

ANNUAL
REPORT
2019



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ANNEX

AUDITED FINANCIAL STATEMENTS 2019

REPORT ON THE COMPLIANCE OF THE GOOD CORPORATE GOVERNANCE SMV

CORPORATE SUSTAINABILITY REPORT



LETTER FROM THE PRESIDENT

Year 2019 was a major challenge for us at COFIDE as Peru's Development Bank, in a context where the local economy was influenced by various international events, such as the trade strained relations between the United States and China, or the threat of Brexit, all of which affected the Peruvian trade balance resulting in lower export growth and public investment.

And although an annual increase of 6.2% in loans, driven by the acceleration of consumer credits (13.6 % annually), was registered in the financial system, a slow growth of private internal consumption was also registered.



CARLOS LINARES PEÑALOZA

Chairman of the Board



In this context, the Peruvian government approved a National Plan of Competitiveness and Productivity including nine main objectives to which we adhere, and in which we participate as Peru's Development Bank and the executing arm of public policies.

In 2019, we actively participated in the capital market, consolidating our position as a recurrent issuer, and focusing on successfully issuing Green Bonds and the first local Sustainable Bond. Thus, we encouraged responsible investment aimed at positioning ourselves as a green bank.

As a result, in partnership with IDB and Clean Technology Fund (CTF), we are coordinating a USD 20 million financing for electric vehicles to reduce greenhouse gas impact. We provide our support to close the infrastructure gap by promoting connectivity and diversification of the energy grid by financing the modernization of the Port of Pisco and the implementation of solar panels in some regions from the interior of the country.

Likewise, we particularly focus on productive sectors by supporting manufacture development (American Glass Products), agribusiness (Sociedad Agrícola Yolanda Patricia S.A.) and quality education (Instituciones Toulouse Lautrec de Educación Superior S.A.C.)

In line with our strategic objective to support MSMEs (small and medium-sized enterprises), we started Fondo Crecer in July to mass-distribute credit to this sector. This would benefit 1,834 MSMEs with guarantees for PEN

46.8 million and credits for PEN 2.7 million. In addition to this, we have provided training to 8,140 startups and microenterprises through our Business Development Centers in Lima and Tarapoto.

Within the scope of high-impact entrepreneurship, the Innovative Venture Capital Fund was created hand-in-hand with MEF and PRODUCE at the end of the year, to allow more startups to access financing.

Our traditional intermediation business line generated loans of USD 747 million, USD 316 million of which corresponded to the microfinance sector. With respect to corporate trusts, we created 12 new public and private trusts, with a portfolio of approximately USD 3.5 billion, which represented an increase of 7.7% compared to previous year's.

In 2019 our financial inclusion program, PRIDER, generated 104 new UNICAs (credit and savings associations), which allowed us to further reach the jungle. Likewise, along with ALAC [Los Andes de Cajamarca Association] – Yanacocha in Cajamarca, we were awarded first place in the "Social Management" category for the Program.

We have made a positive impact on the country's development through all our business lines and have been able to preserve COFIDE's financial sustainability to continue expanding the scope of its operations.

In 2019 we generated PEN 26.4 million in profits, a 50% increase compared to that of 2018. In addition, our sound liquidity and



¹ Approved by the Ministry of Economy and Finances, MEF, by means of Supreme Decree No. 237-2019-EF.

² Legislative Decree N° 1399 on the creation of Fondo Crecer and its regulations – Supreme Decree No. 007-2019.

solvency indicators as well as our strong capital capacity allowed us to maintain our institutional risk rating and that of the financial instruments issued by COFIDE, thus changing the international outlook to stable from negative.

Concerning our internal management, we continued to strengthen our Corporate Governance through good risk management practices and market transparency. As a result, we ranked in 34th place among the top 37 companies in the Market's Voice (Voz del Mercado) survey conducted by BVL (Lima Stock Exchange Market) and EY (formerly Ernst & Young), the best position held among public enterprises.

To talk about our triple bottom line model is to talk about sustainability, a concept we have already internalized. In 2019 we organized the first Sustainability Week to raise awareness among the entire team, and for second year in a row we presented our referenced GRI (Global Reporting Initiative).

We also developed an Eco-Efficiency Plan that was recognized by the Ministry of the Environment in the EcoIP Model framework. We also specified the measurement of our carbon footprint (302.18 tons of CO₂) and its neutralization through the purchase of carbon funds from protected natural areas, such as the Tambopata National Reserve or the Cordillera Azul National Park.

We promote internal change by benefiting the country, and that's what we must effectively communicate. As a consequence, we have strengthened our internal and external channels to consolidate our corporate culture, maintain

an ongoing dialogue with the media, and have a presence at important national and international events, such as Peru Venture Capital Conference 2019, or COP25.

As for our human capital, we have improved our human resource management and performance model and launched the COFIDE Campus in partnership with the Universidad Peruana de Ciencias Aplicadas [Peruvian University of Applied Sciences] (UPC), expanding our training to employees. It should be mentioned that FONAFE recognized us as a benchmark company within the holding in the implementation of the Corporate Human Resource Management Model.

Our actions, achievements and quality of our human resource team make us an organization fully committed to our country. We will continue to make our best efforts to consolidate the sustainable development we all look forward.

 CARLOS LINARES PEÑALOZA
Chairman of the Board



COFIDE IN
PERU



OUR OBJECTIVE

Mission

To be the country's driving force for sustainable and inclusive development, by promoting productivity and competitiveness as well as providing financing and other financial services.

Vision

To be recognized as a reference development bank, with high impact on Peru's sustainable and inclusive development under COFIDE's framework for sustainable management.

Who we are

We are COFIDE, Peru's Development Bank, with 49 years of experience committed to the country's sustainable and inclusive development.

Within the framework of our triple bottom line strategy aiming at creating a positive economic, social, and environmental impact, we promote infrastructure and productive investment through financing. Additionally, we play an important role in the implementation of policies promoting MSMEs growth. We provide vulnerable areas of the country with financial education in order to encourage inclusion. We drive forward the development of dynamic entrepreneurship, startups. All our actions aim at consolidating a sustainable country where everyone is benefited.



OUR STRATEGIC FRONTS

We have six major strategic objectives in place to achieve our vision and create a positive economic, social, and environmental impact in Peru. A summary of our strategic objectives, which are incorporated into the 2017-2021 Strategic Plan, is as follows:





OUR GOVERNANCE

Shareholder Structure

As of December 31, 2019, our shareholder structure was as follows:

Shareholder	Amount of shares	% of equity participation	Face value and book value (PEN)	Economic activity
FONAFE	1,896,287,189	99.18%	1,896,287,189	Public sector – Ministry of Economy and Finance
CAF	15,639,765	0.82%	15,639,765	Finance sector
Total	1,911,926,954	100.00%	1,911,926,954	



³ Capital Stock Modification Agreement approved November 10, 2017 by the General Shareholders Meeting and authorized to be implemented on December 29, 2017 by the Superintendence of Banks and Insurance Companies (SBS, for its acronym in Spanish). Its registration in the Register of Legal Entities and the Stock Ledger is in progress. The company's Articles of Association will be subsequently amended.

Board of Directors

Officer	Position	Start date / End date	Important information
Carlos Adrián Linares Peñaloza	Chairman of the board	February 01, 2019	Economist Universidad del Pacífico [University of the Pacific], Master's Degree in Management from J.L Kellogg Graduate School Management – Northwestern University.
Marco Antonio Castillo Torres	Director	12 de febrero de 2019	Economist Universidad Nacional Mayor de San Marcos [National University of San Marcos] (UNMSM); PAD-School of Management, Universidad de Piura [University of Piura] MBA, European Business School; Postgraduate in Planning and Economic Policy, UNMSM and Eotvos Lorand of Budapest.
Milagros Doris Maraví Sumar	Director	October 10, 2018	Lawyer Pontificia Universidad Católica del Perú [Pontifical Catholic University of Peru] (PUCP); Master's Degree in Public Administration, Instituto Ortega y Gasset [Ortega and Gasset Institute] - Universidad Complutense de Madrid [Complutense University of Madrid], Spain.
José Andrés Olivares Canchari	Director	August 24, 2018	Economist Universidad del Pacífico; Master's Degree in Financial Engineering, Centro Internacional de Formación Financiera [International Center for Financial Training] (CIFF) – Universidad de Alcalá de Henares [University of Alcalá] - Spain
Jaime Javier Reusche Lummis	Director	July 08, 2019 / December 18, 2019	Economist MBA from Boston University. Master's Degree in Economics from Boston University.
Carlos Augusto Oliva Neyra	Director	December 24, 2019	Economist Universidad del Pacífico, Master's Degree in Economics from Georgetown University. Ph.D candidate in International Finance, Public Finance and Monetary Theory at Georgetown University.

Executive Staff

Officer	Position	Start date / End date	Important information
Alex Pedro Zimmermann Novoa	Chief Executive Officer	February 01, 2017 / July 31, 2019	Economist Universidad del Pacífico; MBA, Katholieke Universiteit Leuven.
Allan Paul Bringas Arbocco	Chief Executive Officer (a.i)	August 01, 2019 / November 19, 2019	Economist Pontificia Universidad Católica del Perú MBA, New York University, specialization in Finance. CFA certification.
Gerardo Freiberg Puente	Chief Executive Officer	November 20, 2019	Industrial Engineer Universidad de Lima [University of Lima] Finance MBA from Universidad ESAN [ESAN University].
Jose Carlos Valer Dávila	Chief Financial Officer	March 01, 2018 / January 02, 2019	Economist Universidad Ricardo Palma [Ricardo Palma University] MBA, University of Oxford SCPM, Stanford University Ph.D. Candidate in Economics, UNAM. UNALM
Allan Paul Bringas Arbocco	Chief Financial Officer	May 06, 2019	Economist Universidad Ricardo Palma [Ricardo Palma University] MBA, University of Oxford SCPM, Stanford University Ph.D. Candidate in Economics, UNAM. UNALM
José Antonio Vergara Oliveros	Chief Business Officer	July 19, 2017 / October 15, 2019	Economist Universidad de Lima; MBA, University of Toronto, Rotman School of Management.

Officer	Position	Start date / End date	Important information
Elard Ludwig Arevalo Rengifo	Chief Business Officer (a.i)	November 04, 2019	Economist Universidad de Lima Master's Degree in Administration from Universidad ESAN.
Sandra María Jauregui Puertas	Chief Risk Management Officer	April 01, 2019	Economist Pontificia Universidad Católica Master's degree in Rural Development from University of Sussex.
María Desirée Alayza Serra	Chief Development and Innovation Officer	August 01, 2018 / June 30, 2019	Lawyer, Magna Cum Laude, Universidad de Lima; Master's Degree in International Law and International Relations, Universidad Complutense de Madrid.
Aimi Candy Yamamura Kinjo	Chief Development and Innovation Officer	October 21, 2019	Economist Universidad del Pacífico Master's Degree in International Business from Georgetown University.
Juan Carlos Mejía Prado	Chief Operation and Technology Officer	February 19, 2018	Certified Public Accountant Universidad Ricardo Palma; MBA, Universidad de Piura.
Roxana Patricia Elías Estrada	Chief Internal Audit Officer	August 01, 2017 / March 31, 2019	Business Administrator Pontificia Universidad Católica del Perú; Master's Degree in Auditing, Universidad del Pacífico.

Officer	Position	Start date / End date	Important information
Margjori Natalia Dolci Bonilla	Chief Internal Audit Officer	August 01, 2019	Business Administrator Universidad Ricardo Palma Master's Degree in Auditing, Universidad del Pacífico.
Hernán Raúl Vásquez Alzamora	Chief Legal Advice and Compliance Officer	July 17, 2017 / March 31, 2019	Lawyer Master's Degree in Business Law, Pontificia Universidad Católica del Perú; Diploma Program in Applied Finance.
Marco Rafael Roncagliolo Vásquez	Chief Legal Advice Officer	August 01, 2019	Lawyer Universidad de Lima Executive MBA, Universidad Privada del Norte [Private University of the North].
Marco Rafael Roncagliolo Vásquez	Chief Compliance Officer (a.i)	September 11, 2019	Lawyer Universidad de Lima Executive MBA, Universidad Privada del Norte.
Luz Marina Malca Ramírez	Chief Human Resources and Administration Officer	April 24, 2017 / March 31, 2019	Business Administrator and Certified Public Accountant Master's Degree in Strategic Business Administration, Pontificia Universidad Católica del Perú; MBA, Masstricht School of Management – MSM-Netherlands.
Violeta Karina Flores Rodas	Chief Human Resources and Administration Officer	August 01, 2019	International Business Administrator Universidad San Martín de Porres [University of San Martin de Porres] MSc in Accounting and Finance, Universidad San Martín de Porres MBA from EAE – Business School.

Officer	Position	Start date / End date	Important information
Pedro Bordarampé Jeri	Chief Special Assets Officer	April 19, 2017 / May 16, 2019	Business Administrator Mercer University, Atlanta, Georgia, USA.
Gino Alvaro Albán Peralta	Head of Institutional Control Body	March 11, 2017	Economist Universidad Nacional Federico Villarreal [Federico Villarreal National University]; Program of Public Management and Government Control for Institutional Control Bodies, Escuela Nacional de Control [National School of Control]; Management Specialization Program in Public Administration, ESAN

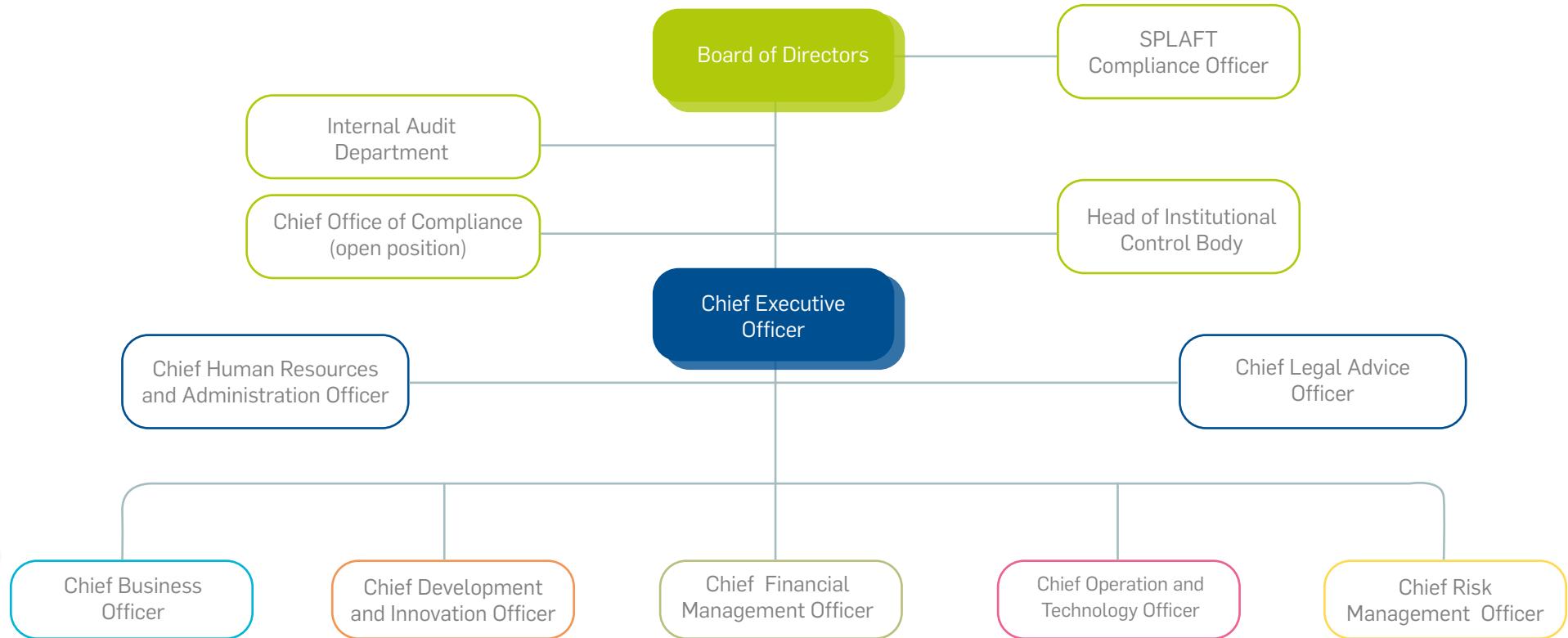
Corporate Governance Structure

As of 2019, a Corporate Governance and Remuneration Committee joined the company's special monitoring bodies.

The main committees are listed below:

Committee	Leader	Other members	Activities	Committee	Leader	Other members	Activities
Assets and Liabilities Committee	COFIDE'S CEO	Chief Business Officer, Chief Risk Management Officer and Chief Finance Officer	- Treasury, derivatives, liquidity gap. - First assessment of financing opportunities.	Audit, Ethics and Compliance Committee	Member of the Board	Members of the Board (2), Chief Internal Audit Officer, CEO (guest)	- Supervise adequate functioning of the Internal Control and Compliance System.
Eligibility Committee	COFIDE'S CEO	Chief Business Officer, Chief Risk Management Officer, Chief Finance Officer and Chief Legal Officer.	- Final assessment of financing opportunities. - Alignment / Evaluation of commercial proposals lined with COFIDE's objectives.	Remuneration and Corporate Governance Committee	Chairman of the Board	Members of the Board (2), CEO, Chief Human Resource Management and Administration Officer, Chief Legal Advice Officer, Chief Risk and Planning Officer	- Corporate Governance - Organizational structure and remunerations
Follow-up Committee	COFIDE'S CEO	Chief Business Officer, Chief Risk Management Officer, Chief Finance Officer and Chief Legal Officer.	- Critical portfolio review and supervision.	Board of Directors	Chairman of the Board	COFIDE'S CEO and at least 3 members of the Board	-Final Approval of Financing Opportunities
Risk Committee	Member of the Board	Chairman of the Board, COFIDE'S CEO, Chief Business Officer, Chief Risk Management Officer, Chief Finance Officer and Chief Legal Officer	- First approval of risk policies and loan transactions. - Recommendations for the Board of Directors meetings.				

Our Organization's Structure





SURPASSING OUR GOALS – OUR DEFINING ATTRIBUTE

Financing large-scale and impact projects

Infrastructure, MSEs and productive investment

- Loan disbursements totaling USD 196 million for the modernization of port infrastructure (port of Pisco), diversification of the energy matrix (solar panels), productive development in manufacturing (American Glass Products Perú S.A.), agro-industry (Sociedad Agrícola Yolanda Patricia S.A.), and quality education (Instituciones Toulouse Lautrec de Educación Superior S.A.C).
- New loans using our traditional intermediation line amounted to USD 747 million approximately: USD 316 million funds for the microfinance sector.
- We issued guarantees for PEN 46.8 million and granted loans for PEN 2.7 million through Fondo Crecer. Thus, we benefited 1,834 MSMEs and exporting companies. At the end of 2019, we entered into 16 guarantee agreements and 7 loan agreements with financial institutions.



⁴Ministry of Agriculture and Irrigation

⁵Ministry of Production

⁶National Environmental Fund

⁷Promotora Construcciones Proyectos Finanzas S.A.C.

⁸Police Housing Fund

⁹Centro Comercial Plaza Norte S.A.C.

¹⁰Acres Sociedad Titulizadora S.A.

We are trustees of development policies

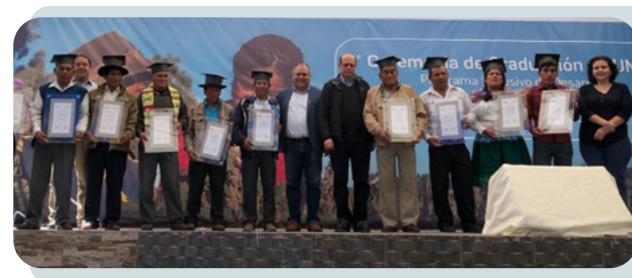
Trusts and Trust commissions

- We created 12 new public and private trusts: public trust include those with MINAGRI⁴ (FOGASA II), PRODUCE⁵ (FONDEMI II), and FONAM⁶ (FONAM III); among the private trusts, we highlight those with PROCONF⁷ - CMAC Huancayo, FOVIPOL⁸ and CCPN⁹ - ACRES¹⁰.
- The trust and trust commissions account balances managed by COFIDE increased 7.7% year to year, reaching USD 3,49 billion. The main trust managed is the one from Fondo Mivivienda (64% share), which represents the alliances between public enterprises.
- Likewise, we entered into inter-institutional cooperation agreements with San Martín de Porres University, the NGO Alternate Development Mechanisms - MDA and FONAM.

Developing financial inclusion and entrepreneurship

PRIDER, Business Development Center (CDE, for its acronym in Spanish) and Entrepreneurial Ecosystem.

- Our PRIDER program was awarded first place in the “Social Management” category of the “Sustainable Development 2019 Award”, ceremony organized by the National Mining, Petroleum and Energy Society (SNMPE). This award is a recognition of our program in Cajamarca, which was implemented in collaboration with ALAC–Yanacochoa, emphasizing our objective to promote good social and environmental practices.
- We created 104 UNICAs, with a total of 1,782 members. 36 UNICAs graduated in Ayacucho, with 565 dwellers of the provinces of Huanta and Huamanga, who completed the financial literacy and development of productive capabilities process.
- We provided training to 8,140 users through our CDEs in San Isidro y Tarapoto, achieving 95% customer satisfaction in the services provided.



- We continue to strengthen an innovative entrepreneurship ecosystem as well as the creation of critical mass in entrepreneurs through the Venture Capital Conference, in alliance with UTEC, FOMIN and meet ups, under the Startup Grind methodology.
- The Capital Fund for Innovative Entrepreneurships (FCEI, for its acronym in Spanish) initiative proposed by MEF and PRODUCE was approved by the Council of Ministers on December 30, 2019 and made official by Urgency Decree No. 013-2020 on January 23, 2020.

Growing sustainably and profitably

Balance-sheet structure and results

- During 2019, Moody's and S&P improved our outlook to stable from negative and maintained the risk rating of our financial instruments within investment grade.
- COFIDE consolidated its role as a recurrent issuer in the local market (it issued PEN 478 million during 2019), placing the country's first Sustainable Bond at 1.93 times the amount to be issued. We also issued the first Green Bond in public offering, VAC (inflation-indexed) bonds and commercial papers.
- COFIDE's investment portfolio increased by 15.3% year after year, reaching USD 728 million. Additionally, we generated extraordinary profits from the sale of bonds for PEN 27.8 million.
- We reached a balance of direct and indirect loans of more than USD 1,6 billion, 57% of which corresponded to infrastructure and productive investment and the remaining 43% to traditional intermediation focusing on the MSEs.
- PEN 19.4 million were recovered from the critical portfolio related to COSAC [High Capacity Segregated Trunk Corridor].
- Past-due payment was 7.8% (lower than the average for development banks), and the provision for past-due loans closed at 228.8% by 2018.

- FONAFE approved the policy to reinvest 100% of COFIDE's profits during 2019-2021.
- The aggregate capital ratio increased to 29.5%, higher than the one registered in December 2018 (28.5%) and the targeted ratio (25.0%).
- Net profits for 2019 reached PEN 26.4 million, 55.3% higher than that obtained as of December 2018 (PEN 17.0 million).

Committed to the highest standards

Management Excellence Model

- **ISO 9001:2015 Certification:** Our Quality Management System, implemented since 2010, continued being consolidated during 2019. Under ISO 9001:2015, SGS del Peru certified our main processes such as trust and trust commission management, creation of payment schedules, collection of loans from financing programs and lines, management of the business training program. The certification also included our management, control, support, and improvement processes.
- **Internal Control System:** We reached a score of 4.27 out of 5.00, as a measure of SCI's maturity level. The score was validated by FONAFE and reflects the improvements made throughout the year, such as the implementation of a mechanism to identify, assess and respond to fraud risks, the review and updating of a large number of corporate procedures, as well as the reformulation of controls that mitigate our associated risks.



- **Good Corporate Governance:** We continued to strengthen our Corporate Governance through the implementation of good practices of risk management and market transparency. We also approved the updating of the Regulations on the Board of Directors and on the Risk Committee. Additionally, we ranked in 34th place among the top 37 companies in the Market's Voice (Voz del Mercado) (survey conducted by BVL and EY), which is the best position being held among public companies.

- **Operational Efficiency:** Operational expenses are lower by PEN 1.3 million than those registered at the end of 2018. Similarly, we were able to sell our non-core assets.

- **Talent Management:** COFIDE's Campus was launched in partnership with Universidad de Ciencias Aplicadas [University of Applied Sciences] (UPC), thus expanding training access for employees. Likewise, performance evaluation was reinforced by including competencies, internal communication channels were streamlined, and the 6th edition of COFIDE's Extension Course was held. It is important to mention that FONAFE recognized us as the benchmark company in the holding regarding the implementation of the Corporate Human Resource Management Model.

- **Positioning:** We increased our participation in Instagram, LinkedIn, Twitter and Facebook social media, with an average growth of 43% followers. We participated in several national and international events and activities. We also attended COP25 as exhibitors, co-organized the Peru Venture Capital Conference 2019, participated in CADE Executives 2019, and exhibited in Peru CEO Impact Summit 2019, among others.

- **Sustainability:** Our Sustainability Policy was approved. We organized the First Sustainability Week during which leaders and employees were trained and made aware of sustainability management issues. For the second consecutive year, we presented the GRI (Global Reporting Initiative) referenced Sustainability Report, a document that summarizes sustainability activities. An Eco-Efficiency Plan was developed and recognized by the Ministry of the Environment under the EcoIP Model. In 2019, in line with our concern for the environment, we concretized the measurement of our carbon footprint (302.18 tons of CO₂) and its offset by purchasing carbon credits from protected natural areas, such as the Tambopata National Reserve or the Cordillera Azul National Park.



GLOBAL MARKET SITUATION

I. INTERNATIONAL ECONOMIC OUTLOOK

A series of events affected the international economy in 2019, among which the following should be emphasized: the trade strained relations between USA and China, which resulted in an international trade drop, mainly in the commercial and technological sectors; a Brexit that negatively impacted on the economy in the euro zone due to a lack of enough trade agreements between United Kingdom and the European Union; and, finally, the geopolitical tension between USA and the Middle East countries that affected energy prices and the global oil supply¹¹.

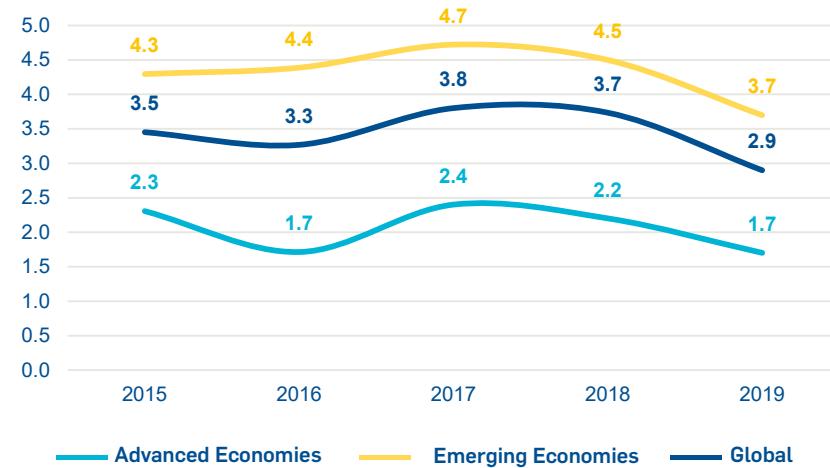


¹¹World Economic Outlook, January 2020

1. Economic activity

A significant economic growth slowdown occurred in 2019 versus 2018 as trade war and socio-political issues affected emerging and advanced economies, which creating a degree of uncertainty that affected investment decisions.

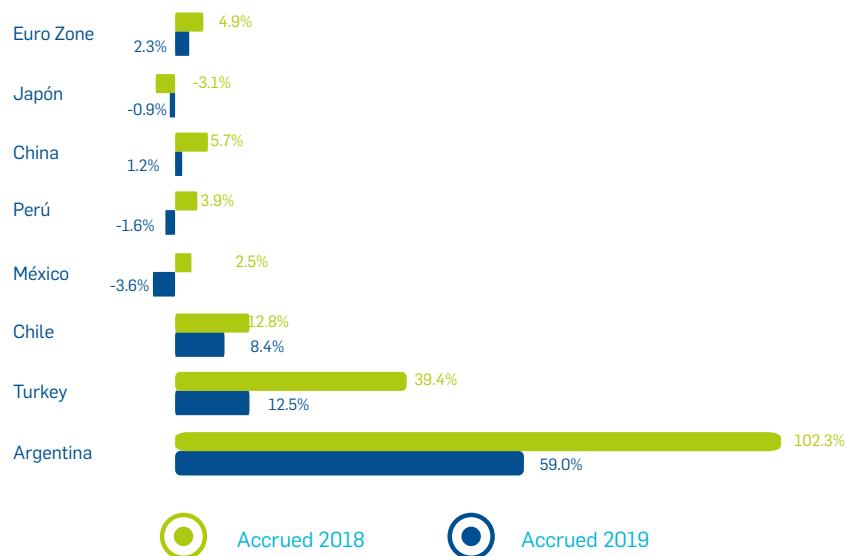
Global Growth (% Var.)



2. Monetary policy and exchange rate

In 2019, the trend depreciation of currencies declined compared to 2018; currencies such as the Japanese yen, Peruvian sol and Mexican peso also appreciated. On the one hand, this situation was influenced by the trade war and risk-averse investors. Therefore, currencies such as the Japanese yen were a safe haven for investors.

Currency Depreciation



Source: Investing



¹²World Economic Outlook, January 2020

On the other hand, faced with the economic slowdown, many countries were supported by the monetary policies of their central banks, highlighting the US Federal Reserve Bank, the European Central Bank, People's Bank of China, among others, which reduced their monetary policy rates to promote their respective economic growth.¹²

II. LOCAL ECONOMIC OUTLOOK

The local situation was influenced by the external factors mentioned above, which made an impact lowering export growth. It was also affected by internal factors, such as a drop in public investment and deceleration in private consumption.

1. Economic activity

Peru's economy grew 2.2 % at the close of 2019, one of its lowest numbers since 2009, due to primary sectors' GDP unfavorable results, mainly from the fishing sector and deceleration in public investment.

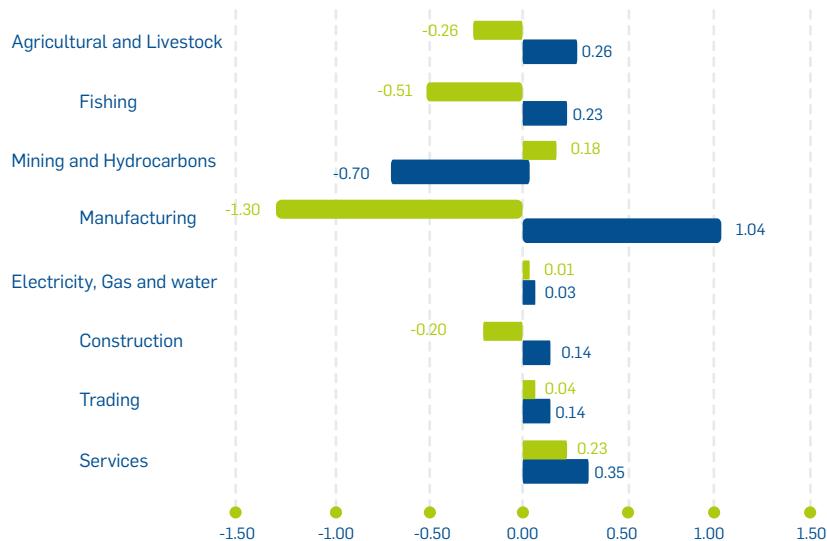
Peru's GDP Growth (% real var.)



Source: INEI [National Institute of Statistics and Informatics]

Conversely, there was a positive contribution from the mining, hydrocarbon, trade and services sectors compared to the previous year.

Annual Contribution per Sector

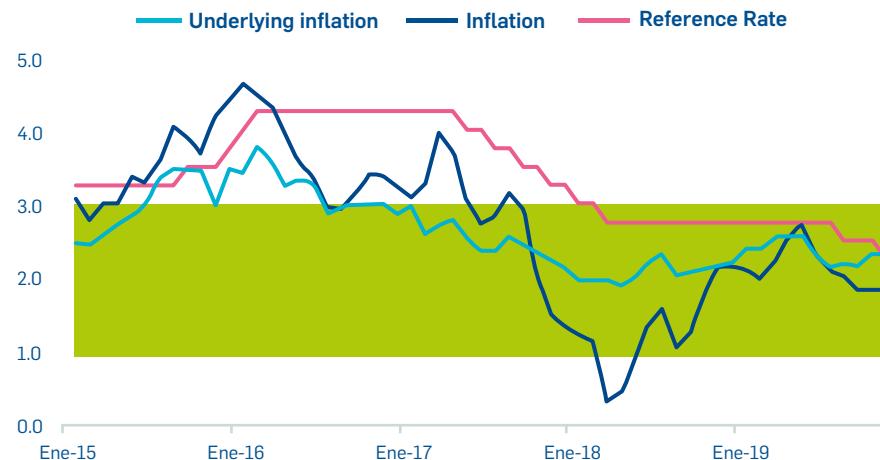


Source: INEI

2. Inflation, monetary policy and currency exchange rate

As to December 2019, the Consumer Price Index (CPI) annual inflation rate in Metropolitan Lima was 1.9%, while the rate of underlying inflation (CPI without food and energy) was reported at 2.3%, being both rates within the Central Reserve Bank of Peru (BCRP)'s target range.

Annualized Inflation and Underlying Inflation (% var.)



Source: BCRP

On the contrary, the reference interest rate as to December 2019 was 2.25 %, which was in line with the Central Reserve Bank's monetary policy actions. It decided to make two rate cuts by 25 bp in August and November to boost economic growth.

According to BCRP, an exchange rate intervention within a monetary policy is conducted to limit the risks of financial dollarization, particularly to reduce excessive exchange rate volatility that could negatively affect the economy. Thus, the Central Reserve Bank made net purchases of USD 385 million and USD 20 million in March and June of 2019, respectively.

Exchange Rate and Copper Price



Source: BCRP, SBS

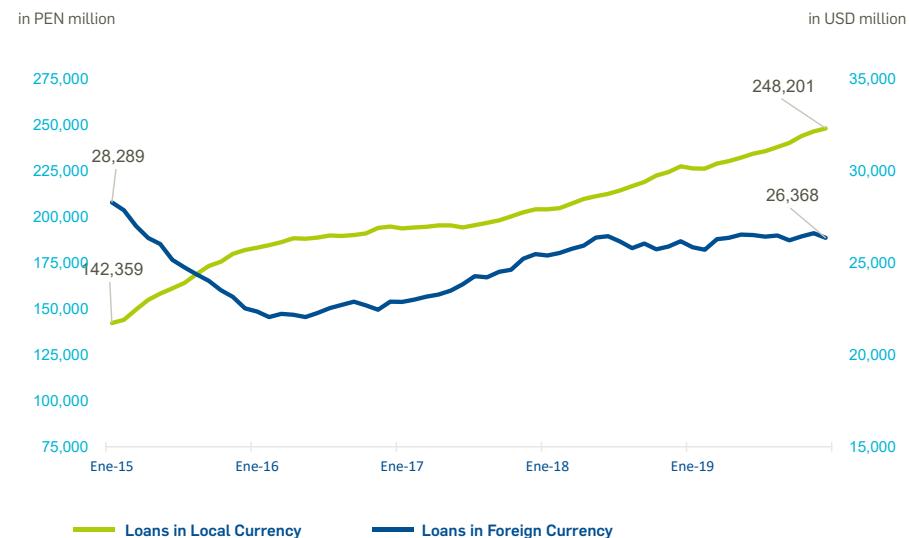
In December 2019, the closing exchange rate was 3.314, additionally, the local currency presented an accumulated appreciation of 1.0% compared to the average Latin America region's depreciation of 11.6%. The significant inverse relationship between exchange rate and price of copper was characterized by a rise in copper price in the last quarter of 2019, encouraged by the progress made between the United States and China toward a final trade agreement.

3. Financial system

The financial system loans recorded an annual increase of 6.2% driven by the acceleration of consumer credits reporting an annual increase of 13.6%.

Growth of domestic currency loans surpassed the foreign currency borrowings, thus mainly reducing the dollarization ratio of mortgages, consumer loans to purchase vehicles, and consumer loans to small and medium-sized enterprises (SMEs). This minimized the impact on the domestic economy given the exchange rate volatility and risk.

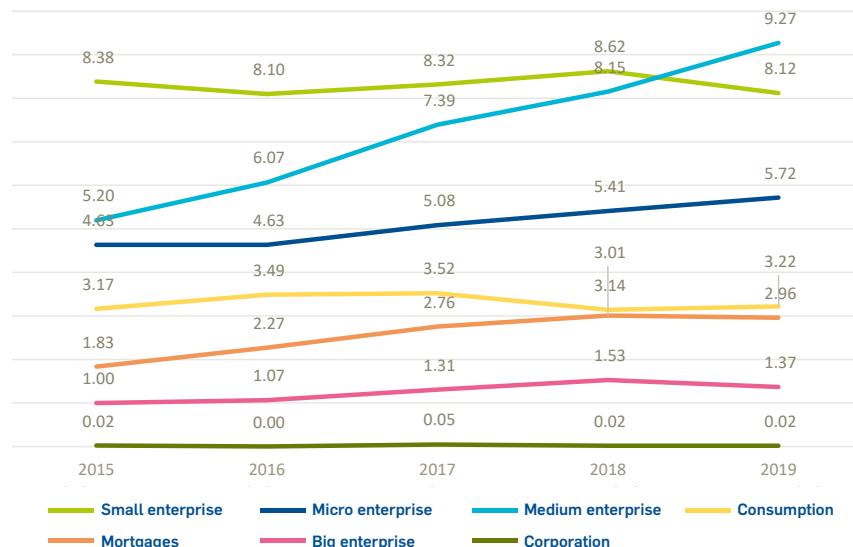
Progression of Direct Loans per Currency



Source: SBS

Although total loans grew 6.2% per year, the delinquent portfolio increased in 9.2% annually, which increased the ratio of past-due loans to 3.6% from 3.5% in 2019 as a result of having granted bad loans to medium-sized enterprises mainly from manufacture, construction and real estate sectors in previous years.

Past-due Payments per type of loan (%)



Source: SBS

4. Competitiveness and Productivity Plan 2019-2030

In 2019, the Competitiveness and Productivity Plan 2019-2030, a set of cross-sectional policies aimed at reducing barriers and encouraging investment within the country by producing higher income and quality jobs for its population, was published.

This plan consists of 84 specific measures, each of which is composed of actions performed by autonomous governmental bodies in coordination with the private sector and promoted by the government to achieve the nine priority objectives (PO).

- **PO1. To provide the country with quality economic and social infrastructure**, by expanding the scope of public infrastructure services in order to provide quality basic services to more Peruvians.
- **PO2. To strengthen human capital**, by providing the necessary health conditions and quality basic public services that improve learning and labor market performance.

- **PO3. To build capabilities to create innovation, adoption and transfer of technology improvements**, by strengthening the role of the National System of Science, Technology and Technological Innovation [Sistema Nacional de Ciencia, Tecnología e Innovación Tecnológica] (SINACYT) to increase the effectiveness of public investment and innovation acceleration, technology absorption and digitalization.
- **PO4. To promote local and foreign financing mechanisms**, by elaborating policies to develop and promote financial instruments for various business segments, with emphasis on sectors with the largest gaps in access to financing.
- **PO 5. To create necessary conditions for a dynamic and competitive labor market that generates decent employment**, based on policies to update labor regulations, modernize the MSE system, improve the legal framework of training modalities and improve labor inspection system.
- **PO6. To create conditions to develop a productive business environment**, by promoting appropriate tools and conditions that enable companies to invest, create jobs, expand to new markets, and by streamlining the State management to reduce regulatory burden.
- **PO7. To facilitate conditions for international trade in goods and services**, by promoting an environment where companies will be able to strengthen their activities of goods and services trade.
- **PO8. To strengthen the country's institutions**, by implementing policies to improve justice administration service, and reduce state corruption.
- **PO9. To foster environmental sustainability**, through a better use of natural resources, production methods and consumption patterns in order to achieve a "circular economy".

We play a relevant role in the implementation of the Competitiveness and Productivity Plan, and we have actively implemented in three specific measures: Fondo Crecer, Fondo de Capital Emprendedor [Entrepreneurial Capital Fund] and the Fund for Financial Inclusion of Small Agricultural Producers. Likewise, we support the priority objectives related to infrastructure, innovation, business environment and environmental sustainability.





OUR IMPACT ON
THE DEVELOPMENT
OF PERU



FINANCING LARGE-SCALE AND HIGH-IMPACT PROJECTS

I. WE FINANCE ROAD CONNECTIVITY IN PERU

1. Autopista del Norte S.A.C. - AUNOR

In October 2019, we approved a structured financing transaction amounted up to USD 87.5 million (25% of the financing required) in favor of Autopistas del Norte S.A.C., intermediated by Sumitomo Mitsui Banking Corporation for up to a 6-year term. This financing is aimed at funding the concession works of Red Vial [Road Network] No. 4 project. COFIDE's participation in this transaction is through a syndicated financing of USD 350 million in total, together with other eight financial entities.

The project is under the concession agreement for the road sections of Red Vial No. 4 (Pativilca - Santa - Trujillo and Puerto Salaverry – Junction R01N) with a length of 356 km, along the departments of Lima, Ancash and Trujillo. The concession agreement was signed on February 18, 2009 by the Ministry of Transport and Communications (grantor) and Autopista del Norte S.A.C. (concessionaire) for a 25-year term, and it involves the following works:

- Rehabilitation works on the existing highway.
- Construction of a second carriageway between Pativilca and Trujillo.
- Rehabilitation works on the existing highway.
- Construction of a second carriageway between Pativilca and Trujillo.
- Complementary works: i) construction of the bypass roads in the cities of Casma, Huarney, Virú and Chimbote; and ii) construction of roundabouts, overpasses and pedestrian walkways.
- Construction of the Chimbote bypass (additional work included in Addendum No. 2 of the concession agreement), signed on July 22, 2016.

Red Vial No. 4 connects the cities of Pativilca, Huarney, Casma, Chimbote, Chao, Salaverry and Trujillo, and the provinces of Lima, Ancash and La Libertad. It is part of the Panamericana Norte [Northern Pan-American] highway and interconnects with the Red Vial No. 5 concession at its southern end, an important road communication hub. Consequently, this construction will improve road circulation and safety and will contribute to reduce travel time.

This is a self-sustaining project, i.e. the funds will be recovered from the tolls collected from existing toll booths (Fortaleza, Huarney, Vesique and Virú). Later, once the Chimbote bypass works are completed, the Santa toll system would be included.

It is noteworthy that important agricultural and mining activities fall within the concession's area of influence, which, due to its location near the city of Lima, is part of the capital's supply area, and also connects the ports of Salaverry and Chimbote.

This transaction meets the triple bottom line model:

- **Social impact:** The rehabilitation and construction of the second carriageway will help integrate Lima and northern Peru, improving its users' convenience and safety. Additionally, priority will be given to hiring local labor in the works, thus generating jobs for people from the areas of influence.
- **Environmental impact:** The company has all the environmental permits required to operate. Furthermore, locals are given talks and training for proper environmental management of roads, such as solid waste reduction.
- **Financial impact:** The infrastructure growth will be promoted, thus positively impacting Peru's economy; likewise, opportunities for bilateral exchange will be seized.

II. WE CONTRIBUTE TO THE MODERNIZATION OF PORT INFRASTRUCTURE

2. Terminal Portuario Paracas

In June 2017, our Board of Directors approved a loan to Terminal Portuario Paracas S.A. for up to 25% of the financing required for the "Modernization of the General San Martín-Pisco Port" project. Subsequently, FONAFE Board of Directors authorized us to an additional participation of 25%, totaling up to USD 92.0 million (50% of the required facility amounted up to USD 184.0 million) for an 18-year term. The project's total estimated investment is approximately USD 294 million.

The "Modernization of the General San Martín Port" project, that began in 1970 and is located in Paracas, Pisco, aims to convert the current port into a multipurpose port terminal handling all types of cargo (bulk, containers, general cargo, rolling cargo and passengers), offering a number of services to its area of influence (Ica, Apurímac, Ayacucho, Arequipa and Huancavelica). Thus, it will contribute to the development of Peru's port infrastructure and boost the economy of its southern region by facilitating the import and export of different goods from the area, besides promoting tourism.

According to the works supervisor's report, as of December 2019, the project had progressed 88% (mandatory works) and the completion of said works, which includes civil and electrical works as well as the dining room remodeling, is scheduled for April 2020.

In 2019, USD 36.2 million were disbursed to proceed with the project works, reaching an exposure balance of USD 64.4 million at the end of the year.

Through its social fund, the company impacts positively in the area. Launched in 2016, the fund is part of the company's social responsibility program that benefits the districts of the Pisco province.

Such fund prioritizes development of human skills and provision of basic services that help in reducing the levels of child malnutrition, raising the quality standards of health and education, and increasing the provision of sanitation services.



III. WE FOSTER PRODUCTIVE DEVELOPMENT

3. American Glass Products Perú S.A.C

In April 2019, a financing transaction, intermediated by Credit Suisse and that amounted up to USD 12.3 million, was approved in favor of American Glass Products Perú S.A.C. (AGP Peru), which represents 25% of the funds required to reschedule the company's debt.

AGP Peru began operations on January 1, 2005; it is dedicated to the production and commercialization of laminated, tempered, and armored glasses using state-of-the-art technology for the automotive and military segments.

AGP's history dates back to 1965 when José Mannheim opened Autoglass in Lima, Peru. Currently, AGP Group is a conglomerate with operations in different countries and has four manufacturing plants: Peru (2), Brazil (1) and Colombia (1). In 2018, the Group acquired the Soliver company in Belgium through a minority investment from Goldman Sachs.

AGP Peru SAC is the leading company for non-traditional exports to the United States, and was ranked eighth in the list of Peruvian non-traditional export companies as of December 2018.

The AGP business lines are the following:

- i. eGlass: Cristales de alta tecnología para vehículos.
- ii. Blindados (BRG): Cristales blindados para uso civil.
- iii. Defensa: Cristales para aplicaciones militares.

This transaction meets the triple bottom line model:

Social Impact

- AGP Peru has created more than 800 jobs in Peru due to an increased production volume at the Peru plant.
- It promotes and develops the Peruvian employee's talent through programs and offers them grants for technical, university, specialization, diploma and graduate courses, leadership programs for middle managers, among others.

- Although other leading international companies thought its production was unfeasible, AGP managed to develop the Tesla "Model X" smart panoramic windshield, receiving numerous international awards for its cutting-edge design and technology.

Environmental Impact

- Environmental certifications.
- It promotes clear policies on material and waste recycling in all its plants.
- Its levels of recycling and/or waste reusing are above 90%.
- AGP Peru and its related certifications for the efficient energy use and good waste disposal.

Financial Impact

- It undertakes activities that help develop the industrial exports, leading non-traditional exports destined for the United States.

4. Sociedad Agrícola Yolanda Patricia S.A.C.

In June 2019, we approved a financing transaction, intermediated by Banco de Crédito del Peru (BCP), amounted up to USD 1.05 million, in favor of Sociedad Agrícola Yolanda Patricia, and which represents 25% of the funds required by the company to invest in crop establishment of Hass avocados and Tango tangerines.

Sociedad Agrícola Yolanda Patricia S.A.C., founded in January 2007, is dedicated to agricultural activities in the province of Huaura. Its main crops are citrus fruits such as tangelos, oranges, and tangerines, as well as Hass avocados.

This co-financing project, which includes investment in infrastructure and equipment for crops, contributes to the implementation of 210 hectares for Hass avocado (135 ha) and Tango tangerine (75 ha) in the Santa Rosalía Project farm, located in Santa María district, province of Huaura, department of Lima.

The project's investment totals USD 5.15 million and is composed of own funds (USD 0.94 million), BCP-COFIDE bank financing (USD 3.55 million) and shareholder and third-party financing (USD 0.66 million). COFIDE will contribute USD 1.05 million (25%)

of the total financing. Later, in a second stage, a 135-ha additional expansion for Hass avocado is planned to reach a 345-ha cultivated area in this new farm.

This transaction meets the triple bottom line model:

Social Impact:

- Sociedad Agrícola Yolanda Patricia S.A.C and Agroindustrial Santa Rosalía S.A.C permanently create new jobs in their different production centers.

Environmental Impact:

- As the production of Sociedad Agrícola Yolanda Patricia S.A.C is for direct consumption, it has product certifications that guarantee the innocuity, quality, and safety of its products. Some certifications are detailed below:

- GLOBAL G.A.P: Certification of risk assessment on social practice in primary production. It certifies the application of a good social management system in farms. It offers buyers added assurance and helps protect farm's human resources in production.
- Nurture Module: TESCO international retail chain certification. Its main aim is to assure consumers that fruits and vegetables from the companies are grown in an environmentally responsible manner.

Financial Impact:

- It helps develop agribusiness exports as it supplies the main export companies with oranges, tangerines, and Hass avocados in Peru.



5. Instituciones Toulouse Lautrec de Educación Superior S.A.C

In June 2019, a financing transaction, amounted up to PEN 20 million and intermediated by Banco Santander was approved in favor of Instituto de Educación Superior Tecnológico Privado Toulouse Lautrec S.A.C, which represents 25% of the funds required by the company to implement its expansion plans. These include the expansion of the Toulouse Lautrec headquarters in Lima, the purchase of land in Santiago de Surco district in Lima, and the implementation of Certus Arequipa and Certus Villa El Salvador branches.

Toulouse Lautrec is a communication and design technical institute incorporated in July 1985, subsidiary of Instituto de Creatividad y Negocios S.A.C. (ICNE), which owns 99.99% of its capital stock. In January 2018, ICNE was acquired by Inversiones Educa S.A. as part of the Enfoca Group.

With over 30 years in the Peruvian educational sector, the institute's educational offer includes creative study programs with a duration of 3 and 4 years, emerging as a lead program in the Peruvian technical sector. In June 2018, Toulouse Lautrec received its institutional licensing from the Ministry of Education (Ministerial Resolution No. 273-2018-MINEDU), it has fifteen licensed study programs and three licensed branch offices. Thus, students in these study programs may obtain the Technical Bachelor's degree.

This transaction meets the triple bottom line model:

Social-environmental Impact

- The "Toulouse Thinking" methodology (its educational model) encourages innovative student projects that implement the triple bottom line model (social, economic, and environmental) through TRAEs, a proposal for students to develop real products for companies with which it maintains strategic alliances.
- Since 2015, Toulouse Lautrec encourages students to create startups as a graduation requirement, additionally, this innovative "Startup Toulouse" program allows students to explore, develop and validate their business ideas.

Environmental Impact

- Encourages innovative entrepreneurship under an environmental protection approach; for example, through "Techo NGO" they design furniture from residual construction material for emergency housing in coordination with municipalities. They implemented one in the Municipality of El Agustino, designing the first Ecological Mural of Peru in Puente Nuevo, El Agustino.
- For its part, Certus carries out and encourages low-impact practices on ecosystems, such as campaigns to recycle organic waste, paper and cardboard, glass, and plastic in all its centers, to prevent environmental risks. in all its centers.

Financial Impact:

- It helps the improvement of the education sector and the investment in educational infrastructure. The construction of new higher technical education centers in Lima and provinces will allow a higher percentage of the population to access quality education services.

6. Electromobility

Since the second quarter of 2019, we have coordinated, with the Inter-American Development Bank (IDB), a credit line for the acquisition of electric vehicles (EV) consisting of IDB resources (USD 10 million) and Clean Technology Fund (CTF) resources (USD 10 million), including a technical assistance component.

The credit line is mainly intended to finance sustainable electric transport solutions, and impact on reduced fossil fuels consumption and greenhouse gas (GHG) emissions. In this way, a low-carbon mobility solution in Peru is promoted, and the financial viability of private investments in EV is demonstrated.

These objectives are aligned with the Peruvian government's progress in reducing fossil fuels within the transport sector, and with the following documents:

- i. 2014-2025 National Energy Plan of the Ministry of Energy and Mines (MINEM), which emphasizes the necessity to extend the EV technology on transport as a requirement to develop an energy efficiency policy in that sector.
- ii. 2016-2021 MINEM Multiannual Strategic Sectoral Plan, which identifies a "massive migration to electric vehicles for transport".
- iii. MINEM Ministerial Resolution No. 250-2019 that specifically promotes investments in infrastructure and the EV market development.

Thus, in August 2019, the "Technical Study for the development of a credit line for electric vehicles in Peru" was carried out. Meetings were organized with public (ministries) and private actors (suppliers, EV buyers and financial system institutions) in order to boost the growth of the electric mobility industry, a more sustainable and less polluting transport for Peru.



¹³Created by Urgency Decree No. 008-2017, issuing complementary measures for coping with emergency cases caused by El Niño Costero Phenomenon and for the MSEs reactivation and productive strengthening.

¹⁴Created by Law No. 30230, governing tax measures, procedure simplification, and permits for the promotion and stimulation of investment in Peru.

¹⁵Created by the Ministry of Foreign Trade and Tourism [MINCETUR] and COFIDE to promote and support exporting SMEs, providing insurance coverage backing pre-shipment credits arranged with financial institutions.

¹⁶ Created by Emergency Decree No. 024-2009; it guarantees credits granted by institutions of the national financial system in favor of productive, service and trade micro and small companies (MSEs), as well as in favor of medium-sized companies engaging in production and/or service activities within non-traditional export chains.



