

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

*The following discussion contains an analysis of our financial condition and results of operations for the nine months ended September 30, 2014 and 2013 and for the years ended December 31, 2013, 2012 and 2011. The following discussion should be read in conjunction with our audited financial statements and unaudited interim financial statements, together with the notes thereto included in this offering memorandum. Our financial statements have been prepared in accordance with Peruvian Banking GAAP.*

### Overview

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

For the years ended December 31, 2013 and 2012, our net income was S/. 76.4 million (US\$27.3 million) and S/. 74.1 million (US\$29.1 million), respectively. For the nine months ended September 30, 2014 and 2013, our net income for the period was S/. 33.4 million (US\$11.9 million) and S/. 31.7 million (US\$11.4 million), respectively. As of September 30, 2014, our total shareholders' equity was S/. 2,227.7 million (US\$770.8 million). Additionally, the balance of our loan portfolio, net totaled S/. 4,854.1 million (US\$1,679.6 million) as of September 30, 2014 and S/. 4,370.0 million (US\$1,570.8 million) as of September 30, 2013.

### Primary lines of business

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

#### *Intermediation financing*

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

#### *Investment financing*

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

## Investment managing services

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

### Principal Trends Affecting Our Business

#### *Peruvian economic environment*

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

The Peruvian economy experienced an important economic growth during 2011, 2012 and 2013, with GDP growing 6.9%, 6.3% and 5.8%, respectively. This increase was mostly driven by increased domestic private consumption and stronger private investment, both of which grew at average rates of 5.5% and 8.2%, respectively, between 2011 and 2013. The main drivers of Peru's recent economic performance have been strong domestic demand and private investment. During the first nine months of 2014, Peruvian economy experienced an annual growth of 3.90%, led by an increase in domestic private consumption of 4.77%.

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

	<b>September 2014</b>	<b>2013</b>	<b>2012</b>
Peruvian real GDP growth rate .....	3.9%	5.8%	6.3%
Internal demand growth .....	3.8%	7.0%	8.0%
Private investment (real growth).....	-1.2%	6.4%	15.6%
Reference interest rate .....	3.5%	4.00%	4.25%
Fiscal surplus (deficit) (% of GDP) .....	-1.7%	0.8%	2.1%
CPI Index.....	2.74%	2.86%	2.65%
Unemployment rate .....	5.1%	5.7%	5.6%

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

In 2013, Peru's GDP grew at a rate of 5.8% compared with 4.3%, 4.1% and 2.3% for Colombia, Chile and Brazil, respectively. The previous year, Peru's economy had expanded 6.3%. Peru's annual inflation rate was 2.9%, slightly above the Peruvian Central Bank's target inflation of 2.0% but within the target range of between 1% and 3%, and generally in line with other Latin American countries except for Brazil, whose inflation rate was almost twice as high. Peru's unemployment rate was 5.1% in September 2014, 5.7% in 2013, and 5.6% in 2012. Peru's total investment and gross national savings as a percentage of GDP were among the highest in the region. With regards to its banking system, Peru's past due loan ratio was also one of the lowest among these other Latin American countries.

As a result of its reductions in fiscal spending, the Peruvian government also built up significant foreign exchange reserves which totaled approximately US\$64.5 billion in 2013 and represented 33.4% of Peru's annualized GDP and 106.4% of its external debt, an increase of US\$1.0 billion from US\$63.9 billion in foreign exchange reserves in 2012 and 30.8% of Peru's annualized GDP and 110.6% of its external debt. In addition, reserve ratio requirements in *nuevos soles* for banks are 14.0% lower at December 31, 2013 than at December 31, 2012. As reported by the Peruvian Central Bank, the average reserve levels in *nuevos soles* and U.S. dollars (10.5% and 45.0%, respectively, as of September 30, 2014) reflect higher levels of liquidity in the financial system, which in the event of a severe liquidity crisis or global economic crisis can alleviate the potential impact on Peru.

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

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

Primarily as a result of increasing economic output, growing investments and higher consumer confidence, the banking industry in Peru has experienced significant growth in recent years. From December 31, 2008 to September 30, 2014, direct loans in the Peruvian banking system have grown at an average annual rate of 13.6% from S/. 104.5 billion to S/. 217.6 billion. The high growth rates experienced by the economy and the banking sector during 2008 led the Peruvian Central Bank to tighten monetary policy and the SBS to strengthen regulation and increase provisioning requirements. The Peruvian Central Bank's monetary policies are discussed below. Since 2008, the SBS implemented measures to prevent individuals from borrowing excessively and to ensure that provisioning for consumer loans remains high during periods of significant growth.

Although our loans between December 31, 2008 and September 30, 2014 had an average annual growth rate of 19.6% from S/. 1,901.5 million to S/. 5,317.6 million, this growth was not directly linked to the growth experienced by the Peruvian banking sector, mainly because our loans were focused on financing infrastructure and investment projects. In some cases, our infrastructure and project loans were channeled through foreign investment banks.

In the second half of 2011, the Peruvian economy showed signs of slowing, driven by the uncertainty in connection with the election of President Humala and expectations of a recession in Europe and the United States. However, the Peruvian government's commitment to maintain current economic, fiscal and monetary policies supported economic growth in 2011 and stabilized the country's economy. In August 2011, S&P upgraded Peru's credit rating from BBB- to BBB. In October 2011, Fitch upgraded Peru's credit rating from BBB- to BBB. In August 2012, Moody's upgraded Peru's credit rating from Baa3 to Baa2. In July 2014, Moody's upgraded Peru's sovereign rating to A3 from Baa2. In July 2014, Moody's upgraded Peru's sovereign rating to A3 from Baa2.

The Peruvian economy, as measured by GDP, grew 6.3% during 2012. This increase was mostly driven by increased domestic demand associated with private consumption and private investment, which grew 5.8% and 13.6%, respectively, in 2012 when compared to 2011. Economic growth was affected by a weak external environment, which led to a decline in the growth of exports by 4.8%, while imports grew 10.4% during the same year. 40.8% of imports were capital goods and 24.1% was represented by economic inputs, such as fuel and raw materials for industry. The ratio of gross fixed capital formation to GDP remained high in 2012 at 26.7%.

The non-primary sector of the Peruvian economy experienced the greatest growth in 2012, at a rate of 7.0%, compared to 1.7% for the primary sector. The growth in the non-primary sector was driven by an increase of 6.7% in the trade sector and an increase of 15.2% in the construction sector. Other services, the largest component of GDP by economic sector and by contribution to the 2012 growth, increased by 7.1%. The primary sector grew 2.2% in 2012, mainly driven by a 5.7% growth in the agriculture sector and a 2.2% growth in the mining and hydrocarbons sector, which was partially offset by declines in the raw materials, processing and fishing sector.

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

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

For the first nine months of 2014, Peru's GDP was 3.9% higher than its GDP for the corresponding period in 2013. The increase was mainly attributable to a 4.3% growth in the non-primary sector and a 2.3%

growth in the primary sector. Domestic demand had increased by 3.8% during the same period as a result of an increase in domestic consumption in the amount of 4.8%. This greater domestic demand produced a deficit of 5.4% in the current account of GDP. In addition to the current account deficit, there is a fiscal deficit of 1.7% in GDP for the third quarter of 2014.

### ***Monetary policy***

Since April 2010, as a result of the significant economic growth, the Peruvian Central Bank started tightening its monetary policy, raising the reference rate and increasing reserve requirements. This tightening policy had the goal of avoiding speculative capital which could generate adverse effects on the GDP growth and has resulted in higher interest rates. For example, as of June 2014, the minimum legal reserve requirement for local and foreign currency deposits is 9.0%, compared to 6.0% as of May 2010. As of June 2014, foreign currency deposits collected from the general public are subject to a rate of 50.0% for reserve requirements compared to 30% as of May 2010. Local currency deposits collected from the general public are subject to a rate of 11.5% for reserve requirements as of June 2014, compared to no reserve requirement on local currency deposits as of May 2010. The reference rate has been increasing from 1.25% in April 1, 2010 to 4.0% as of June 2014, in an effort by the Peruvian Central Bank to maintain the inflation rate close to the inflation target in the context of the rapid growth of GDP.

Between May 2012 and April 2013, the Peruvian Central Bank increased the average legal reserve requirement for local currency deposits by 2.5%, through five separate increases and for foreign currency deposits by 4.8% through eight separate increases. In July 2013, however, the Peruvian Central Bank placed a 20.0% limit on the average legal reserve requirement for local currency deposits, which it later lowered to 12.0% as of March 2014. The Peruvian Central Bank also placed a 45.0% limit on the average legal reserve requirement for foreign currency deposits, which has remained unchanged. Furthermore, after 30 consecutive months with no changes to the reference rate, the Peruvian Central Bank also decreased the rate by 25 basis points to 4.00% since November 2013, reversing its decision to increase the reference rate by 25 basis points to 4.25% in May 2011.

### ***Inflation***

During the 1980s, Peru experienced hyperinflation, negative economic growth and substantial currency devaluation. Inflation rates in Peru began to decrease in the 1990s and in the last seven years have been among the lowest rates in Latin America, partly due to the monetary policy implemented by the Peruvian Central Bank and partly due to the conservative fiscal policy of the Peruvian government. In 2002, in order to maintain low inflation rates, the Peruvian Central Bank established an annual inflation target of 2.5% within a range of one percentage point. In 2007, the target was lowered to 2.0%. The inflation rate in Peru, as measured by the consumer price index, which is published by the INEI, was 3.5% in 2004, 1.5% in 2005, 1.1% in 2006, 3.9% in 2007, 6.7% in 2008, 0.2% in 2009, 2.1% in 2010, 4.7% in 2011, 2.6% in 2012 and 2.9% in 2013. The annualized inflation rate during June 2014 was 3.45%. The Peruvian Central Bank's inflation target has not always been met, and we cannot assure you that it will be met in the future. If the Peruvian Central Bank fails to meet such inflation targets, inflationary pressures could reduce our ability to access foreign financial markets and lead to further government intervention in the economy, including the introduction of policies that could adversely affect the performance of the Peruvian economy as a whole, and consequently, us.

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

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

The *nuevo sol* has been subject to significant devaluation against the US dollar and other foreign currencies in the past. However, from early 2009 to early 2013, the *nuevo sol* has appreciated against the US dollar and other foreign currencies. During the second quarter of 2013, however, the *nuevo sol* depreciated against the U.S. dollar due to the U.S. Federal Reserve's decision to gradually reduce the size of its monetary stimulus, leading to a global selloff in emerging market assets. Notwithstanding this depreciation, since June 2013, the *nuevo sol* has remained relatively stable, and as of February 2014, the value of the *nuevo sol* against the U.S. dollar was in line with its early 2011 value. If the *nuevo sol* appreciates, our interest expense

will decrease on our liabilities denominated in or indexed to foreign currencies, such as US dollar-denominated debt and foreign currency loans, as a result of the exchange gain of such liabilities when measured in *nuevos soles*. Conversely, in the event that the *nuevo sol* depreciates, we will have a greater financial expense on our liabilities denominated in or indexed to foreign currencies, such as any US dollar-denominated debt, including the Notes offered hereby. Some of our borrowing and on-lending activities are denominated in foreign-currency, and some of our credit operations are also denominated in foreign-currency. Accordingly, these assets and liabilities are subject to the effects of exchange rate variations. For the nine months ended September 30, 2014 we reported a net loss of S/. 19.3 million in foreign exchange variations, while for the year ended December 31, 2013 we reported a net gain of S/. 66.9 million in foreign exchange variations. These amounts were classified in our income statement under exchange rate difference in our interest expenses. The exchange rate difference is the net result of the variations of foreign exchange found in our assets and liabilities.

As of December 31, 2013, our yearly average foreign-currency liabilities totaled S/. 3,299.5 million, compared to S/. 2,636.4 million as of December 31, 2012, determined based on monthly ending balances during the applicable period. Our yearly average foreign currency assets amounted to S/. 2,971.7 million as of December 31, 2013 compared to S/. 2,207.3 million as of December 31, 2012, determined based on monthly ending balances during the applicable period. Any future changes in the value of the *nuevo sol* against the US dollar or other foreign currencies could adversely affect our financial condition and results of operations to the extent that we maintain a gap between foreign denominated assets and liabilities. However, the Peruvian Central Bank's participation in the currency exchange market, including the economic programs described below, aims to diminish any negative effect that could exist if there were to be a large fluctuation in the exchange rate between the *nuevo sol* and foreign currencies, including the US dollar. See "Exchange Rate Information" and "Risk Factors—Risks Relating to Peru—A devaluation of the *nuevo sol* could have a material adverse effect on our results of operations and financial condition and consequently affect our ability to make payments on the Notes" elsewhere in this offering memorandum.

The Peruvian government has adopted a policy to encourage the de-dollarization of the economy. This policy includes promoting the development of a *nuevo sol* capital markets and local currency yield curves. In addition, the government is promoting the *nuevo sol*-denominated components of government sponsored mortgage subsidy programs (*Mivivienda* and *Techo Propio*) to foster long-term financing in local currency. The proportion of outstanding loans in the banking system denominated in U.S. dollars has fallen from 57.3% in 2008 to 46.4% in 2013, according to figures published by the SBS. In addition, the percentage of deposits in the banking system denominated in U.S. dollars was approximately 58.2% in 2008 compared to 47.6% in 2013. We expect that the ongoing de-dollarization of the economy will reduce our exposure to potential mismatches between US dollar-denominated assets and liabilities and reduce Peru's exposure to external economic shocks.

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

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

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

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

## CAF investments

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

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

## Voluntary provisions

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

## SBS regulations for provisions

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

## Results of Operations

### Nine months ended September 30, 2014 compared to nine months ended September 30, 2013

The table below provides a summary of our results of operations for the nine months ended September 30, 2014 and 2013.

