

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

Independent Auditors' Report

Financial Statements

As of December 31,
2014 and 2013

(Free translation of a report
originally issued in Spanish)

CORPORACION FINANCIERA DE DESARROLLO S.A. – COFIDE

TABLE OF CONTENTS

	Pages
INDEPENDENT AUDITORS' REPORT	1-2
FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013:	
Statements of Financial Position	3
Statements of Income	4-5
Statements of Income and Other Comprehensive Income	6
Statements of Changes in Shareholders' Equity	7
Statements of Cash Flows	8
Notes to the Financial Statements	9-80

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of
Corporación Financiera de Desarrollo S.A. – COFIDE

1. We have audited the accompanying financial statements of **Corporación Financiera de Desarrollo S.A. - COFIDE**, which comprises the statements of financial position as of December 31, 2014 and 2013, and the statements of income, income and other comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the financial statements

2. Management is responsible for the preparation and fair presentation of these financial statements in accordance with Generally Accepted Accounting Principles in Peru for financial entities and for such internal control, as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

3. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit as of December 31, 2014 in accordance with the Government Financial Audit Manual, effective such year, and our audit as of December 31, 2013 in accordance with International Auditing Standards, approved by the Peruvian Board of Deans of the Institutes of Certified Public Accountants for their application in Peru. Those manual and standards, as applicable, require that we comply with ethical requirements and plan and perform the audit in order to obtain reasonable assurance about whether the financial statements are free from material misstatements.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the financial statements of COFIDE in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of COFIDE. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Deloitte se refiere a una o más de las firmas miembros de Deloitte Touche Tohmatsu Limited, una compañía privada del Reino Unido limitada por garantía, y su red de firmas miembros, cada una como una entidad única e independiente y legalmente separada. Una descripción detallada de la estructura legal de Deloitte Touche Tohmatsu Limited y sus firmas miembros puede verse en el sitio web www.deloitte.com/about.

* Deloitte Touche Tohmatsu Limited es una compañía privada limitada por garantía constituida en Inglaterra & Gales bajo el número 07271800, y su domicilio registrado: Hill House, 1 Little New Street, London, EC4A 3TR, Reino Unido*

Opinion

6. In our opinion, the aforementioned financial statements, present fairly, in all material aspects, the financial position of **Corporación Financiera de Desarrollo S.A. - COFIDE** as of December 31, 2014 and 2013, its financial performance and its cash flows for the years then ended, in accordance with Generally Accepted Accounting Principles in Peru for financial entities.

Emphasis of matter

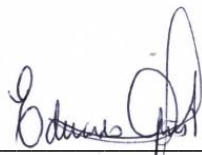
7. As described in Note 3 (e.2) to the accompanying financial statements, as from January 2013, COFIDE modified the classification and valuation criteria applied to the investment in Corporación Andina de Fomento – CAF, in virtue of Resolution SBS N° 7033-2012 and Official Letter N° 45853-2012-SBS.

Other matters

8. The accompanying financial statements were translated into English by COFIDE for convenience of the English-speaking readers and have been derived from the financial statements originally issued in Spanish.

Beltrán, Gris y Asociados S. Civil de R.L.

Countersigned by:



(Partner)

Eduardo Gris Percovich
CPC Register N° 12159

March 20, 2015

CORPORACION FINANCIERA DE DESARROLLO S.A. - COFIDE

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

	<u>Notes</u>	<u>2014</u> S/.000	<u>2013</u> S/.000		<u>Notes</u>	<u>2014</u> S/.000	<u>2013</u> S/.000
Asset				Liability			
Cash	5	523,682	244,734	Obligations to the public	10	47,557	72,226
Available for sale investments	6	3,890,233	3,098,141	Deposits by Banks and financial organizations	10	195,469	188,634
Loan portfolio, net	7	5,194,747	4,646,011	Debt securities	11	6,745,726	5,195,678
Hedging derivatives	9	-	3,897	Hedging derivatives	12	155,699	74,813
Accounts receivable, net	9	56,409	13,945	Accounts payable	12	9,423	7,117
Assets seized, received in payment, awarded		78	78	Provisions	12	55,760	52,223
Property, furniture and equipment, net	8	13,148	13,729	Deferred income tax	18	249,697	256,004
Intangible asset, net	9	7,319	5,389	Other liabilities	12	1,079	5,035
Tax receivable	18	25,306	16,019				
Other assets	9	3,922	5,643				
		<u>9,714,844</u>	<u>8,047,586</u>	Total liability		<u>7,460,410</u>	<u>5,851,730</u>
				Equity			
				Capital stock	13 (a)	1,548,419	1,514,402
				Additional paid in capital	13 (b)	84	-
				Treasury shares	13 (a)	(15,640)	(15,640)
				Legal reserves	13 (c)	287,346	279,708
				Retained earnings	13 (d)	21,742	21,742
				Net income for the year		77,105	76,381
				Adjustments to equity	13 (d)	335,378	319,263
				Total equity		<u>2,254,434</u>	<u>2,195,856</u>
Total asset		<u>9,714,844</u>	<u>8,047,586</u>	Total liability and equity		<u>9,714,844</u>	<u>8,047,586</u>
Contingent and off-balance sheet accounts							
Contingent risks and commitments	14	679,358	558,820				
Trusts, trust commissions	14	24,869,775	21,207,594				
Off-balance sheet accounts	14	13,822,504	11,684,949				
Swaps and forwards	14	636,354	689,038				
		<u>40,007,991</u>	<u>34,140,401</u>				

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

CORPORACION FINANCIERA DE DESARROLLO S.A. - COFIDE

STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013 Expressed in thousands of nuevos soles (S/.000)

	2014	2013
	S/.000	S/.000
Interest income		
Direct loan portfolio	372,318	336,694
Available for sale investments	69,355	50,200
Cash	4,999	2,378
Total	446,672	389,272
Interest expenses		
Obligations to the public	(3,151)	(1,300)
Deposits by Banks and financial organizations	(11,482)	(2,343)
Debts and financial obligations		
Debts and obligations to local financial entities	(46,362)	(43,220)
Debts and obligations to foreign financial entities and international financial organizations	(38,946)	(31,997)
Other debts and obligations to local and foreign entities	(4,529)	(5,173)
Commissions and other charges fro debts and financial obligations	(8,382)	(4,934)
Securities, bonds and outstanding obligations	(136,971)	(100,467)
Payable interests	(34)	-
Net loss from hedging transactions	(18,765)	(20,986)
Total	(268,622)	(210,420)
Gross financial margin	178,050	178,852
Provisions for loan losses	17,448	15,804
Net financial margin	195,498	194,656
Income from financial services		
Income from indirect loans	9,487	7,288
Income from trusts and trust commissions	21,732	19,228
Sundry income	27	55
	31,246	26,571
Expenses for financial services		
Expenses for trusts and trust commissions	(17)	(9)
Sundry expenses	(3,457)	(4,969)
	(3,474)	(4,978)
Net financial margin of income and expenses for financial services	223,270	216,249
Profit/loss from financial operations		
Available for sale investments	(4,187)	(1,420)
Net loss from hedging operations	(66,310)	(88,458)
Earning from exchange difference	48,087	66,855
Others expenses	599	1,045
	(21,811)	(21,978)
Operating margin	201,459	194,271

(Continue)

CORPORACION FINANCIERA DE DESARROLLO S.A. - COFIDE

STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

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

	<u>Notes</u>	<u>2014</u> S/.000	<u>2013</u> S/.000
Administrative expenses, depreciation and amortization:			
Personnel and Board of Directors' expenses	15	(41,138)	(39,723)
Expenses for services received from third parties	16	(22,867)	(18,733)
Taxes and contributions		(5,230)	(4,456)
Depreciation and amortization		<u>(2,949)</u>	<u>(1,855)</u>
Total		<u>(72,184)</u>	<u>(64,767)</u>
Net operating margin		<u>129,275</u>	<u>129,504</u>
Net valuation of assets and provisions			
Provisions for indirect loans	7 (c)	6,030	(14,263)
Provisions for impairment of accounts receivable	9 (b)	(2,420)	(599)
Provision for seized goods, received in payment, recovered and awarded, and others		1,513	(569)
Provisions for lawsuits and claims		(950)	(133)
Others provisions		<u>(10,918)</u>	<u>1,178</u>
Operating profit		122,530	115,118
Other income and expenses		<u>(16,450)</u>	<u>(7,104)</u>
Profit before income tax		106,080	108,014
Income tax	18	<u>(28,975)</u>	<u>(31,633)</u>
Net income for the year		<u>77,105</u>	<u>76,381</u>
Basic and diluted earnings per share in Nuevos Soles (S/.)	17	0.0504	0.0501

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

CORPORACION FINANCIERA DE DESARROLLO S.A. - COFIDE

STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

Expressed in thousands of nuevos soles (S/000)

	<u>2014</u>	<u>2013</u>
	S/000	S/000
Net income for the year	77,105	76,381
Other comprehensive income (loss):		
Available for sale investments	27,972	(118,119)
Cash flow hedges	(18,259)	78,836
Other comprehensive income (loss) gain for the year, net of tax	9,713	(39,283)
Income tax related to components of other comprehensive income:		
Available for sale investments	(7,453)	35,436
Cash flow hedges	5,770	(23,651)
Share in other comprehensive income in CAF investments	8,085	-
Effect of income tax related to components of other comprehensive income	6,402	11,785
Total other comprehensive income (loss)	16,115	(27,498)
Total comprehensive income	93,220	48,883

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

CORPORACION FINANCIERA DE DESARROLLO S.A. - COFIDE

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

	Adjustments to equity										
	Capital stock	Additional paid in capital	Treasury shares	Legal reserves	Retained earnings	Net income for the year	Investments in equity instruments at fair value	Cash flow hedging	Share in other comprehensive income of CAF investmtnets	Total adjustment to equity	Total
	S/000	S/000	S/000	S/000	S/000	S/000	S/000	S/000	S/000	S/000	S/000
	Note 13(a)	Note 13(b)	Note 13(a)	Note 13(c)	Note 13(d)	Note 13(d)	Note 13(d)	Note 13(d)	Note 13(d)	Note 13(d)	Note 13(d)
Balances as of January 1, 2013	1,504,501	14,643	-	272,297	14,143	74,110	95,959	(32,180)	282,982	346,761	2,226,455
Changes in equity:											
Comprehensive income:											
Net income for the year	-	-	-	-	-	76,381	-	-	-	-	76,381
Other comprehensive income	-	-	-	-	-	-	(82,683)	55,185	-	(27,498)	(27,498)
Total comprehensive income	-	-	-	-	-	76,381	(82,683)	55,185	-	(27,498)	48,883
Transfer of profit/loss for the year to retained earnings	-	-	-	7,411	66,699	(74,110)	-	-	-	-	-
Cash dividends declared	-	-	-	-	(66,699)	-	-	-	-	-	(66,699)
Capital contribution in cash	9,901	-	-	-	-	-	-	-	-	-	9,901
Sale of shares	-	(14,643)	(15,640)	-	7,599	-	-	-	-	-	(22,684)
Issuance of capital shares	-	15,640	-	-	-	-	-	-	-	-	15,640
Capital premiums	-	7,505	-	-	-	-	-	-	-	-	7,505
Decrease for transfer to financial liability (Note 11)	-	(23,145)	-	-	-	-	-	-	-	-	(23,145)
Total changes in equity	9,901	(14,643)	(15,640)	7,411	7,599	2,271	(82,683)	55,185	-	(27,498)	(30,599)
Balances as of December 31, 2013	1,514,402	-	(15,640)	279,708	21,742	76,381	13,276	23,005	282,982	319,263	2,195,856
Changes in equity:											
Comprehensive income:											
Net income for the year	-	-	-	-	-	77,105	-	-	-	-	77,105
Other comprehensive income	-	-	-	-	-	-	20,519	(12,489)	8,085	16,115	16,115
Total comprehensive income	-	-	-	-	-	77,105	20,519	(12,489)	8,085	16,115	93,220
Reclassification among equity accounts	15,640	(15,640)	-	7,638	68,743	(76,381)	-	-	-	-	-
Capital increase:											
Capitalization of profit	10,205	-	-	-	(10,205)	-	-	-	-	-	-
Capital contribution in cash	23,812	-	-	-	-	-	-	-	-	-	23,812
Reclassification from capital to financial liabilities	(15,640)	15,640	-	-	-	-	-	-	-	-	-
Cash dividends declared	-	-	-	-	(58,538)	-	-	-	-	-	(58,538)
Other changes in equity	-	84	-	-	-	-	-	-	-	-	84
Total changes in equity	34,017	84	-	7,638	-	724	20,519	(12,489)	8,085	16,115	58,578
Balances as of December 31, 2014	1,548,419	84	(15,640)	287,346	21,742	77,105	33,795	10,516	291,067	335,378	2,254,434

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

CORPORACION FINANCIERA DE DESARROLLO S.A. - COFIDE

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013 Expressed in thousands of nuevos soles (S/.000)

	2014	2013
	S/.000	S/.000
Operating activities:		
Net income for the year	77,105	76,381
Adjustments		
Depreciation and amortization	2,949	1,855
Provisions	(7,132)	2,459
Deferred tax	96	(4,187)
Other adjustments	(77)	(1,944)
Change in assets and liabilities		
Net (increase) decrease in assets		
Loans	(464,432)	(1,300,186)
Available for sale investments	(764,121)	(112,970)
Accounts receivable and others	(120,850)	126,568
Net (decrease) increase in liabilities		
Financial liabilities, unsubordinated debts	(293,975)	801,722
Accounts payable and others	85,819	56,310
	<u>(1,484,618)</u>	<u>(353,992)</u>
Net cash used in operating activities		
	<u>(1,484,618)</u>	<u>(353,992)</u>
Investing activities:		
Purchases of property, furniture and equipment	(1,638)	(4,304)
Other proceeds relating to investing activities	9,436	1,377
Other payments relating to investing activities	(2,708)	(2,595)
	<u>5,090</u>	<u>(5,522)</u>
Net cash provided by (used in) investing activities		
	<u>5,090</u>	<u>(5,522)</u>
Financing activities:		
Proceeds from issuance of equity instruments	23,812	9,901
Paid dividends	(58,538)	(66,699)
Other proceeds relating to financing activities		
Deposits in financial entities and international financial organizations	4,984	186,800
Outstanding securities	1,788,218	215,323
	<u>1,758,476</u>	<u>345,325</u>
Net cash provided by financing activities		
	<u>1,758,476</u>	<u>345,325</u>
Net increase (decrease) in cash and cash equivalent	278,948	(14,189)
Cash and cash equivalent at the beginning of the year	<u>244,734</u>	<u>258,923</u>
Cash and cash equivalent at the end of the year	<u><u>523,682</u></u>	<u><u>244,734</u></u>

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

CORPORACION FINANCIERA DE DESARROLLO S.A. – COFIDE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013 In thousands of Nuevos Soles (S/.000), otherwise indicated herein

1. INCORPORATION, ECONOMIC ACTIVITY AND APPROVAL OF FINANCIAL STATEMENTS

(a) Incorporation and economic activity

Corporación Financiera de Desarrollo S.A. - COFIDE (COFIDE or Bank) is a company where the Government has an equity interest of 98.00% (represented by Fondo Nacional de Financiamiento de la Actividad Empresarial del Estado – FONAFE, attached to the Ministry of Economy and Finances – MEF) and the Corporación Andina de Fomento – CAF, holds another 1.00%. COFIDE also maintains treasury shares representing 1.00% of total capital.

COFIDE was incorporated on March 18, 1971 through Law Decree N° 18807 and it has administrative, economic and financial autonomy. The stated purpose of COFIDE is to contribute to Peru's integral development, through funds capture and financing granted through Financial Intermediation Institutions (hereinafter IFI for its acronym in Spanish), for the promotion and financing of productive investments and public and private infrastructure.

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

The activities of COFIDE are regulated by different legal provisions included in its bylaws, specifically issued to define its action framework. Additionally, such activities are regulated by the Ley General del Sistema Financiero y del Sistema de Seguros and Orgánica de la Superintendencia de Banca, Seguros y Administradora de Fondos de Pensiones (General Law of the Financial and Insurance Systems and Organic Law of the SBS) – Law N° 26702 (hereinafter General Law), and the amendments to Legislative Decree N° 1028 dated June 21, 2008.

COFIDE's legal address is Augusto Tamayo N° 160, San Isidro and the number of personnel (Managers, officers and employees) as of December 31, 2014 and 2013 was 193 and 199, respectively.

(b) Approval of financial statements

The financial statements for the year ended December 31, 2014, prepared in accordance with generally accepted accounting principles in Peru (GAAP in Peru) applicable to financial entities, were authorized for issuance by COFIDE's Management on January 15, 2015. These financial statements shall be submitted for approval to the Board of Directors and then to the Shareholders' Meeting. COFIDE's Management believes that the financial statements, included herein, will be approved by the Board of Directors and at the Shareholders' Meeting without further amendments. The financial statements for the year ended December 31, 2013, prepared in accordance with GAAP in Peru for financial entities, were approved at the Shareholders' Meeting held on March 31, 2014.

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

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

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

(a) ***Statement of compliance***

The financial statements are prepared in accordance with legal regulations and GAAP in Peru applicable to financial entities, which comprise accounting standards and practices authorized by the SBS by virtue of the authority conferred to it by the General Law. The standards mentioned above are included in the Accounting Manual for Financial Entities (hereinafter the Accounting Manual), amended by Resolution SBS N° 7036-2012 dated September 19, 2012, effective as of January 1, 2013.

