

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion contains an analysis of our financial condition and results of operations for the three months ended March 31, 2016 and 2015, and the years ended December 31, 2015, 2014 and 2013. The following discussion should be read in conjunction with our audited financial statements and unaudited interim financial statements, together with the notes thereto included in this offering memorandum. Our financial statements have been prepared in accordance with Peruvian Banking GAAP.*

### Overview

Corporación Financiera de Desarrollo S.A. (COFIDE) is a state-owned development bank established in 1971 by the government of Peru. We are a key participant in the government of Peru's economic and social development programs. We have expertise in the creation of new financial products and structures for underserved markets, with a particular focus on the micro and small enterprise lending sector and helping finance infrastructure and environmental projects. Our lending activities are conducted on commercially reasonable terms and funded mainly through debt issuances in the local and international capital markets, syndicated loans and other forms of financing from Peruvian and international commercial banks, loans from multilateral organizations made either directly to us or on-lent through the Peruvian government, as well as capital contributions from the Peruvian government. In addition, due to our relationship with the Peruvian government, in the past we have played an active role in stabilizing the Peruvian financial system during periods of economic recession.

For the years ended December 31, 2015 and 2014, our net income was S/ 82.3 million (US\$24.1 million) and S/ 77.1 million (US\$25.8 million), respectively. For the three months ended March 31, 2016 and 2015, our net income for the period was S/ 26.4 million (US\$ 7.7 million) and S/ 23.5 million (US\$ 7.6 million), respectively. As of March 31, 2016, our total shareholders' equity was S/ 2,718.1 million (US\$ 796.9 million). Additionally, the balance of our loan portfolio, net totaled S/ 6,487.2 million (US\$ 1,901.9 million) as of March 31, 2016 and S/ 5,298.0 million (US\$1,711.0 million) as of March 31, 2015.

### *Primary lines of business*

We have two primary lines of business: intermediation financing and investment financing. Additionally, we offer investment managing services.

#### *Intermediation financing*

Our intermediation financing line of business complements the activities of the private financial sector in Peru by providing mostly short and medium-term financing, primarily to micro and small enterprises, through the channeling of financial resources to the Peruvian financial system. We have implemented programs under this line of business by lending to all types of financial institutions in Peru, which we call intermediary financial institutions (*Instituciones Financieras Intermediarias*), including commercial banks, municipal and rural banks, credit unions and entities specializing in the development of micro and small enterprises, all of which are regulated by the SBS. In this line of business, we have direct credit exposure to the intermediary financial institutions rather than the ultimate borrowers. The primary products in this line of business that we make available for on-lending by intermediary financial institutions are: loans to micro and small businesses, including multi-sectoral investment loans; working capital loans; export loans; mortgages; training and technological development loans; and rural and small agribusiness loans. We also provide technical assistance and training, and have developed programs to promote a modern and advanced business culture in Peru. Through these types of programs, we have aided micro and small enterprises by providing business development services such as management skills, technological development and training.

#### *Investment financing*

Through our investment financing line of business, we focus primarily on financing infrastructure projects, including energy, toll roads and transportation projects that are undertaken by private companies. We are also the primary source of financing for a key environmental initiative promoted by the Peruvian government that enables vehicles to use natural gas as a source of fuel. We lend through intermediary financial institutions as well as provide loan guarantees to intermediary financial institutions to support specific projects, and we can also invest in debt instruments of special purpose entities used to finance projects. In our investment financing line of business, our credit exposure is to the investment project financed by the ultimate borrower.

### *Investment managing services*

We act as investment manager for certain funds held through trusts received from the Peruvian government, public agencies and financial institutions pending their use in various designated projects or purposes.

## **Principal Trends Affecting Our Business**

### ***Peruvian economic environment***

All of our operations are conducted in Peru. Accordingly, our results of operations and financial condition are dependent upon economic conditions, consumer spending levels and investment levels in Peru. During the 1980s, Peru experienced a severe economic crisis and high levels of inflation. Beginning in the 1990s, however, the Peruvian government implemented a series of structural reforms, which contributed to the stabilization of the Peruvian economy, GDP growth, low inflation, lower interest rates, stable currency and significantly improved public finances. As a result, according to the International Monetary Fund, the Peruvian economy has been one of the fastest growing and most stable economies in Latin America throughout the 2000-2010 decade.

The Peruvian economy experienced a deceleration during 2013, 2014 and 2015, with GDP growing 5.8%, 2.4% and 3.3%, respectively. These rates were mostly sustained by increased domestic private consumption, which grew at average rate of 7.83% between 2013 and 2015. The main driver of Peru's recent economic performance has been domestic demand.

The table below sets forth additional details regarding Peru's recent economic performance.

	<u>March 2016</u>	<u>March 2015</u>
Peruvian real GDP growth rate .....	4.4%	1.8%
Internal demand growth .....	1.9%	2.7%
Private investment .....	(4.7%)	(1.8%)
Reference interest rate .....	4.25%	3.75%
Fiscal surplus (deficit) (% of GDP) .....		
CPI Index .....	4.30%	4.45%
Unemployment rate .....	7.2%	5.7%

Sources: Peruvian Central Bank, INEI and the Ministry of Economy and Finance of Peru ("MEF")

As of March 31, 2016, Peru's GDP grew at a rate of 4.4% compared with 2.5%, 2.0% and -5.4% for Colombia, Chile and Brazil, respectively. In March 2016, Peru's annual inflation rate was 4.45%, above the Peruvian Central Bank's target inflation of 2.0% and above the target range of between 1% and 3%, and generally in line with other Latin American countries except for Brazil, whose inflation rate was almost twice as high. Peru's unemployment rate was 7.2% in March 2016. With regards to its banking system, Peru's past due loan ratio was also one of the lowest among these other Latin American countries.

As a result of the decrease in fiscal spending, the Peruvian government also maintained significant foreign exchange reserves which totaled approximately US\$ 61.3 billion as of December 31, 2015 and represented 31.2% of Peru's annualized GDP and 87.6% of its external debt. In addition, as reported by the Peruvian Central Bank, the average reserve levels in soles and U.S. dollars (12.5% and 7.0%, respectively, as of March 31, 2016) reflect higher levels of liquidity in the financial system, which in the event of a severe liquidity crisis or global economic crisis can alleviate the potential impact on Peru.

Improved economic conditions directly impact our borrowers' ability to pay their financial obligations on a timely basis, which positively affects our provisions for loan losses, our balance of outstanding loans and financial performance. Additionally, the demand for banking products and services is generally affected by the overall development of the Peruvian economy.

### ***High growth in the Peruvian banking sector***

Primarily as a result of increasing economic output, growing investments and higher consumer confidence, the banking industry in Peru has experienced significant growth in recent years. From December 31, 2013 to March 31, 2016, direct loans in the Peruvian banking system have grown at an average

annual rate of 9.4% from S/ 198.9 billion to S/ 260.2 billion. Due to the high growth rates experienced by the economy and the banking sector during last years led the Peruvian Central Bank to tighten monetary policy and the SBS to strengthen regulation and increase provisioning requirements. Since 2008, the SBS implemented measures to prevent individuals from borrowing excessively and to ensure that provisioning for consumer loans remains high during periods of significant growth.

Although our loans between December 31, 2013 and March 31, 2016 had an average annual growth rate of 9.38% from S/ 5,196.9 million to S/ 6,802.1 million, this growth was not directly linked to the growth experienced by the Peruvian banking sector, mainly because our loans were focused on financing infrastructure and investment projects. In some cases, our infrastructure and project loans were channeled through foreign investment banks.

In 2013, Peru's GDP grew at an annual rate of 5.8%, as a result of a 7.0% increase in domestic demand, driven by private consumption and private investment in the amount of approximately 5.4% and 6.4%, respectively. Public investment contributed to domestic demand, increasing by 12.5%, while private investment had a lower increase with annual growth of 6.4%. Exports declined by 0.9%, the first annual decrease since 2009, as a result of weaker foreign demand, particularly from China, and weaker prices for minerals. As a result, the current account deficit as a percentage of GDP widened from 3.3% in 2012 to 4.5% in 2013, but was offset by inflows of private capital which represented 7.4% of GDP.

The non-primary sector grew at 5.4% in 2013, outpacing the 3.1% growth in the primary sector, as the majority of trends from 2012 remained constant. Gross fixed capital formation as a percentage of GDP increased to 27.3% and the Peruvian Central Bank maintained foreign reserves equivalent to approximately 32% of GDP, while external public debt decreased to 9.1% of GDP as the public sector ran a budget surplus equivalent to 0.8% of GDP. In recognition of Peru's macroeconomic performance and outlook, both Standard and Poor's and Fitch upgraded Peru's long-term foreign currency ratings from BBB to BBB+ in August and October 2013, respectively.

In 2014, Peru's GDP grew 2.4%, which represented a deceleration of the Peruvian economy compared to 2013 mainly due to the fall of commodity prices, a reduction in exports and a decline in the fishing sector and private investment. In July 2014, Moody's upgraded the credit rating of Peru from Baa2 to A3.

In 2015, the Peruvian economy grew 3.3%, as a result of growth in the mining and fishing sectors. The Peruvian government also maintained significant foreign exchange reserves which totaled approximately US\$61.2 billion and represented 31.2% of Peru's GDP and 87.6% of its external debt.

### ***Monetary policy***

Because of exchange rates pressures and the increase of the inflation rate, the Peruvian Central Bank started to raise the reference rate, control the exchange rates volatility and reduce reserve requirements to encourage the banks to use local money. For example, as of March 2016, the minimum legal reserve requirement for local currency deposits is 6.5%, and for foreign currency deposits is 36.5%, compared to 20.1% and 43.5% as of March 2013 for local and foreign deposits, respectively. The reference rate has been increasing from 3.25% in March, 2015 to 4.25% as of March 2016, in an effort by the Peruvian Central Bank to maintain the inflation rate close to the inflation target. This policy of increasing the rate is expected to be maintained in 2016.

Between May 2012 and April 2013, the Peruvian Central Bank increased the average legal reserve requirement for local currency deposits by 2.5%, through five separate increases and for foreign currency deposits by 4.8% through eight separate increases. In July 2013, however, the Peruvian Central Bank placed a 20.0% limit on the average legal reserve requirement for local currency deposits, which it later lowered to 12.0% as of March 2014. The Peruvian Central Bank also placed a 45.0% limit on the average legal reserve requirement for foreign currency deposits as of July 2013, which has been increased to 60% as of March 2016.

### ***Inflation***

During the 1980s, Peru experienced hyperinflation, negative economic growth and substantial currency devaluation. Inflation rates in Peru began to decrease in the 1990s and in the last seven years have been among the lowest rates in Latin America, partly due to the monetary policy implemented by the Peruvian Central Bank and partly due to the conservative fiscal policy of the Peruvian government. In 2002, in order to maintain low inflation rates, the Peruvian Central Bank established an annual inflation target of 2.5% within a range of one percentage point. In 2007, the target was lowered to 2.0%. The inflation rate in Peru, as measured by the

consumer price index, which is published by the INEI, was 2.9% in 2013, 3.2% in 2014 and 4.4% in 2015. The inflation rate in March 2016 was 4.5%. The Peruvian Central Bank's inflation target has not always been met, and we cannot assure you that it will be met in the future. If the Peruvian Central Bank fails to meet such inflation target, inflationary pressures could reduce our ability to access foreign financial markets and lead to further government intervention in the economy, including the introduction of policies that could adversely affect the performance of the Peruvian economy as a whole, and consequently, us. However, despite not always Peruvian Central Bank reaches the target last years, has improved his promise to be relatively close to the inflation target and has been recognized by diverse relevant institutions in the world.

### ***Exchange rate and depreciation and appreciation of the sol***

The *sol* floats freely against other currencies. Nevertheless, the Peruvian Central Bank participates in the market (buying or selling *soles*) in order to avoid any large fluctuation in the exchange rate because of the effects that it could cause to the Peruvian economy, which remains partly dollarized. As a significant portion of our assets and liabilities are denominated in US dollars and our financial statements are prepared in *soles*, the results reflected in our financial statements are affected by fluctuations in the exchange rate between the *sol* and the US dollar.

The *sol* has been subject to significant devaluation against the US dollar and other foreign currencies in the past. However, from early 2009 to early 2013, the *sol* has appreciated against the US dollar and other foreign currencies. Since the second quarter of 2013, however, the *sol* has been depreciating against the U.S. dollar due to the U.S. Federal Reserve's decision to gradually reduce the size of its monetary stimulus, leading to a global selloff in emerging market assets. Notwithstanding this depreciation, since June 2013, the *sol* has lost less value than other currencies of the region. However, in 2015 the devaluation was of 15%. If the *sol* appreciates, our interest expense will decrease on our liabilities denominated in or indexed to foreign currencies, such as US dollar-denominated debt and foreign currency loans, as a result of the exchange gain of such liabilities when measured in *soles*. Conversely, in the event that the *sol* depreciates, we will have a greater financial expense on our liabilities denominated in or indexed to foreign currencies, such as any US dollar-denominated debt, including the Notes offered hereby. Some of our borrowing and on-lending activities are denominated in foreign-currency, and some of our credit operations are also denominated in foreign-currency. Accordingly, these assets and liabilities are subject to the effects of exchange rate variations. In March 2016, we reported a net gain of S/ 1.5 million in foreign exchange variations, while in 2015 we reported a net gain of S/ 2.7 million in foreign exchange variations. These amounts were classified in our income statement under exchange rate difference in our interest expenses. The exchange rate difference is the net result of the variations of foreign exchange found in our assets and liabilities.

In 2015, our yearly average foreign-currency liabilities totaled S/ 6,450.5 million, compared to S/ 4,439.5 million as of December 31, 2014, determined based on monthly ending balances during the applicable period. Our yearly average foreign currency assets amounted to S/ 6,421.1 million as of December 31, 2015 compared to S/ 4,174.9 million as of December 31, 2014, determined based on monthly ending balances during the applicable period. Any future changes in the value of the *sol* against the US dollar or other foreign currencies could adversely affect our financial condition and results of operations to the extent that we maintain a gap between foreign denominated assets and liabilities. However, the Peruvian Central Bank's participation in the currency exchange market, including the economic programs described below, aims to diminish any negative effect that could exist if there were to be a large fluctuation in the exchange rate between the *sol* and foreign currencies, including the US dollar. See "Exchange Rate Information" and "Risk Factors—Risks Relating to Peru—A devaluation of the *sol* could have a material adverse effect on our results of operations and financial condition and consequently affect our ability to make payments on the Notes" elsewhere in this offering memorandum.

The Peruvian government has adopted a policy to encourage the de-dollarization of the economy. This policy includes promoting the development of a *sol* capital markets and local currency yield curves. In addition, the government is promoting the *sol*-denominated components of government sponsored mortgage subsidy programs (*Mivivienda* and *Techo Propio*) to foster long-term financing in local currency. The proportion of outstanding loans in the banking system denominated in U.S. dollars has fallen from 46.5% in 2013 to 29.2% in March 2016, according to figures published by the SBS. However, the percentage of deposits in the banking system denominated in U.S. dollars raise from 47.4% in 2013 to 52.8% in March 2016 because of the increase of the exchange rates. Otherwise, we expect that the ongoing de-dollarization of the economy will reduce our exposure to potential mismatches between US dollar-denominated assets and liabilities and reduce Peru's exposure to external economic shocks.

Additionally, the bulk of our monetary assets denominated in or indexed to foreign currencies, are hedged by us through the use of derivative financial instruments, principally swaps. As a result, we experience marginal gains or losses caused by an appreciation or depreciation of the *sol*, as interest income from such assets increases or decreases (as measured in *soles*), as the case may be. According to our internal policies, if our total exposure in foreign currencies exceeds 0.5% of our regulatory capital, a close monitoring of the risk is exercised until the exposure is within the aforementioned limit.

***Interest rates on our net interest income***

In general, increases in prevailing interest rates result in more interest revenue from loans. An increase of prevailing interest rates may, however, adversely affect us as a result of reduced overall demand for loans and greater risk of default by our clients. In addition, relatively high interest rates affect our funding costs, and can adversely affect spreads on our loan portfolio if we are unable to pass on the increased funding costs to our clients, and thus reduce our ability to implement programs aimed at increasing longer term infrastructure projects and environmental sustainability in Peru. On the other hand, a decrease in interest rates can reduce our revenue from our loan portfolio. This revenue decrease could be offset by an increase in the volume of loans resulting from higher demand and/or a decrease in our funding costs.

In addition, changes in prevailing interest rates can affect the value of our securities portfolio and therefore our results of operations, as interest income from money market funds and Peruvian government securities provide a significant contribution to our income from financial intermediation.

***CAF investments***

In 1995, the Peruvian government contributed 22,160 shares of CAF that it owned at the time to our portfolio. We have no obligation to fund capital calls by CAF, and the Peruvian government is otherwise responsible for its relationship with CAF as a member country. Currently, CAF owns 15,639,765 Class B Preferred Shares (*Acciones Clase B Preferentes*) which grant a right to an annual preferred and cumulative dividend of LIBOR + 4.5% of placement value for these shares.

On December 3, 2013, COFIDE and CAF entered into a capital contribution contract, by which COFIDE agreed to re-purchase all of the shares held by CAF (pursuant to a sale option granted to CAF by COFIDE in 1997, and CAF’s decision to exercise such option in 2012), and to issue a new class of shares (*Acciones Clase B Preferentes*) which would be subscribed to by CAF. Currently, CAF owns such preferential shares, which pay a dividend as described above.

***Voluntary provisions***

Pursuant to our internal policies, and as permitted by the SBS, we recognize voluntary generic provisions (without limit) in our loan portfolio. The amount of such provisions depends on our management’s assessment of the macroeconomic variables of Peru and their impact on intermediary financial institutions, as well as our loan portfolio condition in general. Voluntary generic provisions represent estimates of inherent losses recognized based on loan portfolios with higher risks exposure. Additionally, pursuant to SBS Resolution No. 041-2005, we assess our exposure to credit exchange risks for loans in foreign currency and provision for such risks as required by the SBS.

***SBS regulations for provisions***

SBS Resolution No. 11356-2008, which took effect on July 1, 2010, and its further modifications, introduced certain changes to the classification of borrower provision requirements, which are further described under “—Critical Accounting Policies—Provisions for loan losses”. These classifications have not, and we do not expect that they will have, a material effect on our results of operations and financial condition.

