



Depository Review and Risk Evaluation Service

INTERCLEAR

Proprietary Assessment

Report Updated Continuously
and Last Fully Reviewed as of:
January 2018

GMT Time in Local Market
GMT -6 hours

Instruments Supported

<i>Equities</i>	<i>Corporate Debt</i>	<i>Money Markets</i>	<i>Government Debt</i>	<i>Other</i>
Yes	Yes	Yes	Yes	Yes. Mutual Funds and Collaterals

Role of the Depository

InterClear Central de Valores S.A. (InterClear) started operations on 1st November 2015 and replaced the stock exchange's depository (CEVAL) as the Central Securities Depository in Costa Rica. On 22 May 2015, the Costa Rican Securities Superintendence (SUGEVAL) authorized, through Resolutions SGV-R-3030 and 3031, InterClear Central de Valores S.A. (InterClear) to operate as a central securities depository (CSD). InterClear is governed by the Securities market Law No. 7732.

Currently, the Central Bank is responsible for the safekeeping of Central Bank's and Ministry Of Finance securities.

InterClear is 40% owned by the Stock Exchange, Bolsa Nacional de Valores (BNV) and the remaining 60% is owned by 22 custodians (banks and brokers) on equal shareholdings.

It is the entity that handles the clearing and settlement of non-government securities and cash through a multilateral settlement process.

InterClear safekeeps equities (common and preferred stock), fixed income securities (Government Debt, Corporate debt and commercial paper) and money market instruments (treasury bills). All securities settled through InterClear must be registered in the depository by book entry.

Asset Commitment Risk

Summary

For all instruments settled on InterClear, the asset commitment period for sales is 6 hrs, as securities must be blocked by 9.00am on Settlement Date and settlement takes place at 3.00pm. For money market repos traded on the money market, Mercado de Dinero (MEDI), the asset commitment period for sales is 2hrs as securities must be blocked by 1.00pm on Settlement Date and cash settles at 3.00pm.

The asset commitment period for purchases is 1hr, from 2.00pm when funds need to be in place until 3.00pm when the securities are settled on a DVP basis.

Processing Cycles

On-exchange Equities and Fixed Income instruments

Securities settle through the BNV Clearing (Patron clear system), which provides for a model 3 multilateral settlement for all on-exchange trades. The settlement cycle is typically T+1 for fixed income instruments (although a longer settlement cycle may be negotiated) and T+3 for equities. The allocation is made on T+0. Government Debt in primary market usually settles on T+2.

Trading on the stock exchange is undertaken by local broker/dealers. There is no requirement to verify securities prior to trade execution. Brokers are allowed to appoint a custody agent as a permanent clearing agent for that particular brokerage house's transactions executed through SIOPEL.

On settlement Date, at 9:00am the Stock Exchange will send settlement files to both, InterClear and SINPE in order to block all securities required to settle transactions at 3:00pm. Market participants must have sufficient securities to complete the blocking process.

At 1:00pm a substitute settlement file is sent, which includes T transactions, and cash positions. Securities Blocking is automated while cash blocking is done at 2:00pm.

Once securities and cash are blocked, DVP will be completed at 3:00pm

Money Market Instruments

There are two money market systems, one operated by brokers (Mercado de Dinero - MEDI) and the other operated by banks (Mercado Integrado de Liquidez - MIL), which is managed by the central bank. In both cases the settlement period is T+0. In the MEDI, although there is no pre-blocking of securities, brokers must allocate the account from which securities will be debited prior to placing a selling order on the exchange.

Cash

Cash settlement occurs on a multilateral net basis. Every broker must have a settlement account in the Central Bank and cash settlement is executed on the books of the Central Bank at 3.00pm every business day.

Clearing members must keep their clients' cash funds in reserve accounts at Central Bank (BCCR)'s National Electronic Payment System (SINPE). This applies to banks authorized to provide such services as well as brokerage houses.

Asset Commitment Periods

For all instruments settled in InterClear, the asset commitment period for sales is 6 hrs, as securities must be blocked by 9.00am on Settlement Date and settlement takes place at 3.00pm.

The asset commitment period for purchases is 1hr, from 2.00pm until 3.00pm when the securities are settled on a DVP basis.

Money Market Instruments (ML and MIB)

For money market repos traded on the Mercado de Dinero (MEDI), the asset commitment period for sales is 2hrs as securities must be blocked by 1.00pm on Settlement Date. The asset commitment period for purchases is the same as for equities and fixed income securities (i.e 1 hour). Settlement takes place on a DVP basis at 3.00pm

Irrevocability

Based on article 4 of the Central American and The Dominican Republic Treaty for Payments Systems, all securities transactions are irrevocable once accepted by the Clearing and Settlement System. The treaty was accepted by the Costa Rican Government and established in Law #8876 of 2010.

All securities transactions in Costa Rica are accepted by the Clearing and Settlement System on a real time basis.

