

# **Corporación Financiera de Desarrollo S.A. - COFIDE**

## **Financial Statements**

As of March 31, 2014 (Unaudited)  
and for the three-month periods  
ended March 31, 2014 and  
2013 and as of December 31,  
2013

# **CORPORACION FINANCIERA DE DESARROLLO S.A. – COFIDE**

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**CORPORACION FINANCIERA DE DESARROLLO S.A. - COFIDE**

**STATEMENT OF FINANCIAL POSITION  
AS OF MARCH 31, 2014 (UNAUDITED) AND AS OF DECEMBER 31, 2013 (AUDITED)  
Expressed in thousands of nuevos soles (S/.000)**

	Notes	March 31, 2014 S/.000	December 31, 2013 S/.000
<b>Asset</b>			
Cash	4	229,432	244,734
Available for-sale investments	5	3,271,124	3,098,141
Loan portfolio, net	6	4,593,209	4,646,011
Hedging derivatives	8	4,675	3,897
Accounts receivable, net	8	2,577	13,945
Assets seized, received in payment, awarded		78	78
Property, furniture and equipment, net	7	13,228	13,729
Intangible asset, net		5,509	5,389
Tax receivable		14,211	16,019
Other assets	8	5,963	5,643
<b>Total asset</b>		<u>8,140,006</u>	<u>8,047,586</u>
Contingent accounts	13	1,243,576	1,201,740
Off-balance sheet accounts	13	4,830,366	4,981,098
Trusts, debtor trust commissions and other accounts	13	32,903,825	27,957,563

	Notes	March 31, 2014 S/.000	December 31, 2013 S/.000
<b>Liability</b>			
Obligations to the public	9	117,073	72,226
Deposits by Banks and financial organizations	9	147,868	188,634
Debt securities	10	5,240,798	5,195,678
Hedging derivatives	11	74,935	74,813
Accounts payable	11	64,122	7,117
Provisions:			
For contingent loans	6 (c)	49,902	44,994
For lawsuit and claims	11	1,720	874
Others	11	6,166	6,355
<b>Total provisions</b>		<u>57,788</u>	<u>52,223</u>
Deferred income tax		258,634	256,004
Other liabilities	11	5,539	5,035
<b>Total liabilities</b>		<u>5,966,757</u>	<u>5,851,730</u>
<b>Equity</b>			
Capital stock	12	1,514,402	1,514,402
Additional paid in capital		10,205	-
Treasury shares		(15,640)	(15,640)
Legal reserves		287,346	279,708
Retained earnings		21,742	21,742
Net income for the period / year		21,492	76,381
Adjustments to equity		333,702	319,263
<b>Total equity</b>		<u>2,173,249</u>	<u>2,195,856</u>
<b>Total liabilities and equity</b>		<u>8,140,006</u>	<u>8,047,586</u>

The accompanying notes are an integral part of these financial statements

## **CORPORACION FINANCIERA DE DESARROLLO S.A. - COFIDE**

### **STATEMENTS OF INCOME**

**FOR THE THREE-MONTHS PERIODS ENDED MARCH 31, 2014 AND 2013 (UNAUDITED)**

**Expressed in thousands of nuevos soles (S/.000)**

	<b>March 31, 2014</b>	<b>March 31, 2013</b>
	<b>S/.000</b>	<b>S/.000</b>
<b>Interest income</b>		
Cash	483	951
Available for sale investments	15,577	11,206
Direct loan portfolio	93,542	75,850
<b>Total</b>	<b>109,602</b>	<b>88,007</b>
<b>Interest expenses</b>		
Obligations to the public	(628)	(282)
Deposits from financial system entities and international financial organizations	(2,652)	(25)
Debts and financial obligations		
Debts and obligations to local financial entities	(11,853)	(10,436)
Debts and obligations to foreign financial entities and international financial organizations	(9,322)	(6,721)
Other debts and obligations to local and foreign entities	(1,150)	(1,274)
Commissions and other charges for debts and financial obligations	(1,514)	(863)
Securities, bonds and outstanding obligations	(26,107)	(23,660)
Net loss from hedging transactions	(4,547)	(5,633)
<b>Total</b>	<b>(57,773)</b>	<b>(48,894)</b>
<b>Gross financial margin</b>	<b>51,829</b>	<b>39,113</b>
Provisions for loan losses	(6,893)	3,285
<b>Net financial margin</b>	<b>44,936</b>	<b>42,398</b>
Income from financial services		
Income from indirect loans	2,501	1,611
Income from trusts and trust commissions	4,716	4,349
Sundry income	3	28
	<b>7,220</b>	<b>5,988</b>
Expenses for financial services		
Sundry expenses	(1,122)	(1,310)
	<b>(1,122)</b>	<b>(1,310)</b>
Financial margin net of income and expenses from financial services	51,034	47,076
Financial transactions		
Available for sale investments	(289)	(155)
Net (loss) profit for hedging transactions	8,890	(43,885)
Earnings for exchange difference, net	(10,228)	40,353
Other	100	407
	<b>(1,527)</b>	<b>(3,280)</b>
<b>Operating margin</b>	<b>49,507</b>	<b>43,796</b>

(continue)

## **CORPORACION FINANCIERA DE DESARROLLO S.A. - COFIDE**

### **STATEMENTS OF INCOME**

**FOR THE THREE-MONTHS PERIODS ENDED MARCH 31, 2014 AND 2013 (UNAUDITED)**

**Expressed in thousands of nuevos soles (S/.000)**

	<u>Notes</u>	<u>March 31, 2014 S/.000</u>	<u>March 31, 2013 S/.000</u>
<b>Administrative expenses, depreciation and amortization:</b>			
Personnel and Board of Directors' expenses	<b>14</b>	(11,686)	(10,291)
Expenses for services received from third parties	<b>15</b>	(4,750)	(4,229)
Taxes and contributions		(1,264)	(1,037)
Depreciation and amortization		<u>(587)</u>	<u>(492)</u>
Total		<u>(18,287)</u>	<u>(16,049)</u>
<b>Net operating margin</b>		<u>31,220</u>	<u>27,747</u>
<b>Net valuation of assets and provisions</b>			
Provisions for indirect loans		(4,759)	(775)
Provisions for impairment of accounts receivable		(502)	(203)
Provision for seized goods, received in payment, recovered and awarded, and others		1,513	-
Impairment of investments		-	348
Provisions for lawsuits and claims		(846)	(228)
Other provisions		<u>(485)</u>	<u>(1,115)</u>
<b>Operating profit</b>		26,141	25,774
Other income and expenses		<u>6,778</u>	<u>(2,051)</u>
<b>Profit before income tax</b>		32,919	23,723
Income tax	<b>17</b>	<u>(11,427)</u>	<u>(7,208)</u>
<b>Net income for the period</b>		<u>21,492</u>	<u>16,515</u>
Basic and diluted earnings per share	<b>16</b>	0.014	0.011

The accompanying notes are an integral part of these financial statements.

## **CORPORACION FINANCIERA DE DESARROLLO S.A. - COFIDE**

### **PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE THREE-MONTHS PERIODS ENDED MARCH 31, 2014 AND 2013 (UNAUDITED)**

**Expressed in thousands of nuevos soles (S/.000)**

	<b>March 31, 2014</b>	<b>March 31, 2013</b>
	<b>S/.000</b>	<b>S/.000</b>
<b>Net income for the period</b>	21,492	16,515
Other comprehensive income (loss):		
Available for sale investments	32,207	(11,659)
Cash flow hedges	(11,580)	21,189
<b>Other Comprehensive Income gain/ (loss) for the period, net of tax</b>	20,627	9,530
Income tax in relation to components of other comprehensive income:		
Available for sale investments	(9,662)	3,498
Cash flow hedges	3,474	(6,357)
<b>Effect of income tax related to components of other comprehensive income</b>	(6,188)	(2,859)
Total other comprehensive income	14,439	6,671
<b>Total comprehensive income</b>	35,931	23,186

The accompanying notes are an integral part of these financial statements.

**CORPORACION FINANCIERA DE DESARROLLO S.A. - COFIDE**

**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE PERIODS ENDED MARCH 31, 2014 AND 2013 (UNAUDITED)  
Expressed in thousands of nuevos soles (S/000)**

	<u>Adjustments to equity</u>										
	Capital stock S/000	Additional paid in capital S/000	Treasury shares S/000	Legal reserves S/000	Retained earnings S/000	Net income for the year S/000	Investments in equity instruments at fair value S/000	Cash flow hedging reserve S/000	Share in other comprehensive income of CAF investments S/000	Total adjustment to equity S/000	Total S/000
<b>Balances as of January 1, 2013</b>	1,504,501	14,643	-	272,297	14,143	74,110	95,959	(32,180)	282,982	346,761	2,226,455
Changes in equity:											
Comprehensive income:											
Net Income for the year	-	-	-	-	-	16,515	-	-	-	-	16,515
Other comprehensive income	-	-	-	-	-	-	(8,161)	14,832	-	6,671	6,671
Total comprehensive income	-	-	-	-	-	16,515	(8,161)	14,832	-	6,671	23,186
Sale of shares	-	(14,643)	(15,640)	-	7,599	-	-	-	-	-	(22,684)
Transfer from income of the year to retained earnings	-	-	-	7,411	66,699	(74,110)	-	-	-	-	-
Cash dividends declared	-	-	-	-	(66,699)	-	-	-	-	-	(66,699)
Total changes in equity	-	(14,643)	(15,640)	7,411	7,599	(57,595)	(8,161)	14,832	-	6,671	(66,197)
<b>Balances as of March 31, 2013</b>	<u>1,504,501</u>	<u>-</u>	<u>(15,640)</u>	<u>279,708</u>	<u>21,742</u>	<u>16,515</u>	<u>87,798</u>	<u>(17,348)</u>	<u>282,982</u>	<u>353,432</u>	<u>2,160,258</u>
<b>Balances as of January 1, 2014</b>	1,514,402	-	(15,640)	279,708	21,742	76,381	13,276	23,005	282,982	319,263	2,195,856
Changes in equity:											
Comprehensive income:											
Net Income for the year	-	-	-	-	-	21,492	-	-	-	-	21,492
Other comprehensive income	-	-	-	-	-	-	22,545	(8,106)	-	14,439	14,439
Total comprehensive income	-	-	-	-	-	21,492	22,545	(8,106)	-	14,439	35,931
Transfer from income of the year to retained earnings	-	-	-	7,638	68,743	(76,381)	-	-	-	-	-
Cash dividends declared	-	-	-	-	(58,538)	-	-	-	-	-	(58,538)
Capital contribution in cash	-	10,205	-	-	(10,205)	-	-	-	-	-	-
Total changes in equity	-	10,205	-	7,638	-	(54,889)	22,545	(8,106)	-	14,439	(22,607)
<b>Balances as of March 31, 2014</b>	<u>1,514,402</u>	<u>10,205</u>	<u>(15,640)</u>	<u>287,346</u>	<u>21,742</u>	<u>21,492</u>	<u>35,821</u>	<u>14,899</u>	<u>282,982</u>	<u>333,702</u>	<u>2,173,249</u>

The accompanying notes are an integral part of these financial statements.

## **CORPORACION FINANCIERA DE DESARROLLO S.A. - COFIDE**

### **STATEMENTS OF CASH FLOWS**

**FOR THE PERIODS ENDED MARCH 31, 2014 AND 2013 (UNAUDITED)**

**Expressed in thousands of nuevos soles (S/.000)**

	<b>March 31, 2014</b>	<b>March 31, 2013</b>
	<b>S/.000</b>	<b>S/.000</b>
<b>Operating activities:</b>		
Net income for the year	21,492	16,515
Adjustments		
Depreciation and amortization	587	492
Provisions	13,004	(258)
Impairment	-	(348)
Deferred tax	(3,558)	-
Other adjustments	(28)	(830)
Change in assets and liabilities		
(Net increase) decrease in assets		
Loans	59,484	(161,940)
Available for sale investments	(140,776)	(26,812)
Accounts receivable and others	(8,416)	(32,018)
Net increase (decrease) in liabilities		
Financial liabilities, unsubordinated debts	120,576	246,660
Accounts payable and others	(58,758)	35,204
	<u>3,607</u>	<u>76,665</u>
Net cash used in operating activities		
	<u>3,607</u>	<u>76,665</u>
<b>Investing activities:</b>		
Purchases of buildings, furniture and equipment	(57)	(146)
Other proceeds relating to investing activities	9,351	22
Other payments relating to investing activities	(153)	(9)
	<u>9,141</u>	<u>(133)</u>
Net cash provided (used in) by investing activities		
	<u>9,141</u>	<u>(133)</u>
<b>Financing activities</b>		
Proceeds for issuance of equity instruments	10,205	-
Paid dividends	(38,255)	-
Other proceeds (payments) relating to financing activities		
Outstanding securities	-	6,721
	<u>(28,050)</u>	<u>6,721</u>
Net cash provided (used in) by financing activities		
	<u>(28,050)</u>	<u>6,721</u>
<b>Net (decrease) increase in cash and cash equivalent</b>	<b>(15,302)</b>	<b>83,253</b>
<b>Cash and cash equivalent at the beginning of the period</b>	<b>244,734</b>	<b>258,923</b>
<b>Cash and cash equivalent at the end of the period</b>	<b>229,432</b>	<b>342,176</b>

The accompanying notes are an integral part of these financial statements.



# **CORPORACION FINANCIERA DE DESARROLLO S.A. – COFIDE**

## **NOTES TO THE FINANCIAL STATEMENTS AS OF MARCH 31, 2014 (UNAUDITED) AND DECEMBER 31, 2013 (AUDITED)**

**Expressed in thousands of Nuevos Soles (S/.000)**

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### **1. CONSTITUTION, ECONOMIC ACTIVITY AND APPROVAL OF THE FINANCIAL STATEMENTS**

#### ***(a) Constitution and economic activity***

Corporación Financiera de Desarrollo S.A. - COFIDE (hereinafter COFIDE) is a company where Government has equity interest of 97.96% (represented by Fondo Nacional de Financiamiento de la Actividad Empresarial del Estado – FONAFE, attached to the Ministry of Economy and Finances – MEF) and the Corporación Andina de Fomento – CAF, holds another 1.02%. COFIDE also maintains treasury shares representing 1.02% of total capital.

COFIDE was incorporated on March 18, 1971 through Law Decree No. 18807 and it has administrative, economic and financial autonomy. The stated purpose of COFIDE is to contribute with Peru integral development, through funds capture and financing granted through Financial Intermediation Institutions (hereinafter IFI for its acronym in Spanish), for the promotion and financing of productive investments and public and private infrastructure.

Additionally, COFIDE is dedicated to manage funds and securities mainly received from the Government and financial institutions acting as fiduciary, for which it charges a commission.

The activities of COFIDE are regulated by different legal provisions included in its bylaws, specifically issued to define its action framework. Additionally, such activities are regulated by the Ley General del Sistema Financiero y del Sistema de Seguros and Orgánica de la Superintendencia de Banca, Seguros y Administradora de Fondos de Pensiones (General Law of the Financial and Insurance Systems and Organic Law of the SBS) – Law No. 26702 (hereinafter General Law), and the amendments to Legislative Decree No. 1028 dated June 21, 2008.

The registered office of COFIDE is Augusto Tamayo N° 160, San Isidro, Lima and its personnel (managers, officers and employees) as of March 31, 2014 and the December 31, 2013 numbered 194 and 199, respectively.

