

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

**Independent Auditors' Report**

**Financial Statements**

As of December 31,  
2015 and 2014

(English translation of the financial  
statements originally issued in  
Spanish)

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

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## INDEPENDENT AUDITORS' REPORT

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

1. We have audited the accompanying financial statements of **Corporación Financiera de Desarrollo S.A. – COFIDE** (hereinafter COFIDE or Bank), which comprises the statements of financial position as of December 31, 2015 and 2014, and the statements of income, income and other comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

### Management's Responsibility for the financial statements

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

### Auditor's Responsibility

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

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## Opinion

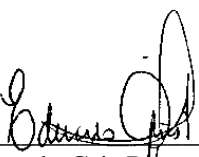
6. In our opinion, the financial statements mentioned above, present fairly, in all material respects, the financial position of **Corporación Financiera de Desarrollo S.A. - COFIDE** as of December 31, 2015 and 2014, its financial performance and its cash flows for the years then ended, in accordance with accounting principles generally accepted in Peru for financial entities.

## Other matters

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

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

Countersigned by:

  
\_\_\_\_\_  
Eduardo Gris Pereovich (Partner)  
CPC Registration N° 12159

February 26, 2016

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

**STATEMENTS OF FINANCIAL POSITION**

**AS OF DECEMBER 31, 2015 AND 2014**

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

	<u>Notes</u>	<u>2015</u>	<u>2014</u>		<u>Notes</u>	<u>2015</u>	<u>2014</u>
		S/.000	S/.000			S/.000	S/.000
<b>Asset</b>				<b>Liability</b>			
Cash	5	1,956,711	523,682	Obligations to the public	10	32,564	47,557
Available for sale investments	6	4,142,867	3,890,233	Deposits by Banks and financial organizations	10	224,944	195,469
Loan portfolio, net	7	7,309,996	5,194,747	Debt securities	11	10,179,121	6,745,726
Hedging derivatives	9	3,657	-	Hedging derivatives	12	149,748	155,699
Accounts receivable, net	9	73,435	56,409	Accounts payable	12	12,356	9,423
Assets seized, received in payment, awarded	9	13,032	78	Provisions	12	51,407	55,760
Property, furniture and equipment, net	8	12,579	13,148	Deferred income tax	18	191,087	249,697
Intangible asset, net	9	6,253	7,319	Other liabilities	12	3,185	1,079
Tax receivable	18	21,112	25,306				
Other assets	9	5,588	3,922	<b>Total liability</b>		<u>10,844,412</u>	<u>7,460,410</u>
				<b>Equity</b>			
				Capital stock	13 (a)	1,548,419	1,548,419
				Additional paid in capital	13 (b)	466,979	84
				Treasury shares	13 (a)	(15,640)	(15,640)
				Legal reserves	13 (c)	295,057	287,346
				Retained earnings	13 (d)	21,742	21,742
				Net income for the year		82,341	77,105
				Other comprehensive income	13 (d)	301,920	335,378
				<b>Total equity</b>		<u>2,700,818</u>	<u>2,254,434</u>
<b>Total assets</b>		<u>13,545,230</u>	<u>9,714,844</u>	<b>Total liability and equity</b>		<u>13,545,230</u>	<u>9,714,844</u>
<b>Contingent and off-balance sheet accounts</b>							
Contingent risks and commitments	14	788,797	679,358				
Trusts, trust commissions	14	28,462,552	24,869,775				
Off-balance sheet accounts	14	17,585,552	13,822,504				
Swaps and forwards	14	1,067,096	636,354				
		<u>47,903,997</u>	<u>40,007,991</u>				

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

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

### **STATEMENTS OF INCOME**

**FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

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

	<b>2015</b>	<b>2014</b>
	<b>S/.000</b>	<b>S/.000</b>
<b>Interest income</b>		
Direct loan portfolio	448,860	372,318
Available for sale investments	99,615	69,355
Cash	10,715	4,999
<b>Total</b>	<b>559,190</b>	<b>446,672</b>
<b>Interest expenses</b>		
Obligations to the public	(2,729)	(3,151)
Deposits by Banks and financial organizations	(7,467)	(11,482)
Debts and financial obligations		
Debts and obligations to local financial entities	(46,432)	(46,362)
Debts and obligations to foreign financial entities and international financial organizations	(38,519)	(38,946)
Other debts and obligations in the country and abroad	(1,870)	(4,529)
Commissions and other charges from debts and financial obligations	(6,816)	(8,382)
Securities, bonds and outstanding obligations	(249,634)	(136,971)
Payable interests	(1,425)	(34)
Net loss from hedging transactions	(3,717)	(18,765)
<b>Total</b>	<b>(358,609)</b>	<b>(268,622)</b>
<b>Gross financial margin</b>	<b>200,581</b>	<b>178,050</b>
Provisions for loan losses	(18,798)	17,448
<b>Net financial margin</b>	<b>181,783</b>	<b>195,498</b>
Income from financial services		
Income from indirect loans	9,330	9,487
Income from trusts and trust commissions	27,320	21,732
Sundry income	573	27
	<b>37,223</b>	<b>31,246</b>
Expenses for financial services		
Expenses for trusts and trust commissions	(63)	(17)
Sundry expenses	(4,119)	(3,457)
	<b>(4,182)</b>	<b>(3,474)</b>
Net financial margin of income and expenses for financial services	214,824	223,270
Profit/loss from financial operations		
Available for sale investments	2,682	(4,187)
Net loss from hedging operations	(24,051)	(66,310)
Earning from exchange difference	2,683	48,087
Others	2,258	599
	<b>(16,428)</b>	<b>(21,811)</b>
<b>Operating margin</b>	<b>198,396</b>	<b>201,459</b>

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

### **STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 Expressed in thousands of nuevos soles (S/.000)**

	<u>Notes</u>	<u>2015</u> <u>S/.000</u>	<u>2014</u> <u>S/.000</u>
<b>Administrative expenses, depreciation and amortization:</b>			
Personnel and Board of Directors' expenses	<b>15</b>	(40,230)	(41,138)
Expenses for services received from third parties	<b>16</b>	(26,939)	(22,867)
Taxes and contributions		(5,169)	(5,230)
Depreciation and amortization		<u>(4,281)</u>	<u>(2,949)</u>
Total		<u>(76,619)</u>	<u>(72,184)</u>
<b>Net operating margin</b>		<u>121,777</u>	<u>129,275</u>
<b>Net valuation of assets and provisions</b>			
Provisions for indirect loans	<b>7 (c)</b>	4,888	6,030
Provisions for impairment of accounts receivable	<b>9 (b)</b>	928	(2,420)
Provision for seized goods, received in payment, recovered and awarded, and others		(3,239)	1,513
Impairment of investments		(6,473)	-
Provisions for lawsuits and claims		(423)	(950)
Other provisions		<u>(36,949)</u>	<u>(10,918)</u>
<b>Operating profit</b>		80,509	122,530
Other income and expenses		<u>1,325</u>	<u>(16,450)</u>
<b>Profit before income tax</b>		81,834	106,080
Income tax	<b>18</b>	<u>507</u>	<u>(28,975)</u>
<b>Net income for the year</b>		<u>82,341</u>	<u>77,105</u>
Basic and diluted earnings per share in nuevos soles (S/.)	<b>17</b>	0.0532	0.0504

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

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

### **STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

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

	<b><u>2015</u></b>	<b><u>2014</u></b>
	<b>S/.000</b>	<b>S/.000</b>
<b>Net income for the year</b>	82,341	77,105
Other comprehensive income (loss):		
Available for sale investments	(65,459)	27,972
Cash flow hedges	7,761	(18,259)
<b>Other comprehensive income (loss) gain for the year</b>	(57,698)	9,713
Income tax related to components of other comprehensive income:		
Available for sale investments	18,328	(7,453)
Cash flow hedges	(2,173)	5,770
Adjustment for tax change related to deferred income tax - CAF investments	8,085	8,085
<b>Effect of income tax related to components of other comprehensive income</b>	24,240	6,402
Total other comprehensive income (loss)	(33,458)	16,115
<b>Total comprehensive income for the year, net of income tax</b>	48,883	93,220

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



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

**STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

Expressed in thousands of nuevos soles (S/000)

	Adjustments to equity										
	Capital stock	Additional paid in capital	Treasury shares	Legal reserves	Retained earnings	Net income for the year	Investments in equity	Cash flow hedging	Share in other comprehensive income of CAF investments	Total adjustment to equity	Total
							instruments at fair value				
S/000	S/000	S/000	S/000	S/000	S/000	S/000	S/000	S/000	S/000	S/000	
Note 13(a)	Note 13(b)	Note 13(a)	Note 13(c)	Note 13(d)		Note 13(d)	Note 13(d)	Note 13(d)	Note 13(d)		
<b>Balances as of January 1, 2014</b>	1,514,402	-	(15,640)	279,708	21,742	76,381	13,276	23,005	282,982	319,263	2,195,856
Changes in equity:											
Comprehensive income:											
Net income for the year	-	-	-	-	-	77,105	-	-	-	-	77,105
Other comprehensive income	-	-	-	-	-	-	20,519	(12,489)	8,085	16,115	16,115
Total comprehensive income	-	-	-	-	-	77,105	20,519	(12,489)	8,085	16,115	93,220
Reclassification among equity accounts	15,640	(15,640)	-	7,638	68,743	(76,381)	-	-	-	-	-
Capital increase:											
Profit capitalization	10,205	-	-	-	(10,205)	-	-	-	-	-	-
Capital contribution	23,812	-	-	-	-	-	-	-	-	-	23,812
Issuance of capital shares	(15,640)	15,640	-	-	-	-	-	-	-	-	-
Cash dividends declared	-	-	-	-	(58,538)	-	-	-	-	-	(58,538)
Other changes in net equity	-	84	-	-	-	-	-	-	-	-	84
Total changes in equity	34,017	84	-	7,638	-	724	20,519	(12,489)	8,085	16,115	58,578
<b>Balances as of December 31, 2014</b>	1,548,419	84	(15,640)	287,346	21,742	77,105	33,795	10,516	291,067	335,378	2,254,434
Changes in equity:											
Comprehensive income:											
Net income for the year	-	-	-	-	-	82,341	-	-	-	-	82,341
Other comprehensive income	-	-	-	-	-	-	(47,131)	5,588	8,085	(33,458)	(33,458)
Total comprehensive income	-	-	-	-	-	82,341	(47,131)	5,588	8,085	(33,458)	48,883
Reclassification among equity accounts	-	-	-	7,711	69,394	(77,105)	-	-	-	-	-
Capital increase:											
Profit capitalization	-	10,409	-	-	(10,409)	-	-	-	-	-	-
Capital contribution	-	31,228	-	-	-	-	-	-	-	-	31,228
Debt capitalization	-	425,258	-	-	-	-	-	-	-	-	425,258
Cash dividends declared	-	-	-	-	(58,985)	-	-	-	-	-	(58,985)
Total changes in equity	-	466,895	-	7,711	-	5,236	(47,131)	5,588	8,085	(33,458)	446,384
<b>Balances as of December 31, 2015</b>	1,548,419	466,979	(15,640)	295,057	21,742	82,341	(13,336)	16,104	299,152	301,920	2,700,818

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

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

### **STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 Expressed in thousands of nuevos soles (S/000)**

	<b>2015</b>	<b>2014</b>
	<b>S/000</b>	<b>S/000</b>
Operating activities:		
Net income for the year	82,341	77,105
Adjustments		
Depreciation and amortization	4,281	2,949
Provision for loan portfolio	21,372	(14,810)
Other provisions	1,105	7,678
Provision for country risk	34,145	4,190
Deferred tax	(34,370)	96
Current income tax	33,863	28,880
Provisions for impairment of investments	6,473	-
Other adjustments	-	(28,957)
Net (increase) decrease in assets		
Loans	(2,051,973)	(464,432)
Available for sale investments	(325,017)	(764,121)
Accounts receivable and other accounts	(151,718)	(120,850)
Net (decrease) increase in liabilities		
Financial liabilities, unsubordinated debts	462,299	(293,975)
Accounts payable and others	70,158	85,819
Net cash used in operating activities	<u>(1,847,041)</u>	<u>(1,480,428)</u>
Investing activities:		
Purchases of property, furniture and equipment	(2,055)	(1,638)
Other proceeds relating to investment activities	-	9,436
Other payments relating to investment activities	(595)	(2,708)
Net cash provided by (used in) investment activities	<u>(2,650)</u>	<u>5,090</u>
Financing activities:		
Proceeds from issuance of equity instruments	31,228	23,812
Paid dividends	(58,985)	(58,538)
Other proceeds related to financing activities		
Deposits in financial entities and international financial organizations	32,316	4,984
Outstanding securities	3,312,306	1,788,218
Net cash provided by financing activities	<u>3,316,865</u>	<u>1,758,476</u>
Net increase (decrease) in cash and cash equivalents	1,467,174	283,138
Cash and cash equivalents at the beginning of the year	<u>527,872</u>	<u>244,734</u>
Cash and cash equivalents at the end of the year	<u><u>1,995,046</u></u>	<u><u>527,872</u></u>

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

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

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 In thousands of nuevos soles (S/.000), unless otherwise indicated herein**

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

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

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

In June 2015, FONAFE contributed with cash capital to subscribe treasury shares owned by COFIDE and increased its interest from 98% to 99%. As of December 31, 2015, those treasury shares have not been registered in public records yet and are presented in “Additional paid in capital” in the statement of changes in equity (Note 13(b)).

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

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

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

COFIDE’s legal address is Augusto Tamayo N° 160, San Isidro and the number of personnel (Managers, officers and employees) as of December 31, 2015 and 2014 was 194 and 193, respectively.

#### ***(b) Approval of financial statements***

The financial statements for the year ended December 31, 2015, prepared in accordance with generally accepted accounting principles in Peru (GAAP in Peru) applicable to financial entities, were authorized for issuance by COFIDE’s Management on January 15, 2016. These financial statements shall be submitted for approval to the Board of Directors and then to the Shareholders’ Meeting. COFIDE’s Management believes that the financial statements, included herein, will be approved by the Board of Directors and the Shareholders’ Meeting without further amendments. The financial statements for the year ended December 31, 2014, prepared

in accordance with GAAP in Peru for financial entities, were approved at the Shareholders' Meeting held on March 31, 2015.

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

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

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

*(a) Statement of compliance*

Financial statements are prepared and presented in accordance with legal regulations and GAAP in Peru applicable to financial entities, which comprise accounting standards and practices authorized by the SBS by virtue of the authority conferred to it by the General Law. The standards mentioned below are included in the Accounting Manual for Financial Entities (hereinafter the Accounting Manual), approved by Resolution SBS No. 895-1998 dated September 1, 1998 and its amendments; the last amendment was Resolution SBS No. 7036-2012 dated September 19, 2012.

The SBS has established that in the event that certain situations are not addressed by such standards, the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and rendered official by the Consejo Normativo de Contabilidad (Peruvian Accounting Standards Board – CNC), shall be applicable.

