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**Edpyme Acceso Crediticio S.A.**

Financial Statements as of December 31, 2017 and 2016 together with the  
Independent Auditors' Report

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## Independent Auditors' Report

To the Shareholders and Board of Directors of Edpyme Acceso Crediticio S.A.

We have audited the accompanying financial statements of Edpyme Acceso Crédito S.A. (hereinafter "Edpyme"), which comprise the statement of financial position as of December 31, 2017 and 2016, and the related statements of comprehensive income, changes in shareholders' equity and cash flows for the years then ended; and a summary of significant accounting policies and other explanatory notes.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting standards established by the Superintendency of Banking, Insurance and AFP ("SBS" by its acronym in Spanish) for Peruvian financial entities, and for the internal control that Management determines is necessary to enable the preparation of financial statements that are free of material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. Our audits were conducted in accordance with International Standards on Auditing as adopted for use in Peru by the Board of Deans of the Peruvian Public Accountants Associations. 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 balances 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 Edpyme for the reasonable preparation and presentation of the financial statements in order to design audit procedures that are appropriate to the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Edpyme internal control. An audit also includes assessing the appropriateness of the accounting principles and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Member of Ernst & Young Global

Independent Auditors' Report (continued)

*Opinion*

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of Edpyme Acceso Crediticio S.A. as of December 31, 2017 and 2016, and its operating results and cash flows for the years then ended, in accordance with the accounting standards established by the Superintendency of Banking, Insurance and AFP (SBS) for Peruvian financial entities.

Lima, Peru,  
March 15, 2018

Countersigned by:

Víctor Tanaka  
Certified Public Accountant Register No.25613

## Edpyme Acceso Crediticio S.A.

### Statement of Financial Position

As of December 31, 2017 and 2016

	Note	2017 S/ (000)	2016 S/ (000)
<b>Assets</b>			
Cash and due from banks	3	101,652	33,379
Investments at fair value through profit or loss	4	3,116	-
Loan portfolio, net	5	446,980	211,330
Accounts receivable, net	6	4,666	2,301
Assets received as payment and seized, net	7	10,248	566
Property, furniture and equipment, net	8	11,506	11,061
Deferred income taxes, net	9	2,112	3,141
Other assets	10	12,406	8,937
<b>Total Assets</b>		<u>592,686</u>	<u>270,715</u>
Contingent risks and commitments	16	<u>13,292</u>	<u>22,378</u>
<b>Liabilities and Shareholders' Equity</b>			
Other accounts payable	11	14,226	9,608
Debts and financial obligations	12	393,004	126,078
Other liabilities	10	27,947	29,887
<b>Total Liabilities</b>		435,177	165,573
<b>Shareholder's Equity</b>	13		
Capital stock		127,056	96,056
Capital in progress		10,000	-
Reserves		3,208	2,569
Retained earnings		17,245	6,517
<b>Total Shareholders' Equity</b>		157,509	105,142
<b>Total Liabilities and Shareholder's Equity</b>		<u>592,686</u>	<u>270,715</u>
Contingent risks and commitments	16	<u>13,292</u>	<u>22,378</u>

The accompanying notes are an integral part of this statement of financial position.

## Edpyme Acceso Crediticio S.A.

### Statement of Comprehensive Income

For the years ended December 31, 2017 and 2016

	Note	2017 S/ (000)	2016 S/ (000)
Interest income	17	69,907	37,221
Interest expenses	17	(26,413)	(17,465)
<b>Gross Financial Margin</b>		43,494	19,756
Loan loss provision, net of recovery			
	5(h)	(22,295)	(13,522)
<b>Net Profit Margin</b>		21,199	6,234
Financial service income		687	559
Financial service expenses	18	(1,276)	(1,247)
<b>Net Profit Margin and Financial Service Expenses</b>		20,610	5,546
Valuation of investments at fair value through profit or loss		129	124
Financial operating results, net	19	28,057	35,447
Foreign exchange profit, net	23.2(ii)	12,453	6,180
<b>Operating Margin</b>		61,249	47,297
Administrative expenses	20	(38,672)	(32,449)
Depreciation and amortization	8(a) y 10(d)	(1,303)	(1,325)
<b>Net Operating Margin</b>		21,274	13,523
Provision for doubtful debts		81	(175)
Provisions for seized assets, net	7(c)	(3,403)	448
Provision for loan portfolio with repurchase agreement, net	10(f)	2,770	(5,060)
<b>Operating Profit</b>		20,722	8,736
Other (expenses) income, net	21	(4,262)	66
<b>Profit before Income Tax</b>		16,460	8,802
Income tax	9(c)	(5,093)	(2,413)
<b>Net Profit and Comprehensive Income for the Year</b>		<u>11,367</u>	<u>6,389</u>

The notes to the accompanying financial statements are an integral part of this statement.

**Edpyme Acceso Crediticio S.A.****Statement of Changes in Shareholder's Equity**

For the years ended December 31, 2017 and 2016

	<b>Capital Stock S/ (000)</b>	<b>Capital in Progress S/ (000)</b>	<b>Reserves S/ (000)</b>	<b>Retained Earnings S/ (000)</b>	<b>Total Equity S/ (000)</b>
<b>Balances as of January 1, 2016</b>	19,328	-	2,120	4,513	25,961
Net profit and comprehensive income for the year	-	-	-	6,389	6,389
Total comprehensive income	-	-	-	6,389	6,389
Capital contributions, note 13 (a)	72,728	-	-	-	72,728
Capitalization of earnings, note 13(c)	4,000	-	-	(4,000)	-
Transfer to reserves, note 13(c)	-	-	449	(449)	-
Other	-	-	-	64	64
<b>Balances as of December 31, 2016</b>	96,056	-	2,569	6,517	105,142
Net profit and comprehensive income for the year	-	-	-	11,367	11,367
Total comprehensive income	-	-	-	11,367	11,367
Capital contributions, note 13 (a) y (b)	31,000	10,000	-	-	41,000
Transfer to reserves, note 13(c)	-	-	639	(639)	-
<b>Balances as of December 31, 2017</b>	<u>127,056</u>	<u>10,000</u>	<u>3,208</u>	<u>17,245</u>	<u>157,509</u>

The accompanying notes are an integral part of this statement.

## Edpyme Acceso Crediticio S.A.

### Statement of Cash Flows

For the years ended December 31, 2017 and 2016

	<b>Note</b>	<b>2017</b> S/ (000)	<b>2016</b> S/ (000)
<b>Cash Flows from Operating Activities</b>			
Net Profit		11,367	6,389
<b>Adjustments to reconcile net profit for the year with net cash used in operating activities</b>			
Depreciation and amortization	8(a) y 10(d)	1,303	1,325
Loan loss provision, net recoveries	5(h)	22,295	13,522
(Recovery) Provision for loan portfolio with repurchase agreement	10(f)	(2,770)	5,060
Provision for doubtful debts		(81)	175
Provision for assets received as payment and seized	7(c)	3,403	(448)
<b>Net Changes in Assets and Liabilities</b>			
Other assets		(287,944)	(77,465)
Other liabilities		7,858	15,325
<b>Income for the period after the net change in assets and liabilities and adjustments</b>			
Deferred income tax	9(c)	1,030	(1,287)
<b>Net cash flow used in operating activities</b>		<b>(243,539)</b>	<b>(37,404)</b>
<b>Net cash flow used in investment activities</b>			
Purchase of intangible assets, property, furniture and equipment	8(a) y 10(d)	(1,811)	(6,218)
<b>Net cash flow used in investment activities</b>		<b>(1,811)</b>	<b>(6,218)</b>
<b>Net cash flow used in financing activities</b>			
Net increase (net decrease) in debts and financial obligations		266,926	(10,691)
Capital contributions	13(a) y (b)	41,000	72,728
<b>Net Cash Flow from Financing Activities</b>		<b>307,926</b>	<b>62,037</b>
<b>Net increase in cash and cash equivalents</b>		<b>62,574</b>	<b>18,415</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>31,875</b>	<b>13,460</b>
<b>Cash and cash equivalents at the end of the period</b>	3(a) y (d)	<b>94,449</b>	<b>31,875</b>

The accompanying notes are an integral part of this statement



## Notes to the financial statements (continued)

### Notes to the Financial Statements

As of December 31, 2017 and 2016

#### 1. Identification, Economic Activity and Approval of Financial Statements

##### (a) Identification

Edpyme Acceso Crediticio S.A. (hereinafter “Edpyme” or “Acceso Crediticio”), is a private company of the Peruvian financial system with legal status, incorporated in the Department of La Libertad, Peru on June 7, 1999 as Edpyme Crear Trujillo S.A., pursuant to SBS Resolution No. 597-2000 of the Superintendency of Banking, Insurances and Private Pension Fund Administrators of Peru (hereinafter, the SBS for its Spanish acronym).

Subsequently, in April 2008, through Resolution No. 1035-2008, the SBS authorized the change of its company name to Edpyme Acceso Crediticio S.A. At present, Edpyme is a subsidiary of Acceso Corp. S.A. which is considered as the parent company for having the majority of Edpyme shares (100 percent minus 1 share as of December 31, 2017 and 2016), see note 13 (a).

##### (b) Economic Activity

Edpyme operations are regulated by the General Law of the Financial and Insurance Systems and Organic Law of the SBS, Law No. 26702 (hereinafter the “Banking Law”), which establishes certain requirements, rights, obligations, guarantees, restrictions and other conditions that legal entities operating in the financial and insurance system are subject to.

The main purpose of Edpyme is to provide financing for the purchase of vehicles intended for passenger and cargo transport to small, micro and medium-sized businesses. To this end, it uses its own capital and resources from national and international entities, and individuals through borrowings.

The registered office of Edpyme is located at Av. Jesús de Nazareth No. 371, Urb. San Andrés, Trujillo. As of December 31, 2017, Edpyme, for the development of its operations, has one branch and 13 special offices (1 branch and 10 special offices as of December 31, 2016)

##### (c) Approval of Financial Statements-

The financial statements as of December 31, 2016 and for the year then ended were approved by the Annual General Shareholders' Meeting held on March 30, 2017. The financial statements as of December 31, 2017 and for the year then ended were approved by Management on March 15, 2018, and will be submitted to the Board of Directors and the Annual General Shareholders' Meeting to be held within the terms established by the Law, for their approval. In Management's opinion, the financial statements will be approved by the Board of Directors and the Annual General Shareholders' Meeting without amendments.

#### 2. Accounting Principles and Practices

## Notes to the financial statements (continued)

In the preparation and presentation of the accompanying financial statements, Edpyme Management has comply with the SBS regulations in force in Peru for financial entities as of December 31, 2017 and 2016. The main accounting principles used in the preparation of the Edpyme's financial statements are set out below:

(a) Basis for Preparation, Use of Estimates and Changes in Accounting Principles –

(i) Basis for Preparation and Use of Estimates –

The accompanying financial statements have been prepared in Soles from the accounting records kept by Edpyme, in accordance with the SBS regulations in force in Peru as of December 31, 2017 and 2016, and in the absence of applicable SBS specific standards with the International Financial Reporting Standards (IFRS) made official in Peru through resolutions issued by the Peruvian Accounting Board (hereinafter “CNC”) in force as of December 31, 2017 and 2016, see paragraph (pi).

These accounting principles are consistent with those used in 2017 and 2016, except as explained in point (ii) below.

The preparation of the accompanying financial statements requires Management to make estimates that affect the reported figures of assets and liabilities, income and expenses and the disclosure of significant events in the Notes to the Financial Statements. As of December 31, 2017 and 2016, the most significant estimates in relation to the accompanying financial statements correspond to loan loss provisions, the estimate of useful life and the recoverable value of property, furniture and equipment and intangible assets, the provision for seized assets, received as payment and the calculation of current and deferred income tax; which accounting criteria are described herein.

Estimates are continuously assessed and are based on historical experience and other factors. The final results may differ from these estimates; however, Management expects that the variations, if any, will not have an important effect on the financial statements.

(ii) Changes in Accounting Principles

In August 2017, the SBS issued SBS Resolution No. 3274-2017, whereby it amends the presentation of credit cards' fees in the income statement, establishing that such fees must be recorded under “Financial Service Income” in the income statement; which had no effect on the Edpyme's financial statements as of December 31, 2017.

(b) Foreign Currency –

Functional and Reporting Currency–

Edpyme considers Sol as a functional and reporting currency, since it reflects the nature of the economic events and the relevant circumstances, given that its main operations and/or transactions such as loans granted, financing obtained, financial income, financial expenses, and a significant percentage of purchases are settled and liquidated in Soles.

Transactions and Balances in Foreign Currency –

## Notes to the financial statements (continued)

Assets and liabilities in foreign currency are initially recorded by Edpyme using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities in foreign currencies are translated into the functional currency using the exchange rates prevailing at the date of the statement of financial position, established by the SBS, see note 23.2 (ii).

The profits or losses resulting from re-expressing monetary assets and liabilities in foreign currency at the exchange rates prevailing at the Statement of Financial Position date are recorded under “Foreign exchange profit, net” in the Statement of Comprehensive Income.

Non-monetary assets and liabilities acquired in foreign currency are recorded at the exchange rate corresponding to the initial transaction date and are not subsequently adjusted.

### (c) Financial Instruments –

#### Initial Recognition and Measurement –

Financial instruments are classified as assets, liabilities or equity according to the nature of the contractual agreement which originated it. Interests, gains and losses generated by a financial instrument, whether classified as an asset or liability, are recorded as income or expenses. Payments to the financial instrument holders logged as equity are recorded directly in shareholders’ equity.

Financial instruments are classified as financial assets at fair value through profit or loss, loans and accounts receivable, held-to-maturity investments, available-for-sale financial instruments, other financial liabilities or derivatives designated as hedging instruments in an effective hedge, as appropriate. Edpyme determines the financial assets classification at the initial recognition.

The financial instruments classification in their initial recognition depends on the Management’s purpose and intention for which the financial instruments were acquired and their characteristics. All financial instruments are initially recognized at fair value plus, in the case of financial instruments not measured at fair value through profit or loss, the incremental costs related to the transaction are directly attributable to the purchase or issue of the instrument.

Purchases or sales of financial assets which require delivery of assets within a period established in accordance with regulations or market conventions (regular market terms) are recognized at the trading date.

The financial assets and liabilities presented in the statement of financial position include cash and due from banks, investments at fair value through profit or loss, loan portfolio, accounts receivable, other assets (except those identified in this account as “non-financial instruments”), and liabilities in general (except for those identified in “Other Liabilities” as non-financial instruments), see note 10. Likewise, all indirect loans are considered financial instruments. The accounting policies regarding the recognition and valuation of these accounts are described in the relevant accounting policies described herein.

As of December 31, 2017, and 2016, Edpyme only maintains the following financial instruments:

#### (i) Financial Assets at Fair Value through Profit or Loss

## Notes to the financial statements (continued)

The financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated at fair value through profit or loss, which classification is from initial recognition and on an instrument-by-instrument basis.

Changes in fair value of a financial asset designated at fair value through profit or loss are recorded under “Valuation of Investments at Fair Value through Profit or Loss” in the statement of comprehensive income.