Finality

-

<i>Asset Commitment Risk - Key Indicators</i>			
<i>Irrevocable commitment to the processing cycle</i>			
	<i>Transaction Type</i>	<i>Start</i>	<i>Finish</i>
<i>Securities</i>	Equities	9.00am T+3	3.00pm T+3
	Debt	9.00am T+1	3.00pm T+1
	MEDI transactions	1.00pm Time of trade (T+0)	3.00pm T+0
	MIL transactions	Real Time	Real Time
<i>Cash</i>	On Exchange transactions	2.00pm SD	3.00pm SD
	MIL	Real Time	Real Time
<p><i>Comments (i.e., on pre-funding and irrevocability)</i></p> <p>There are money and securities transfers, securities lending and Central Bank loan facilities in place to solve funding problems to settle transactions on time.</p> <p><i>Securities processing cycle outlined</i></p> <p>For equities and debt, settlement is executed at 3.00pm on settlement date (T+3 for equities and T+1 for debt). InterClear delivers the securities on a multilateral net basis.</p> <p><i>Cash processing cycle outlined</i></p> <p>Cash settlement occurs on a multilateral net basis, except for those that take place in the Central Bank-operated money market system (MIL). Every broker must have a settlement account in the Central Bank and the financial settlement is executed on the books of the Central Bank at 3.00pm every business day.</p>			

Liquidity Risk

Summary

InterClear employs model 3 settlement for all of transactions. There is a guarantee mutual fund in place to cover shortfalls. Early blocking of securities reduces fails. BNV has adequate fails management procedures and securities loans are available in the market to cover short positions.

In case a participant has any settlement problem there are delayed settlement rules (DSR) which allow unwinding of particular contracts from the netting files in order to solve those problems and settle them up to three days delayed. DSR establishes strong fines for those participants that don't settle their positions on time.

Matching

There is an informal pre-matching process in the market, which is not binding. Custodians and brokers rely on a stock exchange receipt (“papeleta de bolsa”) issued by the stock exchange to the executing brokers as evidence of ownership and trade confirmation. The brokers deliver the papeleta de bolsa to the custodians.

Processing Model

All on-exchange trades settle on a model 3 basis, which means securities and cash settlements are on a net basis. DVP settlement is completed at 3.00pm on SD.

In MEDI, the brokers' money market platform, although there is no pre-blocking of securities, brokers must specify the account form which securities will be debited prior to placing a selling order on the exchange. Cash settlement positions are included in the daily multilateral net cycle.

Fails Management

Settlement fails require formal resolution issued by the Stock Exchange. Once a fail is published, the guarantee fund will assume the obligations of the failing participant.

If there are any shortfall with cash or securities at the time of blocking, the Clearing and Settlement rules establish a number of mechanisms that participants or the Stock Exchange may use in order to solve the problem before the settlement deadline (3.00pm). The Stock exchange has the ability to monitor cash and securities positions of participants in real time.

In the event of cash shortfalls, participants can execute repos via the MEDI (brokers) or MIL (banks) money market platforms and access the Central Bank's credit facilities.

On the other hand, for Securities shortfalls, there are securities lending facilities, free of payment transfers and the possibility to change the account allocation.

Any fail is immediately reported to the regulator and involves high operational costs for participants.

If there are persistent problems that could affect net settlement at 3.00pm, the Stock Exchange will unwind positions and remove the failing transactions from the netting process in order to complete settlement on time. The exchange will also roll the unsettled trades for 3 consecutive days and will attempt to settle them by including those in the net calculations.

In the case of repos there is a special auction mechanism whereby the exchange tries to sell the securities to pay the 'victim' counterparty.

Every unwinding event will require the participant to make additional deposits to the guarantee fund.

Credit Facilities

Cash facilities at the Central Bank (MIL Repos and Money Loans) are available for settlement agents.

Securities Lending

Securities lending up to 360 days of term may be used to cover settlement positions. All settlement agents (banks and brokers) have access to the securities lending facility in the Stock Exchange.

Instruments issued by Multilateral Banks are accepted as collateral for one-day Repo operations in the money market system (Mercado de Dinero - MEDI).

Registration Model

97% of securities in the Costa Rican market are dematerialized and the remaining 3% have a jumbo certificate and are immobilized in InterClear.

The registration system has two levels established by law. The first level formed by InterClear as CSD and the SAC facility of Central Bank. The second level formed by custodians (settlement

agents) which are banks and brokers. Both of them have full identification of final investors. Ownership transfers are registered by book entries.

Deposited securities

37% of issued securities in Costa Rica are deposited in InterClear while 63% by market value (mostly government bonds) in the Central Bank SAC. All of those are based on local regulations that allow them be offered to investors.

Deposit and Withdrawal of securities

Dematerialized securities must be registered in a book-entry system (InterClear or SAC). InterClear completes the registration process in one day. Securities cannot be traded or settled during the deposit process.

Once registered, dematerialised securities cannot be withdrawn

<i>Liquidity Risk - Key Indicators</i>
<i>Settlement Models</i>
Model 3 - Net settlement of securities followed by net settlement of funds in a single intra-day batch (3pm).
Model 1 - Gross settlement of securities and cash for interbank money market settlements
<i>Processing Periods</i>
<i>Overnight (by batch)</i>
No
<i>End of day</i>
Yes
<i>Batch daylight processing</i>
No
<i>Real-time and on-line</i>

Yes
<i>Other</i>
No
<i>Comments</i>
Real-time and online processing is for Central Bank MIL transactions
<i>Credit Facilities</i>
<i>Central bank money used to settle cash elements of trades</i>
No
<i>Credit facilities provided by the CSD</i>
No
<i>Credit facilities provided by commercial banks</i>
Yes
<i>Comments</i>
-
<i>Stock Lending</i>
<i>Is stock lending permitted in the market</i>
Yes
<i>Are stock lending facilities provided by the CSD?</i>
No
<i>Are stock lending facilities provided by commercial banks/brokers?</i>
Yes

Comments

-

Transfer of Securities

Are securities deliveries achieved by book-entry?

