

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

*The following discussion contains an analysis of our financial condition and results of operations for the three months ended March 31, 2015 and 2014 and for the years ended December 31, 2014, 2013 and 2012. The following discussion should be read in conjunction with our audited financial statements and unaudited interim financial statements, together with the notes thereto included in this offering memorandum. Our financial statements have been prepared in accordance with Peruvian Banking GAAP.*

### Overview

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

For the years ended December 31, 2014 and 2013, our net income was S/. 77.1 million (US\$25.8 million) and S/. 76.4 million (US\$27.3 million), respectively. For the three months ended March 31, 2015 and 2014, our net income for the period was S/. 23.5 million (US\$7.6 million) and S/. 21.5 million (US\$7.7 million), respectively. As of March 31, 2015, our total shareholders' equity was S/. 2,685 million (US\$867.3 million). Additionally, the balance of our loan portfolio, net totaled S/. 5,298 million (US\$1,711 million) as of March 31, 2015 and S/. 4,593.2 million (US\$1,635.8 million) as of March 31, 2014.

### Primary lines of business

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

#### *Intermediation financing*

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

### *Investment financing*

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

### *Investment managing services*

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

## **Principal Trends Affecting Our Business**

### *Peruvian economic environment*

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

The Peruvian economy experienced a strong recovery during 2011, 2012, 2013 and 2014, with GDP growing 6.9%, 6.3%, 5.8% and 2.4%, respectively. This increase was mostly driven by increased domestic private consumption, which grew at average rate of 4.2% between 2010 and 2014. The main drivers of Peru's recent economic performance have been strong domestic demand and private investment.

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

|  | <b>2014</b> | <b>2013</b> |
|--|-------------|-------------|
| Peruvian real GDP growth rate.....       | 2.4%        | 5.8%        |
| Internal demand growth.....              | 2.0%        | 7.0%        |
| Private investment (real growth) .....   | (1.6%)      | 6.4%        |
| Reference interest rate .....            | 3.5%        | 4.0%        |
| Fiscal surplus (deficit) (% of GDP)..... | (0.1)       | 0.8%        |
| CPI Index.....                           | 3.2%        | 2.8%        |
| Unemployment rate .....                  | 6.0%        | 5.7%        |

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

In 2014, Peru's GDP grew at a rate of 2.4% compared with 4.6%, 1.89% and 0.17% for Colombia, Chile and Brazil, respectively. The previous year, Peru's economy had expanded 5.8%. Peru's annual inflation rate was 3.22%, slightly above the Peruvian Central Bank's target inflation of 2.0% and slightly above within the target range of between 1% and 3%, and generally in line with other Latin American countries except for Brazil, whose inflation rate was almost twice as high. Peru's unemployment rate was 6.0% in 2014 and 5.7% in 2013. With regards to its banking system, Peru's past due loan ratio was also one of the lowest among these other Latin American countries.

As a result of the decrease in fiscal spending, the Peruvian government also built up significant foreign exchange reserves which totaled approximately US\$61.3 billion as of March 31, 2015 and represented 32.4% of Peru's annualized GDP and 95.1% of its external debt, an increase of US\$0.98 billion from US\$62.3 billion in foreign exchange reserves in 2014 and 31.8% of Peru's annualized GDP and 96.6% of its external debt. In addition, reserve ratio requirements in *nuevos soles* for banks are 9.5% lower at December 31, 2014 than at December 31, 2013. As reported by the Peruvian Central Bank, the average reserve levels in *nuevos soles* and U.S. dollars (12.5% and 7.0%, respectively, as of March 31, 2015) reflect higher levels of liquidity in the financial system, which in the event of a severe liquidity crisis or global economic crisis can alleviate the potential impact on Peru.

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

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

Primarily as a result of increasing economic output, growing investments and higher consumer confidence, the banking industry in Peru has experienced significant growth in recent years. From December 31, 2008 to March 31, 2015, direct loans in the Peruvian banking system have grown at an average annual rate of 16.0% from S/. 90.6 billion to S/. 203.9 billion. The high growth rates experienced by the economy and the banking sector during 2008 led the Peruvian Central Bank to tighten monetary policy and the SBS to strengthen regulation and increase provisioning requirements. The Peruvian Central Bank's monetary policies are discussed below. Since 2008, the SBS implemented measures to prevent individuals from borrowing excessively and to ensure that provisioning for consumer loans remains high during periods of significant growth.

Although our loans between December 31, 2008 and March 31, 2015 had an average annual growth rate of 17.9% from S/. 1,951.1 million to S/. 5,566.6 million, this growth was not directly linked to the growth experienced by the Peruvian banking sector, mainly because our loans were focused on financing infrastructure and investment projects. In some cases, our infrastructure and project loans were channeled through foreign investment banks.

The GDP of Peru grew 6.9% during 2011. This increase was mostly driven by increased domestic demand associated with private consumption and private investment that together grew 6.4% and 11.7%, respectively, in 2011 when compared to 2010. Public expenditures grew 4.8% in 2011, lower than in 2010 as a result of limitations imposed on the public sector which limit spending during election years pursuant to the Peruvian electoral law and the withdrawal of stimulus measures in reaction to higher private spending.

In the second half of 2011, the Peruvian economy showed signs of slowing, driven by the uncertainty in connection with the election of President Humala and expectations of a recession in Europe and the United States. As reported by the Peruvian Central Bank, internal demand slowed compared to 2010, which had year-over-year growth of 13.1%, compared to 5.5% growth in the fourth quarter of 2011. However, the Peruvian government's commitment to maintain current economic, fiscal and monetary policies supported economic growth in 2011 and stabilized the country's economy. In August 2011, S&P upgraded Peru's credit rating from BBB- to BBB. In October 2011, Fitch upgraded Peru's credit rating from BBB- to BBB. In August 2012, Moody's upgraded Peru's credit rating from Baa3 to Baa2. Peru's credit ratings are subject to periodic review, and we cannot assure you that the current ratings will not be revised or lowered in the future.

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

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

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

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

In 2014, Peru's GDP grew 2.4%, which represented a deceleration of the Peruvian economy compared to 2013 mainly due to the fall of commodity prices, a reduction in exports and a decline in the fishing sector and private investment. In March 2015, the Peruvian economy grew 2.7%, a 1.7% growth compared to the same period in 2014, as a result of an increase in the mining and fishing sectors. The Peruvian government expects the economy to grow between 3.5% to 4.5% in 2015, which will depend on the rate of increase in both public and private investment.

### ***Monetary policy***

Since April 2010, as a result of the significant economic growth, the Peruvian Central Bank started tightening its monetary policy, raising the reference rate and increasing reserve requirements. This tightening policy had the goal of avoiding speculative capital which could generate adverse effects on the GDP growth and has resulted in higher interest rates. For example, as of May 2015, the minimum legal reserve requirement for local currency deposits is 7%, and for foreign currency deposits is 9%, both compared to 6.0% as of May 2010. As of March 2015, foreign currency deposits collected from the general public are subject to a rate of 42% for reserve requirements compared to 30% as of May 2010. Local currency deposits collected from the general public are subject to a rate of 8% for reserve requirements as of March 2015, compared to no reserve requirement on local currency deposits as of May 2010. The reference rate has been increasing from 1.3% in April 1, 2010 to 4.0% as of December 2013, in an effort by the Peruvian Central Bank to maintain the inflation rate close to the inflation target in the context of the rapid growth of GDP.

Between May 2012 and April 2013, the Peruvian Central Bank increased the average legal reserve requirement for local currency deposits by 2.5%, through five separate increases and for foreign currency deposits by 4.8% through eight separate increases. In July 2013, however, the Peruvian Central Bank placed a 20.0% limit on the average legal reserve requirement for local currency deposits, which it later lowered to 12.0% as of March 2014. The Peruvian Central Bank also placed a 45.0% limit on the average legal reserve requirement for foreign currency deposits as of July 2013, which has been increased to 60% as of April 2015. Furthermore, the Peruvian Central Bank also decreased the rate by 100 basis points to 3.25% since May 2015, reversing its decision to increase the reference rate by 25 basis points to 4.25% in May 2011.

## ***Inflation***

During the 1980s, Peru experienced hyperinflation, negative economic growth and substantial currency devaluation. Inflation rates in Peru began to decrease in the 1990s and in the last seven years have been among the lowest rates in Latin America, partly due to the monetary policy implemented by the Peruvian Central Bank and partly due to the conservative fiscal policy of the Peruvian government. In 2002, in order to maintain low inflation rates, the Peruvian Central Bank established an annual inflation target of 2.5% within a range of one percentage point. In 2007, the target was lowered to 2.0%. The inflation rate in Peru, as measured by the consumer price index, which is published by the INEI, 1.5% in 2005, 1.1% in 2006, 3.9% in 2007, 6.7% in 2008, 0.2% in 2009, 2.1% in 2010, 4.7% in 2011, 2.6% in 2012, 2.9% in 2013 and 3.2% in 2014. The annualized inflation rate during March 2015 was 3.6%. The Peruvian Central Bank's inflation target has not always been met, and we cannot assure you that it will be met in the future. If the Peruvian Central Bank fails to meet such inflation targets, inflationary pressures could reduce our ability to access foreign financial markets and lead to further government intervention in the economy, including the introduction of policies that could adversely affect the performance of the Peruvian economy as a whole, and consequently, us.

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

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

The *nuevo sol* has been subject to significant devaluation against the US dollar and other foreign currencies in the past. However, from early 2009 to early 2013, the *nuevo sol* has appreciated against the US dollar and other foreign currencies. Since the second quarter of 2013, however, the *nuevo sol* has been depreciating against the U.S. dollar due to the U.S. Federal Reserve's decision to gradually reduce the size of its monetary stimulus, leading to a global selloff in emerging market assets. Notwithstanding this depreciation, since June 2013, the *nuevo sol* has remained relatively stable, and has experienced low volatility compared to other currencies of the region. If the *nuevo sol* appreciates, our interest expense will decrease on our liabilities denominated in or indexed to foreign currencies, such as US dollar-denominated debt and foreign currency loans, as a result of the exchange gain of such liabilities when measured in *nuevos soles*. Conversely, in the event that the *nuevo sol* depreciates, we will have a greater financial expense on our liabilities denominated in or indexed to foreign currencies, such as any US dollar-denominated debt, including the Notes offered hereby. Some of our borrowing and on-lending activities are denominated in foreign-currency, and some of our credit operations are also denominated in foreign-currency. Accordingly, these assets and liabilities are subject to the effects of exchange rate variations. For the three months ended March 31, 2015 we reported a net loss of S/. 1.5 million in foreign exchange variations, while for the year ended December 31, 2014 we reported a net gain of S/. 48.1 million in foreign exchange variations. These amounts were classified in our income statement under exchange rate difference in our interest expenses. The exchange rate difference is the net result of the variations of foreign exchange found in our assets and liabilities.

As of December 31, 2014, our yearly average foreign-currency liabilities totaled S/. 4,376.5 million, compared to S/. 3,257.2 million as of December 31, 2013, determined based on monthly ending balances during the applicable period. Our yearly average foreign currency assets amounted to S/. 4,279.8 million as of December 31, 2014 compared to S/. 3,026.9 million as of December 31, 2013, determined based on monthly ending balances during the applicable period. Any future changes in the value of the *nuevo sol* against the US dollar or other foreign currencies could adversely affect our financial condition and results of operations to the extent that we maintain a gap between foreign denominated assets and liabilities. However, the Peruvian Central Bank's participation in the currency exchange market, including the economic programs described below, aims to diminish any negative effect that could exist if there were to be a large fluctuation in the exchange rate between the *nuevo sol* and foreign currencies, including the US dollar. See "Exchange Rate Information" and "Risk Factors—Risks Relating to Peru—A devaluation of the *nuevo sol* could have a

material adverse effect on our results of operations and financial condition and consequently affect our ability to make payments on the Notes” elsewhere in this offering memorandum.