7. Fondo Crecer [Crecer Fund]

The Fondo Crecer was created through Legislative Decree No. 1399 published on September 09, 2018, consolidating the following trusts: Fund for the Strengthening of the Micro and Small-sized Enterprises -MSEs- (FORPRO¹³, for its acronym in Spanish), MIPYME [Micro, Small and Medium-sized Enterprises -MSMEs-] Fund¹⁴, Export Credit Insurance for Small and Medium-sized Enterprises -SMEs (SEPYMEX¹⁵, for its acronym in Spanish) and the Business Guarantee Fund (FOGEM¹⁶, for its acronym in Spanish). Its main objectives are:

- i. To promote the productive development of MSMEs and exporting MSMEs.
- ii. To encourage enterprise formalization.
- iii. To broad access to loans under better financial conditions.
- iv. To increase the development of sustainable projects in Peru's high impact sectors.
- v. To support Peru's regional and sectoral development through hedging instruments and credit offering to the financial market.

Social Impact:

- The fund aims to increase loan availability for the MSMEs and exporting companies, and their access to loans by strengthening business development, and promoting access to basic social services such as health insurance, public utilities, improved quality of life and quality education.

Environmental Impact:

- Financial institutions, using the fund to give loans or hedges, will be able to finance renewable energy and energy efficiency projects, thus helping reduce CO2 and greenhouse gas emission in Peru.

Financial Impact

- Fondo Crecer makes the Peruvian economy dynamic and creates new job opportunities in the long term through its impact on "MSMEs and exporting companies".

The main results at the close of 2019 are described below:

MSMEs: beneficiaries of Fondo Crecer	1,834 MSMEs and exporting companies (1711 guarantee beneficiaries and 123 loan beneficiaries)
Amount of guarantees issued to Fondo Crecer	PEN 46.8 million
Amount of loans granted to Fondo Crecer:	PEN 2.7 million
Guarantee agreements with financial institutions	16 Guarantee agreements: BCP, Scotiabank, ICBC, Pichincha, BanBif, Financiera TFC, Financiera QAPAQ, Financiera Efectiva, CMAC Cusco, CMAC Huancayo, CMAC Ica, CMAC Maynas, CMAC Piura, CRAC [rural savings and loans institution] Los Andes, CRAC Raíz and EDPYME [Small and micro-enterprise development institution] Acceso.
Loan agreements entered into with financial institutions	7 Loan agreements: Financiera TFC, Financiera QAPAQ, Financiera Credinka, CMAC Huancayo, CMAC Ica, CMAC Maynas and EDPYME Acceso

In 2019, the financial institutions that extensively use Fondo Crecer were the following:

Guarantees:

- MSMEs: EDPYME Acceso Crediticio S.A. and Financiera TFC S.A. concentrated 96% of the hedges.
- Exporting companies: BCP and BANBIF reached 100% of transactions.

Credits:

- Financiera Credinka and Financiera Qapaq concentrated 99% of the loans granted to MSMEs.

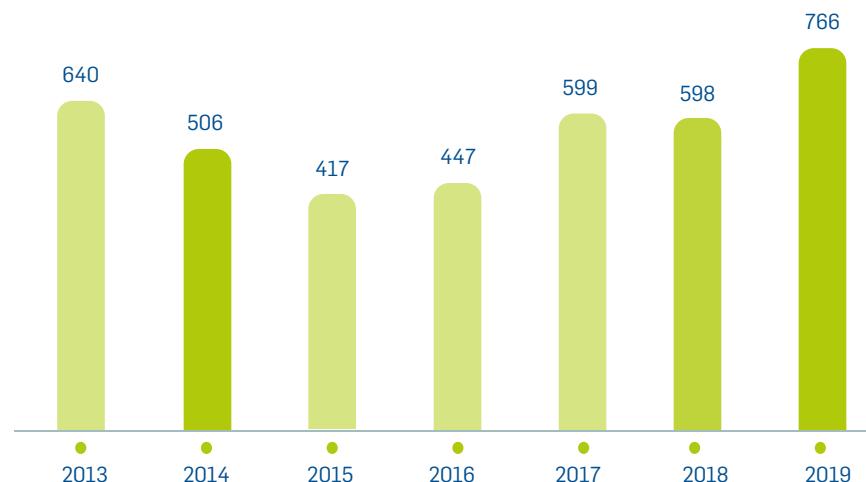
IV. WE SUPPORT MSMEs

1. Traditional Financial Intermediation

1.1 Approvals

In 2019, approvals reached a record high of USD 766.1 million that was charged against financial intermediation programs and lines offered by COFIDE, 28% higher compared to the previous year.

Intermediation Approvals (in USD million)



Regarding approvals in 2019, loans were disbursed and charged against short-term working capital lines, subordinate credits, Multisectoral, Propem, Cofigas and Coficasa programs. According to the loan terms, annual approvals were for short-term operations amounted to USD 643.4 million (84%) and medium and long-term operations amounted to USD 122.7 million to (16%), as shown in the following graph.

Approvals: Breakdown by Term (in USD million)



1.2 Financial Intermediaries

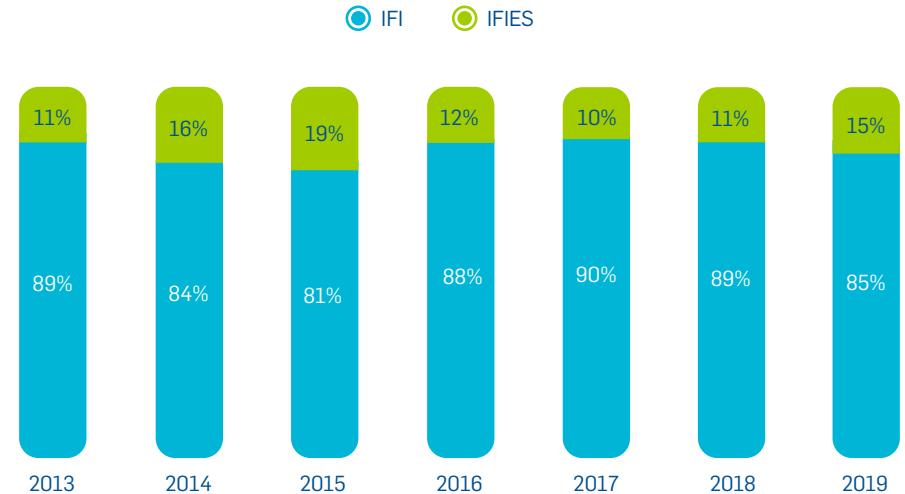
In 2019, the total of loans was channeled through 18 financial institutions. Likewise, Edpyme Santander Consumer Peru, an institution specialized in vehicle loans, was incorporated as a new financial intermediary.

In this sense, breakdown by the type of intermediary, total approvals were distributed as follows: 85% of approvals were channeled through banks, finance companies, leasing companies and factoring companies; the remaining 15% was channeled through institutions specialized in the micro and small business sector (IFIE, for its acronym in Spanish), including municipal savings and loans institutions (CMACs), rural savings and loans institutions (CRACs) as well as small and micro-enterprise development institutions (EDPYMEs).

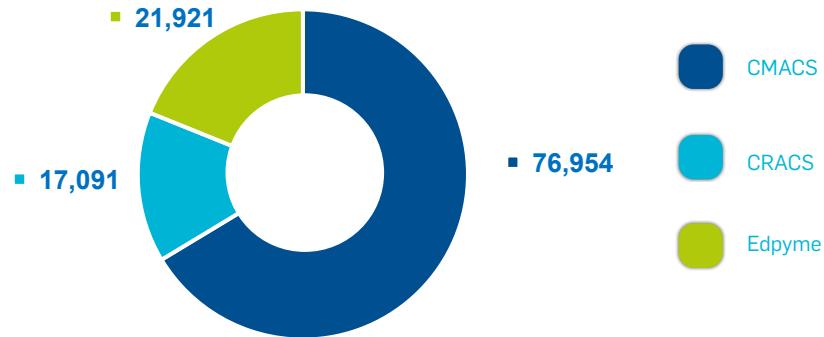
Financial institutions that intermediated the largest loans were as follows:

- Banks: Santander, Pichincha, Comercio and Mibanco
- Finance companies: Crediscotia, Credinka, Confianza, OH and Compartamos
- CMACs: Arequipa, Huancayo, Tacna and Maynas
- CRACs: Raíz
- EDPYMEs: Acceso Crediticio and Alternativa

Approvals: Breakdown by Financial Intermediary (in percentage)



2019 IFIEs Approvals (in USD million)



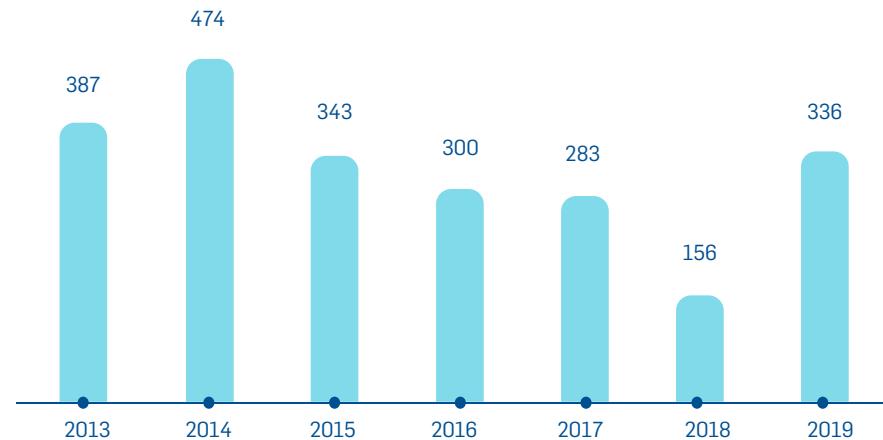
1.3 Support for the microfinance sector

In 2019 we approved loans for the MSE sector aligned with our mission of supporting the development of micro and small-sized enterprises. These were charged against COFIDE's lines and programs, amounted to USD 336.0 million, doubling the previous year's amount of disbursements to this sector.

Our objective as a development bank is to support broader financing opportunities to MSEs in order to improve their income and employment levels; we accomplish this by granting subordinated loans to eligible IFIEs for the program that show the best management ratios.

At the end of the 2019 fiscal year, we recorded a balance of PEN 318 million in subordinated loans granted to the municipal savings and loans institutions of Arequipa, Huancayo, Sullana and Cusco. Likewise, we approved subordinated loans to IFIEs for up to PEN 100 million, which will be disbursed according to IFIEs' equity requirements.

MSMEs Approvals (in USD million)





STRENGTHENING OUR FIDUCIARY ROLE

I. GENERATING FIDUCIARY BUSINESS

1. PROCONF and CMAC Huancayo Trust

On April 3, 2019, we, as trustee, entered into a Guarantee and Payment Trust Agreement with Promotora, Construcciones, Proyectos y Finanzas S.A.C. (PROCONF) as trustor, and with CMAC [municipal savings and loans institution] Huancayo as beneficiary. The trust assets are made up of nine (9) properties owned by the trustors.

The trust is intended to back the financing of up to PEN 14.1 million approved by CMAC Huancayo in favor of PROCONF to guarantee the implementation of the "Market of Producers of Central Peru" project, to be located in the district of El Tambo, province of Huancayo, department of Junín. The market, with approximately 550 stands, will occupy an area of 112,870.5 m² named "Quebrada Honda".

It is noteworthy that the preparation, development and implementation of the project will require up to PEN 47.2 million; 70.2% of the investment will be financed from PROCONF own funds (acquisition of land and infrastructure) and 29.8%, from CMA Huancayo credit facility.

2. Empresa de Transportes y Servicios El Rápido S.A. and BBVA Trust

On November 7, 2019, we entered into, as trustee, a Guarantee and Payment Trust Agreement with Empresa de Transportes y Servicios El Rapido S.A. (ETS El Rapido S.A.) as trustor, with Banco BBVA Perú as beneficiary.

The aim of the guarantee and payments trust is to guarantee that ETS El Rapido S.A. fulfill its financial and/or contractual obligations with a group of suppliers. The trust assets consist of the collection rights and

monetary flows (income) mainly from different collection systems of the urban and/or inter-provincial public transport service provided by the transport company in the city of Lima and provinces, in addition to other monetary contributions that the trustor may transfer to the trust assets.

3. Seven (7) Guarantee and Payment Trusts with FOVIPOL

On December 06, 2019, we entered into, as trustee, seven Investment and Payment Trust Agreements with Fondo de Vivienda Policial [Police Housing Fund] (FOVIPOL) as trustor, for the development of real estate projects to be located in five (5) of Peru's regions: Chiclayo, Ica, Iquitos, Lima and Piura.

Two (2) trust schemes were devised: scheme I (in the cities of Lima, Piura, Ica, Iquitos), that manages monetary flows for the purchase and sale of single-family and multi-family homes; and scheme II (in the city of Chiclayo), that manages monetary flows and land for the construction of single- and multi-family homes.

Thanks to the Trust, monetary flows, collection rights, real estate and/or any other asset related to the project will be solely used for the implementation of the project so as to promote its proper development.

It is expected that by implementing the seven (7) trusts, which total investment is over PEN 300 million, more than 1,800 families of the National Police of Peru will be benefited nationwide.



4. FOGASA II Trust

On December 9, 2019, we entered into, as trustee, an Investments and Payments Trust Agreement with the Ministry of Agriculture and Irrigation (MINAGRI, for its acronym in Spanish) as trustor for a 10-year term.

According to the new trust agreement for managing the Guarantee Fund for Agricultural Insurance (FOGASA II Trust, for its acronym in Spanish), new trust assets are constituted, whose main objective is to finance the cost of agricultural insurance premiums offered by the insurance companies pursuant to the provisions of Law No. 29148 and its Regulations.

The Fund will benefit agricultural producers, farming and/or indigenous communities, who may be affected by climatic risks, pests and diseases, and who also meet the eligibility criteria approved by MINAGRI Ministerial Resolution for each agricultural campaign and/or livestock activity.

5. Guarantee and Payment Trust with Inandes Factor Capital S.A.C.

On December 10, 2019, we entered into, in our capacity as trustee, a Guarantee and Payment Trust Agreement with Inversiones Inandes Factor Capital S.A.C. (INANDES) as trustor. The purpose of the trust is to guarantee the fulfillment of the trustor's obligations in favor of third parties (investors represented by Inandes Activos Alternativos and/or MSMEs resource borrower).



¹⁷Agricultural Insurance: Insurance policy issued by insurance companies through the insurance system, which is governed by Law No. 26702, covering agricultural and/or livestock production risks of beneficiaries and/or insured.

INANDES is a FINTECH company, recognized by the Superintendency of Banking, Insurance and Private Pension Fund Administrators (SBS) within the (recourse) factoring industry. It uses an online platform in order to channel resources to MSMEs that require access to financing in exchange of securities (negotiable invoices) issued by them. It is supported by the Central Securities Register and Depositary of Peru (CAVALI, for its acronym in Spanish) for the dematerialization of securities in addition to other collection and payment actions. It is estimated that, in the first year of the trust, funds over PEN 2.0 million will be channeled in favor of MSMEs.

6. CCPN – ACRES Guarantee and Payment Trust

On December 18, 2019, we entered into, as trustee, a Guarantee and Payment Trust Agreement with Centro Comercial Plaza Norte S.A.C. (CCPN) as trustor, and Acres Sociedad Titulizadora S.A. (ACRES) as beneficiary. The purpose was to back a securitized bond issue by channeling and managing CCPN monetary flows, which currently manages two lines of business: Mall Plaza Norte (shopping center) and Gran Terminal Terrestre -GTT- (ground transport terminal).

Subsequently, only monetary flows from GTT will be held in the trust after the incorporation of a new company that will be responsible for managing only the ground transport business line and will be the new trustor. Trust assets are made up of monetary flows, collection rights and/or any other trust asset.

The monetary flows included in the trust assets will be used as CapEx for the expansion of GTT in Plaza Norte, and other corporate uses for the project.

7. Bondholder Representative of Los Portales S.A. Fourth Corporate Bond Program

We participated as bondholder representative of Los Portales S.A. Fourth Corporate Bond Program to back and/or guarantee the fulfillment of the Issuer's obligations set forth in the Bond Issuance Framework Agreement.

Los Portales S.A. Fourth Corporate Bond Program was a private placement for a maximum issue amount of USD 30 million or its equivalent in Peruvian soles, which will be issued through one or more issuances, and may be divided into one or more tranches. The term of the Program, which may be renewed as set forth in such agreement, is six (6) years from the date on which the Issue Framework Contract is recorded in a notarial instrument.

The funds from the Program are to be used to replace issuer's financial liabilities and other corporate purposes. Likewise, all program issues will be generically backed by the issuer's assets.

8. FONAM III Trust

On December 27, 2019, we entered into, in our capacity as trustee, an Investment and Payments Trust agreement with the National Environment Fund (FONAM, by its acronym in Spanish) a trustor for a 5-year term.

According to the new Trust Agreement (FONAM III Trust), the new trust assets are made up of the funds that MINEM transfers to FONAM, which initially amounts to PEN 183.4 million.

The trust is aimed at financing environmental remediation of sites impacted due to hydrocarbon activities that imply risks to health and the environment, for example the indigenous communities of the Pastaza, Tigre and Corrientes river basins, located in the department of Loreto.

9. FONDEMI [Microenterprise Development Fund] II Trust

On December 30, 2019, we entered into, in our capacity as trustee, a Credit and/or Coverage and Payment Trust Agreement with the Ministry of Production (PRODUCE) as trustor for a 10-year term.

FONDEMI II Trust aims at improving the MSEs access to financing to increase their productivity levels. Accordingly, new trust assets were constituted, mainly to provide financing through financial instruments (such as credits, guarantees, sureties and funds) for the acquisition of commercial and negotiable invoices issued by the MSEs through financial system institutions or stock market, or through non-financial instruments such as management improvement services, productive chains and MSE market access, among others.

10. Inter-institutional Cooperation Framework Agreement with the NGO Mecanismos de Desarrollo Alterno (MDA)

On March 5, 2019, we entered into an Inter-institutional Cooperation Framework Agreement with the NGO Mecanismos de Desarrollo Alterno (MDA). Through our financial services, in particular our successful fiduciary services, which we have offered for over 20 years on a continuous basis, sub-national governments located in eastern Peru will be able to meet their needs and use their regional funds for development.

11. Inter-institutional Cooperation Framework Agreement with the National Environmental Fund (FONAM)

On July 4, 2019, we entered into an Inter-institutional Cooperation Framework Agreement with the National Environmental Fund (FONAM, for its acronym in Spanish) in order to set out the general conditions for mutual collaboration between both institutions, thus promoting and facilitating access to financing of environmental projects.

The purpose of this agreement is to know and identify opportunities related to environmental programs, carbon projects, environmental quality projects and other public and private environmental projects framed in the Conventions on Climate Change, Biological Diversity and to Combat Desertification so as to promote sustainable development in Peru. Additionally, opportunities related to remediation projects of mining environmental liabilities, remediation at hydrocarbon-impacted sites and other energy and infrastructure activities causing environmental impacts.



12. Inter-institutional Cooperation Framework Agreement with USMP

On October 30, 2019, we entered into an Inter-institutional Cooperation Framework Agreement and an Inter-institutional Cooperation Specific Agreement with San Martin de Porres University [USMP, for its acronym in Spanish]. The specific objectives of such agreements are:

- i. To conduct studies to understand and identify variables that serve as barriers (labor insertion, university study and others) to independent living for people with disabilities nationwide.
- ii. To develop cognitive systems technology for vocational guidance to boys and girls with disabilities.
- iii. To develop online platforms specifically built for learning, monitoring and control, among others, for training people with disabilities.

The scope of the agreements defines three stages: the first stage, for boys and girls with physical disabilities in Lima; the second stage, for the same type of disabled people but nationwide; and the third stage, for all types of disabilities. Our support for managing the funds from donations from private companies through a trust is fundamental to achieve this objective.

This agreement will help assist more than 10% of people with disabilities in Peru, i.e., more than three million according to the latest national census.



II. TRUST MANAGEMENT

1. Fondo Mivivienda Trust

This is a credit portfolio management trust, using our platform as second tier bank, that was created on March 31, 1999 after entering into an agreement with the Ministry of Economy and Finance (MEF). We have agreements on channeling resources signed between Fondo Mivivienda and the financial intermediaries, which facilitate their participation in the program.

In 2019, the trust included nine types of loans for the acquisition of housing as a future good, finished good, construction on owned lot, and/or house improvements.

The monthly average of disbursements was 1,020 credits; its portfolio includes over 146,528 credits totaling PEN 7,642.4 million. This is the main trust that we manage, equivalent to 63.9% participation in the portfolio.

2. INFOGAS Trust

This trust was created 14 years ago mainly to ensure a comprehensive security of the vehicle natural gas (VNG) system in Peru through a computerized control of all participants in the chain, including dealers of new vehicle equipment, VNG equipment importers, conversion workshops, certification entities and cylinder retest centers, and filling stations, all of which supply the end user.

Additionally, the trust manages the payments that guarantee the fulfillment of the financial obligation for conversion; such payments are collected when the vehicle is refueled in the VNG filling stations.

As of end of 2019, a total of 295,871 vehicles had been converted to natural gas through 136,258 loans amounting PEN 3,082 million, thus supporting changing the energy matrix in Peru and being more responsible with the environment.



DEVELOPING INCLUSION AND ENTREPRENEURSHIP

I. Inclusive Program for Rural Entrepreneurial Development (PRIDER)

PRIDER is a program we created in partnership with the United Nations Development Program (UNDP) and CAF, Development Bank of Latin America. The program was implemented in strategic alliance with Asociación Los Andes de Cajamarca [ALAC, for its acronym in Spanish], Fundación Ayuda en Acción, Technoserve Peru and SERFOR-CAF Project.

As part of the promotion of good social and environmental practices, the National Mining, Petroleum and Energy Society (SNMPE) invited its partners to take part in the “Sustainable Development 2019 Award” contest, by presenting projects that describe their positive experiences in environmental and social management, developed as part of a sustainable development policy in their areas of influence.

In the award ceremony held on November 20, 2019 at SNMPE headquarters, ALAC–Yanacocha—with its Savings and Loans Association (UNICA) project in Cajamarca—was awarded first place in the “Social Management” category. Such project is being implemented since 2008 in a strategic alliance with us.



Our PRIDER program aims to foster the local economic development of vulnerable populations through financial literacy, and the development of articulated-to-market productive capabilities in Peru’s most secluded areas. Thus, the population in poverty conditions would improve its quality of life.

For the last 13 years, our Program has fostered a savings and credit culture in rural communities and enabled access to financing through the creation of Savings and Loans Associations (UNICAs) managed by the local dwellers. Financial literacy is key to rural areas, which currently have the lowest educational and school attendance rates. Through training in concepts such as stock, capital or interest, the members learn about sustainable income and create opportunities for their communities.

In 2019, our PRIDER has managed its strategic alliances through activities in Contamana (Loreto), Cura Mori (Piura), Tocache (San Martín), Tingo María (Huánuco) and Cajamarca, creating 104 UNICAs with a total of 1,782 members. In addition to current operations in Ayacucho and Ica, UNICAs have managed to generate a capital stock of PEN 5.3 million and have granted 30,517 loans totaling PEN 31.3 million.



It is important to mention that, given the good results obtained from the UNICAs in Tingo Maria and Tocache, Technoserve Peru decided to extend the UNICA's program to Moyobamba to create 20 new UNICAs in the area.

Similarly, once the financial literacy and development of productive capabilities process was completed following our PRIDER's 4-year methodology and periodic evaluations (every 6 months) of UNICAs, the first class of 36 UNICAs graduated in Ayacucho in July 2019, representing 565 dwellers of the provinces of Huanta and Huamanga. As these UNICAs reached a self-sustainable development level, complying with the methodology, the program intervention was completed.



Impact Assessment Study

In partnership with CAF, we are currently conducting an impact assessment study that will provide detailed information on how the Inclusive Program for Rural Entrepreneurial Development (PRIDER) contributes to the region's financial inclusion, inclusive growth and poverty alleviation.

The impact assessment study focuses on four provinces located in the department of Ayacucho, namely Huamanga, Huanta, Cangallo and Vilcashuamán. One hundred twenty locations, where UNICAs were implemented from 2014 to 2016 were randomly selected to be considered as the treatment group, while another one hundred locations were considered as control group, totaling 2,400 observations.

Currently, under the impact assessment study, the Group for the Analysis of Development (GRADE) is preparing the final report, and the study will be published on 2020 first semester.



2019 PRIDER Projects

By performing actions of the PRIDER's axis 2, development of articulated-to-market productive capabilities, the productive reconversion process continued in part of the Cabeza de Toro irrigation located in the district of Independencia, province of Pisco.

There are 12 producers in said area, who are UNICA members with 30 hectares. They are embarking on a productive reconversion process by changing irrigation technology and testing new crops, that may benefit to them from higher profit margins, for this reason, new markets need to be found. Together with the Subsectorial Irrigation Program (PSI, for its acronym in Spanish), a MINAGRI agency, works have begun in order to manage and establish an irrigation system that would increase the area's productivity levels.

Four years ago, PRIDER also started working in the department of Ayacucho, which has resulted in implementing the quinoa production project in five districts: Acocro, Vilcashuaman, Tambillo, Morochuco, Cangallo; 90 UNICAs are in their fourth year of production.

The strategy is to improve quinoa crops to increase their yields and grain quality; thus, business management will improve, and prices will have better expectations.



Significant progress was commercially and productively made in 2019. Production was 2,741 kg/ha. Community sales were made, i.e. UNICAs sold together significant volumes to the same buyer, with no intermediary agents. In the 2019 campaign, 383 tons were sold. There was also an increase in price paid to the producer to PEN 5.1/kg from PEN 4.6/kg.

Likewise, the project for improving agricultural competitiveness (avocado cropping) continued in Colpa and Ninabamba villages, district of Ocros, province of Huamanga, department of Ayacucho, located 3 hours south from the city of Huamanga.

The "Farmer Field School" method and the "learning-by-doing" approach, were implemented to train UNICA's farmers, and members. The purpose was to apply a technological change in how they handle their crops, improving agricultural practices such as pruning, fertilization, phytosanitary control, among others.

Another important technical limitation was lack of water supply, which impeded higher crop yields. Therefore, a technological switch was proposed from a gravity-fed irrigation system to a pressurized irrigation system and a reservoir construction. For that purpose, the collaboration with MINAGRI's PSI continued in 2019, approving the technical data sheet and a budget allocated for year 2020 to manage an irrigation project for the area, which would include 81 hectares and 54 producers.



At the same time, business management and price expectations continued improving in order to increase producers' income. Currently, they still have Lima's wholesale fruit market as their end market, having sold 34.6 tons at PEN 4.40 kg in 2019.



After a three-year intervention, positive results are shown. The objective was for UNICAs to jointly operate and apply the same technology and a single technical criterion, which significantly improved yield and quality. Likewise, the whole community continue selling their products in a joint way, thus obtaining better prices due to a greater negotiation power and receiving higher income from their crops.

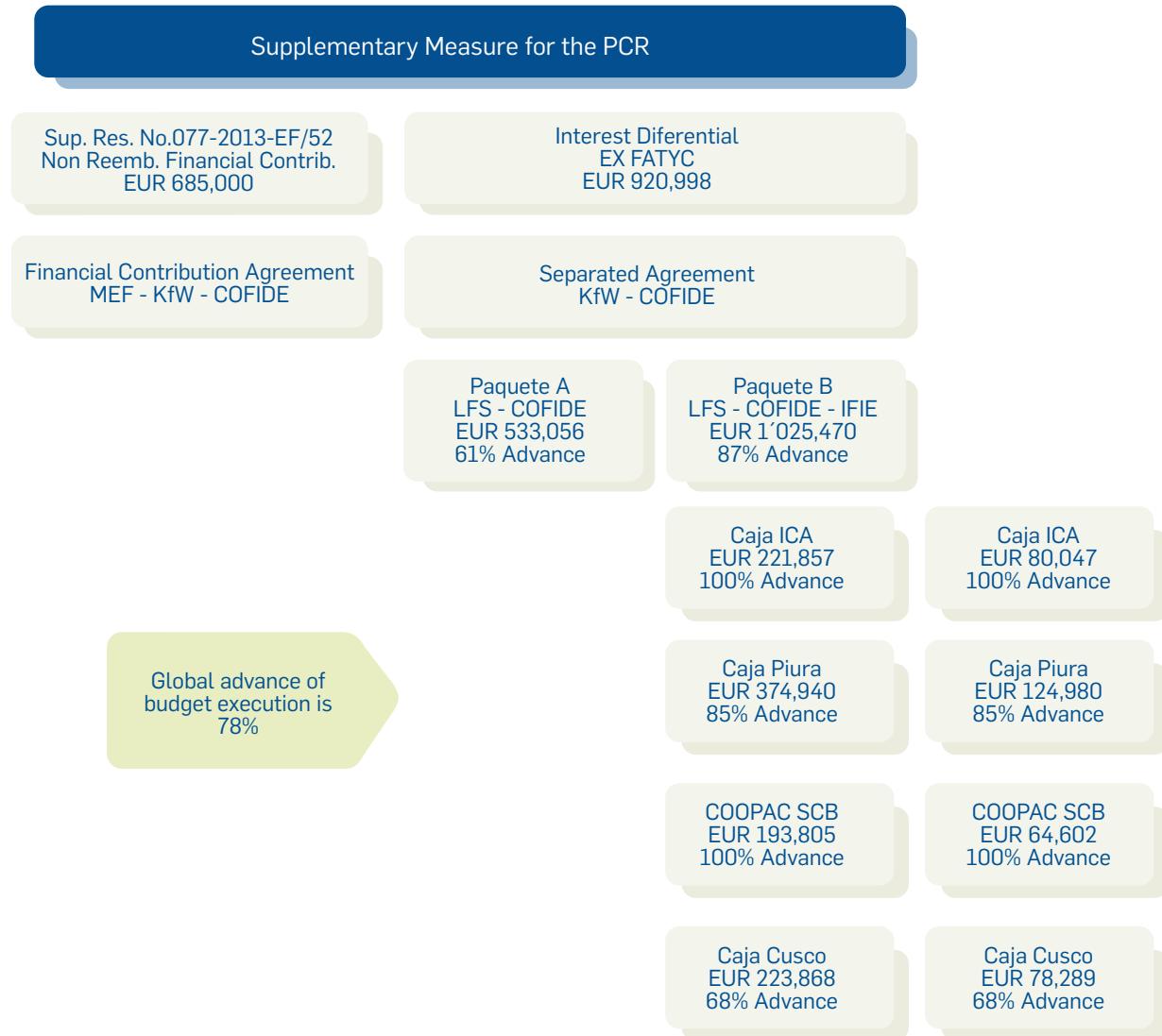
II. Technical Assistance and Training in Rural Credit

The Supplementary Technical Assistance and Training Measure for the “Rural Credit-COFIDE III” program (MC-PCR, for its acronym in Spanish) began operating in 2016 with the goal of increasing the capacity of financial institutions specialized in microfinance (IFIEs) to assess credit risk in the rural sector and to implement risk mitigation measures in the lending process according to the needs of Micro and Small Rural Enterprises (MSREs) in Peru.

The MC-PCR counterparties are LFS Advisory GmbH, a consulting company responsible for technical assistance activities, IFIEs, KfW and COFIDE. We are responsible for supervising all the program implementation stages.

Four tripartite agreements were entered into by and between CMAC Ica, CMAC Piura, COOPAC [Savings and loans cooperative] Santo Cristo de Bagazán and CMAC Cusco. The first agreement terminated in 2018 after having successfully accomplished its objectives, the second agreement was extended, through an addendum, to include a second stage related to digital finance that would strengthen the already improved financial products for MSREs. The last two agreements terminated after having successfully accomplished their objectives in May and December of 2019, respectively.

Program Structure and Development



III. COFIDE's Business Development Center (CDE)

We develop and promote free-of-charge initiatives aimed at strengthening MSEs' business management to reduce the management and market gaps that prevent Peru's traditional entrepreneurs from growing and consolidating in the market.

CDE is our physical business service platform to support MSEs. It is designed to be a meeting place to build up alliances with independent volunteering professionals committed to develop and strengthen competencies, improve business management and increase productivity to the benefit of the SMEs. Among other services, we offer tailored consulting services and business training seminars. We assisted 8,140 users in the different CDEs in 2019.

It is noteworthy to mention the recertification of Avanza, Finanzas para Crecer [Move Forward, Finances to Grow] Program that reached a ratio higher than 30% in terms of acquired knowledge in 2019.

In addition, 95% customer satisfaction was achieved in the services provided.



2019 CDE beneficiaries (In numbers)

INDICATOR	TOTAL
CDE Users San Isidro - Tarapoto	8,140
Module Service	4,680
Modules	1,007
Business offices	3,673
Business Training	3,343
Financial Wednesdays	1,269
Corporate Thursdays	1,379
Move forward, Finance for Growth	104
Training talks (organized by COFIDE Regional Office)	287
Training talks (organized in the regions with third parties)	304
Company Incorporation	117

IV. High-impact entrepreneurships

Our purpose is to design and implement products and services to strengthen capabilities in investment, innovation, and dynamic and high-impact entrepreneurships, thus helping to increase investment in Peru's innovation and competitiveness.

Similarly, we lead awareness activities to build and articulate entrepreneur communities, to increase critical mass of entrepreneurships, and to promote a culture of investment and innovation.

During 2019, we also promoted the following initiatives.

Peru Venture Capital Conference 2019 (PVCC 2019)

In co-organization with IDB Lab, UTEC Ventures, PECAP, PRODUCE and other key players in the ecosystem of dynamic and high-impact entrepreneurships, the fourth edition of the most important venture capital conference in Peru and in the Pacific Alliance was held. This aims to promote and consolidate the development of venture capital industry in Peru and the region.

The event took place in October 16-17, 2019 at the "Convention Sport & Center" at ESAN University.

Over 30 national and international expositors and more than 1200 people attended, including entrepreneurs, corporate investors, and other ecosystem agents, which positioned PVCC once again as the largest event with the highest impact on the venture capital sector in Peru. After the conference, participants interacted with important players in the entrepreneurship ecosystem, such as the Aspen Network of Development Entrepreneurs, Softbank, Next Legal, among others.



Meetup “Startup Grind”

The purpose of this event is to inspire, educate and connect the entrepreneurial community. It follows Google's concept “Startup Grind”, which consists of interviewing a model entrepreneur in the ecosystem and networking with the participants. This concept is applied in 500 cities in 125 countries and has 2 million participants.

In 2019, eight events were organized, and more than 678 people were invited. Additionally, since the program was launched nearly 60 meetings have taken place with the attendance of more than 5,900 people.

Entrepreneurial Capital Investment Fund

Nowadays, dynamic and high-impact entrepreneurship (startups) have no access financing, which is requested during the critical stage of consolidation in the market (venture capital).

The Asociación de Capital de Semilla y Capital Emprendedor [Seed Capital and Venture Capital Association] (PECAP) has estimated a funding gap in venture capital of USD 145 million until 2022¹⁸. In addition, IDB Lab estimates that for every dollar invested in venture capital, an economic activity of USD 6.5 is generated. Therefore, not addressing this gap would be equivalent to an economic activity loss of approximately USD 1 billion (around 0.5 % of GDP¹⁹).

In this sense, the Innovative Venture Capital Fund (IECF) helps to fill this entrepreneurial capital gap by encouraging the creation of venture capital funds in Peru, following the best practices from other similar funds globally. A fund model that promotes the venture capital industry is not a new concept; it has been proven in countries such as Chile, Mexico, Colombia, Israel, Ireland, Canada, and France, to name a few. Through this benchmarking, we have identified this fund as the missing link in sustainable development of the dynamic and high-impact entrepreneurial ecosystem in Peru.

The following milestones were achieved by implementing FCEI implementation in 2019:

- Specialized consultancy services for the incorporation and operation of a venture capital investment fund (September 2019).
- Legal advisory services for the fund's incorporation (September 2019).
- Our senior management submitted and supported our initiative to Ministry of Economy and Finance (MEF) senior management (October 2019).
- Our Innovation and Development Management team presented and supported the initiative to MEF senior management (October 2019).
- Elaboration of a Statement of Reasons and an Emergency Decree (November 2019).
- MEF and PRODUCE approved FCEI's initiative (December 2019)²⁰.

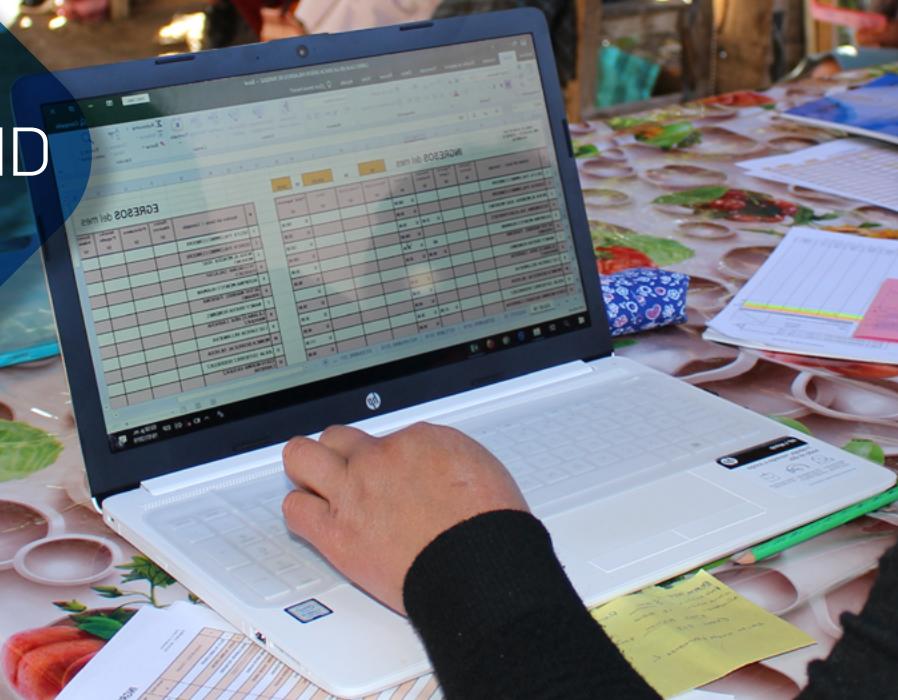


¹⁸ Peruvian Ecosystem Mapping, PECAP first semester (2019).

¹⁹ Updated information from the World Bank as to 2017.

²⁰ The initiative was approved by the Council of Ministers on 12. 30.19, however, because it was an emergency decree with several measures, it was not published until 01.23.20.

GROWING WITH SUSTAINABILITY AND PROFITABILITY

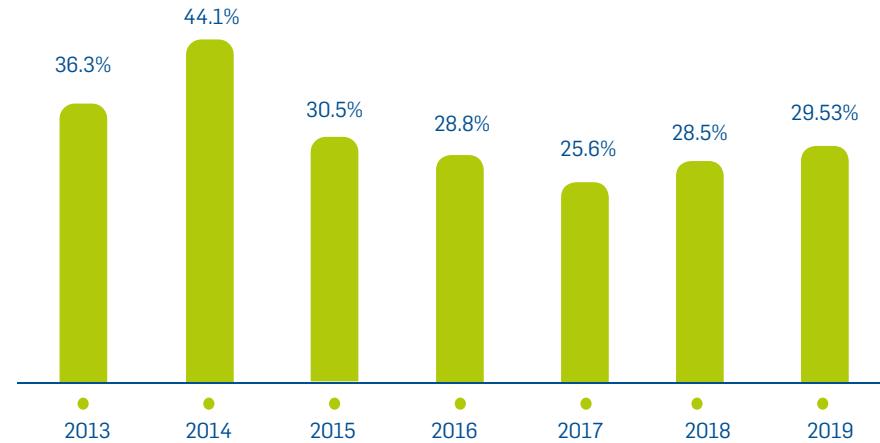




INSTITUTIONAL PROFILE

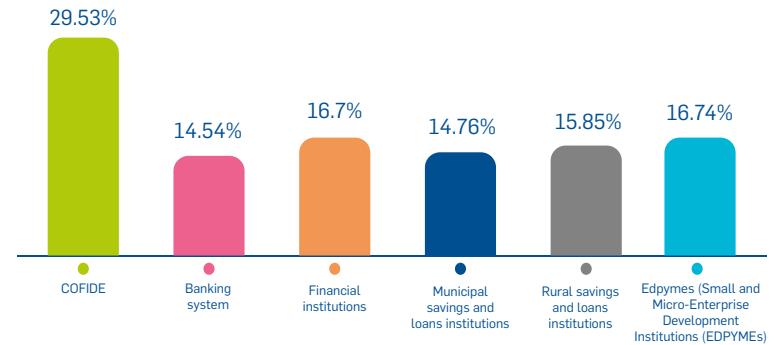
One of our priorities to be sustainable in the long term is to maintain adequate financial solvency indicators. Our main shareholder's strong capital capacity as well as the ample aggregate capital ratio of 29.53% as of December 2019, above the average for banking system (14.5%) and the minimum required by the SBS, are key elements of financial stability.

COFIDE's Aggregate Capital Ratio



*SBS as of November 2019

Benchmark



International Rating: "Investment Grade"

In 2019, risk rating agencies Standard & Poor's, Fitch Ratings and Moody's, maintained our financial instruments ranked as investment grade. It is worth mentioning that Moody's and S&P upgraded COFIDE's outlook to stable from negative.

Our financial profile reflects the positive qualities of our assets, sound capitalization, and reaffirms our instrumental role as a development bank, contributing to the strengthening and implementation of the Peruvian Government's public policies.

	Moody's	S&P	Fitch
Perú	A3	BBB+	BBB+
	(Stable)	(Stable)	(Stable)
COFIDE	Baa3	BBB	BBB+
	(Stable)	(Stable)	(Stable)

Maintaining level "A" institutional ratings

Likewise, local risk rating agencies ratify our institutional rating and the instruments we issue grading them as level "A", based on our sound economic and financial structure. This stability is reflected by our largest capacity to pay our obligations according to the agreed terms and conditions, which would not be affected by potential changes in our institution, our industry, or the economy. Below we detail our rating and the rating of our financial instruments:

	Class & Asociados	Moody's Local Perú
Institutional	A	A
COFIDE Third, Fourth and Fifth Program for Debt Instruments	AA+	AA.pe
COFIDE Third Program for Short-Term Debt Instruments	CLA-1+	ML-1.pe



HOW DO WE MANAGE OUR ASSETS AND LIABILITIES?

Gross Loan Balance

As of the closing of 2019, gross loan balance amounted to USD 1,528.6 million. Within this total, the balance of our second-tier portfolio reached USD 1,283.4 million, and the balance of the transferred portfolio was USD 245.3 million.

Second-tier portfolio includes current intermediation loans (USD 697.5 million), FEEE loans (USD 381.2 million) and participation agreements (USD 204.6 million). Note that the following FEEE operations are in the transferred portfolio: Minera IRL (USD 70 million) and COSAC (USD 161.1 million.)

From the total gross portfolio, 46% corresponds to traditional intermediation to primarily support MSEs, 16% to transportation and road projects, 11% to agribusiness projects, and 10% to infrastructure development in the energy sector, among others.

Regarding the gross portfolio composition by currency, the balance in soles amounted to PEN 2,568.8 million (50.7%), and the balance in dollars reached USD 753.5 million (49.3%).



²¹ As requested by SBS, information about Participation Agreements is being shared since August 2017, according to the provisions under Section 4 of the Regulations for Transfer and Acquisition of Loan Portfolio (SBS Resolution No. 1308-2013). To that effect, the final debtor, and not the financial intermediary, was registered as "debtor" under COFIDE's accounting section of the Debtor Credit Report (RCD, for its acronym in Spanish).

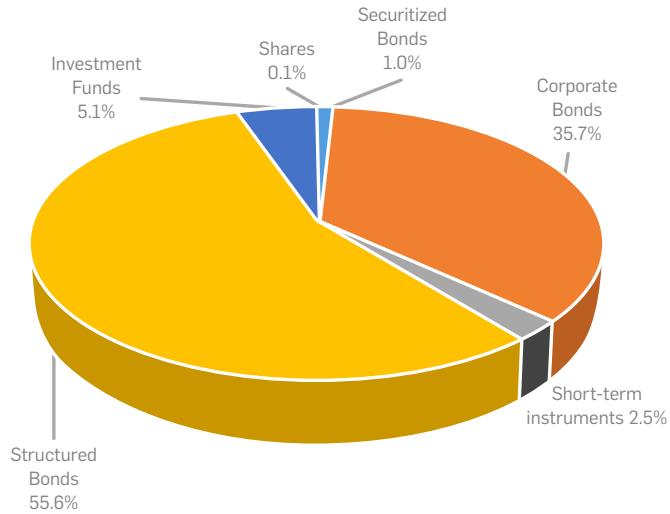
Treasury and Investment Management

We play a key role in the money market and we have an active participation in the capital market, managing our own resources as well as third parties' resources entrusted through trusts and trust commissions.

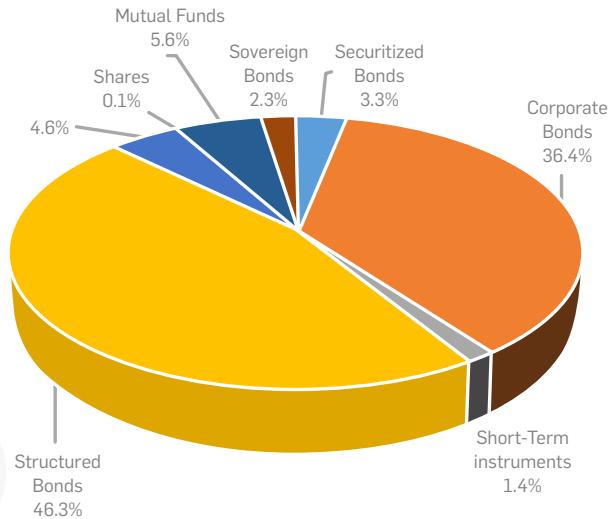
During 2019, we maintained significant levels of liquidity in dollars, which have enabled us to guarantee our stability and meet our obligations, highlighting, in July 2019, a yield maturity of USD 500 million corresponding to a bond issued in the international capital market, which significantly reduced liquidity. Resources have been capitalized mainly as short-term instruments in local and international markets, as well as through a capitalization portfolio with local and international bonds, which balance, as of December, amounted to USD 164 million. As of the end of December, we had a total amount in cash of USD 325 million.

In terms of investments, as of the end of December 2019, the portfolio, independently managed, reached USD 727.9 million (USD 631.1 million in 2018). Regarding the composition by currency, PEN 703.1 million correspond to the local currency bond portfolio, and USD 515.7 million to the foreign currency portfolio mainly containing structured bonds (46%) and corporate bonds (36%). The bond portfolio also includes investments in sovereign bonds, securitized bonds, investment funds, mutual funds, short-term instruments and shares (participation in Bladex), as shown in detail in the graphics below:

Investment Portafolio - 2018



Investment Portafolio - 2019



In 2019, we acquired instruments from Línea Metro Línea 2, Ergon, Casa Andina, Intercorp, etc., as well as short-term instruments from the Alternative Securities Exchange (Mercado Alternativo de Valores, MAV for its acronym in Spanish).

Management of Third-Party Investment Portfolios

We work as a fiduciary entity, providing treasury services and managing portfolios owned by other institutions, mainly from the public sector. As of December 2019, COFIDE managed resources in both domestic and foreign currency for PEN 1,308 million and USD 101 million, respectively, corresponding to trusts and trust commissions.

According to the rules-based investing for each fund, the administered equity funds are invested at different terms in money market instruments such as larger-term deposits and mutual funds; and in fixed income instruments, such as short-term investment instruments and bonds. Thus, as of the end of December 2019, 88% of the funds was invested in larger-term deposits, 10% in mutual funds and the remaining amount in other instruments.

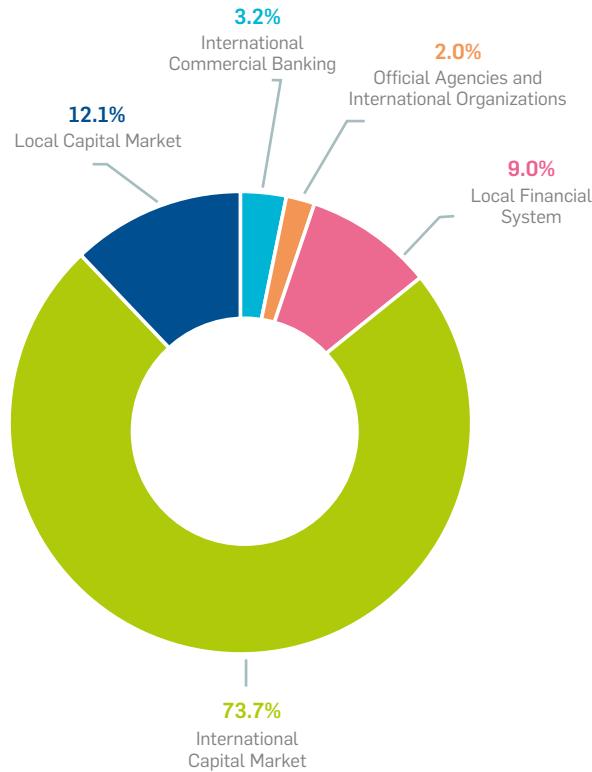
Liability management

Funding sources

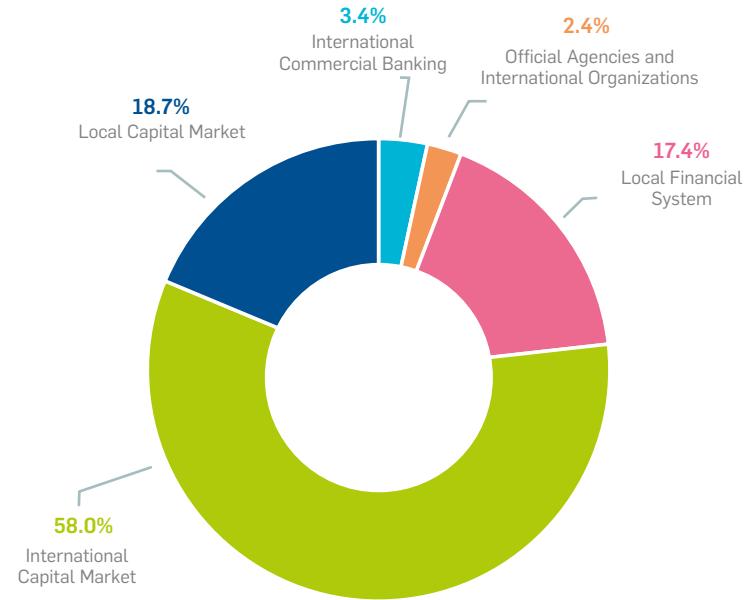
We resort to different markets in order to obtain resources at the best financial conditions that allow us to continue financing the country's development.

The following graphic shows participation in different funding sources as of 2019 with a total amount due of USD 2,412.9 million.

Payments due as per financial source (As of December 31, 2018)



Payments due as per financial source (As of December 31, 2019)



International capital market:

The capital market financing represents 58% of the total amount due, with a balance in circulation of USD 1,400 million corresponding to USD 500 million senior bond (2022 maturity), USD 600 million senior bond (2025 maturity), as well as USD 300 million subordinated bond (2029 maturity). These resources have allowed the obtaining of funds for medium and long-term loans.

National Financial System:

This funding represents 17.4% (USD 419.7 million) of the total amount due, and originates mainly from credit lines with local banks, repurchase agreements with the Central Reserve Bank of Peru (Banco Central de Reserva, BCRP), saving banks deposits and safety deposits. Resources are agreed upon in soles and are allocated for funding working capital operations.

International Commercial Banking:

This is a significant source to get access to resources with greater flexibility in order to address medium-term funding needs, by seeking an adequate management of amounts, rates and terms. In this sector, as of the end of December 2019, there was a current funding arranged in the Japanese market for the equivalent of USD 82.9 million (JPY 9,000.0 million) with American Family Life Assurance Company of Columbus Japan Branch (AFLAC), representing 3.4% of the total amount due. Regarding this loan, in June 2018, an addendum was included in the original agreement, in which the maturity date was moved forward to September 2023.

Local Capital Market:

As of the end of 2019, the balance of outstanding securities from issues made in the Local Capital Market reached PEN 1,497.2 million (equivalent to USD 451.8 million), representing 18.7% of the total amount due. From the total outstanding balance, PEN 1,318.9 million correspond to issues of medium and long-term corporate bonds and PEN 178.3 million to short-term instruments.

Three issues charged against the Fifth Program of Debt Instruments were carried out:

- a) **First Issues** – Green Bond (first public offering) for PEN 100 million with a 3-year term and spread of 172 bp over the Sovereign Bond.
- b) **Second Issues** – VAC Bond for PEN 100 million with a 10-year term and spread of 103 bp over the VAC Sovereign Bond.
- c) **Third Issues** – Sustainable Bond (the first in the country) for PEN 100 million with a 3-year term and spread of 119 bp over the Sovereign Bond.

Additionally, during 2019, three auctions took place through the Third Program of Short-term Debt Instruments for a total amount of PEN 178.3 million (equivalent to USD 53.8 million).