#### ***(b) Approval of the Financial statements***

The financial statements as of March 31, 2014, as amended based on the new accounting manual effective for financial entities (hereinafter the Accounting Manual) were prepared in accordance with Generally Accepted Accounting Principles in Peru (hereinafter Peru GAAP) for financial entities (Note 2(a)), have been approved for issue by the management of COFIDE. These statements will be submitted to the board of directors for approval. The management of COFIDE considers that the financial statements included in this report will be approved by the board without change. The financial statements for the year ending on the December 31, 2013 were approved by the obligatory annual general meeting of shareholders held on the March 31, 2014.

(c) *Explanation added for translation into the English language of the original financial statements issued in Spanish*

These financial statements were translated into English by COFIDE for convenience of the English-speaking readers and have been derived from the financial statements originally issued in Spanish. In the event of a discrepancy, the Spanish language version prevails

## **2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS**

(a) *Application of the amendments to the Accounting Manual for Financial Entities*

Through Superintendencia de Banca, Seguros y Administradora de Fondos de Pensiones (hereinafter SBS for its acronym in Spanish) Resolution No. 7036-2012, dated September 19, 2012, the SBS modified the Accounting Manual for Financial Entities (hereinafter “the Accounting Manual”). Such amendments were effective January 2013. Main respects amended are as follows:

- Incorporation of the Conceptual Framework of IFRS, in the preparation of financial statements, including definitions of Materiality and Relative Importance.
- Accrual of Income in the periods of loan agreements, including indirect loan commissions.
- Incorporation of the “Statement of Comprehensive Income” which includes: i) the Statement of Income and, ii) Statement of Income and Other Comprehensive Income, instead of the Statement of Profit or Loss.
- Separation of financial income and expenses in the statement of income, of the other income or expenses from treasury operations.

Pursuant Resolution No. 7036-2012, changes due to the implementation of the Accounting Manual are presented retrospectively to the extent applicable and adjustments were charged to retained earnings as of January 1, 2013.

As part of the IFRS harmonization process, the SBS, by means of Multiple Official Letter No. 45311-2012, dated November 30, 2012, and pursuant to SBS Resolution No. 7036-2012, requested that financial entities present an implementation plan informing the schedule of activities to adapt the accounting and information system according to dispositions of said Resolution. In compliance with requirements of the Official Letter, COFIDE presented the Implementation Plan to the SBS on December 28, 2012.

Management of COFIDE believes that the application of amendments to the Accounting Manual shall not materially affect its financial statements as from 2013, onwards.

(b) *Statement of Compliance*

The financial statements are prepared and presented in accordance with accounting standards and practices authorized by the SBS by virtue of the authority conferred to it by the General Law and applicable to financial entities in Peru.

The SBS has established that in the event of circumstances not foreseen under such standards, Peru GAAP shall be applicable.

Peru GAAP are composed of: the standards and interpretations issued or adopted by the International Accounting Standards Board (hereinafter, IASB) which includes International Financial Reporting Standards (hereinafter, IFRS), International Accounting Standards (hereinafter, IAS), and the Interpretations issued by the International Financial Reporting Interpretations Committee (hereinafter, IFRIC) or by the former Standing Interpretation Committee (hereinafter, SIC) adopted by IASB, after endorsement by the Consejo Normativo de Contabilidad, the Peruvian Accounting Board, (hereinafter, CNC, for its Spanish acronym) for their application in Peru.

**(c) *Basis of measurement***

The financial statements have been prepared on the historical cost basis, except for available for sale investments and other financial instruments measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

**(d) *Functional and presentation currency***

COFIDE prepares and presents its financial statements in thousands of Peruvian nuevos soles (S/.000), which is the functional currency as determined in the Accounting Manual for financial entities.

**(e) *Responsibility for information and significant estimates***

Management of COFIDE and the Board of Directors are responsible for the information contained in these financial statements. Certain estimates made 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.

The critical estimates related with the preparation of Corporation's financial statements refer to:

- Provision for direct and indirect impaired loans.
- Fair value of derivative financial instruments.
- Current and deferred income tax.
- Other assets and contingent loans.
- Provision for accounts receivable impairment.
- Useful life assigned to property, furniture and equipment.
- Useful life assigned to intangible assets.
- Fair values, classification and investment risks.
- Assesments of contingent liabilities.

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

### **3. SIGNIFICANT ACCOUNTING POLICIES**

The accounting principles and practices as of March 31, 2014 remain unchanged with respect to those in the audited report issued on March 13, 2014 by Beltrán, Gris y Asociados S. Civil de R.L., representatives of Deloitte, for the years ended December 31, 2013 and 2012.

**(a) *Reclassification in the presentation***

As of December 31, 2013, COFIDE submitted a RCDRC provision, deducting the balance of provisions available for sale, as if they were provisions for impairment of the investment portfolio. Taking into consideration that this provision for RCDRC derives from internal evaluations carried out by COFIDE of exposure to Exchange Rate Risk Derived Credit Risk applicable to the investor; COFIDE complies with the provisions of the SBS by recording these provisions as “Other Provisions”, under liabilities in the statement of financial position.

As a consequence of the above, in the first quarter of 2014 COFIDE recorded a reclassification “Provision for Impairment of Investments” (assets) as “Other Provisions” (liabilities) valued (in thousands) S/.3,984. This reclassification is also included in the statement of financial position for fiscal year 2013 for comparative purposes.

**(b) *Main SBS publications***

<b>SBS Resolution N°</b>	<b>Description of standard</b>	<b>Publication date</b>
6826-2013	Amendment to “Regulation for requirement of regulatory capital for credit risk” in order to precise that exposures not classified with the financial system companies (qualification of financial strength) corresponding to Risk I, shall include ratings from A+ to A, therefore corresponding a weighted factor of 20% to such exposures.	November 2013
4829-2013	Accounting Manual for Financial Entities is modified, incorporating sub off-balance sheet accounts 8109.32 “Blocked unutilized credit lines”, 8109.32 “Total credit lines under multiline scheme”, among others.	June 2014
4603-2013	Amendment to “Regulation for requirement of regulatory capital for credit risk” regarding exposures with derivatives and counterparty risk.	July 2013
1309-2013	Amendments to Regulation for Requirement of Cash Equity for Credit Risk regarding exposures with a delay over 90 days.	February / September 2013

**4. CASH**

	<b>March 31, 2014 S/.000</b>	<b>December 31, 2013 S/.000</b>
Banco Central de Reserva del Perú - BCRP	140,062	41,820
Checking accounts	89,103	202,382
Accrued interest from cash	204	471
Other deposits	63	61
Total	<u>229,432</u>	<u>244,734</u>

As of March 31, 2014, balance include (in thousands) US\$13,109 and S/.2,669 (in thousands), US\$3,258 and S/.32,714 as of December 31, 2013) corresponding to required reserve in foreign and local currency, respectively, which financial entities maintain for deposits and obligations to third parties. These funds are deposited in the BCRP.

Required reserves representing legal minimum do not generate interests. Required reserve funds of the additional required reserve are paid interest at a rate established by the BCRP. According to current legal dispositions, required reserve funds cannot be seized.

As of March 31, 2014, cash included (in thousands) US\$23,000 and S/.36, for overnight deposits held in the BCRP that accrued interests at 0.10% in foreign currency and 2.80% in domestic currency. As of December 31, 2013, COFIDE had no outstanding balances for overnight deposits as they had been paid in full before that date; nevertheless, these accrued interest amounting to (in thousands) S/.309, which are included under “Interest income from cash” of the statement of income.

## 5. AVAILABLE FOR-SALE INVESTMENTS

	<b>March 31, 2014</b>	<b>December 31, 2013</b>
	<b>S/.000</b>	<b>S/.000</b>
CAF shares	2,339,156	2,339,156
Investment funds	34,534	34,200
Shares	2,114	2,233
	<u>2,375,804</u>	<u>2,375,589</u>
Equity instruments		
Structured bonds	444,954	462,304
Corporate bonds	254,558	109,614
Securitization bonds	59,807	60,826
Structured bonds	57,067	-
Sovereign bonds / repos	40,614	48,272
Sovereign bonds	14,911	6,521
Commercial papers	5,609	5,167
Subordinated bonds	2,294	10,269
Financial lease bonds	-	140
	<u>879,814</u>	<u>703,113</u>
Accrued interest	<u>15,506</u>	<u>19,439</u>
Debt instruments	<u>895,320</u>	<u>722,552</u>
Total	<u><u>3,271,124</u></u>	<u><u>3,098,141</u></u>

Investment in CAF was a contribution of the Peruvian Government between 1989 and 2000, as class “B” shares of the CAF. Class “B” shares have a nominal value of US\$5,000 each and entitle the owner to designate a representative in the Board of Directors. As of March 31, 2014 and December 31, 2013, COFIDE holds 97,951 class “B” shares representing 12.43% and 12.64% equity share in CAF, respectively

Within the frame of IFRS harmonization and considering that CAF shares do not pay dividends in cash, do not have an active public market, that is not likely to determine a fair value estimated of the investment and considering SBS Official Letter No. 45853-2012, as from January 1, 2013, COFIDE decided to record this investment under “Available for sale investments” considering the cost value as the equivalent book value held as of December 31, 2012.

Interest income of available for sale investments is recorded under “Interest income of available for sale investments” of the statement of income”.

As of March 31, 2014, sovereign bonds / repos comprise Bonds of the Peruvian Government granted in guarantee of short-term financings received from Trusts managed by COFIDE (Note 10).

Details of these investments are presented below:

Type of instrument	Maturities	Interest rate (coupon)		Fair Value		Unrealised results	
		March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013
		%	%	S/. 000	S/. 000	S/. 000	S/. 000
<b>Domestic currency:</b>							
Structured bonds	Between Jan. 2033 and June 2037	Between 5.97 - 8.58	Between 5.97 - 8.58	344,442	336,117	23,106	9,764
Securitization bonds	Between June 2014 and December 2016	8.50	8.50	42,965	42,095	653	636
Corporate bonds	Between December 2014 and September 2025	Between 6.625 - 6.8437	Between 6.625 - 6.8437	32,948	32,570	12,966	12,613
Commercial papers	January 2015	6.60	6.60	5,609	5,167	(93)	(109)
Subordinated bonds	October 2022	7.17	7.17	2,378	2,332	(268)	(268)
Investment bonds	No contractual maturity	-	-	24,720	24,364	4,012	3,657
				<b>453,062</b>	<b>442,645</b>	<b>40,376</b>	<b>26,293</b>
<b>Investments at cost</b>							
CAF shares	-	-	-	2,339,156	2,339,156	-	-
				<b>2,792,218</b>	<b>2,781,801</b>	<b>40,376</b>	<b>26,293</b>
<b>Foreign currency:</b>							
Corporate bonds	Between January 2015 and January 2021	Between 7.75 - 9.875	Between 8.350 - 9.875	224,720	79,677	9,134	2,728
Structured bonds	Between December 2033 and April 2037	Between 7.650 - 8.125	Between 7.650 - 8.125	107,947	139,748	5,346	(5,587)
Sovereign bonds / repos	April 2037	8.13%	-	58,165	-	(25)	-
Sovereign bonds / repos	Between Oct. 2014 and Dec. 2015	Between 7.50 - 8.00	-	41,530	49,160	614	2,108
Securitization bonds	February 2021	7.34%	7.34%	19,319	20,736	728	542
Subordinated bonds	Between Oct. 2014 and Dec. 2015	Between 7.50-8.00	Between 7.50-8.00	15,296	6,770	2,418	381
Investment funds	No contractual maturity	-	-	9,815	9,836	(8,783)	(8,614)
Bladex shares	No contractual maturity	-	-	2,114	2,233	1,364	1,486
Sovereign bonds	-	-	L6m+1.15625	-	8,036	-	(372)
Financial lease bonds	-	-	5.95	-	144	-	-
				<b>478,906</b>	<b>316,340</b>	<b>10,796</b>	<b>(7,328)</b>
<b>Total</b>				<b>3,271,124</b>	<b>3,098,141</b>	<b>51,172</b>	<b>18,965</b>

## 6. LOAN PORTFOLIO, NET

	<b>March 31, 2014</b>	<b>December 31, 2013</b>
	<b>S/.000</b>	<b>S/.000</b>
<b><u>Direct loans:</u></b>		
Loans to intermediary financial institutions	5,100,753	5,160,013
First-tier loans	16,311	15,605
Restructured loans	12,441	12,384
Refinanced loans	7,024	7,361
Loans Past-due and accounts under legal collection	1,570	1,599
	<hr/>	<hr/>
Sub total	5,138,099	5,196,962
Plus:		
Accrued interest of loans	65,726	51,942
Less:		
Provision for loan losses	(606,982)	(599,097)
Deferred interests	(3,634)	(3,796)
	<hr/>	<hr/>
	(610,616)	(602,893)
	<hr/>	<hr/>
Total	4,593,209	4,646,011
	<hr/>	<hr/>
<b>Contingent loans (Note 13)</b>	<b>559,686</b>	<b>536,684</b>
	<hr/>	<hr/>

The balance of the loan portfolio, comprised of direct and contingent loans, mainly corresponds to loans in foreign currency granted to Intermediary Financial Institutions (IFIs) and first-tier portfolio.

Loans granted to IFIs are guaranteed through contractual clauses comprised in global contracts of resources channeling subscribed with each debtor, where COFIDE is entitled to: i) the automatic collection of debt installments through a charge in the checking account that the debtor holds in BCRP and/or operating Bank he designates and ii), by transferring rights over loan portfolio financed with Corporation's resources up to the debt amount, including interests, commissions, arrears and other expenses. This transfer becomes effective if the IFIs fail to comply with the payment of one installment or when COFIDE believes there are special circumstances that complicate the recovery of resources granted. For other IFIs, coverage is similar, except if designated to an operator bank other than the BCRP.

The classification of loans and contingents (net of deferred interests) per risk category conducted by the Management of COFIDE, following the current regulations issued by the SBS, is summarized as follows:

	Number of debtors		Total portfolio	
	March	December	March	December
	31, 2014	31, 2013	31, 2014	31, 2013
	S/.000	S/.000	S/.000	S/.000
Normal	139	137	5,280,355	5,310,748
With potential problems	16	15	351,429	339,432
Substandard	8	11	59,577	76,871
Doubtful	5	6	539	555
Loss	5	5	2,251	2,244
<b>Total</b>	<b>173</b>	<b>174</b>	<b>5,694,151</b>	<b>5,729,850</b>

Placement portfolio per type of IFI is classified as follows:

	March 31, 2014		December 31, 2013	
	S/.000	%	S/.000	%
Banks	4,012,430	78.1	3,968,536	76.4
Financial entities	696,880	13.6	737,034	14.2
Municipal saving institutions	246,693	4.8	290,982	5.6
Micro and small enterprise development entities	58,481	1.1	59,459	1.1
Rural saving institutions	24,212	0.5	37,622	0.7
Leasing Companies	36,562	0.7	37,273	0.7
Factoring	3,369	0.1	3,074	0.1
Cooperatives	25,495	0.5	29,107	0.6
	<b>5,104,122</b>	<b>99.4</b>	<b>5,163,087</b>	<b>99.4</b>
<b>First tier portfolio:</b>				
Financial lease and promissory notes	22,275	0.4	22,545	0.4
Other loans (i)	11,702	0.2	11,330	0.2
	<b>33,977</b>	<b>0.6</b>	<b>33,875</b>	<b>0.6</b>
<b>Total portfolio</b>	<b>5,138,099</b>	<b>100.0</b>	<b>5,196,962</b>	<b>100.0</b>
Accrued interest of loans	65,726		51,942	
<b>Total general</b>	<b>5,203,825</b>		<b>5,248,904</b>	

(i) They correspond to consumption and mortgage loans granted to employees and former employees.