The Peruvian government has adopted a policy to encourage the de-dollarization of the economy. This policy includes promoting the development of a *nuevo sol* capital markets and local currency yield curves. In addition, the government is promoting the *nuevo sol*-denominated components of government sponsored mortgage subsidy programs (*Mivivienda* and *Techo Propio*) to foster long-term financing in local currency. The proportion of outstanding loans in the banking system denominated in U.S. dollars has fallen from 57.3% in 2008 to 38.3% in 2014, according to figures published by the SBS. In addition, the percentage of deposits in the banking system denominated in U.S. dollars was approximately 58.2% in 2008 compared to 32.3% in 2014. We expect that the ongoing de-dollarization of the economy will reduce our exposure to potential mismatches between US dollar-denominated assets and liabilities and reduce Peru’s exposure to external economic shocks.

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

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

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

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

#### ***CAF investments***

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

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

#### ***Voluntary provisions***

Pursuant to our internal policies, and as permitted by the SBS, we recognize voluntary generic provisions (without limit) in our loan portfolio. The amount of such provisions depends on our management’s assessment of the macroeconomic variables of Peru and their impact on intermediary financial institutions, as well as our loan portfolio condition in general. Voluntary generic provisions represent estimates of inherent losses recognized based on loan portfolios with higher risks exposure. Additionally, pursuant to SBS

Resolution No. 041-2005, we assess our exposure to credit exchange risks for loans in foreign currency and provision for such risks as required by the SBS.

### *SBS regulations for provisions*

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

## **Results of Operations**

### *Three months ended March 31, 2015 compared to three months ended March 31, 2014*

The table below provides a summary of our results of operations for the three months ended March 31, 2015 and 2014.

|   | <b>Three months ended March 31,</b> |               | <b>Change</b>             |                 |
|---|-------------------------------------|---------------|---------------------------|-----------------|
|   | <b>2015</b>                         | <b>2014</b>   | <b>(\$/ in thousands)</b> | <b>%</b>        |
|   | <b>(\$/ in thousands)</b>           |               |                           |                 |
| Interest income.....  | 124,874                             | 109,602       | 15,272                    | 13.93%          |
| Interest expenses.....  | (73,994)                            | (57,773)      | (16,221)                  | 28.08%          |
| <b>Gross financial margin</b> .....                               | <b>50,880</b>                       | <b>51,829</b> | <b>(949)</b>              | <b>(1.83%)</b>  |
| Provisions for loan losses, net (1).....                          | (14,268)                            | (6,893)       | (7,375)                   | 106.99%         |
| <b>Net financial margin</b> .....                                 | <b>36,612</b>                       | <b>44,936</b> | <b>(8,324)</b>            | <b>(18.52%)</b> |
| Other income (expense) from financial services,<br>net.....       | 8,059                               | 6,098         | 1,961                     | 32.16%          |
| <b>Net financial margin and financial services</b> .....          | <b>44,671</b>                       | <b>51,034</b> | <b>(6,363)</b>            | <b>(12.47%)</b> |
| Financial transactions.....                                       | (4,715)                             | (1,527)       | (3,188)                   | 208.78%         |
| <b>Operating margin</b> .....                                     | <b>39,956</b>                       | <b>49,507</b> | <b>(9,551)</b>            | <b>(19.29%)</b> |
| Administrative expenses and depreciation and<br>amortization..... | (18,868)                            | (18,287)      | (581)                     | 3.18%           |
| <b>Net operating margin</b> .....                                 | <b>21,088</b>                       | <b>31,220</b> | <b>(10,132)</b>           | <b>(32.45%)</b> |
| Net valuation of assets and provisions.....                       | (3,586)                             | (5,079)       | 1,493                     | (29.40%)        |
| <b>Operating profit</b> .....                                     | <b>17,502</b>                       | <b>26,141</b> | <b>(8,639)</b>            | <b>(33.05%)</b> |
| Other income and expenses.....                                    | 5,382                               | 6,778         | (1,396)                   | (20.60%)        |
| <b>Profit before income tax</b> .....                             | <b>22,884</b>                       | <b>32,919</b> | <b>(10,035)</b>           | <b>(30.48%)</b> |
| Income tax.....   | 596                                 | (11,427)      | 12,023                    | (105.22%)       |
| <b>Net income for the period</b> .....                            | <b>23,480</b>                       | <b>21,492</b> | <b>1,988</b>              | <b>9.25%</b>    |

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

### *Interest income*

The following table sets forth the components of our interest income for the three months ended March 31, 2015 and 2014.

|                                     | <b>Three months ended March 31,</b> |                | <b>Change</b>             |               |
|-------------------------------------|-------------------------------------|----------------|---------------------------|---------------|
|                                     | <b>2015</b>                         | <b>2014</b>    | <b>(\$/ in thousands)</b> | <b>%</b>      |
|                                     | <b>(\$/ in thousands)</b>           |                |                           |               |
| Cash.....                           | 990                                 | 483            | 507                       | 104.97%       |
| Available-for-sale investments..... | 19,885                              | 15,577         | 4,308                     | 27.66%        |
| Direct loan portfolio.....          | 103,999                             | 93,542         | 10,457                    | 11.18%        |
| <b>Interest income</b> .....        | <b>124,874</b>                      | <b>109,602</b> | <b>15,272</b>             | <b>13.93%</b> |

Interest income increased by S/. 15.3 million for the three months ended March 31, 2015 compared to the corresponding period in 2014. This increase was due to an increase in interests on our direct loan portfolio of S/. 10.5 million, as well as an increase in interests on available-for-sale investments of S/. 4.3 million and an increase in interest on cash in the amount of S/. 0.5 million.

The increase in interests on our direct loan portfolio was due to an increase in the average loan balance of 13.73% from S/. 5,206.4 million for the three months ended March 31, 2014 to S/. 5,921.3 million for the three months ended March 31, 2015, which led to an increase of interest earned on the loan portfolio totaling S/. 12.6 million. A slight decrease in average interest rates, however, from 1.80% for the three months ended March 31, 2014 compared to 1.76% for the corresponding period in 2015 resulted in a decrease of S/. 2.1 million in interest on the loan portfolio.

The higher interest on available-for-sale investments was due to (i) an increase in the average balance of investments of 69.4% from S/. 912.1 million for the three months ended March 31, 2014 to S/. 1,545.3 million for the corresponding period in 2015, which led to S/. 8.1 million in interest earned, which was offset by a decrease in average interest rates from 1.71% for the three months ended March 31, 2014 to 1.29% for the corresponding period in 2015. Such decrease in average interest rates caused a decrease in interests earned of S/. 3.8 million.

The higher interest on cash was as a result of an increase in the average balance of cash from S/. 87.4 million for the three months ended March 31, 2014 to S/. 353.9 million for the corresponding period in 2015, which led to and an increase of S/. 745 thousand. Nevertheless, a decrease in average interest rates from 0.55% for the three months ended March 31, 2014 to 0.28% for the three months ended March 31, 2015, led to a decrease of S/. 238 thousand in interests earned.

#### *Interest expenses*

The following table sets forth the components of our interest expenses for the three months ended March 31, 2015 and 2014.

|   | <b>Three months ended March 31,</b> |                 | <b>Change</b>             |                 |
|---|-------------------------------------|-----------------|---------------------------|-----------------|
|   | <b>2015</b>                         | <b>2014</b>     | <b>(S/. in thousands)</b> | <b>%</b>        |
| <b>Obligations to the public.....</b>   | <b>(591)</b>                        | <b>(628)</b>    | <b>37</b>                 | <b>(5.89%)</b>  |
| <b>Deposits by banks and financial organizations .....</b>  | <b>(2,364)</b>                      | <b>(2,652)</b>  | <b>288</b>                | <b>(10.86%)</b> |
| <b>Debts and financial obligations .....</b>  | <b>(69,431)</b>                     | <b>(49,946)</b> | <b>(19,485)</b>           | <b>39.01%</b>   |
| Debts and obligations to local financial entities.....  | (10,008)                            | (11,853)        | 1,845                     | (15.57%)        |
| Debts and obligations to foreign financial entities and international financial organizations ..... | (9,036)                             | (9,322)         | 286                       | (3.07%)         |
| Other debts and obligations in the country and abroad .....   | (335)                               | (1,150)         | 815                       | (70.87%)        |
| Commissions and other charges for debts and financial obligations .....                             | (3,153)                             | (1,514)         | (1,639)                   | 108.26%         |
| Securities, bonds and outstanding obligations .....   | (46,899)                            | (26,107)        | (20,792)                  | 79.64%          |
| <b>Net (loss) profit from hedging transactions.....</b>   | <b>(1,608)</b>                      | <b>(4,547)</b>  | <b>2,939</b>              | <b>(64.64%)</b> |
| <b>Interest expenses .....</b>  | <b>(73,994)</b>                     | <b>(57,773)</b> | <b>(16,221)</b>           | <b>(28.07%)</b> |

Interest expenses increased by S/. 85.7 million for the three months ended March 31, 2015 compared to the corresponding period in 2014. This increase was primarily due to an increase in expenses from interests on securities, bonds and outstanding obligations of S/. 20.8 million, as a result of an increase in the average balance of obligations from S/. 2,069.5 million for the three months ended March 31, 2014 to S/. 4,085.2 million for the corresponding period in 2015, which led to a rise in interest expenses in the amount of S/. 23.1 million, and which was partially offset by a decrease in the average interest rates from 1.26% for three months ended March 31, 2014 to 1.15% for the corresponding period in 2015, resulting in a lower interest expense of S/. 2.3 million.



Interest expenses on debts and obligations to local financial entities decreased by S/. 1.8 million, as a result of a lower average balance of obligations from S/. 1,025.6 million for the three months ended March 31, 2014 to S/. 829.0 million for the corresponding period in 2015, which led to a decrease in interest expenses of S/. 2.4 million. This increase in expenses was partially offset by an increase in average interest rates from 1.16% for the three months ended March 31, 2014 to 1.21% for the corresponding period in 2015 which led to an increase of S/. 0.5 million in interest expenses.

#### *Gross financial margin*

Gross financial margin decreased by S/. 0.95 million for the three months ended March, 31 2015 compared to the corresponding period in 2014.

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

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

|   | Direct<br>(S/. in thousands) | Contingent<br>(S/. in thousands) | Total<br>(S/. in thousands) |
|---|------------------------------|----------------------------------|-----------------------------|
| <b>Balance at the beginning of the year</b> ..... | <b>594,442</b>               | <b>41,546</b>                    | <b>636,006</b>              |
| Provisions for the year .....                     | 34,425                       | 4,041                            | 38,466                      |
| Reversals.....                                    | (19,977)                     | (2,826)                          | (22,803)                    |
| Exchange difference .....                         | 8,039                        | 1,439                            | 9,478                       |
| <b>Balance at the end of the period</b> .....     | <b>616,929</b>               | <b>44,218</b>                    | <b>661,147</b>              |

The balance of our provisions for direct and contingent loan losses registered as of March 31, 2015 was higher than the balance registered as of December 31, 2014. This increase was the result of an increase in provisions for direct loans of S/. 34.4 million, an increase in reversals of S/. 20.0 million and higher expenses for exchange results, net of S/. 8.0 million. The final balance of provisions for direct loan losses was S/. 616.9 million as of March 31, 2015. Net provisions for contingent loans increased by S/. 2.7 million during this period.