	Nine months ended September 30,		Change	
	2014	2013	(\$/ in thousands)	%
	(\$/ in thousands)			
Interest income .....	329,887	288,093	41,794	14.51%
Interest expenses .....	(193,076)	(154,096)	(38,980)	25.30%
<b>Gross financial margin</b> .....	<b>136,811</b>	<b>133,997</b>	<b>2,814</b>	<b>2.10%</b>
Provisions for loan losses, net (1).....	33,837	16,221	17,616	108.60%
<b>Net financial margin</b> .....	<b>170,648</b>	<b>150,218</b>	<b>20,430</b>	<b>13.60%</b>
Other income (expense) from financial services, net .....	18,327	15,788	2,539	16.08%
<b>Net financial margin and financial services</b> .....	<b>188,975</b>	<b>166,006</b>	<b>22,969</b>	<b>13.84%</b>
Financial transactions .....	(12,631)	(21,424)	8,793	(41.04%)
<b>Operating margin</b> .....	<b>176,344</b>	<b>144,582</b>	<b>31,762</b>	<b>21.97%</b>
Administrative expenses and depreciation and amortization .....	(53,075)	(44,576)	(8,499)	19.07%
<b>Net operating margin</b> .....	<b>123,269</b>	<b>97,234</b>	<b>26,035</b>	<b>26.78%</b>
Net valuation of assets and provisions.....	(26,510)	(18,002)	(8,508)	47.26%
<b>Operating profit</b> .....	<b>96,759</b>	<b>79,232</b>	<b>17,527</b>	<b>22.12%</b>
Other income and expenses .....	(13,259)	(5,615)	(7,644)	136.14%
<b>Profit before income tax</b> .....	<b>83,500</b>	<b>73,617</b>	<b>9,883</b>	<b>13.42%</b>
Income tax.....	(31,509)	(19,169)	(12,340)	64.37%
<b>Net income for the period</b> .....	<b>51,991</b>	<b>54,448</b>	<b>(2,457)</b>	<b>(4.51%)</b>

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

### Interest income

The following table sets forth the components of our interest income for the nine months ended September 30, 2014 and 2013.

	Nine months ended September 30,		Change	
	2014	2013	(S/. in thousands)	%
	(S/. in thousands)			
Cash .....	3,318	1,954	1,364	69.81%
Available-for-sale investments .....	49,773	36,752	13,021	35.43%
Direct loan portfolio .....	276,796	249,387	27,409	10.81%
<b>Interest income .....</b>	<b>329,887</b>	<b>288,093</b>	<b>41,794</b>	<b>14.51%</b>

Interest income increased by S/. 41.8 million for the nine months ended September 30, 2014 compared to the corresponding period in 2013. This increase was due to an increase in interests on our direct loan portfolio of S/. 27.0 million, as well as increases in interests on available-for-sale investments and cash of S/. 13.0 million and S/. 0.6 million, respectively.

The increase in interests on our direct loan portfolio was due to an increase in the average loan balance of 16.9% from S/. 4,456.1 million for the nine months ended September 30, 2013 to S/. 5,208.8 million for the nine months ended September 30, 2014, which led to an increase of interest earned on the loan portfolio totaling S/. 40.0 million. A slight decrease in average interest rates, however, from 5.60% for the nine months ended September 30, 2013 compared to 5.31% for the corresponding period in 2014 resulted in a decrease of S/. 12.6 million in interest on the loan portfolio.

The higher interest on available-for-sale investments was due to (i) an increase in the average balance of investments of 37.7% from S/. 733.8 million for the nine months ended September 30, 2013 to S/. 1,010.1 million for the corresponding period in 2014, which led to S/. 13.6 million in interest earned. However, there was a decrease in average interest rates from 5.01% for the nine months ended September 30, 2013 to 4.93% for the corresponding period in 2014, which led to a decline on earned interest of S/. 0.6 million.

The higher interests on cash was as a result of an increase in the average balance of cash from S/. 155.1 million for the nine months ended September 30, 2013 to S/. 486.1 million for the corresponding period in 2014, which led to a rise of S/. 2.26 million. Nevertheless, a decline in average interest rates from 1.26% for nine months ended September 30, 2013 to 0.68% for the nine months ended September 30, 2014, led to a decrease of S/. 895 thousand in interests earned.

### Interest expenses

The following table sets forth the components of our interest expenses for the nine months ended September 30, 2014 and 2013.

	Nine months ended September 30,		Change	
	2014	2013	(S/. in thousands)	%
	(S/. in thousands)			
Obligations to the public .....	(2,536)	(946)	(1,590)	168.08%
Deposits from financial system entities and international financial organizations .....	(8,464)	(510)	(7,954)	1,559.61%
Debts and financial obligations .....	(168,060)	(136,323)	(31,737)	23.28%
Debts and obligations to local financial entities .....	(35,803)	(31,669)	(4,134)	13.05%
Debts and obligations to foreign financial entities and international financial organizations .....	(29,306)	(22,847)	(6,459)	28.27%
Other debts and obligations to local and foreign entities .....	(3,453)	(3,942)	489	(12.40%)
Commissions and other charges for debts and financial obligations .....	(6,914)	(3,369)	(3,545)	105.22%
Securities, bonds and outstanding obligations .....	(92,584)	(74,496)	(18,088)	24.28%
Net (loss) profit from hedging transactions .....	(13,982)	(16,317)	2,335	(14.31%)
<b>Interest expenses .....</b>	<b>(193,076)</b>	<b>(136,323)</b>	<b>(56,753)</b>	<b>41.63%</b>

Interest expenses increased by S/. 56.8 million for the nine months ended September 30, 2014 compared to the corresponding period in 2013. This increase was primarily due to an increase in expenses from interests on securities, bonds and outstanding obligations of S/. 18.1 million, as a result of an increase in the average balance of obligations from S/. 1,989.9 million for the nine months ended September 30, 2013 to S/.

2,620.7 million for the corresponding period in 2014, which led to a rise in interest expenses in the amount of S/. 22.3 million, which was offset by a decrease in the average interest rates from 3.74% for nine months ended September 30, 2013 to 3.53% for the corresponding period in 2014, resulting in a decline of S/. 4.2 million in interest expenses.

Expenses from interests on debts and obligations to foreign financial entities and international financial organizations increased by S/. 6.5 million, which was due to an increase in the average balance of obligations from S/. 1,405.9 million for the nine months ended September 30, 2013 to S/. 1,741.6 million for the corresponding period in 2014, which led to an increase in interest expenses of S/. 7.7 million. Additionally, there was a slight increase in average interest rates from 1.63% for the nine months ended September 30, 2013 to 1.68% for the corresponding period in 2014 which led to a rise of S/. 265 thousand in interest expenses.

Interest expenses on deposits from financial system entities and international financial organizations increased by S/. 7.9 million for the nine months ended September 30, 2014 as compared to the corresponding period in 2013. Such increase was due to (i) an increase in the average balance from S/. 16.7 million to S/. 182.8 million, which led to an increase in total interest expenses of S/. 7.6 million, and (ii) an increase in average interest rates from 3.05% for the nine months ended September 30, 2013 to 4.63% for the corresponding period in 2014, leading to a rise in interest expenses of S/. 0.3 million.

#### *Gross financial margin*

Gross financial margin increased by S/. 18.7 million for the nine months ended September, 30, 2014 compared to the corresponding period in 2013.

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

The following table presents our provisions for loan losses, reversals and exchange difference for the nine months ended September 30, 2014 and 2013.

	<b>Direct</b> (S/. in thousands)	<b>Contingent</b> (S/. in thousands)	<b>Total</b> (S/. in thousands)
<b>Balance at December 31, 2013</b> .....	<b>599,097</b>	<b>44,994</b>	<b>644,091</b>
Provisions for the year .....	17,801	6,506	24,307
Reversals .....	(49,909)	(8,370)	(58,279)
Exchange difference .....	5,721	1,288	7,009
<b>Balance at the end of the period</b> .....	<b>572,710</b>	<b>44,418</b>	<b>617,128</b>

The balance of our provisions for direct and contingent loan losses registered as of September 30, 2014 was lower than the balance registered as of September 30, 2013. This decrease was the result of an increase of S/. 29.4 million in provisions, a decrease in reversals of S/. 3.2 million and a decrease of exchange results, net for S/. 7.2 million. The final balances of provisions for loan losses were S/. 617.1 million and S/. 635.2 million as of September 30, 2014 and 2013, respectively.

#### *Financial transactions*

Financial transactions increased S/. 21.6 million for the nine months ended September 30, 2014 as compared to the corresponding period in 2013. Such increase was mainly due to gains from hedging derivatives in the amount of S/. 52.6 million for the nine months ended September 30, 2014, whereas we registered losses from hedging derivatives in the amount of S/. 52.0 million for the corresponding period in 2013.

#### *Administrative expenses*

The following table sets forth the components of our administrative expenses for the nine months ended September 30, 2014 and 2013.

	<b>Nine months ended September 30,</b>		<b>Change</b>	
	<b>2014</b>	<b>2013</b>	<b>(S/. in thousands)</b>	<b>%</b>
Personnel and Board of Directors' expenses .....	31,085	29,569	1,516	5.13%
Expenses for services received from third parties...	16,119	13,135	2,984	22.72%
Taxes and contributions (1) .....	3,761	3,258	503	15.44%
Depreciation and amortization.....	2,110	1,386	724	52.24%
<b>Administrative expenses</b> .....	<b>(53,075)</b>	<b>(47,348)</b>	<b>(5,727)</b>	<b>12.10%</b>



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

The increase in administrative expenses was primarily due to a S/. 3.0 million, or 22.7%, increase in expenses for services received from third parties, the costs of personnel and board of directors for the nine months ended September 30, 2014 as compared to the corresponding period in 2013. Furthermore, we experienced a rise of S/. 1.5 million, or 5.13%, due to an increase in the costs of personnel and board of directors. This increase was due to the first annual review of salaries, which was based on the working performance of our employees for the previous year. The review aims to reward top performing employees during the year through salary increases at a rate above annual inflation. For employees with an average performance level, the rise in salary is the annual inflation rate.

Our efficiency ratio (the sum of administrative expenses plus depreciation and amortization divided by operating revenue (the sum of interest income and income from financial services)) reached 15.65% for the nine months ended September 30, 2014 compared to 17.89% for the corresponding period in 2013.

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

Net valuation of assets and provisions increased by S/. 8.5 million for the nine months ended September 30, 2014 compared to the corresponding period in 2013, mainly due to an increase in provisions for contingent loans in the amount of S/. 2.8 million.

#### *Operating profit*

Operating profit increased by S/. 17.5 million for the nine months ended September 30, 2014 compared to the corresponding period in 2013. This increase was primarily due to (i) an increase in our net financial margin, and (ii) an increase in the financial transactions, which was partially offset by an increase in expenses related to net valuation of assets and provisions.

#### *Other income and expenses*

The following table sets forth the components of our other income, net for the nine months ended September 30, 2014 and 2013.

	<b>Nine months ended September 30,</b>		<b>Change</b>	
	<b>2014</b>	<b>2013</b>	<b>(S/. in thousands)</b>	<b>%</b>
	<b>(S/. in thousands)</b>			
<b>Other income</b>				
Income from loan reversals .....	12,288	537	11,751	2,188.27%
Other income .....	130	70	60	85.71%
<b>Total other income</b> .....	<b>12,418</b>	<b>607</b>	<b>11,811</b>	<b>1,945.80%</b>
<b>Other expenses</b>				
Other expenses .....	(25,677)	(6,221)	(19,456)	312.75%
<b>Total other expenses</b> .....	<b>(25,677)</b>	<b>(6,221)</b>	<b>(19,456)</b>	<b>312.75%</b>
<b>Total other income, net</b> .....	<b>(13,259)</b>	<b>(5,614)</b>	<b>(7,645)</b>	<b>136.18%</b>

- (1) Income from previous periods refers to capitalized interest from loan reversals.  
(2) Expenses due to reversals from trust administrations and reversals from interest accrued on bank accounts.

Other income, net decreased by S/. 7.6 million for the nine months ended September 30, 2014 compared to the corresponding period in 2013. It was primarily due to an increase in income from loan reversals of S/. 11.5 million, which was mainly offset by an increase in other expenses in the amount of S/. 19.5 million.

#### *Income tax*

Income tax increased by S/. 12.3 million for the nine months ended September 30, 2014 compared to the corresponding period in 2013. The effective income tax rate was 37.74% and 22.94% for the nine months ended September 30, 2014 and 2013, respectively.

### Net income for the period

As a result of the foregoing, net income for the period decreased by S/. 2.5 million for the nine months ended September 30, 2014 compared to the corresponding period of 2013.

### Year ended December 31, 2013 compared to year ended December 31, 2012

The table below provides a summary of our results of operations for the years ended December 31, 2013 and 2012.

	Year ended December 31,		Change	
	2013	2012	(S/. in thousands)	%
	(S/. in thousands)			
Interest income.....	389,272	317,638	71,634	22.55%
Interest expenses .....	(210,420)	(186,286)	(24,134)	12.96%
<b>Gross financial margin</b> .....	<b>178,852</b>	<b>131,352</b>	<b>47,500</b>	<b>36.16%</b>
Provisions for loan losses, net (1).....	15,804	(5,102)	20,906	409.76%
<b>Net financial margin</b> .....	<b>194,656</b>	<b>126,250</b>	<b>68,406</b>	<b>54.18%</b>
Other income (expense) from financial services, net .....	21,593	24,117	(2,524)	(10.47%)
<b>Net financial margin and financial services</b> .....	<b>216,249</b>	<b>150,367</b>	<b>65,882</b>	<b>43.81%</b>
Financial transactions.....	(21,978)	12,615	(34,593)	(274.22%)
<b>Operating margin</b> .....	<b>194,271</b>	<b>162,982</b>	<b>31,289</b>	<b>19.20%</b>
Administrative expenses and depreciation and amortization .....	(64,767)	(64,106)	(661)	1.03%
<b>Net operating margin</b> .....	<b>129,504</b>	<b>98,876</b>	<b>30,628</b>	<b>30.98%</b>
Net valuation of assets and provisions.....	(14,386)	12,794	(27,180)	(212.44%)
<b>Operating profit</b> .....	<b>115,118</b>	<b>111,670</b>	<b>3,448</b>	<b>3.09%</b>
Other income and expenses .....	(7,104)	6,299	(13,403)	(212.78%)
<b>Profit before income tax</b> .....	<b>108,014</b>	<b>117,969</b>	<b>(9,955)</b>	<b>(8.44%)</b>
Income tax.....	(31,633)	(43,859)	12,226	(27.88%)
<b>Net income for the year</b> .....	<b>76,381</b>	<b>74,110</b>	<b>2,271</b>	<b>3.06%</b>

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

### Interest income

The following table sets forth the components of our interest income for 2013 and 2012.