Yes

Comments

-

Registration of Securities

Period of time required to register a holding?

One day

Comments

-

Counterparty Risk

Summary

Counterparty Risk is reduced by the use of DVP settlement for all transactions operated by the stock exchange. Settlement is in central bank funds and the custodians' cash accounts are held at the Central Bank. Participants of the clearing and settlement system are regulated and supervised by the Central Bank, the Securities and Exchange Superintendence and the Stock Exchange. In addition, the Stock Exchange operates a guarantee fund.

Participant Counterparty Risk

There are specific rules issued by the Superintendence and the Stock Exchange to deal with shortfalls or failures.

Individual contributions to guarantee funds are determined in proportion to the settlement activity of clearing agents and so do net capital rules.

Repo trading systems allow participants to know their counterparties before completing transactions. Collateral provides protection for repurchase agreements and it is deposited in a guaranty trust which is administrated by the Stock Exchange. InterClear manages the custody of collateral pledged at BNV.

Securities lending up to 360 days of term may be used to cover settlement positions. All settlement agents (banks and brokers) have access to the securities lending facility in the Stock Exchange.

Risk Containment Model

Contributions to guaranty fund are mandatory for Clearing Agents and the amount of those is related to settlement activities.

There are specific rules in order to deal with shortfalls and failures. Any participant can be withdrawn from the Clearing and Settlement System if show persistent settlement incidents.

Cash settlement is done in Central Bank accounts with direct and immediate access to Banks funds and intra-day facilities.

Delivery Versus Payment

All Market transactions are settled on a DVP basis. Cash accounts of custodians are in the Central Bank. Securities are in InterClear CSD and the register facility operated by the Central Bank (SAC). The Stock Exchange is responsible for operating DVP processes. Participants on the clearing and settlement system are regulated and supervised by the Central Bank, the Securities and Exchange Superintendence and the Stock Exchange.

The following procedure describes what occur on settlement date:

At 9.00am the Stock Exchange will send settlements files to both, InterClear and SINPE in order to block all securities required to settle transactions at 3.00pm. Market participants must have sufficient securities to complete the blocking process.

At 1.00pm a new file is sent, which includes transaction details and cash positions. Securities Blocking takes place automatically at 9.00am while cash blocking is done at 2.00pm.

Once securities and cash are blocked, DVP is completed at 3.00pm.

Role of Central Counterparty (CCP)

InterClear does not act as central counterparty (CCP).

Participant Criteria

Local regulation approved by the Superintendence of Securities and the Stock Exchange establishes specific requirements and capital adequacy depending on the type of institution.

There is a net capital rule in place which establishes capital requirements to market participants regarding their level of operations.

The minimum capital requirements for 2016-2017 (period between 30 June 2016 and 29 June 2017) are:

- Stock Exchange: CRC 836 million (approx. USD 1.47 million);
- Brokerage Houses: CRC 199 million (approx. USD 350,000.00);
- Fund administrators: CRC 136 million (approx. USD 239,000.00);
- Risk Rating Agencies: CRC 79 million (approx. USD 139,000.00);
- Trust and Securitisation companies: CRC 128 million (approx. USD 225,000.00).

To get approval as a custodian or clearing agent, banks, brokerage houses and even the Central Bank must comply with regulations. Custody approvals is given by the Superintendence and Clearing Membership by the Stock Exchange.

Participant Concentration

There are no figures on participant concentration.

Financial Compliance/Surveillance

Market participants are required to disclose detailed financial information to regulators and to the public. Information regarding market activity is also provided on a regular basis. External audits on financial information, internal controls and IT Management must be done throughout the year.

Guarantee Funds

The Stock Exchange manages the guarantee fund as a mechanism to cover settlement risk. InterClear manages the custody of collateral pledged at BNV. The Central Bank manages a separate guarantee fund for banks and participation on the payments system.

<i>Counterparty Risk - Key indicators</i>
<i>Capacity of CSD</i>
Agent
<i>Surveillance of Participants by CSD</i>
Yes
<i>Settlement Assurance</i>
No
<i>Participation Criteria</i>
Local regulation approved by the Superintendence and the Stock Exchange establishes roles and specific requirements and capital adequacy by participant type.
<i>Minimum Capital (local currency)</i>

- Stock Exchange: CRC 836 million (approx. USD 1.47 million)
- Brokerage Houses: CRC 199 million (approx. USD 350,000.00)
- Fund administrators: CRC 136 million (approx. USD 239,000.00)
- Risk Rating Agencies: CRC 79 million (approx. USD 139,000.00)
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Size of Guarantee Fund - (Name, local currency and USD)

Guarantee Fund of the National Stock Exchange (FOGABONA) to November 2016:
USD 5.92 million (EUR 5.04 million; CRC 3,37 billion)

The Guarantee Fund is managed by the stock exchange and covers settlement obligations.

Does the CSD act as a Central Counterparty?

No

Comments

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Participant Concentration (percentage)

Transactions in the market by top 10% of participants as percentage of total value of transactions

28.9%

Transactions by top 10% of participants as percentage of total value of transactions

28.1%

Value of largest individual participant as percentage of total value of transactions

16.4%

Volume of largest individual participant as percentage of total value of transactions

16%

Asset Safety Risk

Asset Safety Risk Summary

The Nominee concept is recognized although all securities are held in segregated accounts. There are controls and procedures in place surrounding access to accounts and the CSD has no liens on securities or cash held or transferred through it.