#### *Financial transactions*

Financial transactions decreased S/. 3.2 million for the three months ended March 31, 2015 as compared to the corresponding period in 2014. Such decrease was mainly due to (i) losses from hedging derivatives in the amount of S/. 8.0 million for the three months ended March 31, 2015, whereas we registered profits from hedging derivatives in the amount of S/. 8.9 million for the corresponding period in 2014. Furthermore, for the three months ended March 31, 2015, we registered profits in exchange difference of S/. 1.5 million, however, during the corresponding period in 2014 we registered losses in the amount of S/. 10.2 million.

#### *Administrative expenses*

The following table sets forth the components of our administrative expenses for the three months ended March 31, 2015 and 2014.

|  | Three months ended March 31, |                 | Change             |              |
|--|------------------------------|-----------------|--------------------|--------------|
|  | 2015                         | 2014            |                    |              |
|  | (S/. in thousands)           |                 | (S/. in thousands) | %            |
| Personnel and Board of Directors' expenses.....      | 10,725                       | 11,686          | (961)              | (8.22%)      |
| Expenses for services received from third parties .. | 5,710                        | 4,750           | 960                | 20.21%       |
| Taxes and contributions (1).....                     | 1,401                        | 1,264           | 137                | 10.84%       |
| Depreciation and amortization .....                  | 1,032                        | 587             | 445                | 75.81%       |
| <b>Administrative expenses</b> .....                 | <b>(18,868)</b>              | <b>(18,287)</b> | <b>(581)</b>       | <b>3.18%</b> |

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

The increase of S/. 0.58 million in administrative expenses was primarily due to (i) a S/. 0.96 million, or 8.2%, increase in expenses for services received from third parties and (ii) a S/. 0.45 million increase in depreciation and amortization expenses, which were offset by a decrease of S/. 0.96 million in the costs of personnel and board of directors for the three months ended March 31, 2015 as compared to the corresponding period in 2014.

Our efficiency ratio (the sum of administrative expenses plus depreciation and amortization divided by operating revenue (the sum of interest income and income from financial services)) reached 14.2% for the three months ended March 31, 2015 compared to 15.7% for the corresponding period in 2014. For more information on changes to our accounting practices, see note 2(a) to our audited financial statements in this offering memorandum.

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

Net valuation of assets and provisions decreased by S/. 1.5 million for the three months ended March 31, 2015 compared to the corresponding period in 2014, mainly due to a decrease in provisions for contingent loans in the amount of S/. 3.5 million.

#### *Operating profit*

Operating profit decreased by S/. 8.6 million for the three months ended March 31, 2015 compared to the corresponding period in 2014. This decrease was primarily due to (i) a decrease in our net financial margin, and (ii) lower value for the financial transactions, which was partially offset by lower expenses related to net valuation of assets and provisions.

#### *Other income and expenses*

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

|                                      | <b>Three months ended March 31,</b> |                | <b>Change</b>             |                 |
|--------------------------------------|-------------------------------------|----------------|---------------------------|-----------------|
|                                      | <b>2015</b>                         | <b>2014</b>    | <b>(S/. in thousands)</b> | <b>%</b>        |
|                                      | <b>(S/. in thousands)</b>           |                |                           |                 |
| <b>Other income</b>                  |                                     |                |                           |                 |
| Income from loan reversals.....      | 6,764                               | 10,677         | (3,913)                   | (36.65%)        |
| Other income .....                   | 9                                   | 23             | (14)                      | (60.87%)        |
| <b>Total other income</b> .....      | <b>6,773</b>                        | <b>10,700</b>  | <b>(3,927)</b>            | <b>(36.70%)</b> |
| <b>Other expenses</b>                |                                     |                |                           |                 |
| Other expenses.....                  | (1,391)                             | (3,922)        | 2,531                     | (64.53%)        |
| <b>Total other expenses</b> .....    | <b>(1,391)</b>                      | <b>(3,922)</b> | <b>2,531</b>              | <b>(64.53%)</b> |
| <b>Total other income, net</b> ..... | <b>5,382</b>                        | <b>6,778</b>   | <b>(1,396)</b>            | <b>(20.60%)</b> |

Other income, net decreased by S/. 1.4 million for the three months ended March 31, 2015 compared to the corresponding period in 2014. This decline was primarily due to a decrease of S/. 3.9 million in profit from sale of foreclosed assets, which was partially offset by a decrease of S/. 2.5 million in loss in foreclosed and repossessed assets.

#### *Income tax*

Income tax increased by S/. 12.0 million for the three months ended March 31, 2015 compared to the corresponding period in 2014. The effective income tax rate was 2.60% and 34.71% for the three months ended March 31, 2015 and 2014, respectively.

#### *Net income for the period*

As a result of the foregoing, net income for the period increased by S/. 1.9 million for the three months ended March 31, 2015 compared to the corresponding period of 2014.

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

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

|  | <b>Year ended December 31,</b> |                | <b>Change</b>             |                |
|--|--------------------------------|----------------|---------------------------|----------------|
|  | <b>2014</b>                    | <b>2013</b>    | <b>(S/. in thousands)</b> | <b>%</b>       |
|  | <b>(S/. in thousands)</b>      |                |                           |                |
| Interest income.....   | 446,672                        | 389,272        | 57,400                    | 14.75%         |
| Interest expenses.....   | (268,622)                      | (210,420)      | (58,202)                  | 27.66%         |
| <b>Gross financial margin</b> .....                                | <b>178,050</b>                 | <b>178,852</b> | <b>(802)</b>              | <b>(0.45%)</b> |
| Provisions for loan losses, net (1) .....                          | 17,448                         | 15,804         | 1,644                     | 10.40%         |
| <b>Net financial margin</b> .....                                  | <b>195,498</b>                 | <b>194,656</b> | <b>842</b>                | <b>0.43%</b>   |
| Other income (expense) from financial services,<br>net.....        | 27,772                         | 21,593         | 6,179                     | 28.62%         |
| <b>Net financial margin and financial services</b> .....           | <b>223,270</b>                 | <b>216,249</b> | <b>7,021</b>              | <b>3.25%</b>   |
| Financial transactions.....  | (21,811)                       | (21,978)       | 167                       | 75.99%         |
| <b>Operating margin</b> .....                                      | <b>201,459</b>                 | <b>194,271</b> | <b>7,188</b>              | <b>3.70%</b>   |
| Administrative expenses and depreciation and<br>amortization ..... | (72,184)                       | (64,767)       | (7,417)                   | 11.45%         |
| <b>Net operating margin</b> .....                                  | <b>129,275</b>                 | <b>129,504</b> | <b>(229)</b>              | <b>(0.18%)</b> |
| Net valuation of assets and provisions .....                       | (6,745)                        | (14,386)       | 7,641                     | (53.11%)       |
| <b>Operating profit</b> .....                                      | <b>122,530</b>                 | <b>115,118</b> | <b>7,412</b>              | <b>(6.44%)</b> |
| Other income and expenses.....                                     | (16,450)                       | (7,104)        | (9,346)                   | (131.56%)      |
| <b>Profit before income tax</b> .....                              | <b>106,080</b>                 | <b>108,014</b> | <b>(1,934)</b>            | <b>1.79%</b>   |
| Income tax .....   | (28,975)                       | (31,633)       | 2,658                     | 8.40%          |
| <b>Net income for the year</b> .....                               | <b>77,105</b>                  | <b>76,381</b>  | <b>724</b>                | <b>0.95%</b>   |

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

***Interest income***

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

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

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

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

The increase in interest on cash was as a result of an increase in the average balance of cash from S/. 145.3 million in 2013 to S/. 536.1 million in 2014, which led to an increase of S/. 3.6 million in interests earned, which was partially offset by a decrease in average interest rates from 1.64% for 2013 to 0.93% for 2014, which decreased the earned interests by S/. 1.0 million.

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

### *Interest expenses*

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

|   | Year ended December 31, |                  | Change             |               |
|---|-------------------------|------------------|--------------------|---------------|
|   | 2014                    | 2013             | (S/. in thousands) | %             |
|   | (S/. in thousands)      |                  |                    |               |
| <b>Obligations to the public</b> .....  | (3,151)                 | (1,300)          | (1,851)            | 142.38%       |
| <b>Deposits by banks and financial organizations</b> .....  | (11,482)                | (2,343)          | (9,139)            | 390.06%       |
| <b>Debts and financial obligations</b> .....  | (253,190)               | (185,791)        | (68,164)           | 36.69%        |
| Debts and obligations to local financial entities.....  | (46,362)                | (43,220)         | (3,142)            | 7.27%         |
| Debts and obligations to foreign financial entities and international financial organizations ..... | (38,946)                | (31,997)         | (6,949)            | 21.72%        |
| Debts and obligations to local and foreign entities .....   | (4,529)                 | (5,173)          | 644                | (12.45%)      |
| Commissions and other charges for debts and financial obligations .....                             | (8,382)                 | (4,934)          | (3,448)            | 69.88%        |
| Securities, bonds and outstanding obligations .....   | (136,971)               | (100,467)        | (36,504)           | 36.33%        |
| Net (loss) profit from hedging transactions .....   | (18,765)                | (20,986)         | 2,221              | (10.58%)      |
| <b>Interest expenses</b> .....  | <b>(268,622)</b>        | <b>(210,420)</b> | <b>(58,202)</b>    | <b>27.66%</b> |

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

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

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

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

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

### *Gross financial margin*

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

### *Provisions for loan losses, net*

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

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

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

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

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

### *Financial transactions*

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

### Administrative expenses

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

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

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

The increase in administrative expenses was S/. 7.4 million for 2014 compared to 2013, which was mainly due to (i) an increase of S/. 4.1 million in expenses for services received from third parties and (ii) an increase of S/. 1.4 million in personnel and board expenses, that was due to the annual review of salaries, which was based on the working performance of our employees for the previous year. The annual review aims to reward top performing employees during the year through salary increases at a rate above annual inflation. For employees with an average performance level, the rise in salary is at the annual inflation rate.

Our efficiency ratio (the sum of administrative expenses plus depreciation and amortization divided by operating revenue (the sum of interest income and income from financial services)) reached 15.1% for 2014 compared to 15.6% for 2013. This decrease was due to changes in our accounting practices that took effect as of January 2013.

### Net valuation of assets and provisions

Net valuation of assets and provisions expenses, net decreased by S/. 7.6 million for 2014 compared to 2013 mainly due to a decrease in provisions for contingent loans in the amount of S/. 20.3 million, which was partially offset by an increase in other provisions in the amount of S/. 9.7 million.

### Operating profit

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

### Other income and expenses

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

|  | December 31,    |                | Change             |                  |
|--|-----------------|----------------|--------------------|------------------|
|  | 2014            | 2013           | (S/. in thousands) | %                |
| <b>Other income</b>                            |                 |                |                    |                  |
| Profit from sale of foreclosed assets.....     | 12,368          | 1,829          | 10,539             | 576.22%          |
| Other income .....                             | 132             | 82             | 50                 | 60.98%           |
| <b>Total other income.....</b>                 | <b>12,500</b>   | <b>1,911</b>   | <b>10,589</b>      | <b>554.11%</b>   |
| <b>Other expenses</b>                          |                 |                |                    |                  |
| Loss in foreclosed and repossessed assets..... | (28,950)        | (9,015)        | (19,935)           | (221.17%)        |
| <b>Total other expenses.....</b>               | <b>(28,950)</b> | <b>(9,015)</b> | <b>(19,935)</b>    | <b>(221.17%)</b> |
| <b>Total other income, net.....</b>            | <b>(16,450)</b> | <b>(7,104)</b> | <b>(9,346)</b>     | <b>130.39%</b>   |

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

#### Income tax

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

#### Net income for the year

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

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

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

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

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

#### Interest income

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

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

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

The increase in interests on our direct loan portfolio was due to an increase in the average loan balance of 35.2% from S/. 3,433.6 million in 2012 to S/. 4,640.9 million in 2013, which led to an increase of interest on the loan portfolio of S/. 87.6 million of interest earned. However, a slight decrease in average interest rates, from 7.95% for 2012 compared to 7.25% for 2013 resulted in a decrease of S/. 23.8 million in interest on the loan portfolio.