**Results of Operations**

***Three months ended March 31, 2016 compared to three months ended March 31, 2015***

The table below provides a summary of our results of operations for the three months ended March 31, 2016 and 2015.

<b>Three months ended March 31,</b>		<b>Change</b>
<b>2016</b>	<b>2015</b>	

	(S/ in thousands)		(S/ in thousands)	%
Interest income .....	157,648	124,874	32,774	26.2%
Interest expenses .....	(117,712)	(73,994)	(43,718)	59.1%
<b>Gross financial margin</b> .....	<b>39,936</b>	<b>50,880</b>	<b>(10,944)</b>	<b>(21.5%)</b>
Provisions for loan losses, net (1).....	(12,445)	(14,268)	1,823	(12.8%)
<b>Net financial margin</b> .....	<b>27,491</b>	<b>36,612</b>	<b>(9,121)</b>	<b>(24.9%)</b>
Other income (expense) from financial services, net .....	7,477	8,059	(582)	(7.2)
<b>Net financial margin and financial services</b> .....	<b>34,968</b>	<b>44,671</b>	<b>(9,703)</b>	<b>(21.7%)</b>
Financial transactions .....	9,423	(4,715)	<b>14,138</b>	<b>300%</b>
<b>Operating margin</b> .....	<b>44,391</b>	<b>39,956</b>	<b>4,435</b>	<b>11.1%</b>
Administrative expenses and depreciation and amortization .....	(19,108)	(18,868)	<b>(240)</b>	<b>1.3%</b>
<b>Net operating margin</b> .....	<b>25,283</b>	<b>21,088</b>	<b>4,195</b>	<b>19.9%</b>
Net valuation of assets and provisions.....	(11,072)	(3,586)	<b>(7,486)</b>	<b>208.8</b>
<b>Operating profit</b> .....	<b>14,211</b>	<b>17,502</b>	<b>(3,291)</b>	<b>(18.8%)</b>
Other income and expenses .....	23,417	5,382	18,035	335.1%
<b>Profit before income tax</b> .....	<b>37,628</b>	<b>22,884</b>	<b>14,744</b>	<b>64.4%</b>
Income tax.....	(11,195)	596	(11,791)	(1,978.4%)
<b>Net income for the period</b> .....	<b>26,433</b>	<b>23,480</b>	<b>2,953</b>	<b>12.6%</b>

- (1) Provisions for loan losses, net are provisions for direct loans. Provisions for contingencies and other provisions are included in net valuation of assets and provisions. See “-Credit Portfolio” and “Statistical Information—Classification by Type of Borrowing” for a description of the composition of direct and contingent loans, respectively.

#### Interest income

The following table sets forth the components of our interest income for the three months ended March 31, 2016 and 2015.

	Three months ended March 31,		Change	
	2016	2015	(S/ in thousands)	%
	(S/ in thousands)		(S/ in thousands)	%
Cash .....	6,273	990	5,283	533.6%
Available-for-sale investments.....	28,232	19,885	8,347	42.0%
Direct loan portfolio .....	123,143	103,999	19,144	18.4%
<b>Interest income</b> .....	<b>157,648</b>	<b>124,874</b>	<b>32,774</b>	<b>26.2%</b>

Interest income increased by S/ 32.8 million for the three months ended March 31, 2016 compared to the corresponding period in 2014. This increase was due to an increase in interests on our direct loan portfolio of S/ 19.1 million, as well as an increase in interests on available-for-sale investments of S/ 8.3 million and an increase in interest on cash in the amount of S/ 5.3 million.

The increase in interests on our direct loan portfolio was due to an increase in the average loan balance of 17.02% from S/ 5,921.3million for the three months ended March 31, 2015 to S/ 6,929.5 million for the three months ended March 31, 2016, which led to an increase of interest earned on the loan portfolio totaling S/ 19.9 million. A slight increment in average interest rates, however, from 1.76% for the three months ended March 31, 2015 compared to 1.78% for the corresponding period in 2016 resulted in a decrease of S/ 1.2 million in interest on the loan portfolio.

The higher interest on available-for-sale investments was due to (i) an increase in the average balance of investments of 16.9% from S/ 1,545.3 million for the three months ended March 31, 2015 to S/ 1,806.7 million for the corresponding period in 2016, which led to S/ 8.3 million in interest earned, which was boosted by a decrease in average interest rates from 1.29% for the three months ended March 31, 2015 to 1.56% for the corresponding period in 2016. Such increase in average interest rates caused an increment in interests earned of S/ 4.3 million.

The higher interest on cash was as a result of a reduce in the average balance of cash from S/ 353.9 million for the three months ended March 31, 2015 to S/ 120,1 million for the corresponding period in 2016, which led to an increase of S/ 5.3 million. Nevertheless, an increase in average interest rates from 0.28% for the three months ended March 31, 2015 to 5.22% for the three months ended March 31, 2016, led to a decrease of S/ 17,493 thousand in interests earned.

### Interest expenses

The following table sets forth the components of our interest expenses for the three months ended March 31, 2016 and 2015.

	Three months ended March 31,		Change	
	2016	2015	(S/ in thousands)	%
	(S/ in thousands)	(S/ in thousands)	(S/ in thousands)	%
<b>Obligations to the public</b> .....	<b>(161)</b>	<b>(591)</b>	<b>430</b>	<b>(72.76%)</b>
<b>Deposits by banks and financial organizations</b> .....	<b>(4,184)</b>	<b>(2,364)</b>	<b>(1,820)</b>	<b>76.99%</b>
<b>Debts and financial obligations</b> .....	<b>(111,472)</b>	<b>(69,431)</b>	<b>(42,266)</b>	<b>60.87%</b>
Debts and obligations to local financial entities.....	(14,903)	(10,008)	(4,895)	48.91%
Debts and obligations to foreign financial entities and international financial organizations.....	(11,201)	(9,036)	(2,165)	23.96%
Other debts and obligations in the country and abroad .....	(-1,045)	(335)	(710)	211.94%
Commissions and other charges for debts and financial obligations.....	(2,353)	(3,153)	800	(25.37%)
Securities, bonds and outstanding obligations .....	(82,195)	(46,899)	(35,296)	75.26%
<b>Net (loss) profit from hedging transactions</b> .....	<b>(1,670)</b>	<b>(1,608)</b>	<b>(62)</b>	<b>3.86%</b>
<b>Interest expenses</b> .....	<b>(117,712)</b>	<b>(73,994)</b>	<b>43,718</b>	<b>(59.08%)</b>

Interest expenses increased by S/ 43.7 million for the three months ended March 31, 2016 compared to the corresponding period in 2015. This increase was primarily due to an increase in expenses from interests on securities, bonds and outstanding obligations of S/ 35.3 million, as a result of an increase in the average balance of obligations from S/ 4,085.2 million for the three months ended March 31, 2015 to S/ 7,159.8 million for the corresponding period in 2016, which led to a rise in interest expenses in the amount of S/ 41.4 million, and which was partially boosted by an increase in the average interest rates from 1.05% for three months ended March 31, 2015 to 1.09% for the corresponding period in 2016, resulting in a lower interest expense of S/ 2.9 million.

Interest expenses on debts and obligations to local financial entities increased by S/ 4.9 million, as a result of a lower average balance of obligations from S/ 829.0 million for the three months ended March 31, 2015 to S/ 1,175.8 million for the corresponding period in 2016, which led to an increase in interest expenses of S/ 4.4 million. This increase in expenses was partially boosted by an increase in average interest rates from 1.21% for the three months ended March 31, 2015 to 1.27% for the corresponding period in 2016 which led to an increase of S/ 0.5 million in interest expenses.

### Gross financial margin

Gross financial margin decreased by S/ 11.9 million for the three months ended March, 31 2016 compared to the corresponding period in 2015.

### Provisions for loan losses, net

The following table presents our provisions for loan losses, reversals and exchange difference for the three months ended March 31, 2016 and 2015.

	Direct	Contingent	Total
	(S/ in thousands)	(S/ in thousands)	(S/ in thousands)
<b>Balance at the end of December 31, 2015</b> .....	<b>640,946</b>	<b>39,792</b>	<b>680,738</b>
Provisions for the year.....	107,888	4,537	112,425
Reversals .....	(95,443)	(9,250)	(104,693)
Write-offs .....	-	-	-
Exchange difference .....	(7,820)	(852)	(8,672)
<b>Balance at the end of March 31, 2016</b> .....	<b>645,571</b>	<b>34,227</b>	<b>679,798</b>

The balance of our provisions for direct and contingent loan losses registered as of March 31, 2016 was higher than the balance registered as of December 31, 2015. This increase was the result of an increase in provisions for direct loans of S/ 107.8 million, an increase in reversals of S/ 95.4 million and higher expenses for exchange results, net of S/ 7.8 million. The final balance of provisions for direct loan losses was S/ 645.6 million as of March 31, 2016. Net provisions for contingent loans decreased by S/ 5.6 million during this period.

### Financial transactions

Financial transactions decreased S/ 14.1 million for the three months ended March 31, 2016 as compared to the corresponding period in 2015. Such decrease was mainly due to (i) losses from hedging derivatives in the amount of S/ 31.8 million for the three months ended March 31, 2015, as compared to profits from hedging derivatives in the amount of S/ 8.0 million for the corresponding period in 2015. Furthermore, for the three months ended March 31, 2016, we registered losses in exchange difference of S/ 23.1 million, however, during the corresponding period in 2015 we registered profit in the amount of S/ 1.5 million.

### Administrative expenses

The following table sets forth the components of our administrative expenses for the three months ended March 31, 2016 and 2015.

	Three months ended March 31,		Change	
	2016	2015		
	(S/ in thousands)	(S/ in thousands)		%
Personnel and Board of Directors' expenses .....	9,157	10,725	(1,568)	(14.62%)
Expenses for services received from third parties...	7,388	5,710	1,678	29.38%
Taxes and contributions (1).....	1,434	1,401	33	2.35%
Depreciation and amortization.....	1,129	1,032	97	9.40%
<b>Administrative expenses .....</b>	<b>(19,108)</b>	<b>(18,868)</b>	<b>240</b>	<b>1.27%</b>

(1) Refers to annual tax contributions made to the SBS in an amount equal to 1/18% of the average total balance of direct and contingent loans.

The increase of S/ 0.24 million in administrative expenses was primarily due to (i) a S/ 1.67 million, or 29.38%, increase in expenses for services received from third parties and (ii) a S/ 0.09 million increase in depreciation and amortization expenses, which were offset by a decrease of S/ 1.56 million in the costs of personnel and Board of Directors for the three months ended March 31, 2016 as compared to the corresponding period in 2015.

Our efficiency ratio (the sum of administrative expenses plus depreciation and amortization divided by operating revenue (the sum of interest income and income from financial services)) reached 11.5% for the three months ended March 31, 2016 compared to 14.2% for the corresponding period in 2015. For more information on changes to our accounting practices, see note 2(a) to our audited financial statements in this offering memorandum.

### Net valuation of assets and provisions

Net valuation of assets and provisions decreased by S/ 7.5 million for the three months ended March 31, 2016 compared to the corresponding period in 2015, mainly due to a decrease in provisions for contingent loans in the amount of S/ 5.6 million.

### Operating profit

Operating profit decreased by S/ 3.3 million for the three months ended March 31, 2016 compared to the corresponding period in 2015. This decrease was primarily due to (i) a decrease in our net financial margin, and (ii) a decrease in the financial transactions, which was partially offset by a decrease in expenses related to net valuation of assets and provisions.



### Other income and expenses

The following table sets forth the components of our other income, net for the three months ended March 31, 2016 and 2015.

	Three months ended March 31,		Change	
	2016	2015	(S/ in thousands)	%
	(S/ in thousands)			
<b>Other income</b>				
Income from loan reversals .....	21,556	6,764	14,792	219%
Other income .....	4,966	9	4,957	55,078%
<b>Total other income</b> .....	<b>26,522</b>	<b>6,773</b>	<b>19,749</b>	<b>292%</b>
<b>Other expenses</b>				
Other expenses .....	(3,105)	(1,391)	(1,714)	123%
<b>Total other expenses</b> .....	<b>(3,105)</b>	<b>(1,391)</b>	<b>(1,714)</b>	<b>123%</b>
<b>Total other income, net</b> .....	<b>23,417</b>	<b>5,382</b>	<b>18,035</b>	<b>335%</b>

Other income, net increased by S/ 18.0 million for the three months ended March 31, 2016 compared to the corresponding period in 2015. This decrease was primarily due to an increase of S/ 21.6 million in income from reversals, which was partially offset by a decrease of S/ 1.7 million in loss in foreclosed and repossessed assets.

### Income tax

Income tax increased by S/ 11.8 million for the three months ended March 31, 2016 compared to the corresponding period in 2015 due to a reduction in deferred tax expenses in the amount of S/ 9.9 million. The effective income tax rate was 29.56% and 2.60% for the three months ended March 31, 2016 and 2015, respectively.

### Net income for the period

As a result of the foregoing, net income for the period increased by S/ 2.9 million for the three months ended March 31, 2016 compared to the corresponding period of 2015.

### Year ended December 31, 2015 compared to year ended December 31, 2014

The table below provides a summary of our results of operations for the year ended December 31, 2015 and 2014.

	Year ended December 31,		Change	
	2015	2014	(S/ in thousands)	%
	(S/ in thousands)			
Interest income .....	559,190	446,672	112,518	25.19%
Interest expenses .....	(358,609)	(268,622)	(89,987)	33.50%
<b>Gross financial margin</b> .....	<b>200,581</b>	<b>178,050</b>	<b>22,531</b>	<b>12.65%</b>
Provisions for loan losses, net (1) .....	(18,798)	17,448	(36,246)	(207.74%)
<b>Net financial margin</b> .....	<b>181,783</b>	<b>195,498</b>	<b>(13,715)</b>	<b>(7.02%)</b>
Other income (expense) from financial services, net .....	33,041	27,772	5,269	18.97%
<b>Net financial margin and financial services</b> .....	<b>214,824</b>	<b>223,270</b>	<b>(8,446)</b>	<b>(3.78%)</b>
Financial transactions .....	(16,428)	(21,811)	5,383	(24.68%)
<b>Operating margin</b> .....	<b>198,396</b>	<b>201,459</b>	<b>(3,063)</b>	<b>(1.52%)</b>
Administrative expenses and depreciation and amortization .....	(76,619)	(72,184)	(4,435)	6.14%
<b>Net operating margin</b> .....	<b>121,777</b>	<b>129,275</b>	<b>(7,498)</b>	<b>(5.80%)</b>
Net valuation of assets and provisions .....	(41,268)	(6,745)	(34,523)	511.83%
<b>Operating profit</b> .....	<b>80,509</b>	<b>122,530</b>	<b>(42,021)</b>	<b>(34.29%)</b>
Other income and expenses .....	1,325	(16,450)	17,775	(108.05%)
<b>Profit before income tax</b> .....	<b>81,834</b>	<b>106,080</b>	<b>(24,246)</b>	<b>(22.86%)</b>
Income tax .....	507	(28,975)	29,482	(101.75%)
<b>Net income for the period</b> .....	<b>82,341</b>	<b>77,105</b>	<b>5,236</b>	<b>6.79%</b>

- (1) Provisions for loan losses, net are provisions for direct loans. Provisions for contingencies and other provisions are included in net valuation of assets and provisions. See “–Credit Portfolio” and “Statistical Information—Classification by Type of Borrowing” for a description of the composition of direct and contingent loans, respectively.

### Interest income

The following table sets forth the components of our interest income for the years ended December 31, 2015 and 2014.

	Year ended December 31,		Change	
	2015	2014	(S/ in thousands)	%
	(S/ in thousands)			
Cash .....	10,715	4,999	5,716	114.34%
Available-for-sale investments .....	99,615	69,355	30,260	43.63%
Direct loan portfolio .....	448,860	372,318	76,542	20.56%
<b>Interest income .....</b>	<b>559,190</b>	<b>446,672</b>	<b>112,518</b>	<b>25.19%</b>

Interest income increased by S/ 112.5 million for the year ended December 31, 2015 compared to the corresponding period in 2014. This increase was due to an increase in interests on our direct loan portfolio of S/ 76.5 million, as well as an increase in interests on available-for-sale investments of S/ 30.3 million and an increase in interest on cash in the amount of S/ 5.7 million.

The increase in interests on our direct loan portfolio was due to an increase in the average loan balance of 17.91% from S/ 5,309.9 million for the year ended December 31, 2014 to S/ 6,467.9 million for the year ended December 31, 2015, which led to an increase of interest earned on the loan portfolio totaling S/ 80.4 million. A slight decrease in average interest rates, however, from 7.01% for the year ended December 31, 2014 compared to 6.94% for the corresponding period in 2015 resulted in a decrease of S/ 3.8 million in interest on the loan portfolio.

The higher interest on available-for-sale investments was due to an increase in the average balance of investments of 36.72% from S/ 1,088.7 million for the year ended December 31, 2014 to S/ 1,720.6 million for the corresponding period in 2015, which led to S/ 36.6 million in interest earned, which was offset by a decrease in average interest rates from 6.37% for the three months ended December 31, 2014 to 5.79% for the corresponding period in 2015. Such decrease in average interest rates caused a decrease in interests earned of S/ 6.3 million.

The higher interest on cash was as a result of an increase in the average balance of cash from S/ 536.1 million for the year ended December 31, 2014 to S/ 1,270.7 million for the corresponding period in 2015, which led to an increase of S/ 6.1 million. Nevertheless, a decrease in average interest rates from 0.93% for the year ended December 31, 2014 to 0.84% for the year ended December 31, 2015, led to a decrease of S/ 479 thousand in interests earned.

### Interest expenses

The following table sets forth the components of our interest expenses for the years ended December 31, 2015 and 2014.

