com.pe/nuestros-Services/registro-de-valores/descarga-de-formatos.html**

Principle 20: FMI links.
An FMI that establishes a link with one or more FMIs should identify, monitor, and manage link-related risks

Key consideration 1: Before entering into a link arrangement and on an ongoing basis once the link is established, an FMI should identify, monitor, and manage all potential sources of risk arising from the link arrangement. Link arrangements should be designed such that each FMI is able to observe the other principles in this report.

As part of its assessment of the link arrangements, CAVALI identifies the risks arising from those link arrangements, including the legal, operating, credit and liquidity risks. In this effort, a general report is prepare addressing risk, legal and operating matters. That report is prepared as part of the process of establishing a new link account.

These arrangements are based on the legal basis of each of the jurisdictions or countries in which CSDs operate. Also, each CSD has a supporting legal basis, and such a support is more evident when there is a specific regulator, oversight entity or treasury agency, etc.

This is how links with CSD are decided as a way to strengthen CAVALI's services.

CAVALI has signed agreements with the related CSD in the region, most noticeably the DTC (United States), CDS (Canada) and EUROCLEAR (Belgium), with which it has link and accounts currently operational, including accounts with those depositories. Under the terminology of this Principle, CAVALI is an CSD investor.

In the same way, CAVALI has signed agreements with the Latin America Integrated Market, including links with DCV (Chile), DECEVAL (Colombia) and INDEVAL (Mexico). CAVALI has accounts with those CSD and it is also a CSD investor.

It should be noted that CAVALI accesses the DTC (Citibank) market using the Citibank global custody services.

CAVALI monitors changes in legal and operating conditions on an ongoing basis, which are frequently advised via emails and notices recorded in those CSD's own systems.

In the event foreign CSDs with which CAVALI has linkages does not meet the requirements set in the Principles, may cause a potential default by CAVALI. For example, whether a CSD may be able to reverse a transaction already reconciled on our system.

In these cases, CAVALI has a mechanism in place to reverse securities on the system, and coordination are made again of the transaction with a local participant and an international broker.

CAVALI has disclosed, on a timely basis, in its internal rules and procedures that that there is an accepted risk in those cases of in-transit cash.

A notice is given to Participants via WARI on the status of their transactions in real time.

CAVALI does not take responsibility for any mistake arising in payments relating to book-entry securities in the foreign depositories made by an Issuer, provided that the mistake or error does not arise from CAVALI's performance. In the event the foreign CSD requests a return of the securities mistakenly credited to CAVALI, the latter will arrange with its Participants the return of securities.

In the event those securities are not available, participants are required to refund the total securities, at their own expense, plus the related benefits obtained, as applicable, which should be recognized to their Matrix Account over a period not exceeding fifteen (15) days after receiving notice from CAVALI. In the event those securities were sold in the local market, the local participant will be informed to repurchase those securities, as appropriate.

Also, in the events the custodians or other foreign central securities depositories make charges to the accounts CAVALI has in those entities, under the applicable regulations, relating to the processing of corporate events or other processes, in respect of foreign securities recognized in those accounts, CAVALI will proceed to request the participant the respective refund; the participant will have to honor refund over a period of 3 business days after request, nonetheless the power of the latter to replicate against the final holders of those securities.

In the event the Participants do not refund CAVALI, the latter is entitled to bring collection actions under the applicable laws and regulations.

Key consideration 2: A link should have a well-founded legal basis, in all relevant jurisdictions, that supports its design and provides adequate protection to the FMIs involved in the link.

CAVALI has signed links with the United States, Canada, Belgium, Mexico, Chile and Colombia.

These arrangements are based on the legal basis of each of the jurisdictions or countries in which CSDs operate. Also, each CSD has a supporting legal basis, and such a support is more evident when there is a specific regulator, oversight entity or treasury agency, etc.

On the other hand, other components of the relevant legal basis are the internal rules, operating manuals, among other documents.

CAVALI ensures its link arrangements have an underlying sound legal basis. It conducts a legal assessment at the time an account with the CSDs is established. Such an assessment consists of a review of the applicable standards and regulations of the jurisdiction in which the CSD is operating, internal rules and the agreements signed by the parties.

The arrangements signed by CAVALI with the CSDs Issuers set forth the legal mechanisms that are used in the event disputes arise. A review is performed to verify that the link arrangement rules (agreements, rules, manuals, etc.) state clearly the duties, rights and obligations of CAVALI on behalf of their Participants. Some of the matters reviewed are processes and operating time schedules, transaction cut-offs and instructions relating to securities.