As of the closing of 2019, the securities balance in circulation in local currency is as follows:

DEVELOPMENT FINANCE CORPORATION - COFIDE

Outstanding Securities 12/31/2019

Third Program for Short-Term Debt Instruments - USD 200 million

ISUUE	Series	Issue Date	Amount (PEN in million)	Rate n.a.	Type of rate	Repayment Date
First	A	07/24/2019	50.00	4.03125%	Fixed	07/17/2020
First	B	10/21/2019	48.50	3.31250%	Fixed	10/15/2020
First	B	10/30/2019	79.80	3.34375%	Fixed	07/24/2020
TOTAL OUTSTANDING			178.30			

Third Program for Debt Instruments - USD 200 million

ISUUE	Series	Issue Date	Amount (PEN in million)	Rate n.a.	Type of rate	Repayment Date
Ninth	A	04/27/2012	150.00	6.6500%	Fixed	04/27/2027
Tenth	A	06/28/2012	100.00	6.2000%	Fixed	06/28/2037
Eleventh	A	10/30/2012	90.00	5.6250%	Fixed	10/30/2042
TOTAL OUTSTANDING			340.00			

Fourth Program for Debt Instruments - USD 400 million

ISUUE	Series	Issue Date	Amount (PEN in million)	Rate n.a	Type of rate	Repayment Date
Second	A	04/30/2013	100.00	5.3500%	Fixed	04/30/2043
Fifth	A	01/30/2015	78.45	5.6500%	Fixed	01/30/2020
Tenth	A	10/06/2016	150.00	6.8750%	Fixed	10/06/2026
Tenth	B	10/28/2016	50.00	6.6750%	Fixed	10/28/2026
Eleventh	A	12/20/2016	300.00	7.8438%	Fixed	12/20/2046
TOTAL OUTSTANDING			678.45			

Fifth Program for Debt Instruments - USD 500 million

ISUUE	Series	Issue Date	Amount (PEN in million)	Rate n.a	Type of rate	Repayment Date
First	A	04/26/2019	100.00	5.1250%	Fixed	04/26/2022
Second	A	07/19/2019	100.46	VAC + 3%	Fixed	07/19/2029
Third	A	10/25/2019	100.00	3.78125%	Fixed	10/25/2022
TOTAL OUTSTANDING			300.46			
TOTAL OUTSTANDING BONDS S/			1,497.20			

International Organizations and Government Agencies

This funding source includes loans granted to the Republic of Peru, which are transferred to us through Funds Transfer Agreements, in which we act as Executing Agency.

As of the end of December 2019, credit programs with Japan International Cooperation Agency (JICA) and with Kreditanstalt für Wiederaufbau (KfW) of Germany were in effect.

In addition, we have loans granted directly by the Andean Development Corporation (Corporación Andina de Fomento, CAF) and by the Official Credit Institute of Spain (Instituto Oficial de Crédito, ICO, for its acronym in Spanish).

It should be noted that this type of funding has allowed us to fund long-term credit programs under adequate financial conditions. The balance of this funding source was USD 58.5 million, equivalent to 2.4% of the total amount due.

Evolution of Amounts Due

As of the closing of 2019, the total liabilities balance in dollars was USD 2,412.9 million (equivalent to PEN 7,996.2 million), resulting in a reduction of USD 165.4 million in relation to the closing of 2018. This was mainly due to the maturity of USD 500.0 million correspondent to a bond issued in the international capital market, compensated by the issuance of our debt instruments in domestic currency in the local capital market and a greater arrangement of amounts due coming from the local commercial banking.

Our structural funding is a primarily long-term funding consistent with our funding operations, and it is managed by leveling terms, currencies, and types of interest rates. Non-current obligations (maturity periods longer than 12 months) represent 80% of the total amount due (equivalent to USD 1,929 million) and are mostly composed of medium and long-term obligations in dollars. Obligations with a term shorter than 12 months reached an equivalent of USD 484 million (20% of total obligations), mainly composed of obligations in domestic currency.

We have a major part of our indebtedness in US dollars, representing 59.9% of total indebtedness, equivalent to US\$ 1,445.5 million.

The other currency having the second's major part in our indebtedness is the Sol, representing 36.1% of total amount due, reaching PEN 2,888 million (equivalent to USD 871.5 million) and it is agreed only under the classification of own account.

The yen (loans agreed with JICA and AFLAC) has a lower participation, representing 4% (equivalent to USD 95.9 million).

*Outstanding Balance in Agreed Currency
(In USD million)*

TYPE	USD	JPY	PEN	TOTAL	(%)
Short term	-	-	447.73	447.73	18.6%
Medium and long term	1,445.50	95.90	423.73	1,965.13	81.4%
TOTAL	1,445.50	95.90	871.46	2,412.87	100.0%
(%)	59.9%	4.0%	36.1%	100.0%	

Likewise, in order to protect COFIDE from the volatility of the Exchange rate concerning functional currencies, JPY/USD swaps were carried out, as well as rate swaps to neutralize the effect of rate variations on the balance sheet. These operations change the structure of the amount due, which adapts better to the credit and investment portfolio. The following chart shows the structure including swaps:

*Outstanding Balance per Currency (includes Swaps)
(In USD million)*

TYPE	PEN	USD	JPY	TOTAL (en US\$)	(%)
Short term	447.7	-	-	447.7	18.7%
Medium and long term	423.7	1,445.5	82.9	1,952.1	81.3%
TOTAL	871.5	1,445.5	82.9	2,399.8	100.0%
(%)	36.3%	60.2%	3.5%	100.0%	

Strong Capital Capacity

In 2019, coordination with FONAFE allowed to reach an agreement on the dividend policy.

As a result, on January 10, 2020, during our Shareholders General Meeting, the dividend policy for years 2019, 2020 and 2021 was approved. This policy considers reinvesting 100% of distributable income from years 2019, 2020 and 2021 into FONAFE.

Pricing of Fixed Income Instruments

The chart below shows in detail monthly prices (maximum, minimum, opening and closing) in year 2019, of our debt securities, registered for their negotiation on Stock Exchange.

ISIN Code	Mnemonic Code	Year-Month	Stock Price 2019				Average Price %
			Opening %	Closing %	Maximum %	Minimum %	
PEP11100V048	COFI2DCP5A	2019-03	99.9649	99.9649	99.9649	99.9649	99.9649
PEP11100V048	COFI2DCP5A	2019-05	100.0527	100.0527	100.0527	100.0527	100.0527
PEP11100M245	COFI3DBC9A	2019-07	109.3556	109.3556	109.3556	109.3556	109.3556
PEP11100V071	COFI3DCP1C	2019-11	99.9307	99.9307	99.9307	99.9307	99.9307
PEP11100V071	COFI3DCP1C	2019-12	99.9692	99.9692	99.9692	99.9692	99.9692



HOW DO WE MANAGE RISK?

Our risk management model helps us identify, assess, measure, and control risks to which we are exposed by adopting a comprehensive approach, so that they align with the Risk Appetite Framework (risk appetite levels and risk limit).

In 2019, we updated our different risk policies and manuals, including the Risk Appetite Framework Manual, Country Risk Management Manual, Operational Risk Policy Manual, Market Risk Policy Manual, and Policy Manual on Credit Risk from Borrowers, Asset and Liability Management Policy Manual, as well as Policies for Levels of Autonomies and Country Risk Policies.

The main risks to which we are exposed to are shown below:

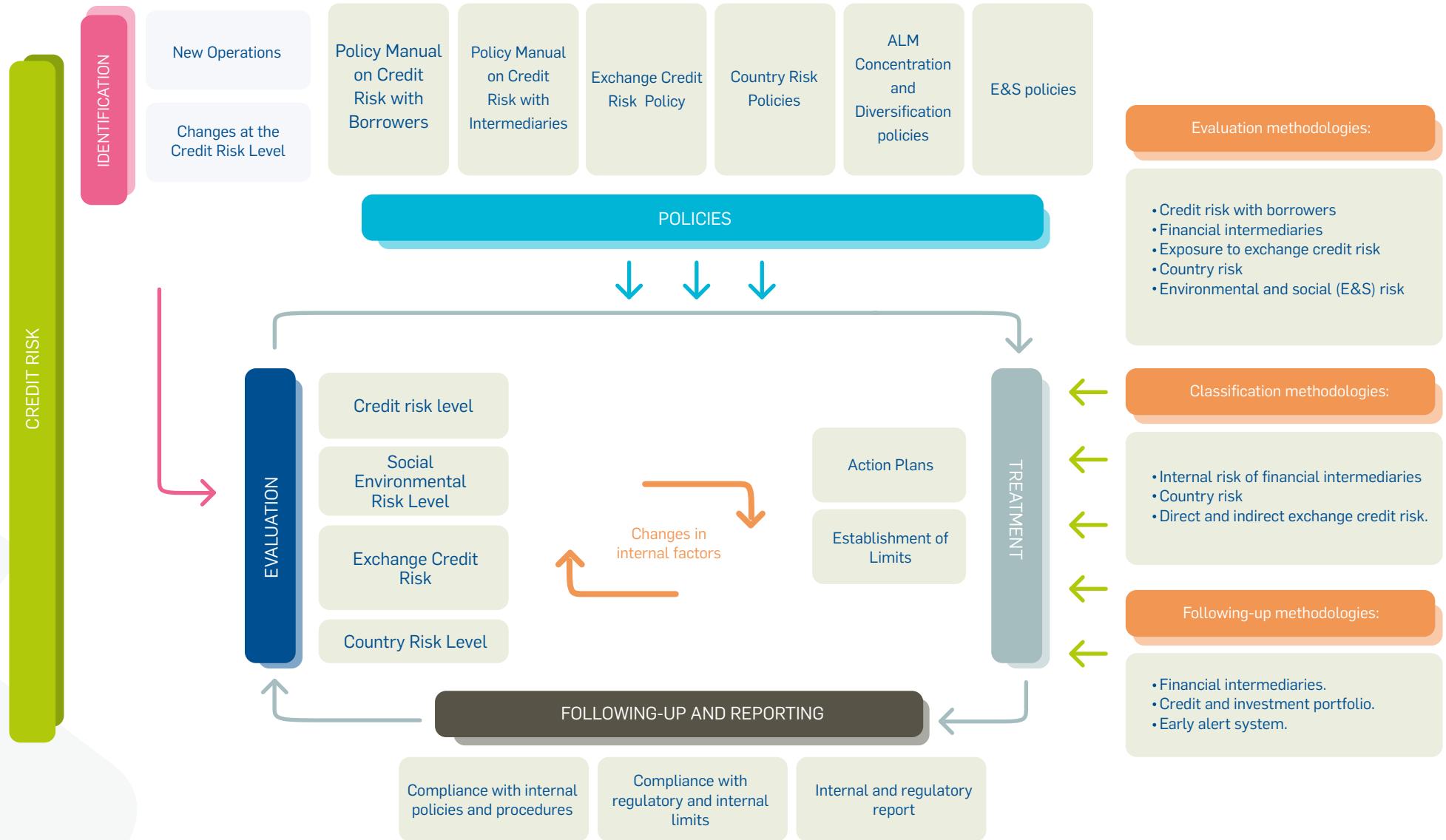
Credit Risk

Credit risk is the possibility of loss due to a debtor, issuer, or any counterparty failing to make a required payment because of their lack of repayment capacity or willingness to make repayments.

Our credit risk management is aligned with the regulations issued by the SBS and considers the best practices of the financial system. Accordingly, the following processes are developed:

- i. Implementation of policies.
- ii. Selection and evaluation of counterparties and/or operations under previously established parameters.
- iii. Approval of credit risk exposure according to the approved methodologies, procedures and levels of autonomy.
- iv. Compliance monitoring with established policies and limits.
- v. Credit risk management reports.

The following graph summarizes the main components (policies, methodologies, processes) involved in credit risk management:



Admission activities, including the processes of selection, evaluation, and approval of exposures with counterparties, are aimed to guarantee the financing portfolio quality of operations qualified by an eligibility committee. This committee is responsible for evaluating the risk appetite in order to align it to our objectives. On the other hand, we apply policies and methodologies for risk assessment of financial proposals, which are later submitted to the decision-making bodies, i.e. the General Management, Risk Committee and Board of Directors, for approval. The methodologies for the evaluation of financial intermediaries and credit risk with borrowers were updated in 2019.

The monitoring process of the credit portfolio aims to preventively identify alerts as following-up borrowers and operations on a case-by-case basis. It also monitors the total portfolio using different tools, which results are then submitted to both the Risk Committee and the Board of Directors. Additionally, those operations identified through alerts are submitted to the Monitoring Committee so that the necessary actions are taken to mitigate a potential portfolio impairment. In 2019, as part of the ongoing improvement process, the methodology for following-up financial intermediaries as well as credit and investment portfolio operations was updated.

Market Risk and Structural Balance-Sheet Risk

We have specific policies to manage market risk and structural balance-sheet risk.

Market risk is the risk of losses due to the changes in the trading portfolio arising from adverse movements of different risk factors or from market prices impacting their value.

Structural balance-sheet risk means potential losses due to the impact of adverse movements of interest rates, exchange rates or liquidity mismatches on the structural positions of assets and liabilities, both on- and off-balance sheet, excluding the trading portfolio.

Market risk

At present, we hold positions in the trading portfolio composed of derivative instruments (currency forwards) and sovereign bonds. Regarding foreign currency positions, foreign currency exposure is experience in dollar, euro, and Japanese yen currencies (considering the spot and forward exchange positions)

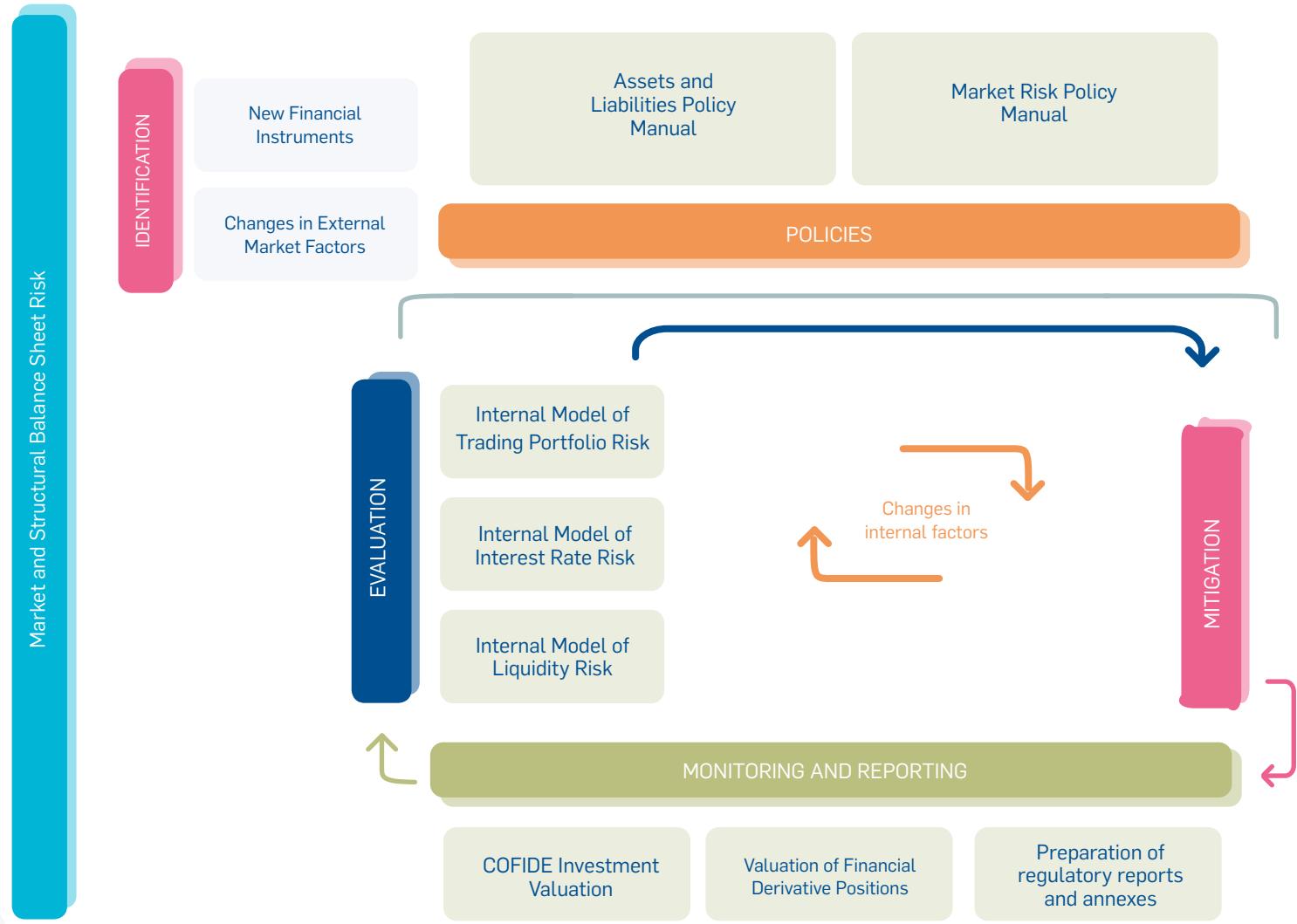
Value at risk (VaR) models are used to measure risks in the trading portfolio and foreign currency positions. Furthermore, we have established alerts and limits aligned with our risk appetite, which are used for risk management.

Structural Balance-Sheet Risk

Regarding liquidity risk, it is being considered that we may not be able to honor our commitments or that we may not be capable of financing them at competitive market prices or with a stable funding source.

Concerning the interest rate risk, the potential loss analysis focuses on the impact on net financial margin (profit at risk within one year) and on the discounted value of assets and liabilities (long term equity at risk).

Among the main tools approved for measuring and managing structural balance-sheet risk are internal models for measuring interest rate and liquidity risk, asset and liability management policies (diversification and concentration risk, liquidity, investment and indebtedness, exchange rate risk and structural interest rate risk policies).



Likewise, in 2019, as part of the management optimization process, we updated the methodologies for measuring the trading portfolio risk, valuing investments, and measuring liquidity risk.

Operational risk, information security and business continuity

We have a framework based on good practices and our compliance with the provisions set by the regulatory body. This framework includes policies, methodologies and procedures that are defined in the Operational Risk Management Manual (MGRO, for its acronym in Spanish), which helps us to achieve our objectives by reducing the possibility of loss due to failures in processes or controls; inadequate computer systems; people-related problems, e.g. fraud, human, legal error, or external events. At the same time, it establishes the information security management, which seeks to protect the confidentiality, integrity and availability of information. Our business continuity management defines recovery capabilities for incidents that may disrupt the business operations.

Capital management

The capital adequacy policy is aimed at establishing a general framework that allows management to make flexible adjustments in line with the changes in market conditions and our risk appetite and risk limit. This policy incorporates capital management indicators, tolerance zones and capital allocation by risk type, which monthly results are reported to decision-making bodies.

Capital requirement is calculated according to the parameters set by the supervisor. This enables to quantify the risk profile considering all the significant risks to which we are exposed to. Currently, the methods used to quantify regulatory capital are the standardized approach for credit risk, market risk and additional risks, as well as the basic indicator approach.



HOW IS OUR FINANCIAL PERFORMANCE?

As of December 2019, our assets totaled USD 3,153.7 million, a decrease of USD 142.2 million from 2018, resulting from a lower loan portfolio balance (USD 184.9 million) associated with a slower pace of business and the effect of prepayments. Likewise, we recorded a lower cash on hand and in banks (USD 62.2 million); however, the balance of available for sale investments grew by USD 109.2 million.

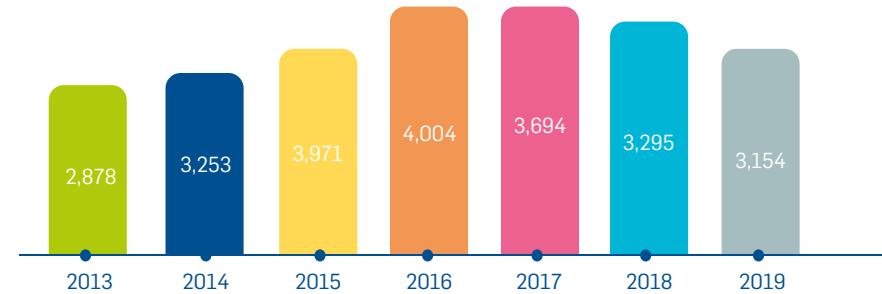
The asset balance expressed in local currency was PEN 10,451.4 million, a decline of PEN 665.9 million from that at the end of 2018. It is noteworthy to mention that 49% of assets are in foreign currency, so a lower exchange rate impacts on the annual variation in Peruvian soles.

Concerning our liabilities, these amounted to USD 2,535.9 million, a drop of USD 183.3 million compared to December 2018, due to a lower balance of outstanding securities by USD 365.6 million despite a higher balance of borrowings and financial obligations by USD 176.7 million. The lower balance of outstanding securities is associated with a USD 500.0 million debt service in the international capital market offset by the issue of thematic bonds and commercial papers in the local market. Conversely, a higher balance of borrowings and obligations reflects the short-term fund-raising in local currency.

Liabilities expressed in local currency (PEN 9,171.9 million) fell by PEN 768.0 million from the previous year. It is noteworthy to mention that 62% of our liabilities are in foreign currency, so a lower exchange rate impacts on the annual variation in Peruvian soles.

Equity totaled USD 617.8 million, a USD 41.1 million rise compared to the previous year, primarily as a result of a higher balance of adjustments to equity (USD 25.8 million), due to fluctuation in value of investments and derivatives, and capital stock (higher by USD 14.0 million); as well as for a better net income for the year (higher by USD 2.9 million). Equity expressed in local currency (PEN 2,047.5 million) has an accumulated growth of PEN 102.1 million compared to the balance recorded at the end of 2018.

Total Assets (in USD million)



Liabilities and Equity (in USD million)



Financial Results

During the 2019 fiscal year, our financial income was PEN 432.9 million, PEN 50.7 million lower than the amount recorded in the previous year, mainly due to a lower income from the loan portfolio (PEN 48.2 million) associated with the prepayments recorded in the last two years.

Regarding financial expenses, these totaled PEN 393.1 million, a drop of PEN 33.5 million from the previous year, resulted from reduced interest expenses on borrowings and financial obligations (PEN 13.4 million) associated with a lower cost of funding of local currency operations, lower expense on outstanding securities (PEN 13.4 million), lower expense on accounts payable (PEN 4.8 million) and lower income from hedging operations (PEN 2.5 million).

Accordingly, the gross financial margin stood at PEN 39.8 million (equivalent to 9.2% of financial income), PEN 17.1 million lower than the margin recorded at December 2018. With respect to our net income from financial services, these amounted to PEN 27.6 million, PEN 1.2 million lower than the December 2018 figures, resulted from decreased income from indirect credits and income from trusts despite lower expenses for financial services.

On the other hand, profit or loss from financial operations, including the gains from available-for-sale investments, trading derivatives, hedging operations, exchange difference and others were PEN 30.0 million, that is, PEN 8.6 million lower in contrast to 2018 figures. It should be remembered that during 2018 extraordinary income was recorded in profit and loss account for the settlement of the derivative with AFLAC.

Regarding operating expenses, these reached PEN 63.2 million, lower than December 2018 levels (PEN 64.5 million). This is a result of decreased expenses due to lower expenses for third-party services (PEN 1.3 million compared to December 2018).

The decrease in other net income and expenses results from a net expense of PEN 1.1 million, in contrast to the PEN 4.0 million net income and expenses recorded at December 2018 from the sale of non-core assets.

Income tax amounted to PEN 6.9 million, lower than the PEN 8.2 million expense recorded in 2018.

As a result, the net profit for the fiscal year was PEN 26.4 million, a profit of PEN 17.0 million compared to December 2018 figures, primarily as a result of a lower demand for provisions.

Net Profit or Loss and EBITDA, 2013-2019 (in PEN million)



Financial Indicators

Indicator	Dec. 18	Dec. 19
Margin/ Income	11.8%	9.2%
Delinquency (Past due / Gross loans)	6.33%	7.78%
Return on Equity	0.8%	1.3%
Aggregate capital ratio	28.5%	29.5%

The delinquency ratio, which refers to past due loans with respect to gross loans, increased to 7.78% compared to the 2018 year-end, driven mainly by a decrease in the gross loan portfolio of USD 180.2 million.

At the end of December 2019, the net profit reached PEN 26.4 million, a result higher compared to December 2018 (net profit of PEN 17.0 million), mainly due to lower provisions for loans and contingent loans, income from profit or loss from financial operations and a lower income tax. Based on these results, the Return on Equity (ROE) indicator stands at 1.3%, higher than the profitability of the previous year (0.8%).

The capital requirement for credit, market, and operational risks equals to PEN 1,027.8 million, while the regulatory capital was PEN 3,035.6 million. Thus, as of December 2019 a global capital ratio of 29.53% was recorded, higher than the 28.5% of December 2018.

A male worker in a white t-shirt and dark overalls is operating a large industrial machine, likely a sewing or cutting machine, in a factory. He is leaning forward, focused on his work. The machine is blue and silver. The background shows a factory environment with overhead lights and other equipment. A decorative graphic on the left side of the image consists of a dark blue shape with a yellow outline and a small orange square at the bottom.

COMMITTED TO
THE HIGHEST
STANDARDS



BEST PRACTICES IN CORPORATE GOVERNANCE

Good Corporate Governance [GCG] is aimed at ensuring the company's shareholders, investors', and stakeholders' higher transparency and value generation. Thus, the adoption of good Corporate Governance practices reflects an efficient management and contributes to the achievement of optimum performance.

Since 2007 we have been implementing GCG practices. First, we approved the Good Corporate Governance Code and the guidelines for its implementation. Then, we have continued to improve our governance practice by carrying out a series of initiatives and action plans.

For four consecutive years, under the BVL [Lima Stock Exchange] GCG Index methodology, we have been recognized by the BVL for exceeding the minimum score established, according to the evaluations implemented by accredited external consultants (MC&F and PCS for 3 years and 1 year, respectively). Likewise, in 2019 we ranked 34th among the Top 37 companies in the survey of the Market's Voice, the most important study in terms of corporate governance in Peru that gathers the opinion of more than 300 local and foreign players.

In 2019 the Regulations on the Board of Directors and the Risk Committee were updated. Likewise, risk management and transparency practices were strengthened. At the end of the year, as a result of the

validation of compliance with FONAFE's GCG principles, we reached a score of 83.07%, which reflects a high level of maturity and the continuity of good practices.

In order to promote good corporate governance practices in our country and the region, as a member of the working team of the Good Corporate Governance Framework for Development, we have received technical assistance on corporate governance issues from Corporación Andina de Fomento - CAF.

THE MARKET'S VOICE

For six consecutive years, capital market experts ranked 37 Corporate Governance through a survey conducted by BVL (Lima Stock Exchange Market), and the result was shown at the Market's Voice ranking.

Ranking 2019

1 Credicorp Ltd.		3.91	20 AFP Habitat		3.18
2 BBVA Banco Continental		3.85	21 Enel Generación Perú (antes Edegel)		3.17
3 Ferreycorp		3.81	22 Enel Generación Perú (antes Edelnor)		3.11
4 Banco de Crédito del Perú (BCP)		3.79	23 Rimac Seguros y Reaseguros		3.11
5 Alicorp		3.74	24 Minsur		2.91
6 Scotiabank Perú		3.72	25 Nexa Resources Perú (antes Milpo)		2.86
7 AFP Integra		3.67	26 Luz Del Sur		2.82
8 Compañía de Minas Buenaventura		3.58	27 Telefónica del Perú		2.73
9 Engie Energía (antes Enersur)		3.46	28 Refinería La Pampilla		2.68
10 Cementos Pacasmayo		3.44	29 Inversiones Centenario		2.67
11 Intercorp Financial Services		3.41	30 Diviso		2.60
12 Sociedad Minera Cerro Verde		3.40	31 Unión Andina de Cementos (Unacem)		2.58
13 UCP Backus & Johnston		3.35	32 Volcan Compañía Minera		2.55
14 Profuturo AFO		3.25	33 Banco Ripley		2.52
15 Cavali		3.24	34 Cofide		2.44
16 Southern Copper Corp.		3.23	35 Financiera Credinka		2.35
17 Inretail Perú Corp.		3.22	36 Graña y Montero (G y M)		1.81
18 Prima AFP		3.22	37 Petroperú		1.79
19 Cálidda - Gas Natural De Limay Callao		3.19			

Fuente: BVL



STRENGTHENING THE INTERNAL CONTROL SYSTEM

We have an Internal Control System (ICS) in place, which has been subject to external and internal evaluations since 2009. These evaluations are aimed at determining the level of maturity of the five components of the COSO Internal Control model: Control Environment, Risk Assessment, Control Activities, Information and Communication, and Supervision Activities. Likewise, as a result of each evaluation, action plans are defined for the continuous improvement of the ICS.

Since 2016, and according to the "Internal Control System for Companies under the scope of FONAFE's guidelines, the self-evaluation of our ICS is carried out following the COSO 2013 model.

During 2019, we implemented a mechanism to identify, assess and respond to fraud risk, as well as we worked on a better alignment to strategic and operational plans. We have reviewed and updated a large number of corporate procedures, as well as reformulated the control measures that mitigate our associated risks.

Additionally, we improved the internal and external dissemination of corporate information through formal channels, as well as the continuance of our new KAY Culture.



POSITIONING

We are aware of the importance of our brand image as well as the perception of our brand on our stakeholders. That is why every year we analyse this perception in order to obtain valuable information to be used as input not only for a better implementation of our business strategies, but also to implement communication and image actions that, based on our status as the Development Bank of Peru, allow us to be perceived as an organization near to them and committed to the country's growth.

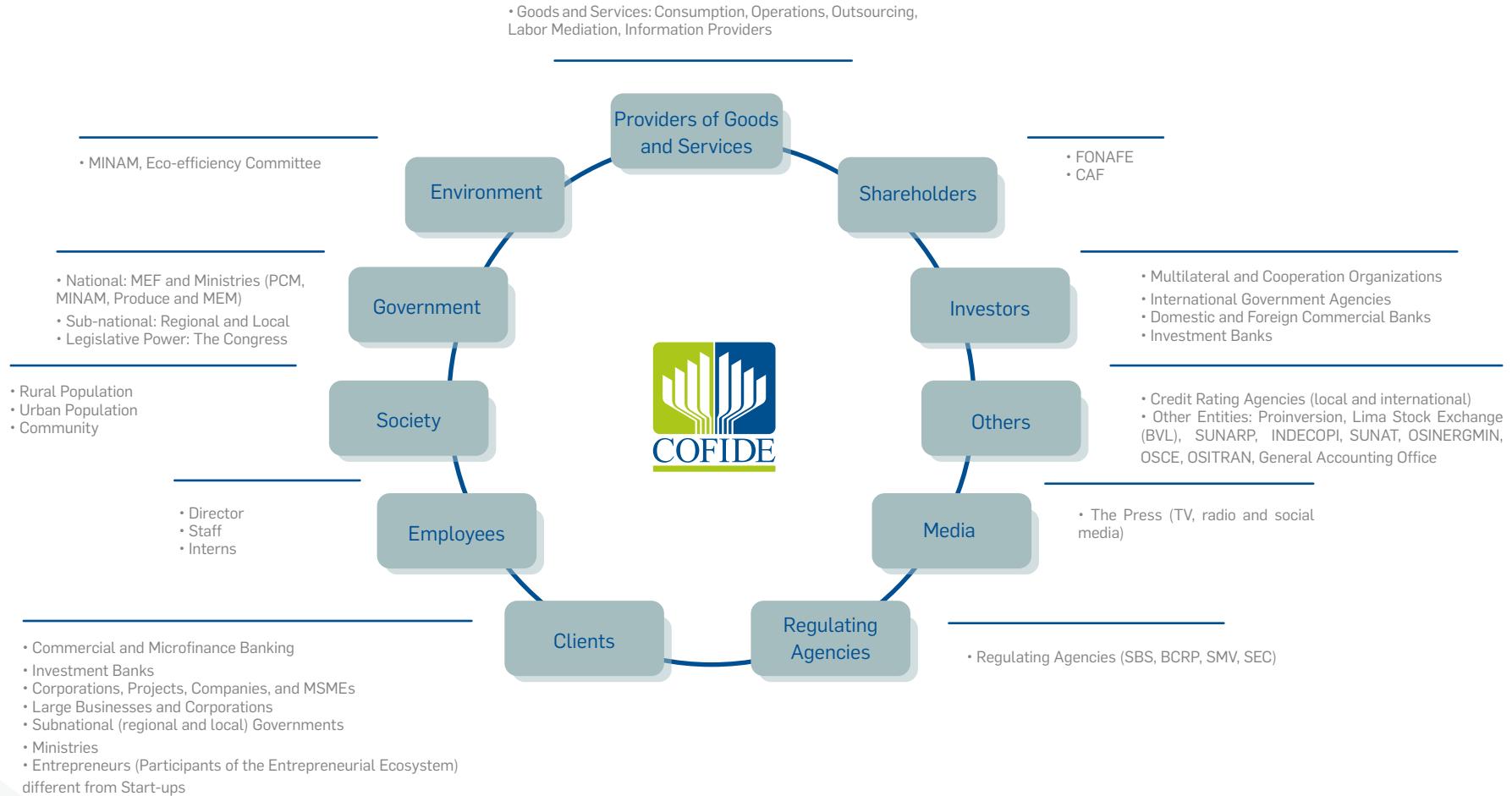
In recent years, results gathered from perception studies have shown an upward trend that evidences a better understanding of the bank's performance, which has a direct impact on our reputation.

These results are also related to the implementation of a communication and public relations strategy that includes our lines of action and our commitment to the country's development. Thanks to this strategy, in 2019, the COFIDE brand had an average daily exposure on at least one media platform, with 96% of positive topics related to the core of our business.

Similarly, we have streamlined our presence in digital media, which allows us greater exposure, resource efficiency and assessment of our proposal. In 2019, we increased our presence in Instagram, LinkedIn, Twitter, and Facebook social media, growing our average follower rate by 43%. Our content has also produced more than 100,000 interactions in the year.

Additionally, we have identified our stakeholders based on the "Mitchell, Agle and Wood's Attributes Model", according to the three relationship attributes: legitimacy, urgency and power. We have also updated the identification and prioritization of our material issues.

2019 STAKEHOLDERS



2018-8 Stakeholders
2019-11 Stakeholders

As in previous years, our main spokespersons have continued to participate in important national and international events and activities related to development. We participated in a dialogue on development and environment at the COP25 held in Madrid; we presented investment opportunities at the forums “Peru CEO Impact Summit 2019”, and “Peru: Public Management and Infrastructure”; and we were also co-organizers of Peru Venture Capital Conference 2019 (PVCC), the most significant event in the country related to dynamic entrepreneurship, which brings together more than a thousand participants in this ecosystem.

In the same vein, 2019 was the year we made our first thematic bond issuance. In April we were the first public entity to issue a Green Bond, and, in November, we issued the first Sustainable Bond in Peru.



Similarly, we have received recognition related to our activity throughout the year. During the 3rd Public Companies Social Responsibility Meeting, organized by FONAFE in March, we received the Social Responsibility Award for being a benchmarking State company. Furthermore, FONAFE awarded us for good practices in Human Resource Management in November. We also were honored as an Eco-efficient Public Company, a distinction granted by the Ministry of the Environment in the first year we participated.



Recognition by FONAFE



Award: Good Practices in Human Resource



Recognition by EcoIP MINAM

Committed to sustainability

During 2019 we continued to strengthen our commitment to the country, the society and the environment. For this reason, as part of our sustainable activities, we presented the Corporate Social Responsibility and Sustainability Plan, which included 10 actions aimed at improving CSR's maturity level, a goal included in the annual Balance Scorecard. At the end of 2019, we obtained 19 points on FONAFE's Maturity Level Tool, thus exceeding the initial goal (17 points).

Likewise, we approved our Sustainability Policy, a fundamental instrument for the continuous improvement of our management, and which generates added value to our relationship with stakeholders. Within this line, we organized our First Sustainability Week, during which we trained and raised our leaders and employees' awareness on sustainability management issues.



As a response to our shareholders and customers' needs and expectations, for the second consecutive year, we presented our referenced GRI (Global Reporting Initiative) Sustainability Report, in order to inform about the accomplishments and achievements in 2018 in a transparent manner, and as a way to identify opportunities for improvement in our management. In addition, as our goal is to involve our suppliers in sustainability issues, together with FONAFE and the GRI, we trained them on the importance and benefits of adopting sustainability in their corporate management.

Internally, in order to promote an eco-efficient culture, we developed actions leading to identify the main causes of emission of pollutant gases into the environment. Based on this, we attempt to mitigate and offset our environmental impact through the purchase of carbon credits so that protected natural areas are preserved in the country. We also developed an Eco-efficiency Plan to raise awareness and educate employees through activations, communication campaigns and training. All these initiatives contributed to be recognized by the Ministry of the Environment with the "EcoIP Model 2019" award.





In order to establish the guidelines for a corporate volunteer program, we undertook several activities with the participation of our employees aimed at fulfilling our commitment to society. Likewise, for the sixth consecutive year, our employees organized a donation activity to celebrate Christmas with the children of UNICAs' members of our PRIDER program in Contamana (Loreto).

We complemented these initiatives with our strategic alliances with the Association of Burned Children and San Camilo's Home, to whom we continuously support with donations of paper, cardboard and plastic for the accomplishment of their goals.



OPERATIONAL
EXCELLENCE





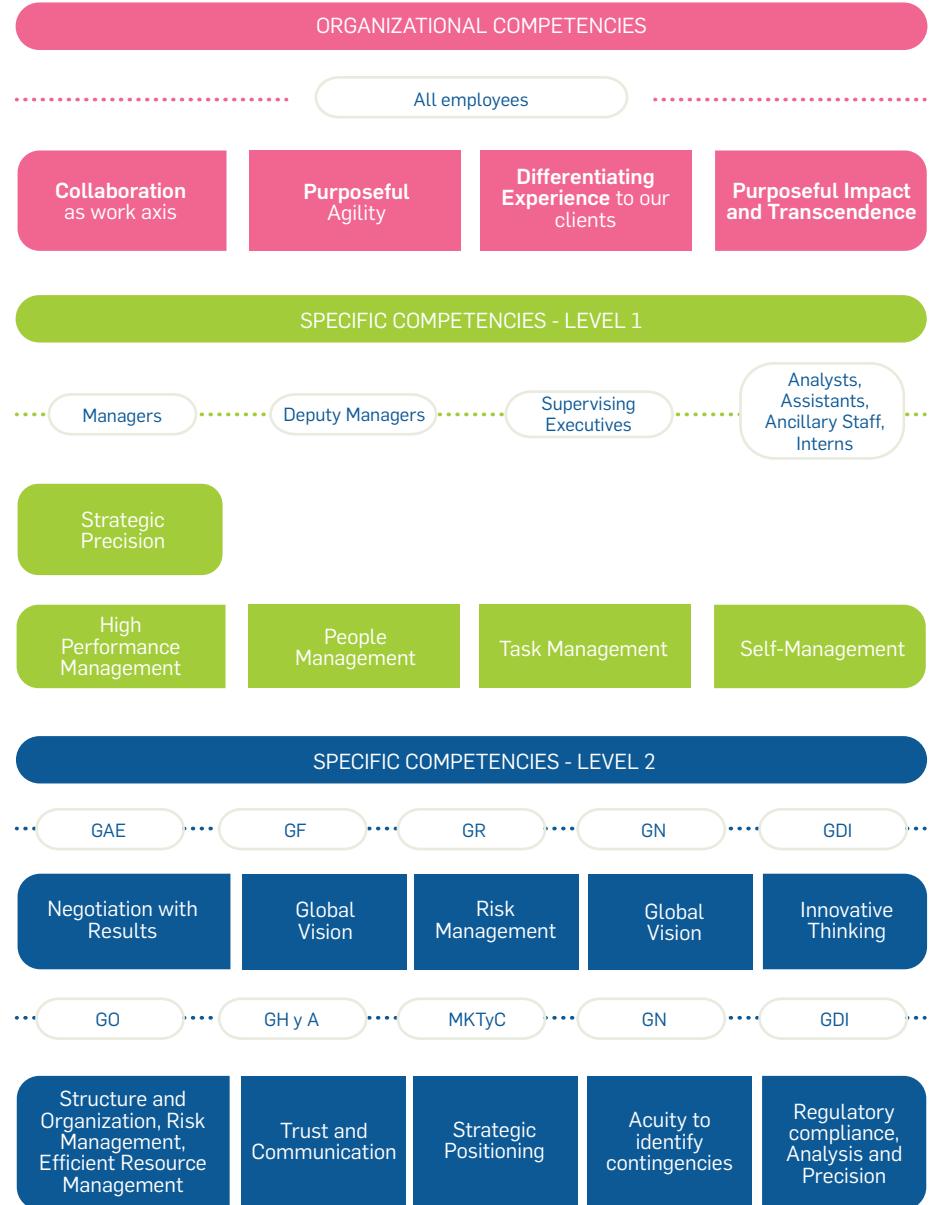
IMPORTANCE OF TALENT

Corporate Model of Human Resource Management

According to FONAFE guidelines, in 2019 we continued implementing management components of the corporate human resource management model, whose key axis were: organizational culture management, working climate, compensation and remuneration, as well as performance evaluation. This process allowed us to identify improvement opportunities to streamline our management with an integral approach, achieving a rating of overcompliance with the established goal.

Performance Evaluation in 2019

We developed a competency-based performance evaluation whose main tool was COFIDE's Dictionary of Competencies. This tool helps us to manage the process by linking the organizational, cross-sectional and functional competences for each occupational group.



Similarly, we reinforced the objective-based performance evaluation by implementing six stages:

1. Strategic planning,
2. Training to determine SMART objectives,
3. Definition of objectives, indicators, individual goals and competency validation,
4. Indicator Review,
5. Following-up of the progress on objectives and
6. Final competency-based and objective-based performance evaluation.

Both performance evaluations allow us to firm up the level of qualitative and quantitative contribution of the employees to the institution.

KAY Organizational Culture

We describe our culture using the word KAY (soul), which reveals our principles and the way we do things. Our KAY COFIDE culture means our essence, our uniqueness and identification. It drives us to focus on achieving our goal and on our commitment as a development bank, which is “to accelerate Peru’s investment and development”, by integrating all of us and creating a strong and decisive sense of belonging.

It is composed of Cultural Principles, which describe our performance parameters that guide us to meet our purpose, and at the same time, it allows us to live a culture that defines our work through active communication.



COFIDE Campus 2019

Inspired by the cultural principle of “Knowledge Capitalization”, we designed continuous education courses aimed at strengthening our employees’ key competencies and promoting their development to achieve our goals.

As part of the structure of our specialized centers, we started the knowledge management process with two learning modalities: online and face-to-face. This strategy ensures to expand our training scope.



KAY Games



COFIDE Campus

1 | Specialized Center in Organizational Development

This center provides all employees with technical training and efficient soft skills development.

2 | Specialized Center in Leadership

This center develops management skills in employees with supervisory responsibility, providing them with techniques and tools for managing high performance teams, aligned with COFIDE's objectives.

3 | Specialized Center in Change Management and Transformation

This center focuses on all employees and is responsible for promoting skill development related to innovation, creativity and the Kay Culture in order to face change.

4 | Specialized Centre in Recruitment and Training

This center focuses on potential talents who may join COFIDE as interns or employees by improving their theoretical and practical knowledge, as well as their soft skills required to start a successful professional career path.

Cultural and internal communication activities

Throughout the year, we carried out several integration activities with all the employees, particularly important dates for our institution, with the goal of strengthening our internal culture and consolidating our great team. Every activity, included in related campaigns, was strategically framed within our KAY Cultural Principles, and tied to our purpose as the Development Bank of Perú.

In order to ask our employees for feedback on these activities, we conducted a satisfaction surveys, which helped to know their pleasure of our activities and also to identify opportunities for improvement.

In 2019, another focal point was to achieve a more effective and closer internal communication. To this end, we strengthened our internal communication channels through the harmonization of the graphic components to our KAY Culture, and the measurement of each media performance to improve communication.



KAY Laboratory



Peruvian Independence Day



Sustainability Week



COFIDE Anniversary



End of Year



HAND-IN-HAND WITH TECHNOLOGY

A. New information technologies

a. Business Development Center (CDE) service management system: Along with a physical platform of free services offered to MSEs, another platform was built to book appointments for consultancy on various topics. Internet-access users will be able to make an appointment with the available consultants on a date and time of their choice.

b. Document management system: The implementation of the Document Management Model promoted by the Presidency of the Council of Ministers (PCM) was completed. This model allows to work with internal and external documents electronically, and to use a digital signature. Consequently, it was necessary to create digital certificates for all our employees, which is an important milestone in the organization. The model includes electronic interoperability with some state agencies that joined this initiative.

c. Fondo Crecer Platform: A platform to register hedge requests by Fondo Crecer was made available to financial institutions. Integrated to our Core System, this platform allows the completion of the hedge process from the request to the reimbursement stage.

d. Business Workflow: We completed the digitalization of the admission, modification, and follow-up processes of Specialized, Corporate and Structured Financing (FEEE, for its acronym in Spanish) loans. This initiative was implemented on a BPM platform that not only allows to automate the digital signature process but also to track progress to evaluate points of improvement. This platform was implemented under the SaaS (Software as a Service) modality.

B. IT Service Management

a. INFOGAS Service in the Cloud: In order to improve the availability of INFOGAS Service, the migration to the cloud of the entire INFOGAS Trust solution managed by the Load Control System of NGV was completed. The provider was Amazon Web Services, a recognized company of such services in the market.

b. Collaboration tools: Our employees began applying some of the Microsoft Office 365 collaboration tools: Cloud Mail, Microsoft Teams and One Drive.

c. New IT Solution Center tool: In order to simplify and improve the user's experience when sending requests to the IT team, a new tool was implemented that allows to complete the registration and track the application in fewer steps.





QUALITY MANAGEMENT SYSTEM

Since 2010 our Quality Management System was certified under ISO 9001. It is worth mentioning that, in 2019, we passed another recertification under ISO 9001:2015 Standard, which includes main processes such as Trust and Trust Commission Management, Generation of Payment Schedules and Loan Collection for the Financing Programs and Lines, and Management of the Business Training Program, in addition to the management, control, support and improvement processes.

In 2019 we successfully passed SGS Peru recertification audit of the Quality Management System, without any "non-compliance".

Additionally, in 2019 we worked on the implementation of the Integrated Management System that involves: Quality Management System, Environmental Management System, and Occupational Health and Safety System, under the ISO 9001:2015, ISO 14001:2015 and ISO 45001:2018 standards, respectively.

A handshaking business deal over a city skyline at night. The image features two hands in business suits shaking firmly. The background is a blurred cityscape at night with lights from buildings. A dark blue, semi-transparent graphic shape is overlaid on the left side, containing the text. The graphic has a yellow-green outline and a small orange diamond at the bottom.

AUDITED
FINANCIAL
STATEMENTS
2019



Corporación Financiera de
Desarrollo S.A. - COFIDE
Financial Statements
December 31, 2019 and 2018



KPMG en Perú
Torre KPMG. Av. Javier Prado Este 444, Piso 27
San Isidro, Lima 27, Perú

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INDEPENDENT AUDITORS' REPORT

To the Stockholders and Directors of Corporación Financiera de Desarrollo S.A.

We have audited the accompanying financial statements of Corporación Financiera de Desarrollo S.A. (hereinafter COFIDE, which comprise the statement of financial position as of December 31, 2019 and 2018, and the statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting standards established for financial institutions in Peru by the Banking, Insurance and Pension Plan Agency (Superintendencia de Banca, Seguros y Administradoras Privadas de Fondos de Pensiones – SBS), 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with the International Standards on Auditing approved for its application in Peru by the Dean's Council of the Peruvian Professional Associations of Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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 COFIDE's preparation and fair presentation of the financial statements 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 COFIDE's internal control. 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of Corporación Financiera de Desarrollo S.A. - COFIDE as of December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended, in accordance with accounting standards established for financial institutions in Peru by the SBS.

Lima, Peru,

March 6, 2020

Countersigned by:

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Registration 01-29180

Corporación Financiera de Desarrollo S.A. – COFIDE

Financial Statements

December 31, 2019 and 2018

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ción Financiera de Desarrollo S.A. – COFIDE

rt of Financial Position
 cember 31, 2019 and 2018

<i>nds of soles</i>	Note	2019	2018
cash equivalents	5	1,476,351	1,712,489
for-sale investments	6	4,751,389	4,467,783
portfolio, net	7	4,182,229	4,880,368
trading and hedging instruments	8	-	3,690
receivable, net	8	4,739	13,657
furniture and equipment, net	9	5,627	6,171
se assets, net	8	1,257	1,334
tax	18	25,478	25,433
sets	8	4,290	6,309
sets		10,451,360	11,117,234
Memorandum and contingent accounts	14	54,472,540	54,487,341

<i>In thousands of soles</i>	Note	2019	2018
Liabilities			
Deposits and obligations	10	12,979	13,604
Deposits of financial system entities and international financial entities	10	27,926	100,722
Borrowings and financial obligations	11	7,903,846	8,681,697
Held-for-trading and hedging instruments	12	2,045	7,997
Accounts payable	12	197,317	65,132
Provisions	12	47,482	144,648
Deferred tax	18	205,398	155,458
Other liabilities	12	6,884	2,619
Total liabilities		8,403,877	9,171,877
Equity			
Capital stock	13	1,896,287	1,882,848
Additional capital		84	84
Required reserves		2,149	448
Retained earnings		16,229	23,719
Net profit or loss for the period		26,409	17,008
Adjustments to equity		106,325	21,250
Total equity		2,047,483	1,945,357
Total liabilities and equity		10,451,360	11,117,234
Memorandum and contingent accounts	14	54,472,540	54,487,341

Corporación Financiera de Desarrollo S.A. – COFIDE

Statement of Profit or Loss

For the years ended December 31, 2019 and 2018

<i>In thousands of soles</i>	<i>Note</i>	2019	2018
Interest income			
Cash and cash equivalents		42,752	49,770
Available-for-sale investments		126,362	121,801
Direct loan portfolio		263,748	311,997
Other finance income		34	-
		432,896	483,568
Interest expense			
Deposits and obligations		(452)	(593)
Deposits of financial system entities and international financial entities		(2,240)	(6,206)
Borrowings and financial obligations from the local financial system		(28,859)	(36,087)
Borrowings and financial obligations from the foreign financial system		(16,753)	(16,245)
Other local and foreign borrowings and obligations		(2,197)	(1,215)
Fees and other charges on borrowings and financial obligations		(4,790)	(8,354)
Securities, bonds, and obligations outstanding		(333,271)	(346,636)
Interest on accounts payable		(2,482)	(7,290)
Profit or loss from hedging operations		(1,598)	(4,057)
Other borrowing costs		(491)	-
		(393,133)	(426,683)
Gross finance margin		39,763	56,885
Provision for direct loan losses	7(h)	(86,966)	(38,027)
Net finance margin		(47,203)	18,858
Income and expenses from financial services, net			
Income from indirect lending		4,845	6,087
Income from trusts and trust fees		25,767	26,499
Other incomes		248	277
Expenses for trusts and trust fees		(78)	(68)
Other expenses		(3,183)	(4,022)
		27,599	28,773
Financial margin net of income and expenses from financial service		(19,604)	47,631
Profit or loss from financial transactions			
Available-for-sale investments		29,782	8,245
Held-for-trading instruments		(9,972)	(1,350)
Profit or loss from hedging operations	12(a)	(455)	64,631
Exchange difference, net		9,781	(33,942)
Others		845	997
		29,981	38,581
Operating margin		10,377	86,212

The accompanying notes on pages 7 to 91 are an integral part of these financial statements.

Corporación Financiera de Desarrollo S.A. – COFIDE

Statement of Profit or Loss

For the years ended December 31, 2019 and 2018

<i>In thousands of soles</i>	<i>Note</i>	2019	2018
Administrative expenses			
Personnel and board of directors' expenses	15	(33,592)	(33,155)
Expenses for services received from third parties	16	(24,950)	(26,298)
Taxes and contributions		(4,643)	(5,049)
Depreciation and amortization		(2,677)	(4,086)
		(65,862)	(68,588)
Net operating margin		(55,485)	17,624
Net assets and provisions valuation			
Provisions for indirect lending, net of reversals	7(h)	96,133	9,327
Provisions for uncollectible of accounts receivable, net of reversals	8(b)	(498)	(255)
Provisions for seized, received as payment, recovered and repossessed assets, and others		-	48
Impairment of investments		-	(3,002)
Impairment of fixed assets		(12)	(122)
Provisions for litigations and claims		(1,079)	(1,749)
Other provisions		(4,697)	(604)
		89,847	3,643
Net operating profit or loss		34,362	21,267
Other income and expenses		(1,102)	3,983
Profit or loss for the period before tax		33,260	25,250
Income tax	18.B	(6,851)	(8,242)
Net profit or loss for the period		26,409	17,008
Basic and diluted earnings per share in soles	17	0.013	0.007

The accompanying notes on pages 7 to 91 are an integral part of these financial statements.

Corporación Financiera de Desarrollo S.A. – COFIDE
Statement of Profit or Loss and Other Comprehensive Income
For the years ended December 31, 2019 and 2018

<i>In thousands of soles</i>	2019	2018
Net profit or loss for the period	26,409	17,008
Other comprehensive income		
Available-for-sale investments	121,010	(51,748)
Cash flow hedges	(336)	(48,116)
	120,674	(99,864)
Income tax related to components of other comprehensive income		
Available-for-sale investments	(35,698)	15,266
Cash flow hedges	99	14,194
	(35,599)	29,460
Other comprehensive income	85,075	(70,404)
Total comprehensive income for the period, net of tax	111,484	(53,396)

The accompanying notes on pages 7 to 91 are an integral part of these financial statements.