All securities owners must have full identification in both, the first level (CSD and SAC) and the second level (Custodians). Custodians are responsible for reconciliation of both registers on a daily basis. All securities ownership is registered off the custodians balance and is also protected by the securities law against bankruptcy.

Current regulations allow the Superintendence to make block securities transfers in case of custodian problems such as bankruptcy or intervention.

Segregation of Securities

Segregation is required by regulation. Custodians must do full identification of final beneficiaries in both, the first (CSD) and second level (custodian) of custody. Securities are registered off balance and are protected by law against bankruptcy events.

Securities used as collateral are transferred to a guaranty trust account. The Stock Exchange manages collateral on behalf of participants. These securities are not segregated from the clients' assets.

Custodians are allowed to open a single account for their own assets and unlimited accounts for their clients in the registry system of first level entities, namely the Central Bank of Costa Rica's Book-Entry System (Sistema de Anotacion en Cuenta – SAC) and InterClear.

Custodians must identify their clients' holdings at all times according to the standards established in the Agreement SGV-A-223 on Identification of Securities Account Holders (effective from 1 April 2017). The account details must include the identification number and the name recorded in the official identity document (ID) issued by the relevant authority. In the case of foreign entities, the information in the account must match the details in the ID issued by the Costa Rican National Registry, as stipulated in Executive Decree 34691-J on Legal entities Identification. Securities accounts with no securities, or no movements in the previous 18 months must be closed at both the CSD and the custodian.

Account Naming Conventions

The local regulation establishes the standard for the account naming. This standard use information from the official records of the country (Civil Registry, for natural persons and Public Registry for legal persons).

Legal Conventions

Records held by custodian, the CSD and registrar have the same legal weight in Costa Rica. The nominee concept is recognized.

The nominee concept is recognised.

Local bankruptcy practice requires assets in the account of an insolvent party to be frozen until resolution of insolvency proceedings. In the case of insolvency of the custodian or CSD, assets identified as belonging to clients are treated differently from the proprietary assets of the insolvent participant.

Forms of Securities

97% of securities in Costa Rica are fully dematerialized. Standardization is mandatory for issuers.

Reconciliation and Audit

Reconciliations with participants take place on a daily basis and it is fully automated. That frequency is mandatory by custody regulation.

There is no specific timeframe for reconciliation with issuers, which take place upon request of the issuer.

There is an internal audit department that undertakes audits on book-entry positions. There are bi-monthly audits where 25% of positions are audited and annual audits where 100% of positions are audited.

Lien

There are no liens on securities held or cash transferred by InterClear. Accounts can be accessed by a court order.

Account Control

InterClear reports that there are controls and procedures in place surrounding access to accounts, which have been audited.

Participants can trigger debits and credits of accounts in the CSD in accordance with matched instructions.

Cash Deposit

InterClear does not hold cash deposits. However, it provides paying agency services through its account at the central bank. The gap in time between the receipt of funds from issuers and the pay-out of funds to beneficiaries is only 2 hours so InterClear does not invest these funds.

There is no investors' compensation scheme in the market.

<i>Asset Safety Risk - Key indicators</i>	
<i>Asset Safety - Key Indicators</i>	
Segregation by Law / Regulation:	Yes
Nominee concept recognised:	Yes
Frequency of reconciliation with participants:	Daily
Liens asserted by CSD:	No
CSD holds cash deposits:	No

Future Plans

-

Asset Servicing Risk

Summary

All corporate events regarding public offering of securities must be approved by the shareholders in the General Meetings. Issuers must inform the market all financial and corporate events through the Securities Superintendence.

Minimum disclosure standards are regulated by the Superintendence and the Stock Exchange. It includes a minimum term of 7 days between the approval and the execution of the event for both voluntary and mandatory events.

The CSD provides information to custodians regarding events. The CSD assumes liability for direct damages or losses due to system failures and errors, omissions and fraud. All events are communicated to participants, who are required to participate through InterClear.

Information processing

Local regulator Securities and Exchange Superintendence (SUGEVAL), is the central source for market information. Securities issuers are required to inform SUGEVAL of any corporate events and then SUGEVAL will inform market participants about all events via the Stock Exchange.

Instruction processing

Dividends are distributed via InterClear.

InterClear will also distribute interest and redemptions based on holding positions as of Record Date. Payment is via electronic bank transfer into the holders' bank account on Pay Date.

In case of voluntary events InterClear will deliver communications to custodians via intranet and public newsletters. They will have a time frame to contact clients and send responses to InterClear before the execution date.

Under SUGEVAL's Circular No.1247-2016 it was clarified that processing of income payments (including principal, interest income, dividends or any other benefits) as well as transfer of cash or securities resulting from corporate actions on authorized listed securities must be conducted through the securities depository (CSD) where the assets are held, i.e. InterClear or the accounts entry system (Sistema de Anotación en Cuenta - SAC).

The circular clarifies that income events should be processed through InterClear.

Proxy Voting

The fiscal year ends for most companies in September (for banks in December). Companies must announce meetings within 90 days of their fiscal year-end. Hence many of the AGMs take place in December (March). Proxy information must be made available to shareholders two weeks before the AGM. Shares are not blocked for voting.

Elegibility to participate in general meetings is based on record date which is usually 7 days prior to meeting date. Voting must be done via physical attendance.