Key consideration 3: Linked CSDs should measure, monitor, and manage the credit and liquidity risks arising from each other. Any credit extensions between CSDs should be covered fully with high-quality collateral and be subject to limits.

In managing the Liquidity Risk that CAVALI may pose to the CSD Issuer in respect of the settlement of its transactions within the foreign links and as a way to minimize the credit risk, liquidity risk and operational risk (due to failures on the part of our settlement bank) it has a committed line of credit of US$ 7M.

Participants credit the funds required to meet their obligations to the CAVALI's local account on the settlement date, these funds are sent via SWIFT or bank instructions to the settlement bank with DTC for settlement of a purchase by the end of the day.

In the event of a DVP sales, funds are credited to the CAVALI's account in Houston and are subsequently brought via SWIFT or bank instruction for refunding to local participants, as per the applicable procedure.

It should be noted that there are not operating limits to send out and receive funds from transactions with the depositories with which CAVALI has link arrangements**.** Also, CAVALI does not grant or obtains credits from another CSD.

Key consideration 4: Provisional transfers of securities between linked CSDs should be prohibited or, at a minimum, the retransfer of provisionally transferred securities should be prohibited prior to the transfer becoming final.

CAVALI does not allow provisional transfers of securities. Transfers are considered irrevocable and final.

Key consideration 5: An investor CSD should only establish a link with an issuer CSD if the arrangement provides a high level of protection for the rights of the investor CSD's participants.

CAVALI is an Investor CSD as per the terminology of this Principle.

The accounts held by CAVALI with the depositories with which agreements of the omnibus type have been signed, which include the total amounts of the securities stated in the RUT of the final Holders reflected on the WARI system.
All services stated in the CAVALI's Internal Rules will be rendered on behalf of CAVALI in order to:

- ✓ Receive and deliver the securities to and from the international custodian and local participant's accounts as a result of trading performed by the foreign brokers.
- ✓ State in the matrix accounts held by the local participants the movements in the name of the final holder.
- ✓ Certify the bearer rights and other rights over the securities stated to omnibus accounts.

- ✓ Record the corporate events and channeling payments relating to the securities recorded to the omnibus accounts in the name of CAVALI and reflected to the matrix accounts of the local participants.
- ✓ Channel the exercise of the right to vote and preferred subscription rights as a representative.

CAVALI is required to keep the omnibus accounts held open with the depositories or CSDs reconciled or aggregated, with the local participants' account matrices in respect of the securities recorded to those aggregated accounts.

In meeting this obligation, CAVALI will perform the following reconciliations in respect of those securities:

a. Daily reconciliation of the balances and movements per Matrix Account.
b. Monthly reconciliation of balances by Matrix Account.
c. Reconciliation by Corporate Event or extraordinary situations affecting the balances of securities that are recorded to the Accounting Record.

Our links with DTCC (Citibank), CDS and EUROCLEAR have high levels of protection on the Participants which are also CAVALI's customers.

Reconciliations are conducted on a daily and monthly basis of the balances CAVALI keeps in its omnibus accounts versus the list of final holders and the Accounting Record balances. In case differences arise, the necessary arrangements are made between the local participant and intermediary, following CAVALI's internal procedures.

Key consideration 6: An investor CSD that uses an intermediary to operate a link with an issuer CSD should measure, monitor, and manage the additional risks (including custody, credit, legal, and operational risks) arising from the use of the intermediary.

CAVALI only uses an intermediary to access the American market since August 2020, the Citibank Global Custody is our link to DTC (Citibank) deposits.

Criteria used in selecting an intermediary were as follows:

- Counterparty relations (positioning) – Custody risk
- Pool of services (Transfer of funds, Line of credit, US Tax service, Proxy Voting, Corporate events, among others) – Operational risk
- Experience and Scalability – Operational risk
- Services indicated in the Internal Rules covered by the services rendered by the intermediary – Legal Risk
- Time of implementation
- Investment

Major obligations related to the CSD involved in the link and intermediaries are as follows:

- ✓ Keeping the representative listing up to date with that entity.
- ✓ Report any Critical Matter involving the BVL Group.

- ✓ Report all and any event affecting the services rendered beforehand.
- ✓ Pay the services rendered on a monthly basis.
- ✓ Receive and deliver securities from and to international Custody accounts and local participants.
- ✓ Reflect the movements made on behalf of the final beneficiary on the account matrices of the local participants.
- ✓ Record corporate events and channel the relevant payments on the securities stated in the omnibus account in the name of CAVALI and shown in the account matrices of local participants.
- ✓ Ensure the exercise of the voting preferred share subscription right as a representative.