	Year ended December 31,		Change	
	2013	2012	(S/. in thousands)	%
	(S/. in thousands)			
Cash .....	2,378	11,318	(8,940)	(78.99%)
Available-for-sale investments.....	50,200	33,434	16,766	50.15%
Direct loan portfolio.....	336,694	272,865	63,829	23.39%
Other financial income.....	-	21	(21)	(100.00%)
<b>Interest income</b> .....	<b>389,272</b>	<b>317,638</b>	<b>71,634</b>	<b>22.55%</b>

Interest income increased by S/. 71.6 million for 2013 compared to 2012. This increase was due to an increase in interests on our direct loan portfolio of S/. 63.8 million, as well as an increase in interests on available-for-sale investments of S/. 16.8 million. These increases were partially offset by a decrease of S/. 8.9 million in interest on cash during the same period.

The increase in interests on our direct loan portfolio was due to an increase in the average loan balance of 35.16% from S/. 3,433.6 million in 2012 to S/. 4,640.9 million in 2013, which led to an increase of interest on the loan portfolio of S/. 87.6 million of interest earned. However, a slight decrease in average interest rates, from 7.95% for 2012 compared to 7.25% for 2013 resulted in a decrease of S/. 23.8 million in interest on the loan portfolio.

The decrease in interest on cash was as a result of (i) a decrease in the average balance of cash from S/. 488.0 million in 2012 to S/. 145.3 million in 2013, which led to a decrease of S/. 5.6 million in interests earned and (ii) a decrease in average interest rates from 2.32% for 2012 to 1.64% for 2013, which led to a decrease of S/. 3.3 million in interests earned.

The increase on interests on available-for-sale investments was due to an increase in the average balance of investments, which led to S/. 8.9 million in interests earned. Furthermore, there was an increase in average interest rates from 5.54% in 2012 to 6.83% in 2013. Such increase in average interest rates caused an increase in interests earned of S/. 7.8 million when compared to 2012.

#### *Interest expenses*

The following table sets forth the components of our interest expenses for 2013 and 2012.

	<b>Year ended December 31,</b>		<b>Change</b>	
	<b>2013</b>	<b>2012</b>		
	<b>(S/. in thousands)</b>		<b>(S/. in thousands)</b>	<b>%</b>
Obligations to the public .....	(1,300)	(917)	(383)	41.77%
Deposits from financial system entities and international financial organizations.....	(2,343)	(3,993)	1,650	(41.32%)
Debts and financial obligations .....	(185,791)	(158,137)	(25,401)	14.00%
Debts and obligations to local financial entities.....	(43,220)	(41,684)	(1,536)	3.68%
Debts and obligations to foreign financial entities and international financial organizations.....	(31,997)	(29,612)	(2,385)	8.05%
Debts and obligations to local and foreign entities .....	(5,173)	(6,642)	1,469	(22.12%)
Commissions and other charges for debts and financial obligations.....	(4,934)	(10,247)	5,313	(51.85%)
Securities, bonds and outstanding obligations .....	(100,467)	(69,952)	(30,515)	43.62%
Net (loss) profit from hedging transactions.....	(20,986)	(23,239)	2,253	(9.69%)
<b>Interest expenses.....</b>	<b>(210,420)</b>	<b>(186,286)</b>	<b>(24,134)</b>	<b>12.96%</b>

Interest expenses increased by S/. 24.1 million for 2013 compared to the corresponding period in 2012. This increase was primarily due to an increase in expenses from interests on securities, bonds and outstanding obligations of S/. 30.5 million.

Expenses from interests on obligations to the public increased by S/. 383.0 thousand, while expenses from interests on deposits from financial system entities and international financial organizations decreased by S/. 1.7 million.

The increase of interests on securities, bonds and outstanding obligations was due to (i) a higher average balance of securities, bonds and outstanding obligations in 2013 as compared to 2012 that caused an increase of S/. 30.4 million in interests, and (ii) an increase in the average interest rates of securities, bonds and outstanding obligations, from 4.98% for 2012 to 4.99% for 2013, which resulted in an increase of S/. 143.0 thousand.

Expenses from interests on debts and obligations to foreign financial entities and international financial organizations increased by S/. 2.4 million for 2013 as compared to 2012. Such increase was due to an increase in the average balance, which caused an increase in total interest by S/. 5.9 million, and was partially offset by a decrease average interest rates from 2.42% in 2012 to 2.14% in 2013, which reduced total interest in S/. 3.5 million.

Expenses from interests on debts and obligations to local financial entities increased by S/. 1.5 million from 2012 to 2013. Such increase was due to an increase in the average balance of debts and obligations of the financial system of Peru, which caused an increase of S/. 6.0 million in interests, and a decrease in the average interest rates of debts and obligations of the financial system of Peru, from 5.16% in 2012 to 4.61% in 2013, which resulted in a decrease of S/. 4.5 million in total interest.

#### *Gross financial margin*

Gross financial margin increased by S/. 47.5 million for 2013 compared to 2012. This increase was primarily due to the increase in interest income mainly due to an increase of S/. 63.8 million in interest on the direct loan portfolio. The higher interest income was partially offset by an increase in interest expenses mainly due to an increase of S/. 30.5 million in interests on securities, bonds and outstanding obligations, which led to an increase of S/. 25.4 million in interests on debts and financial obligations.

*Provisions for loan losses, net*

The following table presents our provisions for loan losses, reversals and exchange difference for the year ended December 31, 2013 and 2012.

	<b>Direct</b> (S/. in thousands)	<b>Contingent</b> (S/. in thousands)	<b>Total</b> (S/. in thousands)
<b>Balance at December 31, 2012</b> .....	<b>600,625</b>	<b>28,203</b>	<b>628,828</b>
Provisions for the year .....	66,471	14,296	80,767
Reversals.....	(80,827)	(33)	(80,860)
Exchange difference.....	12,828	2,528	15,356
<b>Balance at December 31, 2013</b> .....	<b>599,097</b>	<b>44,994</b>	<b>644,091</b>

The balance of our provisions for direct and contingent loan losses registered as the year ended December 31, 2013 was higher than the balance registered as of the year ended December 31, 2012. This increase was the result of provisions for the period of S/. 66.47 million and an exchange difference of S/. 12.8 million, which has been offset by reversals from the previous year, resulting in net provisions for direct loan losses of S/. 599.1 million (S/. 1.5 million less than the balance registered at December 31, 2012). Net provisions for contingent loans increased by S/. 16.8 million during this period. Changes in the provisions between 2012 and 2013 were mainly as a result of changes in the level of specific and voluntary provisioning required for each type of intermediary financial institution, with the largest changes experienced among the following type of intermediary financial institutions: banks, financial institutions, micro and small enterprise development entities and municipal saving institutions.

Provisions for loan losses registered the year ended December 31, 2013, as described in the previous paragraph, were offset by reversals from provisions for loan losses from the previous year, as well as from reversals from provisions for accounts receivables from the previous year, which were reallocated as voluntary provisions for loan losses for contingent loans.

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

*Financial transactions*

Financial transactions decreased S/. 34.6 million for 2013 compared to 2012. Such decrease was mainly due to losses from hedge and held-for-trade derivatives in the amount of S/. 19.6 million, and a decrease in the income from exchange difference from sundry operations in the amount of S/. 13.7 million.

*Administrative expenses*

The following table sets forth the components of our administrative expenses for 2013 and 2012.

	<b>Year ended December 31,</b>		<b>Change</b>	
	<b>2013</b>	<b>2012</b>	<b>(S/. in thousands)</b>	<b>%</b>
Personnel and board expenses .....	39,723	38,072	1,651	4.34%
Expenses for services received from third parties...	18,733	17,759	974	5.48%
Taxes and contributions (1).....	4,456	3,867	589	15.23%
Depreciation and amortization.....	1,855	4,408	(2,553)	(57.92%)
<b>Administrative expenses</b> .....	<b>(64,767)</b>	<b>(64,106)</b>	<b>(661)</b>	<b>1.03%</b>

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

The increase in administrative expenses was primarily due to a S/. 1.7 million, or 4.3%, increase in the costs of personnel and board of directors for 2013 compared to 2012.

Our efficiency ratio (the sum of administrative expenses plus depreciation and amortization divided by operating revenue (the sum of interest income and income from financial services)) reached 15.57% for 2013 compared to 18.58% for 2012. This decrease was due to changes in our accounting practices that took effect as of January 2013.

### Net valuation of assets and provisions

Net valuation of assets and provisions decreased by S/. 27.2 million for 2013 compared to 2012 mainly due to an increase in provisions for contingent loans in the amount of S/. 16.8 million.

### Operating profit

Operating profit increased by S/. 3.4 million for 2013 compared to 2012. This increase was primarily due to an increase in our net financial margin, which was offset by a decrease in both the financial transactions and net valuation of assets and provisions.

### Other income and expenses

The following table sets forth the components of our other income, net for the years ended December 31, 2013 and 2012.

	December 31,		Change	
	2013	2012	(S/. in thousands)	%
	(S/. in thousands)			
<b>Other income</b>				
Income from loan reversals .....	1,829	14,094	(12,265)	(87.02%)
Other income .....	82	265	(182)	68.97
Income from previous periods (1) .....	-	288	(288)	(100.00%)
<b>Total other income</b> .....	<b>1,911</b>	<b>14,730</b>	<b>(12,819)</b>	<b>(86.95%)</b>
<b>Other expenses</b>				
Other expenses .....	(9,014)	(3,279)	(5,735)	174.87%
Expenses from previous periods (2) .....	-	(5,068)	5,068	(100.00%)
<b>Total other expenses</b> .....	<b>(9,014)</b>	<b>(8,347)</b>	<b>(667)</b>	<b>7.99%</b>
<b>Total other income, net</b> .....	<b>(7,104)</b>	<b>6,299</b>	<b>(13,403)</b>	<b>(212.76%)</b>

(1) Income from previous periods refers to capitalized interest from loan reversals.

(2) Expenses due to reversals from trust administrations and reversals from interest accrued on bank accounts.

Other income, net decreased by S/. 13.4 million for 2013 compared to 2012. This decrease was primarily due to the reduction in income from loan reversals of S/. 12.3 million, which was mainly offset by a decrease in expenses of previous periods in the amount of S/. 5.1 million.

### Income tax

Income tax decreased by S/. 12.2 million for 2013 compared to 2012. The effective income tax rate was 29.27% and 37.17% for 2013 and 2012, respectively.

### Net income for the year

As a result of the foregoing, net income increased by S/. 2.3 million for 2013 compared to 2012.

### Year ended December 31, 2012 compared to year ended December 31, 2011

The table below provides a summary of our results of operations for 2012 and 2011.

Year ended December 31,		Change	
2012	2011	(S/. in thousands)	%
(S/. in thousands)			

	Year ended December 31,		Change	
	2012	2011	(S/. in thousands)	%
Interest income.....	317,638	264,898	52,740	19.91%
Interest expenses.....	(186,286)	(127,315)	(58,971)	46.32%
<b>Gross financial margin.....</b>	<b>131,352</b>	<b>137,583</b>	<b>(6,231)</b>	<b>(4.53%)</b>
Provisions for loan losses, net (1).....	(5,102)	(14,791)	9,689	(65.51%)
<b>Net financial margin.....</b>	<b>126,250</b>	<b>122,792</b>	<b>3,458</b>	<b>2.82%</b>
Other income (expense) from financial services, net.....	24,117	17,725	6,392	36.06%
<b>Net financial margin and financial services.....</b>	<b>150,367</b>	<b>140,517</b>	<b>9,850</b>	<b>7.01%</b>
Financial transactions.....	12,615	4,987	7,628	152.96%
<b>Operating margin.....</b>	<b>162,982</b>	<b>145,505</b>	<b>17,477</b>	<b>12.01%</b>
Administrative expenses and depreciation and amortization.....	(64,106)	(57,157)	(6,949)	12.16%
<b>Net operating margin.....</b>	<b>98,876</b>	<b>88,348</b>	<b>10,528</b>	<b>11.92%</b>
Net valuation of assets and provisions.....	12,794	23,225	(10,431)	(44.91%)
<b>Operating profit.....</b>	<b>111,670</b>	<b>111,573</b>	<b>97</b>	<b>0.09%</b>
Other income and expenses.....	6,299	109	6,190	5,678.90%
<b>Profit before income tax.....</b>	<b>117,969</b>	<b>111,682</b>	<b>6,287</b>	<b>5.63%</b>
Income tax.....	(43,859)	(39,559)	(4,300)	10.87%
<b>Net income for the year.....</b>	<b>74,110</b>	<b>72,123</b>	<b>1,987</b>	<b>2.76%</b>

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

### Interest income

The following table sets forth the components of our interest income for 2012 and 2011.

	Year ended December 31,		Change	
	2012	2011	(S/. in thousands)	%
Cash.....	11,318	1,924	9,394	488.25%
Available-for-sale investments.....	33,434	16,392	17,042	103.97%
Direct loan portfolio.....	272,865	246,421	26,444	10.73%
Other financial income.....	21	161	(140)	(86.96%)
<b>Interest income.....</b>	<b>317,638</b>	<b>264,898</b>	<b>52,740</b>	<b>19.91%</b>

Interest income increased by S/. 52.7 million for 2012 compared to 2011. This increase was primarily due to: (i) an increase in interests on our direct loan portfolio in the amount of S/. 26.4 million, (ii) an increase in interest on cash in the amount of S/. 9.4 million and (iii) an increase in interest on available-for-sale investments in the amount of S/. 17.0 million.

The increase in interests on our direct loan portfolio was due to an increase in the average loan balance of 15.48% from S/. 2,973.2 million for 2011 to S/. 3,433.6 million for 2012, which led to an increase of interest on the loan portfolio of S/.36.6 million of interest earned. However, a slight decrease in average interest rates, from 8.29% for 2011 compared to 7.95% for 2012 resulted in a decrease of S/. 10.1 million in interest on the loan portfolio.

The increase on interest on cash was as a result of (i) an increase in the average balance from S/. 100.7 million for 2011 to S/. 488.0 million for 2012, which led to an increase of S/. 9.0 million in interests earned and (ii) an increase in average interest rates from 1.91% for 2011 to 2.32% for 2012, which led to an increase of S/. 0.4 million in interests earned.

The increase on interests on available-for-sale investments was due to an increase in the average balance of investments from S/. 344.0 million for 2011 to S/. 603.8 million for 2012, which led to an increase of S/. 14.2 million in interests earned. Additionally, there was an increase in average interest rates from 4.77% for 2011 to 5.54% for 2012, which resulted in an increase in interests earned of S/. 2.8 million when compared to 2011.

## Interest expenses

The following table sets forth the components of our interest expenses for the year ended December 31, 2012 and 2011.