Corporación Financiera de Desarrollo S.A. – COFIDE

Statement of Changes in Equity

For the years ended December 31, 2019 and 2018

	Stockholder funds					Adjustments to equity (note 13.D)				
	Capital stock (note 13.A)	Additional capital (note 13.B)	Reserve requirements (note 13.C)	Retained earnings (note 13.D)	Net profit for the period	Total stockholder funds	Investments in equity instruments at fair value	Cash flow hedges	Total adjustments to equity	Total equity
<i>In thousands of soles</i>										
Balance as of January 1, 2018	1,880,499	84	-	26,799	4,477	1,911,859	58,277	33,377	91,654	2,003,513
Adjustments from new policies (Letter 32034-2017-SBS)	-	-	-	(3,080)	-	(3,080)	-	3,080	3,080	-
Other comprehensive income:										
Net profit or loss for the period	-	-	-	-	17,008	17,008	-	-	-	17,008
Other comprehensive income	-	-	-	-	-	-	(36,482)	(37,002)	(73,484)	(73,484)
Total comprehensive income for the period	-	-	-	(3,080)	17,008	13,928	(36,482)	(33,922)	(70,404)	(56,476)
Changes in equity (not included in other comprehensive income)										
Cash contributions from FONAFE	167,500	-	-	-	-	167,500	-	-	-	167,500
Capitalization of borrowings (Law 30695)	332,886	-	-	-	-	332,886	-	-	-	332,886
Dividends	-	-	-	(1,680)	-	(1,680)	-	-	-	(1,680)
Transfers to legal reserve and reclassification between equity accounts	2,349	-	448	1,680	(4,477)	-	-	-	-	-
Application for establishment of loan portfolio provisions	(500,386)	-	-	-	-	(500,386)	-	-	-	(500,386)
Total changes in equity	2,349	-	448	-	(4,477)	(1,680)	-	-	-	(1,680)
Balance as of December 31, 2018	1,882,848	84	448	23,719	17,008	1,924,107	21,795	(545)	21,250	1,945,357
Balance as of January 1, 2019	1,882,848	84	448	23,719	17,008	1,924,107	21,795	(545)	21,250	1,945,357
Adjustments from new policies	-	-	-	(7,490)	-	(7,490)	-	-	-	(7,490)
Comprehensive income:										
Net profit or loss for the period	-	-	-	-	26,409	26,409	-	-	-	26,409
Other comprehensive income	-	-	-	-	-	-	85,312	(237)	85,075	85,075
Total comprehensive income for the year	-	-	-	(7,490)	26,409	18,919	85,312	(237)	85,075	103,994
Changes in equity (not included in other comprehensive income)										
Capitalization of profits	13,439	-	-	(13,439)	-	-	-	-	-	-
Dividends	-	-	-	(1,868)	-	(1,868)	-	-	-	(1,868)
Transfers to legal reserve and reclassification between equity accounts	-	-	1,701	15,307	(17,008)	-	-	-	-	-
Total changes in equity	13,439	-	1,701	-	(17,008)	(1,868)	-	-	-	(1,868)
Balance as of December 31, 2019	1,896,287	84	2,149	16,229	26,409	1,941,158	107,107	(782)	106,325	2,047,483

The accompanying notes on pages 7 to 91 are an integral part of these financial statements.

Corporación Financiera de Desarrollo S.A. – COFIDE

Statement of Cash Flows

For the years ended December 31, 2019 and 2018

<i>In thousands of soles</i>	2019	2018
Reconciliation of net profit to cash and cash equivalents from operating activities		
Net profit or loss for the period	26,409	17,008
Adjustments		
Depreciation and amortization	2,677	4,086
Provision for loan portfolio	(9,167)	38,027
Other provisions	718	604
Provision for country risk	3,979	16
Deferred tax	6,851	8,242
Provisions for impairment of investments	-	3,002
Other adjustments	8,916	(7,249)
Net changes in assets and liabilities		
Loans	603,834	308,594
Available-for-sale investments	(162,596)	(355,625)
Accounts receivable and others	13,794	45,406
Unsubordinated financial liabilities	566,658	(184,389)
Accounts payable and others	127,011	(589,163)
Profit or loss for the period after net variation in assets, liabilities and adjustments	1,189,085	(711,441)
Income tax paid	-	-
Net cash from (used in) operating activities	1,189,085	(711,441)
Cash flows from investing activities		
Outflows for purchase of buildings, furniture and intangible assets	(2,069)	(395)
Other inflows related to investing activities	-	145
Other outflows related to investing activities	-	(200)
Net cash used in investing activities	(2,069)	(450)
Cash flows from financing activities		
Inflows from issuance of equity instruments	-	167,500
Dividends paid	(1,868)	(1,680)
Deposits of financial entities and international financial entities	(72,796)	(6,799)
(Payment for) proceeds from outstanding instruments	(1,344,509)	293,538
Net cash (used in) from financing activities	(1,419,173)	452,559
Net decrease in cash and cash equivalents	(232,157)	(259,332)
Cash and cash equivalents at the beginning of the year	1,712,505	1,971,837
Cash and cash equivalents at the end of the year (Note 5)	1,480,347	1,712,505

The accompanying notes on pages 7 to 91 are an integral part of these financial statements.

Corporación Financiera de Desarrollo S.A. – COFIDE

Notes to the Financial Statements

December 31, 2019 and 2018

1. Background and Economic Activity, Approval of the Financial Statements and Equity Strengthening Program

A. Background and economic activity

Corporación Financiera de Desarrollo S.A. - COFIDE (hereinafter 'COFIDE') is controlled by the Peruvian Government which has an equity interest of 99.2% (represented by the National Fund for Financing State Entrepreneurial Activity - FONAFE, for its Spanish acronym -, attached to the Ministry of Economy and Finance - MEF, for its Spanish acronym). The Andean Development Corporation – Development Bank of Latin America (hereinafter 'CAF', for its Spanish acronym) holds another 0.8% of the shares.

COFIDE was created on March 18, 1971 through Law Decree 18807, and has administrative, economic and financial autonomy. The purpose of COFIDE is to contribute to Peru's integral development, through the collection of funds and financing granted through Financial Intermediaries (hereinafter 'FI'), for the promotion and financing of productive investments and public and private infrastructure nation-wide.

COFIDE, acting as trustee, is also engaged in managing funds, programs and securities received from the Peruvian Government and financial institutions acting as trustees, for which it charges a fee.

COFIDE's activities are regulated by different legal provisions included in its bylaws, specifically issued to define its scope of action. Further, such activities are regulated by the General Law of the Financial and Insurance Systems and Organic Law of the Superintendence of Banking, Insurance and Pension Plan Agency (hereinafter 'SBS', for its Spanish acronym) – Law 26702 (hereinafter 'General Law'), and its amendments, Legislative Decree 1028 dated June 21, 2008.

COFIDE's legal domicile is located at Calle Augusto Tamayo N° 160, San Isidro, Lima, Peru.

B. Loan portfolio Situation, Equity strengthening Plan and others

B.1 Loan Portfolio Situation

Before and during 2017, COFIDE following SBS standards, the accounting treatment of the foreign operations of Structured, Entrepreneurial and Specialized Financing (FEEE) held with foreign Financial Intermediaries (IFs) reflected only the credit risks assumed by COFIDE with the FIs without taking into consideration the final debtor. The standards, as originally written, did not require the final debtor's risk be considered in valuing the FEEE's loans with foreign FIs. Since the year 2017, the accounting treatment of such loans considers the final debtors instead of the FIs.

Upon application of this new accounting treatment approved by the Peruvian regulatory agency-SBS (note 3.C and 13.D) at the beginning of year 2017, based on figures as of December 31, 2016, it was estimated that:

- i) COFIDE provisions were understated in the amount of US\$ 396,140 thousand (equivalent to S/ 1,329,445 thousand). As part of the Equity strengthening Plan, SBS approved that part of this provision pass through equity accounts as following (note 7 (j) and note 13.A):
 - By means of Resolution 2532-2018, dated June 28, 2018, SBS authorized COFIDE to reduce capital stock by S/ 500,386 thousand, for the recording of provisions for loans (note 13.A.c)).
 - By means of Resolution 5028-2017, dated December 27, 2017, SBS authorized COFIDE to reduce legal reserve by S/ 311,090 thousand and reduce capital stock by S/ 231,360 thousand, for the recording of provisions for loans.

Corporación Financiera de Desarrollo S.A. – COFIDE

Notes to the Financial Statements

December 31, 2019 and 2018

ii) COFIDE should reverse accrued and uncollected interest and fees for US\$ 106,320 thousand (equivalent S/ 356,809 thousand) from previous years. These interest and fees were related to the operation carried out among four operators of Corredor Segregado de Alta Capacidad (hereinafter COSAC). It was also determined that COFIDE should reverse capitalized interest from the transaction of Gasoducto Sur Peruano (GSP) for US\$ 12,400 thousand (equivalent S/ 41,614 thousand). As part of the Equity strengthening Plan, SBS approved that part of this reverse is constituted through equity accounts as following (note 7 (j) and note 13.D):

- Through Letter 32034-2017-SBS, dated September 12, 2017, SBS approved the reclassification of unrealized profits from the investment in shares held by CAF for S/ 404,261 thousand and its deferred tax for (S/ 119,257 thousand). In that sense, the profit that was recorded as 'adjustments from new policies and its corresponding deferred tax were reclassified to 'retained earnings' in the third quarter of 2017 for S/ 371,697 and it is corresponds deferred tax for S/ 109,650 (the amount net deferred tax is S/ 262,047).

This Letter also considered appropriate, with a charge to these retained earnings, that COFIDE reverse the uncollected accrued interest, uncollected capitalized interest, and the recognition of provisions for fees paid in previous years, arising from operations of Structured, Entrepreneurial and Specialized Financing (hereinafter 'FEEE', for its Spanish acronym), in response to the SBS requirement (Inspection Visit Report 061-VI/2017-DSB "B") concerning the suspension of interest and registering of FEEE operations provisions, whose final debtor is rated as 'doubtful' or 'loss'. (note 13.D).

The aforementioned amounts were registered in the periods 2017 and 2018, which was approved by SBS in accordance with the Equity Strengthening Program.

B.2 Equity Strengthening Program

Supreme Decree 113-2017-EF was issued on April 29, 2017, defining the risk parameters for the financing policies of COFIDE, as a second-tier development bank for Entrepreneurial and Specialized Financing (hereinafter "FEEE" for its Spanish acronym) with foreign Fls.

The Board of Directors, through Meetings 884 and 894, approve the Equity Strengthening Plan (hereinafter "The Strengthening Plan" to ensure that the appropriate solvency and liquidity levels for COFIDE's business operation were met, and in response to the portfolio situation mentioned in note B.1.

The Strengthening Plan concluded on June 30, 2018 and besides (i) the reversal of accrued and uncollected interest and fees which took place in 2017 and (ii) provision recording of US\$ 212,500 thousand (equivalent to S/ 688,713 thousand), which was made in 2017, and the recording of a provision of US\$ 183,640 thousand in 2018 (equivalent to S/ 619,418 thousand).

In 2017 and 2018, included the following main actions:

i. Policy on dividends and capital contributions of the years 2017 and 2018

Through Letter SIED 323-2017/DE/FONAFE, dated July 4, 2017, FONAFE approved a new policy on dividends that allows COFIDE to capitalize 100% of profits of the years 2017 and 2018. In 2017, FONAFE also approved a cash contribution for S/ 58,310 thousand, equivalent to 85% of the distributable profits in favor of FONAFE corresponding to year 2016.

At the General Stockholders' Meeting, held March 28, 2018, an increase in capital stock was approved through the capitalization of distributable profits in favor of FONAFE for fiscal year 2017, for an amount of S/ 2,349 thousand.

Corporación Financiera de Desarrollo S.A. – COFIDE

Notes to the Financial Statements

December 31, 2019 and 2018

ii. Sale of Class B shares issued by the Andean Development Corporation (CAF)

By means of the Convenience Letter, the Government expressed its commitment to acquiring equity value for up to 20% of the shares issued by CAF and held by COFIDE. This document is effective for 4 years.

This commitment involves the acquisition of 19,590 shares, whose equity value is US\$ 200,000 thousand, (equivalent to S/ 648,200 thousand). This proposed was not executed because the Administration considered that this was not necessary.

iii. Capitalization of borrowings from multilateral financial agencies

On December 7, 2017, the Peruvian Government authorized by Fifth Final Supplementary Provision of Law 30695 Law on National Debts for the year 2018," the capitalization of the borrowings with Japan International Cooperation Agency (JICA) and Kreditanstalt Fur Wiederaufbau KFW, which as of December 31, 2017, amounted to S/ 180,974 thousand and S/ 143,732 thousand, respectively (note 11(a)(iii)).

Effective January 1, 2018, COFIDE capitalized, both borrowings, amounting to S/ 332,886 thousand.

iv. Capital contributions of the year 2018

At General Stockholders' Meeting, held May 22, 2018, it was approved to increase in capital stock by S/ 167,500 thousand. On May 31, 2018, FONAFE made the contribution in cash.

v. Reclassification of unrealized profit and loss balance arising from investments in CAF's Class B shares to retained earnings

In 2017, COFIDE proposed to SBS the reclassification of the balance from unrealized profit or loss generated by investment in CAF's Class B shares (included under 'adjustments to equity' of the statement of financial position) to 'retained earnings' in the amount of S/ 404,261 thousand. This was proposed in order to lessen the effect of reversing financial income arising from credits from previous years, in the amount of S/ 371,697 thousand to be recorded against such item.

In 2017, through SBS Official Letter 32034-2017, dated September 12, 2017, the SBS authorized the reclassification of unrealized profit or loss from investment in Class B shares of the CAF, net of deferred tax. In this regard, this revenue, were reclassified from 'adjustments to equity' to 'retained earnings' in the third quarter of the year 2017 (notes 6 and 13.D). COFIDE reversed the accrued and uncollected interest and charged them to 'Retained earnings' in accordance with Official Letter 32034-2017, dated September 2, 2017.

Under the framework of implementation of the Strengthening Plan and, in accordance with SBS Official Letter 32034-2017, dated September 2, 2017, COFIDE reversed the accrued and uncollected interest and charged them to 'Retained earnings'.

As of December 31, 2019 and 2018, the carrying amount of CAF's Class B shares S/ 2,339,156 thousand. These shares have been measured at cost since the year 2012 in accordance with SBS Official Letter 45853-2012 (note 6).

vi. Capital reduction

In 2017, COFIDE proposed to SBS to authorize the reduction of the in capital stock to S/ 231,360 thousand and the legal reserve to S/ 311,090 thousand in order to record provisions for loans portfolios.

In 2017, through Resolution SBS 5028-2017, dated December 27, 2017, the SBS authorized COFIDE to reduce the legal reserve to S/ 311,090 thousand, and to reduce the capital stock up to S/ 231,360 in order to record provisions for the loan portfolio.

Corporación Financiera de Desarrollo S.A. – COFIDE

Notes to the Financial Statements

December 31, 2019 and 2018

In 2018, through Resolution SBS 2532-2018, dated June 28, 2018, SBS authorized the amendment to the agreement of reduction in capital for S/ 500,386 thousand.

- Borrowing capitalization for S/ 332,886 thousand, indicated in (iii) (note 13.A); and
- Cash contribution for S/ 167,500, indicated in (iv) (note 13.A).

C. Approval of the financial statements

COFIDE's financial statement for the year ended December 31, 2019 have been issued with management approval on January 31, 2020 and approved by the Board of Directors. These financial statements will be submitted to the General Stockholders' Meeting for final approval. Management and the Board of Directors consider that the General Stockholders' Meeting will approve the accompanying financial statements without amendments. The General Stockholders' Meeting, held March 29, 2019, approved the financial statements for the year ended December 31, 2018.

2. Basis for the Preparation of the Financial Statements

A. Statement of compliance

The accompanying financial statements have been prepared based on COFIDE's accounting records and are presented in accordance with current regulations and accounting principles for financial entities in Peru authorized by the SBS. In the absence of such applicable SBS regulations, the International Financial Reporting Standards (IFRS), made official in Peru by the Peruvian Accounting Board (CNC, for its Spanish acronym), are applied.

Such standards comprise the standards and interpretations issued by the International Accounting Standards Board (IASB), which include IFRSs, International Accounting Standards (IAS), and pronouncements issued by the International Financial Reporting Interpretations Committee (IFRIC).

B. Basis of measurement

These financial statements have been prepared based on a historical cost basis, except for the following:

- financial instruments are measured at fair value; and
- available-for-sale assets are measured at fair value.

C. Functional and presentation currency

These financial statements are presented in soles (S/), in accordance with the SBS standards regulations, which is COFIDE's functional and presentation currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

D. Use of judgments and estimates

The information contained in these financial statements is the responsibility of management and the Board of Directors. In preparing these financial statements, management has made judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses. They are based on historical experience and other factors. Actual results may differ from these estimates.

Estimates are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively by recognizing the effects of such revisions in the relevant items in the statement of profit or loss of the period in which the reviews are conducted.

Corporación Financiera de Desarrollo S.A. – COFIDE

Notes to the Financial Statements

December 31, 2019 and 2018

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

- Provisions for uncollectible of direct and indirect loans.
- Fair values of derivative financial instruments.
- Provisions for uncollectible of accounts receivable.
- Estimate of impairment of investments.
- Contingent assets and liabilities.
- Current and deferred tax.
- Classification and investment risks.

Management has applied its critical judgment when applying accounting policies for the preparation of the accompanying financial statements, as described in note 3.

E. Reclassifications

As of December 31, 2018, certain items of the financial statements have been reclassified to make them comparable to those in this period. Management considers that the reclassifications made do not imply changes in the decisions taken based on them. The reclassified amounts and affected accounts are summarized as follows:

Consolidated Statement of Cash Flows for the year ended December 31, 2018:

<i>In thousands of</i>	Balances without reclassification	Reclassification	Reclassified balances
Net changes in assets and liabilities			
Accounts receivable and others	(56,245)	101,651	45,406
Accounts payable and others	(487,512)	(101,651)	(589,163)
Profit or loss for the year after net changes in assets, liabilities and adjustments	(711,441)	-	(711,441)
Net cash and cash equivalents from operating activities	(711,441)	-	(711,441)
Net decrease in cash and cash equivalents	(259,332)	-	(259,332)
Cash and cash equivalents at the beginning of the year	1,971,837	-	1,971,837
Cash and cash equivalents at the end of the year	1,712,505	-	1,712,505

3. Significant Accounting Policies

The significant accounting principles and practices used in the preparation of the financial statements of COFIDE have been consistently applied with those of the previous period, unless otherwise indicated, and are the following:

A. Financial instruments

A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability, or equity instrument in another, simultaneously.

Financial instruments are recognized on the date when they are originated, and are classified as assets, liabilities or equity, according to the substance of the contract. Interest, dividends, profits and losses arising from a financial instrument, classified either as financial asset or as liability, are recorded as income or expense. Payment to holders of financial instruments recorded as equity are directly recorded in the equity.

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Notes to the Financial Statements

December 31, 2019 and 2018

COFIDE classifies its financial instruments under one of the categories defined by SBS regulations: (i) loans and accounts receivable, (ii) available-for-sale investments, and (iii) other financial liabilities. COFIDE determines the rating of financial instruments at initial recognition and on instrument-by-instrument basis.

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are initially recognized at their fair value plus incremental costs directly attributable to the acquisition or issuance of the instrument, except in the case of financial assets or liabilities held at fair value through profit or loss.

Purchases or sales of financial assets requiring the provision of assets within a time frame established according to regulations or market conventions (regular market terms) are recognized at the contracting date.

Derecognition of financial assets and financial liabilities

i. Financial assets

A financial asset or, when applicable, part of a financial asset or part of a group of similar financial assets is derecognized when: (i) the rights to receive the cash flows from the asset have expired; or (ii) COFIDE has transferred its rights to receive cash flows from the asset; or has assumed an obligation to pay total cash flows to a third party under a pass through agreement; and (iii) COFIDE has transferred substantially all risks and rewards of ownership of the financial asset; or COFIDE has neither transferred nor retained substantially all risks and rewards of ownership of the financial asset, but has transferred control of the asset.

ii. Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, canceled or expires. When an existent financial liability is replaced by another from the same borrower with significantly different terms, or terms are significantly modified, such replacement or modification is treated as a derecognition of the original liability and a recognition of a new liability, with recognition of the difference between both in profit or loss of the period.

Impairment of financial assets

At the end of each reporting period COFIDE assesses whether there is objective evidence that a financial asset or group of assets is impaired.

A financial asset or group of financial assets is impaired, if and only if, there is objective evidence of one or more events (“lost event”) that occurred after the initial recognition of the asset, and if such loss event had an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be estimated reliably. Evidence of impairment can be an indication that a borrower or group of borrowers are experiencing significant financial difficulties, defaults or delays in payments of interest or principal, the probability that COFIDE will enter bankruptcy, restructuring or other legal and financial reorganization in which it is shown that there is a significant decrease in expected future cash flows such as changes in circumstances or economic conditions related to non-compliance with payments.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when COFIDE has a legally enforceable right to set off them, and management intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

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B. Financial derivative instruments

A derivative is a financial instrument with all three of the following characteristics:

- (a) Changes in their fair value as a result of modifications occurring in the level or price of an underlying asset;
- (b) Not requiring a 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 instruments in accordance with the Accounting Manual and SBS Resolution 1737-2006 and amendments. The accounting treatment provided by the SBS includes essential aspects established by IAS 39 Financial Instruments: Recognition and Measurement.

At initial recognition, derivative instruments shall be classified into one of the following two categories:

Held-for-trading instruments

At initial recognition, held-for-trading instruments are measured at fair value in the statement of financial position. Subsequently, any change in the fair value of such instruments shall affect the profit or loss for the period.

Additionally, they are recorded in suspense accounts and measured at the spot exchange rate.

Hedging instruments

Hedging instruments shall meet certain requirements established by the SBS regarding procedures, techniques and proper and timely documents supporting the strategy for undertaking the hedge.

At initial recognition, interest rate swaps, currency swaps and forward contracts are measured at fair value.

Cash flow hedges are recorded as hedging instruments under both assets and liabilities, as applicable, in the statement of financial position and are measured at fair value. If the cash flow hedges are determined to be effective hedges of exchange rate and interest rate risks, changes in the fair value are directly recorded in 'adjustments to equity' in equity. These amounts are reclassified to profit or loss of the period in which the financial liability is settled and are presented in 'gains and losses on derivative instruments' in the statement of profit or loss.

Regardless of the type of hedging instrument, they shall be assessed on a regular basis and regarded as highly effective (actual results within a range of 80%-125%) to reduce the hedged risk. Any hedge ineffectiveness shall be recognized in profit or loss for the period.

Fair value is calculated based on exchange and interest rates. Gains and losses on changes in the fair value are recorded in the statement of profit or loss.

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The face value of derivative instruments is recorded in the agreed-upon currency in suspense accounts (note 14(d)).

C. Loan portfolio and provision loan losses

The loan portfolio is recorded when the disbursement in favor of customers takes place. Indirect loans (contingent) are recorded when documents that assign the rights of third parties to COFIDE are issued and may become direct loans in the event of making a payment to such third parties. Likewise, variations in the payment schedules of a direct loan due to debtors' payment difficulties are considered as refinancing or restructuring of loans.

As per Supreme Decree 113-2017/EF, dated October 22, 2017, COFIDE's financing policy is as follows:

- (i) The financing minimum share for both direct and indirect loans will be of up to 25% of the total financing of the project.
- (ii) In exceptional circumstances, up to 50% of the project's total financing could be financed, provided that the financing is specialized, and that this operation has been approved by FONAFE's Board of Directors.

Finance lease operations from portfolio transfer contracts are recorded as loans in accordance with current SBS standards.

Types of loans

In accordance with SBS Resolution 11356-2008 "Regulation for the Assessment and Classification of the Debtor and Provisions Requirements", loans are classified as: i) Corporate loans, ii) Large business loans, iii) Medium business loans, iv) Small business loans, v) Micro-business loans, vi) Revolving consumer loans, vii) Non-revolving consumer loans, and viii) Mortgage loans. These classifications take into consideration the nature of the customer (corporate, government or individuals), the purpose of the loan and the size of the business measured by income and debt, among other qualitative and quantitative indicators.

Credit risk rating categories

Rating categories established by SBS are as follows: standard, with potential problems, substandard, doubtful and loss. In the case of non-retail loan portfolio (corporate, large and medium business), these categories 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 rating is determined based on the compliance with the loan payments reflected in delay days, and in its classification in other financial entities.

Requirements of loan loss provisions

The provision for loan losses of the loan portfolio is determined in accordance with the criteria and percentages set forth in Resolution SBS 11356-2008, Regulation for the Assessment and Classification of Debtor and Requirements of Provisions. The type of loans, the established guarantees and the debtor's categories classification are considered for the calculation of this provision.

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Through SBS Official Letter 712-2017, dated January 6, 2017, SBS determined that the credits under 'Participations Agreements' should be regarded as operations of portfolio transfer, within the framework of Article 4 of the Regulation for transfer and acquisition of the loan portfolio (SBS Resolution 1308-2013). In that sense, the Participation Agreements credits are recorded from the 2017 period as COFIDE's direct debtors, without considering the financial intermediary (foreign bank) as debtor.

According to current regulations, COFIDE considers two classes of provisions for doubtful loans, generic and specific provisions. The generic provisions are recorded in a preventive manner for those direct and direct loans rated as standard, and additionally a procyclical component is recorded if the SBS orders its application. The generic provision further includes voluntary provisions.

Specific provisions are those made on direct loans and the equivalent exposure to credit risk of indirect loans of debtors rated in a category with a higher risk than the standard category.

Pursuant to internal policies, and as permitted by the SBS, COFIDE establishes voluntary provisions for the loan portfolio, whose level depends on the assessment conducted by management on the conditions of the macroeconomic variables of the country and their impact on FIs 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 066-2005, 003-2007 and 095-2010 and establishes the effectiveness of the assignment of voluntary provisions, considering the following order of priority:

- (a) For currency-induced credit risk (CICR): Calculated based on the classification for CICR, obtained by each final debtor and FIs 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:

Rating	Minimum rate of provision
Standard	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 ceded portfolio, classified as substandard, doubtful, loss, restructured or refinanced.

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- (d) For entities of financial sector: Calculated based on net loans of guarantees granted by rural loan and savings institutions, municipal loan and savings institutions, Development entities for Small and micro-businesses (hereinafter "Edpymes" for its Spanish acronym), financial entities, leasing companies, cooperatives and banks:

Sub-system, also in order of priority	Provision percentage up to
Rural loan and savings institutions	50%
Municipal loan and savings institutions	30%
Edpymes	30%
Financial entities	30%
Leasing companies	30%
Cooperatives	40%
Banks	35%

Provision requirements are determined by considering the risk rating of the financial intermediary, if it is supported by collaterals or not, and depending on the type of collateral.

Additionally, in compliance with Resolution SBS 041-2005 Regulations for the Management of Currency-Induced Credit Risk, COFIDE assesses the exposure to currency-induced credit risk for the loan portfolio in foreign currency and records provisions as SBS' requirements.

COFIDE uses the aforementioned criteria to establish the provision specific to accounts receivable for transferred loan portfolio, included in 'accounts receivable' (note 8 (b)).

As of December 31, 2019 and 2018, provisions are determined according to SBS provisions. Minimum required percentages for the recording of provisions are as follows:

Risk category	No guarantees	With preferred guarantees	With preferred easily realizable guarantees	Self-liquidating guarantees
Standard				
Corporate loans	0.70	0.70	0.70	0.70
Large business loans	0.70	0.70	0.70	0.70
Medium business loans	1.00	1.00	1.00	1.00
Small business loans	1.00	1.00	1.00	1.00
Micro-business loans	1.00	1.00	1.00	1.00
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

As of December 31, 2019 and 2018, the pro-cyclical rule of the provision for the loan portfolio is deactivated as per Official Letter SBS B-2224-2014.

When the debt is deemed uncollectible, it is written off against the corresponding provision for the uncollectible of the loan portfolios. The subsequent recovery of previously written-off amounts is recognized in 'income from the recovery of written-off portfolio' in the statement of profit or loss.

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

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D. Investments

COFIDE applies criteria for registering and measuring investments in instruments, in accordance with SBS Resolution 7033-2012 "Regulation on Classification and Measurement of Investments of Financial Institutions" and amendments.

Investments can be classified as: investments at Faer Value through Profit or Loss (FVTPL), available-for-sale investments and held-to-maturity investments.

COFIDE only presents investments classified under the following category:

i. Available-for-sale investments

This category comprises those instruments that are held by management with an intention of trading them and with the objective of generating a profit from their trading before their maturity date. It includes all investments in instruments not classified as investments at FVTPL or held-to-maturity investments. In accordance with SBS Resolution 7033-2012 "Regulation on the Classification and Measurement of Investments of Financial Institutions" and amendments, at initial recognition, these investments are measured at fair value including transaction costs that are directly attributable to the acquisition of the investment.

They are subsequently remeasured at fair value. Any profits and losses on changes in the fair value of the instrument are recognized in equity until the instrument is either sold or realized, which is when gains and losses are recognized in profit and loss, except for impairment losses that are recorded in profit and loss.

Also, profits and losses on changes in the exchange rate of debt instruments stated in foreign currency are directly recognized in profit or loss of the period in which they occur.

Investment in the Andean Development Corporation - CAF

In accordance with IAS 39 and SBS Resolution 7033-2012 "Regulation on Classification and Measurement of Investments of Financial Institutions," if the quoted price in an active market is not available for an investment in equity instrument and its fair value cannot be reliably measured, it is measured at cost.

According to the harmonization process of IFRSs and Official Letter 45853-2012, issued December 5, 2012 and establishing the accounting treatment of investments under IFRSs, COFIDE classifies this investment as an available-for-sale investment, and its cost is equivalent to the cost recorded in books and reported by COFIDE to the SBS as of December 31, 2012. Additionally, through Official Letter 32034-2017, the SBS authorized the realization of the 2012 unrealized gain, net of deferred tax (note 6).

Impairment of investments

If an available-for-sale investment is credit-impaired, the cumulative loss (difference between the acquisition cost, net of any repayment and amortization, and the current fair value, less any impairment loss previously recognized in the separate statement of profit or loss) is reclassified from equity to the statement of profit or loss. Impairment of unquoted shares is the difference between the carrying amount and the present value of future net cash flows discounted using the prevailing market rates for a similar instrument.

As of December 31, 2019, COFIDE recognized an impairment loss on investments in investment funds for US\$ 1,620 thousand, equivalent to S/ 5,369 thousand (2018: US\$ 1,652 thousand, equivalent to S/ 5,572 thousand), and commercial papers for S/ 3,000 thousand (2018: S/ 3,000 thousand) (note 6(b)).

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E. Property, furniture and equipment

An item of property, furniture and equipment is measured at its cost less any accumulated depreciation and any accumulated impairment losses. Initial and subsequent costs of an item of property, furniture and equipment are recognized as property, furniture and equipment only if it is probable that future economic benefits associated with the item will flow to COFIDE and the cost can be measured reliably.

Repair and maintenance costs are recognized as expenses in the period in which they are incurred. The gain or loss arising from the derecognition of an item of property, furniture and equipment is determined as the difference between the net disposal proceeds and the carrying amount of the item. They are recognized in profit or loss of the period in which the item is derecognized.

Depreciation is calculated on a straight-line basis over the estimated useful life of assets. The estimated useful lives are as follows:

Item	Useful life
Buildings	33 years
Facilities, furniture and fixtures	10 years
Vehicles	5 years
Various equipment	4 - 10 years

Useful life is reviewed and adjusted, if necessary, at the date of each statement of financial position. The carrying amount of an asset is written-off at its recoverable amount when the asset's carrying amount exceeds its value in use.

COFIDE is not permitted to apply the revaluation model. It is only permitted to apply the cost model.

In accordance with the Banking Law, COFIDE cannot pledge as collaterals its fixed assets.

F. Seized, received in payment and repossessed assets

Received in payment and repossessed assets are measured at the lower of the award value or the value agreed upon in the payment-in-kind contract and the net realizable value. At initial recognition, recovered assets as a result of the agreement termination, if any, are measured at the lower of the outstanding debt value and the net realizable value. If the outstanding debt value is higher than the value of the recovered asset, the difference is recognized as a loss, provided that its recovery is remote.

Likewise, in accordance with Resolution 1535-2005 "Regulation on the Accounting Treatment of Repossessed and Recovered Assets and Provisions" and amendments, COFIDE records provisions as follows:

- For assets received, a provision for 20% of the value on the award or recovery date.
- For fixed assets, a monthly provision within a period of not more than 42 months for the net value obtained during the 12th or the 18th month of award or recovery, depending on whether an extension is granted by the SBS and until 100% of the asset's carrying amount is completed. The net carrying amount of fixed assets is compared with the net realizable value determined by an independent appraiser. COFIDE recognizes a provision for impairment loss if the carrying amount exceeds the net realizable value.
- For assets other than fixed assets, a provision for the remaining balance within a period of not more than 12 or 18 months, depending on whether an extension is granted by the SBS.

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An impairment loss is recognized when the net realizable value is lower than net carrying amount; accordingly, the carrying amount will be reduced and the loss shall be recognized in the statement of comprehensive income. In case where the net realizable value is higher than the net carrying amount, the higher value shall not be recognized in the books.

G. Intangible assets

An intangible asset with a finite useful life separately acquired is measured at cost less any accumulated amortization and any impairment losses.

Amortization is calculated on a straight-line basis over the estimated useful life of assets. The estimated useful lives and amortization methods are reviewed at the end of each reporting date to assess if expectations differ from previous estimates or if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset. The effects of a change in an accounting estimate are prospectively recorded in profit or loss of the period in which they occur.

Software licenses acquired are capitalized based on costs incurred to acquire and use the specific software. Such costs are amortized on a straight-line basis over the estimated useful life of the asset. Their estimated useful life is between 3 and 5 years.

Costs of software maintenance and development are recognized as expenses when they are incurred. Costs incurred to develop software recognized as assets are amortized over their estimated useful life.

After initial recognition, COFIDE measures an intangible asset at cost.

H. Impairment losses on non-financial assets

COFIDE assessed on a regular basis whether there is any indication that a tangible and intangible asset may be impaired. Accordingly, it tests a tangible and intangible asset for impairment by comparing its recoverable amount with its carrying amount. If any such indication exists, COFIDE estimates the recoverable amount of the asset in order to determine any impairment loss.

The recoverable amount of an asset is the higher of its fair value less costs of sale and its value in use. The value in use is the present value of the future cash flows discounted using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset.

A reversal of an impairment loss for an asset is recognized in profit or loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years.

I. Borrowings and financial obligations-securities, bonds and obligations outstanding

Liabilities for borrowings and for the issuance of securities (corporate, senior and subordinated bonds) are measured at fair value. Any accrued interest is recognized in the statement of profit or loss.

Premiums or discounts granted in the placement of bonds and loans are deferred and amortized during their effective term.

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J. Income tax

Income tax expense comprises current and deferred tax and is recognized in profit or loss.

Current tax

Current tax comprises the expected tax payable or receivable on the taxable profit or loss for the year, and any adjustment to the tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also comprises any tax arising from dividends. Current tax assets and liabilities are offset only if certain criteria are met.

Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amount (for financial reporting purposes) and the tax base (for tax purposes) of assets and liabilities.

Deferred tax assets are recognized for deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax liabilities shall reflect the tax consequences that would follow from the manner in which the COFIDE expects, at the reporting period, to recover or settle of the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if meeting certain criteria.

K. Employee benefits

Short-term benefits

Employee benefits comprise, among others, short-term employee benefits—e.g., wages, salaries and social security contributions; paid annual leave and paid sick leave; and profit-sharing and bonuses—, if expected to be settled wholly before twelve months after the end of the reporting period in which the employees render the related services. These benefits are recognized in profit or loss in the period in which the employee renders the services that entitles it to such benefits.

The relevant liabilities payable are presented in 'other liabilities.'

i. Employees' profit sharing

COFIDE recognizes a liability and an expense for employees' profit sharing equivalent to 5% of tax base determined in accordance with current tax laws.

ii. Vacations and other benefits

Personnel's annual vacations, paid leaves, and other employee benefits are recognized on an accrual basis, considering their probability of occurrence. The provision for liabilities resulting from services rendered by employees is recorded as of the date of the statement of financial position.

iii. Severance payment

The provision for severance payment is measured, according to current regulations, on the total employees' reimbursement rights. Payments are deposited in the bank chosen by the employee.

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iv. Long-term benefits

COFIDE's net obligation in respect of long-term benefits is the amount of future benefit that employees have earned in exchange for their service in prior periods. Such benefit is discounted to determine its present value. Remeasurements are recognized in profit or loss of the period in which they arise.

L. Provisions, contingent liabilities and contingent assets

i. Provisions

A provision is recognized when COFIDE has a present obligation (legal or implicit) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. It considers the risks and uncertainties surrounding the amount to be recognized as a provision.

ii. Contingent liabilities and contingent assets

Contingent liabilities are not recognized in the financial statements. They are only disclosed in notes to the financial statements. COFIDE is not required to disclose a contingent liability when the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in the financial statements. They are only disclosed in notes to the financial statements when an inflow of economic benefits is probable.

If it becomes probable that an outflow of economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognized in the financial statements of the period in which the change in probability occurs. If it has become virtually certain that an inflow of economic benefits will arise, the asset is recognized in the financial statements of the period in which the change occurs.

M. Distribution of dividends

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

N. Income and expense recognition

Income and expenses for interest and service fees are recognized in profit or loss for the period when accrued, based on the effective period of operations that generate them and on the interest rates freely agreed with customers; except for interest generated by overdue, refinanced, restructured and with court action for collection, as well as loans rated as doubtful and loss; such interest is recognized as earned to the extent they are collected. When management determines that the financial condition of the debtor has improved and the placement is reclassified to the current situation and/or to the standard, with potential problems or substandard categories, interest is recognized again on an accrual basis.

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Revenue from an available-for-sale investment previously recognized in equity is recognized in profit or loss of the period in which the instrument is sold or realized.

Trust service fees are recognized as revenue when they are accrued.

COFIDE's other income and expenses are recorded in the period in which they are accrued.

O. Fiduciary activities

Assets held by COFIDE, in its capacity as trustee upon the request of financial entities or Peruvian government entities, are not included in the statement of financial position. Such assets are held in financial statements and are recorded in COFIDE's memorandum accounts.'

P. Foreign currency

Transactions in currencies other than the "sol" are foreign currency transactions. They are recognized using exchange rates ruling at the transaction date. At the end of each reporting period, balances of monetary items stated in foreign currency are translated using exchange rates ruling at that date. Non-monetary items that are measured at fair value in a foreign currency are translated using exchange rates ruling at the date in which the fair value was measured. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using exchange rates ruling at the transaction date.

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

Q. Basic earnings per share

Basic earnings per share are calculated by dividing the profit or loss attributable to stockholders by the weighted average number of outstanding shares during the period. For the purpose of calculating shares resulting from the capitalization of profits, the number of shares shall be the weighted average number of shares outstanding during the period. As of December 31, 2019 and 2018, COFIDE does not have dilutive financial instruments; therefore, basic and diluted earnings per share are the same (note 17).

R. Repurchase agreements

COFIDE applies SBS Resolution 5790-2014, which establishes that financial assets sold under repurchase agreements on a specified future date are not derecognized from the statement of financial position since COFIDE retains substantially all the risks and rewards of ownership of the financial asset.

COFIDE recognizes cash paid and a liability recorded in 'accounts payable' for the obligation to refund such cash at maturity. Likewise, it shall reclassify the financial asset in accordance with the SBS regulations. The accounting treatment of returns shall depend on the agreements between the parties. The difference between the final amount and the initial amount shall be recognized as expense against a liability within the transaction term using the effective interest method.

As of December 31, 2019 and 2018, COFIDE enters into repurchase agreements (notes 5(d) and 12(b)).

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S. Cash and cash equivalents

This caption comprises cash and cash equivalents, interbank funds, and cash equivalents that correspond to short-term and highly liquid instruments easily convertible into cash and subject to an insignificant risk of changes in the fair value, whose maturity does not exceed 90 days from the acquisition date. According to the SBS, COFIDE prepares and presents this statement by applying the indirect method.

COFIDE's overdrafts are reclassified as liabilities in the consolidated statement of financial position.

T. Other comprehensive income

As of December 2019 and 2018, the items in the statement of other comprehensive income correspond to profit and losses from available-for-sale investments and cash flow hedges, net of deferred tax.

U. SBS regulations applicable to COFIDE

According to Official Letter 22834-2018-SBS, dated June 28, 2018, the SBS authorized through Resolution 2532-2018 the following:

- i. Increasing the capital stock for S/ 332,886 thousand by converting debts into shares corresponding to the capitalization of outstanding balances owed to MEF as of December 31, 2017, in accordance with Fifth Final Supplementary Provision of Law 30695 "Law on National Debts for the year 2018" (note 13.A).
- ii. Reducing the capital stock for S/ 500,386 thousand for the recognition of provisions for loan losses (notes 7(h) and 13.A).

These regulations applied only for the 2018 period.

V. New accounting pronouncements

- i. ***Resolutions and standards issued by the CNC and the Peruvian of Securities Market (Regulator) concerning the approval and adoption of IFRSs in Peru***

Clarifications to the application of IFRS 16 Leases

Official Letter 467-2019-SBS, dated January 7, 2019, stated that IFRS 16 *Leases* shall not be applied to supervised entities until the relevant provisions are established; therefore, supervised entities shall continue to apply IAS 17 *Leases*.

IFRIC 23: Uncertainty over income tax treatments

IFRIC 23 clarifies how an entity applies the recognition and measurement requirements in IAS 12 *Income Taxes* when there is uncertainty over income tax treatments.

Uncertain tax liabilities or assets recognized applying IFRIC 23 are current tax liabilities or assets as defined in IAS 12, or deferred tax liabilities or assets as defined in IAS 12. Consequently, such tax balances are recorded as current or deferred tax assets or liabilities. They are not recorded as 'provisions' or in any items as 'other accounts receivable' or 'other accounts payable.'

COFIDE adopted IFRIC 23 for the first time from January 1, 2019. As a result of the assessment, COFIDE determined that it is not required to recognize any provision for future events.

- ii. ***Main pronouncements issued by the SBS in 2019***

- SBS Resolution 5570-2019, dated November 28, 2019, modifies the "Regulation on Credit and Debit Cards," the "Regulation on the Risk Management of Retail Borrower's Overhang," the "Regulation on Regulatory Capital Requirement for Credit Risk" and other provisions. It is effective on the 360th day after its publication, except for certain articles that are effective between the 1st day and the 180th day after their publication.

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- SBS Resolution 4838-2019, dated October 21, 2019, approves the "Regulation on Reverse Mortgage." It is effective on November 1, 2019.
- SBS Resolution 1884-2019, dated May 3, 2019, replaces the Article 35 of the "Regulation on Market Risk Management" and modifies the Accounting Manual for Financial Institutions. It is effective on the 1st day after its publication.
- SBS Resolution 904-2019, dated March 15, 2019, replaces the Article 28 of the "Regulation on Management of Market Conduct," approved by SBS Resolution 3274-2017. It is effective on the 1st day after its publication.
- SBS Resolution 682-2019, dated February 21, 2019, modifies the "Regulation on Liquidity Risk Management" and the Accounting Manual for Financial Institutions, approved by SBS Resolution 9075-2012 and amendments. It is effective on March 1, 2019, except for amendments to Appendixes 15-A and 15-C and their relevant methodological notes that are effective on July 1, 2019.
- SBS Resolution 0008-2019, dated January 4, 2019, expands the special accounting treatment indicated in the First Final and Transitory Provision of the "Regulation on Accounting Treatment of Repossessed and Recovered Assets and Provisions," approved by SBS Resolution 1535 -2005. It is effective on the 1st day after its publication.

4. Assets subject to Restrictions

On June 29, 2018, the loan terms and conditions granted to COFIDE by AFLAC were modified (note 11) and the new maturity date is now September 2023 (prior maturity date was September 2031).

Due to the new loan terms and conditions (forecast transaction), management unwound the hedging instrument related to the loan and created an escrow account for JPY 9,000,000 thousand, equivalent to S/ 274,581 thousand, (100% of the principal) and US\$ 4,391 thousand, equivalent to S/ 14,552 thousand (one year of interest) to secure the loan that AFLAC granted to COFIDE (note 11(a)).

5. Cash and Cash Equivalents

As of December 31, this caption comprises the following:

<i>In thousands of soles</i>	2019	2018
Peruvian Central Reserve Bank – BCRP (a)	274,291	188,243
Checking accounts (b)	717,188	1,160,364
Other cash and cash equivalents (c)	481,599	355,858
Accrued interest from cash and cash equivalents	7,269	8,040
Cash and cash equivalents	1,480,347	1,712,505
Provision for country risk (d)	(3,996)	(16)
	1,476,351	1,712,489

- (a) As of December 31, 2019, the BCRP has US\$ 760 thousand, equivalent to S/ 2,519 thousand and S/ 9,470 thousand (2018: US\$ 1,907 thousand, equivalent to S/ 6,432 thousand and S/ 5,559 thousand). These amounts correspond to the legal reserves that financial institutions located in Peru shall hold for deposits and obligations with third parties. These reserve funds are deposited with the BCRP. Bank reserve funds of the legal reserve requirements do not accrue interest. Bank reserve funds of the additional reserve requirements shall be paid at an interest rate established by the BCRP. In accordance with current regulations, bank reserve funds are nonforfeitable.

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Notes to the Financial Statements

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As of December 31, 2019, the BCRP has US\$ 79,150 thousand, equivalent to S/ 262,303 thousand (2018: US\$ 49,200 thousand, equivalent to S/ 165,951 thousand and S/ 10,300 thousand) for overnight deposits with the BCRP, which accrue interest at an effective rate of 1.5701% in foreign currency (2018: 2.4274% in foreign currency and 1.50% in local currency). As of December 31, 2019, overnight deposits accrued interest for US\$ 2,329 thousand, (equivalent to S/ 7,718 thousand) and S/ 35 thousand (2018: US\$ 3,023 thousand, equivalent to S/ 10,196 thousand and S/ 182 thousand), which is included in 'interest revenue from cash and cash equivalents' in the statement of profit or loss.

- (b) As of December 31, 2019 and 2018, checking accounts comprise cash and cash equivalents held in local and foreign banks of less than one year, and stated in local and foreign currency. They have free withdrawal option and accrue interest at market rates.
- (c) As of December 31, 2019, it corresponds to restricted funds in foreign currency held at the BCRP for US\$ 58,073 thousand, equivalent to S/ 192,454 thousand (2018: US\$ 19,052 thousand, equivalent to S/ 64,263 thousand), which secure repurchase agreements in local currency collected from the BCRP (note 12(b)); and an escrow account with JP Morgan for JPY 9,000,000 thousand, equivalent to S/ 274,581 (100% of the principal) and US\$ 4,391 thousand, equivalent to S/ 14,552 thousand, corresponding to one year of interest (notes 4 and 11(a)).
- (d) It corresponds to the provision for country risk, which was recognized for time deposits and checking accounts held in foreign banks (subject to regulatory provision for country risk). Such provision is recognized in accordance with SBS regulations and COFIDE's internal policies.

6. Available-for-Sale Investments

As of December 31, this caption comprises the following:

<i>In thousands of soles</i>	2019	2018
CAF Shares (a)	2,339,156	2,339,156
Investment funds	115,660	115,175
Shares in local and foreign entities	2,018	1,663
Mutual funds	136,225	-
Impairment of investments (b)	(5,369)	(5,572)
Instruments representing capital	2,587,690	2,450,422
Structured bonds	1,111,524	1,176,264
Corporate bonds	866,618	744,874
Securitization bonds	77,861	21,783
Sovereign bonds	54,644	-
Commercial papers	37,716	41,889
Certificates of deposit	-	12,906
Impairment of investments (b)	(3,000)	(3,000)
	2,145,363	1,994,716
Accrued interest	18,336	22,645
Instruments representing debt	2,163,699	2,017,361
	4,751,389	4,467,783

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- (a) The investment in the CAF was a contribution of Class B shares from the Peruvian Government from years between 1989 and 2000. Class B shares have a face value of US\$ 5,000 thousand each, equivalent to S/ 16,570 thousand, and entitle the holder to appoint a representative of the Board of Directors. As of December 31, 2019, and 2018, COFIDE holds 97,951 Class B shares representing 9.102% and 9.479% of shares in the CAF's capital, respectively.

According to the harmonization process of IFRSs and Official Letter 45853-2012, establishing the accounting treatment under IFRSs, from January 1, 2013, COFIDE classifies the investment in shares of the CAF as an available-for-sale investment, and its cost is equivalent to the cost recorded in books and reported by COFIDE to the SBS as of December 31, 2012 (note 3(d)(i)). Based on CAF's financial statements as of September 30, 2019, these shares would have an equity value of S/ 3,768,754 thousand (2018: S/ 3,772,301 thousand).

- (b) Management reviewed the carrying amount of its investments in investment funds and commercial papers and identified an impairment loss on the investment fund of Latam Peru for US\$ 1,620 thousand, equivalent to S/ 5,369 thousand (2018: US\$ 1,652 thousand, equivalent to S/ 5,572 thousand) and on the commercial papers of Ingenieros Civiles y Contratistas Generales S.A. for S/ 3,000 thousand (2018: S/ 3,000 thousand). Except as otherwise described and subsequent to the identification of an impairment loss on investments under SBS Resolution 7033-2012 and amendments, management did not identify any events or changes in circumstances indicating that the carrying amount of investments exceeds the recoverable amount as of December 31, 2019 and 2018.

As of December 31, 2019 and 2018, in accordance with internal policies, COFIDE makes investments in instruments rated between BBB- and AAA (note 2.H(i)).

Corporación Financiera de Desarrollo S.A. – COFIDE

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The carrying amount and adjustments to equity of investments are as follows:

<i>In thousands of soles</i>	Maturity	Interest rate (coupon)		Market value		Adjustments to equity	
		2019	2018	2019	2018	2019	2018
Type of instrument							
Local currency							
Structured bonds	January 2033 to June 2037	8.01 to 8.76	7.90 to 8.76	365,499	330,203	46,733	11,618
Corporate bonds	September 2025 to September 2037	5.87 to 9.19	6.66 to 9.19	236,705	268,447	14,855	(2,747)
Sovereign bonds	August 2026 to August 2040	3.91 to 5.38	-	54,868	-	(347)	-
Securitization bonds	September 2034 to August 2035	5.94 to 6.05	-	46,033	-	(1,438)	-
Commercial papers	August 2018	8.62	4.92	3,000	6,826	-	-
Certificates of deposit	February 2019	-	3.74	-	13,318	-	(7)
				706,105	618,794	59,803	8,864
CAF Shares	-			2,339,156	2,339,156	-	-
				3,045,261	2,957,950	59,803	8,864
Foreign currency							
Structured bonds	October 2033 to April 2037	4.42 to 8.37	5.23 to 8.37	750,932	853,492	48,614	10,153
Corporate bonds	September 2020 to March 2038	3.80 to 8.24	4.16 to 10.47	642,219	491,078	14,972	(10,565)
Commercial papers	January 2020 to September 2020	5.20 to 6.59	5.20 to 6.65	34,774	35,203	7	(10)
Investment funds	Without a contractual maturity	-	-	115,660	115,175	27,075	21,705
Securitization bonds	December 2021 to December 2034	5.08 to 8.34	7.72 to 8.34	32,669	21,794	(30)	6
Mutual funds	Without a contractual maturity	-	-	136,225	-	351	-
Shares of Banco Latinoamericano de Comercio Exterior (Bladex)	Without a contractual maturity	-	-	2,018	1,663	1,133	762
				1,714,497	1,518,405	92,122	22,051
Impairment of investments				(8,369)	(8,572)	-	-
				4,751,389	4,467,783	151,925	30,915

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Notes to the Financial Statements

December 31, 2019 and 2018

Available-for-sale investments have the following maturities:

<i>In thousands of soles</i>	2019	2018
Up to 1 year	35,312	52,347
1–2 years	14,581	1,246
2–3 years	6,054	92,807
3–4 years	-	8,239
More than 5 years	4,695,442	4,313,144
	4,751,389	4,467,783

7. Loan Portfolio, Net

As of December 31, this caption comprises the following:

<i>In thousands of soles</i>	<i>Note</i>	2019	2018
Direct loans (a)			
Current loans		4,088,900	4,789,367
Restructured loans		673	6,091
Refinanced loans (a.1)		582,310	603,343
Past due loans		393,812	364,754
Loans under legal collection		147	147
		5,065,842	5,763,702
Plus			
Accrued interest on loans		18,305	41,256
Less			
Provision for doubtful direct loans (h)		(901,437)	(923,302)
Deferred interest		(481)	(1,288)
		(883,613)	(883,334)
Loan portfolio, net		4,182,229	4,880,368
Contingent loans – Collaterals granted and stand-by letters	14	313,092	483,569

- (a) The balance of the loan portfolio (direct and indirect loans) corresponds to loans in foreign currency granted to FIs and for tier 1 portfolio.

Loans granted to FIs are secured through contractual clauses included in contracts for channeling funds entered into with each borrower, where COFIDE is entitled to: i) the automatic payment of debts through a charge from the checking account that the borrower holds in the BCRP and/or in a designated operating bank; and ii) the transfer of the loan portfolio financed with COFIDE's funds for the total debt, including interest, fees, defaults and other expenses. This transfer is effective when the FI fails to meet the payment of the debt or when COFIDE considers that there are specific circumstances complicating the refund of the funds granted. For other FIs, the hedging is similar, unless an operating bank is designated instead of the BCRP.