Other services

N/A

<i>Asset Servicing Risk - Key indicators</i>
<i>Information processing</i>
<i>Securities covered</i>
Equities, corporate and government debt, and mutual funds.
<i>Information sources used</i>
Comunicados de Hechos Relevantes, Stock Exchange Newsletters, Intranet, Websites and press.
<i>Information provided in English</i>
No
<i>Number of Events during last full year</i>
<i>Dividends</i>
86 (2017)
<i>Interest & Redemptions</i>
11,899 (2017)
<i>Corporate actions</i>

228 (2017)
<i>Notification via</i>
Hecho Relevante, Stock Exchange Newsletters, Intranet
<i>SWIFT message types</i>
N/A
<i>Notification within</i>
N/A
<i>Information processing comments</i>
-
<i>Instruction processing</i>
<i>Use of depository</i>
Mandatory for all dematerialied issues settling on the stock exchange and registered in InterClear.
<i>Settlement on due date</i>
Yes
<i>Optional corporate actions supported</i>
Yes
<i>Cash account credited</i>
Yes
<i>Central paying agent</i>
No
<i>Entitlements based on</i>

Registered positions on Record Date
<i>Instruction processing comments</i>
<p>Dividends are generally declared annually and paid either quarterly or annually by the individual issuing companies directly to registered shareholders on the date decided at the annual general meeting (AGM).</p> <p>InterClear acts as distribution and paying agent for interest on government and private bonds.</p>
<i>Proxy voting services</i>
<i>On-line</i>
N/A
<i>Outsourced</i>
N/A
<i>Announcement of meetings</i>
Yes
<i>Elections (Voting)</i>
Yes
<i>Results reporting</i>
Yes
<i>Proxy voting services comments</i>
<p>Meeting announcements are published daily on the stock exchange's website, and in local and national newspapers. Companies are required to announce AGMs and extraordinary general meetings at least 15 business days prior to the meeting. Announcements include meeting date and place, record date, and the agenda.</p> <p>InterClear provides a system to control voting processes during AGMs which use is not mandatory for issuers.</p>

Financial Risk

Summary

Financial risk is reduced due to InterClear's limited role in settlement as it does not guarantee settlement. Although its capital level appears to be low, it has an insurance policy in place to cover operational and safekeeping risks.

Capital Structure

The Securities Law determines the CSD's ownership structure. According to this, the owners and their ownership interest percentages are; 40% The Costa Rican Stock Exchange (Bolsa Nacional de Valores) and 60% local custodians (22 participating banks and brokers).

Currently, InterClear's issued capital totals CRC 1,200,000 (around USD 2.11 million).

InterClear does not distribute dividends and all profits are normally transferred to Retained Earnings.

Participants are required to contribute to the capital of the CSD and therefore are all shareholders.

Earnings Performance

According to the internal financial statements, InterClear reported CRC 439.84 million of net profits (USD 783,288) for the year ending 2016. This is the first full year of operations for InterClear.

By Law, InterClear is required to separate 10% of its net profits into a legal reserve for operating losses and 10% into a special reserve. It's also required to define the fee structure to cover at least its total costs. InterClear conducts annual reviews of its fee structure.

Guarantee Funds (Central Counterparty Funds Only)

InterClear maintains a guarantee fund which is regulated by the Stock Exchange. At November 2017 the fund amounted to USD 5.92 million. The Stock Exchange manages the contributions for the fund. Brokers contribute to the guarantee fund upon approval to participate in the Stock Exchange. To date the fund has not been drawn upon.

Access to Credit

InterClear has the capability of borrowing funds, but has not done so to date.

Recovery and Resolution Plan

As part of the Principles for Financial Market Infrastructures (PFMIs) issued by CPMI-IOSCO in 2012, it is recommended that 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. The PFMIs states that an FMI should hold liquid net assets funded by equity equal to at least 6 months of current operating expenses.

InterClear holds sufficient liquid net assets funded in order to maintain a viable recovery. At October 2017, these net assets cover 20 months of current operating expenses.

Insurance

InterClear has USD 5 million insurance cover (with a maximum annual addition of USD 10 million) for fidelity, operational errors, computer fraud and loss of certificates, among others.

This is provided by the Instituto Nacional de Seguros (INS), is for one year and has a deductible of USD 35,000 per claim. To date, InterClear has not filed any claim and no litigation involving a participant has occurred.

Potential Liabilities

Under the Capital Markets Law, InterClear is legally required to compensate (depositors) for losses derived from missing securities. If the securities can be replaced, InterClear covers the replacement costs and any associated financial cost.

InterClear assumes liability for the following: reconciliation errors with the registrar and/or issuer, theft of securities, any loss caused by the depository due to errors, omissions or fraud that cause direct damages or losses to participants and negligence. The liability is limited to direct losses only. InterClear has not reported any material losses within the last three years and there has not been any litigation involving a participant. InterClear is not immune from legal action in its own jurisdiction.

Investment in Infrastructure

InterClear is planning to replace its core system within the next two years. The project has an estimated cost around USD 2 million.

Financial Risk - Key indicators

Ownership of the CSD

	Number - Domestic	Number - Foreign	Total Percentage
Central Bank	0	0	0
Stock Exchange	1	0	40
Participant banks	9	0	23.48
Broker/dealers	13	0	36.52
Mutual funds	0	0	0
Private clients	0	0	0
Others	0	0	0

Comments

The Ownership Structure is defined in the securities law.

Statistics

	Capital structure Local Currency
Issued capital	940,909
Surplus	51,222
Reserves	48,514
Retained earnings	561,478
Total	1,602,123

Comments

Statistics in CRC thousands at October 2017 for InterClear.

Surplus includes investment deficits and non-capitalised capital contributions.