	Year ended December 31,		Change	
	2012	2011	(S/. in thousands)	%
	(S/. in thousands)			
Obligations to the public .....	(917)	(1,055)	138	(13.08%)
Deposits from financial system entities and international financial organizations.....	(3,993)	(6,385)	2,392	(37.46%)
Debts and financial obligations .....	(158,137)	(97,211)	(60,926)	62.67%
Debts and obligations to local financial entities .....	(41,684)	(48,771)	7,087	(14.53%)
Debts and obligations to foreign financial entities and international financial organizations .....	(29,612)	(21,871)	(7,741)	35.39%
Debts and obligations to local and foreign entities ...	(6,642)	(8,190)	1,548	(18.90%)
Commissions and other charges for debts and financial obligations .....	(10,247)	(5,854)	(4,393)	75.04%
Securities, bonds and outstanding obligations .....	(69,952)	(12,525)	(57,427)	458.50%
Net (loss) profit from hedging transactions .....	(23,239)	(21,905)	(1,334)	6.09%
Other financial expenses .....	-	(759)	759	(100.00%)
<b>Interest expenses.....</b>	<b>(186,286)</b>	<b>(127,315)</b>	<b>(58,971)</b>	<b>46.32%</b>

Interest expenses increased by S/. 59.0 million for 2012 as compared to 2011. This increase was primarily due to an increase in expenses from interests on securities, bonds and outstanding obligations of S/. 57.4 million, as a result of an increase in the average balance of obligations, which led to an increase of S/. 60.1 million in interest expenses. The increase in volume was partially offset by a decrease in average interest rates, from 6.33% for 2011 to 4.98% for 2012, resulting in a decrease of S/. 2.7 million in interest.

Interest expenses on debts and obligations to foreign financial entities and international financial organizations increased by S/. 7.7 million for 2012 as compared to 2011, as a result of an increase in the average interest rates, from 1.85% in 2011 to 2.42% in 2012, which led to an increase of S/. 6.7 million in interest expenses. In addition, there was an increase in average balance debts and obligations to foreign financial entities and international financial organizations from S/. 1,183.1 million in 2011 to S/. 1,223.3 million, which resulted in an additional increase in interest expenses of S/. 1.0 million.

Additionally, there was a decrease in expenses on debts and obligations to local financial entities in the amount of S/. 7.1 million for 2012 as compared to 2011. Such decrease was primarily due to a decrease of 14.04% in the average balance of debts and obligations to local financial entities from S/. 939.6 million in 2011 to S/. 807.7 million in 2012, which resulted in a decrease of S/. 6.8 million in expenses. Furthermore, there was a decrease in average interest rates of debts and obligations to local financial entities from 5.19% in 2011 to 5.16% in 2012, which resulted in an increase of S/. 282.0 thousand in interest expenses.

## Gross financial margin

Gross financial margin decreased by S/. 6.2 million for 2012, as compared to 2011. This decrease was primarily due to an increase of S/. 58.9 million in interest expenses and an increase in the interests on the direct loan portfolio totaling S/. 27.1 million, which was partially offset by an increase in interest income in the amount of S/. 52.7 million.

### Provisions for loan losses

The following table presents our provisions for loan losses, reversals and exchange difference for the year ended December 31, 2012 and 2011.

	<b>Direct</b>	<b>Contingent</b>	<b>Total</b>
	(S/. in thousands)	(S/. in thousands)	(S/. in thousands)
<b>Balance at December 31, 2011</b> .....	<b>610,726</b>	<b>39,756</b>	<b>650,482</b>
Provisions for the year .....	121,471	3,022	124,493
Reversals.....	(116,369)	(13,186)	(129,555)
Write-Offs.....	(9,433)	-	(9,433)
Exchange difference.....	(5,770)	(1,389)	(7,159)
<b>Balance at December 31, 2012</b> .....	<b>600,625</b>	<b>28,203</b>	<b>628,828</b>

The balance of our provisions for direct and contingent loan losses registered as of the year ended December 31, 2012 was lower than the balance registered as of the year ended December 31, 2011. This decrease was the result of provisions for the year of S/. 121.5 million, offset by reversals from the previous year, resulting in net provisions for direct loan losses of S/. 600.6 million which was S/. 10 million less than the balance registered at December 31, 2011. Net provisions for contingent loans decreased by S/. 11.6 million during this period. Changes in the provisions between 2011 and 2012 were mainly a result of changes in the level of specific and voluntary provisioning required for each type of intermediary financial institution, with the largest changes experienced among the following type of intermediary financial institutions: banks, financial institutions, micro and small enterprise development entities and municipal saving institutions.

Provisions for loan losses registered for the year ended December 31, 2012, as described in the previous paragraph, were offset by reversals from provisions for loan losses from the previous year, as well as from reversals from provisions for accounts receivables from the previous year, which were reallocated as voluntary provisions for loan losses for contingent loans.

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

### Financial transactions

Financial transactions increased S/. 7.6 million for 2012 as compared to 2011. Such increase was mainly due to an increase in exchange difference gains in the amount of S/. 80.1 million, which was partially offset by a decrease in gains from hedging transactions in the amount of S/. 71.3 million.

### Administrative expenses and depreciation and amortization

The following table sets forth the components of our administrative expenses for 2012 and 2011.

	<b>Year ended December 31,</b>		<b>Change</b>	
	<b>2012</b>	<b>2011</b>	(S/. in thousands)	%
	(S/. in thousands)		(S/. in thousands)	%
Personnel and Board of Director's expenses .....	38,072	34,638	3,434	9.91%
Expenses for services received from third parties...	17,759	14,669	3,090	21.06%
Taxes and contributions (1).....	3,867	3,586	281	7.84%
Depreciation and amortization.....	4,408	4,264	144	3.38%
<b>Administrative expenses</b> .....	<b>64,106</b>	<b>57,157</b>	<b>6,949</b>	<b>12.16%</b>

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

The increase in administrative expenses was primarily due to a S/. 3.4 million, or 9.9%, increase in the costs of personnel and board of directors due to a S/. 1.5 million increase in salaries, or 10.14%, for 2012 compared to 2011, as well as an increase of S/. 0.2 million in bonuses.

Our efficiency ratio (the sum of administrative expenses plus depreciation and amortization divided by operating revenue (the sum of interest income and income from financial services)) improved to 18.58% for 2012 compared to 19.98% for 2011. This improvement was due to a much larger increase in revenues over expenses.



### *Net valuation of assets and provisions*

Net valuation of assets and provisions decreased by S/. 10.4 million for the year ended December 31, 2012 compared to 2011, mainly due to an increase in provisions for contingent loans in the amount of S/. 13.5 million.

### *Operating profit*

Operating profit increased by S/. 97 thousand for the year ended December 31, 2012 compared to 2011. This increase was primarily due to an increase in both our net financial margin and financial transactions, which was offset by a decrease in net valuation of assets and provisions.

### *Other income and expenses*

Other income, net increased S/. 6.2 million for 2012 compared to 2011. This increase was primarily due to the decrease in expenses from previous periods of S/. 6.7 million, as well as a decrease of S/. 0.5 million in other expenses.

### *Income tax*

Income tax increased by S/. 4.3 million for 2012 compared to 2011. The effective income tax rate was 37.18% and 35.42% for the year ended December 31, 2012 and 2011, respectively.

### *Net income for the year*

As a result of the foregoing, net income for the year increased by S/. 2.0 million for the year ended December 31, 2012 compared to 2011.

## **Liquidity and Capital Resources**

### *Overview*

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

We believe that we benefit from the Peruvian government's ownership of us. As of September 30, 2014, 10.04% of our total debt received from multilateral organizations was guaranteed by the Peruvian government. In addition, we benefit from favorable borrowing rates with multilateral and other international financial institutions that are financing the development programs in which we participate. Finally, this type of foreign currency borrowing is often of much longer tenors than financing available in the local market or from the international private market, allowing us to fund development projects with longer maturities.

### *Sources of funds*

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

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

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

	<u>As of September 30,</u>		<u>As of December 31,</u>					
	<b>2014</b>		<b>2013</b>		<b>2012</b>		<b>2011</b>	
	<b>(S/. in thousands)</b>	<b>%</b>	<b>(S/. in thousands)</b>	<b>%</b>	<b>(S/. in thousands)</b>	<b>%</b>	<b>(S/. in thousands)</b>	<b>%</b>
Multilateral organizations (including government agencies) .....	677,599	10.04%	700,102	12.6%	684,554	16.5%	851,318	30.4%
International commercial banks.....	1,104,339	16.37%	1,368,526	25.5%	746,259	18.0%	824,837	29.4%
Peruvian commercial banks.....	1,200,065	17.79%	1,276,480	23.8%	897,457	21.6%	912,985	32.6%
Local capital markets .....	585,164	8.67%	640,546	12.0%	547,250	13.2%	213,220	7.6%
International capital markets ....	3,179,000	47.12%	1,397,500	26.1%	1,275,000	30.7%	-	-
<b>Total .....</b>	<b>6,746,167</b>	<b>100.00%</b>	<b>5,383,154</b>	<b>100.0%</b>	<b>4,150,520</b>	<b>100.0%</b>	<b>2,802,360</b>	<b>100.0%</b>

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

As of September 30, 2014, our outstanding loan obligations denominated in yen, euros and, to a lesser extent, in US dollars were hedged with swap agreements in order to reduce our exchange and interest rate risks.

The chart below illustrates our outstanding loan obligations by funding source as they appear in our unaudited interim financial statements as of September 30, 2014. The chart below does not include deposits and other obligations, such as time deposits, repo operations and guarantee deposits.

	<b>Interest Rate</b>	<b>As of</b>	<b>Maturity</b>
		<b>September 30,</b>	
	<b>%</b>	<b>2014</b>	
		<b>(S/. in thousands)</b>	
<b>Creditors:</b>			
Bank of Tokyo – Mitsubishi / Syndicated Loan .....	Libor (3M) + 1.725%	578,000	September 2016
Bank of Tokyo – Mitsubishi .....	Libor (3M) + 0.70%	289,000	February 2017
BBVA Continental Bank .....	from 3.90% to 4.90%	132,000	September 2015
Scotiabank Perú S.A.A. ....	from 4.74% to 5.98%	426,000	June 2015
Japan Bank For International Cooperation – JBIC.....	from 1.5% to 2.3%	151,985	February 2019
AFLAC – American Family Life Assurance of Columbus Japan Branch ..	3.75%	237,339	September 2031
Inter-American Development Bank – IDB.....	Libor (6M) + 0.61%	165,880	May 2015
Banco de la Nación del Perú .....	from 1.00% to 5.80%	278,000	April 2015
Banco Internacional del Perú – Interbank .....	from 2.30% to 7.24%	33,468	September 2022
Corporación Andina de Fomento - CAF .....	Libor (6M) + 2.80%	86,700	October 2016
Inter-American Development Bank – IDB.....	2.51%	35,468	May 2015
Inter-American Development Bank – IDB.....	2.00%	36,125	May 2015
China Development Bank .....	Libor (6M) + 3.25%	5,780	October 2014
Nordic Investment Bank .....	Libor (6M) + 0.85%	14,450	September 2014
Kreditanstalt Fur Wiederaufbau - Phase II.....	2.00%	18,662	June 2034
Kreditanstalt Fur Wiederaufbau - Phase I .....	2.00%	14,463	December 2029
Inter-American Development Bank - IDB .....	Libor (6 M) + 0.61%	2,066	May 2015
The OPEC Fund For International Development .....	5.00%	1,445	October 2015
Japan International Cooperation Agency - JICA.....	from 0.01% to 0.60%	120,184	October 2027
Corporación de Fomento a la Producción (Corporation for the Promotion of Production) (CORFO).....	4.25%	511	June 2015
Corporación Andina de Fomento (CAF) issuance of shares – financial liability (1).....		23,880	
Related expenses.....		(4,612)	
<b>Subtotal.....</b>		<b>2,646,794</b>	
<b>Interests .....</b>		<b>23,774</b>	
<b>Total.....</b>		<b>2,670,568</b>	

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

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

As of September 30, 2014, we had S/. 546.3 million (US\$211.1 million) of indebtedness guaranteed by the Peruvian government and S/. 4,775.9 million (US\$1,708.1 million) of other existing obligations, for a total of S/. 5,366.2 million (US\$1,919.2 million) of indebtedness, all of which would have priority in right of payment to the Senior Notes and the Subordinated Notes in the event of our insolvency. As of December 31, 2013, we did not have any secured indebtedness outstanding.

As of September 30, 2014, we were in compliance with all financial ratios and other covenants contained in the aforementioned loans.

We also believe we maintain adequate liquidity levels to finance our assets. Sources of long term debt, such as loans from the Japan Cooperation International Agency (JICA), have terms consistent with those institutions' standard credit operations. Sources of funds also include debt issuances in the local and international capital markets and loans from Peruvian commercial banks. In addition, highly-liquid available-for-sale trading investments represent a significant portion of our assets (S/. 908.6 million as of September 30, 2014; S/. 703.1 million as of December 31, 2013; S/. 726.5 million as of December 31, 2012; S/. 355.4 million as of December 31, 2011).

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

	As of September 30,	As of December 31,		
	2014	2013	2012	2011
		(S/. in thousands)		
Government guaranteed .....	546,278	571,373	571,537	720,974
Direct .....	6,199,889	4,811,781	3,578,983	2,081,386
<b>Total .....</b>	<b>6,746,167</b>	<b>5,383,154</b>	<b>4,150,520</b>	<b>2,802,360</b>

### **Bank borrowings**

Our balance of total borrowing without considering on-lending totaled S/. 4,775.9 million, S/. 4,811.8 million, S/. 3,579.0 million, and S/. 2,081.4 million as of September 30, 2014, and December 31, 2013, 2012, and 2011, respectively, and accounted for 89.0%, 89.4%, 86.2% and 74.3% of our total funding as of September 30, 2014 and December 31, 2013, 2012, and 2011, respectively.

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

Specification	As of September 30,	As of December 31,		
	2014	2013	2012	2011
		(S/. in thousands)		
Peruvian borrowings (1).....	1,785,229	1,830,268	1,444,707	1,126,205
Foreign borrowings (2).....	4,414,660	2,981,513	2,134,276	955,181
On-lending (3) .....	546,278	571,373	571,537	720,974
<b>Total .....</b>	<b>6,746,167</b>	<b>5,383,154</b>	<b>4,150,520</b>	<b>2,802,360</b>
<b>Current.....</b>	<b>1,354,485</b>	<b>1,445,212</b>	<b>1,411,470</b>	<b>796,090</b>
<b>Long-term .....</b>	<b>5,391,682</b>	<b>3,937,942</b>	<b>2,739,050</b>	<b>2,006,270</b>

(1) Refers to borrowings in *nuevos soles*.