As of December 31, 2019, the balance of loans granted to FIs include S/ 678,079 thousand from participation agreements (2018: S/ 1,163,031 thousand).

Corporación Financiera de Desarrollo S.A. – COFIDE

Notes to the Financial Statements

For the years ended December 31, 2019 and 2018

- (a.1) As of December 31, 2018, COFIDE reclassified four loans from 'past due loans' to 'refinanced loans' for US\$ 164,063 thousand (equivalent to S/ 553,384 thousand). They were paid according to the payment schedule. As of December 31, 2019, such loans were amortized for US\$ 161,143 (equivalent to S/ 534,028 thousand).
- (b) The classification of loan portfolio and contingent loans (net of deferred interest), per risk categories carried out by COFIDE's management, following the current SBS regulations is as follows:

<i>In thousands of soles</i>	Number of debtors		Total portfolio	
	2019	2018	2019	2018
Standard	93	101	3,533,310	4,116,587
With potential problems	15	17	907,060	1,174,806
Substandard	3	3	3,353	5,601
Doubtful	8	10	535,073	555,182
Loss	21	19	399,657	393,807
	140	150	5,378,453	6,245,983

- (c) The loan portfolio per type of FI is as follows:

<i>In thousands of soles</i>	2019		2018	
	S/	%	S/	%
Tier 2 portfolio				
Banks (c.1)	2,478,585	48.9	3,073,172	53.3
Municipal savings institutions (c.1)	423,888	8.4	310,237	5.4
Financial entities	482,531	9.5	219,620	3.8
Finance leases	61,558	1.2	58,879	1.0
Edpymes	72,815	1.4	51,084	0.9
Rural savings institutions	47,173	0.9	21,363	0.4
Factoring	8,443	0.2	16,648	0.3
	3,574,993	70.5	3,751,003	65.1
Participation agreements (c.2)	678,079	13.5	1,163,031	20.2
Tier 1 portfolio				
Finance leases and promissory notes (g)	797,736	15.7	833,933	14.5
Other loans (c.3)	15,034	0.3	15,735	0.2
	812,770	16.0	849,668	14.7
	5,065,842	100.0	5,763,702	100.0
Accrued interest on loans	18,305		41,256	
	5,084,147		5,804,958	

Corporación Financiera de Desarrollo S.A. – COFIDE

Notes to the Financial Statements

For the years ended December 31, 2019 and 2018

- (c.1) As of December 31, 2019 and 2018, it comprises FEEEs in foreign currency entered into contracts for channeling funds mainly with local banks and banks domiciled in Peru for US\$ 381,217 thousand (equivalent to S/ 1,263,353 thousand) and US\$ 430,285 (equivalent to S/ 1,451,351 thousand), respectively:

<i>In thousands of U.S. dollars</i>	Debtor Entity	As of	
		2019	2018
Intermediary			
	Empresa Eléctrica Agua Azul S.A.	-	14,902
	Impala Terminals Perú S.A.C.	-	10,584
Banco de Crédito del Perú S.A.	Empresa de Generación Eléctrica Santa Ana S.R.L.	42,543	43,947
	Pesquera Hayduk S.A.	15,193	16,544
	Cosapi Minería S.A.C.	12,182	14,993
	Sociedad Agrícola Yolanda Patricia S.A.C.	462	-
	Subtotal	70,380	100,970
	Empresa de Generación Eléctrica de Junín S.A.C.	-	19,585
	Colegios Peruanos S.A.	-	7,412
Banco Internacional del Perú S.A.A. — Interbank	Generadora de Energía del Perú S.A.	42,458	42,458
	Agrojibito S.A.	29,347	29,233
	Empresa Eléctrica Agua Azul S.A.	14,902	-
	Subtotal	86,707	98,688
Scotiabank Perú S.A.A.	Trastiendas Integradas S.A.C.	58,025	57,010
	Termochilca S.A.	18,034	18,854
	Oncosalud S.A.C.	17,270	18,346
	Subtotal	93,329	94,210
BNP Paribas S.A. — New York	Concesionaria Vial del Sur S.A.	35,000	35,000
Deutsche Bank AG — London Branch	Survial S.A.	23,543	26,998
Deutsche Bank AG	Concesión Canchaque S.A.C.	20,839	23,895
	Shared-X Perú S.A.C.	-	977
Banco Agropecuario S.A.	Perú Grapes S.A.C.	-	3,325
	Agrícola Sol de Villacuri S.A.C.	7,980	5,638
	Subtotal	7,980	9,940
	AgroAurora S.A.C.	11,346	11,147
Citibank del Perú S.A.	Jibiport S.A.C.	2,386	2,344
	Agrojibito S.A.	905	889
	Subtotal	14,637	14,380
Banco GNB Perú S.A.	Danper Agrícola Olmos S.A.C.	9,227	9,500
Banco Santander Perú S.A.	Instituciones Toulouse Lautrec de Educacion Superior S.A.C.	6,035	-
Banco Interamericano de Finanzas S.A. — BanBif	Inversiones Prisco S.A.C.	7,885	8,214
BBVA Banco Continental	Maquiwood S.A.C.	1,537	1,511
	Gandules Inc. S.A.C.	1,018	1,474
	Subtotal	2,555	2,985
Banco BTG Pactual S.A. — Cayman Branch	Empresa de Generación Eléctrica de Junín S.A.C.	-	2030
Banco Pichincha S.A.	Fundo Sacramento S.A.C.	2,500	2,500
Caja Municipal de Ahorro y Crédito de Sullana S.A.	Hermanos Tume S.A.C.	423	564
	Grupo la República Digital S.A.	177	411
	Subtotal	600	975
In thousands of U.S. dollars		381,217	430,285
Equivalent to thousands of soles		1,263,353	1,451,351

Corporación Financiera de Desarrollo S.A. – COFIDE

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For the years ended December 31, 2019 and 2018

As of December 31, 2019, interest on FEEEs with final borrowers: Pesquera Hayduk S.A. (refinanced loan) and Agrícola Sol de Villacuri S.A.C., Fundo Sacramento S.A.C. and Maquiwood S.A.C. (past due loan) have been recorded in 'interest in suspense.' As of December 31, 2018, interest on FEEEs with final borrowers: Agrícola Sol de Villacuri S.A.C. (past due loan), Pesquera Hayduk S.A. (refinanced loan) and Perú Grapes S.A.C. (loan rated as "doubtful") have been recorded in 'interest in suspense.'

- (c.2) It comprises FEEEs entered into under participation agreements, which correspond to an agreement between two parties. The Seller, who is a lender (FI), sells its interests in a loan to the Buyer, who cannot become a lender of record, with the objective of channeling the available funds to a non-domiciled bank, so that it finances the borrower. In general, this type of agreements and the loan agreement between the bank and the borrower are entered into with an international bank and under foreign laws. The performance of these transactions is the similar to the one included in contracts for channeling funds. From the third quarter of the year 2017, in accordance with the SBS (Official Letter 30517-2017-SBS), these transactions are considered as portfolio transfer, and the actual borrower is the final borrower and not the FI.

<i>In thousands of U.S. dollars</i>	Debtor		As of	
	Entity	2019	2018	
Intermediary				
Banco Santander (España) S.A.	Terminal Portuario Paracas S.A.	64,378	28,156	
Banco Santander (Panamá) S.A.	Corporación Agrolatina S.A.C.	-	11,103	
	Constructora Málaga Hermanos S.A.	-	13,117	
	Ergon Perú S.A.C.	-	38,424	
	Sacyr Concesiones Perú S.A.C.	-	12,720	
Credit Suisse	Sacyr Concesiones S.L.	-	13,912	
	Graña y Montero S.A.A.	-	6,000	
	American Glass Products Perú S.A.C.	10,000	-	
	Lis Argentis Corporation S.A.C.	90,701	85,945	
Deutsche Bank AG – London				
Branch (syndicated)	Empresa de Generación Huallaga S.A. - Chaglla	-	95,898	
Netherlands Development				
Finance Company – FMO	Generación Andina S.A.C.	14,531	14,531	
	Especialista en Gas del Perú S.R.L.	15,519	15,519	
Goldman Sachs Group, Inc.	Clean Energy del Perú S.R.L.	9,481	9,481	
In thousands of U.S. dollars		204,610	344,806	
Equivalent to thousands of soles		678,079	1,163,031	

- (c.3) It corresponds to consumer and mortgage loans granted to employees and former employees.
- (d) Interest rates and collaterals
COFIDE freely establishes interest rates on asset transactions based on cost of fund, type of customer, market, term and currency of loans.

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Notes to the Financial Statements

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The effective interest rates of main assets were the following:

	2019		2018	
	Loans in		Loans in	
	S/	US\$	S/	US\$
Short-term working capital	4.14%	2.98%	5.46%	2.37%
COFIDE's own resources	4.79%	5.08%	7.13%	6.23%
Multi-sector Loan Program – Probid II	-	6.07%	-	5.96%

(e) The loan portfolio is distributed in the following sectors:

<i>In thousands of soles</i>	2019		2018	
	S/	%	S/	%
Financial intermediation	3,566,551	70.40	3,734,355	64.79
Real estate, business and leasing activities	562,088	11.10	454,112	7.88
Transport, storage and communications	534,394	10.55	553,754	9.61
Mining	231,980	4.58	236,110	4.10
Power, gas and water	82,850	1.63	537,395	9.32
Agriculture, livestock, hunting and forestry	33,347	0.66	59,421	1.03
Manufacturing	33,140	0.65	20,235	0.35
Other community service activities	8,442	0.17	16,648	0.29
Mortgage loans	7,239	0.14	7,993	0.14
Commerce	2,808	0.06	2,858	0.05
Hotels and restaurants	2,200	0.04	6,091	0.10
Consumer loans	803	0.02	656	0.01
Construction	-	-	134,074	2.33
	5,065,842	100.00	5,763,702	100.00

(f) The loan portfolio has the following maturities:

<i>In thousands of soles</i>	2019		2018	
	S/	%	S/	%
Up to 1 year	1,454,830	28.7	2,174,905	37.73
1–2 years	310,403	6.1	411,025	7.13
2–3 years	597,644	11.8	363,381	6.31
3–4 years	261,256	5.2	610,464	10.59
4–5 years	287,905	5.7	264,510	4.59
More than 5 years	1,759,845	34.7	1,574,516	27.33
	4,671,883	92.2	5,398,801	93.67
Past due loans and loans under legal collection	393,959	7.8	364,901	6.33
	5,065,842	100.0	5,763,702	100.00

(g) Tier 1 portfolio (transferred)

In compliance with the contracts for channeling funds entered into with FIs, COFIDE entered into additional agreements with certain FIs. According to such assignment agreements, the FIs transferred their contractual rights on different loan agreements to COFIDE. Additionally, some FIs, liquidated and supervised by the SBS, transferred several loan agreements and finance leases to COFIDE in payment for the obligations owed to COFIDE.

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For the years ended December 31, 2019 and 2018

The portfolio's performance over the last two years was as follows:

<i>In thousands of U.S. dollars</i>	Consolidated operations			Total
	Banco Nuevo Mundo	Local currency	Foreign currency	
Balance as of January 1, 2018	1,934	171,425	134,297	307,656
Loans obtained	-	295	10,436	10,731
Recoveries and others	(774)	(7,361)	(63,014)	(71,149)
Balance as of December 31, 2018 (US\$)	1,160	164,359	81,719	247,238
Equivalent to thousands of soles	3,913	554,382	275,638	833,933
Balance as of January 1, 2019	1,160	164,359	81,719	247,238
Loans obtained	-	-	3,536	3,536
Recoveries and others	(699)	(2,916)	(6,442)	(10,057)
Balance as of December 31, 2019 (US\$)	461	161,443	78,813	240,717
Equivalent to thousands of soles	1,528	535,022	261,186	797,736

- In 2019, Banco Agropecuario S.A. transferred its contractual rights on Perú Grapes S.A.C. and Flora Lima S.A.C. to COFIDE for US\$ 3,326 thousand (equivalent to S/ 11,022 thousand) and US\$ 210 thousand (equivalent to S/ 696 thousand), respectively.
- In 2018, Bancolombia Panamá S.A. transferred its contractual rights on Corporación Agrícola Olmos S.A. to COFIDE for US\$ 6,000 thousand (equivalent to S/ 20,238 thousand). Likewise, Banco Agropecuario S.A. transferred its contractual rights on Cultivos Ecológicos del Perú S.A.C., Flora Lima S.A.C. and ICCGSA Forestal S.A.C. to COFIDE for US\$ 3,826 thousand (equivalent to S/ 2,058 thousand), US\$ 610 thousand (equivalent to S/ 2,058 thousand) and US\$ 295 thousand (equivalent to S/ 995 thousand), respectively.

(h) Movement in the provision for direct and indirect loan losses was as follows:

<i>In thousands of soles</i>	Direct	Indirect	Total
Balance as of January 1, 2018	1,140,166	102,033	1,242,199
Provision for the period	73,764	324	74,088
Provision for the period – equity (*)	458,544	41,842	500,386
Reversal of provision	(35,737)	(9,651)	(45,388)
Write-off	(736,201)	-	(736,201)
Exchange differences	22,766	5,038	27,804
Balance as of December 31, 2018	923,302	139,586	1,062,888
Balance as of January 1, 2019	923,302	139,586	1,062,888
Provision for the period	134,216	-	134,216
Reverse of provisions	(47,250)	(96,133)	(143,383)
Write-off	(100,902)	-	(100,902)
Exchange differences	(7,929)	(749)	(8,678)
Balance as of December 31, 2019	901,437	42,704	944,141

(*) As of December 31, 2018, the provision for the period – equity was recognized in accordance with SBS Resolution 2532-2018 (notes 1.B.1 and 13.A).

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Notes to the Financial Statements

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The balance of the provision for loan losses (direct and indirect loans) is as follows:

<i>In thousands of soles</i>	2019			2018		
	Direct	Indirect	Total	Direct	Indirect	Total
Specific	791,667	-	791,667	811,920	-	811,920
General	22,544	2,191	24,735	25,822	3,385	29,207
Voluntary	87,226	40,513	127,739	85,560	136,201	221,761
	901,437	42,704	944,141	923,302	139,586	1,062,888

As of December 31, 2019 and 2018, in accordance with the SBS, COFIDE recognized specific provisions for transactions entered into under participation agreements, considering the rating of final borrowers. Consequently, most of the prior voluntary provisions for such borrowers are currently recorded as specific provisions for such loans, which will be the same for existing loans and future loans.

As of December 31, 2018, COFIDE has taken the necessary actions to hedge the provision for loan losses (direct and indirect loans) identified by management in the first quarter of the year 2017, as well as the one required by the SBS in the Inspection Visit Report 061-VI/2017-DSB "B" received by COFIDE, on June 26, 2017.

8. Hedging Derivatives, Accounts Receivable, Intangible Assets and Other Assets

As of December 31, this caption comprises the following:

<i>In thousands of soles</i>	Note	2019	2018
Fair value – hedging derivatives – currency swaps	12(a)	-	901
Fair value – held-for-trading derivatives – forward		-	2,789
Held-for-trading and hedging derivatives		-	3,690
Fees receivable		4,795	4,122
Other accounts receivable		3,148	28,637
Account receivable from transferred loan portfolio		2,140	2,157
Account receivable from held-for-trading and held-to-maturity instruments		1,411	10,592
Provisions for uncollectible of accounts receivable and others (a)		(6,755)	(31,851)
Accounts receivable, net		4,739	13,657
Software (b)		17,274	16,107
Accumulated amortization of software		(16,017)	(14,773)
Intangible assets, net		1,257	1,334
Realizable assets, received as payment and repossessed assets (c)		2,255	2,255
Provisions for impairment		(2,255)	(2,255)
Received in payment and repossessed assets, net		-	-
Prepaid fees and others		2,082	2,625
Others		1,445	2,897
Works of art and library		763	787
Other assets		4,290	6,309
		10,286	24,990

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For the years ended December 31, 2019 and 2018

- (a) The balance of the provision for impairment loss on accounts receivable, transferred loan portfolio and fees receivable is as follows:

<i>In thousands of soles</i>	2019	2018
Specific	4,476	29,422
Voluntary	2,279	2,429
	6,755	31,851

Movement in the allowance for impairment loss on accounts receivable was as follows:

<i>In thousands of soles</i>	2019	2018
Opening balance	31,851	31,225
Provision for the period	815	675
Recoveries	(317)	(420)
Write-off (i)	(25,070)	(795)
Exchange differences	(524)	1,166
Closing balance	6,755	31,851

- (i) As of December 31, 2019, it corresponds to write off of accounts receivable and their provision inherent to expenses incurred in prior periods and corresponding to the payment of upfront fees for the intermediation of loans granted to traders of COSAC.
- (b) Software mainly comprises SAP licenses. As of December 31, 2019, COFIDE acquired new licenses for S/ 1,167 thousand (2018: S/ 215 thousand) and recorded an amortization charge for S/ 1,244 thousand (2018: S/ 1,982 thousand), which are presented in 'depreciation and amortization' in the statement of profit or loss.
- (c) As of December 31, 2019 and 2018, COFIDE has repossessed assets comprised of a property, works of art and other goods, for which there is a 100% provision.

These repossessed assets have a market price, which will generate extraordinary income for COFIDE if they are sold.

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9. Property, Furniture and Equipment, Net

Movement in the cost and accumulated depreciation of items of property, furniture and equipment as of December 31, 2019 and 2018 was as follows:

<i>In thousands of soles</i>	Lands	Buildings and facilities	Furniture and fixtures	Vehicles	Equipment others	Total
Cost						
Balance as of January 1, 2018	469	21,856	2,586	128	17,234	42,273
Additions	-	32	148	-	215	395
Disposals	-	(6,970)	(253)	(128)	(1,694)	(9,045)
Balance as of December 31, 2018	469	14,918	2,481	-	15,755	33,623
Additions	-	107	245	-	551	903
Balance as of December 31, 2019	469	15,025	2,726	-	16,306	34,526
Depreciation						
Balance as of January 1, 2018	-	17,523	2,090	128	14,286	34,027
Additions	-	602	77	-	1,425	2,104
Disposals	-	(6,846)	(163)	(128)	(1,542)	(8,679)
Balance as of December 31, 2018	-	11,279	2,004	-	14,169	27,452
Additions	-	596	92	-	759	1,447
Balance as of December 31, 2019	-	11,875	2,096	-	14,928	28,899
Net cost						
Balance as of December 31, 2019	469	3,150	630	-	1,379	5,627
Balance as of December 31, 2018	469	3,639	477	-	1,586	6,171

COFIDE has hired insurance policies to hedge potential risks to which the items of property, furniture and equipment are exposed, as well as possible claims that may arise as a result of its activities.

As of December 31, 2019, fully depreciated items of property, furniture and equipment, which are in operating condition, amount to S/ 13,344 thousand (2018: S/ 11,654 thousand).

Corporación Financiera de Desarrollo S.A. – COFIDE

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10. Obligations to the Public and Deposits by Financial Entities and Entities

As of December 31, 2019 and 2018, this caption comprises the following:

<i>In thousands of soles</i>	2019	2018
Time deposits (a)	27,500	98,500
Accrued interest	426	2,222
	27,926	100,722
Security deposits (b)	12,688	13,308
Severance payment	291	296
	12,979	13,604
	40,905	114,326

- (a) As of December 31, 2019, time deposits comprise funds in local currency collected from Banco de Crédito del Perú S.A., Caja Municipal de Ahorro y Crédito Ica S.A. and Caja Municipal de Ahorro y Crédito de Trujillo S.A., which accrue interest at market rates ranging between 2.65% and 4.65%, and will mature between January and June 2020. As of December 31, 2018, time deposits comprise funds in local currency collected from Banco de Crédito del Perú S.A. and MiVivienda Fund, which accrued interest at market rates ranging between 3.28% and 3.55%, and matured between January 2019 and May 2019.
- (b) As of December 31, 2019, security deposits comprise deductions on expenses pledged in favor of COFIDE, supported by loans for S/ 6,094 thousand and US\$ 1,990 thousand (equivalent to S/ 6,595 thousand), which accrue interest at market rates of 1.00% in local currency and 1.57% in foreign currency. They mature in June 2020. As of December 31, 2018, security deposits comprise deductions on expenses pledged in favor of COFIDE, supported by loans for S/ 3,179 thousand and US\$ 3,003 thousand (equivalent to S/ 10,129 thousand), which accrued interest at market rates of 1.50% in local currency and 2.4274% in foreign currency.

Deposits and obligations in national and international financial institutions have the following maturities:

<i>In thousands of soles</i>	2019	2018
Up to 1 month	4,000	35,000
1–3 months	10,500	45,000
3–6 months	25,688	18,500
6–12 months	-	13,308
	40,188	111,808

11. Borrowings and Financial Obligations

As of December 31, this caption comprises the following:

<i>In thousands of soles</i>	2019	2018
Borrowings (a)	1,650,932	1,084,274
Financial obligations (b)	6,252,914	7,597,423
	7,903,846	8,681,697

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(a) Borrowings with local and foreign financial institutions are as follows:

<i>In thousands of soles</i>	Note	Rate (%)	2019	2018	Maturity
Direct borrowings					
Scotiabank Perú S.A.A.		2.82% to 4.70%	590,000	187,000	September 2020
BBVA Banco Continental S.A.		2.81% to 4.55%	289,000	148,750	November 2020
Citibank del Perú S.A.		3.15% to 4.50%	279,000	274,000	September 2020
American Family Life Assurance of Columbus – AFLAC – Japan Branch (i)		3.75%	274,581	276,768	September 2023
Instituto de Crédito Oficial – ICO		2.596%	41,425	-	November 2034
Issuance of CAF shares– financial liabilities	13.A	7.532%	27,384	27,871	February 2024
Banco Internacional del Perú S.A.A. – Interbank		5.89%	7,335	9,725	September 2022
			1,508,725	924,114	
Borrowings for transfer of resources (ii)					
Japan International Cooperation Agency – JICA		0.60%	43,238	49,030	October 2027
Kreditanstalt für Wiederaufbau – EREE Phase II		2.00%	81,977	93,248	June 2028
			125,215	142,278	
			1,633,940	1,066,392	
Interest			16,992	17,882	
			1,650,932	1,084,274	

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Notes to the Financial Statements

December 31, 2019 and 2018

As of December 31, 2019 and 2018, COFIDE has met the clauses, financial ratios and other specific requirements of the loan agreements entered into with certain foreign financial institutions and international financial institutions.

- (i) On June 29, 2018, COFIDE entered into an addendum to the loan agreement with AFLAC concerning the following:
- All existing covenants of the original agreement were eliminated.
 - Escrow accounts were created for JPY 9,000,000 thousand, equivalent to S/ 274,581 thousand, (100% of the principal) and US\$ 4,391 thousand, equivalent to S/ 14,552 thousand, with one year of interest (notes 4 and 5(c)).
 - The maturity of the loan (forecast transaction) was reduced from September 2031 to September 2023.
 - COFIDE shall have at least one rating equivalent to "investment grade" and two risk ratings from international credit rating agencies.

Prior to such addendum, COFIDE entered into a currency swap for the liability in yens with AFLAC in order to hedge the exchange rate risk regarding a revaluation of such currency in relation to the U.S. dollar. It matures in September 2031. On June 29, 2018, management unwound the currency swap since there was a change in the terms and conditions of the liability (forecast transaction), mainly reducing its maturity date to September 2023 and paying off all covenants. As of December 31, 2018, the early unwinding of the currency swap generated a net gain for S/ 46,136 thousand, which is presented in 'profit or loss on hedging transactions' in 'operating profit' in the statement of profit or loss (note 12(a)).

- (ii) These loans were granted by multilateral financial institutions, as detailed in the table above, to the Republic of Peru, represented by MEF. Under funds transfer agreements, funds were transferred to COFIDE. Also, to meet the debt service obligations established in such agreements, an irrevocable payment authorization is included on an ordinary account in foreign currency created by COFIDE in the BCRP.

Loans (excluding interest) have the following maturities:

<i>In thousands of soles</i>	2019	2018
Up to 1 month	101,205	61,193
1–3 months	352,415	197,144
3–6 months	353,661	91,222
6–12 months	323,037	247,842
More than one year	503,622	468,991
	1,633,940	1,066,392

As of December 31, 2019 and 2018, COFIDE has met the payments of principal and interest.

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Notes to the Financial Statements

December 31, 2019 and 2018

(b) As of December 2019 and 2018, borrowings are as follows:

<i>In thousands of soles</i>	Issue				2019	2018
	Date	Amount	Maturity date	Interest rate		
Local currency:						
Third Program – bonds (a)						
Ninth issue of series A bonds	04/27/2012	150,000	04/27/2027	6.65%	150,000	150,000
Tenth issue of series A bonds	06/28/2012	50,000	07/15/2027	6.20%	50,000	50,000
Tenth issue of series A bonds	06/28/2012	50,000	06/28/2037	6.20%	50,000	50,000
Eleventh issue of series A bonds	10/30/2012	90,000	10/30/2042	5.63%	90,000	90,000
					340,000	340,000
Fourth Program – bonds (b)						
Second issue of series A bonds	04/30/2013	100,000	04/30/2043	5.35%	100,000	100,000
Fifth issue of series A bonds	01/30/2015	78,445	01/30/2020	5.65%	78,445	78,445
Tenth issue of series A bonds	10/06/2016	150,000	10/06/2026	6.88%	150,000	150,000
Tenth issue of series B bonds	10/28/2016	50,000	10/28/2026	6.88%	50,000	50,000
Eleventh issue of series A bonds	12/20/2016	300,000	12/20/2046	7.84%	300,000	300,000
Fifth issue of series A bonds	9/25/2018	35,950	09/20/2019	4.25%	-	35,950
					678,445	714,395
Fifth Program – bonds (c)						
First issue of series A bonds – green bonds	04/26/2019	100,000	04/26/2022	5.13%	100,000	-
Second issue of series A bonds – inflation-indexed bonds	07/19/2019	100,000	07/19/2029	3.00%	100,458	-
Third issue of series A bonds – sustainability bonds	10/25/2019	100,000	10/25/2022	3.78%	100,000	-
					300,458	-
Certificates of deposit – Third Program (d)						
First issue of series A bonds	07/24/2019	50,000	07/17/2020	4.03%	50,000	-
First issue of series b bonds	10/21/2019	48,500	10/15/2020	3.31%	48,500	-
First issue of series C bonds	10/30/2019	79,800	07/24/2020	3.34%	79,800	-
					178,300	-
Total face value					1,497,203	1,054,395
Accrued interest					35,922	31,661

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<i>In thousands of soles</i>	Issue				2019	2018
	Date	Amount	Maturity date	Interest rate		
Total local currency					1,533,125	1,086,056
Foreign currency						
First international issue (e)	02/08/2012	400,000	02/08/2022	4.75%	1,325,600	1,349,200
Reopening of the first international issue (e)	12/03/2012	100,000	02/08/2022	4.75%	331,400	337,300
Second international issue – subordinated bonds (f)	07/15/2014	300,000	07/15/2029	5.25%	994,200	1,011,900
Second international issue – senior bonds (f)	07/08/2014	300,000	07/15/2019	3.25%	-	1,011,900
Third international issue – bonds DUE 2025 (g)	07/15/2015	600,000	07/15/2025	4.75%	1,988,400	2,023,800
Third international issue – bonds DUE 2019 (g)	07/15/2015	200,000	07/15/2019	3.25%	-	674,600
Total face value					4,639,600	6,408,700
Net price differential (below/above par) and related expenses					(18,069)	(22,462)
Accrued interest					98,258	125,129
Total foreign currency					4,719,789	6,511,367
					6,252,914	7,597,423

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(a) Third Program – bonds

This Program has been approved for up to US\$ 200 thousand (equivalent to S/ 662.8 thousand) or its equivalent in soles or in any foreign currency. The Program has been given a risk rating of AA++(pe) granted by Moody's Local PE Clasificadora de Riesgo S.A. (ML-1.pe) and AA.pe granted by Class Asociados S.A. (CLA-1+).

(b) Fourth Program – bonds

This Program has been approved for up to US\$ 400,000 thousand (equivalent to S/ 1,325,600 thousand) or its equivalent in soles or any foreign currency. Corporate bonds have been given the highest local risk ratings of AA+(pe) granted by Apoyo & Asociados Internacionales S.A.C. and AA.pe granted by Equilibrium Clasificadora de Riesgo S.A.

(c) Fifth Program – bonds

This Program has been approved for up to US\$ 500,000 thousand (equivalent to S/ 1,657,000 thousand) or its equivalent in soles or any foreign currency. Corporate bonds have been given the highest local risk ratings of AA+ granted by Class & Asociados S.A. and AA.pe granted by Moody's Local PE Clasificadora de Riesgo S.A.

On April 25, 2019, COFIDE conducted the First Bond Issue of the Fifth Program, which corresponds to the first green bond for S/ 100 million at a 3-year term with an interest rate of 5,125%.

The funds obtained through the bond issue will be used for financing or refinancing COFIDE's activities, including environmental project management.

On July 18, 2019, COFIDE conducted the Second Bond Issue of the Fifth Program for S/ 100 million, adjusted to the constant purchasing power, at a 10-year term with an interest rate of 3% on the constant purchasing power.

On October 24, 2019, COFIDE conducted the Third Bond Issue of the Fifth Program, which corresponds to the first sustainability bond for S/ 100 million at a 3-year term with an interest rate of 3,78125%.

The Program has been given a risk rating of AA+ granted by Class & Asociados S.A. and AA.pe granted by Moody's Local PE Clasificadora de Riesgo S.A.

(d) Third Program – certificates of deposit

This Program has been approved for up to US\$ 200,000 thousand (equivalent to S/ 662,800), but it shall be issue in soles. Short-term instruments have been given the highest local risk ratings of ML-1.pe granted by Moody's Local PE Clasificadora de Riesgo S.A. and CLA-1+ granted by Class & Asociados S.A.

(e) First international bond issue – senior unsecured bonds due 2022

The General Stockholders' Meeting, held March 14, 2011, approved the issue of bonds in the international market for up to US\$ 500,000 thousand (equivalent to S/ 1,657,000 thousand), placing senior unsecured bonds for US\$ 400,000 thousand (equivalent to S/ 1,325,600 thousand), whose payment date is February 8, 2012. They accrue interest at a coupon rate of 4.75%, amortized on a semi-annual basis, and have a principal maturity of 10 years. This issue has been given an international rating of BBB granted by Standard & Poor's and BBB+ granted by Fitch Ratings.

With a payment date of December 3, 2012, COFIDE conducted the reopening of the first international bond issue for US\$ 100,000 million (equivalent to S/ 331,400 thousand), with a principal maturity of 10 years. It has been given an international rating of BBB granted by Standard & Poor's and BBB+ granted by Fitch Ratings.

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(f) Second bond issuance in the international market (notes – Due 2029)

The General Stockholders' Meeting held on May 19, 2014 approved the issuance of senior and/or subordinated bonds. On July 8, 2014, COFIDE placed bonds in the international capital market for US\$ 600,000 thousand (equivalent to S/ 1,988,400), in two tranches: senior bonds for US\$ 300,000 thousand (equivalent to S/ 994,200 thousand), with a 5-year term, placed at an annual coupon rate of 3.25% and an interest of 3.297%. These bonds were given an investment grade of BBB+ by Standard & Poor's, and BBB- by Fitch Ratings; and subordinated bonds (Tier II) for US\$ 300,000 thousand (equivalent to S/ 994,200 thousand), with a 15-year term, placed at an annual coupon rate of 5.250% and an interest of 5.263% until the 10th year; as from that year, 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 BBB+ by Fitch Ratings.

(g) Third bond issuance in the international market

The General Stockholders' Meeting held on May 19, 2014 approved the issuance of senior and/or subordinated bonds. On July 15, 2015, COFIDE placed bonds in the international capital market for US\$ 800,000 thousand (equivalent to S/ 2,641,200), in two tranches: Notes DUE 2019 for US\$ 200,000 thousand (equivalent to S/ 662,800 thousand), with a 4-year term, placed at an annual coupon rate of 3.250% and an interest of 3.367%; and Notes DUE 2025 for US\$ 600,000 thousand (equivalent to S/ 1,988,400 thousand), with a 10-year term, placed at an annual coupon rate of 4.750% and an interest of 4.874%. These bonds were given an investment grade of BBB by Standard & Poor's, and BBB+ by Fitch Ratings.

The costs incurred for the issue of each program were capitalized. The financial resources from the bonds issuance 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 Instruments, Accounts Payable, Provisions and Other Liabilities

This caption comprises the following:

<i>In thousands of soles</i>	<i>Note</i>	2019	2018
Fair value - Held-for-trading instruments - Interest rate swaps (a.i)		-	7,193
Fair value - Held-for-trading instruments - Forward contracts (a.ii)		1,625	804
Held-for-trading instruments (a)		1,625	7,997
Fair value – Hedging derivatives – Currency swaps (a.ii)		420	-
Hedging instruments (a)		420	-
Accounts payable for repurchase agreements (b)		193,603	62,015
Tax payable		453	846
Other accounts payable		3,261	2,271
Accounts payable		197,317	65,132
Provision for indirect loan losses	7 (h)	42,704	139,586
Provision for litigations and claims (c)		1,578	1,671
Provision for accrued vacations		1,777	1,961
Provision for pensioners – Law 20530		1,423	1,430
Provisions for litigations, claims and others		47,482	144,648
Transactions in progress		3,850	2,546
Deferred loan fees		2,961	-
Deferred sales		73	73
Other liabilities		6,884	2,619
		253,728	220,396

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(a) Held-for-trading and hedging instruments

It corresponds to the accounts receivable and/or payable for currency and interest rate swaps, forward transactions and derivative financial instruments that COFIDE owns. They mainly comprise the amounts originated by the fluctuations resulting from the valuations of said financial instruments.

<i>In thousands of soles</i>	Number of transactions	Face value	Exchange difference		Accrued interest		Profit (loss)			Fair value	
			Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Realized	Assets	Liabilities
2019											
Currency swaps — hedging YEN/US\$ (i)(ii)	1	43,237	-	-	-	-	(1,109)	-	-	-	420
Trading forward contracts (i)	16	181,119	1,409	3,285	-	-	-	-	250	-	1,625
			1,409	3,285	-	-	(1,109)	-	250	-	2,045
2018											
Currency swaps — hedging YEN/US\$ (i)(ii)	1	49,029	1,819	-	25	170	(943)	(170)	-	901	-
Interest rate swaps - hedging (iii)	1	674,600	-	-	10,049	12,999	-	-	(4,243)	-	7,193
Trading forward contracts (i)	30	442,295	8,434	5,208	-	-	-	-	(1,241)	2,789	804
			10,253	5,208	10,074	13,169	(943)	(170)	(5,484)	3,690	7,997

- (i) As of December 31, 2019, the net position payable of currency swap and forward trading and hedging transactions amounts to S/ 2,045 thousand (2018: S/ 2,886 thousand receivable from currency swap and forward trading and hedging transactions), which offsets the decrease in liabilities due to the depreciation of the yen against the U.S. dollar.
- (ii) As of December 31, 2019 and 2018, COFIDE holds a currency swap contract to offset the risk of revaluation of the yen on the loans received from JICA. Additionally, in the first half of 2018, COFIDE had, among other derivatives, a currency swap contract that covered the risk of a revaluation of the yen on the AFLAC loan, which was canceled on June 29, 2018, recording a net gain for S/ 46,136 thousand, recorded in 'profit or loss from hedging transactions' in the statement of profit or loss (note 11(a)).
- (iii) As of December 31, 2018, the net position payable for interest rate swap trading transactions amounts to S/ 7,193 thousand, which offsets the changes in loan rates (2017: S/ 3,966 thousand payable for the transaction registered as hedging transaction).

As of December 31, 2019, for hedging instruments, COFIDE records a net unrealized loss for S/ 1,109 thousand (2018: net unrealized loss for S/ 773 thousand) (note 13(d)), and a net realized profit for S/ 250 thousand for held-for-trading instruments.

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- (b) As of December 31, 2019, repurchase agreements comprise resources in local currency collected from BCRP, which accrue interest at an annual rate ranging between 3.56% and 3.78% and are secured by restricted deposits in foreign currency in BCRP for US\$ 58,073 thousand equivalent to S/ 192,454 thousand (note 5(d)), maturing in July 2020. As of December 31, 2018, repurchase agreements comprise resources in local currency collected from BCRP, which accrued interest at an annual rate ranging between 4.13% and 4.22% and are secured by restricted deposits in foreign currency in BCRP for US\$ 19,052 thousand equivalent to S/ 64,263 thousand, maturing in July 2019.
- (c) COFIDE has legal and arbitration proceedings pending resolution, which are related to some financing activities in which it participated by exercising its trust functions and related to the labor and civil relations it had with third parties. In this regard, in September 2019, the Arbitration Court of the Center of Arbitration of the Lima Chamber of Commerce, which is in charge of resolving the arbitration filed by the the company Minera IRL S.A. against COFIDE, issued an arbitration award in which, among other matters, determined that COFIDE was a creditor of Minera IRL S.A., related to the bridge loan channeled through Goldman Sachs Bank for up to US\$ 70,000 thousand (equivalent to S/ 231,980 thousand), plus interest. It also determined that COFIDE shall pay Minera IRL S.A. approximately US\$ 34,213 thousand (equivalent to S/ 113,382 thousand) plus legal interest as a compensation for damages and losses.

Notwithstanding the aforementioned, in November 2019, COFIDE presented an appeal of annulment of arbitration award before the Judiciary, so that the it could make a new decision on COFIDE's request, which was presented in such appeal. Consequently, as long as such appeal is not resolved, the amount that COFIDE shall give as compensation remains uncertain.

In December 2019, COFIDE and Minera IRL S.A. entered into a memorandum of understanding, effective until March 31, 2020, for suspending, until such date, any measure that implies the collection of the compensation for damages and losses or the bridge loan, and in order to come to an agreement for an extrajudicial transaction that allows them to fulfill their corresponding obligations. It is important to mention that, to such date, COFIDE has a provision for 100% of the debt of Minera IRL S.A. derived from the bridge loan.

Consequently, as long as the appeal is not resolved, the amount that COFIDE shall give as compensation remains uncertain.

As of December 31, 2019 and 2018, management has not deemed necessary a provision higher than the one recorded for the aforementioned contingencies and proceedings, since in the opinion of management and its legal advisors, they shall not result in additional liabilities.

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Notes to the Financial Statements

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13. Equity

A. Capital stock

As of December 31, 2019, COFIDE's duly authorized, subscribed and paid-in capital stock is represented by 1,896,287,189 ordinary shares and 15,639,765 preferred shares (2018: 1,882,848,249 ordinary shares and 15,639,765 preferred shares) with a face value of S/ 1.00 per share.

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

Class of shares	Holder	2019		2018	
		Number of shares	Interests	Number of shares	Interests
Class A - ordinary shares (i)	MEF FONAFE	1,322,709,103	69.18%	1,313,301,845	69.18%
Class C - ordinary shares (ii)	MEF FONAFE	573,578,086	30.00%	569,546,404	30.00%
		1,896,287,189	99.18%	1,882,848,249	99.18%
Class B - preferred shares (iii)	CAF	15,639,765	0.82%	15,639,765	0.82%
		1,911,926,954	100.00%	1,898,488,014	100.00%

- (i) Class A ordinary shares belong to the Peruvian Government. They are unseizable and cannot be object of guarantee or usufruct.
- (ii) Class C ordinary shares belong to the Peruvian Government. They are freely tradable and may be listed in the stock exchange and/or any registry required to be traded in stock exchange sessions, as previously approved by the Board of Directors.
- (iii) Class B preferred shares belong to entities and companies that are not related to the Peruvian Government (unless they are repurchased). They are preferred, redeemable or repurchasable; shares with no voting rights, which annually accrue a preferred and cumulative dividend (360-day LIBOR plus 4.5% over the placement value paid in dollars by CAF).

COFIDE General Stockholders' Meeting, held on March 29, 2019, approved to increase the capital stock through the reinvestment of 100% of the distributable profit of year 2018 in favor of FONAFE for S/ 13,439 thousand, equivalent to 13,438,940 new ordinary shares (9,407,258 class A ordinary shares and 4,031,682 class C ordinary shares recorded in June 2019).

COFIDE General Stockholders' Meeting, held on March 28, 2018, approved to increase the capital stock through the reinvestment of 100% of the distributable profits of year 2017 in favor of FONAFE for S/ 2,349 thousand, equivalent to 2,348,967 new ordinary shares (1,644,298 class A ordinary shares and 704,669 class C ordinary shares recorded in June 2018).

General Stockholders' Meeting, held on May 22, 2018, approved the following:

- a) Increasing the capital stock of COFIDE in S/ 167,500 thousand as new cash contributions, in accordance with Law 30693 "Law on Public Sector Budget for Fiscal Year 2018", and the issuance of the corresponding shares in favor of the holder of the Class A and C shares (MEF-FONAFE). On May 31, 2018, FONAFE made a cash contribution for S/ 167,500 thousand.

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- b) Increasing COFIDE's capital stock in S/ 332,886 thousand. The aforementioned increase has the following components: (i) capitalization of loans amounting to S/ 332,886 thousand, arising from the capitalization of the outstanding balances as of December 31, 2017 to the Ministry of Economy and Finance, in accordance with the provisions of the Fifth Final Supplementary Provision of Law 30695 "Law on Public Sector Indebtedness for Year 2018", and (ii) the cash contribution of FONAFE for S/ 0.97 to complete the remaining balance of the aforementioned capitalization.
- c) Reducing COFIDE's capital stock in S/ 530,348 thousand, in relation to the recording or increase of provisions for loan losses.

General Stockholders' Meeting, held on June 11, 2018, approved the amendment to the capital reduction agreement of COFIDE, previously approved at the General Stockholders' Meeting held on May 22, 2018, which was drafted according to the following: "To approve the reduction of COFIDE's capital stock for S/ 500,386 thousand, for the recording or increase of provisions for loan losses and payment of 500,386,288 fully subscribed and paid-in ordinary shares, with a face value of S/ 1.00, distributed as follows: 350,270,401 class A shares and 150,115,887 class C shares.

SBS Resolution 2532-2018, dated June 28, 2018, authorized COFIDE to reduce capital stock for S/ 500,386 thousand, for the recording of provisions for loan losses (notes 1.B.2 and 3.U).

B. Additional capital

As of December 31, 2019 and 2018, the additional capital balance corresponds to a donation received in furniture for S/ 84 thousand.

C. Required reserves

In accordance with the Companies Act, COFIDE is required to reach a legal reserve of at least 35% of its paid-in capital. This reserve is recorded by transferring at least 10% of net profit annually.

General Stockholders' Meeting held March 29, 2019 it was decided to record the legal reserve for the amount equivalent to 10% of 2018 profits, for S/ 1,701 thousand.

General Stockholders' Meeting held March 28, 2018, it was decided to record the legal reserve for the amount equivalent to 10% of 2017 profits, for S/ 448 thousand.

D. Retained earnings and adjustments to equity

Law 23337 created Fondo de Inversiones and Contrapartidas del Sector Público Nacional (later denominated FONAFE), which established as own resources the distributable profits from companies owned by the Peruvian Government (100% of such profits in the case of banks and financial entities), which shall be transferred to FONAFE within 60 days after the approval of the statement of financial position. Distributable profits are the percentage set by the Peruvian Government, after the discounts for legal reserve and reserve for capital increases, which are indented to maintain the solvency and liquidity of companies.

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General Stockholders' Meeting, held March 29, 2019, approved that, from the distributable profit as of December 31, 2018, amounting to S/ 15,307 thousand, S/ 13,439 be capitalized in COFIDE and dividends be distributed in cash for S/ 1,868 thousand, taking in consideration the dividend policy of COFIDE approved at the General Stockholders' Meeting held on November 10, 2017 and ratified at the General Stockholders' Meeting held March 28, 2018, which approved, as a dividend policy for periods 2017 and 2018, that distributable profits corresponding to holders of COFIDE's class A and class C ordinary shares be fully reinvested, and that the dividends corresponding to holders of class B ordinary shares be distributed in accordance with Article 8 of COFIDE's Bylaws.

General Stockholders' Meeting, held on March 28, 2018, ratified the applicable dividend policy approved at the General Stockholders' Meeting held on November 10, 2017, which approved, as dividend policy for periods 2017 and 2018, that distributable profits corresponding to holders of COFIDE's class A and class C ordinary shares, for the periods 2017 and 2018, be fully reinvested. Likewise, dividends corresponding to holders of class B ordinary shares will be distributed to them in accordance with Article 8 of COFIDE's Bylaws. Distributable profits as of December 31, 2017 amounted to S/ 4,029 thousand; consequently, COFIDE capitalized S/ 2,349 thousand and paid S/ 1,680 thousand in cash.

Total retained earnings and adjustments to equity comprise:

<i>In thousands of soles</i>	2018	Movement	2019
Retained earnings			
Adjustment for deferred employees profit sharing - IAS 12	12,647	-	12,647
Difference of value of COFIDE's class B shares when redeeming to CAF	7,599	-	7,599
Accumulated profits without distribution agreement from previous years	1,496	-	1,496
	21,742	-	21,742
Adjustment for interest rate swaps: Hedging to trading	(4,368)	-	(4,368)
Less: deferred tax	1,288	-	1,288
Loss, net of deferred tax	(3,080)	-	(3,080)
Unrealized profit for adjustment in the value of CAF investment	404,261	-	404,261
Less: deferred tax	(119,257)	-	(199,257)
Gains, net of deferred tax	285,004	-	285,004
Reversal of interest (previous years) for FEEE operations	(371,697)	-	(371,697)
Less: deferred tax	109,650	-	109,650
Loss, net of deferred tax	(262,047)	-	(262,047)
Expenses for provisions of fees of FEEE operations	(25,390)	-	(25,390)
Less: deferred tax	7,490	(7,490)	-
	(17,900)	(7,490)	(25,390)
Total	23,719	(7,490)	16,229
Adjustments to equity			
Profit from fluctuation in the value of available-for-sale trading investments	30,915	121,010	151,925
Less: deferred tax	(9,120)	(35,698)	(44,818)
	21,795	85,312	107,107
Loss from cash flow hedges	(773)	(336)	(1,109)
Less: deferred tax	228	99	327
	(545)	(237)	(782)
Total	21,250	85,075	106,325

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14. Memorandum and Contingent Accounts

As of December 31, this caption comprises the following:

<i>In thousands of soles</i>	<i>Note</i>	2019	2018
Risk and contingent commitments (a)			
Collaterals granted and stand-by letters	7	313,092	483,569
Commitment with third parties		222,482	526,470
Other contingent accounts		76,513	-
		612,087	1,010,039
Trust and trust fees (b)			
Contra accounts for trust and trust fees		11,890,004	10,824,562
Trust accounts		11,814,580	10,740,337
Guarantees for trust loan transactions		10,848,026	10,359,376
Funds in trust fees		345,910	476,134
		34,898,520	32,400,409
Guarantees for loan transactions (c)			
Promissory notes		6,204,585	5,836,980
Documentary guarantees		6,118	29,286
Guarantee deposits		6,063	6,597
Warrants		119	122
Mortgages		-	15,149
Other guarantees		-	990
Other memorandum accounts		12,520,692	14,021,844
		18,737,577	19,910,968
Swaps and forward (d)			
Currency swap and forward transactions		224,356	491,325
Face value of interest rate swaps		-	674,600
		224,356	1,165,925
Total memorandum and contingent accounts		54,472,540	54,487,341

- (a) During the normal course of operations, COFIDE carries out transactions with risks off the statement of financial position. These transactions expose COFIDE to credit risk, in addition to the amounts presented in the statement of financial position.

Credit risk for contingent transactions is related to the probability that a counterparty will fail to meet its obligations in accordance with agreed terms. The corresponding contracts consider the amounts that would be assumed by COFIDE for credit losses on contingent transactions.

COFIDE applies similar credit policies when evaluating and granting and indirect loans. In management's opinion, contingent transactions do not represent a relevant credit risk since it expects that a portion of these indirect loans expire without being used. The total amount of indirect loans does not necessarily represent future cash outflows for COFIDE.

If management believes that there is a reasonable probability that a contingent transaction may generate losses for COFIDE, such transaction is included in the determination of the provision for loans as if it were a direct loan.

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Other contingent accounts correspond to unused credit lines effective as of December 31, 2019 and 2018.

COFIDE's management estimates that no significant losses will arise, other than the amounts recorded in 'provision for indirect loan losses', for contingent transactions effective as of December 31, 2019 and 2018.

- (b) As of December 31, 2019, COFIDE managed 7 funds, 171 trust funds and 3 programs (2018: 7 funds, 169 trust funds and 3 programs), for which it received fees ranging from 0.25% to 2% as of December 31, 2019 and 2018. Such fees are paid monthly, quarterly or biannually. COFIDE is not responsible for funds, trust funds or programs.
- (c) 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) COFIDE mainly has commitments of flow exchange of different currencies and interest rates swaps used for hedging risks related with debts in foreign currency (note 11).

15. Personnel and Board of Directors Expenses

This caption comprises the following:

<i>In thousands of soles</i>	2019	2018
Salaries	16,355	16,336
Bonuses	5,099	4,329
Legal bonuses	3,110	3,114
Fringe benefits and others	2,191	2,110
Severance payment	1,699	1,678
Remuneration to members of the Board of Directors	789	587
Holidays	341	1,228
Allowances	108	108
Sundry other personnel expenses	3,900	3,665
	33,592	33,155

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16. Third Party Service Expenses

This caption comprises the following:

<i>In thousands of soles</i>	2019	2018
Sales tax apportionment	4,553	4,399
Advisory services (a)	2,506	2,760
Leases	1,830	685
Electronic processing	1,656	1,821
Repairs and maintenance	1,787	2,073
Professional fees	1,243	1,696
Communications	668	687
Energy and water	409	393
Advertising	355	723
Security and protection	353	451
Various supplies	199	232
Transport	146	192
Insurance	126	106
Other services	9,119	10,080
	24,950	26,298

(a) During 2019 and 2018, advisory services correspond to legal advice, assessment consulting and auditing.

(b) During 2019 and 2018, other services correspond to expenses for services of risk rating companies, administrative services and technology support.

17. Basic and Diluted Earnings per Share

The weighted average number of ordinary shares was as follows:

<i>In thousands</i>	Outstanding shares	Average basic shares	Effective days until year-end	Weighted average number of ordinary shares
2019				
Balance as of January 1, 2019	1,882,848	1,882,848	365	1,882,848
Capitalization of 2018 profit or loss	13,439	13,439	365	13,439
Balance as of December 31, 2019	1,896,287	1,896,287		1,896,287
2018				
Balance as of January 1, 2018	1,880,499	1,880,499	365	1,880,499
Cash contribution	167,500	167,500	214	98,205
Capital decrease	(500,386)	(500,386)	186	(254,991)
Capitalization of loans	332,886	332,886	365	332,886
Capitalization of 2017 profit or loss	2,349	2,349	365	2,349
Balance as of December 31, 2018	1,882,848	1,882,848		2,058,948

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Earnings per share calculated based on the average number of shares is as follows:

<i>In thousands of soles</i>	2019	2018
Net profit or loss for the period	26,409	17,008
Preferred stockholders (a)	(2,091)	(1,868)
Total	24,318	15,140
Weighted average number of outstanding shares	1,896,287	2,058,948
Basic earnings per share	0.013	0.007

- (a) Corresponds to the dividend payable of the preferred shares, which shares are subject to redemption, so they are not treated as outstanding and are excluded from the calculation of earnings per share.

18. Tax Matters

Income tax regime

Tax rates

- A. COFIDE is subject to the Peruvian tax regime. As of December 31, 2019 and 2018, corporate income tax is calculated on the basis of the net taxable income determined by COFIDE at a rate of 29.5%, in accordance to Legislative Decree 1261.

The aforementioned Decree also established the amendment to income tax rate applicable to the dividend distribution and any other form of profit distribution to 5%.

It shall be presumed, without otherwise evidence, that the dividend distribution or any other form of profit distribution corresponds to retained earnings or other items that may generate older taxable dividends.

- B. In accordance with current Peruvian tax legislation, non-domiciled individuals only pay taxes for their Peruvian source income. Thus, in general terms, income obtained by non-domiciled individuals from the services rendered in the country shall be subject to a 30% income tax on gross income, provided that no double tax treaties are applicable. On this concern, Peru has currently entered into double tax treaties with the Andean Community, Chile, Canada, Brazil, Portugal, Switzerland, Mexico and South Korea.

Concerning the technical assistance or digital services rendered by non-domiciled individuals to domiciled individuals, regardless of the place where the service is rendered, they shall be subject to a 15% and 30% income tax rate on gross income, respectively. Technical assistance shall be subject to a 15% applicable rate, provided that Income Tax Law requirements are met. As noted above, retention ratio in these situations may vary or retention may not be applicable if provisions of current double tax treaties are applied.

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Income tax determination

- C. COFIDE computed its taxable base for the years ended December 31, 2019 and 2018, and determined income tax for S/ 6,851 thousand and S/ 8,242 thousand, respectively.