(b) ***Basis of measurement***

The SBS has established that in the event of situations not anticipated by generally accepted accounting principles in Peru, for financial entities, the provisions set forth in GAAP in Peru shall be applied.

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

(c) ***Functional and presentation currency***

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

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

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

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

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

- Provision for direct and indirect impaired loans portfolio
- Fair value of hedging derivatives
- Provision for accounts receivable impairment
- Useful life assigned to property, furniture and equipment, net
- Useful life assigned to intangible assets
- Impairment estimate of property, furniture and equipment
- Impairment estimate of investments
- Other assets and contingent loans
- Assessments of contingent liabilities
- Current and deferred income tax
- Fair values, classification and investments risks
- Revenue recognition

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

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation and presentation of the financial statements of COFIDE are detailed below

(a) Changes in accounting estimates

In accordance with the statements made by Management during the years 2014 and 2013, COFIDE has not made any adjustment derived from changes in accounting policies and/or accounting errors. In 2014, due to changes in some standards, COFIDE made the following changes in accounting estimates:

- Deactivation of the procyclical factor of the provision for impaired loans

On November 27, 2014, the SBS issued Circular Letter N° B-2224-2014, which establishes that, as of November 1, 2014, the procyclical factor of the provision for impaired loans has been deactivated (see Note 3 (d)).

- Changes in rates for the determination of income tax

As of December 31, 2014, Income Tax Law modified the tax on third category income recipients domiciled in the country over their net income. The effect of this event on the financial statements for 2014 was the increase of deferred income tax revenue and the decrease of deferred income tax liability for S/.17,836 thousand (see Note 18 (g)).

(b) Financial instruments

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

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

Financial assets and liabilities presented in the statement of financial position correspond to: cash funds, available for sale investments, loans portfolio, accounts receivable and liabilities in general. Additionally, 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 in this note.

(c) *Derivative financial instruments*

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.

COFIDE classifies and records derivative financial instruments in accordance with the provisions set forth in the Accounting Manual and the Resolution SBS N° 1737-2006 and its amendments. The accounting treatment provided by the SBS includes essential aspects established by IAS 39 “Financial Instruments: Recognition and Measurement”.

Upon their beginning recording at trading date, derivatives shall be classified under one of the following two categories for their accounting record: (a) derivative financial instruments for trade or (b) derivative financial instruments for hedging. Derivative financial instruments for trade are initially recorded at their fair value; subsequently, any change in the fair value of such derivative shall affect the results for the period. Regarding derivative financial instruments for hedging, certain requisites established by the SBS shall be met related 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 at fair value.

Future cash flow hedging is recorded as asset or liability in the statements 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 hedging financial instrument, these must be periodically evaluated and considered as highly effective with a range of 80-125% to reduce the risk associated to the exposure being covered. In case that the hedging does not continue to be effective, changes in the fair value shall be reflected in the statement of income for the period.

Derivatives classified in the trading category are initially recognized at fair value as of the trading date.

Fair values are obtained based on exchange rates and market interest rate. Gains and losses for changes in fair value are recorded in the statement of income.

The face value of derivative financial instruments is recorded in their corresponding engaged or agreed currency in contingent and memorandum accounts (Note 14 (a)).

(d) Loan portfolio and provision for loan losses

Loan portfolio is recorded when the disbursement in favor of the customers take place.

Loans are considered as refinanced or restructured when the debtor has difficulties in the payment and these change his payment schedules and/or the balance of debt capital.

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

The provision for loans and allowance for loan losses is established in accordance with criteria and percentages set forth in Resolution SBS N° 11356-2008 “Regulations for the Evaluation and Classification of Debtors and Required Provisions”.

Types of loans

In accordance with SBS Resolution N° 11356-2008, loans are classified as: i) Corporate, ii) Large business, iii) Medium business, iv) Small business, v) Micro-business, vi) Revolving consumer loans, vii) Non-revolving consumer loans and viii) Mortgage loans. These classifications consider the nature of the customer (corporate, government or individual), the purpose of the customer and the size of the business measured by income and debt, among others.

Categories of classification

Categories of classification established by the SBS are as follows: normal, with potential problems, substandard, doubtful and loss. These are the same for non-retail loan portfolio (corporate, large and medium business), which are mainly determined for the debtor’s capacity of payment, his cash flow, the level of compliance with its obligations, the classification assigned by other financial entities, the debtor’s financial position and the quality of the customer’s direction; while in order for the retail loan portfolio (small business, micro-business, consumer (revolving and not revolving) and mortgage), the classification is determined based on the compliance with the payment of loans reflected in delay days, and in its classification in other financial entities.

Requirements of provisions

According with accounting standards and practices authorized by the SBS, COFIDE makes two classes of provisions for loan portfolio: general and specific provisions.

General provisions include: (i) those established for debtors classified as normal in accordance with the requirements of the SBS and also the procyclical component when the SBS confirms its application (this component is deactivated since November 2014 by virtue of Circular Letter N° B-2224-2014); as well as (ii) general voluntary provisions.

Based on its internal policies, allowed by SBS, COFIDE establishes general voluntary provisions for the loan portfolio, whose level depends on the assessment conducted by Management on the conditions of the macroeconomic variables of the country and their impact on IFIs and debtors in general (Note 7). Also, general voluntary provisions are established as a precautionary measure on certain debtors with higher risk exposure.

In this regard, through Board of Directors agreements N° 066-2005 and N° 003-2007, dated September 15, 2005 and January 11, 2007, respectively, the reallocation and constitution of general voluntary provisions was approved based on the following maximum provision rates:

Sub-system	% of provision up to
Municipal saving institutions	30%
Rural saving institutions	50%
Micro and small enterprise development entities	30%
Cooperatives	40%
Banks	35%
Financial entities	30%
Leasing companies	30%

Specific provisions are constituted on direct credits and exposure equivalent to credit risk of indirect credits of debtors classified in a category with higher risk than normal category.

Requirements of provisions are determined considering the debtor's risk classification, whether there is guarantee or not, and based on the type of guarantee.

Additionally, in compliance with Resolutions SBS N° 041-2005, COFIDE assesses the exposure to credit exchange risks for loans in foreign currency and records provisions as required by the SBS.

COFIDE uses the aforementioned criteria to constitute the specific provision of accounts receivable for transferred loan portfolio, included in Other assets (Note 9(b)).

As of December 31, 2014 and 2013, general and specific provisions are determined according to SBS. Minimum required percentages for provisions constitution are as follows:

<u>Risk category</u>	<u>No guarantee</u>	<u>With Preferred guarantee</u>	<u>Readily realizable preferred guarantee</u>	<u>Automatic guarantee</u>
Normal				
Corporate sized company loans	0.70	0.70	0.70	0.70
Large sized company loans	0.70	0.70	0.70	0.70
Medium sized company loans	1.00	1.00	1.00	1.00
Small sized company loans	1.00	1.00	1.00	1.00
Micro - Enterprise sized company 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
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

Procyclical component

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

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

As of December 31, 2013, the procyclical factor of the provision for loan portfolio was activated in virtue of Multiple Official Letter N° B-2193-2010-SBS dated September 29, 2010. Provision percentages applied are shown as follows:

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

For corporate loans to large business 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 that count with self-liquidity preferred guarantees, the pro-cyclical component will be 0% for the portion covered by such guarantees. For consumer loans by discount agreements with paychecks, the pro-cyclical component will be 0.25%, as long as it complies with SBS Resolution N° 11356-2008.

When the debt is considered uncollectible, it is written-off on the corresponding provision for loan portfolio impairment. The subsequent recovery of respectively written-off amounts is recognized as income in the statement of income.

Provision for risk of in loan contracts is held at a level such that, at discretion of COFIDE’s Management, it is enough to cover potential losses in loan portfolio as of the statement of financial position date.

(e) Investments

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

COFIDE holds investments the following categories:

(e.1) Available for sale investments

It comprises those securities which management has the intention of trading or obtaining profits from their commercialization before their due date. This category includes all investment instruments not classified as investments at fair value through profit or loss, held-to-maturity investments and investments in subsidiaries and associates. The valuation is made at fair value

and the gain or loss generated by the changes in the fair value is recognized in the stockholders' equity until the instrument is sold or realized, when it is transferred to the statement of income for the period, except for impairment losses that are recorded in the statement of income.

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

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

Provisions for impairment in investments' value are based on internal evaluations made by COFIDE, 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, although such investment instruments have not been sold or withdrawn.

(e.2) Investment in Corporación Andina de Fomento – CAF

According to Regulation of Classification and Valuation of Investments of Financial Entities, Resolution SBS N° 7033-2012, investments in equity instruments that do not have a market price quoted in an active market and whose fair value cannot be reliably measured are measured at cost.

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

(f) Property, furniture and equipment

Property, furniture and equipment are presented at cost, less depreciation and any recognized loss for impairment charges. Initial disbursements, as well as those incurred in subsequently, regarding goods which cost could be reliably valued, being likely that they generate future economic benefits, are recognized as fixed assets. Subsequent disbursements for maintenance and repairs are expensed during the period as incurred. Gains or losses arising from the sale of withdrawal of a property, property and equipment item is determined as the difference between the sale product and the carrying amount of the asset, which are recognized in profit or loss for the year when the sale takes place.

Depreciation is calculated based on the straight-line method on estimated useful life of different assets as follows:

<u>Caption</u>	<u>Useful Life</u>
Buildings	33 years
Facilities, furniture and fixtures	10 years
Transportation units	5 years
Sundry equipment	4 to 10 years

Estimates of useful lives, residual values and depreciation methods are reviewed at the end of each reporting period in order to evaluate possible relevant changes in previous expectations or in the expected patter of consumption of future economic benefits incorporated to assets,

progressively incorporating the effects of any change in these estimates on net income or loss for the period in which they occur.

Pursuant to the General Law, COFIDE is not allowed to pledge or mortgage its fixed assets as guarantee.

(g) *Foreclosed, received and awarded goods*

Awarded and received goods are recorded at the lower of award cost, value agreed in payment in kind agreement or net realization value. Recovered goods due to contract resolution, if any, are initially recorded for the lowest amount resulting from the comparison between the debt unpaid balance and the net realization value. Should the unpaid balance of the debt be higher than the balance of the recovered good, the difference is recognized as a loss, provided that their recovery is unlikely.

In accordance with Resolution SBS N° 1535-2005, COFIDE shall establish the following provisions:

- 20% of the value of goods received at acquisition or recovery date for all goods received to the extent that the provision determined by the appraisal value is not higher.
- For goods other than real estate, the remaining balance is accrued for over a period not exceeding 18 months or 12 months, depending if COFIDE has obtained an extension from the SBS.
- Additionally, for real estate, a monthly impairment provision is recorded effective from the 18th month following the acquisition or recovery, which shall be constituted over a term of 42 months or less, based on the net value obtained during the 18th month.

(h) *Intangible assets*

Intangible assets with finite useful lives acquired separately are recognized at acquisition cost less accumulated amortization and accumulated impairment losses. Amortization is determined under the straight-line method based on the useful life estimated by COFIDE. Estimates on useful lives and depreciation methods are reviewed at the end of each reporting period in order to evaluate possible relevant changes in previous expectations in the expected pattern of future economic benefits of such assets, progressively incorporating the effects of any change in these estimates on net income or loss for the period in which they occur.

Acquired licenses of computer programs are capitalized based on incurred costs to acquire or start using the specific program. These costs are amortized following the straight-line method during its estimate useful life. Useful life has been estimated between 3 and 5 years.

Costs related with the development or maintenance of computer programs are recognized as expenses when they are incurred. Costs incurred in the development of computer programs, recognized as assets, are amortized during their estimate useful lives.

Intangible assets are measured after recognition based on the cost model.

(i) *Impairment loss*

When there are events or economic changes indicative that the value of an asset might not be recoverable, management reviews the book value of these assets. If after analysis the book value of the asset exceeds its recoverable amount, an impairment loss is recognized in the statement of income based on the recoverable amount estimated for the asset.

(j) Deposits by Banks and financial organizations, and debt securities

Liabilities for debts and financial obligations and for securities issuance (corporate, senior and subordinated bonds) are recorded at fair value, recognizing interests accrued in the statement of income.

Premiums or discounts granted in bond placements are deferred and amortized during their lives.

(k) Income tax

Expenses for income tax comprise estimated income tax payable plus deferred income tax.

Current income tax is determined by applying the tax rate established in the effective tax legislation for net taxable income for the year.

Deferred income tax corresponds to the amount of tax expected to be recovered or paid upon the temporary differences between reported carrying amounts of assets and liabilities, and their corresponding tax bases. Deferred income tax liabilities are generally recognized for all deductible temporary differences and tax loans, rebates and tax losses not carried forward, to the extent in which it is likely that COFIDE will have enough future taxable profit in order to use them.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period, and reduced to the extent to which it is not likely that COFIDE has enough future taxable profit in order to recover all, or a portion, of such assets.

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

Current and deferred tax, are recognized in profit or 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.

(l) Employees' benefits

Employees' benefits include, among others, short term benefits and contributions to social security, paid annual absences, absences paid for illness and share in profit and encouragements, if paid within the twelve months following the end of the period. These benefits are recognized on profit or loss for the period in which the employee has developed the services that entitle them to receive them. Corresponding obligations payable are presented as part of other liabilities.

(l.1) Employees' profit-sharing

COFIDE recognizes a liability and an expense for employees' profit sharing on earnings upon the basis of 5% of the tax base determined in accordance with current tax legislation.

(l.2) Vacations

Annual vacations of personnel are estimated on accrued base. The provision for estimated annual vacation obligation, for services rendered by employees is recognized in the statement of financial position date.

(l.3) Severance or seniority indemnities

The accrual for employees' severance indemnities comprises all the liabilities related to the workers' vested rights according to legislation in effect. Payments made, that are considered definitive, are deposited in financial institutions selected by the employees.

(m) Provisions

Provisions are recognized when COFIDE has a present legal obligation (legal or constructive) as a result of past events and it is probable that COFIDE will be required to settle the obligation and a reliable estimate of the amount can be made.

The amount recognized as provision corresponds to the best estimate, as of the balance sheet date, of the disbursement necessary to settle the present obligation, considering risks and uncertainties surrounding most of the events and circumstances concurrent to its valuation. When the amount of the provision is measured using estimated cash flows to settle the obligation, the carrying amount is the present value of the corresponding disbursements.

In the event that a part or all the disbursement necessary to settle the provision is expected to be refunded by a third party, the portion receivable is recognized as an asset when its recovery is practically certain, and the amount of such portion can be reliably determined.

(n) Contingent assets and liabilities

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

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

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

(o) Dividend distribution

Dividends distribution in cash is recognized as a liability in the financial statements when dividends are approved by COFIDE's shareholders.

(p) Income and expense recognition

Interest income and expenses are recognized in the income for the period in which they are earned, based on the validity time of operations which generate them and interest rates freely agreed with customers; except for interests generated by overdue, refinanced, restructured and in legal collection loans; as well as loans classified in doubtful and loss categories, which interests are recognized as earned to the extent they are collected. When the 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 an accrual basis.

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

(q) Trust activity

Assets held by COFIDE in its capacity as trustee upon request of government entities are not included in the balance sheet. Such assets are controlled in separate financial statements and presented in the memorandum accounts of COFIDE.

(r) Foreign currency

COFIDE's functional currency is the Peruvian Nuevo Sol (S/). Transactions in currencies other than the functional currency are deemed to be foreign currency, and are recognized at the rates of exchange prevailing at the date of transactions. At the end of each reporting period, the balances of monetary items denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items which are recognized at historical cost in foreign currencies are translated using rates of exchange prevailing at the date of transactions.

Exchange differences arising on monetary items are recognized in profit or loss in the period in which they arise, except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified to profit or loss for the period on repayment of the monetary items.

(s) Earnings per share

Earnings per share are calculated by dividing net earnings from shareholders by weighted averages of outstanding shares during the period. For shares generated by capitalization of earnings, it is considered, for the calculation of the weighted average that said shares were always outstanding during the year. As of December 31, 2014 and 2013, COFIDE does not have financial instruments with dilutive effects; therefore basic and diluted earnings per share are the same (Note 17).

(t) Cash and cash equivalents

To determine cash and cash equivalents, COFIDE applies the indirect method in accordance with the requirements of IAS 7 – "Statement of cash flows". Cash and cash equivalents include the balance of items Cash, Demand deposits and Checking accounts in banks.

(u) Other comprehensive income

As of December 31, 2014 and 2013, the components of the statements of income and other comprehensive income correspond to profit or loss for available for sale investments and cash flow hedges, net of their pertinent deferred income tax.

(v) *Reclassifications*

In order to compare financial statements with the year 2014, the following reclassifications were made for the year 2013:

Statements of financial position

- S/.3,984 thousand from item “Available for sale investments” to item “Provisions - Others”.
- S/.642,920 thousand from item “Contingent risks and commitments” and S/.46,118 thousand from item “Trusts, trust commissions and other accounts” to item “Swaps and forwards”.
- S/.6,703,851 thousand from item “Trusts, trust commissions and other accounts” to item “Off-balance sheet accounts”.

