What is Securities Lending?

It is a temporary transfer of securities made through a spot transaction and a future transaction, which covers transactions with pending settlement: short sales and potential defaults.

The lent securities will be transferred to the borrower in exchange for guarantees in order to ensure the return of the securities to the lender.

The lender is the original owner of the lent securities and the borrower is the demander of such securities.

How does it work?

<table>
<thead>
<tr>
<th>Leg 1</th>
<th>Spot transaction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lender client</td>
<td>Broker agent (lender)</td>
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</table>

<table>
<thead>
<tr>
<th>Leg 2</th>
<th>Future transaction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Broker agent (borrower)</td>
<td>Borrower client/Investor</td>
</tr>
</tbody>
</table>

Spot transaction: Temporary lend or transfer of lent securities and guarantees.
Future transaction: Return of lent securities and guarantees.

Which securities can be lent?

- **Equities from the lists 1, 2 and 3 of The Table of Reference Values (TRV).**
- **For short selling, it can be only made with equities from lists 1 and 2 from the TRV.**

Note: The TVR lists are quarterly updated and can be found in the BVL Monthly Report.
Benefits

✅ Opportunity to generate additional income with available securities.
✅ Facilitates a short selling strategy.
✅ Lender maintains the economic rights.
✅ Transactions can be settled in advance.
✅ CAVALI manages the lent securities and guarantees daily.
✅ Each transaction is covered by its own guarantees.

How are the guarantees composed?

- **Main guarantee (100%)**
  - Equity (TVR Lists 1, 2 and 3)
  - Fixed income (TVR)
  - Cash

- **Additional guarantee (20%)**
  - Equity (TVR Lists 1, 2 and 3)
  - Fixed income (TVR)
  - Cash

- **Hedge Amount (120% of lent securities)**
  - Letters of guarantee / surety policies

- **Main guarantee:**
  Covers the default risk of the transaction.
- **Additional guarantee:**
  Covers the risk of revaluation of the lent securities and the devaluation of the guarantees.
Limits for stock lending operations

By security

Stock lending operations can be made with shares issued by local companies, as well as deliver them as guarantee, up to 20% of the total shares registered through book entries in CAVALI. In case of foreign instruments, it will be considered 20% of the total issuance on BVL.

By intermediary

Each intermediary may perform lending operations with securities issued by local or foreign companies, as well as deliver them as guarantee, up to 50% of the limit set by value.

By pension funds

If a pension fund participates as lender, the total value of the loan and repo operations in local and foreign centralized or non-centralized trading mechanisms must not exceed 30% of the value of each type of fund.

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