CAVALI is required to keep reconciled those omnibus or combined accounts established in deposits, CSD and/or Global Custody, as applicable, to the local participants'' account matrices regarding the securities stated in those accounts.

In meeting this requirement, CAVALI will carry the following reconciliation procedures on those securities:

a. Daily reconciliation of balances and movements by Matrix Account (considering the monthly one)
b. Reconciliation by Corporate Event or Extraordinary Events that may affect the balances of securities that are stated in the Accounting Record.

The procedures in place to measure, monitor and manage the risks resulting from the use of an intermediary are as follows:

- Monitoring the different activities completed over the month on our account.
- Monthly report prepared by the intermediary on the activities and processes carried out over the month by CAVALI.
- Monthly meetings to review the indicators of the services rendered.
- Holding ad-hoc meetings for the treatment of special corporate events.

Key consideration 7: <u>NOT APPLICABLE</u> (Solely to CCP)
Before entering into a link with another CCP, a CCP should identify and manage the potential spill-over effects from the default of the linked CCP. If a link has three or more CCPs, each CCP should identify, assess, and manage the risks of the collective link arrangement.

Key consideration 8: <u>NOT APPLICABLE</u> (Solely to CCP)
Each CCP in a CCP link arrangement should be able to cover, at least on a daily basis, its current and potential future exposures to the linked CCP and its participants, if any, fully with a high degree of confidence without reducing the CCP's ability to fulfil its obligations to its own participants at any time

Key consideration 9: <u>NOT APPLICABLE</u> (Solely to TR)
A TR should carefully assess the additional operational risks related to its links to ensure the scalability and reliability of IT and related resources.

Related documentation: (Internal documents):

- Agreements with entities.

Public access documents:

- The CAVALI's Internal Rules: http://www.cavali.com.pe/

Principle 21: EFICIENCY AND EFFECTIVENESS
An FMI should be efficient and effective in meeting the requirements of its participants and the markets it serves.

Key consideration 1: An FMI should be designed to meet the needs of its participants and the markets it serves, in particular, with regard to choice of a clearing and settlement arrangement; operating structure; scope of products cleared, settled, or recorded; and use of technology and procedures.

CAVALI has adequate procedures and standards in place to meet the service needs of the markets it serves in consistency with international standards, involving securities clearing, recording and settlement. Also, there is an effective and efficient technological platform in place with an adequate Contingency Plan to ensure it fulfills its duties, obligations and relevant procedures and standards.

As part of the continuing process of improvement of the services that CAVALI provides to its customers, improvements are implemented in processes to explore and meet the needs of the market; for example, extending the working time schedules for securities clearing, improvements in the operating systems, quality standards, among other aspects.

In this sense, improvements in processes have been established to provide customers and the market with certain benefits. Major improvements implemented are:

a) Ongoing settlement processes.
b) T+2 settlement
c) Reduction in the term of commitment of assets being settled.
d) Implementation of web-based services.
e) Self-service products
f) International standards of communications.
g) ISOs.

CAVALI takes into account the needs of its customers via the following mechanisms:

a) Operating committee of “Sociedades Agente de bolsa”, banks and pension plans.
b) Accounts executives of securities issuers.
c) Quarterly meetings with the Regulator.

In addition, since CAVALI is a group company of the BVL Group the arrangements and meetings held with major players in the market, either via the above-mentioned groups or via meetings with the Regulators or governmental entities, are conducted in close coordination and seeking the development of the Peruvian capital market.

In determining whether the ever changing needs and requirements of its Participants and users are being met, CAVALI performs an annual customer satisfaction survey, requesting Participants their feedback on, among other aspects, the services it renders so as to obtain an objective service quality index, including the attributes or analysis dimensions of the effectiveness of the communications with customers, the timeliness and effectiveness of our response to customers, the personal attitude to customers and customer's satisfaction regarding the WARI system.

Key consideration 2: An FMI should have clearly defined goals and objectives that are measurable and achievable, such as in the areas of minimum service levels, risk-management expectations, and business priorities.

CAVALI has clearly defined objectives approved by the Board, which are consistent with the institutional strategic objectives; these are reviewed every three years. The specific guidelines are set for a 1-year horizon and are reviewed by the Board on a semi-annual basis.