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

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

#### *Interest expenses*

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

|   | <b>Year ended December 31,</b> |                  | <b>Change</b>             |               |
|---|--------------------------------|------------------|---------------------------|---------------|
|   | <b>2013</b>                    | <b>2012</b>      | <b>(S/. in thousands)</b> | <b>%</b>      |
|   | <b>(S/. in thousands)</b>      |                  |                           |               |
| <b>Obligations to the public.....</b>   | (1,300)                        | (917)            | (383)                     | 41.77%        |
| <b>Deposits by banks and financial organizations .....</b>  | (2,343)                        | (3,993)          | 1,650                     | (41.32%)      |
| <b>Debts and financial obligations .....</b>  | (185,791)                      | (158,137)        | (25,401)                  | 17.49%        |
| Debts and obligations to local financial entities.....  | (43,220)                       | (41,684)         | (1,536)                   | 3.68%         |
| Debts and obligations to foreign financial entities and international financial organizations ..... | (31,997)                       | (29,612)         | (2,385)                   | 8.05%         |
| Debts and obligations to local and foreign entities .....   | (5,173)                        | (6,642)          | 1,469                     | (22.12%)      |
| Commissions and other charges for debts and financial obligations .....                             | (4,934)                        | (10,247)         | 5,313                     | (51.85%)      |
| Securities, bonds and outstanding obligations .....   | (100,467)                      | (69,952)         | (30,515)                  | 43.62%        |
| Net (loss) profit from hedging transactions .....   | (20,986)                       | (23,239)         | 2,253                     | (9.69%)       |
| <b>Interest expenses .....</b>  | <b>(210,420)</b>               | <b>(186,286)</b> | <b>(24,134)</b>           | <b>12.96%</b> |

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

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

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

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



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

#### *Gross financial margin*

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

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

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

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

The balance of our provisions for direct and contingent loan losses registered as the year ended December 31, 2013 was higher than the balance registered as of the year ended December 31, 2012. This increase was the result of provisions for the period of S/. 66.5 million and an exchange difference of S/. 12.8 million, which has been offset by reversals from the previous year, resulting in net provisions for direct loan losses of S/. 599.1 million (S/. 1.5 million less than the balance registered at December 31, 2012). Net provisions for contingent loans increased by S/. 16.8 million during this period. Changes in the provisions between 2012 and 2013 were mainly as a result of changes in the level of specific and voluntary provisioning required for each type of intermediary financial institution, with the largest changes experienced among the following type of intermediary financial institutions: banks, financial institutions, micro and small enterprise development entities and municipal saving institutions.

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

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

#### *Financial transactions*

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

#### *Administrative expenses*

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

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

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

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

Our efficiency ratio (the sum of administrative expenses plus depreciation and amortization divided by operating revenue (the sum of interest income and income from financial services)) reached 15.6% for 2013 compared to 18.6% for 2012. This decrease was due to changes in our accounting practices that took effect as of January 2013.

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

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

#### *Operating profit*

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

#### *Other income and expenses*

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

|   | December 31,   |                | Change             |                  |
|---|----------------|----------------|--------------------|------------------|
|   | 2013           | 2012           | (S/. in thousands) | %                |
| <b>Other income</b>                     |                |                |                    |                  |
| Income from loan reversals.....         | 1,829          | 14,094         | (12,265)           | (87.02%)         |
| Other income .....                      | 82             | 265            | (182)              | 68.97            |
| Income from previous periods (1).....   | -              | 288            | (288)              | (100.00%)        |
| <b>Total other income .....</b>         | <b>1,911</b>   | <b>14,730</b>  | <b>(12,819)</b>    | <b>(86.95%)</b>  |
| <b>Other expenses</b>                   |                |                |                    |                  |
| Other expenses.....                     | (9,014)        | (3,279)        | (5,735)            | 174.87%          |
| Expenses from previous periods (2)..... | -              | (5,068)        | 5,068              | (100.00%)        |
| <b>Total other expenses .....</b>       | <b>(9,014)</b> | <b>(8,347)</b> | <b>(667)</b>       | <b>7.99%</b>     |
| <b>Total other income, net.....</b>     | <b>(7,104)</b> | <b>6,299</b>   | <b>(13,403)</b>    | <b>(212.78%)</b> |

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

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

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

### *Income tax*

Income tax decreased by S/. 12.2 million for 2013 compared to 2012. The effective income tax rate was 29.29% and 37.17% for 2013 and 2012, respectively.

### *Net income for the year*

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

## **Liquidity and Capital Resources**

### *Overview*

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

We believe that we benefit from the Peruvian government's ownership of us. As of March 31, 2015, 10.2% of our total debt received from multilateral organizations was guaranteed by the Peruvian government. In addition, we benefit from favorable borrowing rates with multilateral and other international financial institutions that are financing the development programs in which we participate. Finally, this type of foreign currency borrowing is often of much longer tenors than financing available in the local market or from the international private market, allowing us to fund development projects with longer maturities.

### *Sources of funds*

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

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

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

|   | <b>As of March 31,</b>    |                | <b>As of December 31,</b> |             |                           |               |                           |               |
|---|---------------------------|----------------|---------------------------|-------------|---------------------------|---------------|---------------------------|---------------|
|   | <b>2015</b>               |                | <b>2014</b>               |             | <b>2013</b>               |               | <b>2012</b>               |               |
|   | <b>(S/. in thousands)</b> | <b>%</b>       | <b>(S/. in thousands)</b> | <b>%</b>    | <b>(S/. in thousands)</b> | <b>%</b>      | <b>(S/. in thousands)</b> | <b>%</b>      |
| Multilateral organizations (including government agencies)..... | 282,162                   | 4.33%          | 697,439                   | 10.12%      | 700,102                   | 12.6%         | 684,554                   | 16.5%         |
| International commercial banks.....                             | 1,160,991                 | 17.82%         | 1,120,170                 | 16.25%      | 1,368,526                 | 25.5%         | 746,259                   | 18.0%         |
| Peruvian commercial banks .....                                 | 996,004                   | 15.29%         | 1,237,319                 | 17.95%      | 1,276,480                 | 23.8%         | 897,457                   | 21.6%         |
| Local capital markets .....                                     | 670,125                   | 10.29%         | 553,370                   | 8.03%       | 640,546                   | 12.0%         | 547,250                   | 13.2%         |
| International capital markets ....                              | 3,405,600                 | 52.27%         | 3,284,600                 | 47.65%      | 1,397,500                 | 26.1%         | 1,275,000                 | 30.7%         |
| <b>Total .....</b>  | <b>6,514,882</b>          | <b>100.00%</b> | <b>6,892,898</b>          | <b>100%</b> | <b>5,383,154</b>          | <b>100.0%</b> | <b>4,150,520</b>          | <b>100.0%</b> |

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

As of March 31, 2015, our outstanding loan obligations denominated in yen, euros and, to a lesser extent, in US dollars were hedged with swap agreements in order to reduce our exchange and interest rate risks.

The chart below illustrates our outstanding loan obligations by funding source as they appear in our unaudited interim financial statements as of March 31, 2015. The chart below does not include deposits and other obligations, such as time deposits, repo operations and guarantee deposits.

|  | Interest Rate       | As of<br>March 31,<br>2015<br>(S/. in<br>thousands) | Maturity       |
|--|---------------------|---|----------------|
|  | %                   |   |                |
| <b>Creditors:</b>  |                     |   |                |
| Bank of Tokyo – Mitsubishi / Syndicated Loan .....   | Libor (3M) + 1.725% | 619,200   | September 2016 |
| Bank of Tokyo – Mitsubishi .....   | Libor (3M) + 0.70%  | 309,600   | February 2017  |
| Scotiabank Perú S.A.A. ....  | from 3.80% to 5.98% | 402,000   | December 2015  |
| BBVA Banco Continental. ....   | from 4.25% to 4.90% | 200,000   | September 2015 |
| AFLAC – American Family Life Assurance of Columbus Japan Branch..                                    | 3.75%               | 232,191   | September 2031 |
| Banco de la Nación del Perú.....   | from 3.95% to 4.90% | 123,000   | December 2015  |
| Banco Internacional del Perú – Interbank.....  | from 5.89% to 7.24% | 31,544  | September 2022 |
| Corporación Andina de Fomento - CAF.....   | Libor (6M) + 2.80%  | 92,880  | October 2016   |
| Nordic Investment Bank.....  | Libor (6M) + 0.85%  | 11,610  | September 2015 |
| Japan International Cooperation Agency - JICA .....  | from 0.01% to 0.60% | 117,577   | October 2027   |
| Corporación de Fomento a la Producción (Corporation for the Promotion<br>of Production) (CORFO)..... | 4.25%               | 185   | June 2015      |
| Kreditanstalt Fur Weideraufbau - EREE .....  | 1.95%               | 34,328  | June 2025      |
| Corporación Andina de Fomento (CAF) issuance of shares – financial<br>liability (1) .....            |                     | 25,582  |                |
| Related expenses .....   |                     | (3,709)   |                |
| <b>Subtotal</b> .....  |                     | <b>2,195,988</b>                                    |                |
| <b>Interests</b> .....   |                     | <b>16,631</b>                                       |                |
| <b>Total</b> .....   |                     | <b>2,212,619</b>                                    |                |

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

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

As of March 31, 2015, we had S/.151.9 million (US\$49.1 million) of indebtedness guaranteed by the Peruvian government and S/. 6,362.0 million (US\$2,054.9 million) of other existing obligations, for a total of S/. 6,514.0 million (US\$2,104.0 million) of indebtedness, all of which would have priority in right of payment to the 2019 Notes and the 20[25] Notes in the event of our insolvency. As of March 31, 2015, we did not have any secured indebtedness outstanding. See note [10] and [11] to our audited financial statements.

As of March 31, 2015, we were in compliance with all financial ratios and other covenants contained in the aforementioned loans.

We also believe we maintain adequate liquidity levels to finance our assets. Sources of long term debt, such as loans from the Japan Cooperation International Agency (JICA), have terms consistent with those institutions' standard credit operations. Sources of funds also include debt issuances in the local and international capital markets and loans from Peruvian commercial banks. In addition, highly-liquid available-for-sale trading investments represent a significant portion of our assets (S/. 1,224.8 million as of March 31, 2015; S/. 1,500.9 million as of December 31, 2014; S/. 703.1 million as of December 31, 2013; S/. 726.5 million as of December 31, 2012).

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

|                             | As of March 31,  | As of December 31,  |                  |                  |
|-----------------------------|------------------|---------------------|------------------|------------------|
|                             | 2015             | 2014                | 2013             | 2012             |
|                             |                  | (\$/. in thousands) |                  |                  |
| Government guaranteed ..... | 151,905          | 568,078             | 571,373          | 571,537          |
| Direct .....                | 6,362,977        | 6,324,820           | 4,811,781        | 3,578,983        |
| <b>Total</b> .....          | <b>6,514,882</b> | <b>6,892,898</b>    | <b>5,383,154</b> | <b>4,150,520</b> |

### **Bank borrowings**

Our balance of total borrowing without considering on-lending totaled S/. 6,362.9 million, S/. 6,324.8 million, S/. 4,811.8 million, and S/. 3,579.0 million as of March 31, 2015, and December 31, 2014, 2013, and 2012, respectively, and accounted for 97.7%, 91.8%, %, 89.4% and 86.2% of our total funding as of March 31, 2015 and December 31, 2014, 2013, and 2012, respectively.