Interest rates and guarantees:

COFIDE freely establishes the interest rates for lending operations based on the cost of funds, type of client, market, period and currency of the loans granted.

Average effective annual rates for the main products were as follows:

	March 31, 2014		December 31, 2013	
	Placements in		Placements in	
	S/.	US\$	S/.	US\$
	%	%	%	%
Short-term working capital	7.59	4.73	7.59	4.11
COFIDE own resources	8.96	5.58	7.78	5.49
Medium-term working capital	9.35	6.80	9.23	6.60
Probid II	-	Libor + 4.40	-	Libor + 4.27
Structured financial products	10.60	10.15	10.60	10.15



Changes in provision for loans and contingent loans was as follows:

	<u>Direct</u> <u>S/.000</u>	<u>Contingent</u> <u>S/.000</u>	<u>Total</u> <u>S/.000</u>
Balances as of January 1, 2013	600,625	28,203	628,828
Provision for the year	66,471	14,296	80,767
Reversals	(80,827)	(33)	(80,860)
Exchange difference	12,828	2,528	15,356
Balances as of December 31, 2013	599,097	44,994	644,091
Provisions recognized as period expenses	18,459	4,772	23,231
Reversals	(11,358)	(13)	(11,371)
Exchange difference	784	149	933
Balances as of March 31, 2014	<u>606,982</u>	<u>49,902</u>	<u>656,884</u>

Balance of the provision for loans and contingent loans is as follows:

	<u>March 31, 2014</u>			<u>December 31, 2013</u>		
	<u>Direct</u> <u>S/.000</u>	<u>Contingent</u> <u>S/.000</u>	<u>Total</u> <u>S/.000</u>	<u>Direct</u> <u>S/.000</u>	<u>Contingent</u> <u>S/.000</u>	<u>Total</u> <u>S/.000</u>
Specific provision	78,302	-	78,302	81,726	-	81,726
Generic provision	74,605	6,494	81,099	77,774	6,239	84,013
Voluntary generic provision	454,075	43,408	497,483	439,597	38,755	478,352
Total	<u>606,982</u>	<u>49,902</u>	<u>656,884</u>	<u>599,097</u>	<u>44,994</u>	<u>644,091</u>

As of March 31, 2014 and December 31, 2013, COFIDE has recorded the total mandatory contribution required by the SBS for general provisions.

As of March 31, 2014 and December 31, 2013, pro-cyclical provision rises up to (in thousands) S/.21,113 and S/.21,230 respectively. Additionally, for the same periods, general provisions were constituted for (in thousands) S/.13,540 and S/.31,899, respectively. Voluntary general provisions as of March 31, 2014 and December 31, 2013 rise to (in thousands) S/.497,483 and S/.478,352, respectively.

Management considers that the provision for uncollectible loans is maintained at adequate levels to cover estimated potential losses at the statement of financial position date.

As of March 31, 2014 and December 31, 2013, credit portfolio 99% concentration in operations with IFIs.

Loans portfolio is distributed as follows:

Economic sector	March 31, 2014		December 31, 2013	
	S/. 000	%	S/. 000	%
Commercial loans and micro-businesses:				
Financial intermediation (IFIs)	5,100,753	99.27	5,160,013	99.29
Hotels and restaurants	21,041	0.41	21,243	0.41
Mortgage loans	9,129	0.18	8,796	0.17
Other activities of community services	3,369	0.07	3,075	0.06
Consumer loans	1,424	0.03	1,391	0.03
Manufacturing industry	1,203	0.02	1,197	0.02
Transportation, storage and communications	935	0.02	931	0.02
Real estate, business and renting activities	142	0.00	169	0.00
Agriculture, farming, hunting and forestry	103	0.00	147	0.00
Total	<u>5,138,099</u>	<u>100.00</u>	<u>5,196,962</u>	<u>100.00</u>

Loans portfolio has the following maturities:

	March 31, 2014		December 31, 2013	
	S/.000	%	S/.000	%
Up to one year	1,657,771	32.3	1,399,479	26.9
Over 1 year and less than 2 years	596,397	11.6	912,329	17.6
Over 2 years and less than 3 years	331,276	6.4	466,434	9.0
Over 3 years and less than 4 years	333,500	6.5	261,833	5.0
Over 4 years and less than 5 years	297,345	5.8	268,980	5.2
Over 5 years	<u>1,920,240</u>	<u>37.4</u>	<u>1,886,308</u>	<u>36.3</u>
Sub total	5,136,529	100.0	5,195,363	100.0
Loans Past due and under legal collection	<u>1,570</u>	<u>0.0</u>	<u>1,599</u>	<u>0.0</u>
Total loan portfolio	<u>5,138,099</u>	<u>100.0</u>	<u>5,196,962</u>	<u>100.0</u>

First- tier loans portfolio (assigned)

By applying the global contracts for funds processing maintained with the IFIs, from 1998 to 2002 COFIDE has entered into supplementary agreements with certain IFIs, being part of them liquidated or intervened by the SBS. By virtue of such right assignment agreement, the referred IFIs granted their rights to COFIDE as well as their contractual position on different loans and financial lease agreements selected by COFIDE, in payment for the obligations owed to COFIDE.

Annual evolution of this portfolio in the two last years has been as follows:

	Latino Leasing US\$000	Banco Nuevo Mundo US\$000	NBK Bank US\$000	Banco Banex US\$000	Consolidated operations US\$000	Total US\$000
Balances as of January 1, 2013	4,944	2,851	558	39	1,554	9,946
Reversals and others	(1,064)	(93)	(143)	(39)	(78)	(1,417)
Non-accrued interests	(463)	-	-	-	-	(463)
Balances as of December 31, 2013	3,417	2,758	415	-	1,476	8,066
Equivalent in nuevos soles as of December 31, 2013	9,551	7,709	1,160	-	4,125	22,545
Reversals and others	(107)	(10)	(16)	-	-	(133)
Balances as of March 31, 2014	3,310	2,748	399	-	1,476	7,933
Equivalent in nuevos soles as of March 31, 2014	9,294	7,716	1,120	-	4,145	22,275

## 7. PROPERTY, FURNITURE AND EQUIPMENT, NET

For the three-months periods ended March 31, 2014 and 2013, the change of cost and accumulated depreciation of property, furniture and equipment is as follows:

	Initial balance S/.	Additions S/.	Final balance S/.	Rates of depreciation %
<b><u>Cost:</u></b>				
Lands	469	-	469	
Buildings and facilities	22,498	-	22,498	
Furniture and fixtures	2,669	27	2,696	
Transportation units	208	-	208	
Sundry equipment	16,824	30	16,854	
Total	42,668	57	42,725	
<b><u>Accum. Depreciation:</u></b>				
Buildings and facilities	15,729	159	15,888	3 and 10
Furniture and fixtures	2,259	26	2,285	10
Transportation units	191	6	197	20
Sundry equipment	10,760	367	11,127	10 and 25
Total	28,939	558	29,497	
Net	13,729		13,228	

Management periodically reviews the projections of expected results for the remaining useful life of the fixed asset. In management opinion, recoverable values of property, furniture and equipment as of March 31, 2014 and December 31, 2013, are higher than their carrying values; therefore, it considers that no impairment loss provision is required for such assets

COFIDE has formalized insurance policies to cover loss risks to which several elements of property, furniture and equipment.

For the three-months periods ended March 31, 2014 and 2013, totally depreciated property, furniture and equipment still in use, rises to (in thousands) S/.8,532 and S/.8,614, respectively.

**8. HEDGING DERIVATIVES, ACCOUNTS RECEIVABLE, INTANGIBLE ASSETS NET AND OTHER ASSETS**

	<b>March 31, 2014</b>	<b>December 31, 2013</b>
	<b>S/.000</b>	<b>S/.000</b>
Fair value - Hedging derivatives - currency swaps	4,675	3,765
Fair value - Hedging derivatives - Rates swap	-	-
Fair value - Hedging derivatives - Forward	-	132
	<u>4,675</u>	<u>3,897</u>
Hedging derivative	<u>4,675</u>	<u>3,897</u>
Restricted funds / Funds in guarantee-Margin Call (a)	-	11,376
Accounts receivable for assigned loan portfolio	2,958	2,929
Sundry accounts receivable	3,277	2,660
Commissions receivable	1,819	2,091
Provision for accounts receivable an others (b)	(5,477)	(5,111)
	<u>2,577</u>	<u>13,945</u>
Accounts receivable, net	<u>2,577</u>	<u>13,945</u>
Software	11,849	11,700
Software accumulated amortization	(6,340)	(6,311)
	<u>5,509</u>	<u>5,389</u>
Intangible assets, net (c)	<u>5,509</u>	<u>5,389</u>
Commissions and other paid in advance	3,076	3,857
Works of art, library and others	757	753
Other assets sundry	2,130	1,033
	<u>5,963</u>	<u>5,643</u>
Other assets	<u>5,963</u>	<u>5,643</u>
Total	<u><u>18,724</u></u>	<u><u>28,874</u></u>

(a) As of March 31, 2014, deposits in guarantee have been made for (in thousands) US\$ 4,070 in favor of J. Aron & Company (Goldman Sachs) (US\$4,070 as of December 31, 2013) for "Margin Call" agreed at the inception of interest rates and currency derivatives instruments that COFIDE holds with such Institution.

(b) Balance of the provision of accounts receivable is as follows:

	<b>March 31, 2014</b>	<b>December 31, 2013</b>
	<b>S/.000</b>	<b>S/.000</b>
Specific provision	2,299	2,275
Voluntary generic provision	3,178	2,836
	<u>5,477</u>	<u>5,111</u>
	<u><u>5,477</u></u>	<u><u>5,111</u></u>

The following changes took place in the provision for uncollectable accounts receivable:

	<b>March 31, 2014</b>	<b>December 31, 2013</b>
	<b>S/.000</b>	<b>S/.000</b>
Opening balances	5,111	5,330
Provision for the year	350	1,833
Recoveries	-	(1,234)
Exchange difference	16	(818)
	<u>5,477</u>	<u>5,111</u>
Closing balance	<u>5,477</u>	<u>5,111</u>

- (c) Software mainly comprises licenses of SAP system. As of March 31, 2014, COFIDE recorded an amortization expense for (in thousands) S/ .29 (S/ .63 as of December 31, 2013), presented under “Depreciation and amortization” of the statement of income.

## 9. OBLIGATIONS WITH THE PUBLIC AND DEPOSITS BY BANKS AND FINANCIAL ORGANIZATIONS

	<b>March 31, 2014</b>	<b>December 31, 2013</b>
	<b>S/.000</b>	<b>S/.000</b>
Time deposits	144,000	186,800
Deposits in guarantee	21,787	22,942
Reporting operations	94,320	48,849
	<u>260,107</u>	<u>258,591</u>
Interests accrued	4,064	1,932
	<u>264,171</u>	<u>260,523</u>
Severance indemnities	770	337
	<u>264,941</u>	<u>260,860</u>
Total	<u>264,941</u>	<u>260,860</u>

As of March 31, 2014 time deposits mainly comprise local currency deposits made by Banco de Crédito, with accrued interests at annual market rates that fluctuated between 5.68% and 7.50% and are overdue between January and December 2014.

As of March 31, 2014, deposits in guarantee mainly comprise with holdings over disbursements pledged in favor of COFIDE, as support to credit operations for (in thousands) S/ .18,321 and US\$1,234 (in thousands S/ .19,492 and US\$1,234 as of December 31, 2013).

Deposits in guarantee accrue interests at annual market rates of 2.80% (local currency) and 0.0987% (foreign currency) with maturity between September 2014.

As of March 31, 2014, reporting operations comprise local currency monies from different Trusts managed by COFIDE, which accrued interests at an annual rate ranging between 4.12% and 4.61% in soles and 0.42% in dollars; and guaranteed with bonds from the Peruvian Government, maturing between April and May 2014.

Obligations to the Public and deposits from financial system entities have the following maturities:

	<b>March 31, 2014</b>	<b>December 31, 2013</b>
	<u>S/.000</u>	<u>S/.000</u>
Up to one month	102,202	65,249
Over 1 month and up to 3 months	35,692	26,400
Over 3 months and up to 6 months	54,000	43,337
Over 6 months and up to 12 months	68,983	123,942
	<u>260,877</u>	<u>258,928</u>
Total	<u><u>260,877</u></u>	<u><u>258,928</u></u>

#### **10. DEBT SECURITIES**

	<b>March 31, 2014</b>	<b>December 31, 2013</b>
	<u>S/.000</u>	<u>S/.000</u>
Debts with financial entities (a)	3,174,313	3,107,689
Financial obligations (b)	2,066,485	2,087,989
	<u>5,240,798</u>	<u>5,195,678</u>
Total	<u><u>5,240,798</u></u>	<u><u>5,195,678</u></u>

(a) debts with financial entities are as follows:

Name of creditor	Rate	March 31, 2014	December 31, 2013	Maturity
	%	S/.000	S/.000	
Bank of Tokyo - Mitsubishi / Syndicated	Libor (3M) + 1.725%	561,600	559,000	September 2016
Bank of Tokyo - Mitsubishi / Bilateral	Libor (3M) + 0.70%	280,800	279,500	February 2017
Scotiabank Perú	de 4.45% a 5.60%	511,500	517,100	October 2014
Banco de la Nación del Perú	de 1.40% a 5.80%	344,716	310,963	October 2014
HSBC Bank USA, N.A., American Family Life Assurance of Columbus	Libor (3M) + 0.70%	280,800	279,500	December 2016
Japan Branch - AFLAC	3.75%	244,809	239,346	September 2031
Banco Interamericano de Desarrollo - BID	Libor (6M) + 0.61%	179,082	196,078	May 2015
Banco Interamericano de Desarrollo - BID	2.58%	36,376	38,114	May 2015
Banco Interamericano de Desarrollo - BID	2.00%	36,626	36,457	May 2015
Banco Interamericano de Desarrollo - BID	Libor (6M) + 0.61%	3,012	2,998	May 2015
Japan Bank For International Cooperation - JBIC	de 1.5% a 2.3%	174,188	187,331	February 2019
Banco Internacional del Perú - INTERBANK	de 5.20% a 8.52%	112,358	127,999	April 2014
Corporación Andina de Fomento - CAF	Libor (6M) + 2.8%	112,320	83,850	October 2016
Japan International Cooperation Agency- JICA	de 0.01% a 0.61%	123,967	73,026	October 2027
Citibank, Sucursal en el Perú	1.20%	28,080	61,490	April 2014
Nordic Investment Bank	Libor (6M) + 0.85%	17,550	20,963	September 2014
Kreditanstalt Fur Wiederaufbau - Fase II	2.00%	19,778	19,725	June 2034
Kreditanstalt Fur Wiederaufbau - Fase I	2.00%	15,822	15,780	December 2029
China Development Bank	Libor (6M) + 3.25%	11,232	11,180	October 2014
The Opec Fund For International Cooperation	5.00%	1,872	1,864	October 2015
Corporación de Fomento a la Produccion - CORFO	4.25%	825	821	June 2015
Citibank, N.A.	1.218%	42,120	-	April 2014
		3,139,433	3,063,085	
CAF issuance of shares - financial liability		23,203	23,095	
Related expenses		(5,980)	(5,351)	
Sub total		3,156,656	3,080,829	
Interests		17,657	26,860	
Total		3,174,313	3,107,689	

Debts and financial obligations (without considering interests) have the following maturities:

	March 31, 2014	December 31, 2013
	S/.000	S/.000
Up to one month	324,015	169,608
Over 1 month and up to 3 months	218,789	485,388
Over 3 months and up to 6 months	226,176	239,276
Over 6 months and up to 12 months	375,453	204,836
Over 12 months	2,012,223	1,981,721
Total	3,156,656	3,080,829

Most of loans from multilateral organizations and government agencies have been granted by Republic of Peru, or guaranteed by Government. The other loans from the local or foreign commercial banks have no specific guarantees except for those loans to finance foreign exchange operations, which have a supporting credit portfolio.