GAAP in Peru comprise: Standards and Interpretations issued or adopted by the International Accounting Standards Board (IASB), which include International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), and the Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) or by the former Standing Interpretations Committee (SIC) adopted by the IASB, and rendered official by the Accounting Standards Board (CNC) for their application in Peru.

The following standards and interpretations have been published and are applicable to periods beginning after the date of presentation of these financial statements:

- IFRS 9 Financial Instruments. For annual periods beginning on or after January 1, 2017.
- IFRS 14 Regulatory Deferral Accounts. Effective for the first annual financial statements under IFRS, with annual periods beginning on or after January 1, 2016.
- IFRS 15 Revenue from Contracts with Customers. Effective for annual periods beginning on or after January 1, 2018.
- IFRS 16 Leases. Effective for annual periods beginning on or after January 1, 2019.
- Amendments to IFRS 11 Joint Arrangements. Effective for annual periods beginning on or after January 1, 2016.
- Amendments to IAS 1 Presentation of Financial Statements. Effective for annual periods beginning on or after January 1, 2016.
- Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization. Effective for annual periods beginning on or after January 1, 2016.

- Amendments to IAS 27 Equity Method in Separate Financial Statements. Effective for annual periods beginning on or after January 1, 2016.
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture. The effective application date for these amendments has been deferred indefinitely.
- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception. Effective for annual periods beginning on or after January 1, 2016.

Due to the fact that the standards mentioned above only apply in a supplementary manner to the standards developed by the SBS, they will not have any significant effect in the preparation of the accompanying financial statements, unless the SBS adopts them in the future through the amendment of the Accounting Manual.

***Pronouncements issued by the Accounting Standards Board (CNC)***

By virtue of Resolution CNC No. 059-2015-EF/30, issued by Peru's official gazette "El Peruano" on August 11, 2015, the 2015 version of the International Financial Reporting Standards (IAS, IFRS, IFRIC and SIC) was rendered official, according to the corresponding effective dates of each Standards, rendered official under such Resolution.

By virtue of Resolution No. 055-2014-EF/30, issued on July 24, 2014, the CNC approved to make official the 2014 version of the International Financial Reporting Standards (IAS, IFRS, IFRIC and SIC), according to the corresponding effective dates of each Standard, rendered official under such Resolution.

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

Management and the Board of Directors of COFIDE are responsible for the information contained in these financial statements. For their preparation, certain estimates have been made to quantify some assets, liabilities, revenues, expenses and commitments recorded therein based on experience and other relevant factors. Final results could differ from those estimates.

Accounting estimates and assumptions are reviewed on an ongoing basis. Changes in accounting estimates are prospectively recognized by recording the effects of changes in the corresponding income accounts for the year when the corresponding reviews are conducted.

Critical estimates used in connection with the preparation of COFIDE's financial statements include:

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

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

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

#### ***(a) Changes in accounting estimates***

In accordance with the statements made by COFIDE's Management in 2015, no adjustments have been made as a result of the harmonization with IFRS, nor due to accounting errors that require the application of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors".

In 2014, due to changes in some standards, COFIDE made the following changes in accounting estimates:

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

On November 27, 2014, the SBS issued Circular Letter No. B-2224-2014, which establishes that, as of November 1, 2014, the procyclical factor of the provision for impaired loans has been deactivated (see Note 3 (e)).

- Changes in rates for the determination of income tax

As of December 31, 2014, Income Tax Law modified the tax on third category income recipients domiciled in the country over their net income. The effect of this event on the financial statements as of December 31, 2014 was the increase of deferred income tax revenue in equity for (in thousands) S/9,316 and the decrease of deferred income tax revenue in the statement of income for (in thousands) S/8,520, respectively (see Note 18 (g)).

#### ***(b) Preparation and presentation currency***

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

#### ***(c) 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 classified either as financial asset or liability are recorded as income or expense in the statement of income.

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

Financial assets and liabilities presented in the statement of financial position correspond to: cash funds, available for sale investments, loan portfolio, receivables, obligations to the public, deposits by banks and international financial organizations, debts and financial obligations, securities, bonds and outstanding obligations, payables, provisions for contingent loans. Additionally, all derivative products and operations in process, included in other assets and liabilities, are considered financial instruments.

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

***(d) Derivative financial instruments***

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

COFIDE classifies and records derivative financial instruments in accordance with the provisions set forth in the Accounting Manual and Resolution SBS 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 the trading date, derivatives should be classified under one of the following two categories for their accounting record: (a) derivative financial instruments for trade, or (b) derivative financial instruments for hedging. Derivative financial instruments for trade are initially recorded at their fair value; subsequently, any change in the fair value of such derivative shall affect the results for the period. Regarding derivative financial instruments for hedging, certain 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 and subsequently accounted at fair value.

Future cash flow hedging is recorded as hedging derivatives in asset and liability, as applicable, in the statement of financial position and are presented at fair value. To the extent such hedges are effective to offset the exchange and/or interest rate risk, changes in fair value are directly recorded in item “Adjustments to Equity” in the equity account. These amounts are transferred to the statement of income for the period when the financial liability is liquidated, and are presented in the statement of income under derivative financial instruments.

Regardless of the type of hedging financial instrument, those instruments should be evaluated regularly and considered as highly effective in a range between 80% and 125% to reduce the risk associated to the exposure being covered. In case the hedging does not continue to be effective, changes in fair value, as from that moment, 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 rates. Gains and losses for changes in fair value are recorded in the statement of income.

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

***(e) Loan portfolio and provision for loan losses***

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

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

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

### ***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, his cash flow, the level of compliance with its obligations, the classification assigned by other financial entities, the debtor's financial position and the quality of the customer's direction, while in order for the retail loan portfolio (small business, micro-business, consumer (revolving and 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***

The provision for impaired loan portfolio is determined in accordance with criteria and percentages set forth in Resolution SBS No. 11356-2008 "Regulations for the Evaluation and Classification of Debtors and Required Provisions". The type of loans, guarantees granted and the categories of classification of the debtor are considered for its calculation.

In accordance with standards in force, COFIDE makes two classes of provisions for loan portfolio: general and specific provisions.

General provisions include those established, as precaution, for debtors classified as normal in accordance with the requirements of the SBS and also the procyclical component when the SBS confirms its application (this component has been deactivated since November 2014 by virtue of Circular Letter No. B-2224-2014); as well as general voluntary provisions.

Pursuant to internal policies, and as permitted by the SBS, COFIDE establishes voluntary general provisions for the loan portfolio, whose level depends on the assessment conducted by Management on the conditions of the macroeconomic variables of the country and their impact on IFIs and debtors in general (Note 7). In this regard, the document "Guidelines for the assignment of voluntary provisions" (hereinafter the "Guidelines"), approved by COFIDE's Board of Directors on November 25, 2015, consolidates the Board of Directors' Agreements No. 066-2005, No. 003-2007 and No. 095-2010 and establishes the effectiveness of the assignment of voluntary provisions, considering the following order of priority:

- (a) For credit risk derived from exchange rate risk (RCDR): calculated based on the classification for RCDR, obtained by each final debtor and IFIs every six months.



- (b) For final debtors of business, special or structured financing: calculated based on the classification of the final debtor and provision rates associated to each classification of the table shown as follows:

<u>Classification</u>	<u>Minimum rate for voluntary provision</u>
Normal	0.70%
With potential problems	5.00%
Substandard	25.00%
Doubtful	60.00%
Loss	100.00%

- (c) For assigned portfolio: calculated based on the loan balance in the assigned portfolio, classified as substandard, doubtful, loss, restructured or refinanced.

- (d) For subsystems of financial institutions: calculated based on net loans of guarantees granted by rural loan and savings institutions, municipal loan and savings institutions, Edpymes (Development entity for small and micro-businesses), financial entities, leasing companies, cooperatives and banks:

<u>Subsystem</u>	<u>Provision percentage up to</u>
Rural saving institutions	50%
Municipal saving institutions	30%
Micro and small enterprise development entities	30%
Financial entities	30%
Leasing companies	30%
Cooperatives	40%
Banks	35%

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

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

Additionally, in compliance with Resolution SBS No. 041-2005, which approves the Regulations for Credit Exchange Risk Management, COFIDE assesses the exposure to credit exchange risks for loans in foreign currency and records provisions as required by the SBS.

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

As of December 31, 2015 and 2014, general and specific provisions are determined according to the SBS. Minimum required percentages for provisions constitution are as follows:

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

### ***Procyclical component***

Procyclical provisions are required for loan portfolio in normal risk category. This represents an additional component to the aforementioned general provision rate and its recording is done as long as the “procyclical standard” is activated.

The provision for “procyclical standard” is deactivated since November 2014, in accordance with Circular Letter No. B-2224-2014 dated November 27, 2014 issued by the SBS. Such Letter indicates that procyclical provisions can be reassigned to cover new debtors’ provisions. As of December 31, 2015 and 2014, COFIDE maintains a level of procyclical provisions reassigned to specific provisions for (in thousands) S/.22,542.

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

The provision for uncollectible risk of loan contracts is held at a level which, in opinion of COFIDE’s Management, is sufficient to cover potential losses in loan portfolio as of the date of the statement of financial position.

### ***(f) Investments***

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

COFIDE holds investments within the following categories:

#### ***(f.1) 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 or held-to-maturity investments. The valuation is made at fair value and the gain or loss generated by the changes in the fair value is recognized in the stockholders’ equity until the instrument is sold

or realized, when it is transferred to the statement of income for the period, except for impairment losses that are recorded in the statement of income.

Regarding available for sale investments, gains related to the amortized cost of representative debt instruments will affect the income for the period. Representative equity instruments will be recognized in equity accounts.

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

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

According to IAS 39 and the Regulation for the Classification and Valuation of Investments of Financial Entities, Resolution No. 7033-2012-SBS, 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 framework 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 No. 45853-2012-SBS, issued by the SBS on December 5, 2012, stating the treatment of investments based on IFRS, COFIDE holds this investment as “Available for sale investments”, considering the last value recorded by COFIDE as cost value, reported by COFIDE to the SBS as of December 31, 2012.

***(g) Property, furniture and equipment***

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

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

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

The estimated useful lives, residual values and depreciation methods are reviewed in order to evaluate possible relevant changes in previous expectations or in the expected pattern of consumption of future economic benefits incorporated to assets, progressively incorporating the effects of any change in these estimates on net income or loss for the period in which they occur.

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

**(h) *Foreclosed, received and awarded goods***

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

Also, COFIDE shall establish the following provisions on these assets:

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

**(i) *Intangible assets***

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

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

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

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

**(j) *Impairment loss***

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

**(k) *Deposits by Banks and financial organizations., and debt securities***

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

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

***(l) 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 for net taxable income for the year.

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

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

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

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

***(m) Employees' benefits***

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

***(m.1) Employees' profit-sharing***

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

***(m.2) Vacations***

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

***(m.3) Severance or seniority indemnities***

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

***(n) Provisions***

Provisions are recognized when COFIDE has a present obligation (legal or constructive) as a result of past events, it is probable that COFIDE will be required to dispose of resources, which include economic benefits, in order to settle such obligation and a reliable estimate of the amount can be made.

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

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

***(o) Contingent assets and liabilities***

Contingent liabilities are not recognized in the financial statements, but are only disclosed in a note thereto. When the possibility of an outflow of resources to cover a contingent liability is remote, such disclosure is not required.

Contingent assets are not recognized in the financial statements, but are only disclosed in a note to the financial statements when it is probable that an inflow of resources will occur.

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.

***(p) Dividend distribution***

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

***(q) Income and expense recognition***

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

Commissions for trust services are recognized as income as accrued.

Other income and expenses are recorded for the year when accrued.

**(r) Trust activity**

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

**(s) Foreign currency**

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

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

**(t) Earnings per share**

Earnings per share are calculated by dividing net earnings from shareholders by weighted averages of outstanding shares during the period. For shares generated by capitalization of earnings, it is considered, for the calculation of the weighted average that said shares were always outstanding during the year. As of December 31, 2015 and 2014, COFIDE does not have financial instruments with dilutive effects; therefore basic and diluted earnings per share are the same (Note 17).

**(u) Cash and cash equivalents**

Regarding cash and cash equivalents, COFIDE applies the indirect method in accordance with the requirements set forth in IAS 7 – “Statement of cash flows”. Cash and cash equivalents include the balance of Cash and Demand deposits held in banks.

**(v) Other comprehensive income**

As of December 31, 2015 and 2014, the components of the statement of income and other comprehensive income comprise profit or loss for available for sale investments and cash flow hedges, net of their pertinent deferred income tax.

#### **4. ASSETS SUBJECT TO RESTRICTIONS**

As of December 31, 2015, COFIDE granted Structured Bonds of Terminales Portuarios Paita as guarantee for (in thousands) S/.24,246 in order to secure a repurchase agreement with Trust “FISE 1”, maturing in February 2016.

Also, as of December 31, 2015, COFIDE has guarantee funds for Margin Call in order to secure operations with interest-rate and currency derivatives held by COFIDE in favor of J. Aron & Company for (in thousands) US\$17,080.

As of December 31, 2014, COFIDE granted Structured Bonds of Terminales Portuarios Paita as guarantee for (in thousands) S/.30,448 in order to secure two repurchase agreements with Trusts “Credito Beca” and one operation with “FISE 1”, which matured in January, March and June 2015, respectively.

Also, as of December 31, 2014, COFIDE has guarantee funds for Margin Call in order to secure operations with interest-rate and currency derivatives held by COFIDE in favor of J. Aron & Company for (in thousands) US\$16,590.

## 5. CASH

	<u>2015</u>	<u>2014</u>
	<u>S/.000</u>	<u>S/.000</u>
Banco Central de Reserva del Perú - BCRP (a)	76,923	155,298
Checking accounts	1,912,123	372,235
Accrued interests from cash	5,936	275
Other deposits	64	64
Provision for country risks (b)	<u>(38,335)</u>	<u>(4,190)</u>
Total	<u>1,956,711</u>	<u>523,682</u>

- (a) As of December 31, 2015, in BCRP, balances include (in thousands) US\$1,640 and S/.11,636 ((in thousands) US\$888 and S/.3,246 as of December 31, 2014) corresponding to reserve requirements that financial entities incorporated in Peru shall maintain for deposits and obligations to third parties. These funds are deposited in the vault of COFIDE or the BCRP. Required reserve funds representing legal minimum do not generate interests. Required reserve funds of the additional required reserve shall be paid at an interest rate established by the BCRP. According to current legal provisions, required reserve funds cannot be seized.

As of December 31, 2015, in BCRP, balances include (in thousands) US\$17,500 (US\$35,800 and S/.42,500 as of December 31, 2014) for overnight deposits held in BCRP, which accrue interests at an annual effective rate of 0.2969% in foreign currency (0.1279% in foreign currency and 2.30% in local currency as of December 31, 2014). Overnight deposits accrued interests in 2015 for (in thousands) US\$29 and (in thousands) S/.73 ((in thousands) US\$12 and S/.87 in 2014), which are included in item “Interest income from cash” in the statement of income.

