

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

Independent Auditors' Report

Financial Statements

As of December 31, 2016 and 2015

(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 comprise the statements of financial position as of December 31, 2016 and 2015, 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. COFIDE's Management is responsible for the preparation and fair presentation of these financial statements in accordance with Generally Accounting Principles accepted 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 the Government Financial Audit Manual effective those years. Such Manual requires 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, aforementioned financial statements, present fairly, in all material aspects, the financial position of **Corporación Financiera de Desarrollo S.A. - COFIDE** as of December 31, 2016 and 2015, 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 English-speaking readers and have been derived from the financial statements originally issued in Spanish.

Gris y Asociados S. Civil de R.L.

Countersigned by:



(Partner)

Eduardo Gris Percovich
CPC Registration N° 12159

March 17, 2017

CORPORACION FINANCIERA DE DESARROLLO S.A. - COFIDE

STATEMENTS OF FINANCIAL POSITION

AS OF DECEMBER 31, 2016 AND 2015

Expressed in thousands of soles (S/000)

	Notes	2016 S/000	2015 S/000		Notes	2016 S/000	2015 S/000
Assets				Liabilities			
Cash	5	1,783,156	1,956,711	Obligations to the public	10	8,688	11,163
Available for sale investments	6	4,354,667	4,142,867	Deposits by financial entities and international financial organizations	10	125,022	224,944
Loan portfolio	7	7,231,302	7,309,996	Debts and financial obligations	11	9,650,945	10,179,121
Hedging derivatives	9	1,342	3,657	Hedging derivatives	12	112,325	149,748
Accounts receivable, net	9	43,777	73,435	Accounts payable	12	393,671	33,757
Assets seized, received as payment, awarded	9	-	13,032	Provisions	12	50,235	51,407
Property, furniture and equipment, net	8	11,592	12,579	Current taxes		3,111	-
Intangible asset, net	9	4,770	6,253	Deferred income tax	18	279,100	191,087
Current taxes	18	-	21,112	Other liabilities	12	1,383	3,185
Other assets	9	6,489	5,588				
		<u>13,437,095</u>	<u>13,545,230</u>	Total liabilities		<u>10,624,480</u>	<u>10,844,412</u>
				Equity	13		
				Capital stock		2,010,570	1,548,419
				Additional paid-in capital		32,773	466,979
				Treasury shares		-	(15,640)
				Reserves		303,291	295,057
				Retained earnings		21,742	21,742
				Net income for the year		77,996	82,341
				Adjustments to equity		366,243	301,920
				Total equity		<u>2,812,615</u>	<u>2,700,818</u>
Total assets		<u>13,437,095</u>	<u>13,545,230</u>	Total liabilities and equity		<u>13,437,095</u>	<u>13,545,230</u>
Contingent and off-balance sheet accounts							
Contingent risks and commitments	14	1,147,250	788,797				
Trusts, trust commissions and other accounts	14	31,245,657	28,462,552				
Off-balance sheet accounts	14	17,469,343	17,585,552				
Swaps and forwards	14	1,107,906	1,067,096				
		<u>50,970,156</u>	<u>47,903,997</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, 2016 AND 2015 Expressed In thousands of soles (S/000)

	2016	2015
	S/000	S/000
Interest income		
Cash	23,291	10,715
Available for sale investments	118,342	99,615
Direct loan portfolio	504,265	448,860
Total	645,898	559,190
Interest expenses		
Obligations to the public	(639)	(598)
Deposits by financial entities and international financial organizations	(16,299)	(7,467)
Debts and financial obligations		
Debts and obligations with local financial entities	(56,592)	(46,432)
Debts and obligations with foreign financial entities and international financial organizations	(39,498)	(38,519)
Other debts and obligations in the country and abroad	(3,714)	(1,870)
Commissions and other charges for debts and financial obligations	(10,273)	(6,816)
Securities, bonds and outstanding obligations	(322,851)	(249,634)
Interests of accounts payable	(12,650)	(3,556)
Loss for hedging transactions	(7,252)	(3,717)
Total	(469,768)	(358,609)
Gross financial margin	176,130	200,581
Provisions for direct loans	7 (b) 25,467	(18,798)
Net financial margin	201,597	181,783
Income from financial services		
Income from indirect loans	8,430	9,330
Income from trusts and trust commissions	32,852	27,320
Sundry income	1,177	573
	42,459	37,223
Expenses for financial services		
Expenses for trusts and trust commissions	(119)	(63)
Sundry expenses	(3,091)	(4,119)
	(3,210)	(4,182)
Net financial margin of income and expenses for financial services	240,846	214,824
Profit/loss for financial operations		
Available for sale investments	4,104	2,682
Trading derivatives	2,448	-
Profit/loss for hedging transactions	12 (a) 14,121	(24,051)
(Loss) profit from exchange difference	(8,819)	2,683
Others	395	2,258
	12,249	(16,428)
Operating margin	253,095	198,396

CORPORACION FINANCIERA DE DESARROLLO S.A. - COFIDE

STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

Expressed In thousands of soles (S/000)

(Continued)

	<u>Notes</u>	<u>2016</u> S/000	<u>2015</u> S/000
Administrative expenses			
Personnel and Board of Directors' expenses	15	(41,491)	(40,230)
Expenses for services provided by third parties	16	(29,446)	(26,939)
Taxes and contributions		(5,791)	(5,169)
Depreciation and amortization		(4,852)	(4,281)
Total		(81,580)	(76,619)
Net operating margin		171,515	121,777
Net valuation of assets and provisions			
Provisions for indirect loans	7 (b)	5,512	4,888
Provisions for impairment of accounts receivable	9 (b)	(8,044)	928
Provision for seized goods, received as payment, recovered and awarded, and others		3,239	(3,239)
Impairment of investments		(168)	(6,473)
Provisions for lawsuits and claims		(1,018)	(423)
Other provisions		(7,770)	(36,949)
Net operating profit		163,266	80,509
Other income and expenses	7 (f)	(10,078)	1,325
Profit for the year before income tax		153,188	81,834
Income tax	18 (c)	(75,192)	507
Net income for the year		77,996	82,341
Basic and diluted earnings per share in soles (S/)	17	0.0388	0.0410

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, 2016 AND 2015

Expressed In thousands of soles (S/000)

	<u>2016</u> S/000	<u>2015</u> S/000
Net income for the year	77,996	82,341
Other comprehensive income		
Available for sale investments	88,694	(65,459)
Cash flow hedges	22,694	7,761
Other comprehensive income before taxes	111,388	(57,698)
Income tax related to components of other comprehensive income:		
Available for sale investments	(25,887)	18,328
Cash flow hedges	(7,030)	(2,173)
Adjustment of rate for deferred income tax - CAF investments	(14,148)	8,085
Addition of income tax related to components of other comprehensive income	(47,065)	24,240
Other comprehensive income	64,323	(33,458)
Total comprehensive income for the year, net of income tax	142,319	48,883

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, 2016 AND 2015
Expressed In thousands of soles (S/000)**

	Adjustments to equity										
	Capital stock	Additional paid-in capital	Treasury shares	Mandatory reserves	Retained earnings	Net profit/loss for the year	Investments in equity instruments at fair value	Cash flow hedging	Interest in other comprehensive income of CAF investments	Total adjustments to equity	Total
	S/000 Note 13(a)	S/000 Note 13(b)	S/000 Note 13(a)	S/000 Note 13(c)	S/000 Note 13(d)	S/000	S/000 Note 13(d)	S/000 Note 13(d)	S/000 Note 13(d)	S/000 Note 13(d)	S/000
Balance as of January 1, 2015	1,548,419	84	(15,640)	287,346	21,742	77,105	33,795	10,516	291,067	335,378	2,254,434
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 between equity accounts	-	-	-	7,711	69,394	(77,105)	-	-	-	-	-
Changes in equity:											
Capital increase:											
Profit capitalization	-	10,409	-	-	(10,409)	-	-	-	-	-	-
Capital contribution	-	31,228	-	-	-	-	-	-	-	-	31,228
Capitalization of debts	-	425,258	-	-	-	-	-	-	-	-	425,258
Dividends	-	-	-	-	(58,985)	-	-	-	-	-	(58,985)
Total changes in equity	-	466,895	-	7,711	-	5,236	(47,131)	5,588	8,085	(33,458)	446,384
Balance as of December 31, 2015	1,548,419	466,979	(15,640)	295,057	21,742	82,341	(13,336)	16,104	299,152	301,920	2,700,818
Comprehensive income:											
Net income for the year	-	-	-	-	-	77,996	-	-	-	-	77,996
Other comprehensive income	-	-	-	-	-	-	62,807	15,664	(14,148)	64,323	64,323
Total comprehensive income	-	-	-	-	-	77,996	62,807	15,664	(14,148)	64,323	142,319
Reclassification between equity accounts	-	-	-	8,234	74,107	(82,341)	-	-	-	-	-
Changes in equity:											
Capital increase:											
Profit capitalization	21,305	(10,409)	-	-	(10,896)	-	-	-	-	-	-
Capital contribution	15,588	1,461	15,640	-	-	-	-	-	-	-	32,689
Capitalization of debts	425,258	(425,258)	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	(63,211)	-	-	-	-	-	(63,211)
Total changes in equity	462,151	(434,206)	15,640	8,234	-	(4,345)	62,807	15,664	(14,148)	64,323	111,797
Balance as of December 31, 2016	2,010,570	32,773	-	303,291	21,742	77,996	49,471	31,768	285,004	366,243	2,812,615

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, 2016 AND 2015 Expressed In thousands of soles (S/000)

	2016	2015
	S/000	S/000
Operating activities:		
Net income for the year	77,996	82,341
Adjustments		
Depreciation and amortization	4,852	4,281
Provision for loan portfolio	(24,697)	21,372
Other provisions	7,443	1,105
Provision for country risk	(36,514)	34,145
Deferred tax	40,947	(34,370)
Current income tax	34,245	33,863
Provision for impairment of investments	168	6,473
Other adjustments	(3,313)	-
Net variations of assets and liabilities		
Increase (decrease) in assets		
Loans	187,501	(2,051,973)
Available for sale	(123,273)	(325,017)
Accounts receivable and others	7,676	(151,718)
Net increase (decrease) in liabilities		
Financial liabilities, unsubordinated	(749,321)	462,299
Accounts payable and others	338,124	125,411
Profit/loss for the year after net variation of assets and liabilities and adjustments	<u>(238,166)</u>	<u>(1,791,788)</u>
Paid income tax	(31,434)	(55,253)
Net cash flows of operating activities	<u>(269,600)</u>	<u>(1,847,041)</u>
Investment activities:		
Outflow for purchase of property, furniture and equipment and intangibles	(1,701)	(2,055)
Other inflows related to investment activities	149	-
Other outflows related to investment activities	<u>(652)</u>	<u>(595)</u>
Net cash flows of investment activities	<u>(2,204)</u>	<u>(2,650)</u>
Financing activities:		
Inflow for issuance of equity instruments	43,585	31,228
Paid dividends	(63,211)	(58,985)
Other inflows related to financing activities:		
Deposits in financial entities and international financial organizations	(105,100)	32,316
Outstanding securities	<u>223,060</u>	<u>3,312,306</u>
Net cash flows of financing activities	<u>98,334</u>	<u>3,316,865</u>
Net increase (decrease) in cash and cash equivalents	(173,470)	1,467,174
Cash and cash equivalents at the beginning of the year	<u>1,956,711</u>	<u>527,872</u>
Cash and cash equivalents at the end of the year	<u><u>1,783,241</u></u>	<u><u>1,995,046</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, 2016 AND 2015 (In thousands of soles (S/), unless otherwise indicated herein)

1. INCORPORATION, ECONOMIC ACTIVITY AND APPROVAL OF FINANCIAL STATEMENTS

(a) Incorporation and economic activity

Corporación Financiera de Desarrollo S.A. - COFIDE (COFIDE or Bank) is a company where the Peruvian Government has an equity interest of 99.2% (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 0.8%.

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 the collection of funds 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 nationwide.

Additionally, COFIDE is dedicated to managing funds, programs and securities received from the Peruvian Government and financial institutions acting as trustee, 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 Superintendence of Banking, Insurance and Private Administrators of Pension Funds (hereinafter SBS for its acronym in Spanish)) – Law N° 26702 (hereinafter the General Law), and its amendments, 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, 2016 and 2015 was 194 and 194, respectively.

(b) Approval of financial statements

The financial statements for the year ended December 31, 2016, prepared in accordance with generally accepted accounting principles generally accepted in Peru (GAAP in Peru) applicable to financial entities, were authorized for issuance by COFIDE's Management on January 16, 2017. 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 as presented. The financial statements for the year ended December 31, 2015, prepared in accordance with GAAP in Peru for financial entities, were approved at the Shareholders' Meeting held on March 31, 2016.

(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 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 and basis of preparation and presentation*

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 most important 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, 2018.
- 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.
- IFRIC 22 Foreign Currency Transactions and Advance Consideration. Effective for annual periods beginning on or after January 1, 2018.
- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses. Effective for periods beginning on January 1, 2017.
- Amendments to IAS 7 Disclosure Initiative. Effective for periods beginning on January 1, 2017.
- Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions. Effective for periods beginning on January 1, 2018.
- Amendments to IFRS 4 Insurance Contracts and Application of IFRS 9 Financial Instruments. Effective for periods beginning on January 1, 2018.