The objectives set by CAVALI are aligned with the levels of services that are planned to be provided to customers; for that purpose, a service quality index has been identified, which is measured annually including the attributes or analysis dimensions of the effectiveness of the communications with customers, the timeliness and effectiveness of our response to customers, the personal attitude to customers and customer's satisfaction regarding the WARI system.

In respect of our shareholders, the ROE was identified as a profitability indicator.

Finally, there are internal training plans intended to strengthen human capital and with a new structure that seeks to reinforce risk management innovation, mainly in respect of our technological platform. Likewise, minimum service arrangements have been defined to support the adequate service is rendered to the wide range of our customers' requests.

CAVALI has periodic measurement and review mechanisms in place to determine whether its own standards, procedures and goals are being achieved. Measurement is performed using the Internal Audit Management conducted every quarter or following an annual plan approved by the Board. An external audit is performed to verify the Service and Systems Operations Management's compliance with the established standards and procedures.

CAVALI sets the goals and objectives of the institution as part of the annual strategic plan prepared by Management. Those objectives should be achievable and measurable and be disseminated. Control over the strategic objectives and goals are set within the annual plan prepared by Internal Audit following the guidelines provided by the Board.

Also, as part of the process of integrating the BVL group companies, work is being done on standardizing the measurement and follow-up mechanisms on the satisfaction of the internal and external customers, measurement of the organizational climate and level of compliance with the commitments to management of each collaborator in the Company.

CAVALI conducts a periodic quantitative review of the achievement of goals and objectives based on the statistics recorded for the period, considering the events that may have given rise to deviations to the planned budgets or expectations. A Balance Score Card is used.

The mechanism to assess the achievement of qualitative goals and objectives is based on percentages of completion of projects, savings percentages or reduction in number of incidents or failures, noncompliance, measurement of operating costs, transaction volumes, and a review of the rate schedule structures. The Board and Management is involved in this process.

Key consideration 3: An FMI should have established mechanisms for the regular review of its efficiency and effectiveness.

The processes and mechanisms set by CAVALI to assess its effectiveness are a) setting a Return on Equity (ROE) indicator, b) level of services to internal and external customers, c) customer satisfaction indicators, and d) levels of quality and timing or services.

The assessment of effectiveness and efficiency is performed monthly for indicators of levels of services; the levels or quality of services are assessed on a quarterly or semi-annual basis. The customer satisfaction indicator and ROE are assessed on an annual basis.

Related documentation:

Internal documents

- Results of customer satisfaction surveys.
- Results of the organizational climate survey.

Principle 22: Communication procedures and standards
An FMI should use, or at a minimum accommodate, relevant internationally accepted communication procedures and standards in order to facilitate efficient payment, clearing, settlement, and recording.

Key consideration 1: An FMI should use, or at a minimum accommodate, internationally accepted communication procedures and standards.

Communications procedures

CAVALI has implemented web-based information services between the transaction platform (WARI) and those of Participants, so that exchange of information is made possible on the clearing and settlement process as well as other processes of the core business, including exchange of information with the BCR regarding transfers of funding.

By means of this service, the transfer of information on transactions entered in the market and all kinds of reports is ensured.

In addition, there is the use of 20022 (SWIFT) messaging for the process of transferring funding for settlement of international transactions.

It should be noted that CAVALI uses the internationally recognized standard for identifying issuances (ISIN).

CAVALI has in place standardized information exchange systems, both via its proprietary system as well as by means of ISO 20022 messaging. The latter means of communication is used in transfers of funds to settle international transactions.

Communications standards

CAVALI uses SWIFT, which is an internationally accepted communications standard to send out and receive international funds. Inter-bank transfers are handled via the CAVALI's accounts in the USA and local accounts. Also, the standard CAVALI's proprietary messaging system is used.

CAVALI uses SWIFT and inter-bank transfers for delivery and receipt of funds in settlement transactions and corporate events, as needed.

The standard CAVALI's proprietary messaging system is available to all market participants.
For transactions within the MILA market, there is a file interface in place to feed the systems of each depository with the relevant information of transactions and corporate events.

Principle 23: DISCLOSURE OF RULES, KEY PROCEDURES, AND MARKET DATA
An FMI should have clear and comprehensive rules and procedures and should provide sufficient information to enable participants to have an accurate understanding of the risks, fees, and other material costs they incur by participating in the FMI. All relevant rules and key procedures should be publicly disclosed

Key consideration 1: An FMI should adopt clear and comprehensive rules and procedures that are fully disclosed to participants. Relevant rules and key procedures should also be publicly disclosed.