- (b) This item corresponds to provisions for country risk derived from term deposits held by COFIDE in foreign banks (which are subject to regulatory provision for country risk). Such deposits are held at the short term and the requirements for these provisions are expected to decrease gradually. These provisions are established in accordance with the SBS and internal policies of COFIDE about this matter.



## 6. AVAILABLE FOR SALE INVESTMENTS

	<u>2015</u>	<u>2014</u>
	S/.000	S/.000
CAF shares (Note 3 (f.2))	2,339,156	2,339,156
Mutual funds	203,811	314,981
Investment funds	48,372	20,266
Shares	2,520	2,561
Impairment of investments - Investment funds	(6,924)	-
	<u>2,586,935</u>	<u>2,676,964</u>
<b>Equity instruments</b>		
Structured bonds	1,159,113	823,548
Corporate bonds	257,307	262,877
Securitization bonds	58,798	45,786
Commercial papers	33,305	2,966
Structured bonds / repos	23,764	29,805
Subordinated bonds	2,584	2,377
Sovereign bonds	-	18,581
	<u>1,534,871</u>	<u>1,185,940</u>
Accrued interest	21,061	27,329
	<u>1,555,932</u>	<u>1,213,269</u>
<b>Debt instruments</b>		
Total	<u><u>4,142,867</u></u>	<u><u>3,890,233</u></u>

Investment in CAF was a contribution of the Peruvian Government between 1989 and 2000, as class “B” shares of the CAF. Class “B” shares have a nominal value of US\$5,000 each and entitle the owner to designate a representative in the Board of Directors. As of December 31, 2015 and 2014, COFIDE holds 97,951 class “B” shares representing 11.50% and 12.43% equity share in CAF, respectively.

Within the framework of IFRS harmonization and considering that CAF shares do not pay dividends in cash, do not have a public active market, that it is not likely to determine an estimated fair value of the investment and considering Official Letter No. 45853-2012-SBS, issued by the SBS, which establishes the treatment of investments based on IFRS, since January 1, 2013, COFIDE decided to record this investment under “Available for sale investments”, considering the equivalent of the last value recorded by COFIDE as cost value, which was reported by COFIDE to the SBS as of December 31, 2012 (Note 3 (f.2)).

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

As of December 31, 2015 and 2014, structured bonds / repos comprise bonds from Terminales Portuarios Paita, which were granted as guarantee of short-term financing provided by trusts managed by COFIDE (Note 10 (c)).

Management reviewed the carrying amount of its investments and recognized an impairment loss of investments of Fondo de Inversión Latam Perú for (in thousands) US\$2,030 as of December 31, 2015; notwithstanding the foregoing, after the determination of impairment of investments according to Resolution SBS No. 7033-2012, Management did not identify any

event or economic change that indicates that the value of its investments exceeds their recoverable amount as of December 31, 2015 and 2014.

As of December 31, 2015 and 2014, as a result of internal assessments, COFIDE established provisions for (in thousands) S/.6,856 and S/.9,877, respectively, for exposure to Credit Risk derived from Exchange Risk (RCDR) of the investments held by COFIDE in foreign currency (Note 12 (b)).

In accordance with the policies of COFIDE, as of December 31, 2015 and 2014, COFIDE only makes investments in instruments with credit ratings between “BB-” and “AAA” (see Note 21 (g)).

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

Type of instrument	Maturities	Interest rate (coupon)		Market value		Unrealized profit or loss	
		2015	2014	2015	2014	2015	2014
		%	%	S/. 000	S/. 000	S/. 000	S/. 000
<b>Local currency:</b>							
Structured bonds	Between January 2033 and June 2037	Between 5.97 - 8.58	Between 5.97 - 8.58	308,721	350,459	(10,400)	23,209
Corporate bonds	September 2025	Between 6.625	Between 6.625 - 6.8437	30,840	30,702	12,924	13,061
Securitization bonds	Between June 2016 and December 2016	8.50	8.50	16,257	30,469	(159)	242
Subordinated bonds	October 2022	7.17	7.17	2,622	2,416	22	(185)
Commercial papers	March 2015	6.60	6.60	-	2,966	-	(4)
Sub-total in local currency				358,440	417,012	2,387	36,323
<b>Foreign currency:</b>							
Structured bonds	Between December 2033 and April 2037	Between 6.0 - 8.125	Between 6.0 - 8.125	858,470	487,056	7,534	17,796
Corporate bonds	Between May 2016 and January 2021	Between 6.50 - 9.875	Between 6.50 - 9.875	235,347	240,046	(27,640)	6,478
Structured bonds / repos	February 2016	5.83	8.13	24,246	30,448	(35)	(10,624)
Securitization bonds	February 2021 - December 2021	Between 7.34 - 8.09	7.34	46,124	19,384	753	688
Commercial papers	March 2017	4.75	-	33,305	-	(519)	-
Sovereign bonds	December 2015	8.00	8.00	-	19,323	-	301
Mutual funds	No contractual maturity	-	-	203,811	314,981	190	118
Investment bonds	No contractual maturity	-	-	48,372	20,266	(2,801)	(5,906)
Bladex shares	No contractual maturity	-	-	2,520	2,561	1,609	1,763
Sub-total in foreign currency				1,452,195	1,134,065	(20,909)	10,614
Subtotal				1,810,635	1,551,077	(18,522)	46,937
Impairment of investments - Investment funds				(6,924)	-	-	-
CAF shares (Note 3 (f.2))				2,339,156	2,339,156	404,261	404,261
Total				4,142,867	3,890,233	385,739	451,198

## 7. LOAN PORTFOLIO, NET

(a) Loan portfolio comprises the following:

	<u>2015</u>	<u>2014</u>
	<u>S/.000</u>	<u>S/.000</u>
<b>Direct loans:</b>		
Loans to intermediary financial institutions	7,405,143	5,390,624
First-tier loans	164,582	13,201
Restructured loans	14,270	12,492
Refinanced loans	2,267	5,066
Past-due loans	57,742	144,058
Accounts under legal collection	257	1,219
	<u>7,644,261</u>	<u>5,566,660</u>
<b>Plus:</b>		
Accrued interests on loans	<u>310,390</u>	<u>225,742</u>
<b>Less:</b>		
Provision for impaired loans	(640,946)	(594,442)
Deferred interests	<u>(3,709)</u>	<u>(3,213)</u>
	<u>(644,655)</u>	<u>(597,655)</u>
<b>Total</b>	<u>7,309,996</u>	<u>5,194,747</u>
<b>Contingent loans (note 14)</b>	<u>773,390</u>	<u>658,468</u>

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

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

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

	Number of debtors		Total portfolio	
	2015	2014	2015 S/.000	2014 S/.000
Normal	130	127	7,842,883	5,408,720
With potential problems	16	21	449,325	613,745
Substandard	10	9	64,295	197,664
Doubtful	4	3	4,825	343
Loss	5	4	52,614	1,443
<b>Total</b>	<b>165</b>	<b>164</b>	<b>8,413,942</b>	<b>6,221,915</b>

Placement portfolio per type of IFI is classified as follows:

	2015		2014	
	S/.000	%	S/.000	%
Second-tier portfolio:				
Banks	6,284,262	82.21	4,137,297	74.32
Financial entities	627,082	8.20	781,736	14.04
Municipal saving institutions	348,838	4.56	316,827	5.69
Micro and small enterprise development entities	65,261	0.85	72,733	1.31
Leasing companies	41,083	0.54	34,947	0.63
Cooperatives	26,617	0.35	26,357	0.47
Rural saving institutions	12,000	0.16	20,727	0.37
Factoring	5,458	0.07	3,284	0.06
	<b>7,410,601</b>	<b>96.94</b>	<b>5,393,908</b>	<b>96.90</b>
First-tier portfolio:				
Financial lease and promissory notes	216,995	2.84	160,387	2.88
Other loans (i)	16,665	0.22	12,365	0.22
	<b>233,660</b>	<b>3.06</b>	<b>172,752</b>	<b>3.10</b>
Sub - total	<b>7,644,261</b>	<b>100.00</b>	<b>5,566,660</b>	<b>100.00</b>
Accrued interest of loans	310,390		225,742	
<b>Total</b>	<b>7,954,651</b>		<b>5,792,402</b>	

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

(b) Interest rates and guarantees:

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

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

	2015		2014	
	Loan portfolio in		Loan portfolio in	
	S/.	US\$	S/.	US\$
	%	%	%	%
Short-term working capital	6.02	1.88	6.53	1.8
COFIDE own resources	9.78	4.77	9.37	5.71
Medium-term working capital	9.27	6.83	9.37	7.02
Probid II	-	Libor + 4.32%	-	Libor 6M + 4.46
Structured financial products	-	10.66	21.27	10.91

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

	Direct S/000	Contingent S/000	Total S/000
Balances as of January 1, 2014	599,097	44,994	644,091
Provision for the year	100,444	5,393	105,837
Reversals	(115,254)	(11,423)	(126,677)
Write-offs, extinguishment and sales reclasifications of deferred interest	(930)	-	(930)
Exchange difference	11,085	2,600	13,685
Balances as of December 31, 2014	594,442	41,564	636,006
Provision for the year	124,124	11,878	136,002
Reversals	(102,752)	(16,766)	(119,518)
Write-offs, extinguishment and sales reclasifications of deferred interest	(1,136)	-	(1,136)
Exchange difference	26,268	3,116	29,384
Balances as of December 31, 2015	640,946	39,792	680,738

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

	2015			2014		
	Direct S/000	Contingent S/000	Total S/000	Direct S/000	Contingent S/000	Total S/000
Specific provision	153,848	-	153,848	147,194	-	147,194
General provision	77,110	5,806	82,916	55,531	5,470	61,001
Voluntary generic provision	409,988	33,986	443,974	391,717	36,094	427,811
Total	640,946	39,792	680,738	594,442	41,564	636,006

As of December 31, 2015 and 2014, COFIDE has recorded the total mandatory contribution required by the SBS for general provisions.

As of December 31, 2015 and 2014, the procyclical component was deactivated; however, in 2014, this component generated (in thousands) S/22,542.

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

(d) As of December 31, 2015 and 2014, almost 97% of the loan portfolio is concentrated on IFIs.

(e) Loan portfolio is distributed as follows:

Economic sector	2015		2014	
	S/. 000	%	S/. 000	%
Commercial loans and micro-companies				
Financial intermediation (IFIs)	7,405,143	96.87%	5,390,624	96.84%
Agriculture, farming, hunting and forestry	148,413	1.94%	109	0.00%
Manufacturing industry	53,198	0.70%	144,157	2.59%
Hotels and restaurants	15,629	0.20%	16,305	0.29%
Mortgage loans	10,347	0.14%	9,638	0.17%
Other activities of community services	5,458	0.07%	3,285	0.06%
Commerce	4,502	0.06%	-	0.00%
Consumer loans	1,558	0.02%	1,507	0.03%
Real estate, business and renting activities	13	0.00%	42	0.00%
Transportation, storage and communications	-	0.00%	993	0.02%
	<u>7,644,261</u>	<u>100.00%</u>	<u>5,566,660</u>	<u>100.00%</u>

(f) The loan portfolio has the following maturities:

	2015		2014	
	S/.000	%	S/.000	%
Up to one year	3,081,505	40.30	1,966,823	35.33
Over 1 year and less than 2 years	777,420	10.20	544,443	9.78
Over 2 years and less than 3 years	564,920	7.40	314,973	5.66
Over 3 years and less than 4 years	673,495	8.80	348,011	6.25
Over 4 years and less than 5 years	297,981	3.90	340,937	6.13
Over 5 years	<u>2,190,941</u>	<u>28.60</u>	<u>1,906,196</u>	<u>34.24</u>
Subtotal	7,586,262	99.20	5,421,383	97.39
Overdue portfolio and in legal collection	<u>57,999</u>	<u>0.80</u>	<u>145,277</u>	<u>2.61</u>
Total loan portfolio	<u>7,644,261</u>	<u>100.00</u>	<u>5,566,660</u>	<u>100.00</u>

(g) First-tier portfolio (assigned)

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

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

	<u>Latino Leasing</u>	<u>Banco Nuevo Mundo</u>	<u>NBK Bank</u>	<u>Consolidated transactions</u>	<u>Total</u>
	US\$	US\$	US\$	US\$	US\$
Balances as of January 1, 2014	3,417	2,758	415	1,476	8,066
Equivalent in soles as of January 1, 2014	<u>9,551</u>	<u>7,709</u>	<u>1,160</u>	<u>4,125</u>	<u>22,545</u>
Received loans (**)	-	-	-	48,202	48,202
Reversals	<u>(2,140)</u>	<u>(44)</u>	<u>(371)</u>	-	<u>(2,555)</u>
Balances as of December 31, 2014	<u>1,277</u>	<u>2,714</u>	<u>44</u>	<u>49,678</u>	<u>53,713</u>
Equivalent in soles as of December 31, 2014	<u>3,813</u>	<u>8,104</u>	<u>131</u>	<u>148,339</u>	<u>160,387</u>
Received loans (*)	-	-	-	43,491	43,491
Reversals	<u>(879)</u>	<u>(7)</u>	<u>(20)</u>	<u>(32,682)</u>	<u>(33,588)</u>
Balances as of December 31, 2015	<u>398</u>	<u>2,707</u>	<u>24</u>	<u>60,487</u>	<u>63,616</u>
Equivalent in soles as of December 31, 2015	<u>1,358</u>	<u>9,234</u>	<u>81</u>	<u>206,321</u>	<u>216,994</u>

(\*) In 2015, pursuant to right and contractual position assignment agreements, financial intermediaries which had debts with Cayalti trustee assigned their debts to COFIDE for (in thousands) S/.148,348. Also, in accordance with the contractual position assignment agreement entered into on March 6, 2015, COFIDE assigned those debts for the same amount to Consorcio Peruano Japonés Intipuku S.A.C.

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



## 8. PROPERTY, FURNITURE AND EQUIPMENT, NET

As of December 31, 2015 and 2014, the change of cost and accumulated depreciation of property, furniture and equipment was as follows:

	<u>Buildings and facilities</u> S/.000	<u>Furniture and fixtures</u> S/.000	<u>Transportation units</u> S/.000	<u>Sundry equipment</u> S/.000	<u>Total</u> S/.000
<b>Cost:</b>					
Balance as of January 1, 2014	22,498	2,669	208	16,824	42,668
Additions	12	205	-	1,421	1,638
Retirements	(637)	(330)	(24)	(2,356)	(3,347)
Balance as of December 31, 2014	21,873	2,544	184	15,889	40,959
Additions	-	63	-	1,992	2,055
Retirements	-	-	-	(7)	(7)
Balance as of December 31, 2015	<u>21,873</u>	<u>2,607</u>	<u>184</u>	<u>17,874</u>	<u>43,007</u>
<b>Accumulated depreciation:</b>					
Balance as of January 1, 2014	15,729	2,259	191	10,760	28,939
Additions	636	112	17	1,417	2,182
Retirements	(636)	(312)	(24)	(2,338)	(3,310)
Balance as of December 31, 2014	15,729	2,059	184	9,839	27,811
Additions	605	85	-	1,931	2,621
Retirements	-	-	-	(4)	(4)
Balance as of December 31, 2015	<u>16,334</u>	<u>2,144</u>	<u>184</u>	<u>11,766</u>	<u>30,428</u>
<b>Net cost:</b>					
As of December 31, 2015	<u>5,539</u>	<u>463</u>	<u>-</u>	<u>6,108</u>	<u>12,579</u>
As of December 31, 2014	<u>6,144</u>	<u>485</u>	<u>-</u>	<u>6,050</u>	<u>13,148</u>

Management believes that the recoverable values of property, furniture and equipment as of December 31, 2015 and 2014 are higher than their carrying values; therefore, they have considered that no impairment loss provision is required for those assets.