Income tax expense comprises the following:

<i>In thousands of soles</i>	2019	2018
Current tax	-	-
Deferred tax (G)	6,851	8,242
	6,851	8,242

Reconciliation of effective tax rate to tax rate is as follows:

<i>In thousands of soles</i>	2019		2018	
	Amount	%	Amount	%
Profit for the period	33,260	100.00	25,250	100.00
Income tax applying tax rate	9,812	29.50	7,449	29.50
Tax effects on additions (deductions)				
Non-deductible expenses	(26,301)	(79.08)	(6,405)	(25.36)
Tax-exempt revenue	(2,297)	(6.90)	(2,994)	(11.86)
Other permanent differences	25,637	77.08	10,192	40.36
Current and deferred tax according to the effective rate	6,851	20.60	8,242	32.64

Tax loss carryforward

- D. COFIDE did not determine its tax base, since it generated tax loss carryforwards that offset its determination and did not generate tax payable.

In accordance with current tax law, there are two systems to offset tax loss carryforward. System A consists of the use of the tax loss generated from the year in which it was accrued and with a term of up to four years for its use. After such term, the tax loss is considered as expired. System B establishes that the tax loss carryforward does not expire and it can be used until its depletion, offsetting only 50% of the tax base generated in the period. The system to be applied by COFIDE shall be elected at the time of filing the annual income tax return in the first year of its generation. No amendments are allowed until the tax loss is depleted or expired.

As of December 31, 2019 and 2018, COFIDE chose System B.

The deferred tax asset arising from tax loss carryforwards has been recognized for S/ 350,709 thousand because COFIDE, based on its future projections, considers that sufficient taxable profits will be earned to offset such loss.

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Financial transaction tax

- E. Financial transaction tax for the years 2019 and 2018 was fixed at the rate of 0.005%. This tax is applicable to debits and credits in bank accounts or movements in funds made through the financial system, unless the account is tax-exempt.

Tax assessment

- F. The Tax Authorities are entitled to audit and, if applicable, to correct the income tax calculated by COFIDE within the four years following the year of the tax return filing. COFIDE's income and sales tax returns for the years 2015 through 2019 are open for review by the Tax Authorities.

Due to the possible varied interpretations of the current laws by the Tax Authorities, it is not possible to determine, to date, whether a future tax assessment will result in liabilities for the COFIDE. Therefore, any major tax or surcharge that might arise from eventual tax assessments would be applied to profit or loss of the period in which they are determined. However, it is the opinion of management and its legal advisors that any possible additional settlement of taxes would not be significant for the financial statements as of December 31, 2019 and 2018.

As of December 31, 2019, COFIDE shall perform the aforementioned actions.

Major amendments to tax laws effective for periods beginning on January 1, 2019

- G. **Thin capitalization:** From 2019 to December 31, 2020, borrowing costs generated by debts of independent and related parties are subject to the thin capitalization limit of 3:1 debt-to-equity ratio, which is calculated at the end of the prior period. From January 1, 2021, borrowing costs shall be deductible up to 30% of the tax-EBITDA (Net Income – Loss Compensation + Net Interest + Depreciation + Amortization) of the prior period. There are some exemptions regarding this 30% limit for banks, taxpayers whose income is lower than 2,500 UIT, infrastructure, public utilities, among others.
- H. **Deduction of expenses or costs incurred in transactions with non-domiciled individuals** Legislative Decree 1369 requires that costs and/or expenses (including outbound interest) incurred with non-domiciled individuals shall be paid effectively in order to be deducted in the year they were incurred. Otherwise, their impact on the determination of net income shall be deducted in the period they are actually paid and the relevant withholding shall be applied.
- Said regulation abolished the obligation to pay the amount equivalent to the withholding on the amount recorded as cost and/or expense.
- I. **Indirect loans:** From January 1, 2019, under certain requirements, domiciled entities receiving foreign inbound dividends may deduct as direct loan the income tax that taxed the foreign dividends and the corporate income tax (indirect loan) paid by the tier 1 and tier 2 non-domiciled entity (provided that they are in the same jurisdiction) that distributed the dividends from abroad.
- J. **Measures to implement the General Anti-avoidance Rule provided in the Regulation XVI of Tax Code:** Legislative Decree 1422 set up the procedure to implement the General Anti-avoidance Rule, mainly stating that: (i) it is applicable only to final audit procedures to which acts, events or situations that occurred since July 19, 2012, are reviewed; (ii) it is applicable only if there is a favorable opinion from a review committee composed of Tax Authorities' officers (said opinion is not appealable); and (iii) final audit procedures, in which the General Anti-avoidance Rule is applicable, are not subject to the one (1) year term to request information from the audited parties.

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Likewise, as of the date of preparation of this note, the General Anti-avoidance Rule is not effective until the issuance of the relevant supreme decree setting the formal and substantial parameters of Regulation XVI of Tax Code.

- K. **Information related to ultimate beneficiaries:** In line with the regulations to strengthen the fight against tax evasion and avoidance, as well as against money laundering and terrorism financing, from August 3, 2018, provisions introduced by Legislative Decree 1372 are currently in force. The aforementioned decree requires the presentation of information related to ultimate beneficiaries to the competent authorities through a sworn statement of the ultimate beneficiaries. Such statement shall disclose the names of the natural persons that effectively retain ownership or control. Thus, it is mandatory to report the following: (i) identification of the ultimate beneficiaries; (ii) chain of title with its respective supporting documents; and (iii) identification of third parties that have such information, if applicable. Also, it states that the information related to the identification of the ultimate beneficiaries of legal persons and legal entities provided to the competent authorities within the framework of these regulations neither violates professional secrecy nor is subject to restrictions on the disclosure of information arising from secrecy requirements under contracts or any regulatory provision.

Lastly, if the informative sworn statement with the information related to the ultimate beneficiaries is not presented, the legal representatives of the entity that failed to comply with the presentation of said statement shall assume the joint and several liability.

COFIDE submitted the informative sworn statement on the date established in the monthly maturity schedule, December 23, 2019.

- L. **Indirect transfer of shares:** From January 1, 2019, an anti-avoidance measure is included to prevent the split of transactions, which allows indirect transfer of shares of entities domiciled in Peru.

In order to determine if, within a 12-month period, the transfer of 10% or more of the Peruvian company's capital has been executed, transfers of the analyzed individual and transfers to its related parties shall be considered, whether transfers are executed by one or several (simultaneous or successive) transactions. The relationship shall be set up in accordance with provisions of section b) of Article 32-A of Income Tax Law.

Likewise, regardless of compliance with the provisions of the Income Tax Law, an indirect taxable transfer shall always be established when, over any 12-month period, the total amount of transferred shares of the Peruvian legal person is equal to or greater than 40,000 UIT.

Lastly, from January 1, 2019, when the transferor is a non-domiciled legal person that has a branch office or any permanent establishment in Peru with allocated equity, the latter is considered a jointly liable party. Thus, the latter is required to provide information, among others, regarding the transferred shares or interests of the non-domiciled legal person.

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Deferred tax balance

M. Deferred tax assets and liabilities are composed of the following:

<i>In thousands of soles</i>	Opening balance	Additions/recoveries		Closing balance
		Equity	Profit or loss	
Temporary differences assets				
General provision for direct and indirect loan losses	182,250	-	(25,645)	156,605
Other general provisions	5,079	-	3,043	8,122
Provision for fluctuation in values	5,572	-	(203)	5,369
General provision for accounts receivable	2,429	-	(149)	2,280
Provision for repossessed assets	2,303	-	-	2,303
	197,633	-	(22,954)	174,679
Temporary differences liabilities				
Depreciation of buildings	(2,314)	-	(270)	(2,584)
Adjustment of value of CAF shares	(1,444,318)	-	-	(1,444,318)
Unrealized profit (loss) for investment in values	(30,915)	(121,010)	-	(151,925)
Unrealized profit (loss) for derivative instruments	773	336	-	1,109
Disallowances for 2003 tax return - Provisions, write-offs and others	-	-	-	-
Held-for-trading instruments	4,368	-	-	4,368
COSAC and IITD interest and fees (Official Letter 32034-2017-SBS)	397,088	(25,390)	-	371,698
Tax loss	350,709	-	-	350,709
	(724,609)	(146,064)	(270)	(870,943)
Temporary differences assets (liabilities), net	(526,976)	(146,064)	(23,224)	(696,264)
Movement in deferred tax	-	(43,089)	(6,851)	-
Deferred tax	(155,458)	(43,089)	(6,851)	(205,398)

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<i>In thousands of soles</i>	Opening balance	Additions/recoveries		Closing balance
		Equity	Profit or loss	
2018				
Temporary differences assets				
General provision for direct and indirect loan losses	196,226	-	(13,976)	182,250
Other general provisions	5,731	-	(652)	5,079
Provision for fluctuation in values	5,727	-	(155)	5,572
General provision for accounts receivable	2,618	-	(189)	2,429
Provision for repossessed assets	2,303	-	-	2,303
	212,605	-	(14,972)	197,633
Temporary difference liabilities				
Depreciation of buildings	(2,057)	-	(257)	(2,314)
Adjustment of value of CAF shares	(1,444,318)	-	-	(1,444,318)
Unrealized profit (loss) for investment in values	(82,663)	51,748	-	(30,915)
Unrealized profit (loss) for derivative instruments	(47,343)	48,116	-	773
Disallowances for 2003 tax return - Provisions, write-offs and others	12,710	-	(12,710)	-
Held-for-trading instrumets	-	4,368	-	4,368
COSAC and IITD interest and fees (Official Letter 32034-2017-SBS)	397,088	-	-	397,088
Tax loss	350,709	-	-	350,709
	(815,874)	104,232	(12,967)	(724,609)
Temporary differences assets (liabilities), net	(603,269)	104,232	(27,939)	(526,976)
Movement in deferred tax	-	30,748	(8,242)	-
Deferred tax	(177,964)	30,748	(8,242)	(155,458)

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19. Related Party Transactions

As of December 31, 2019 and 2018, main transactions with CAF correspond to financing transactions.

Transactions conducted with CAF comprise:

- As of December 31, 2019 and 2018, there are available-for-sale investments for S/ 2,339,156 thousand (note 6).
- As of December 31, 2019 and 2018, COFIDE has loans from CAF arising from the issuance of preferred shares (note 11). In the fourth quarter of 2019, such loan generated interest expense for S/ 2,105 thousand (2018: S/ 1,820 thousand).

COFIDE's transactions with its related party have been conducted during its normal course of business and under similar conditions as those in transactions with third parties.

Remuneration to the members of the Board of Directors

The amount paid as of December 31, 2019 and 2018, for remunerations to the members of the Board of Directors corresponds to S/ 789 thousand and S/ 587 thousand, respectively.

Remunerations to managers

Remunerations, other benefits and professional fees received as of December 31, 2019 by COFIDE's employees who hold an executive responsibility (managers) amounted to S/ 3,160 thousand (2018: S/ 2,722 thousand).

Loans to personnel

As of December 31, 2019 and 2018, executives and employees of COFIDE hold allowed loan transactions pursuant to the Banking Law, which regulates and establishes certain limits to transactions with members of the Board of Directors, executives and employees of financial entities in Peru. As of December 31, 2019 and 2018, direct loans granted to members of the Board of Directors, executives, employees and key personnel amount to S/ 5,094 thousand and S/ 4,873 thousand, respectively.

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20. Classification of Financial Instruments

The following table shows the amounts of financial assets and financial liabilities in the statement of financial position classified in accordance with the Accounting Manual:

<i>In thousands of soles</i>	2019			2018				
	Financial assets			Financial assets				
	Loans and items receivable	Available-for-sale	Total	At FVTPL	Loans and items receivable	Available-for-sale	Hedging instruments	Total
Assets								
Cash and cash equivalents	1,476,351	-	1,476,351	-	1,712,489	-	-	1,712,489
Available-for-sale investments								
Equity instruments	-	2,587,690	2,587,690	-	-	2,450,422	-	2,450,422
Debt instruments	-	2,163,699	2,163,699	-	-	2,017,361	-	2,017,361
Loan portfolio	4,182,229	-	4,182,229	-	4,880,368	-	-	4,880,368
Held-for-trading instruments	-	-	-	2,789	-	-	-	2,789
Hedging instruments	-	-	-	-	-	-	901	901
Accounts receivable	4,739	-	4,739	-	13,657	-	-	13,657
Other assets	22	-	22	-	1,467	-	-	1,467
	5,663,341	4,751,389	10,414,730	2,789	6,607,981	4,467,783	901	11,079,454

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	2019					2018				
	Held-for-trading investments at FVTPL	Financial liabilities			Hedging instruments	Total	Held-for-trading investments at FVTPL	Financial liabilities		Total
		At amortized cost	Other liabilities					At amortized cost	Other liabilities	
<i>In thousands of soles</i>										
Liabilities										
Deposits and obligations	-	-	12,979	-	12,979	-	-	13,604	13,604	
Deposits of financial system entities and international financial entities	-	-	27,926	-	27,926	-	-	100,722	100,722	
Borrowings and financial obligations	-	1,650,932	-	-	1,650,932	-	1,084,274	-	1,084,274	
Outstanding securities, bonds and obligations	-	6,252,914	-	-	6,252,914	-	7,597,423	-	7,597,423	
Held-for-trading instruments	1,625	-	-	-	1,625	7,997	-	-	7,997	
Hedging instruments	-	-	-	420	420	-	-	-	-	
Accounts payable	-	-	197,317	-	197,317	-	-	65,132	65,132	
Other liabilities	-	-	46,554	-	46,554	-	-	142,097	142,097	
	1,625	7,903,846	284,776	420	8,190,667	7,997	8,681,697	321,555	9,011,249	

21. Financial Risk Management

Financial risk management comprises managing the main risks that COFIDE faces due to the nature of its activities, such as credit, market and liquidity risk.

Credit risk

It is generated by the possibility that a counterparty to the agreement of the financial instrument or obliged third parties do not fulfill their contractual obligations due to insolvency or inability to pay, creating a financial loss for the other party. It includes management of counterparty risk, concentration risk, country risk and credit risk derived from exchange rate risk.

Market risk

It is generated by the possibility of losses in the value of held positions, derived from variations in market conditions. It generally includes the exchange rate risk, interest rate risk, price risk, among others.

Liquidity Risk

It is generated by the fact that COFIDE may not fulfill its payment commitments if it incurred losses for not fulfilling financing and application of funds requirements that arise from cash flows mismatches.

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 the risk management function

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

i. Board of Directors

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

The Board of Directors has created specialized committees to which it delegated 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 for pre-approving policies and establishing procedures and methodologies for integral risk management, as well as for identifying and managing the risks faced by COFIDE. The Committee meets biweekly and reports monthly to the Board of Directors all significant matters discussed and agreements adopted in relation to risks management. The Committee is composed of at least two directors (one chairs the Committee), the General Manager and managers of five divisions of COFIDE (one of them, the Risk Manager, performs the functions of secretary). In order to carry out its functions, the Risk Committee is functionally assisted by Risk Management, which is in charge of presenting the financing proposals sent by Business Management.

iii. Eligibility Committee

The Eligibility Committee was created by General Management; it is responsible for determining whether to continue with the evaluation of the identified business proposals based on the following terms: i) alignment with COFIDE's strategy and with its role as a development bank, and ii) alignment with COFIDE's risk appetite. The Committee meets biweekly, after an announcement from Business Management and is composed of the General Manager (who chairs it), the managers of four divisions of COFIDE and a representative of the Compliance area; being Business Management the one that performs the duties of secretary.

iv. Monitoring Committee

The Monitoring Committee is a body created by General Management; it is responsible for reporting on the risks identified in credit operations, defining the actions to be taken in relation to them and taking notice of the progress made in the commitments assumed by the different divisions who participate in the Committee. Initially, the Committee met monthly and since August 2018, the Committee meets twice a month, and is composed of the General Manager (who chairs it), Risk Management, Legal Advisory Management, Business Management and Special Asset Management; being Risk Management the one that performs the duties of secretary.

v. Audit, Ethics and Compliance Committee

The Audit, Ethics and Compliance 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 carried out by internal and external auditors. The Audit, Ethics and Compliance Committee is composed of two directors (one of them chairs it), the Internal Audit Unit Manager, who performs the duties of secretary, and the Legal and Compliance Advisory Manager (to assist in legal compliance issues). Both Board of Directors' representatives do not perform management activities in order to avoid conflicts of interest and incompatibility with their functions. The committee ordinarily meets at least once every two months, and reports to the Board of Directors about issues discussed, provided that the relevance of the issue requires it (it reports to this body at least twice a year). In order to carry out its duties, it is functionally supported by COFIDE's Internal Audit Management.

vi. Asset-Liability Committee

The Asset-Liability Committee (ALCO) is a division created by the Board of Directors. Its main function is to manage the financial structure of the statement of financial position of COFIDE, according to policies and effective standards. ALCO safeguards the proper management of liquidity, interest rate and exchange rate risks, and makes decisions regarding the implementation of correcting actions needed in the event of deviations regarding tolerance levels to risk and degrees of exposure assumed. The Committee meets at least once a month. In order to perform its functions, the Committee is assisted by Financial Management (area in charge of investment activities). The Committee is comprised of the General Manager (who chairs it), as well as Finance, Risk, Business and Legal Advisory and Compliance Managers (with a voice but no vote). The Committee is also attended by the Structural Assistant Managers of Balance, Treasury and Markets (they perform the duties of secretary and have a voice but no vote), as well as the Global and Market Risk Executive (who also has a voice, but no vote).

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vii. Management Committee

The Management Committee is in charge of coordinating and making decisions 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 organization and functions; additionally, it also approves action plans to manage risks implying the use of greater resources assigned, and follows up the execution of tests for alternative procedures.

viii. General Management

General Management is responsible for establishing a proper risk management within the organization, 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 in order to guarantee the compliance with policies and proper risk management.

ix. Internal Audit

Internal Audit Management functionally reports to the Board of Directors. It renders independent assurance services regarding the proper operation of the internal control system, in compliance with applicable regulations on internal audit, corporate governance and risk management. Its main objective is to support the Board of Directors and management in the assessment and assurance that the risks are managed in compliance with standards and contribute to the achievement of COFIDE's objectives. Internal Audit reports to all responsible divisions, management, Audit, Ethics and Compliance Committee, Board of Directors and regulators about potential risk situations and other relevant matters in relation to COFIDE's risk management and internal control assessment through quadrimestral reports of compliance with its annual plan.

x. Risk Management

Risk Management is an independent area in charge of proposing policies, procedures and methodologies for competent risk management, encouraging the alignment of all measures for treating the risks of COFIDE with appetite levels, risk limits and the development of proper controls.

B. Control framework for comprehensive risk management

In order to properly manage the financial risks COFIDE is exposed to and reduce them appropriately, COFIDE considers the internal control environment, established objectives, identification, assessment and treatment of risks, processes of information and communication, follow-up activities, subcontracting and trainings.

i. Credit risk

It is the main risk to be managed by COFIDE and, in order to manage its exposure and provide proper hedging, it has established a series of measures, 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 FEEEs where COFIDE assumes the direct or indirect risk of final debtors.
- Guidelines in relation to the origin and participation of COFIDE in various transactions, negotiation and management of real and personal guarantees that should be constituted to support credit operations, and those considered when following up on all the operation portfolio.

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- 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 FIs, 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 lending 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 rate risk, defining guidelines to manage the credit risk arising from changes in exchange rates, 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 rate risk and interest rate risks for trading positions. For market risk management, the following is considered:

Limits are defined in relation to:

- Volatility alerts for exchange rate and interest rate
- Alerts and control of losses in the trading portfolio.

Estimates are made on the following items:

- Potential losses COFIDE is exposed to in order to maintain a portfolio comprising asset or liability positions in primary or derivative instruments.
- Maximum possible loss through value at risk (VaR) and stressed value at risk (SVaR) indicators, for interest rate and exchange rate risks in the trading portfolio and global position in foreign currency.
- 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.
- Estimated losses in crisis situations through stress tests, within the framework of the Market Risk Contingency Plan (implemented in December 2018).

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iii. Structural risk in 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 and off the statement of financial position, without including the trading portfolio.

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

In the case of structural currency risk, COFIDE has two main sources of risk (direct and indirect). The direct source arises from the position of structural change held by COFIDE for its investments in CAF. The indirect source arises from the structural dollarization of its portfolio towards its debtors, issuers and local intermediaries, with whom it would face a credit risk derived from exchange rate 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.
- Derivative policies.
- Exchange rate risk policies.
- Interest Rate Risk Policies

iv. Liquidity Risk

In order to manage liquidity risk, there are policies that define guidelines for recording 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 contingency plan in case of lack of liquidity, which considers the operating procedure to follow in the event of an individual as well as systemic liquidity crisis.

C. Risk concentration

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

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

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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 FIs of higher relative risk.
- Follow-up of unique risk concentration.
- Follow-up of the quality of implicit credit exposure.
- Follow-up of the quality of explicit credit exposure.
- Participation limits in FEEEs.

Furthermore, there are policies for autonomy levels, which must be approved by the Board of Directors, related to:

- Loan transactions
- Exposure limits
- Investment transactions
- Debt transactions
- Transactions with derivative financial instruments

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

D. Risk measurement and reporting system

For managing different risks, COFIDE uses different classification models and tools to measure and assess each type of risks in relation to financial instruments. These tools are supported by models, methodologies and applications, allowing for better decision-making on risks.

The tools are monitored and validated periodically in order to ensure that levels of prediction and performance are maintained and corrective measurements or adjustments to models can be made, if necessary.

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

Credit risk

Credit risk is defined as the possibility of incurring 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 reason generating the non-fulfillment of contractual obligations.

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

- (a) COFIDE has 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, as established by the SBS. It also develops management models that allow a proper measurement, quantification and monitoring of loans, encouraging the continuous improvement of policies, tools, methodologies and processes.
- (b) **Maximum exposure to credit risk**
As of December 31, 2019 and 2018, management estimated that the maximum credit risk amount COFIDE is exposed to is represented by the carrying amount of financial assets presenting a potential credit risk and that mainly consist of: cash and cash equivalents, available-for-sale investments, loan portfolio (direct and indirect, without considering market value of guarantees or collaterals), transactions 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 hedge risks for transactions on and off the statement of financial position (contingent accounts), specific assessment of transactions, as well as risk limits for elements subject to negotiation, such as foreign currency and interest rate swaps. Real exposures and their comparison to established limits are reviewed monthly.

In this regard, as of December 31, 2019 and 2018:

- 81.5% and 83.0%, respectively, of loans are not considered as past due or impaired.
- 92.8% and 88.8%, respectively, of investments have been given at least an investment grade (BBB- or higher) or are debt instruments issued by the Central Government.

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

<i>In thousands of soles</i>	Note	2019	2018
Cash and cash equivalents	5	1,476,351	1,712,489
Available-for-sale investments	6	4,751,389	4,467,783
Loan portfolio, net	7	4,182,229	4,880,368
Held-for-trading instruments	8	-	2,789
Hedging instruments	8	-	901
Accounts receivable, net	8	4,739	13,657
Other assets	8	22	1,467
		10,414,730	11,079,454
Indirect loans (*)	<i>7 and 14</i>	346,901	343,983

(*) Including indirect loans, net of provisions

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E. Guarantee management

i. Management and valuation policies and procedures

COFIDE has policies for trading and managing real and personal guarantees that shall be provided to support loan transactions under any modality, maintaining a minimum gap in the coverage margin existing between the value of the provided guarantees and the impact of the hedged risk, remarking the decree of realization of assets involved and in the final recovery of debts; which means a significant mitigating factor of the assumed credit risk. The criteria for valuating guarantees and procedures for their update are established in the Manual of Policies for Credit Risks with Debtors (Policies for Guarantees), which incorporates SBS provisions.

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

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

ii. Types of guarantees

Guarantees supporting loan transactions are constituted by personal and real property, and financial instruments. Their 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 the risk value involved with the gap 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.

Based on such preferences, COFIDE seeks to constitute the following types of guarantees:

- Self-liquidating collaterals, or trust equivalents
- Preferred easily realizable collaterals
- Preferred collaterals

iii. Risk concentrations regarding guarantees:

The detail of guarantee concentration supporting loan transactions as of December 31, 2019 and 2018 is presented below:

<i>In thousands of soles</i>	Wholesale	Retail	Total collaterals	Related loans
Type of guarantee				
2019				
Self-liquidating collaterals	6,064	-	6,064	104,264
Preferred collaterals	-	-	-	-
Total	6,064	-	6,064	104,264
Type of guarantee				
2018				
Self-liquidating collaterals	6,597	-	6,597	61,260
Preferred collaterals	7,263	7,993	15,256	14,085
Total (*)	13,860	7,993	21,853	75,345

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

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iv. Value of guarantees

The value of real guarantees refers to the 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 situation, deducting all expenses required to perform such sale.

COFIDE considers the following valuations:

- In the case of urban real estate, it must not exceed between 70% to 75% of its commercial value (also applicable to asset trusts).
- In the case of deposits, letters of guarantee and surety insurance, their nominal value shall be considered as realizable value.
- In the case of pledged negotiable instruments, their market value shall be taken as realizable value.
- In the case of loan and loan derivative insurance, only the proportion or amount in excess being covered shall be considered, according to particular conditions established in each contract.
- For taxable purposes in favor of COFIDE, the total commercial value of involved guarantees shall be considered.

<i>In thousands of soles</i>	2019	2018
Guarantees related to direct loans		
Self-liquidating collaterals	6,064	6,597
Preferred collaterals	-	16,261
Total (*)	6,064	22,858

(*) 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 recorded.

Within the general provisions, COFIDE has provisions for a procyclical component for debtors classified under the "standard" category if the "procyclical rule" is activated by the SBS.

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A summary of the quality of direct loans classified in three groups is presented below, considering the risk rating of credit positions of COFIDE as Standard, with Potential Problems, Substandard, Doubtful and Loss, in relation to the alignment with the financial system:

- (i) Neither past due nor impaired loans comprise direct loans that currently do not have delay characteristics and are related to customers rated as 'standard' or 'with potential problems,'
- (ii) Past due but not impaired loans comprise past due loans from clients rated as 'standard' or 'with potential problems'; and
- (iii) Impaired loans, rated as substandard, doubtful or loss, even if they are not past due (for non-retail loans) and with a delay of over 90 days (for retail loans).

<i>In thousands of soles</i>	Loan portfolio			Total	Percentage %
	Wholesale loans (*)	Consumer loans	Mortgage loans		
2019					
Neither past due nor impaired loans	4,080,704	793	5,954	4,087,451	98.15
Standard	3,208,492	793	5,842	3,215,127	77.20
With Potential Problems	872,212	-	112	872,324	20.95
Past due but not impaired loans	39,825	-	4	39,829	0.96
Standard	5,092	-	-	5,092	0.12
With Potential Problems	34,733	-	4	34,737	0.84
Impaired loans	937,270	10	1,282	938,562	22.54
Substandard	3,737	-	32	3,769	0.09
Doubtful	534,028	7	1,062	535,097	12.85
Loss	399,505	3	188	399,696	9.60
Gross loan portfolio	5,057,799	803	7,240	5,065,842	121.65
Less provisions (**)	900,598	15	824	901,437	21.65
Total net (***)	4,157,201	788	6,416	4,164,405	100.00
2018					
Neither past due nor impaired loans	4,776,694	624	6,619	4,783,937	98.83
Standard	3,625,778	624	6,619	3,633,021	75.06
With Potential Problems	1,150,916	-	-	1,150,916	23.78
Past due but not impaired loans	19,018	-	-	19,018	0.39
With Potential Problems	19,018	-	-	19,018	0.39
Impaired loans	959,341	32	1,374	960,747	19.85
With Potential Problems	6,091	-	-	6,091	0.13
Substandard	5,218	16	367	5,601	0.12
Doubtful	554,383	8	817	555,208	11.47
Loss	393,649	8	190	393,847	8.14
Gross loan portfolio	5,755,053	656	7,993	5,763,702	119.07
Less provisions (**)	922,773	24	505	923,302	19.07
Total net (***)	4,832,280	632	7,488	4,840,400	100.00

(*) They include large and medium-sized entities of the financial system.

(**) Specific, general, mandatory and voluntary provisions.

(***) Returns and deferred interest are not included.

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

<i>In thousands of soles</i>	2019	2018
Refinanced loans		
Neither past due nor impaired loans	95	177
Impaired	582,215	603,165
Total refinanced loans	582,310	603,342
Restructured loans		
Impaired	673	6,091
Total restructured loans	673	6,091

Regarding the investment portfolio, COFIDE assesses conditions of the debt and equity instrument portfolio subject to impairment quarterly in order to identify if there are factors generating a decrease in fair value, according to the Appendix "Standard Methodology to Identify Impairment on the Value of Financial Instruments", SBS Resolution 7033-2012.

G. Financial assets past due or impaired

i. Analysis of impaired financial assets

The gross amount and the provision of impaired loan portfolio and the fair value of the guarantee are as follows:

<i>In thousands of soles</i>	Loan portfolio			Total
	Wholesale loans	Consumer loans	Mortgage loans	
2019				
Impaired loan portfolio	937,270	10	1,282	938,562
Provision for impaired loan portfolio	(720,818)	(7)	(778)	(721,603)
2018				
Impaired loan portfolio	959,341	32	1,374	960,747
Provision for impaired loan portfolio	(727,740)	(17)	(459)	(728,216)
Value of guarantees	-	-	1,374	1,374

ii. Provisions for credit risk

Movements in provisions for credit risk of impaired loans as of December 31, 2019 and 2018, are shown below:

<i>In thousands of soles</i>	Loan portfolio			Total
	Wholesale loans	Consumer loans	Mortgage loans	
Movement in provisions				
Balance as of January 1, 2018	946,086	87	881	947,054
Plus provision for period 2018	520,379	4	58	520,441
Less recoveries	(5,044)	(30)	(206)	(5,280)
Less write-offs	(758,925)	-	-	(758,925)
Plus reallocation of provisions	36	-	-	36
Plus exchange difference	24,891	-	-	24,891
Balance as of December 31, 2018	727,423	61	733	728,217

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<i>In thousands of soles</i>	Loan portfolio			Total
	Wholesale loans	Consumer loans	Mortgage loans	
Balance as of January 1, 2019	727,423	61	733	728,217
Plus provision for period 2019	113,464	4	361	113,829
Less recoveries	(12,630)	(15)	(42)	(12,687)
Less write-offs	(100,902)	-	-	(100,902)
Plus exchange difference	(6,854)	-	-	(6,854)
Balance as of December 31, 2019	720,501	50	1,052	721,603

- As of December 31, 2019 and 2018, interest, fees and expenses on loans that are past due, under judicial collection, or classified as impaired loans amount to S/ 649,251 thousand and S/ 604,542 thousand, respectively.

The balance as of December 31, 2019 includes S/ 615,546 thousand for first-tier loans and S/ 33,705 thousand for FEEE loans under Participation and Channeling Agreements (2018: S/ 583,001 thousand and S/ 21,541 thousand, respectively).

The recorded carrying amount corresponding to impaired written-off loans amounted to S/ 1,241,131 thousand and S/ 1,109,899 thousand as of December 31, 2019 and 2018, respectively.

Movements are presented below:

<i>In thousands of soles</i>	Note	Written-off loan portfolio
Balance as of December 31, 2017		336,029
Plus additions	7 (h)	736,201
Plus cash recoveries		-
Plus effect of exchange difference		37,669
Balance as of December 31, 2018		1,109,899
Plus additions	7 (h)	100,902
Plus cash recoveries		(27)
Plus effect of exchange difference		30,357
Balance as of December 31, 2019		1,241,131

iii. Past-due but not impaired loans

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

As of December 31, 2019 COFIDE estimated that the fair value of guarantees covering the 'past due but not impaired loans' amounts to zero (2018: S/ 2,714 thousand) Past due but not impaired loans correspond to FEEE of canalization and mortgage loans with maturities 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 FIs, 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 COFIDE's Board of Directors.

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Stage i) 'risk admission' is fundamentally based on good knowledge of the customer and their economic activity, being determinant the assessment of their 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 risk admission.

Stage ii) 'follow-up and monitoring of the risks' is conducted through an alert system for early detection of credit risk of financial intermediaries 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. Also, there is a follow-up methodology of the risk profile of debtors (not intermediaries) 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 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 indicators of risk exposure of counterparties, among others.

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

i. Credit risk management in investments

COFIDE controls credit risk 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 the country risk of the issuer, 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 as follows:

<i>In thousands of soles</i>	2019	2018
Instruments issued in Peru		
AAA	1,186	12,906
AA - to AA+	347,973	226,907
A- to A+	198,943	71,798
BBB – to BBB+	382,910	90,197
4 (pe) ¹	105,132	104,460
Without classification	38,299	38,863
Total national	1,074,443	545,131
Instruments issued abroad		
AA - to AA+	2,575,157	2,554,280
BBB – to BBB+	783,902	888,242
BB- to BB+	171,925	273,703
B- to B+	-	70,515
Without classification	127,626	113,267
Total abroad	3,658,610	3,900,007
Accrued interest	18,336	22,645
	4,751,389	4,467,783

¹ 4 (pe): the risk-return ratio, the efficiency and the composition of the portfolio, as well as the quality of administrator, they are acceptable.

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I. Risk concentrations

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

i. Alerts for asset concentration for unique risk

In order to avoid excessive concentration in direct and indirect asset transactions (cash and cash equivalents, interbank funds, investments, loans, accounts receivable and indirect loans, including exposure equivalent to credit risk of derivative financial instruments) with counterparties constituting one unique risk.

ii. Alerts for diversification for economic activity sector

They aim 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 on which the underlying risk will depend.

iii. Alerts for diversification of investments and cash for market

They are related to the differentiated behavior of markets, consequently, COFIDE deems convenient to promote a diversification for systematic risk.

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iv. Alerts for concentration of liabilities for unique risk.

With such alerts, COFIDE seeks to avoid the concentration of financing sources per type of creditor.

As of December 31, 2019 and 2018, financial instruments with exposure to credit risk were distributed according to the following economic sectors:

	2019			2018				
	Loans and items receivable	Available-for-sale investments	Total	At fair value through profit or loss	Loans and items receivable	Available-for-sale investments	Hedging instruments	Total
<i>In thousands of soles</i>								
Assets								
Financial services	1,476,351	2,341,174	3,817,525	2,789	1,712,489	2,354,136	901	4,070,315
Agriculture, livestock, hunt and forestry	-	71,237	71,237	-	-	-	-	-
Textiles and leather	31,685	-	31,685	-	-	-	-	-
Power, gas and water	-	1,042,732	1,042,732	-	-	-	-	-
Construction	-	7,640	7,640	-	-	-	-	-
Hotels and restaurants	416	17,612	18,028	-	-	-	-	-
Transportation, storage and communications	213,612	529,210	742,822	-	-	-	-	-
Financial intermediation	3,429,164	246,516	3,675,680	-	4,627,699	109,603	-	4,737,302
Real estate, business and leasing activities	492,436	233,217	725,653	-	-	161,063	-	161,063
Other wholesale	12,540	262,051	274,591	-	259,742	1,842,981	-	2,102,723
Consumer loans	788	-	788	-	632	-	-	632
Mortgage loans	6,349	-	6,349	-	7,419	-	-	7,419
	5,663,341	4,751,389	10,414,730	2,789	6,607,981	4,467,783	901	11,079,454

(*) The balances are net of corresponding provisions

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As of December 31, 2019 and 2018, financial instruments with exposure to credit risk according to their geographical area are as follows:

<i>In thousands of soles</i>	Financial instruments				
	Held-for-trading	Loans and accounts receivable (*)	Available-for-sale investments	Hedging instruments	Total
As of December 31, 2019					
Peru	-	4,393,466	2,190,683	-	6,584,149
Venezuela	-	-	2,339,156	-	2,339,156
Cayman Islands	-	69,808	129,446	-	199,254
United Kingdom	-	420,159	-	-	420,159
United States	-	122,685	-	-	122,685
Panama	-	264,864	17,657	-	282,521
Japan	-	274,713	-	-	274,713
Canada	-	117,646	-	-	117,646
Mexico	-	-	66,807	-	66,807
Colombia	-	-	7,640	-	7,640
	-	5,663,341	4,751,389	-	10,414,730
As of December 31, 2018					
Peru	2,789	5,402,352	2,011,937	-	7,417,078
Venezuela	-	-	2,339,156	-	2,339,156
Cayman Islands	-	88,456	115,026	-	203,482
United Kingdom	-	439,455	-	-	439,455
United States	-	127,334	-	-	127,334
Panama	-	1,062	1,664	-	2,726
Japan	-	549,322	-	901	550,223
	2,789	6,607,981	4,467,783	901	11,079,454

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 (or forced) sale of assets at unusual and/or significant discounts so as to have the necessary resources rapidly available, or due to 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 intermediation and treasury operations and by all operations related to its own investments according to tolerance to liquidity risk and regulatory requirements.

The liquidity of COFIDE is managed by ALCO through the division in charge of treasury, which permanently assesses economic and market conditions so as to execute transactions that reduce liquidity cost in accordance with approved parameters. Consequently, the Committee may periodically review liquidity levels and mismatches of total maturity and per currency of all the portfolio. Liquidity risk is also supervised by the Risk Committee and Risk Management, where the risk level that COFIDE is willing to assume is defined, and where indicators, limits and corresponding controls are reviewed as well.

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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 tools the modeling of static and dynamic cash flows, and estimate of liquidity gaps between asset and liability positions on 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 and 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 letters of guarantee 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 Appendix 16 "Table of Liquidity by Maturity". The amounts disclosed are the cash flows according to the undiscounted contractual terms and include corresponding accrued interest.

<i>In thousands of soles</i>	Up to 1 month	1 – 3 months	From 3 to 12 months	More than 1 year	Total
2019					
Financial position risk					
Liabilities					
Deposits and obligations	-	-	12,979	-	12,979
Deposits of financial system entities and international entities	9,526	5,192	13,208	-	27,926
Loans and borrowings	274,677	400,664	862,894	6,365,611	7,903,846
Held-for-trading instruments	-	306	1,319	-	1,625
Hedging instruments	-	-	52	368	420
Accounts payable	1,894	1,293	194,130	-	197,317
Other liabilities	216	-	237	-	453
Total	286,313	407,455	1,084,819	6,365,979	8,144,566
Financial position risk					
Contingent liabilities	-	32,668	151,755	41,232	225,655
	286,313	440,123	1,236,574	6,407,211	8,370,221
2018					
Financial position risk					
Liabilities					
Deposits and obligations	-	-	13,604	-	13,604
Deposits of financial system entities and international entities	35,879	45,961	18,882	-	100,722
Borrowings and financial obligations	187,633	238,867	2,062,462	6,192,735	8,681,697
Held-for-trading instruments	-	-	7,997	-	7,997
Accounts payable	1,985	43	63,104	-	65,132
Other liabilities	288	-	558	-	846
Total	225,785	284,871	2,166,607	6,192,735	8,869,998
Financial position risk					
Contingent liabilities	10,119	43,967	388,210	47,210	489,506
	235,904	328,838	2,554,817	6,239,945	9,359,504

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Market risk

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

(a) Trading portfolio

In relation to market risk, COFIDE is exposed to interest rate risk, exchange rate risk and price risk, affecting the value of assets and positions of the trading portfolio.

As of December 31, 2019, the balance of held-for-trading instruments amounts to S/ 181,119 thousand (2018: S/ 1,116,893 thousand).

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% confidence level, under normal market conditions. The calculation of VaR is analyzed per risk factor: interest rate and exchange rate risk, mainly.

In order to estimate the VaR of the interest rate and exchange rate risk, the historical method is used. Simulated market values are calculated for the instruments that make up the trading portfolio, as well as for the global position in foreign currency, based on the historical information of the market variables of interest rates and exchange rates. These market values enable simulated variations of market values, making it possible to estimate the value at risk based on the statistical confidence level. Additionally, stress tests are performed monthly, 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 earnings (profits), related to interest receivable and payable (repricing, reinvestment or refinancing), 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 on interest rates is presented in two ways: the first one, in an impact on expected profit, related directly to risk of reinvestment, refinancing and repricing. The second one is related to the valuation of assets and liabilities of COFIDE, and therefore, the economic value or actual value of its equity.

The impact on expected earnings is determined by EaR, which correspond to the expected variation in the financial margin of COFIDE in case of expected changes in interest rates—i.e. the impact on its profit. The impact on equity is determined by EVaR, which correspond to the variation of equity value of COFIDE in case of changes in interest rates used for its valuation—i.e. the impact on changes in market interest rates over the statement of financial position.

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

	2019
EaR (1.048% regulatory capital)	31,817,423
EVaR (1.613% regulatory capital)	48,952,799
	2018
EaR (0.701% regulatory capital)	18,536,723
EVaR (2.395% regulatory capital)	63,320,190

The follow-up of interest rate risk is reported to the Risk Committee as well as to ALCO. The Risk Committee approves the limits considered to manage, and Risk Management is in charge of the follow-up.

Repricing gap

An analysis of repricing gaps is made in order to determine the impact of changes in interest rates. The analysis consists in assigning the balances of transactions that will change interest rates in different time intervals. Based on this analysis, the impact for each gap of interest rate variation is calculated.

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The table below presents COFIDE's exposure to interest rate risk. The table provides the carrying amounts of COFIDE's financial and non-financial instruments, which are classified into the repricing date of the contract interest rate or maturity date, whichever occurs first.

<i>In thousands of soles</i>	Up to 1 month	1–3 months	3–12 months	1–5 years	More than 5 years	Do not accrue interest	Total
Assets							
Cash and cash equivalents	437,101	110,615	301,438	622,301	4,896	-	1,476,351
Available-for-sale investments	61,800	29,358	263,832	543,692	1,513,551	2,339,156	4,751,389
Loan portfolio, net	92,462	498,527	881,469	1,457,884	1,759,847	(507,960)	4,182,229
Accounts receivable, net	342	3,275	1,122	-	-	-	4,739
Other assets	-	-	-	-	-	36,652	36,652
Total assets	591,705	641,775	1,447,861	2,623,877	3,278,294	1,867,848	10,451,360
Liabilities							
Deposits and obligations	-	-	12,979	-	-	-	12,979
Deposits of financial system entities and international entities	9,526	5,192	13,208	-	-	-	27,926
Borrowings	102,914	366,875	677,522	420,507	83,114	-	1,650,932
Financial obligations	171,763	33,789	185,372	1,850,672	4,011,318	-	6,252,914
Held-for-trading instruments	-	306	1,319	-	-	-	1,625
Hedging instruments	-	-	52	210	158	-	420
Accounts payable	1,678	1,293	193,893	-	-	453	197,317
Other liabilities	216	-	237	-	-	259,311	259,764
Equity	-	-	-	-	-	2,047,483	2,047,483
Total equity and liabilities	286,097	407,455	1,084,582	2,271,389	4,094,590	2,307,247	10,451,360
Off-balance sheet							
Derivative instruments, assets	-	32,244	148,875	-	43,237	-	224,356
Derivative instruments, liabilities	-	32,668	151,755	-	41,232	-	225,655
Marginal gap	305,608	233,896	360,399	352,488	(814,291)	(439,399)	-
Cumulative gap	305,608	539,504	899,903	1,252,391	438,100	-	-

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<i>In thousands of soles</i>	Up to 1 month	1–3 months	3–12 months	1–5 years	More than 5 years	Do not accrue interest	Total
Assets							
Cash and cash equivalents	1,349,262	587	66,014	292,879	3,747	-	1,712,489
Available-for-sale investments	49,604	37,377	89,148	552,754	1,399,744	2,339,156	4,467,783
Loan portfolio, net	443,812	323,476	894,319	1,650,546	1,574,517	(6,302)	4,880,368
Held-for-trading instruments	-	-	10,049	-	-	(7,260)	2,789
Hedging instruments	-	-	901	-	-	-	901
Accounts receivable	1,413	232	12,012	-	-	-	13,657
Other assets	-	-	-	-	-	39,247	39,247
Total assets	1,844,091	361,672	1,072,443	2,496,179	2,978,008	2,364,841	11,117,234
Liabilities							
Deposits and obligations	-	-	13,604	-	-	-	13,604
Deposits of financial system entities and international entities	35,879	45,961	18,882	-	-	-	100,722
Borrowings	62,739	206,970	345,575	386,299	82,691	-	1,084,274
Financial obligations	124,894	31,897	1,716,887	1,759,382	3,964,363	-	7,597,423
Held-for-trading instruments	-	-	12,999	-	-	(5,002)	7,997
Hedging instruments	-	-	-	-	-	-	-
Accounts payable	1,697	28	62,546	-	-	861	65,132
Other liabilities	288	-	558	-	-	301,879	302,725
Equity	-	-	-	-	-	1,945,357	1,945,357
Total equity and liabilities	225,497	284,856	2,171,051	2,145,681	4,047,054	2,243,095	11,117,234
Off-balance sheet							
Derivative instruments, assets	10,119	43,967	388,209	-	49,030	-	491,325
Derivative instruments, liabilities	10,119	43,967	388,210	-	47,210	-	489,506
Marginal gap	1,618,594	76,816	(1,098,609)	350,498	(1,067,226)	121,746	-
Cumulative gap	1,618,594	1,695,410	596,801	947,299	(119,927)	-	-

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Sensitivity to changes in interest rates

Exposure to interest rate risk is supervised by the Asset-Liability Committee, as well as by the Risk Committee. The latter approves maximum allowed limits.

The sensitivity of interest rate indicators in case of a shock of 200 basis points (bps) is detailed below:

	2019	2018
EaR	32,200,847 (1.061 % regulatory capital)	18,900,835 (0.715% regulatory capital)
EVAR	49,539,357 (1.632 % regulatory capital)	63,590,350 (2.405% regulatory capital)

It is important to remark that this information was obtained from the internal interest rate model of COFIDE, updated in December 2019.

ii. Exchange rate 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, which are negatively affected by changes in exchange rates. This risk depends on the position on each currency and the volatility of exchange rates. A great part of assets and liabilities are stated 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 carried out at the free-market exchange rates.

As of December 31, 2019, the weighted average exchange rate of the free market, published by the SBS for transactions in U.S. dollars is S/ 3.311 per US\$ 1 for purchase and S/ 3.317 per US\$ 1 for sale (2018: S/ 3.369 and S/ 3.379, respectively).

As of December 31, 2019, the exchange rate for accounting asset and liability accounts in foreign currency set by the SBS was the average rate of purchases and sales, equivalent to S/ 3.314 per US\$ 1 (2018: S/ 3.373).

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

<i>In thousands of soles</i>	2019				2018			
	U.S. dollar	Other currencies	Soles	Total	U.S. dollar	Other currencies	Soles	Total
Assets								
Cash and cash equivalents	1,148,560	275,582	52,209	1,476,351	1,411,698	276,952	23,839	1,712,489
Available-for-sale investments	1,709,128	-	3,042,261	4,751,389	1,512,833	-	2,954,950	4,467,783
Loan portfolio, net	2,020,153	-	2,162,076	4,182,229	3,236,050	-	1,644,318	4,880,368
Held-for-trading instruments	-	-	-	-	10,049	-	(7,260)	2,789
Hedging instruments	-	-	-	-	-	25	876	901
Accounts receivable, net	2,601	-	2,138	4,739	1,154	-	12,503	13,657
Other assets	-	-	22	22	-	-	1,467	1,467
Total assets	4,880,442	275,582	5,258,706	10,414,730	6,171,784	276,977	4,630,693	11,079,454
Liabilities								
Deposits and obligations	6,594	-	6,385	12,979	10,129	-	3,475	13,604
Deposits of financial entities	-	-	27,926	27,926	-	-	100,722	100,722
Borrowings and financial obligations	157,800	317,898	1,175,234	1,650,932	127,730	325,965	630,579	1,084,274
Outstanding securities, bonds and obligations	4,719,867	(77)	1,533,124	6,252,914	6,511,473	(107)	1,086,057	7,597,423
Held-for-trading instruments	1,625	-	-	1,625	12,999	-	(5,002)	7,997
Hedging instruments	-	420	-	420	-	-	-	-
Accounts payable	168	1,426	195,723	197,317	340	1,152	63,640	65,132
Other liabilities	43,038	-	3,516	46,554	139,153	-	2,944	142,097
Total liabilities	4,929,092	319,667	2,941,908	8,190,667	6,801,824	327,010	1,882,415	9,011,249
Currency swap position, net	139,888	43,237	(183,125)	-	395,085	49,029	(444,114)	-
Net monetary position	91,238	(848)	2,133,673	2,224,063	(234,955)	(1,004)	2,304,164	2,068,205

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As of December 31, 2019, COFIDE recorded net exchange gains for S/ 9,781 thousand (2018: net loss for S/ 33,942 thousand), presented net under 'exchange loss' in the statement of profit or loss.

COFIDE manages exchange risk through the match of its asset and liability transactions, supervising the global position of changes monthly. The global position of changes of COFIDE is equal to long positions less short positions in currencies other than the sol. The global position includes positions of the statement of financial position (spot) and positions in derivative financial instruments.

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

The sensitivities for the changes of the U.S. dollar are presented in the table below. Due to its volume, the U.S. dollar position is the only exposure that could cause a material loss to COFIDE. Negative variations represent potential losses, while positive variations represent potential earnings.

<i>In thousands of soles</i>	Change in exchange rates	2019	2018
Sensitivity analysis			
Devaluation			
U.S. dollar	5%	(2,402)	(21,028)
U.S. dollar	10%	(4,803)	(42,055)
Revaluation			
U.S. dollar	5%	2,402	21,028
U.S. dollar	10%	4,803	42,055

Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The fair value is a market-based measurement, so a financial instrument traded in a real transaction in an active and liquid market has a price that supports its fair value. When the price for a financial instrument is not observable, the fair value must be measured applying other valuation technique, trying to maximize the use of relevant measurable variables and minimize the use of unobservable 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.

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For financial instruments measured at fair value the fair value is based on the following hierarchy

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Valuation techniques that use significant inputs data and variables with material effect on fair value estimation that are directly or not directly observable in the market.
- Level 3: Valuation techniques where some of the input data and variables are not observable in the market.

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

In positions valued through valuation techniques, derivative financial instruments are included.

The fair value of the investment of COFIDE in CAF, pursuant to Official Letter 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.

Fair value measurement and fair value hierarchy

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

<i>In thousands of soles</i>	2019			2018		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Assets						
Available-for-sale investments						
Debt instruments	2,163,699	-	2,163,699	2,017,361	-	2,017,361
Equity instruments	248,534	-	248,534	111,266	-	111,266
Accounts receivable for derivative financial instruments	-	-	-	3,690	-	3,690
	2,412,233	-	2,412,233	2,132,317	-	2,132,317
Liabilities						
Accounts payable for derivatives	-	2,045	2,045	-	7,997	7,997
	-	2,045	2,045	-	7,997	7,997

Financial assets included in level 1 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 entity.

Financial instruments included in level 2 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.

Corporación Financiera de Desarrollo S.A. – COFIDE

Notes to the Financial Statements

December 31, 2019 and 2018

Hedging and trading transactions

COFIDE is exposed to fluctuation in future cash flows of financial assets and liabilities in foreign currency and/or that accrue interest at variable rates. COFIDE uses derivative financial instruments as cash flow hedges to hedge these risks as well as held-for-trading instruments.

The following table presents, as of December 31, 2019 and 2018, the fair value of derivative financial instruments, recorded as assets or liabilities, 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.