As of March 31, 2014 and December 31, 2013, loans in yens, euros and some in US dollars are associated to swap contracts with the purpose of reducing exchange rate and interest risks.

As of March 31, 2014 and December 31, 2013, COFIDE complied with certain installments, commitments to financial ratios and other specific requirements of loan agreements entered into with certain financial institutions abroad and International Financial Organizations.

For liabilities contracted in yens with JBIC, AFLAC and JICA, Swap hedging operations have been made in order to mitigate the currency risk in relation to the U.S. dollar, maturing in February 2019, September 2031 and October 2027, respectively. As of March 31, 2014, COFIDE has recorded losses for hedging operations, net, for (in thousands) S/.8,890 (loss of S/.43,885 as of December 31, 2013), presented in "Loss for hedging operations" in financial income and financial expenses, of the statement of income.

(b) Financial obligations are as follows:

Series	Issuance		Maturity date	Interest rate	March	December
	Date	Amount			31, 2014	31, 2013
		S/000			S/000	S/000
<b>(a) In local currency (bonds):</b>						
<b>Second programme</b>						
Eighth-Series A	01/06/2007	20,000	15/07/2017	5.90%	14,000	15,000
Eighth-Series B	02/04/2008	10,000	02/04/2018	6.65%	8,500	9,000
Twelfth-Series A	16/01/2009	7,065	15/01/2015	7.94%	1,187	1,481
					<u>23,687</u>	<u>25,481</u>
<b>Third program</b>						
First-Series A	24/01/2011	50,000	24/01/2016	6.25%	50,000	50,000
Third-Series A	30/06/2011	50,000	30/06/2014	6.70%	50,000	50,000
Fourth-Series A	21/07/2011	45,065	21/07/2015	7.00%	45,065	45,065
Fifth-Series A	28/10/2011	30,000	28/10/2014	5.60%	30,000	30,000
Ninth-Series A	27/04/2012	150,000	27/04/2027	6.65%	150,000	150,000
Tenth-Series A	28/06/2012	50,000	28/06/2027	6.20%	50,000	50,000
Tenth-Series A	28/06/2012	50,000	28/06/2027	6.20%	50,000	50,000
Eleventh-Series A	30/10/2012	90,000	30/10/2042	5.630%	90,000	90,000
					<u>515,065</u>	<u>515,065</u>
<b>Fourth program</b>						
Second-Series A	30/04/2013	100,000	30/04/2043	5.35%	100,000	100,000
					<u>100,000</u>	<u>100,000</u>
Total nominal value					638,752	640,546
Accrued interest					8,205	17,703
<b>Total domestic currency</b>					<u>646,957</u>	<u>658,249</u>
<b>(b) In foreign currency (bonds)</b>						
First international issuance	08/02/2012	400,000	08/02/2022	4.75%	1,123,200	1,118,000
First international issuance re-opening	03/12/2012	100,000	08/02/2022	4.75%	280,800	279,500
Total in foreign currency					1,404,000	1,397,500
Net price difference					5,895	6,056
Accrued interest					9,633	26,184
<b>Total foreign currency</b>					<u>1,419,528</u>	<u>1,429,740</u>
<b>Total</b>					<u>2,066,485</u>	<u>2,087,989</u>

**(b.1) Bonds in Peruvian currency do not have specific guarantees.**

### ***Second Program - Bonds***

The proceeds were used primarily to finance new business own business intermediation through the Peruvian financial system and to optimize the financial result by financing investments in marketable capital market. These bonds are guaranteed by the equity of COFIDE and have been entered in the register of CAVALI ICLV S.A., They are represented by annotations in account and are freely negotiable.



### ***Third Program - Bonds***

This program has been approved for up to (in thousands) US\$200,000 or its equivalent in Peruvian nuevos soles, or any foreign currency. Corporate bonds have the maximum local risk rating granted by Apoyo & Asociados Internacionales S.A.C. Clasificadora de Riesgo and by Equilibrium Clasificadora de Riesgo S.A., AAA (pe) and AAA, respectively.

### ***Fourth program – Bonds***

This program has been approved for up to (in thousands) US\$400,000, or its equivalent in Peruvian nuevos soles, or any foreign currency. Corporate bonds have maximum local risk rating granted by Apoyo & Asociados Internacionales S.A.C. Clasificadora de Riesgo and by Equilibrium Clasificadora de Riesgo S.A. (Risk Ranking Agencies), AAA (pe) and AAA.pe, respectively.

(b.2) First bonds issuance in international market (Senior unsecured notes – Due 2022)

In a General Shareholders' Meeting held on March 14, 2011, the issuance of bonds in the international market for up to (in thousands) US\$500,000 was approved. This issuance was made effective through the placement of 'Senior Unsecured Notes' for (in thousands) US\$400,000, with closing date on February 8, 2012; accrue interests with an annual coupon rate of 4.75% paid biannually, with a principal maturity of 10 years. This issuance has international rating granted by Standard & Poor's and Fitch Rating of 'BBB'.

With closing date as of December 3, 2012, the reopening of such international bonus was made for (in thousands) US\$100,000, also with a principal maturity of 10 years and the international rating of 'BBB' granted by Standard & Poor's and Fitch.

## **11. HEDGING DERIVATIVES, ACCOUNTS PAYABLE, PROVISIONS AND OTHER LIABILITIES**

	<b>March 31, 2014</b>	<b>December 31, 2013</b>
	<b>S/.000</b>	<b>S/.000</b>
Fair value - Hedging derivatives - currency swaps	72,620	71,967
Fair value - Hedging derivatives - Rates swaps	2,315	2,846
Hedging derivatives (a)	<u>74,935</u>	<u>74,813</u>
Dividends payable	58,538	-
Taxes payable	1,877	652
Sundry accounts payable	<u>3,707</u>	<u>6,465</u>
Accounts payable	<u>64,122</u>	<u>7,117</u>
Provision for lawsuits and claims (b)	<u>7,886</u>	<u>7,229</u>
Operations in process	5,448	4,933
Deferred sales	<u>91</u>	<u>102</u>
Other liabilities	<u>5,539</u>	<u>5,035</u>
Total	<u><u>152,482</u></u>	<u><u>94,194</u></u>

(a) Accounts payable for hedging derivatives

COFIDE has currency and interest rate swaps. Risk arises from the possibility that the counterparty fails to comply with agreed terms and from exchange rate fluctuations.

Accounts receivable and payable from operations with derivative financial instruments of the statement of financial position mainly comprise amounts generated by fluctuations arising from valuations of derivative financial instruments of exchange and interest rate.

Operations in derivative financial instruments for cash flow hedging purposes as of March 31, 2014 and December 31, 2013 are as follows:

Description	N° Oper.	Nominal value	Exchange rate diff.		Accrued interest		Income / (Loss)			Fair value	
			Asset	Liability	Asset	Liability	Asset	Liability	Realised	Asset	Liability
			March 31, 2014								
Currency swaps - Yen coverage / US\$	16	542,518	23,283	102,756	516	1,769	(18,973)	(43,209)	-	4,827	61,316
Currency swaps - US\$ coverage / S/.	3	119,215	-	9,630	265	1,161	(265)	513	-	-	11,304
Currency swaps - Coverage	19	661,733	23,283	112,386	781	2,930	(19,238)	(42,696)	-	4,827	72,620
Forward - Coverage US\$ / S/.	0	-	-	-	-	-	-	-	-	-	-
Forward - Coverage US\$ / S/.	0	-	-	-	-	-	-	-	-	-	-
Total - Currency Swaps	19	661,733	23,283	112,386	781	2,930	(19,238)	(42,696)	-	4,827	72,620
Interest rate Swaps - Coverage	1	42,120	-	-	16	157	(16)	2,158	-	-	2,315
			23,283	112,386	797	3,087	(19,254)	(40,538)	-	4,827	74,935

  

Descripción	N° Oper.	Nominal value	Exchange rate diff.		Accrued interest		Income / (Loss)			Fair value	
			Asset	Liability	Asset	Liability	Asset	Liability	Realised	Asset	Liability
			December 31, 2013								
Currency swaps - Yen coverage / US\$	15	499,225	24,386	11,330	1,331	4,641	(21,952)	(59,482)	-	3,765	56,488
Currency swaps - US\$ coverage / S/.	4	129,678	-	11,000	193	2,360	(193)	2,119	-	-	15,479
Currency swaps - Coverage	19	628,903	24,386	22,330	1,524	7,001	(22,145)	(57,363)	-	3,765	71,967
Forward - Coverage US\$ / S/.	1	14,017	128	-	-	-	4	-	-	132	-
Forward - Coverage US\$ / S/.	1	14,017	128	-	-	-	4	-	-	132	-
Forward - Coverage US\$ / S/.	20	642,920	24,514	22,330	1,524	7,001	(22,141)	(57,363)	-	3,897	71,967
Total - Currency Swaps	2	46,118	-	-	70	558	(70)	2,287	-	-	2,846
Interest rate Swaps - Coverage			24,514	22,330	1,594	7,559	(22,211)	(55,076)	-	3,897	74,813

- (i) As of March 31, 2014 the net exchange position payable of currency swap coverage operations amounts to (in thousands) S/.72,620 (S/.97,944 as of December 31, 2013), offsetting the decrease in liability due to Yen's depreciation regarding the U.S. dollar.
  - (ii) As of March 31, 2014, the net position payable for interest rate swaps amounted to (in thousands) S/.2,315 (S/.2,846 as of December 31, 2013), which offsets variations in the borrowing rates.
  - (iii) As of March 31, 2014, for derivative financial instruments, there was a net unrealized profit (in thousands) S/.21,284 (S/.32,865 as of December 31, 2013). (note 12 (d)).
  - (iv) As of March 31, 2014, COFIDE mainly has currency swaps to offset the risk of a revaluation of Yens over loans received from JBIC, AFLAC and JICA, maturing in February 2019, September 2031 and October 2027, respectively. By means of currency swaps, COFIDE receives a fixed exchange rate in U.S. dollars and pays a variable exchange rate in that same currency, for the remaining amount COFIDE receives variable and pays fixed.
- (b) Provisions for litigation, claims and others.

As of March 31, 2014 and December 31, 2013, balance includes lawsuits against COFIDE are related to the activities it develops. In Management's opinion they will not generate significant liabilities, therefore, a provision greater than the one recorded for these contingencies is not necessary.

## 12. EQUITY

### (a) *Capital stock*

As of March 31, 2014 and December 31, 2013, COFIDE's share capitals is represented by 1,514,401,683 common shares and 15,639,765 preferred shares (1,504,500,863 common shares as of December 31 2012), of S/.1.00 face value each authorize, subscribed and fully paid. As of December 31, 2013 COFIDE holds 15,639,765 shares in treasury.

On April 2, 2013 COFIDE recorded simultaneously, the payment of dividends in cash for 2012 to FONAFE and its capital contribution in COFIDE, for (in thousands) S/.9,901 (Note 13 (d)), agreed in the General Shareholders' Meeting held on March 22, 2013.

The General Shareholders' Meeting held on June 26, 2013, agreed to:

- Re-purchase all class "B" common shares" that were owned by CAF, which shall remain in treasury (without being amortized) for up to a maximum period of 2 years (according to section 204 of Law No. 26887 – General Corporations Law) at a total value of (in thousands) S/.22,684, considering a value per share of S/.1.45039, in relation to the equity value of COFIDE as of December 31, 2011; according to the Share Subscription Agreement, entered into between COFIDE and CAF in 1997. As of December 31, 2012 the book value of the shares was (in thousands) S/.30,283, and generated income in 2013 of the re-purchase of shares of (in thousands) S/.7,599.
- Approve terms of the new "Preferred Class B Shares" to be issued by COFIDE and for which CAF shall pay (in thousands) S/.23,145, considering a value per share of S/.1.479863, in relation to the equity value of COFIDE as of December 31, 2012.
- Increase share capital of COFIDE by issuing 15,639,765 "Preferred Class B Shares" to be acquired by CAF at S/.1.00 face value each plus a capital premium of (in thousands) S/.7,505.

- Total amount (in thousands) S/.23,145 was settled by CAF by capitalizing the loan (derived from the re-purchase of "B" shares), for (in thousands) S/.22,684 and for a contribution of (in thousands) S/.461, according to the Capital Contribution Agreement entered into on December 3, 2013 between COFIDE and CAF.

Breakdown of share Capital is as follows:

Class of shares	Holder	March 31, 2014		December 31, 2013	
		N° shares	% shareholding	N° shares	% shareholding
Class "A"	MEF-FONAFE	1,044,441,413	68.26	1,044,441,413	68.26
Class "C"	MEF-FONAFE	454,320,505	29.69	454,320,505	29.69
		1,498,761,918	97.96	1,498,761,918	97.96
Class "B"	CAF	-	0.00	-	0.00
Class "B"	COFIDE (Treasury)	15,639,765	1.02	15,639,765	1.02
		1,514,401,683	98.98	1,514,401,683	98.98
Class "B Preferred"	CAF (*)	15,639,765	1.02	15,639,765	1.02
		1,530,041,448	100.00	1,530,041,448	100.00

Class 'B' shares belong to COFIDE and are in portfolio.

Class 'B preferred' shares belong to entities and companies different from the Peruvian State (unless they are re-purchased). They are preferred, redeemable or re-purchasable; shares with no voting right and annually accrue a preferred and accumulative dividend (Libor 360 days plus 4.5% over the placement value paid in dollars by CAF).

Class 'C' shares belong to the Peruvian State. They are freely tradable and can be listed in the stock exchange and/or any record necessary to be negotiated in the stock exchange, with previous approval of the Board of Directors.

- (\*) As of December 31, 2013, COFIDE presents the proportion of shares owned by CAP, "B preferred" shares, as part of this additional capital, considering that these are in process in public registries; nevertheless, they are fully subscribed and paid.

**(b) Additional paid in capital**

As of March 31, 2014 they constituted capital being registered at the public records office, deriving from a decision by a general meeting of shareholders of COFIDE held as of March 31, 2014, which approved a reinvestment of 15% of profit for 2013 to FONAFE, amounting to (in thousands) S/.10,205.

**(c) Legal reserves**

Pursuant to effective legal regulations, COFIDE shall allocate a reserve not under 35% of its paid-in capital. This legal reserve is allocated through the annual transfer of at least 10% of its net income.

In General Shareholders' Meeting held on March 31, 2014, was approved the transfer to legal reserve equivalent to 10% of net income from the year 2013 amounting of (in thousands) S/.7,638.

In General Stockholders' Meeting held on March 22, 2013, was approved the transfer to legal reserve equivalent to 10% of net income from the year 2012 amounting of (in thousands) S/.7,411.

***(d) Retained Earnings and adjustments to equity***

Law No. 23337 created the Fondo de Inversiones and Contrapartidas del Sector Público Nacional (then denominated Fondo Nacional de Financiamiento de la Actividad Empresarial del Estado (hereinafter FONAFE)) establishing as its resources the distributable income from companies owned by the State (100% of such income in the case of banks and financial entities) which shall be transferred to the Fund within 60 days after balance approval. The distributable income is the benefit percentage set forth by the Estate, after the discounts for legal reserves and reserves for capital increases aimed at maintaining the solvency and liquidity of the companies.