	Year ended December 31,		Change	
	2015	2014	(S/ in thousands)	%
	(S/ in thousands)			
<b>Obligations to the public .....</b>	<b>(2,729)</b>	<b>(3,151)</b>	<b>422</b>	<b>(13.39%)</b>
<b>Deposits by banks and financial organizations .....</b>	<b>(7,467)</b>	<b>(11,482)</b>	<b>4,015</b>	<b>(34.97%)</b>
<b>Debts and financial obligations .....</b>	<b>(344,696)</b>	<b>235,224</b>	<b>(109,472)</b>	<b>46.54%</b>
Debts and obligations to local financial entities .....	(46,432)	(46,362)	(70)	0.15%
Debts and obligations to foreign financial entities and international financial organizations .....	(38,519)	(38,946)	427	(1.10%)
Other debts and obligations in the country and abroad .....	(1,870)	(4,529)	2,659	(58.71%)
Commissions and other charges for debts and financial obligations .....	(6,816)	(8,382)	1,566	(18.68%)
Securities, bonds and outstanding obligations .....	(249,634)	(136,971)	(112,663)	82.25%
Payable Interest .....	(1,425)	(34)	(1,391)	4,091.18%
<b>Net (loss) profit from hedging transactions .....</b>	<b>(3,717)</b>	<b>(18,765)</b>	<b>15,048</b>	<b>(80.19%)</b>
<b>Interest expenses .....</b>	<b>(358,609)</b>	<b>(268,622)</b>	<b>(89,987)</b>	<b>33.50%</b>

Interest expenses increased by S/ 89.9 million for the year ended December 31, 2015 compared to the corresponding period in 2014. This increase was primarily due to an increase in expenses from interests on securities, bonds and outstanding obligations of S/ 112.7 million. As a result of an increase in the average balance of securities, bonds and outstanding obligations from S/ 2,927.1 million for the year ended December 31, 2014 to S/ 5,579.8 million for the corresponding period in 2015, which led to a rise in interest expenses in the amount of S/ 118.7 million, which was partially offset by a decrease in the average interest rates from 4.68% for the year ended December 31, 2014 to 4.47% for the corresponding period in 2015, resulting in a lower interest expense of S/ 6.0 million.

Other debts and obligations in the country and abroad decreased by S/ 2.7 million, as a result of (i) a lower average balance of obligations from S/ 320.4 million for the year ended December 31, 2014 to S/ 185.1 million for the corresponding period in 2015, which led to a decrease in interest expenses of S/ 1.4 million, and (ii) a decrease in average interest rates from 1.41% for the year ended December 31, 2014 to 1.01% for the corresponding period in 2015 which led to a decrease of S/ 1.3 million in interest expenses.

#### *Gross financial margin*

Gross financial margin increased by S/ 22.5 million for the year ended December 31, 2015 compared to the corresponding period in 2014.

#### *Provisions for loan losses, net*

The following table presents our provisions for loan losses, reversals and exchange difference for the years ended December 31, 2015 and 2014.

	<b>Direct</b> (S/ in thousands)	<b>Contingent</b> (S/ in thousands)	<b>Total</b> (S/ in thousands)
<b>Balance at the end of December 31, 2014</b> .....	<b>594,442</b>	<b>41,546</b>	<b>636,006</b>
Provisions for the year.....	124,124	11,878	136,002
Reversals.....	(100,752)	(16,766)	(119,518)
Write-offs.....	(1,136)	-	(1,136)
Exchange difference.....	26,268	3,116	29,384
<b>Balance at the end of December 31, 2015</b> .....	<b>640,946</b>	<b>39,792</b>	<b>680,738</b>

The balance of our provisions for direct and contingent loan losses registered as of December 31, 2015 was higher than the balance registered as of December 31, 2014. This increase was the result of an increase in provisions for direct loans of S/ 124.1 million, an increase in reversals of S/ 100.8 million, write-offs for S/ 1.1 million and higher expenses for exchange results, net of S/ 26.3 million. The final balance of provisions for direct loan losses was S/ 640.9 million as of December 31, 2015. Net provisions for contingent loans decreased by S/ 1.7 million during this period.

#### *Financial transactions*

Financial transactions increased S/ 5.4 million for the year ended December 31, 2015 as compared to the corresponding period in 2014. Such increase was mainly due to (i) losses from hedging derivatives in the amount of S/ 24.1 million for the year ended December 31, 2015, as compared to losses from hedging derivatives in the amount of S/ 66.3 million for the corresponding period in 2014. .

#### *Administrative expenses*

The following table sets forth the components of our administrative expenses for the years ended December 31, 2015 and 2014.

	<b>Year ended December 31,</b>		<b>Change</b>	
	<b>2015</b>	<b>2014</b>		
	<b>(S/ in thousands)</b>	<b>(S/ in thousands)</b>	<b>(S/ in thousands)</b>	<b>%</b>
Personnel and Board of Directors' expenses .....	40,230	41,138	(908)	(2.21%)
Expenses for services received from third parties...	26,939	22,867	4,072	17.81%

Taxes and contributions (1).....	5,169	5,230	(61)	(1.17%)
Depreciation and amortization.....	4,281	2,949	1,332	45.17%
<b>Administrative expenses</b> .....	<b>(76,619)</b>	<b>(72,184)</b>	<b>(4,435)</b>	<b>6.14%</b>

(1) Refers to annual tax contributions made to the SBS in an amount equal to 1/18% of the average total balance of direct and contingent loans.

The increase of S/ 4.4 million in administrative expenses was primarily due to (i) a S/ 4.1 million, or 17.8%, increase in expenses for services received from third parties and (ii) a S/ 1.3 million increase in depreciation and amortization expenses, which were offset by a decrease of S/ 0.9 million in the costs of personnel and Board of Directors for the year ended December 31, 2015 as compared to the corresponding period in 2014.

Our efficiency ratio (the sum of administrative expenses plus depreciation and amortization divided by operating revenue (the sum of interest income and income from financial services)) reached 13.7% for the year ended December 31, 2015 compared to 15.6% for the corresponding period in 2014. For more information on changes to our accounting practices, see note 2(a) to our audited financial statements in this offering memorandum.

#### *Net valuation of assets and provisions*

Net valuation of assets and provisions decreased by S/ 34.5 million for the year ended December 31, 2015 compared to the corresponding period in 2014, mainly due to an increase in other provisions in the amount of S/ 26.0 million.

#### *Operating profit*

Operating profit decreased by S/ 42.0 million for the year ended December 31, 2015 compared to the corresponding period in 2014. This decrease was primarily due to (i) a decrease in our net financial margin, and (ii) a decrease in expenses related to net valuation of assets and provisions, which was partially offset by a decrease in the financial transactions.

#### *Other income and expenses*

The following table sets forth the components of our other income, net for the years ended December 31, 2015 and 2014.

	Year ended December 31,		Change	
	2015	2014	(S/ in thousands)	%
	(S/ in thousands)			
<b>Other income</b>				
Income from loan reversals .....	11,497	12,368	(871)	(7.04%)
Other income.....	116	132	(16)	(12.12%)
<b>Total other income</b> .....	<b>11,613</b>	<b>12,500</b>	<b>(887)</b>	<b>(7.10%)</b>
<b>Other expenses</b>				
Other expenses .....	(10,288)	(9,015)	(1,273)	14.12%
<b>Total other expenses</b> .....	<b>(10,288)</b>	<b>(9,015)</b>	<b>(1,273)</b>	<b>14.12%</b>
<b>Total other income, net</b> .....	<b>1,325</b>	<b>3,485</b>	<b>(2,160)</b>	<b>(61.98%)</b>

Other income, net decreased by S/ 2.2 million for the year ended December 31, 2015 compared to the corresponding period in 2014. This increase was primarily due to an increase of S/ 1.3 million in other expenses (loss in foreclosed and repossessed assets).

#### *Income tax*

Income tax decreased by S/ 29.5 million for the year ended December 31, 2015 compared to the corresponding period in 2014 due to an increase in deferred tax expenses in the amount of S/ 34.5 million. The effective income tax rate was -0.62% and 27.31% for the years ended December 31, 2015 and 2014, respectively.

### Net income for the period

As a result of the foregoing, net income for the period increased by S/ 5.2 million for the year ended December 31, 2015 compared to the corresponding period of 2014.

### Year ended December 31, 2014 compared to year ended December 31, 2013

The table below provides a summary of our results of operations for the years ended December 31, 2014 and 2013.

	Year ended December 31,		Change	
	2014	2013	(S/ in thousands)	%
	(S/ in thousands)			
Interest income.....	446,672	389,272	57,400	14.75%
Interest expenses.....	(268,622)	(210,420)	(58,202)	27.66%
<b>Gross financial margin</b> .....	<b>178,050</b>	<b>178,852</b>	<b>(802)</b>	<b>(0.45%)</b>
Provisions for loan losses, net (1).....	17,448	15,804	1,644	10.40%
<b>Net financial margin</b> .....	<b>195,498</b>	<b>194,656</b>	<b>842</b>	<b>0.43%</b>
Other income (expense) from financial services, net.....	27,772	21,593	6,179	28.62%
<b>Net financial margin and financial services</b> .....	<b>223,270</b>	<b>216,249</b>	<b>7,021</b>	<b>3.25%</b>
Financial transactions.....	(21,811)	(21,978)	167	0.76%
<b>Operating margin</b> .....	<b>201,459</b>	<b>194,271</b>	<b>7,188</b>	<b>3.70%</b>
Administrative expenses and depreciation and amortization.....	(72,184)	(64,767)	(7,417)	11.45%
<b>Net operating margin</b> .....	<b>129,275</b>	<b>129,504</b>	<b>(229)</b>	<b>(0.18%)</b>
Net valuation of assets and provisions.....	(6,745)	(14,386)	7,641	(53.11%)
<b>Operating profit</b> .....	<b>122,530</b>	<b>115,118</b>	<b>7,412</b>	<b>(6.44%)</b>
Other income and expenses.....	(16,450)	(7,104)	(9,346)	(131.56%)
<b>Profit before income tax</b> .....	<b>106,080</b>	<b>108,014</b>	<b>(1,934)</b>	<b>(1.79%)</b>
Income tax.....	(28,975)	(31,633)	2,658	(8.40%)
<b>Net income for the year</b> .....	<b>77,105</b>	<b>76,381</b>	<b>724</b>	<b>0.95%</b>

(1) Provisions for loan losses, net are provisions for direct loans. Provisions for contingencies and other provisions are included in net valuation of assets and provisions. See “-Credit Portfolio” and “Statistical Information—Classification by Type of Borrowing” for a description of the composition of direct and contingent loans, respectively.

### Interest income

The following table sets forth the components of our interest income for the years ended December 31, 2014 and 2013.

	Year ended December 31,		Change	
	2014	2013	(S/ in thousands)	%
Cash.....	4,999	2,378	2,621	110.22%
Available-for-sale investments.....	69,355	50,200	19,155	38.16%
Direct loan portfolio.....	372,318	336,694	35,624	10.58%
<b>Interest income</b> .....	<b>446,672</b>	<b>389,272</b>	<b>57,400</b>	<b>14.75%</b>

Interest income increased by S/ 57.4 million for 2014 compared to 2013. This increase was due to an increase in interests on our direct loan portfolio of S/ 35.6 million, as well as an increase in interests on available-for-sale investments of S/ 19.2 million and an increase of S/ 2.6 million in interest on cash during the same period.

The increase in interests on our direct loan portfolio was due to an increase in the average loan balance of 14.4% from S/ 4,640.9 million in 2013 to S/ 5,309.8 million in 2014, which led to an increase of interest on the loan portfolio of S/ 46.9 million. However, a slight decrease in average interest rates, from 7.25% for 2013 compared to 7.01% for 2014 resulted in a decrease of S/ 11.3 million in interest on the loan portfolio.

The increase in interest on cash was as a result of an increase in the average balance of cash from S/ 145.3 million in 2013 to S/ 536.1 million in 2014, which led to an increase of S/ 3.6 million in interests earned,

which was partially offset by a decrease in average interest rates from 1.64% for 2013 to 0.93% for 2014, which decreased the earned interests by S/ 1.0 million.

The increase on interests on available-for-sale investments was due to an increase in the average balance of investments, which led to S/ 22.6 million in interests earned. However, there was a decrease in average interest rates from 6.83% in 2013 to 6.37% in 2014. Such decrease in average interest rates caused a decrease in interests earned of S/ 3.4 million when compared to 2013.

#### *Interest expenses*

The following table sets forth the components of our interest expenses for 2014 and 2013.

	<b>Year ended December 31,</b>		<b>Change</b>	
	<b>2014</b>	<b>2013</b>		
	<b>(S/ in thousands)</b>	<b>(S/ in thousands)</b>	<b>(S/ in thousands)</b>	<b>%</b>
<b>Obligations to the public</b> .....	(3,151)	(1,300)	(1,851)	142.38%
<b>Deposits by banks and financial organizations</b> .....	(11,482)	(2,343)	(9,139)	390.06%
<b>Debts and financial obligations</b> .....	235,224	(185,791)	49,433	26.61%
Debts and obligations to local financial entities.....	(46,362)	(43,220)	(3,142)	7.27%
Debts and obligations to foreign financial entities and international financial organizations.....	(38,946)	(31,997)	(6,949)	21.72%
Debts and obligations to local and foreign entities .....	(4,529)	(5,173)	644	(12.45%)
Commissions and other charges for debts and financial obligations.....	(8,382)	(4,934)	(3,448)	69.88%
Securities, bonds and outstanding obligations .....	(136,971)	(100,467)	(36,504)	36.33%
Payable Interest .....	(34)	-	(34)	100.00%
Net (loss) profit from hedging transactions .....	(18,765)	(20,986)	2,221	(10.58%)
<b>Interest expenses</b> .....	<b>(268,622)</b>	<b>(210,420)</b>	<b>(58,202)</b>	<b>27.66%</b>

Interest expenses increased by S/ 58.2 million for 2014 compared to 2013. This increase was primarily due to an increase in expenses from interests on securities, bonds and outstanding obligations of S/ 36.5 million.

Expenses from interests on obligations to the public increased by S/ 1.9 million and expenses from interests on deposits by banks and international financial organizations increased by S/ 9.1 million.

The increase of interests on securities, bonds and outstanding obligations was due to (i) a higher average balance of securities, bonds and outstanding obligations in 2014 as compared to 2013 that caused an increase of S/ 42.8 million in interests, which was partially offset by a decrease in the average interest rates of securities, bonds and outstanding obligations, from 4.99% for 2013 to 4.68% for 2014, which resulted in an decrease of S/ 6.3 million.

Expenses from interests on debts and obligations to foreign financial entities and international financial organizations increased by S/ 6.9 million for 2014 as compared to 2013. Such increase was due to an increase in the average balance, which caused an increase in total interest by S/ 4.1 million and an increase of average interest rates from 2.14% in 2013 to 2.32% in 2014, which increased total interest by S/ 2.8 million.

Expenses from interests on debts and obligations to local financial entities increased by S/ 3.1 million from 2013 to 2014. Such increase was due to an increase in the average balance of debts and obligations of the financial system of Peru, which caused an increase of S/ 1.2 million in interests and an increase in the average interest rates of debts and obligations of the financial system of Peru, from 4.61% in 2013 to 4.81% in 2014, which resulted in an increase of S/ 1.9 million in total interest.

#### *Gross financial margin*

Gross financial margin decreased by S/ 0.8 million for 2014 compared to 2013. This decrease was primarily due to an increase of S/ 36.5 million in interest on the debt and financial obligations. The higher interest expense was partially offset by an increase in interest income mainly due to an increase of S/ 35.6 million in interest on the loan portfolio.

### Provisions for loan losses, net

The following table presents our provisions for loan losses, reversals and exchange difference for the year ended December 31, 2014 and 2013.

	Direct (S/ in thousands)	Contingent (S/ in thousands)	Total (S/ in thousands)
<b>Balance at December 31, 2013</b> .....	<b>599,097</b>	<b>44,994</b>	<b>644,091</b>
Provisions for the year .....	100,444	5,393	105,837
Reversals.....	(115,254)	(11,423)	(126,677)
Write-offs.....	(930)	-	(930)
Exchange difference.....	11,085	2,600	13,685
<b>Balance at December 31, 2014</b> .....	<b>594,442</b>	<b>41,564</b>	<b>636,006</b>

The balance of our provisions for direct and contingent loan losses registered as the year ended December 31, 2014 was higher than the balance registered as of the year ended December 31, 2013. This increase was the result of provisions for direct loans for the period of S/ 100.4 million and an increase in exchange difference expenses of S/ 11.1 million, which has been offset by reversals from the previous year, resulting in net provisions for direct loan losses of S/ 594.4 million (S/ 4.7 million less than the balance registered at December 31, 2013). Net provisions for contingent loans decreased by S/ 3.4 million during this period. Changes in the provisions between 2013 and 2014 were mainly as a result of changes in the level of specific and voluntary provisioning required for each type of intermediary financial institution, with the largest changes experienced among the following type of intermediary financial institutions: banks, financial institutions, micro and small enterprise development entities and municipal saving institutions.

Provisions for loan losses registered the year ended December 31, 2014, as described in the previous paragraph, were offset by reversals from provisions for loan losses from the previous year, as well as from reversals from provisions for accounts receivables from the previous year, which were reallocated as voluntary provisions for loan losses for contingent loans.

Provisions for contingent loans are registered in a different account from those registered for direct loan losses. Additionally, provisions for accounts receivable are registered in different accounts from those registered for loan losses pursuant to SBS accounting regulations.

### Financial transactions

Financial transactions increased S/ 0.2 million for 2014 compared to 2013. Such increase was mainly due to gains from hedge and held-for-trade derivatives in the amount of S/ 22.1 million, which was partially offset by a decrease in the income from exchange difference from sundry operations in the amount of S/ 18.8 million.

### Administrative expenses

The following table sets forth the components of our administrative expenses for 2014 and 2013.

	Year ended December 31,		Change	
	2014	2013	(S/ in thousands)	%
Personnel and board expenses .....	41,138	39,723	1,415	3.56%
Expenses for services received from third parties...	22,867	18,733	4,134	22.07%
Taxes and contributions (1).....	5,230	4,456	774	17.37%
Depreciation and amortization.....	2,949	1,855	1,094	58.98%
<b>Administrative expenses</b> .....	<b>(72,184)</b>	<b>(64,767)</b>	<b>(7,417)</b>	<b>11.45%</b>

(1) Refers to annual tax contributions made to the SBS in an amount equal to 1/18% of the average total balance of direct and contingent loans.