Lines of stock

	2013	2014	2015	2016	2017
Lines of stock	N/A	N/A	54,076.29	40,548.54	46,182.32
% Stock Exchange transactions cleared & settled through CSD	N/A	N/A	21%	8.2%	9.2%
Total value of securities under custody	N/A	N/A	12,971	12,221	11,309

Comments

*In USD Million

* Total value of securities under custody at market value

* In 2016 all issues of government bonds were transferred to SAC

Equities

	2013	2014	2015	2016	2017
Market Value	N/A	N/A	2,331.83	2,839.4	2,958.42
% of issued securities in the CSD	N/A	N/A	100%	100%	100%
% of market capitalisation in the CSD	N/A	N/A	100%	100%	100%

Comments

In USD Million

Fixed Income

	2013	2014	2015	2016	2017
Market Value	N/A	N/A	10,083	8,501	7,993
% of issued securities in the CSD	N/A	N/A	40%	29%	4.8%
% of market capitalisation in the CSD	N/A	N/A	26.9%	5.8%	16.9%

Comments

In USD Million

In 2016 all issues of public sector were transferred to SAC.

Money Markets

	2013	2014	2015	2016	2017
Market Value	N/A	N/A	37,505	26,353	29,075
% of issued securities in the CSD	N/A	N/A	17.4%	5.7%	5.2%
% of market capitalisation in the CSD	N/A	N/A	17.4%	5.7%	5.2%

Comments

In USD Million

In 2016 all issues of public all issues of public sector were transferred to SAC.

Expenses

	2013	2014	2015	2016	2017
Expenses as % total operating revenue	-	-	73.5%	59.55%	64.79%

Comments

For 2015 (November and December): Operating incomes: CRC 230.20 million. Operating expenses: CRC 169.28 million

For 2016 (January to December): Operating incomes: CRC 1,501.38 million. Operating expenses: CRC 894.10 million

For 2017 (January to October): Operating incomes: CRC 1,209.42 million. Operating expenses: CRC 783.55 million

Operational Risk

Summary

InterClear maintains a well-designed system of internal controls and procedures. Depository, data processing and business continuity key controls and related procedures, which are consistent with InterClear's business, exist and have been satisfactorily tested by independent external auditors. Other operational risk controls systems are reviewed by a Fiscal Committee and Internal Audit group.

Identification of Key Controls

Safeguards are in place against unauthorized use, loss or disposition of assets. Securities and funds are monitored on a daily basis and access controls are in place and are checked on a monthly basis by internal audit. Reconciliations between total securities issued and those held by participants are done daily.

Periodic sample examinations are made to ensure physical securities and records are consistent, and participants are able to verify on a continuous basis their holdings in InterClear.

InterClear identifies all securities traded in the market using ISIN, CFI and FISN codes.

Responsibility for physical custody of securities is segregated from the recording to participant ledger positions.

InterClear's secured vault has control resources including: authorized opening and closing, restricted access, electronic controls and access cards and video monitoring, armed guards, an alarm system and dual control. For withdrawals, custody officers must have an identification provided by InterClear and guards have an internal list with authorized people.

Operational Procedures

InterClear maintains operational procedures for each process. These documents are reviewed at least once a year and updated every time there is a change in the process.

The procedures include the flow chart, criteria, responsible, documents used, duration, KPI's and the risk analysis.

All the procedures are publicly accessible to InterClear's staff in the company's document management system.

Operational Audit

The internal audit, operational controllers, risk and compliance officers are responsible for supervising internal controls.

There is also an annual external operational audit by Deloitte.

Processing

User ID and passwords are required to log into the system and operational security profiles to grant access are in place. Logical and physical security minimum standards are defined by regulation. There are permanent traffic controls within the network, servers and databases. All registers are recorded in a log and information is backed up real time. IT audit and system traffic surveillance is mandatory.

Reporting

Balances and movements reports are provided to participants through own systems to which they have access in real time or via email by request.

InterClear is planning to implement SWIFT for sending and receiving information.

Disaster Recovery Procedures

InterClear has a documented disaster recovery Plan that is available to all employees. There is an offsite alternative data center with real-time transfer of information. In the event of a disaster, the systems will take 45 minutes to recover. Testing of the alternate infrastructure is mandatory at least twice a year.

In the data center there are environmental controls, emergency power supply, and UPS back-up. Alternative facilities are in place in the Stock Exchange and InterClear. The main Data Center is located in a separate site from where InterClear operates. Each participant is obliged to have two communications lines in the event of disruptions. The plan is tested twice a year with direct and indirect participants as well as the stock exchange. During 2016, InterClear had its first real event and the plan was invoked successfully with no disruption to services.

Business Continuity Procedures

InterClear together with the Costa Rica National Stock Exchange have implemented a Business Continuity Management System that is based on ISO 22301:2012, in order to provide a continuous service to their participants. The continuity plan includes:

- Scope of the Business Continuity Management System.
- Business Continuity Policy, focus on business strategic goals.
- Procedures for identification of legal and regulatory requirements applicable.
- Training and Awareness Plan.
- Results of Business Impact Analysis.
- Results of Risk Assessment.
- Business Continuity Plan.
- Business continuity procedures.
- Disaster Recovery Plans.
- Communication Plan in Case of Crisis.
- Evaluation procedures and implementation of corrective measures.

The procedures for business continuity are developed under a complete failure scenario, where the building is not available for use due to a telecommunications problem, hardware or a natural disaster. Under that premise, prevention activities are defined, actions to take are considered and post reviews are considered for business recovery. All critical processes are included into these plans.