- Amendments to IAS 40 Transfers of Investment Property. Effective for periods beginning on January 1, 2018.
- Annual Improvements to IFRSs 2014 – 2016 Cycle.
- Amendments to IFRS 10 and IAS 28 Investment Entities: Applying the Consolidation Exception. The date of effective application of these amendments has been determined to be indefinite.

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. 063-2016-EF/30, issued by Peru’s official gazette “El Peruano” on September 2, 2016, the 2016 version of the International Financial Reporting Standards (IFRS) was rendered official, according to the corresponding effective dates of each Standard, rendered official under such Resolution.

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 (IFRS) was rendered official, 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.

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

The most important estimates considered for the preparation of COFIDE’s financial statements include:

- Provision for impaired direct and indirect loans.
- Fair value of hedging derivatives.
- Provision for accounts receivables 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.
- Assessment of contingent liabilities.
- Current and deferred income tax.
- Fair values, classification and investments risk.
- Revenue recognition.

Management has applied its 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*

As of December 31, 2016, Management has not made any adjustment 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”, except for the following:

- Change of rate for the determination of income tax

As of December 31, 2016, 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, 2016 was the increase of the expense for deferred income tax in equity for (in thousands) S/15,877 and the increase of the expense for deferred income tax in the statement of income for (in thousands) S/27,201, respectively (Note 18 (g)).

(b) *Preparation and presentation currency*

COFIDE prepares and presents its financial statements in Peruvian 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, profits 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, accounts receivable, obligations to the public, deposits by banks and international financial organizations, debts and financial obligations, securities, bonds and outstanding obligations, accounts payable, and provisions for contingent loans. Additionally, all derivative products and operations in process, included in other assets and liabilities, are considered as financial instruments.

Accounting policies on the recognition and valuation of these items are indicated 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 “Regulations for the negotiation and accounting for derivative financial products in financial entities” 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 trading, or (b) derivative financial instruments for hedging purposes. Derivative financial instruments for trading are initially recorded at their fair value; subsequently, any change in the fair value of such derivative shall affect the profit/loss for the period. Regarding derivative financial instruments for hedging, certain requirements established by the SBS shall be met relating to procedures, techniques of application and proper and timely documentation supporting the hedging strategy.

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

Future cash flow hedges are 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 profit/loss for the period when the financial liability is settled, and are presented in profit or loss under derivative financial instruments.

Regardless of the type of hedging financial instrument, those instruments should be evaluated regularly and considered as highly effective within a range between 80% and 125% to reduce the risk associated with 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 profit/loss 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. Profits 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 off-balance sheet 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 events change their payment schedules and/or the balance of debt capital.

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

Types of loans

In accordance with Resolution SBS No. 11356-2008 "Regulations for the Evaluation and Classification of the Debtor and Required Provisions", 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 by the debtor's payment capacity, their cash flow, the level of compliance with obligations, the classification assigned by other financial entities, the debtor's financial position and the quality of the customer's management, while 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. 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 the 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 (RCDRC): calculated based on the classification for RCDRC, 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 with 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, also in order of priority</u>	<u>Provision percentage up to</u>
Rural loan and savings institutions	50%
Municipal loan and savings institutions	30%
Development entity for small and micro-businesses	30%
Financial entities	30%
Leasing companies	30%
Cooperatives	40%
Banks	35%

Specific provisions are constituted on direct loans and equivalent exposure 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 risk classification of the financial agent, whether there is a guarantee or not, and based on the type of guarantee.

Additionally, in compliance with Resolution SBS No. 041-2005 “Regulations for Credit Exchange Risk Management”, COFIDE assesses the exposure to credit exchange risk 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 “Accounts receivable” (Note 9 (b)).

As of December 31, 2016 and 2015, provisions are determined according to the SBS. Minimum required percentages for the constitution of provisions are as follows:

<u>Risk category</u>	<u>No guarantees</u>	<u>With preferred guarantees</u>	<u>Readily realizable preferred guarantees</u>	<u>Automatic guarantees</u>
Normal				
Corporate loans	0.70	0.70	0.70	0.70
Loans to large businesses	0.70	0.70	0.70	0.70
Loans to medium businesses	1.00	1.00	1.00	1.00
Loans to small businesses	1.00	1.00	1.00	1.00
Loans to micro-businesses	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 is recorded 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, 2016 and 2015, 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 profit 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. Also, profits or losses for variation of the exchange rate in debt instruments in foreign currency are directly recognized against profit or loss in the period when accrued.

Regarding available for sale investments, profits 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 Regulations 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 impairment loss. 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:

<u>Caption</u>	<u>Useful Life</u>
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 profit 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 realizable 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 realizable 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 recognized impairment loss. 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 profit 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 by COFIDE after recognition based on the cost model.

(j) Impairment loss of financial assets

COFIDE regularly reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount is the higher of fair value less its selling cost and value in use. Value in use is determined based on estimated future cash flows which are discounted to their present value, by using a pre-tax discount rate that reflects current market assessments of the time value of money and risks inherent to the asset.

An impairment loss can be subsequently reversed and recorded as income in profit for the period up to the amount in which the increased carrying amount does not exceed the carrying amount that had been determined if an impairment loss had not been recognized for the asset (or cash-generating unit) in previous years.

(k) Debts and financial obligations – Securities, bonds and outstanding obligations

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 on 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 income taxes 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

Employee 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 employee 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 an accrued base. The provision for estimated annual vacation obligation, for services rendered by employees, is recognized at the date of the statement of financial position.

(m.3) Severance or seniority indemnities

The accrual for employee 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 the financial institution 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, at the date of the statement of financial position, 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 liabilities will be recognized in the financial statements in the period when a change in probabilities occurs, that is, when it is determined that an outflow of resources is probable to occur to cover such liability. Items previously treated as contingent assets will be recognized in the financial statements in the period when it is determined that an inflow of resources is virtually certain to occur.

(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 and service commissions 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, whose 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 effective and/or normal, with potential problems or substandard category, interests are recognized again on an accrual basis.

Income from available for sale investments, previously recognized in equity, is recognized in the income for the period when the instrument is sold or realized.

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 the request of financial entities or government entities are not included in the statement of financial position. Such assets are controlled in separate financial statements and are recorded in off-balance sheet accounts of COFIDE.

(s) *Foreign currency*

COFIDE's functional currency is the Peruvian 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 currency are translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currency are

translated at the rates prevailing at the date when fair value was determined. Non-monetary items which are recognized at historical cost in foreign currency are translated using rates of exchange prevailing at the date of transactions.

Exchange differences arising from monetary items are recognized in net profit or loss in the period when 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 net profit or loss in the period when those monetary items are collected or paid.

(t) Earnings per share

Earnings per share are calculated by dividing net earnings from shareholders by weighted average of outstanding shares during the period. For shares generated by capitalization of earnings, it is considered that, for the calculation of the weighted average, those shares were always outstanding during the year. As of December 31, 2016 and 2015, 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 includes the balance of Cash and Demand deposits held in banks.

(v) Other comprehensive income

As of December 31, 2016 and 2015, 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.

(w) Reclassifications

Pursuant to Resolution SBS No. 6231-2015, effective from January 1, 2016, repo transactions with BCRP held as of December 31, 2015 have been reclassified as follows:

- From Obligations to the public to Accounts payable in the statement of financial position for (in thousands) S/21,401.
- Expenses for interests of repo transactions with BCRP were reclassified from Obligations to the public to Interests of accounts payable in the statement of income for (in thousands) S/2,131.

4. ASSETS SUBJECT TO RESTRICTIONS

As of December 31, 2016, COFIDE has guarantee funds for Margin Call in order to secure operations with derivatives in Yen/U.S. dollar held by COFIDE in favor of J. Aron & Company (Goldman Sachs) for (in thousands) US\$7,827 (US\$17,080 as of December 31, 2015). Based on the daily calculation of the market value of the derivative, COFIDE transfers or receives money from the counterparty. This financial derivative is related to the loan granted by AFLAC to COFIDE in September 2011, which matures in September 2031.

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.

5. CASH

	<u>2016</u>	<u>2015</u>
	<u>S/000</u>	<u>S/000</u>
Checking accounts (a)	991,449	1,912,123
Banco Central de Reserva del Perú - BCRP (b)	408,526	76,923
Other cahs and due from banks (c)	382,863	64
Accrued interests from cash	403	5,936
Provision for country risk (d)	<u>(85)</u>	<u>(38,335)</u>
 Total	 <u>1,783,156</u>	 <u>1,956,711</u>

- (a) As of December 31, 2016 and 2015, checking accounts correspond to cash held in local and foreign banks in soles and foreign currency.
- (b) As of December 31, 2016, in BCRP, balances include (in thousands) US\$1,171 and S/2,903 ((in thousands) US\$1,640 and S/11,636 as of December 31, 2015) corresponding to reserve requirements that financial entities incorporated in Peru shall maintain for deposits and obligations to third parties. These funds are deposited in the BCRP. Required reserve funds representing the legal minimum amount do not bear interests. Required reserve funds of the additional required reserve shall be paid at an interest rate established by the BCRP. Pursuant to current legal provisions, required reserve funds cannot be seized.

As of December 31, 2016, in BCRP, balances include (in thousands) US\$118,500 and S/4,000 (US\$17,500 as of December 31, 2015) for overnight deposits held in BCRP, which accrue interests at an annual effective rate of 0.7001% and 3.00% in foreign and local currency, respectively (0.2969% in foreign currency as of December 31, 2015). Overnight deposits accrued interests in 2016 for (in thousands) US\$105 and (in thousands) S/78 ((in thousands) US\$29 and S/73 as of December 31, 2015), which are included in item "Interest income from cash" in the statement of income.

- (c) This item mainly corresponds to restricted deposits in foreign currency with BCRP for (in thousands) US\$114,064, which secure repo transactions in local currency collected from BCRP (Note 12 (c)).
- (d) This item corresponds to provisions for country risk derived from term deposits and checking accounts held by COFIDE in foreign banks (which are subject to regulatory provision for country risk). Such deposits are held at the short term, so the requirements for these provisions were decreasing gradually. These provisions are established in accordance with the SBS and internal policies of COFIDE about this matter. In 2016, an amount of (in thousands) S/36,336 was recognized for the recovery of the provision for country risk in the statement of income (S/4,190 in 2015).

6. AVAILABLE FOR SALE INVESTMENTS

	<u>2016</u>	<u>2015</u>
	S/000	S/000
CAF shares (a)	2,339,156	2,339,156
Investment funds	93,567	48,372
Shares	2,817	2,520
Mutual funds	-	203,811
Impairment of investments - investment funds	<u>(5,959)</u>	<u>(6,924)</u>
Equity instruments	<u>2,429,581</u>	<u>2,586,935</u>
Structured bonds	1,211,767	1,159,113
Corporate bonds	519,365	257,307
Commercial papers	118,075	33,305
Securitization bonds	49,576	58,798
Subordinated bonds	2,607	2,584
Structured bonds / repos (b)	<u>-</u>	<u>23,764</u>
	1,901,390	1,534,871
Accrued interests	<u>23,696</u>	<u>21,061</u>
Debt instruments	<u>1,925,086</u>	<u>1,555,932</u>
Total	<u><u>4,354,667</u></u>	<u><u>4,142,867</u></u>

- (a) 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, 2016 and 2015, COFIDE holds 97,951 class “B” shares representing 10.45% and 11.50% of 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)).

- (b) As of December 31, 2015, structured bonds / repos comprised bonds from Terminales Portuarios Paita, which were granted as guarantee of short-term financing provided by trusts managed by COFIDE.

Management reviewed the carrying amount of its investments and did not identify any economic event or change that indicates that the value of investments exceeds their recoverable value as of December 31, 2016 and 2015, except for the impairment loss of investments of Fondo de Inversión Latam Perú for (in thousands) US\$1,776 as of December 31, 2016 ((in thousands) US\$2,030 as of December 31, 2015).

As of December 31, 2016 and 2015, as a result of internal assessments, COFIDE established provisions for (in thousands) S/11,213 and S/6,856, respectively, for exposure

to Credit Risk derived from Exchange Risk (RCDRC) of the investments held by COFIDE in foreign currency (Note 12 (b)).

In accordance with the policies of COFIDE, as of December 31, 2016 and 2015, COFIDE only makes investments in instruments with credit ratings between “B” and “AAA” (Note 21 (i)).