In the General Shareholders' Meeting held on March 31, 2014 the distribution of dividends of the net income for the year 2013 was approved for (in thousands) S/.58,538. Additionally, in virtue of the Dividends Policy of COFIDE, the capitalization of retained earnings for (in thousands) S/.10,205, was approved, equivalent to 15% of unrestricted net income for the year 2013 in favor of FONAFE. CAF has waived its preference right in the subscription of new shares.

In the General Shareholders' Meeting held on March 22, 2013 the distribution of dividends on the net income for the year 2012 was approved for (in thousands) S/.66,699. For CAF's own will, this shall not perform the amount corresponding to the proportion of its shares; therefore, it shall not exercise its preferable right in the subscription of new shares.

Dividends in favor of shareholders other than legal entities domiciled in the country are subject to a rate of 4.1% for income taxes applied to these shareholders; such tax is retained and settled by COFIDE.

Total retained earnings and adjustments to equity comprise the following:

	<b>March 31, 2014</b>	<b>December 31, 2013</b>
	<b>S/.000</b>	<b>S/.000</b>
<b>Retained earnings</b>		
Adjustment deferred employees' share - IAS 12	12,647	12,647
Difference of value of "B" shares of COFIDE when redeeming to CAF	7,599	7,599
Accumulated earnings without capital agreement	<u>1,496</u>	<u>1,496</u>
Total	<u><u>21,742</u></u>	<u><u>21,742</u></u>
<b>Adjustment to equity</b>		
Unrealized profit for the adjustment in value of CAF investment	404,261	404,261
Less: deferred income tax	<u>(121,279)</u>	<u>(121,279)</u>
	<u>282,982</u>	<u>282,982</u>
Profit for fluctuation of value of Available for sale investments	51,172	18,965
Less: deferred income tax	<u>(15,351)</u>	<u>(5,689)</u>
	<u>35,821</u>	<u>13,276</u>
Loss cash flows hedging derivatives	21,284	32,865
Less: deferred income tax	<u>(6,385)</u>	<u>(9,860)</u>
	<u>14,899</u>	<u>23,005</u>
Total	<u><u>333,702</u></u>	<u><u>319,263</u></u>

### 13. CONTINGENT, OFF-BALANCE AND OTHER ACCOUNTS

	<b>March 31, 2014</b>	<b>December 31, 2013</b>
	<b>\$/000</b>	<b>\$/000</b>
<b>Contingent accounts</b>		
Swap and forward operations (a)	661,733	642,920
Joint signatures granted (Note 7)	559,686	536,684
Other contingent accounts	22,157	22,136
	<u>1,243,576</u>	<u>1,201,740</u>
<b>Off-balance sheet accounts</b>		
Guarantees of credit operations (b):		
Promissory notes	4,601,476	4,753,267
Mortgages	34,822	34,358
Guarantee deposits	21,787	22,942
Documentary guarantees	11,196	9,448
Warrants	101	101
Other guarantees	160,984	160,982
	<u>4,830,366</u>	<u>4,981,098</u>
<b>Trusts, debtor trust commissions and other accounts (c):</b>		
Guarantees for operations of credits of trusts	7,810,879	7,551,948
Counter-accounts of trusts and trust commissions	6,611,299	6,910,639
Trust funds	6,432,443	6,257,474
Funds in trust commissions	493,287	487,533
Face value - interest rate swap (a)	42,120	46,118
Other off-balance sheet accounts	6,683,431	6,703,851
	<u>32,903,825</u>	<u>32,938,661</u>
<b>Total contingent and off-balance sheet accounts</b>	<u><u>34,147,401</u></u>	<u><u>34,140,401</u></u>

#### *Contingent loans*

In the normal course of business, COFIDE invests in off-balance transactions. These transactions expose COFIDE to credit risk, in addition to the amounts presented in the statement of financial position.

Credit risk in contingent operations is related to the likelihood that one of the investors of the respective contract does not honor the terms established therein. The corresponding contracts consider the amounts that COFIDE would assume for credit losses in the contingent operations.

COFIDE uses similar policies to evaluate and grant credits, for direct credits as well as for contingent credits. In Management's opinion, the contingent transactions do not represent an exceptional credit risk, since it is expected that a portion of these contingent credits will expire unused, the total amounts of contingent credits do not necessarily represent future cash disbursements for COFIDE.



When in the opinion of Management there is a reasonable degree of likelihood that a contingent operation might create an exposure loss for COFIDE, such operation is included in the determination of the provision for uncollectible loans as if it were a direct loan.

COFIDE's Management estimates that no significant losses shall occur, in addition to the amounts allocated in the caption provision for contingent credits, for the operations effective as of March 31, 2014 and December 31, 2013.

***(a) Derivative financial instruments***

COFIDE mainly has commitments of flows exchange of different currencies and interest rates (Swap) with the purpose of hedging risks related with foreign currency.

***(b) Guarantees of credit operations***

The balance of the guarantees granted caption is determined based on the guarantees agreed values as of the date of the loan agreement. These balances do not necessarily represent the market value of the goods assigned in guarantee that support COFIDE's credit balances.

***(c) Trusts, debtor trust commissions and other accounts***

As of March 31, 2014 and December 31, 2013 COFIDE manages 4 funds, 180 trustes and 2 programs for which it received commissions ranging between 0.25% and 2%, with a frequency of collection monthly, quarterly or biannually

As of December 31, 2013, COFIDE has guaranteed loans that Fideicomiso Agroindustrial Cayaltí S.A. has subscribed with Banco Financiero, Interbank, BBVA Banco Continental, Amerika Financiera and CMAC Huancayo for (in thousands) S/.97,847 (S/.79,488 as of December 31, 2012).

#### 14. PERSONNEL AND BOARD OF DIRECTOR'S EXPENSES

	<b>March 31, 2014</b>	<b>March 31, 2013</b>
	<b>S/.000</b>	<b>S/.000</b>
Wages	4,046	3,897
Profit sharing	2,629	1,385
Benefits	1,281	1,595
Bonuses	816	784
Social charges and others	690	667
Severance indemnities	439	420
Directors' attendance fees	38	88
Vacations	43	19
Assignments	22	21
Other personnel expenses	1,682	1,415
<b>Total</b>	<b>11,686</b>	<b>10,291</b>

#### 15. EXPENSES FOR SERVICES RECEIVED FROM THIRD PARTIES

	<b>March 31, 2014</b>	<b>March 31, 2013</b>
	<b>S/.000</b>	<b>S/.000</b>
Other services	1,412	1,158
Consulting services	1,022	686
Professional fees	493	375
Repairment and maintenance	331	218
Electronic processing	281	579
Communications	235	204
Surveillance and protection	225	246
Advertisement	178	225
Sundry supplies	148	168
Energy and water	94	82
Rentals	88	75
Transportation	67	47
Electronic transfers	51	51
Subscriptions and budgets	36	24
Notarial and recording expenses	29	18
Travel expenses	26	17
Insurances	22	46
Judicial expenses	5	6
Representing expenses	7	4
<b>Total</b>	<b>4,750</b>	<b>4,229</b>

## 16. BASIC AND DILUTED EARNINGS PER SHARE

	<u>March 31, 2014</u> S/.000	<u>March 31, 2013</u> S/.000
Net income for the period	21,492	16,515
Shares	1,514,402	1,504,501
Earnings per basic and diluted share	<u>0.014</u>	<u>0.011</u>

## 17. INCOME TAX

### (a) Income tax regime

#### *Tax rates*

The income tax rate for legal entities domiciled in Peru is 30%.

Legal entities domiciled are subject to an additional rate of 4.1% on any amount that may be considered indirect income, including amounts charged to expenses and unreported income, expenses which may have benefited the shareholders or workers, among others, which are assumed by the legal entity.

### (b) Significant amendments to the income tax regulations in Peru

By means of Law No. 29884, the Congress of the Republic delegated faculties to the Executive Power so it, by means of Legislative Decrees, can modify the tax regime in force in order to improve the Peruvian Tax System.

Under such faculties, Law Decrees No. 1112, 1116, 1120 and 1124 have been issued. They introduce modifications to Income Tax in force in Peru, mostly, as from year 2013. A summary of the most relevant modifications would be as follows:

- Cost basis. It is established that the cost basis should be supported with the corresponding receipt validly issued.
- Alienation of shares or transferable securities. In order to determine the value of market, the higher available value will be considered between the transaction value, the stock market value (if it applies), the equity value or any other established by Regulations, according to the nature of the value. On the other hand, loss of third category capital will not be deductible when, at the time of the alienation, before or after it, in a period no longer than 30 calendar days, acquisition of shares or transferable securities of the same type or purchase options are produced.
- Transfer pricing. All transactions with local or foreign related parties; as well as with the ones held with residents of tax heavens are subjected to transfer pricing analysis. Price adjustment will proceed only when a lower tax is determined in the country, eliminating the possibility of a negative adjustment in case of over taxation in disadvantage to the tax payer.
- Transfer pricing standards will be applied in all operations generating presumed income or estimated rates between related parties, or tax heavens. Regarding non-domiciled persons, adjustment will only proceed regarding transactions that generate

taxable income of Peruvian source and/or deductions for determining tax in the country. Regarding Early Pricing Agreements, it is established that SUNAT can hold these agreements with other tax administrations in countries with which agreements have been held in order to avoid double international taxation.

- Transfer pricing standards are no longer applicable to VAT determination.
- Depreciation. The percentage of depreciation should be applied over the result of adding subsequent costs incurred to the acquisition, production and construction value. Such are costs incurred regarding a good that has been affected to the generation of taxable income that, in compliance with accounting standards, should be recognized as cost.
- Deductible amount or maximum deductible will be the amount regarding the last paragraph, except if in the last year the deductible amount is higher than the value of the good left for depreciation, in which case this last one will be deducted.
- Donations. For the deduction of expense for donations, it is established that the rate of the entity receiving the deductible donations will be done by SUNAT, and not by MEF. This modification will be in force as from June 30, 2012.
- Non-deductible expenses. Expenses constituted by the difference between the par value of a credit originated between related parties and its transfer value to third parties that assume the debtor's credit risk are not deductible.
- In the event that these credit transfers generate accounts receivable in favor of the transferring entity, provisions and/or write-offs for the impossibility to charge these accounts do not constitute a deductible expense.
- Exchange differences. Standards about capitalization of the exchange difference for liabilities in foreign currency, related to stock and fixed assets will be deleted as from year 2013. However, exchange difference generated until December 2012, that regarding standards in force has been activated, will continue to be ruled by previous treatment.
- Staff training expenses. Limit of deduction is eliminated from training expenses of the staff.
- Transportation expenses. Limit for deduction of expenses incurred in motorized vehicles of truck categories B1.3 and B1.4 are included. Pick-up trucks are not included.
- Technical assistance. Regarding the application of 15% rate, the requirement of obtaining an affidavit from COFIDE rendering the service is eliminated. The requirement of obtaining a report from an audit society through which the rendering of technical services is certified is established only for services which total compensation is higher than 140 tax units, in force as of the contract signature. This standard is effective as from August 1, 2012.
- Payments to monthly accounts. Applicable aliquot has been reduced from 2% to 1.5% under the percentage system, and has been modified in the calculation system of payments to accounts. Modification implies the payment as monthly advance of the higher amount when comparing the amount after applying the coefficient system with the amount after applying the 1.5% percentage. There is a possibility of modifying the percentage based on May's monthly advance and over the base of results from profit and loss statement, as of April, 30, applying the coefficient that results from such

Financial Statement. Specific standards have been provided for advances from August to December, 2012, given that the modification is effective since August's payment on account.

(c) Income tax comprises:

	<b>March 31, 2014</b>	<b>March 31, 2013</b>
	<u>S/.000</u>	<u>S/.000</u>
Current income tax	14,985	7,893
Deferred income tax - (income)	<u>(3,558)</u>	<u>(685)</u>
Total	<u><u>11,427</u></u>	<u><u>7,208</u></u>

The current income tax correspond to income tax payable, applying a corporate tax rate of 30% on estimated taxable income, after deducting the employees' profit sharing, Law Decree 892, a percentage of 5%.

(d) Reconciliation of income tax effective rate with tax rate:

For the periods ended March 31, 2014 and 2013, the effective tax rate of income tax differs from the tax rate applicable to profit before income tax. The nature of this difference is due to certain items related with the determination of tax rate, which effects over tax rate applicable are summarized as follows (in percentages over profit before taxes):

	<b>March 31, 2014</b>		<b>March 31, 2013</b>	
	<u>S/. 000</u>	<u>%</u>	<u>S/. 000</u>	<u>%</u>
Income tax calculated according to tax rate	9,876	30.00	7,117	30.00
Tax effect over additions (deductions)				
Non taxable income	2,923	8.88	969	4.08
Exempte expenses	(17)	(0.05)	(24)	(0.11)
Other permanent differences	<u>(1,355)</u>	<u>(4.12)</u>	<u>(854)</u>	<u>(3.60)</u>
Current and deferred income tax recorded according to effective rate	<u><u>11,427</u></u>	<u><u>34.71</u></u>	<u><u>7,208</u></u>	<u><u>30.36</u></u>

(e) Tax recoverable

Debtor and creditor balances with the Tax Administration in relation with income tax are as follows:

	<b>March 31, 2014</b>	<b>December 31, 2013</b>
	<u>S/.000</u>	<u>S/.000</u>
<b>Recoverable:</b>		
Payments on behalf of income tax	<u>29,437</u>	<u>51,992</u>
Total	<u><u>29,437</u></u>	<u><u>51,992</u></u>
<b>Payable:</b>		
Income tax payable	<u>14,985</u>	<u>35,819</u>
Total	<u><u>14,985</u></u>	<u><u>35,819</u></u>
Tax recoverable	<u><u>14,452</u></u>	<u><u>16,173</u></u>

Income tax returns for the years 2010 to 2013, are still open for review by the Tax Administration, which is empowered to conduct said review within the four years following that of filing of the corresponding income tax returns. Management believes that no significant liabilities will arise as a result of pending reviews.

Due to possible differences in the Tax Administration interpretation about standards applicable to COFIDE, to the date it is not possible to determine if additional tax liabilities as result of possible reviews will be produced. Any additional tax, fines, arrears, surcharge, if any, will be recognized in gains for the year in with the criteria differences with Tax Administration is solved. Management estimates that no significant liabilities will arise as a result of these possible reviews.

During the first half of July 2013, Tax Administration made the tax review for operations from year 2008 and, as a result, determined an omitted income tax with its corresponding fine. COFIDE did not interpose a claim resource, having proceeded with the modification of the 2008 Income Tax return and a payment in favor of the Tax Administration for (in thousands) S/.25.

(f) Deferred income tax balances

Deferred tax assets and liabilities are as follows:

	Balance as at		Movements		Balance as at		Movements		Balance as at	
	January 1, 2013	Accumulated	For the year	December 31, 2013	Accumulated	For the year	March 31, 2014			
	S/000	S/000	S/000	S/000	S/000	S/000	S/000			
<b>Asset temporary differences:</b>										
General provisions for loans and contingent loans	594,645	-	14,468	609,113	-	15,813	624,926			
Other general provisions	2,806	-	439	3,245	-	4,642	7,887			
Provision for fluctuation of values	5,323	-	(1,339)	3,984	-	(3,984)	-			
General provision accounts receivable	3,189	-	(354)	2,835	-	343	3,178			
Provisions awarded goods	2,246	-	1,514	3,760	-	(1,514)	2,246			
	608,209	-	14,728	622,937	-	15,300	638,237			
<b>Liabilities temporary differences:</b>										
Depreciation of buildings	(771)	-	257	(514)	-	64	(450)			
Adjustment of value CAF shares	(1,444,318)	-	-	(1,444,318)	-	-	(1,444,318)			
Profit (loss) unrealized for investments in securities	(137,083)	118,119	-	(18,964)	(32,207)	-	(51,171)			
Profit (loss) unrealized for derivative instruments	45,972	(78,836)	-	(32,864)	11,580	-	(21,284)			
Repairs DJ. 2003 - Provisions, write-offs and others	21,410	-	(1,032)	20,378	-	(3,505)	16,873			
	(1,514,790)	39,283	(775)	(1,476,282)	(20,627)	(3,441)	(1,500,350)			
Temporary differences assets (liabilities), net	(906,581)	39,283	13,953	(853,345)	(20,627)	11,859	(862,113)			

## 18. TRANSACTIONS WITH RELATED ENTITIES

As of March 31, 2014 and December 2013, significant operations made with CAF correspond to financing operations in order to grant credits to IFIs.