The increase in administrative expenses was S/ 7.4 million for 2014 compared to 2013, which was mainly due to (i) an increase of S/ 4.1 million in expenses for services received from third parties and (ii) an increase of S/ 1.4 million in personnel and board expenses, that was due to the annual review of salaries, which

was based on the working performance of our employees for the previous year. The annual review aims to reward top performing employees during the year through salary increases at a rate above annual inflation. For employees with an average performance level, the rise in salary is at the annual inflation rate.

Our efficiency ratio (the sum of administrative expenses plus depreciation and amortization divided by operating revenue (the sum of interest income and income from financial services)) reached 15.1% for 2014 compared to 15.6% for 2013.

#### *Net valuation of assets and provisions*

Net valuation of assets and provisions expenses, net decreased by S/ 7.6 million for 2014 compared to 2013 mainly due to a decrease in provisions for contingent loans in the amount of S/ 20.3 million, which was partially offset by an increase in other provisions in the amount of S/ 12.1 million.

#### *Operating profit*

Operating profit increased by S/ 7.4 million for 2014 compared to 2013. This increase was primarily due to an increase in our net financial margin, which was offset by a decrease in both the financial transactions and net valuation of assets and provisions.

#### *Other income and expenses*

The following table sets forth the components of our other income, net for the years ended December 31, 2014 and 2013.

	<b>December 31,</b>		<b>Change</b>	
	<b>2014</b>	<b>2013</b>	<b>(S/ in thousands)</b>	<b>%</b>
	<b>(S/ in thousands)</b>			
<b>Other income</b>				
Profit from sale of foreclosed assets .....	12,368	1,829	10,539	576.22%
Other income .....	132	82	50	60.98%
<b>Total other income</b> .....	<b>12,500</b>	<b>1,911</b>	<b>10,589</b>	<b>554.11%</b>
<b>Other expenses</b>				
Loss in foreclosed and repossessed assets .....	(28,950)	(9,015)	(19,935)	(221.13%)
<b>Total other expenses</b> .....	<b>(28,950)</b>	<b>(9,015)</b>	<b>(19,935)</b>	<b>(221.13%)</b>
<b>Total other income, net</b> .....	<b>(16,450)</b>	<b>(7,104)</b>	<b>(9,346)</b>	<b>131.56%</b>

Other income, net decreased by S/ 9.3 million for the year ended December 31, 2014 compared to 2013. This decrease was primarily due to an increase of S/ 19.9 million in loss in foreclosed and repossessed assets, which was partially offset by an increase of S/ 10.5 million in profit from sale of foreclosed assets.

#### *Income tax*

Income tax decreased by S/ 2.7 million for 2014 compared to 2013. The effective income tax rate was 27.31% and 29.29% for 2014 and 2013, respectively.

#### *Net income for the year*

As a result of the foregoing, net income increased by S/ 0.7 million for 2014 compared to 2013.

## **Liquidity and Capital Resources**

### ***Overview***

We maintain capital levels which we believe are within acceptable levels of our market risk and liquidity. We monitor market and liquidity risks based on the volatility of interest rates, currencies and securities indexes, as well as the prices of our loan and investment portfolios.

We believe that we benefit from the Peruvian government's ownership of us. As of March 31, 2016, 68.9% of our total debt received from multilateral organizations was guaranteed by the Peruvian government. In addition, we benefit from favorable borrowing rates with multilateral and other international financial institutions that are financing the development programs in which we participate. Finally, this type of foreign



currency borrowing is often of much longer tenors than financing available in the local market or from the international private market, allowing us to fund development projects with longer maturities.

### Sources of funds

As a state-owned bank with a mandate to promote economic development in Peru, we have access to loans from multilateral organizations and international development banks, some of which are guaranteed by the Peruvian government, allowing us to perform our development banking activities.

Furthermore, we have a number of additional sources of funding that include loans from Peruvian and international commercial banks, as well as financing from both the local and the international capital markets.

The following table provides a breakdown of our primary sources of funding, in addition to capital injections from the Peruvian government, as of the dates indicated.

	As of March 31,		2015		As of December 31,		2013	
	2016				2014			
	(S/ in thousands)	%	(S/ in thousands)	%	(S/ in thousand s)	%	(S/ in thousands)	%
Multilateral organizations (including government agencies) .....	434,615	4.13%	427,018	4.14%	697,439	10.12%	700,102	12.6%
International commercial banks.....	1,296,030	12.32%	1,278,808	12.41%	1,120,170	16.25%	1,368,526	25.5%
Peruvian commercial banks.....	1,682,440	15.99%	1,415,891	13.74%	1,237,319	17.95%	1,276,480	23.8%
Local capital markets .....	626,943	5.96%	702,935	6.82%	553,370	8.03%	640,546	12.0%
International capital markets ....	6,480,900	61.60%	6,480,900	62.89%	3,284,600	47.65%	1,397,500	26.1%
<b>Total</b> .....	<b>10,520,928</b>	<b>100.00%</b>	<b>10,305,551</b>	<b>100%</b>	<b>6,892,898</b>	<b>100%</b>	<b>5,383,154</b>	<b>100.0%</b>

Most loans we receive from multilateral organizations or government agencies have been granted to the government of Peru, or are guaranteed by the Peruvian government. The rest of our funding is not guaranteed.

As of March 31, 2016, our outstanding loan obligations denominated in yen and, to a lesser extent, in US dollars were hedged with swap agreements in order to reduce our exchange and interest rate risks.

The chart below illustrates our outstanding loan obligations by funding source as they appear in our unaudited interim financial statements as of March 31, 2016. The chart below does not include deposits and other obligations, such as time deposits, repo operations and guarantee deposits.

	Interest Rate	As of March 31,	Maturity
		2016	
	%	(S/ in thousands)	
<b>Creditors:</b>			
Bank of Tokyo – Mitsubishi / Syndicated Loan .....	Libor (3M) + 1.725%	665,200	September 2016
Bank of Tokyo – Mitsubishi .....	Libor (3M) + 0.70%	332,600	February 2017
Scotiabank Perú S.A.A. ....	from 4.30% to 6.65%	348,000	March 2017
Banco de la Nación del Perú. ....	from 4.40% to 5.35%	300,000	October 2016
BBVA Banco Continental.....	from 4.08% to 5.65%	440,500	March 2017
Caja Municipal de Ahorro y Crédito Arequipa. ....	5.80%	10,000	July 2017
AFLAC – American Family Life Assurance of Columbus Japan Branch ..	3.75%	265,932	September 2031
Banco Internacional del Perú – Interbank .....	from 5.72% to 6.90%	52,623	September 2022
Corporación Andina de Fomento - CAF .....	Libor (6M) + 2.80%	99,780	October 2016
Nordic Investment Bank .....	Libor (6M) + 0.85%	4,157	September 2016
Japan International Cooperation Agency - JICA .....	from 0.01% to 0.60%	183,145	October 2027
Kreditanstalt Fur Weideraufbau - EREE.....	1.95%	109,218	June 2025
Corporación Andina de Fomento (CAF) issuance of shares – financial liability (1).....		27,483	
Related expenses.....		(1,421)	
<b>Subtotal</b> .....		<b>2,837,217</b>	
<b>Interests</b> .....		<b>27,695</b>	
<b>Total</b> .....		<b>2,864,912</b>	

(1) In accordance with NIC 32 (IFRS) part of CAF's stocks were reclassified as financial debt.

In accordance with our bank's objectives, we have continued to diversify our sources of funding. For example, as indicated in the chart above, on September 1, 2011, we obtained from AFLAC a 20 year yen-denominated loan for an equivalent amount of US\$117 million. Additionally, on February 8, 2012, we issued US\$400 million of our 4.750% Notes due 2022. On December 3, 2012, we reopened our 4.750% Notes due 2022 and issued an additional US\$100 million. In June 2013, we obtained a new syndicated loan from Bank of Tokyo Mitsubishi and HSBC for US\$200 million that matures in 2016. On July 15, 2014, we issued US\$300 million of our 3.250% Notes due 2019 and US\$300 million of our 5.250% Fixed-to-Floating Rate Subordinated Notes due 2029. On July 15, 2015, we issued US\$600 million of our 4.750% Notes due 2025 and US\$200 million as a reopening of our 3.250% Notes due 2019.

As of March 31, 2016, we had S/ 299.8 million (US\$ 87.9 million) of indebtedness guaranteed by the Peruvian government and S/ 10,221.1 million (US\$2,996.5 million) of other existing obligations, for a total of S/ 10,520.9 million (US\$3,084.4 million) of indebtedness, substantially all of which would have priority in right of payment to the 2019 Notes and the 2029 Notes in the event of our insolvency. As of March 31, 2016, we did not have any secured indebtedness outstanding. See note 10 and 11 to our audited financial statements.

As of March 31, 2016, we were in compliance with all financial ratios and other covenants contained in the aforementioned loans.

We also believe we maintain adequate liquidity levels to finance our assets. Sources of long term debt, such as loans from the Japan Cooperation International Agency (JICA), have terms consistent with those institutions' standard credit operations. Sources of funds also include debt issuances in the local and international capital markets and loans from Peruvian commercial banks. In addition, highly-liquid available-for-sale trading investments represent a significant portion of our assets (S/ 2,007.5 million as of March 31, 2016; S/ 1,803.7 million as of December 31, 2015; S/ 1,185.9 million as of December 31, 2014; S/ 703.1 5 million as of December 31, 2013).

The following table details our total liabilities divided between government-guaranteed and direct-debt liabilities. The table below includes long-term liabilities, deposits and other obligations, such as, time deposits, repo operations and guarantee deposits.

	As of March 31,	As of December 31,		
	2016	2015	2014	2013
	(S/ in thousands)			
Government guaranteed .....	299,836	287,975	568,078	571,373
Direct .....	10,221,092	10,017,576	6,324,820	4,811,781
<b>Total .....</b>	<b>10,520,928</b>	<b>10,305,551</b>	<b>6,892,898</b>	<b>5,383,154</b>

### **Bank borrowings**

Our balance of total borrowing without considering on-lending totaled S/ 10,221.1 million, S/ 10,017.6 million, S/ 6,324.8 million, and S/ 4,811.8 million as of March 31, 2016, December 31, 2015, 2014 and 2013, respectively, and accounted for 97.2%, 97.2%, 91.8%, 89.4% and 86.2% of our total funding as of March 31, 2016, December 31, 2015, 2014 and 2013, respectively.

The table below sets forth our domestic and foreign borrowings and on-lending activities as of the dates indicated:

Specification	As of March 31,	As of December 31,		
	2016	2015	2014	2013
	(S/ in thousands)			
Peruvian borrowings (1) .....	2,251,803	2,118,640	1,790,689	1,830,268
Foreign borrowings (2) .....	7,969,289	7,898,936	4,534,131	2,981,513
On-lending (3) .....	299,836	287,975	568,078	571,373
<b>Total borrowings .....</b>	<b>10,520,928</b>	<b>10,305,551</b>	<b>6,892,898</b>	<b>5,383,154</b>
<b>Current .....</b>	<b>2,614,178</b>	<b>2,325,782</b>	<b>1,361,456</b>	<b>1,445,212</b>
<b>Long-term .....</b>	<b>7,906,750</b>	<b>7,979,769</b>	<b>5,531,442</b>	<b>3,937,942</b>

- (1) Refers to borrowings in *soles*.  
(2) Refers to borrowings in any other currency other than *soles*.  
(3) On-lendings are loans granted to COFIDE by multilateral organizations and foreign government agencies to finance specific projects, entities or purposes.

In January 2015, S/ 415.3 million in multilateral loans were capitalized, as part of the plan to increase COFIDE's capital. This capitalization was authorized by Law No. 30283 - Indebtedness Public Sector Law for 2015, which establishes that the Ministry of Economy is responsible for the payment of such loans.

The increase of S/ 1,509.7 million in total borrowings as of December 31, 2014 compared to December 31, 2013 was mainly due to two new bond issuances (a subordinated note and a senior unsecured note, each for US\$300 million) in the international capital markets. The higher total borrowings as of December 31, 2013 compared to December 31, 2012 was due to (i) an increase in domestic borrowings of S/ 100 million, which was mainly due to our issuance of bonds in the local capital markets in April 2013, and (ii) an increase of S/ 560 million, which was mainly due to two new loans disbursed by HSBC and Bank of Tokyo Mitsubishi to us in August and September 2013, respectively, each in the amount of US\$100 million.

As of March 31, 2016, our short term borrowings consisted of Peruvian borrowings. The sources of all our total indebtedness are primarily (i) the international and local capital markets, which represented 61.7% of our total indebtedness as of March 31, 2016, and (ii) the international commercial and development banks, local capital markets and multilateral organizations, which accounted for the source of the remaining 34.3% of our total indebtedness as of March 31, 2016.

The table below sets forth our Peruvian and foreign borrowings by maturity:

Specification	Up to 3 years	3 to 5 years	5 to 15 years	Over 15 years	Total as of December 31, 2015
			(S/ in thousands)		
Peruvian borrowings (1) .....	1,639,065	83,438	289,300	240,000	2,251,803
Foreign borrowings (2) .....	1,163,219	1,720,878	5,119,096	265,932	8,269,125
<b>Total</b> .....	<b>2,802,284</b>	<b>1,804,316</b>	<b>5,408,396</b>	<b>505,932</b>	<b>10,520,928</b>

- (1) Refers to borrowings in *soles*.  
(2) Refers to borrowings and on-lending in any other currency other than *soles*.

We believe that the liquidity of our borrowings is sufficient to avoid mismatches with the liquidity needs of our loan portfolio.

#### ***Peruvian capital markets notes programs***

On May 24, 1999, our Board of Directors approved our first note program up to a maximum aggregate amount of S/ 700 million. We issued S/ 420.5 million of notes under this program before the program expired in November 2011.

On May 27, 2004, our Board of Directors approved our second note program up to a maximum aggregate amount of US\$150 million, or its equivalent in *soles* or any other foreign currency. We issued S/ 353.94 million of notes under this program, of which S/ 10.5 million are still outstanding as of March 31, 2016. As of March 31, 2016, we were in compliance with all financial ratios and financial covenants applicable under this program.

Notes issued under our first and second note programs are unsecured and are listed on the Lima Stock Exchange.

On December 30, 2009, our Board of Directors approved our third note program. Under this program, we may issue up to US\$200 million, or its equivalent in *soles* or any other foreign currency. As of December 31, 2015 we have issued a total amount of S/ 435.1 million under the third note program, which are still outstanding. As of December 31, 2015, we were in compliance with all financial ratios and financial covenants applicable under this program.

On September 30, 2012, our Board of Directors approved our fourth note program. Under this program, we may issue up to US\$400 million, or its equivalent in *soles* or any other foreign currency. As of December 31, 2015, we have issued a total amount of S/ 178.4 million under this program with a maturity up to 30 years. As of December 31, 2015, we were in compliance with all financial ratios and financial covenants applicable under this program.

On December 11, 2014, our Board of Directors approved our second short-term notes program. Under this program, we may issue up to US\$200 million, or its equivalent in *soles*. In 2015, we issued a total amount of S/ 122.5 million under this program. As of March 31, 2016, we have a total amount of S/ 82.4 million in outstanding notes from this program.

The chart below shows the outstanding securities we have issued and our obligations as of the dates indicated.

	<b>As of March 31, 2016</b>	<b>Maturity</b>
	<b>(S/ in thousands)</b>	
<b>Local long-term issuances:</b>		
<b><u>Second program</u></b>		
Eighth (1).....	10,500	4/2/2018
<b><u>Third program</u></b>		
Ninth.....	150,000	4/27/2027
Tenth (2).....	100,000	6/28/2037
Eleventh.....	90,000	10/30/2042
<b><u>Fourth program</u></b>		
Second.....	100,000	4/30/2043
Fifth.....	78,445	1/30/2020
<b>Local short-term issuances:</b>		
<b><u>Second program</u></b>		
Fourth.....	82,375	7/17/2016
Accrued interest.....	9,950	
Total local currency.....	<b>621,270</b>	
<b>International issuances:</b>		
Existing 4.750% Notes due 2022.....	1,330,400	2/8/2022
Reopening of 4.750% Notes due 2022.....	332,600	2/8/2022
Existing 3.250% Notes due 2019.....	997,800	7/15/2019
5.250% Fixed-to-Floating Rate Subordinated Notes due 2029.....	997,800	7/15/2029
Existing 4.750% Notes due 2025.....	1,995,600	7/15/2025
Reopening of 3.250% Notes due 2019.....	665,200	7/15/2019
Net price difference (over/under par value).....	(36,902)	
Accrued interest.....	53,331	
Total Foreign Currency.....	<b>6,335,829</b>	
Total.....	<b>6,957,099</b>	

(1) S/ 10 million of the principal from our eighth issuance under our second note program will be paid on July 15, 2017. The remaining balance of the principal will be paid on April 2, 2018.

(2) Half of the principal, or S/ 50 million, from our tenth issuance under our third note program will be paid on June 28, 2027. The remaining balance of the principal will be paid on June 28, 2037.

### ***International capital markets notes***

On March 14, 2011, our Board of Directors approved our first senior notes issuance in the international capital markets (the “2022 Notes Issuance”) for up to a total amount of US\$500 million. In the international capital markets, we issued US\$400 million of our 4.750% Notes due 2022 on February 8, 2012, pursuant to an indenture dated February 8, 2012 among us, The Bank of New York Mellon, as trustee, registrar, paying agent and transfer agent and The Bank of New York Mellon (Luxembourg), S.A., as Luxembourg paying agent and transfer agent.

On October 12, 2012, our Board of Directors approved the reopening of our 2022 Notes Issuance for up to a total amount of US\$100 million. We reopened our 2022 Notes Issuance for an additional US\$100 million of our 4.750% Notes due 2022 on December 3, 2012, pursuant to a first supplemental indenture dated December 3, 2012 among us, The Bank of New York Mellon, as trustee, registrar, paying agent and

transfer agent and The Bank of New York Mellon (Luxembourg), S.A., as Luxembourg paying agent and transfer agent.

On August 16, 2013, our Board of Directors approved an additional senior notes issuance in the international capital markets for up to a total amount of US\$500 million. In the international capital markets, we issued US\$300 million of our 3.250% Notes due 2019 on July 15, 2014, pursuant to an indenture dated July 15, 2014 among us, The Bank of New York Mellon, as trustee, registrar, paying agent and transfer agent and The Bank of New York Mellon (Luxembourg), S.A., as Luxembourg paying agent and transfer agent.