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

Type of instruments	Maturity	Interest rate (coupon)		Market value		Unrealized profit or loss	
		2016	2015	2016	2015	2016	2015
		%	%	S/ 000	S/ 000	S/ 000	S/ 000
Local currency:							
Structured bonds	Between January 2033 and June 2037	Between 7.65 - 8.76	Between 5.97 - 8.58	348,606	308,721	19,225	(10,400)
Corporate bonds	Between September 2025 and October 2036	Between 7.25 - 9.19	Between 6.625	209,286	30,840	(1,968)	12,924
Securitization bonds	December 2016	8.62	8.50	-	16,257	-	(159)
Subordinated bonds	October 2022	7.29	7.17	2,645	2,622	44	22
Subtotal in local currency				560,537	358,440	17,301	2,387
CAF shares (Note 3 (E2))	-	-	-	2,339,156	2,339,156	404,261	404,261
				2,899,693	2,697,596	421,562	406,648
Foreign currency:							
Structured bonds	Between December 2033 and April 2037	Between 6.0 - 8.37	Between 6.0 - 8.125	871,644	858,470	23,554	7,534
Corporate bonds	Between January 2017 and July 2021	Between 0.90 - 10.47	Between 6.50 - 9.875	323,683	235,347	10,209	(27,640)
Commercial papers	Between March 2017 and May 2017	Between 2.76 - 4.66	4.75	119,233	33,305	454	(519)
Investment funds	No contractual maturity	-	-	93,568	48,372	16,329	(2,801)
Securitization bonds	Between February 2021 and September 2022	Between 7.72 - 8.34	Between 7.34 - 8.09	49,988	46,124	405	753
Sovereign bonds	December 2015	8.00	8.00	-	-	-	-
Sovereign bonds / repos	Between October 2014 and December 2015	-	-	-	-	-	-
Subordinated bonds	September 2027	-	-	-	-	-	-
Finance lease bonds	January 2014	-	-	-	-	-	-
Bladex shares	No contractual maturity	-	-	2,817	2,520	1,920	1,609
Structured bonds / repos	February 2016	5.83	5.83	-	24,246	-	(35)
Mutual funds	No contractual maturity	-	-	-	203,811	-	190
Subtotal in foreign currency				1,460,933	1,452,195	52,871	(20,909)
Impairment of investments - investment funds				(5,959)	(6,924)	-	-
Total				4,354,667	4,142,867	474,433	385,739

Available for sale investments have the following maturities:

	2016 S/000	2015 S/000
Up to one year	206,665	253,696
More than one year up to 2 years	25,155	124,140
More than 2 years up to 3 years	-	-
More than 3 years up to 4 years	391,336	-
More than 4 years up to 5 years	-	121,724
More than 5 years	3,731,511	3,643,307
Total	4,354,667	4,142,867

7. LOAN PORTFOLIO, NET

	<u>2016</u>	<u>2015</u>
	S/000	S/000
Direct loans:		
Loans to intermediary financial institutions	7,392,095	7,405,143
First-tier loans	15,756	164,582
Restructured loans	14,039	14,270
Refinanced loans	446	2,267
Past-due loans	26,796	57,742
Accounts under legal collection	253	257
	<u>7,449,385</u>	<u>7,644,261</u>
Plus:		
Accrued interests on loans	394,500	310,390
	<u>394,500</u>	<u>310,390</u>
Less:		
Provision for impaired loans	(610,111)	(640,946)
Deferred interests	(2,472)	(3,709)
	<u>(612,583)</u>	<u>(644,655)</u>
Total	<u>7,231,302</u>	<u>7,309,996</u>
Contingent loans - Guarantees and letter of guarantee (Note 14)	<u>653,227</u>	<u>773,390</u>

The balance of the loan portfolio, comprised by 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 resource channeling subscribed with each debtor, where COFIDE is entitled to: i) the automatic collection of debt installments through a charge from the checking account that the debtor holds in BCRP and/or operating Bank he designates and ii), transfer of rights over the 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 the IFI 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, unless an operating bank is designated instead of 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	
	2016	2015	2016 S/000	2015 S/000
Normal	130	130	7,278,078	7,842,883
With potential problems	15	16	730,193	449,325
Substandard	14	10	63,136	64,295
Doubtful	7	4	2,541	4,825
Loss	5	5	26,192	52,614
Total	171	165	8,100,140	8,413,942

The loan portfolio per type of IFI is classified as follows:

	2016		2015	
	S/000	%	S/000	%
Second-tier portfolio:				
Banks (i)	6,461,231	86.74	6,284,262	82.21
Financial entities	481,836	6.47	627,082	8.20
Municipal savings institutions	315,690	4.24	348,838	4.56
Leasing companies	48,125	0.65	41,083	0.54
Micro and small enterprise development entities	36,078	0.48	65,261	0.85
Rural savings institutions	29,955	0.40	12,000	0.16
Cooperatives	19,180	0.26	26,617	0.35
Factoring	4,327	0.05	5,458	0.07
	7,396,422	99.29	7,410,601	96.94
First-pier portfolio:				
Finance lease and promissory notes	16,176	0.22	216,995	2.83
Other loans (i)	36,787	0.49	16,665	0.22
	52,963	0.71	233,660	3.06
Total portfolio	7,449,385	100.00	7,644,261	100.00
Accrued interests on loans	394,500		310,390	
Total general	7,843,885		7,954,651	

- (i) Participations agreements are included in this section in order to canalize available resources to a non-domiciled bank so this bank can grant a loan to the debtor. In general, this type of agreements and the loan between the bank and debtor are performed on an international banking level and under foreign laws. The performance of this transactions is the same as the one included in channeling agreements.

Intermediary	Debtor		Accumulated as of:	
	Name	US\$000	31.12.2016	31.12.2015
Banco Santander de España	COSAC	165,551	165,551	-
	AJEPER	27,000		
Banco Santander de Panama	Corporación Agrolatina S.A.C.	11,050		
	La Virgen	30,000		
	Líneas de Transmisión Peruanas	47,500	115,550	-
Credit Suisse	Ergon Perú S.A.C	30,000		
	GRAÑA Y MONTERO S.A.A.	24,000		
	IC Power	80,000		
	Lis Argentis Corporation	82,795		
	Soc. Tenedora Acciones - SACYR			
	Concesiones - SACYR Perú - Constructora Málaga Hermanos	31,500	248,295	60,804
Deutsche Bank AG london Branch (syndicated)	Empresa de Generación Huallaga - CHAGLLA	100,000	100,000	100,000
Deutsche Bank	Inversiones en Infraestructura de Transporte por Ductos S.A	125,000		
	Iridium Concesiones de Infraestructura S.L.,	30,000		
FMO	COSAC	-	155,000	317,881
	Generación Andina	18,218	18,218	18,218
Goldman Sachs Bank	Gas del Perú y Clean Energy	25,000		
	Generación Eléctrica Molloco	30,000		
HSBC	Minera IRL	70,000	125,000	125,000
	Cerro del Águila -HSBC	15,000	15,000	15,000
Itaú BBA S.A.	Medifarma -Itaú	15,000	15,000	15,000
BTG Pactual		-	-	250,000
Total			957,614	901,903

- (ii) This item corresponds to consumer and mortgage loans granted to employees and former employees.

- (a) 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 its main products were as follows:

	31/12/2016		31/12/2015	
	Loan portfolio in		Loan portfolio in	
	S/ %	US\$ %	S/ %	US\$ %
Short-term working capital	7.03	1.83	6.02	1.88
COFIDE's own resources	7.85	5.22	9.78	4.77
Medium-term working capital	9.53	7.27	9.27	6.83
Probid II	-	5.37	-	Libor + 4.32%
Structured financial products	-	15.34	-	10.66

(b) Changes in the provision for impaired loans and contingent loans was as follows:

	Direct	Contingent	Total
	S/000	S/000	S/000
Balance as of December 31, 2014	594,442	41,564	636,006
Provision for the period	124,124	11,878	136,002
Recoveries	(102,752)	(16,766)	(119,518)
Write-offs	(1,136)	-	(1,136)
Exchange difference	26,268	3,116	29,384
Balance as of December 31, 2015	640,946	39,792	680,738
Provision for the period	120,422	3,004	123,426
Recoveries	(145,119)	(9,120)	(154,239)
Exchange difference	(6,138)	(34)	(6,172)
Balance as of December 31, 2016	610,111	33,642	643,753

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

	2016			2015		
	Direct	Contingent	Total	Direct	Contingent	Total
	S/000	S/000	S/000	S/000	S/000	S/000
Specific provision	132,378	602	132,980	153,848	-	153,848
General provision	72,773	4,488	77,261	77,110	5,806	82,916
Voluntary generic provision	404,960	28,552	433,512	409,988	33,986	443,974
Total	610,111	33,642	643,753	640,946	39,792	680,738

As of December 31, 2016 and 2015, COFIDE has recorded the total mandatory amount required by the SBS for general provisions.

Management considers that the provision for impaired loans and contingent loans is maintained at adequate levels and would cover estimated potential portfolio losses at the date of the statement of financial position.

(c) As of December 31, 2016, nearly 99% of the loan portfolio is concentrated on IFIs (97% as of December 2015).

(d) Loan portfolio is distributed in the following sectors:

Economic sector	2016		2015	
	S/000	%	S/000	%
Commercial loans and micro-businesses				
Financial intermediation (IFI)	7,392,095	99.23	7,405,143	96.87
Commerce	25,170	0.34	4,502	0.06
Hotels and restaurants	14,039	0.19	15,629	0.20
Mortgage loans	7,886	0.11	10,347	0.14
Other community service activities	4,327	0.06	5,458	0.07
Agriculture, livestock, hunt and silviculture	3,566	0.05	148,413	1.94
Consumer loans	2,049	0.03	1,558	0.02
Manufacturing industry	253	0.00	53,198	0.70
Real estate, business and renting activities	-	-	13	0.00
	7,449,385	100.00	7,644,261	100.00

(e) The loan portfolio has the following maturities:

	2016		2015	
	S/000	%	S/000	%
Up to one year	2,742,332	36.9	3,081,505	40.6
More than 1 year and less than 2 years	826,274	11.1	777,420	10.2
More than 2 years and less than 3 years	778,504	10.5	564,920	7.4
More than 3 years and less than 4 years	395,998	5.3	673,495	8.9
More than 4 years and less than 5 years	451,819	6.1	297,981	3.9
More than 5 years	2,227,409	30.0	2,190,941	28.9
Subtotal	7,422,336	100.00	7,586,262	100.00
Overdue portfolio and under legal collection	27,049	0.4	57,999	0.8
Total loan portfolio	7,449,385	100.36	7,644,261	100.00

(f) First-tier portfolio (assigned)

In compliance with global contracts of resource channeling entered into with IFIs, COFIDE entered into supplementary agreements with certain IFIs. By 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 finance 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:

	Latino Leasing US\$	Banco Nuevo mundo US\$	NBK Bank US\$	Consolidated transactions US\$	Total US\$
Balance as of December 31, 2014	1,277	2,714	44	49,678	53,713
Received loans (*)	-	-	-	43,491	43,491
Recoveries and others	(879)	(7)	(20)	(32,682)	(33,588)
Balance as of December 31, 2015	398	2,707	24	60,487	63,616
Equivalent in soles as of December 31, 2015	1,358	9,234	81	206,321	216,994
Received loans (**)	-	-	-	167,681	167,681
Recoveries and others	(398)	-	(24)	(210,535)	(210,957)
Portfolio assignment (***)	-	-	-	(15,520)	(15,520)
Balance as of December 31, 2016	-	2,707	-	2,113	4,820
Equivalent in soles as of December 31, 2016	-	9,085	-	7,091	16,176

(*) 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 Intipuerto S.A.C.

(**) In Q1 2016, pursuant to right and contractual position assignment agreements, financial intermediaries which had debts with 4 COSAC operators assigned their debts to COFIDE for (in thousands) S/555,588. Also, in accordance with the contractual position assignment agreement entered into on April 29, 2016, COFIDE assigned those debts for the same amount to Banco Santander de España.

(***) As of December 31, 2016, COFIDE recorded the assignment of balance of the loans between Maple Etanol and Maple Biocombustible, pursuant to the Private Agreement entered into in October 2015 between COFIDE and Banco Internacional del Perú. Under such agreement, COFIDE assigned its rights on those loans to Interbank, which are not subject to any compensation. The recovery of the provision for the uncollectibility of those loans and the pertinent expense for the assignment of the loan portfolio (US\$15,520 (in thousands)) are recorded in item “Provision for direct loans” and “Other income and expenses” in the statement of income.

8. PROPERTY, FURNITURE AND EQUIPMENT, NET

As of December 31, 2016 and 2015, the change of cost and accumulated depreciation of property, furniture and equipment was as follows:

	Land S/000	Buildings and facilities S/000	Furniture and fixtures S/000	Transportation units S/000	Sundry equipment S/000	Total S/000
Cost:						
Balance as of January 1, 2015	469	21,873	2,544	184	15,889	40,959
Additions	-	-	63	-	1,992	2,055
Disposals	-	-	-	-	(7)	(7)
Balance as of December 31, 2015	469	21,873	2,607	184	17,874	43,007
Additions	-	-	246	-	1,455	1,701
Disposals	-	-	(17)	-	(129)	(146)
Balance as of December 31, 2016	<u>469</u>	<u>21,873</u>	<u>2,836</u>	<u>184</u>	<u>19,200</u>	<u>44,562</u>
Accumulated depreciation:						
Balance as of January 1, 2015	-	15,729	2,059	184	9,839	27,811
Additions	-	605	85	-	1,931	2,621
Disposals	-	-	-	-	(4)	(4)
Balance as of December 31, 2015	-	16,334	2,144	184	11,766	30,428
Additions	-	603	90	-	1,976	2,669
Disposals	-	(1)	(17)	-	(109)	(127)
Balance as of December 31, 2016	<u>-</u>	<u>16,936</u>	<u>2,217</u>	<u>184</u>	<u>13,633</u>	<u>32,970</u>
Net cost:						
As of December 31, 2016	<u>469</u>	<u>4,937</u>	<u>619</u>	<u>-</u>	<u>5,567</u>	<u>11,592</u>
As of December 31, 2015	<u>469</u>	<u>5,539</u>	<u>463</u>	<u>-</u>	<u>6,108</u>	<u>12,579</u>

Management believes that the recoverable values of property, furniture and equipment as of December 31, 2016 and 2015 are higher than their carrying amounts; 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 subject to, as well as possible claims that may present for the period of its activities.