Edpyme keeps in this category the investments recorded under “Investments at Fair Value through Profit or Loss” in the statement of financial position, which are maintained for short-term trading.

### (ii) Loans and Accounts Receivable

Loans and accounts receivable are non-derivative financial assets with fixed or determinable payments, which are not listed in an active market. After the initial recognition, these financial assets are measured at amortized cost using the effective interest rate (EIR) method, less any impairment of value. The amortized cost is calculated taking into account any discount or premium in the purchase and the commissions or costs that form part of the EIR. The EIR amortization is included under “Interest Income” in the Statement of Comprehensive Income. Any losses resulting from impairment of value are recognized under “Interest Expenses” in the Statement of Comprehensive Income.

### (iii) Other Financial Liabilities

Measurement of other financial liabilities after initial recognition is measured at amortized cost. The amortized cost is calculated considering any discount or premium on the issue and all effective interest rate costs, if applicable.

### De-Recognition of Financial Assets and Liabilities –

#### Financial Assets -

A financial asset (or, as the case may be, part of a financial asset or part of a group of similar financial assets) is derecognized when: (i) the rights to receive cash flows from the asset have ended; or (ii) Edpyme has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay all cash flows received immediately to a third party under a transfer agreement; and (iii) Edpyme has transferred substantially all the risks and benefits of the asset or, all the risks and benefits of the asset have not been transferred or retained substantially, but the control over them have been transferred.

#### Financial Liabilities -

A financial liability is derecognized when the payment obligation is terminated, paid or expires. When an existing financial liability is replaced by another from the same borrower under substantially different terms, or if the terms are substantially amended, said replacement or amendment is treated as a de-recognition of the original liability and a new liability is recognized, recognizing the difference between both in the income statement of the period.

#### Offsetting of Financial Instruments -

## Notes to the financial statements (continued)

Financial assets and liabilities are offset and the net amount is recorded in the statement of financial position when there is a legal right to offset them and Management intends to settle them on a net basis or to realize the asset and pay the liability simultaneously.

As of December 31, 2017 and 2016, Edpyme does not present any financial asset or liability for a net amount; nor does it present gross amounts subject to offsetting rights.

(d) Income and Expenses Recognition -

Interest income and expense are recognized in the income statement in the period when earned and incurred, based on the effective term of the underlying operations and interest rates that are freely agreed upon with clients; except in the case of interest accrued on loans past due, refinanced, restructured and in legal collection, and loans classified in the categories of doubtful and loss; which are recognized as collected. When Management determines that the debtor's financial condition has improved and the loan is reclassified as current and/or normal, with potential problems or substandard; interest is again recognized on an accrual basis in accordance with current regulations

Interest income includes interest accrued on fixed income investments classified as time deposits, as well as income from discounts and premiums on financial instruments, to be applied.

Dividends are recorded as income when declared.

Fees and expenses from loan arrangement, as well as from the opening, study and assessment of direct and indirect loans are recorded as revenue based on their accrual in the term of their relevant agreements.

The sold portfolio management fee is recognized, in accordance with the provision established in the relevant agreements, based on the fees charged for each loan.

Finder and/or placement fees paid to the dealers are accrued over the term of the directly related loan.

Other income and expenses are recognized as earned or incurred in the fiscal period in which they are accrued.

Revenues from the sale of portfolio are recorded in accordance with Official Letters No. 40482-2014-SBS and No. 18957-2015-SBS as follows:

- No repurchase Agreement

When the loan portfolio is sold, it is removed from the balance sheet as well as the provision made up to the time of the sale; the gain or loss resulting from such transfer is included in the statement of comprehensive income in the period in which the transaction is executed.

- Repurchase Agreement

## Notes to the financial statements (continued)

When the loan portfolio is sold with a repurchase agreement, the SBS has differentiated the accounting aspects based on the repurchase guarantees agreed with the buyers, as follows:

- When a repurchase agreement or option is less than or equal to 10 percent; the accounting treatment is similar to the one specified in “No Repurchase Agreement”, considering that due to repurchase liability, Edpyme must record provisions at the time of the sale of portfolio equivalent to 100 % of the repurchase agreement rate’s value established in each agreement. At the time of the portfolio’s repurchase, the provisions for repurchased loans must be recorded taking into account the classification in which they are at the time of repurchase.
  
- When the repurchase agreement or option is greater than 10 percent; the portfolio must remain in assets and a loan provision must be established pursuant to SBS Resolution No. 11356-2008, see paragraph (e) below. However, the interest accrued from loans transferred must be recorded in memoranda accounts as from the transfer date. The difference between the transfer price and the face value of the transferred portfolio will be recognized on a monthly basis as revenue over the average term of the portfolio transferred. Likewise, Edpyme must record a Guarantee Fund equivalent to the probability of default of its loan portfolio multiplied by the capital sold. For loan provision purposes and repurchase liability, Edpyme must record provisions at the time of sale of portfolio equivalent to 100 % of the repurchase agreement rate’s value established in each Agreement. At the time of the portfolio’s repurchase, provisions for repurchased loans must be recorded considering the classification in which they are at the time of repurchase.

As of December 31, 2017 and 2016, Edpyme mainly performs portfolio sales transactions with a repurchase agreement of less than or equal to 10 percent.

### (e) Loan Portfolio and Loan Loss Provision -

Direct loans are recorded when the fund disbursements are made to the clients. Indirect loans (contingent) are recorded when the documents supporting the credit facilities are issued. Likewise, direct loans or financings are considered as refinanced when there are changes in the term and/or amount of the original agreements due to repayment difficulties of the debtors, and as restructured to those loans subject to payment re-scheduling approved in a restructuring process in accordance with Law No. 27809, General Law of Insolvency System.

In accordance with SBS Resolution No. 11356-2008, the loan portfolio is divided into retail and non-retail debtors, which may be individual or legal entities. Retail debtors have direct or indirect loans classified as consumer (revolving and non-revolving), granted to micro - business, small - businesses or mortgages. Non-retail debtors have direct or indirect loans classified as corporate, granted to large-business or medium-business.

As of December 31, 2017 and 2016, the loan loss provision was determined following the criteria of SBS Resolution No. 11356-2008 “Regulations for the Evaluation and Classification of a

## Notes to the financial statements (continued)

Debtor and the Required Provision” and SBS Resolution No. 6941 - 2008 “Regulations for the Risk Management of Retail Debtors’ Over-indebtedness”.

In general terms, these guidelines includes the following three components: (i) the provision resulting from the portfolio classification, (ii) the pro-cyclical provision which is activated by the SBS considering the behavior of certain macroeconomic variables in the country, and (iii) the provision for over-indebtedness of the retail portfolio, if applicable.

The provision for portfolio’s risk classification is made based on the review performed periodically by Edpyme Management, ranking each debtor in the categories of normal, potential problem, sub-standard, doubtful or loss; depending on the degree of risk of non-payment and considering the classification alignment both internal and external in accordance with the SBS provisions.

In the matter of non-retail loans, debtors are classified into one of the categories above mentioned, among others, considering the following factors: the payment history of the specific debtor, history of trade relations with the debtor's management, transaction history, the debtor's ability to pay and availability of funds, situations of collateral and guarantees, the debtor's risk in other financial institutions; and other relevant factors. In the case of loans granted to retail debtors, the classification is mainly made on the basis of the delay in payments.

The calculation of the provision is made by classification and consider specific percentages, which vary if the loans are backed by self-liquidated preferred guarantees - CGPA (cash deposits and letter of credit rights), or quick realization preferred guarantees - CGPMRR (treasury bonds issued by the Peruvian Central Government, bond certificates issued by the Peruvian Central Bank Reserve, debt instruments issued by central governments and central banks listed in centralized trading mechanisms, among others) or preferred guarantees - CGP (first pledge over financial instruments or movable and immovable property, first agricultural or mining lien, insurance export credit, etc.), considered at their estimated realizable value, determined by independent appraisers. In addition, for calculation of the provision, the classification of guarantor or endorser must be considered, if the credits have the secondary liability of a company of the financial or insurance system (credit subject to replacement of counterparty credit - CAC).

Provision for clients classified as doubtful or loss for more than 36 and 24 months, respectively, is determined without considering the value of the guarantees.

For loans over 90 days past due, the expected loss is estimated and, if greater than the provision established, an additional provision is recorded.

The provision for indirect loans is determined based on the “Equivalent Credit Risk Exposure”, according to the credit conversion factor.

The pro-cyclical provision was calculated for loans classified as normal, based on the percentages established by the SBS; however, on November 27, 2014, through SBS Circular No. B-2224-2014, the SBS suspended the pro-cyclical rule and established that financial entities

## Notes to the financial statements (continued)

must reallocate the pro-cyclical provisions for the establishment of specific mandatory provisions. In this regard, during 2014, Edpyme reallocated its pro-cyclical provision kept for S/ 498,000 to specific provisions.

The risk management due to over-indebtedness of retail debtors is required by SBS Resolution No. 6941-2008, dated August 25, 2008, "Regulations for the Risk Management of Retail Debtors' Over-indebtedness". This standard requires that the financial entities to establish an over-indebtedness risk management system that reduces the risk before and after granting the loan; as well as to carry out a permanent follow-up of the portfolio to identify over-indebted debtors, which includes the periodic evaluation of the control mechanisms used, and the corrective actions or improvements required, as the case may be. Companies that do not comply with these provisions to the satisfaction of the SBS must, for provision purposes, calculate the equivalent credit risk exposure by applying a factor of 20 percent to the unused amount of revolving credit lines of micro-enterprise and consumer type and over such amount calculate the provision according to the debtor classification.

In Management's opinion, as of December 31, 2017 and 2016, Edpyme has complied with the requirements established by SBS Resolution No. 6941-2008, so it was not necessary to record additional general provisions relating to the improper an inadequate over-indebtedness risk management; likewise, the SBS has not informed Edpyme Management of the requirement for greater provisions in application of this Standard.

Provisions for direct loans are presented as an asset deduction, while provisions for indirect loans are presented as a liability, see note 5 (h) and 10 (a).

- (f) **Accounts Receivable and Provision for Doubtful Debts -**  
Receivable accounts are recognized at their fair value, less the corresponding provision for doubtful debts. The provision for doubtful debts is estimated in accordance with the policies established by Management, which is recognized considering, among other factors, the aging of outstanding balances and their recovery possibilities, and the evidence of financial difficulties of the debtor that increase the bad debt risk of outstanding balances, so that the amount has a level that Management considers adequate to cover possible losses in accounts receivable at the statement of financial position date. The amount of the allowance is recognized as a debit in the income statement for the year. Subsequent recoveries are recognized as a credit in the year's income statement.

The balance of the estimate is reviewed periodically by Management to adjust it to the levels necessary to cover the potential losses in accounts receivable. Bad debts are written off when they are identified as such.

- (g) **Property, Furniture and Equipment -**  
The property, furniture and equipment are recorded at historical acquisition cost, less accumulated depreciation and the accumulated amount of impairment losses, if applicable, see paragraph (j)



## Notes to the financial statements (continued)

below. Maintenance and repair costs are charged to the income statement and any significant renovation and improvement are capitalized whenever: i) Edpyme is likely to obtain the future economic benefits derived thereof; and, ii) its cost can be reliably valued. The cost and the related accumulated depreciation of assets sold or withdrawn are removed from the respective accounts and the resulting profit or loss is included in the income statement for the year.

Work-in-progress is recorded at acquisition cost. These goods are not depreciated until they are operational.

Lands are not depreciated. Depreciation of the other assets that make up this item is calculated following the straight-line method, in order to allocate the cost during its estimated useful life, as follows:

	<b>Years</b>
Buildings and facilities	33
Sundry furniture and equipment	10
Computer equipment	4
Vehicles	5
Leasehold improvements	Between 2 and 5

The residual value, useful life and the depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the future economic benefit and useful life of the property, furniture and equipment.

(h) Intangible Assets –

Intangible assets are mainly related to the acquisition of software licenses used in Edpyme's own operations, which are amortized using the straight-line method over an average term of 3 years.

Costs related to the development or maintenance of computing software are recognized in the income statement when they are incurred. However, costs directly associated with a single and identifiable computing software controlled by Edpyme, which will generate future economic benefits higher than their cost, are considered as an intangible asset.

(i) Assets Received as Payment and Seized–

Assets received as payment and seized assets are initially recorded at the value agreed upon in the payment in kind agreement, at the lower of the value determined by court, arbitrator, market value or unpaid value of debt, recognizing, at the same time, a provision equivalent to 20 % of the repossession or recovery value of the asset.

Subsequently, additional provisions are established the following criteria:

Movable property - A uniform monthly allowance is recorded from the first month of repossession or recovery, for a twelve-month period until reaching 100 percent of the net value of repossession or recovery.

## Notes to the financial statements (continued)

Immovable Property – Uniform monthly provisions are recorded on the net book value obtained from the twelfth month; provided that the six-month extension contemplated in SBS Resolution No. 1535-2005 has not been obtained, in which case uniform monthly provisions are recorded on the net book value obtained from the eighteenth month. In both cases, the provisions will be set up to one hundred percent (100%) of the net book value in a period of three and a half years, counted from the date on which they began to record monthly provisions.

The annual updating of valuations of these assets determined by an independent expert, will imply, if necessary, the recording of provisions for impairment.

(j) Impairment of Assets -

When there are events or economic changes indicate that the value of an asset might not be recoverable, Edpyme reviews the value of its assets to determine if there is permanent impairment. When the book value of the asset exceeds its recoverable amount, an impairment loss is recognized in the statement of comprehensive income for the assets held at cost.

The recoverable amount of an asset is the higher of its net selling price and its value in use. Net selling price is the amount obtainable from the sale of an asset in a free market. Value in use is the present value of estimated future cash flows from the continued use of an asset and from its subsequent disposal at the end of its useful life. The recoverable amounts are estimated for each asset or, if this is not possible, for the cash-generating unit.

(k) Employee Benefits -

Edpyme recognizes a liability and an expense for employees' profit sharing on the basis of 5 % of the net taxable income determined in accordance with current tax regulations. Likewise, it recognizes a liability and an expense for bonuses based on the current Peruvian labor legislation. The bonuses correspond to two annual compensations paid in July and December of each year.

The accrual for seniority indemnities is calculated in accordance with current labor legislation for all the liabilities related to the employees' vested rights. Payments are deposited at the financial institutions elected by the employee. The accrual for seniority indemnities is equivalent to remuneration in force at the date of deposit.

Vacations of employees are recognized on the accrual basis.

(l) Income Tax -

Current income tax is calculated based on the taxable income determined for tax purposes, which is determined using criteria that differ from accounting principles used by Edpyme.

Deferred income tax is recognized using the liability method for temporary differences between the taxes and accounting basis of assets and liabilities at the statement of financial position date.

## Notes to the financial statements (continued)

Deferred assets and liabilities are recognized regardless of when the temporary differences will be eliminated. Deferred assets are recognized when it is probable that there would be sufficient future tax benefits so that the deferred asset can be used.