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

| Specification                 | As of March 31,  | As of December 31,  |                  |                  |
|-------------------------------|------------------|---------------------|------------------|------------------|
|                               | 2015             | 2014                | 2013             | 2012             |
|                               |                  | (\$/. in thousands) |                  |                  |
| Peruvian borrowings (1) ..... | 1,666,129        | 1,790,689           | 1,830,268        | 1,444,707        |
| Foreign borrowings (2) .....  | 4,696,848        | 4,534,131           | 2,981,513        | 2,134,276        |
| On-lending (3) .....          | 151,905          | 568,078             | 571,373          | 571,537          |
| <b>Total borrowings</b> ..... | <b>6,514,882</b> | <b>6,892,898</b>    | <b>5,383,154</b> | <b>4,150,520</b> |
| <b>Current</b> .....          | <b>1,096,485</b> | <b>1,361,456</b>    | <b>1,445,212</b> | <b>1,411,470</b> |
| <b>Long-term</b> .....        | <b>5,418,397</b> | <b>5,531,442</b>    | <b>3,937,942</b> | <b>2,739,050</b> |

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

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

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

The decrease of S/. 378.0 million in total borrowings as of March 31, 2015 compared to December 31, 2014 was mainly due to a decrease of S/. 415.3 million of multilateral loans which were capitalized by the Ministry of Economy in January 30, 2015 as part of the strengthening of the capital stock in COFIDE. Because of this capitalization, which was authorized by Law No. 30283 - Indebtedness Public Sector Law for the year 2015, the Ministry of Economy is responsible for the payment of those loans.

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

As of March 31, 2015, our short term borrowings consisted of Peruvian borrowings. As of March 31, 2015, we held domestic debt denominated in U.S. dollars for an amount equal to S/. 535.5 thousand. The sources of all our total indebtedness are primarily (i) the international capital markets, which represented 52.3% of our total indebtedness as of March 31, 2015, and (ii) the international commercial and development banks, local capital markets and multilateral organizations, which accounted for the source of the remaining 47.7% of our total indebtedness as of March, 31, 2015.

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

| Specification                 | Up to<br>3 years | 3 to<br>5 years  | 5 to<br>15 years   | Over<br>15 years | Total as of<br>March 31,<br>2015 |
|-------------------------------|------------------|------------------|--------------------|------------------|----------------------------------|
|                               |                  |                  | (S/. in thousands) |                  |                                  |
| Peruvian borrowings (1) ..... | 1,135,757        | 83,657           | 206,715            | 240,000          | 1,666,129                        |
| Foreign borrowings (2) .....  | 1,046,301        | 958,422          | 2,611,838          | 232,191          | 4,848,753                        |
| <b>Total</b> .....            | <b>2,182,058</b> | <b>1,042,079</b> | <b>2,818,553</b>   | <b>472,191</b>   | <b>6,514,882</b>                 |

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

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

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

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

On May 24, 1999, our Board of Directors approved our first note program up to a maximum aggregate amount of S/. 700 million. We issued S/. 420.5 million of notes under this program before the program expired in November 2011. As of March 31, 2015, we were in compliance with all financial ratios and financial covenants applicable under this program.

On May 27, 2004, our Board of Directors approved our second note program up to a maximum aggregate amount of US\$150 million, or its equivalent in *nuevos soles* or any other foreign currency. We issued S/. 353.94 million of notes under this program, of which S/. 16.5 million are still outstanding as of March 31, 2015. As of March 31, 2015, we were in compliance with all financial ratios and financial covenants applicable under this program.

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

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

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

On December 11, 2014, our Board of Directors approved our second short-term notes program. Under this program, we may issue up to US\$200 million, or its equivalent in *nuevos soles*. As of March 31, 2015, we have issued a total amount of S/. 40.1 million under this program.

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

|   | As of<br>March 31,<br>2015 | Maturity   |
|---|----------------------------|------------|
|   | (S/. in thousands)         |            |
| <b>Local long-term issuances:</b>                               |                            |            |
| <u>Second program</u>   |                            |            |
| Eighth (1) .....  | 16,500                     | 4/2/2018   |
| <u>Third program</u>  |                            |            |
| First .....   | 50,000                     | 1/24/2016  |
| Fourth.....   | 45,065                     | 7/21/2015  |
| Ninth .....   | 150,000                    | 04/27/2027 |
| Tenth (2) .....   | 100,000                    | 06/28/2037 |
| Eleventh .....  | 90,000                     | 10/30/2042 |
| <u>Fourth program</u>   |                            |            |
| Second.....   | 100,000                    | 04/30/2043 |
| Fifth.....  | 78,445                     | 01/30/2020 |
| <b>Local short-term issuances:</b>                              |                            |            |
| <u>Second program</u>   |                            |            |
| Third .....   | 40,115                     | 01/11/2106 |
| Accrued yield.....  | 8,170                      |            |
| Total local currency .....                                      | <b>678,295</b>             |            |
| <b>International issuances:</b>                                 |                            |            |
| Existing 4.750% Notes due 2022 .....                            | 1,238,400                  | 2/8/2022   |
| Reopening of 4.750% Notes due 2022.....                         | 309,600                    | 2/8/2022   |
| Existing 3.250% Notes due 2019 .....                            | 928,800                    | 7/15/2019  |
| 5.250% Fixed-to-Floating Rate Subordinated Notes due 2029 ..... | 928,800                    | 7/15/2029  |
| Net price difference (over/under par value) .....               | (5,976)                    |            |
| Accrued yield .....   | 27,069                     |            |
| Total Foreign Currency .....                                    | <b>3,426,693</b>           |            |
| Total .....   | <b>4,104,988</b>           |            |

(1) S/. 10 million of the principal from our eighth issuance under our second note program will be paid on July 17, 2017. The remaining balance of the principal will be paid on April 2, 2018.

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

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

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

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

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

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

### ***Dividend policy***

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

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

Our last annual shareholders meeting occurred on March 31, 2015. At this meeting, a 15% reinvestment of our distributable income was approved, as well as an additional capital increase in an amount to be determined by the board of directors pursuant to the decision of our shareholders.

### **Capital Management - Regulatory**

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

Peruvian Banking Law provides that regulatory capital must be equal to or greater than 10.0% of the total risk-weighted assets since July 2011. Risk-weighted assets are the sum of (i) 10 times the regulatory capital allocated to cover market risk; (ii) 10 times the regulatory capital allocated to cover operational risk; and (iii) the total amount of credit risk-weighted assets and indirect loans. Such computation must include all statement of financial position exposures or assets in local or foreign currency. As of March 31, 2015, our ratio of regulatory capital to total risk weighted assets was 49.4%.



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

|  | As of<br>March 31,    | As of December 31, |                  |                  |
|--|-----------------------|--------------------|------------------|------------------|
|  | 2015                  | 2014               | 2013             | 2012             |
|  | (S/. in<br>thousands) | (S/. in thousands) |                  |                  |
| <b>Tier 1 Regulatory Capital</b>   |                       |                    |                  |                  |
| Paid-in capital .....  | 2,034,424             | 1,548,502          | 1,537,546        | 1,519,144        |
| Legal reserves .....   | 295,057               | 287,346            | 279,708          | 272,297          |
| Accumulated losses (investments) .....   | -                     | -                  | -                | -                |
| Other .....  | (1,446)               | (1,280)            | (1,116)          | (783)            |
| <b>Total Tier 1 Regulatory Capital.....</b>                                      | <b>2,328,035</b>      | <b>1,834,568</b>   | <b>1,816,138</b> | <b>1,790,658</b> |
| <b>Total Tier 2 Regulatory Capital.....</b>                                      | <b>1,031,132</b>      | <b>992,961</b>     | <b>66,133</b>    | <b>61,696</b>    |
| <b>Total Regulatory Capital.....</b>   | <b>3,359,167</b>      | <b>2,827,529</b>   | <b>1,882,271</b> | <b>1,852,354</b> |
| <b>Risk-weighted assets .....</b>  | <b>6,794,761</b>      | <b>6,406,331</b>   | <b>5,189,957</b> | <b>4,803,924</b> |
| <b>Capital Ratios</b>  |                       |                    |                  |                  |
| <b>Total regulatory capital as a percentage of<br/>risk-weighted assets.....</b> | <b>49.44%</b>         | <b>44.14%</b>      | <b>36.27%</b>    | <b>38.56%</b>    |
| <b>Tier 1 capital as a percentage of risk-weighted<br/>assets.....</b>           | <b>34.26%</b>         | <b>28.64%</b>      | <b>34.99%</b>    | <b>37.27%</b>    |

#### Loan portfolio, net

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

|  | As of March 31, 2015 |                               | As of March 31, 2014 |                               |
|--|----------------------|-------------------------------|----------------------|-------------------------------|
|  | (S/. in thousands)   | Relative<br>Participation (%) | (S/. in thousands)   | Relative<br>Participation (%) |
| <b>Direct loans (1)</b>                                    |                      |                               |                      |                               |
| Loans to intermediary financial<br>institutions .....      | 5,434,491            | 86.37%                        | 5,100,753            | 89.52                         |
| First-tier loans (2).....                                  | 158,711              | 2.52%                         | 16,311               | 0.29                          |
| Restructured loans (3).....                                | 12,952               | 0.21%                         | 12,441               | 0.22                          |
| Refinanced loans (4).....                                  | 4,579                | 0.07%                         | 7,024                | 0.12                          |
| Loans past-due and accounts under<br>legal collection..... | 49,590               | 0.79%                         | 1,570                | 0.03                          |
| <b>Total direct loans.....</b>                             | <b>5,660,323</b>     | <b>89.96%</b>                 | <b>5,138,099</b>     | <b>90.18</b>                  |
| <b>Contingent loans (5).....</b>                           | <b>631,652</b>       | <b>10.04%</b>                 | <b>559,686</b>       | <b>9.82</b>                   |
| <b>Total.....</b>  | <b>6,291,975</b>     | <b>100.00%</b>                | <b>5,697,785</b>     | <b>100.00%</b>                |

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

Loans to intermediary financial institutions are our primary use of funds and totaled S/. 5,434.5 million as of March 31, 2015, an increase of 6.5% from S/. 5,100.8 million as of March 31, 2014. The growth over this period primarily resulted from (i) an increase of S/. 399.9 million in loans for structuring and infrastructure projects, and (ii) an increase of S/. 8.3 million in small and micro enterprise loans (short-term

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

First-tier loans totaled S/. 158.7 million as of March 31, 2015, an increase of S/. 142.4 million from S/. 16.3 million as of March 31, 2014. The growth over this period primarily resulted from the new loan granted to Intipucquio SAC in the amount of S/. 148.2 million, which owns the Cayaltí Trust, a leading agroindustrial group in Peru.

Restructured loans totaled S/. 13.0 million as of March 31, 2015, an increase of 4.1% from S/. 12.44 million as of March 31, 2014. This increase was the result of an increase in the number of restructured loans requested from companies who had declared bankruptcy or were in liquidation during this period.

Refinanced loans totaled S/. 4.6 million as of March 31, 2015, a decrease of 34.8% from S/. 7.02 million as of March 31, 2014. Such decrease was due to loan payments in financial leasing from Inmobiliaria Turismo S.A. in the amount of S/. 2.0 million and a decrease in the exposure of mortgage loans to former employees in the amount of S/. 0.1 million.

Loans past-due and accounts under legal collection totaled S/. 49.6 million as of March 31, 2015, an increase from S/. 1.57 million as of March 31, 2014. Such increase was mainly due to the default of “Maple II Etanol S.R.L.” in an amount of S/. 48.1 million.

Contingent loans totaled S/. 631.7 million as of March 31, 2015, an increase of 12.9% compared to S/. 559.7 million as of March 31, 2014. Such increase was due to the issuance of new guarantees in connection with the Cerro del Águila, Transmission Line Moyobamba-Iquitos and Pegaco projects.