As of December 31, 2016, fully depreciated property, furniture and equipment, still in use, amounts to (in thousands) S/9,032 (S/11,428 as of December 31, 2015).

In 2016 and 2015, an expense for depreciation for (in thousands) S/2,733 and (in thousands) S/2,620, respectively, was recorded and included in the statement of income.

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

This item comprises the following:

	<u>2016</u> S/000	<u>2015</u> S/000
Fair value - hedging derivatives - currency swaps (Note 12 (a))	1,342	-
Fair value - hedging derivatives - rate swaps (Note 12 (a))	-	3,816
Provisions for country risk - derivatives	-	(159)
Hedging derivatives	<u>1,342</u>	<u>3,657</u>
Funds in guarantee - margin call (a)	26,268	58,260
Sundry accounts receivable	20,918	12,374
Account receivable for assigned loan portfolio	2,135	2,091
Commissions receivable	5,900	4,881
Provisions for accounts receivable and others (b)	(11,444)	(4,171)
Accounts receivable, net	<u>43,777</u>	<u>73,435</u>
Software	15,629	14,993
Software accumulated amortization	(10,859)	(8,740)
Intangible assets, net (c)	<u>4,770</u>	<u>6,253</u>
Assets seized, received as payment and awarded	2,303	18,573
Software accumulated amortization	(2,303)	(5,541)
Assets seized, received as payment and awarded, net (b)	<u>-</u>	<u>13,032</u>
Commissions and others paid in advance	3,367	3,545
Works of art and library	795	779
Sundry items	2,327	1,264
Other assets	<u>6,489</u>	<u>5,588</u>
Total	<u><u>56,378</u></u>	<u><u>101,965</u></u>

- (a) As of December 31, 2016, COFIDE has funds in guarantee for (in thousands) US\$7,827 (US\$17,080 as of December 31, 2015) in favor of J. Aron & Company for "Margin Call" in order to secure operations with interest-rate and currency derivatives held by COFIDE.

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

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

	<u>2016</u> S/000	<u>2015</u> S/000
Specific provision	8,899	1,949
Voluntary generic provision	<u>2,545</u>	<u>2,222</u>
Total	<u><u>11,444</u></u>	<u><u>4,171</u></u>

The movement of the provision for uncollectible accounts receivable was as follows:

	<u>2016</u> S/000	<u>2015</u> S/000
Opening balance	4,171	6,462
Provision for the year	8,344	719
Recoveries	(300)	(1,646)
Write-offs	(832)	(1,561)
Exchange difference	<u>61</u>	<u>197</u>
Closing balance	<u><u>11,444</u></u>	<u><u>4,171</u></u>

- (c) Software mainly comprises SAP system licenses. In 2016, COFIDE acquired certain licenses for (in thousands) S/636 (S/595 in 2015) and recorded an amortization expense for (in thousands) S/2,119 (S/1,661 in 2015). This item is presented in “Depreciation and amortization” in the statement of income.
- (d) The reversal of income from awarded goods in 2015, for an amount net of provisions of (in thousands) S/12,954, derived from the payment made by the debtor Petroleum Gas Company S.A. as guarantee, was performed by COFIDE in favor of the debtor, since such payment was not implemented nor executed.

10. OBLIGATIONS TO THE PUBLIC AND DEPOSITS BY FINANCIAL ENTITIES AND INTERNATIONAL FINANCIAL ORGANIZATIONS

	<u>2016</u> S/000	<u>2015</u> S/000
Term deposits (a)	119,000	224,100
Deposits as guarantee (b)	<u>8,389</u>	<u>10,867</u>
	127,389	234,967
Interests accrued	<u>6,022</u>	<u>844</u>
Severance indemnities	<u>299</u>	<u>296</u>
Total	<u><u>133,710</u></u>	<u><u>236,107</u></u>

- (a) As of December 31, 2016, term deposits mainly comprise resources in local currency collected from Banco de Crédito and CMAC Santa, which accrue interests at annual market rates ranging between 4.60% and 6.00% and will mature in March 2017. As of December 31, 2015, term deposits mainly comprised resources in local currency collected from Banco de

Crédito and CMAC Santa, which accrued interests at annual market rates ranging between 4.70% and 5.66% and matured in December 2016.

- (b) As of December 31, 2016, deposits as guarantee include retentions on disbursements pledged in favor of COFIDE, supported by loan operations for (in thousands) S/7,684 and US\$210, which accrue interests at annual market rates of 3% in local currency and 0.4108% in foreign currency, and will mature between March and June 2017. As of December 31, 2015, deposits as guarantee included retentions on disbursements pledged in favor of COFIDE, supported by loan operations for (in thousands) S/10,681 and US\$54, which accrued interests at annual market rates of 2.25% in local currency and 0.1022% in foreign currency, and matured between April and June 2016.

Obligations and deposits of financial entities have the following maturities:

	<u>2016</u>	<u>2015</u>
	S/000	S/000
Up to one month	29,000	37,100
More than 1 month up to 3 months	90,000	35,704
More than 3 months up to 6 months	8,389	26,163
More than 6 months up to 12 months	-	136,000
	<u>127,389</u>	<u>234,967</u>
Total	<u>127,389</u>	<u>234,967</u>

11. DEBTS AND FINANCIAL OBLIGATIONS

	<u>2016</u>	<u>2015</u>
	S/000	S/000
Debts (a)	2,140,688	2,888,054
Financial obligations (b)	<u>7,510,257</u>	<u>7,291,067</u>
	<u>9,650,945</u>	<u>10,179,121</u>
Total	<u>9,650,945</u>	<u>10,179,121</u>

(a) As of December 31, 2016 and 2015, debts with local and foreign financial entities are detailed below:

Creditors	Rate %	2016 S/000	2015 S/000	Maturity
Bank of Tokyo - Mitsubishi / Syndicated	Libor (3M) + 1.725%	-	682,200	September 2016
Bank of Tokyo - Mitsubishi / Bilateral	Libor (3M) + 0.70%	335,600	341,100	February 2017
Scotiabank Perú	de 4.90% a 6.60%	266,750	381,000	June 2017
Banco de la Nación del Perú	de 4.80% a 6.00%	288,000	351,000	December 2017
BBVA Banco Continental	de 4.10% a 5.87%	477,000	392,500	November 2018
Citibank del Peru	5.25%	50,000	-	November 2017
Caja Municipal de Ahorro y Crédito de Arequipa	de 5.35% a 5.40%	50,000	-	March 2017
American Family Life Assurance of Columbus Japan Branch - AFLAC	3.75%	258,606	255,510	September 2031
Banco Internacional del Perú - INTERBANK	5.89%	14,109	35,615	September 2022
Corporación Andina de Fomento - CAF	Libor (6M) + 2.8%	-	102,330	October 2016
Nordic Investment Bank	Libor (6M) + 0.85%	-	8,527	September 2016
Issuance of CAF shares - financial liability (Note 13 (a))	Libor (1y+4.5%)	27,731	28,185	December 2023
Subtotal		<u>1,767,796</u>	<u>2,577,967</u>	
Japan International Coopetation Agency- JICA	From 0.01% to 0.60%	192,704	175,968	October 2027
Kreditanstalt Fur Wiederaufbau - EREE	1.95%	98,604	112,009	June 2025
Kreditanstalt Fur Wiederaufbau - EREE Stage II	2.00%	54,844	-	June 2028
Kreditanstalt Fur Wiederaufbau - Rural loan	1.95%	3,080	-	December 2027
Subtotal (a.1)		<u>349,232</u>	<u>287,977</u>	
Structuring commissions for obligations to Bank of Tokyo - Mitsubishi / Syndicated and Bilateral		(66)	(2,136)	
Subtotal		2,116,962	2,863,808	
Interests		<u>23,726</u>	<u>24,246</u>	
Total		<u><u>2,140,688</u></u>	<u><u>2,888,054</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. By 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.

As of December 31, 2016 and 2015, loans in yens, euros and some loans in U.S. dollars are associated with swap contracts in order to reduce exchange and interest rate risks (Note 12 (a)).

Debts (without considering interests) have the following maturities:

	2016 S/000	2015 S/000
Up to one month	-	117,500
More than 1 month up to 3 months	158,859	195,000
More than 3 months up to 6 months	680,981	277,000
More than 6 months up to 12 months	933,391	1,285,915
More than 12 months	343,731	988,393
Total	<u><u>2,116,962</u></u>	<u><u>2,863,808</u></u>

As of December 31, 2016 and 2015, COFIDE has complied with the payment of capital and interests. Also, COFIDE has 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 such currency in comparison to the U.S. dollar, maturing in September 2031 and October 2027, respectively. In 2016, COFIDE has recorded profit from hedging operations, net, for (in thousands) S/14,121 (loss for (in thousands) S/24,051 in 2015), presented in “Net Profit/loss from Hedging Operations” in the statement of income.

(b) As of December 31, 2016 and 2015, financial obligations are as follows:

Serial	Issuance		Maturity date	Interest rate	2016	2015
	Date	Amount S/000				
<u>In local currency:</u>						
Second program						
Eighth - Serial A	1/06/2007	20,000	15/07/2017	5.90%	3,000	7,000
Eighth - Serial B	2/04/2008	10,000	2/04/2018	6.65%	3,000	5,000
					<u>6,000</u>	<u>12,000</u>
Third program - bonds						
First - Serial A	24/01/2011	50,000	24/01/2016	6.25%	-	50,000
Ninth - Serial A	27/04/2012	150,000	27/04/2027	6.65%	150,000	150,000
Tenth - Serial A	28/06/2012	50,000	15/07/2027	6.20%	50,000	50,000
Tenth - Serial A	28/06/2012	50,000	28/06/2037	6.20%	50,000	50,000
Eleventh - Serial A	30/10/2012	90,000	27/04/2027	5.35%	90,000	90,000
					<u>340,000</u>	<u>390,000</u>
Fourth program - bonds						
Second - Serial A	30/04/2013	100,000	30/04/2043	5.65%	100,000	100,000
Fifth - Serial A	30/01/2015	78,445	30/01/2020	7.84%	78,445	78,445
Tenth - Serial A	6/10/2016	150,000	6/10/2026	6.88%	150,000	-
Tenth - Serial B	28/10/2016	50,000	28/10/2026	6.675%	50,000	-
Eleventh - Serial A	20/12/2016	300,000	20/12/2046	7.84%	300,000	-
					<u>678,445</u>	<u>178,445</u>
Certificates of deposit - Second program						
Third issuance - Serial A	15/01/2015	40,115	11/01/2016	4.50%	-	40,115
Fourth issuance - Serial A	30/04/2015	50,000	24/04/2016	4.85%	-	50,000
Fourth issuance - Serial B	23/07/2015	32,375	17/07/2016	4.80%	-	32,375
					<u>-</u>	<u>122,490</u>
Total par value					<u>1,024,445</u>	<u>702,935</u>
Accrued yield					<u>18,072</u>	<u>19,900</u>
Total in local currency					<u><u>1,042,517</u></u>	<u><u>722,835</u></u>
<u>In foreign currency:</u>						
First international issuance	8/02/2012	400,000	8/02/2022	4.75%	1,342,400	1,364,400
First international issuance reopening	3/12/2012	100,000	8/02/2022	4.75%	335,600	341,100
Second international issuance - Senior	15/07/2014	300,000	15/07/2019	3.25%	1,006,800	1,023,300
Second international issuance - Subordinated	15/07/2014	300,000	15/07/2029	5.25%	1,006,800	1,023,300
Third international issuance - Notes DUE 2019	15/07/2015	200,000	15/07/2019	3.25%	671,200	682,200
Third international issuance -Notes DUE 2025	15/07/2015	600,000	15/07/2025	4.75%	2,013,600	2,046,600
Total par value					<u>6,376,400</u>	<u>6,480,900</u>
Net price difference (below / above par) and related expenses					<u>(33,158)</u>	<u>(39,207)</u>
Accrued yield					<u>124,498</u>	<u>126,539</u>
Total in foreign currency					<u><u>6,467,740</u></u>	<u><u>6,568,232</u></u>
Total					<u><u>7,510,257</u></u>	<u><u>7,291,067</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 generally secured 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 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 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, COFIDE can issue up to (in thousands) US\$200,000, or its equivalent in Peruvian 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 those 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 3.25% 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 10th 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>2016</u>	<u>2015</u>
	S/000	S/000
Fair value - hedging derivatives - currency swaps (a.i)	111,970	149,748
Fair value - hedging derivatives - rate swaps (a.ii)	355	-
Hedging derivatives (a)	<u>112,325</u>	<u>149,748</u>
Accounts payable to BCR - Repo transactions (c)	382,455	21,401
Taxes payable	805	848
Sundry accounts payable	10,411	11,508
Accounts payable	<u>393,671</u>	<u>33,757</u>
Provision for contingent loans (Note 7 (c))	33,642	39,792
Provision for lawsuits and claims (b)	1,520	1,810
Other provisions (b)		
Provision RCDRC - Available for sale investments	11,213	6,856
Provision for accrued vacations	2,292	2,949
Provision for retired employees - Law N° 20530	1,568	-
Provision for lawsuits, claims and others (b)	<u>50,235</u>	<u>51,407</u>
Operations in process	1,310	3,112
Deferred sales	73	73
Other liabilities	<u>1,383</u>	<u>3,185</u>
Total	<u><u>557,614</u></u>	<u><u>238,097</u></u>

(a) Hedging derivatives

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

As of December 31, 2016 and 2015, operations with derivative financial instruments for cash flow hedging purposes are the following:

2016

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)	5	436,706	10,770	165,645	168	3,252	(9,596)	(56,927)	1,342	111,970 (i)
Total - currency derivatives	5	436,706	10,770	165,645	168	3,252	(9,596)	(56,927)	1,342	111,970
Interest-rate swaps - Hedge	1	671,200	-	-	9,998	8,082	(9,998)	(7,727)	-	355 (ii)
			<u>10,770</u>	<u>165,645</u>	<u>10,166</u>	<u>11,334</u>	<u>(19,594) (iii)</u>	<u>(64,654) (iii)</u>	<u>1,342</u>	<u>112,325</u>

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	4	384,895	8,188	177,185	111	3,015	(8,299)	(30,452)	-	149,748
Total - currency derivatives	4	384,895	8,188	177,185	111	3,015	(8,299)	(30,452)	-	149,748
Interest-rate swaps - Hedge	1	682,200	-	-	10,162	6,560	(6,346)	(6,560)	3,816	- (ii)
			<u>8,188</u>	<u>177,185</u>	<u>10,273</u>	<u>9,575</u>	<u>(14,645) (iii)</u>	<u>(37,012) (iii)</u>	<u>3,816</u>	<u>149,748</u>

- (i) As of December 31, 2016, the net position payable of currency swap hedging operations amounts to (in thousands) S/111,970 (S/149,748 as of December 31, 2015), which offsets the decrease in liabilities due to the depreciation of yen regarding the U.S. dollar.
 - (ii) As of December 31, 2016, the net position payable of interest-rate swap hedging operations amounts to (in thousands) S/355 (S/3,816 receivable as of December 31, 2015), which offsets the changes in liability rates of debts.
 - (iii) As of December 31, 2016, for derivative financial instruments, COFIDE recorded a net unrealized profit for (in thousands) S/45,061 (net unrealized profit for (in thousands) S/22,367 as of December 31, 2015). See Note 13 (d).
 - (iv) As of December 31, 2016, 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 these currency swaps, COFIDE receives a fixed exchange rate in U.S. dollars and pays at a variable exchange rate in the same currency; COFIDE receives a variable rate and pays at a fixed rate for remaining amounts (Note 11).
- (b) Provisions for lawsuits, claims and other provisions

As of December 31, 2016 and 2015, 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 on the exposure to Credit Risk derived from Exchange Rate Risk of the investments held by COFIDE.

- (c) As of December 31, 2016, repo transactions comprise resources in local currency collected from BCRP, which accrue interests at an annual rate ranging between 5.01% and 6.10% and are secured by restricted deposits in foreign currency in BCRP for (in thousands) US\$114,064, maturing in June 2018. As of December 31, 2015, repo transactions comprised resources in local currency collected from several trusts managed by COFIDE, which accrued interests at an annual market rate of 5.83% and were secured by structured bonds from Terminales Portuarios Paita, maturing in February 2016.

13. EQUITY

(a) *Capital stock*

As of December 31, 2016, COFIDE's share capital is represented by 2,010,569,891 common shares and 15,639,765 preferred shares (1,548,418,292 common shares and 15,639,765 preferred shares as of December 31, 2015) with a face value of S/1.00 per share, duly authorized, subscribed and paid.

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

Class of shares	Holder	2016		2015	
		No. of shares	Equity share %	No. of shares	Equity share %
Class "A" - common shares	MEF-FONAFE	1,402,706,994	69.23	1,063,561,110	68
Class "C" - common shares	MEF-FONAFE	607,862,897	30.00	469,217,417	30
		2,010,569,891	99.23	1,532,778,527	98
Class "B" - common shares	COFIDE (treasury)	-	-	15,639,765	1
		2,010,569,891	99.23	1,548,418,292	99
Class "B" - preferred shares	CAF	15,639,765	0.77	15,639,765	1
		2,026,209,656	100	1,564,058,057	100

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.

As of December 31, 2015, COFIDE owned 15,639,765 treasury shares, class "B" shares which were acquired by COFIDE from CAF on June 26, 2013 (Note 13 (a.2)).

After the previous approval process by the SBS was completed and its subsequent registration in public records, as of September 30, 2016, the capital stock of COFIDE includes the following agreements:

- (a.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.
- (a.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.
- (a.3) At the Shareholders' Meeting held on December 23, 2015, the creation and issuance of 25,996,883 new shares indicated in (a.1) and (a.2) above were confirmed, which were distributed as follows: 18,197,818 class "A" shares and 7,799,065 class "C" shares.

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", 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.

- (a.4) At the Shareholders' Meeting held on March 31, 2016, it was approved to reinvest 15% of distributable profit from 2015 in favor of FONAFE for (in thousands) S/10,896, equivalent to 10,896,251 new shares (7,627,376 class "A" shares and 3,268,875 class "C" shares).

(b) Additional paid-in capital

As of December 31, 2016, this item mainly corresponds to capital to be registered in public records, according to the Shareholders' Meeting of COFIDE held on December 22, 2016, where FONAFE was authorized to make a cash contribution of (in thousands) S/32,689, equivalent to 32,688,755 new shares (22,882,129 class "A" shares and 9,806,626 class "C" shares), which was performed on December 23, 2016.

Additionally, as of December 31, 2016 and 2015, this balance includes a donation received as furniture for (in thousands) S/84.

(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, 2016, it was approved to allocate the legal reserve for an amount equivalent to 10% of profit from period 2015 for (in thousands) S/8,234.

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

(d) Retained earnings and adjustments to equity

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, 2016, as dividend policy, it was approved to reinvest 15% of distributable income in favor of FONAFE. Distributable income as of December 31, 2015 amounted to (in thousands) S/74,107, for which COFIDE capitalized (in thousands) S/10,896 and paid (in thousands) S/63,211 in cash.

Dividends in favor of shareholders other than legal entities domiciled in the country are subject to a rate of 6.8% for income taxes applied to these shareholders; such tax is retained and settle by COFIDE.

Total retained earnings and adjustments to equity comprise the following:

	<u>2015</u> S/000	<u>Movement</u> S/000	<u>2016</u> S/000
Retained earnings			
Adjustment to deferred equity share of employees - IAS 12	12,647	-	12,647
Difference of value of B shares of COFIDE when redeeming to CAF	7,599	-	7,599
Accumulated earnings without capital agreement, previous years	<u>1,496</u>	<u>-</u>	<u>1,496</u>
Total	<u><u>21,742</u></u>	<u><u>-</u></u>	<u><u>21,742</u></u>
Adjustment to equity			
Unrealized profit for adjustment to value of CAF investment	404,261	-	404,261
Less: deferred income tax	<u>(105,109)</u>	<u>(14,148)</u>	<u>(119,257)</u>
	<u>299,152</u>	<u>(14,148)</u>	<u>285,004</u>
Profit (loss) for fluctuation of value of available for sale investments	(18,522)	88,694	70,172
Less: deferred income tax	<u>5,186</u>	<u>(25,887)</u>	<u>(20,701)</u>
	<u>(13,336)</u>	<u>62,807</u>	<u>49,471</u>
Profit from cash flow hedges	22,367	22,694	45,061
Less: deferred income tax	<u>(6,263)</u>	<u>(7,030)</u>	<u>(13,293)</u>
	<u>16,104</u>	<u>15,664</u>	<u>31,768</u>
Total	<u><u>301,920</u></u>	<u><u>64,323</u></u>	<u><u>366,243</u></u>

In 2016, the result of the movement of deferred income tax was (in thousands) S/33,068 (which includes the effect for variation of income tax rate for (in thousands) S/7,791).

14. CONTINGENT AND OFF-BALANCE SHEET ACCOUNTS

	<u>2016</u> S/000	<u>2015</u> S/000
<u>Contingent risks and commitments (a)</u>		
Joint signatures granted (Note 7)	653,227	773,390
Other contingent accounts	163,743	-
Sundry commitments	330,280	15,407
Total	<u>1,147,250</u>	<u>788,797</u>
<u>Trusts and trust commissions (b)</u>		
Guarantees for trust credit operations	9,712,738	9,336,229
Counter-accounts of trusts and trust commissions	10,496,956	9,308,867
Trust accounts	10,439,239	9,212,791
Funds in trust commissions	596,724	604,665
Total	<u>31,245,657</u>	<u>28,462,552</u>
<u>Off-balance sheet accounts</u>		
<u>Guarantees for loan transactions (c) :</u>		
Promissory notes	4,743,567	5,320,225
Mortgages	91,612	42,574
Guarantee deposits	7,716	10,867
Documentary guarantees	21,979	19,070
Warrants	121	123
Other guarantees	141,177	143,523
Other off-balance sheet accounts	12,463,171	12,049,170
Total	<u>17,469,343</u>	<u>17,585,552</u>
<u>Swaps and Forwards (d)</u>		
Currency swap and forward transactions	436,706	384,896
Nominal value - Interest-rate swaps	671,200	682,200
Total	<u>1,107,906</u>	<u>1,067,096</u>
Total off-balance sheet accounts	<u>49,822,906</u>	<u>47,115,200</u>
Total contingent and off-balance sheet accounts	<u>50,970,156</u>	<u>47,903,997</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. Corresponding contracts consider the amounts that COFIDE would assume for credit losses in contingent operations.

COFIDE uses similar policies to evaluate and grant loans, for direct loans as well as contingent loans. In Management's opinion, contingent transactions do not represent an exceptional credit risk, since it is expected that a portion of these contingent loans will expire unused; the total amounts of contingent loans 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 a loss for COFIDE, such operation is included in the determination of the provision for 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 provision for contingent loans, for contingent operations effective as of December 31, 2016 and 2015.

(b) Trusts and trust commissions

As of December 31, 2016, COFIDE managed 4 funds, 193 trust funds and 2 programs (4 funds, 188 trust funds and 2 programs as of December 31, 2015), for which it received commissions ranging between 0.25% and 2% as of December 31, 2016 and 2015. Such commissions were paid either quarterly or biannually. COFIDE is not responsible for funds, equities or programs.

(c) Credit operations' guarantees

The balance of guarantees received is determined based on the agreed values of guarantees as of the date of the loan agreement. This balance does not necessarily represent the market value of goods assigned as guarantee that support COFIDE's credits.

(d) Currency swap and forward operations

COFIDE mainly has commitments of flow exchange of different currencies and interest rates (swaps) with the purpose of hedging risks related with debts in foreign currency (Note 11).

15. PERSONNEL AND BOARD OF DIRECTORS' EXPENSES

	<u>2016</u>	<u>2015</u>
	S/000	S/000
Wages	16,597	16,551
Profit-sharing	6,437	6,365
Bonuses	4,648	3,564
Allowances	3,360	3,343
Social charges and others	3,138	3,085
Severance indemnities	1,803	1,779
Vacations	584	259
Directors' attendance fees	353	291
Assignments	102	85
Other personnel expenses	<u>4,469</u>	<u>4,908</u>
Total	<u><u>41,491</u></u>	<u><u>40,230</u></u>

16. EXPENSES FOR SERVICES RECEIVED FROM THIRD PARTIES

	<u>2016</u>	<u>2015</u>
	S/000	S/000
Consulting services	7,856	6,327
VAT prorated credit tax	5,476	5,453
Electronic processing	3,180	2,396
Repair and maintenance	2,393	2,038
Professional fees	1,442	2,164
Advertisement	1,228	1,005
Surveillance and protection	996	950
Communications	874	998
Leases	615	537
Sundry supplies	552	513
Energy and water	442	387
Transportation	196	286
Insurance	155	307
Other services	4,041	3,578
Total	<u>29,446</u>	<u>26,939</u>

17. BASIC AND DILUTED EARNINGS PER SHARE

	<u>Number of shares</u> <u>in thousands</u>	
	<u>2016</u>	<u>2015</u>
Outstanding at the beginning of the year	2,010,570	1,548,419
Outstanding at the end of the year	2,010,570	2,010,570
Net profit for the year (in thousands) S/	77,996	82,341
Denominator shares	2,010,570	2,010,570
Basic and diluted earnings per share (S/)	<u>0.0388</u>	<u>0.0410</u>

18. INCOME TAX

(a) Income tax regime

Tax rates

As of December 31, 2016 and 2015, the income tax rate for legal entities domiciled in Peru was 28%.

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

(b) Significant amendments to income tax

Within the framework of the legislative authority conferred by the Congress of the Republic to the Executive Office, Legislative Decree No. 1261 was issued with the purpose of extending the tax basis and promoting formalization through the amendments to tax rates applicable to corporate income tax of domiciled taxpayers and to dividends and other distribution form of profit from Peruvian source.

In this regard, the paragraph of article 52-A of the Income Tax Law was modified, which included the applicable rate for dividends. The rates indicated therein, after Legislative Decree No. 1261 was modified, as presented below:

Taxable periods	Rates
2015 - 2016	6.80%
2017 - 2018	8.00%
2019 and subsequent periods	9.30%

The new rate applicable from 2017 on is 5%. In this regard, we can note that there is a decrease in the applicable rate and the increase indicated for 2017 and subsequent periods is rendered ineffective.

Also, the applicable rate for corporate income of legal entities domiciled in Peru was modified. The last paragraph of article 52-A, modified by Legislative Decree No. 1261, indicates that "The tax imposed on third category recipients domiciled in the country will be determined by applying the rate of 29.50% on their net income" from 2017 and subsequent periods.