(2) Refers to borrowings in any other currency other than *nuevos soles*.

(3) On-lendings are loans granted to COFIDE by multilateral organizations and foreign government agencies to finance specific projects, entities or purposes.

The increase of S/. 1,232.6 million in total borrowings as of December 31, 2013 compared to December 31, 2012 was due to (i) an increase in domestic borrowings of S/. 100 million, which was mainly due to our issuance of bonds in the local capital markets in April 2013, and (ii) an increase of S/. 560 million, which was mainly due to two new loans disbursed by HSBC and Bank of Tokyo Mitsubishi to us in August and September 2013, respectively, each in the amount of US\$100 million. The increase of S/. 1,348.2 million in total borrowings as of December 31, 2012 compared to December 31, 2011 was due to an increase in foreign borrowings of S/. 1,179.1 million, which was partially offset by a decrease in on-lending of S/. 149.4 million.

As of September 30, 2014, our short term borrowings consisted of Peruvian borrowings. As of September 30, 2014, we held domestic debt denominated in U.S. dollars for an amount equal to S/. 83.9 million.

The sources of all our total indebtedness are primarily (i) the international capital markets, which represented 26.05% of our total indebtedness as of September 30, 2014, and (ii) the international commercial and development banks, local capital markets and multilateral organizations, which accounted for the source of the remaining 73.95% of our total indebtedness as of September 30, 2014.

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

Specification	Up to 3 years	3 to 5 years	5 to 15 years	Over 15 years	Total as of September 30, 2014
	(S/. in thousands)				
Peruvian borrowings (1) .....	1,328,893	6,057	208,146	240,000	1,783,096
Foreign borrowings (2) .....	1,216,851	1,013,738	1,622,999	1,109,483	4,963,071
<b>Total</b> .....	<b>2,545,743</b>	<b>1,019,795</b>	<b>1,831,146</b>	<b>1,349,483</b>	<b>6,746,167</b>

(1) Refers to borrowings in *nuevos soles*.

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

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

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

On May 24, 1999, our Board of Directors approved our first note program up to a maximum aggregate amount of S/. 700 million. We issued S/. 420.5 million of notes under this program before the program expired in November 2011. As of December 31, 2012, we were in compliance with all financial ratios and financial covenants applicable under this program.

On May 27, 2004, our Board of Directors approved our second note program up to a maximum aggregate amount of US\$150 million, or its equivalent in *nuevos soles* or any other foreign currency. We issued S/. 353.94 million of notes under this program, of which S/. 21.89 million are still outstanding as of September 30, 2014. As of September 30, 2014, we were in compliance with all financial ratios and financial covenants applicable under this program.

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

On December 30, 2009, our Board of Directors approved our third note program. Under this program, we may issue up to US\$200 million, or its equivalent in *nuevos soles* or any other foreign currency. As of September 30, 2014 we had issued a total amount of S/. 515.1 million under the third note program, but are still outstanding S/. 465.1 million. As of September 30, 2014, we were in compliance with all financial ratios and financial covenants applicable under this program.

On September 30, 2012, our Board of Directors approved our fourth note program. Under this program, we may issue up to US\$400 million, or its equivalent in *nuevos soles* or any other foreign currency. As of September 30, 2014, we have issued a total amount of S/. 100 million under this program with a 30 year maturity. As of September 30, 2014, we were in compliance with all financial ratios and financial covenants applicable under this program.

On December 11, 2013, our Board of Directors approved our second short-term notes program. Under this program, we may issue up to US\$200 million, or its equivalent in *nuevos soles*. As of September 30, 2014, we have not issued under this program.

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

	<b>As of September 30, 2014</b>	<b>Maturity</b>
	<b>(S/. in thousands)</b>	
<b>Local issuances:</b>		
<b>Second program</b>		
Eighth (1).....	19,500	4/2/2018
Twelfth .....	599	1/15/2015
<b>Third program</b>		
First.....	50,000	1/24/2016
Fourth .....	45,065	7/21/2015
Fifth .....	30,000	10/28/2014
Ninth.....	150,000	04/27/2027
Tenth (2).....	100,000	06/28/2037
Eleventh.....	90,000	10/30/2042
<b>Fourth program</b>		
Second .....	100,000	30/04/2043
Accrued interest.....	7,468	-
<b>Total .....</b>	<b>592,632</b>	
<b>International issuances:</b>		
Existing 4.750% notes due 2022	1,156,000	2/8/2022
Reopening of 4.750% notes due 2022	289,000	2/8/2022
Existing 3.250% notes due 2019	289,000	7/15/2019
Existing 5.250% Subordinated notes due 2029	289,000	7/15/2029
Net price difference (over/under par value).....	(5,681)	
Accrued yield.....	25,267	
<b>Total Foreign Currency.....</b>	<b>3,198,586</b>	
<b>Total.....</b>	<b>3,791,218</b>	

(1) S/. 14 million of the principal from our eighth issuance under our second note program will be paid on July 17, 2017. The remaining balance of the principal will be paid on April 2, 2018.

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

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

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

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

On August 16, 2013, our Board of Directors approved our second senior notes issuance in the international capital markets (the “Senior Notes Issuance”) for up to a total amount of US\$ 1,000 million. On July 8, 2014, we issued (i) US\$ 300 million of our 3.250% Notes due 2019, and (ii) US\$ 300 million of our 5.25% Subordinated Notes due 2029, both pursuant to an indenture dated July 8, 2014 between us, The Bank of New York Mellon, as trustee, registrar, paying agent and transfer agent and The Bank of New York Mellon (Luxembourg), S.A., as Luxembourg paying agent and transfer agent.

### ***Dividend policy***

Our distribution of dividends is regulated by Legislative Decree No. 1031, which contains the rules and regulations applicable to state-owned companies. Legislative Decree No. 1031 establishes that a state-owned company’s dividend distribution policy is governed by Peruvian General Corporate Law and any applicable

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

Since 2012, our shareholders at the annual general shareholders' meetings have approved that we can reinvest 15% of the 90% of our distributable net income, instead of distributing all 90% of our distributable income to our shareholders. Consequently, we have only paid dividends on the remaining 76.5% of our distributable income (85% x 90%) after the deduction of the legal reserve requirement.

Our last annual shareholders meeting occurred on March 31, 2014. At this meeting, a 15% reinvestment of our distributable income was approved, as well as an additional capital increase in the amount of S/. 23.8 million.

### Capital Management - Regulatory

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

Peruvian Banking Law provides that regulatory capital must be equal to or greater than 10.0% of the total risk-weighted assets since July 2011. Risk-weighted assets are the sum of (i) 10 times the regulatory capital allocated to cover market risk; (ii) 10 times the regulatory capital allocated to cover operational risk; and (iii) the total amount of credit risk-weighted assets and indirect loans. Such computation must include all statement of financial position exposures or assets in local or foreign currency. As of September 30, 2014, our ratio of regulatory capital to total risk weighted assets was 45.16%.

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

	As of September 30,	As of December 31,		
	2014	2013	2012	2011
	(S/. in thousands)	(S/. in thousands)		
<b>Tier 1 Regulatory Capital</b>				
Paid-in capital.....	1,548,502	1,537,546	1,519,144	1,509,143
Legal reserves.....	287,346	279,708	272,297	265,085
Other.....	(1,263)	(1,116)	(783)	(615)
<b>Total Tier 1 Regulatory Capital .....</b>	<b>1,834,585</b>	<b>1,816,138</b>	<b>1,790,658</b>	<b>1,773,613</b>
<b>Tier 2 Regulatory Capital</b>				
Preferred stocks .....	23,145	-	-	-
Subordinated Debt .....	861,574	-	-	-
Provisions .....	78,872	67,249	62,479	52,426
Other.....	(1,263)	(1,116)	(783)	(615)
<b>Total Tier 2 Regulatory Capital .....</b>	<b>962,328</b>	<b>66,133</b>	<b>61,696</b>	<b>51,811</b>
<b>Total Regulatory Capital .....</b>	<b>2,796,913</b>	<b>1,882,271</b>	<b>1,852,353</b>	<b>1,825,424</b>
<b>Risk-weighted assets .....</b>	<b>6,193,971</b>	<b>5,189,957</b>	<b>4,803,924</b>	<b>3,988,884</b>
<b>Capital Ratios</b>				
<b>Total regulatory capital as a percentage of credit risk-weighted assets .....</b>	<b>45.16%</b>	<b>34.99%</b>	<b>38.56%</b>	<b>45.76%</b>
<b>Tier 1 Capital as a percentage of credit risk-weighted assets .....</b>	<b>29.62%</b>	<b>36.27%</b>	<b>37.27%</b>	<b>44.46%</b>

## Loan portfolio, net

The following table sets out the breakdown of our lending operations by type of loan offered as of September 30, 2014 and 2013.

	As of September 30, 2014		As of September 30, 2013	
	(S/. in thousands)	Relative Participation (%)	(S/. in thousands)	Relative Participation (%)
<b>Direct loans (1)</b>				
Loans to intermediary financial institutions .....	5,284,906	89.89	4,797,831	89.44
First-tier loans (2).....	12,528	0.21	15,478	0.29
Restructured loans (3).....	12,804	0.22	12,326	0.23
Refinanced loans (4).....	5,854	0.10	8,081	0.15
Loans past-due and accounts under legal collection.....	1,489	0.03	3,067	0.06
<b>Total direct loans</b> .....	<b>5,317,581</b>	<b>90.44</b>	<b>4,836,783</b>	<b>90.16</b>
<b>Contingent loans (5)</b> .....	<b>561,931</b>	<b>9.56</b>	<b>527,661</b>	<b>9.84</b>
<b>Total</b> .....	<b>5,879,512</b>	<b>100.00%</b>	<b>5,364,444</b>	<b>100.00%</b>

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

Loans to intermediary financial institutions are our primary use of funds and totaled S/. 5,284.9 million as of September 30, 2014, an increase of 10.15% from S/. 4,797.8 million as of September 30, 2013. The growth over this period primarily resulted from (i) an increase of S/. 512.1 million in loans for structuring and infrastructure projects, and (ii) an increase of S/. 46.4 million in SME loans, which were partially offset by a decrease of S/. 71.4 million in trade loans.

Restructured loans totaled S/. 12.80 million as of September 30, 2014, an increase of 3.81% from S/. 12.33 million as of September 30, 2013. This increase was the result of an increase in the number of restructured loans requested from companies who had declared bankruptcy or were in liquidation.

Refinanced loans totaled S/. 5.85 million as of September 30, 2014, a decrease of 27.60% from S/. 8.08 million as of September 30, 2013. Such decrease was due to a recovery of debt.

Loans past-due and accounts under legal collection totaled S/. 1.49 million as of September 30, 2014, a decrease of 51.47% from S/. 3.07 million as of September 30, 2013. Such decrease was due in part to the sale of the collateral from a S/. 1.45 million loan with Textil Nueva Union.

Contingent loans totaled S/. 561.9 million as of September 30, 2014, an increase of 6.48% compared to S/. 527.7 million as of September 30, 2013. Such increase was due to the issuance of new guarantees in connection with the Cerro del Águila, Central Hidroeléctrica Karpa and Revolutions projects.

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

	As of December 31, 2013		As of December 31, 2012	
	(S/. in thousands)	Relative Participation (%)	(S/. in thousands)	Relative Participation (%)
<b>Direct loans (1)</b>				
Loans to intermediary financial institutions .....	5,160,013	90.00%	3,848,144	88.49%

	As of December 31, 2013		As of December 31, 2012	
	(S/. in thousands)	Relative Participation (%)	(S/. in thousands)	Relative Participation (%)
First-tier loans (2) .....	15,605	0.27%	13,021	0.30%
Restructured loans (3) .....	12,384	0.22%	11,447	0.26%
Refinanced loans (4) .....	7,361	0.13%	10,215	0.23%
Loans past-due and accounts under legal collection .....	1,599	0.03%	3,111	0.07%
<b>Total direct loans</b> .....	<b>5,196,962</b>	<b>90.64%</b>	<b>3,885,938</b>	<b>89.36%</b>
<b>Contingent loans (5)</b> .....	<b>536,684</b>	<b>9.36%</b>	<b>462,523</b>	<b>10.64%</b>
<b>Total</b> .....	<b>5,733,646</b>	<b>100.00%</b>	<b>4,348,461</b>	<b>100.00%</b>

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

Loans to intermediary financial institutions are our primary use of funds and totaled S/. 5,160 million as of December 31, 2013, an increase of 34.1% from S/. 3,848 million as of December 31, 2012. The growth over this period primarily resulted from an increase of S/. 1,207.2 million in loans for structuring and infrastructure projects, as well as an increase of S/. 38.9 million in short-term and trade loans in *nuevos soles*.

Restructured loans totaled S/. 12.4 million as of December 31, 2013, an increase of 8.8% from S/. 11.4 million as of December 31, 2012. This increase was the result of an increase in the number of restructured loans requested from companies who had declared bankruptcy or were in liquidation.

Refinanced loans totaled S/. 7.4 million as of December 31, 2013, a decrease of 27.5% from S/. 10.2 million as of December 31, 2012. Such decrease was due in part to a substantial decrease in refinancing leasing operations from Latino Leasing in the amount of S/. 2.3 million.

Loans past-due and accounts under legal collection totaled S/. 1.6 million as of December 31 2013, a decrease of 48.4% from S/. 3.1 million as of December 31, 2012. Such decrease was due in part to the decrease of S/. 15.7 thousand in promissory notes from Banco NBK.

Contingent loans totaled S/. 536.7 million as of December 31, 2013, an increase of 16.6% compared to S/. 462.5 million as of December 31, 2012. Such increase was due to a new guarantee given to FMO Development Bank in the amount of S/. 36.9 million and an increase in guarantees given to Banco de Crédito del Perú in the amount of S/. 34.1 million.

The following table sets out the breakdown of our lending operations by type of loan offered as of December 31, 2012 and 2011.