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

|   | As of December 31, 2014 |                            | As of December 31, 2013 |                            |
|---|-------------------------|----------------------------|-------------------------|----------------------------|
|   | (S/. in thousands)      | Relative Participation (%) | (S/. in thousands)      | Relative Participation (%) |
| <b>Direct loans (1)</b>                                 |                         |                            |                         |                            |
| Loans to intermediary financial institutions .....      | 5,390,624               | 86.59%                     | 5,055,708               | 89.81%                     |
| First-tier loans (2) .....                              | 13,201                  | 0.21%                      | 15,605                  | 0.28%                      |
| Restructured loans (3) .....                            | 12,492                  | 0.20%                      | 12,384                  | 0.22%                      |
| Refinanced loans (4) .....                              | 5,066                   | 0.08%                      | 7,361                   | 0.13%                      |
| Loans past-due and accounts under legal collection..... | 145,277                 | 2.33%                      | 1,599                   | 0.03%                      |
| <b>Total direct loans.....</b>                          | <b>5,566,660</b>        | <b>89.42%</b>              | <b>5,092,402</b>        | <b>88.55%</b>              |
| <b>Contingent loans (5).....</b>                        | <b>658,468</b>          | <b>10.58%</b>              | <b>536,684</b>          | <b>9.53%</b>               |
| <b>Total .....</b>                                      | <b>6,225,128</b>        | <b>100.00%</b>             | <b>5,629,086</b>        | <b>100.00%</b>             |

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

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

working capital), which were partially offset by a decrease of S/. 28.7 million in small and micro enterprises loans (medium-term working capital)

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

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

Loans past-due and accounts under legal collection totaled S/.145.3 million as of December 31, 2014, an increase from S/. 1.6 million as of December 31, 2013. Such raise increase mainly due to the default of “Maple Etanol S.R.L.” for a total defaulted amount of S/. 147.3 million.

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

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

|  | As of December 31, 2013 |                            | As of December 31, 2012 |                            |
|--|-------------------------|----------------------------|-------------------------|----------------------------|
|  | (S/. in thousands)      | Relative Participation (%) | (S/. in thousands)      | Relative Participation (%) |
| <b>Direct loans (1)</b>                                  |                         |                            |                         |                            |
| Loans to intermediary financial institutions .....       | 5,160,013               | 90.00%                     | 3,848,144               | 88.49%                     |
| First-tier loans (2) .....                               | 15,605                  | 0.27%                      | 13,021                  | 0.30%                      |
| Restructured loans (3).....                              | 12,384                  | 0.22%                      | 11,447                  | 0.26%                      |
| Refinanced loans (4).....                                | 7,361                   | 0.13%                      | 10,215                  | 0.23%                      |
| Loans past-due and accounts under legal collection ..... | 1,599                   | 0.03%                      | 3,111                   | 0.07%                      |
| <b>Total direct loans</b> .....                          | <b>5,196,962</b>        | <b>90.65%</b>              | <b>3,885,938</b>        | <b>89.36%</b>              |
| <b>Contingent loans (5)</b> .....                        | <b>536,684</b>          | <b>9.35%</b>               | <b>462,523</b>          | <b>10.64%</b>              |
| <b>Total</b> .....                                       | <b>5,733,646</b>        | <b>100.00%</b>             | <b>4,348,461</b>        | <b>100.0%</b>              |

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

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

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

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

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

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

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

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

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

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

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

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

We examine both indicators in two different contexts: going-concern context and stress context. For the going-concern context, we suppose a normal scenario in which the company operates that reflects slightly parallel shifts in interest rate curves. The following table shows the results for the profit-at-risk and equity-at-risk under the going-concern context for the three months ended March 31, 2015 and 2014, respectively.

| As of and for the three months ended March 31, |                  |                |                  |                |
|--|------------------|----------------|------------------|----------------|
|  | 2015             |                | 2014             |                |
|  | S/. In thousands | % Core Capital | S/. In thousands | % Core Capital |
| Profit at risk.....                            | 25,765           | 0.77%          | 22,957           | 1.21%          |
| Equity at risk.....                            | 63,063           | 1.88%          | 39,560           | 2.08%          |

Under the stress context, we assume a shock of 200 basis points in interest rate curves. The following table shows the results for the profit-at-risk and equity-at-risk under the stress context for the three months ended March 31, 2015 and 2014.

| As of and for the three months ended March 31, |                  |                |                  |                |
|--|------------------|----------------|------------------|----------------|
|  | 2015             |                | 2014             |                |
|  | S/. In thousands | % Core Capital | S/. In thousands | % Core Capital |
| Profit at risk.....                            | 57,178           | 1.70%          | 32,227           | 1.69%          |
| Equity at risk.....                            | 63,196           | 1.88%          | 35,025           | 1.84%          |

### Liquidity risk

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

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

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

| Remaining Maturity as of March 31, 2015             |                |                    |                     |                   |                  |                         |                  |
|---|----------------|--------------------|---------------------|-------------------|------------------|-------------------------|------------------|
|   | Up to 1 month  | From 1 to 3 months | From 3 to 12 months | From 1 to 5 years | Over 5 years     | Do not accrue interests | Total            |
| <b>Assets</b>                                       |                |                    |                     |                   |                  |                         |                  |
| Cash .....  | 411,388        | -                  | -                   | -                 | -                | -                       | 411,388          |
| Available-for-sale investments....                  | 1,899          | 274,666            | 44,658              | 186,036           | 984,148          | 2,382,583               | 3,873,990        |
| Loans portfolio, net.....                           | 119,743        | 879,856            | 1,314,140           | 1,848,897         | 1,706,515        | (571,199)               | 5,297,952        |
| Accounts receivable, net .....                      | 117            | 2,071              | 3,716               | 4,212             | 122,532          | (144)                   | 132,504          |
| Other assets .....                                  | -              | -                  | -                   | -                 | -                | 49,777                  | 49,777           |
| <b>Total assets.....</b>                            | <b>533,147</b> | <b>1,156,593</b>   | <b>1,362,514</b>    | <b>2,039,145</b>  | <b>2,813,195</b> | <b>1,861,017</b>        | <b>9,765,611</b> |
| % of total.....                                     | 5.46%          | 11.84%             | 13.95%              | 20.88%            | 28.81%           | 19.06%                  | 100.00%          |
| <b>Liabilities</b>                                  |                |                    |                     |                   |                  |                         |                  |
| Obligations to the public .....                     | -              | 40,199             | 17,898              | -                 | -                | -                       | 58,097           |
| Deposits by banks and financial organizations ..... | 17,424         | 10,589             | 159,545             | -                 | -                | -                       | 187,558          |
| Debts and financial obligations ...                 | 173,952        | 105,910            | 447,412             | 1,112,137         | 373,208          | -                       | 2,212,619        |
| Debt securities.....                                | 1,713          | -                  | 174,705             | 1,017,679         | 2,910,891        | -                       | 4,104,988        |
| Hedging derivatives .....                           | 1,840          | 3,680              | 16,563              | 88,334            | 44,168           | -                       | 154,585          |
| Accounts payable .....                              | 64,004         | 7                  | 2,595               | -                 | -                | -                       | 66,606           |
| Other liabilities.....                              | -              | -                  | -                   | -                 | -                | 296,137                 | 296,137          |
| Equity.....   | -              | -                  | -                   | -                 | -                | 2,685,022               | 2,685,022        |
| <b>Total liabilities and equity .....</b>           | <b>258,933</b> | <b>160,385</b>     | <b>818,718</b>      | <b>2,218,150</b>  | <b>3,328,267</b> | <b>2,981,159</b>        | <b>9,765,611</b> |

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

|  | <b>Up to 1 month</b> | <b>From 1 to 3 months</b> | <b>From 3 to 12 months</b> | <b>From 1 to 5 years</b> | <b>Over 5 years</b> | <b>Do not accrue interests</b> | <b>Total</b> |
|--|----------------------|---------------------------|----------------------------|--------------------------|---------------------|--------------------------------|--------------|
| <b>% of total</b> .....                  | 2.65%                | 1.64%                     | 8.38%                      | 22.71%                   | 34.08%              | 30.53%                         | 100.00%      |
| Assets derivative instruments .....      | -                    | -                         | -                          | -                        | 349,768             | -                              | 349,768      |
| Liabilities derivative instruments ..... | -                    | -                         | -                          | -                        | 502,741             | -                              | 502,741      |
| <b>Marginal Gap</b> .....                | 274,214              | 996,209                   | 543,796                    | (179,005)                | (668,045)           | <u>(1,120,142)</u>             |              |
| <b>Accumulated Gap</b> .....             | 274,214              | 1,270,423                 | 1,814,219                  | 1,635,214                | <u>967,169</u>      |                                |              |

For March 31, 2015 a positive accumulated gap of S/. 967.2 million is generated in the “Total” range of earning and bearing interest assets and liabilities. There is also a negative marginal gap of S/. 1,120.1 million in non-earning and non-bearing assets and liabilities. This result indicates that the Total Gap is negative in the amount of S/. 152.9 million. Nevertheless, due to “voluntary generic provisions” under direct loans in the amount of S/. 411.0 million, the amount registered for our “Loan portfolio” is reduced. Furthermore, the line item “Other liabilities” accounts for “voluntary generic provisions” under contingent loans in the amount S/. 38.9 million and “deferred income tax” in the amount of S/. 234.0 million. If these items were not considered in our liquidity gap, we would have had a positive cumulative asset-liability gap of S/. 531.0 million.

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

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

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

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

For December 31, 2013 a positive accumulated gap of S/. 655.7 million is generated in the “Total” range of earning and bearing interest assets and liabilities. There is also a negative marginal gap of S/. 739.6 million in non-earning and non-bearing assets and liabilities. This result indicates that the Total Gap is negative in the amount of S/. 83.9 million. Nevertheless, due to “voluntary generic provisions” under direct loans in the amount of S/. 439.6 million, the amount registered for our “Loan portfolio” is reduced. Furthermore, the line item “Other liabilities” accounts for “voluntary generic provisions” under contingent loans in the amount S/. 38.8 million and “deferred income tax” in the amount of S/. 256.0 million. If these items were not considered in our liquidity gap, we would have had a positive cumulative asset-liability gap of S/. 650.5 million.