COFIDE has entered into insurance policies to cover loss risks to which several elements of property, furniture and equipment are subjected to, as well as possible claims that may present for the period of its activity.

As of December 31, 2015, fully depreciated property, furniture and equipment, still in use, amounted to (in thousands) S/.11,428 (S/.7,840 as of December 31, 2014).

**9. HEDGING DERIVATIVES, ACCOUNTS RECEIVABLE, NET, ASSETS SEIZED, RECEIVED IN PAYMENT, AWARDED, INTANGIBLE ASSETS AND OTHER ASSETS**

	<u>2015</u>	<u>2014</u>
	<u>S/.000</u>	<u>S/.000</u>
Fair value - hedging derivatives - rate swaps (Note 12(a))	3,816	-
Fair value - hedging derivatives - currency swaps	-	139
Provisions for country risk - derivatives	<u>(159)</u>	<u>(139)</u>
<b>Hedging derivatives</b>	<u>3,657</u>	<u>-</u>
Restricted funds / Funds in guarantee - margin call (a)	58,260	49,538
Sundry accounts receivable	12,374	9,610
Accounts receivable for assigned loan portfolio	2,091	1,923
Commissions receivable	4,881	1,800
Provisions for accounts receivable and others (b)	<u>(4,171)</u>	<u>(6,462)</u>
<b>Accounts receivable, net</b>	<u>73,435</u>	<u>56,409</u>
Software	14,993	14,398
Software accumulated amortization	<u>(8,740)</u>	<u>(7,079)</u>
<b>Intangible asset, net (c)</b>	<u>6,253</u>	<u>7,319</u>
<b>Assets seized, received in payment and awarded, net (d)</b>	<u>13,032</u>	<u>78</u>
Commissions and other paid in advance	3,545	1,765
Works of art and library	779	765
Sundry items	<u>1,264</u>	<u>1,392</u>
<b>Other assets</b>	<u>5,588</u>	<u>3,922</u>
<b>Total</b>	<u><u>101,965</u></u>	<u><u>67,728</u></u>

- (a) As of December 31, 2015, COFIDE has funds in guarantee for (in thousands) US\$17,080 (US\$16,590 as of December 31, 2014) in favor of J. Aron & Company in both periods for “Margin Call” in order to guarantee operations with interest-rate and currency derivatives held by COFIDE.

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

- (b) Balance of the provision of accounts receivable, assigned loan portfolio and commissions receivable comprises the following:

	<u>2015</u> S/.000	<u>2014</u> S/.000
Specific provision	1,949	2,177
Voluntary generic provision	<u>2,222</u>	<u>4,285</u>
Total	<u><u>4,171</u></u>	<u><u>6,462</u></u>

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

	<u>2015</u> S/.000	<u>2014</u> S/.000
Opening balances	6,462	5,111
Provision for the year	719	2,452
Reversals	(1,646)	(183)
Write-offs, extinguishment sales reclasifications of deferred interest	(1,561)	(1,131)
Exchange difference	<u>197</u>	<u>213</u>
Closing balances	<u><u>4,171</u></u>	<u><u>6,462</u></u>

- (c) Software mainly comprises SAP system licenses. As of December 31, 2015, COFIDE acquired certain licenses for (in thousands) S/.595 (S/.2,696 as of December 31, 2014) and in 2015, recorded an amortization expense for (in thousands) S/.1,661 (S/.767 as of December 31, 2014). This item is presented in “Depreciation and amortization” in the statement of income.
- (d) This balance corresponds to properties, net of provisions, which were awarded during Q1 2015 for the net amount of (in thousands) S/.12,954, provided by the collection of guarantees from the customer, Petroleum Gas Company S.A.

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

	<u>2015</u> S/.000	<u>2014</u> S/.000
Time deposits (a)	224,100	191,784
Deposits in guarantee (b)	10,867	18,151
Reporting operations (c)	<u>21,050</u>	<u>28,861</u>
	256,017	238,796
Interests accrued	<u>1,195</u>	<u>3,717</u>
Severance indemnities	<u>296</u>	<u>513</u>
Total	<u><u>257,508</u></u>	<u><u>243,026</u></u>

- (a) As of December 31, 2015, time deposits mainly comprise resources in local currency collected from Banco de Crédito and Caja Municipal de Ahorro y Crédito Santa, which accrued interests at annual market rates ranging between 4.70% and 5.66% and will mature in December 2016. As of December 31, 2014, time deposits mainly comprised resources in

local currency collected from Caja Municipal de Ahorro y Crédito Trujillo and Caja Municipal de Ahorro y Crédito Arequipa, which accrued interests at annual market rates ranging between 4.40% and 5.40% and matured between March and September 2015.

- (b) As of December 31, 2015, deposits in guarantee include retentions on disbursements pledged in favor of COFIDE, supported by loan operations for (in thousands) S/.10,681 and US\$54, which accrue interests at annual market rates of 2.25% in local currency and 0.1022% in foreign currency, and will mature between April and June 2016. As of December 31, 2014, deposits in guarantee include retentions on disbursements pledged in favor of COFIDE, supported by loan operations for (in thousands) S/.16,552 and US\$535, which accrued interests at annual market rates of 2.30% in local currency and 0.1279% in foreign currency, and matured between March and August 2015.
- (c) As of December 31, 2015, reporting operations comprise resources in local currency, from trusts managed by COFIDE, which accrue interests at an annual market rate of 5.83%, are guaranteed by structured bonds from Terminales Portuarios Paita and mature in February 2016. As of December 31, 2014, reporting operations comprised resources in local currency, from several trusts managed by COFIDE, which accrued interests at annual market rates ranging between 3.88% and 4.72%, were guaranteed by structured bonds from Terminales Portuarios Paita and matured between March and June 2015.

Obligations and deposits of financial entities have the following maturities:

	<b>2015</b>	<b>2014</b>
	<b>S/.000</b>	<b>S/.000</b>
Up to one month	37,100	4,847
Over 1 month and up to 3 months	57,050	11,767
Over 3 months and up to 6 months	26,163	63,311
Over 6 months and up to 12 months	136,000	159,384
Total	<u>256,313</u>	<u>239,309</u>

## 11. DEBT SECURITIES

	<b>2015</b>	<b>2014</b>
	<b>S/.000</b>	<b>S/.000</b>
Debts with financial entities (a)	2,888,054	2,835,231
Financial obligations (b)	7,291,067	3,910,495
Total	<u>10,179,121</u>	<u>6,745,726</u>

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

Creditors	Rate	Maturity	2015	2014
	%		S/.000	S/.000
Bank of Tokyo - Mitsubishi / Syndicated	Libor (3M) + 1.725%	September 2016	682,200	597,200
Bank of Tokyo - Mitsubishi / Bilateral	Libor (3M) + 0.70%	February 2017	341,100	298,600
Scotiabank Perú	From 4.30% to 6.65%	December 2016	381,000	420,000
Banco de la Nación del Perú	From 4.40% to 5.35%	September 2016	351,000	308,000
BBVA Banco Continental	From 4.08% to 5.65%	April 2017	392,500	227,000
American Family Life Assurance of Columbus Japan Branch - AFLAC	3.75%	September 2031	255,510	224,370
Banco Internacional del Perú - INTERBANK	From 5.83% to 6.90%	September 2022	35,615	43,010
Corporación Andina de Fomento - CAF	Libor (6M) + 2.8%	October 2016	102,330	89,580
Nordic Investment Bank	Libor (6M) + 0.85%	September 2016	8,527	14,930
CAF issuance of shares-financial liability (Note 13 (b))		December 2023	28,185	24,673
Corporación de Fomento a la Producción - CORFO	4.25%	June 2015	-	178
Sub-total			<u>2,577,967</u>	<u>2,247,541</u>
Banco Interamericano de Desarrollo - BID (a.2)	Libor (6M) + 0.61%	May 2015	-	171,390
Banco Interamericano de Desarrollo - BID (a.2)	2.51%	May 2015	-	36,646
Banco Interamericano de Desarrollo - BID (a.2)	2.00%	May 2015	-	35,703
Banco Interamericano de Desarrollo - BID (a.2)	Libor (6M) + 0.61%	May 2015	-	1,067
Japan Bank for International Cooperation - JBIC (a.2)	From 1.5% to 2.3%	February 2019	-	143,680
Kreditanstalt Fur Wiederaufbau - Stage II (a.2)	2.00%	June 2034	-	18,015
Kreditanstalt Fur Wiederaufbau - Stage I (a.2)	2.00%	December 2029	-	13,856
The Opec Fund For International Cooperation (a.2)	5.00%	October 2015	-	996
Japan International Cooperation Agency - JICA	From 0.01% to 0.60%	October 2027	175,968	113,617
Kreditanstalt Fur Wiederaufbau - EREE	1.95%	June 2025	112,009	33,108
Sub-total (a.1)			<u>287,977</u>	<u>568,078</u>
Structuring commissions for obligations to Bank of Tokyo - Mitsubishi / Syndicated and bilateral			<u>(2,136)</u>	<u>(4,164)</u>
Sub-total			2,863,808	2,811,455
Interests			<u>24,246</u>	<u>23,776</u>
Total			<u><u>2,888,054</u></u>	<u><u>2,835,231</u></u>

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

(a.2) In accordance with the Fourth Final Complementary Provision of Law No. 30283 “Public Debt Law for tax year 2015”, effective as from January 1, 2015, the capitalization of debt balances was provided by Corporación Financiera de Desarrollo S.A. – COFIDE to the Ministry of Economy, with a cut - off date as of December 31, 2014 (Note 13 (b)).

As of December 31, 2015 and 2014, loans in yens, euros and some loans in U.S. dollars are associated to swap contracts in order to reduce exchange and interest rate risks (Note 12 (a)).

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

	<u>2015</u>	<u>2014</u>
	<u>S/.000</u>	<u>S/.000</u>
Up to one month	117,500	227,152
Over 1 month and up to 3 months	195,000	345,056
Over 3 months and up to 6 months	277,000	205,795
Over 6 months and up to 12 months	1,285,915	291,858
Over 12 months	<u>988,393</u>	<u>1,741,594</u>
Total	<u>2,863,808</u>	<u>2,811,455</u>

As of December 31, 2015 and 2014, COFIDE complied with certain installments, commitments financial ratios and other specific requirements of loan agreements entered into with certain financial institutions abroad and international financial organizations.

Regarding liabilities contracted in yens with AFLAC and JICA, swap hedging operations have been performed in order to mitigate the risk of revaluation of the U.S. dollar, maturing in September 2031 and October 2027, respectively. As of December 31, 2015, COFIDE has recorded losses for hedging operations, net, for (in thousands) S/.24,051 (loss for (in thousands) S/.66,310 as of December 31, 2014), presented in "Net loss from Hedging Operations" of the statement of income.

(b) As of December 31, 2015 and 2014, financial obligations are as follows:

Serial	Amount S/000	Maturity date	Interest rate	2015 S/000	2014 S/000
<b><u>In local currency (bonds):</u></b>					
<b>Second Program</b>					
Eighth - Serial A	20,000	15/07/2017	5.90%	7,000	11,000
Eighth - Serial B	10,000	02/04/2018	6.65%	5,000	7,000
Twelfth - Serial A	7,065	15/01/2015	7.94%	-	305
				<u>12,000</u>	<u>18,305</u>
<b>Third Program</b>					
First - Serial A	50,000	24/01/2016	6.25%	50,000	50,000
Fourth - Serial A	45,065	21/07/2015	7.00%	-	45,065
Ninth - Serial A	150,000	27/04/2027	6.65%	150,000	150,000
Tenth - Serial A	50,000	15/07/2027	6.20%	50,000	50,000
Tenth - Serial A	50,000	28/06/2037	6.20%	50,000	50,000
Eleventh - Serial A	90,000	30/10/2042	5.63%	90,000	90,000
				<u>390,000</u>	<u>435,065</u>
<b>Fourth Program</b>					
Second - Serial A	100,000	30/04/2043	5.35%	100,000	100,000
Fifth - Serial A	78,445	30/01/2020	5.65%	78,445	-
				<u>178,445</u>	<u>100,000</u>
<b>Short Term Instruments - Second Program</b>					
Third issuance - Serial A	40,115	11/01/2016	4.50%	40,115	-
Fourth issuance - Serial A	50,000	24/04/2016	4.85%	50,000	-
Fourth issuance - Serial B	32,375	17/07/2016	4.80%	32,375	-
				<u>122,490</u>	<u>-</u>
<b>Total par value</b>				<u>702,935</u>	<u>553,370</u>
Accrued yield				<u>19,900</u>	<u>15,301</u>
<b>Total in local currency</b>				<u><u>722,835</u></u>	<u><u>568,671</u></u>
<b><u>In foreign currency (bonds):</u></b>					
First international issuance	400,000	08/02/2022	4.75%	1,364,400	1,194,400
First international issuance reopening	100,000	08/02/2022	4.75%	341,100	298,600
Second international issuance - Senior	300,000	15/07/2019	3.25%	1,023,300	895,800
Second international issuance - Subordinated	300,000	15/07/2029	5.25%	1,023,300	895,800
Third international issuance -Notes DUE 2019	200,000	15/07/2019	3.25%	682,200	-
Third international issuance -Notes DUE 2025	600,000	15/07/2025	4.75%	2,046,600	-
<b>Total par value</b>				<u>6,480,900</u>	<u>3,284,600</u>
Net price difference (below / above par) and related expenses				(39,207)	(5,648)
Accrued interest				<u>126,539</u>	<u>62,872</u>
<b>Total in foreign currency</b>				<u><u>6,568,232</u></u>	<u><u>3,341,824</u></u>
<b>Total</b>				<u><u>7,291,067</u></u>	<u><u>3,910,495</u></u>

### ***Second program - Bonds***

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

### ***Third program - Bonds***

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

### ***Fourth program – Bonds***

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

### ***Second Short – Term Instruments Program***

The Board of Directors approved the second program of short-term instruments on December 11, 2014. Under this program, the Company can issue up to (in thousands) US\$200,000, or its equivalent in Peruvian nuevos soles. As of December 31, 2015, a total of (in thousands) S/.122,500 has been issued within the framework of this program. Instruments issued have been granted the maximum local risk rating by Apoyo & Asociados Internacionales S.A.C. Clasificadora de Riesgo and by Equilibrium Clasificadora de Riesgo S.A., CP – 1 + (pe) and EQL1+.pe, respectively.