Rules and procedures

CAVALI has clear and comprehensive rules and procedures in place regarding the services it provides. Such rules are contained in the CAVALI's Internal Rules, as approved under Resolution Conasev No 0057-2002, while procedures are contained in the CAVALI's Manual of Internal Procedures.

The CAVALI's Internal Rules are available to the general public and Participants on CAVALI's website or the SMV's website. The Manual of Procedures is not accessible to the general public but CAVALI's annual updates of the manual are sent to the SMV.

The Internal Rules consist of articles and Binding Provisions. The amendments CAVALI wants to make to the Internal Rules articles should be previously approved by the SMV. The procedures to amend the Internal Rules are governed by article 4, Chapter I of the Internal Rules, which states that before CAVALI asks for the SMV's authorization to amend any articles of the Internal Rules, CAVALI must disclose to the general public the changes it plans to make. Amendments are disseminated on the CAVALI's websites through circulars to participants.

Chapter I of the CAVALI's Internal Rules states the procedures to be followed by CAVALI to amend its Internal Rules and its Binding Provisions. These rules are approved by the SMV; therefore, the document is not only reviewed internally by CAVALI, but also by the regulator, which adds the Rules with more transparency and quality control.

Additionally, prior approval, CAVALI discloses the planned amendments on its website or via direct notices to customers so as to obtain feedback or observations or consultations that need to be clarified. By disclosing the planned amendments on CAVALI's website and direct notices, CAVALI ensures participants have ongoing access to rules and procedures.

Whenever a participant sends a clarification request on the planned amendment, CAVALI responds in writing stating why the suggestions, if any, are not included in the proposed amendments.

Disclosure

The CAVALI's Internal Rules govern situations of defaults of transactions and other special situations that may arise.

CAVALI has a Disaster Recovery Plan and Business Recovery Plan, which are part of the Internal documents.

CAVALI's activities are governed by standards, laws and regulations. These standards, laws and regulations are contained in CAVALI's Internal Rules.

Amendments made to the Internal Rules are adequately disclosed to the market before CAVALI requests the SMV to approve the respective amendments; those amendments are made public for a period of 10 days on CAVALI's website when those amendments involve Internal Rules articles; when Binding Provisions are involved, they are made public for a period of 5 days.

Once the SMV is informed of the amendments, as applicable, and the SMV approves the amendments to the Internal Rules articles, CAVALI also discloses the approved amendments through letters and circulars to Issuers and Participants, which may be affected by the amendments.

The Manual of Procedures is not accessible to the public but CAVALI's annual updates of the manual are sent to the SMV.

Communications to the public are made effective via the CAVALI's website. Communications with the SMV are conducted using a direct system of communication with that regulator (MVNET).

The internal rules and major amendments are released on CAVALI's website, SMV's website and are further reported by means of direct communications with customers (letters and circulars). Whenever changes are made to the Internal Rules, those amendments are released in the Peruvian official newspaper "El Peruano".

The Manual of Internal Procedures have restricted access but the information that is relevant to the market is detailed in the CAVALI's Internal Rules.

Key consideration 2: An FMI should disclose clear descriptions of the system's design and operations, as well as the FMI's and participants' rights and obligations, so that participants can assess the risks they would incur by participating in the FMI.

The CAVALI's Internal Rules sets out in its chapters the design and operations of the CAVALI system.

CAVALI has the technological platforms called Wari and Factrack, each of which has its own user's manual.

The WARI user's manual contains information on the design and functionality of the system to assist users in its adequate use. This information is shared with Participants and Issuers via direct access to the WARI system.

The user's manual of the invoice system is also available on the Factrack system setting out the steps to follow to complete the relevant process. Participants and issuers have direct access to this system.

CAVALI adheres to all the provisions of the Internal Rules and other applicable standards governing its major activities. All exceptions to the regular process are defined in those documents; accordingly, there is no discretionary criteria in those documents apart from those expressly stated therein.

CAVALI's participants have access to their rights and obligations as contained in the Internal Rules. In general terms, Participants are aware of the standards applicable to CAVALI and the SLVs, as well as the associated risks. Through the CAVALI's website, Participants obtain access to the legal framework applicable to the SLVs as well as basic information to mitigate risks.

Key consideration 3: An FMI should provide all necessary and appropriate documentation and training to facilitate participants' understanding of the FMI's rules and procedures and the risks they face from participating in the FMI.