InterClear conducted a business continuity test between 6 and 13 December 2017, simultaneously with the Costa Rican stock exchange (Bolsa Nacional de Valores – BVN). All services provided by InterClear were operated from the CSD's alternate site.

IT Operations

InterClear has performance and capacity management tools for network, hardware and software and applications. Performance and capacity statistics are monitored regularly. InterClear also has systems monitoring capacity for logging system availability for network, hardware, systems and applications.

A user ID and password are required to log into the system. Each person has a user profile to match their functions. There is also permanent video recording. There is a documented security architecture for network, hardware, system software and application software security.

IT Management is regulated by the Costa Rican Securities Superintendence's (Superintendencia General de Valores – SUGEVAl) the General Regulation for IT Management and relative Guidelines. The rules establish the regulatory guidelines to enable entities to plan, implement, control, and maintain an IT management framework. The regulation includes general guidelines concerning IT management framework, corresponding criteria and some deadlines in respect of developments related to this regulation.

Cyber Security

Recognised companies are appointed to carry out security assessments in the Company's technological infrastructure (including perimeter vulnerabilities in telecommunications equipment, external attacks, weaknesses in the wireless network). Action plans are taken to mitigate potential risks.

An internal process is used for applications development, including minimum documentation, analysis documentation, user meetings, technical documentation design and pre-implementation testing.

Staff Training

The Organizational Development Department is responsible for the preparation, control and evaluation of the Annual Training Plan of all InterClear employees.

All InterClear employees are trained in topics related to their functions as well as in compliance, risk and business continuity issues.

<i>Operational Risk - Key indicators</i>
<i>Control objectives identified by the CSD match standard objectives</i>
Yes
<i>Key controls and procedures are identified by the CSD</i>
Yes
<i>Independent evidence exists that key controls and procedures have operated effectively through the last year</i>
Yes
<i>Material errors have been identified</i>
No
<i>Comments</i>
-

Governance and Transparency

Summary

The Board is composed of 7 members plus an external auditor including 1 independent director, which are elected for a 2-year period. There are four Committees at the Board which are responsible for monitoring risks and establishing the company policies: Audit Committee, Risk Committee, Administrative Committee and Compliance Committee. Managers are assessed on an on-going basis based on KPIs. The CSD publishes some information in respect of fee changes, regulations, and financial statements through the website www.Interclearcr.com.

Regulatory Oversight

InterClear was established and is governed under the Securities Market Law 7732, and is also regulated under the Business rules of the Stock Exchange. InterClear is regulated and supervised mainly by the Superintendencia General de Valores (SUGEVAL). Also, the Costa Rican Central Bank reviews the standards of the payment system. SUGEVAL is empowered to fine, restrict depository activities, suspend or terminate depository activities if there is found to be a breach of the governing regulations or other irregularities. There has been no such enforcement action taken within the last three years.

Board Structure

InterClear's Board is composed of 7 members. There are no specific restrictions or requirements in terms of the directors being executive or non-executive. There are currently 1 independent director, 1 that represents the stock exchange, 5 from other shareholders.

The number of Board members is established in InterClear's statutes. They are elected for a 2-year period and can be re-elected subsequently. There are four committees of the board: Audit, Risk, Administrative and Compliance Committees.

There are at least quarterly board meetings but they can take place more often if necessary. The Audit Committee, The Administrative Committee and The Compliance Committee meet every quarter while the Risk Committee meetings take place monthly.

Board Responsibilities and Performance

The Board is responsible for the approval of the CSD rules, the creation of the necessary committees for its supervision, strategic planning, corporate governance, IT governance, risk management, selection of management team, approval of financial statements, policies and procedures, announcements of general meetings, and legal representation of InterClear.

Board Relationships

The Board receives periodic reports about the Audit, Compliance, Administrative and Risk Committees performance and also recommendations from them.

Audit and Risk Management Committees

There is an Audit Committee for the holding company that covers the operation of InterClear, a subsidiary of the stock exchange. It must provide a quarterly report to the Board.

There is also a Risk Committee which is responsible for defining the risk policies and principles for the organisation.

There is an external auditor (Deloitte) that provides the audited financial statements as well as a letter to the management.

Committee Performance

Current regulations establish formal duties for committees, and obligations for the Board to supervise their compliance. Bi-annual corporate governance reports must be submitted to the Superintendence including specific disclosure about committees' performance.

Management Structures

InterClear has a Chief Operating Officer (CEO) who is responsible for the company management. There are direct responsible managers for Operations and for Institutional Effectiveness and Compliance.

The CSD undertakes performance assessments of its managers on a regular basis and has some minimum performance standards for managers related to strategic plans. The criteria used to assess managers is based on their performance according to KPIs.

Management Communication

InterClear's Board has approved a communications matrix which establishes duties regarding information flows between internal and external stakeholders. A plan to comply its contents is in place.

User Group Structures

There is no user group at InterClear.

User Group Participation

There is no user group at InterClear.

Public Information Management

The CSD publishes a report of settled trades on a regular basis as well as quarter financial statements. The CSD also publishes its financial statements, internal rules, policies and procedures, fees and operational manuals via SUGIVAL and on its website. The CSD does not publish the AGC questionnaires or the IOSCO self-assessments.

Response to Regulatory Information Requirements

Current regulations establish specific disclosure obligations for InterClear. Permanent reporting to regulators is mandatory according to those rules. Specific information requirements must be complied within three days.