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

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

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

### ***Second bond issuance in the international market***

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



### ***Third bond issuance in the international market***

At the Shareholders' Meeting held on May 19, 2014, it was approved to issue senior and/or subordinated bonds. On July 15, 2015, COFIDE placed bonds in the international capital market for (in thousands) US\$800,000 in two tranches: (in thousands) US\$200,000 of Notes DUE 2019 in a term of 4 years, placed at an annual coupon rate of 3.250% and yield of 3.367%; and (in thousands) US\$600,000 of Notes DUE 2025, in a term of 10 years, placed at an annual coupon rate of 4.750% and yield of 4.874%. These bonds were given an investment grade of BBB+ by Standard & Poor's and Fitch Ratings.

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

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

	<u>2015</u>	<u>2014</u>
	<u>S/.000</u>	<u>S/.000</u>
Fair value - hedging derivatives -		
Currency swaps (a)	149,748	153,586
Fair value - hedging derivatives -		
Rate swaps (Note 9)	-	2,113
	<u>149,748</u>	<u>155,699</u>
<b>Hedging derivatives (a)</b>		
Taxes payable	848	981
Sundry accounts payable	11,508	8,442
	<u>12,356</u>	<u>9,423</u>
<b>Accounts payable</b>		
Provision for contingent loans (Note 7 (b))	39,792	41,564
Provision for lawsuits and claims (b)	1,810	1,730
Other provisions (b)		
Provision RCDR - Available for sale investments	6,856	9,877
Provision for accrued vacations	2,949	2,589
	<u>51,407</u>	<u>55,760</u>
<b>Provision for lawsuits, claims and others (b)</b>		
Operations in process	3,112	1,006
Deferred sales	73	73
	<u>3,185</u>	<u>1,079</u>
<b>Other liabilities</b>		
Total	<u>216,696</u>	<u>221,961</u>

(a) Hedging derivatives

This item refers to accounts receivable and/or payable for currency and interest swaps and derivative financial instruments held by COFIDE, and mainly comprises amounts arising from the fluctuations of valuations of such financial instruments.

As of December 31, 2015 and 2014, operations in derivative financial instruments for cash flow hedging purposes are the following:

**2015**

Details	Operation number	Nominal value	Exchange difference		Accrued interest		Unrealized profit / (loss)		Fair value	
			Asset	Liability	Asset	Liability	Asset	Liability	Asset	Liability
			S/,000	S/,000	S/,000	S/,000	S/,000	S/,000	S/,000	S/,000
Currency swaps - Yen / US\$ hedge (iv)	4	384,895	8,188	177,185	111	3,015	(8,299)	(30,452)	-	149,748 (i)
Interest-rate swaps - Hedge	1	682,200	-	-	10,162	6,560	(6,346)	(6,560)	3,816	- (ii)
			8,188	177,185	10,273	9,575	(14,645) (iii)	(37,012) (iii)	3,816	149,748

**2014**

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

- (i) As of December 31, 2015, the net exchange position payable of currency swap hedging operations amounts to (in thousands) S/.149,748 ((in thousands) S/.153,586 as of December 31, 2014), which offsets the decrease in liabilities due to the depreciation of yen regarding the U.S. dollar.
- (ii) As of December 31, 2015, the net exchange position payable of interest rate swap hedging operations amounts to (in thousands) S/.3,816 (S/.2,113 payable as of December 31, 2014), which offsets the changes in liability rates of debts.
- (iii) As of December 31, 2015, for derivative financial instruments, COFIDE recorded a net unrealized profit for (in thousands) S/.22,367 (net unrealized profit for (in thousands) S/.14,606 as of December 31, 2012). See Note 13 (d).
- (iv) As of December 31, 2015, COFIDE mainly holds currency swap agreements to offset the risk of revaluation of Yens on debts received from AFLAC and JICA, maturing in September 2031 and October 2027, respectively. By means of currency swaps, COFIDE receives a fixed exchange rate in U.S. dollars and pays at a variable exchange rate in that same currency; COFIDE receives a variable rate and pays at a fixed rate for remaining amounts (Note 11).

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

As of December 31, 2015 and 2014, the balance includes lawsuits filed against COFIDE which are related to the activities it carries out.

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

### 13. EQUITY

(a) *Capital stock*

As of December 31, 2015 and 2014, COFIDE's share capital is represented by 1,548,418,292 common shares and 15,639,765 preferred shares with a face value of S/.1.00 per share, duly authorized, subscribed and paid.

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

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

Class of shares	Holder	2015		2014	
		No. of shares	Equity share %	No. of shares	Equity share %
Class "A" - common shares	MEF-FONAFE	1,063,561,110	68.00	1,063,561,110	68.00
Class "C" - common shares	MEF-FONAFE	469,217,417	30.00	469,217,417	30.00
		1,532,778,527	98.00	1,532,778,527	98.00
Class "B" - common shares	COFIDE (treasury)	15,639,765	1.00	15,639,765	1.00
		1,548,418,292	99.00	1,548,418,292	99.00
Class "B" - preferred shares	CAF	15,639,765	1.00	15,639,765	1.00
		1,564,058,057	100.00	1,564,058,057	100.00

As of December 31, 2015 and 2014, COFIDE owns (in thousands) S/.15,640 treasury shares, class "B" shares which were acquired by COFIDE from CAF on June 26, 2013.

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

Class "C" shares belong to the Peruvian State. They are freely tradable and can be listed in the stock exchange and/or any registry required to be traded in the stock-exchange session, as previously approved by the Board of Directors.

**(b) Additional paid in capital**

As of December 31, 2015, this balance corresponds to the agreements reached at the following Shareholders' Meetings, which shall be previously approved by the SBS, and its subsequent registration in public records:

- (b.1) At the Shareholders' Meeting held on March 31, 2015, it was approved to reinvest 15% of distributable profit from 2014 in favor of FONAFE for (in thousands) S/.10.409, equivalent to 10,409,162 new shares.
- (b.2) At the Shareholders' Meeting held on June 22, 2015, it was approved to make a cash contribution for (in thousands) S/.31,228, distributed as follows: (in thousands) S/.15,640 for the subscription of 15,639,765 shares in the portfolio and (in thousands) S/.15,588 for the subscription of 15,587,721 new shares.

At the Shareholders' Meeting held on December 23, 2015, the creation and issuance of 25,996,883 new shares indicated in (b.1) and (b.2) above were confirmed, which were distributed as follows: 18,197,818 class "A" shares and 7,799,065 class "C" shares, fully subscribed and paid.

Additionally, at the Shareholders' Meeting held on December 23, 2015 and in accordance with the Fourth Final Complementary Provision of Law No. 30283 "Public Debt Law for tax year 2015" (see Note 11 (a.2)), it was approved to capitalize loans for (in thousands) S/.425,258 to be distributed as follows: (in thousands) S/.297,681 for the subscription of 297,680,925 class "A" shares and (in thousands) S/.127,577 for the subscription of 127,577,540 class "C" shares.

The structure of COFIDE's capital stock, after the foregoing, would be as detailed below:

Class of shares	Holder	2015		2014	
		No. of shares	Equity share %	No. of shares	Equity share %
Class "A" - common shares	MEF-FONAFE	1,063,561,110	52.77	1,063,561,110	68.00
Class "A" - common shares	MEF-FONAFE	315,878,743	15.67	-	-
Class "A" - common shares	MEF-FONAFE	15,639,765	0.78	-	-
		1,395,079,618	69.22	1,063,561,110	68.00
Class "C" - common shares	MEF-FONAFE	469,217,417	23.28	469,217,417	30.00
Class "C" - common shares	MEF-FONAFE	135,376,605	6.72	-	-
		1,999,673,640	99.22	1,532,778,527	98.00
Class "B" - common shares	COFIDE (treasury)	-	-	15,639,765	1.00
		1,999,673,640	99.22	1,548,418,292	99.00
Class "B preferred"	CAF	15,639,765	0.78	15,639,765	1.00
Total shares		2,015,313,405	100.00	1,564,058,057	100.00

Also, as of December 31, 2015 and 2014, COFIDE recorded a donation received as furniture for (in thousands) S/.84 in this item.

**(c) Legal reserves**

Pursuant to effective legal provisions, COFIDE is required to allocate a reserve for no less than 35% of its paid capital. This reserve is allocated through the annual transfer of at least 10% of its net profit.

At the Shareholders' Meeting held on March 31, 2015, it was approved to allocate the legal reserve for an amount equivalent to 10% of profit from period 2014 for (in thousands) S/.7,711.

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

***(d) Retained earnings and other comprehensive income***

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

At the Shareholders' Meeting of COFIDE held on March 31, 2015, as dividend policy, it was approved to reinvest 15% of distributable income in favor of FONAFE. Distributable income as of December 31, 2014 amounted to (in thousands) S/.69,394, for which COFIDE capitalized (in thousands) S/.10,409 and paid (in thousands) S/.58,985 in cash. At the Shareholders' Meeting of COFIDE held on March 31, 2014, as dividend policy, it was approved to reinvest 15% of distributable income in favor of FONAFE. Distributable income from 2013 amounted to (in thousands) S/.68,743, for which COFIDE capitalized (in thousands) S/.10,205 and paid (in thousands) S/.58,538 in cash.

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

Total retained earnings and other comprehensive income comprise the following:

	<u>2015</u>	<u>2014</u>
	<u>S/.000</u>	<u>S/.000</u>
<b>Retained earnings</b>		
Adjustment to deferred equity share of employees - IAS 12	12,647	12,647
Difference of value of "B" shares of COFIDE when redeeming to CAF	7,599	7,599
Accumulated earning without capital agreement, previous years	<u>1,496</u>	<u>1,496</u>
Total	<u><u>21,742</u></u>	<u><u>21,742</u></u>
<b>Other comprehensive income</b>		
Unrealized profit for the adjustment in value of CAF investment	404,261	404,261
Less: deferred income tax	<u>(105,109)</u>	<u>(113,194)</u>
	<u>299,152</u>	<u>291,067</u>
Profit for fluctuation of value of available for sale investments	(18,522)	46,937
Less: deferred income tax	<u>5,186</u>	<u>(13,142)</u>
	<u>(13,336)</u>	<u>33,795</u>
Profit (loss) - cash flow hedging derivatives	22,367	14,606
Less: deferred income tax	<u>(6,263)</u>	<u>(4,090)</u>
	<u>16,104</u>	<u>10,516</u>
Total	<u><u>301,920</u></u>	<u><u>335,378</u></u>

#### 14. CONTINGENT AND OFF-BALANCE SHEET ACCOUNTS

	<u>2015</u> <u>S/.000</u>	<u>2014</u> <u>S/.000</u>
<u>Contingent risks and commitments (a)</u>		
Joint signatures granted (Note 7)	773,390	658,468
Other contingent accounts	<u>15,407</u>	<u>20,890</u>
Total	<u>788,797</u>	<u>679,358</u>
<u>Trusts and trust commissions (b)</u>		
Guarantees for operations of credits of trusts	9,336,229	8,545,570
Counter-accounts of trusts and trust commissions	9,308,867	7,902,032
Trust funds	9,212,791	7,899,409
Funds in trust commissions	<u>604,665</u>	<u>522,764</u>
Total	<u>28,462,552</u>	<u>24,869,775</u>
<u>Off-balance sheet accounts</u>		
<u>Guarantees for loan transactions (c):</u>		
Promissory notes	5,320,225	4,897,227
Mortgages	42,574	211,345
Guarantee deposits	10,867	18,151
Documentary guarantees	19,070	12,549
Warrants	123	108
Other guarantees	143,523	130,643
Other off-balance sheet accounts	<u>12,049,170</u>	<u>8,552,481</u>
Total	<u>17,585,552</u>	<u>13,822,504</u>
<u>Swaps and Forwards (d)</u>		
Swap and forward transactions	384,896	596,043
Nominal value - Interest-rate swap	<u>682,200</u>	<u>40,311</u>
Total	<u>1,067,096</u>	<u>636,354</u>
Total off-balance sheet accounts	<u>47,115,200</u>	<u>39,328,633</u>
Total contingent and off-balance sheet accounts	<u>47,903,997</u>	<u>40,007,991</u>

##### (a) *Contingent loans*

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

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

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



unused; the total amounts of contingent credits do not necessarily represent future cash disbursements for COFIDE.

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

COFIDE's Management estimates that no significant losses shall incur, in addition to the amounts allocated in the caption provision for contingent credits, for operations effective as of December 31, 2015 and 2014.

***(b) Trusts and trust commissions***

As of December 31, 2015, COFIDE managed 4 funds, 188 trust funds and 2 programs (4 funds, 185 trust funds and 2 programs as of December 31, 2014), for which it received commissions ranging between 0.25% and 2% as of December 31, 2015 and 2014. Such commissions were paid either quarterly or biannually. As of December 31, COFIDE obtained revenue from trusts and trust commissions for S/.27,320 (S/.21,732 as of December 31, 2014), which are recorded and presented in the statement of income. COFIDE is not responsible for funds, equities or programs.

As of December 31, 2015, COFIDE has not guaranteed loans obtained for trusts. As of December 31, 2014, COFIDE has guaranteed loans that Fideicomiso Agroindustrial Cayaltí S.A. has entered into with Banco Financiero, Interbank, BBVA Banco Continental, Banco de Comercio and CMAC Huancayo for (in thousands) S/.90,947.

***(c) Credit operations' guarantees***

The balance of guarantees granted caption is determined based on the guarantees agreed values as of the date of the loan agreement. These balances do not necessarily represent the market value of goods assigned in guarantee that support COFIDE's credit balances. (see Note 20 d (c.4)).

***(d) Currency swap and forward operations***

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

## 15. PERSONNEL AND BOARD OF DIRECTORS' EXPENSES

	<u>2015</u>	<u>2014</u>
	<u>S/.000</u>	<u>S/.000</u>
Wages	16,551	16,257
Benefits	3,564	5,452
Profit-sharing	6,365	5,067
Bonuses	3,343	3,314
Social charges and others	3,085	2,938
Severance indemnities	1,779	1,942
Vacations	259	508
Directors' attendance fees	291	154
Assignments	85	84
Other personnel expenses	4,908	5,422
	<u>40,230</u>	<u>41,138</u>

## 16. EXPENSES FOR SERVICES RECEIVED FROM THIRD PARTIES

	<u>2015</u>	<u>2014</u>
	<u>S/.000</u>	<u>S/.000</u>
Consulting services	6,327	5,067
VAT prorated credit tax	5,453	4,833
Electronic processing	2,396	1,527
Professional fees	2,164	2,530
Repairment and maintenance	2,038	1,349
Advertisement	1,005	1,196
Communications	998	879
Surveillance and protection	950	923
Leases	537	377
Sundry supplies	513	555
Energy and water	387	363
Insurance	307	224
Transportation	286	315
Other services	3,578	2,729
	<u>26,939</u>	<u>22,867</u>

## 17. BASIC AND DILUTED EARNINGS PER SHARE

	Number of shares in thousands	
	2015	2014
Outstanding at the beginning of the year	1,548,419	1,514,402
Capital increase (May 28, 2014)	-	14,157
Outstanding at the end of the year	1,548,419	1,528,559
Net profit for the year (in thousands) S/.	82,341	77,105
Shares	1,548,419	1,528,559
Earnings per basic and diluted share (S/.)	0.0532	0.0504

## 18. INCOME TAX

### (a) Income tax regime

#### *Tax rates*

Pursuant to Law No. 30296 – Law that promotes Economy Reactivation, the tax on third category income recipients domiciled in Peru was modified, as presented below:

Taxable periods	Rate
2014	30%
2015-2016	28%
2017-2018	27%
2019 and subsequent periods	26%

Legal entities domiciled in Peru are subject to an additional rate, as shown below, on any amount that may be considered as indirect income, including amounts charged to expenses and unreported income; that is, expenses which may have benefited shareholders, parties, among others; other expenses not related to the business; expenses of shareholders, parties, among others, which are assumed by the legal entity.