Statements of income

- S/.1,854 thousand from item “Investment impairment” to item “Others provisions”.

Statements of cash flows

- S/.1,854 thousand from item “Provisions” to item “Other adjustments”.

Also, in Notes 7 and 21 to the financial statements as of December 31, 2013, a reclassification of S/.104,305 thousand has been made from Principal to Interests.

4. NEW ACCOUNTING PRONOUNCEMENTS

(a) *Pronouncements of the Accounting Standards Board – CNC*

By virtue of Resolution N° 053-2013-EF/30, issued on September 11, 2013, the CNC approved to make official the 2013 versions of IFRS (IAS, IFRS, IFRIC and SIC), according to the corresponding effective dates of each Standard, rendered official under such Resolution.

By virtue of Resolution N° 055-2014-EF/30, issued on July 24, 2014, the CNC approved to make official the 2014 version of International Financial Reporting Standards (IAS, IFRS, IFRIC and SIC), according to the corresponding effective dates of each Standard, rendered official under such Resolution.

Amendments to IFRS and interpretations applicable in 2014 and 2013 are detailed below:

- **IFRS 10 “Consolidated Financial Statements”**. Effective for annual periods beginning on or after January 1, 2014.
- **IFRS 12 “Disclosure of Interests in Other Entities”**. Effective for annual periods beginning on or after January 1, 2014.
- **IAS 27 “Separate Financial Statements”**. Effective for annual periods beginning on or after January 1, 2014.
- **IAS 32 “Financial Instruments: Presentation – Clarification of Requirements for netting financial assets and liabilities”**. Effective for annual periods beginning on or after January 1, 2014.
- **IAS 36 “Impairment of Assets – recoverable amount disclosures for non-financial assets”**. Effective for annual periods beginning on or after January 1, 2014.

- **IAS 39 “Financial Instruments: Recognition and Measurement – Novation of derivatives and continuation of hedge accounting”**. Effective for annual periods beginning on or after January 1, 2014.
- **IFRIC 21 “Levies”**. Effective for annual periods beginning on or after July 1, 2014.
- **Amendments to IAS 19 “Employee Benefits – Defined Benefit Plans: Employee Contributions”**. Effective for annual periods beginning on or after January 1, 2014.

New and revised IFRS that are not mandatorily effective (but allow early application) for the year ended December 31, 2014:

- **IFRS 9 “Financial Instruments”**. Effective for annual periods beginning on or after January 1, 2018.
- **IFRS 14 “Regulatory Deferral Accounts”**. Effective for annual periods beginning on or after January 1, 2016.
- **IFRS 15 “Revenue from Contracts with Customers”**. Effective for annual periods beginning on or after January 1, 2017.
- **Amendments to IFRS 11 “Joint Arrangements”**. Effective for annual periods beginning on or after January 1, 2016.
- **Amendments to IFRS 16 “Property, Plant and Equipment”**. Effective for annual periods beginning on or after January 1, 2016.
- **Amendments to IFRS 38 “Intangible Assets”**. Effective for annual periods beginning on or after January 1, 2016.

COFIDE’s Management believes that the application of these new pronouncements will not have a material impact in the financial statements.

(b) Main pronouncements of the SBS

<u>N°</u>	<u>Description of the Standard</u>	<u>Effective as of</u>
B-2224-2014	Approval of the deactivation of the procyclical standard.	November 2014
OM-43078-2014	The SBS stated that the fair value of the loan and deposit portfolio corresponds to the carrying amount.	November 2014
R-1014-2014	Amendments to Annex 7-A and 7-B of Chapter V “Complementary Information” of the Accounting Manual.	March 2014
R-1802-2014	Amendments to the Regulations for the Evaluation and Classification of Debtors and Required Provisions.	March 2014

R-4128-2014	Amendments to the Accounting Manual for Financial Entities and the Regulations for the Requirement of Regulatory Capital per Operational Risk.	July 2014
R-5254-2014	Amendments to the Regulations for Liquidity Risk Management and the Accounting Manual for Financial Entities.	September 2014
R-5790-2014	Approval of the Regulations for Repo Operations applicable to Financial Entities.	September 2014

5. CASH

	<u>2014</u>	<u>2013</u>
	<u>S/.000</u>	<u>S/.000</u>
Banco Central de Reserva del Perú - BCRP (a)	155,298	41,820
Checking accounts	372,235	202,382
Accrued interest from cash	275	471
Other deposits	64	61
Provision for country risks (b)	<u>(4,190)</u>	<u>-</u>
Total	<u><u>523,682</u></u>	<u><u>244,734</u></u>

- (a) As of December 31, 2014, in BCRP, balances include (in thousands) US\$888 and S/.3,246 (US\$3,258 and S/.32,714 as of December 31, 2013) corresponding to reserve requirements that financial entities incorporated in Peru shall maintain for deposits and obligations to third parties. These funds are deposited in the BCRP. Required reserve funds representing legal minimum do not generate interests. Required reserve funds of the additional required reserve shall be paid at an interest rate established by the BCRP. According to current legal provisions, required reserve funds cannot be seized.

As of December 31, 2014, in BCRP, balances include (in thousands) US\$35,800 and S/.42,500 for overnight deposits held in BCRP, which accrued interests at an annual effective rate of 0.1279% in foreign currency and 2.30% in local currency. Overnight deposits accrued interests in 2014 for (in thousands) US\$12 and (in thousands) S/.87, which are included in item "Interest income from cash" in the statements of income. As of December 31, 2013, COFIDE did not record balances for overnight deposits; nevertheless, these accrued interests for (in thousands) S/.309, which are included in item "Interest income from cash" in the statements of income.

- (b) During the fourth quarter of 2014, provisions for country risks – cash have been established for deposits that COFIDE holds in foreign banks (which are subject to regulatory provision for country risk). Such deposits are held at a short-term and the requirements for these provisions are expected to decrease gradually. It is worth mentioning that such provisions are established in accordance with the SBS and intern policies of COFIDE about this matter.

6. AVAILABLE FOR SALE INVESTMENTS

	<u>2014</u>	<u>2013</u>
	<u>S/.000</u>	<u>S/.000</u>
CAF shares (Note 3 (e.2))	2,339,156	2,339,156
Mutual funds	314,981	-
Investment funds	20,266	34,200
Shares	<u>2,561</u>	<u>2,233</u>
Equity instruments	<u>2,676,964</u>	<u>2,375,589</u>
Structured bonds	823,548	462,304
Corporate bonds	262,877	109,614
Securitization bonds	45,786	60,826
Structured bonds / repos	29,805	-
Sovereign bonds	18,581	6,521
Commercial papers	2,966	5,167
Subordinated bonds	2,377	10,269
Sovereign bonds / repos	-	48,272
Financial lease bonds	<u>-</u>	<u>140</u>
	1,185,940	703,113
Accrued interest	<u>27,329</u>	<u>19,439</u>
Debt instruments	<u>1,213,269</u>	<u>722,552</u>
Total	<u><u>3,890,233</u></u>	<u><u>3,098,141</u></u>

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

Within the frame of IFRS harmonization and considering that CAF shares do not pay dividends in cash, do not have an active public market, that is not likely to determine a fair value estimated of the investment and considering SBS Official Letter N° 45853-2012, as from January 1, 2013, COFIDE decided to record this investment under “Available for sale investments” considering the equivalent of the last value recorded by COFIDE as cost value, which was reported to the SBS as of December 31, 2012 (Note 3 (e.2)).

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

As of December 31, 2014, structured bonds / repos comprise bonds from Terminales Portuarios Paíta, which were granted as guarantee of short-term financing provided by trusts managed by COFIDE (Note 10(c)). As of December 31, 2013, sovereign bonds / repos comprise bonds from the Peruvian Government, which were granted as guarantee of short-term financing provided by trusts managed by COFIDE (Note 10 (c)).

As of December 31, 2014 and 2013, Management reviewed the carrying amount of its investments and has determined that no event or economic change have arisen that indicate that

the value of its investments exceed their recoverable amount; therefore, Management has not recognized impairment losses for investments.

Also, as of December 31, 2014 and 2013, as a result of internal assessments, COFIDE established provisions for (in thousands) S/.9,877 and S/.3,984, respectively, for exposure to Credit Risk derived from Exchange Risk of the investments that COFIDE holds in foreign currency (Note 12(b)).

In accordance with the policies of COFIDE, as of December 31, 2014 and 2013, COFIDE only makes investments on instruments with a credit rating between “BB-” and “AAA” (see Note 21 (g)).

Market value and unrealized profit/loss from investments are presented below:

Type of instruments	Maturities	Interest rate (coupon)		Fair Value		Unrealized profit or loss	
		2014	2013	2014	2013	2014	2013
		%	%	S/. 000	S/. 000	S/. 000	S/. 000
Local currency:							
Structured bonds	Between January 2033 and June 2037	Between 5.97 - 8.58	Between 5.97 - 8.58	350,459	336,117	23,209	9,764
Corporate bonds	September 2025	Between 6.625 - 6.8437	Between 6.625 - 6.8437	30,702	32,570	13,061	12,613
Securitization bonds	Between June 2015 and December 2016	8.50	8.50	30,469	42,095	242	636
Commercial papers	January 2015	6.60	6.60	2,966	5,167	(4)	(109)
Subordinated bonds	October 2022	7.17	7.17	2,416	2,332	(185)	(268)
Investment bonds	No contractual maturity	-	-	-	24,364	-	3,657
Sub-total in local currency				417,012	442,645	36,323	26,293
Foreign currency:							
Structured bonds	Between December 2033 and April 2037	Between 6.0 - 8.125	Between 7.650 - 8.125	487,056	139,748	17,796	(5,587)
Corporate bonds	Between January 2015 and January 2021	Between 6.50 - 9.875	Between 8.350 - 9.875	240,046	79,677	6,478	2,728
Structured bonds / repos	April 2037	8.13	-	30,448	-	(10,624)	-
Securitization bonds	February 2021	7.34	7.34	19,384	20,736	688	542
Sovereign bonds	December 2015	8.00	Between 7.50-8.00	19,323	6,770	301	381
Sovereign bonds / repos	Between October 2014 and December 2015	-	-	-	49,160	-	2,108
Subordinated bonds	September 2027	-	L6m+1.15625	-	8,036	-	(372)
Financial lease bonds	January 2014	-	5.95	-	144	-	-
Mutual funds	No contractual maturity	-	-	314,981	-	118	-
Investment bonds	No contractual maturity	-	-	20,266	9,836	(5,906)	(8,614)
Bladex shares	No contractual maturity	-	-	2,561	2,233	1,763	1,486
Sub-total in foreign currency				1,134,065	316,340	10,614	(7,328)
Sub-total				1,551,077	758,985	46,937	18,965
CAF shares (Note 3 (e.2))	-	-	-	2,339,156	2,339,156	404,261	404,261
Total				3,890,233	3,098,141	451,198	423,226

7. LOAN PORTFOLIO, NET

(a) Loan portfolio comprises the following:

	<u>2014</u>	<u>2013</u>
	<u>S/.000</u>	<u>S/.000</u>
Direct loans:		
Loans to intermediary financial institutions	5,390,624	5,055,708
First-tier loans	13,201	15,605
Restructured loans	12,492	12,384
Refinanced loans	5,066	7,361
Past-due loans	144,058	458
Accounts under legal collection	1,219	1,141
	<u>5,566,660</u>	<u>5,092,657</u>
Plus:		
Accrued interest on loans	225,742	156,247
	5,792,402	5,248,904
Less:		
Provision for loan losses	(594,442)	(599,097)
Deferred interests	(3,213)	(3,796)
	<u>(597,655)</u>	<u>(602,893)</u>
Total	<u>5,194,747</u>	<u>4,646,011</u>
Contingent loans (Note 14)	<u>658,468</u>	<u>536,684</u>

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

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

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

	Number of debtors		Total portfolio	
	2014	2013	2014 S/.000	2013 S/.000
Normal	127	137	5,408,720	5,206,443
With potential problems	21	15	613,745	339,432
Substandard	9	11	197,664	76,871
Doubtful	3	6	343	555
Loss	4	5	1,443	2,244
Total	164	174	6,221,915	5,625,545

Placement portfolio per type of IFI is classified as follows:

	2014		2013	
	S/.000	%	S/.000	%
Second-tier portfolio:				
Banks	4,137,297	74.32	3,864,231	75.88
Financial entities	781,736	14.05	737,034	14.47
Municipal saving institutions	316,827	5.69	290,982	5.71
Micro and small enterprise development entities	72,733	1.31	59,459	1.17
Leasing Companies	34,947	0.63	37,273	0.73
Cooperatives	26,357	0.47	29,107	0.57
Rural saving institutions	20,727	0.37	37,622	0.74
Factoring	3,284	0.06	3,074	0.06
	5,393,908	96.90	5,058,782	99.33
First-tier portfolio:				
Financial lease and promissory notes	160,387	2.88	22,545	0.45
Other loans (i)	12,365	0.22	11,330	0.22
	172,752	3.10	33,875	0.67
Sub - total	5,566,660	100.00	5,092,657	100.00
Accrued interest of loans	225,742		156,247	
Total	5,792,402		5,248,904	

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

(b) Interest rates and guarantees:

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

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

	2014		2013	
	Loan portfolio in		Loan portfolio in	
	S/.	US\$	S/.	US\$
	%	%	%	%
Short-term working capital	6.53	1.8	7.59	4.11
COFIDE own resources	9.37	5.71	7.78	5.49
Medium-term working capital	9.37	7.02	9.23	6.60
Probid II	-	Libor 6M + 4.46	-	Libor 6M+ 4.27
Structured financial products	21.27	10.91	10.60	10.15

(c) Changes in provision for loan and contingent loans was as follows:

	Direct	Contingent	Total
	S/.000	S/.000	S/.000
Balances as of January 1, 2013	600,625	28,203	628,828
Provision for the year	66,471	14,296	80,767
Reversals	(80,827)	(33)	(80,860)
Exchange difference	12,828	2,528	15,356
Balances as of Decemeber 31, 2013	599,097	44,994	644,091
Provision for the year	100,444	5,393	105,837
Reversals	(115,254)	(11,423)	(126,677)
Write-offs, extinguishment and sales reclasifications of deferred interest	(930)	-	(930)
Exchange difference	11,085	2,600	13,685
Balances as of Decemeber 31, 2014	594,442	41,564	636,006

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

	2014			2013		
	Direct	Contingent	Total	Direct	Contingent	Total
	S/.000	S/.000	S/.000	S/.000	S/.000	S/.000
Specific provision	147,194	-	147,194	81,726	-	81,726
General provision	55,531	5,470	61,001	77,774	6,239	84,013
Voluntary generic provision	391,717	36,094	427,811	439,597	38,755	478,352
Total	594,442	41,564	636,006	599,097	44,994	644,091

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

As of December 31, 2014, the procyclical component was deactivated; however, in 2014, this component generated (in thousands) S/.22,542 (S/.21,230 as of December 31, 2013).

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

(d) As of December 2014, almost 97% of the loan portfolio is concentrated on IFIs (99% as of December 2013).

(e) Loan portfolio is distributed as follows:

Economic sector	2014		2013	
	S/.000	%	S/.000	%
Commercial Loans and micro-companies:				
Financial intermediation (IFIs)	5,390,624	96.84	5,055,708	99.28
Manufacturing industry	144,157	2.59	1,197	0.02
Hotels and restaurants	16,305	0.29	21,243	0.42
Mortgage loans	9,638	0.17	8,796	0.17
Other activities of community services	3,285	0.06	3,075	0.06
Consumer loans	1,507	0.03	1,391	0.03
Transportation, storage and communications	993	0.02	931	0.02
Agriculture, farming, hunting and forestry	109	0.00	147	0.00
Real estate, business and renting activities	42	0.00	169	0.00
Total	5,566,660	100.00	5,092,657	100.00

(f) The loan portfolio has the following maturities:

	2014		2013	
	S/.000	%	S/.000	%
Up to one year	1,966,823	35.33	1,399,479	27.48
Over 1 year and less than 2 years	544,443	9.78	911,492	17.90
Over 2 years and less than 3 years	314,973	5.66	465,210	9.13
Over 3 years and less than 4 years	348,011	6.25	260,480	5.12
Over 4 years and less than 5 years	340,937	6.13	267,503	5.25
Over 5 years	1,906,196	34.24	1,786,894	35.09
Sub-total	5,421,383	97.39	5,091,058	99.97
Overdue portfolio and in legal collection	145,277	2.61	1,599	0.03
Total loan portfolio	5,566,660	100.00	5,092,657	100.00

(g) First-tier portfolio (assigned)

In compliance with global contracts of resource channeling entered into with IFIs, COFIDE entered into supplementary agreements with certain IFIs. In virtue of such right assignment agreements, those IFIs assigned their rights and their contractual position on different loan agreements to COFIDE. Also, certain IFIs, liquidated and intervened by the SBS, assigned several loan and financial lease agreements to COFIDE as payment for the obligations owed to COFIDE.