The CAVALI's website is in Spanish. A participant is able to access information about the regulatory framework and the several services provided by CAVALI. Once a participant is accepted by CAVALI to participate in the SLVs, it obtains access to the WARI system, managed by CAVALI.

Each participant receives a user's manual and relevant training. Also, CAVALI provides training to Participants in matters relating to the development of the market, such as anti-money laundering systems, among others.

It should be noted that from 2010, there is a consultation center that respond to the Participant's and general public frequently asked questions. Finally, CAVALI and their Participants have different levels of communications, such as MVNet system, emails and physical communications too. Additionally, in case a participant requires so, specific training can be provided on a specific matter.

Once training to understand the FMI's rules and procedures and risk posed to the FMI is obtained, the participant signs the relevant training supporting documentation.

In the event CAVALI identifies a participant with a behavior that shows lack of understanding of the FMI's rules and procedures and the associated risks, arrangements are made with the participant's representatives to provide reinforcement training in the relevant issues.

Key consideration 4: An FMI should publicly disclose its fees at the level of individual services it offers as well as its policies on any available discounts. The FMI should provide clear descriptions of priced services for comparability purposes.

CAVALI has a fee schedule in place for the services it provides, showing the applicable rate, the basis of calculation, the calculation subject, effective periods, among other matters. CAVALI's fees are subject to the principles of fairness and proportionality among users. The regulator approves the fee schedule, and it is a public document contained in the internal rules and on CAVALI's website.

Article 1, chapter XI Rates, of the CAVALI's Internal Rules govern the procedures to amend its services and fees.

In adherence to the Internal Rules, in having its fess approved, CAVALI will disclose the change proposals to its participants, issuers and general users for a period of ten (10) days on the following means of communication: a) BVL's digital bulletin. b) CAVALI's website; c) direct communication to participants and issuers.

Users will have the abovementioned period to send CAVALI their observations, which will be assessed by the Board. The observations received after that period has elapsed will be sent directly to the SMV together with the fee change proposal. CAVALI will present and support any fee change proposal, including the SMV's observations, if any. Once the fee change proposal is approved by the SMV, it will become effective from the date the approving resolutions is released.

CAVALI's fees, as approved by the SMV, are maximum rates and charging lower rates or not charging any fee is at the discretion of CAVALI's, considering the principle of equal to all participants. As applicable, CAVALI will inform the market about the lower fee, or no fee charged and the effective term of such a measure. The list of fees charged for the services rendered by CAVALI is that set in the Binding Provision No 01.

CAVALI describes the structures of the rates in the relevant Chapter of its Internal Rules. The Binding Provision No 1, Chapter XI of the Rules sets out and explains the fee rate schedule.

The description and enforcement of each rate schedule is clear and allow comparisons to be made with the fees of other FMIs.

The CAVALI's Internal Rules specify the minimum technical and connectivity requirements for Participants and Issuers to operate adequately. The respective costs should be borne by those customers. Customers sign a document stating that they are aware of these technical requirements.

Key consideration 5: An FMI should complete regularly and disclose publicly responses to the CPSS-IOSCO disclosure framework for financial market infrastructures. An FMI also should, at a minimum, disclose basic data on transaction volumes and values.

CAVALI releases monthly statistical information on its website on the valuation of holdings, traded amounts, dematerialization, and accounts recorded, holders, and market capitalization. Additionally, CAVALI publishes on an annual and quarterly basis a link to the regulator's website in which the quarterly and annual Financial Statements are disclosed.

It should be noted that its own website keeps up-to-date information about the FMI (shareholders, customers, officials, annual reports, financial statements), the legal framework governing its operations, description of core services, as well as corporate governance and comprehensive risk management information, among other information. In respect of the IOSCO's self-assessment principle, the document is sent to the regulator on an annual basis.

Related documentation:

Internal documents

- Manual of Procedures.
- Wari user manual.
- Factrack user manual
- Acknowledgement of training.
- Participant and Issuer satisfaction survey.
- Business continuity plan.

Public access documents

- The CAVALI's Internal Rules: http://www.cavali.com.pe/marco-legal/normativa/reglamento-interno-de-cavali.html

V. LISTING OF PUBLIC RESOURCES

Documents that may be needed for reading are indicated within IV Principle-by- Principle Disclosure.

Public access documents can be obtained via CAVALI website www.cavali.com.pe, section called "Marco Legal / Normativo"