In this regard, the decrease of the income tax rate from 28% to 26% was deleted, which was established before as shown in the following table:

Taxable periods	Rates
2015 - 2016	28.00%
2017 - 2018	27.00%
2019 and subsequent periods	26.00%

Also, regarding the additional rate for amounts referred to in paragraph g) of article 24-A of the Income Tax Law, which was 4.1% before, are subject to a rate of 5% from 2017 and subsequent periods.

(c) Income tax expense comprises:

	2016	2015
	S/000	S/000
Current income tax	34,245	33,863
Deferred income tax - (paragraph (g))	13,746	(13,569)
Effect for rate variation	27,201	(20,801)
Total	<u>75,192</u>	<u>(507)</u>

The current income tax corresponds to income tax payable, calculated by applying a rate of 28% on estimated taxable income, after deducting 5% of employees' profit-sharing, as per Legislative Decree No. 892.

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

	2016		2015	
	Amount S/000	Percentage %	Amount S/000	Percentage %
Income tax calculated as per effective tax rate	42,893	28.00	22,914	28.00
Tax effect on additions (deductions):				
Non-deductible expenses	8,843	0.06	16,374	20.01
Exempted income	(56)	-	(47)	(0.06)
Other permanent differences	(3,689)	(0.02)	(18,947)	(23.15)
Effect for adjustment of income tax rate	<u>27,201</u>	<u>0.18</u>	<u>(20,801)</u>	<u>(25.42)</u>
Current and deferred income tax recorded as per effective rate	<u>75,192</u>	<u>28.22</u>	<u>(507)</u>	<u>(0.62)</u>

(e) Tax recoverable:

Debit and credit balances with the Tax Administration in relation to income tax are as follows:

	2016 S/000	2015 S/000
To be recovered:		
Payments on account of income tax	<u>31,434</u>	<u>55,253</u>
Payable:		
Income tax payable	<u>34,245</u>	<u>33,863</u>
Total	<u>(2,811)</u>	<u>21,390</u>

(f) COFIDE's tax situation

Income tax returns from years 2012 to 2015 and the return that will be submitted for 2016 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 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 SUNAT dated January 3, 2014, the National Superintendence of Tax Administration (SUNAT) started the tax review of period 2011. In the second fortnight of 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

	Opening balance	Movements		Closing balance
		Equity	Profit/loss	
			for the period	
S/000	S/000	S/000	S/000	
2016				
Asset temporary differences:				
General provision for loans and contingent loans	585,608	-	(12,078)	573,530
Other general provisions	50,108	-	(33,430)	16,678
Provision for fluctuation in values	6,923	-	(964)	5,959
General provision for accounts receivable	2,222	-	562	2,784
Provision for awarded goods	5,485	-	(3,182)	2,303
	<u>650,346</u>	<u>-</u>	<u>(49,092)</u>	<u>601,254</u>
Liability temporary differences:				
Depreciation of buildings	(514)	-	-	(514)
Adjustment of value of CAF shares	(1,444,318)	-	-	(1,444,318)
Unrealized profit (loss) for investments in securities	18,523	(88,695)	-	(70,172)
Unrealized profit (loss) for derivative instruments	(22,366)	(22,695)	-	(45,061)
Disallowances for 2003 tax returns - Provisions, write-offs and others	12,710	-	-	12,710
	<u>(1,435,965)</u>	<u>(111,390)</u>	<u>-</u>	<u>(1,547,355)</u>
Temporary differences assets (liabilities), net	<u>(785,619)</u>	<u>(111,390)</u>	<u>(49,092)</u>	<u>(946,101)</u>
Movement of deferred income tax	-	(31,189)	(13,746)	-
Adjustment to deferred income tax (rate variation)	-	(15,877)	(27,201)	-
Deferred income tax	<u>(191,087)</u>	<u>(47,066)</u>	<u>(40,947)</u>	<u>(279,100)</u>
2015				
Asset temporary differences:				
General provision 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
Provision for awarded goods	2,246	-	3,239	5,485
	<u>597,517</u>	<u>-</u>	<u>52,829</u>	<u>650,346</u>
Liability temporary differences:				
Depreciation of buildings	(257)	-	(257)	(514)
Adjustment of value of CAF shares	(1,444,318)	-	-	(1,444,318)
Unrealized profit (loss) for investments in securities	(46,935)	65,458	-	18,523
Unrealized profit (loss) for derivative instruments	(14,606)	(7,760)	-	(22,366)
Disallowances for 2003 tax returns - 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>
Movement of deferred income tax	-	16,155	13,569	-
Adjustment to deferred income tax (rate variation)	-	8,085	20,801	-
Deferred income tax	<u>(249,697)</u>	<u>24,240</u>	<u>34,370</u>	<u>(191,087)</u>

19. TRANSACTIONS WITH RELATED ENTITIES

As of December 31, 2016 and 2015, significant operations conducted with CAF correspond to financing operations.

COFIDE's transactions with its related entity have been performed in the normal course of operations an under similar conditions as if performed with third parties.

21. FINANCIAL RISK MANAGEMENT

Financial risk management comprises managing main risks that, by nature of its operations, COFIDE addresses, 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 are to not able to pay, and creates a financial loss for the other party. It includes management of counterparty risk, concentration risk, country risk and credit risk derived from 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 of funds requirements 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:

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

COFIDE has a structure of governance and management that allows it to properly integrate 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**

The 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 addressed 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 performs secretary functions). In order to carry out its functions, the Risk Committee is functionally supported by the Risk Management 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 operation 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 management activities 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 unit 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 Assets and Liabilities Committee safeguards the proper management of liquidity, interest rate and exchange rate risks, and decides 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 and business managers, chief legal officer (with voice, but without vote, who performs secretary functions), audit head, financial services head, treasury and markets head (with voice but without 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, IT and management matters. 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 the provisions 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.

(vii) *Internal Audit Unit*

The Internal Audit Unit functionally reports to the Board of Directors. It renders independent services regarding the proper operation of the internal control system according to risk management standards so as to reduce the risk to the established tolerance level. The Internal Audit Unit informs all responsible divisions regarding potential risk situations and other relevant matters 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 alignment of all measurements for treating the risks of COFIDE with appetite levels and risk tolerance and the development of proper controls.

(b) Action framework for integral risk management

In order to properly manage the financial risks COFIDE is exposed to and mitigate them appropriately, COFIDE considers the internal control environment, objectives established, the identification, assessment and treatment of risks, processes of information and communication, follow-up activities, subcontracting, 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 reporting processes of credit risk with debtors, as well as assessment, analysis, approval, follow-up and recovery processes.
- 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 to support credit operations, and those considered when following up all the operation 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 operations with IFIs, 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 individuals that are not domiciled in the country and susceptible of being exposed to country risk.
- Management policies for credit risk derived from exchange risk, where guidelines to manage credit risk induced by variations in exchange rates are identified, as well as in the loan portfolio in foreign currency with debtors whose income, obligations and balance structure 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 which COFIDE is exposed to in order to maintain a portfolio comprising asset or liability positions in primary or derivative instruments.
 - Maximum possible loss (VaR) for exchange risk and Conditional Value at Risk (CVaR).
 - Valuation of positions recorded in investments by COFIDE, of investments in debt or equity instruments recorded at fair value through profit or loss or available for sale.
 - Market value of derivative financial instruments for reporting and permanent follow-up purposes of those positions at market values.
 - Potential losses for maintaining positions sensitive to changes in interest rate.

(iii) Structural risk of the statement of financial position

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

In the case of interest rate risk, potential loss analysis focuses on the impact over net financial margin (profit at risk in one year) and the 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 would cope with 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.
- Policies for derivatives.
- Exchange rate risk policies.
- Interest rate risk policies.

(iv) Liquidity risk

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

(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 applicable, a proper relation between concentration risk and the degree of equity capitalization of COFIDE. The diversification and concentration policies of its policy manual for asset and liability management establish alerts that reflects its risk appetite, such as:

- Alerts of asset 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 so that the credit risk incurred is sufficiently quoted and diversified within corporate objectives of the organization, for which it has established the following:

- Limits to the exposure with IFIs of relative higher risk.
- Follow-up of unique risk concentration.
- Follow-up of quality of implicit credit exposure.
- Follow-up of the quality of 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:

- Autonomy levels for loans and investments:
 - Loan operations with debtors
 - Loan operations with financial intermediaries
 - Investment operations
- Autonomy levels for debts and derivatives:
 - Debt operations
 - Derivative operations
- Autonomy levels for trading
- Other autonomy levels

Regarding investments, COFIDE has defined alerts for concentration of negotiation portfolio within its policies, and has established limits for the investment portfolio for relative risk and portfolio limits 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 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, 2016 and 2015, 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, loan portfolio (direct and indirect, without considering market value of guarantees or collaterals), operations with derivative financial instruments, accounts receivable and other monetary assets.

The 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), specific assessment of operations, as well as risk limits for elements subject to negotiation, such as swaps in foreign currency and interest rates. Real exposures and their comparison to established limits are monthly reviewed.

In this regard, as of December 31, 2016 and 2015:

- 98.7% and 98.4%, respectively, of loans are not considered as overdue or impaired.
- 90.9% and 91.3%, respectively, of investments have been given at least an investment degree (BBB- or higher) or are debt instruments issued by the Central Government.

A detail of the maximum exposure to credit risk of COFIDE per type of financial asset is shown below:

<u>Asset (*)</u>	<u>Notes</u>	<u>31/12/2016</u> <u>S/000</u>	<u>31/12/2015</u> <u>S/000</u>
Cash	5	1,783,156	1,956,711
Available for sale investments	6	4,354,667	4,142,867
Loan portfolio	7	7,231,302	7,309,996
Hedging derivatives	9	1,342	3,657
Accounts receivable	9	43,777	73,435
Other assets	9	759	1,264
Total		<u>13,415,003</u>	<u>13,487,930</u>
Contingent (**)	7 y 14	<u>783,328</u>	<u>749,005</u>

(*) Net of provisions.

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

(e) Guarantee management

(e.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 of 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 the investment portfolio, negotiation portfolio and hedging derivatives.

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

(e.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 by the following conditions:

- Easily convertible in cash, with which the guarantee obligation may be settled.
- Constituted in a preferred range towards other creditors.
- Hedge risk value involved with space required.
- Have 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 realizable preferred guarantees.
- Preferred guarantees.

(e.3) Risk concentrations regarding guarantees

A detail of guarantee concentration supported by credit operations as of December 31, 2016 and 2015 is presented below:

Type of guarantee	<u>Non-retail</u> S/000	<u>Retail</u> S/000	<u>Total</u> <u>guarantees</u> S/000	<u>Related</u> <u>credits</u> S/000
<u>December 31, 2016</u>				
Self-liquidating guarantees	7,716	-	7,716	122,305
Preferred guarantees	<u>22,726</u>	<u>7,886</u>	<u>30,612</u>	<u>34,254</u>
Total (*)	<u>30,442</u>	<u>7,886</u>	<u>38,328</u>	<u>156,559</u>
<u>December 31, 2015</u>				
Self-liquidating guarantees	10,867	-	10,867	92,225
Preferred guarantees	<u>28,001</u>	<u>11,261</u>	<u>39,262</u>	<u>10,670</u>
Total (*)	<u>38,868</u>	<u>11,261</u>	<u>50,129</u>	<u>102,895</u>

(*) Accounting balances are considered for guarantees received for the direct loan portfolio.

(c.4) Value of guarantee received

The 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 required 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 (the same for asset 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, the total commercial value of guarantees involved shall be considered.

<u>Guarantees related to direct loans</u>	<u>2016</u>	<u>2015</u>
	S/000	S/000
Self-liquidating guarantees	7,716	10,867
Preferred guarantees	92,718	43,698
Other non-preferred guarantees	192	195
Substitution of credit counterparty for bond letter	<u>140,000</u>	<u>142,327</u>
Total (*)	<u><u>240,626</u></u>	<u><u>197,087</u></u>

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

(f) 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 activity 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 loans 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 procyclical 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 loans classified in three groups, considering the risk classification of credit positions as Normal, with Potential Problems, Substandard, Doubtful and Loss of COFIDE in relation to the alignment with 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) and with a delay of over 90 days (for retail loans).

The provision for loan portfolio is as well presented for each type of loan:

2016	Loan portfolio					Percentage %
	Non-retail loans (*)	Loans to small and micro-businesses	Consumer loans	Mortgage loans	Total	
	S/000	S/000	S/000	S/000	S/000	
Not overdue or impaired loans	7,346,334	-	1,957	6,757	7,355,048	107.54
Normal	6,628,299	-	1,957	6,647	6,636,903	97.04
With potential problems	718,035	-	-	110	718,145	10.50
Overdue but not impaired loans	-	-	-	2	2	0.00
With potential problems	-	-	-	2	2	0.00
Impaired loans	93,115	-	93	1,127	94,335	1.38
Substandard	65,553	-	8	-	65,561	0.96
Doubtful	2,139	-	60	342	2,541	0.04
Loss	25,423	-	25	785	26,233	0.38
Gross portfolio	7,439,449	-	2,050	7,886	7,449,385	108.92
Less: Provisions (**)	609,329	-	83	699	610,111	8.92
Total net (***)	6,830,120	-	1,967	7,187	6,839,274	100.00

2015	Loan portfolio					Percentage %
	Non-retail loans (*)	Loans to small and micro-businesses	Consumer loans	Mortgage loans	Total	
	S/000	S/000	S/000	S/000	S/000	
Not overdue or impaired loans	7,507,980	78	1,508	9,644	7,519,210	107.37
Normal	7,058,762	78	1,508	9,539	7,069,887	100.95
With potential problems	449,218	-	-	105	449,323	6.42
Overdue but not impaired loans	-	-	-	3	3	0.00
With potential problems	-	-	-	3	3	0.00
Impaired loans	124,297	-	51	700	125,048	1.78
Substandard	66,598	-	26	135	66,759	0.95
Doubtful	4,502	-	25	298	4,825	0.07
Loss	53,197	-	-	267	53,464	0.76
Gross portfolio	7,632,277	78	1,559	10,347	7,644,261	109.15
Less: Provisions (**)	640,420	46	36	444	640,946	9.15
Total net (***)	6,991,857	32	1,523	9,903	7,003,315	100.00

The structure of refinanced and restructured loans in relation to the quality of direct loans is presented below:

	<u>2016</u>	<u>2015</u>
	<u>S/000</u>	<u>S/000</u>
Refinanced loans		
Not overdue or impaired	272	2,120
Impaired	<u>174</u>	<u>147</u>
Total	<u><u>446</u></u>	<u><u>2,267</u></u>
Restructured loans		
Impaired	<u><u>14,039</u></u>	<u><u>14,270</u></u>

Regarding the investment portfolio, COFIDE quarterly assesses conditions of the portfolio represented of debt and equities subject 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.