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

	Latino Leasing US\$	Banco Nuevo Mundo US\$	NBK Bank US\$	Banco Banex US\$	Consolidated transactions US\$	Total US\$
Balances as of January 1, 2013	4,944	2,851	558	39	1,554	9,946
Reversals and others	(1,064)	(93)	(143)	(39)	(78)	(1,417)
Non-accrued interests	(463)	-	-	-	-	(463)
Balances as of December 31, 2013	3,417	2,758	415	-	1,476	8,066
Equivalent in nuevos soles as of December 31, 2013	9,551	7,709	1,160	-	4,125	22,545
Received loans (*)	-	-	-	-	48,202	48,202
Reversals and others	(2,140)	(44)	(371)	-	-	(2,555)
Balances as of December 31, 2014	1,277	2,714	44	-	49,678	53,713
Equivalent in nuevos soles as of December 31, 2014	3,813	8,104	131	-	148,339	160,387

(*) COFIDE entered into a co-financing contract with Banco Itau BBA S.A. on August 2013 in order to be part of a financing transaction with Maple Etanol S.R.L. and Maple Biocombustibles for (in thousands) US\$40,000. COFIDE entered into a co-financing contract with Banco Interbank on April 2014 in order to be part of a financing transaction with Maple Etanol S.R.L. and Maple Biocombustibles for (in thousands) US\$15,000. In December 2014, COFIDE transferred the loan portfolio under assignment of rights with Itau BBA S.A. and Banco Interbank due to the fact the Maple Etanol S.R.L. and Maple Biocombustibles failed to comply with the pertinent payments.

8. PROPERTY, FURNITURE AND EQUIPMENT, NET

For the years ended December 31, the change of cost and accumulated depreciation of property, furniture and equipment is as follows:

	Land S./000	Buildings and facilities S./000	Furniture and fixtures S./000	Transportation units S./000	Sundry equipment S./000	Total S./000
Cost:						
Balance as of January 1, 2013	469	22,498	2,582	208	12,922	38,679
Additions	-	-	87	-	4,217	4,304
Retirements	-	-	-	-	(315)	(315)
Balance as of December 31, 2013	469	22,498	2,669	208	16,824	42,668
Additions	-	12	205	-	1,421	1,638
Retirements	-	(637)	(330)	(24)	(2,356)	(3,347)
Balance as of December 31, 2014	469	21,873	2,544	184	15,889	40,959
Accumulated depreciation:						
Balance as of January 1, 2013	-	15,088	2,162	165	9,746	27,161
Additions	-	641	97	26	1,027	1,791
Retirements	-	-	-	-	(13)	(13)
Balance as of December 31, 2013	-	15,729	2,259	191	10,760	28,939
Additions	-	636	112	17	1,417	2,182
Retirements	-	(636)	(312)	(24)	(2,338)	(3,310)
Balance as of December 31, 2014	-	15,729	2,059	184	9,839	27,811
Net cost:						
As of December 31, 2014	469	6,144	485	-	6,050	13,148
As of December 31, 2013	469	6,769	410	17	6,064	13,729

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

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

As of December 31, 2014, fully depreciated property, furniture and equipment that are still in use, amounted to (in thousands) S/.7,840 (S/.8,614 as of December 31, 2013).

9. HEDGING DERIVATIVES, ACCOUNTS RECEIVABLE, NET, INTANGIBLE ASSETS, NET AND OTHER ASSETS

	<u>2014</u>	<u>2013</u>
	<u>S/.000</u>	<u>S/.000</u>
Fair value - hedging derivatives -		
currency swaps	139	3,765
Fair value - hedging derivatives - forward	(139)	132
	<u>-</u>	<u>3,897</u>
Hedging derivatives (Note 12 (a))		
Restricted funds / Funds in guarantee-Margin Call (a)	49,538	11,376
Sundry accounts receivable	9,610	2,660
Accounts receivable for assigned loan portfolio	1,923	2,929
Commissions receivable	1,800	2,091
Provision for accounts receivable and others (b)	(6,462)	(5,111)
	<u>56,409</u>	<u>13,945</u>
Accounts receivable, net		
Software	14,398	11,700
Software accumulated amortization	(7,079)	(6,311)
	<u>7,319</u>	<u>5,389</u>
Intangible asset, net (c)		
Commissions and other paid in advance	1,765	3,857
Works of art, library and others	765	753
Other assets sundry	1,392	1,033
	<u>3,922</u>	<u>5,643</u>
Other assets		
Total	<u><u>67,650</u></u>	<u><u>28,874</u></u>

(a) As of December 31, 2014, COFIDE has funds in guarantee for (in thousands) US\$16,590 (US\$4,070 as of December 31, 2013) made in favor of J. Aron & Company (Goldman Sachs as of December 31, 2013) for "Margin Call" in order to guarantee operations with interest rate and currency derivatives that COFIDE holds with such institution.

According to the analysis of the restricted fund associated to "Margin Call", result of the constitution of a derivative financial instrument, Management considers reasonable to record it as other assets and not as restricted cash.

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

	<u>2014</u> S/.000	<u>2013</u> S/.000
Specific provision	2,177	2,275
Voluntary generic provision	4,285	2,836
Total	<u>6,462</u>	<u>5,111</u>

The movement of the provision for uncollectible receivables is detailed below:

	<u>2014</u> S/.000	<u>2013</u> S/.000
Opening balances	5,111	5,330
Provision for the year	2,452	1,833
Reversals	(183)	(1,234)
Write-offs, extinguishment and sales		
reclasifications of deferred interest	(1,131)	-
Exchange difference	213	(818)
Closing balances	<u>6,462</u>	<u>5,111</u>

(c) Software mainly comprises SAP system licenses. As of December 31, 2014, COFIDE acquired (in thousands) S/.2,696 (S/.1,100 as of December 31, 2013) and recorded an amortization expense for (in thousands) S/.767 (S/.63 as of December 31, 2013), presented in item "Depreciation and amortization" in the statements of income.

10. OBLIGATIONS TO THE PUBLIC AND DEPOSITS BY BANKS AND FINANCIAL ORGANIZATIONS

	<u>2014</u> S/.000	<u>2013</u> S/.000
Time deposits (a)	191,784	186,800
Deposits in guarantee (b)	18,151	22,942
Reporting operations (c)	28,861	48,849
	238,796	258,591
Interests accrued	3,717	1,932
Severance indemnities	513	337
Total	<u>243,026</u>	<u>260,860</u>

(a) As of December 31, 2014, time deposits mainly comprise resources in local currency made by CMAC Trujillo and CMAC Arequipa, which accrue interests at annual market rates ranging between 4.40% and 5.40% and will mature between March and September 2015. As of December 31, 2013, time deposits mainly comprised resources in local currency collected from Banco de Crédito del Perú, which accrued interests at annual market rates ranging between 5.68% and 7.50% and matured between January and December 2014.

- (b) As of December 31, 2014, deposits in guarantee include retentions on disbursements pledged in favor of COFIDE, supported by loan operations for (in thousands) S/.16,552 and US\$535, which accrue interests at annual market rates of 2.30% in local currency and 0.1279% in foreign currency, and will mature between March and August 2015. As of December 31, 2013, deposits in guarantee included retentions on disbursements pledged in favor of COFIDE, supported by loan operations for (in thousands) S/.19,492 and US\$1,234, which accrued interests at annual market rates of 3.20% in local currency and 0.1482% in foreign currency, and matured between March and June 2014.
- (c) As of December 31, 2014, reporting operations comprise resources in local currency, from several trusts managed by COFIDE, which accrue interests at annual market rates ranging between 3.88% and 4.72%, are guaranteed with structured bonds from the Terminales Portuarios Paita and mature between March and June 2015. As of December 31, 2013, reporting operations comprised resources in local currency, from several trusts managed by COFIDE, which accrued interests at annual market rates ranging between 3.96% and 4.26%, were guaranteed with bonds from the Peruvian Government and matured between January and February 2014.

Obligations and deposits of financial entities have the following maturities:

	<u>2014</u> S/.000	<u>2013</u> S/.000
Up to one month	4,847	65,249
Over 1 month and up to 3 months	11,767	26,400
Over 3 months and up to 6 months	63,311	43,337
Over 6 months and up to 12 months	<u>159,384</u>	<u>123,942</u>
Total	<u>239,309</u>	<u>258,928</u>

11. DEBT SECURITIES

	<u>2014</u> S/.000	<u>2013</u> S/.000
Debts with financial entities (a)	2,835,231	3,107,689
Financial obligations (b)	<u>3,910,495</u>	<u>2,087,989</u>
Total	<u>6,745,726</u>	<u>5,195,678</u>

(a) As of December 31, debts with financial entities are detailed below:

Creditors	Rate %	Maturity	2014 S/,'000	2013 S/,'000
Bank of Tokyo - Mitsubishi / Syndicated	Libor (3M) + 1.725%	September 2016	597,200	559,000
Bank of Tokyo - Mitsubishi / Bilateral	Libor (3M) + 0.70%	February 2017	298,600	279,500
Scotiabank Perú	From 3.80% to 5.90%	December 2015	420,000	517,100
Banco de la Nación del Perú	From 3.95% to 5.35%	April 2015	308,000	310,963
BBVA Banco Continental	From 4.25% to 4.90%	September 2015	227,000	-
HSBC Bank USA, N.A.	Libor (3M) + 0.70%	December 2016	-	279,500
American Family Life Assurance of Columbus Japan Branch - AFLAC	3.75%	September 2031	224,370	239,346
Banco Internacional del Perú - INTERBANK	From 5.89% to 7.24%	September 2022	43,010	127,999
Corporación Andina de Fomento - CAF	Libor (6M) + 2.8%	October 2016	89,580	83,850
Citibank, branch in Peru	-	-	-	61,490
Nordic Investment Bank	Libor (6M) + 0.85%	March 2015	14,930	20,963
China Development Bank	-	-	-	11,180
CAF issuance of shares - financial liability (Note 13 (b))	-	December 2023	24,673	23,095
Corporación de Fomento a la Producción - CORFO	4.25%	June 2015	178	821
Sub-total			<u>2,247,541</u>	<u>2,514,807</u>
Banco Interamericano de Desarrollo - BID (a.2)	Libor (6M) + 0.61%	May 2015	171,390	196,078
Banco Interamericano de Desarrollo - BID (a.2)	2.51%	May 2015	36,646	38,114
Banco Interamericano de Desarrollo - BID (a.2)	2.00%	May 2015	35,703	36,457
Banco Interamericano de Desarrollo - BID (a.2)	Libor (6M) + 0.61%	May 2015	1,067	2,998
Japan Bank For International Cooperation - JBIC (a.2)	From 1.5% to 2.3%	February 2019	143,680	187,331
Kreditanstalt Fur Wiederaufbau - Stage II (a.2)	2.00%	June 2034	18,015	19,725
Kreditanstalt Fur Wiederaufbau - Stage I (a.2)	2.00%	December 2029	13,856	15,780
The Opec Fund For International Cooperation (a.2)	5.00%	October 2015	996	1,864
Japan International Cooperation Agency - JICA	From 0.01% to 0.60%	October 2027	113,617	73,026
Kreditanstalt Fur Wiederaufbau - EREE	1.95%	June 2025	33,108	-
Sub-total (a.1)			<u>568,078</u>	<u>571,373</u>
Structuring commissions for obligations to Bank of Tokyo - Mitsubishi / Syndicated and Bilateral			<u>(4,164)</u>	<u>(5,351)</u>
Sub total			2,811,455	3,080,829
Interests			<u>23,776</u>	<u>26,860</u>
Total			<u><u>2,835,231</u></u>	<u><u>3,107,689</u></u>

(a.1) These loans were first granted by multilateral entities detailed in the table above to the Republic of Peru, represented by MEF. In virtue of "Resource Transfer Agreements", resources were transferred to COFIDE. Also, as guarantee of debt compliance determined in such agreements, an irrevocable payment authorization is included on an ordinary account in foreign currency established by COFIDE in Banco Central de Reserva del Perú.

(a.2) In accordance with the Fourth Final Complementary Provision of Law N° 30283, the capitalization of debt balances was provided by COFIDE to MEF, with a cut-off date as of February 15, 2014 (Note 23).

As of December 31, 2014 and 2013, loans in yens, euros and some U.S. dollars are associated to swap contracts in order to reduce exchange and interest rate risks (Note 12(a)).

Debts with financial entities (without considering interests) have the following maturities:

	<u>2014</u>	<u>2013</u>
	<u>S/.000</u>	<u>S/.000</u>
Up to one month	227,152	169,608
Over 1 month and up to 3 months	345,056	485,388
Over 3 months and up to 6 months	205,795	239,276
Over 6 months and up to 12 months	291,858	204,836
Over 12 months	<u>1,741,594</u>	<u>1,981,721</u>
Total	<u>2,811,455</u>	<u>3,080,829</u>

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

Liabilities contracted in yens with JBIC, AFLAC and JICA, Swap hedging operations have been made in order to mitigate the currency risk in relation to the U.S. dollar, maturing in February 2019, September 2031 and October 2027, respectively. As of December 31, 2014, COFIDE has recorded losses for hedging operations, net, for (in thousands) S/.66,310 (S/.88,458 as of December 31, 2013), presented in "Net loss from hedging operations" of the statement of income.

(b) As of December 31, financial obligations are as follows:

Series	Issuance		Maturity date	Interest rate	2014	2013
	Date	Amount S/000				
<u>In local currency (bonds):</u>						
Second program						
Eight - Serial A	01/06/2007	20,000	15/07/2017	5.90%	11,000	15,000
Eight - Serial B	02/04/2008	10,000	02/04/2018	6.65%	7,000	9,000
Eleventh - Serial A	16/01/2009	7,065	15/01/2015	7.94%	305	1,481
					<u>18,305</u>	<u>25,481</u>
Third program						
First - Serial A	24/01/2011	50,000	24/01/2016	6.25%	50,000	50,000
Third - Serial A	30/06/2011	50,000	30/06/2014	6.70%	-	50,000
Fourth - Serial A	21/07/2011	45,065	21/07/2015	7.00%	45,065	45,065
Fifth - Serial A	28/10/2011	30,000	28/10/2014	5.60%	-	30,000
Ninth - Serial A	27/04/2012	150,000	27/04/2027	6.65%	150,000	150,000
Tenth - Serial A	28/06/2012	50,000	28/06/2027	6.20%	50,000	50,000
Tenth - Serial A	28/06/2012	50,000	28/06/2027	6.20%	50,000	50,000
Eleventh - Serial A	30/10/2012	90,000	30/10/2042	5.63%	90,000	90,000
					<u>435,065</u>	<u>515,065</u>
Fourth program						
Second - Serial A	30/04/2013	100,000	30/04/2043	5.35%	100,000	100,000
Total par value					553,370	640,546
Accrued yield					15,301	17,703
Total local currency					<u>568,671</u>	<u>658,249</u>
<u>In foreign currency (bonds)</u>						
First international issuance	08/02/2012	400,000	08/02/2022	4.75%	1,194,400	1,118,000
First international issuance re-opening	03/12/2012	100,000	08/02/2022	4.75%	298,600	279,500
Second international issuance - Senior	08/07/2014	300,000	15/07/2019	3.25%	895,800	-
Second international issuance - Subordinated	08/07/2014	300,000	15/07/2029	5.25%	895,800	-
Total in foreign currency					3,284,600	1,397,500
Net price difference (Below/above par) and related expenses					(5,648)	6,056
Accrued interest					62,872	26,184
Total domestic currency					<u>3,341,824</u>	<u>1,429,740</u>
Total					<u>3,910,495</u>	<u>2,087,989</u>

Second Program - Bonds

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

Third Program - Bonds

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

Fourth program – Bonds

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

First bond issuance in the international market (Senior unsecured notes – Due 2022)

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

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

Second bond issuance in the international market

At the Shareholders' Meeting held on May 19, 2014, the issuance of senior and/or subordinated bonds was approved. On July 8, 2014, COFIDE placed bonds in the international capital market for (in thousands) US\$600,000 in two tranches: US\$300,000 thousand of senior bonds in a term of 5 years, placed at an annual coupon rate of 3.250% and yield of 3.297%. These bonds were rated with an investment grade of BBB+ by Standard & Poor's and Fitch Ratings. The other tranche is US\$300,000 thousand of subordinated bonds, Tier II, in a term of 15 years, placed at an annual coupon rate of 5.250% and yield of 5.263% until the 10th year; as from that date, these bonds will convert into instruments at a variable rate. These subordinated bonds were rated with an investment grade of BBB by Standard & Poor's and Fitch Ratings.

Obtained resources will be mainly used to finance the increase of the loan portfolio in infrastructure and productive investment projects, which represent one of the four strategic pillars of COFIDE.

12. HEDGING DERIVATIVES, ACCOUNTS PAYABLE, PROVISIONS AND OTHER LIABILITIES

	<u>2014</u>	<u>2013</u>
	<u>S/.000</u>	<u>S/.000</u>
Fair value - hedging derivatives - currency swaps	153,586	71,968
Fair value - hedging derivatives - rate swaps	<u>2,113</u>	<u>2,845</u>
Hedging derivatives (a)	<u>155,699</u>	<u>74,813</u>
Taxes payable	981	652
Sundry accounts payable	<u>8,442</u>	<u>6,465</u>
Accounts payable	<u>9,423</u>	<u>7,117</u>
Provision for contingent loans (Note 7(b))	41,564	44,994
Provision for lawsuits and claims (b)	1,730	874
Other provisions (b)	<u>12,466</u>	<u>6,355</u>
Provision RCDR - Available for sale investments	9,877	3,984
Provision for accrued vacations	<u>2,589</u>	<u>2,371</u>
Provisions	<u>55,760</u>	<u>52,223</u>
Operations in process	1,006	4,933
Deferred sales	<u>73</u>	<u>102</u>
Other liabilities	<u>1,079</u>	<u>5,035</u>
Total	<u>221,961</u>	<u>139,188</u>

(a) Hedging derivatives

This item refers to receivables and/or payables for currency and interest swaps, derivative financial instruments, that COFIDE holds and mainly comprise the amounts arising from the fluctuations of valuations of such financial instruments.