On August 16, 2013, our Board of Directors approved our first subordinated notes issuance in the international capital markets. In the international capital markets, we issued US\$300 million of our 5.250% Fixed-to-Floating Rate Subordinated Notes due 2029 on July 15, 2014, pursuant to an indenture dated July 15, 2014 among us, The Bank of New York Mellon, as trustee, registrar, paying agent and transfer agent and The Bank of New York Mellon (Luxembourg), S.A., as Luxembourg paying agent and transfer agent.

On March 16, 2015, our Board of Directors approved an additional senior notes issuance in the international capital markets for up to a total amount of US\$800 million. In the international capital markets, we issued US\$600 million of our 4.750% Notes due 2025 on July 15, 2015, pursuant to a first supplemental indenture dated July 15, 2015 among us, The Bank of New York Mellon, as trustee, registrar, paying agent and transfer agent and The Bank of New York Mellon (Luxembourg), S.A., as Luxembourg paying agent and transfer agent.

On March 16, 2015, our Board of Directors approved the reopening of our 2019 Notes Issuance for up to a total amount of US\$200 million. We reopened our 2019 Notes Issuance for an additional US\$200 million of our 3.250% Notes due 2015 on July 15, 2015, pursuant to a first supplemental indenture dated July 15, 2015 among us, The Bank of New York Mellon, as trustee, registrar, paying agent and transfer agent and The Bank of New York Mellon (Luxembourg), S.A., as Luxembourg paying agent and transfer agent.

### ***Dividend policy***

Our distribution of dividends is regulated by Legislative Decree No. 1031, which contains the rules and regulations applicable to state-owned companies. Legislative Decree No. 1031 establishes that a state-owned company's dividend distribution policy is governed by Peruvian General Corporate Law and any applicable private laws and regulations which govern the activities of privately-held corporations. Article 6 of Legislative Decree No. 1031 further establishes that a state-owned company's dividend policy is ultimately approved by its shareholders, taking into account the company's investment requirements. In accordance with rules applicable to private companies, the Peruvian government, through FONAFE, approves the distribution of dividends based on its evaluation of our investments and net income. In February 2011, FONAFE approved that state-owned companies distribute 90% of its distributable income to its shareholders and 10% be placed into a legal reserve fund.

Since 2012, our shareholders at the annual general shareholders' meetings have approved that we can reinvest 15% of FONAFE's dividends share, instead of distributing all 90% of our distributable income to our shareholders. Consequently, we have only paid dividends on the remaining 76.5% of our distributable income (85% x 90%) after the deduction of the legal reserve requirement. Our last annual shareholders meeting occurred on March 31, 2016. At this meeting, a 15% reinvestment of our distributable income, or (in thousands) S/ 10,896, was approved.

### **Capital Management - Regulatory**

Banking regulations on capital adequacy in Peru take into account the recommendations of the Basel Committee. The SBS has issued guidelines for gradually adopting Basel II and Basel III.

Peruvian Banking Law provides that regulatory capital must be equal to or greater than 10.0% of the total risk-weighted assets since July 2011. Risk-weighted assets are the sum of (i) 10 times the regulatory capital allocated to cover market risk; (ii) 10 times the regulatory capital allocated to cover operational risk; and (iii) the total amount of credit risk-weighted assets and indirect loans. Such computation must include all statement of financial position exposures or assets in local or foreign currency. As of March 31, 2016, our ratio of regulatory capital to total risk weighted assets was 30.97%.

The following table sets forth our regulatory capital as of the dates indicated.

	As of March 31,		As of December 31,	
	2016	2015	2014	2013
	(S/ in thousands)		(S/ in thousands)	
<b>Tier 1 Regulatory Capital</b>				
Paid-in capital .....	2,010,654	2,015,397	1,548,502	1,537,546
Legal reserves .....	303,290	295,057	287,346	279,708
Accumulated losses (investments) .....	-	(133,367)	-	-
Other .....	(1,148)	(1,260)	(1,280)	(1,116)
<b>Total Tier 1 Regulatory Capital .....</b>	<b>2,312,796</b>	<b>2,295,857</b>	<b>1,834,568</b>	<b>1,816,138</b>
<b>Total Tier 2 Regulatory Capital .....</b>	<b>1,153,791</b>	<b>1,182,263</b>	<b>992,961</b>	<b>66,133</b>
<b>Total Regulatory Capital .....</b>	<b>3,466,587</b>	<b>3,478,121</b>	<b>2,827,529</b>	<b>1,882,271</b>
<b>Risk-weighted assets .....</b>	<b>11,192,738</b>	<b>11,399,102</b>	<b>6,406,331</b>	<b>5,189,957</b>
<b>Capital Ratios</b>				
<b>Total regulatory capital as a percentage of risk-weighted assets .....</b>	<b>30.97%</b>	<b>30.51%</b>	<b>44.14%</b>	<b>36.27%</b>
<b>Tier 1 capital as a percentage of risk-weighted assets .....</b>	<b>20.66%</b>	<b>20.14%</b>	<b>28.64%</b>	<b>34.99%</b>

### Loan portfolio, net

The following table sets out the breakdown of our lending operations by type of loan offered as of March 31, 2016 and 2015.

	As of March 31, 2016		As of March 31, 2015	
	(S/ in thousands)	Relative Participation (%)	(S/ in thousands)	Relative Participation (%)
<b>Direct loans (1)</b>				
Loans to intermediary financial institutions .....	6,161,573	82.21%	5,434,491	86.37%
First-tier loans (2) .....	568,334	7.58%	158,711	2.52%
Restructured loans (3) .....	13,914	0.19%	12,952	0.21%
Refinanced loans (4) .....	1,672	0.02%	4,579	0.07%
Loans past-due and accounts under legal collection .....	56,601	0.76%	49,590	0.79%
<b>Total direct loans .....</b>	<b>6,802,094</b>	<b>90.75%</b>	<b>5,660,323</b>	<b>89.96%</b>
<b>Contingent loans (5) .....</b>	<b>693,279</b>	<b>9.25%</b>	<b>631,652</b>	<b>10.04%</b>
<b>Total .....</b>	<b>7,495,373</b>	<b>100.00%</b>	<b>6,291,975</b>	<b>100.00%</b>

Loans to intermediary financial institutions are our primary use of funds and totaled S/ 6,161.6 million as of March 31, 2016, an increase of 13.4% from S/ 5,434.5 million as of March 31, 2015. The growth over this period primarily resulted from an increase of S/ 820.8 million in loans for structuring and infrastructure projects, which was partially offset by a decrease of S/ 32.3 million in small and micro enterprise loans (short-term working capital) and a decrease of S/ 61.4 million in small and micro enterprise loans (medium-term working capital).

First-tier loans totaled S/ 568.3 million as of March 31, 2016, an increase of S/ 151.4 million from S/ 158.7 million as of March 31, 2015. The growth over this period primarily resulted from an accounting reclassification of COSAC loan for S/ 555 million from Loans IFI's into First-tier loan.

Restructured loans totaled S/ 13.9 million as of March 31, 2016, an increase of 7.8% from S/ 12.9 million as of March 31, 2015. This increase was the result of an increase in the number of restructured loans requested from companies who had declared bankruptcy or were in liquidation during this period.

Refinanced loans totaled S/ 1.7 million as of March 31, 2016, a decrease of 68.5% from S/ 5.4 million as of March 31, 2015. Such decrease was due to financial leasing loan payments from Inmobiliaria Turismo S.A. in the amount of S/ 2.0 million and a decrease in the exposure of mortgage loans to former employees in the amount of S/ 0.8 million.

Loans past-due and accounts under legal collection totaled S/ 58.3 million as of March 31, 2016, an increase from S/ 54.2 million as of March 31, 2015. Such increase was mainly due to the default of loans from a total amount of S/ 4.0 million.

Contingent loans totaled S/ 693.3 million as of March 31, 2016, an increase of 9.8% compared to S/ 631.7 million as of March 31, 2015. Such increase was due to the issuance of new guarantees in connection with the Cerro del Águila, Moyobamba-Iquitos Transmission Line and Pegaco projects.

The following table sets out the breakdown of our lending operations by type of loan offered as of December 31, 2015 and 2014.

	As of December 31, 2015		As of December 31, 2014	
	(S/ in thousands)	Relative Participation (%)	(S/ in thousands)	Relative Participation (%)
<b>Direct loans (1)</b>				
Loans to intermediary financial institutions .....	7,405,143	87.97%	5,390,624	86.59%
First-tier loans (2).....	164,582	1.96%	13,201	0.21%
Restructured loans (3).....	14,270	0.17%	12,492	0.20%
Refinanced loans (4).....	2,267	0.03%	5,066	0.08%
Loans past-due and accounts under legal collection.....	57,999	0.69%	145,277	2.33%
<b>Total direct loans.....</b>	<b>7,644,261</b>	<b>90.81%</b>	<b>5,566,660</b>	<b>89.42%</b>
<b>Contingent loans (5).....</b>	<b>773,390</b>	<b>9.19%</b>	<b>658,468</b>	<b>10.58%</b>
<b>Total .....</b>	<b>8,417,651</b>	<b>100.00%</b>	<b>6,225,128</b>	<b>100.00%</b>

- (1) The majority of direct loans refer to loans made directly to intermediary financial institutions through traditional intermediation or investment financings, but also include restructured, refinanced, first-tier and past-due loans.
- (2) First-tier loans refer to loans disbursed to the ultimate borrower by banks that were intervened and whose assets have been liquidated.
- (3) Restructured loans refer to loans whose terms have been modified to provide for a reduction of either interest or principal as a result of the deterioration in the financial condition of the borrower.
- (4) Refinanced loans refer to loans that have been replaced with loans with more favorable terms, with the new loans paying off the existing.
- (5) Contingent (indirect) loans refer to guarantees or pledges granted by COFIDE in connection with traditional intermediation or investment financings.

Loans to intermediary financial institutions are our primary use of funds and totaled S/ 7,405.1 million as of December 31, 2015, an increase of 37.4% from S/ 5,390.6 million as of December 31, 2014. The growth over this period primarily resulted from an increase of S/ 810.5 million in loans for structuring and infrastructure

projects, which was partially offset by a decrease of S/ 35.2 million in small and micro enterprise loans (short-term working capital) and a decrease of S/ 65.4 million in small and micro enterprise loans (medium-term working capital).

First-tier loans totaled S/ 164.6 million as of December 31, 2015, an increase of S/ 151.4 million from S/ 13.2 million as of December 31, 2014. The growth over this period primarily resulted from the new loan to Intipiquio S.A.C. for a total amount of S/ 148.3 million.

Restructured loans totaled S/ 14.3 million as of December 31, 2015, an increase of 14.4% from S/ 12.5 million as of December 31, 2014. This increase was the result of an increase in the number of restructured loans requested from companies who had declared bankruptcy or were in liquidation during this period.

Refinanced loans totaled S/ 2.3 million as of December 31, 2015, a decrease of 54.2% from S/ 5.1 million as of December 31, 2014. Such decrease was due to financial leasing loan payments from Inmobiliaria Turismo S.A. in the amount of S/ 2.0 million and a decrease in the exposure of mortgage loans to former employees in the amount of S/ 0.4 million.

Loans past-due and accounts under legal collection totaled S/ 58.0 million as of December 31, 2015, an increase from S/ 145.2 million as of December 31, 2014. Such decrease was mainly due to the collection of S/ 87.0 million from the default loan of Maple II Etanol S.R.L..

Contingent loans totaled S/ 773.4 million as of December 31, 2015, an increase of 17.4% compared to S/ 658.5 million as of December 31, 2014. Such increase was due to the issuance of new guarantees in connection with the Cerro del Águila, Moyobamba-Iquitos Transmission Line and Pegaco projects.

The following table sets out the breakdown of our lending operations by type of loan offered as of December 31, 2014 and 2013.

	As of December 31, 2014		As of December 31, 2013	
	(S/ in thousands)	Relative Participation (%)	(S/ in thousands)	Relative Participation (%)
<b>Direct loans (1)</b>				
Loans to intermediary financial institutions .....	5,390,624	86.59%	5,055,708	89.81%
First-tier loans (2) .....	13,201	0.21%	15,605	0.28%
Restructured loans (3) .....	12,492	0.20%	12,384	0.22%
Refinanced loans (4) .....	5,066	0.08%	7,361	0.13%
Loans past-due and accounts under legal collection .....	145,277	2.33%	1,599	0.03%
<b>Total direct loans</b> .....	<b>5,566,660</b>	<b>89.42%</b>	<b>5,092,657</b>	<b>90.47%</b>
<b>Contingent loans (5)</b> .....	<b>658,468</b>	<b>10.58%</b>	<b>536,684</b>	<b>9.53%</b>
<b>Total</b> .....	<b>6,225,128</b>	<b>100.00%</b>	<b>5,629,341</b>	<b>100.00%</b>

- (1) The majority of direct loans refer to loans made directly to intermediary financial institutions through traditional intermediation or investment financings, but also include restructured, refinanced, first-tier and past-due loans.
- (2) First-tier loans refer to loans disbursed to the ultimate borrower by banks that were intervened and whose assets have been liquidated.
- (3) Restructured loans refer to loans whose terms have been modified to provide for a reduction of either interest or principal as a result of the deterioration in the financial condition of the borrower.
- (4) Refinanced loans refer to loans that have been replaced with loans with more favorable terms, with the new loans paying off the existing.
- (5) Contingent (indirect) loans refer to guarantees or pledges granted by COFIDE in connection with traditional intermediation or investment financings.

Loans to intermediary financial institutions are our primary use of funds and totaled S/ 5,390.6 million as of December 31, 2014, an increase of 6.6% from S/ 5,055.7 million as of December 31, 2013. The growth over this period primarily resulted from (i) an increase of S/ 415.1 million in loans for structuring and infrastructure projects, and (ii) an increase of S/ 74.4 million in small and micro enterprises loans (short-term working capital), which were partially offset by a decrease of S/ 28.7 million in small and micro enterprises loans (medium-term working capital)

Restructured loans totaled S/ 12.5 million as of December 31, 2014, an increase of 0.9% from S/ 12.4 million as of December 31, 2013. This increase was the result of an increase in the number of restructured loans requested from companies who had declared bankruptcy or were in liquidation.



Refinanced loans totaled S/ 5.1 million as of December 31, 2014, a decrease of 31.2% from S/ 7.4 million as of December 31, 2013. Such decrease was due in part to a substantial decrease in refinancing leasing operations from Inmobiliaria Turismo S.A. in the amount of S/ 2.0 million. Additionally, there was a decline in total mortgage loans granted to former employees in the amount of S/ 0.1 million.

Loans past-due and accounts under legal collection totaled S/145.3 million as of December 31, 2014, an increase from S/ 1.6 million as of December 31, 2013. Such increase was mainly due to the default and subsequent bankruptcy of Maple II Etanol S.R.L. in an amount of S/ 143.7 million.

Contingent loans totaled S/658.5 million as of December 31, 2014, an increase of 22.7% compared to S/ 536.7 million as of December 31, 2013. Such increase was due to the issuance of new guarantees in connection with the Cerro del Águila, Moyobamba-Iquitos Transmission Line and Pegaco projects.

The following table sets out the breakdown of our lending operations by type of loan offered as of December 31, 2013 and 2012.

	As of December 31, 2013		As of December 31, 2012	
	(S/ in thousands)	Relative Participation (%)	(S/ in thousands)	Relative Participation (%)
<b>Direct loans (1)</b>				
Loans to intermediary financial institutions .....	5,055,708	89.81%	3,848,144	88.49%
First-tier loans (2).....	15,605	0.28%	13,021	0.30%
Restructured loans (3) .....	12,384	0.22%	11,447	0.26%
Refinanced loans (4).....	7,361	0.13%	10,215	0.23%
Loans past-due and accounts under legal collection...	1,599	0.03%	3,111	0.07%
<b>Total direct loans</b> .....	<b>5,092,657</b>	<b>90.47%</b>	<b>3,885,938</b>	<b>89.36%</b>
<b>Contingent loans (5)</b> .....	<b>536,684</b>	<b>9.53%</b>	<b>462,523</b>	<b>10.64%</b>
<b>Total</b> .....	<b>5,629,341</b>	<b>100.00%</b>	<b>4,348,461</b>	<b>100.00%</b>

- (1) The majority of direct loans refer to loans made directly to intermediary financial institutions through traditional intermediation or investment financings, but also include restructured, refinanced, first-tier and past-due loans.
- (2) First-tier loans refer to loans disbursed to the ultimate borrower by banks that were intervened and whose assets have been liquidated.
- (3) Restructured loans refer to loans whose terms have been modified to provide for a reduction of either interest or principal as a result of the deterioration in the financial condition of the borrower.
- (4) Refinanced loans refer to loans that have been replaced with loans with more favorable terms, with the new loans paying off the existing.
- (5) Contingent (indirect) loans refer to guarantees or pledges granted by COFIDE in connection with traditional intermediation or investment financings.

Loans to intermediary financial institutions are our primary use of funds and totaled S/ 5,055.7 million as of December 31, 2013, an increase of 31.4% from S/ 3,848 million as of December 31, 2012. The growth over this period primarily resulted from an increase of S/ 1,101.3 million in loans for structuring and infrastructure projects, as well as an increase of S/ 38.9 million in short-term and trade loans in *soles*.

Restructured loans totaled S/ 12.4 million as of December 31, 2013, an increase of 8.2% from S/ 11.4 million as of December 31, 2012. This increase was the result of an increase in the number of restructured loans requested from companies who had declared bankruptcy or were in liquidation.

Refinanced loans totaled S/ 7.4 million as of December 31, 2013, a decrease of 27.9% from S/ 10.2 million as of December 31, 2012. Such decrease was due in part to a substantial decrease in refinancing leasing operations from Latino Leasing in the amount of S/ 2.5 million.

Loans past-due and accounts under legal collection totaled S/ 1.6 million as of December 31, 2013, a decrease of 48.6% from S/ 3.1 million as of December 31, 2012. Such decrease was due in part to the decrease of S/ 15.7 thousand in promissory notes from Banco NBK.