At the date of the statement of financial position, Management assesses unrecognized deferred assets and the carrying amount of the ones recognized; recording a deferred asset previously unrecognized insofar as it is probable that future tax benefits will allow its recoverability or reducing a deferred asset insofar as it is not probable that sufficient future tax benefits will be available to allow the use of part or all deferred assets recognized in accounting.

Deferred tax assets and liabilities are offset if there is a legal right to offset them and deferred taxes are related to the same entity subject to taxes and to the same tax authority.

The book value of deferred tax assets and liabilities may change even though there is no change in the amount of temporary differences, due to a change in the income tax rate. The effect of the change in deferred tax, relating to the rate change, will be recognized in the income statement for the period, except for items previously recognized outside income statement (either in other comprehensive income or directly in equity). As a result, deferred income tax as of December 31, 2016 has been updated by applying the effective rate as of January 1, 2017, see note 9 (d).

As established by IAS 12, Edpyme determines its deferred income tax based on the tax rate applicable to its undistributed profits, recognizing any additional tax for the distribution of dividends at the date the liability is recognized.

### (m) Provisions -

A provision is recognized only when Edpyme has a present obligation (legal or implicit) as a result of a past event, it is likely that resources will be required to settle said obligation and, at the same time, it is possible to estimate its amount in a reliable manner. Provisions are reviewed periodically, and adjusted to reflect the best estimate as of the statement of financial position date. When the effect of the value of money over time is important, the amount of the provision is the present value of the expenditures expected to settle the obligation.

### (n) Contingencies -

Contingent liabilities are not recognized in the financial statements. They are disclosed in the notes to the financial statements, unless the possibility of an outflow of economic benefits is remote.

A contingent asset is not recognized in the financial statements but is disclosed when its degree of contingencies is probable.

### (o) Cash and Cash Equivalents -

The cash and cash equivalents shown in the statement of cash flows comprises balance in cash and due to bank of the statement of financial position; considering deposits with original maturities less than three months from the date of recording, and excluding accrued interest and restricted funds.

## Notes to the financial statements (continued)

(p) New Accounting Series Releases

(p.i) IFRS issued and effective in Peru as of December 31, 2017 -

During 2017, the Peruvian Accounting Board (CNC, for its Spanish acronym) issued the following resolutions, whereby it made official the following standards:

- Resolution No. 001-2017-EF/30 issued on January 13, 2017, which formalized the amendments to IFRS 4 “Insurance Contracts”.
- Resolution No. 002-2017-EF/30 issued on April 28, 2017, which formalized the amendments to IAS 40 “Investment Properties”, IFRIC 22 “Foreign Currency Transactions and Advance Consideration” and annual improvements to IFRS - 2014 - 2016 cycle.
- Resolution No. 003-2017-EF/30 issued on August 23, 2017, whereby the 2017 version of the IAS, IFRS, IFRIC and SIC, and the Conceptual Framework for Financial Information, were formalized.
- Resolution No. 004-2017-EF/30 issued on September 28, 2017, formalized IFRS 17 “Insurance Contracts and Interpretation to International Financial Reporting Standards” and IFRIC 23 “Uncertainty over Income Tax Treatments”. The validity of the standards mentioned in the preceding paragraph is established in each of them.
- Resolution No. 005-2017-EF/30 issued on December 13, 2017, which postpones the application of the International Financial Reporting Standard IFRS 15 Revenue from Contracts with Customers as of January 1, 2019.

The application of these standards is from the day following the issuance of the resolutions or later, as prescribed in each specific standard.

(p.ii) IFRS issued internationally but not in force as of December 31, 2017-

- IFRS 9 - Financial instruments, effective for periods beginning on or subsequent to January 1, 2018, allowing early application.
- IFRS 15 – Revenue from contracts with customers, effective for periods beginning on or subsequent to January 1, 2018.
- IFRS 16 - Leases, effective for periods beginning on or subsequent to January 1, 2019, allowing early application, but not before an entity applies IFRS 15.
- IFRS 17 - Insurance contracts, effective for periods beginning on or subsequent to January 1, 2021, requiring that comparative figures be included. Early application is permitted, provided that the entity also applies IFRS 9 and IFRS 15 on the date on which it first applies IFRS 17.

## Notes to the financial statements (continued)

- IFRIC 22 - Foreign currency transactions and advance consideration, effective for periods beginning on or subsequent to January 1, 2018.
- IFRIC 23 - Uncertainty over income tax treatments, effective for periods beginning on or subsequent to January 1, 2019, but certain exemptions are allowed in the transition.
- Annual improvements to IFRS – 2014 – 2016 Cycle  
IFRS 1 First-time adoption of IFRS - Elimination of short-term exemptions for those who adopt them for the first time and IAS 28 Investments in associates and joint ventures - Clarification that the valuation of investees at fair value through profit or loss is a choice separately for each investment. This cycle of improvements is effective for periods beginning on or subsequent to January 1, 2018.
- Annual improvements to IFRS - 2015-2017 Cycle  
IFRS 3 Business combinations - Previously held equity interests in a joint operation, IFRS 11 Joint arrangements - Previously held equity interests in a joint operation, IAS 12 Income tax - Consequences of payments on financial instruments classified as equity and IAS 23 Borrowing costs – Capitalization of borrowing costs. This cycle of improvements is effective for periods beginning on or subsequent to January 1, 2019.
- Amendments to IAS 28 - Long-term investments in associates and joint ventures. These amendments are effective for periods beginning on or subsequent to January 1, 2019; early application is allowed.
- Amendments to IAS 40 - Transfers of investment property. These amendments are effective for periods beginning on or subsequent to January 1, 2018; early application is allowed.
- Amendments to IFRS 2 - Classification and Measurement of Share-based Payment Transactions. These amendments are effective for periods beginning on or subsequent to January 1, 2018; early application is allowed.
- Amendments to IFRS 4 – Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts. These amendments are effective for periods beginning on or subsequent to January 1, 2018; early application is allowed.
- Amendments to IFRS 9 - Prepayment features with negative compensation. These amendments are effective for periods beginning on or subsequent to January 1, 2019, early application is allowed.
- Amendments to IFRS 10 and IAS 28 - Sales or contributions of assets between an investor and its associate or joint venture. The IASB has postponed the date of application of these amendments indefinitely.

## Notes to the financial statements (continued)

- Amendments to IFRS 15 - Clarifications to the standard. These amendments are effective for periods beginning on or subsequent to January 1, 2018, early application is allowed.

Given that the above-mentioned standards solely apply in a supplementary manner to the SBS standards, they will have no significant impact in the preparation of the accompanying financial statements, unless the SBS adopts them in the future through the modification of the Accounting Manual for Financial Entities or the issuance of specific standards thereon. Edpyme has not estimated the impact upon its financial statements if the standards were adopted by the SBS.

### 3. Cash and Due from Banks

- (a) This group is made up as follows:

	<b>2017</b>	<b>2016</b>
	S/ (000)	S/ (000)
Cash (b)	387	103
Fixed Fund	1	23
Local banks and other financial entities (c)	94,061	31,749
Restricted funds (d)	7,203	1,504
<b>Total</b>	<u>101,652</u>	<u>33,379</u>

- (b) It corresponds to the cash held by the special offices used for the operations of these offices located in Lima and the provinces.
- (c) As of December 31, 2017 and 2016, Edpyme maintains its current accounts in domestic currency and in US Dollars in local banks and other financial entities, with free withdrawal option and accrue interest at rates prevailing in the local financial market.

As of December 31, 2016, it includes approximately S/ 19,855,000; which correspond to a deposit in a local credit union related to the sale of portfolio of a client of Edpyme (Buena Estrella S.A.) to said credit union. This amount will be used mainly to pay debts that Buena Estrella S.A. maintains in other financial entities.

- (d) As of December 31, 2017, it mainly includes S/ 1,528,000 and US\$ 519,000, equivalent to S/ 1,684,000, which guarantees the obligations that Edpyme has with Corporación Financiera de Desarrollo – COFIDE and a security deposit in Banco Interamericano de Finanzas –BanBif for S/ 3,893,000, and US\$ 30,000 equivalent to S/ 97,000, in an escrow for business credit cards.

As of December 31, 2016, it includes S/ 1,371,000, which guarantees the obligations help by Edpyme with COFIDE and; in addition, US\$ 30,000 equivalent to S/ 133,000 in an escrow for business credit cards.

## Notes to the financial statements (continued)

### 4. Investments at Fair Value through Profit or Loss

Entity	Number of Shares	Share value (expressed in Soles)	2017 S/ (000)	2016 S/ (000)
<b>Funds managed by Scotia</b>				
<b>Fondos SAF S.A.</b>				
IF libre disponibilidad FMIV	12,368.16	123.67	1,530	-
<b>Funds managed by Diviso</b>				
<b>Fondos S.A. SAF</b>				
Diviso Extra Conservador Soles FMIV	127,886.22	12.37	1,586	-
			<u>3,116</u>	<u>-</u>

### 5. Loan Portfolio, net

(a) The following is the composition of the portfolio grouped by the credit situation of Edpyme:

	2017 S/ (000)	2016 S/ (000)
<b>Direct loans</b>		
Current loans	439,592	213,962
Refinanced loans	4,650	4,547
Past due loans	21,924	11,638
	466,166	230,147
<b>Plus (less)</b>		
Accrued interest on current loans	6,967	1,912
Deferred interests	(2,772)	(6,291)
Loan loss provision (h)	(23,381)	(14,438)
<b>Total</b>	<u>446,980</u>	<u>211,330</u>
Indirect loans note 16 (a)	<u>1,165</u>	<u>500</u>

(b) As of December 31, 2017 and 2016, there is no significant concentration of credit risk due to the nature of the Edpyme's operations, in the client portfolio and the vehicle security interests received. Loans held by Edpyme correspond mainly to the financing granted to clients for the purchase of vehicles used for taxi services, and heavy vehicles.

(c) Edpyme freely sets the interest rates that govern its lending operations based on supply and demand, current market rates, agreed terms and the currency in which the loan is granted. As of December 31, 2017 and 2016, the average effective annual rates for the main types of loans are as follows:

2017 %	2016 %
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## Notes to the financial statements (continued)

Medium business	17.26	24.27
Small business	18.26	26.97
Micro business	32.74	40.81
Non-revolving consumer loan	38.40	23.13

(d) As of December 31, 2017 and 2016, the direct loan portfolio under the segmentation set forth in SBS Resolution No. 11356-2008, note 2 (e) was as follows:

	<b>2017</b>	<b>2016</b>
	S/ (000)	S/ (000)
<b>Non-retail loans</b>		
Medium business	159,237	5,148
<b>Retail loans</b>		
Small business	245,356	145,356
Micro business	22,934	31,319
Non-revolving consumer	38,639	48,324
<b>Total</b>	<u>466,166</u>	<u>230,147</u>

(e) In accordance with SBS regulations, the direct loan portfolio of Edpyme as of December 31, 2017 and 2016 was classified per risk as follows:

	<b>2017</b>		<b>2016</b>	
	S/ (000)	%	S/ (000)	%
Normal	396,951	85.1	183,318	79.7
Potential problems	28,421	6.1	26,504	11.5
Substandard	20,553	4.4	4,587	2.0
Doubtful	12,865	2.8	14,565	6.3
Loss	7,376	1.6	1,173	0.5
<b>Total</b>	<u>466,166</u>	100.0	<u>230,147</u>	100.0

(f) As of December 31, 2017 and 2016, the Peruvian financial entities must record a loan loss provision based on the risk classification specified indicated in paragraph (e) above, and using the percentages specified in SBS Resolution No. 11356-2008, as detailed below:

(i) For loans classified as "Normal":

<b>Types of Loans</b>	<b>Mandatory Generic Rate</b>	<b>Pro-cyclical Rate (*)</b>
	%	%
Medium business	1.00	0.30
Small business	1.00	0.50
Micro business	1.00	0.50
Non-revolving consumer	1.00	1.00

(\*) In the event that the loan granted has preferred self-liquidating guarantee (CGPA), the pro-cyclical component will be 0 percent, 0.25 percent or 0.30 percent,



## Notes to the financial statements (continued)

depending on the type of loan. As stated in note 2 (e), during 2014, the cyclical provision was suspended by the SBS; in this regard, Edpyme reassigned this provision for recording specific provisions in that year for approximately S/ 498,000.

- (ii) For loans ranked into “Potential Problems”, “Sub-Standard”, “Doubtful” and “Loss” categories, depending on whether they are loans without guarantee (CSG), loans with preferred guarantee (CGP), loans with quick realization preferred guarantee (CGPMRR) or loans with preferred self-liquidating guarantee (CGPA), the following percentages are used:

<b>Risk Category</b>	<b>CSG %</b>	<b>CGP %</b>	<b>CGPMRR %</b>	<b>CGPA %</b>
Potential problems	5.00	2.50	1.25	1.00
Substandard	25.00	12.5	6.25	1.00
Doubtful	60.00	30.0	15.00	1.00
Loss	100.00	60.0	30.00	1.00

As of December 31, 2017 and 2016, the percentages of provision specified above correspond to all types of credit of the Peruvian financial entities. Due to the type of operations carried out by Edpyme, the loans granted mainly have a vehicle security interest considered as preferred guarantee, as indicated above.

- (g) As of December 31, 2017 and 2016, Edpyme is authorized to enter into purchase - sale agreements of loan portfolio with repurchase agreements with local credit unions through SBS Resolution No. 442-2014 issued by the SBS. In this sense, during 2017 and 2016, it made transfers of portfolio with repurchase agreements less than or equal to 10 percent for principal amounting to S/ 146,379,000 and S/ 153,350,000, respectively; these transactions generated net income of S/ 48,345,000 and S/ 49,364,000, respectively; which were recorded under “Financial Operating Result, net” note 19, in the statement of comprehensive income.

As of December 31, 2017 and 2016, the capital balance of transferred loan portfolio with repurchase agreement less than or equal to 10 percent, amounts to S/ 262,994,000 and S/ 288,726,000, respectively.

As of December 31, 2017 and 2016, for the portfolio transfer agreements with repurchase agreements less than or equal to 10 percent, Edpyme maintains a provision for this item equivalent to S/ 5,168,000 and S/ 7,938,000 respectively, note 10 (a), according to the repurchase percentage established in the individual agreements of the transferred portfolio.

According to the assessment made to the portfolio transfer agreements mentioned above, it is also established that Edpyme will charge a fixed fee for the collection and recovery management of each of the installments collected in full by the clients that are part of the transferred portfolio. As of December 31, 2017 and 2016, Edpyme has recorded revenues for this item amounting to S/

## Notes to the financial statements (continued)

12,715,000 and S/ 16,347,000, respectively, under “Financial Operating Result, net” note 19, in the statement of comprehensive income.

- (h) The movement of the loan loss provision (direct and indirect), determined according to the risk classification and the required provision percentages stated in paragraph (f) was as follows:

	<b>2017</b> S/ (000)	<b>2016</b> S/ (000)
<b>Balance as of January 1</b>	14,443	9,993
Provision, net recoveries	22,295	13,522
Recovery of write-offs	75	116
Sale of portfolio	(13,037)	(9,188)
Write-offs	(383)	-
<b>Balance as of December 31 (*)</b>	<u>23,393</u>	<u>14,443</u>

- (\*) The loan loss provision balance includes provision for indirect loans for approximately S/ 12,000 and S/ 5,000, as of December 31, 2017 and 2016, respectively, which are recorded under “Other Liabilities” in the statement of financial position, note 10 (a).