As of December 31, 2014 and 2013, operations in derivative financial instruments for cash flow hedging purposes are the following:

2014

Details	Operation number	Nominal value	Exchange difference		Accrued interest		Unrealized profit / (loss)		Fair value	
			Asset	Liability	Asset	Liability	Asset	Liability	Asset	Liability
			S/000	S/000	S/000	S/000	S/000	S/000	S/000	S/000
Currency swaps - Yen / US\$ hedge	16	481,300	9,463	171,929	1,082	4,803	(10,545)	(27,594)	-	149,138
Currency swaps - US\$ / S/. Hedge	3	114,743	1,615	3,545	151	1,886	(1,766)	(983)	-	4,448
Currency swaps - Hedge (iv)	19	596,043	11,078	175,474	1,233	6,689	(12,311)	(28,577)	-	153,586
Forward - US\$ / S/. hedge	-	-	-	-	-	-	-	-	-	-
Total - currency derivatives	19	596,043	11,078	175,474	1,233	6,689	(12,311)	(28,577)	-	153,586 (i)
Interest rate swaps - Hedge	1	40,311	-	-	51	505	(51)	1,608	-	2,113 (ii)
			11,078	175,474	1,284	7,194	(12,363) (iii)	(26,969) (iii)	-	155,699

2013

Details	Operation number	Nominal value	Exchange difference		Accrued interest		Unrealized profit / (loss)		Fair value	
			Asset	Liability	Asset	Liability	Asset	Liability	Asset	Liability
			S/000	S/000	S/000	S/000	S/000	S/000	S/000	S/000
Currency swaps - Yen / US\$ hedge	15	499,225	24,386	11,330	1,331	4,641	(21,952)	(59,482)	3,765	56,488
Currency swaps - US\$ / S/. Hedge	4	129,678	-	11,000	193	2,360	(193)	2,119	-	15,479
Currency swaps - Hedge (iv)	19	628,903	24,386	22,330	1,524	7,001	(22,145)	(57,363)	3,765	71,967
Forward - US\$ / S/. hedge	1	14,017	128	-	-	-	4	-	132	-
Forward - US\$ / S/. hedge	1	14,017	128	-	-	-	4	-	132	-
Total - currency derivatives	20	642,920	24,514	22,330	1,524	7,001	(22,141)	(57,363)	3,897	71,967 (i)
Interest rate swaps - Hedge	2	46,118	-	-	70	558	(70)	2,287	-	2,846 (ii)
			24,514	22,330	1,594	7,559	(22,211) (iii)	(55,076) (iii)	3,897	74,813

(i) As of December 31, 2014, the net exchange position payable of currency swap hedging operations amounts to (in thousands) S/.153,586 (S/.71,967 as of December 31, 2013), which offsets the decrease in liabilities due to the depreciation of yen regarding the U.S. dollar.

(ii) As of December 31, 2014, the net exchange position payable of interest rate swap hedging operations amounts to (in thousands) S/.2,113 (S/.2,846 as of December 31, 2013), which offsets the changes in liability rates of debts.

(iii) As of December 31, 2014, for derivative financial instruments, COFIDE obtained a net unrealized profit for (in thousands) S/.14,606 (S/.32,865 as of December 31, 2013). See Note 13(d).

(iv) As of December 31, 2014, COFIDE mainly holds currency swap agreements to offset the risk of revaluation of Yens on debts received from JBIC, AFLAC and JICA, maturing in February 2019, September 2031 and October 2027, respectively. By means of currency swaps, COFIDE receives a fixed exchange rate in U.S. dollars and pays at a variable exchange rate in that same currency; COFIDE receives a variable rate and pays at a fixed rate for remaining amounts (Note 11).

(b) Provisions for lawsuits and claims, and other provisions

As of December 31, 2014 and 2013, the balance includes lawsuits against COFIDE which are related to the activities it carries out.

Other provisions mainly include provisions established as a result of internal assessments about the exposure to Credit Risk derived from Exchange Risk of the investments held by COFIDE.

13. EQUITY

(a) *Capital stock*

As of December 31, 2014, COFIDE's share capitals is represented by 1,548,418,292 common shares and 15,639,765 preferred shares (1,514,401, 683 common shares and 15,639,765 preferred shares as of December 31, 2013), of S/.1.00 face value each authorized, subscribed and fully paid. From the amount mentioned before, COFIDE holds 15,639,765 common treasury shares.

At the Shareholders' Meeting held on March 31, 2014, it was approved to increase the capital stock for: (i) capitalization of distributable profit in favor of FONAFE of period 2013 for (in thousands) S/.10,205, and (ii) capital contribution in cash for (in thousands) S/.23,812, which was made on May 28, 2014.

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

At the Shareholders' Meeting held on June 26, 2013, the following was agreed:

- Re-purchase all class "B" common shares" that were owned by CAF, which shall remain in treasury (without being amortized) for up to a maximum period of 2 years (according to section 204 of Law N° 26887 – General Corporations Law) at a total value of (in thousands) S/.22,684, considering a value per share of S/.1.45039, in relation to the equity value of COFIDE as of December 31, 2011; according to the Share Subscription Agreement, entered into between COFIDE and CAF in 1997. As of December 31, 2012 the book value of the shares was (in thousands) S/.30,283, and generated income in 2013 of the re-purchase of shares of (in thousands) S/.7,599.
- Approve terms of the new "Preferred Class B Shares" to be issued by COFIDE and for which CAF shall pay (in thousands) S/.23,145, considering a value per share of S/.1.479863, in relation to the equity value of COFIDE as of December 31, 2012.
- Increase the share capital of COFIDE by issuing 15,639,765 "Preferred Class B Shares" to be acquired by the CAF at S/.1.00 face value each plus a capital premium of (in thousands) S/.7,505. Total amount (in thousands) S/.23,145 was settled by CAF by capitalizing the loan (derived from the re-purchase of "B" shares), for (in thousands) S/.22,684 and for a contribution of (in thousands) S/.461, according to the Capital Contribution Agreement entered into on December 3, 2013 between COFIDE and CAF.

The structure of COFIDE's capital stock is detailed below:

Class of share	Holder	2014		2013	
		N° of shares	Equity share %	N° of shares	Equity share %
Class "A"	MEF-FONAFE	1,063,561,110	68.00	1,044,441,413	68.26
Class "C"	MEF-FONAFE	469,217,417	30.00	454,320,505	29.70
		1,532,778,527	98.00	1,498,761,918	97.96
Class "B"	COFIDE (treasury)	15,639,765	1.00	15,639,765	1.02
		1,548,418,292	99.00	1,514,401,683	98.98
Class "B Preferred"	CAF	15,639,765	1.00	15,639,765	1.02
		1,564,058,057	100.00	1,530,041,448	100.00

Class "B" shares belong to COFIDE and are placed in treasury.

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

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

(b) Additional paid in capital

As of December 31, 2014, a donation received as furniture for (in thousands) S/.84 has been recorded in this item. In addition, the shares acquired by CAF for (in thousands) S/.15,640 were registered in Public Records. This amount was transferred to COFIDE's "Capital".

As of December 31, 2013, this item initially corresponded to all sales value of "B preferred" shares for (in thousands) S/.23,145, which were acquired by CAF and were in registration process in Public Records. From such value, (in thousands) S/.15,640 and S/.7,505 correspond to capital and issuance premium, respectively, which were fully reclassified to "Due to banks and financial obligations" charged to "Additional capital" account, considering that CAF is entitled to require the purchase of such shares by COFIDE, representing a financial liability (Note 11(a)).

(c) Legal reserves

Pursuant to effective legal provisions, COFIDE is required to allocate a reserve for no less than 35% of its paid capital. This reserve is allocated through the annual transfer of at least 10% of its net profit. The amount of (in thousands) S/.7,711, equivalent to 10% of profit from period 2014, is restricted and cannot be transferred to the legal reserve as of March 2015. Such transfer shall be previously approved at the Shareholders' Meeting.

At the Shareholders' Meeting held on March 31, 2014, it was approved to allocate the legal reserve for the equivalent amount to 10% of profit from period 2013 for (in thousands) S/.7,638.

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

(d) Retained Earnings and adjustments to equity

Law N° 23337 created the Fondo de Inversiones and Contrapartidas del Sector Público Nacional (then denominated Fondo Nacional de Financiamiento de la Actividad Empresarial del Estado (hereinafter FONAFE)) establishing as its resources the distributable income from companies owned by the Peruvian State (100% of such income in the case of banks and financial entities) which shall be transferred to the FONAFE within 60 days after balance approval. The distributable income is the benefit percentage set forth by the Peruvian State, after the discounts for legal reserves and reserves for capital increases aimed at maintaining the solvency and liquidity of the companies.

At the Shareholders' Meeting held on March 31, 2014, it was approved to allocate dividends derived from profit of period 2013 for (in thousands) S/.68,743. At the Shareholders' Meeting held on March 22, 2013, it was approved to allocate dividends derived from profit of period 2012 for (in thousands) S/.66,699.

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

Total retained earnings and adjustments to equity comprise the following:

	<u>2014</u>	<u>2013</u>
	<u>S/.000</u>	<u>S/.000</u>
Retained earnings		
Adjustment to deferred equity share of employees - IAS 12	12,647	12,647
Difference of value of "B" shares of COFIDE when redeeming to CAF (Note 13 (a))	7,599	7,599
Accumulated earning without capital agreement	<u>1,496</u>	<u>1,496</u>
Total	<u><u>21,742</u></u>	<u><u>21,742</u></u>
Adjustments to equity		
Unrealized profit for the adjustment in value of CAF investment	404,261	404,261
Less: deferred income tax	<u>(113,194)</u>	<u>(121,279)</u>
	<u>291,067</u>	<u>282,982</u>
Profit for fluctuation of value of available for sale investments	46,937	18,965
Less: deferred income tax	<u>(13,142)</u>	<u>(5,689)</u>
	<u>33,795</u>	<u>13,276</u>
Loss cash flow hedging derivatives	14,606	32,865
Less: deferred income tax	<u>(4,090)</u>	<u>(9,860)</u>
	<u>10,516</u>	<u>23,005</u>
Total	<u><u>335,378</u></u>	<u><u>319,263</u></u>

14. CONTINGENT AND OFF-BALANCE SHEET ACCOUNTS

	<u>2014</u> <u>S/.000</u>	<u>2013</u> <u>S/.000</u>
<u>Contingent risks and commitments (a)</u>		
Joint signatures granted (Note 7)	658,468	536,684
Other contingent accounts	<u>20,890</u>	<u>22,136</u>
Total	<u>679,358</u>	<u>558,820</u>
<u>Trusts and trust commissions (b)</u>		
Guarantees for operations of credits of trusts	8,545,570	7,551,948
Counter-accounts of trusts and trust commissions	7,902,032	6,590,532
Trust funds	7,899,409	6,577,581
Funds in trust commissions	<u>522,764</u>	<u>487,533</u>
Total	<u>24,869,775</u>	<u>21,207,594</u>
<u>Off-balance sheet accounts</u>		
<u>Guarantees for loan transactions (c):</u>		
Promissory notes	4,897,227	4,753,267
Mortgages	211,345	34,358
Guarantee deposits	18,151	22,942
Documentary guarantees	12,549	9,448
Warrants	108	101
Other guarantees	130,643	160,982
Other off-balance sheet accounts	<u>8,552,481</u>	<u>6,703,851</u>
Total	<u>13,822,504</u>	<u>11,684,949</u>
<u>Swaps and fordwars (d)</u>		
Swap and forward operations	596,043	642,920
Nominal value - interest rate swap	<u>40,311</u>	<u>46,118</u>
Total	<u>636,354</u>	<u>689,038</u>
Total contingent and off-balance sheet accounts	<u>40,007,991</u>	<u>34,140,401</u>

(a) *Contingent loans*

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

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

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

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

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

(b) Trusts and trust commissions

As of December 31, 2014, COFIDE managed 4 funds, 185 trust funds and 2 programs (4 funds, 180 trust funds and 2 programs as of December 31, 2013), for which it received commissions ranging between 0.25% and 2% in 2014 and 2013. Such commissions were paid either monthly, quarterly or biannually. COFIDE is not responsible for such funds, equities or programs. This account evenly includes the balances of the financial statements of trusts and trust commissions managed by COFIDE as of November 30, 2014 and 2013.

As of December 31, 2014, COFIDE has guaranteed loans that Fideicomiso Agroindustrial Cayaltí S.A. has entered into with Banco Financiero, Interbank, BBVA Banco Continental, Banco de Comercio and CMAC Huancayo for (in thousands) S/.90,947 (S/.97,847 as of December 31, 2013).

(c) Credit operations' guarantees

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

(d) Currency swap and forward operations

COFIDE mainly has commitments of flows exchange of different currencies and interest rates (Swap) with the purpose of hedging risks related with foreign currency (Note 12).

15. PERSONNEL AND BOARD OF DIRECTOR'S EXPENSES

	<u>2014</u>	<u>2013</u>
	S/.000	S/.000
Wages	16,257	15,858
Benefits	5,452	4,441
Profit sharing	5,067	6,284
Bonuses	3,314	3,239
Social charges and others	2,938	2,725
Severance indemnities	1,942	1,770
Vacations	508	257
Directors' attendance fees	154	333
Assignments	84	82
Other personnel expenses	5,422	4,734
	<u>41,138</u>	<u>39,723</u>

16. EXPENSES FOR SERVICES RECEIVED FROM THIRD PARTIES

	<u>2014</u>	<u>2013</u>
	<u>S/.000</u>	<u>S/.000</u>
Other services	7,043	5,014
Consulting services	5,067	3,475
Professional fees	2,530	2,405
Electronic processing	1,527	1,704
Repairment and maintenance	1,349	1,225
Advertisement	1,196	1,058
Surveillance and protection	923	950
Communications	879	847
Others	2,353	2,055
Total	<u>22,867</u>	<u>18,733</u>

17. BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is detailed below:

	<u>Number of shares</u>	
	<u>in thousands</u>	
	<u>2014</u>	<u>2013</u>
Outstanding at the beginning of the year	1,514,402	1,514,402
Increase for the capitalization of accumulated profit in 2014	-	10,205
Capital increase (May 28, 2014)	14,157	-
Outstanding at the end of the year	<u>1,528,559</u>	<u>1,524,607</u>
Net profit for the year (in thousands) S/.	<u>77,105</u>	<u>76,381</u>
Shares	<u>1,528,559</u>	<u>1,524,607</u>
Earnings per basic and diluted share (S/.)	<u>0.0504</u>	<u>0.0501</u>

18. INCOME TAX

(a) Income tax regime

Tax rates

As of December 31, 2014 and 2013, the income tax rate for legal entities domiciled in Peru is 30%.

Legal entities domiciled in Peru are subject to an additional rate of 4.1% on any amount that may be considered as dividend or any other form of profit allocation.

(b) Significant amendments to the income tax regime in Peru

On December 31, 2014, the Congress of the Republic of Peru has enacted laws that promote economic growth and economy reactivation. In this regard, certain tax measures have been provided, through which several amendments and additions have been made to Income Tax Law, Tax Code, and the creation of a Special Regime for Early Return of Value-Added Tax to promote the purchase of capital assets. Some of the most important amendments and additions are detailed as follow:

- As of January 1, 2015, the tax applicable to net labor income (that is, fourth and fifth category income) and net foreign source income obtained by natural persons domiciled in Peru shall be subject to the following progressive cumulative rates, according to the sum of net income referred to above:

Net labor income + Net foreign source income	<u>Rates</u>
Up to 5 UIT (tax units)	8%
More than 5 UIT up to 20 UIT	14%
More than 20 UIT up to 35 UIT	17%
More than 35 UIT up to 45 UIT	20%
More than 45 UIT	30%

- Articles of Income Tax Law that regulate the tax rate applicable to dividends and any other form of profit allocation have been modified, establishing a gradual increase of the income tax rate, as detailed in the following table:

Taxable periods	<u>Rates</u>
2015 - 2016	6.80%
2017 - 2018	8.00%
2019 and subsequent years	9.30%

It has been determined that retained earnings or other items that may generate taxable dividends obtained up to December 31, 2014, that are part of dividend allocation or any other form of profit allocation, shall be subject to a 4.1% rate.