Taxable periods	Rate
2014	4.1%
2015-2016	6.8%
2017-2018	8.0%
2019 and subsequent periods	9.3%

### (b) Significant amendments to income tax

After December 31, 2015, no changes have been made to the income tax regime in Peru which may impact these financial statements. The standards and interpretations effective as of December 31, 2015 have been considered by Management when preparing these financial statements.

(c) Income tax expense comprises:

	<u>2015</u> <u>S/.000</u>	<u>2014</u> <u>S/.000</u>
Current income tax	33,863	28,880
Deferred tax - (caption (g))	<u>(34,370)</u>	<u>95</u>
Total	<u><u>(507)</u></u>	<u><u>28,975</u></u>

The current income tax correspond to income tax payable, applying a corporate tax rate of 28% on estimated taxable income, after deducting the employees' profit sharing, Law Decree 892, a percentage of 5%.

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

As of December 31, 2015 and 2014, the effective income tax rate differs from the tax rate applicable to profit before income tax. The nature of this difference is due to certain items related with the determination of taxable income, which effects over tax rate applicable are summarized as follows (in percentages over profit before taxes):

	<u>2015</u>		<u>2014</u>	
	<u>Amount</u> <u>S/.000</u>	<u>Percentage</u> <u>%</u>	<u>Amount</u> <u>S/.000</u>	<u>Percentage</u> <u>%</u>
Profit for the year	81,834	100.00	106,080	100.00
Income tax calculated according to tax rate	22,914	28.00	31,824	30.00
Tax effect on additions (deductions):				
Non-deductible expenses	16,374	20.01	(8,615)	(8.12)
Exempt income	(47)	(0.06)	(37)	(0.04)
Other permanent differences	(60,549)	(73.99)	(2,717)	(2.56)
Effect for adjustment of income tax rate	<u>20,801</u>	<u>25.42</u>	<u>8,520</u>	<u>8.03</u>
Current and deferred income tax recorded according to effective rate	<u><u>(507)</u></u>	<u><u>(0.62)</u></u>	<u><u>28,975</u></u>	<u><u>27.31</u></u>

(e) Tax recoverable:

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

	<u>2015</u> <u>S/.000</u>	<u>2014</u> <u>S/.000</u>
To be recovered:		
Payments on behalf of income tax	<u>55,253</u>	<u>54,319</u>
Payable:		
Income tax payable	<u>33,863</u>	<u>28,879</u>
Total	<u><u>21,390</u></u>	<u><u>25,440</u></u>

(f) COFIDE's tax situation

Income tax returns from years 2012, 2013 and 2014 and the return that will be submitted for 2015 have not been reviewed by the Tax Administration Authority yet, which is empowered to

conduct such reviews within four years immediately after the submittal date of the pertinent tax returns. Management believes that no significant liabilities will arise as a result of pending reviews.

In 2014, by virtue of Letter No. 140011424760-01 dated January 3, 2014, the National Superintendence of Tax Administration (SUNAT) started the tax review of period 2011. In September 2015, COFIDE received determination and fine resolutions corresponding to 2011 income tax for (in thousands) S/.620. In October 2015, COFIDE paid the pertinent amounts indicated in those Resolutions; however, COFIDE filed claims and appeals to SUNAT for those Resolutions.

Due to possible different interpretations that the Tax Administration may have on current regulations applicable to COFIDE, it is not possible to determine to date whether tax liabilities will arise or not from the reviews to be conducted and the pending review. Any additional tax, fine, charge, surcharge or interest which may result from such tax reviews shall be recognized in the year when such criteria difference with the Tax Administration is resolved. Management believes that no significant liabilities will arise as a result of these reviews.

(g) Deferred income tax balances

Deferred tax assets and liabilities are as follows:

	Opening balances S/000	Movements		Closing balances S/000
		Equity S/000	Profit/loss for the year S/000	
<b>2015</b>				
<b>Asset temporary differences:</b>				
General provisions for loans and contingent loans	572,461	-	13,147	585,608
Other general provisions	18,525	-	31,583	50,108
Provision for fluctuation in values	-	-	6,923	6,923
General provision for accounts receivable	4,285	-	(2,063)	2,222
Provisions for awarded goods	2,246	-	3,239	5,485
	<u>597,517</u>	<u>-</u>	<u>52,829</u>	<u>650,346</u>
<b>Liability temporary differences:</b>				
Depreciation of buildings	(257)	-	(257)	(514)
Adjustment of value CAF shares	(1,444,318)	-	-	(1,444,318)
Profit (loss) unrealized for investments in securities	(46,935)	65,458	-	18,523
Profit (loss) unrealized for derivative instruments	(14,606)	(7,760)	-	(22,366)
Repairs to 2003 tax return - Provisions, write-offs and others	16,823	-	(4,113)	12,710
	<u>(1,489,293)</u>	<u>57,698</u>	<u>(4,370)</u>	<u>(1,435,965)</u>
Temporary differences assets (liabilities), net	<u>(891,776)</u>	<u>57,698</u>	<u>48,459</u>	<u>(785,619)</u>
Adjustment to deferred income tax, rate change	-	8,085	20,801	-
Movement of deferred income tax - 28%	-	16,155	13,569	-
Deferred income tax (28%)	<u>(249,697)</u>	<u>24,240</u>	<u>34,370</u>	<u>(191,087)</u>

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

## 19. TRANSACTIONS WITH RELATED ENTITIES

As of December 31, 2015 and 2014, significant operations conducted with CAF correspond to financing operations.

COFIDE's transactions with its related entity have been done in the normal course of operations under arm's-length terms.

Operations performed with CAF comprise the following:

- As of December 31, 2015 and 2014, available for sale investments are held for (in thousands) S/.2,339,156. (Note 6)
- As of December 31, 2015, debts are held for (in thousands) S/.102,330 (S/.89,580 as of December 31, 2014). (Note 11)
- As of December 31, 2015, those debts gave rise to interest expenses for (in thousands) S/.4,680 and S/.4,157, respectively.

### *Payments to the Board of Directors*

As of December 31, 2015 and 2014, the amount paid for Directors' attendance fee was (in thousands) S/.291 and S/.154, respectively.

### *Payments to managers*

As of December 31, 2015, wages, other benefits to personnel and professional fees received by COFIDE's employees who hold an executive responsibility (managers) amounted to (in thousands) S/.3,906 (S/.4,512 as of December 31, 2014).

### ***Personnel loans***

As of December 31, 2015 and 2014, Directors, staff members and employees of COFIDE have credit operations allowed by General Law, which regulates and establishes certain limits to transactions with Directors, staff members and employees of banks in Peru. As of December 31, 2015 and 2014, direct credits to employees, Directors, staff members and key personnel are (in thousands) S/.8,976 and S/.8,215, respectively.

## 20. CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

	2015				2014			
	Financial assets				Financial assets			
	Loans and receivables	Available for sale at fair value	Hedging derivatives	Total	Loans and receivables	Available for sale at fair value	Hedging derivatives	Total
	S/. 000	S/. 000	S/. 000	S/. 000	S/. 000	S/. 000	S/. 000	S/. 000
<b>Asset</b>								
Cash	1,956,711	-	-	1,956,711	523,682	-	-	523,682
Available for sale investments:								
Capital instruments	-	2,586,935	-	2,586,935	-	2,676,964	-	2,676,964
Debt instruments	-	1,555,932	-	1,555,932	-	1,213,269	-	1,213,269
Loan portfolio, net	7,309,996	-	-	7,309,996	5,194,747	-	-	5,194,747
Hedging derivatives	-	-	3,657	3,657	-	-	-	-
Accounts receivable, net	73,435	-	-	73,435	56,409	-	-	56,409
Other assets	1,264	-	-	1,264	623	-	-	623
<b>Total</b>	<b>9,341,406</b>	<b>4,142,867</b>	<b>3,657</b>	<b>13,487,930</b>	<b>5,775,461</b>	<b>3,890,233</b>	<b>-</b>	<b>9,665,694</b>
	2015				2014			
	Financial assets				Financial assets			
	At amortized cost	Other liabilities	Hedging derivatives	Total	At amortized cost	Other liabilities	Hedging derivatives	Total
	S/. 000	S/. 000	S/. 000	S/. 000	S/. 000	S/. 000	S/. 000	S/. 000
<b>Liability:</b>								
Obligations to the public	-	32,564	-	32,564	-	47,557	-	47,557
Deposits by Banks and financial organizations	-	224,944	-	224,944	-	195,469	-	195,469
Debts with financial entities	2,888,054	-	-	2,888,054	2,835,231	-	-	2,835,231
Securities, bonds and financial obligations	7,291,067	-	-	7,291,067	3,910,495	-	-	3,910,495
Hedging derivatives	-	-	149,748	149,748	-	-	155,699	155,699
Accounts payable	-	12,356	-	12,356	-	9,423	-	9,423
Other liabilities	-	42,904	-	42,904	-	42,570	-	42,570
<b>Total</b>	<b>10,179,121</b>	<b>312,768</b>	<b>149,748</b>	<b>10,641,637</b>	<b>6,745,726</b>	<b>295,019</b>	<b>155,699</b>	<b>7,196,444</b>



## 21. FINANCIAL RISK MANAGEMENT

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

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

A description of COFIDE's management of such risks is explained below. COFIDE has a specialized structure and organization for management, measurement systems and mitigation and coverage processes of risks derived from financial instruments. COFIDE presents annual comparative financial information as of December 31, 2015 and 2014 to the extent applicable:

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

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

#### (i) **Board of Directors**

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

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

#### (ii) **Risk Committee**

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

**(iii) *Audit Committee***

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

**(iv) *Assets and Liabilities Committee***

The Assets and liabilities Committee (ALCO) is a division created by the Board of Directors. Its main function is to manage the financial structure of the statement of position of COFIDE, according to policies and effective standards. The Committee of assets and liabilities safeguards the proper management of liquidity, interest rate and exchange rate risks, deciding about necessary actions to implement correcting actions needed in the event of deviations regarding tolerance levels to risk and degrees of exposure assumed. The committee meets at least twice a month. In order to carry out its functions, the Committee has the support of the Finance Management (area in charge of investment activities). The committee comprises the chief executive officer (who directs it), financial, risk, intermediation and financial innovation, corporate businesses and environmental officers, chief legal officer (without a vote), audit head, financial services head, treasury and markets head (without a vote) and senior officers of global and market risk (with voice but no vote, as the heads of operating divisions).

**(v) *Management Committee***

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

**(vi) *Chief Executive Officer - CEO***

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

**(vii) *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 level. Internal audit inform all responsible divisions regarding potential risk situations and other relevant respects in relation to risk management assessment of COFIDE.

**(viii) Risk Office**

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

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

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

**(i) Credit risk**

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

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

**(ii) Market risk**

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

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

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

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

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

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

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

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

**(iv) Liquidity risk**

In order to manage liquidity risk, there are policies defining guidelines for constituting a reserve of high-quality liquid assets, availability of credit line, minimum requirements of contingent credit line and high-quality liquidity reserve, as well as limits in the concentration of cash. Additionally, with a Contingent Plan towards lack of liquidity, this considers the operating procedure to be followed in the event of an individual liquidity crisis, as well as systemic.

**(c) Risk concentration**

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

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

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

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

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

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

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

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

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

Tools are monitored permanently and periodically validated in order to safeguard that levels of prediction and performance are maintained and corrective measurements or adjustments to models can be made, when necessary.

Management indications are permanently reviewed and analyzed in order to identify possible deviations in the risk profile regarding the risk appetite established by COFIDE in order to timely take corrective measurements. This information is monthly presented to the Risk Committee and periodically to the Board of Directors.

### ***Credit risk***

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

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

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

As of December 31, 2015 and 2014, Management has estimated that the maximum credit risk amount it is exposed to is represented by the carrying amount of financial assets presenting a potential credit risk and that mainly consist of: cash, available for sale investments, placements (direct and indirect, without considering market value of guarantees or collaterals), operations with derivative financial instruments, accounts receivable and other monetary assets.

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

In this regard, as of December 31, 2015 and 2014:

- 98.4% and 96.4%, respectively, of loans are not considered as overdue or impaired.
- 91.3% and 89.7%, respectively, of investments have been given at least an investment grade (BBB- or higher) or are debt instruments issued by the Central Government.

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

<u>Asset (*)</u>	<u>Notes</u>	<u>2015</u> <u>S/.000</u>	<u>2014</u> <u>S/.000</u>
Cash	5	1,956,711	523,682
Available for sale investments	6	4,142,867	3,890,233
Loan portfolio	7	7,309,996	5,194,747
Hedging derivatives	9	3,657	-
Accounts receivable	9	73,435	56,409
Other assets	9	1,264	623
Total		<u>13,487,930</u>	<u>9,665,694</u>
Contingent (**)	7 and 14	<u>749,005</u>	<u>637,794</u>

(\*) Net of provisions

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

### (c) Guarantee management

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

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

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

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

#### (c.2) Types of guarantee

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

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

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

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

(c.3) Risk concentrations regarding guarantees

Presented below, details of guarantees concentration supported by credit operations as of December 31, 2015 and 2014 are detailed below:

Type of guarantee	Non-retail S/.000	Retail S/.000	Total guarantees S/.000	Related credits S/.000
<b>2015</b>				
Self-liquidating guarantee	10,867	-	10,867	92,225
Other guarantees	28,001	11,261	39,262	10,670
Total (*)	38,868	11,261	50,129	102,895
<b>2014</b>				
Self-liquidating guarantee	18,151	-	18,151	177,828
Other guarantees	192,037	11,168	203,205	157,075
Total (*)	210,188	11,168	221,356	334,903

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

(c.4) Value of guarantee received

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

COFIDE considers the following valuations:

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

<b>Guarantees related to direct loans</b>	<b>2015 S/.000</b>	<b>2014 S/.000</b>
Self-liquidating guarantees	10,867	18,151
Preferred guarantees	43,698	211,453
Other non-preferred guarantees	195	171
Substitution of credit counterparty by bond letter	142,327	130,472
Total (*)	197,087	360,247

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



(d) Credit quality of financial assets

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

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

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

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

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

2015	Loans to small and micro-businesses	Consumer loans	Mortgage loans	Total	Percentage %
	S/000	S/000	S/000	S/000	
Not overdue or impaired loans	78	1,508	9,644	11,230	98.01
Normal	78	1,508	9,539	11,125	97.09
With potential problems	-	-	105	105	0.92
Overdue but not impaired loans	-	-	3	3	0.03
With potential problems	-	-	3	3	0.03
Impaired loans	-	51	700	751	1.78
Substandard	-	26	135	161	0.95
Doubtful	-	25	298	323	0.07
Loss	-	-	267	267	0.76
Gross portfolio	78	1,559	10,347	11,984	104.59
Less: Provisions (**)	46	36	444	526	4.59
Total net (***)	32	1,523	9,903	11,458	100.00

2014	Loans to small and micro-businesses	Consumer loans	Mortgage loans	Total	Percentage
	S/.000	S/.000	S/.000	S/.000	%
Not overdue or impaired loans	128	1,492	9,035	10,655	5.06
Normal	19	1,492	8,838	10,349	4.91
With potential problems	109	-	197	306	0.15
Overdue but not impaired loans	-	-	4	4	0.00
With potential problems	-	-	4	4	0.00
Impaired loans	22	15	599	200,447	95.15
Substandard	22	-	3	199,836	94.86
Doubtful	-	15	329	344	0.16
Loss	-	-	267	267	0.13
Gross portfolio	150	1,507	9,638	211,106	100.21
Less: Provisions (**)	81	24	343	448	0.21
Total net (***)	69	1,483	9,295	210,658	100.00

(\*) Includes financial institutions, large and medium businesses

(\*\*) Specific provisions, general, mandatory and voluntaries.