	As of December 31, 2012		As of December 31, 2011	
	(S/. in thousands)	Relative Participation (%)	(S/. in thousands)	Relative Participation (%)
<b>Direct loans (1)</b>				
Loans to intermediary financial institutions .....	3,848,144	88.49%	2,853,135	88.59%
First-tier loans (2) .....	13,021	0.30%	14,088	0.44%
Restructured loans (3) .....	11,447	0.26%	13,385	0.42%
Refinanced loans (4) .....	10,215	0.23%	16,468	0.51%
Loans past-due and accounts under legal collection .....	3,111	0.07%	14,711	0.46%
<b>Total direct loans</b> .....	<b>3,885,938</b>	<b>89.36%</b>	<b>2,911,787</b>	<b>90.42%</b>
<b>Contingent loans (5)</b> .....	<b>462,523</b>	<b>10.64%</b>	<b>308,668</b>	<b>9.58%</b>
<b>Total</b> .....	<b>4,348,461</b>	<b>100.0%</b>	<b>3,220,455</b>	<b>100.0%</b>

- (1) The majority of direct loans refer to loans made directly to intermediary financial institutions through traditional intermediation or investment financings, but also include restructured, refinanced, first-tier and past-due loans.
- (2) First-tier loans refer to loans disbursed to the ultimate borrower by banks that were intervened and whose assets have been liquidated.



- (3) Restructured loans refer to loans whose terms have been modified to provide for a reduction of either interest or principal as a result of the deterioration in the financial condition of the borrower.
- (4) Refinanced loans refer to loans that have been replaced with loans with more favorable terms, with the new loans paying off the existing.
- (5) Contingent (indirect) loans refer to guarantees or pledges granted by COFIDE in connection with traditional intermediation or investment financings.

Loans to intermediary financial institutions are our primary use of funds and totaled S/. 3,848.1 million as of December 31, 2012, an increase of 34.9% from S/. 2,853.1 million as of December 31, 2011. The growth over this period primarily resulted from an increase of S/. 40.5 million in foreign trade, as well as an increase of S/. 999.9 million in loans for structuring and infrastructure projects. These increases were partially offset by a decrease of S/. 144.7 million in short-term loans.

Restructured loans totaled S/. 11.5 million as of December 31, 2012, a decrease of 14.5% from S/. 13.4 million as of December 31, 2011. This decrease was the result of a decrease in restructured loans from Banco Nuevo Mundo.

Refinanced loans totaled S/. 10.2 million as of December 31, 2012, a decrease of 38.0% from S/. 16.5 million as of December 31, 2011. Such decrease was due in part to a substantial decrease in promissory notes in the amount of S/. 3.1 million.

Loans past-due and accounts under legal collection totaled S/. 3.1 million as of December 31, 2012, a decrease of 78.9% from S/. 14.7 million as of December 31, 2011. Such decrease was due in part to a decrease in leasings in the amount of S/. 10.2 million.

Contingent loans totaled S/. 462.5 million as of December 31, 2012, an increase of 49.8% compared to S/. 308.7 million as of December 31, 2011. This increase was due to increases in guarantees given to Banco de Crédito in the amount of S/. 138.4 million and to CAF in the amount of S/. 25.2 million.

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

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

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

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

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

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

We examine both indicators in two different contexts: going-concern context and stress context. For the going-concern context, we suppose a normal scenario in which the company operates that reflects slightly parallel shifts in interest rate curves. The following table shows the results for the profit-at-risk and equity-at-risk under the going-concern context for the nine months ended September 30, 2014 and 2013, respectively.

As of and for the nine months ended September 30,				
2014			2013	
	S/. In thousands	% Core Capital	S/. In thousands	% Core Capital
Profit at risk.....	30,762	1.10%	9,483	0.51%
Equity at risk.....	48,135	1.72%	170,508	9.09%

Under the stress context, we assume a shock of 200 basis points in interest rate curves. The following table shows the results for the profit-at-risk and equity-at-risk under the stress context for the nine months ended September 30, 2014 and 2013.

As of and for the nine months ended September 30,				
2014			2013	
	S/. In thousands	% Core Capital	S/. In thousands	% Core Capital
Profit at risk.....	33,930	1.21%	17,428	0.93%
Equity at risk.....	57,530	2.06%	613,764	32.73%

### Liquidity risk

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

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

As of September 30, 2014 and December 31, 2013, 2012, and 2011, our assets and liabilities, from the statement of financial position date to a foreseeable contract maturity date, present the following evolution.

Remaining Maturity as of September 30, 2014							
	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Do not accrue interests	Total
<b>Assets</b>							
Cash.....	1,051,072	-	-	-	-	(22,606)	1,028,466
Available-for-sale investments .....	25,612	241,444	18,265	145,407	655,485	2,427,914	3,514,127
Loans portfolio, net.....	122,688	342,666	1,320,620	1,646,949	1,995,823	(574,618)	4,854,128
Hedging derivatives .....	14	28	123	655	327	(148)	999
Accounts receivable, net .....	-	-	-	-	-	21,686	21,686
Other assets .....	-	-	-	-	-	36,585	36,585
<b>Total assets.....</b>	<b>1,199,386</b>	<b>584,138</b>	<b>1,339,008</b>	<b>1,793,011</b>	<b>2,651,635</b>	<b>1,888,813</b>	<b>9,455,991</b>
% of total .....	<b>12.68%</b>	<b>6.18%</b>	<b>14.16%</b>	<b>18.96%</b>	<b>28.04%</b>	<b>19.97%</b>	<b>100.00%</b>
<b>Liabilities</b>							
Obligations to the public.....	81,949	4,934	17,734	-	-	-	104,617
Deposits by banks and financial organizations.....	24,377	25,376	181,092	-	-	-	230,845
Debts and financial obligations.....	183,202	331,622	457,174	1,273,638	424,932	-	2,670,568
Debt securities .....	32,415	-	81,985	930,500	2,746,318	-	3,791,218
Hedging derivatives.....	1,193	2,386	10,740	57,278	28,640	-	100,237
Accounts payable.....	-	-	-	-	-	10,235	10,235

Remaining Maturity as of September 30, 2014							
	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Do not accrue interests	Total
Other liabilities .....	-	-	-	-	-	320,566	320,566
Equity .....	-	-	-	-	-	2,227,705	2,227,705
<b>Total liabilities and equity .....</b>	<b>323,136</b>	<b>364,318</b>	<b>748,725</b>	<b>2,261,416</b>	<b>3,199,890</b>	<b>2,558,506</b>	<b>9,455,991</b>
<b>% of total .....</b>	<b>3.42%</b>	<b>3.85%</b>	<b>7.92%</b>	<b>23.92%</b>	<b>33.84%</b>	<b>27.06%</b>	<b>100.00%</b>
Assets derivative instruments .....	7,402	14,803	66,616	355,283	177,641	-	621,745
Liabilities derivative instruments .....	8,828	17,655	79,449	423,729	211,865	-	741,526
<b>Marginal Gap .....</b>	<b>874,824</b>	<b>216,968</b>	<b>577,450</b>	<b>(536,851)</b>	<b>(582,479)</b>	<b>(669,693)</b>	
<b>Accumulated Gap .....</b>	<b>874,824</b>	<b>1,091,792</b>	<b>1,669,242</b>	<b>1,132,391</b>	<b>549,912</b>		

For September 30, 2014 a positive accumulated gap of S/. 549.9 million is generated in the “Total” range of earning and bearing interest assets and liabilities. There is also a negative marginal gap of S/. 669.7 million in non-earning and non-bearing assets and liabilities. This result indicates that the Total Gap is negative in the amount of S/. 119.8 million. Nevertheless, due to “voluntary generic provisions” under direct loans in the amount of S/. 422.8 million, the amount registered for our “Loan portfolio” is reduced. Furthermore, the line item “Other liabilities” accounts for “voluntary generic provisions” under contingent loans in the amount S/. 37.9 million and “deferred income tax” in the amount of S/. 262.6 million. If these items were not considered in our liquidity gap, we would have had a positive cumulative asset-liability gap of S/. 603.5 million.

Remaining Maturity as of December 31, 2013							
	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Do not accrue interests	Total
<b>Assets</b>							
Cash .....	244,734	-	-	-	-	-	244,734
Available-for-sale investments .....	1,775	1,486	55,014	157,801	506,475	2,371,606	3,094,157
Loans portfolio, net .....	95,893	735,382	579,173	1,916,454	1,900,658	(581,549)	4,646,011
Hedging derivatives .....	46	93	418	2,227	1,113	-	3,897
Accounts receivable , net .....	-	-	-	-	-	13,945	13,945
Other assets .....	-	-	-	-	-	40,858	40,858
<b>Total assets .....</b>	<b>342,448</b>	<b>736,961</b>	<b>634,605</b>	<b>2,076,482</b>	<b>2,408,246</b>	<b>1,844,860</b>	<b>8,043,602</b>
<b>% of total .....</b>	<b>4.26%</b>	<b>9.16%</b>	<b>7.89%</b>	<b>25.82%</b>	<b>29.94%</b>	<b>22.93%</b>	<b>100.00%</b>
<b>Liabilities</b>							
Obligations to the public .....	-	-	-	-	-	72,226	72,226
Deposits by banks and financial organization .....	16,600	26,498	145,536	-	-	-	188,634
Debts and financial obligations .....	172,130	504,290	449,461	1,545,737	436,071	-	3,107,689
Debt securities .....	19,558	26,306	85,934	116,316	1,839,875	-	2,087,989
Hedging derivatives .....	891	1,781	8,016	42,750	21,375	-	74,813
Accounts payable .....	-	-	-	-	-	7,117	7,117
Other liabilities .....	-	-	-	-	-	309,278	309,278
Equity .....	-	-	-	-	-	2,195,856	2,195,856
<b>Total liabilities and equity .....</b>	<b>209,179</b>	<b>558,875</b>	<b>688,947</b>	<b>1,704,803</b>	<b>2,297,321</b>	<b>2,584,477</b>	<b>8,043,602</b>
<b>% of total .....</b>	<b>2.60%</b>	<b>6.95%</b>	<b>8.57%</b>	<b>21.20%</b>	<b>28.56%</b>	<b>32.12%</b>	<b>100.00%</b>
Assets derivative instruments .....	14,017	28,002	28,245	259,442	313,214	-	642,920
Liabilities derivative instruments .....	-	28,358	28,696	262,350	407,443	-	726,847
<b>Marginal Gap .....</b>	<b>147,286</b>	<b>177,730</b>	<b>(54,793)</b>	<b>368,771</b>	<b>16,696</b>	<b>(739,617)</b>	
<b>Accumulated Gap .....</b>	<b>147,286</b>	<b>325,016</b>	<b>270,223</b>	<b>638,994</b>	<b>655,690</b>		

For December 31, 2013 a positive accumulated gap of S/. 655.69 million is generated in the “Total” range of earning and bearing interest assets and liabilities. There is also a negative marginal gap of S/. 739.62 million in non-earning and non-bearing assets and liabilities. This result indicates that the Total Gap is negative in the amount of S/. 83.93 million. Nevertheless, due to “voluntary generic provisions” under direct loans in the amount of S/. 439.6 million, the amount registered for our “Loan portfolio” is reduced. Furthermore, the line

item “Other liabilities” accounts for “voluntary generic provisions” under contingent loans in the amount S/. 38.8 million and “deferred income tax” in the amount of S/. 256.0 million. If these items were not considered in our liquidity gap, we would have had a positive cumulative asset-liability gap of S/. 650.47 million.

Remaining Maturity as of December 31, 2012							
	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Do not accrue interests	Total
<b>Assets</b>							
Cash .....	258,923	-	-	-	-	-	258,923
Available-for-sale investments.....	240	966	22,080	152,614	557,618	2,363,935	3,097,453
Loans portfolio, net .....	690,480	581,643	665,614	1,192,920	868,604	(581,640)	3,417,621
Hedging derivatives .....	19	39	175	931	1,164	-	2,328
Accounts receivable, net .....	-	-	-	-	-	23,008	23,008
Other assets .....	-	-	-	-	-	27,297	27,297
<b>Total assets.....</b>	<b>949,662</b>	<b>582,648</b>	<b>687,869</b>	<b>1,346,465</b>	<b>1,427,386</b>	<b>1,832,600</b>	<b>6,826,630</b>
% of total.....	<b>13.91%</b>	<b>8.53%</b>	<b>10.08%</b>	<b>19.72%</b>	<b>20.91%</b>	<b>26.84%</b>	<b>100.00%</b>
<b>Liabilities</b>							
Obligations to the public .....	-	-	-	-	-	19,925	19,925
Debts by banks and financial organizations.....	103,297	314,420	1,109,761	355,796	452,190	-	2,335,464
Debt securities.....	16,139	20,142	5,418	207,880	1,613,747	-	1,863,053
Hedging derivatives .....	522	1,043	4,695	25,042	31,302	-	62,604
Accounts payable.....	-	-	-	-	-	11,201	11,201
Other liabilities.....	-	-	-	-	-	307,928	307,928
Equity.....	-	-	-	-	-	2,226,455	2,226,455
<b>Total liabilities and equity .....</b>	<b>119,958</b>	<b>335,605</b>	<b>1,119,874</b>	<b>588,718</b>	<b>2,096,966</b>	<b>2,565,509</b>	<b>6,826,630</b>
% of total .....	<b>1.76%</b>	<b>4.92%</b>	<b>16.40%</b>	<b>8.62%</b>	<b>30.72%</b>	<b>37.58%</b>	<b>100.00%</b>
Assets derivative instruments .....	-	28,989	31,761	280,800	312,701	-	654,251
Liabilities derivative instruments.....	-	26,909	30,477	257,862	347,250	-	662,498
<b>Marginal Gap.....</b>	<b>829,704</b>	<b>249,123</b>	<b>(430,721)</b>	<b>780,685</b>	<b>(704,129)</b>	<b>(732,909)</b>	
<b>Accumulated Gap.....</b>	<b>829,704</b>	<b>1,078,827</b>	<b>648,106</b>	<b>1,428,791</b>	<b>724,662</b>		

For December 31, 2012 a positive accumulated gap of S/. 724.66 million is generated in the “Total” range of earning and bearing interest assets and liabilities. There is also a negative marginal gap of S/. 732.91 million in non-earning and non-bearing assets and liabilities. This result indicates that the Total Gap is negative in the amount of S/. 8.25 million. Nevertheless, due to “voluntary generic provisions” under direct loans in the amount of S/. 447.31 million, the amount registered for our “Loan portfolio” is reduced. Furthermore, the line item “Other liabilities” accounts for “voluntary generic provisions” under contingent loans in the amount S/. 22.8 million and “deferred income tax” in the amount of S/. 272.0 million. If these items were not considered in our liquidity gap, we would have had a positive cumulative asset-liability gap of S/. 733.86 million.