Statistical Information Management

Daily, weekly and monthly statistics of activity are publicly disclosed.

Data Mining Capability

InterClear have implemented SAP Business Objects to give data mining capabilities to its clients and internal staff. This software receives information from different database engine machines, like Sybase and SQL Server. Universes and cubes are made depending on business requirements. Final reports are given via web page.

Information about issues, offers and contracts are provided by web services.

CSD on CSD (Credit) Risk

Summary

InterClear has direct links with CSDs in El Salvador, Nicaragua and Panama. The Stock Exchange in Honduras, plus accounts with Clearstream Banking Luxembourg and Euroclear Bank.

CSD - CSD Links

InterClear has host-to-host linkages with:

- El Salvador Central de Valores de El Salvador.
- Nicaragua Central Nicaraguense de Valores.
- Panama Latin Clear.

InterClear also has accounts with Clearstream Banking and Euroclear Bank for the provision of custody, administration, transfers and liquidations of securities held in these institutions. These provide services to investors based in Costa Rica and links with DTC and the FED's system.

Processing Cycles

For the accounts held with other depositories, the operating scheme is through instructions sent by e-mail according to the established schedules in each country.

Cash settlement is done through a settlement bank with presence in both countries and according to the established agreements.

CSD on CSD (Credit Risk) - Key indicators

International Links: List of international links established and/or planned by the CSD

InterClear has the following international links:

El Salvador: Central de Valores de El Salvador

Nicaragua: Central Nicaragüense de Valores

Panama: Latin Clear

Luxembourg: Clearstream Banking SA

Belgium: Euroclear Bank

ECB Monetary Operations

-

General Details

<i>About the Depository</i>			<i>Segregation of Assets at the Depository</i>		
<i>Name and Address</i>			<i>Depository assets from participants</i>		
InterClear Central de Valores S. A. Parque Empresarial Forum I Santa Ana, San José Costa Rica			Yes		
<i>Website</i>			<i>Participant assets from clients</i>		
www.Interclearcr.com			Yes		
<i>Date of establishment</i>			<i>Eligible Securities Depository under SEC Rule 17f-7</i>		
November 2015			Yes		
<i>Date commenced operations</i>			<i>System of central handling of securities</i>		
November 2015			Yes		
<i>Legal status</i>			<i>Regulated by a financial regulatory authority</i>		
Private company			Yes		
<i>Type of legal entity</i>			<i>Holds assets of all participants on equivalent terms</i>		
For profit			Yes		
<i>Regulated by</i>			<i>Identifies and segregates participant assets</i>		
Superintendencia General de Valores (SUGEVAL)			Yes		
<i>Is use of the CSD required?</i>			<i>Periodic reports to participants</i>		
	Settlement	Safekeeping	Yes		
By Law	Yes	Yes	<i>Periodic examination by a regulator or independent accountant</i>		
			Yes		

By Practice	Market	Yes	Yes
<i>How securities are held</i>			
97% of all securities are dematerialized and held in book-entry form.			
<i>Domestic eligible participants</i>			
9 Banks, 13 Brokers.			
<i>Foreign eligible participants</i>			
Only other CSDs on a reciprocal basis, currently includes the 3 regional CSDs and a Stock Exchange.			
<i>Ownership</i>			
InterClear is 40% owned by the Stock Exchange and 60% by 22 participating banks and brokers.			

Internal Safety Measures

<i>Participant Eligibility Criteria</i>
<i>Minimum Capital Standards</i>
Yes
<i>Comments</i>
Net Capital Rules in Place
<i>Financial Aspects</i>

Services Provided

<i>Matching</i>
<i>Pre-matching services</i>
No
<i>Matching services</i>
Yes

<i>Ability to raise capital/borrow</i>	<i>Comments</i>
Yes	-
<i>Committed lines of credit in place</i>	<i>Clearing</i>
No	<i>Clearing services</i>
<i>Publish audit financials</i>	Yes
<i>Take lien on stock held</i>	<i>Comments</i>
No	-
<i>Central Bank Guarantee</i>	<i>Securities Settlement</i>
No	<i>Book-entry settlement</i>
<i>Other third party guarantee</i>	Yes
<i>Third party insurance</i>	<i>Fails management</i>
Yes	Yes
<i>Comments</i>	<i>Comments</i>
Third party guarantee is from the Stock Exchange	-
<i>Safeguard Facilities</i>	<i>Cash Settlement</i>
<i>Offsite Backup</i>	<i>Internal cash settlement</i>
Yes	No
<i>Comments</i>	<i>Comments</i>
-	

<i>Disaster Recovery</i>	
<i>Disaster Recovery Plan</i>	-
Yes	<i>Stock Lending</i>
<i>Back-up power generator</i>	<i>Securities lending for fails coverage</i>
Yes	Yes
<i>UPS (Uninterruptible power supply)</i>	<i>Comments</i>
Yes	-
<i>Comments</i>	<i>Asset Servicing</i>
-	<i>Notifications</i>
	Yes
	<i>Securities processing</i>
	Yes
	<i>Paying agent</i>
	Yes
	<i>Central registrar</i>
	Yes
	<i>Proxy voting services</i>

	Yes
	<i>Comments</i> -
	<i>Communications</i>
	<i>Electronic communications</i>
	Yes
	<i>Comments</i> -
	<i>Reporting Services</i>
	<i>Electronic reporting</i>
	Yes
	<i>Reporting of every movement</i>
	Yes
	<i>Regular statement of securities deposited</i>
Yes	
<i>Comments</i> -	