In Edpyme Management’s opinion, the loan loss provision recorded as of December 31, 2017 and 2016, is in accordance with SBS regulation in force then, note 2 (e).

The loan portfolio as of December 31, 2017 and 2016 was graded by maturity as follows:

	<b>2017</b> S/ (000)	<b>2016</b> S/ (000)
Up to 3 months	2,024	9,425
From 3 to 6 months	5,122	13,369
From 6 months to 1 year	15,846	30,564
From 1 to 2 years	52,411	63,016
From 2 to 5 years	272,303	100,330
More than 5 years	96,536	1,805
Past due loans	21,924	11,638
	<u>466,166</u>	<u>230,147</u>

### 5. Accounts Receivable, net

- (a) As of December 31, 2017 and 2016, this group is made up as follows:

	<b>2017</b> S/ (000)	<b>2016</b> S/ (000)
Sundry accounts receivable (b)	3,887	2,112
Income tax credit, net	354	-
Rent security deposits	224	217
Value-added tax credit	148	-
Claims to third parties	148	82

## Notes to the financial statements (continued)

Advance to personnel	7	75
	4,768	2,486
Provision for sundry accounts receivable (c)	(41)	(131)
Provision for claims to third parties (c)	(61)	(54)
	<u>4,666</u>	<u>2,301</u>

- (b) It mainly corresponds to the collection and recovery management service fee of installments collected from the clients with regard to portfolio transfer agreements with repurchase agreement less than or equal to 10 percent, see note 5 (g), which applies to the installments paid by the transferred clients. As of December 31, 2017 and 2016, the balances receivable for this item corresponds to the Credit Unions and Municipal Savings Banks for approximately S/ 815,000 and S/ 1,550,000, respectively.

Additionally, as of December 31, 2017, it includes receivables from Rímac Seguros y Reaseguros for approximately S/ 843,000 due to involvement of Edpyme in the Prompt Payer Program (PPP), S/ 361,000 for receivables from a third as a result of the partnership contract with that entity, and S/ 579,000 for re-invoicing of repair expenses of T-kobro SAC vehicles initially assumed by Edpyme, (as of December 31, 2016, includes S/ 218,000, for the reimbursement of GPS expenses initially paid by Edpyme, which, as of August 2016, are directly assumed by Autoclass SAC, a related entity.

- (c) In Edpyme Management's opinion, the provision for accounts receivable is sufficient and adequately covers the bad debt risk of said accounts.

### 7. Assets Received as Payment and Seized, net

- (a) As of December 31, 2017 and 2016, this group's balances include as follows:

	<b>2017</b> S/ (000)	<b>2016</b> S/ (000)
Assets received as payment and seized(b)	15,971	2,886
(-) Provisions (c)	(5,723)	(2,320)
Total	<u>10,248</u>	566

- (b) The assets received as payment and seized correspond, mainly, to the vehicles recovered from taxi loans. The increase during 2017 is incentivized by Law No. 30356 issued on January 11, 2017, which encourages the renewal of the vehicle fleet and the formalization of the sale of vehicles.
- (c) The movement of the provision for assets received as payment and seized, determined pursuant to the provisions set forth by the SBS for movable property, specified in paragraph 2 (i) was as follows:

	<b>2017</b> S/ (000)	<b>2016</b> S/ (000)
<b>Balance as of January 1</b>	(2,320)	(2,768)
Provision recognized as an expense for the year	(12,473)	(5,076)
Reversal of provision for sale of seized assets (d)	9,070	5,524

## Notes to the financial statements (continued)

**Balance as of December 31**

(5,723)

(2,320)

- (d) It corresponds to the reversal of provision for seized assets sold during the 2017 and 2016 fiscal periods for a sale value of S/ 18,783,000 and S/ 16,577,000, respectively. These transactions generated losses and profits with respect to the gross value of the seized assets by S/ 4,332,000 and S/ 532,000, respectively; which were recorded under “Other Income, net”, note 21, in the statement of comprehensive income.

Notes to the financial statements (continued)

8. Property, Furniture and Equipment, net

(a) This group's movement for the 2017 and 2016 fiscal periods was as follows:

	Buildings, Facilities and Leasehold Improvements (d)		Furniture S/ (000)	Computer equipment S/ (000)	Transport Vehicles S/ (000)	Sundry Equipment S/ (000)	Total S/ (000)
	Land S/ (000)	S/ (000)					
<b>Cost -</b>							
<b>Balance as of January 1 2016</b>	2,199	2,678	856	1,278	136	1,048	8,195
Additions (c)	3,383	1,842	204	451	-	262	6,142
Disposal	-	(407)	(23)	(227)	-	(33)	(690)
<b>Balance as of December 31 de 2016</b>	5,582	4,113	1,037	1,502	136	1,277	13,647
Additions (c)	-	878	122	503	-	156	1,659
Disposal	-	(73)	(1)	(242)	(136)	-	(452)
<b>Balance as of December 31 de 2017</b>	5,582	4,918	1,158	1,763	-	1,433	14,854
<b>Accumulated Depreciation -</b>							
<b>Balance as of January 1 2016</b>	-	807	274	543	92	263	1,979
Depreciation for the year	-	691	104	342	27	123	1,287
Disposal	-	(407)	(21)	(225)	-	(27)	(680)
<b>Balance as of December 31 de 2016</b>	-	1,091	357	660	119	359	2,586
Depreciation for the year	-	526	109	426	17	135	1,213
Disposal	-	(73)	-	(242)	(136)	-	(451)
<b>Balance as of December 31 de 2017</b>	-	1,544	466	844	-	494	3,348
<b>Net book value as of December 31, 2017</b>	5,582	3,374	692	919	-	939	11,506
<b>Net book value as of December 31, 2016</b>	5,582	3,022	680	842	17	918	11,061

(b) The financial entities incorporated in Peru are prohibited from giving as collateral the assets of their fixed assets.

(c) It corresponds to the improvements made at the head office, and the implementation of the various offices at the San Isidro headquarters carried out during 2017.

In June 2016, Edpyme has made an outlay mainly for the purchase of a property from San Mateo SAC, located at Av. 28 de Julio No. 332-334-336, Urbanizacion Santa Beatriz, District of Jesus Maria, Lima, for a total amount of S/ 4,147,000, of which S/ 3,383,000 represents the land value and S/ 764,000 the building value. Likewise, during 2016, investment was made for the improvement of infrastructure of its branches for upgrading their administrative spaces.

(d) As of December 31, 2017 and 2016, the cost for leasehold improvements amounts to S/ 2,224,000 and S/ 1,731,000, respectively, and have an accumulated depreciation of S/ 1,265,000 and S/ 889,000, respectively; calculated based on the relevant lease term.

(e) As of December 31, 2017 and 2016, Edpyme maintains fully depreciated fixed assets, which are still in use for approximately S/ 372,000 and S/ 486,000 respectively.

## Notes to the financial statements (continued)

- (f) In accordance with the policies established by Management, as of December 31, 2017 and 2016, Edpyme has contracted multi-risk insurance policies; which allow it to ensure its main fixed assets. In Management's opinion, the insurance policies contracted do comply with the standard used by equivalent companies in the sector and adequately cover the risk of eventual losses for any impairment that may occur, considering the type of assets owned by Edpyme.
  
- (g) Management periodically reviews the depreciation method used, to ensure that it is consistent with the economic benefit of the fixed assets. In Management's opinion, there is no evidence of impairment of fixed assets held as of December 31, 2017 and 2016.

Notes to the financial statements (continued)

9. **Deferred Income Tax, net**

(a) As of December 31, 2017 and 2016, this group was as follows:

	<b>Balances as of January 1, 2016</b>	<b>Equity</b>	<b>(Debit) Credit to Income</b>	<b>Balances as of December 31, 2016</b>	<b>(Debit) Credit to Income</b>	<b>Balances as of December 31, 2017</b>
	S/ (000)	S/(000)	S/ (000)	S/ (000)	S/ (000)	S/ (000)
<b>Deferred Assets -</b>						
Loan loss provision	1,125	-	2,691	3,816	(836)	2,980
Provision for seized assets	775	-	(91)	684	1,004	1,688
Provision for outstanding vacations pay	248	-	(25)	223	63	286
Leasehold improvements	146	-	95	241	78	319
Provision for unpaid interest	45	-	60	105	(26)	79
Other	71	11	11	93	20	113
<b>Total Deferred Asset</b>	<b>2,410</b>	<b>11</b>	<b>2,741</b>	<b>5,162</b>	<b>303</b>	<b>5,465</b>
<b>Deferred Liabilities -</b>						
Deferred charge of debts	(222)	1	(77)	(298)	(717)	(1,015)
Deferred charge for loan intermediation	(321)	23	(1,352)	(1,650)	(581)	(2,231)
Amortization of intangible assets	(10)	-	(12)	(22)	(19)	(41)
Buildings depreciation	(36)	(2)	(13)	(51)	(15)	(66)
<b>Total Deferred Liabilities</b>	<b>(589)</b>	<b>22</b>	<b>(1,454)</b>	<b>(2,021)</b>	<b>(1,332)</b>	<b>(3,353)</b>
<b>Total Deferred Assets, net</b>	<b>1,821</b>	<b>33</b>	<b>1,287</b>	<b>3,141</b>	<b>(1,030)</b>	<b>2,112</b>

## Notes to the financial statements (continued)

(b) In Management's opinion, the recognized deferred asset will be applied in the coming years based on the changes in value produced by these temporary differences, as well as the future taxable profits that Edpyme will generate in accordance with its business revenue and cash flow projections.

(c) Income (expense) from income tax includes as follows:

	<b>2017</b>	<b>2016</b>
	S/ (000)	S/ (000)
Current	4,063	3,700
Deferred	1,030	(1,287)
<b>Total</b>	<u>5,093</u>	<u>2,413</u>

(d) The following is the reconciliation of the income tax rate with the effective rate of Edpyme, for the 2017 and 2016 periods:

	<b>2017</b>		<b>2016</b>	
	S/ (000)	%	S/ (000)	%
<b>Profit before income tax</b>	16,460	100.00	8,802	100.00
Theoretical expense	4,856	29.5	2,465	20.00
Non-deductible expenses	237	1.44	106	2.39
Effect on the change in deferred income tax rate, note 2(1)	-	-	<u>(158)</u>	<u>(1.80)</u>
<b>Income tax expense as per effective rate</b>	<u>5,093</u>	<u>30.94</u>	<u>2,413</u>	<u>28.59</u>

### 10. Other Assets and Other Liabilities

(a) As of December 31, 2017 and 2016, this group includes as follows:

	<b>2017</b>	<b>2016</b>
	S/ (000)	S/ (000)
<b>Other Assets</b>		
<b>Financial Instruments-</b>		
Operations in progress	-	716
(e)		
<b>Non-Financial Instruments -</b>		
Deferred Charges paid to dealers (b)	7,560	5,591



## Notes to the financial statements (continued)

Prepaid Insurance	3,112	1,180
Deliveries to be paid	298	505
Vehicle assistance services (c)	438	535
Prepaid insurance	192	179
Intangible assets, net (d)	140	78
Other prepaid expenses	666	153
	12,406	8,937
<b>Other Liabilities</b>		
<b>Financial Instruments-</b>		
	20,269	21,067
Operations in progress (e)		
	20,269	21,067
<b>Non-Financial Instruments -</b>		
Provision for loan portfolio with repurchase agreement (f), note 5(g)	5,168	7,938
Deferred income	2,041	872
Provisions for contingent loans, note 5(h)	12	5
Other liabilities	457	5
<b>Total</b>	7,678	8,820
	<u>27,947</u>	<u>29,887</u>

- (b) It corresponds mainly to the finder's fees for loans placement in the market, paid to the dealers for Taxi, Commercial Vehicles, Recovered Vehicles and Consumer products for approximately S/ 1,396,000, S/ 204,000, S/ 4,767,000, and S/ 1,193,000, respectively (approximately S/ 459,000, S/ 103,000, S/ 3,988,000 and S/ 1,041,000, respectively, as of December 31, 2016). The fee amount is deferred within the term of the granted loan; however, if the loan is part of a sold portfolio, the entire fee is accrued. As of December 31, 2017 and 2016, the amount accrued from these fees amounted to S/ 6,919,000 and S/ 5,065,000 respectively, see note 19 (a).
- (c) As of December 31, 2017 and 2016, it corresponds to the outstanding balance to be accrued for the vehicle assistance services provided by Autoclass S.A.C. to Edpyme clients, such as mechanical breakdown solution, towing, vehicle solicitor, and other services, for S/ 438,000 and S/ 535,000, respectively.
- (d) The "Intangible Assets, net" account consists of software and licenses for the use of computer, which total cost, as of December 31, 2017, amounts to approximately S/ 588,000 and its accumulated amortization amounts to approximately S/ 448,000 (totaling approximately S/ 436,000 and accumulated amortization amounting approximately to S/ 358,000 as of December 31, 2016). The amortization for the 2017 period amounts to S/ 90,000 (S/ 38,000 for 2016).

In Management's opinion, there is no evidence of impairment in the value of intangible assets, and therefore it is not necessary to record a provision for these assets at the statement of financial position date.

## Notes to the financial statements (continued)

- (d) Operations in progress mainly related to transactions carried out during the last days of the year, which are reclassified the following month to the final accounts of the statement of financial position; these transactions do not affect the Edpyme income statement.

As of December 31, 2017, borrowing operations in progress correspond primarily to outstanding payments to Diveimport for an amount of S/ 9,316,000, Global Bus for S/ 4,988,000, Sinomak S.A. for S/ 2,356,000 and to vehicle dealers for the installation services of Gas, SOAT, and GPS for an approximate total amount of S/ 1,762,000 (as of December 31, 2016, S/ 4,011,000 for outstanding payments to Infogas and outstanding balances to be paid to Buena Estrella S.A. creditors (Edpyme client) for an approximate amount of S/ 14,546,000, due to the fact that their debts hold related-guarantees at that date).

- (f) As a result of the sales of portfolio with repurchase agreement made following February 2016, Edpyme records a provision equivalent to 100 percent of the repurchase agreement percentage, based on the provisions of SBS Official Letter No. 6345-2016; however, because of the sales of portfolio executed before the aforementioned date, a provision was recorded based on the default ratio of the portfolio managed in the month prior to the transfer in accordance with the provisions of SBS Official Letter No. 40482-2014; the aforementioned is met as long as the repurchase percentage is less than or equal to 10 percent.

As of December 31, 2017 and 2016, Edpyme keeps this provision recorded for repurchase agreement with Cooperativa Pacifico, Cooperativa Abaco, Caja Municipal de Ahorro y Crédito Trujillo, and other institutions by S/ 1,601,000, S/ 3,186,000, S/ 362,000 and S/ 19,000, respectively (S/ 3,111,000, S/ 3,442,000, S/ 1,339,000, and S/ 46,000, respectively, as of December 31, 2016).