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

As of December 31, 2015 and 2014, refinanced loans amounted to (in thousands) S/.2,267 and S/.5,066, respectively, and restructured loans amounted to (in thousands) S/.14,270 and S/.12,492, respectively. Presented below, is the structure in relation to direct loans quality:

	2015	2014
	S/.000	S/.000
Refinanced loans:		
Not overdue or impaired	2,120	4,727
Impaired	147	339
Total	2,267	5,066
Restructured loans:		
Impaired	14,720	12,492

Regarding investments portfolio, COFIDE quarterly assesses conditions of the portfolio represented of debt and equities subjected to impairment so as to identify if there are factors devoting a decrease in fair value, according to the Attachment – Standard Methodology to identify impairment value of financial instruments of Resolution SBS No. 7033-2012.

(e) Financial assets overdue or impaired

(i) Analysis of impaired financial assets

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

	Impaired loan portfolio				Total S/000
	Non-retail loans	Small and micro- business loans	Consumer loans	Mortgage loans	
	S/000	S/000	S/000	S/000	
<b>2015</b>	124,297	-	51	700	125,048
Impaired loans	153,450	-	21	374	153,845
Provision for doubtful account	14,085	-	-	700	14,785
Fair value of guarantees					-
<b>2014</b>					
Impaired loans	201,030	22	15	599	201,666
Provision for doubtful account	43,751	1	9	276	44,037
Fair value of guarantees	176,810	826	-	599	178,235

(ii) Provisions constituted for credit risk

Changes as of December 31, 2015 and 2014 of provisions constituted for credit risk of impaired loans are shown below:

Movement of provisions	Loan portfolio				Total S/000
	Non-retail loans	Small and micro- business loans	Consumer loans	Mortgage loans	
	S/000	S/000	S/000	S/000	
<b>Balance as of January 1, 2014</b>	32,765	6	-	357	33,128
Plus provision for 2014	19,309	1	9	-	19,319
Less reversals	(9,413)	-	-	(18)	(9,431)
Les write-offs	(930)	-	-	-	(930)
Less change of ranking	(4)	(6)	-	(63)	(73)
Plus reassignment of provisions	1,496	-	-	-	1,496
Plus exchange difference	528	-	-	-	528
<b>Balance as of December 31, 2014</b>	43,751	1	9	276	44,037
Plus provision for 2015	57,604	-	18	103	57,725
Less reversals	(7,775)	-	(6)	(5)	(7,786)
Les write-offs	(994)	-	-	-	(994)
Plus reassignment of provisions	1,191	-	-	-	1,191
Plus exchange difference	1,357	-	-	-	1,357
<b>Balance as of December 31, 2015</b>	95,134	1	21	374	95,530

(iii) As of December 31, 2015 and 2014, interests, commissions and expenses on loans (director or indirect), overdue, in legal collection or classified as impaired loans, amount to (in thousands) S/.26,029 and S/.25,863, from which (in thousands) S/.269 and S/.3,313 correspond to direct loans and (in thousands) S/.25,760 and S/.22,550 to indirect loans (contingent), respectively.

- (iv) Carrying amount recorded corresponding to impaired written-off loans, amounted to (in thousands) S/.354,037 and S/.312,779 as of December 31, 2015 and 2014, respectively. Changes are presented below:

	<b>Written-off loan portfolio S/.000</b>
Balances as of January 1, 2014	293,554
Plus: Additions	2,451
Less: Reversals in cash	(1,226)
Plus: Exchange difference effect	18,000
Balances as of December 31, 2014	312,779
Plus: Additions	1,136
Less: Reversals in cash	(2,635)
Plus: Exchange difference effect	42,757
Balances as of December 31, 2015	354,037

- (v) Overdue but not impaired loans

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

As of December 31, 2015 and 2014, the estimated fair value of guarantees covering the item of not overdue or impaired loans amounts to (in thousands) S/.3 and S/.4, respectively. Detail of overdue and not impaired loans correspond to mortgages between 31 and 60 days.

***(f) Credit risk management for the loan portfolio***

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

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

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

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

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

**(g) Credit risk management in investments**

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

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

	<u>2015</u>	<u>2014</u>
	<u>S/.000</u>	<u>S/.000</u>
<b>Instruments issued in Peru</b>		
AAA	47,843	49,502
From AA- to AA+	198,083	295,226
From A- to A+	13,174	-
4 (pe)	37,535	14,092
Without classification	<u>88,569</u>	<u>93,262</u>
National total	<u>385,204</u>	<u>452,082</u>
<b>Instruments issued abroad</b>		
AAA	197,660	229,621
From AA- to AA+	2,339,156	2,339,156
From BBB- to BBB+	874,445	531,008
From BB- to BB+	<u>325,341</u>	<u>311,037</u>
Foreign total	<u>3,736,602</u>	<u>3,410,822</u>
Accrued interests	<u>21,061</u>	<u>27,329</u>
Total	<u><u>4,142,867</u></u>	<u><u>3,890,233</u></u>

**(h) Risk concentrations**

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

**(i) Concentration alerts of assets for unique risk:**

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

(ii) Diversification alerts per sector of economic activity:

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

(iii) Diversification alerts of investments and available for market:

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

(iv) Concentration alerts of liabilities for unique risk:

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

As of December 31, 2015 and 2014, financial instruments exposed to credit risk were allocated according to the following economic sectors:

	2015				2014			
	Loans and items receivable	Available- for- sale	Hedging derivatives	Total	Loans and items receivable	Available- for- sale	Hedging derivatives	Total
	S/.000	S/.000	S/.000	S/.000	S/.000	S/.000	S/.000	S/.000
<b>Asset</b>								
Financial services	1,956,711	2,360,555	3,657	4,320,923	523,682	2,374,601	-	2,898,283
Financial intermediaries	7,124,201	-	-	7,124,201	5,062,399	-	-	5,062,399
Other non-retail	249,120	1,782,312	-	2,031,432	178,655	1,515,632	-	1,694,287
Consumer	1,470	-	-	1,470	1,483	-	-	1,483
Mortgage	9,904	-	-	9,904	9,242	-	-	9,242
<b>Total</b>	<b>9,341,406</b>	<b>4,142,867</b>	<b>3,657</b>	<b>13,487,930</b>	<b>5,775,461</b>	<b>3,890,233</b>	<b>-</b>	<b>9,665,694</b>

As of December 31, 2015 and 2014, financial instruments exposed to credit risk according to geographical area were as follows:

	<b>Financial instruments (*)</b>			
	<b>Loans and items receivable (*)</b>	<b>Available for sale investments</b>	<b>Hedging derivatives</b>	<b>Total</b>
	<b>S/.000</b>	<b>S/.000</b>	<b>S/.000</b>	<b>S/.000</b>
<b>As of December 31, 2015</b>				
Peru	3,170,989	1,690,184	-	4,861,173
Panama	1,109,723	2,520	-	1,112,243
Venezuela	53	2,339,156	-	2,339,209
Cayman Islands	1,302,798	111,007	-	1,413,805
United Kingdom	2,054,828	-	-	2,054,828
Japan	46,128	-	(159)	45,969
Germany	76	-	-	76
United States	1,431,504	-	3,816	1,435,320
Brazil	127,168	-	-	127,168
The Netherlands	62,440	-	-	62,440
Bahamas	35,699	-	-	35,699
<b>Total</b>	<b>9,341,406</b>	<b>4,142,867</b>	<b>3,657</b>	<b>13,487,930</b>
<b>As of December 31, 2014</b>				
Peru	5,676,933	1,437,599	-	7,114,532
Panama	427	2,561	-	2,988
Venezuela	46	2,339,156	-	2,339,202
Cayman Islands	39,772	110,917	-	150,689
Japan	53	-	-	53
Germany	1,526	-	-	1,526
United States	56,704	-	-	56,704
<b>Total</b>	<b>5,775,461</b>	<b>3,890,233</b>	<b>-</b>	<b>9,665,694</b>

(\*) Balances are net of corresponding provisions.

### ***Liquidity risk***

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

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

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



Additionally, COFIDE assesses liquidity in the medium and long-term through a structural analysis of its inflows and outflows of funds in various maturity terms, using as modeling tools of the static cash flow, dynamic and estimate of liquidity gaps between asset and liability positions in and off the statement of financial position over a determined term horizon. This process allows knowing various funding sources, how liquidity needs grow and what tenors are mismatched. Assets as well as liabilities are considered internal assumptions for obligations estimated as a result of contingent liabilities, as may also be guarantee letters or unutilized credit lines. Acknowledging this information, necessary decisions are made to maintain objective liquidity levels.

The table below presents cash flows payable by COFIDE according to agreed contractual terms. In the case of liabilities with undetermined maturity, terms are assumed according to internal assumptions, based on methodological notes from Attachment 16 – Liquidity for maturity term (table).

Amounts disclosed are cash flows according to terms contracted without discounts and include their corresponding accrued interests.

	<b>2015</b>				
	<b>Up to 1 month</b>	<b>Over 1 up to 3 months</b>	<b>Over 3 up to 12 months</b>	<b>Over 1 year</b>	<b>Total</b>
<b><u>Exposure to liquidity risk</u></b>	<b>S/.000</b>	<b>S/.000</b>	<b>S/.000</b>	<b>S/.000</b>	<b>S/.000</b>
<b>Risk of financial position</b>					
<b>Liability</b>					
Obligations with the public	-	21,051	11,513	-	32,564
Deposits in financial entities and international financial organizations	37,246	36,169	151,529	-	224,944
Debts and financial obligations	322,776	271,567	1,641,128	7,943,650	10,179,121
Hedging derivatives	1,783	3,566	16,044	128,355	149,748
Accounts payable	4,800	6,096	335	-	11,231
Other liabilities	633	-	492	-	1,125
Total	<u>367,238</u>	<u>338,449</u>	<u>1,821,041</u>	<u>8,072,005</u>	<u>10,598,733</u>
<b>Risk of financial position</b>					
<b>Contingent liabilities</b>					
	-	-	-	553,892	553,892
Total	<u>367,238</u>	<u>338,449</u>	<u>1,821,041</u>	<u>8,625,897</u>	<u>11,152,625</u>
<b>2014</b>					
	<b>Up to 1 month</b>	<b>Over 1 up to 3 months</b>	<b>Over 3 up to 12 months</b>	<b>Over 1 year</b>	<b>Total</b>
<b><u>Exposure to liquidity risk</u></b>	<b>S/.000</b>	<b>S/.000</b>	<b>S/.000</b>	<b>S/.000</b>	<b>S/.000</b>
<b>Risk of financial position</b>					
<b>Liability</b>					
Obligations with the public	4,847	1,767	40,943	-	47,557
Deposits in financial entities and international financial organizations	-	10,183	185,286	-	195,469
Debts and financial obligations	285,387	381,940	551,491	5,526,908	6,745,726
Hedging derivatives	1,854	3,708	16,682	133,455	155,699
Accounts payable	3,374	5,068	-	-	8,442
Other liabilities	652	-	463	-	1,115
Total	<u>296,114</u>	<u>402,666</u>	<u>794,865</u>	<u>5,660,363</u>	<u>7,154,008</u>
<b>Risk of financial position</b>					
<b>Contingent liabilities</b>					
	-	21,948	18,719	641,745	682,412
Total	<u>296,114</u>	<u>424,614</u>	<u>813,584</u>	<u>6,302,108</u>	<u>7,836,420</u>

### ***Market risk***

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

**(a) Trading portfolio**

COFIDE, in relation to market risk, is exposed to interest rate risk, exchange risk and price risk, affecting the value of assets and positions of the trading portfolio. As of December 31, 2015 and 2014, COFIDE does not have any balance due to exposure of the trading portfolio.

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

In order to estimate value at risk of interest rate, the concept of “Duration” is used as sensitivity measure of the portfolio of investments and derivatives of COFIDE. In case of value at risk for exchange rate, level of exposure per currency is calculated by adding the present value of estimated investments and derivatives. Regarding value at risk of prices, the market value of each investment effective at the assessment date is estimated. Once risk factors have been determined for interest and exchange rates, sensitivity of factors of specific risks and target variables is estimated. Subsequently, VaR for interest rates in foreign currency, VaR for exchange rate risk, VaR for price risk and VaR for aggregate market risk are determined. Additionally, stress tests are monthly performed, as well as model validating tests (Back testing).