Remaining Maturity as of December 31, 2011							
	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Do not accrue interests	Total
<b>Assets</b>							
Cash .....	164,164	0	0	0	0	(2)	164,162
Available-for-sale investments.....	250	41,873	38,236	103,047	171,980	2,388,560	2,743,946
Loans portfolio, net .....	116,213	238,560	859,795	653,889	495,711	(11,078)	2,353,090
Hedging derivatives .....	598	1,197	5,385	28,719	35,899	0	71,798
Accounts receivable, net .....	55	486	1,250	11,377	0	0	13,168
Other assets .....	0	0	0	0	0	27,777	27,777
<b>Total assets.....</b>	<b>281,280</b>	<b>282,116</b>	<b>904,666</b>	<b>797,032</b>	<b>703,590</b>	<b>2,405,257</b>	<b>5,373,941</b>
% of total.....	<b>5.23%</b>	<b>5.25%</b>	<b>16.83%</b>	<b>14.83%</b>	<b>13.09%</b>	<b>44.76%</b>	<b>100.00%</b>
<b>Liabilities</b>							

Remaining Maturity as of December 31, 2011							
Obligations to the public .....	0	0	0	0	0	36,824	36,824
Deposits by banks and financial organizations .....	0	55,136	101,368	0	0	0	156,504
Debts and financial obligations .....	126,640	200,557	507,918	993,825	603,241	0	2,432,181
Debt securities .....	6,902	0	4,309	201,250	6,000	0	218,461
Hedging derivatives .....	380	759	3,416	18,217	22,771	0	45,543
Accounts payable .....	0	0	0	0	0	7,089	7,089
Other liabilities .....	0	0	0	0	0	309,730	309,730
Equity .....	0	0	0	0	0	2,167,609	2,167,609
<b>Total liabilities and equity .....</b>	<b>133,922</b>	<b>256,452</b>	<b>617,011</b>	<b>1,213,292</b>	<b>632,012</b>	<b>2,521,252</b>	<b>5,373,941</b>
<b>% of total .....</b>	<b>2.49%</b>	<b>4.77%</b>	<b>11.48%</b>	<b>22.58%</b>	<b>11.76%</b>	<b>46.92%</b>	<b>100.00%</b>
<b>Assets derivative instruments .....</b>	<b>6,824</b>	<b>13,647</b>	<b>61,412</b>	<b>327,529</b>	<b>409,410</b>	<b>0</b>	<b>818,822</b>
<b>Liabilities derivative instruments .....</b>	<b>6,249</b>	<b>12,499</b>	<b>56,245</b>	<b>299,971</b>	<b>374,964</b>	<b>0</b>	<b>749,928</b>
<b>Marginal Gap .....</b>	<b>147,933</b>	<b>26,812</b>	<b>292,822</b>	<b>(388,702)</b>	<b>106,024</b>	<b>(115,995)</b>	
<b>Accumulated Gap .....</b>	<b>147,933</b>	<b>174,745</b>	<b>467,567</b>	<b>78,865</b>	<b>184,889</b>		

For December 31, 2011 a positive accumulated gap of S/. 184.9 million is generated in the “Total” range of earning and bearing interest assets and liabilities. There is also a negative marginal gap of S/. 116.0 million in non-earning and non-bearing assets and liabilities. This result indicates that the Total Gap is positive in the amount of S/. 68.90 million. Nevertheless, due to voluntary generic provisions” under direct loans in the amount of S/. 440.9 million, the amount registered for our “Loan portfolio” is reduced. Furthermore, the line item “Other liabilities” accounts for “voluntary generic provisions” under contingent loans in the amount S/. 25.2 million and “deferred income tax” in the amount of S/. 262.6 million. If these items were not considered in our liquidity gap, we would have a positive cumulative asset-liability gap of S/. 797.6 million.

#### Exchange rate risk

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

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

Management manages this risk based on an ongoing monitoring and previous experience by detecting situations that may have negative financial effects for us. We have entered into swap hedging arrangements as a way to mitigate the risk of appreciation of such currency against the US dollar. Such hedging arrangements include our JBIC, AFLAC and JICA obligations totaling ¥7,664,833 thousand, ¥9,000,000 thousand and ¥2,746,000 thousand, respectively.

The table below illustrates our foreign exchange exposure as of September 30, 2014.

	As of September 30,			
	2014			
	U.S. dollar S/. 000	Other currencies S/. 000	Nuevos Soles S/. 000	Total S/. 000
<b>Assets:</b>				
Cash .....	913,611	8,196	106,659	1,028,466
Available-for-sale investments .....	722,929	34,768	2,756,430	3,514,127
Loan portfolio .....	3,083,313	-	1,770,815	4,854,128
Hedging derivatives .....	280	478	241	999
Accounts receivable, net .....	20,144	-	1,542	21,686
Other assets .....	826	-	194	1,020
	<b>4,741,103</b>	<b>43,442</b>	<b>4,635,881</b>	<b>9,420,426</b>
<b>Liabilities:</b>				
Obligations to the public .....	1,548	-	103,069	104,617
Deposits by banks and financial .....		-	230,845	230,845

	As of September 30, 2014			
	U.S. dollar	Other currencies	Nuevos Soles	Total
organizations.....	-	-	-	-
Debts and financial obligations .....	1,240,037	544,123	886,408	2,670,568
Debt securities.....	3,198,703	(117)	592,632	3,791,218
Hedging derivatives.....	2,726	-	97,511	100,237
Accounts payable .....	3,128	-	7,107	10,235
Other liabilities.....	38,762	-	6,987	45,749
<b>Total .....</b>	<b>4,484,904</b>	<b>544,006</b>	<b>1,924,559</b>	<b>6,953,469</b>
Forward position .....	-	-	-	-
Currency swaps position, net.....	(510,443)	509,120	1,323	-
<b>Monetary position, net .....</b>	<b>(254,244)</b>	<b>8,556</b>	<b>2,712,645</b>	<b>2,466,957</b>

The table below illustrates our foreign exchange exposure as of December 31, 2013 and 2012.

	As of December 31,							
	2013				2012			
	U.S. dollar S/. 000	Other currencies S/. 000	Nuevos Soles S/. 000	Total S/. 000	U.S. dollar S/. 000	Other currencies S/. 000	Nuevos Soles S/. 000	Total S/. 000
<b>Assets:</b>								
Cash .....	121,057	9,109	114,568	244,734	163,110	5,896	89,917	258,923
Available-for-sale investments .....	276,187	36,170	2,781,800	3,094,157	229,552	33,573	2,834,328	3,097,453
Loan portfolio .....	2,851,162	-	1,794,849	4,646,011	1,966,371	-	1,451,250	3,417,621
Hedging derivatives.....	263	1,332	2,302	3,897	636	1,692	-	2,328
Accounts receivable .....	12,580	2	1,363	13,945	22,180	-	828	23,008
Other assets .....	621	-	218	839	660	-	195	855
	<b>3,261,870</b>	<b>46,613</b>	<b>4,695,100</b>	<b>8,003,583</b>	<b>2,382,509</b>	<b>41,161</b>	<b>4,376,518</b>	<b>6,800,188</b>
<b>Liabilities:</b>								
Obligations to the public .....	3,455	-	68,771	72,226	433	-	19,492	19,925
Deposits by banks and financial organizations .....	-	-	188,634	188,634	-	-	-	-
Debts and financial obligations.....	1,617,225	536,660	953,774	3,107,689	900,060	547,341	888,062	2,335,463
Debt securities.....	1,429,852	(112)	658,249	2,087,989	1,301,604	(55)	561,505	1,863,054
Hedging derivatives.....	5,200	-	69,613	74,813	5,478	-	57,126	62,604
Accounts payable .....	20	-	7,097	7,117	3,872	-	7,329	11,201
Other liabilities.....	35,932	-	13,995	49,927	28,312	-	4,764	33,076
<b>Total .....</b>	<b>3,091,714</b>	<b>536,548</b>	<b>1,960,133</b>	<b>5,588,395</b>	<b>2,239,759</b>	<b>547,286</b>	<b>1,538,278</b>	<b>4,325,323</b>
	14,017	-	(14,017)	-	-	-	-	-
Forward position .....	-	-	(14,017)	-	-	-	-	-
Currency swaps position, net .....	(456,491)	499,225	(42,734)	-	(353,404)	(159,664)	513,068	-
<b>Monetary position, net .....</b>	<b>(272,318)</b>	<b>9,290</b>	<b>2,678,216</b>	<b>2,415,188</b>	<b>(210,654)</b>	<b>(665,789)</b>	<b>3,351,308</b>	<b>2,474,865</b>

The table below illustrates our foreign exchange exposure as of December 31, 2012 and 2011.

	As of December 31,							
	2012				2011			
	U.S. dollar S/. 000	Other currencies S/. 000	Nuevos Soles S/. 000	Total S/. 000	U.S. dollar S/. 000	Other currencies S/. 000	Nuevos Soles S/. 000	Total S/. 000
<b>Assets:</b>								
Cash .....	163,110	5,896	89,917	258,923	64,968	4,009	95,186	164,163
Available-for-sale investments, net .....	229,552	33,573	2,834,328	3,097,453	148,469	31,690	2,563,788	2,743,947
Loan portfolio, net.....	1,966,371	-	1,451,250	3,417,621	1,035,972	-	1,317,118	2,353,090
Hedging derivatives.....	636	1,692	-	2,328	616	2,288	68,894	71,798
Accounts receivable .....	22,180	-	828	23,008	12,018	-	1,150	13,168
Other assets .....	660	-	195	855	3,973	-	225	4,198
	<b>2,382,509</b>	<b>41,161</b>	<b>4,376,518</b>	<b>6,800,188</b>	<b>1,266,016</b>	<b>37,987</b>	<b>4,046,361</b>	<b>5,350,364</b>

	As of December 31,							
	2012				2011			
	U.S. dollar	Other currencies	Nuevos Soles	Total	U.S. dollar	Other currencies	Nuevos Soles	Total
<b>Liabilities:</b>								
Obligations to the public ...	483	-	19,492	19,925	641	-	36,183	36,824
Deposits by banks and financial organizations.....	--	-	-	-	-	-	156,504	156,504
Debts and financial obligations.....	900,060	547,341	888,062	2,335,463	1,035,101	685,662	711,416	2,432,179
Debt securities.....	1,301,604	(55)	561,505	1,863,054	-	-	218,461	218,461
Hedging derivatives.....	5,478	-	57,126	62,604	6,664	-	38,879	45,543
Accounts payable .....	3,872	-	7,329	11,201	173	-	6,916	7,089
Other liabilities.....	28,312	-	4,764	33,076	34,874	-	5,778	40,652
<b>Total .....</b>	<b>2,239,759</b>	<b>547,286</b>	<b>1,538,278</b>	<b>4,325,323</b>	<b>1,080,569</b>	<b>685,662</b>	<b>1,174,137</b>	<b>2,937,252</b>
Forwards position, net .....	-	-	-	-	-	-	-	-
Currency swaps position, net.....	(353,404)	(159,664)	513,068	-	381,339	645,375	(264,036)	-
<b>Monetary position, net ...</b>	<b>(210,654)</b>	<b>(665,789)</b>	<b>3,351,308</b>	<b>2,474,865</b>	<b>(192,776)</b>	<b>(2,300)</b>	<b>2,608,188</b>	<b>2,413,112</b>

### Capital Expenditures

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

For 2013, we invested S/. 7.4 million in our information technology systems. We expect to invest S/. 83.5 thousand in our information technology systems for the remainder of 2014.

### Risk Management

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

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

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

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

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

- (i) Board of directors

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

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

(ii) Risk committee

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

(iii) Audit Committee

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

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

(iv) Assets and liabilities committee

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

(v) Management committee

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

(vi) Presidency

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

(vii) Chief Executive Officer - CEO

The chief executive officer establishes risk management policies within the regulatory framework of COFIDE according to direction from our board of directors and the Risk Committee. The chief executive officer safeguards the proper management of divisions for which is it responsible for, and identifies, assesses, controls, follows-up and reports main risks to guarantee the bank's compliance with policies and proper risk



management. As of November 1, 2013, the chief executive officer represents the maximum direction division of the Risk Office.

(viii) Internal audit unit

The internal audit unit functionally reports to 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 levels. The internal audit unit informs all responsible divisions regarding potential risk situations and other relevant aspects in relation to risk management assessment of COFIDE.

(ix) Risk Office

The risk office is an independent area responsible for proposing policies, procedures and methodologies for competent risk management, treating risk and the development of proper controls. The risk office supervised the standards compliance division, an area that proposes, informs and updates all policies for compliance standards, as well as informs to the board of directors and chief executive officer actions required for the compliance, and possible gaps and main changes in the standard environment that may affect operations of the bank. As of February 18, 2014, the Legal Office supervises the standards compliance division.

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

(i) Credit risk

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

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

(ii) Market risk

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

- Volatility of exchange rate and interest rate.

- Loss control in negotiation portfolio.

We make some assessments based on the following:

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

(iii) Structural risk of the statement of financial position

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

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

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

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

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

(iv) Liquidity risk

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

**(c) Risks concentration**

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

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

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

- Limits to the exposure of subsystems of IFIs of relatively higher risk.
- Limits to the exposure of IFIs of relatively higher risk.
- Follow-up of unique risk concentration.
- Follow-up of quality of the implicit credit exposure.
- Follow-up of the quality of the explicit credit exposure.
- Participation limits in business financing operations, both specialized and structured.