- Also, third category income tax was decreased, as detailed in the following table:

Taxable periods	<u>Rates</u>
2015 - 2016	28.00%
2017 - 2018	27.00%
2019 and subsequent years	26.00%

(c) Income tax expense comprises:

	<u>2014</u>	<u>2013</u>
	<u>S/.000</u>	<u>S/.000</u>
Current income tax	28,880	35,819
Deferred income tax - expenses (income) (caption (g))	95	(4,186)
Total	<u>28,975</u>	<u>31,633</u>

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

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

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

	2014		2013	
	Amount S/.000	Percentage %	Amount S/.000	Percentage %
Profit for the year	106,080	100.00	108,014	100.00
Income tax calculated according to tax rate	31,824	30.00	32,404	30.00
Tax effect on additions (deductions)				
Non-deductible expenses	(8,615)	(8.12)	5,071	4.69
Exempt income	(37)	(0.04)	(95)	(0.10)
Other permanent differences	(2,717)	(2.56)	(5,747)	(5.32)
Effect for adjustment of income tax rate	8,520	8.03	-	-
Current and deferred income tax recorded according to effective rate	<u>28,975</u>	<u>27.31</u>	<u>31,633</u>	<u>29.27</u>

(e) Tax recoverable

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

	2014 S/.000	2013 S/.000
To be recovered:		
Payments on behalf of income tax	<u>54,319</u>	<u>51,992</u>
Payable:		
Income tax payable	<u>28,879</u>	<u>35,819</u>
Total	<u>25,440</u>	<u>16,173</u>

(f) COFIDE's tax situation

Income tax returns from years 2010, 2012, 2013 and the return that will be submitted for 2014 have not been reviewed by the Tax Administration yet, which is empowered to conduct such reviews within four years immediately after the submittal date of the pertinent tax returns. Management believes that no significant liabilities will arise as a result of pending reviews.

In 2014, the National Superintendence of Tax Administration (SUNAT) by virtue of Letter N°140011424760-01 SUNAT dated January 3, 2014, started the tax review of period 2011, which to date is still being reviewed and the pertinent report has not been delivered yet.

Due to possible different interpretations that the Tax Administration may have on current regulations applicable to COFIDE, it is not possible to determine to date whether tax liabilities will arise or not from the reviews to be conducted and the pending review. Any additional tax, fine, charge, surcharge or interest which may result from such tax reviews shall be recognized in

the year when such criteria difference with the Tax Administration is resolved. Management believes that no significant liabilities will arise as a result of these reviews.

During the first two weeks of July 2013, the Tax Administration finished the tax review of operations carried out in 2008 and, as a result, determined there was an omitted income tax with its corresponding fine. COFIDE did not file a dispute assessment for this matter. Therefore, the 2008 Income Tax Return was amended and S/.25 thousand was paid to the Tax Administration.

(g) Deferred income tax balances

Deferred tax assets and liabilities are as follows:

	Opening balances S/.000	Movements		Closing balances S/.000
		Equity S/.000	For the year S/.000	
2014				
Asset temporary differences:				
General provisions for loans and contingent loans	609,113	-	(36,652)	572,461
Other general provisions	3,245	-	15,280	18,525
Provision for fluctuation in values	3,984	-	(3,984)	-
General provision accounts receivable	2,835	-	1,450	4,285
Provisions awarded goods	3,760	-	(1,514)	2,246
	<u>622,937</u>	<u>-</u>	<u>(25,420)</u>	<u>597,517</u>
Liability temporary differences:				
Depreciation of buildings	(514)	-	257	(257)
Adjustment of value CAF shares	(1,444,318)	-	-	(1,444,318)
Profit (loss) unrealized for investments in securities	(18,964)	(27,971)	-	(46,935)
Profit (loss) unrealized for derivative instruments	(32,864)	18,258	-	(14,606)
Repairs DJ. 2003 - Provisions, write-offs and others	20,378	-	(3,555)	16,823
	<u>(1,476,282)</u>	<u>(9,713)</u>	<u>(3,298)</u>	<u>(1,489,293)</u>
Temporary differences assets (liabilities), net	<u>(853,345)</u>	<u>(9,713)</u>	<u>(28,718)</u>	<u>(891,776)</u>
Adjustment to deferred income tax, rate change	-	9,316	8,520	-
Movement of deferred income tax - 30%	-	(2,914)	(8,615)	-
Deferred income tax	<u>(256,004)</u>	<u>6,402</u>	<u>(95)</u>	<u>(249,697)</u>

	Opening balances S/000	Movements to profit/loss		Closing balances S/000
		Equity S/000	For the year S/000	
2013				
Asset temporary differences:				
General provisions for loans and contingent loans	594,645	-	14,468	609,113
Other general provisions	2,806	-	439	3,245
Provision for fluctuation in values	5,323	-	(1,339)	3,984
General provision accounts receivable	3,189	-	(354)	2,835
Provisions awarded goods	2,246	-	1,514	3,760
	<u>608,209</u>	<u>-</u>	<u>14,728</u>	<u>622,937</u>
Liabilities temporary differences:				
Depreciation of buildings	(771)	-	257	(514)
Adjustment of value CAF shares	(1,444,318)	-	-	(1,444,318)
Profit (loss) unrealized for investments in securities	(137,083)	118,119	-	(18,964)
Profit (loss) unrealized for derivative instruments	45,972	(78,836)	-	(32,864)
Repairs DJ. 2003 - Provisions, write-offs and others	21,410	-	(1,032)	20,378
	<u>(1,514,790)</u>	<u>39,283</u>	<u>(775)</u>	<u>(1,476,282)</u>
Asset (liability) temporary differences, net	<u>(906,581)</u>	<u>39,283</u>	<u>13,953</u>	<u>(853,345)</u>
Deferred income tax (30%)	<u>(271,974)</u>	<u>11,785</u>	<u>4,186</u>	<u>(256,004)</u>

19. TRANSACTIONS WITH RELATED ENTITIES

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

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

Operations made with CAF for years ended on December 31, 2014 and 2013 comprise interest expense for loans and obligations with international organizations for (in thousands) S/.4,157 and S/.4,042, respectively.

Payments to the Board of Directors

Amount paid in years 2014 and 2013 for Director's attendance fee was (in thousands) S/.154 and S/.333, respectively.

Payments to managers

Wages, other benefits to personnel and professional fees received in 2014 by COFIDE's employees who hold an executive responsibility (managers) rose up to (in thousands) S/.4,512 (S/.4,790 as of December 2013).

Personnel loans

As of December 31, 2014 and 2013, the Directors, staff members and employees of COFIDE have credit operations allowed by General Law, which regulates and establishes certain limits to transactions with Directors, staff members and employees of banks in Peru. As of December 31, 2014 and 2013, direct credits to employees, Directors, staff members and key personnel are (in thousands) S/.8,215 and S/.7,088, respectively.

20. CLASSIFICATION OF FINANCIAL INSTRUMENTS

The amounts of financial assets and liabilities in the statements of financial position per category, according to the Accounting Manual, are detailed below:

	2014					2013				
	Financial assets					Financial assets				
	Loans and receivables	Available for sale		Hedging derivatives	Total	Loans and receivables	Available for sale		Hedging derivatives	Total
S/. 000	at fair value	at cost	S/. 000	S/. 000	S/. 000	at fair value	at cost	S/. 000	S/. 000	
Asset										
Cash	523,682	-	-	-	-	244,734	-	-	-	244,734
Available for sale investments:										
Capital instruments	-	-	2,676,964	-	2,676,964	-	-	2,375,589	-	2,375,589
Debt instruments	-	1,213,269	-	-	1,213,269	-	722,552	-	-	722,552
Loan portfolio	5,194,747	-	-	-	-	4,646,011	-	-	-	4,646,011
Hedging derivatives	-	-	-	-	-	-	-	-	3,897	3,897
Accounts receivable	56,409	-	-	-	-	13,945	-	-	-	13,945
Other assets	623	-	-	-	-	839	-	-	-	839
Total	5,775,461	1,213,269	2,676,964	-	3,890,233	4,905,529	722,552	2,375,589	3,897	8,007,567

	2014				2013			
	Financial liabilities				Financial liabilities			
	At amortized cost	Other liabilities	Hedging derivatives	Total	At amortized cost	Other liabilities	Hedging derivatives	Total
S/. 000	S/. 000	S/. 000	S/. 000	S/. 000	S/. 000	S/. 000	S/. 000	
Liability								
Obligations to the public	-	47,557	-	47,557	-	72,226	-	72,226
Deposits by Banks and financial organizations	-	195,469	-	195,469	-	188,634	-	188,634
Debts with financial entities	2,835,231	-	-	2,835,231	3,107,689	-	-	3,107,689
Financial obligations	3,910,495	-	-	3,910,495	2,087,989	-	-	2,087,989
Hedging derivatives	-	-	155,699	155,699	-	-	74,813	74,813
Accounts payable	-	9,423	-	9,423	-	7,117	-	7,117
Other liabilities	-	42,570	-	42,570	-	49,927	-	49,927
Total	6,745,726	295,019	155,699	7,196,444	5,195,678	317,904	74,813	5,588,395

21. FINANCIAL RISK MANAGEMENT

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

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

A description of COFIDE's management of such risks is explained below COFIDE presents annual comparative financial information for 2014 and 2013, as possible:

(a) *Structure and organization of risk management*

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

(i) Board of Directors

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

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

(ii) Risk Committee

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

(iii) Audit Committee

The audit committee is a division created by the Board of Directors. Its main purpose is to monitor the proper functioning of the internal control system within the risk management context in accounting and financial reporting processes of COFIDE. Additionally, it aims to assess activities held by internal and external auditors. The audit committee comprises

two Directors (one of them chairs), and the Head of the internal audit unit, who performs the function of the committee's secretary. Both representatives of the Board of Directors do not perform activities of management in order to avoid conflicts of interest and incompatibility with their functions. The committee ordinarily meets once a month and reports to the Board of Directors about issues discussed. In order to carry out its function, it functionally supports the internal audit division of COFIDE.

(iv) Assets and liabilities Committee

The Assets and liabilities committee (ALCO) is a division created by the Board of Directors. Its main function is to manage the financial structure of the statement of position of COFIDE, according to policies and effective standards. The Committee of assets and liabilities safeguards the proper management of liquidity, interest rate and exchange rate risks, deciding about necessary actions to implement correcting actions needed in the event of deviations regarding tolerance levels to risk and degrees of exposure assumed. The committee meets at least twice a month. In order to carry out its functions, the Committee has the support of the Finance Management (area in charge of investment activities). The committee comprises the chief executive officer (who directs it), financial, risk, intermediation and financial innovation, corporate businesses and environmental officers, chief legal officer (without a vote), audit head, financial services head, treasury and markets head (without a vote) and senior officers of global and market risk (without a vote).

(v) Management Committee

The management committee is the coordinating and decision-making organization regarding strategic, administrative, informatics and management topics. The management committee pre-approves the strategic plan of COFIDE, proposes and presents to the Board of Directors the organic structure and the regulations of the organization and functions; additionally, it approves action plans to manage risks implying the use of greater resources assigned and follows-up the execution of tests of alternative procedures.

(vi) Presidency

Up to October 2013, the Chairman's Office was in charge of the Risk Area.

(vii) Chief Executive Officer - CEO

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

(viii) Internal Audit Unit

Internal audit functionally reports to the board of directors. It renders independent services regarding the proper functioning of the internal control system according to standards of risk management so as to reduce the risk to established tolerance level. Internal audit inform all responsible divisions regarding potential risk situations and other relevant respects in relation to risk management assessment of COFIDE.

(ix) Risk Office

The risk office is an independent area in charge of proposing policies, procedures and methodologies for competent risk management, encouraging the lining-up of all measurements for treating risk and the development of proper controls.

(b) Action frame for integral risk management

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

(i) Credit risk

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

- Policies applicable to the identification, measurement, follow-up, control and report processes of credit risk with debtors, as well as assessment, analysis, approval, follow-up and recovery process.
- Admission policies for business financing operations, specialized and structured, financings where COFIDE assumes the direct or contingent risk of final debtors.
- Guidelines in relation to the origin and participation of COFIDE in sundry operations, negotiation and management of real and personal guarantees that should be constituted backed-up with credit operations, and those considered when following-up all operations portfolio.
- Policies to recover and standardize substandard credit operations (where changes in conditions originally agreed are required, and that present impairment of their obligations in time or form).
- Credit risk policies for intermediaries, in relation to those risks involved in IFIs operations, which must be reflected in degrees of individual exposure and global composition; as well as in the assignment of provisions and prices based on risks.
- Asset and liability management policies in relation to diversification, concentration risk, counterparty risk and issuer risk.
- Country risk policies, which define parameters to perform active financial operations with non-domiciled individuals in the country and susceptible of being exposed to country risk.
- Policies for credit risk management derived from exchange management, where guidelines to manage credit risk induced by variations in exchange rates are identified, as well as in placements in foreign currency with debtors whose income and obligations do not match in terms of currency.

(ii) Market risk

Market risk derives from movements in market prices, exchange risk and interest rate risks for negotiation positions. For market risk management, the following is considered:

- Limits are defined in relation to:
 - Volatility of exchange rate and interest rate alerts.
 - Alerts and control of losses in negotiation portfolio.
- Estimates are made on the following:
 - Potential losses to which COFIDE is exposed to in order to maintain a portfolio comprising asset or liability positions in primary or derived instruments.
 - Maximum possible loss (VaR) for exchange risk.
 - Valuation of positions recorded in investments by COFIDE, of investments in instruments representative of debt or capital recorded at fair value through profit or loss or available for sale.
 - Market value of financial instruments derived for reporting and permanent following-up purposes of such positions at market values.
 - Potential losses for maintaining positions sensitive to changes in interest rate.

(iii) Structural risk of the statements of financial position

Structural risk of the statement of financial position represents potential losses created by movements in interest rates, exchange rates over structural positions of assets and liabilities, on as well as off the statement of financial position, without including negotiation portfolio.

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

In the case of structural exchange risk, COFIDE has two main sources of risk (direct and indirect). The direct source is provided by the position of structural change held by COFIDE for its investments in CAF. The indirect source is provided by the structural dollarization of its portfolio towards its debtors, issuers and local intermediaries, with whom it faces credit risk derived from exchange risk.

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

- Asset and liability management policies
- Policies of diversification and concentration risk
- Policies of counterparty risk and issuer risk
- Investment policies
- Indebtedness policies
- Derivatives policies
- Exchange rate risk policies
- Interest rate risk policies

(iv) Liquidity risk

In order to manage liquidity risk, there are policies defining guidelines for constituting a reserve of high-quality liquid assets, availability of credit line, minimum requirements of contingent credit line and high-quality liquidity reserve, as well as limits in the

concentration of cash. Additionally, with a Contingent Plan towards lack of liquidity, this considers the operating procedure to be followed in the event of an individual liquidity crisis, as well as systemic.

(c) Risk concentration

COFIDE has policies and procedures to safeguard a proper diversification of financial assets and liabilities, on and off the statement of financial position; and seek, as it may correspond, a proper relation between risk for concentration and degree of equity capitalization. COFIDE Diversification policies and concentration of its policies manual for assets and liabilities management establish alerts that reflectors risk appetite, such as:

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

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

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

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

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

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

(d) Measurement systems and risk reporting

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

Tools are monitored permanently and periodically validated in order to safeguard that levels of prediction and performance are maintained and corrective measurements or adjustments to models can be made, when necessary. COFIDE has been working on the estimate of risk parameters (likelihood of compliance, severance of loss and factors of credit translation) using methodologies and internal historic information. These parameters shall allow to measure and prospect the level of risk of the portfolio, estimate expected losses and economic capital.

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

Credit risk

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

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

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

As of December 31, 2014 and 2013, Management has estimated that the maximum credit risk amount it is exposed to is represented by the carrying amount of financial assets presenting a potential credit risk and that mainly consist of: cash, available for sale investments, placements (direct and indirect, without considering market value of guarantees or collaterals), operations with derivative financial instruments, accounts receivable and other monetary assets.

Exposure for each borrower, including banks, investments or other debtors, is established by assigning limits that cover risks for operations in the statement of financial position and off of it (contingent accounts), punctual assessment of operations, as well as risk limits for elements subjected to negotiation, such as swaps in foreign currency and interest rates, and forwards in foreign currency. Real exposures and their comparison to limits established are monthly reviewed.

On that regard, as of December 31, 2014 and 2013, the:

- 96.4% and 98.4% respectively of loans are not considered as overdue or impaired.
- 89.7% and 95.1% respectively of investments have at least investment degree (BBB- or higher) or are debt instruments issued by the Central Government.

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

<u>Asset (*)</u>	<u>Notes</u>	<u>2014</u> <u>S/.000</u>	<u>2013</u> <u>S/.000</u>
Cash	5	523,682	244,734
Available for sale investments	6	3,890,233	3,098,141
Loan portfolio	7	5,194,747	4,646,011
Hedging derivatives	9	-	3,897
Accounts receivable	9	56,409	13,945
Other assets	9	<u>623</u>	<u>839</u>
Total		<u>9,665,694</u>	<u>8,007,567</u>
Contingent (**)	7 and 14	<u>637,794</u>	<u>513,826</u>

(*) Net of provisions

(**) Contingent loans are included net of provisions

(c) Guarantee management

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

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

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

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

(c.2) Types of guarantee

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

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

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

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

(c.3) Risk concentrations regarding guarantees

Presented below, details of guarantees concentration supported by credit operations as of December 31, 2014 and 2013 are detailed below:

Type of guarantee	<u>Non-retail</u> S/.000	<u>Retail</u> S/.000	<u>Total guarantees</u> S/.000	<u>Related credits</u> S/.000
<u>2014</u>				
Self-liquidating guarantee	18,151	-	18,151	177,828
Other guarantees	<u>192,037</u>	<u>11,168</u>	<u>203,205</u>	<u>157,075</u>
Total	<u><u>210,188</u></u>	<u><u>11,168</u></u>	<u><u>221,356</u></u>	<u><u>334,903</u></u>
<u>2013</u>				
Self-liquidating guarantee	22,942	-	22,942	190,429
Other guarantees	<u>22,124</u>	<u>9,813</u>	<u>31,937</u>	<u>4,808</u>
Total (*)	<u><u>45,066</u></u>	<u><u>9,813</u></u>	<u><u>54,879</u></u>	<u><u>195,237</u></u>

(*) Total balances are considered for guarantees received by direct placements.