**Remaining Maturity as of December 31, 2012**

|  | <b>Up to 1<br/>month</b> | <b>From 1 to<br/>3 months</b> | <b>From 3 to<br/>12 months</b> | <b>From 1 to<br/>5 years</b> | <b>Over<br/>5 years</b> | <b>Do not accrue<br/>interests</b> | <b>Total</b>     |
|--|--------------------------|-------------------------------|--------------------------------|------------------------------|-------------------------|------------------------------------|------------------|
| <b>Assets</b>                                      |                          |                               |                                |                              |                         |                                    |                  |
| Cash.....  | 258,923                  | -                             | -                              | -                            | -                       | -                                  | 258,923          |
| Available-for-sale investments ....                | 240                      | 966                           | 22,080                         | 152,614                      | 557,618                 | 2,363,935                          | 3,097,453        |
| Loans portfolio, net .....                         | 690,480                  | 581,643                       | 665,614                        | 1,192,920                    | 868,604                 | (581,640)                          | 3,417,621        |
| Hedging derivatives .....                          | 19                       | 39                            | 175                            | 931                          | 1,164                   | -                                  | 2,328            |
| Accounts receivable, net .....                     | -                        | -                             | -                              | -                            | -                       | 23,008                             | 23,008           |
| Other assets .....                                 | -                        | -                             | -                              | -                            | -                       | 27,297                             | 27,297           |
|  |                          |                               |                                |                              |                         | <b>1,832,600</b>                   | <b>6,826,630</b> |
| <b>Total assets .....</b>                          | <b>949,662</b>           | <b>582,648</b>                | <b>687,869</b>                 | <b>1,346,465</b>             | <b>1,427,386</b>        |                                    | <b>0</b>         |
| <b>% of total .....</b>                            | <b>13.91%</b>            | <b>8.53%</b>                  | <b>10.08%</b>                  | <b>19.72%</b>                | <b>20.91%</b>           | <b>26.84%</b>                      | <b>100.00%</b>   |
| <b>Liabilities</b>                                 |                          |                               |                                |                              |                         |                                    |                  |
| Obligations to the public.....                     | -                        | -                             | -                              | -                            | -                       | 19,925                             | 19,925           |
| Debts by banks and financial<br>organizations..... | 103,297                  | 314,420                       | 1,109,761                      | 355,796                      | 452,190                 | -                                  | 2,335,464        |
| Debt securities .....                              | 16,139                   | 20,142                        | 5,418                          | 207,880                      | 1,613,747               | -                                  | 1,863,053        |
| Hedging derivatives .....                          | 522                      | 1,043                         | 4,695                          | 25,042                       | 31,302                  | -                                  | 62,604           |
| Accounts payable.....                              | -                        | -                             | -                              | -                            | -                       | 11,201                             | 11,201           |
| Other liabilities .....                            | -                        | -                             | -                              | -                            | -                       | 307,928                            | 307,928          |
|  |                          |                               |                                |                              |                         |                                    | 2,226,455        |
| Equity .....                                       | -                        | -                             | -                              | -                            | -                       | 2,226,455                          | 5                |
|  |                          |                               |                                |                              |                         |                                    | <b>6,826,630</b> |
| <b>Total liabilities and equity .....</b>          | <b>119,958</b>           | <b>335,605</b>                | <b>1,119,874</b>               | <b>588,718</b>               | <b>2,096,966</b>        | <b>2,565,509</b>                   | <b>0</b>         |
| <b>% of total .....</b>                            | <b>1.76%</b>             | <b>4.92%</b>                  | <b>16.40%</b>                  | <b>8.62%</b>                 | <b>30.72%</b>           | <b>37.58%</b>                      | <b>100.00%</b>   |
| Assets derivative instruments.....                 | -                        | 28,989                        | 31,761                         | 280,800                      | 312,701                 | -                                  | 654,251          |
| Liabilities derivative<br>instruments .....        | -                        | 26,909                        | 30,477                         | 257,862                      | 347,250                 | -                                  | 662,498          |
| <b>Marginal Gap .....</b>                          | <b>829,704</b>           | <b>249,123</b>                | <b>(430,721)</b>               | <b>780,685</b>               | <b>(704,129)</b>        | <b>(732,909)</b>                   | <b>-</b>         |
| <b>Accumulated Gap .....</b>                       | <b>829,704</b>           | <b>1,078,827</b>              | <b>648,106</b>                 | <b>1,428,791</b>             | <b>724,662</b>          | <b>-</b>                           | <b>-</b>         |

For December 31, 2012 a positive accumulated gap of S/. 724.7 million is generated in the “Total” range of earning and bearing interest assets and liabilities. There is also a negative marginal gap of S/. 732.9 million in non-earning and non-bearing assets and liabilities. This result indicates that the Total Gap is negative in the amount of S/. 8.2 million. Nevertheless, due to “voluntary generic provisions” under direct loans in the amount of S/. 447.3 million, the amount registered for our “Loan portfolio” is reduced. Furthermore, the line item “Other liabilities” accounts for “voluntary generic provisions” under contingent loans in the amount S/. 22.8 million and “deferred income tax” in the amount of S/. 272.0 million. If these items were not considered in our liquidity gap, we would have had a positive cumulative asset-liability gap of S/. 733.9 million.

**Exchange rate risk**

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

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



Management manages this risk based on an ongoing monitoring and previous experience by detecting situations that may have negative financial effects for us. We have entered into swap hedging arrangements as a way to mitigate the risk of appreciation of such currency against the US dollar. Such hedging arrangements include our JBIC, AFLAC and JICA obligations totaling ¥1,811,430.4 thousand, ¥9,000,000 thousand and ¥2,746,000 thousand, respectively.

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

|   | As of March 31,<br>2015 |                             |                         |                  |
|---|-------------------------|-----------------------------|-------------------------|------------------|
|   | U.S. dollar<br>S/. 000  | Other currencies<br>S/. 000 | Nuevos Soles<br>S/. 000 | Total<br>S/. 000 |
| <b>Assets:</b>                                      |                         |                             |                         |                  |
| Cash .....  | 379,134                 | 131                         | 32,123                  | 411,388          |
| Available-for-sale investments.....                 | 1,125,239               | -                           | 2,748,751               | 3,873,990        |
| Loan portfolio .....                                | 3,322,843               | -                           | 1,975,109               | 5,297,952        |
| Hedging derivatives .....                           | 4,193                   | 125                         | 2,910                   | 7,228            |
| Accounts receivable, net .....                      | 71,369                  | -                           | 53,907                  | 125,276          |
| Other assets.....                                   | 576                     | 1                           | 243                     | 820              |
|   | <b>4,903,354</b>        | <b>257</b>                  | <b>4,813,043</b>        | <b>9,716,654</b> |
| <b>Liabilities:</b>                                 |                         |                             |                         |                  |
| Obligations to the public .....                     | 1,970                   | -                           | 56,127                  | 58,097           |
| Deposits by banks and financial organizations ..... | -                       | -                           | 187,558                 | 187,558          |
| Debts and financial obligations .....               | 1,095,520               | 350,603                     | 766,496                 | 2,212,619        |
| Debt securities .....                               | 3,426,793               | (100)                       | 678,295                 | 4,104,988        |
| Hedging derivatives .....                           | 4,488                   | -                           | 150,097                 | 154,585          |
| Accounts payable.....                               | 3,568                   | -                           | 63,037                  | 66,605           |
| Other liabilities .....                             | 44,080                  | -                           | 3,465                   | 47,545           |
| <b>Total.....</b>                                   | <b>4,576,419</b>        | <b>350,503</b>              | <b>1,905,075</b>        | <b>6,831,997</b> |
| Forward position.....                               | -                       | -                           | -                       | -                |
| Currency swaps position, net .....                  | (502,741)               | 349,768                     | 152,973                 | -                |
| <b>Monetary position, net.....</b>                  | <b>(175,806)</b>        | <b>(478)</b>                | <b>3,060,941</b>        | <b>2,884,657</b> |

The table below illustrates our foreign exchange exposure as of December 31, 2014 and 2013.

|  | As of December 31,     |                             |                         |                  |                        |                             |                         |                  |
|--|------------------------|-----------------------------|-------------------------|------------------|------------------------|-----------------------------|-------------------------|------------------|
|  | 2014                   |                             |                         |                  | 2013                   |                             |                         |                  |
|  | U.S. dollar<br>S/. 000 | Other currencies<br>S/. 000 | Nuevos Soles<br>S/. 000 | Total<br>S/. 000 | U.S. dollar<br>S/. 000 | Other currencies<br>S/. 000 | Nuevos Soles<br>S/. 000 | Total<br>S/. 000 |
| <b>Assets:</b>                                   |                        |                             |                         |                  |                        |                             |                         |                  |
| Cash .....                                       | 369,678                | 41,397                      | 112,607                 | 523,682          | 121,057                | 9,109                       | 114,568                 | 244,734          |
| Available-for-sale investments.....              | 1,134,065              | -                           | 2,756,168               | 3,890,233        | 279,269                | 37,073                      | 2,781,799               | 3,098,141        |
| Loan portfolio .....                             | 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              |
|  | <b>4,942,311</b>       | <b>42,340</b>               | <b>4,681,043</b>        | <b>9,665,694</b> | <b>3,264,952</b>       | <b>47,516</b>               | <b>4,695,099</b>        | <b>8,007,567</b> |
| <b>Liabilities:</b>                              |                        |                             |                         |                  |                        |                             |                         |                  |
| 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 and financial obligations .....            | 1,308,611              | 515,174                     | 1,011,446               | 2,835,231        | 1,617,225              | 536,660                     | 953,774                 | 3,107,689        |
| Debt securities .....                            | 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            |

|                                    | As of December 31, |                  |                  |                  |                  |                  |                  |                  |
|------------------------------------|--------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
|                                    | 2014               |                  |                  |                  | 2013             |                  |                  |                  |
|                                    | U.S. dollar        | Other currencies | Nuevos Soles     | Total            | U.S. dollar      | Other currencies | Nuevos Soles     | Total            |
| Other liabilities .....            | 38,740             | -                | 3,830            | 42,570           | 35,932           | -                | 13,995           | 49,927           |
| <b>Total</b> .....                 | <b>4,699,599</b>   | <b>515,062</b>   | <b>1,981,783</b> | <b>7,196,444</b> | <b>3,091,714</b> | <b>536,548</b>   | <b>1,960,133</b> | <b>5,588,395</b> |
| Forward position .....             | -                  | -                | -                | -                | 14,017           | -                | (14,07)          | -                |
| Currency swaps position, net.....  | (529,022)          | 481,300          | 47,722           | -                | (456,491)        | 499,225          | (42,734)         | -                |
| <b>Monetary position, net.....</b> | <b>(286,310)</b>   | <b>8,578</b>     | <b>2,746,982</b> | <b>2,469,250</b> | <b>(269,236)</b> | <b>10,193</b>    | <b>2,678,216</b> | <b>2,419,172</b> |

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

|   | As of December 31, |                  |                  |                  |                  |                  |                  |                  |
|---|--------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
|   | 2013               |                  |                  |                  | 2012             |                  |                  |                  |
|   | U.S. dollar        | 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          |
| <b>Assets:</b>                                      |                    |                  |                  |                  |                  |                  |                  |                  |
| Cash .....  | 121,057            | 9,109            | 114,568          | 244,734          | 163,110          | 5,896            | 89,917           | 258,923          |
| Available-for-sale investments, net .....           | 279,269            | 37,073           | 2,781,800        | 3,098,141        | 229,552          | 33,573           | 2,834,328        | 3,097,453        |
| Loan portfolio, net .....                           | 2,851,162          | -                | 1,794,849        | 4,646,011        | 1,966,371        | -                | 1,451,250        | 3,417,621        |
| Hedging derivatives .....                           | 263                | 1,332            | 2,302            | 3,897            | 636              | 1,692            | -                | 2,328            |
| Accounts receivable .....                           | 12,580             | 2                | 1,363            | 13,945           | 22,180           | -                | 828              | 23,008           |
| Other assets.....                                   | 621                | -                | 218              | 839              | 660              | -                | 195              | 855              |
| <b>Total</b> .....                                  | <b>3,264,952</b>   | <b>47,516</b>    | <b>4,695,099</b> | <b>8,007,567</b> | <b>2,382,509</b> | <b>41,161</b>    | <b>4,376,518</b> | <b>6,800,188</b> |
| <b>Liabilities:</b>                                 |                    |                  |                  |                  |                  |                  |                  |                  |
| Obligations to the public...                        | 3,455              | -                | 68,771           | 72,226           | 433              | -                | 19,492           | 19,925           |
| Deposits by banks and financial organizations ..... | -                  | -                | 188,634          | 188,634          | -                | -                | -                | -                |
| Debts and financial obligations .....               | 1,617,225          | 536,660          | 953,774          | 3,107,689        | 900,060          | 547,341          | 888,062          | 2,335,463        |
| Debt securities .....                               | 1,429,852          | (112)            | 658,249          | 2,087,989        | 1,301,604        | (55)             | 561,505          | 1,863,054        |
| Hedging derivatives .....                           | 5,200              | -                | 69,613           | 74,813           | 5,478            | -                | 57,126           | 62,604           |
| Accounts payable.....                               | 20                 | -                | 7,097            | 7,117            | 3,872            | -                | 7,329            | 11,201           |
| Other liabilities .....                             | 35,932             | -                | 13,995           | 49,927           | 28,312           | -                | 4,764            | 33,076           |
| <b>Total</b> .....                                  | <b>3,091,714</b>   | <b>536,548</b>   | <b>1,960,133</b> | <b>5,588,395</b> | <b>2,239,759</b> | <b>547,286</b>   | <b>1,538,278</b> | <b>4,325,323</b> |
| Forwards position, net.....                         | 14,017             | -                | (14,017)         | -                | -                | -                | -                | -                |
| Currency swaps position, net.....                   | (456,491)          | 499,225          | (42,734)         | -                | (353,404)        | (159,664)        | 513,068          | -                |
| <b>Monetary position, net.....</b>                  | <b>(269,236)</b>   | <b>10,193</b>    | <b>2,678,216</b> | <b>2,419,172</b> | <b>(210,654)</b> | <b>(665,789)</b> | <b>3,351,308</b> | <b>2,474,865</b> |

### Capital Expenditures

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

For 2014, we invested S/. 8.5 million in our information technology systems. We expect to invest S/. 10.0 million in our information technology systems for the remainder of 2015.