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

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

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

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

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

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

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

## Off-Balance Sheet Arrangements

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

	As of September 30,	
	2014	2013
<b>Contingent accounts:</b>	(\$/ in thousands)	
Guarantees and stand-by-letters of credit.....	621,745	527,661
Swap agreements.....	561,931	662,231
Other contingent accounts.....	20,434	24,663
<b>Total contingent operations.....</b>	<b>1,204,110</b>	<b>1,214,555</b>
<b>Off-balance sheet accounts:</b>		
Guarantees received (1).....	13,136,248	11,736,604
Trusts.....	14,729,649	12,090,587
Par value- interest rate swaps.....	39,015	45,903
Securities in custody.....	2,052,991	1,581,391
Classification and provision of loan portfolio and contingent accounts.....	-	-
Other off-balance sheet accounts.....	6,974,867	5,007,740
<b>Total off-balance sheet accounts.....</b>	<b>36,932,770</b>	<b>31,079,969</b>
<b>Total contingent accounts and off-balance sheet accounts.....</b>	<b>38,136,880</b>	<b>32,294,524</b>

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

	As of December 31,		
	2013	2012	2011
<b>Contingent accounts:</b>	(\$/ in thousands)		
Guarantees and stand-by-letters of credit.....	642,920	462,523	308,668
Swap agreements.....	536,684	654,251	818,822
Other contingent accounts.....	22,136	29,583	30,272
<b>Total contingent operations.....</b>	<b>1,201,740</b>	<b>1,146,357</b>	<b>1,157,762</b>
<b>Off-balance sheet accounts:</b>			
Guarantees received (1).....	12,533,046	10,317,010	12,791,506
Trusts.....	13,655,646	11,054,366	8,565,181
Par value- interest rate swaps.....	46,118	470,475	525,720
Securities in custody.....	1,615,255	1,442,169	1,419,599
Classification and provision of loan portfolio and contingent accounts.....	-	-	-
Other off-balance sheet accounts.....	5,088,596	4,543,316	3,123,701
<b>Total off-balance sheet accounts.....</b>	<b>32,938,661</b>	<b>27,827,336</b>	<b>26,425,707</b>
<b>Total contingent accounts and off-balance sheet accounts.....</b>	<b>34,140,401</b>	<b>28,973,693</b>	<b>27,583,469</b>

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

## Guarantee Agreements

We provide guarantees to banks or financial intermediaries that are involved in the development of infrastructure and environmental projects. These guarantees support the financing of the project in case the intermediary bank needs additional funding. In the event of default by the project borrower, we may be required to honor these guarantees. If that happens, the operations would be recorded as a cash outflow and an increase in loans and the revenues would be recognized as payments are collected. As of September 30, 2014, we acted as a guarantor of third party obligations in the following transactions:

<b>Project with Guarantee</b>	<b>Amount (S/. in thousands)</b>	<b>Term (years &amp; months)</b>	<b>Initial date</b>	<b>Maturity date</b>
Aventura Plaza S.A.....	35,817	13y	8/23/2012	5/23/2021
Enersur.....	144,178	10y	6/4/2012	6/4/2020
Kallpa Generación .....	66,128	10y, 8m	06/04/2010	2/12/2021
Hidroeléctrica Santa Cruz.....	37,012	10y	12/20/2012	12/20/2022
Impala.....	66,204	8y, 7m	12/12/2011	07/12/2020
Cerro del Aguila - FMO	37,065	12y	08/17/2012	08/16/2024
Central Hidroeléctrica Karpa Revolutions	6,669	0,5y	02/18/2014	08/12/2014
Línea de Transmisión Chilca - Montalvo.....	9,805	6y, 2m	02/23/2012	04/10/2018
Eléctrica Rio Doble.....	28,584	7y	06/12/2012	06/12/2019
Red Vial 6.....	28,080	14y, 4m	05/02/2012	09/30/2026
	34,223	10y	08/19/2010	08/19/2020
<b>Total.....</b>	<b>493,765</b>	-	-	-

## Hedging Derivatives

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

The following table shows the position of asset, liability and net position of our derivative financial instruments as of September 30, 2014 and 2013. All our derivative operations are classified as hedging (recognizing changes in fair value in our equity until realized).

<b>As of September 30, 2014</b>									
<b>Description</b>	<b>No. Operation</b>	<b>Position</b>			<b>Accrued interest</b>		<b>Fair value</b>	<b>Unrealized profit / (loss)</b>	<b>Realized</b>
		<b>Asset</b>	<b>Liability</b>	<b>Net</b>	<b>Assets</b>	<b>Liabilities</b>			
		S/.000	S/.000	S/.000	S/.000	S/.000	S/.000	S/.000	S/.000
Currency swaps - Yen coverage / US\$	16	523,695	637,644	(113,949)	625	2,564	(89,255)	(54,739)	-
Currency swaps - US\$ coverage / S/.	3	112,625	118,458	(5,833)	264	1,127	(7,974)	750	-
<b>Currency swaps - Coverage</b>	<b>19</b>	<b>636,320</b>	<b>756,102</b>	<b>(119,782)</b>	<b>889</b>	<b>3,691</b>	<b>(97,229)</b>	<b>(53,989)</b>	<b>-</b>
<b>Interest rate Swaps - Coverage</b>	<b>1</b>	<b>39,015</b>	<b>39,015</b>	<b>-</b>	<b>16</b>	<b>163</b>	<b>(1,861)</b>	<b>1,682</b>	<b>-</b>
					<b>(119,782)</b>	<b>905</b>	<b>(99,090)</b>	<b>(52,307)</b>	<b>-</b>

**As of September 30, 2013**

<b>Description</b>	<b>No. Operation</b>	<b>Position</b>			<b>Accrued interest</b>		<b>Fair value</b>	<b>Unrealized profit / (loss)</b>	<b>Realized</b>
		<b>Asset</b>	<b>Liability</b>	<b>Net</b>	<b>Assets</b>	<b>Liabilities</b>			
		S/.000	S/.000	S/.000	S/.000	S/.000	S/.000	S/.000	S/.000
Currency swaps - Yen coverage / US\$	15	531,644	583,443	(51,799)	617	1,901	(23,720)	29,363	-
Currency swaps - US\$ coverage / S/.	4	130,587	142,461	(11,874)	289	1,329	(15,676)	(2,762)	-
<b>Currency swaps - Coverage</b>	<b>19</b>	<b>662,231</b>	<b>725,904</b>	<b>(63,673)</b>	<b>906</b>	<b>3,230</b>	<b>(39,396)</b>	<b>26,601</b>	<b>-</b>
<b>Interest rate Swaps - Coverage</b>	<b>2</b>	<b>45,903</b>	<b>45,903</b>		<b>23</b>	<b>186</b>	<b>(2,826)</b>	<b>(2,663)</b>	<b>-</b>
				<b>(63,673)</b>	<b>929</b>	<b>3,416</b>	<b>(42,222)</b>	<b>23,938</b>	<b>-</b>

We had 19 cross-currency swap operations with various foreign entities as of September 30, 2014 and September 30, 2013. With respect to loans denominated in yen, fluctuations in exchange rates between Yen/US\$ have been hedged by currency swaps of S/. 523.7 million and S/. 531.6 million as of September 30, 2014 and 2013, respectively. To obtain funding in local currency at competitive fixed rates, currency swaps were carried out for US\$/S/. with balances of S/. 112.6 million and S/. 130.6 million as of September 30, 2014 and 2013, respectively.

To cover our positions from changes in interest rates, we carry out interest rate swap operations. We had 1 and 2 interest rate swap operations with different foreign entities as of September 30, 2014 and 2013, respectively. Our interest rate swap balance was S/. 45.9 million as of September 30, 2014 compared to S/. 39.0 million as of September 30, 2013.

### **Critical Accounting Policies**

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

Through SBS Resolution No. 7036-2012, dated September 19, 2012, the SBS modified the Accounting Manual for Financial Entities ("the Accounting Manual") in order to harmonize the accounting principles to IFRS. Such amendments took effect in January 2013 and included the following main amendments:

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

Pursuant to Resolution No. 7036-2012, all accounting adjustments from prior years which might be generated from the application of changes to the Accounting Manual shall be carried out against retained earnings as of January 1, 2013.

Additional disclosures to notes to the financial statements shall be applicable as from December 31, 2013, and their comparative information shall be disclosed to the extent applicable.

To facilitate the IFRS harmonization process, the SBS, by means of Multiple Official Letter No. 45311-2012 (the "Official Letter"), dated November 30, 2012, and pursuant to SBS Resolution No. 7036-2012, requested that financial entities present an implementation plan containing a schedule of activities by which they would adapt their processes to the accounting and informatics systems required by SBS Resolution No. 7036-2012. In compliance with requirements of the Official Letter, we presented our Implementation Plan to the SBS on December 28, 2012.

Our management believes that the application of the amendments to the Accounting Manual shall not materially affect our financial statements as from 2013 onwards.

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

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

Financial statements are prepared in accordance with the historical cost principle, except for available-for-sale investments and derivative financial instruments, both of which are measured at fair value.

In order to prepare the financial statements, certain estimates have been used to quantify some assets, liabilities, revenue, expenses and commitments recorded therein, based on experience and other relevant factors. Final results could differ from such estimates. The most significant estimates included in the financial statements correspond to the provision loan losses, contingent loans and other accounts receivables; valuation of derivative financial instruments; current and deferred income tax; the provision for realizable assets received in payment and seized through legal actions; useful life assigned to property, plant and equipment; useful life assigned to intangible assets; fair values, classification and investments risks and register of contingent liabilities. The accounting criteria for each of these estimates are described below.

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

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

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

As from July 1, 2010, we applied criteria established by SBS Resolution No. 11356-2008 "Regulations for the Evaluation and Classification of Debtor and the Required Provision" for recording loans and allowance for loan losses.

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

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

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

The provisions for loan losses are determined by our management and are calculated in accordance with guidelines established in SBS Resolution No. 11356-2008. Pursuant to SBS procedures, management periodically conducts a formal review and analysis of our loan portfolio, classifying our loan portfolio in one of the following risk categories: (i) normal, (ii) with potential problem, (iii) substandard, (iv) doubtful or (v) loss.

For a non-retail loan portfolio (corporate, large-sized companies and medium-sized companies loans), the classification in the aforementioned categories takes into consideration several factors pursuant to SBS resolutions, such as, the payment history of the particular loan; the history of our dealings with the borrower; operating history; borrower's repayment capability and availability of funds; the borrower's financial statements; the borrower's risk classification made by other financial institutions; and other relevant factors. For a retail loan portfolio (small-sized companies, micro-enterprises, consumer (revolving and non-revolving) and residential mortgage loans), the classification is based on how long payments are overdue and its risk classification by other financial institutions.

#### *Requirements of provisions*

In accordance with effective standards, we make two classes of provisions for our loan portfolio: generic and specific provisions.

Generic provisions include those recorded in a preventive manner for debtors included in the normal category, as required by the SBS, as well as voluntary generic provisions. Pursuant to our internal policies, and as permitted by the SBS, we recognize voluntary generic provisions in our loan portfolio. The amount of such provisions depends on our management's assessment of the conditions of the macroeconomic variables of Peru and their impact on intermediary financial institutions and debtors in general. We also recognize voluntary generic provisions in a preventive manner on certain debtors with higher risks exposure.

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

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

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

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

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

#### *Pro-cyclical component*



The recording of pro-cyclical provisions is required for loan portfolios in the normal risk category. This is an additional component to the rate of the generic provision set out above and is recorded subject to the condition of the “pro-cyclical rule” being activated.

As of December 31, 2013 and 2012, the pro-cyclical component of the loans provision is applied using the following percentages (Circular No. CR-249-2010, on September 28, 2010). Percentages applied are as follows:

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

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

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

The provision for uncollectibility risk in loan contracts is maintained at a level such that, at the discretion of our management, is sufficient to absorb potential loan losses as of the date of the statement of financial position.

### ***Financial instruments***

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

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

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

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

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

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

We classify and record derivative financial instruments in conformity with provisions of the SBS Resolution No. 1737-2006 and its amendments, including SBS Resolution No. 1349-2008. The accounting

treatment provided by the SBS includes essential aspects established by IAS 39 “Financial instruments: Recognition and Measurement”.

When a derivative is first traded it must be classified under one of the following two categories for its accounting record: (a) derivative financial instruments for trade, or (b) derivative financial instruments for hedging. Derivative financial instruments for trade are initially recognized at fair value as of the trading date. Fair values are obtained based on exchange rates and market interest rate. Gains and losses due to changes in fair value are recorded in the statement of income. Any subsequent change in the fair value of such derivative is recorded in the results for the period.

The SBS has established requirements relating to derivative financial instruments for hedging, relating to procedures, techniques of application and proper and timely documentation supporting the hedging strategy.

Interest rate and currency transactions (swaps) and mandatory forward exchange contracts at an exchange rate previously agreed between the parties (forwards) are initially accounted for at fair value.

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

Regardless of the type of hedging financial instrument, these must be periodically evaluated. A hedge is considered as highly effective if the expected changes in the fair value or cash flows of the hedged item and hedging instrument are between 80 and 125 percent. In case that the hedging does not continue to be effective, changes in the fair value shall be reflected in the statement of income for the period.

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

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

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

Deferred income tax takes into account the effects of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and their corresponding tax bases. Deferred tax assets are recognized when it is probable that sufficient taxable income will be generated against which the deferred assets can be offset. Likewise, the carrying amount of a deferred tax asset is reduced when it is no longer probable that sufficient future taxable income will be available to allow the benefit related to the deferred tax asset to be recognized in part or in full.

Deferred assets and liabilities are measured using the tax rates that are expected to be applied in the future and to be applied to taxable income in the years in which temporary differences are expected to be recovered or settled. The calculation of deferred tax assets and liabilities reflects the tax consequences that arise from the manner we expect as of the dates of the statements of financial position, to recover or settle the carrying amount of their assets and liabilities.

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

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

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

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

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

### ***Investments***

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

#### *Available for sale investments*

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

Any gains or losses from exchange differences in representative investments are recorded in the results of the period, except for the available-for-sale equity investments, in which case any gains or losses from exchange differences are recognized in equity accounts.

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

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

#### *Investment in CAF*

According to IAS 39 and the *Reglamento de Clasificación y Valorización de las Inversiones de las Empresas del Sistema Financiero* (Regulation of Classification and Valuation of Investments of Financial Entities, SBS Resolution No. 7033-2012), investments in equity instruments that do not have a market price quoted in an active market and whose fair value cannot be reliably measured are measured at cost.

In accordance with the IFRS harmonization process, we have reclassified this investment as an "available-for-sale investment. This was realized while taking into account a number of factors, namely: (i) CAF shares do not have public active market, (ii) CAF shares are not likely to have a determined estimated fair value, and (iii) SBS Official Letter No. 45853-2012, issued by the SBS on December 5, 2012, stating the treatment for investments based on IFRS and authorizing the use of the value determined at cost. Therefore, as of December 31, 2012, we have reclassified this investment, as shown in the last value in records by us as cost value, reported to the SBS as of December 31, 2012.

As of December 31, 2012, this investment was held as "Investments in subsidiaries and associates" valued with the equity participation method, in compliance with SBS Official Letters No. 6666-2006 and 15306-2007.

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

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

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