Contingent loans totaled S/ 536.7 million as of December 31, 2013, an increase of 16.0% compared to S/ 462.5 million as of December 31, 2012. Such increase was due to a new guarantee given to FMO Development Bank in the amount of S/ 36.9 million and an increase in guarantees given to Banco de Crédito del Perú in the amount of S/ 34.1 million.

### **Structural and interest rate risk**

Structural statement of financial position risk represents the potential losses resulting from movement in interest rates, exchange rates or the liquidity gap on the structural position of all assets and liabilities both on and off the statement of financial position, excluding the trading portfolio. Interest rate risk originates from the possibility that changes in interest rates have an impact on future cash flows or in financial instrument values. The interest rate risk of cash flows refers to the risk that future cash flows of a financial instrument fluctuate due to changes in market interest rates. Interest margins may increase as a result of such changes, but they may also decrease when unexpected movement occurs.

We have approved the following principal policies to control structural risks: (i) asset/liability management; (ii) diversification and risk concentration; (iii) liquidity; (iv) investment and debt; (v) exchange rate; and (vi) structural interest rate policies.

Interest rate risk arises from the possibility that changes in interest rates may have an impact on future cash flows or in financial instrument values. The interest rate risk of cash flows refers to the risk that future cash flows of a financial instrument fluctuate due to changes in market interest rates. Interest margins may increase as a result of such changes, but also they may decrease when unexpected downward fluctuations occur.

We have in place policies for interest rate risk management establishing that in all cases a required ratio between asset and liability rates should be maintained as a way to seek to maximize our financial margins.

With respect to potential loss due to interest rate risk, we examine the impact on net financial margin (profit at risk within one-year) and on the discounted value of assets and liabilities (equity at risk). Such potential loss can be generated not only from parallel movements in interest rate curves, but also from changes in slopes by variations in time spread, risk spread or liquidity spread. We maintain swap operations from variable to fixed interest rates in order to decrease the negative gap of Libor-based interest rates and to have an actual cost reference to carry out medium-term at fixed rates.

We examine both indicators in two different contexts: going-concern context and stress context. For the going-concern context, we suppose a normal scenario in which the company operates that reflects slightly parallel shifts in interest rate curves. The following table shows the results for the profit-at-risk and equity-at-risk under the going-concern context for the years ended March 31, 2016 and 2015, respectively.

<b>As of and for the three months ended March 31,</b>				
<b>2016</b>		<b>2015</b>		
	<b>S/ In thousands</b>	<b>% Core Capital</b>	<b>S/ In thousands</b>	<b>% Core Capital</b>
Profit at risk.....	20,624	0.60%	25,765	0.77%
Equity at risk.....	158,359	4.57%	63,063	1.88%

Under the stress context, we assume a shock of 200 basis points in interest rate curves. The following table shows the results for the profit-at-risk and equity-at-risk under the stress context for the years ended March 31, 2016 and 2015.

<b>As of and for the three months ended March 31,</b>				
<b>2016</b>		<b>2015</b>		
	<b>S/ In thousands</b>	<b>% Core Capital</b>	<b>S/ In thousands</b>	<b>% Core Capital</b>
Profit at risk.....	21,031	0.61%	57,178	1.70%
Equity at risk.....	161,438	4.66%	63,196	1.88%

## Liquidity risk

Management of liquidity risk implies maintaining or developing a structure in the assets and liabilities portfolios to diversify our sources of financing and staggered maturity dates between assets and liabilities. We manage liquidity risk by considering some scenarios in the event of a possible liquidity loss, such as the use of cash on hand, the use of the investment portfolio with definite sales, credit lines to foreign banks and other credit lines. These scenarios are prepared in accordance with our and the SBS' requirements.

In the case of liquidity risk, we evaluate the probability that we will be unable to meet our commitments and unable to trade them at market prices or from stable funds. When it becomes impossible for us to renew or contract liabilities under normal conditions, we anticipate that we will make advance asset sales at unusual discounts.

As of December 31, 2015, 2014, 2013, and 2012, our assets and liabilities, from the statement of financial position date to a foreseeable contract maturity date, present the following evolution.

	Remaining Maturity as of March 31, 2016					Do not accrue interests	Total
	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years		
<b>Assets</b>							
Cash.....	2,438,821	-	-	99,035	-	-	2,537,856
Available-for-sale investments .....	-	376,632	126,061	295,686	1,214,711	2,333,319	4,346,409
Loans portfolio, net.....	89,781	407,014	1,586,822	2,667,832	2,328,152	(592,412)	6,487,189
Hedging derivatives.....	160	320	1,443	7,694	3,848	(165)	13,300
Accounts receivable, net .....	4,321	11,300	41,886	(3,581)	(3,847)	-	50,079
Other assets .....	-	-	-	-	-	70,231	70,231
<b>Total assets</b> .....	<b>2,533,083</b>	<b>795,266</b>	<b>1,756,212</b>	<b>3,066,666</b>	<b>3,542,864</b>	<b>1,810,973</b>	<b>13,505,064</b>
% of total .....	18.76%	5.89%	13.00%	22.71%	26.23%	13.41%	100.00%
<b>Liabilities</b>							
Obligations to the public.....	-	740	9,356	-	-	-	10,096
Deposits by banks and financial organizations.....	12,053	109,994	261,997	-	-	-	383,994
Debts and financial obligations.....	139,208	234,224	1,872,857	150,214	468,409	-	2,864,912
Debt securities .....	53,899	-	97,757	1,736,224	5,069,219	-	6,957,099
Hedging derivatives.....	1,494	2,988	13,448	71,722	35,862	-	125,514
Accounts payable.....	67,898	6	(982)	100,000	-	(252)	166,670
Other liabilities .....	1,616	-	473	-	-	276,541	278,630
Equity .....	-	-	-	-	-	2,718,149	2,718,149
<b>Total liabilities and equity</b> .....	<b>276,168</b>	<b>347,902</b>	<b>2,254,906</b>	<b>2,058,160</b>	<b>5,573,490</b>	<b>2,994,438</b>	<b>13,505,064</b>
% of total .....	2.04%	2.58%	16.70%	15.24%	41.27%	22.17%	100.00%
Assets derivative instruments .....	-	-	-	35,782	349,113	-	384,895
Liabilities derivative instruments .....	-	-	-	65,612	520,682	-	586,294
<b>Marginal Gap</b> .....	2,256,915	447,364	(498,694)	978,676	(2,202,195)	<u>(1,183,465)</u>	
<b>Accumulated Gap</b> .....	2,256,915	2,704,279	2,205,585	3,184,261	<u>982,066</u>		

For March 31, 2016, a positive accumulated gap of S/ 982.1 million is generated in the "Total" range of earning and bearing interest assets and liabilities. There is also a negative marginal gap of S/ 1,183.5 million in non-earning and non-bearing assets and liabilities. This result indicates that the Total Gap is S/ 201.4 million. Nevertheless, due to "voluntary generic provisions" under direct loans in the amount of S/ 359.0 million, the amount registered for our "Loan portfolio" is reduced. Furthermore, the line item "Other liabilities" accounts for "voluntary generic provisions" under contingent loans in the amount S/ 28.9 million and "deferred income tax" in the amount of S/ 222.1 million. If these items were not considered in our liquidity gap, we would have had a positive cumulative asset-liability gap of S/ 811.4 million.

**Remaining Maturity as of December 31, 2015**

	<b>Up to 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 12 months</b>	<b>From 1 to 5 years</b>	<b>Over 5 years</b>	<b>Do not accrue interests</b>	<b>Total</b>
<b>Assets</b>							
Cash.....	1,995,045	-	-	-	-	(38,334)	1,956,711
Available-for-sale investments .....	-	211,252	42,444	245,864	1,286,829	2,356,478	4,142,867
Loans portfolio, net.....	730,565	1,217,195	1,304,614	2,380,198	2,264,079	(586,655)	7,309,996
Hedging derivatives.....	46	92	409	2,180	1,088	(158)	3,657
Accounts receivable, net .....	-	-	-	-	-	73,435	73,435
Other assets .....	-	-	-	-	-	58,564	58,564
<b>Total assets</b> .....	<b>2,725,656</b>	<b>1,428,539</b>	<b>1,347,467</b>	<b>2,628,242</b>	<b>3,551,996</b>	<b>1,863,330</b>	<b>13,545,230</b>
% of total .....	20.12%	10.55%	9.95%	19.40%	26.22%	13.76%	100.00%
<b>Liabilities</b>							
Obligations to the public.....	-	21,051	11,513	-	-	-	32,564
Deposits by banks and financial organizations.....	37,246	36,169	151,529	-	-	-	224,944
Debts and financial obligations.....	119,022	239,613	1,551,908	520,477	457,034	-	2,888,054
Debt securities .....	203,754	31,954	89,220	1,779,586	5,186,553	-	7,291,067
Hedging derivatives.....	1,783	3,566	16,044	85,570	42,785	-	149,748
Accounts payable.....	-	-	-	-	-	12,356	12,356
Other liabilities .....	-	-	-	-	-	245,679	245,679
Equity .....	-	-	-	-	-	2,700,818	2,700,818
<b>Total liabilities and equity</b> .....	<b>361,805</b>	<b>332,353</b>	<b>1,820,214</b>	<b>2,385,633</b>	<b>5,686,372</b>	<b>2,958,853</b>	<b>13,545,230</b>
<b>% of total</b> .....	<b>2.67%</b>	<b>2.45%</b>	<b>13.44%</b>	<b>17.61%</b>	<b>41.98%</b>	<b>21.84%</b>	<b>100.00%</b>
Assets derivative instruments .....	-	-	-	35,782	349,113	-	384,895
Liabilities derivative instruments .....	-	-	-	51,493	502,399	-	553,892
<b>Marginal Gap</b> .....	2,363,851	1,096,186	(472,747)	226,898	(2,287,662)	<u>(1,095,523)</u>	
<b>Accumulated Gap</b> .....	2,363,851	3,460,037	2,987,290	3,214,188	<u>926,526</u>		

For December 31, 2015 a positive accumulated gap of S/ 1,944.4 million is generated in the “Total” range of earning and bearing interest assets and liabilities. There is also a negative marginal gap of S/ 935.6 million in non-earning and non-bearing assets and liabilities. This result indicates that the Total Gap is S/ 1,008.8 million. Nevertheless, due to “voluntary generic provisions” under direct loans in the amount of S/ 405.1 million, the amount registered for our “Loan portfolio” is reduced. Furthermore, the line item “Other liabilities” accounts for “voluntary generic provisions” under contingent loans in the amount S/ 33.4 million and “deferred income tax” in the amount of S/ 166.1 million. If these items were not considered in our liquidity gap, we would have had a positive cumulative asset-liability gap of S/ 736.4 million.

**Remaining Maturity as of December 31, 2014**

	<b>Up to 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 12 months</b>	<b>From 1 to 5 years</b>	<b>Over 5 years</b>	<b>Do not accrue interests</b>	<b>Total</b>
<b>Assets</b>							
Cash.....	527,872	-	-	-	-	(4,190)	523,682
Available-for-sale investments .....	3,089	319,557	24,874	202,343	970,766	2,369,604	3,890,233
Loans portfolio, net.....	131,467	572,270	814,026	2,055,774	2,073,588	(452,378)	5,194,747
Hedging derivatives.....	2	4	15	80	39	(140)	-
Accounts receivable, net .....	-	-	-	-	-	56,409	56,409
Other assets .....	-	-	-	-	-	49,773	49,773
<b>Total assets</b> .....	<b>662,430</b>	<b>891,831</b>	<b>838,915</b>	<b>2,258,197</b>	<b>3,044,393</b>	<b>2,019,078</b>	<b>9,714,844</b>
% of total .....	6.82%	9.18%	8.64%	23.24%	31.34%	20.78%	100.00%
<b>Liabilities</b>							
Obligations to the public.....	4,847	1,767	40,943	-	-	-	47,557
Deposits by banks and financial organizations.....	-	10,183	185,286	-	-	-	195,469
Debts and financial obligations.....	233,382	353,967	501,926	1,326,482	419,474	-	2,835,231
Debt securities .....	52,005	27,973	49,565	957,748	2,823,204	-	3,910,495
Hedging derivatives.....	1,854	3,708	16,682	88,971	44,484	-	155,699
Accounts payable.....	-	-	-	-	-	9,423	9,423
Other liabilities .....	-	-	-	-	-	306,536	306,536
Equity .....	-	-	-	-	-	2,254,434	2,254,434
<b>Total liabilities and equity</b> .....	<b>292,088</b>	<b>397,598</b>	<b>794,402</b>	<b>2,373,201</b>	<b>3,287,162</b>	<b>2,570,393</b>	<b>9,714,844</b>
% of total .....	3.01%	4.09%	8.18%	24.43%	33.84%	26.46%	100.00%
Assets derivative instruments .....	-	19,170	16,350	165,135	395,388	-	596,043
Liabilities derivative instruments .....	-	24,458	20,859	210,682	504,440	-	760,439
<b>Marginal Gap</b> .....	370,342	488,945	40,004	(160,551)	(351,821)	<u>(551,315)</u>	
<b>Accumulated Gap</b> .....	370,342	859,287	899,291	738,740	<u>386,919</u>		

For December 31, 2014 a positive accumulated gap of S/ 386.9 million is generated in the “Total” range of earning and bearing interest assets and liabilities. There is also a negative marginal gap of S/ 551.3 million in non-earning and non-bearing assets and liabilities. This result indicates that the Total Gap is negative in the amount of S/ 164.4 million. Nevertheless, due to “voluntary generic provisions” under direct loans in the amount of S/ 391.7 million, the amount registered for our “Loan portfolio” is reduced. Furthermore, the line item “Other liabilities” accounts for “voluntary generic provisions” under contingent loans in the amount S/ 36.1 million and “deferred income tax” in the amount of S/ 249.7 million. If these items were not considered in our liquidity gap, we would have had a positive cumulative asset-liability gap of S/ 513.1 million.

	Remaining Maturity as of December 31, 2013						Total
	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Do not accrue interests	
<b>Assets</b>							
Cash .....	244,734	-	-	-	-	-	244,734
Available-for-sale investments .....	1,775	1,486	55,014	157,801	506,475	2,375,590	3,098,141
Loans portfolio, net .....	95,893	735,382	579,173	1,916,454	1,900,658	(581,549)	4,646,011
Hedging derivatives .....	46	93	418	2,227	1,113	-	3,897
Accounts receivable , net .....	-	-	-	-	-	13,945	13,945
Other assets .....	-	-	-	-	-	40,858	40,858
<b>Total assets.....</b>	<b>342,448</b>	<b>736,961</b>	<b>634,605</b>	<b>2,076,482</b>	<b>2,408,246</b>	<b>1,848,844</b>	<b>8,047,586</b>
% of total.....	<b>4.26%</b>	<b>9.16%</b>	<b>7.89%</b>	<b>25.80%</b>	<b>29.93%</b>	<b>22.97%</b>	<b>100.00%</b>
<b>Liabilities</b>							
Obligations to the public .....	-	-	-	-	-	72,226	72,226
Deposits by banks and financial organization.....	16,600	26,498	145,536	-	-	-	188,634
Debts and financial obligations .....	172,130	504,290	449,461	1,545,737	436,070	-	3,107,689
Debt securities.....	19,558	26,306	85,934	116,316	1,839,875	-	2,087,989
Hedging derivatives .....	891	1,781	8,016	42,750	21,375	-	74,813
Accounts payable .....	-	-	-	-	-	7,117	7,117
Other liabilities.....	-	-	-	-	-	313,262	313,262
Equity.....	-	-	-	-	-	2,195,856	2,195,856
<b>Total liabilities and equity .....</b>	<b>209,179</b>	<b>558,875</b>	<b>688,947</b>	<b>1,704,803</b>	<b>2,297,321</b>	<b>2,588,461</b>	<b>8,047,586</b>
% of total .....	<b>2.60%</b>	<b>6.94%</b>	<b>8.56%</b>	<b>21.18%</b>	<b>28.55%</b>	<b>32.16%</b>	<b>100.00%</b>
Assets derivative instruments .....	14,017	28,002	28,245	259,442	313,214	-	642,920
Liabilities derivative instruments.....	-	28,358	28,696	262,350	407,443	-	726,847
<b>Marginal Gap.....</b>	<b>147,286</b>	<b>177,730</b>	<b>(54,793)</b>	<b>368,771</b>	<b>16,696</b>	<b>(739,617)</b>	<b>-</b>
<b>Accumulated Gap.....</b>	<b>147,286</b>	<b>325,016</b>	<b>270,223</b>	<b>638,994</b>	<b>655,690</b>	<b>-</b>	<b>-</b>

For December 31, 2013 a positive accumulated gap of S/ 655.7 million is generated in the “Total” range of earning and bearing interest assets and liabilities. There is also a negative marginal gap of S/ 739.6 million in non-earning and non-bearing assets and liabilities. This result indicates that the Total Gap is negative in the amount of S/ 83.9 million. Nevertheless, due to “voluntary generic provisions” under direct loans in the amount of S/ 439.6 million, the amount registered for our “Loan portfolio” is reduced. Furthermore, the line item “Other liabilities” accounts for “voluntary generic provisions” under contingent loans in the amount S/ 38.8 million and “deferred income tax” in the amount of S/ 256.0 million. If these items were not considered in our liquidity gap, we would have had a positive cumulative asset-liability gap of S/ 650.4 million.

### **Exchange rate risk**

With respect to foreign exchange rate risk, we are exposed to two types of risk, direct and indirect risk. The direct risk stems from our investment in CAF as CAF shares are denominated in US dollars, while the indirect risk stems from our portfolio’s structural dollarization due to local debtors, issuers and intermediaries facing credit risk derived from exchange rate risk.

We also have implemented methodologies and procedures that enable estimates of structural exposure to interest and exchange rate risks, as well as exposure to credit risks derived from exchange rate risks for each group of counterparts.

Management manages this risk based on an ongoing monitoring and previous experience by detecting situations that may have negative financial effects for us. We have entered into swap hedging arrangements as a way to mitigate the risk of appreciation of such currency against the US dollar. Such hedging arrangements include our AFLAC and JICA obligations totaling ¥9,000,000 thousand and ¥4,557,430 thousand, respectively.