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

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

**(i) Interest rate risk**

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

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

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

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

The results of these two internal interest risk indicators in a normal scenario are as follows:

	<u>2015</u>	<u>2014</u>
GER =	S/23,558,205 (0.677% p.e)	S/29,314,290.50 (1.0367% p.e)
VPR =	S/140,661,988 (4.044% p.e)	S/64,557,323.06 (2.2832% p.e)

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

### ***Re-pricing gap***

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

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

	<u>2015</u>					<u>Do not accrue interests</u>	<u>Total</u>
	<u>Up to 1 month</u>	<u>From 1 to 3 months</u>	<u>From 3 to 12 months</u>	<u>From 1 to 5 years</u>	<u>More than 5 years</u>		
<b>Assets</b>							
Cash	1,995,045	-	-	-	-	(38,334)	1,956,711
Available for sale investments	-	211,252	42,444	245,864	1,286,829	2,356,478	4,142,867
Loan portfolio, net	730,565	1,217,195	1,304,614	2,380,198	2,264,079	(586,655)	7,309,996
Hedging derivatives	46	92	409	2,180	1,088	(158)	3,657
Accounts receivable, net	-	-	-	-	-	73,435	73,435
Other assets	-	-	-	-	-	58,564	58,564
<b>Total assets</b>	<b>2,725,656</b>	<b>1,428,539</b>	<b>1,347,467</b>	<b>2,628,242</b>	<b>3,551,996</b>	<b>1,863,330</b>	<b>13,545,230</b>
<b>Liabilities</b>							
Obligations to the public	-	21,051	11,513	-	-	-	32,564
Deposits by Banks and financial organizations	37,246	36,169	151,529	-	-	-	224,944
Debts with financial entities	119,022	239,613	1,551,908	520,477	457,034	-	2,888,054
Financial obligations	203,754	31,954	89,220	1,779,586	5,186,553	-	7,291,067
Hedging derivatives	1,783	3,566	16,044	85,570	42,785	-	149,748
Accounts payable	-	-	-	-	-	12,356	12,356
Other liabilities	-	-	-	-	-	245,679	245,679
Equity	-	-	-	-	-	2,700,818	2,700,818
<b>Total liabilities and equity</b>	<b>361,805</b>	<b>332,353</b>	<b>1,820,214</b>	<b>2,385,633</b>	<b>5,686,372</b>	<b>2,958,853</b>	<b>13,545,230</b>
Off-balance sheet account:							
Assets hedging derivatives	-	-	-	35,782	349,113	-	384,895
Liabilities hedging derivatives	-	-	-	51,493	502,399	-	553,892
<b>Marginal gap</b>	<b>2,363,851</b>	<b>1,096,186</b>	<b>(472,747)</b>	<b>226,898</b>	<b>(2,287,662)</b>	<b>(1,095,523)</b>	
<b>Accumulated gap</b>	<b>2,363,851</b>	<b>3,460,037</b>	<b>2,987,290</b>	<b>3,214,188</b>	<b>926,526</b>		

	2014						
	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Do not accrue interests	Total
	S/. 000	S/. 000	S/. 000	S/. 000	S/. 000	S/. 000	S/. 000
<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
Loan portfolio, net	131,467	572,270	814,026	2,055,774	2,073,588	(452,378)	5,194,747
Hedging derivatives	2	4	15	80	39	(140)	-
Accounts receivable, net	-	-	-	-	-	56,409	56,409
Other assets	-	-	-	-	-	49,773	49,773
<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>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 with financial entities	233,382	353,967	501,926	1,326,482	419,474	-	2,835,231
Financial obligations	52,005	27,973	49,565	957,748	2,823,204	-	3,910,495
Hedging derivatives	1,854	3,708	16,682	88,971	44,484	-	155,699
Accounts payable	-	-	-	-	-	9,423	9,423
Other liabilities	-	-	-	-	-	306,536	306,536
Equity	-	-	-	-	-	2,254,434	2,254,434
<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>
Off-balance sheet account:							
Assets hedging derivatives	-	19,170	16,350	165,135	395,388	-	596,043
Liabilities hedging derivatives	-	24,458	20,859	210,682	504,440	-	760,439
<b>Marginal gap</b>	<b>370,342</b>	<b>488,945</b>	<b>40,004</b>	<b>(160,551)</b>	<b>(351,821)</b>	<b>(551,315)</b>	
<b>Accumulated gap</b>	<b>370,342</b>	<b>859,287</b>	<b>899,291</b>	<b>738,740</b>	<b>386,919</b>		

### *Sensitivity to changes in interest rates*

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

Presented below, sensitivity on indications of interest rate towards a 200 basis points shock, is detailed below:

	2015	2014
GER =	S/24,045,627 (0.691% p.e)	S/49,077,301.38 (1.7357% p.e)
VPR =	S/ 143,377,616 (4.122% p.e)	S/54,354,634.53 (1.9223% p.e)

It is important to remark that this information flows from the internal interest rate model of COFIDE, updated in December 2015.

#### (ii) Foreign currency exchange risk

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

Foreign currency transactions are made at free market exchange rates.

As of December 31, 2015, weighted average exchange rate of the free market, published by the SBS for transactions in U.S. dollars was of S/.3.408 per US\$1 for purchase and S/.3.413 per US\$1 for sale (S/.2.981 and S/.2.989 as of December 31, 2014, respectively). As of December 31, 2015, the exchange rate for accounting asset and liability accounts in foreign currency fixed by the SBS was the average rate of purchases and sales, equivalent to S/.3.411 per US\$1 (S/.2.986 as of December 31, 2014).

The details of COFIDE's position per currency are presented below:

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

As of December 31, 2015, COFIDE recorded net exchange profit for (in thousands) S/.2,683 (profit for S/.48,087 as of December 31, 2014), presented net under “Exchange earnings” of the statement of income.

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

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

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

Sensitivity analysis	Change in exchange rates	2015	2014
	%	S/.000	S/.000
<b>Devaluation</b>			
U.S. dollar	5	24,888	21,501
U.S. dollar	10	49,776	43,002
<b>Revaluation</b>			
U.S. dollar	5	(24,888)	(21,501)
U.S. dollar	10	(49,776)	(43,002)

### ***Fair value***

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

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

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

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

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

Level 1: Prices of the quoted instrument in asset markets.

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

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

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

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

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

#### ***Determination of fair value and hierarchy of securities***

The table below shows an analysis of financial instruments recorded at fair value according to the hierarchy level of its fair value:

Financial instruments recorded at fair value under valuation methods	2015			2014		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Asset						
Available for sale investments						
- Debt instruments	1,555,932	-	1,555,932	1,213,269	-	1,213,269
- Capital instruments (*)	247,779	-	247,779	337,808	-	337,808
Total	<u>1,803,711</u>	<u>-</u>	<u>1,803,711</u>	<u>1,551,077</u>	<u>-</u>	<u>1,551,077</u>
Liability						
Accounts payable for derivatives	-	149,748	149,748	-	155,699	155,699

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

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

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

#### **Hedging transactions**

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

The table below presents, as of December 31, 2015 and 2014, the fair value of derivative financial instruments, recorded as asset or liability, along with nominal values and maturities. The amount of reference, presented gross, is the amount of the underlying asset of the derivative and is the basis on which changes in the fair value of derivatives are measured.

	2015				2014				2015 y 2014
	Assets	Liabilities	Reference amount	Maturity	Assets	Liabilities	Reference amount	Maturity	Hedged instruments
	S/000	S/000	S/000		S/000	S/000	S/000		
<b>Derivatives designated from cash flow hedges</b>									
US\$ / JPY currency swaps	-	-	-	-	-	298	4,404	15/02/2019	Debt with JBIC
US\$ / JPY currency swaps	-	-	-	-	-	561	10,379	15/02/2019	Debt with JBIC
US\$ / JPY currency swaps	-	-	-	-	-	874	10,080	15/02/2019	Debt with JBIC
US\$ / JPY currency swaps	-	-	-	-	-	571	10,831	15/02/2019	Debt with JBIC
US\$ / JPY currency swaps	-	-	-	-	-	1,327	10,347	15/02/2019	Debt with JBIC
US\$ / JPY currency swaps	-	-	-	-	-	1,256	7,995	15/02/2019	Debt with JBIC
US\$ / JPY currency swaps	-	-	-	-	-	1,692	12,981	15/02/2019	Debt with JBIC
PEN / US\$ currency swaps	-	-	-	-	-	1,556	35,702	05/12/2025	Debt with BID US\$25 million
US\$ / JPY currency swaps	-	-	-	-	-	4,198	26,169	15/02/2019	Debt with JBIC
US\$ / JPY currency swaps	-	-	-	-	-	4,617	27,233	15/02/2019	Debt with JBIC
US\$ / JPY currency swaps	-	-	-	-	-	906	5,337	15/02/2019	Debt with JBIC
US\$ / JPY currency swaps	-	-	-	-	-	1,814	10,964	15/02/2019	Debt with JBIC
US\$ / JPY currency swaps	-	-	-	-	-	1,102	6,592	15/02/2019	Debt with JBIC
PEN / US\$ currency swaps	-	-	-	-	-	1,595	39,521	15/02/2019	Debt with BID US\$200 million
PEN / US\$ currency swaps	-	-	-	-	-	1,297	39,521	15/02/2019	Debt with BID US\$200 million
US\$ / JPY currency swaps	-	125,438	255,510	08/09/2031	-	108,335	224,370	08/09/2031	Debt with AFLAC
US\$ / JPY currency swaps	-	13,263	73,814	20/10/2027	-	11,586	64,818	20/10/2027	Debt with JICA
US\$ / JPY currency swaps	-	717	4,145	20/10/2027	-	623	3,640	20/10/2027	Debt with JICA
US\$ / JPY currency swaps	-	10,330	51,426	20/10/2027	-	9,377	45,159	20/10/2027	Debt with JICA
	-	149,748	384,895		-	153,585	596,043		
<b>Interest-rate swaps</b>									
Fixed rate / Libor rate 6M - US\$	-	-	-	-	-	2,114	40,311	15/02/2014	Debt with BID US\$200 million
Interest-rate swaps									
Fixed rate / Libor rate 6M - US\$	3,816	-	682,200	15/07/2019	-	-	-	15/02/2019	COFIDE's corporate bonds 2019 US\$ 300 million
	3,816	-	682,200		-	2,114	40,311		



As of December 31, 2015 and 2014, period when cash flows of the hedge are expected to occur, the effect in the statement of income, net of deferred income tax is as follows:

	<u>Up to 1 year</u> S/.000	<u>From 1 to 3</u> <u>years</u> S/.000	<u>From 3 to 5</u> <u>years</u> S/.000	<u>Over 5 years</u> S/.000
Cash outflow (liability) 2015	21,393	42,785	42,785	44,485
Cash outflow (liability) 2014	22,244	44,485	44,485	44,485

In January 2015, fifteen currency swaps and one interest-rate swap were early settled, and as a result, unrealized loss of accumulated cash flow hedges were transferred to the statement of income that date for (in thousands) S/.7,070. Therefore, during 2015 and 2014, accumulated balance of cash flow hedges, presented as other comprehensive income in profit/loss for effective hedges, is being realized within the term of the underlying financial instrument (unrealized profit/loss, net of deferred income tax, was (in thousands) a net unrealized profit for S/.5,588 and net unrealized loss for S/.12,489, respectively; see cash flow hedges in the statement of changes in equity).

As of December 31, 2015 and 2014, COFIDE holds 4 and 19 currency swaps, respectively, according to the SBS authorizations, which classify as cash flow hedges of debts. By means of such operation, in economic terms, the debt held by COFIDE is hedged.

Additionally, as of December 31, 2015 and 2014, COFIDE holds one interest-rate swap in order to hedge the variable rate component of certain debts, which mature in 2019.

COFIDE has a methodology of measurement of the degree of ineffectiveness of hedges of derivative financial instruments that are undertaken with such objective. As of December 31, 2015 and 2014, COFIDE has not presented a decrease in relation to ineffectiveness of these hedges in the statement of income.

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

(iii) Financial instruments at fixed rates

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

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

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

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

Fair value and carrying amount	2015		2014	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Asset</b>				
Cash	1,956,711	1,956,711	523,682	523,682
Available for sale investments:				
Capital instruments	2,586,935	2,586,935	2,676,964	2,676,964
Debt instruments	1,555,932	1,555,932	1,213,269	1,213,269
Loan portfolio, net	7,309,996	7,309,996	5,194,747	5,194,747
Hedging derivatives	3,657	3,657	-	-
Accounts receivable, net	73,435	73,435	56,409	56,409
Other assets	1,264	1,264	623	623
<b>Total</b>	<b>13,487,930</b>	<b>13,487,930</b>	<b>9,665,694</b>	<b>9,665,694</b>
<b>Liability</b>				
Obligations to the public	32,564	32,564	47,557	47,557
Deposits by Banks and financial organizations	224,944	224,944	195,469	195,469
Due to banks	2,888,054	2,886,867	2,835,231	2,835,576
Financial obligations	7,291,067	7,316,673	3,910,495	3,910,336
Hedging derivatives	149,748	149,748	155,699	155,699
Accounts payable	12,356	12,356	9,423	9,423
Other liabilities	42,904	42,904	42,570	42,570
<b>Total</b>	<b>10,641,637</b>	<b>10,666,056</b>	<b>7,196,444</b>	<b>7,196,630</b>

Assets granted as guarantee:

As of December 31, 2015, COFIDE has carried out repo transactions comprising resources in local currency for (in thousands) S/.21,051, granted from several trusts managed by COFIDE, which accrue interests at a certain annual rate and are guaranteed by Structured Bonds, whose carrying amount is (in thousands) S/.24,246 and face value is (in thousands) US\$6,978. As of December 31, 2014, COFIDE has carried out repo transactions comprising resources in local currency for (in thousands) S/.28,861, granted from several trusts managed by COFIDE, which accrued interests at a certain annual rate and were guaranteed by Structured Bonds, whose carrying amount was (in thousands) S/.30,448 and face value was (in thousands) US\$10,643, as of December 31, 2014.

Granted funds are intended to assist different obligations of COFIDE.

## 22. MANAGEMENT OF OTHER RISKS

### (a) Operational risk

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

COFIDE has identified its operational risks focusing on transversal processes comprised in its cooperativeness. Additionally, continuous improvements are made in policies and methodologies of identification, assessment and follow-up of operational risk, as well as the definition of roles and responsibilities of those charged with its management.

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

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

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

***(b) Capital management – Regulatory***

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

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

According to regulations set forth by the SBS, COFIDE is obliged to maintain a regulatory capital equal to or greater than 10% of assets and contingents weighted per risk, comprising the requirement of regulatory capital for market risk, for operational risk and for credit risk. As of December 31, 2015 and 2014, COFIDE uses the standard method to calculate the requirement of Regulatory Capital for credit and market risk, and basic method for operational risk. Additionally, on July 20, 2011, Resolution SBS No. 8425-2011 (Reglamento para el Requerimiento de Patrimonio Efectivo Adicional – Regulations for Additional Regulatory Capital Requirement) was published. By means of this regulation, entities shall apply requirements per economic cycle, per concentration risk, per market concentration risk, per interest rate risk in bank records and other risks. This Additional Regulatory Capital requirement must be reached within five years. Its first section is 40% of the total requirement as from July 2012. The additional requirements are annual, at 15% rate, achieving 100% on July 31, 2016. It is important to note that the requirement per economic cycle is activated and deactivated based on pro-cyclical provisions for loans.

As of December 31, 2015 and 2014, the regulatory capital of COFIDE, determined according to legal standards, is (in thousands) S/.3,478,121 and S/.2,827,529, respectively; which is used to calculate certain limits on restrictions applicable to banking entities in Peru, which Management of COFIDE considers to have been entirely complied with.

As of December 31, 2015, assets and contingent loans weighted for credit risk amount to (in thousands) S/11,066,813 (S/.6,050,988 as of December 31, 2014) and the equity requirement for credit, market and operational risk, determined by COFIDE according to effective legal standards, add up to (in thousands) S/.1,139,910 (S/.640,633 as of December 31, 2014); which generate a global capital ratio of 30.51% (44.14% as of December 31, 2014).

### **23. SUBSEQUENT EVENTS**

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

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