Corporación Financiera de Desarrollo S.A. – COFIDE

Notes to the Financial Statements

December 31, 2019 and 2018

	2019			2018				Hedging instruments
	Liabilities	Reference amount	Maturity date	Assets	Liabilities	Reference amount	Maturity date	
<i>In thousands of soles</i>								
Hedging instruments								
Cash flow								
USD / JPY currency swaps	420	43,237	10/20/2027	901	-	49,029	10/20/2027	JICA indebtedness
	420	43,237		901	-	49,029		
Interest rate swaps	-	-						
Fixed rate / 6M LIBOR rate — US\$	-	-		-	7,193	674,000	7/15/2019	US\$ 300 MM COFIDE 2019 Corporate Bonds
Total	-	-		-	7,193	674,600		
US\$/PEN forward	-	-	5/3/2019	243	-	13,829	05/3/2019	US\$ Spot Sale
US\$/PEN forward	-	-	2/1/2019	128	-	6,872	2/1/2019	US\$ Spot Sale
US\$/PEN forward	-	-	5/3/2019	306	-	17,286	5/3/2019	US\$ Spot Sale
US\$/PEN forward	-	-	7/5/2019	149	-	6,746	7/5/2019	US\$ Spot Sale
US\$/PEN forward	-	-	4/9/2019	380	-	16,865	4/9/2019	US\$ Spot Sale
US\$/PEN forward	-	-	7/8/2019	224	-	10,119	7/8/2019	US\$ Spot Sale
US\$/PEN forward	-	-	5/9/2019	379	-	16,865	5/9/2019	US\$ Spot Sale
US\$/PEN forward	-	-	1/17/2019	246	-	10,119	1/17/2019	US\$ Spot Sale
US\$/PEN forward	-	-	2/13/2019	230	-	12,285	2/13/2019	US\$ Spot Sale
US\$/PEN forward	-	-	7/8/2019	-	129	27,453	7/8/2019	US\$ Spot Sale
US\$/PEN forward	-	-	7/8/2019	-	121	26,405	7/8/2019	US\$ Spot Sale
US\$/PEN forward	-	-	12/5/2019	-	115	24,319	12/5/2019	US\$ Spot Sale
US\$/PEN forward	-	-	12/5/2019	-	121	25,014	12/5/2019	US\$ Spot Sale
US\$/PEN forward	-	-	7/10/2019	10	-	15,311	7/10/2019	US\$ Spot Sale
US\$/PEN forward	-	-	6/11/2019	-	15	10,163	6/11/2018	US\$ Spot Sale
US\$/PEN forward	-	-	6/12/2019	45	-	20,519	6/12/2018	US\$ Spot Sale
US\$/PEN forward	-	-	9/10/2019	43	-	18,264	9/10/2019	US\$ Spot Sale
US\$/PEN forward	-	-	3/18/2019	48	-	7,618	3/18/2019	US\$ Spot Sale
US\$/PEN forward	-	-	9/13/2019	48	-	7,731	9/13/2019	US\$ Spot Sale
US\$/PEN forward	-	-	12/13/2019	45	-	7,794	12/13/2019	US\$ Spot Sale
US\$/PEN forward	-	-	6/14/2019	44	-	7,671	6/14/2019	US\$ Spot Sale
US\$/PEN forward	-	-	4/16/2019	59	-	15,314	4/16/2019	US\$ Spot Sale

Corporación Financiera de Desarrollo S.A. – COFIDE

Notes to the Financial Statements

December 31, 2019 and 2018

	2019			2018				Hedging instruments
	Liabilities	Reference amount	Maturity date	Assets	Liabilities	Reference amount	Maturity date	
<i>In thousands of soles</i>								
US\$/PEN forward	-	-	9/16/2019	69	-	18,931	9/16/2019	US\$ Spot Sale
US\$/PEN forward	-	-	3/19/2019	23	-	5,069	3/19/2019	US\$ Spot Sale
US\$/PEN forward	-	-	12/13/2019	19	-	5,186	12/13/2019	US\$ Spot Sale
US\$/PEN forward	-	-	6/17/2019	19	-	5,106	6/17/2019	US\$ Spot Sale
US\$/PEN forward	-	-	3/21/2019	32	-	12,124	3/21/2019	US\$ Spot Sale
US\$/PEN forward	-	-	6/25/2019	-	106	25,307	6/25/2019	US\$ Spot Sale
US\$/PEN forward	-	-	8/6/2019	-	94	21,971	8/6/2019	US\$ Spot Sale
US\$/PEN forward	-	-	8/6/2019	-	103	24,037	8/9/2019	US\$ Spot Sale
US\$/PEN forward	118	12,360	3/2/2020	-	-	-	-	US\$ Spot Sale
US\$/PEN forward	95	10,043	5/5/2020	-	-	-	-	US\$ Spot Sale
US\$/PEN forward	364	20,188	9/7/2020	-	-	-	-	US\$ Spot Sale
US\$/PEN forward	364	20,190	9/9/2020	-	-	-	-	US\$ Spot Sale
US\$/PEN forward	260	20,147	12/10/2020	-	-	-	-	US\$ Spot Sale
US\$/PEN forward	85	6,628	3/16/2020	-	-	-	-	US\$ Spot Sale
US\$/PEN forward	94	10,109	12/11/2020	-	-	-	-	US\$ Spot Sale
US\$/PEN forward	29	3,314	3/16/2020	-	-	-	-	US\$ Spot Sale
US\$/PEN forward	29	3,314	3/16/2020	-	-	-	-	US\$ Spot Sale
US\$/PEN forward	24	3,314	3/16/2020	-	-	-	-	US\$ Spot Sale
US\$/PEN forward	23	3,314	4/8/2020	-	-	-	-	US\$ Spot Sale
US\$/PEN forward	21	3,314	3/3/2020	-	-	-	-	US\$ Spot Sale
US\$/PEN forward	49	23,674	12/14/2020	-	-	-	-	US\$ Spot Sale
US\$/PEN forward	43	22,132	12/14/2020	-	-	-	-	US\$ Spot Sale
US\$/PEN forward	15	6,628	5/8/2020	-	-	-	-	US\$ Spot Sale
US\$/PEN forward	12	12,450	9/15/2020	-	-	-	-	US\$ Spot Sale
	1,625	181,119		2,789	804	442,293	-	

Corporación Financiera de Desarrollo S.A. – COFIDE

Notes to the Financial Statements

December 31, 2019 and 2018

As of December 31, 2019 and 2018, the periods when cash flows of the hedges are expected to occur and that affect the statement of profit or loss, net of deferred tax, are as follows:

<i>In thousands of soles</i>	Up to 1 year	1-3 years	3-5 years	More than 5 years
Cash outflows				
(liabilities) 2019	(207)	376	376	564
Cash outflows				
(liabilities) 2018	7,997	-	-	-

As of December 31, 2019, COFIDE holds one currency swap (2018: one currency swap) that, according to SBS authorizations, qualifies as cash flow hedge for debts. By means of such transaction, in economic terms, the debt held by COFIDE is hedged.

As of December 31, 2019, COFIDE carried out sixteen currency forward contracts (2018: thirty contracts), which, according to the SBS authorizations, qualify as trading transactions, to hedge sale positions.

Additionally, as of July 15, 2019, the swap transaction that COFIDE had as of December 31, 2018 was canceled in order to hedge the variable-rate component of some loans.

COFIDE has a methodology for measuring the effectiveness degree of hedges of derivative financial instruments that are undertaken with such objective.

As of December 31, 2019 and 2018, COFIDE has not presented a decrease related to the effectiveness of these hedges in the statement of profit or loss.

i. Instruments whose fair value is similar to the carrying amount:

Short-term financial assets and liabilities, including cash and cash equivalents, interbank funds and other similar items.

ii. Fixed-rate financial instruments

Financial assets at fixed rates (loan portfolio and deposits and obligations in financial institutions): According to Multiple Official Letter SBS 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 the quoted market value.

For liabilities that are not quoted in an active market (loans and bonds issued by COFIDE): The fair value is calculated based on the discounted value of cash flows, using the original effective interest rate.

Corporación Financiera de Desarrollo S.A. – COFIDE

Notes to the Financial Statements

December 31, 2019 and 2018

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

<i>In thousands of soles</i>	2019		2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash and cash equivalents	1,476,351	1,476,351	1,712,489	1,712,489
Available-for-sale investments				
Equity instruments	2,587,690	2,587,690	2,450,422	2,450,422
Debt instruments	2,163,699	2,163,699	2,017,361	2,017,361
Loan portfolio	4,182,229	4,182,229	4,880,368	4,880,368
Held-for-trading instruments	-	-	2,789	2,789
Hedging instruments	-	-	901	901
Accounts receivable	4,739	4,739	13,657	13,657
Other assets	22	22	1,467	1,467
Total	10,414,730	10,414,730	11,079,454	11,079,454
Liabilities				
Deposits and obligations	12,979	12,979	13,604	13,604
Deposits with financial institutions	27,926	27,926	100,722	100,722
Loans and borrowings	1,650,932	1,649,406	1,084,274	1,079,721
Outstanding securities, bonds and obligations	6,252,914	6,251,858	7,597,423	7,595,185
Held-for-trading instruments	1,625	1,625	7,997	7,997
Hedging instruments	420	420	-	-
Accounts payable	197,317	197,317	65,132	65,132
Other liabilities	46,554	46,554	142,097	142,097
Total	8,190,667	8,188,085	9,011,249	9,004,458

Assets pledged as collateral

As of December 31, 2019, COFIDE has carried out repurchase agreements that involve resources in local currency S/ 191,900 thousand, collected from BCRP, which accrue interest at an annual rate ranging between 3.56% and 3.78% and are guaranteed by Restricted Deposits in foreign currency held in BCRP for US\$ 58,073 thousand, (equivalent to S/ 192,454). As of December 31, 2018, COFIDE carried out repurchase transactions comprising resources in local currency for S/ 62,000 thousand, (equivalent to S/ 209,126 thousand) collected from BCRP, which accrue interest at an annual rate ranging between 4.13% and 4.22% and are guaranteed by Restricted Deposits in foreign currency held in BCRP for US\$ 19,052 thousand, (equivalent to S/ 64,262 thousand). Collected funds are intended for fulfilling different obligations of COFIDE.

22. Other Risks**A. Operational risk**

Operational risk is generated by human, process and system errors or by external factors, including legal risks, but excluding strategic and reputational risks.

COFIDE has identified its operational risks focusing on transversal processes comprised in its business activity. Additionally, there are continuous improvements in policies and methodologies of identification, assessment and follow-up of the operational risk, as well as the definition of roles and responsibilities of areas in charge of managing them.

Corporación Financiera de Desarrollo S.A. – COFIDE

Notes to the Financial Statements

December 31, 2019 and 2018

Indicators have been established for the analysis of causes and effectiveness of control measures and reduction of operational risks. On the other hand, various reports allowing a continuous follow-up on these risks are prepared in order to determine necessary measures to reduce them, according to limits established by the Board of Directors. At the same time, the divisions and management appoint operational risk coordinators, who are experts in processes and are in charge of the qualitative and quantitative valuation of their risks, considering the database of incidents and loss events. The effectiveness of controls is also assessed to reduce a risk based on its design, operation, hedging, application and maturity.

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 base to cover inherent risks in its activities. 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 limit levels to risk of capital adequacy through indicators that seek to optimize the risk-profitability relationship, as well as guidelines for capital management and allocation.

COFIDE's objectives when managing its capital comprise a broader concept than 'equity' shown in the statement of financial position; such as: (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 stockholders and benefits to other stakeholders; and (iii) maintaining a strong capital basis to support the development of its activities.

According to SBS regulations, 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, operational and credit risk. As of December 31, 2019 and 2018, 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, the SBS published Resolution SBS 8425-2011 "Regulations for Additional Regulatory Capital Requirement", establishing the requirements that companies shall apply for economic cycle, concentration risk, market risk concentration, interest rate risk in the banking book and other risks. It is important to mention that the requirement for economic cycle is activated and deactivated based on procyclical provisions for loans.

As of December 31, 2019 and 2018, the regulatory capital of COFIDE, determined according to current legal regulations, is S/ 3,035,566 thousand and S/ 3,003,879 thousand, respectively, which is used to calculate certain limits and restrictions applicable to banking entities in Peru, which management of considers to have entirely complied with.

As of December 31, 2019, assets and indirect loans weighted per credit risk amount to S/ 9,975,266 thousand (2018: S/ 10,226,763 thousand) and the capital requirement for credit, market and operational risk, determined by COFIDE according to effective legal regulations amount to S/ 1,027,799 thousand (2018: S/ 1,055,238 thousand), which generate a global capital ratio of 29.53% (2018: 28.47%).

23. Legal Limits

To date, COFIDE is complying with global and individual limits for financial entities contained the Banking Law, as informed every month in the Report 13 sent to the SBS.

A handshaking business deal over a city skyline at night. The image features two hands in business suits shaking firmly. The background is a blurred cityscape at night with lights from buildings and streets. A large, dark blue, semi-transparent shape is overlaid on the left side of the image, containing the text. The shape has a yellow-green outline and a small orange diamond at the bottom. The text is in white, uppercase letters.

REPORT ON THE
COMPLIANCE OF
THE GOOD CORPORATE
GOVERNANCE SMV



PERÚ

DECENIO DE LAS PERSONAS CON DISCAPACIDAD EN EL PERÚ - AÑO DE LA PROMOCIÓN DE LA INDUSTRIA RESPONSABLE Y DEL COMPROMISO CLIMÁTICO

**REPORT ON THE COMPLIANCE OF THE GOOD CORPORATE GOVERNANCE
CODE FOR PERUVIAN COMPANIES (10150)**

Name:

CORPORACIÓN FINANCIERA DE DESARROLLO

Fiscal year:

2019

Website:

www.cofide.com.pe



METHODOLOGY:

Companies holding securities listed in the Public Registry of the Stock Market must disclose their good corporate governance practices to the public. Accordingly, they report their adherence to the principles contained in the *Good Corporate Governance Code for Peruvian Companies*¹.

The information to be provided refers to the period ended December 31 of the previous calendar year, so any reference to “the fiscal year” should be understood as the period abovementioned. This is to be attached as an appendix to the Company’s Annual Report according to the electronic forms of the Stock Market Superintendence (SMV, for its acronym in Spanish) to facilitate the downloading of this information through the MVnet System.

Section A includes the Company’s letter of presentation highlighting the main achievements related to corporate governance during the fiscal year.

Section B reveals the degree of compliance with the principles of the Code. To this end, the report is structured in five pillars:

- I. Shareholders rights
- II. General Shareholders Meeting
- III. Board of Directors and Senior Management²
- IV. Risk and Compliance
- V. Information Transparency

Each principle is evaluated based on the following parameters:

- a) **Evaluation “comply with or explain”**: The company’s level of compliance is marked with an “x”, according to the following criteria:

Yes: The principle is fully fulfilled.

No: The principle is not fulfilled.

Explanation If the “No” option was selected, the company must explain the reasons why it fails to adopt the principle or actions led to comply with the principle partially or totally, as appropriate. Additionally, if the “Yes” option is selected and, when pertinent, the company may provide information about compliance with the principle.

- b) **Support information**: Detailed information on how the company implemented the principle.

In **Section C**, it mentions the corporate policies, procedures and/or other relevant information related to the principles subject to evaluation.

Section D includes additional information -not detailed in the previous sections- or other relevant information that the company freely decides to mention so that investors and different stakeholders can have a better understanding of the good governance practices implemented.

¹ The Good Corporate Governance Code for Peruvian Corporations (2013) can be checked in section: *Orientación– Gobierno Corporativo* [Guidance - Corporate Governance] at the Securities Market website: www.smv.gob.pe.

² The term “Senior Management” includes the general manager and the other managers.

**SECTION A:****Letter of Presentation³**

COFIDE is a Peruvian State-owned company with private shareholding, incorporated as a corporation. COFIDE capital stock is divided into three types of shares: “A”, “B Preferred” and “C”. The Peruvian State, represented by the *Fondo Nacional de Financiamiento de la Actividad Empresarial del Estado* (FONAFE) [National Fund for Financing State Enterprise Activity], a public-law company under the Economy and Finance sector, is the majority holder of the Corporation’s stock, with 99.18% of the total shares that make up the capital stock.

FONAFE is the holder of class “A” and “C” shares of the company’s capital stock. Class “A” shares represent 69.18% of the capital stock while Class “C” shares represent 30.00% of the capital stock, which may be listed in the stock exchange and/or any registry required to be traded in the stock exchange. CAF is the minority not-related-to-the-Peruvian-State shareholder. It is the holder of the Class “B Preferred” shares, which are shares with preferred dividend, without voting rights, representing 0.82% of the company’s capital stock.

Concerning good governance practices, COFIDE began to formalize its Good Corporate Governance (GCG) practices in March 2007 with the approval of the Good Corporate Governance Code (GCGC) and its implementation guide (ESME).

In January 2015, the Lima Stock Exchange [BVL, for its acronym in Spanish] published a new methodology and parameters for the assessment of good governance practices of the New Code for Peruvian Corporations (there are currently 31 principles for evaluation through 87 recommendations).

Under the BVL/IBGC [Good Corporate Governance Index] methodology, COFIDE was recognized for four consecutive years (2013-2016) by the BVL, after exceeding the minimum score according to the evaluations made by a certified independent consultant (MC&F and PCS during 3 years and 1 year, respectively). As part of the strengthening of COFIDE's Corporate Governance, we have considerably advanced in the reinforcement of the risk management and a greater segregation of duties, the creation of the Compliance Department, the implementation of an anonymous ethical line, the strengthening of the Audit, Ethics and Compliance Committee, some improvements in Regulations on the Board, the creation of Eligibility Committee and the Monitoring Committee, among other substantial improvements. Additionally, in 2019 we ranked 33th of the Top 40 Companies in the *La Voz del Mercado* [the Market Voice] ranking (BVL/EY), which places us in the best position compared to other public companies.

On the other hand, under the FONAFE GCGC self-assessment methodology, COFIDE has obtained, for seven consecutive years, a level of maturity 3 (High Partial Compliance) in its annual self- assessment, reaching 83.07% of compliance with the GCG principles according to the validation made by FONAFE for the 2019 fiscal year.

It is also noted that, in April 2015, COFIDE officially joined the Corporate Governance Framework for Development and became the 34th institution to endorse it. It is committed to playing an important role and being a promoter of corporate governance in Peru and in the region. The 11th Annual Corporate Governance Meeting for Financial Development Institutions, co-organized with CAF, was held on March 29 and 30, 2017 and was attended by financial entities, regulating bodies, local corporate governance experts, and the group members.

³ It describes the main actions implemented during the fiscal year in terms of good corporate governance practices that the Company deems relevant to highlight according to the five pillars included in the Good Corporate Governance Code for Peruvian Corporations (2013): Shareholders’ rights, Shareholders’ Meeting, Board of Directors and Senior Management, Risk and Compliance, and Information Transparency..

**SECTION B:****Assessment of Compliance with the Principles of the Good Governance Code for Peruvian Companies****PILAR I: Shareholder's Rights****Principle 1: Parity treatment**

Question I.1	Yes	No	Explanation
<i>Does the company recognize it gives all shareholders belonging to the same class and sharing the same conditions an egalitarian treatment? ^(*) ?</i>	X		The Company expresses its total adherence to the standard contained in the Principle, as evidenced in: - Corporate bylaws - COFIDE GCG Code (Principle 12, Equitable Treatment for Minority Shareholders). There is no evidence of any statement in opposition to equal treatment. Bylaws do not contain any articles related to preferential treatment to any shareholder.

(*) "Same conditions" refers to the shareholders' defining characteristics, or a common characteristic in their relationship with the company (institutional investors, non-controlling investors, etc.). It must be noted that this by no means implies the use of inside information.

Question I.2	Yes	No	Explanation
<i>Does the society promote only the existence of voting share classes?</i>		X	The company has class "B Preferred" shares, preferred dividend shares (without voting rights), representing 0.818011% of its capital stock.

a. Regarding the company's capital, specify:

Equity capital by the end of the fiscal year	Paid-up capital by the end of the fiscal year	Total number of shares representing the capital stock	Number of voting shares
1,911,926,954	1,911,926,954	1,911,926,954	1,896,287,189



b. In case the company has more than one class of stock, specify:

Class	Number of shares	Nominal value	Rights(*)
Class "A"	1,322,709,103	S/. 1	They are not subject to attachment, usufruct, or seizure.
Class "C"	573,578,086	S/. 1	Shares are freely traded and listed in the stock exchange and/or any registry necessary to be traded on a stock exchange, previous resolution adopted by the Board of Directors.
Class "B Preferred"	15,639,765	S/. 1	They are preferred, redeemable Preferred" or callable; actions without voting rights; they accrue preferred and cumulative dividend on an annual basis.

(*) Specify in these boxes the particular defining rights of each class of stock.

Question I.3	Yes	No	Explanation
<i>In case the company has investment shares, does it promote redemption policies, or voluntary exchange of investment shares for ordinary shares?</i>		X	Not applicable. The company has no investment shares.

Principle 2: Shareholder's participation

Question I.4	Yes	No	Explanation
<i>a. Does the company establish the forms of share representation, and the person appointed for registering the shares in its corporate documentation?</i>	X		The company specifies share classes in Section 8 of the Bylaws. Additionally, such section states that the Chairman of the Board and one Director of the company are responsible for signing share certificates. Neither COFIDE Bylaws nor any other internal corporate document imposes limitations to representations at the Shareholders' Meeting.
<i>b. Is the share certificate book permanently updated?</i>	X		The Company expresses its total adherence to the standard contained in the Principle, as evidenced in the share certificate book.



Mention how often is the share certificate book updated after being notified of an amendment.

Frequency:	Within the forty-eight hours	
	Weekly	
	Others/Describe (in days)	<p>The company updates the share certificate book within a 15-business-day term approximately, counted from the registration of the amendment to the Bylaws (Section 7 – capital stock).</p> <p>Legal Basis:</p> <ul style="list-style-type: none"> - FONAFE Executive Director’s Resolution No. 077-2013/DE-FONAFE, approving the “Guidelines for the Issuance and Control of Representative Shares of the Capital Stock issued in favor of FONAFE by related companies” (Subsections 5.1 and 5.2.) - Regulations on the Registry of Insurance Brokers and Loss Adjuster and Surveyor, approved by SBS Resolution No. 1797-2011 (Sect. 14).

Principle 3: Non-dilution of participation in capital stock

Question I.5	Yes	No	Explanation
<i>a. Is it a policy of the company that the Board’s proposals regarding corporate operations impacting on the shareholders’ non-dilution right (i.e. mergers, spin-offs, equity increase, among others) shall be previously explained by the Board through a detailed report containing the independent opinion of a recognized, professional external advisor appointed by the Board?</i>	X		The company has not participated in corporate operations that may impact the shareholders’ non-dilution right. However, Sect. 26 subparagraph o) of the Bylaws refers to the non-dilution right of shareholders as a function of the Board of Directors: “To inform all shareholders prior to the Shareholders’ Meeting, about any corporate operations that the Company may carry out and affect the shareholders’ non-dilution right.”
<i>b. Is it a policy of the company that they must make available to the shareholders the above-mentioned reports?</i>	X		Sect. 26 of the Bylaws sets the communication policy. In addition, it is noteworthy to mention that since the Company has a single minority shareholder, information and explanations are directly provided to it.

In case the company has carried out corporate operations under Question I.5, item a, and has independent directors ^(*), say in all cases:

	Yes	No
Did all independent directors vote positively in favor of the appointment of an external adviser?		



Did all independent directors clearly express their approval of the previously mentioned report, and supported, when pertinent, the rationale of their unconformity?		
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(*) Independent directors are selected based on their professional experience, reputation, sufficiency and economic independence and non-relationship with the company, its shareholders, or directors.

Principle 4: Information and communications to shareholders

Question I.6	Yes	No	Explanation
<i>Does the company appoint the staff or determines the means so that the shareholders receive or request timely, reliable, and accurate information?</i>	X		<p>The Company expresses its total adherence to the standard contained in the Principle.</p> <p>According to the Organization and Function Regulations and Organization and Function Manual, (ROF and MOF, for its acronym in Spanish, respectively), the Legal Advisor and Compliance Officer is responsible for delivering information upon request and managing the transparency website following the applicable regulations.</p> <p>On the other hand, according to Sect. 17 of the Bylaws: "Shareholders have the right to receive and to request timely, reliable and accurate information, which enables them to protect their rights suitably, as well as permanent access mechanisms through which they can express their opinion about the Company".</p>

a. Specify the means through which shareholders receive and/or request information about the corporation.

Means of Communication	Receiving Information	Requesting Information
E-mail	X	X
Telephone	X	X
Corporate website	X	X
Mail	X	X
Informative Meetings	X	X
Others (describe)	FONAFE Electronic Document Exchange System (SIED, for its acronym in Spanish)	



b. Does the company have a maximum deadline for answering information shareholders' requests? If the answer is Yes, how long is it?

Maximum term (days)	10
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Question I.7	Yes	No	Explanation
<i>Does the company have any mechanisms in place for shareholders to express their opinion on its performance?</i>	X		<p>The Company expresses its total adherence to the recommendation contained in the Principle, as evidenced by:</p> <p>With the majority shareholder: SIED between FONAFE and COFIDE.</p> <p>Evidence: Executive Director's Resolution 027-2011/DE-FONAFE that approves the Guidelines for the Electronic Document Exchange System (SIED) for Digital Signatures and Electronic Information Exchange between FONAFE and its related companies.</p> <p>With the minority shareholder: Email.</p> <p>Evidence: Sect. 17° of the Bylaws states the following: "Shareholders have the right to receive and to request timely, reliable and accurate information, which enables them to protect their rights suitably, as well as permanent access mechanisms through which they can express their opinion about the Company".</p>

If the answer to the previous question is Yes, give details of the company's mechanisms for shareholders to express their opinion on its performance.

E-mail FONAFE Electronic Document Exchange System (SIED)



Principle 5: Dividends distribution

Question I.8

	Yes	No	Explanation
<p>a. <i>Is the compliance with the dividend policy evaluated over a defined period?</i></p>	X		<p>The Company expresses its total adherence to the recommendation contained in the Principle.</p> <p>The Annual Shareholders' Meeting is held in order to be aware of the Company's annual results, to approve the dividend policy or perform any pertinent evaluations.</p> <p>Additionally, the Shareholders' Meeting held on November 10, 2017 unanimously approved the COFIDE current Dividend Policy, which applicable for the 2019 fiscal year.</p>
<p>b. <i>Are shareholders aware of the dividend policy through the corporate website, among other means of communication?</i></p>	X		<p>The Company expresses its total adherence to the recommendation contained in the Principle.</p> <p>The dividend policy is included in the Annual Report, which is published on the corporate website. Furthermore, it is reported to the SMV as a relevant event [<i>Hechos de Importancia</i>].</p>

a. Specify the company's dividend policy applicable to the fiscal year.

Approval date	03/29/2019
Dividend Policy (criteria for the distribution of profits)	<p>"Income distributed to Class "A" and Class "C" shareholders of the company for the 2019 fiscal year will be delivered as cash dividend. Likewise, dividends to Class "B Preferred" shareholders will be delivered in accordance with Section 8 of the Bylaws.</p> <p>Cash dividends to the shareholders will be distributed within thirty (30) calendar days after the date of the Annual Shareholders' Meeting that approves the distribution. The Board is responsible for taking the necessary measures to make facilitate the distribution.</p>

b. Mention the cash dividends and stock dividends distributed by the company during the current fiscal year and the previous one.



Per share	Dividends per share			
	Current fiscal year 1/		Previous fiscal year 2/	
	Cash Dividends	Stock Dividends	Cash Dividends	Stock Dividends
Class A and C	0.00		0.00	
Class B Preferred	1,868,048.66		1,680,007.81	

1/ 2019 cash dividends correspond to the 2018 fiscal year earnings.
2/ 2018 cash dividends correspond to the 2017 fiscal year earnings.

Principle 6: Takeover or change of control

Question I.9	Yes	No	Explanation
<i>Does the company have policies or agreements regarding not adoption of any take-over mechanisms?</i>	X		Not applicable. According to COFIDE stock structure, it is very unlikely that a third party takes control of the Company. The Peruvian State (represented by FONAFE) is responsible for decisions regarding changes or take-over.

Specify if your company has taken any of the following measures:

	Yes	No
A minimum number of shares required to become a director		X
A minimum amount of years as director in order to be appointed as President of the Board		X
Compensation agreements for executives/officers for any changes resulting from a takeover bid.		X
Other similar measures, describe		

Principle 7: Arbitration to solve disputes

Question I.10	Yes	No	Explanation
<i>a. Do the company's Bylaws include an arbitration agreement section that recognizes that any disputes among shareholders or between shareholders and the Board, as well as any challenge to the GSM and Board resolutions by the corporation's shareholders will be subject to arbitration in law?</i>	X		The corporation considers sufficient the enforcement of the law and other applicable regulations.
<i>b. Does that section enable an independent third party to settle the disputes, except in the case of legal reserve seen in ordinary courts?</i>	X		The corporation considers sufficient the enforcement of the law and other applicable regulations.



If any shareholders or any persons involved in the company have challenged to the GSM or Board resolutions during the fiscal year, specify how many.

Number of challenges to the GSM resolutions	Not applicable
Number of challenges to the Board resolutions	Not applicable

PILAR II: General Shareholders Meeting

Principle 8: Function and competence

Question II.1	Yes	No	Explanation
<i>Is the GSM the sole and not delegable responsible for the approval of the remuneration policy of the Board?</i>	X		According to Section 19 of the Bylaws, the sole and non-delegable function of the GSM is to approve the remuneration policy of the Board.

Indicate if the following functions are exclusive of the GSM; if the answer is No, specify the organ responsible for.

	Yes	No	Organ
Causing to conduct special investigations and audits		X	Board of Directors/ GSM / General Accounting Office
Agreeing the amendments to the Bylaws	X		
Agreeing the increase of the capital stock	X		
Agreeing the distribution of interim dividends	X		
Agreeing the external auditors		X	General Accounting Office

Principle 9: Regulations of the General Shareholder's Meeting

Question II.2	Yes	No	Explanation:
<i>Does the corporation have Regulations for the GSM, which are binding, and whose non-compliance shall give rise to liabilities?</i>		X	At the end of 2019, the Guidelines for the formulation and approval of the GSM Regulations (EPE, for its acronym in Spanish) under the scope of FONAFE is pending approval. However, the Bylaws include the main aspects that should be considered in the GSM Regulations.



If there are GSM Regulations, specify if they establish procedures for:

	Yes	No
Calling the meeting		
Adding agenda items by shareholders		
Providing shareholders with additional information for the meetings		
The course of the meetings		
The appointment of members of the Board		
Other relevant procedures, detail		

Principle 10: Calling mechanisms

Question II.3	Yes	No	Explanation
<p><i>In addition to the calling mechanisms established by law, does the company have calling mechanisms that allows to contact the shareholders, particularly those who do not participate in the control or management of the company?</i></p>	X		<p>At present, CAF holds class "B Preferred" shares, that is, shares with preferred dividend, NON-voting shares. As they are not voting shares, they do not count in determining whether a quorum is present. FONAFE (current holder of classes "A" and "C" common voting shares) is the sole shareholder holder of voting shares that participates in Shareholders' Meetings. Since it holds 100% of the shares, it can meet at any time without a call (meeting is held unanimously by the shareholder representing 100% of capital stock).</p> <p>However, if of the Shareholders' Meeting where the agenda items include the increase or reduction of capital stock (or transfer of shares); the company shall timely inform the holder/s of the class "B Preferred" shares so that they can exercise the rights recognized in the Peru's General Law of Corporations, such as those in Section 95. Notwithstanding the foregoing, according to Section 26 "or" the bylaws, the Company shall timely inform the shareholders on the agenda items to be discussed in the GSM and the decisions made.</p> <p>Another relevant call mechanism is to send timely information through e-mails and letters to the sole holder of non-voting shares and to the sole holder of voting shares.</p>



	<p>The company expresses its total adherence to the recommendation contained in the Principle, as evidenced by:</p> <ul style="list-style-type: none"> - The Good Corporate Governance Code. - The quorum required for holding the general meetings, which evidences the decision making by universal vote. - The minutes of the General Shareholders' Meeting certifies that CAF, the sole holder of class "B Preferred" non-voting shares attends and expresses its will with respect to the agreed stock variation, exercising its rights in accordance with the law or waiving them.
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a. Complete the following information for each Meeting held in the fiscal year:

Calling date	Meeting date	Venue of the Meeting	Type of meeting		Universal Meeting		Quorum %	# of attending shareholders	Participation (%) of the total amount of shares with voting rights		
			Special	General	Yes	No			By proxy	Direct exercise (*)	Did not exercise voting right
02/01/2019	02/01/2019	FONAFE Headquarters		X	X		100	1	100		Voting right exercised (FONAFE)
02/12/2019	02/12/2019	FONAFE Headquarters		X	X		100	1	100		Voting right exercised (FONAFE)
03/29/2019	03/29/2019	FONAFE Headquarters		X	X		100	2	100		Voting right exercised (FONAFE) CAF has non-voting shares
06/28/2019	06/28/2019	FONAFE Headquarters		X	X		100	1	100		Voting right exercised (FONAFE)
07/08/2019	07/08/2019	FONAFE Headquarters		X	X		100	1	100		Voting right exercised (FONAFE)
10/03/2019	10/03/2019	FONAFE Headquarters		X	X		100	1	100		Voting right exercised (FONAFE)
12/17/2019	12/17/2019	FONAFE Headquarters		X	X		100	1	100		Voting right exercised (FONAFE)
12/24/2019	12/24/2019	FONAFE Headquarters		X	X		100	1	100		Voting right exercised (FONAFE)

(*) Direct exercise includes voting by any means or form not implying representation.



- b. What means, other than those mentioned in Section 43 of Peru's General Law of Corporations and the provisions in the Regulations on Relevant Events and Reserved Information, did the company use to publish the callings to the Shareholders Meetings during the fiscal year?

E-mail	X	Mail	
Telephone	X	Social media	
Corporate website	X	Others /Specify	SIED

Question II.4

	Yes	No	Explanation
<i>Does the corporation provide shareholders with all the information regarding the agenda items of the GSM, and the proposed resolutions (motions) to be adopted?</i>	X		<p>The company expresses its total adherence to the recommendation contained in the Principle.</p> <p>Notwithstanding all GSMs are held unanimously by the shareholder representing 100% of capital stock, (Sec. 15 of the company's bylaws), the two shareholders (FONAFE and CAF) are directly informed through letters and other means indicating the agenda items to be discussed. This agenda items are fully consistent with the Agenda.</p>

Did the callings make by the company during the fiscal year?

	Yes	No
Specify where to find the information regarding the agenda items to be discussed at the meetings?	X	
Include as agenda items "Other matters", "Miscellaneous" or similar terms?	X	

Principle 11: Proposal for agenda items

Question II.5

	Yes	No	Explanation
<i>Do GSM Regulations include mechanisms that enable shareholders to exercise their right to propose agenda items to be discussed at the GSM, and procedures to accept or refuse those proposals?</i>		X	<p>At the end of 2019, the Guidelines for the formulation and approval of the GSM Regulations for State-owned companies under the scope of FONAFE is pending approval.</p> <p>While, General Shareholder Meetings are held unanimously by the shareholder representing 100% of capital stock, CAF can formulate proposals for the agenda items to be discussed at any stage of the meeting.</p>



- a. Indicate the number of requests presented by shareholders to include items on the agenda of to be discussed at the GSM during the fiscal year and their results:

Number of requests		
Received	Accepted	Rejected
0	0	0

- b. In case any requests to include items in the agenda of the GSM have been rejected during the fiscal year, state whether the company justified this decision to the requesting shareholders.

Yes

No

Principle 12: Procedures for voting

Question II.6	Yes	No	Explanation
<p><i>Has the company implemented mechanisms to enable shareholders to vote remotely using safe means, online or by mail, which guarantee that the person casting the vote is really the shareholder?</i></p>	X		<p>The company expresses its total adherence to the recommendation contained in the Principle.</p> <p>FONAFE is the only shareholder with voting rights. FONAFE holds 99.2% of the capital stock (CAF owns 0.8%). Its headquarters and address are in the province and department of Lima. The company has technological mechanisms that facilitate the attendance and remote participation of shareholders in real time, in accordance with section 21-A of the Peru's General Law of Corporations.</p> <p>These mechanisms are implemented according the provisions of the Executive Director's Resolution 073-2019/DE-FONAFE, which approves the Guidelines for the Electronic Document Exchange System (SIED). This document is in force and applicable to all the companies under the scope of FONAFE.</p>

- a. If applicable, specify the mechanisms or means the company has in place for remote voting.

Voting by electronic means	X	Voting by mail	
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b. In case remote voting was used during the fiscal year, provide the following information:

Meeting date	Remote Voting (%)				Remote Voting (%) / total
	E-mail	Corporate website	Post	Others	

Question II.7	Yes	No	Explanation
<i>Does the company have corporate documents that clearly specify that shareholders may vote separately on those matters that are substantially independent, so that they may exercise their voting preferences separately??</i>	X		Not applicable because during the fiscal year 2019, the only shareholder with voting right was FONAFE.

State whether the company has corporate documents that clearly specify that shareholders may vote separately for:

	Yes	No
The appointment or ratification of directors by voting individually for each of them.		X
The amendment of the Bylaws, for each article, or group of articles that are substantially independent.		X
Others, describe	Not Applicable. In 2019 FONAFE was the only shareholder.	

Question II.8	Yes	No	Explanation
<i>Does the corporation enable proxies representing several shareholders to cast differentiated votes for each shareholder so that they comply with the instructions of each principal?</i>	X		At the end of 2019, the Guidelines for the formulation and approval of the GSM Regulations for State-owned companies under the scope of FONAFE is pending approval by FONAFE. There is no statutory prohibition on this respect. As mentioned above, in 2019 there was only one shareholder holding 100% of the voting shares (FONAFE).



Principle 13: Delegation of votes

Question II. 9	Yes	No	Explanation:
<i>Do the company's Bylaws allows its shareholders to vote by proxy?</i>	X		The company expresses its total adherence to the recommendation contained in the Principle. Notwithstanding the company has only one shareholder with voting rights, neither the Company's bylaws nor any other COFIDE internal corporate document impose any limitations on votes by proxy.

If the answer to the previous question was No, indicate whether the Bylaws restrain the right of representation to any of the following persons:

	Yes	No
Another shareholder		
A director		
A manager		

Question II.10	Yes	No	Explanation:
<i>a. Does the company have in place procedures that describe the conditions, means and formalities to be complied with votes by proxy?</i>	X		FONAFE is the only holder of voting shares and has the technological tools to exercise its right.
<i>b. Does the company make available to the shareholders with a template for a proxy, which should include data on the proxies, the issues for which the shareholder appoints a proxy to vote, and when applicable, how the vote should be cast for each proposal?</i>	X		FONAFE is the only shareholder with voting rights and appoints its proxies through an official letter. For the minority shareholder, there is a base model.

Mention the requirements and formalities required for a shareholder to act by proxy at the Meeting:

Formality (state if the corporation requires a simple letter, notarized letter, notarial instrument or other).	Simple letter
Advance notice (number of days before the meeting is held that the proxy must be submitted).	It has not been defined since in 2019 there was only one shareholder holding 100% of the voting shares.
Cost (state if there is any payment required by the company for this purpose, and the cost).	None



Question II.11	Yes	No	Explanation
a. Does the company have a policy on limiting the percentage of votes by proxy to members of the Board and Senior Management?		X	In 2019 there was only one shareholder who held 100% of the voting shares (FONAFE) and exercised its vote without proxy.
b. Whenever members of the Board or Senior Management are appointed as proxies, does the company have a policy establishing that shareholders voting by proxy should clearly instruct how their votes should be cast?		X	In 2019 there was only one shareholder who held 100% of the voting shares (FONAFE).

Principle 14: Monitoring GSM agreements

Question II.12	Ye	No	Explanation:
a. Does the company monitor the agreements reached at the GSM?	X		<p>The company expresses its total adherence to the recommendation contained in the Principle.</p> <p>The company, through its Regulatory Compliance Officer, monitors the resolutions adopted at the General Shareholders' Meeting.</p> <p>Likewise, the Board of Directors is responsible for ensuring compliance with the provisions of the General Shareholders' Meetings pursuant to the provisions of the Company's Bylaws and the Organization and Function Regulations.</p>
b. Does the company issue periodical reports to the Board and are then available to shareholders?	X		The company's different management offices issue reports to the Board of Directors, which are available to shareholders. The monthly reports submitted to the Board of Directors include information on the implementation of the resolutions of the General Shareholders' Meeting, if applicable, and this information is also available to FONAFE (shareholder).

If applicable, mention the area and/or responsible person for monitoring the resolutions adopted at the GSM. In case there is one person is in charge, specify their position and area.

Responsible Area	Legal Advice Management
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PERÚ

DECENIO DE LAS PERSONAS CON DISCAPACIDAD EN EL PERÚ - AÑO DE LA PROMOCIÓN DE LA INDUSTRIA RESPONSABLE Y DEL COMPROMISO CLIMÁTICO

Responsible Person		
Name	Position	Area
Pursuant to Resolution No. 042-2019 of Session 941 dated March 29, 2019, Marco Roncagliolo Vásquez was appointed as Regulatory Compliance Officer.	Chief Legal Advice Officer	Legal Advice



PILAR III: BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Principle 15: Board composition

Question III.1	Yes	No	Explanation
<i>Is the Board made up by persons with different fields of study and skills, with prestige, ethics, economically independent, who are available to attend the Board's sessions and other qualities relevant to the company, so that there is a plurality of approaches and opinions?</i>	X		The company expresses its total adherence to the recommendation contained in the Principle.

- a. Provide the following information about the members of the company's Board during the fiscal year.

Name	Professional Training (*)	Date		Equity holding (****)	
		Start (**)	End (***)	Number of shares	Int. (%)
Directors (excluding independent ones)					
Pedro Luis Tirso Grados Smith	Economist with experience in Finance, Internal Control and Risk Management.	10/01/2016	02/01/2019	0	0
Carlos Adrián Linares Peñaloza	Economist with experience in investment and risk analysis, and public finance.	02/01/2019		0	0
José Andrés Olivares Canchari	Economist with experience in risk management, public finance and financial market management. In 2019 he was member of 2 other	08/18/2018		0	0



	Boards of Directors: SEDAPAL [Water utility] and Banco de la Nación.				
Carlos Augusto Oliva Neyra	Economist with experience in International Finance and Public Finance. He held positions as Director of the Central Reserve Bank of Peru and Minister of Economy and Finance.	12/22/2019		0	0
Independent Directors					
Milagros Doris Maraví Sumar	Lawyer, with experience in Administrative, Constitutional Law and Arbitration; Public Administration; and researcher in institutional reforms.	10/06/2018		0	0
Jaime Javier Reusche Lummis	Economist with experience in Investment Banking, Risk Management and Public Finance.	07/06/2019	12/18/2019	0	0
Marco Antonio Castillo Torres	Economist with studies in economic policy and experience in consultancy on strategic planning, development banking and investment funds.	02/12/2019		0	0

(*) Also indicate if the Director participates in other Boards at the same time, specifying the number and if they form part of the economic group of the reporting Company. Accordingly, please consider the definition of economic group contained in the Regulations on Indirect Ownership, links, and Economic Groups.

(**) Corresponds to the first appointment at the reporting Company.

(***) Complete only if the Director resigned during the reporting year.

(****) Mandatory only for Directors holding 5% or more of the capital stock of the reporting Corporation.



Percentage of shares held by directors	0%
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State the number of the company's directors who belong to each of the following age-ranges:

Under 35	Between 35 and 55	Between 55 and 65	Over 65
	2	5	

b. State whether there are specific requirements to be appointed as President of the Board, other than those requirements to be appointed as director:

Yes No

If the answer to the previous question was Yes, specify those requirements.

c. Does the President of the Board have a casting vote?

Yes No

Question III.2

	Yes	No	Explanation:
<i>Does the company avoid appointing deputy or alternate directors, especially due to quorum reasons?</i>	X		The company expresses its total adherence to the recommendation contained in the Principle. COFIDE has not appointed or had alternate Directors in the past years; however, the Bylaws do not consider the appointment of deputy or alternate Directors.

In case there are deputy or alternate directors, specify:

Full name of deputy or alternate director	Start (*)	End (**)

(*) Corresponds to first appointment as deputy or alternate Director in the reporting Corporation.
(**) Complete only if left the position of alternate Director during the reporting year.



Question III.3	Yes	No	Explanation
Does the company disclose the names of the directors, their independent status, and their resumes?	X		By clicking on the link of GCG at COFIDE website, the profile (resume) of each Director is shown. The company expresses that it shall totally adhere to the recommendation contained in the Principle.

Mention how the company discloses the following information on the Directors:

	E-mail	Company website	Post	Not informed	Others/ Describe
Name of directors		X			
Their independent status				X	
Resume		X			

Principle 16: Functions of the Board

Question III.4	Yes	No	Explanation:
Does the Board perform the following functions? a. To approve and lead the company's strategy?	X		This function is included in the Regulations on the Board. The issues related to the corporate strategy are recorded in the minutes of the Board of Directors of COFIDE. The most relevant issues have been ratified by the SGM.
b. To establish objectives, goals and plans of action including annual budgets and business plans?	X		This function is included in the Regulations on the Board. The issues related to the definition of goals and objectives, risk management, budgets and business plans, expenditure, investments, and others related to the business management and control are recorded in the minutes of the Board of Directors of COFIDE.
c. To control and supervise the management and be responsible for the company's governance and administration?	X		This function is included in the Bylaws and Regulations on the Board. The issues related to the definition of goals and objectives, risk management, budgets and



		business plans, expenditure, investments, and others related to the business management and control are recorded in the minutes of the Board of Directors of COFIDE.
d. To supervise good corporate governance practices and establish the policies and measures required to improve their implementation?	X	This function is included in the Bylaws and Regulations on the Board. The Board of Directors meets in plenary session as a Corporate Governance Committee. It is informed on the progress in specific governance principles every semester and the on self-assessments under SMV and FONAFE methodologies on an annual basis.

a. Describe other relevant functions of the company's Board of Directors.

BYLAWS: Section 26

"ñ) To approve the issuance of non-convertible debt instruments, including subordinated bonds, whose characteristics do not include their convertibility."

b. Does the Board delegate any of its functions?

Yes No

State, if applicable, which are the main functions of the Board that have been delegated, and to which body:

Functions	Body/area to which functions are delegated
<p>According to levels of autonomy:</p> <ul style="list-style-type: none"> To grant ordinary sureties or joint and several sureties to third parties for businesses related to those of the company, fulfilling the applicable legal requirements. To grant and obtain loans and funds pursuant to the legal provisions in force 	Risk Committee

Principle 17: Duties and rights of the members of the Board

Question III.5	Yes	No	Explanation
<p>Are the members of the Board entitled to:</p> <p>a. Request to the Board assistance or support from experts</p>	X		The Board of Directors is entitled to perform any and all operations, acts or agreements it may deem necessary or convenient to achieve the company's goals.



<p><i>b. Participate in induction programs on their powers and responsibilities and to be timely informed on the company's organizational structure?</i></p>	<p>X</p>	<p>The induction procedure for directors in COFIDE implies the submission of internal information by the responsible area (legal area); the evidence of such submission is provided in a document of compliance duly signed.</p>
<p><i>c. Receive remuneration for their work, which combines recognition of their professional experience and the dedication they show to the company based on rationality?</i></p>	<p>X</p>	<p>The remuneration for the Directors is based on the Directive for Directors of the Companies where FONAFE participates as Shareholder, approved by Board Resolution No. 002-2004/008 FONAFE.</p> <p>The Second Final Transitory Provision of the Directive establishes that the professional experience referred to in paragraph a), Section 25 of Supreme Decree No. 072-2000-EF, as amended by Supreme Decree No. 028-2004-EF, involves the performance of any occupation, art or craft carried out on a regular basis.</p> <p>Section 25 of the Supreme Decree above mentioned regulates the requirements to be a director of the companies in which FONAFE participates as a shareholder.</p> <p>Paragraph "a)" of Section 25 requires Directors to have a minimum of five years of professional experience or ten years of proven experience in companies within the relevant industry or sector.</p>

a. In case specialized advisers were hired during the fiscal year, mention whether the list of specialized advisers to the Board, who provided their services related to the company's decision-making was made available to shareholders during the fiscal year.

Yes No

Mention, if applicable, whether any of the specialized advisers is related somehow to a member of the Board and/or Senior Management (*).

Yes No

(*) The relation criteria contained in the Regulations on Indirect Ownership, Links and Economic Groups will be applied for relation purposes.



b. State whether the corporation carried out induction programs for new members that joined the company.

Yes No

c. Express the total amount of director compensations and annual bonuses as a percentage of the gross income, according to the company's financial statements.

Compensations	Gross Income (%)	Bonuses	Gross Income (%)
Directors (excluding independent ones)	0.13%	Shares	0
Independent directors	0.05%	Stock Options	0
		Cash	0
		Others, describe	0

Principle 18: Board Regulations

Question III.6	Yes	No	Explanation
<i>Does the company have Regulations for the Board that are binding and whose non-compliance shall give rise to liabilities?</i>	X		COFIDE has a Regulation on the Board of Directors, which was approved at the General Shareholders' Meeting dated December 29, 2017 and amended at the General Shareholders' Meeting on June 28, 2019. The provisions set forth in this Regulation are mandatory for the members of the Board, CEO and those officers responsible for enforcing the resolutions adopted by COFIDE's governing body.

State whether the Regulations on the Board include:

	Yes	No
Operating policies and procedures	X	
Board's organizational structure	X	
Functions and responsibilities of the President of the Board	X	
Procedures for the identification, evaluation, and appointment of candidates eligible for the Board, proposed at the GSM		X
Procedures in case of vacancy, dismissal and succession of directors.	X	
Others, describe	These items are contained in the Bylaws.	



Principle 19: Independent directors

Question III.7	Yes	No	Explanation
<i>Is at least one-third of the Board is made up by independent directors?</i>	X		In 2019, COFIDE held sessions of the Board with three out of five independent directors, according to the relation and independence criteria for private companies supervised by the SMV. Furthermore, throughout 2019, sessions were held at least with one (01) independent Director.

Identify which of the following conditions the company takes into account when classifying its directors as independent:

	Yes	No
Not being a director or employee of a company of its same business group, unless three or five years, respectively, have elapsed since the termination of that relationship.	X	
Not being an employee of a shareholder, who has an equity interest equal or higher than 5% in the company.	X	
Not exceeding eight consecutive years as independent director of the company.	X	
Not having or not having had, in the past three years, a business commercial or contractual relationship, direct or indirect and of a significant nature ^(*) , with the company or any other company of the same group.	X	
Not being the spouse or having any first or second degree of consanguinity kinship, or in first degree of affinity, with shareholders, or members of the Board or the Senior Management of the company.	X	
Not being director or member of the Senior Management of another company where a director or member of the Senior Management is member of the Board.	X	
Not having been, in the last eight years, i) a member of the Senior Management or employee of the company; ii) a member of companies of the same group; or iii) member of companies holding shares of the company.		X
Not having been, in the last three years, partner or employee of the external Auditor or auditor of any company of the same group.	X	
Others, describe	For members of the Senior Management or employees of the company, it establishes 5 years pursuant the Regulations on the Board of Directors approved by FONAFE.	

(*) A business relationship will be considered significant when any of its parts has issued invoices or payments for more than 1% of their annual income.

Question III.8	Yes	No	Explanation
<i>a. Does the Board state that the proposed candidate is independent based on inquiries and on the candidate's statement?</i>		X	An independent director complies with the definition established in the current Regulations on the Board.



<p><i>b. Do candidates to independent directors state their condition as independent to the company, its shareholders and managers?</i></p>		<p>X</p>	<p>The Regulations on the Board of Directors were approved by GSM dated December 29, 2017 and amended by the GSM on June 28, 2019. From this date the Regulations were effective. However, the company could stipulate its adherence to this part of the Principle. Without prejudice of the foregoing, the Board of Directors is made up of experienced members, with sound knowledge and who have previously held senior positions in other companies. Additionally, they meet the competencies required for being eligible to the Board of Directors pursuant to Directive applicable to members of the board of companies where FONAFE is Shareholder.</p>
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Principle 20: Board’s operability

Question III.9	Yes	No	Explanation
<p><i>Does the board have a working plan to contribute to the efficiency of its functions?</i></p>	<p>X</p>		<p>The current Regulations on the Board establishes a Working Plan in accordance with the functions and responsibilities of the Board depending on its frequency. It is noteworthy to mention that, at the beginning of the year, the Secretary of the Board prepares a schedule of the Board sessions (2 sessions monthly). Likewise, the Board can use the management tools required to assess the efficient performance of its functions and the responsibilities according to the company’s Organization and Functions Regulations (ROF).</p>

Question III.10	Yes	No	Explanation:
<p><i>Does the corporation provide its directors with the channels and procedures needed to participate in the Board meetings efficiently, even in a remote manner?</i></p>	<p>X</p>		<p>The company expresses its total adherence to the recommendation contained in the Principle, as evidenced by FONAFE’s Corporate Management Directive (Section 3.2.2).</p>



			Likewise, in the second paragraph of section 6.6.6. Remote sessions of the Regulations on the Board it is stated that the Board will request the General Manager to implement channels and procedures that enable Directors to remotely participate in sessions.
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a. Mention the following regarding the Board sessions held during the fiscal year:

Number of meetings	35
Number of meetings held without calling notice (*)	0
Number of meetings held without the President of the Board	0
Number of meetings where one or more directors were represented by deputy or alternate directors	0
Number of senior directors who were represented at least once	0

(*) On this box, indicate the number of sessions held according to the provisions of the last paragraph of Section 167 of the General Law of Corporations.

b. Express the director's attendance to the Board sessions as percentage during the fiscal year.

Name	% of attendance
PEDRO GRADOS SMITH	9
CARLOS LINARES PEÑALOZA	91
MARCO ANTONIO CASTILLO TORRES	91
JOSÉ ANDRÉS OLIVARES CANCHARI	100
MILAGROS MARAVÍ SUMAR	100
JAIME JAVIER REUSCHE LUMMIS	40
CARLOS AUGUSTO OLIVA NEYRA	3

(*) Directors related to COFIDE considered during fiscal year 2019.

c. Please indicate how much time in advance is information on subjects to be dealt with in the meeting available to Directors.

	Less than 3 days	From 3 to 5 days	More than 5 days
Non-confidential information	X		
Confidential information	X		



Question III.11	Yes	No	Explanation:
a. <i>Does the Board objectively evaluate its performance of its members, both as governing body and itself acting as a body?</i>	X		The self-assessment of the Board of Directors as a governing body was carried out in accordance with the "Performance Assessment Methodology" provided by FONAFE.
b. <i>Is self-assessment alternated with assessments made by external advisers?</i>	X		The Board of Directors was assessed as a governing body under the responsibility of FONAFE.

a. State whether the Board's performance has been assessed during the fiscal year.

	Yes	No
As governing body	X	
Individual members	X	

If the answer to the previous question was Yes for any of the boxes, provide the following information for each assessment:

Assessment	Self-assessment		External assessment		
	Date	Published (*)	Date	Responsible Entity	Published (*)
As governing body	07/19/2019	YES	08/12/2019	FONAFE	YES
To its members	07/19/2019	YES	08/12/2019	FONAFE	YES

(*) Answer Yes or No, to state whether shareholders have been informed about the assessment.

Principle 21: Special committees

Question III.12	Yes	No	Explanation
a. <i>Does the Board create special committees to focus on the analysis of the most relevant aspects for the company's performance?</i>	X		The company has three Board Committees, which operations are regulated by the following documents: -Risk Committee Regulations -Audit, Ethics and Compliance Committee Regulations. -Remuneration and Good Corporate Governance Committee Regulations
b. <i>Does the Board approve the Regulations for each of the special committees it creates?</i>	X		The company has approved the regulations of the Board Committees.



c. Do independent directors chair special committees?		X	According to Resolution 272-2017SBS, the special committees are composed of members of the Board of Directors who do not hold an executive position in the company.
d. Are budgets assigned to the special committees?		X	Costs required for the implementation of the special committees are included in the institutional budget.