COFIDE's transactions with its related entities have been done in the normal course of operations and under arms – length terms.

Operations made with CAF for the periods ended March 31, 2014 and 2013 comprise interest expense for loans and obligations with international organizations for (in thousands) S/.956 and S/.674, respectively.

### *Payments to the Board of Directors*

Amount paid for the periods ended March 31, 2014 and 2013 for Director's attendance fee was (in thousands) S/.38 and S/.335, respectively

## Payments to managers

Wages, other benefits to personnel and professional fees received in as of March 31, 2014 and 2013, by COFIDE's employees who hold an executive responsibility (managers) are (in thousands) S/.1,604 and S/.4,790, respectively.

## Personnel loans

For the periods ended March 31, 2014 and 2013, the Directors, staff members and employees of COFIDE have credit operations allowed by General Law, which regulates and establishes certain limits to transactions with Directors, staff members and employees of banks in Peru. As of March 31, 2013 and December 31, 2013, direct credits to employees, Directors, staff members and key personnel are (in thousands) S/.7,487 and S/.7,088, respectively.

## 19. CLASSIFICATION OF FINANCIAL INSTRUMENTS

Financial assets and liabilities of the statement of financial position are shown below based on IAS 39 categories:

	March 31, 2014				December 31, 2013					
	Financial assets				Financial assets					
	Loans and receivable	Available for-sale investments		Hedging derivatives	Total	Loans and receivable	Available for-sale investments		Hedging derivatives	Total
S/. 000	at fair value	at cost	S/. 000	S/. 000	S/. 000	at fair value	at cost	S/. 000	S/. 000	S/. 000
Cash	229,432	-	-	-	229,432	244,734	-	-	-	244,734
Available for-sale investments	-	-	-	-	-	-	-	-	-	-
Capital representative instruments	-	-	2,375,804	-	2,375,804	-	-	2,375,589	-	2,375,589
Debt representative instruments	-	895,320	-	-	895,320	-	722,552	-	-	722,552
Loan portfolio	4,593,209	-	-	-	4,593,209	4,646,011	-	-	-	4,646,011
Hedging derivatives	-	-	-	4,675	4,675	-	-	-	3,897	3,897
Accounts receivable	2,577	-	-	-	2,577	13,945	-	-	-	13,945
Other assets	947	-	-	-	947	839	-	-	-	839
Total	4,826,165	895,320	2,375,804	4,675	8,101,964	4,905,529	722,552	2,375,589	3,897	8,007,567

	March 31, 2014				December 31, 2013			
	Financial liabilities				Financial liabilities			
	At amortized cost	Other liabilities	Hedging derivatives	Total	At amortized cost	Other liabilities	Hedging derivatives	Total
S/. 000	S/. 000	S/. 000	S/. 000	S/. 000	S/. 000	S/. 000	S/. 000	
Obligations to the public	-	117,073	-	117,073	-	72,226	-	72,226
Deposits by Banks and international financial organizations	-	147,868	-	147,868	-	188,634	-	188,634
Debt securities	5,240,798	-	-	5,240,798	5,195,678	-	-	5,195,678
Hedging derivatives	-	-	74,935	74,935	-	-	74,813	74,813
Accounts payable	-	64,122	-	64,122	-	7,117	-	7,117
Other liabilities	-	55,350	-	55,350	-	49,927	-	49,927
	5,240,798	384,413	74,935	5,700,146	5,195,678	317,904	74,813	5,588,395

## 20. FINANCIAL RISK MANAGEMENT

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

- **Credit risk:** it is generated by the possibility that a counterparty of the agreement of the financial instrument or obliged third parties do not fulfill their contractual obligations due to insolvency or to not being able to pay, and creates a financial loss to the counterpart. It includes management of the counterparty risk, concentration risk, country risk and credit risk derived from the exchange risk.
- **Market risk:** it is generated by the possibility of losses in value of held positions, derived from variations in market conditions. 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 by the fact that COFIDE may not fulfill its payment commitments given that it has incurred in losses for not fulfilling financing and application requirements of funds that arise from discrepancies of cash flows.

A description of COFIDE's management of such risks is explained below corporation presents annual comparative financial information for 2013 and 2012, as possible:

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

COFIDE has a structure of governance and management that allows it to properly articulate the administration and control of financial risks.

(i) Board of directors

The Board of Directors of COFIDE is responsible for establishing a proper management of risks and providing an internal environment that allows its proper development. The Board of Directors is permanently informed of the degree of exposure of sundry risks managed by COFIDE.

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

(ii) Risk committee

Risk committee is a division created by the Board of Directors, responsible of pre-approving policies and establishing procedures and methodologies for integral risk management, as well as of the identification and administration of risks faced by COFIDE. The committee meets quarterly and reports monthly to the Board of Directors all main matters discussed and agreements adopted in relation to risks management. The Committee comprises a Director (who directs it), the chief executive officer, and the officers from seven different departments of COFIDE, the Head of the Internal Audit Unit (with voice, but without vote), and the Chief Legal Officer (with voice, but without vote, who develops secretary functions). In order to carry out his function, the Board of Directors functionally supports on the risk division COFIDE.

(iii) Audit Committee

The audit committee is a division created by the Board of Directors. Its main purpose is to monitor the proper functioning of the internal control system within the risk management context in accounting and financial reporting processes of COFIDE. Additionally, it aims to assess activities held by internal and external auditors. The audit committee comprises two Directors (one of them directs), and the head of the internal audit unit, who performs functions of committee's secretary. Both representatives of the Board of Directors do not perform activities of management in order to avoid interest and incompatibility conflicts with their functions. The committee ordinarily gathers once a month and reports to the Board of Directors about issues discussed. In order to carry out its function, it functionally supports on the internal audit division of COFIDE.

(iv) Assets and liabilities committee

Assets and liabilities committee (ALCO) is a division created by the Board of Directors. Its main function is to manage the financial structure of the statement of position of COFIDE, according to policies and effective standards. The Committee of assets and liabilities safeguards the proper management of liquidity, interest rate and exchange rate risks, deciding about necessary actions to implement correcting actions needed in the event of deviations regarding tolerance levels to risk and degrees of



exposure assumed. The committee gathers in session at least twice a month. In order to carry out its functions, the committee supports on the Finance Office (in charge of the investment activities). The committee comprises the chief executive officer (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 is the coordinating and decision-making organization regarding strategic, administrative, informatics and management topics. The management committee approves the strategic plan of COFIDE, proposes and presents to the Board of Directors the organic structure and the regulations of the organization and functions; additionally, it approves action plans to manage risks implying the use of greater resources assigned and follows-up the execution of tests of alternative procedures.

(vi) Presidency

Through October 2013, the Presidency supervised the Risk Office. From November 2013 the Chairman of the Board of Directors supervises the Risk Office.

(vii) Chief Executive Officer - CEO

The chief executive officer is responsible for establishing within the organization a proper risk management according to dispositions set forth by the Board of Directors and the Risks Committee within the regulatory framework of COFIDE. It safeguards the proper management of divisions under its governance, as well as, the proper working frame in order to identify, assess, control, follow-up and report main risks to guarantee the compliance with policies and proper risk management. As from November 1, 2013, it represents the maximum directive division from the Risk division.

(viii) Internal audit unit

Internal audit functionally reports to the 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 level. Internal audit inform all responsible divisions regarding potential risk situations and other relevant respects in relation to risk management assessment of COFIDE.

(ix) Risks division

The Risk office is an independent area in charge of proposing policies, procedures and methodologies for competent risk management, encouraging the lining-up of all measurements for treating risk and the development of proper controls. At the same time, the risks division supervises the Standards Compliance division, an area that proposes, informs and maintains updated all policies for the compliance with standards; informing to the board of directors and the chief executive officer regarding actions needed for the compliance, as well as possible gaps and main changes in the standard environment that may affect operations of COFIDE. As of February 18, 2014, the Legal Office supervises the standards compliance division.

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

In order to manage and adequately financial risks, COFIDE considers the internal control environment, objectives established, identification, assessment and treatment of risks, processes of information and communication, follow-up activities, sub-contractions, trainings and external audit processes.

**(i) Credit risk**

It is the main risk to be managed by COFIDE and, so as to manage its exposure and provide proper hedging, it has established a series of measurements, among which the following are the most important:

- Policies applicable to the identification, measurement, follow-up, control and report processes of credit risk with debtors, as well as assessment, analysis, approval, follow-up and recovery process.
- Admission policies for business financing operations, specialized and structured, financings where COFIDE assumes the direct or contingent risk of final debtors.
- Guidelines in relation to the origin and participation of COFIDE in sundry operations, negotiation and management of real and personal guarantees that should be constituted backed-up with credit operations, and those considered when following-up all 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 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 in relation to diversification, concentration risk, counterparty risk and issuer risk.
- Country risk policies, which define parameters to perform active 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 risk and interest rate risks for negotiation positions. For market risk management, the following is considered:

- Limits are defined in relation to:
  - Volatility of exchange rate and interest rate alerts.
  - Alerts and control of losses in negotiation portfolio.

- Estimates are made on the following:
  - Potential losses to which COFIDE is exposed to in order to maintain a portfolio comprising asset or liability positions in primary or derived instruments.
  - Maximum possible loss (VaR) for exchange risk.
  - Valuation of positions recorded in investments by COFIDE, 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 the statement of financial position represents potential losses created by movements in interest rates, exchange rates over structural positions of assets and liabilities, on as well as off the statement of financial position, without including negotiation portfolio.

In the case of interest rate risk, potential loss analysis focuses in 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, COFIDE has two main sources of risk (direct and indirect). The direct source is provided by the position of structural change held by COFIDE for its investments in CAF. The indirect source is provided by the structural dollarization of its portfolio towards its debtors, issuers and local intermediates, with whom it faces credit risk derived from exchange 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, with a Contingent Plan towards lack of liquidity, this considers the operating procedure to be followed in the event of an individual liquidity crisis, as well as systemic.

### ***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; and seek, as it may correspond, a proper relation between risk for concentration and degree of equity capitalization of COFIDE. Diversification policies and concentration of its policies manual for assets and liabilities management establish alerts that reflectors 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.
- Alerts of concentration of liabilities for unique risk.

Additionally, COFIDE has established policies on limits in order for the credit risk incurred to be sufficiently quoted and diversified within corporate objectives of the organization, for which it has established the following:

- Limits to the exposure with subsystems of IFIs of higher relative risk.
- Limits to the exposure with IFIs of higher relative 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, specialized and structured.

Furthermore, COFIDE has Autonomy Levels, which must be approved by the Board of Directors, related to:

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

Regarding investments, COFIDE has defined within its alert policies for concentration of negotiation portfolio, and has established limits for the portfolio investment for risk and limits of portfolio for issuance risk.

### **(c) *Measurement systems and risk reporting***

COFIDE uses, to manage different risks, models and tools of ranking to measure and assess each type of risks in relation to financial instruments. These tools are supported on models, methodologies and applications, allowing taking better decisions of risks in different stages of the credit life cycle.

Tools are monitored permanently and periodically validated in order to safeguard that levels of prediction and performance are maintained and corrective measurements or adjustments to models can be made, when necessary. COFIDE has 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 shall allow to measure and prospect the level of risk of the portfolio, estimate expected losses and economic capital.

Management indications are permanently reviewed and analyzed in order to identify possible deviations in the risk profile regarding risk appetite established by COFIDE in

order to timely take corrective measurements. This information is monthly presented to the risks committee and periodically to the Board of Directors.

### ***Credit risk***

Credit risk is defined as the possibility of incurring in financial losses due to non-fulfillment of contractual obligations by the counterparty or third parties obliged by insolvency, incapacity or lack of will of payment or by any other motive generating the fulfillment of contracted obligations.

Below are presented control measures used by COFIDE to reduce credit risk:

- (a) COFIDE selects a risk policy that safeguards sustainable and profitable growth. In order to do so, it incorporates procedures of analysis for the proper decision-making, as well as tools and methodologies that allow identifying, measuring, reducing and controlling different risks more efficiently according to SBS establishments. As well, it develops management models that allow a proper measurement, quantification and monitoring of credits, encouraging the continuous improvement of policies, tools, methodologies and processes.

- (b) Maximum credit risk exposure

As of December 31, 2013 and 2012, Management has estimated that the maximum credit risk amount it is exposed to is represented by the carrying amount of financial assets presenting a potential credit risk and that mainly consist of: cash, available for sale investments, placements (direct and indirect, without considering market value of guarantees or collaterals), operations with derivative financial instruments, accounts receivable and other monetary assets. Exposure for each borrower, including banks, investments or other debtors, is established by assigning limits that cover risks for operations in the statement of financial position and off of it (contingent accounts), punctual assessment of operations, as well as risk limits for elements subjected to negotiation, such as swaps in foreign currency and interest rates, and forwards in foreign currency. Real exposures and their comparison to limits established are monthly reviewed.

On that regard, as of December 31, 2013 and 2012, the:

- 98.4% and 97.3%, respectively of loans are not considered as overdue or impaired.
- 95.1% and 95.4%, respectively of investments have at least investment degree (BBB- or higher) or are debt instruments issued by the Central Government.

Below a detail of maximum exposure to credit risk of COFIDE per type of financial asset:

		<b>March 31, 2014</b>	<b>December 31, 2013</b>
		<b>S/.000</b>	<b>S/.000</b>
<b>Asset (*)</b>			
Cash	4	229,432	244,734
Available for sale investments	5	3,271,124	3,098,141
Loan portfolio	6	4,593,209	4,646,011
Hedging derivative	8	4,675	3,897
Accounts receivable	8	2,577	13,945
Other assets	8	947	839
		<u>8,101,964</u>	<u>8,007,567</u>
<b>Contingent loans (**)</b>	6 y 13	<u>531,941</u>	<u>513,826</u>

(\*) Net of provisions

(\*\*) Contingent loans are included net of provisions

(c) Guarantee management

(c.1) Policies and procedures for its management and valuation

COFIDE has policies for trading and management of real and personal guarantees to be constituted supported by credit operations under any modality, maintaining a minimum space in the coverage margin existing between the value of constituted guarantees and the impact of the covered risk, remarking the decree of realization of assets involved and in the final recovery of debt; which means a significant reducer of the credit risk assumed. Criteria for calculation of guarantees and procedures for its update are described in the Manual or policies of credit risks with debtors (policies for guarantees), which incorporates SBS dispositions.

It is important to note that COFIDE does not hold guarantees for other financial instruments as investment portfolio, negotiation portfolio, and hedging derivatives.

For managing guarantees, COFIDE has specialized divisions in constituting, managing and freeing guarantees.

(c.2) Types of guarantee

Guarantees supported by credit operations are constituted by furniture and real estate foods, and financial instruments, and its preferred character is evidenced with the following conditions:

- Easily convertible in cash, with which the guarantee obligation may be settled.
- Constituted in preferred range towards other creditors.
- Hedge risk value involved with space required.
- Account the corresponding insurance duly endorsed.
- Guarantees over assets whose realization value is not correlated with the evolution or performance of the payment capacity of the financed debtor must be preferred.