(c.4) Value of guarantee received

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

COFIDE considers the following valuations:

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

<u>Guarantees related to direct loans</u>	<u>2014</u>	<u>2013</u>
	<u>S/.000</u>	<u>S/.000</u>
Self-liquidating guarantees	18,151	22,942
Preferred guarantees	211,453	34,458
Other non-preferred guarantees	171	160
Substitution of credit counterparty by bond letter	<u>130,472</u>	<u>160,823</u>
Total (*)	<u><u>360,247</u></u>	<u><u>218,383</u></u>

(*) It does not include the value of promissory notes, whose balance is recorded in other creditor control accounts.

(d) Credit quality of financial assets

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

Additionally and in accordance with SBS rules, COFIDE's loan portfolio is constantly reviewed in order to reduce its exposure to risk and properly determine provisions for impairment of loans. The goal of this exercise is to identify and reduce risk of loss in credits placed as well as to plan proper recovery strategies.

Provisions for risk of loan impairment are established on direct credits and equivalent exposure to credit risk of indirect loans, according to the SBS. In this regard, general and specific provisions are constituted. Within general provisions, COFIDE has provisions for a pro-cyclical component for debtors classified under the "Normal" category, if the "procyclical standard" is activated by the SBS.

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

- (i) Not overdue or impaired loans, comprise those direct loans that currently do not have delay characteristics and are related to clients classified as "normal" or "with potential problems".
- (ii) Overdue but not impaired loans, comprise loans overdue from clients classified as normal or with potential problems.
- (iii) Impaired loans, classified as substandard, doubtful or loss, even if they are not overdue (for non-retail loans) with a delay of over 90 days (for retail loans).

Provision for doubtful loans is as well presented for each type of loan:

2014	Loan portfolio					
	Non-retail loans (*)	Loans to small and micro-businesses	Consumer loans	Mortgage loans	Total	%
	S/.000	S/.000	S/.000	S/.000	S/.000	
Not overdue or impaired loans	5,354,335	128	1,492	9,035	5,364,990	107.90
Normal	4,739,920	19	1,492	8,838	4,750,269	95.54
CPP	614,415	109	-	197	614,721	12.36
Overdue but not impaired loans	-	-	-	4	4	0.00
CPP	-	-	-	4	4	0.00
Impaired loans	201,030	22	15	599	201,666	4.06
Substandard	199,811	22	-	3	199,836	4.02
Doubtful	-	-	15	329	344	0.01
Loss	1,219	-	-	267	1,486	0.03
Gross portfolio	5,555,365	150	1,507	9,638	5,566,660	111.96
Less: provisions (**)	593,994	81	24	343	594,442	11.96
Total net (***)	4,961,371	69	1,483	9,295	4,972,218	100.00
2013						
Not overdue or impaired loans	5,001,264	170	1,391	7,912	5,010,737	111.51
Normal	4,660,556	170	1,391	7,734	4,669,851	103.92
CPP	340,708	-	-	178	340,886	7.59
Overdue but not impaired loans	-	-	-	3	3	0.00
CPP	-	-	-	3	3	0.00
Impaired loans	80,888	147	-	882	81,917	1.82
Substandard	78,761	147	-	47	78,955	1.76
Doubtful	-	-	-	555	555	0.01
Loss	2,127	-	-	280	2,407	0.05
Gross portfolio	5,082,152	317	1,391	8,797	5,092,657	113.33
Less: provisions (**)	598,450	173	28	446	599,097	13.33
Total net (***)	4,483,702	144	1,363	8,351	4,493,560	100.00

(*) Includes financial institutions, large and medium businesses

(**) Specific provisions, general, mandatory and

(***) Are not included in yields or deferred interests.

As of December 31, 2014 and 2013, refinanced loans amounted to (in thousands) S/.5,066 and (in thousands) S/.7,361, respectively, and restructured loans amounted to (in thousands) S/.12,492 and (in thousands) S/.12,384, respectively. Presented below, is the structure in relation to direct loans quality:

	2014	2013
	S/.000	S/.000
Refinanced loans		
Not overdue or impaired	4,727	6,741
Impaired	339	620
Total	5,066	7,361
Restructured loan		
Impaired	12,492	12,384

Regarding investments portfolio, COFIDE quarterly assesses conditions of the portfolio represented of debt and equities subjected to impairment so as to identify if there are factors devoting a decrease in fair value, according to the Attachment – Standard Methodology to identify impairment value of financial instruments of SBS Resolution N°7033-2012.

As of December 31, 2014 and 2013, the investments portfolio does not present indications of impairment.

(e) **Financial assets overdue or impaired**

(i) Analysis of impaired financial assets

Presented below, details of the gross amount of impaired loans per type of loan along with the fair value of the guarantee related to amounts of its provision for doubtful loans are as follows:

	Non-retail loans	Small and micro- businesses loans	Consumer loans	Mortgage loans	Total
	S/000	S/000	S/000	S/000	S/000
2014					
Impaired loans	201,030	22	15	599	201,666
Provision for doubtful account	43,751	1	9	276	44,037
Fair value of guarantees	176,810	826	-	599	178,235
2013					
Impaired loans	80,888	147	-	882	81,917
Provision for doubtful account	32,763	10	-	357	33,130
Fair value of guarantees	11,608	688	-	833	13,129

The impaired loans portfolio is supported with preferred guarantees, mainly represented by self-liquidating guarantees and mortgage and real estate guarantees, amounting to (in thousands) S/.178,235 and S/.13,129 as of December 31, 2014 and 2013, respectively.

(ii) Provisions constituted for credit risk

Changes as of December 31, 2014 of provisions constituted for credit risk of impaired loans are shown below:

Movement of provisions	Loan portfolio				
	Non-retail loans	Small and micro- businesses loans	Consumer loans	Mortgage loans	Total
	S/000	S/000	S/000	S/000	S/000
Balance as of January 1, 2013	38,451	27	11	326	38,815
Plus provision for 2013	3,708	-	-	20	3,728
Less reversals	(8,185)	(22)	(2)	(24)	(8,233)
Less change of ranking	(1,890)	-	(9)	35	(1,864)
Plus exchange difference	681	1	-	-	682
Balance as of December 31, 2013	32,765	6	-	357	33,128
Plus provision for 2014	19,309	1	9	-	19,319
Less reversals	(9,413)	-	-	(18)	(9,431)
Less: write-offs	(930)	-	-	-	(930)
Less change of ranking	(4)	(6)	-	(63)	(73)
Plus: reassignment of provisions	1,496	-	-	-	1,496
Plus exchange difference	528	-	-	-	528
Balance as of December 31, 2014	43,751	1	9	276	44,037

- (iii) As of December 31, 2014 and 2013, interests, commissions and expenses on loans (director or indirect), overdue, in legal collection or classified as impaired loans, amount to (in thousands) S/.25,863 and S/.21,871, from which (in thousands) S/.3,313 and S/.763 correspond to direct loans and (in thousands) S/.22,550 and S/.21,108 to indirect loans (contingent), respectively.
- (iv) Carrying amount recorded corresponding to impaired written-off loans, amounted to (in thousands) S/.312,779 and S/.293,554 as of December 31, 2014 and 2013, respectively. Changes are presented below:

	Written-off loan portfolio S/.000
Balances as of January 1, 2013	270,781
Plus: Exchange difference effect	<u>22,773</u>
Balances as of December 31, 2013	<u>293,554</u>
Plus: Additions	2,451
Less: Reversals in cash	(1,226)
Plus: Exchange difference effect	<u>18,000</u>
Balances as of December 31, 2014	<u><u>312,779</u></u>

- (v) Overdue but not impaired loans

In the case of overdue but not impaired loans, these have mortgage guarantees supporting them.

As of December 31, 2014 and 2013, the estimated fair value of guarantees covering the item of not overdue or impaired loans amounts to (in thousands) S/.4 and S/.3, respectively. Detail of overdue and not impaired loans correspond to mortgages between 31 and 60 days.

(f) Credit risk management for the loan portfolio

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

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

Stage ii) following-up and monitoring of the portfolio has an alert system for early detection of credit risk of financial instruments based on subsystems that allow identifying entities of the financial system with potential risks that would affect its capacity of payment, as well as a methodology of following-up classification, for which ranking was assigned based on the behavior and profile of risks of the intermediary, associated to actions to be taken. Equally, there is a following-up methodology of the risk profile of

debtors (not intermediaries) as well as a methodology for following-up over-indebtedness risk (retail portfolio) through which following-up with debtors is made regarding the evolution of detected risks, decision-making and management for their standardization of collection.

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

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

(g) Credit risk management in investments

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

Risk rating of available for sale investments is shown as follows:

	2014	2013
	S/.000	S/.000
Instruments issued in Peru		
AAA	49,502	52,595
AA- to AA+	295,226	101,975
4 (pe)	14,092	1,165
without classification	93,262	59,962
	<hr/>	<hr/>
National total	452,082	215,697
Instruments issued abroad		
AAA	229,621	215,664
AA- to AA+	2,339,156	2,339,156
BBB- to BBB+	531,008	162,347
BB- to BB+	311,037	145,838
	<hr/>	<hr/>
Foreign total	3,410,822	2,863,005
	<hr/>	<hr/>
Accrued interests	27,329	19,439
	<hr/>	<hr/>
Total	<u>3,890,233</u>	<u>3,098,141</u>

(h) Risk concentrations

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

(i) Concentration alerts of assets for unique risk:

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

(ii) Diversification alerts per sector of economic activity

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

(iii) Diversification alerts of investments and available for market

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

(iv) Concentration alerts of liabilities for unique risk

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

As of December 31, 2014 and 2013, financial instruments exposed to credit risk were allocated according to the following economic sectors:

	2014			2013 (*)			
	Loans and items receivable	Available for sale	Total	Loans and items receivable	Available for sale	Hedging derivatives	Total
Asset	S/.000	S/.000	S/.000	S/.000	S/.000	S/.000	S/.000
Financial services	523,682	2,374,601	2,898,283	244,734	2,396,215	3,897	2,644,846
Financial intermediaries	5,062,399	-	5,062,399	4,633,391	-	-	4,633,391
Other non-retail	178,655	1,515,632	1,694,287	17,750	701,926	-	719,676
Consumer	1,483	-	1,483	1,364	-	-	1,364
Mortgage	9,242	-	9,242	8,290	-	-	8,290
Total	5,775,461	3,890,233	9,665,694	4,905,529	3,098,141	3,897	8,007,567

(*) Balances are net of corresponding provisions.

As of December 31, 2014 and 2013, financial instruments exposed to credit risk according to geographical area were as follows:

	Financial instruments (*)			
	Loans and items receivable (*)	Available for sale	Hedging derivatives	Total
	S/.000	S/.000	S/.000	S/.000
As of December 31, 2014				
Peru	5,676,933	1,437,599	-	7,114,532
Panama	427	2,561	-	2,988
Venezuela	46	2,339,156	-	2,339,202
Cayman Islands	39,772	110,917	-	150,689
Japan	53	-	-	53
Germany	1,526	-	-	1,526
USA	56,704	-	-	56,704
Total	5,775,461	3,890,233	-	9,665,694
Al 31 de diciembre de 2013				
Peru	4,878,784	646,241	132	5,525,157
Panama	-	2,233	-	2,233
Venezuela	43	2,339,156	-	2,339,199
Cayman Islands	-	110,511	-	110,511
Japan	43	-	-	43
Germany	9,066	-	-	9,066
USA	17,593	-	3,765	21,358
Total	4,905,529	3,098,141	3,897	8,007,567

(*) Balances are net of corresponding provisions

Liquidity risk

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

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

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

Additionally, COFIDE assesses liquidity in the medium and long-term through a structural analysis of its inflows and outflows of funds in various maturity terms, using as modeling tools of the static cash flow, dynamic and estimate of liquidity gaps between asset and liability

positions in and off the statement of financial position over a determined term horizon. This process allows knowing various funding sources, how liquidity needs grow and what tenors are mismatched. Assets as well as liabilities are considered internal assumptions for obligations estimated as a result of contingent liabilities, as may also be guarantee letters or unutilized credit lines. Acknowledging this information, necessary decisions are made to maintain objective liquidity levels.

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

	2014				
	Up to 1 month	Over 1 up to 3 months	Over 3 up to 12 months	Over 1 year	Total
	S/000	S/000	S/000	S/000	S/000
Exposure to liquidity risk					
Risk of financial position					
Liability					
Obligations with the public	4,847	1,767	40,943	-	47,557
Deposits in financial entities and international financial organizations	-	10,183	185,286	-	195,469
Debts and financial obligations	285,387	381,940	551,491	5,526,908	6,745,726
Hedging derivatives	1,854	3,708	16,682	133,455	155,699
Accounts payable	3,374	5,068	-	-	8,442
Other liabilities	652	-	463	-	1,115
Total	296,114	402,666	794,865	5,660,363	7,154,008
Risk of financial position					
Contingent liabilities	-	21,948	18,719	641,745	682,412
Total	296,114	424,614	813,584	6,302,108	7,836,420
2013					
	Up to 1 month	Over 1 up to 3 months	Over 3 up to 12 months	Over 1 year	Total
	S/000	S/000	S/000	S/000	S/000
Exposure to liquidity risk					
Risk of financial position					
Liability					
Obligations with the public	48,849	-	23,377	-	72,226
Deposits in financial entities and international financial organizations	16,600	26,498	145,536	-	188,634
Debts and financial obligations	191,688	530,596	535,395	3,937,999	5,195,678
Hedging derivatives	891	1,781	8,016	64,125	74,813
Accounts payable	176	6,290	-	-	6,466
Other liabilities	479	-	326	-	805
Total	258,683	565,165	712,650	4,002,124	5,538,622
Risk of financial position					
Contingent liabilities	-	38,075	20,819	591,767	650,661
Total	258,683	603,240	733,469	4,593,891	6,189,283

Market risk

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

(a) **Trading portfolio**

COFIDE, in relation to market risk, is exposed to interest rate risk, exchange risk and price risk, affecting value of assets and positions of the trading portfolio. As of December 31, 2014, COFIDE does not have any balance due to exposure of the trading portfolio. As of December 31, 2013, the trading portfolio comprised Global Bonds, Treasury Bonds and Structured Bonds in foreign currency (dollars and euros), which were entirely restricted due to the fact that they were part of the investments granted in re-purchase agreements.

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

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

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

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

(i) Interest rate risk

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

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

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

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

Results of these two internal interest risk indicators in a normal scenario as of December 31, 2014 and 2013 are as follows:

	2014	2013
GER=	S/.29,314,290.50 (1.0367% p.e)	S/.19,003,787.15 (1.0096%p.e)
VPR=	S/.64,557,323.06 (2.2832% p.e)	S/.31,198,903.98 (1.6575% p.e)

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

Re-pricing gap

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

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

	2014					Do not accrue interests	Total
	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years		
	S/. 000	S/. 000	S/. 000	S/. 000	S/. 000		
Assets							
Cash	527,872	-	-	-	-	(4,190)	523,682
Available for sale investments	3,089	319,557	24,874	202,343	970,766	2,369,604	3,890,233
Loan portfolio, net	131,467	572,270	814,026	2,055,774	2,073,588	(452,378)	5,194,747
Hedging derivatives	2	4	15	80	39	(140)	-
Accounts receivable, net	-	-	-	-	-	56,409	56,409
Other assets	-	-	-	-	-	49,773	49,773
Total assets	662,430	891,831	838,915	2,258,197	3,044,393	2,019,078	9,714,844
Liabilities							
Obligations to the public	4,847	1,767	40,943	-	-	-	47,557
Deposits by Banks and financial organizations	-	10,183	185,286	-	-	-	195,469
Debts with financial entities	233,382	353,967	501,926	1,326,482	419,474	-	2,835,231
Financial obligations	52,005	27,973	49,565	957,748	2,823,204	-	3,910,495
Hedging derivatives	1,854	3,708	16,682	88,971	44,484	-	155,699
Accounts payable	-	-	-	-	-	9,423	9,423
Other liabilities	-	-	-	-	-	306,536	306,536
Equity	-	-	-	-	-	2,254,434	2,254,434
Total liabilities and equity	292,088	397,598	794,402	2,373,201	3,287,162	2,570,393	9,714,844
Off-balance sheet account:							
Assets hedging derivatives	-	19,170	16,350	165,135	395,388	-	596,043
Liabilities hedging derivatives	-	24,458	20,859	210,682	504,440	-	760,439
Marginal gap	370,342	488,945	40,004	(160,551)	(351,821)	(551,315)	
Accumulated gap	370,342	859,287	899,291	738,740	386,919		

	2013						Total S/. 000
	Up to 1 month S/. 000	From 1 to 3 months S/. 000	From 3 to 12 months S/. 000	From 1 to 5 years S/. 000	Over 5 years S/. 000	Do not accrue interests S/. 000	
Assets							
Cash	244,734	-	-	-	-	-	244,734
Available for sale investments	1,775	1,486	55,014	157,801	506,475	2,375,590	3,098,141
Loan 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
Total assets	342,448	736,961	634,605	2,076,482	2,408,246	1,848,844	8,047,586
Liabilities							
Obligations to the public	-	-	-	-	-	72,226	72,226
Deposits by Banks and financial organizations	16,600	26,498	145,536	-	-	-	188,634
Debts with financial entities	172,130	504,290	449,461	1,545,737	436,071	-	3,107,689
Financial obligations	19,558	26,306	85,934	116,316	1,839,875	-	2,087,989
Hedging derivatives	891	1,781	8,016	42,750	21,375	-	74,813
Accounts payable	-	-	-	-	-	7,117	7,117
Other liabilities	-	-	-	-	-	313,262	313,262
Equity	-	-	-	-	-	2,195,856	2,195,856
Total liabilities and equity	209,179	558,875	688,947	1,704,803	2,297,321	2,588,461	8,047,586
Off-balance sheet account: Assets hedging derivatives	14,017	28,002	28,245	259,442	313,214	-	642,920
Liabilities hedging derivatives	-	28,358	28,696	262,350	407,443	-	726,847
Marginal gap	147,286	177,730	(54,793)	368,771	16,696	(739,617)	
Accumulated gap	147,286	325,016	270,223	638,994	655,690		

Sensitivity to changes in interest rates

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

Presented below, sensitivity on indications of interest rate for December 31, 2014 and 2013, towards a 200 basis points shock, is detailed below:

	2014	2013
GER=	S/.49,077,301.38 (1.7357% p.e)	S/.31,861,066.53 (1.6927% p.e)
VPR=	S/.54,354,634.53 (1.9223% p.e)	S/.26,085,043.16(1.3858% p.e)

It is important to remark that this information flows from the internal interest rate model of COFIDE, updated in December 2014.