The movement of the provision for loan portfolio with repurchase agreement is shown below:

	<b>2017</b>	<b>2016</b>
	S/ (000)	S/ (000)
<b>Balance as of January 1</b>	7,938	2,878
Provision for loan portfolio with repurchase agreement, net	(2,770)	5,060
<b>Balance as of December 31</b>	<u>5,168</u>	<u>7,938</u>

### 11. Other Accounts Payable

- (a) As of December 31, 2017 and 2016, this group was as follows:

	<b>2017</b>	<b>2016</b>
	S/ (000)	S/ (000)
Suppliers (c)	11,085	6,134
Unpaid vacations and profit sharing	1,793	1,519
Accounts payable (d)	568	819
Special bonuses	310	736
Taxes payable	470	400

## Notes to the financial statements (continued)

14,226

9,608

- (b) These liabilities do not accrue interest; they have current maturity and do not have specific guarantees.
- (c) As of December 31, 2017, it corresponds largely to account payable to Diveimport for factoring by \_\_\_\_\_, to Autoclass S.A.C. for vehicle repair and maintenance, to Rímac Seguros y Reaseguros for insurance of Prompt Payer Program, among others.

As of December 31, 2016, it corresponds mainly to accounts payable to Autofondo S.A.C. and Lima Automotriz del Perú S.A.C for finder's fees, and Autoclass S.A.C for vehicle repair and maintenance.

- (d) As of December 31, 2017 and 2016, it corresponds to the money collected from the installments paid by clients which are part of the portfolio sold pending to be transferred to the various entities and credits unions.

### 12. Debts and Financial Obligations

- (a) As of December 31, 2017 and 2016, this group was as follows:

	<b>2017</b>	<b>2016</b>
	S/ (000)	S/ (000)
<b>By Type -</b>		
Obligations with domestic financial entities (b)	104,143	58,178
Obligations with foreign financial entities (c)	25,736	20,379
Other debts (d)	259,736	46,632
	389,615	125,189
Interest payable	6,833	1,903
Unearned fees	(3,444)	(1,014)
<b>Total</b>	<b>393,004</b>	<b>126,078</b>
<b>By Term -</b>		
Short-term	108,637	44,904
Long-term	284,367	81,174
<b>Total</b>	<b>393,004</b>	<b>126,078</b>

- (b) As of December 31, 2017 and 2016, this group's composition was as follows:

Entity	Currency of Origin	Maturity	2017	2016
			S/ (000)	S/ (000)
Caja Huancayo S.A. (*)	S/	11/2021	31,229	20,000
Corporación Financiera de Desarrollo – COFIDE (*)	S/	06/2021	26,237	10,655
Caja Trujillo S.A. (*)	S/	03/2019	19,175	7,181
Caja Maynas S.A. (*)	S/ and	12/2021	6,805	5,945

## Notes to the financial statements (continued)

	US\$			
Banco Interamericano de finanzas	S/	05/2020	6,731	-
FONDEMI (*)	S/	06/2019	6,415	7,940
Banco de la Nación (*)	S/	01/2020	3,105	4,259
Caja Ica S.A. (*)	S/	03/2019	2,588	-
Cooperativa de Ahorro y Crédito Abaco (*)	S/	03/2019	1,858	2,198
<b>Total</b>			<u>104,143</u>	<u>58,178</u>

(\*) As of December 31, 2017 and 2016, these correspond to loans with local financial institutions guaranteed with credit portfolio of Edpyme for approximately S/ 100,282,000 (S/ 61,475,000 as of December 31, 2016).

As of December 31, 2017, local financial institutions earn interest at effective annual rates ranging between 6.70 and 13.70 percent with due date between January 2019 and December 2021 (interest at effective annual rates ranging between 6.5 and 13.0 percent, with maturity date between January 2017 and December 2021, as of December 31, 2016).

- (c) As of December 31, 2017 and 2016, Edpyme maintains debts with the foreign financial institution, NEDERLANDSE FINANCIERINGS - MAATSCHAPPIJ VOOR ONTWIKKELINGSLANDEN N.V. for a total of S/ 25,736,000 with maturity in June 2020, which accrues interest at an effective annual rate of 11.68 percent (approximately S/ 20,379,000 with interest at an effective annual rate of 11.68 percent, with maturity in June 2020), as of December 31, 2016

This loan includes specific agreements on financial conditions to be maintained regarding compliance with financial ratios, use of funds and other administrative matters. As of December 31, 2017 and 2016, Edpyme Management considers that the conditions established for this transaction have been substantially complied with. In Edpyme Management's opinion, these agreements do not limit its operations, and the conditions established for these transactions are met.

As of December 31, 2017 and 2016, Edpyme maintains the following clauses for this indebtedness mainly referring to:

- Portfolio quality
- Capital adequacy ratio
- Cost effectiveness
- Operating expenses with related parties
- Dividend distribution rate
- Capital to risk-weighted assets ratio
- Non-performing loan ratio
- Loan ratio with related parties
- Net stable financing ratio

- (d) As of December 31, 2017 and 2016, the "Other Debts" composition was as follows:

## Notes to the financial statements (continued)

<b>Other Debts / Individuals</b>	<b>Currency of Origin</b>	<b>Maturity</b>	<b>2017</b> S/ (000)	<b>2016</b> S/ (000)
BlueOrchard	S/	11/2018	48,846	-
Microvest Short Duration	US\$	06/2021	32,410	-
Bio Invesment	US\$	03/2023	29,709	-
Blueorchard Microfinance	S/	03/2021	25,896	-
Triodos Invesment	S/	03/2021	22,883	-
SEB Microfinance Fund IV	S/ and US\$	12/2018	18,014	8,278
SEB Microfinance Fund III	S/ and US\$	07/2017	16,222	7,973
Global Financial Gawa	S/	06/2019	16,000	-
FINETHIC S.A.C	S/ and US\$	10/2019	9,969	5,108
Essential Capital	US\$	12/2017	6,482	6,750
SEB Microfinance Fund V	US\$	12/2019	6,482	-
Prospero Microfinanzas	S/	06/2019	5,718	5,718
Global Finance Inclusion Fund	S/	07/2019	4,920	-
SEB Microfinance Fund II	S/	06/2019	3,289	-
LOC FUND II L.P	S/	05/2019	2,581	4,491
EMF Microfinance Fund	S/	03/2018	1,709	1,709
Global Microfnance Fund	S/	07/2019	1,646	-
<b>Individuals</b>				
Sundry (i)	S/	-	-	6,605
		6,605	259,736	<u>46,632</u>

- (i) As of December 31, 2017 and 2016, Edpyme maintains debts with individuals and shareholders in domestic currency, which accrues interest at effective rates ranging between 6.40 and 13.00 percent, with maturities between January 2018 and June 2020 (effective annual rates ranging between 10.00 and 12.72 percent, with maturities between April 2017 and June 2019, as of December 31, 2016).

As of December 31, 2017, foreign financial institutions accrue interest at effective annual rates ranging between 8.13 and 13.0 percent; (Interest at effective annual rates between 10.5 and 13.0 percent, as of December 31, 2016).

- (e) The following is the group's balance as of December 31, 2017 and 2016, classified by maturity:

	<b>2017</b> S/ (000)	<b>2016</b> S/ (000)
Up to 3 months	22,620	5,927
From 3 months to 1 year	82,629	38,088
From 1 to 3 years	187,083	75,504

## Notes to the financial statements (continued)

From 3 to 5 years	94,582	5,670
More than 5 years	2,701	-
	<u>389,615</u>	<u>125,189</u>

- (f) During 2017, Edpyme has acquired and paid financial obligations, which have generated an interest expense of approximately S/ 25,429,000 (S/ 17,037,000 as of December 31, 2016) recorded under “Interest expenses” in the income statement, note 17 (a).

### 13. Shareholders' Equity

#### (a) Capital Stock -

During 2016, following a series of shares exchange of its previous shareholders, Edpyme becomes a subsidiary of Acceso Corp S.A, which owns 99.99 percent of the shareholding in its capital stock. In that sense, the shareholding in the Edpyme's capital stock as of December 31, 2017 and 2016 was as follows:

	<b>Total Percentage of Share</b>	
	<b>2017</b>	<b>2016</b>
Acceso Corp S.A.	99.99	99.99
Sergio Valencoso Burillo	0.01	0.01
	<u>100.00</u>	<u>100.00</u>

As of December 31, 2017, the capital stock of Edpyme is represented by 12,705,632 fully subscribed and paid-in common shares with face value of 10 Soles per share (9,605,632 shares as of December 31, 2016).

The General Shareholders' Meeting held on March 30, 2017, authorized an increase of the Edpyme capital stock of S/ 25,000,000, through contributions from Acceso Corp. This increase was made through the issuance of 2,500,000 new shares with face value of S/ 10 each.

The General Shareholders' Meeting held on June 28, 2017, approved an increase of Edpyme capital stock of S/ 6,000,000, through contributions from Acceso Corp. This increase was made through the issuance of 600,000 new shares with face value of S/ 10 each.

#### (b) Capital Stock in Progress -

As of December 31, 2017, the capital stock in progress amounts to S/ 10,000,000 and corresponds to the contribution received from Acceso Corp. pending subscription made via resolution of the General Shareholders' Meeting held on December 21, 2017.

#### (c) Legal Reserve -

In accordance with current legal regulations, Edpyme must reach a legal reserve of at least 35 percent of its paid-in capital. This reserve is created through the annual transfer of not less than 10 percent of net profits and can only be used to offset losses or for capitalization, in both cases it must be replenished.

## Notes to the financial statements (continued)

The Annual Shareholders' Meeting held on March 30, 2017 and 2016, approved the legal reserve constitution for the equivalent of 10 percent of the 2016 and 2015 fiscal period's profits, by S/ 639,000 and S/ 449,000, respectively.

(d) Retained Earnings -

The Annual Shareholders' Meeting held on March 30, 2016, approved the capitalization of retained earnings by S/ 4,000,000.

(e) Regulatory Net Worth -

As of December 31, 2017 and 2016, the regulatory net worth of Edpyme was determined as follows:

	<b>2017</b>	<b>2016</b>
	S/ (000)	S/ (000)
<b>Regulatory Net Worth - Tier 1</b>		
Paid-in capital	127,056	96,056
Capital stock in progress	10,000	-
Legal reserve	3,208	2,569
Other (*)	(9)	-
Year's earnings with capitalization agreement	-	2,300
	<u>140,255</u>	<u>100,925</u>
<b>Regulatory Net Worth – Tier 2</b>		
Generic provisions for loans (mandatory)	7,306	3,628
	<u>7,306</u>	<u>3,628</u>
<b>Total Regulatory Net Worth</b>	<u><u>147,561</u></u>	<u><u>104,553</u></u>

\* An amount of approximately S/ 9,000 was deducted from the regulatory net worth as requested by the SBS in 2017.

As of December 31, 2017, the regulatory net worth requirement for credit risk determined by Edpyme, pursuant to the legislation applicable to financial institutions, amounts to S/ 58,170,000 (S/ 28,096,000, as of December 31, 2016), while the regulatory net worth requirements for market and operational risk amount to S/ 1,926,000 and S/ 9,812,000 respectively (S/ 67,000 and S/ 7,041,000, respectively, as of December 31, 2016).

In accordance with the provisions of Legislative Decree No. 1028, the regulatory net worth must be equal to or greater than 10 percent of the total risk-weighted assets and contingent loans, which includes: i) regulatory net worth requirement for market risk multiplied by 10, ii) regulatory net worth for operational risk multiplied by 10, and iii) risk-weighted assets and contingent loans. As of December 31, 2017 and 2016, the regulatory net worth of Edpyme represents 21.11 percent of the minimum capital requirements for the market, operational and credit risk (29.70 percent, as of December 31, 2016).

During 2009, the SBS issued SBS Resolutions No. 2115-2009, No. 6328-2009 and No. 14354-2009; Regulations for Regulatory Net Worth Requirement for Operational Risk, Market Risk,

## Notes to the financial statements (continued)

and Credit Risk, respectively, and their amendments. These resolutions establish, mainly, the methodologies to be used by financial institutions to calculate the weighted assets and loans for each type of risk. As of December 31, 2017 and 2016, Edpyme has been complying with the requirements of said resolutions.

Through Resolution SBS No. 8425-2011, dated July 20, 2011, the SBS approved the Regulations for Additional Regulatory Net Worth Requirement, which establishes that this asset will be equal to the regulatory net worth requirements calculated for each of the following components: i) economic cycle, ii) concentration risk, iii) market concentration risk, iv) interest rate risk in the bank book and v) other risks. It also establishes a five-year gradual adjustment period as of July 2012. As of December 31, 2017 and 2016, the adequacy percentage established by the SBS is 100 percent, thus the additional regulatory net worth requirement estimated by Edpyme amounts to S/ 12,498,000 (S/ 6,580,000 as of December 31, 2016). In Management's opinion, Edpyme has been complying with the requirements established in the aforementioned resolutions.

As of December 31, 2017 and 2016, Edpyme maintains the following amounts in relation to risk-weighted assets and contingent loans and regulatory net worth:

	<b>2017</b>	<b>2016</b>
	S/	S/ (000)
Total risk- weighted assets and loans	699,081	352,040
Regulatory net worth	147,561	104,553
Basic regulatory net worth	140,255	100,925
Supplementary regulatory net worth	7,306	3,628
Global regulatory capital ratio (in percentage)	21.11	29.70

### 14. Tax Situation

- (b) Edpyme is subject to the Peruvian tax regime. The income tax rate as of December 31, 2017 was 29.5 percent (28.0 percent as of December 31, 2016), over taxable income after calculating the employee's profit sharing, which, in accordance with the provisions set forth by the regulations in force, is calculated, in the case of Edpyme, by applying a rate of 5 percent over net taxable income.

Through Legislative Decree No. 1261, published on December 10, 2016, a 5 percent rate has been established for dividends and any other form of profit distribution from Peruvian source. The five percent rate for dividend distribution and other forms of profit distribution will be applicable as of January 1, 2017. A 6.8 percent rate will be applied to retained earnings or other items likely to generate taxable dividends referred to in Article 24- A of the Consolidated Text (hereinafter "TUO") of the Income Tax Act, gained between January 1, 2015 and December 31, 2016, which form part of the dividend distribution or any other form of profit distribution, except for the case established in point g) of Article 24 -A of the TUO, to which a 4.1 percent rate will be applied.



## Notes to the financial statements (continued)

- (b) The tax authorities have the power to review and, if applicable, correct the income tax calculated by Edpyme within the four years following the year of filing the tax return.

The income tax and value added tax returns for the years 2013 to 2017 are subject to review by the tax authorities. Due to the interpretations to be given by the Tax Authority on current legal regulations, it is not possible to determine, to date, whether the reviews to be conducted will result or not in liabilities for Edpyme, therefore, any higher tax or surcharge resulting from eventual fiscal reviews would be applied to the income statements of the fiscal year in which is determined. In opinion of Management and its legal advisors, any eventual additional tax settlement would not have any material consequences on the Edpyme's financial statements as of December 31, 2017 or 2016.