Bases on such preferences, COFIDE seeks constituting the following type of guarantees:

- Self-liquidating guarantees, or trust equivalents.
- Readily liquidating preferred guarantees.
- Preferred guarantees.

(c.3) Value of guarantee received

Value of real guarantees refers to realization value of assets involved, which must be established based on a conservative criterion as net result expected to be obtained from the possible sale in its current state, deducting all expenses needed to perform such sale.

COFIDE considers the following valuations:

- In the case of urban furniture, it must not exceed 70% to 75% of its commercial value (same for assets trust).
- In the case of deposits, bond letters and insurances of caution, its nominal value shall be considered as realization value.
- In the case of pledge of negotiable securities, its market value shall be taken as its realization value.
- In the case of loan insurances and loan derivatives, the proportion or amount in excess being covered shall only be considered, according to particular conditions established in each contract.
- For taxable purposes in favor of COFIDE, total commercial value of guarantees involved shall be considered.

(d) Credit quality of financial assets

Regarding the assessment of Loan Portfolio, COFIDE performs the classification of debtors within the risk categories established by the SBS, according to classification criteria stated for each type of loan, i.e., for debtors of Non-retail Portfolio (corporate, large and medium businesses) and Retail Portfolio (small business, micro-business, consumer and mortgage).

Additionally and lined-up with SBS dispositions, COFIDE reviews its loans portfolio constantly in order to reduce its exposure to risk and properly determine provisions for impairment of loans. The objective of this duty is to identify and reduce risk of loss in credits placed as well as to plan proper recovery strategies.

Provisions for risk of loan impairment are constituted on direct credits and equivalent exposure to credit risk of indirect loans, according to the SBS. On that regard, general and specific provisions are constituted. Within general provisions, COFIDE has provisions for pro-cyclical component for debtors classified under "Normal" category.

Presented below, a summary of the quality of direct credits classified in three groups, considering the risks classification of credit positions as Normal, with Potential Problems, Substandard, Doubtful and Loss of COFIDE in relation to guideline in the financial system:

- (i) Not overdue or impaired loans, comprise those direct loans that currently do not have delay characteristics and are related to clients classified as "normal" or "with potential problems".

- (ii) Overdue but not impaired loans, comprise loans overdue from clients classified as normal or with potential problems.
  - (iii) Impaired loans, classified as substandard, doubtful or loss, even if they are not overdue (for non-retail loans) with a delay of over 90 days (for retail loans).
- (e) Credit risk management for placements

For credit risk management with debtors where COFIDE assumes the risk of final debtors as well as with IFIs, COFIDE has a process comprising three fundamental stages: i) risks admission, ii) following-up and monitoring of risks, and iii) recovery of heavy and impaired portfolio. These stages of the process aim to maintain a quality of portfolio according to the risk appetite defined by the board of directors of COFIDE.

Stage i) admission of loans is fundamentally based on good knowledge of the client and its economic activity, being determinant in the assessment of its capacity of payment, credit history and solvency. This process is supported on the use of methodologies and tools of risk management that allow measuring and valuating the quality of the risk to be granted, which is supported in models and ranking systems for the admission of credits.

Stage ii) following-up and monitoring of the portfolio has an alert system for early detection of credit risk of financial instruments based on subsystems that allow identifying entities of the financial system with potential risks that would affect its capacity of payment, as well as a methodology of following-up classification, for which ranking were assigned based on the behavior and profile of the intermediate, associated to actions to be taken. Equally, there is a following-up methodology of the risk profile of debtors (not intermediates) as well as a methodology for following-up over-indebtedness risk (retail portfolio) through which following-up to debtors is made regarding the evolution of detected risks, decision-making and management for their standardization of collection.

For each business segment, a permanent monitoring is made for main tenancies of the portfolio, in terms of evolution of quality indications, of sectorial concentration and per product of the placement portfolio, as well as indications of risk exposure of counterparties, among others.

Finally, stage iii) collection of loans of the heavy and impaired portfolio is made through a set of coordinated actions and applied for the proper and timely recover of credits that aim to minimize losses in exposures with high credit risk.

- (f) Credit risk management in investments

COFIDE controls credit management of its investments based on the assessment of risk of issuers and instruments. In the case of foreign investments, the assessment considers ratings issued by international risk ranking agencies, as well as risk of the issuing country, which is assessed considering its main macro-economic variables. For the case of local investments, SBS ratings are considered and, as the case may be, internal analysis of the financial position is made.



(g) Risk concentrations

COFIDE has policies to safeguard proper diversification of assets and liabilities in and off the statement of financial position, as well as those related to seek proper relation between the concentration risk and degree of equity capitalization of COFIDE:

(i) Concentration alerts of assets for unique risk:

In order to avoid excessive concentration in direct and indirect asset transactions (cash, inter-bank funds, investments, loans, accounts receivable and contingents, including exposure equivalent to credit risk of derivatives) with counterparties constituting one unique risk.

(ii) Diversification alerts per sector of economic activity

It aims to maintain proper diversification of all investment portfolio, based on the sector of economic activity where each counterparty operates or, in the case of specialized financing operations, the sector of economic activity shall depend on the underlying risk.

(iii) Diversification alerts of investments and available for market

Related to the differenced behavior of markets, for which COFIDE considers as prudent promoting diversification for systematic risk.

(iv) Concentration alerts of liabilities for unique risk

With such alert, COFIDE seeks avoiding concentration of financing sources for creditor institution type.

***Liquidity risk***

Liquidity risk consists in the inability of COFIDE to comply with the maturity of its obligations or with the demand of resources for its placements, incurring in losses that may significantly affect its equity position. This risk is presented as a result of possible losses for the advanced sale (or forced) of assets at unusual and/or significant discounts so as to have rapidly available necessary resources, or by the impossibility of renewing or contracting new finances under normal conditions for the entity.

COFIDE manages liquidity by centralizing its fund flows generated by all brokerage, treasury operations and by all operations in relation to own investments with tolerance to liquidity risk and regulatory requirements.

Liquidity of COFIDE is managed by the Committee of Assets and Liabilities (ALCO) through the division in charge of treasury, who permanently assesses economic and market conditions so as to execute operations that reduce liquidity cost in accordance with approved parameters; therefore, the Committee may periodically review liquidity levels and discrepancies of total maturity and per currency of all the portfolio. Liquidity risk is as well supervised by the Risks Committee and its risks division, where risk level that COFIDE is willing to assume is defined, and where indications, limits and corresponding controls are reviewed as well.

Additionally, COFIDE assesses liquidity in the medium and long-term through a structural analysis of its inflows and outflows of funds in sundry maturity terms, using as modeling tools of the static cash flow, dynamic and estimate of liquidity gaps between asset and liability positions in and off the statement of financial position over a determined term horizon. This process allows knowing sundry funding sources, how liquidity needs grow and what terms are

mismatched. Assets as well as liabilities are considered internal assumptions for obligations estimated as a result of contingent liabilities, as may also be guarantee letters or unutilized credit lines. Acknowledging this information, necessary decisions are made to maintain objective liquidity levels.

The table below presents cash flows payable by COFIDE according to agreed contractual terms. For the case of liabilities with undetermined maturity, terms are assumed according to internal assumptions, based on methodological notes from Attachment 16 – Liquidity for maturity term (table). Amounts disclosed are cash flows according to terms contracted without discounts and include their corresponding accrued interests.

Exposure to liquidity risk	March 31, 2014				
	Up to 1 month S/. 000	1 month + to 3 months S/. 000	3 months + to 12 months S/. 000	1 year + S/. 000	Total S/. 000
<b>Risk of financial position</b>					
<b>Liability</b>					
Obligations to the public	90,390	4,700	21,983	-	117,073
Deposits in financial entities and international financial organizations	12,237	31,914	103,717	-	147,868
Debt securities	330,500	274,698	662,656	3,972,944	5,240,798
Hedging derivatives	892	1,784	8,029	64,230	74,935
Accounts payable	58,538	-	3,706	-	62,244
Other liabilities	-	5,448	-	-	5,448
Total	<u>492,557</u>	<u>318,544</u>	<u>800,091</u>	<u>4,037,174</u>	<u>5,648,366</u>
<b>Risk of financial position</b>					
<b>Contingent liabilities</b>					
Total	<u>-</u>	<u>-</u>	<u>41,791</u>	<u>623,141</u>	<u>664,932</u>
Total	<u>492,557</u>	<u>318,544</u>	<u>841,882</u>	<u>4,660,315</u>	<u>6,313,298</u>
<b>December 31, 2013</b>					
Exposure to liquidity risk	Up to 1 month S/. 000	1 month + to 3 months S/. 000	3 months + to 12 months S/. 000	1 year + S/. 000	Total S/. 000
<b>Financial situation risk</b>					
<b>Liability</b>					
Obligations to the public	48,849	-	23,377	-	72,226
Deposits in financial entities and international financial organizations	16,600	26,498	145,536	-	188,634
Debt securities	191,688	530,596	535,395	3,937,999	5,195,678
Hedging derivatives	891	1,781	8,016	64,125	74,813
Accounts payable	176	6,290	-	-	6,466
Other liabilities	479	-	663	-	1,142
Total	<u>258,683</u>	<u>565,165</u>	<u>712,987</u>	<u>4,002,124</u>	<u>5,538,959</u>
<b>Risk of financial position</b>					
<b>Contingent liabilities</b>					
Total	<u>-</u>	<u>38,075</u>	<u>20,819</u>	<u>591,767</u>	<u>650,661</u>
Total	<u>258,683</u>	<u>603,240</u>	<u>733,806</u>	<u>4,593,891</u>	<u>6,189,620</u>

## ***Market risk***

Market risk is the possibility of losses for variations in conditions of the financial market. Main variations may be in: i) interest rates, ii) exchange rates, and iii) prices.

### **(a) Trading portfolio**

COFIDE, in relation to market risk, is exposed to interest rate risk, exchange risk and price risk, affecting value of assets and positions of the trading portfolio. As of December 31, 2012, Global Bonds were held in trading portfolio in foreign currency (euros) and, as of December 2013, such Global Bonds were entirely restricted due to the fact that they are part of re-purchase agreement operations.

COFIDE applies VaR (Value at Risk) as basic statistic measure to measure, manage and control market risks, given that it estimates maximum losses expected in the positions of the trading portfolio, for a time horizon of 10 days and 99% trust level, under normal market conditions. The calculation of VaR is analyzed per risk factor, interest rate and exchange risk, mainly.

In order to estimate value at risk of the interest rate, the concept of "Duration" is used as sensitivity measure of the investments portfolio and derivatives of COFIDE. In the case of value at risk for exchange rate, level of exposure per currency is calculated at the moment of assessment. Once risk factors have been determined for interest and exchange rates, sensitivity of factors of specific risks and variable objectives are estimated. Subsequently, VaR of interest rate in foreign currency is determined, VaR for exchange rate risk, VaR for price risk and VaR for aggregated market risk. Additionally, stress tests are monthly performed, as well as model validating tests (Back testing).

### **(b) Non-trading assets and liabilities**

In the case of non-trading assets and liabilities, COFIDE is exposed to the following variations: i) interest rate and ii) exchange rate.

#### ***(i) Interest rate risk***

Interest rate risk is produced by the possibility that changes in market interest rate negatively affect the financial condition of an entity, affecting its earnings and equity value.

COFIDE has established within its internal methodologies the differentiation between the effect of interest rate risk on profit (earnings), related with interests to be received and payable (re-price, re-investment or re-financing); and the effect on economic value (equity value), related with the current value of assets and liabilities of the company and interest rates to which future flows that these generate update.

That is to say, impact of changes in interest rates is presented in two ways: the first one, in an impact in expected profit, related directly with risk of re-investment, re-financing and re-pricing. The second one is related with valuation of assets and liabilities of the entity and, therefore, with economical or real value of its equity.

Impact on expected profit is determined by profit at risk corresponding to the expected variation in the financial margin of COFIDE, before expected changes in interest rates. That is to say, impact over earnings of the entity. Impact over equity is determined by equity value at risk corresponding to the variation of equity value of COFIDE before changes in interest rates use for its valuation. That is to say, impact on changes in market interest rates over the statement of financial position.

Results of these two internal interest rate risk indications in a normal scenario are as follows:

	<u>March 31, 2014</u>	<u>March 31, 2013</u>
GER=	S/. 22,955,621.51 (1.2063% p.e)	S/. 19,003,787.15 (1.0096% p.e)
VPR=	S/. 39,560,118.64 (2.0789% p.e)	S/. 31,198,903.98 (1.6575% p.e)

Following-up of interest rate risk is informed to the Risks Committee as well as to the ALCO Committee. The Risks Committee approves sundry limits considered to manage and following-up is in charge of the Risks division.

### **Re-pricing gap**

An analysis of re-pricing gap is made in order to determine the impact of changes in interest rates. The analysis consists in assigning in different gaps of time balances of operations that should change interest rates. Based on this analysis, impact for each gap of the interest rate variation is calculated.

The table below summarizes exposure of COFIDE to interest rate risks. Financial instruments of COFIDE are presented at their carrying amounts, classified between the re-pricing period of the interest rate of the agreement or maturity date, whichever happens first.

### Sensitivity to changes in interest rates

Exposure to interest rates is supervised by the Assets and Liabilities Committee, as well as by the Risks Committee. The latter approves maximum allowed limits.

Presented below, sensitivity on indications of interest rate as of March 31, 2014 and December 31, 2013, before a 200 pbs shock:

	<u>March 31, 2014</u>	<u>March 31, 2013</u>
GER=	S/. 32,226,588.66 (1.6935% p.e)	S/. 31,861,066.53 (1.6927% p.e)
VPR=	S/. 35,024,746.72 (1.8406% p.e)	S/. 26,085,043.16 (1.3858% p.e)

It is important to remark that this information flows from the internal interest rate model of COFIDE.

### ***(ii) Foreign currency exchange risk***

Exchange rate risk in foreign currency is related with the variation of value of positions of the statement of financial position and off such statement that are negatively affected by changes in exchange rate. This risk depends on the position on each currency and of the volatility of exchange rates. An important part of assets and liabilities is in U.S. dollars. Management fixes limits in exposure levels per currency, which are monitored monthly. Most of assets and liabilities in foreign currency are held in U.S. dollars.

Foreign currency transactions are made at free market exchange rates.

As of March 31, 2014, weighted average exchange rate of the free market, published by the SBS for transactions in U.S. dollars was of S/.2.807 for US\$1 for purchase and S/.2.809 for US\$1 for sale (S/.2.794 and S/.2.796 as of December 31, 2013, respectively).

As of March 31, 2014, exchange rate for accounting asset and liability accounts in foreign currency fixed by the SBS was the average of purchases and sales, equivalent to S/.2.808 for US\$1 (S/.2.795 as of December 31, 2013).