The table below illustrates our foreign exchange exposure as of December 31, 2015.

	As of March 31,			
	2016			
	U.S. dollar S/ 000	Other currencies S/ 000	Nuevos Soles S/ 000	Total S/ 000
<b>Assets:</b>				
Cash .....	2,421,957	115	115,784	2,537,856
Available-for-sale investments .....	1,622,177	-	2,724,232	4,346,409
Loan portfolio .....	3,955,556	-	2,531,633	6,487,189
Hedging derivatives .....	4,504	223	8,573	13,300
Accounts receivable, net .....	49,534	-	545	50,079
Other assets .....	976	-	177	1,153
	<b>8,054,704</b>	<b>338</b>	<b>5,380,944</b>	<b>13,435,986</b>
<b>Liabilities:</b>				
Obligations to the public .....	32	-	10,064	10,096
Deposits by banks and financial organizations .....	-	-	383,994	383,994
Debts and financial obligations .....	1,241,558	449,639	1,173,715	2,864,912
Debt securities .....	6,336,019	(190)	621,270	6,957,099
Hedging derivatives .....	5,959	-	119,555	125,514
Accounts payable .....	4,273	-	164,486	168,759
Other liabilities .....	28,792	-	11,233	40,025
<b>Total .....</b>	<b>7,616,633</b>	<b>449,449</b>	<b>2,484,317</b>	<b>10,550,399</b>
Currency swaps position, net .....	(586,293)	449,078	137,215	-
<b>Monetary position, net .....</b>	<b>(148,222)</b>	<b>(33)</b>	<b>3,033,842</b>	<b>2,885,587</b>

The table below illustrates our foreign exchange exposure as of December 31, 2015 and 2014.

	As of December 31,							
	2015				2014			
	U.S. dollar S/ 000	Other currencies S/ 000	Nuevos Soles S/ 000	Total S/ 000	U.S. dollar S/ 000	Other currencies S/ 000	Nuevos Soles S/ 000	Total S/ 000
<b>Assets:</b>								
Cash .....	1,812,664	46,204	97,843	1,956,711	369,678	41,397	112,607	523,682
Available-for-sale investments .....	1,445,271	-	2,697,596	4,142,867	1,134,065	-	2,756,168	3,890,233
Loan portfolio .....	4,913,372	-	2,396,624	7,309,996	3,383,363	-	1,811,384	5,194,747
Hedging derivatives .....	10,162	(48)	(6,457)	3,657	202	943	(1,145)	-
Accounts receivable .....	69,222	-	4,213	73,435	54,535	-	1,874	56,409
Other assets .....	936	-	328	1,264	468	-	155	623
	<b>8,251,627</b>	<b>46,156</b>	<b>5,190,147</b>	<b>13,487,930</b>	<b>4,942,311</b>	<b>42,340</b>	<b>4,681,043</b>	<b>9,665,694</b>
<b>Liabilities:</b>								
Obligations to the public .....	185	-	32,379	32,564	1,808	-	45,749	47,557
Deposits by banks and financial organizations .....	-	-	224,944	224,944	-	-	195,469	195,469
Debts and financial obligations .....	1,280,178	431,802	1,176,074	2,888,054	1,308,611	515,174	1,011,446	2,835,231
Debt securities .....	6,568,424	(193)	722,836	7,291,067	3,341,935	(112)	568,672	3,910,495
Hedging derivatives .....	9,575	-	140,173	149,748	5,309	-	150,390	155,699
Accounts payable .....	4,374	-	7,982	12,356	3,196	-	6,227	9,423
Other liabilities .....	26,704	-	16,200	42,904	38,740	-	3,830	42,570
<b>Total .....</b>	<b>7,889,440</b>	<b>431,609</b>	<b>2,320,588</b>	<b>10,641,637</b>	<b>4,699,599</b>	<b>515,062</b>	<b>1,981,783</b>	<b>7,196,444</b>
Forward position .....	-	-	-	-	-	-	-	-
Currency swaps position, net .....	(553,892)	384,895	168,997	-	(529,022)	481,300	47,722	-
<b>Monetary position, net .....</b>	<b>(191,705)</b>	<b>(558)</b>	<b>3,038,556</b>	<b>2,846,293</b>	<b>(286,310)</b>	<b>8,578</b>	<b>2,746,982</b>	<b>2,469,250</b>

## Capital Expenditures

Since our information technology systems are essential for us to interact with our clients and conduct our internal operations, we created a capital expenditure program which includes, among other expenses, implementation of electrical systems and software and hardware upgrades including the Datawarehouse Solution to improve data processing time and obtain better financial reports.

For 2015, we invested S/ 10.0 million in our information technology systems. We expect to invest S/ 11.0 million in our information technology systems in 2016.

## Risk Management

Risk management entails managing risks that, by nature of its operations, COFIDE faces, such as credit, market and liquidity risk.

- Credit risk: it is generated when there is a risk that a counterparty or any obliged third party to any agreement involving a financial instrument does, consequently, not fulfill its contractual obligations as a result of insolvency or being unable to pay, and produces a financial loss on the other party. Credit risk includes management of the counterparty risk, concentration risk, country risk and credit risk derived from the exchange risk.
- Market risk: it is generated when the risk of losses in value of held positions, derived from variations in market conditions occurs. It generally includes the following type of risks: exchange rate risk, risk of variations in fair value for interest rate, price, among others.
- Liquidity risk: it is generated when there is a risk that COFIDE may not fulfill its payment obligations given that it has incurred losses as a result of not fulfilling financing and application requirements of funds that arise from discrepancies in cash flows.

Below we detail how COFIDE manages such risks, which has a specialized structure and organization for management, measurement systems and processes of reduction and hedging of risks generated by financial instruments.

### *(a) Structure and organization of risk management*

COFIDE has the following governance and management structure that allows it to properly coordinate the administration and control the risks it faces.

#### (i) Board of Directors

COFIDE's Board of Directors are responsible for establishing proper risk management and providing an internal environment that allows its proper development. Our Board of Directors is permanently informed of the exposure of sundry risks managed by the bank.

Our Board of Directors has created several specialized committees to which it has assigned specific functions in order to strengthen risk management and internal control.

#### (ii) Risk committee

The risk committee is a division created by our Board of Directors. The committee is responsible for pre-approving policies and establishing procedures and methodologies for integral risk management, as well as the identification and administration of risks. The committee meets in session quarterly, and reports monthly to our Board of Directors about significant matters that have been discussed and agreements that have been adopted in relation to risks management. The committee is comprised of a director, who directs it, the chief executive officer, the officers from seven different departments of COFIDE, the Head of the Internal Audit Unit (without a vote), and the Chief Legal Officer (without a vote). The committee functionally supports our Risk Office.



(iii) Audit Committee

The audit committee is a division created by our Board of Directors. Its main purpose is to monitor the proper functioning of the internal control systems of our accounting and financial reporting processes. Additionally, it aims to monitor and support internal and external auditors. The audit committee is comprised of two directors (one of whom chairs the committee), and the Head of the Internal Audit Unit, who acts as the committee's secretary. Both representatives from our Board of Directors do not perform management activities. The committee ordinarily meets once a month and reports to our Board of Directors.

In accordance with SBS regulation No. 11699-2008, on October 17, 2012, our Board of Directors approved the creation of an internal audit unit to implement internal auditing functions independently from our institutional control body. The audit committee supports the internal audit unit.

(iv) Assets and liabilities committee

The assets and liabilities committee (ALCO) is a division created by our Board of Directors. Its main purpose is to monitor our statements of financial position, according to policies and effective standards. The assets and liabilities committee safeguards the proper management of liquidity, interest rate and exchange rate risks, and implements corrective measures when there are deviations from accepted risk levels. The committee meets at least twice a month. The committee also supports the Finance Office (office responsible for the investment activities). The committee is comprised of the CEO who directs it, financial, risk, intermediation and financial innovation, corporate businesses and environmental officers, chief legal officer (without a vote), audit head, financial services head, treasury and markets head (without a vote) and senior officers of global and market risk (without a vote).

(v) Management committee

The management committee coordinates and makes decisions related to corporate strategy, administrative topics, computer systems and general management topics. The management committee approves the strategic plan of COFIDE, proposes and presents to our Board of Directors the organic structure and the regulations of the organization and functions. In addition, it approves action plans to manage risks monitors its execution of alternative procedures.

(vi) Presidency

Through October 2013, the Presidency supervised the Risk Office. From November 2013 the chief executive officer supervises the Risk Office.

(vii) Chief Executive Officer - CEO

The chief executive officer establishes risk management policies within the regulatory framework of COFIDE according to direction from our Board of Directors and the Risk Committee. The chief executive officer safeguards the proper management of divisions for which is it responsible for, and identifies, assesses, controls, follows-up and reports main risks to guarantee the bank's compliance with policies and proper risk management. As of November 1, 2013, the chief executive officer represents the maximum direction division of the Risk Office.

(viii) Internal audit unit

The internal audit unit functionally reports to our Board of Directors. It renders independent services regarding the proper functioning of the internal control system according to standards of risk management so as to reduce the risk to established tolerance levels. The internal audit unit informs all responsible divisions regarding potential risk situations and other relevant aspects in relation to risk management assessment of COFIDE.

(ix) Risk Office

The risk office is an independent area responsible for proposing policies, procedures and methodologies for competent risk management, treating risk and the development of proper controls. The risk office supervised the standards compliance division, an area that proposes, informs and updates all policies for

compliance standards, as well as informs to our Board of Directors and chief executive officer actions required for the compliance, and possible gaps and main changes in the standard environment that may affect operations of the bank. As of February 18, 2014, the Legal Office supervises the standards compliance division.

**(b) Action frame for integral risk management**

**(i) Credit risk**

It is the main risk managed by COFIDE, so as to manage our exposure and provide proper hedging, we have established a series of guidelines, among which the following are the most significant:

- Policies to identify, measure, follow-up, control and report credit risk of debtors, as well as policies to assess, analyze, approve, follow-up and recover debt.
- Admission policies for business financing operations, specialized and structured, financings where we assume the direct or contingent risk of final debtors.
- Guidelines regarding the origin and participation of COFIDE in sundry operations, negotiation and management of real and personal guarantees that should be backed-up with credit operations, and those reviewed when considering operations portfolio.
- Policies to recover and standardize substandard credit operations (where changes in conditions originally agreed are required, and that present impairment of their obligations in time or form).
- Credit risk policies for intermediates, in relation to those risks involve in intermediary financial institutions (IFIs) operations, which must be reflected in degrees of individual exposure and global composition; as well as in the assignment of provisions and prices based on risks.
- Asset and liability management policies with respect to diversification, concentration risk, counterparty risk and issuer risk.
- Country risk policies, which define parameters to effect financial operations with non-domiciled individuals in the country and susceptible of being exposed to country risk.
- Policies for credit risk management derived from exchange management, where guidelines to manage credit risk induced by variations in exchange rates are identified, as well as in placements in foreign currency with debtors whose income and obligations do not match in terms of currency.

**(ii) Market risk**

Market risks derive from movements in market prices, exchange rate risks and interest rate risks for negotiation positions. For market risk management, we have limits defined in relation to:

- Volatility of exchange rate and interest rate.
- Loss control in negotiation portfolio.

We make some assessments based on the following:

- Potential losses to which we are exposed to in order to maintain a portfolio comprising asset or liability positions in primary or derived instruments.
- Maximum possible loss (VaR) for exchange rate risk.
- Valuation of positions recorded in investments by us, of investments in instruments representative of debt or capital recorded at fair value through profit or loss or available for sale.
- Market value of financial instruments derived for reporting and permanent following-up purposes of such positions at market values.
- Potential losses for maintaining positions sensitive to changes in interest rate.

**(iii) Structural risk of the statement of financial position**

Structural risk of our statement of financial position represents potential losses generated by the impact of movements in interest rates, exchange rates over structural positions of assets and liabilities, as well as off balance sheet arrangements, without including negotiation portfolio.

In the case of interest rate risk, potential loss analysis focusses on the impact over net financial margin (profit in risk at one year) and impact over discounted value of assets and liabilities (equity value at risk).

In the case of structural exchange risk, we have two sources of risk: direct and indirect. The direct risk is provided by the position of structural change held by COFIDE for our investments in CAF. The indirect risk is provided by the structural dollarization of its portfolio towards its debtors, issuers and local intermediates, with whom COFIDE faces credit risk derived from exchange rate risk.

In order to manage this risk, the following policies have been established:

- Assets and liabilities management policies.
- Policies of diversification and concentration risk.
- Policies of counterparty risk and issuer risk.
- Investment policies.
- Indebtedness policies.
- Derivatives policies.
- Exchange rate risk policies.
- Interest rate risk policies.

(iv) Liquidity risk

In order to manage liquidity risk, there are policies defining guidelines for constituting a reserve of high-quality liquid assets, availability of credit line, minimum requirements of contingent credit line and high-quality liquidity reserve, as well as limits in the concentration of cash. Additionally, we have a contingent plan focussed on liquidity shortages in the event of an individual liquidity crisis, or a systemic crisis.

**(c) Risks concentration**

COFIDE has policies and procedures to safeguard a proper diversification of financial assets and liabilities, on and off the statement of financial position. COFIDE seeks a proper relation between risk for concentration and degree of equity capitalization. COFIDE's manual on diversification and concentration policies establishes alerts that reflect risk appetite, such as:

- Alerts of assets concentration for unique risk.
- Alerts of diversification per economic activity sector.
- Alerts of diversification of investments and cash for market.

Additionally, COFIDE has established the following policies addressing limits on credit risk incurred in order to be sufficiently quoted and diversified:

- Limits to the exposure of subsystems of IFIs of relatively higher risk.
- Limits to the exposure of IFIs of relatively higher risk.
- Follow-up of unique risk concentration.
- Follow-up of quality of the implicit credit exposure.
- Follow-up of the quality of the explicit credit exposure.

- Participation limits in business financing operations, both specialized and structured.

Furthermore, we have some autonomy levels, which must be approved by our Board of Directors, related to:

- Credit operations.
- Position limits.
- Investment operations.
- Indebtedness operations.
- Derivative operations.
- Special interest rates.

With respect to investments, we have defined within our alert policies for concentration of negotiation portfolio, and have also established limits for the portfolio investment for investment and issuance risks.

***(d) Measurement systems and risk reporting***

In order to properly manage different risks, we work with different models and tools of ranking to measure and assess each type of risk in relation to financial instruments. These tools are supported by models, methodologies and applications, allowing us to make risk decisions in different stages of the credit life cycle.

Tools are routinely monitored and renewed to safeguard maintenance of levels of prediction and performance and corrective measurements or adjustments to models. We have been working on the estimate of risk parameters (likelihood of compliance, severance of loss and factors of credit translation) using methodologies and internal historic information. These parameters will allow us to measure and prospect the level of risk of the portfolio, estimate expected losses and economic capital required.

Management indications are routinely reviewed and analyzed in order to identify possible deviations in the risk profile regarding risk appetite in order to timely take corrective measurements. This information is presented monthly to the risk committee and periodically to our Board of Directors.

**Off-Balance Sheet Arrangements**

The following table sets forth our off-balance sheet arrangements as of the dates indicated.

	As of March 31,	
	2016	2015
<b>Contingent accounts:</b>	<b>(\$/ in thousands)</b>	
Joint signature granted.....	693,279	631,652
Swap and forward operations .....	449,078	349,768
Other contingent accounts .....	4,818	20,085
<b>Total contingent operations .....</b>	<b>1,147,175</b>	<b>1,001,505</b>
<b>Off-balance sheet accounts:</b>		
Guarantees received (1).....	14,265,828	13,903,413
Trusts .....	19,512,122	16,164,283
Nominal value- interest rate swaps.....	665,200	619,200
Other off-balance sheet accounts.....	11,526,974	8,995,310
<b>Total off-balance sheet accounts.....</b>	<b>45,970,124</b>	<b>39,682,206</b>
<b>Total contingent accounts and off-balance sheet accounts.....</b>	<b>47,117,299</b>	<b>40,683,711</b>

	As of December 31,		
	2015	2014	2013
<b>Contingent accounts:</b>		(S/ in thousands)	
Joint signature granted.....	773,390	658,468	536,684
Swap and forward operations .....	384,896	596,043	642,920
Other contingent accounts .....	15,407	20,890	22,136
<b>Total contingent operations.....</b>	<b>1,173,693</b>	<b>1,275,401</b>	<b>1,201,740</b>
<b>Off-balance sheet accounts:</b>			
Guarantees received (1).....	14,872,611	13,815,593	12,533,046
Trusts .....	19,126,323	16,324,205	13,655,646
Nominal value interest rate swaps .....	682,200	40,311	46,118
Other off-balance sheet accounts.....	12,049,170	8,552,481	6,703,851
<b>Total off-balance sheet accounts.....</b>	<b>46,730,304</b>	<b>38,732,590</b>	<b>32,938,661</b>
<b>Total contingent accounts and off-balance sheet accounts .....</b>	<b>47,903,997</b>	<b>40,007,991</b>	<b>34,140,401</b>

(1) Guarantees received refers to guarantees backing loans disbursed by COFIDE.