## **Risk Management**

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

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

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

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

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

#### **(i) Board of directors**

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

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

#### **(ii) Risk committee**

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

#### **(iii) Audit Committee**

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

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

(iv) Assets and liabilities committee

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

(v) Management committee

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

(vi) Presidency

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

(vii) Chief Executive Officer - CEO

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

(viii) Internal audit unit

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

(ix) Risk Office

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

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

**(i) Credit risk**

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

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

**(ii) Market risk**

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

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

We make some assessments based on the following:

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

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

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

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

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

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

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

(iv) Liquidity risk

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

**(c) Risks concentration**

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

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

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

- Limits to the exposure of subsystems of IFIs of relatively higher risk.
- Limits to the exposure of IFIs of relatively higher risk.

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

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

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

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

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

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

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

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

**Off-Balance Sheet Arrangements**

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

|   | <b>As of December 31,</b> |                  |                  |
|---|---------------------------|------------------|------------------|
|   | <b>2014</b>               | <b>2013</b>      | <b>2012</b>      |
| <b>Contingent accounts:</b>             | <b>(\$/ in thousands)</b> |                  |                  |
| Swap and forward .....                  | 596,043                   | 642,920          | 654,251          |
| Joint signature granted .....           | 658,468                   | 536,684          | 462,523          |
| Other contingent accounts.....          | 20,890                    | 22,136           | 29,583           |
| <b>Total contingent operations.....</b> | <b>1,275,401</b>          | <b>1,201,740</b> | <b>1,146,357</b> |
| <b>Off-balance sheet accounts:</b>      |                           |                  |                  |
| Guarantees received (1) .....           | 13,815,593                | 12,533,046       | 10,317,010       |
| Trusts .....                            | 16,324,205                | 13,655,646       | 11,054,366       |
| Nominal value interest rate swap .....  | 40,311                    | 46,118           | 470,475          |

|  | As of December 31, |                   |                   |
|--|--------------------|-------------------|-------------------|
|  | 2014               | 2013              | 2012              |
| Other off-balance sheet accounts .....                               | 8,552,481          | 6,703,851         | 5,985,485         |
| <b>Total off-balance sheet accounts .....</b>                        | <b>38,732,590</b>  | <b>32,938,661</b> | <b>27,827,336</b> |
| <b>Total contingent accounts and off-balance sheet accounts.....</b> | <b>40,007,991</b>  | <b>34,140,401</b> | <b>28,973,693</b> |

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

## Guarantee Agreements

We provide guarantees to banks or financial intermediaries that are involved in the development of infrastructure and environmental projects. These guarantees support the financing of the project in case the intermediary bank needs additional funding. In the event of default by the project borrower, we may be required to honor these guarantees. If that happens, the operations would be recorded as a cash outflow and an increase in loans and the revenues would be recognized as payments are collected. As of March 31, 2015, we acted as a guarantor of third party obligations in the following transactions:

| Project with Guarantee                          | Amount<br>(S/. in<br>thousands) | Term (years<br>& months) | Initial date | Maturity date |
|---|---------------------------------|--------------------------|--------------|---------------|
| Aventura Plaza S.A.....                         | 32,516                          | 13y                      | 08/23/2012   | 05/23/2021    |
| Enersur .....                                   | 139,072                         | 10y                      | 06/04/2012   | 06/4/2020     |
| Kallpa Generación .....                         | 59,835                          | 10y, 8m                  | 06/04/2010   | 02/12/2021    |
| Hidroeléctrica Santa Cruz.....                  | 38,607                          | 10y                      | 12/20/2012   | 12/20/2022    |
| Impala.....                                     | 62,571                          | 8y, 7m                   | 12/12/2011   | 07/12/2020    |
| Cerro del Aguila - FMO.....                     | 72,606                          | 12y                      | 08/17/2012   | 08/16/2024    |
| Pegaco .....                                    | 23,216                          | 3y                       | 12/02/2014   | 12/26/2017    |
| Revolutions.....                                | 10,774                          | 6y, 2m                   | 02/23/2012   | 04/10/2018    |
| Línea de Transmisión<br>Moyobamba Iquitos ..... | 92,865                          | 1y                       | 10/06/2014   | 10/06/2015    |
| Red Vial 6.....                                 | 30,285                          | 10y                      | 08/19/2010   | 08/19/2020    |
| <b>Total.....</b>                               | <b>562,346</b>                  | -                        | -            | -             |

## Hedging Derivatives

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

The following table shows the position of asset, liability and net position of our derivative financial instruments as of March 31, 2015 and 2014. All our derivative operations are classified as hedging (recognizing changes in fair value in our equity until realized).

| As of March 31, 2015    |                  |          |           |           |                  |             |               |                                  |          |
|-------------------------|------------------|----------|-----------|-----------|------------------|-------------|---------------|----------------------------------|----------|
| Description             | No.<br>Operation | Position |           |           | Accrued interest |             | Fair<br>value | Unrealized<br>profit /<br>(loss) | Realized |
|                         |                  | Asset    | Liability | Net       | Assets           | Liabilities |               |                                  |          |
|                         |                  | S/.000   | S/.000    | S/.000    | S/.000           | S/.000      | S/.000        | S/.000                           | S/.000   |
| Currency<br>swaps - Yen | 4                | 349,768  | 502,741   | (152,973) | 269              | 1,982       | (154,585)     | 101                              | -        |



**As of March 31, 2015**

| <b>Description</b>                    | <b>No. Operation</b> | <b>Position</b> |                  |            | <b>Accrued interest</b> |                    | <b>Fair value</b> | <b>Unrealized profit / (loss)</b> | <b>Realized</b> |
|---------------------------------------|----------------------|-----------------|------------------|------------|-------------------------|--------------------|-------------------|-----------------------------------|-----------------|
|                                       |                      | <b>Asset</b>    | <b>Liability</b> | <b>Net</b> | <b>Assets</b>           | <b>Liabilities</b> |                   |                                   |                 |
| coverage / US\$                       |                      |                 |                  |            |                         |                    |                   |                                   |                 |
| <b>Currency swaps - Coverage</b>      | 4                    | 349,768         | 502,741          | (152,973)  | 269                     | 1,982              | (154,585)         | 101                               | -               |
| <b>Interest rate Swaps - Coverage</b> | 1                    | 619,200         | 619,200          | -          | 3,179                   | 2,506              | 5,685             | 7,372                             | -               |
|                                       |                      |                 |                  | -          | 3,179                   | 2,506              | 5,685             | 7,372                             | -               |

**As of March 31, 2014**

| <b>Description</b>                    | <b>No. Operation</b> | <b>Position</b> |                  |            | <b>Accrued interest</b> |                    | <b>Fair value</b> | <b>Unrealized profit / (loss)</b> | <b>Realized</b> |
|---------------------------------------|----------------------|-----------------|------------------|------------|-------------------------|--------------------|-------------------|-----------------------------------|-----------------|
|                                       |                      | <b>Asset</b>    | <b>Liability</b> | <b>Net</b> | <b>Assets</b>           | <b>Liabilities</b> |                   |                                   |                 |
|                                       |                      | S/.000          | S/.000           | S/.000     | S/.000                  | S/.000             | S/.000            | S/.000                            | S/.000          |
| Currency swaps - Yen coverage / US\$  | 16                   | 542,518         | 621,991          | (79,473)   | 516                     | 1,769              | (56,489)          | 24,237                            | -               |
| Currency swaps - US\$ coverage / S/.  | 3                    | 119,215         | 128,845          | (9,630)    | 265                     | 1,161              | (11,304)          | (778)                             | -               |
| <b>Currency swaps - Coverage</b>      | 19                   | 661,733         | 750,836          | (89,103)   | 781                     | 2,930              | (67,793)          | 23,459                            | -               |
| <b>Interest rate Swaps - Coverage</b> | 1                    | 42,120          | 42,120           | -          | 16                      | 157                | (2,315)           | (2,174)                           | -               |
|                                       |                      |                 |                  | -          | 16                      | 157                | (2,315)           | (2,174)                           | -               |

We had 4 and 19 cross-currency swap operations with various foreign entities as of March 31, 2015 and March 31, 2014, respectively. With respect to loans denominated in yen, fluctuations in exchange rates between Yen/US\$ have been hedged by currency swaps of S/. 502.7 million and S/. 622.0 million as of March 31, 2015 and 2014, respectively. To obtain funding in local currency at competitive fixed rates, currency swaps were carried out for US\$/S/. with balances of S/. 128.9 million as of March 31, 2015. We also had a forward currency agreement for an amount of S/. [14.0] million as of March 31, 2015, in order to fund medium-term working capital loans in *nuevos soles*.

To cover our positions from changes in interest rates, we carry out interest rate swap operations. We had 1 interest rate swap operation with different foreign entities as of March 31, 2015 and 2014. Our interest rate swap balance was S/. 619.2 million as of March 31, 2015 compared to S/. 42.1 million as of March 31, 2014.

## **Critical Accounting Policies**

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

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

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

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

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 of the Financial and Insurance Systems and Organic Law of the SBS – Law No. 26702 (*Ley General del Sistema Financiero y del Sistema de Seguros y Orgánica de la Superintendencia de Banca, Seguros y Administradora de Pensiones*). 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.

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

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

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

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

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

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

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

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

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

#### *Types of loans*

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

#### *Categories of classification*

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

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

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

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

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

Additionally, in compliance with Resolutions SBS No. 041-2005, we assess our exposure to credit exchange risks for loans in foreign currency and record provisions for such risks as required by the SBS. We

use the aforementioned criteria to constitute the specific provision of accounts receivable for transferred loan portfolio, included in “Other assets”.

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

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

#### *Pro-cyclical component*

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

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

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

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

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

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

### ***Financial instruments***

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Deferred income tax corresponds to the amount of tax 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 we 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 we have enough future taxable profit in order to recover all, or a portion, of such assets.

Deferred income tax assets and liabilities are determined using the tax rates expected to be applied when the asset is recovered or the liability settled, based on approved tax rates and laws, 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 and loss, and included in the determination of net income or loss for the year, except when they relate to items recognized directly in equity accounts, in which case, current income and deferred tax is also recognized directly in equity.

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

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

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

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

### ***Investments***

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

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

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

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

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

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

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

According to the Regulation of Classification and Valuation of Investments of Financial Entities, 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, are not likely to have a determined estimated fair value of the investment and considering Official Letter N° 45853-2012 – SBS issued by the SBS on December 5, 2012 stating the treatment for investments based on IFRS and authorizing the use of the value determined at cost as of December 31, 2012, we have reclassified this investment as “Available for sale investments”, considering the last value in records by us as cost value, reported to the SBS as of December 31, 2012.

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

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

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