Presented below, details of COFIDE's position per currency as of March 31, 2014 and December 31, 2013:

	March 31, 2014				December 31, 2013			
	US dollar	Other currencies	Nuevos Soles	Total	US dollar	Other currencies	Nuevos Soles	Total
	S/. 000	S/. 000	S/. 000	S/. 000	S/. 000	S/. 000	S/. 000	S/. 000
<b>Assets</b>								
Cash	124,064	9,143	96,225	229,432	121,057	9,109	114,568	244,734
Available for-sale investments	441,213	37,692	2,792,219	3,271,124	279,269	37,073	2,781,799	3,098,141
Loan portfolio	2,864,728	-	1,728,481	4,593,209	2,851,162	-	1,794,849	4,646,011
Hedging derivatives	281	364	4,030	4,675	263	1,332	2,302	3,897
Accounts receivable	1,146	3	1,428	2,577	12,580	2	1,363	13,945
Other assets	747	-	200	947	621	-	218	839
	<u>3,432,179</u>	<u>47,202</u>	<u>4,622,583</u>	<u>8,101,964</u>	<u>3,264,952</u>	<u>47,516</u>	<u>4,695,099</u>	<u>8,007,567</u>
<b>Liabilities</b>								
Obligati Obligations with the public	43,001	-	74,072	117,073	3,455	-	68,771	72,226
Deposits by Banks and financial organizations	-	-	147,868	147,868	-	-	188,634	188,634
Debt securities	3,073,827	579,393	1,587,578	5,240,798	3,047,107	536,548	1,612,023	5,195,678
Hedging derivatives	1,925	-	73,010	74,935	5,200	-	69,613	74,813
Accounts payable	48	-	64,074	64,122	20	-	7,097	7,117
Other liabilities	36,308	(2)	19,044	55,350	35,932	-	13,995	49,927
	<u>3,155,109</u>	<u>579,391</u>	<u>1,965,646</u>	<u>5,700,146</u>	<u>3,091,714</u>	<u>536,548</u>	<u>1,960,133</u>	<u>5,588,395</u>
Forwards position,	-	-	-	-	14,017	-	(14,017)	-
Currency swaps position, net	(502,776)	542,518	(39,742)	-	(456,491)	499,225	(42,734)	-
Monetary position, net	<u>(225,706)</u>	<u>10,329</u>	<u>2,617,195</u>	<u>2,401,818</u>	<u>(269,236)</u>	<u>10,193</u>	<u>2,678,215</u>	<u>2,419,172</u>

For the three-months periods ended March 31, 2014 and 2013, COFIDE recorded net exchange profit for (in thousands) S/.10,228 and S/.40,353, respectively, presented net under "Exchange earnings" of the statement of income.

COFIDE manages exchange risk through the match of its asset and liability operations, monthly supervising global position of changes. Global position of changes of COFIDE is equal to large positions less short positions in currencies other than the nuevo sol. Global position includes positions of the statement of financial position (spot) and positions in derivatives as well.

Variations in exchange rates affect financial statements, modifying income and expenses expressed in domestic currency, as well as the valuation of all assets and liabilities of COFIDE. Exchange risk is conducted within VaR calculation limits and sensitivity analysis over exchange rates. Additionally, regulatory and internal limits of foreign currency positions are monthly monitored

Presented below, are sensitivities for the case of U.S. dollars fluctuations. For its volume, U.S. dollar position is the only exposure that could cause material loss for a Corporation. Negative fluctuations represent potential losses, while positive ones represent potential profit.

Sensitivity analysis	Exchange rate shocks	March 31, 2014	December 31, 2013
	%(*)	S/.000	S/.000
<b>Devaluation</b>			
United States dollar	0.2590%	33,322	17,016
<b>Revaluation</b>			
United States dollar	0.2590%	(33,322)	(17,016)

## **Fair value**

Fair value is the amount for which an asset may be exchanged between a purchaser and a seller duly informed, or the amount for which the obligation between a debtor and a creditor may be settled with enough information, under terms of a free competence transaction.

Fair value is a measurement based on market; therefore a financial instrument commercialized in a real transaction in a liquid and asset market has a price that supports its fair value. When the price for a financial instrument is not observable, fair value must be measured applying other valuation technique, trying to maximize the use of relevant observable variables and minimize the use of non-observable variables.

To calculate fair value of an instrument that is not traded in liquid markets, market value of an instrument that is actively traded in the market, with similar characteristics, may be use, or it may be obtained through an analytic technique, for example, discounted flows analysis.

Assumptions and calculations used to determine fair value for financial assets and liabilities are:

- (i) Financial instruments counted at fair value. – Fair value is based in the following hierarchy:
  1. Prices of the quoted instrument in asset markets.
  2. Quoted prices in active markets of identical instruments.
  3. Valuation techniques using data provided by observable markets (using curves of market rates an vector of prices provided by the SBS).

In positions valued at market prices, investments in centralized mechanisms are mainly considered.

In positions valued through valuation techniques, derivative financial instruments and others are included (financial liabilities).

Fair value of the investment of COFIDE in CAF, pursuant to SBS Official Letter No. 45853-2012, classifies such financial instrument as “Available for sale investment”, taking as cost value the last accounting equity value recorded in books by COFIDE, considering such value as its fair value.

- (ii) Instruments whose fair value is similar to carrying amount.- For financial assets and liabilities at short-term, between which cash, inter-bank funds and other similar classify.
- (iii) Financial instruments at fixed rate

Financial asset at fixed rate (loans portfolio, obligations with the public and deposits of financial entities) – According to SBS Multiple Official Letter 1575-2014, fair value of these items correspond to their carrying amount.

Financial liabilities at fixed rate – These liability instruments may be quoted or not in active markets. For bonds issued by COFIDE and quoted in active markets, fair value corresponds to quote market value.

For liabilities that are not traded in an active market (debts captured and bonds issued by COFIDE) fair value is calculated based on discounted value of future flows using original effective interest rate.

The table below shows a comparison between carrying amounts and fair values of financial instruments of COFIDE, according to the methodology explained above, presented in the statement of financial position.

Fair value carrying amount	March 31, 2014		December 31, 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
	S/. 000	S/. 000	S/. 000	S/. 000
<b>Asset</b>				
Cash	229,432	229,432	244,734	244,734
Available for-sale investments				
Capital representative instruments	2,375,804	2,375,804	2,375,589	2,375,589
Debt representative instruments	895,320	895,320	722,552	722,552
Loan portfolio, net	4,593,209	4,593,209	4,646,011	4,646,011
Hedging derivatives	4,675	4,675	3,897	3,897
Accounts receivable, net	2,577	2,577	13,945	13,945
Other assets	947	947	839	839
<b>Total</b>	<b>8,101,964</b>	<b>8,101,964</b>	<b>8,007,567</b>	<b>8,007,567</b>
<b>Liability</b>				
Obligations to the public	117,073	117,073	72,226	72,226
Deposits in financial entities and international financial organizations	147,868	147,868	188,634	188,634
Debt securities	5,240,798	5,244,879	5,195,678	5,284,014
Hedging derivatives	74,935	74,935	74,813	74,813
Accounts payable	64,122	64,122	7,117	7,117
Other liabilities	55,350	55,350	49,927	49,927
<b>Total</b>	<b>5,700,146</b>	<b>5,704,227</b>	<b>5,588,395</b>	<b>5,676,731</b>

(a) Hedging transactions

COFIDE is exposed to fluctuation in future cash flows of financial assets and liabilities in foreign currency and/or that generate interests at variable rates. COFIDE uses derivative financial instruments as cash flow hedges to hedge these risks.

The table below presents as of December 31, 2013 and 2012, fair value of derivative financial instruments, recorded as asset or liability, along with nominal values and maturities. The amount of reference, presented gross, is the amount of the underlying asset of the derivative and is the basis over which changes in fair value of the derivatives are measured.

	March 31, 2014				December 31, 2013				Hedged instruments
	Assets	Liabilities	Reference amount	Maturity	Assets	Liabilities	Reference amount	Maturity	
	S/. 000	S/. 000	S/. 000		S/. 000	S/. 000	S/. 000		
<b>Hedeg Designated derivatives of cash flows:</b>									
Currency swaps - USD / JPY	478	-	5,340	15/02/2019	434	-	5,743	15/02/2019	Indebtedness JBIC
Currency swaps - USD / JPY	1,271	-	12,583	15/02/2019	1,179	-	13,532	15/02/2019	Indebtedness JBIC
Currency swaps - USD / JPY	853	-	12,220	15/02/2019	707	-	13,142	15/02/2019	Indebtedness EJBIC
Currency swaps - USD / JPY	1,316	-	13,131	15/02/2019	1,212	-	14,121	15/02/2019	Indebtedness JBIC
Currency swaps - USD / JPY	424	-	12,544	15/02/2019	233	-	13,491	15/02/2019	Indebtedness JBIC
Currency swaps - USD / JPY	32	-	9,693	15/02/2019	-	248	10,425	15/02/2019	Indebtedness JBIC
Currency swaps - USD / JPY	408	-	15,737	15/02/2019	-	18	16,924	15/02/2019	Indebtedness JBIC
Currency swaps - PEN / USD	-	3,855	36,626	05/12/2025	-	4,626	36,457	05/12/2025	Indebtedness JBIC
Currency swaps - USD / JPY	45	-	31,725	15/02/2019	-	861	34,119	15/02/2019	Indebtedness JBIC
Currency swaps - USD / JPY	-	141	33,015	15/02/2019	-	1,112	35,506	15/02/2019	Indebtedness JBIC
Currency swaps - USD / JPY	-	27	6,471	15/02/2019	-	218	6,959	15/02/2019	Indebtedness JBIC
Currency swaps - USD / JPY	-	39	13,292	15/02/2019	-	421	14,295	15/02/2019	Indebtedness JBIC
Currency swaps - USD / JPY	-	24	7,991	15/02/2019	-	256	8,595	15/02/2019	Indebtedness JBIC
Currency swaps - PEN / USD	-	-	-	15/02/2014	-	510	2,795	15/02/2014	Indebtedness BID US\$ 200 MM
Currency swaps - PEN / USD	-	3,896	41,294	15/02/2019	-	5,372	45,213	15/02/2019	Indebtedness BID US\$ 200 MM
Currency swaps - PEN / USD	-	3,553	41,294	15/02/2019	-	4,971	45,213	15/02/2019	Indebtedness BID US\$ 200 MM
Currency swaps - USD / JPY	-	59,159	244,809	08/09/2031	-	53,109	239,346	08/09/2031	Indebtedness AFLAC
Currency swaps - USD / JPY	-	534	70,723	20/10/2027	-	235	69,144	20/10/2027	Indebtedness JICA
Currency swaps - USD / JPY	-	28	3,971	20/10/2027	-	10	3,883	20/10/2027	Indebtedness JICA
Currency swaps - USD / JPY	-	1,364	49,273	20/10/2027	-	-	-		Indebtedness JICA
Currency forward - PEN / USD	-	-	-	12/03/2014	132	-	14,017	12/03/2014	Indebtedness Citibank
	<u>4,827</u>	<u>72,620</u>	<u>661,732</u>		<u>3,897</u>	<u>71,967</u>	<u>642,920</u>		
Interest rate swaps - fixed rate / Libor									
6M - USD	-	-	-	15/02/2014	-	36	4,193	15/02/2014	Indebtedness BID US\$ 200 MM
Interest rate swaps - fixed rate / Libor 6M - USD	-	2,315	42,120	15/02/2019	-	2,810	41,925	15/02/2019	Indebtedness BID US\$ 200 MM
	<u>-</u>	<u>2,315</u>	<u>42,120</u>		<u>-</u>	<u>2,846</u>	<u>46,118</u>		



For the three-months periods ended March 31, 2014 and 2013, the accumulated balance, the accumulated balance of unrealized net loss for cash flow hedges presented as other comprehensive income in profit or loss of effective hedges (unrealized profit or loss net of deferred income tax for (in thousands) (\$/8,106) and \$/14,832, respectively, that has been realized in the term of the underlying financial instrument. Additionally, no transfer of unrealized loss of cash flow hedges has been transferred to the statement of income.

For the three-months periods ended March 31, 2014 and 2013, COFIDE holds twenty operations of currency exchange swaps that, according to SBS authorizations, classifies as indebtedness cash flow hedge. By means of said operation, in economic terms, debt held by COFIDE is hedged.

Additionally, for the three-months periods ended March 31, 2014 and 2013, COFIDE maintains two exchange operations of interest rate (swaps) in order to hedge component of variable rate of certain debts, they mature between 2014 and 2019.

COFIDE has a methodology of measurement of the degree of ineffectiveness of hedges of derivative financial instruments that are hired with such objective. For the three-month periods ended March 31, 2014 and during 2013, COFIDE has not presented a decrease in relation to ineffectiveness of these hedges in the statement of income.

## **21. MANAGEMENT OF OTHER RISKS**

### **• *Operational risk***

Operational risk is generated by human, processes, systems errors or by external factors, including legal risk.

COFIDE has identified its operational risks focusing on transversal processes comprised in its cooperativeness. Additionally, continuous improvements are made in policies and methodologies of identification and responsibilities of those charged with its management.

Indications have been established for the analysis of causes and effectiveness of control measurement and reduction of operational risks. On the other hand, sundry reports allowing a continuous following-up on these risks are made, so as to determine necessary measures to reduce them, according to limits established by the Board of Directors. At the same time, managements and divisions, through operational risk coordinators, are in charge of qualitative valuation of their risks and controls.

A data basis of losses for operational risk has been design in order to complement qualitative analysis described above through a quantitative analysis.

In this way, even if currently COFIDE bases its operational risk management in the aforementioned qualitative actions, it seeks to move towards a management of this risk that complements qualitative valuations with quantitative ones.

### **• *Capital management – regulatory***

COFIDE actively manages a capital basis to hedge risks inherent to its activity. Ad equation of capital of COFIDE is monitored by using, among other measures, standards and ratios established by the SBS, counting with policies established for capital ad equation that define appetite and tolerance levels to risk of ad equation of capital through indications that seek optimizing the relation risk-profitability, as well as guidelines for management and capital assignment.

The objectives of COFIDE when managing capital are far more broad than net equity shown in the statement of financial position, they are: (i) complying with capital requirements established by the SBS; (ii) safeguard the capacity of COFIDE to continue operating so as to grant returns to its shareholders and benefits to other stakeholders; and (iii) maintaining a strong capital basis to support the development of its activities.

According to dispositions set forth by the SBS, COFIDE is obliged to maintain a regulatory capital equal to or greater than 10% of assets and contingents weighted per risk, comprising the requirement of regulatory capital for market risk, for operational risk and for credit risk. As of December 31, 2013, COFIDE uses the standard method to calculate the requirement of Regulatory Capital for credit and market risk, and basic method for operational risk. Additionally, on July 20, 2011, SBS Resolution No. 8425-2011 (Reglamento para el Requerimiento de Patrimonio Efectivo Adicional – Regulations for Additional Regulatory Capital Requirement) was published. By means of it, entities shall apply requirements per economic cycle, per concentration risk, per market concentration risk, per interest rate risk in bank records and other risks. This Additional Regulatory Capital requirement must be reached within five years. Its first section is 40% of the total requirement as from July 2012. Progressive increase is annual, at 15% rate, achieving 100% in July 31, 2016. It is important to remark that the requirement per economic cycle is activated and deactivated based on pro-cyclic provisions for loans.

As of March 31, 2014 and December 31, 2013, regulatory capital of COFIDE, determined according to legal standards, is of (in thousands) S/.1,902,922 and S/.1,882,271, respectively; which is used to calculate certain limits and restrictions applicable to banking entities in Peru, which Management of COFIDE considers to have entirely complied with.

As of March 31, 2014, assets and contingent loans weighted for credit risk amounts to (in thousands) S/.5,087,442 (S/.4,888,989 as of December 31, 2013) an equity requirement for credit, market and operational risk, determined by COFIDE according to effective legal standards, add up to (in thousands) S/.536,296 (S/.518,996 as of December 31, 2013); which generate global capital ratio of 35.48% (36.27% as of December 31, 2013).

## **22. SUBSEQUENT EVENTS**

Management of COFIDE is not aware of events having occurred between the closing date of these financial statements and the date of this report that may significantly affect them.

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