Question III.13	Yes	No	Explanation
<i>Does the company have an Appointments and Remunerations Committee in charge of appointing candidates to become members of the Board, which are proposed at the GSM by the Board, as well as approving the Senior Management's system of remunerations and incentives?</i>		X	Although the company has a Remuneration Committee which is responsible for making decisions or providing advice on remunerations, this committee is not in charge of appointing and/or remunerating the appointment of Board members since the regulations and laws for public sector companies apply.

Question III.14	Yes	No	Explanation
<i>Does the company have an Auditing Committee that supervises the efficiency and suitability of the company's system of internal and external control, auditing work by the company or an independent auditor, as well as its compliance with regulations on legal and professional autonomy?</i>	X		The company has an Audit, Ethics and Compliance Committee, which is regulated by the Regulations named after the committee.

State whether the company also has the following special committees in place:

	Yes	No
Risk Committee	X	
Corporate Governance Committee	X	

a. In case the company has special committees, provide the following information about each committee:

Committee's name:	AUDIT, ETHICS AND COMPLIANCE COMMITTEE
Creation date:	04/27/1993
Main functions:	- To monitor proper operation of the internal control and compliance system, as well as to provide support for the risk management system, in order to ensure compliance with internal objectives and regulatory requirements.



	<ul style="list-style-type: none">- To ensure that COFIDE's accounting, financial, and operational information reporting processes are reliable.- To supervise compliance with the provisions issued by <i>Superintendencia de Banca y Seguros</i> [The Superintendency of Banking and Insurance] (hereinafter, SBS for its acronym in Spanish), <i>Administradora Privada de Fondos de Pensiones</i> [Private Pension Fund Administrator] (AFPs for its acronym in Spanish), <i>Fondo Nacional de Financiamiento de la Actividad Empresarial del Estado</i> [National Fund for Financing State Entrepreneurial Activities] (hereinafter, FONAFE for its acronym in Spanish), and other regulatory bodies concerning COFIDE. To supervise compliance with internal policies and procedures according to the assessments carried out by the Compliance Unit, Internal Audit Unit, external auditors as well as regulatory and supervisory bodies.- To promote an ethical environment aligned to the institution's values and mission, as well as to monitor that these values and mission are adhered to.- To supervise and assess the internal and external audit's performance, as well as the result of their evaluations, ensuring their independence and ratifying the proper implementation of required recommendations and improvements.- To define a criteria to select and hire external auditors (in coordination with the Comptroller General of the Republic, and under the regulations in force), to establish supplementary reports for auditors to perform their functions or comply with legal requirements to the best of their abilities, as well as to inform about the evaluation results.- To ensure channels and procedures are available to receive and handle anonymous information on violations to the Code of Ethics or internal procedures or audits provided by interested parties, third parties or company employees, in order to protect their private information and anonymity, if so requested by the informant. Thus, it must also monitor these channel's proper operation and ensure that complaints related to accounting or financial fraud, or corruption involving a member of the General Management or Senior Management, will be submitted directly to the Committee for appropriate processing.
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Members of Committee (*): Names and Last Names	Dates		Position in Committee
	Start (**)	End (***)	
Carlos Linares Peñaloza	02/01/2019		President
Pedro Grados Smith	10/26/2017	01/31/2019	President
Milagros Maraví Sumar	01/2019		Member
Roxana Elías	11/23/2017	03/29/2018	Secretary
Nancy Quinteros	05/30/2019	08/01/2019	Secretary
Margiori Dolci	08/02/2019		Secretary
Percentage of independent directors in the committee	25%		
Number of sessions held during the fiscal year:	6		
Delegation of powers pursuant to Article 174 of General Companies Law:	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>	
The committee or its chairman participate in the General Shareholders Meeting	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>	

(*) Information on individuals who are or were part of the committee during the fiscal year will be provided.

(**) First appointment as member of the company's committee.

(***) To be completed only in case they were no members of the committee during the fiscal year.

Committee's name:	RISK COMMITTEE
Creation date:	04/04/2005
Main functions:	<p>1.- To approve, as a preliminary agency, policies and organization for COFIDE's comprehensive risk management, then, to submit them to the Board of Directors's approval.</p> <p>2.- To approve methodologies to comprehensively manage COFIDE's different types of risk.</p> <p>3.- To approve and recommend to the Board of Directors autonomy levels that can be assigned for members to carry out lending and borrowing operations, included or not in the balance sheet, as well as fiduciary operations and trust commissions.</p> <p>4.- To approve risk indicators that are key to the operational risk management.</p> <p>5.- To approve methodologies to determine prices and commissions for COFIDE's different products and services.</p> <p>6.- To approve exposures involving significant variations in COFIDE's risk profile, or assets managed under its responsibility,</p> <p>7.- To assess COFIDE's capital and liquidity adequacy to face risks and to alert it of possible shortfalls.</p> <p>8.- To approve lending and borrowing operations, included or not in the balance sheet, fiduciary operations and trust commissions, including financial structuring, investment banking, financial advice and other COFIDE's business modalities. To approve specific conditions for operations that fall within their authority according to existing policies and/or policies to be approved by the Board of Directors.</p>



	<p>9.- To monitor the different types of risks COFIDE deals with risk management reports, corrective measures and corresponding implemented improvements, in order to ensure compliance with the established policies through the risk management reports issued by the area in charge of risks. Said reports must be then to the Board of Directors.</p> <p>10.- To monitor the financial intermediaries' economic-financial situation, to approve their exposure limits as established by the policies, as well as to preapprove the admission of new financial intermediaries before the Board of Directors' approval.</p> <p>11.- To approve reports of risks related to new products and proposed or implemented control measures prior to their introduction, including market behavior aspects.</p> <p>12.- To approve reports on risks related to important changes in business, operating or IT areas, before they take place. To approve proposed or implemented risk management measures.</p> <p>13.- To comment on proposals and exceptions concerning the Regulations for Housing Loans to Employees and its amendments, before they are submitted to the Board of Directors for approval.</p>		
Members of Committee (*): Names and Last Names	Dates		Position in Committee
	Start (**)	End (***)	
Pedro Grados Smith	10/03/2016	02/01/2019	President
Carlos Linares Peñaloza	02/01/2019	02/20/2019	President
José Olivares Canchari	02/21/2019	01/08/2020	President
Marco Castillo Torres	01/15/2020		President
Carlos Linares Peñaloza	02/21/2019		Member
José Olivares Canchari	08/24/2018	01/08/2020	Member
Marco Castillo Torres	02/12/2019	01/15/2020	Member
Jaime Reusche Lummis	09/27/2019	12/24/2019	Member
Alex Zimmerman Novoa	02/01/2017	07/31/2019	Member
Allan Paul Bringas Arbocco(****)	08/01/2019	11/19/2019	Member
Gerardo Carlos Reinhold Freiberg Puente	11/20/2019		Member
Pedro Bordarampé Jeri	04/19/2017	05/08/2019	Member
César David Lazo Chafloque	05/09/2019	09/10/2019	Member
Hernán Vásquez Alzamora	07/17/2017	04/01/2019	Member
Marco Rafael Roncagliolo Vásquez	04/01/2019		Member
Silvia Dávila Oviedo	01/03/2019	05/06/2019	Member
Allan Paul Bringas Arbocco	05/06/2019		Member
José Vergara Oliveros	07/19/2017	10/16/2019	Member
Patricia Martina Del Aguila Tirado	10/16/2019	11/03/2019	Member



Elard Ludwick Arévalo Rengifo	11/04/2019		Member
Juan Carlos Mejía Prado	02/19/2018		Member
Carla Ishiyama Nieto	10/09/2018	03/31/2019	Secretary
Sandra Jáuregui Puertas	04/01/2019		Secretary
Percentage of independent directors in the committee			20%
Number of sessions held during the fiscal year:			35
Delegation of powers pursuant to Article 174 of General Companies Law:		Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
The committee or its chairman participate in the General Shareholders Meeting		Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>

(*) Information on individuals who are or were part of the committee during the fiscal year will be provided.

(**) First appointment as member of the company's committee.

(***) To be completed only in case they were no members of the committee during the fiscal year.

(****) Acting Chief Executive Officer.

Committee name:	REMUNERATION AND GOOD CORPORATE GOVERNANCE COMMITTEE
Creation date:	04/11/2019
Main functions:	<p>With respect to remunerations:</p> <ul style="list-style-type: none"> - To review and approve the remuneration system and its modifications, and to submit it to the Board of Directors for ratification, if applicable. - To review and approve proposals for modifications to COFIDE's different salary bands, salary increases and changes to the Remuneration and Salary Increase Policy, under the corresponding regulations. - To approve the progressive implementation of maximum annual income limits (TIMA for its acronym in Spanish) to management. - To review the criteria for bonus pay to employees and its modifications. To review the proposal to apply applying bonuses within the framework of the Management Agreement signed with FONAFE. - To establish criteria and indicators to determine the variable remuneration of the corporate's employees. <p>With respect to Good Corporate Governance:</p> <ul style="list-style-type: none"> - To review and approve the policies, guidelines and rules related to Good Corporate Governance issues, as well as their submission to the Board of Directors for ratification, if applicable. - To review and approve the reports (quarterly and annual) on compliance with Good Corporate Governance practices, which shall be reported to the Board of Directors. - To review and approve the proposals for improvement in good corporate governance practices to be implemented in Cofide. - To ensure the adequate dissemination and application of good corporate governance practices in Cofide. - To approve the annual good corporate governance work plan.

Members of Committee ^(*) : Names	Dates		Position in Committee
	Start ^(**)	End ^(***)	



Carlos Linares Peñaloza	04/11/2019		President
Marco Castillo Torres	04/11/2019		Member
Milagros Maraví Sumar	04/11/2019		Member
Allan Paul Bringas Arbocco(****)	08/01/2019	11/19/2019	Member
Gerardo Carlos Reinhold Freiberg Puente	11/20/2019		Member
Marco Roncagliolo Vásquez	04/11/2019		Member
Sandra María Jauregui Puertas	04/11/2019		Member
Eveling Nathalie Sihuacollo Liñán	04/11/2019		Member
Karina Flores Rodas	08/01/2019		Secretary
Percentage of independent directors in the committee	67%		
Number of sessions held during the fiscal year:	3		
Delegation of powers pursuant to Article 174 of General Companies Law:	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>	
The committee or its chairman participate in the General Shareholders Meeting	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>	

- (*) Information on individuals who are or were part of the committee during the fiscal year will be provided.
- (**) First appointment as member of the company's committee.
- (***) To be completed only in case they were no members of the committee during the fiscal year.
- (****) Acting Chief Executive Officer.

Principle 22: Code of Ethics and conflicts of interests

Question III.15	Yes	No	Explanation
<i>Does the company have measures in place to prevent, detect, manage, and expose any conflicts of interests that may arise?</i>	X		COFIDE has a Conflict Management Policy and is responsible for complying with it as well as for providing guidelines to identify any conflict of interest and its definition; the Board of Directors evaluates, at least once a year, the effectiveness of said conflict management policies.

Specify, if applicable, the area and/or person responsible for follow-up and control of possible conflicts of interests. If there is a person in charge, specify their position and work area.



Responsible Area	Internal Audit Department
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Responsible Person		
Name	Position	Area
Margiori Dolci Bonilla	Chief Internal Audit Officer	Internal Audit Department

Question III.16 / Compliance	Yes	No	Explanation
	<i>a. Does the company have a Code of Ethics (*) that comprises ethical criteria and professional responsibility, including how to handle possible conflicts of interests, and whose compliance is mandatory for the company's directors, managers, officials and all employees(**)?</i>	X	
<i>b. Does the Board or General Management approve training programs for Code of Ethics compliance?</i>	X		The General Management approves the annual training plan, which includes an annual training on the Code of Ethics.

(*) The Code of Ethics can be part of the Internal Business Conduct Guidelines.

(**) The term "employees" is applicable to all persons that have a work relationship with the company, regardless of their regime or work system.

If the company has a Code of Ethics, specify the following information:

a. The Code of Ethics is available to:

	Yes	No
Shareholders	X	
Other persons to whom it is applicable	X	
General public	X	

b. Specify the area and/or person responsible for follow-up and control of the Code of Ethics. If a person is in charge, specify their position, work area and to whom they report.

Responsible Area	Human Resources and Administration Management		
Responsible Person			
Name	Position	Area	Reports to
Karina Flores Rodas	Chief Human Resources and Administration Officer	Human Resources and Administration	General Management



c. Is there a record of Code of Ethics non-compliance cases?

Yes No

d. Specify the number of Code of Ethics non-compliance cases detected or reported during the fiscal year.

Number of compliances	0
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Question III.17	Yes	No	Explanation
a. Does the company have mechanisms in place to allow reporting illegal or unethical behavior, in such a way that the anonymity of the complainant is guaranteed?	X		There are certain measures in case of violation to the Code of Ethics, policies, and/or corporate proceedings. The program managing these cases is called <u>Servicio de Línea Ética, (Ethics Line Service)</u> , which ensures secure, anonymous, and confidential reporting.
b. Are the complaints presented directly to the Audit Committee when they are related to accounting issues, or when Finance Management or General Management is involved?	X		Complaints will be referred directly to the Internal Audit Unit.

Question III.18	Yes	No	Explanation
a. Is the Board responsible to follow-up and control possible conflicts of interests that may arise within the Board?	X		It is the responsibility of the Board of Directors to solve any conflict of interest involving members of COFIDE's Board of Directors. Such responsibility is stated by the Conflict Management Policy.
b. In case the company is not a financial institution, is it established as a policy that the Board members are prohibited from receiving loans from the company or any company from the group, except when explicitly authorized by the Board?		X	Not applicable. The Company is a financial institution.
c. In case the company is not a financial institution, is it established as a policy that the Senior Managers are prohibited from receiving loans from the company or any company from the group, except when explicitly authorized by the Board?		X	Not applicable. The Company is a financial institution.

a. Specify the following information for Senior Managers that are shareholders of the company with a 5% or higher participation.



Name	Position	Number of shares	Participation percentage

Percentage of shares held by Senior Manage	
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b. Specify if any members of the Board or of Senior Management is spouse or parent in first or second degree of any shareholders, other directors or Senior Managers:

Name	Related to:			Name of Shareholder / Director / Manager	Relationship type (**)	Additional Information (***)
	Shareholder (*)	Director	Senior Mgmt.			

(*) Shareholders with 5% participation or greater.

(**) For relationship purposes, we apply the relation criteria included in the Indirect Property, Association and Economic Groups Regulations.

(***) If there exists a relationship with any shareholder, specify their participation percentage. If the relationship is with a manager, specify their position.

c. In case any member of the Board holds or has held any management role in the company during the fiscal year applicable for this report, specify the following information:

Name	Management role held	Period in Management role	
		Start (*)	Start (*)

(*) Corresponds to the first appointment to a management role within the company.

(**) To be completed only if the person left the management role during the fiscal year.

d. In case any member of the Board or of Senior Management has had any important (according to its amount of nature) commercial or contractual relationship with the company during the fiscal year, specify the following information.

Name	Relationship type	Brief Description



Principle 23: Operations with parties

Question III.19	Yes	No	Explanation
<p>a. <i>Does the Board have procedures and policies to assess, approve and disclose certain operations between the company and related parties, as well as to learn about commercial, personal, direct or indirect relationships that directors have between themselves or with the company, suppliers, clients and other shareholders?</i></p>		X	<p>Not applicable. According to provisions set forth in subsection d), article 11, Law 30225 (State Procurement Law), directors, managers and employees of State companies, public servants and trusted employees are precluded from participating, bidding and/or contracting with the company they work with.</p>
<p>b. <i>In case of operations of special importance or complexity, is the intervention of external, independent consultants considered for the assessment?</i></p>		X	<p>Not applicable. According to provisions set forth in subsection d), article 11, Law 30225 (State Procurement Law), directors, managers and employees of State companies, public servants and trusted employees are precluded from participating, bidding and/or contracting with the company they work with. No relevant or complex operations have been performed with the related parties.</p>

a. If the answer to part a) of Question III.19 is Yes, specify the areas of the company responsible for managing operations between parties for the following matters:

Aspects	Area in charge
Assessment	
Approval	
Disclosure	

b. Specify the procedures to approve transactions between related parties:

c. Specify the operations that have been carried out during the fiscal year, which are important due to their amount or subject matter, between the company and its related parties.

Name or social denomination of related party	Relationship nature (*)	Operation type	Amount (PEN)



(*) For relationship purposes, we apply the relation criteria included in the Indirect Property, Association and Economic Groups Regulations.

d. Specify if the company sets limits to operations with related parties:

Yes

No

Principle 24: Senior Management Functions

Question III.20 / Compliance	Yes	No	Explanantion:
a. Does the company have a clear policy of separation of duties between the Board's management or governance, Senior Management's functions and General Manager's leadership?	X		The functions of the Chairman of the Board of Directors and of the General Manager are clearly defined in the respective bylaws and MOF, and they do not overrule each other.
b. Are different persons appointed as General Manager and Chairman of the Board of the company?	X		The Chairman of the Board of Directors is appointed by the General Shareholders' Meeting. The General Manager is appointed by the Board of Directors.
c. Does Senior Management have enough autonomy to carry out its assigned duties, within the framework of the policies and guidelines defined by the Board, and under their control?	X		COFIDE counts with the Organization and Functions Regulations (ROF) and the Organization and Functions Manual (MOF), which establish the functions for the organization's different management areas, and they do not overrule those of the President or the General Manager. Furthermore, COFIDE is based on structured levels of authority defined and issued by General Management, which allow the governing bodies to operate properly.
d. Is General Management responsible for complying with, and ensuring compliance with, the policy of providing information to the Board and its directors?	X		COFIDE implements and monitors all information requested by the directors. This process is centralized by General Management.
e. Does the Board annually assess the performance of General Management according to well-defined standards?	X		A performance assessment criterion from General Management is available. Annual assessments.
f. Does the General Management compensation contain fixed and variable components that consider the company's results, based on taking risks in a cautious and responsible manner, and in the achievement of goals outlined in the corresponding plans?	X		COFIDE offers a bonus pay (variable remuneration) for the entire organization. To receive this pay, a Management Agreement with FONAFE must be signed.



a. Specify the following information related to the General Manager and management team's compensations (including bonuses)

Position	Compensation (*)	
	Fixed	Variable
General Manager	0.05	0.01
Chief Internal Audit Officer	0.04	0.01
Chief Legal Advice Officer	0.06	0.01
Chief Business Officer	0.07	0.01
Chief Human Resources and Administration Officer	0.05	0.01
Chief Operation and Technology Officer	0.06	0.01
Chief Financial Officer	0.06	0.01
Chief Risk Officer	0.06	0.01
Chief Development and Innovation Officer	0.05	0.01

(*) Specify the percentage that corresponds to the total amount of annual compensations of Senior Management members as compared to the level of gross income, according to the company's financial statements

b. If the company grants bonuses or compensations apart from those determined by law to Senior Management, specify the way in which these are paid.

	General Manager	Managers
Shares granting		
Options granting		
Money granting		
Others (describe)		

c. If the compensation contains a variable component, specify the main criteria used to determine it.

Compensation for time at work (retirement)

d. Specify whether the Board assessed General Management's performance during the fiscal year.

Yes

No



PILAR IV: Risk and Compliance

Principle 25: Risk Management System Outlook

Question IV.1	Yes	No	Explanation
<p><i>a. Does the Board approve an integral risk management policy according to its size and complexity, promoting a risk management culture within the company, from the Board and Senior Management to all employees?</i></p>	X		<p>The Board of Directors is responsible for adequately managing risks, as stated in the Organization and Functions Regulations (ROF). In compliance with this, COFIDE continuously updates the Comprehensive Risk Manuals through regulatory changes and/or good practices from the sector. In 2019, the following manuals were updated:</p> <ul style="list-style-type: none"> - Operational Risk Management Policy, under Board Resolution No. 050-2019 dated 04.29.19. - Risk Appetite Framework, updated on 04/11/2019 by Board Resolution No. 043-2019 - Market Risk Policy, updated on 06/17/2019 by Board Resolution N° 079-2019 - Debtor Credit Risk Policy, last updated on 11/26/2019 by Board Resolution N° 163-2019. - Assets and Liabilities Management Policy. It determines participation in investment funds and was updated on 10/15/2019 by Board Resolution N° 142-2019. - Policies describing Levels of Autonomy, updated on 12/18/2019 by Board Resolution N° 179-2019. - Policy on Country Risk, approved by Board Resolution 073-2003, and modified by Board Resolution No. 957 in the session held on September 10, 2019. - Country Risk Management Manual, approved by Board Resolution N° 096-2013 and modified by Board Resolution in Board Meeting N° 957 in the session held on September 10, 2019.



		COFIDE's risk management model allows to identify, assess and measure risks to which a person is exposed from a comprehensive approach, so that the risks assumed adjust to the company's risk appetite and tolerance levels. All COFIDE members are involved in a comprehensive management of risks.
b. <i>Does the integral risk management policy cover all companies within the group, and does it provide a global view of critical risks?</i>	X	COFIDE is part of the FONAFE Holding Company, which includes state-owned companies and has comprehensive risk management guidelines incorporated into the Corporate Governance Code.

Does the company have a risk management delegation policy that defines the risk limits that can be managed at each company level?

Yes No

Question IV.2	Yes	No	Explanation
a. <i>Does General Management handle the risks to which the company is exposed, and provides the information to the Board?</i>	X		According to the current Organization and Functions Manual (MOF), the General Manager is responsible for ensuring a framework for the identification, measuring, mitigation, monitoring, control and reporting of the company's risks. Moreover, the Risks Manager is responsible for conducting, coordinating, supervising and evaluating the company's comprehensive risk management. He is also responsible for reporting relevant risk management issues to the General Manager, Board of Directors and the Risk Committee, so that timely decisions can be taken, as indicated in the Comprehensive Risk Management Manual approved by the General Management.
b. <i>In case a Risk Committee or a Risk Management does not exist, is General Management responsible for the risk management system?</i>	X		COFIDE has a Risk Committee, which holds meetings two times a month.

Does the company have a Risk Manager?

Yes No

If the answer to the previous question was Yes, specify the following information:

Name	Period in position		Reports to
	Start (*)	End (**)	
Carla Ishiyama Nieto	06/08/2018	03/31/2019	General Management, Risks Committee and Board of Directors
Sandra Jauregui Puertas	04/01/2019	At present	General Management, Risks Committee and Board of Directors

(*) Corresponds to the first appointment within the company

(**) To be completed only if the person left the role during the fiscal year.

Question IV.3	Yes	No	Explanation
<i>Does the company have an internal and external control system, and does the Board supervise its efficiency and suitability?</i>	X		COFIDE has an Audit, Ethics and Compliance Committee that meets once a month. Its functions are as follows: To monitor the adequate operation of the internal and compliance control system. To keep the Board of Directors informed about compliance with policies and procedures, problems related to control and administration, as well as corrective measures implemented according to the results from Internal Audit Unit, the external auditors and the SBS.

Principle 26: Internal audits

Question IV.4	Yes	No	Explanation
<i>a. Is the internal auditor dedicated exclusively to performing audits, with autonomy, experience and specialization in the domain areas and Independence for the follow-up and the assessment of the efficiency of the risk management system?</i>	X		According to the Organization and Functions Regulations (ROF), COFIDE's Internal Audit Unit (UAI) carries out its consulting and assurance functions independently and objectively. This unit is under the Board of Directors, it reports to the Audit, Ethics and Compliance Committee, and it includes a multidisciplinary team of internal auditors
<i>b. Does the internal auditor have the functions to continuously assess if the financial</i>	X		According to the Organization and Functions Regulations (ROF), the internal auditor's



<p><i>information generated or recorded by the company is valid and trustworthy, and to verify the efficiency of the compliance with standards?</i></p>		<p>responsibility is to design an annual plan that includes the assessment of a minimum number of activities required by the SBS, to comply with legal provisions (particularly by the SBS), as well as the the assessment of main risks concerns expressed by the Board of Directors and/or Management. He also serves as a connecting body between the Management, External Auditors and the Audit Committee/Board of Directors in order to align efforts and enrich the scope of the audit reviews. That is why the review is conducted both by the Internal and External Auditors to confirm that all financial information is valid and trustworthy. Internal Auditors review such information every time there is an evaluation of the process (within reasonable scope), and external auditors review annual financial statements.</p> <p>Likewise, the effectiveness of the Regulatory Compliance is verified since the Standard Compliance Assessment is included in the Annual Audit Plan, which is also of a regulatory nature as per SBS. This plan is approved by the Board of Directors and then sent to SBS.</p>
<p><i>c. Does the internal auditor directly report to the Audit Committee the plans, budgets, activities, progresses, results, and actions?</i></p>	<p>X</p>	<p>Yes. According to the Organization and Functions Regulations (ROF), as well as the minutes from the Audit, Ethics and Compliance Committee, the internal auditor reports directly to the Audit, Ethics and Compliance Committee with regards to his/her plans (including information on budget for outsourced reviews), activities, progress and results obtained.</p>

a. Specify if the company has an independent area dedicated to internal audits.

Yes No

If the answer to the previous question was Yes, specify the area to which internal audits reports within the company's hierarchical organization.

Reports to:	DIRECTORIO
-------------	------------

b. Specify if the company has a Corporate Internal Auditor.



Yes

No

Specify the main responsibilities of the internal auditor and if he/she performs other duties other than internal auditing.

In general, the Internal Audit must ensure, objectively and independently, to the Board of Directors and General Management, whether the development and operation of the internal control system, risk management and corporate governance will support its objectives appropriately and effectively, thus contributing to its constant improvement.

Specific responsibilities:

- To prepare the Audit Plan and submit it to the Board of Directors for approval, as well as to inform about its progress periodically.
- To implement the Audit Plan in accordance with the corresponding legislation through planning and implementation of auditing and consulting services, and to prepare reports derived from this activity.
- To submit the audit and consulting results to the Audit, Ethics and Compliance Committee, Board of Directors as well as to related areas.
- To enforce ethics and act on the course of its duties in case any unlawful omission or non-compliance are suspected, thus bring the matter to the pertinent areas

Question IV.5

	Yes	No	Explanation
<i>Does the Board appoint and dismiss the internal auditor based on proposals of the Audits Committee?</i>	X		This function is described on Subchapter II: Board of Directors, and Chapter III: Senior Management of the current Regulation of Organization and Functions (ROF), and in accordance with SBS Resolution 11699-2008 - Internal Audit Regulations.

Principle 27: External auditor

Question IV.6

	Yes	No	Explanation
<i>Does the General Shareholders Meeting, upon request from the Board, assign an auditing firm or an independent auditor that is clearly independent from the company?</i>	X		The Comptroller General Office appoints the external auditing company through a public bidding process to ensure the auditor's autonomy. The Comptroller General Office's Resolution No. 314-2015-CG regulates the public bidding process to hire an auditing company. The SGM approves the minimum criteria that should be met by the newly appointed auditing company.

a. Does the company have a policy for assigning the external auditor?

Yes

No



If the answer is Yes, please, describe the procedure for contracting the auditing company responsible for giving the annual financial statements (including identification of the company's area responsible for selecting the auditing company).

COFIDE, under the corresponding regulations, follows the guidelines established in Directive N° 012-2015-CG- PROCAL "Management of Auditing Companies" (approved by Comptroller Resolution N° 314-2015-CG), which regulates the contracting process of the auditing company.

- b. If the auditing firm has performed other services different from account audits, specify if the corresponding contract was informed to the General Shareholders Meeting, including the percentage that the billing of those services represent when compared to the total billing of the auditing firm to the company.

Yes

No

- c. Do the persons or entities from the auditing firm provide services to the company other than account auditing?

Yes

No

If the answer to the previous question was Yes, specify the following information related to additional services provided by persons or entities from the auditing firm during the fiscal year.

Name or legal name	Additional Services	Percentage of compensation (*)

(*) Billing of additional services over billing of auditing services.

- d. Specify if the auditing firm assigned different teams in case additional services, other than account auditing, were provided.

Yes

No

Question IV.7

	Yes	No	Explanation
a. <i>Does the company have a renewal policy for its independent auditor or auditing firm?</i>	X		The contracting periods are established by CGR. In this case, the period assigned to the external auditor is from 2017 to 2019, by means of annual contracts.
b. <i>If the renewal policy defines larger renewal periods, is the work team from the auditing firm changed at least every five years?</i>	X		The contracting periods are established by CGR. In this case, the period assigned to the external auditor is from 2017 to 2019, by means of annual contracts.



Specify the following information for the auditing firms that have provided services to the company during the last five years.

Auditing firm legal name	Service provided (*)	Period	Payment (**)	Earning percentage for the auditing company
Beltrán, Gris y Asociados S.Civil de R.L	Financial Audit	2015	615,890	
Beltrán, Gris y Asociados S.Civil de R.L	Financial Audit	2016	638,030	
Caipo y Asociados S. Civil de R.Ltda.	Financial Audit	2017	703,390	
Caipo y Asociados S. Civil de R.Ltda.	Financial Audit	2018	724,576	
Caipo y Asociados S. Civil de R.Ltda.	Financial Audit	2019	745,763	

(*) Include all types of services, such as expert opinions for financial information, accounting assessment, operational audits, systems audits, tax audits and other services.

(**) From the total amount paid to the auditing firm for all concepts, specify the percentage that corresponds to financial audits services.

Question IV.8

	Yes	No	Explanation
<i>In the case of economic groups, is the external audit the same for the whole group, including offshore subsidiaries?</i>		X	Not applicable. COFIDE is part of the FONAFE group which is the holding that includes State-owned companies.

Specify if the auditing firm hired to dictate the financial statements of the company for the fiscal year subject of the present report did also dictate the financial statements for other companies of your economic group.

Yes No

If the answer to the previous question was Yes, specify the following information:

Legal name of the company (s) in the economic group



PILAR V: Information Transparency

Principle 28: Information policy

Question V.1	Yes	No	Explanation
<p><i>Does the company have an information policy for shareholders, investors, other stakeholders and the market in general, in which it defines in a formal, integral and orderly way the guidelines, standards and criteria that will be applied for handling, compiling, developing, classifying organizing and distributing the information that the company generates or receives?</i></p>	X		<p>By Agreement of the Board of Directors No. 079-2015 dated July 23, 2015, the Board of Directors approved COFIDE's Information Policy.</p>

a. If applicable, specify if according to your information policy the company distributes the following:

	Yes	No
Company objectives	X	
Board and Senior Management members	X	
Shares structure	X	
Economic group description	X	
Financial statements and annual report	X	
Others (describe)		

b. Does the company have a corporate website?

Yes No

The corporate website includes:

	Yes	No
A specific section about corporate governance or relationship with shareholders and investors that includes a Corporate Governance Report	X	
Important events	X	
Financial information	X	
Bylaws	X	
General Shareholders Meeting Regulation and information about meetings (attendance, minutes, others)		X
Board composition and Regulation	X	
Code of Ethics	X	



Risk policy		X
Social Responsibility (community, environment, others)	X	
Others (describe)		
Question V.2	Yes	No
<i>Does the company have an investor relations office?</i>		X
		According to the company's website, the Board of Directors Secretary is responsible for providing information to third parties. Regarding creditors, the Finance Management receives information by e-mail through the Corporate website link (Investor Relation Contact).

In case an investors' relationships office exists, specify the person in charge.

Person in charge of investors' relationships office	
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In case an investor relations office does not exist, specify which is the unit (department or area) or person in charge of receiving and handling the request for information of the company's shareholders and public in general. If a person is in charge, specify their charge and work area.

Area in charge	Legal Advice Management
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Person in charge			
Name		Position	Area
Rodrigo Octavio Zapata Soto	Company's shareholders	Assistant Manager Legal Advice, Finance and Regulatory Affairs	Legal Advice Management
Luis Alfredo Neira Banda	General public	Recovery Supervisor	Legal Advice Management

Principle 29: Financial Statements and Annual Report

If there are exceptions in the external auditor's report, have these been explained or justified to the shareholders?

Yes No



Principle 30: Shares structure information and agreements between shareholders

Question V.3	Yes	No	Explanation
<i>Does the company disclose the ownership structure, considering the different classes of shares and, if applicable, the joint participation of a given economic group?</i>	X		The shareholding information is available on COFIDE's website and its Annual Report.

Specify the composition of the company's share structure at fiscal year closing.

Ownership of shares with right to vote	Number of owners (at fiscal year close)	Participation percentage
Less than 1%		
Between 1% and 5%		
Between 5% and 10%		
Higher than 10%	1	99%
Total		

Ownership of shares without right to vote (if applicable)	Number of owners (at fiscal year close)	Participation percentage
Less than 1%	1	1%
Between 1% and 5%		
Between 5% and 10%		
Higher than 10%		
Total		

Ownership of investment share (if applicable)	Number of owners (at fiscal year close)	Participation percentage
Less than 1%		
Between 1% and 5%		
Between 5% and 10%		
Higher than 10%		
Total		

Percentage of shares in portfolio as compared to social capital:



Question V.4

	Yes	No	Explanation
<i>Does the company disclose information about agreements or pacts between shareholders?</i>		X	Not applicable. There are no agreements between shareholders.

a. Does the company keep a record of current pacts between shareholders?

Yes

No

b. In case there was any agreement or pact between shareholders that was informed to the company during the fiscal year, specify their subject matter.

Election of Board members	
Voting rights at assemblies	
Restrictions to free transferability of shares	
Changes in the company's Articles of Incorporation charter	
Others (describe)	

Principle 31: Corporate governance report

Question V.5

	Yes	No	Explanation
<i>Does the company disclose the adopted standards on corporate governance in an annual report, whose content is responsibility of the Board, based on a prior report from the Auditing Committee, the Corporate Governance Committee or an external consultant?</i>	X		<p>A GCG report is prepared annually and approved by the Board of Directors, prior to be submitted to the Audit Committee (as provided by the Regulations of the Internal Audit Committee), and subsequently submitted to the SGM. This report is available by clicking on the GCG option in COFIDE's website.</p> <p>In addition, there are bi-annual reports on Policy Compliance and Relevant Events related to different principles from the GCG Code. Likewise, the Principle Compliance Report of the GCGC for Peruvian Companies is included in the annual report, approved by the Board of Directors and the SGM, and then published on the SMV's website.</p>



PERÚ

DECENIO DE LAS PERSONAS CON DISCAPACIDAD EN EL PERÚ - AÑO DE LA PROMOCIÓN DE LA INDUSTRIA RESPONSABLE Y DEL COMPROMISO CLIMÁTICO

- a. Does the company have mechanisms in place for the internal and external disclosure of corporate governance practices?

Yes

No

If the answer to the previous question was Yes, specify those mechanisms.

GCG provides with annual internal trainings. Likewise, information on Good Corporate Governance Practices is provided through the Annual Report.



SECTION C:

Company's contents of documents

Specify in which of the following company documents these subjects are regulated:

		Principle	Bylaws	Internal Regulations (*)	Manual	Others	Not regulated	Not Applicable	Document name (**)
1.	Policy for payment or exchange of non-voting right shares	1					X		
2.	Method to record the rights of share ownership and who is responsible of recording	2				X			Regulations on cut-off date, registration, and delivery. Approved by CONASEV's Resolution No. 069-2006-EF/94.10, and amended by SMV Resolution No. 007-2017-SMV/01
3.	Procedures for selection of external consultant to give independent opinion on the Board's proposals for corporate operations that may affect the shareholders' non-dissolution right	3					X		
4.	Procedure to receive and handle the requests for information and opinions of shareholders	4				X			Procedure used to provide information to shareholders.
5.	Dividends policy	5				X			COFIDE's Dividend Policy for 2017 and 2018 approved during the SGM on 10/Nov/2017 and ratified in the SGM on 28/Mar/2018.
6.	Politics or agreements to avoid adopting anti-takeover mechanisms	6					X		
7.	Arbitration agreement	7					X		
8.	Policy to select company directors	8				X			FONAFE's Corporate Management Directors
9.	Policy to assess compensations of the company directors	8				X			FONAFE's Corporate Management Directors



10.	Mechanism to make available to shareholders information related to the contents of the General Shareholders Meeting agenda and agreed proposals	10				X			Guidelines on digital signatures and electronic exchange of documents – SIED
11.	Means used by the company to call meetings, additional to those established by law	10				X			Guidelines on digital signatures and electronic exchange of documents – SIED
12.	Additional mechanisms for shareholders to propose agenda items to be discussed at the General Shareholders Meeting	11				X			Guidelines on digital signatures and electronic exchange of documents – SIED, email and link to minority shareholders
13.	Procedures to accept or dismiss shareholders' proposed agenda items to be discussed at the General Shareholders Meeting	11					X		
14.	Mechanisms to allow remote participation of shareholders	12				X			Guidelines on digital signatures and electronic exchange of documents – SIED
15.	Procedures for shareholders' differential voting	12					X		
16.	Procedures for vote delegation	13					X		
17.	Requirements and formalities for a shareholder to be represented in a Meeting	13					X		
18.	Procedures for vote delegation to Board or Senior Management members	13					X		
19.	Procedures to follow-up the General Shareholders Meeting's agreements	14	X						Bylaws, article 26 item d)
20.	Minimum and maximum number of directors to be included in the company's Board	15	X						Bylaws, chapter VI
21.	Duties, rights, and functions of the company's directors	17	X						Bylaws, chapter VI and Regulations of the Board of Directors



22.	Types of bonuses that the Board receives for accomplishment of the company's goals	17					X		
23.	Hiring policy for consultancy services for directors	17					X		
24.	Induction policy for new directors	17		X		X			Regulations on COFIDE's Board of Directors and corporate procedure.
25.	Special requirements to be appointed independent director	19		X					Regulations on COFIDE's Board of Directors
26.	Criteria for assessment of performance of the Board and its members	20				X			Performance Evaluation of the Board of Directors and Directors composing FONAFE companies, performed by FONAFE.
27.	Policy to determine, follow-up and control possible conflicts of interests	22		X	X				Regulations on COFIDE's Board of Directors and Conflict of Interest Management Policy
28.	Policy to define the procedure to assess, approve and disclose operations between related parties	23					X		
29.	Responsibilities and duties of the Chairman of the Board, Executive President, General Manager and other Senior Management members	24	X	X	X				Regulations on COFIDE's Board of Directors / ROF / MOF
30.	Criteria to assess performance of Senior Management	24				X			Performance evaluation forms
31.	Policy to set and assess Senior Management's compensations	24					X		
32.	Comprehensive risk management policy	25			X				Comprehensive Risk Management Manual
33.	Responsibilities of the internal auditor	26		X	X				ROF / MOF
34.	Policy for assigning external auditor, determining contract duration and criteria for renewal	27				X			Controller's Office Resolution No. 383-2013-CG., and Director's Resolution No 109-2013/DE-FONAFE



PERÚ

DECENIO DE LAS PERSONAS CON DISCAPACIDAD EN EL PERÚ - AÑO DE LA PROMOCIÓN DE LA INDUSTRIA RESPONSABLE Y DEL COMPROMISO CLIMÁTICO

35.	Policy for information disclosure and communication to investors	28				X			Process to provide investors with information.
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(*) Includes GSM Regulation, Board Regulation and others published by the company.

(**) Specify the document name, except in the case of the company bylaws.

The background of the cover features a night cityscape with illuminated skyscrapers. In the center, two hands are shaking, symbolizing a partnership or agreement. The hands are positioned over the city lights. On the left side, there is a dark blue, angular graphic element with a light blue outline. Inside this shape, the text 'CORPORATE SUSTAINABILITY REPORT' is written in white, uppercase letters. The graphic also includes a lime green diagonal bar at the bottom left and a small orange diamond at the bottom right.

CORPORATE
SUSTAINABILITY
REPORT

Title: Corporate Sustainability Report

[Public Information]



CORPORATE SUSTAINABILITY REPORT (10180)

Name:

CORPORACIÓN FINANCIERA DE DESARROLLO S.A. – [DEVELOPMENT FINANCE CORPORATION] - COFIDE

Fiscal Year:

2019

Website:

www.cofide.com.pe

Name or Corporate Name of Reviewing Company: 1

RPJ

[Register of Legal Entities]

¹ Only applicable in cases when the information contained in this report has been reviewed by a specialized firm (e.g. audit firm or consulting firm).

Section A	Complete
Question A.1	YES
Question A.2	YES
Question A.3	YES
Question A.4	YES
Question A.5	YES
Question A.6	YES

Section A: Implementation of corporate sustainability actions

Question A.1	YES	NO	Explanation
Has the company voluntarily adhered to corporate sustainability good practice standards?	X		COFIDE conducts social responsibility and sustainability actions that are in line with the United Nations Sustainable Development Goals (SDGs) to comply with the 2030 National Agenda. Likewise, we have adhered to international quality and financial reporting standards. In addition, we are aligned with FONAFE's [National Fund for the Financing of the State Entrepreneurial Activity] Good Corporate Governance (GCG) Methodology.

If the answer is "yes", specify the standard and date of adherence:

Standard	Date of Adherence
ISO 9001: 2008	September 15, 2010
ISO 9001:2015	May 09, 2017
FONAFE's GCG Methodology	January 09, 2014

In case sustainability reports other than this are prepared, please provide the following information:

These additional reports are prepared:	YES	NO
Voluntarily	X	
At the request of investors		X
At the request of public institutions		X
Others (specify):		-

Said reports can be accessed via:

SMV [Superintendency of Securities Market] website	
Corporate website	X
Social media	
Others /specify	

Question A.2

	YES	NO	Explanation
Does the company have a corporate policy to assess the impact of its activities on the environment?	X		COFIDE has developed a Social and Environmental Risk Management Manual, approved by its Board of Directors on December 22, 2015.

a. If the answer to question A.2 is “yes”, specify the corporate document regulating the policy and the approving body.

Document	Approving Body
Social and Environmental Risk Management Manual	Board of Directors

b. Does the company quantify greenhouse gas emissions resulting from its activities (carbon footprint)?

YES NO

If the answer is “yes”, specify the results obtained:

COFIDE's carbon footprint has been measured, offset and mitigated for the third consecutive year. In the last year of measuring (2018), greenhouse gas emissions were reduced by more than 10% compared to 2017. Carbon footprint measurement for year 2019 is currently carrying out.

c. Does the company quantify and document the total consumption of energy used for its activities?

YES NO

If the answer is “yes”, specify the results obtained:

During COFIDE's carbon footprint measurement, the energy consumption of the facilities is calculated. As part of our resource consumption report, a consumption equivalent to 850,800 Kwh was recorded in 2018.

d. Does the company quantify and document the total amount of water used (water footprint) for its activities?

YES NO

If the answer is “yes”, specify the results obtained:

During COFIDE's carbon footprint measurement, the water consumption of the facilities is calculated. As part of our resource consumption report, a consumption equivalent to 7588 m3 was recorded in 2018.

e. Does the company quantify and document the amount of waste resulting from its activities?

YES NO

If the answer is “yes”, specify the results obtained:

COFIDE has strategic alliances with civil associations and/or organizations that allow us to document and donate paper and cardboard. In 2019, our alliance with *Asociación de Ayuda al Niño Quemado* [Association for Burned Children] and *Hogar San Camilo* [San Camilo Home] was strengthened.

Question A.3	YES	NO	Explanation
<i>Does the company have a policy in place to promote and ensure fundamental principles and rights of its employees at the work place?¹</i>	X		COFIDE has its Internal Labor Regulations approved by its General Management in 2012, as well as a Code of Ethics and Conduct approved by the Board of Directors in 2015.

¹ According to the International Labor Organization (ILO) Declaration on fundamental principles and rights at work, adopted in 1998, the principles and rights fall within the following four categories: (i) freedom of association and the effective recognition of the right to collective bargaining, (ii) the elimination of forced or compulsory labor, (iii) the abolition of child labor and (iv) the elimination of discrimination in respect of employment and occupation.

a. If the answer to question A.3 is “yes”, specify the corporate document regulating this policy and the approving body.

Document	Approving Body
Internal Labor Regulations	General Management
Code of Ethics and Conduct	Board of Directors

b. Does the company keep a record of occupational accidents?

YES NO

If the answer is “yes”, specify the department in charge of keeping those records and its supervisory area.

Department	Supervisory Area
Human Resources and Administration Management	General Management

c. Does the company have a training plan for its employees?

YES NO

If the answer is “yes”, specify the corporate body responsible for approving the plan and how often its compliance is evaluated:

Body	Frequency of Evaluation
Human Resources and Administration Management	Yearly

d. Does the company conduct surveys or evaluations on work climate?

YES

NO

If the answer is “yes”, specify the results obtained:

In December 2019, the work climate survey was conducted based on the 13 factors described by the National Fund for Financing the Entrepreneurial Activity of the State (FONAFE), whose results were a satisfaction rate of 81%.

According to the factors included in the survey, we concluded the following:
The factor with the highest score was Identity and Commitment (87%). The survey also highlighted the existence of a Valuable Contribution to the Community and the Environment; COFIDE’s employees feel proud of working in this organization, of the achievements as a team and of the products/services offered; it stand out diversity and fair treatment in sexual orientation.

Based on the results, every management is informing the results in order to prepare action plans aimed at improving the internal customer’s perception.

Question A.4	YES	NO	Explanation
<i>Does the company have a policy that establishes the basic guidelines for interaction with communities?</i>		X	COFIDE does not have a policy on community interaction.

a. If the answer to question A.4 is “yes”, specify the corporate document regulating this policy and the approving body.

Document	Approving Body
-	-

b. Has the company experienced social conflicts (strikes, protests, others) in the community where its main activities take place, as a result of its operations?

YES

NO

If the answer is “yes”, explain the impact of those social conflicts on the company’s performance.

c. Does the company and the community work collaboratively to create value, including the identification and solution of the main issues they have in common?

YES

NO

d. Does the company invest in social programs for the community where it carries out its main activities?

YES

NO

If the answer is “yes”, specify the percentage of investment in these programs in relation to the company’s gross income and according to its financial statements:

(%) Gross Income	0.3
------------------	-----

In 2019, COFIDE invested its own resources to implement PRIDER (Inclusive Program for Rural Entrepreneurial Development), with the goal of fostering the local economic development of the target population through financial literacy, and the development of articulated-to-market productive capabilities.

However, it should be noted that this investment was made assuming that COFIDE's "main activities" are performed nationwide, as a second-tier development bank.

Question A.5	YES	NO	Explanation
Does the company have a policy that establishes basic guidelines for managing its relationship with suppliers?		X	We adopt the State Procurement Law, whose governing body is the Supervising Agency of the Government Procurement (OSCE, for its acronym in Spanish). COFIDE registers its suppliers, but is not allowed to qualify the service quality pursuant to applicable legal regulations currently in effect.

a. If the answer to question A.5 is “yes”, specify the corporate document regulating this policy and the approving body.

Document	Approving Body
-	-

b. Does the company maintain an updated record of its suppliers?

YES NO

If the answer is “yes”, specify the department in charge of keeping those records and its supervisory area.

Department	Supervisory Area
Purchasing Department	Human Resources and Administration Management

c. Does the company have supplier selection criteria that include ethical aspects and compliance with labor legislation?

YES NO

d. Does the company have a purchasing or contracting policy to select suppliers complying with standards for sustainable management or environmental means?

YES NO

Question A.6

	YES	NO	Explanation
Does the company have a policy establishing basic guidelines for managing customer relations?	X		COFIDE counts on a Financial Intermediation Policy approved by the Board in 1995, and a Policy Manual on Credit Risk with Borrowers approved by the Board in 2010, and updated in 2017.

a. If the answer is “yes”, specify the corporate document regulating this policy and the approving body.

Document	Approving Body
Financial intermediation policy	Board of Directors
Policy Manual on Credit Risk with Borrowers	Board of Directors

b. Does the company maintain an updated record of its customers’ claims?

SI NO

Department	Supervisory area
Marketing and Communications Department	General Management

c. Does the company have permanent customer service channels to provide support to the public, and to receive suggestions and/or claims related to products and services it provides?

YES NO

d. Has the company received any award for the quality of its customer service?

YES NO

If the answer is “yes”, specify the awards received:

COFIDE is ISO 9001 certified. This certification implies the continuous improvement of the institutional processes and operations on order to meet customers’ needs and expectations. In May 2017, COFIDE implemented version 2015.

Section B: Detailed Actions Implemented by the Company

This section describes the Company's stakeholders and the actions implemented throughout the year related to the impact of its operations on the social development (labor practices, community and customer relationships, and product accountability) and the environment (materials, energy, water, emissions, discharges and waste), thus complementing the information provided in Section A.

At Cofide, the Peruvian Development Bank, we focus on pursuing sustainable and inclusive development of our stakeholders. Therefore, the actions performed aim to meet the triple bottom line model: financial, social and environmental.

During 2019, we continued to strengthen our commitment to the country, society and the environment. For this reason, as part of our activities, we submitted the Corporate Social Responsibility (CSR) and Sustainability Plan. This plan included 10 actions aligned with the full compliance with the increase levels of CSR Maturity, which is a goal in the annual Balanced Scorecard. By the end of 2019 we scored 19 points, according to the methodology provided by FONAFE.

Some of the main sustainability actions implemented in 2019 include:

- **Activity 1: Sustainability Policy**

COFIDE's Sustainability Policy includes all its activities and operations. A Sustainability Policy will allow COFIDE to be positioned as a benchmark Development Bank, with high impact on Peru's sustainable and inclusive development, under a sustainable management framework, and in line with its vision.

This activity allows to commit to different stakeholders, define values and guide the performance of and among the stakeholders.

This policy establishes COFIDE's commitment to achieve sustainable development through its operations, with its employees, by protecting the environment, and working along with its clients to manage social, environmental and governance impacts.

- **Activity 2: Preparation of the second GRI-referenced Sustainability Report**

Our second Sustainability Report 2018 was completed successfully. This 67-page document summarizes the sustainability activities that took place in 2018 and responds our stakeholders on material topics in 2019. The report is available on our website.

- **Activity 3: GRI Sustainability Report Workshop for COFIDE suppliers**

In March 2019, COFIDE and FONAFE developed the second two-day workshop on how to prepare GRI Sustainability Report with the attendance of five suppliers. Participants learned about sustainability reports and their benefits, and they also described the topics on which the participating companies were to report (i.e., the selection of main indicators). On the second day of the workshop, the participants discussed their questions about the software they would be use to elaborate their first and/or second, if pertinent, sustainability report.

- **Activity 4: 2018 Corporate Carbon Footprint Measurement**

At COFIDE, we have measured, offset and mitigated our carbon footprint for the third consecutive year, as part of our commitment to promote an eco-efficient culture towards causing a positive impact on our country.

Measuring and recording emissions allow us to establish our Carbon Footprint (CFP) and identify opportunities to improve the company's internal efficiency. In 2018, our CFP was 368 tCO₂e, decreasing by 20% compared to 2017. Reduced emission of Greenhouse Gases (GHG) is the result of a strategy to promote eco-efficient routines at COFIDE. The three most important emission sources are: electrical energy consumption (40.01% of total GHG emissions), transfer of personnel (25.87% of total GHG emissions) and airplane flights (13.67% of total GHG emissions). In 2019 the implementation of the eco-efficiency plan allowed us to be recognized as the "2019 EcoIP Model" by the Ministry of the Environment for its institutional framework.

- **Activity 5: 2018 Corporate Carbon Footprint Mitigation**

According to the results from measuring our corporate carbon footprint, and in line with our commitment to protect the environment and society, COFIDE offset the corporate carbon footprint for the second consecutive year, through carbon credits from the Cordillera Azul REDD+ Project; thus, helping to preserve the Cordillera Azul National Park in the regions of Loreto, San Martin, Huanuco and Ucayali.

COFIDE, by obtaining 368 carbon credits, offsets its 2018 footprint, helps to preserve the Cordillera Azul National Park, and supports the sustainable development of at least 34 communities living in the buffer zone that lies next to the protected area.

To offset (for the third consecutive year) our corporate carbon footprint from our 2018 activities allows us to continue being a carbon neutral organization.

- **Activity 6: Implementation of the 2019 First COFIDE Sustainability Week**

The First Sustainability Week "7 days to the change" took place in October 2019. The purpose was to strengthen our eco-efficient culture and promote new habits among our employees and their families.

During this first week, leaders and employees received training on sustainability management. The second edition of "Reciclación" [Recycling marathon] also took place during this week. Finally, it ended with a workshop for our employees and their families.

- **Activity 7: Corporate Volunteer Program "Padrinos KAY [KAY sponsors] - Navidad PRIDER [PRIDER Christmas]"**

The Inclusive Program for Rural Entrepreneurial Development (PRIDER) promotes the economic and social development of rural populations in Peru. The Finance Inclusion Program was launched in Contamana, Ucayali province, in Loreto in 2019.

As part of our commitment to achieve social well-being in rural communities, COFIDE chose 21 Savings and Loans Associations (UNICAs) from Contamana to celebrate Christmas PRIDER 2019 with them. During the event, 216 children of UNICAs members received support from sponsors.

The activity seeks to strengthen the employees' collaborative spirit, for this reason they sponsored one child and gave them a letter. In 2019, seven employees shared the joy of Christmas with the children they had sponsored.

- **Other relevant activities**

During 2019 we continued to support the Association for Burned Children (Aniquem) and the San Camilo Home by donating paper, cardboard and plastic from our organization. The materials donated surpassed 800 kg.

Similarly, every year we show our respect to the environment by using recycled and reusable materials, such as printed material (stationery, brochures, etc.), ecological merchandising and sustainable catering, in our daily activities and events.

For more information on all the activities and projects implemented in 2019, we invite you to review the GRI-referenced Sustainability Report to be published in the next months.

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