- (c) The interest earned through transferable securities issued via the public or private offer by legal entities incorporated or established in the country are not subject to the Value Added Tax; as well as interest generated by the securities non-issued by public offer, when they have been acquired through a centralized trading mechanism referred to in the Securities Market Law.

Through Legislative Decree No. 1347 published on January 7, 2017, Article 17 of Consolidated Text of the Value Added Tax (IGV) and Excise Tax Law has been amended, reducing the tax rate to 17 percent. In accordance with the Consolidated Final Complementary Provision, the amendment will become effective on July 1, 2017, provided that the annualized net VAT collection as of May 31, 2017 reaches 7.2 percent of GDP.

- (d) For purposes of determining the income tax, the considerations prices and amounts to be agreed for transactions between related parties, or with entities residing in countries or territories with little or no taxation, require the presentation of supporting documentation and information on the valuation methods and criteria applied for their determination. The Tax Administration is authorized to request this information from Edpyme.

Based on the analysis of the Edpyme's operations, Management and its legal advisors consider that as a consequence of the application of these rules, no significant contingencies will result for Edpyme as of December 31, 2017 and 2016.

With the enactment of Legislative Decree No. 1312, published on December 31, 2016, the formal obligations are amended for the entities included within the scope of transfer pricing, incorporating three new informative tax returns as follows: Local Report, Master Report and Country by Country Report. The first effective as of 2017 for the operations carried out during 2016 and the last two as of 2018 for the operations executed since 2017.

### 15. Transactions with Related Parties

- (a) Edpyme carries out transactions with related companies in the normal operations of their business.

## Notes to the financial statements (continued)

As a result of these transactions, the balances of the statement of financial position as of December 31, 2017 and 2016, and the statement of comprehensive income for the years then ended include assets, liabilities, revenues and expenses; as detailed below:

	<b>Tkobro S.A.C S/ (000)</b>	<b>Autoclass Retail S.A.C S/ (000)</b>	<b>Autoclass S.A.C S/ (000)</b>	<b>PideItaxi Omniauto S.A.C S.A.C. S/ (000)</b>	<b>S/ (000)</b>
<b>2017</b>					
<b>Assets</b>					
Other assets, net (b)	628	48	446	-	-
<b>Liabilities</b>					
Other liabilities	96	(12)	1,035	-	25
<b>Results</b>					
Revenue from portfolio sale	567	-	-	-	-
Revenue from various services	-	-	13	-	-
Vehicle repair and maintenance expenses	-	-	5,100	-	-
Expenses for services received (b)	-	147	10,521	-	144
<b>2016</b>					
<b>Assets</b>					
Other assets, net (b)	1	48	4,612	198	-
<b>Liabilities</b>					
Other liabilities	337	-	355	73	12
<b>Results</b>					
Revenue from various services	2	-	28	287	-
Vehicle repair and maintenance expenses	-	-	7,173	-	-
Interest expenses	-	-	85	-	-
Expenses for services received (b)	-	137	9,613	413	222

- (b) Autoclass S.A.C signed an agreement with the Company to offer the services of vehicle repair, vehicular medical assistance, towing service, and for commissions for placement mainly Taxi and Consumer products.
- (c) Transactions with related companies have been carried out under normal market conditions. The taxes generated by these transactions, as well as the calculation bases for the determination thereof, are the usual ones in the industry and are settled according to current tax regulations.

## Notes to the financial statements (continued)

- (d) Certain shareholders, directors and officers of Edpyme have directly or indirectly carried out credit transactions with Edpyme, which are regulated by the Banking, Insurance and AFP Law. As of December 31, 2017, loans and other credits granted to Edpyme employees amount to S/ 112,000 (S/ 225,000 as of December 31, 2016).
- (e) Total compensation paid to the Edpyme's key employees as of December 31, 2017 and 2016, was as follows:

	<b>2017</b> S/ (000)	<b>2016</b> S/ (000)
Salaries	3,172	3,064
Per diem	105	171
	<u>3,277</u>	<u>3,235</u>

The key staff includes the employee that has responsibility for the business decisions of Edpyme (managers and directors).

### 16. Contingent Risks and Commitments

- (a) This group is made up as follows:

	<b>2017</b> S/ (000)	<b>2016</b> S/ (000)
<b>Debit Contingents</b>		
Letter of Guarantee (b), note 5 (a)	1,165	500
Liability for unused credit lines and undisbursed loans	4,923	6,972
Liability for repurchase agreement	7,204	14,906
	<u>13,292</u>	<u>22,378</u>

- (b) Edpyme enters into contingent transactions (indirect loans). These transactions expose it to additional credit risks beyond the amounts recognized in the statement of financial position. The credit loss risk for the letters of guarantee is represented by the amounts specified in the agreements of these instruments.

Edpyme applies the same policies used for granting of direct loans when carrying out contingent transactions, including obtaining guarantees when it deems necessary. The total of the contingent transactions does not necessarily represent future cash flow requirements, given that the contingent transactions are expected to reach maturity.

As of December 31, 2017, it includes the letter of guarantee granted to Corporación Financiera de Desarrollo - COFIDE and Sigma – LEASOP I Operating Lease Fund, at the request of Autoclass SAC, and Buena Estrella SAC, for S/ 500,000 and S/ 665,000, respectively, with maturity in November 2018 and December 2019 (a letter of guarantee for a value of S/ 500,000, due in November 2017, as of December 31, 2016 in the name of Autoclass S.A.C.).

- (c) It corresponds to the committed amount of the portfolio sold with repurchase agreement managed by Edpyme as of December 31, 2017 and 2016.

## Notes to the financial statements (continued)

### 17. Interest Income and Expenses

(a) This group is made up as follows:

	<b>2017</b>	<b>2016</b>
	S/ (000)	S/ (000)
<b>Interest Income</b>		
Interest and commissions on loan portfolio	69,280	37,070
Interest on funds available	627	151
<b>Total Interest income</b>	<b>69,907</b>	<b>37,221</b>
<b>Interest expenses</b>		
Interest on Debts and Obligations with local financial entities, note 12 (f)	7,952	6,631
Interest on Debts and Obligations with foreign institutions, note 12 (f)	3,218	1,613
Interest on other debts, note 12 (f)	14,259	8,793
Commissions and other debit charges	984	428
<b>Total Interest Expenses</b>	<b>26,413</b>	<b>17,465</b>
<b>Gross Financial Margin</b>	<b><u>43,494</u></b>	<b><u>19,756</u></b>

### 18. Financial service expenses

(a) As of December 31, 2017 and 2016, the group's balance includes as follows:

	<b>2017</b>	<b>2016</b>
	S/ (000)	S/ (000)
Collection fee (b)	592	599
Infogas collection fee (c)	512	509
Demand deposit fee	74	49
Other financial services	98	90
<b>Total</b>	<b><u>1,276</u></b>	<b><u>1,247</u></b>

(b) It corresponds to the credit collection services carried out by various financial institutions in favor of Edpyme according to agreements signed with said financial institutions.

(c) It corresponds to the fee paid to Infogas for the collection of loan installments through payments made by taxi drivers at the time of fuel consumption.

### 19. Financial Operating Results, net

(a) As of December 31, 2017 and 2016, this group's balance includes as follows:

	<b>2017</b>	<b>2016</b>
	S/ (000)	S/ (000)
Revenue from portfolio sales, net, note 5(g)	48,345	49,364
Revenue from collection and recovery management of	12,715	16,347

## Notes to the financial statements (continued)

portfolio sold, note 5(g)

Early repayment by repurchase agreement (b)	(8,975)	(7,917)
Seguro Rimac PPP (c)	(7,477)	-
Vehicle repair and maintenance expenses	(7,091)	(9,857)
Dealer intermediation service, note 10(b)	(6,919)	(5,065)
Vehicle assistance expenses	(96)	(1,299)
Other financial expenses, net	(2,445)	(6,126)
<b>Total</b>	<u>28,057</u>	<u>35,447</u>

(b) It corresponds to the expense paid by Edpyme when activating the repurchase of the sold portfolio in order to offset the flows not received by the buyers.

(c) It corresponds to the insurance of “Prompt Payer Policy” contracted with Rímac Seguros y Reaseguros to cover the incidents that may occur with the vehicles subject to the loans provided by Edpyme.

### 20. Administrative Expenses

(a) This group is made up as follows:

	<b>2017</b>	<b>2016</b>
	S/ (000)	S/ (000)
Personnel and directors expenses (b)	25,828	22,386
Services provided by third parties (c)	12,568	9,896
Taxes and contributions	276	167
<b>Total</b>	<u>38,672</u>	<u>32,449</u>

(b) The table below shows the employees and directors expenses:

	<b>2017</b>	<b>2016</b>
	S/ (000)	S/ (000)
Salaries	16,658	13,447
Bonuses, compensations and insurance	6,722	6,401
Transportation expenses	931	766
Employees’ profit sharing	731	695
Directors expenses	105	149
Incentives	-	93
Other personnel expenses	681	835
<b>Total</b>	25,828	22,386
Average number of employees	484	458

(c) The table below shows the services provided by third parties:

	<b>2017</b>	<b>2016</b>
	S/ (000)	S/ (000)
Leasing	2,368	2,272
Notary, registry and judicial expenses	1,617	1,118

## Notes to the financial statements (continued)

Communications	1,237	1,123
Consulting	1,157	760
Surveillance and protection	1,109	385
Repair and Maintenance	1,081	615
Advertising	710	534
Sundry supplies	669	762
Professional fees	662	518
Insurance expenses	468	356
Utilities	344	293
Travel expenses	130	147
Customer service	71	176
Transportation	65	59
Other services	880	778
<b>Total</b>	<b>12,568</b>	<b>9,896</b>

### 20. Other (Expenses) Income, net

(a) This group is made up as follows:

	<b>2017</b>	<b>2016</b>
	S/ (000)	S/ (000)
(Loss) net profit on sale of assets received as payment and seized note 7 (d)	(4,332)	532
Loss on property, furniture, equipment and vehicle removal	(1)	(10)
Other, net	71	(456)
<b>Total</b>	<b>(4,262)</b>	<b>66</b>

## Notes to the financial statements (continued)

### 22. Financial Instrument Classification

The financial assets and liabilities amounts in the statement of financial position are classified by category in accordance with International Accounting Standard No. 39 “Financial Instruments” as follows:

Assets	At Fair Value through Profit or Loss S/ (000)	2017 Financial Assets		2016 Financial Assets	
		Loans and Accounts Receivables S/ (000)	Total S/ (000)	Loans and Accounts Receivable S/ (000)	Total S/ (000)
Cash and due from banks	-	101,652	101,652	33,379	33,379
Investments at fair value through profit and loss	3,116	-	3,116	-	-
Loan portfolio, net	-	446,980	446,980	211,330	211,330
Accounts receivable, net	-	4,666	4,666	2,301	2,301
Other assets	-	-	-	-	716
<b>Total</b>	<b>3,116</b>	<b>553,298</b>	<b>556,414</b>	<b>247,010</b>	<b>247,726</b>

Liabilities	2017 Financial Liabilities		2016 Financial Liabilities	
	At Amortized Cost S/(000)	Total S/(000)	At Amortized Cost S/(000)	Total S/(000)
Debts and financial obligations	393,004	393,004	126,078	126,078
Other accounts payable	14,226	14,226	9,608	9,608
Other liabilities	20,269	20,269	21,067	21,067
<b>Total</b>	<b>427,499</b>	<b>427,499</b>	<b>156,753</b>	<b>156,753</b>

### 23. Risk Assessment

Edpyme activities involve mainly the use of financial instruments. Edpyme obtains debts at fixed rates, at different terms, with the intention of obtaining a return, investing these funds in assets, mainly in loans.

Edpyme also seeks to increase its interest margins by obtaining margins above the market average, net of provisions, through loans to clients with a variety of credit products.

In this regard, the risk is inherent to the Edpyme’s activities but is managed through a process of ongoing identification, measurement and monitoring, subject to the risk limits and other controls. This risk management process is critical for continuous profitability and each individual within Edpyme is responsible for risk exposures related to their duties. Edpyme is exposed to credit risk, liquidity risk and market risk.

## Notes to the financial statements (continued)

The independent process of risk control does not include business risks such as changes in the environment, technology, and industry. These are monitored through the strategic planning process of Edpyme.

### (a) Structure and Organization of Risk Management -

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

#### - Board of Directors

The Board of Directors of Edpyme is responsible for establishing adequate comprehensive risk management and for fostering an internal environment that facilitates their development. The Board of Directors is permanently informed about the degree of exposure to the various risks managed by Edpyme.

The Board of Directors has created several specialized committees in which it has delegated specific functions with the aim of strengthening risk management and internal control.

#### - Comprehensive Risk Management Committee

The Comprehensive Risk Management Committee (GIR) is a support body created by the Board of Directors' resolution. It is responsible for approving the policies and procedures, as well as the management strategy on the risks to which Edpyme is exposed. The Committee's main goal is to define and monitor adequate implementation of measures that ensure good risk management; as well as the establishment of exposure limits to which Edpyme is exposed. Consequently, it does not overlap the specific functions of the Risk Unit (with which it must maintain close coordination in the fulfillment of its functions). The Committee reports monthly to the Board the main issues discussed and the resolutions adopted in the previous meeting.

#### - Assets and Liabilities Committee

The Assets and Liabilities Committee is a body created by the Board of Directors' resolution. Its main function is to manage the financial structure of the Edpyme's balance sheet, based on the goals of profitability and risk. The Committee is also responsible for proposing new products or operations that contain components of market risk. It is also the channel of communication with the areas that generate market risk. The Assets and Liabilities Committee meets monthly in a regular meeting convened by the Committee Chairman, and in a special meeting at the request of one of its members. The officers that the Committee considers necessary will participate in its meetings. The resolutions adopted at the meetings will be recorded in the corresponding minutes' book, under the responsibility of the Committee Secretary.

#### - Audit Committee

The Audit Committee is responsible for supervising the operation and reliability of the internal control system, risk management and administrative and accounting information. Likewise, it is accountable for overseeing financial information.

#### - General Manager



## Notes to the financial statements (continued)

The General Manager is responsible for implementing adequate comprehensive risk management in the organization. He directs and coordinates the efforts of the different departments ensuring an acceptable balance between risk and profitability.

### - Internal Audit

The Internal Audit unit reports functionally to the Board of Directors. It provides independent services and assurance and consultation objectives, designed to add value and improve the efficiency of Edpyme operations. It helps Edpyme to meet its goals, applying a systematic and well-organized approach to evaluate and enhance the effectiveness of the governance, risk management, and control processes.