(ii) Foreign currency exchange risk

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

Foreign currency transactions are made at free market exchange rates.

As of December 31, 2014, weighted average exchange rate of the free market, published by the SBS for transactions in U.S. dollars was of S/.2.981 per US\$1 for purchase and S/.2.989 per US\$1 for sale (S/.2.794 and S/.2.796 as of December 31, 2013, respectively). As of December 31, 2014, the exchange rate for accounting asset and liability accounts in foreign currency fixed by the SBS was the average of purchases and sales, equivalent to S/.2.986 per US\$1 (S/.2.795 as of December 31, 2013).

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

	2014				2013			
	U.S. dollar	Other currencies	Nuevos Soles	Total	U.S. dollar	Other currencies	Nuevos Soles	Total
	S/.000	S/.000	S/.000	S/.000	S/.000	S/.000	S/.000	S/.000
Assets								
Cash	369,678	41,397	112,607	523,682	121,057	9,109	114,568	244,734
Available for sale investments, net	1,134,065	-	2,756,168	3,890,233	279,269	37,073	2,781,799	3,098,141
Loan portfolio, net	3,383,363	-	1,811,384	5,194,747	2,851,162	-	1,794,849	4,646,011
Hedging derivatives	202	943	(1,145)	-	263	1,332	2,302	3,897
Accounts receivable	54,535	-	1,874	56,409	12,580	2	1,363	13,945
Other assets	468	-	155	623	621	-	218	839
	<u>4,942,311</u>	<u>42,340</u>	<u>4,681,043</u>	<u>9,665,694</u>	<u>3,264,952</u>	<u>47,516</u>	<u>4,695,099</u>	<u>8,007,567</u>
Liabilities								
Obligations to the public	1,808	-	45,749	47,557	3,455	-	68,771	72,226
Deposits by Banks and financial organizations	-	-	195,469	195,469	-	-	188,634	188,634
Debts with financial entities	1,308,611	515,174	1,011,446	2,835,231	1,617,255	536,660	953,774	3,107,689
Financial obligations	3,341,935	(112)	568,672	3,910,495	1,429,852	(112)	658,249	2,087,989
Hedging derivatives	5,309	-	150,390	155,699	5,200	-	69,613	74,813
Accounts payable	3,196	-	6,227	9,423	20	-	7,097	7,117
Other liabilities	38,740	-	3,830	42,570	35,932	-	13,995	49,927
	<u>4,699,599</u>	<u>515,062</u>	<u>1,981,783</u>	<u>7,196,444</u>	<u>3,091,714</u>	<u>536,548</u>	<u>1,960,133</u>	<u>5,588,395</u>
Forwards position, net	-	-	-	-	14,017	-	(14,017)	-
Currency swaps position, net	(529,022)	481,300	47,722	-	(456,491)	499,225	(42,734)	-
Net monetary position	<u>(286,310)</u>	<u>8,578</u>	<u>2,746,982</u>	<u>2,469,250</u>	<u>(269,236)</u>	<u>10,193</u>	<u>2,678,215</u>	<u>2,419,172</u>

As of December 31, 2014 and 2013, COFIDE recorded net exchange profit for (in thousands) S/.48,087 (profit for S/.66,855 as of December 31, 2013), presented net under “Exchange earnings” of the statement of income.

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

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

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

Sensitivity analysis	Change in exchange rates	2014	2013
	%	S/.000	S/.000
Devaluation			
U.S. dollar	5	21,501	8,508
U.S. dollar	10	43,002	17,016
Revaluation			
U.S. dollar	5	(21,501)	(8,508)
U.S. dollar	10	(43,002)	(17,016)

Fair value

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

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

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

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

- (i) Financial instruments measured at fair value. – Fair value is based in the following hierarchy:

Level 1: Prices of the quoted instrument in asset markets

Level 2: Quoted prices in active markets of identical instruments.

Level 3: Valuation techniques using data provided by analysis of active markets (using curves of market rates and vector of prices provided by the SBS).

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

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

Fair value of the investment of COFIDE in CAF, pursuant to SBS Official Letter N°45853-2012, classifies such financial instrument as “Available for sale investment”, taking as cost value the last accounting equity value recorded in books by COFIDE, considering such value as its fair value.

Determination of fair value and hierarchy of securities

The table below shows an analysis of financial instruments recorded at fair value (available for sale investments and derivatives) according to the hierarchy level of its fair value:

	2014			2013		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Asset						
Available for sale investments						
Debt instruments	1,213,269	-	1,213,269	718,568	-	718,568
Capital instruments (*)	337,808	-	337,808	36,433	-	36,433
Accounts receivable for derivatives	-	-	-	-	3,897	3,897
Total	1,551,077	-	1,551,077	755,001	3,897	758,898
Liability						
Accounts payable for derivatives	-	155,699	155,699	-	74,813	74,813
Total	-	155,699	155,699	-	74,813	74,813

(*) CAF investment is not included. The fair value is its last accounting equity value as of the closing of 2012.

Level 1 financial asset are measured based on market observable data, to the extent that quotations reflect an active, liquid market and are available in some centralized platform of trading, agent, supplier of prices or regulatory agency.

Level 2 financial instruments are valued at market prices of other instruments that have similar characteristics or with financial valuation models based on information of market observable date (interest rate curves, price vectors, etc.). COFIDE uses this method mainly to value derivative financial instruments.

Hedging transactions

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

The table below presents, as of December 31, 2014 and 2013, the fair value of derivative financial instruments, recorded as asset or liability, along with nominal values and maturities. The amount of reference, presented gross, is the amount of the underlying asset of the derivative and is the basis on which changes in the fair value of derivatives are measured.

	2014				2013				2014 and 2013
	Assets	Liabilities	Reference amount	Maturity	Assets	Liabilities	Reference amount	Maturity	Hedged instruments
	S/000	S/000	S/000		S/000	S/000	S/000		
Derivatives designated from cash flow hedges									
US\$ / JPY currency swaps	-	298	4,404	15/02/2019	434	-	5,743	15/02/2019	Debt with JBIC
US\$ / JPY currency swaps	-	561	10,379	15/02/2019	1,179	-	13,532	15/02/2019	Debt with JBIC
US\$ / JPY currency swaps	-	874	10,080	15/02/2019	707	-	13,142	15/02/2019	Debt with JBIC
US\$ / JPY currency swaps	-	571	10,831	15/02/2019	1,212	-	14,121	15/02/2019	Debt with JBIC
US\$ / JPY currency swaps	-	1,327	10,347	15/02/2019	233	-	13,491	15/02/2019	Debt with JBIC
US\$ / JPY currency swaps	-	1,256	7,995	15/02/2019	-	248	10,425	15/02/2019	Debt with JBIC
US\$ / JPY currency swaps	-	1,692	12,981	15/02/2019	-	18	16,924	15/02/2019	Debt with JBIC
PEN / JPY currency swaps	-	1,556	35,702	05/12/2025	-	4,626	36,457	05/12/2025	Debt with BID - US\$25 million
US\$ / JPY currency swaps	-	4,198	26,169	15/02/2019	-	861	34,119	15/02/2019	Debt with JBIC
US\$ / JPY currency swaps	-	4,617	27,233	15/02/2019	-	1,112	35,506	15/02/2019	Debt with JBIC
US\$ / JPY currency swaps	-	906	5,337	15/02/2019	-	218	6,959	15/02/2019	Debt with JBIC
US\$ / JPY currency swaps	-	1,814	10,964	15/02/2019	-	421	14,295	15/02/2019	Debt with JBIC
US\$ / JPY currency swaps	-	1,102	6,592	15/02/2019	-	256	8,595	15/02/2019	Debt with JBIC
PEN / JPY currency swaps	-	-	-	-	-	510	2,795	15/02/2014	Debt with BID US\$200 million
PEN / JPY currency swaps	-	1,595	39,521	15/02/2019	-	5,372	45,213	15/02/2019	Debt with BID US\$200 million
PEN / JPY currency swaps	-	1,297	39,521	15/02/2019	-	4,971	45,213	15/02/2019	Debt with BID US\$200 million
US\$ / JPY currency swaps	-	108,335	224,370	08/09/2031	-	53,109	239,346	08/09/2031	Debt with AFLAC
US\$ / JPY currency swaps	-	11,586	64,818	20/10/2027	-	235	69,144	20/10/2027	Debt with JICA
US\$ / JPY currency swaps	-	623	3,640	20/10/2027	-	10	3,883	20/10/2027	Debt with JICA
US\$ / JPY currency swaps	-	9,377	45,159	20/10/2027	-	-	-	-	Debt with JICA
PEN / JPY currency forward	-	-	-	-	132	-	14,017	12/03/2014	Debt with Citibank
	-	153,585	596,043		3,897	71,967	642,920		
Interest rate swaps									
Fixed rate / Libor rate 6M - US\$	-	-	-	-	-	36	4,193	15/02/2014	Debt with BID US\$200 million
Interest rate swaps									
Fixed rate / Libor rate 6M - US\$	-	2,114	40,311	15/02/2019	-	2,810	41,925	15/02/2019	Debt with BID US\$200 million
	-	2,114	40,311		-	2,846	46,118		

As of December 31, 2014 and 2013, period when cash flows of the hedge are expected to occur, the effect in the statement of income, net of deferred income tax is as follows:

	<u>Up to 1 year</u> S/.000	<u>From 1 to 3</u> years S/.000	<u>From 3 to 5</u> years S/.000	<u>Over 5 years</u> S/.000
Cash flow outflow (liability) 2014	22,244	44,485	44,485	44,485
Cash flow outflow (liability) 2013	<u>10,688</u>	<u>21,375</u>	<u>32,063</u>	<u>10,687</u>

As of December 31, 2014 and 2013, the accumulated balance of unrealized net loss for cash flow hedges presented as other comprehensive income in profit or loss of effective hedges are being realized within the term of the underlying financial instrument (unrealized profit or loss net of deferred income tax for (in thousands) a net loss of S/.12,489 and net profit of S/.55,185, respectively; see cash flow hedges in the statements of changes in equity). In addition, the unrealized loss of cash flow hedges has not been transferred to the statements of income.

As of December 31, 2014, COFIDE holds nineteen currency exchange operations (twenty operations as of December 31, 2013) that, according to the SBS authorizations, classify as cash flow hedges of debts. By means of such operation, in economic terms, the debt held by COFIDE is hedged.

Additionally, as of December 31, 2014, COFIDE holds one interest rate swap operation (two swaps as of December 31, 2013) in order to hedge the variable rate component of certain debts, which mature in 2019.

COFIDE has a methodology of measurement of the degree of ineffectiveness of hedges of derivative financial instruments that are undertaken with such objective. During 2014 and 2013 COFIDE has not presented a decrease in relation to ineffectiveness of these hedges in the statement of income.

(ii) Instruments whose fair value is similar to carrying amount.- For financial assets and liabilities that are short-term, among which cash, inter-bank funds and other similar are classified.

(iii) Financial instruments at fixed rates

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

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

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

A comparison between the carrying amounts and fair values of financial instruments of COFIDE, according to the methodology explained above, presented in the statements of financial position, is detailed as follows:

Fair value and carrying amount	Year 2014		Year 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Asset				
Cash	523,682	523,682	244,734	244,734
Available for sale investments				
Capital instruments	2,676,964	2,676,964	2,375,589	2,375,589
Debt instruments	1,213,269	1,213,269	722,552	722,552
Loan portfolio, net	5,194,747	5,194,747	4,646,011	4,646,011
Hedging derivatives	-	-	3,897	3,897
Accounts receivable, net	56,409	56,409	13,945	13,945
Other assets	623	623	839	839
Total	9,665,694	9,665,694	8,007,567	8,007,567
Liability				
Obligations to the public	47,557	47,557	72,226	72,226
Deposits by Banks and financial organizations	195,469	195,469	188,634	188,634
Due to banks	2,835,231	2,835,576	3,107,689	3,196,262
Financial obligations	3,910,495	3,910,336	2,087,989	2,087,752
Hedging derivatives	155,699	155,699	74,813	74,813
Accounts payable	9,423	9,423	7,117	7,117
Other liabilities	42,570	42,570	49,927	49,927
Total	7,196,444	7,196,630	5,588,395	5,676,731

Assets granted as guarantee

As of December 31, 2014 and 2013, COFIDE has carried out repos transactions comprising resources in local currency for (in thousands) S/.28,861 (S/.48,849 as of December 31, 2013), granted from several trusts managed by COFIDE, which accrue interests at a certain annual rate and are guaranteed by Structured Bonds. The carrying amount and face value of such Bonds are (in thousands) S/30,448 and US\$10,643, respectively (as of December 31, 2013, the carrying amount and face value were S/.49,161 and €9,000 and US\$3,928, respectively). Granted funds are intended to assist different obligations of COFIDE.

22. MANAGEMENT OF OTHER RISKS

(a) Operational risk

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

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

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

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

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

(b) Capital management – regulatory

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

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

According to regulations set forth by the SBS, COFIDE is obliged to maintain a regulatory capital equal to or greater than 10% of assets and contingents weighted per risk, comprising the requirement of regulatory capital for market risk, for operational risk and for credit risk. As of December 31, 2013, COFIDE used the standard method to calculate the requirement of Regulatory Capital for credit and market risk, and basic method for operational risk. Additionally, on July 20, 2011, SBS Resolution N° 8425-2011 (Reglamento para el Requerimiento de Patrimonio Efectivo Adicional – Regulations for Additional Regulatory Capital Requirement) was published. By means of it, entities shall apply requirements per economic cycle, per concentration risk, per market concentration risk, per interest rate risk in bank records and other risks. This Additional Regulatory Capital requirement must be reached within five years. Its first section is 40% of the total requirement as from July 2012. The additional requirements are annual, at 15% rate, achieving 100% on July 31, 2016. It is important to note that the requirement per economic cycle is activated and deactivated based on pro-cyclical provisions for loans.

As of December 31, 2014 and 2013, regulatory capital of COFIDE, determined according to legal standards, is (in thousands) S/.2,827,529 and S/.1,882,271, respectively; which is used to calculate certain limits on restrictions applicable to banking entities in Peru, which Management of COFIDE considers to have been entirely complied with.

As of December 31, 2014, assets and contingent loans weighted for credit risk amounts to (in thousands) S/.6,050,988 (S/.4,888,989 as of December 31, 2013 an equity requirement for credit, market and operational risk, determined by COFIDE according to effective legal standards, add up to (in thousands) S/.640,633 (S/.518,996 as of December 31, 2013); which generate a global capital ratio of 44.14% (36.27% as of December 31, 2013).

23. SUBSEQUENT EVENTS

In accordance with the Fourth Final Complementary Provision of Law N° 30283 “Law on Debts for the Public Sector for period 2015”, effective as of January 1, 2015, the capitalization of debts of COFIDE to MEF was set forth, with a cut-off date on February 15, 2014. The amount of such debt is (in thousands) S/.475,513 (Note 11 (a)). COFIDE will approve the capitalization of debts to MEF and will issue the pertinent shares in favor of FONAFE at the next Shareholders’ Meeting. As of the date of this report, the Reconciliation Agreement was entered into between MEF and COFIDE.

Also, on January 16, 2015, COFIDE issued Certificates of Deposit at 360 days for (in thousands) S/.40,115, corresponding to the second program of short-term representative debt instruments. On January 30, 2015, COFIDE issued Corporate Bonds at 5 years for (in thousands) S/.78,445, corresponding to the fourth program of short-term representative debt instruments.

Except for the aforementioned, COFIDE’s Management is not aware of subsequent events having occurred between the closing date of these financial statements and the issue date of this report that may significantly affect them.