(g) *Financial assets overdue or impaired*

(i) Analysis of impaired financial assets

The gross amount and the provision for impaired loans per type of loan are described below, together with the fair value of the guarantee related to such loan portfolio; and the amounts of the provision for such loan portfolio are as follows:

	<u>Impaired loan portfolio</u>				
	<u>Non-retail</u>	<u>Loans to small</u>	<u>Consumer</u>	<u>Mortgage loans</u>	<u>Total</u>
	<u>loans</u>	<u>and micro-</u>	<u>loans</u>	<u>loans</u>	<u>loans</u>
	<u>S/000</u>	<u>businesses</u>	<u>S/000</u>	<u>S/000</u>	<u>S/000</u>
2016					
Impaired loan portfolio	93,115	-	93	1,127	94,335
Provision for the impaired loan portfolio	38,262	-	63	650	38,975
Value of guarantees	30,354	-	-	1,127	31,481
2015					
Impaired loan portfolio	124,297	-	51	700	125,048
Provision for the impaired loan portfolio	153,450	-	21	374	153,845
Value of guarantees	14,085	-	-	700	14,785

(ii) Provisions constituted for credit risk

Changes as of December 31, 2016 and 2015 of provisions constituted for credit risk of impaired loans are shown below:

Movement of provisions	Loan portfolio				Total S/000
	Non-retail loans	Loans to small and micro- businesses	Consumer loans	Mortgage loans	
	S/000	S/000	S/000	S/000	
Balance as of December 31, 2014	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)
Less write-offs	(994)	-	-	-	(994)
Plus reassignment of provisions	1,191	-	-	-	1,191
Plus exchange difference	1,357	-	-	-	1,357
Balance as of December 31, 2015	95,134	1	21	374	95,530
Plus provision for 2016	18,794	-	46	363	19,203
Less reversals	(21,358)	(1)	(4)	(87)	(21,450)
Less assignment of rights	(52,087)	-	-	-	(52,087)
Plus reassignment of provisions	(1,062)	-	-	-	(1,062)
Plus exchange difference	(1,159)	-	-	-	(1,159)
Balance as of December 31, 2016	38,262	-	63	650	38,975

(iii) As of December 31, 2016 and 2015, interests, commissions and expenses on loans (director or indirect), overdue, in legal collection or classified as impaired loans, amount to (in thousands) S/275 and S/26,029, respectively, from which (in thousands) S/275 and S/269 correspond to direct loans and (in thousands) S/25,760 corresponds to indirect loans (contingent).

(iv) The carrying amount recorded corresponding to impaired written-off loans amounted to (in thousands) S/347,701 and S/354,037 as of December 31, 2016 and 2015, respectively. Changes are presented below:

	Written-off loan portfolio S/000
Balance as of December 31, 2014	312,779
Plus: Additions	1,136
Plus: Reversals in cash	(2,635)
Plus: Exchange difference effect	42,757
Balance as of December 31, 2015	354,037
Plus: Additions	-
Plus: Reversals in cash	(770)
Plus: Exchange difference effect	(5,566)
Balance as of December 31, 2016	347,701

(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, 2016 and 2015, COFIDE estimated that the fair value of guarantees covering the item of not overdue or impaired loans amounts to (in thousands) S/2 and S/3, respectively. Overdue and not impaired loans correspond to mortgages between 31 and 60 days.

(h) 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) risk admission, ii) follow-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 rating systems for the admission of loans.

Stage ii) follow-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 follow-up classification, for which rating was assigned based on the behavior and profile of risks of the intermediary, associated with actions to be taken. Equally, there is a follow-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 debtors are followed up regarding the evolution of detected risks, decision-making and management for their standardization or collection.

For each economic sector, a permanent monitoring is made for main tendencies of the portfolio, in terms of evolution of quality indicators, sectorial concentration and per product of the loan 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 loans that aim to minimize losses in exposures with high credit risk.

(i) 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 rating agencies, as well as risk of the issuing country, which is assessed considering its main macroeconomic 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>31/12/2016</u>	<u>31/12/2015</u>
	S/000	S/000
Instruments issued in Peru		
AAA	36,459	47,843
From AA- to AA+	220,497	198,083
From A- to A+	84,453	13,174
4 (pe)	82,906	37,535
No rating	<u>38,324</u>	<u>88,569</u>
Total - local	<u>462,639</u>	<u>385,204</u>
Instruments issued abroad		
AAA	-	197,660
From AA- to AA+	2,562,611	2,339,156
From A- to A+	16,787	-
From BBB- to BBB+	931,839	874,445
From BB- to BB+	112,231	325,341
From B- to B+	180,134	-
CCC	<u>64,730</u>	<u>-</u>
Total - abroad	<u>3,868,332</u>	<u>3,736,602</u>
Accrued interests	<u>23,696</u>	<u>21,061</u>
Total	<u><u>4,354,667</u></u>	<u><u>4,142,867</u></u>

(j) Risk concentrations

COFIDE has policies and procedures to safeguard proper diversification of financial assets and liabilities in and off the statement of financial position, and to seek proper relation between the concentration risk and degree of equity capitalization of COFIDE. The diversification and concentration policies of its policy manual for asset and liability management establish alerts that reflect its risk appetite, such as:

(i) Concentration alerts of assets for unique risk:

In order to avoid excessive concentration in direct and indirect asset transactions (cash, interbank 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:

These alerts are 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 the concentration of financing sources per type of creditor.

As of December 31, 2016 and 2015, financial instruments exposed to credit risk were allocated according to the following economic sectors:

	2016 (*)				2015 (*)			
	Loans and accounts receivable S/000	Available for sale S/000	Hedging derivatives S/000	Total S/000	Loans and accounts receivable S/000	Available for sale S/000	Hedging derivatives S/000	Total S/000
Asset								
Financial services	1,783,156	2,344,618	1,342	4,129,116	1,956,711	2,360,555	3,657	4,320,923
Financial intermediaries	7,194,662	65,668	-	7,260,330	7,124,201	-	-	7,124,201
Other non-retail	72,069	1,944,381	-	2,016,450	249,120	1,782,312	-	2,031,432
Consumer	1,967	-	-	1,967	1,470	-	-	1,470
Mortgage	7,140	-	-	7,140	9,904	-	-	9,904
Total	9,058,994	4,354,667	1,342	13,415,003	9,341,406	4,142,867	3,657	13,487,930

(*) Balances are presented net of pertinent provisions.

As of December 31, 2016 and 2015, financial instruments exposed to credit risk according to geographical area were as follows:

	Financial instruments (*)			
	Loans and accounts receivable (*) S/000	Available for sale S/000	Hedging derivatives S/000	Total S/000
As of December 31, 2016				
Peru	5,052,952	1,820,242	-	6,873,194
Venezuela	-	2,339,156	-	2,339,156
United States	1,357,756	16,828	1,342	1,375,926
United Kingdom	1,096,768	-	-	1,096,768
Spain	872,452	-	-	872,452
Panama	509,363	2,817	-	512,180
Cayman Islands	68,506	125,099	-	193,605
The Netherlands	62,156	-	-	62,156
Bahamas	24,437	-	-	24,437
Germany	-	20,038	-	20,038
China	-	16,858	-	16,858
Japan	14,604	-	-	14,604
Italy	-	13,629	-	13,629
Brazil	-	-	-	-
Total	9,058,994	4,354,667	1,342	13,415,003
As of December 31, 2015				
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
Total	9,341,406	4,142,867	3,657	13,487,930

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 loan portfolio, 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 its own investments according to 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 Risk division, where the 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 the static and dynamic cash flow, and estimate of liquidity gaps between asset and liability positions in and off the statement of financial position over a certain period of time. This process allows knowing various funding sources, how liquidity needs grow and what terms are mismatched. Assets as well as liabilities are considered as internal assumptions for operations that do not have determined maturity dates. Estimated obligations as a result of contingent liabilities are also included, such as guarantee letters or unused credit lines. Based on 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 per maturity term (table). The amounts disclosed are cash flows according to terms contracted without discounts and include their corresponding accrued interests.

Exposure to liquidity risk	31/12/2016				
	Up to 1 month	More than 1 up to 3 months	More than 3 up to 12 months	More than 1 year	Total
	S/000	S/000	S/000	S/000	S/000
Risk of financial position					
Liability					
Obligations to the public	-	-	8,688	-	8,688
Deposits by financial entities and international financial obligations	30,495	94,527	-	-	125,022
Debts and financial obligations	258,500	709,546	488,483	8,194,416	9,650,945
Hedging derivatives	1,337	2,674	12,035	96,279	112,325
Accounts payable	5,719	6,814	538	380,600	393,671
Other liabilities	266	-	537	-	803
Total	296,317	813,561	510,281	8,671,295	10,291,454
Risk of financial position					
Contingent liabilities	-	-	9,459	582,123	591,582
Total	296,317	813,561	519,740	9,253,418	10,883,036

	31/12/2015				
	Up to 1 month	More than 1 up to 3 months	More than 3 up to 12 months	More than 1 year	Total
	S/000	S/000	S/000	S/000	S/000
Exposure to liquidity risk					
Risk of financial position					
Liability					
Obligations to the public	-	-	11,183	-	11,183
Deposits by financial entities and international financial obligations	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	27,147	685	-	32,632
Other liabilities	633	-	492	-	1,125
Total	367,238	338,449	1,821,061	8,072,005	10,598,753
Risk of financial position					
Contingent liabilities	-	-	-	553,892	553,892
Total	367,238	338,449	1,821,061	8,625,897	11,152,645

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, 2016 and 2015, 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 term of 10 days and a 99% reliance 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, the 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 validation tests (backtesting).

(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 to interests receivable and payable

(re-price, re-investment or re-financing); and the effect on economic value (equity value), related to the current value of assets and liabilities of the company and interest rates at which future flows derived from them are updated.

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

The impact on expected profit is determined by profit at risk (PaR) corresponding to the expected variation in the financial margin of COFIDE, before expected changes in interest rates, that is to say, the impact on earnings of the entity. The impact on equity is determined by equity value at risk (EVaR) corresponding to the variation of equity value of COFIDE before changes in interest rates used 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>31/12/2016</u>	<u>31/12/2015</u>
PaR=	S/22,536,508 (0.637% p.e)	S/23,558,205 (0.677% p.e)
EVaR=	S/179,440,546 (5.076% p.e)	S/140,661,988 (4.044% p.e)

The follow-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 the Risk Office is in charge of the follow-up.

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, the impact for each gap of interest rate variation is calculated.

The table below summarizes the exposure of COFIDE to interest rate risks. The financial instruments of COFIDE are presented at their carrying amounts, classified between the repricing period of the interest rate of the agreement or maturity date, whichever occurs first.

	December 31, 2016						
	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
Assets							
Cash	1,400,357	-	-	382,884	-	(85)	1,783,156
Available for sale investments	48,288	59,340	99,036	416,492	1,398,314	2,333,197	4,354,667
Loan portfolio, net	205,978	541,203	2,158,924	2,567,128	2,343,603	(585,534)	7,231,302
Hedging derivatives	16	32	144	767	383	-	1,342
Accounts receivable, net	-	-	-	-	-	43,777	43,777
Other assets	-	-	-	-	-	22,851	22,851
Total assets	1,654,639	600,575	2,258,104	3,367,271	3,742,300	1,814,206	13,437,095
Liabilities							
Obligations to the public	-	-	8,688	-	-	-	8,688
Deposits by financial entities and international financial organizations	30,495	94,527	-	-	-	-	125,022
Debts	146,588	678,107	484,983	360,480	470,530	-	2,140,688
Financial obligations	111,912	31,439	3,500	1,748,807	5,614,599	-	7,510,257
Hedging derivatives	1,337	2,674	12,035	64,186	32,093	-	112,325
Accounts payable	-	-	-	-	-	393,671	393,671
Other liabilities	-	-	-	-	-	333,829	333,829
Equity	-	-	-	-	-	2,812,615	2,812,615
Total liabilities and equity	290,332	806,747	509,206	2,173,473	6,117,222	3,540,115	13,437,095
Off-balance sheet account	-	-	-	-	-	-	-
Asset hedging derivatives	-	-	6,983	55,851	373,872	-	436,706
Liability hedging derivatives	-	-	9,459	75,659	506,464	-	591,582
Marginal gap	1,364,307	(206,172)	1,746,422	1,173,990	(2,507,514)	(1,725,909)	
Accumulated gap	1,364,307	1,158,135	2,904,557	4,078,547	1,571,033		

	December 31, 2015						
	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
Assets							
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
Total assets	2,725,656	1,428,539	1,347,467	2,628,242	3,551,996	1,863,330	13,545,230
Liabilities							
Obligations to the public	-	-	11,163	-	-	-	11,163
Deposits by financial entities and international financial organizations	37,246	36,169	151,529	-	-	-	224,944
Debts	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	-	-	-	-	-	33,757	33,757
Other liabilities	-	-	-	-	-	245,679	245,679
Equity	-	-	-	-	-	2,700,818	2,700,818
Total liabilities and equity	361,805	311,302	1,819,864	2,385,633	5,686,372	2,980,254	13,545,230
Off-balance sheet account	-	-	-	-	-	-	-
Asset hedging derivatives	-	-	-	35,782	349,113	-	384,895
Liability hedging derivatives	-	-	-	51,493	502,399	-	553,892
Marginal gap	2,363,851	1,117,237	(472,397)	226,898	(2,287,662)	(1,116,924)	
Accumulated gap	2,363,851	3,481,088	3,008,691	3,235,589	947,927		

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.