### (b) Risk Mitigation and Coverage -

Credit risk (or counterparty risk) is the main risk that Edpyme must manage. To mitigate the risk of exposures and provide them with adequate coverage, Edpyme has established a series of measures, among which the following stand out:

- Policies, procedures, methodologies, models, and parameters which allow identifying, measuring, controlling, and reporting credit risk. Currently, Credit Scoring models are used for taxi and private use vehicle products to anticipate and estimate a probability of default (PD) in the credit granting phase. Likewise, an expected loss (EL) model was implemented which takes into account the probability of default (PD), exposure at default (EAD) and loss given default (LGD), therefore for these products, an average loss level is estimated in each of the yields and credit stock.
- Differentiated admission, follow-up and collection models are used for non-retail loans, which are in line with the destination of the credit (usually buses and trucks), as well as the type of clients of these credits (usually legal entities).
- Additionally, the risk premium indicator is available for all products, which is a cash flow indicator that measures the expectation of recovery of a loan, and includes within its components the proceeds of the regular collection process of installments, income from the default interest collection, income from the sale of the seized assets and interest discount resulting from the prepayment of credit operations. This dynamic indicator is measured by yields and seeks to estimate the result at the end of the term of the placement in evaluation. In addition, for the entire portfolio, other conventional indicators are monitored, such as: delinquency indicator, high-risk portfolio, portfolio of bad debt, provisions coverage, credit concentration ratios, provision expenses for regulatory net worth, regulatory indicators and others requested by the Risk Credit Committee and the Board of Directors.
- Timely monitoring and follow-up of credit risk and its maintenance within the defined tolerance level. The levels analyzed are: Client Risk, Transaction Risk, Over-Indebtedness and Social Conflicts Risks.
- Establishment of limits on the risk appetite that Edpyme will assume based on the expected profitability; for this purpose, it determines the risk capacity for which it will be able to accept, in a way that ensures profitability in stress scenarios. It also establishes limits on the risk appetite in the global and specific portfolio's management, per products and segments.

## Notes to the financial statements (continued)

- Compliance with regulatory limits and establishment of internal limits to exposure concentrations of debtors and counterparties, such as those related to credit rating and liquidity.

In addition, Edpyme must manage a series of risks, in order to mitigate them adequately, among which are:

- **Market Risk –**  
To manage market risks, Edpyme bases its policies on the use of the standard model established by the SBS, submitting the exposures to periodic stress tests which include extreme scenarios, in order to validate the equity, profitability and liquidity position of Edpyme, in accordance with the exercise of the established internal policies, limits and alerts. The risks for which maximum exposure limits and early alert levels have been defined are those associated with the exchange rate and the interest rate.

The exchange rate risk management consists of controlling the regulatory limits, and the internal limits both for the global oversold position and for the global overbought position.

The measurement of the interest rate exposure of Edpyme is accomplished through two regulatory indicators: Profit-at-Risk (PaR), which measures the impact on the financial margin, of movements in the interest rate; and Value-at-Risk (VaR), which measures the impact on capital of movements in the interest rate. For both indicators, internal limits are controlled.

- **Liquidity Risk–**  
Edpyme controls a series of short, medium and long-term regulatory indicators. For the short-term indicators, the liquidity ratios in domestic currency are followed up daily, as well as the liquidity coverage ratio. In the case of the long-term indicators, an analysis of liquidity gaps is performed. Similarly, Edpyme has a Contingency Plan in the absence of liquidity, which includes operating procedures to be followed in the event of an individual or systemic liquidity crisis.

(c) **Risks Concentration -**

Edpyme has policies and procedures to ensure adequate diversification of financial assets and liabilities, in and outside the statement of financial position; and to seek, when appropriate, a satisfactory relationship between the risk by concentration and the degree of equity capitalization of Edpyme.

Edpyme performs a limit control in the concentration of the loan portfolio; which is aimed at reducing or monitoring the credit risk to which the company is exposed. The objective is to maintain an adequate distribution of the loan portfolio, avoiding its concentration in markets with a high level of delinquency, which would affect the portfolio position. The portfolio concentration review is performed on the distribution in Macro Regions and individually (by clients).

For the management of the financial liabilities, Edpyme maintains a permanent control of the concentration of funding.

(d) **Risk Measurement and Reporting Systems –**

## Notes to the financial statements (continued)

Edpyme uses different models and tools for risk management at the client or product level. These tools measure and assess risk with a prospective vision, thus allowing making better risk decisions in the different stages, or crediting life cycle.

The tools are permanently monitored and validated periodically to ensure that the prediction and performance levels are maintained and to carry out the corrective measures or adjustments to the models if necessary. For this effect, Edpyme has risk parameters which allow measuring and prospecting the risk level of the portfolio, estimating the expected losses and economic capital.

Risk control is carried out on a budget basis. Annually, Edpyme establishes the commercial strategy and the maximum risk level to be assumed, in order to obtain the desired return and a level of target capital or solvency.

The management indicators are reviewed and analyzed permanently, in order to identify possible deviations in the risk profile with respect to the stipulated risk appetite, to take corrective measures in a timely manner. This information is submitted monthly to the Comprehensive Risk Management Committee (GIR) and periodically to the Board of Directors.

### **23.1 Credit Risk -**

Edpyme holds positions affected by credit risk, due to the probability that clients generate a financial loss for the entity, by not complying with the obligations associated with the loans granted. Credit risk is the most significant risk for Edpyme; so it seeks to manage it properly.

- (a) Credit risk is controlled mainly through the assessment and analysis of individual transactions with clients, to which effect, the following aspects are considered: the economic environment, financial situation, compliance history, ratings assigned by other companies in the financial system, and the quality of management. In addition, the updated value of the guarantees is taken into account, according to their realizable value, and recording of provisions pursuant to standards established by the SBS.

To mitigate credit risk, Edpyme also considers the compliance with legal limits set by the SBS and internal operating limits, as well as the analysis of the loan portfolio, in accordance with aspects such as: credit concentration levels, economic sectors of risk, nonperforming loan portfolio, products and rating, trying to avoid credit concentrations to diversify credit risk.

The credit risk exposure is managed through the assessment of the payment capacity of the potential debtors to comply with the payments of the principal and interest of their obligations, the continuous analysis of the debtor's payment behavior and through the change of the loan limits when appropriate.

In addition, Edpyme has control methodologies that provide key indicators for managing exposures to credit risk. On these indicators, the appropriate exposure levels have been defined for the Company, with the approval of the Risk Management Committee and the Board of Directors. The results of the methodologies and the performance of the indicators are monitored and reported periodically to the Comprehensive Risk Management Committee and the Board of Directors.

## Notes to the financial statements (continued)

### (b) Maximum Credit Risk Exposure -

As of December 31, 2017 and 2016, Edpyme Management has estimated that the maximum amount of credit risk to which Edpyme is exposed, is represented by the book value of the financial assets that present a potential credit risk, which consist of mainly in bank deposits, loans and other monetary assets shown in note 22. The exposure for each borrower, including banks, is established by sub-limits that cover the operational risks in and outside of the statement of financial position (contingent accounts). Actual exposures and their comparison against established limits are reviewed daily.

In this regard, as of December 31, 2017 and 2016:

- 91.24 percent and 91.17 percent, respectively, of the loan portfolio is classified in two higher levels defined by the SBS.
- 92.53 percent and 95.11 percent, respectively, of the available funds are deposited in Banks and other well-recognized financial institutions of the country.

### (c) Guarantee Management -

The credit risk mitigation policy of Edpyme comes from its business conception; in this line, the requirement of guarantees can be a necessary instrument, but not enough for mitigating risks.

The guarantees established for supporting the loan operations granted by Edpyme to its clients of products such as heavy vehicles and motorcycles, will be considered as preferred guarantees for the purpose of calculating the loan loss provision in accordance with the requirements set forth by the SBS in the Regulations for the Evaluation and Classification of a Debtor and the Required Provision -SBS Resolution No. 11356-2008, when:

- (i) said security interests are duly registered in public registry office, and
- (ii) they have insurance that covers the loss of the property, duly endorsed in favor of Edpyme.

In this regard, as of December 31, 2017 and 2016, the amount of guarantees related to direct loans granted by Edpyme amounts to S/ 171.5 million and S/ 25.86 million, respectively, as shown below:

	<b>2017</b> S/ (000)	<b>2016</b> S/ (000)
<b>Guarantees related to direct loans</b>		
Preferred guarantees	171,506	22,856
<b>Total (*)</b>	<b>171,506</b>	<b>22,856</b>

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

### (d) Credit Risk Management for Placements -

## Notes to the financial statements (continued)

For credit risk management, the Risk Division has processes comprising of three fundamental stages: 1. admission of risks, 2. monitoring and follow-up thereof; and, 3. recovery of the past-due portfolio. The processes are intended to maintain portfolio quality according to the risk appetite defined by Edpyme Management.

The credit admission process is fundamentally based on the good knowledge of the client and his economic activity, being decisive the assessment of his ability to pay, credit history and solvency. This process is based on the use of risk management methodologies and tools that allow measuring and assessing the quality of the risk to be granted, which relies on models and automatic rating systems for the admission of credits.

For the portfolio's monitoring and follow-up process, there is an integrated alert system for early detection of credit risk, which allow identifying clients with potential risks affecting their ability to pay with possible impact on the debtor's credit development, on which immediate actions such as preventive, corrective and follow-up should be taken. To this end, there are systems, models and guidelines whereby the debtors are followed up on the evolution of the detected risks, decision-making and management thereof for their normalization or collection.

There is a permanent monitoring of the main trends of the portfolio, in terms of evolution of quality indicators, geographical concentration, among others.

Finally, the process of collecting the loans from the doubtful portfolio is carried out through a set of actions coordinated and applied for the appropriate and timely recovery of the credits that aim to minimize losses in exposures with high credit risk.

Edpyme classifies all of its loans in five risk categories, depending on the degree of risk of default in the payment of each debtor. The categories used by Edpyme are: (i) normal, (ii) potential problems, (iii) substandard, (iv) doubtful and (v) loss, which have the following characteristics:

- Normal: Debtors are classified in this category, when they comply with the payment of their obligations on time or have a delay not exceeding 8 days.
- Potential problems: Debtors are classified in this category when they have arrears in their loans between 9 and 30 days.
- Substandard: Debtors are classified in this category when they have arrears in their loans between 31 and 60 days.
- Doubtful: Debtors are classified in this category when they have arrears in their loans between 61 and 120 days.
- Loss: Debtors are classified in this category when they have arrears in their loans for more than 120 days

With respect to the loan portfolio assessment, Edpyme performs the debtors' classification in the risk categories established by the SBS and according to the grading criteria specified for each type of

## Notes to the financial statements (continued)

credit: that is to say, for debtors of medium-sized enterprises, small and micro-enterprises and non-revolving consumer. The categories of debtors' classification is determined following the criteria of SBS Resolution No. 11356-2008 "Regulations for the Evaluation and Classification of a Debtor and the Required Provision", see note 2 (e).

- (e) The following is a summary of the classification of types of loans and the provision recorded for each of them:

Loan Portfolio Classification	As of December 31, 2017 (*)				
	Non-Retail Loans S/ (000)	Small and Micro Business Loans S/ (000)	Consumer Loans S/ (000)	Total S/ (000)	%
<b>Neither past due nor impaired</b>					
Normal	132,693	189,169	33,022	354,884	80 %
	132,693	189,169	33,022	354,884	80 %
<b>Past due but not impaired</b>					
Normal	20,807	33,750	2,576	57,133	13 %
Potential problems	4,644	23,067	1,478	29,189	7 %
	25,451	56,817	4,054	86,322	20 %
<b>Impaired Loans</b>					
Substandard	1,093	13,215	792	15,100	3 %
Doubtful	-	3,363	291	3,654	1 %
Loss	-	5,726	480	6,206	1 %
	1,093	22,304	1,563	24,960	5 %
Gross loan portfolio	159,237	268,290	38,639	466,166	105 %
Less: Provision for doubtful accounts (**)	2,122	19,319	1,940	23,381	5 %
<b>Total, net</b>	157,115	248,971	36,699	442,785	100 %

- (\*) The internal rating of Edpyme is considered, prior to carrying out the external alignment, see note 5(e).

## Notes to the financial statements (continued)

(\*\*) As of December 31, 2017, Edpyme maintains a balance of voluntary provisions for microenterprise loans for an amount of S/960,000, which was approved by Board of Directors' resolution No. 294

### As of December 31, 2016 (\*)

<b>Loan Portfolio Classification</b>	<b>Non-Retail Loans</b> S/ (000)	<b>Small and Micro Business Loans</b> S/ (000)	<b>Consumer Loans</b> S/ (000)	<b>Total</b> S/ (000)	<b>%</b>
<b>Neither past due nor impaired</b>					
Normal	5,148	134,715	44,622	184,485	86%
	<u>5,148</u>	<u>134,715</u>	<u>44,622</u>	<u>184,485</u>	<u>86%</u>
<b>Past due but not impaired</b>					
Normal	-	9,543	721	10,264	5%
Potential problems	-	22,219	1,225	23,444	11%
	-	31,762	1,946	33,708	16%
<b>Impaired Loans</b>					
Substandard	-	3,225	248	3,473	2%
Doubtful	-	6,295	1,222	7,517	3%
Loss	-	678	286	964	1%
	-	10,198	1,756	11,954	6%
Gross loan portfolio	<u>5,148</u>	<u>176,675</u>	<u>48,324</u>	<u>230,147</u>	108%
Less: Provision for doubtful accounts (**)	52	6,773	7,613	14,438	8%
<b>Total, net</b>	<u>5,096</u>	<u>169,902</u>	<u>40,711</u>	<u>215,709</u>	<u>100%</u>

(\*) The internal classification of Edpyme is considered, prior to carrying out the external alignment, see note 5(e).

(\*\*) As of December 31, 2016, Edpyme maintains a balance of voluntary provisions for microenterprise loans for an amount of S/ 3,160,000, which was approved by Board of Directors' resolution No. 281

Notes to the financial statements (continued)

(f) The details of the gross amount of impaired loans by type of credit, together with the fair value of the related guarantee and the amounts of its loan loss provision are as follows:

	As of December 31, 2017				As of December 31, 2016			
	Non-Retail Loans	Small and Micro Business Loans	Consumer Loans	Total	Non-Retail Loans	Small and Micro Business Loans	Consumer Loans	Total
	S/ (000)	S/ (000)	S/ (000)	S/ (000)	S/ (000)	S/ (000)	S/ (000)	S/ (000)
Impaired loans	1,093	22,304	1,563	24,960	-	10,198	1,756	11,954
Preferred guarantee	-	8,250	48	8,298	-	11,140	-	11,140
Loan loss provision	-	9,900	868	10,768	-	4,577	1,113	5,690

The following table shows the past due but not impaired loans by the number of delinquent days:

	As of December 31, 2017				
	Non-Retail Loans	Small and Micro Business Loans	Non- Revolving Consumer	Total	%
	S/ (000)	S/ (000)	S/ (000)	S/ (000)	
Past due up to 30 days	25,451	56,817	4,054	86,322	100
<b>Total</b>	25,451	56,817	4,054	<u>86,322</u>	<u>100</u>

	As of December 31, 2016				
	Non-Retail Loans	Small and Micro Business Loans	Non- Revolving Consumer	Total	%
	S/ (000)	S/ (000)	S/ (000)	S/ (000)	
Past due up to 30 days	-	31,762	1,946	33,708	100 %
<b>Total</b>	-	31,762	1,946	<u>33,708</u>	<u>100</u> <u>%</u>



## Notes to the financial statements (continued)

(g) Concentration of Financial Instruments exposed to Credit Risk -

As of December 31, 2017 and 2016, the main financial instruments with credit risk exposure were distributed according to the following geographical areas:

	<b>Loan Portfolio (*)</b>	
	<b>2017</b> S/ (000)	<b>2016</b> S/ (000)
Lima	390,243	199,386
Callao	35,555	22,254
Arequipa	11,553	835
La Libertad	4,945	499
Ica	3,011	598
Piura	2,897	261
San Martin	2,289	3,497
Loreto	1,349	2,788
Junín	163	25
Huánuc	160	-
o Puno	-	4
Other	14,001	-
<b>Total</b>	<b>466,166</b>	<b>230,147</b>

(\*) The balances include the Gross Loan Portfolio without considering provisions and interest.