## Guarantee Agreements

We provide guarantees to banks or financial intermediaries that are involved in the development of infrastructure and environmental projects. These guarantees support the financing of the project in case the intermediary bank needs additional funding. In the event of default by the project borrower, we may be required to honor these guarantees. If that happens, the operations would be recorded as a cash outflow and an increase in loans and the revenues would be recognized as payments are collected. As of March 31, 2016, we acted as a guarantor of third party obligations in the following transactions:

Project with Guarantee	Amount (S/ in thousands)	Term (years & months)	Initial date	Maturity date
Aventura Plaza S.A.	29,294	10y, 9m	8/23/2010	7/23/2021
Enersur	124,057	10y, 6m	6/4/2010	12/31/2020
Kallpa Generación	54,765	10y	12/11/2009	12/11/2019
Hidroeléctrica Santa Cruz	40,612	10y	12/20/2012	12/31/2022
Impala	52,937	7y, 7m	12/28/2012	7/12/2020
Cerro del Aguila - FMO	94,725	12y	8/17/2012	8/17/2024
Consorcio Empresarial TGA	4,151	1y (renewable)	05/29/2015	05/29/2016
Lima Bus Internacional	8,528	1y (renewable)	09/02/2013	10/14/2016
Transvial	8,528	1y (renewable)	08/29/2013	10/14/2016
Lima via Express	8,528	1y (renewable)	08/29/2013	10/14/2016
Peru Masivo	20,895	1y (renewable)	08/29/2013	10/14/2016
GCZ	11,939	1y (renewable)	12/17/2015	05/17/2016
Termochilca	117,847	1y (renewable)	12/23/2015	06/30/2021
Revolutions	11,872	6y	2/23/2012	02/23/2018
Línea de Transmisión Moyobamba				
Iquitos	102,330	1y (renewable)	10/6/2015	10/6/2016
Red Vial 6	26,334	10y	8/19/2010	8/19/2020
<b>Total</b>	<b>717,342</b>	<b>-</b>	<b>-</b>	

## Hedging Derivatives

Financial swap transactions consist of contracts entered into between us and a counterparty whereby we agree to pay the counterparty an amount linked to one particular interest rate, inflation index rate or currency exchange rate (as applied to a notional principal amount) and, in return, receive from the counterparty an amount linked to a different interest rate, inflation index rate or currency exchange rate (as applied to such notional principal amount). Our contingent liability in respect of such a transaction is not the notional amount of the transaction, but rather the resulting difference between the interest rate, inflation index rate or currency exchange rate that we agree to pay and the interest rate, inflation index rate or currency exchange rate that the counterparty agrees to pay.

The following table shows the position of asset, liability and net position of our derivative financial instruments as of March 31, 2016 and 2015. All our derivative operations are classified as hedging (recognizing changes in fair value in our equity until realized).

As of March 31, 2016										
Description	No. Operation	Nominal Value	Exchange difference		Accrued interest		Unrealized profit		Fair Value	
			Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
			S/000	S/000	S/000	S/000	S/000	S/000	S/000	S/000
Currency swaps - Yen coverage / US\$	4	449,078	15,744	152,960	388	2,526	(14,243)	(29,972)	1,889	125,514
<b>Total currency derivatives</b>	4	449,078	15,744	152,960	388	2,526	(14,243)	(29,972)	1,889	125,514
<b>Interest rate Swaps - Coverage</b>	1	665,200	-	-	4,504	3,433	7,072	(3,433)	11,576	-
			15,744	152,960	4,892	5,959	(7,171)	(33,405)	13,456	125,514

  

As of March 31, 2015										
Description	No. Operation	Nominal Value	Exchange difference		Accrued interest		Unrealized profit		Fair Value	
			Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
			S/000	S/000	S/000	S/000	S/000	S/000	S/000	S/000
Currency swaps - Yen coverage / US\$	4	349,768	-	152,973	269	1,982	(269)	(370)	-	154,585
<b>Total currency derivatives</b>	4	349,768	-	152,973	269	1,982	(269)	(370)	-	154,585
<b>Interest rate Swaps - Coverage</b>	1	619,200	-	-	3,179	2,506	3,179	(2,506)	7,372	-
			-	152,973	3,448	4,488	2,910	(2,876)	7,372	154,585

We had 4 cross-currency swap operations with various foreign entities as of March 31, 2016 and 2015. With respect to loans denominated in yen, fluctuations in exchange rates between Yen/US\$ have been hedged by currency swaps of S/ 449.1 million and S/ 349.8 million as of March 31, 2016 and March 31, 2015, respectively.

To cover our positions from changes in interest rates, we had 1 interest rate swap operation with different foreign entities as of March 31, 2016 and 2015. Our interest rate swap balance was S/ 665.2 million as of March 31, 2016 compared to S/ 619.2 million as of March 31, 2015.

### **Critical Accounting Policies**

Critical accounting principles and practices used in the preparation of the financial statements included in this offering memorandum are described below. For additional information regarding the accounting principles described below, see note 3 to our audited financial statements included in this offering memorandum.

#### ***Basis of Preparation and Presentation and use of estimate for Financial Statements of COFIDE***

COFIDE prepares and presents its financial statements in Peruvian *soles* (S/), its functional currency, as determined in the Accounting Manual for Financial Entities.

Financial statements are prepared in accordance with legal regulations and Peruvian Banking GAAP, which comprise accounting standards and practices authorized by the SBS by virtue of the authority conferred to it by the *Ley General del Sistema Financiero y del Sistema de Seguros y Orgánica de la Superintendencia de Banca, Seguros y Administradoras Privadas de Fondos de Pensiones* (General Law of the Financial and Insurance Systems and Organic Law of the SBS) – Law No. 26702. The standards mentioned above are included in the Accounting Manual for Financial Entities (hereinafter the Accounting Manual), amended by SBS Resolution No. 7036-2012 dated September 19, 2012, effective as of January 1, 2013.

Our management and Board of Directors are responsible for the information contained in our financial statements. Certain estimates to quantify some assets, liabilities, revenues, expenses and commitments recorded therein have been made based on experience and other relevant factors.

Accounting estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects that period only or in the period of the revision and future periods if the revision affects both current and future periods.

Critical estimates used in connection with the preparation of our financial statements include:

- provision for direct and indirect impaired loans portfolio;
- fair value of hedging derivatives;
- provision for accounts receivable impairment;
- useful life assigned to property, furniture and equipment, net;
- useful life assigned to intangible assets;
- impairment estimate of property, furniture and equipment;
- impairment estimate of investments;
- other assets and contingent loans;
- assessments of contingent liabilities;
- current and deferred income tax;
- fair values, classification and investments risks; and
- revenue recognition.

Our management has applied critical judgment when applying accounting policies in the preparation of our accompanying financial statements, as explained in the corresponding accounting policies.

### ***Loan portfolio and provision for impairment of direct and indirect loans***

The loan portfolio is recorded when the disbursement in favor of the customer takes place. Loans are considered as refinanced or restructured when the debtor experiences payment difficulties which change his payment schedules and/or the balance of debt capital.

Financial lease operations from portfolio transfer contracts, are recorded in accordance with SBS standards and IAS 17, as loans.

The provision for loans and allowance for loan losses is established in accordance with the criteria and percentages set forth in SBS Resolution No. 11356-2008 “Regulations for the Evaluation and Classification of Debtors and Required Provisions”.

### ***Types of loans***

In accordance with SBS Resolution No. 11356-2008, loans are classified as: i) Corporate, ii) Large business, iii) Medium business, iv) Small business, v) Micro-business, vi) Revolving consumer loans, vii) Non-revolving consumer loans and viii) Mortgage loans. These classifications consider the nature of the customer (corporate, government or individual), the purpose of the customer and the size of the business measured by income and debt, among others.

### ***Categories of classification***

Categories of classification established by the SBS are as follows: normal, with potential problems, substandard, doubtful and loss. These same categories of classification apply to non-retail loan portfolios (corporate, large and medium business), which are mainly determined for the debtor’s payment capacity, cash flow, the level of compliance with its obligations, the classification assigned by other financial entities, the debtor’s financial position and the quality of the customer’s direction; while in order for the retail loan portfolio (small business, micro-business, consumer (revolving and non revolving) and mortgage), the classification is determined based on the compliance with the payment of loans reflected in delay days, and in its classification in other financial entities.

### ***Requirements of provisions.***

In accordance with accounting standards and practices authorized by the SBS, we make two classes of provisions for our loan portfolio: general and specific provisions.

General provisions include: (i) those established for debtors classified as normal in accordance with the requirements of the SBS and also the procyclical component (as defined below) when the SBS confirms its application (this component is deactivated since November 2014 by virtue of Circular Letter N° B-2224-2014); as well as (ii) general voluntary provisions. Pursuant to our internal policies, and as permitted by the SBS, we establish voluntary general provisions for the loan portfolio, whose level depends on the assessment conducted by Management on the conditions of the macroeconomic variables of the country and their impact on IFIs and debtors in general. Also, general voluntary provisions are established as a precautionary measure on certain debtors with higher risk exposure.

The reallocation and recognition of voluntary generic provisions was approved through Directory Agreements No. 066-2005 and No. 003-2007, dated September 15, 2005 and January 11, 2007, respectively. The amount of voluntary generic provisions is governed by the SBS.

Specific provisions are constituted on direct credits and exposures equivalent to the credit risk of indirect credits of debtors classified in a category with higher risk than the normal category (potential problem, substandard, doubtful and loss). The requirements of provisions are determined based on the debtor’s risk classification, whether or not there is a guarantee, and, if so, on the type of guarantee.

Additionally, in compliance with SBS Resolution No. 041-2005, we assess our exposure to credit exchange risks for loans in foreign currency and record provisions for such risks as required by the SBS. We use the aforementioned criteria to constitute the specific provision of accounts receivable for transferred loan portfolio, included in “Other assets”.



As of December 31, 2014 and 2013, provisions are determined according to SBS Resolution No. 11356-2008, effective as from July 2010. The following table shows the percentage of the loan principal amount that we are required to reserve, by loan type and risk category:

<b>Risk category</b>	<b>Without guarantee</b>	<b>Preferred guarantees</b>	<b>With highly liquid preferred guarantees</b>	<b>With self-liquidating guarantees</b>
Normal .....				
Corporate-sized company loans ..	0.70%	0.70%	0.70%	0.70%
Large-sized company loans .....	0.70%	0.70%	0.70%	0.70%
Medium-sized company loans .....	1.00%	1.00%	1.00%	1.00%
Small-sized company loans .....	1.00%	1.00%	1.00%	1.00%
Micro-enterprise loans.....	1.00%	1.00%	1.00%	1.00%
Revolving consumer loans .....	1.00%	1.00%	1.00%	1.00%
Non-revolving consumer loans ...	1.00%	1.00%	1.00%	1.00%
Mortgage loans.....	0.70%	0.70%	0.70%	0.70%
With potential problems .....	5.00%	2.50%	1.25%	1.00%
Substandard .....	25.00%	12.50%	6.25%	1.00%
Doubtful.....	60.00%	30.00%	15.00%	1.00%
Loss .....	100.00%	60.00%	30.00%	1.00%

#### *Pro-cyclical component*

Pro-cyclical provisions are required for loan portfolios in the normal risk category. This represents an additional component to the aforementioned general provision rate and its recording is done as long as the “pro-cyclical rule” being activated.

The provision for “procyclical standard” is deactivated since November 2014, in accordance with Circular Letter N° B-2224-2014 dated November 27, 2014 issued by the SBS. Circular Letter N° B-2224-2014 also states that procyclical provisions may be reassigned to cover new debtors’ provisions.

<b>Type of credit</b>	<b>Provision rate</b>
Corporate-sized company loans.....	0.40%
Large-sized company loans .....	0.45%
Medium-sized company loans .....	0.30%
Small-sized company loans .....	0.50%
Micro-enterprise loans.....	0.50%
Revolving consumer loans.....	1.50%
Non-revolving consumer loans.....	1.00%
Mortgage loans .....	0.40%

For corporate loans to large businesses and mortgages that have self-liquidating preferred guarantees, the pro-cyclical component shall be 0.3% and 0.4 respectively, for the portion covered by such guarantees. For other loans with self-liquidating preferred guarantees, the pro-cyclical component will be 0% for the portion covered by such guarantees. For consumer loans with payroll discount agreements, the pro-cyclical component will be 0.25%, provided they comply with SBS Resolution No. 11356-2008.

When a debt is considered uncollectible, it is written-off against the corresponding provision for loan portfolio impairment. Any subsequent recovery of amounts previously written off is recognized as income in the statement of income.

Provision for uncollectibility risk of loan contracts is held at a level which, in opinion of our management, it is sufficient to cover potential losses in our loan portfolio as of the statement of financial position date.

### ***Financial instruments***

Financial instruments are classified as either financial assets, financial liabilities or as equity, in accordance with the substance of the contractual arrangements from which they originate. Interests, dividends, gains and losses generated by a financial instrument are classified as either a financial asset or liability and recorded as income or expense in the statement of income.

Financial instruments are offset when we have a legally enforceable right to set off and our management intends to settle them on a net basis, or realize the asset and pay the liability simultaneously.

Financial assets and liabilities presented in the statement of financial position correspond to: cash funds, available for sale investments, loans portfolio, accounts receivable and liabilities in general. In addition, all derivative products are considered financial liabilities.

Accounting policies on the recognition and valuation of these items are described in the corresponding accounting policies described herein.

### ***Derivative financial instruments***

Derivatives refer to financial instruments characterized by: (a) changes in fair value as a result of modifications occurring in the level or price of an underlying asset; (b) not requiring net initial investment or requiring a lower investment than the one that would be required in contracts that respond in a similar way to changes in market variables, and (c) having a future maturity date.

We classify and record derivative financial instruments in conformity with provisions of the SBS Resolution No. 1737-2006 and its amendments. The accounting treatment provided by the SBS includes essential aspects established by IAS 39 "Financial instruments: Recognition and Measurement".

Upon their initial recording at trading date, derivatives shall be classified under one of the following two categories for their accounting record: (a) derivative financial instruments for trade, or (b) derivative financial instruments for hedging. Derivative financial instruments for trade are initially recorded at fair value; subsequently, any change in the fair value of such derivative shall affect the results for the period. Regarding derivative financial instruments for hedging, certain requirements established by the SBS shall be met relating to procedures, techniques of application and proper and timely documentation supporting the hedging strategy. Interest rate and currency transactions (swaps) and mandatory forward exchange contracts at an exchange rate previously agreed between the parties (forwards) are initially accounted for at fair value.

Future cash flow hedging is recorded as an asset or liability in the statement of financial position and presented at fair value. To the extent such hedges are effective to offset the interest rate risks, changes in the fair value are directly recorded in an equity account. These amounts are transferred to the statement of income for the period on the date the financial liability is liquidated and presented in the statement of income under derivative financial instruments.

Regardless of the type of hedging financial instrument, these must be periodically evaluated and considered as highly effective with a range between 80% and 125% to reduce the risk associated to the exposure being covered. In case that the hedging does not continue to be effective, changes in the fair value shall be reflected in the statement of income for the period.

Derivatives classified in the trading category are initially recognized at fair value as of the trading date. Fair values are obtained based on exchange rates and market interest rate. Gains and losses for changes in fair value are recorded in the statement of income.

The face value of derivative financial instruments is recorded in their corresponding engaged or agreed currency in contingent and memorandum accounts.

### ***Current and deferred income tax***

Expenses for income tax are comprised of estimated income tax payable plus deferred income tax. Current income tax is determined by applying the tax rate established in the effective tax legislation to net taxable income for the year.

Deferred income tax corresponds to the amount of tax expected to be recovered or paid based upon the temporary differences between reported carrying amounts of assets and liabilities, and their corresponding tax bases. Deferred income tax liabilities are generally recognized for all deductible temporary differences and tax losses, rebates and tax losses not carried forward, to the extent to which it is likely that we will have enough future taxable profit in order to use them. The carrying amount of a deferred tax asset is reviewed at the end of each reporting period, and reduced to the extent to which it is not likely that we have enough future taxable profit in order to recover all, or a portion, of such assets.

Deferred income tax assets and liabilities are determined using the tax rates expected to be applied when the asset is recovered or the liability settled, based on approved tax rates and laws, or for which the process of approval is practically done, by the end of the reporting period. The measurement of such deferred taxes reflects our estimated tax liability at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognized in profit and loss, and included in the determination of net income or loss for the year, except when they relate to items recognized directly in equity accounts, in which case, current income and deferred tax is also recognized directly in equity.

### ***Contingent assets and liabilities***

Contingent liabilities are not recognized in the financial statements, they are only disclosed in the notes to the financial statements unless the possibility of resource outflow is remote.

Contingent assets are not recognized in the financial statements, they are only disclosed in the financial statements if there is the possibility of resource inflow.

Items previously treated as contingent assets or liabilities will be recognized in the financial statements of the period in which the change in probabilities occurs; that is, when in the case of liabilities it is determined as probable, or virtually certain in the case of assets, that an outflow or inflow of resources will take place, respectively.

### ***Investments***

Investments can be classified as: investments at fair value through profit and loss, available-for-sale investments and held at maturity investments. We hold the following:

#### ***Available for sale investments***

This category comprises those securities which management has the intention of trading or obtaining profits from their commercialization before their due date. This category includes all investment instruments not classified as investments at fair value through profit or loss, held-to-maturity investments and investments in subsidiaries and associates. The valuation is made at fair value and the gain or loss generated by the changes in the fair value is recognized in the shareholders' equity until the instrument is sold or realized, when it is transferred to the statement of income for the period, except for impairment losses that are recorded in the statement of income.

Gains or losses from exchange rate differences in representative equity instruments shall be recognized in equity accounts and debt instruments shall be recognized in the statement of income.

Yields from these investments are recognized as earned and declared as dividends.

Provisions for impairment in investments' value are based on our internal evaluations, depending on the credit risk and exchange rate risk that the investment issuer has. Accumulated loss for value impairment that has been directly recognized in equity shall be withdrawn from this and recognized in the profit for the year, provided such investment instruments have not been sold or withdrawn.

#### ***Investment in Corporación Andina de Fomento - CAF***

According to the Regulation of Classification and Valuation of Investments of Financial Entities, SBS Resolution No. 7033-2012, investments in equity instruments that do not have a market price quoted in an active market and whose fair value cannot be reliably measured are measured at cost.

Within the frame of IFRS harmonization process, considering that CAF shares do not pay dividends in cash, do not have public active market, are not likely to have a determined estimated fair value of the investment and considering Official Letter N° 45853-2012 – SBS issued by the SBS on December 5, 2012 stating the treatment for investments based on IFRS and authorizing the use of the value determined at cost as of December 31, 2012, we have reclassified this investment as “Available for sale investments”, considering the last value in records by us as cost value, reported to the SBS as of December 31, 2012.

### ***Income and expense recognition***

Interest income and expenses are recognized in the income for the period in which they are earned, based on the validity time of operations which generate them and interest rates freely agreed with customers; except for interest generated by overdue, refinanced, restructured and in legal collection loans, as well as loans classified in the doubtful and loss categories, such interest is recognized as earned to the extent they are collected. When our management determines that the financial condition of the debtor has improved and the placement is reclassified to the present situation and/or normal, with potential problems or substandard category, interests are recognized again upon the accrued basis.

Commissions for trust services are recognized as income accrued. Other income and expenses are recorded in the year when they were accrued.