The sensitivity on indications of interest rate towards a shock of 200 basis points (bps) is detailed below:

	31/12/2016	31/12/2015
PaR=	S/22,986,093 (0.650% p.e)	S/24,045,627 (0.691% p.e)
EVaR=	S/ 182,833,540 (5.172% p.e)	S/ 143,377,616 (4.122% p.e)

It is important to remark that this information was obtained 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 to the variation of value of positions of the statement of financial position and off such statement that are negatively affected by changes in exchange rates. This risk depends on the position on each currency and 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 performed at free market exchange rates.

As of December 31, 2016, the weighted average exchange rate of the free market, published by the SBS for transactions in U.S. dollars was S/3.352 per US\$1 for purchase and S/3.360 per US\$1 for sale (S/3.408 and S/3.413 as of December 31, 2015, respectively). As of December 31, 2016, 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/3.356 per US\$1 (S/3.411 as of December 31, 2015).

The detail of the position of COFIDE per currency is presented in the table below:

	December 31, 2016				December 31, 2015			
	U.S. dollar	Other	Nuevos	Total	U.S. dollar	Other	Nuevos	Total
	S/000	currencies	Soles	S/000	S/000	currencies	Soles	S/000
Assets								
Cash	1,426,347	20,902	335,907	1,783,156	1,812,664	46,204	97,843	1,956,711
Available for sale investments, net	1,454,973	-	2,899,694	4,354,667	1,445,271	-	2,697,596	4,142,867
Loan portfolio, net	4,579,528	-	2,651,774	7,231,302	4,913,372	-	2,396,624	7,309,996
Hedging derivatives	9,998	168	(8,824)	1,342	10,162	(48)	(6,457)	3,657
Accounts receivable	39,244	-	4,533	43,777	69,222	-	4,213	73,435
Other assets	635	-	124	759	936	-	328	1,264
	<u>7,510,725</u>	<u>21,070</u>	<u>5,883,208</u>	<u>13,415,003</u>	<u>8,251,627</u>	<u>46,156</u>	<u>5,190,147</u>	<u>13,487,930</u>
Liabilities								
Obligations to the public	705	-	7,983	8,688	185	-	10,978	11,163
Deposits by financial entities	-	-	125,022	125,022	-	-	224,944	224,944
Debts and financial obligations	523,949	454,636	1,162,103	2,140,688	1,280,178	431,802	1,176,074	2,888,054
Securities, bonds and outstanding obligations	6,467,895	(155)	1,042,517	7,510,257	6,568,424	(193)	722,836	7,291,067
Hedging derivatives	11,334	-	100,991	112,325	9,575	-	140,173	149,748
Accounts payable	290	3,097	390,284	393,671	4,374	-	29,383	33,757
Other liabilities	26,694	-	8,258	34,952	26,704	-	16,200	42,904
	<u>7,030,867</u>	<u>457,578</u>	<u>2,837,158</u>	<u>10,325,603</u>	<u>7,889,440</u>	<u>431,609</u>	<u>2,320,588</u>	<u>10,641,637</u>
Position of currency swaps, net	(591,582)	436,706	154,876	-	(553,892)	384,895	168,997	-
Net monetary position	<u>(111,724)</u>	<u>198</u>	<u>3,200,926</u>	<u>3,089,400</u>	<u>(191,705)</u>	<u>(558)</u>	<u>3,038,556</u>	<u>2,846,293</u>

In 2016, COFIDE recorded net exchange loss for (in thousands) S/8,819 (profit for (in thousands) S/2,683 in 2015), presented net under “Exchange difference profit” in the statement of income.

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

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

The sensitivities for the fluctuation of the U.S. dollar are presented below. Due to its volume, the 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	31/12/2016	31/12/2015
	%	S/000	S/000
Devaluation			
U.S. dollar	5	32,882	24,888
U.S. dollar	10	65,763	49,776
Revaluation			
U.S. dollar	5	(32,882)	(24,888)
U.S. dollar	10	(65,763)	(49,776)

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 traded 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 by applying other valuation technique, trying to maximize the use of relevant measurable variables and minimize the use of non-measurable variables.

To calculate the fair value of an instrument that is not traded in liquid markets, the 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 analytical 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 active 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).

The 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 investments”,

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:

Financial instruments recorded at fair value under valuation methods	2016			2015		
	Level 1 S/000	Level 2 S/000	Total S/000	Level 1 S/000	Level 2 S/000	Total S/000
Asset						
Available for sale investments						
- Debt instruments	1,925,086	-	1,925,086	1,555,932	-	1,555,932
- Equity instruments (*)	90,425	-	90,425	247,779	-	247,779
Accounts receivable for derivatives	-	1,342	1,342	-	3,657	3,657
Total	2,015,511	1,342	2,016,853	1,803,711	3,657	1,807,368
Liability						
Accounts payable for derivatives	-	112,325	112,325	-	149,748	149,748

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

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

Level 2 financial instruments are valued at market prices of other instruments that have similar characteristics or with financial valuation models based on market observable data (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 accrue 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, 2016 and 2015, the fair value of derivative financial instruments, recorded as asset or liability, together with nominal values and maturities. The reference amount, 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.

	As of December 31, 2016				As of December 31, 2015				2016 and 2015 Hedged instruments
	Assets S/000	Liabilities S/000	Reference amount S/000	Maturity	Assets S/000	Liabilities S/000	Reference amount S/000	Maturity	
Derivatives designated from cash flow hedges									
US\$ / JPY currency swaps	-	94,333	258,606	8/09/2031	-	125,438	255,510	8/09/2031	Debt with AFLAC
US\$ / JPY currency swaps	-	9,689	74,708	20/10/2027	-	13,263	73,814	20/10/2027	Debt with JICA
US\$ / JPY currency swaps	-	526	4,195	21/10/2027	-	717	4,145	20/10/2027	Debt with JICA
US\$ / JPY currency swaps	-	7,423	52,050	22/10/2027	-	10,330	51,426	20/10/2027	Debt with JICA
US\$ / JPY currency swaps	1,342	-	47,147	23/10/2027	-	-	-	-	Debt with JICA
	1,342	111,971	436,706		-	149,748	384,895		
Interest-rate swaps									
Fixed rate / Libor rate 6M - US\$	-	355	671,200	15/07/2019	3,816	-	682,200	15/02/2019	COFIDE's corporate bonds 2019 US\$ 300 million
	-	355	671,200		3,816	-	682,200		

As of December 31, 2016 and 2015, the periods when cash flows of the hedge are expected to occur and that affect the statement of income, net of deferred income tax, is as follows:

	<u>Up to 1 year</u> S/000	<u>From 1 to 3</u> years S/000	<u>From 3 to 5</u> years S/000	<u>More than 5</u> years S/000
Cash outflow (liability) 2016	16,046	32,093	32,093	32,093
Cash outflow (liability) 2015	21,393	42,785	42,785	42,785

As of December 31, 2016, COFIDE holds 5 currency swaps (4 currency swaps as of December 31, 2015), 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, 2016, COFIDE holds one interest-rate swap (1 as of December 31, 2015) 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 effectiveness of hedges of derivative financial instruments that are undertaken with such objective. As of December 31, 2016 and 2015, COFIDE has not presented a decrease in relation to the effectiveness of these hedges in the statement of income.

- (ii) Instruments whose fair value is similar to the carrying amount. For short-term financial assets and liabilities, among which cash, interbank funds and other similar items are classified.
- (iii) Financial instruments at fixed rates

Financial asset at fixed rates (loan portfolio, obligations to the public and deposits of financial entities) – According to Multiple Official Letter SBS No. 1575-2014, the fair value of these items corresponds 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, the 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 the discounted value of future flows using the 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	2016		2015	
	Carrying amount	Fair value	Carrying amount	Fair value
	S/000	S/000	S/000	S/000
Asset				
Cash	1,783,156	1,783,156	1,956,711	1,956,711
Available for sale investments				
Equity instruments	2,429,581	2,429,581	2,586,935	2,586,935
Debt instruments	1,925,086	1,925,086	1,555,932	1,555,932
Loan portfolio	7,231,302	7,231,302	7,309,996	7,309,996
Hedging derivatives	1,342	1,342	3,657	3,657
Accounts receivable	43,777	43,777	73,435	73,435
Other assets	759	759	1,264	1,264
Total	13,415,003	13,415,003	13,487,930	13,487,930
Liability				
Obligations to the public	8,688	8,688	11,163	11,163
Deposits by financial entities	125,022	125,022	224,944	224,944
Debts and financial obligations	2,140,688	2,127,644	2,888,054	2,886,867
Securities, bonds and outstanding obligations	7,510,257	7,512,357	7,291,067	7,316,673
Hedging derivatives	112,325	112,325	149,748	149,748
Accounts payable	393,671	393,671	33,757	33,757
Other liabilities	34,952	34,952	42,904	42,904
Total	10,325,603	10,314,659	10,641,637	10,666,056

Assets granted as guarantee

As of December 31, 2016, COFIDE has carried out repo transactions comprising resources in local currency for (in thousands) S/380,600, collected from BCRP, which accrue interests at an annual rate ranging between 5.01% and 6.10% and are guaranteed by Restricted Deposits in foreign currency held in BCRP for (in thousands) US\$114,064. As of December 31, 2015, COFIDE has carried out repo transactions comprising resources in local currency for (in thousands) S/21,051, collected 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/24,246 and face value was (in thousands) US\$6,978, as of December 31, 2015 (Note 6).

Collected 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 operating capacity. 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 prepared 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, who are experts in processes, are in charge of the qualitative and quantitative valuation of their risks, considering the database of incidents and loss events. Also, the effectiveness of controls are assessed to mitigate a risk based on its application design.

In this way, COFIDE assesses and improves continuously the management of operational risks in consistency with its strategic objectives.

(b) Capital management – Regulatory capital

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 to optimize 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) safeguarding 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 the 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 regulatory capital requirement for market risk, operational risk and credit risk. As of December 31, 2016 and 2015, COFIDE uses the standard method to calculate the regulatory capital requirement for credit and market risk, and the 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, concentration risk, market concentration risk, 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 procyclical provisions for loans.

As of December 31, 2016 and 2015, the regulatory capital of COFIDE, determined according to legal standards, is (in thousands) S/3,535,252 and S/3,478,121, respectively; which is used to calculate certain limits and restrictions applicable to banking entities in Peru, which Management of COFIDE considers to have entirely complied with.

As of December 31, 2016, assets and contingent loans weighted for credit risk amount to (in thousands) S/11,858,006 (S/11,066,813 as of December 31, 2015) and the equity requirement for credit, market and operational risk, determined by COFIDE according to effective legal standards, add up to (in thousands) S/1,228,611 (S/1,139,910 as of December 31, 2015); which give rise to a global capital ratio of 28.77% (30.51% as of December 31, 2015).

23. LEGAL RESTRICTIONS

As of this date, COFIDE is complying with global and individual restrictions of financial entities contained in Law 26702 and supplementary standards issued by the SBS, as informed every month in Report No. 13 and sent to the SBS.

24. SUBSEQUENT EVENTS

COFIDE's Management is not aware of any other subsequent events having occurred between the closing date and issuance date of these financial statements that may significantly affect them, except for the following:

On January 24, 2017, the Peruvian government, through the Ministry of Energy and Mining (MEM), declared the noncompliance with the concession since the financial closing of the Peruvian Southern Gas Pipeline project was not achieved. The Consortium that was in charge of the execution of this project was comprised by Odebrecht, Enagas and Graña y Montero.

As of December 31, 2016, COFIDE holds a loan granted to the sponsor Infraestructura de Transportes por Ductos S.A. for S/419,500 (in thousands), equivalent to (in thousands) US\$125,000 of principal and (in thousands) S/36,446, equivalent to (in thousands) US\$10,860 for interest capitalization (through Deutsche Bank AG, London Branch), which matures as from 2018.

As of the date of these financial statements, COFIDE's Management is negotiating with the main shareholder in charge of the construction, Odebrecht, for another solution which allows to recover its financing. The financial statements do not include any adjustment or disclosure that may arise from the events mentioned above.