(h) As of December 31, 2017 and 2016, the main financial instruments with credit risk exposure were distributed according to the following economic sectors:

	<b>Loan Portfolio (*)</b>	
	<b>2017</b> S/ (000)	<b>2016</b> S/ (000)
Transportation, Storage and Communications	301,924	178,518
Other non-retailers	125,602	3,306
Total exposures in economic sectors	427,526	181,824
Consumer loan exposures	38,640	48,323
<b>Total Gross Loan Portfolio</b>	<b>466,166</b>	<b>230,147</b>

(\*) The balances include the gross loan portfolio without considering provisions and interest.

## Notes to the financial statements (continued)

### 23.2 Market Risk

Market risk is the possibility of loss due to variations in financial market conditions. The main variations to which Edpyme is exposed could occur in exchange rates and interest rates, these variations could affect the value of financial assets and liabilities of Edpyme.

Edpyme has positions, which are not actively traded and are part of its assets and liabilities.

(i) Interest Rate Risk -

Interest rates fluctuate permanently in the market. These fluctuations affect Edpyme in two ways: through the change in the valuation of assets and liabilities; and as a consequence of the re-price of cash flows. The variation in the valuation of assets and liabilities is more sensitive to the extent that increases the period in which the asset or liability is repriced; for that purpose, an analysis of the re-price periods is carried out. On the other hand, cash flows are affected at the time of maturity of the instruments, as these are invested or placed at the new rates prevailing in the market.

The follow-up of the interest rate risk is reported to the GIR Committee, and to the Assets and Liabilities Committee. The GIR Committee approves the several applicable limits for the financial instruments management, while the Risk Manager is in charge of the follow-up.

Re-Price Gap -

In order to determine the impact of interest rate movements, Edpyme performs a re-price gap analysis. The analysis consists in assigning at different time gaps the balances of the transactions that will change the interest rate. Based on this analysis, the impact of each variation gap is calculated in the valuation of assets and liabilities.

Notes to the financial statements (continued)

The following table summarizes Edpyme's exposure to interest rate risks. Edpyme financial instruments are shown at book values, classified between the re-price period of the contract interest rate or maturity date, whichever occurs first:

	<b>Up to 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 1 year</b>	<b>2017 From 1 to 5 years</b>	<b>More than 5 years</b>	<b>Non-Interest Bearing</b>	<b>Total</b>
	S/ (000)	S/ (000)	S/ (000)	S/ (000)	S/ (000)	S/ (000)	S/ (000)
<b>Assets</b>							
Cash and due from banks	94,061	-	-	-	-	7,591	101,652
Investments at fair value through profit or loss	3,116	-	-	-	-	-	3,116
Loan portfolio, net	-	32,478	82,550	295,229	35,613	1,110	446,980
Accounts receivable, net	-	-	-	-	-	4,666	4,666
Other assets, net	-	-	-	-	-	36,272	36,272
<b>Total Assets</b>	<b>97,177</b>	<b>32,478</b>	<b>82,550</b>	<b>295,229</b>	<b>35,613</b>	<b>49,639</b>	<b>592,686</b>
<b>Liabilities</b>							
Debts and financial obligations	10,906	18,546	81,306	279,626	2,620	-	393,004
Other accounts payable	-	-	-	-	-	14,226	14,226
Other liabilities	-	-	-	-	-	27,947	27,947
Shareholders' equity	-	-	-	-	-	157,509	157,509
<b>Total Liabilities and Shareholder's Equity</b>	<b>10,906</b>	<b>18,546</b>	<b>81,306</b>	<b>279,626</b>	<b>2,620</b>	<b>199,682</b>	<b>592,686</b>
<b>Marginal gap</b>	<b>86,271</b>	<b>13,932</b>	<b>1,244</b>	<b>15,603</b>	<b>32,993</b>	<b>(150,043)</b>	<b>-</b>
<b>Accumulated gap</b>	<b>86,271</b>	<b>100,203</b>	<b>101,447</b>	<b>117,050</b>	<b>150,043</b>	<b>-</b>	<b>-</b>

Notes to the financial statements (continued)

	<b>Up to 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 1 year</b>	<b>2016 From 1 to 5 years</b>	<b>More than 5 years</b>	<b>Non- Interest Bearing S/ (000)</b>	<b>Total</b>
	S/ (000)	S/ (000)	S/ (000)	S/ (000)	S/ (000)	S/ (000)	S/ (000)
<b>Assets</b>							
Cash and due from banks	31,749	-	-	-	-	1,630	33,379
Loan portfolio, net	-	8,562	39,909	150,025	10,572	2,262	211,330
Accounts receivable, net	-	-	-	-	-	2,301	2,301
Other assets, net	-	-	-	-	-	23,705	23,705
<b>Total Assets</b>	<b>31,749</b>	<b>8,562</b>	<b>39,909</b>	<b>150,025</b>	<b>10,572</b>	<b>29,898</b>	<b>270,715</b>
<b>Liabilities</b>							
Debts and financial obligations	-	5,927	38,088	82,063	-	-	126,078
Other accounts payable	-	-	-	-	-	9,608	9,608
Other liabilities	-	-	-	-	-	29,887	29,887
Shareholders' equity	-	-	-	-	-	105,142	105,142
<b>Total Liabilities and Shareholder's Equity</b>	<b>-</b>	<b>5,927</b>	<b>38,088</b>	<b>82,063</b>	<b>-</b>	<b>144,637</b>	<b>270,715</b>
<b>Marginal gap</b>	<b>31,749</b>	<b>2,635</b>	<b>1,821</b>	<b>67,962</b>	<b>10,572</b>	<b>(114,739)</b>	<b>-</b>
<b>Accumulated gap</b>	<b>31,749</b>	<b>34,384</b>	<b>36,205</b>	<b>104,167</b>	<b>114,739</b>	<b>-</b>	<b>-</b>

## Notes to the financial statements (continued)

### Sensitivity to Changes in Interest Rates -

The sensitivity analysis of the income statement and its valuation in the face of various fluctuations in the interest rate is shown below. The fluctuations affect both the expected flows and the value of the balances.

In the case of the income statement, the calculation reflects the expected variation of the financial margin in the equivalent period of one year. For this purpose, the current income and expense position is taken into account and the effect of variations in rates is annualized. The figures express the expected change in value of assets minus liabilities for various time gaps.

The considered interest rate fluctuations are applied equally along the entire yield curve; that is to say, a parallel movement of the curve is considered. The effects are considered independently for each of the two currencies presented.

The calculations are based on the regulatory interest rate risk model approved by the SBS, in force on the statement of financial position date. The sensitivities are calculated before the effect of the income tax.

The exposure to interest rate is supervised by the Assets and Liabilities Committee, as well as by the GIR Committee, the latter being the one that approves the maximum limits allowed.

The effects of the estimated changes in interest rates as of December 31, 2017 and 2016 were as follows:

Currency	2017	
	Changes in basic points	Sensitivity to net earnings S/
Soles 397,206		+/-50
Soles 595,809		+/-75
Soles 794,412		+/-100
Soles 1,191,617		+/-150
US Dollars 81,593		+/-50
US Dollars 122,389		+/-75
US Dollars 163,185		+/-100
US Dollars 244,778		+/-150

## Notes to the financial statements (continued)

Currency	2016	
	Changes in basic points	Sensitivity to net earnings S/
Soles	+/-50	169,910
Soles	+/-75	254,865
Soles	+/-100	339,820
Soles	+/-150	509,731
US Dollars	+/-50	155
US Dollars	+/-75	232
US Dollars	+/-100	309
US Dollars	+/-150	464

(ii) Foreign Exchange Rate Risk -

Foreign Exchange risk is related to the variation in the value of positions in and outside the statement of financial position, which could be negatively affected by movements of exchange rates. Edpyme has exposure to the exchange rate risk only in US Dollars that as of December 31, 2017 and 2016, represents 5% and 1%, respectively, of its regulatory net worth. Edpyme has set limits for said exposure, following the requirement established by the regulatory entity.

As of December 31, 2017, the free market's weighted average exchange rate published by the SBS for transactions in US Dollars was S/ 3.238 per US\$ 1 for the purchase and S/ 3.245 per US\$ 1 for the sale (S/ 3,352 and S/ 3,360 as of December 31, 2016, respectively). As of December 31, 2017, the exchange rate for the accounting of assets and liabilities in foreign currency set by the SBS was S/ 3,241 per US\$ 1 (S/ 3,356 as of December 31, 2016).

The following is the details of assets and liabilities of Edpyme in foreign currency, in thousands of US Dollars:

	2017 US\$(000)	2016 US\$(000)
<b>Assets</b>		
Cash and due to banks	1,196	115
Loan portfolio	44,000	1,139
Other assets	378	29
<b>Total</b>	<b>45,574</b>	<b>1,283</b>
<b>Liabilities</b>		
Debts and financial obligations	36,092	1,002
Other liabilities	1,690	81
<b>Total Liabilities</b>	<b>37,782</b>	<b>1,083</b>

## Notes to the financial statements (continued)

<b>Net position in foreign currency</b>	<u>7,792</u>	<u>200</u>
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During 2017, Edpyme has recorded an amount of approximately S/ 12,453,000 (S/ 6,180,000 in 2016) as “Difference in Exchange Rate, net” in the statement of comprehensive income; which is comprised of both the leveling of monetary assets and liabilities in US Dollars and the profit and/or loss generated in the foreign exchange transactions carried out by Edpyme to meet its obligations in US Dollars with respect to loan operations made with their client in the year.

The following is the sensitivity analysis for the case of reasonably possible variations in the US Dollar. Negative variations represent potential losses while positive variations represent potential gains.

<b>Sensitivity Analysis</b>	<b>Change in Exchange Rates</b>	<b>2017</b>	<b>2016</b>
	%	S/ (000)	S/ (000)
Devaluation -			
US Dollar	5	(1,263)	(34)
US Dollar	10	(2,526)	(68)
Revaluation -			
US Dollar	5	1,263	34
US Dollar	10	2,526	68

### 23.3 Liquidity Risk -

The liquidity risk is the inability of Edpyme to meet the maturity of its obligations incurring in losses that significantly affect its equity position. This risk may arise as a result of various events, such as the unexpected reduction of funding sources, the inability to liquidate assets quickly, among others.

Edpyme liquidity is managed by the Finance Manager. This Manager chairs the Assets and Liabilities Committee, where positions, movements, indicators and limits on liquidity management are presented. The liquidity risk is in turn supervised by the Comprehensive Risk Committee, which defines the level of risk that Edpyme is willing to assume, and the corresponding indicators, limits and controls are reviewed.

Edpyme has a set of indicators controlled and reported daily. These indicators establish the minimum levels of liquidity allowed in the short-term. The indicators reflect various aspects of risk such as concentration, stability, position by currencies, main depositors, etc. The Risk Manager is in charge of following up on said indicators.

In addition, Edpyme evaluates liquidity in the medium and long-term through a structural analysis of its revenues and outflows of funds in various maturities. This process allows knowing for each currency the different sources of funding, how the liquidity needs are increased and what deadlines

## Notes to the financial statements (continued)

are unbalanced. Based on this information, the necessary decisions are taken to maintain the target liquidity levels.



Notes to the financial statements (continued)

The cash flows payable by Edpyme as of December 31, 2017 and 2016 according to agreed contractual terms are presented below. In the case of liabilities with an unspecified maturity, terms are assumed according to statistical models. The amounts disclosed are the cash flows according to terms contracted without discount and include their respective accrued interest.

Exposure to Liquidity Risk	2017					Total S/ (000)
	Up to 1 month S/ (000)	More than 1 month up to 3 months S/ (000)	More than 3 up to 1 year S/ (000)	Over 1 year S/ (000)	Non- Interest Bearing	
<b>Liabilities</b>						
Debts and financial obligations	10,906	18,546	82,629	284,367	-	396,448
Other accounts payable	-	-	-	-	14,226	14,226
Other liabilities	-	-	-	-	20,269	20,269
<b>Total</b>	10,906	18,546	82,629	<u>284,367</u>	34,495	<u>430,943</u>
Exposure to Liquidity Risk	2016					Total S/ (000)
	Up to 1 month S/ (000)	More than 1 month up to 3 months S/ (000)	More than 3 up to 1 year S/ (000)	Over 1 year S/ (000)	Non- Interest Bearing	
<b>Liabilities</b>						
Debts and financial obligations	4,670	8,008	50,314	64,100	-	127,092
Other accounts payable	-	-	-	-	9,608	9,608
Other liabilities	-	-	-	-	21,067	21,067
<b>Total</b>	4,670	8,008	50,314	<u>64,100</u>	30,675	<u>157,767</u>

2017

## **24. Fair Value**

The fair value is the amount by which an asset could be exchanged between a well-informed buyer and a seller; or, or an obligation which can be settled between a debtor and creditor with sufficient information, under the terms of a free competition transaction.

Fair value is a market-based measurement, so a financial instrument traded in an actual transaction in a liquid and active 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 using another valuation technique, trying to maximize the use of relevant observable variables and minimize the use of unobservable variables.

To calculate the fair value of an instrument that is not listed in liquid markets, the market value of an instrument that is actively listed on the market, and has similar characteristics could be used, or it could be obtained by means of some analytical technique, such as the analysis of discounted flows or valuation by multiples.

The assumptions and calculations used to determine the fair value for the financial assets and liabilities are as follows:

1. Financial instruments measured at fair value.- The fair value is considered according to the price of the instrument; in the case of instruments listed in active markets, the fair value will be the listed price; in the event that the instrument is not listed, the value of an identical instrument that is listed in an active market will be assigned; and in the absence of an active market in which it is listed or that is comparable, valuation techniques using data from observable markets will be used (market rate curves and the price vector provided by the SBS).
2. Instruments whose fair value is similar to the book value. The fair value of instruments is considered as their book value in the case of short-term assets or liabilities. In this method, the available assets are considered. Likewise, this method is used for assets or liabilities that have no greater impact due to market variables such as assets or liabilities with floating rates and the like.
3. Financial instruments measured at a fixed rate. - Financial instruments measured at a fixed rate are considered to be the loan portfolio, obligations with the public and deposits in companies of the financial system, according to multiple SBS Official Letter No. 1575-2014, where it is indicated that the fair value of said items corresponds to its book value.

Based on the criteria described above, Management estimates that there are no significant differences between the book value and the fair value of Edpyme financial instruments as of December 31, 2017 and 2016.

## **25. Judicial and Administrative Proceedings**

Edpyme has pending various lawsuits, litigation and other proceedings related to its activities, which in the opinion of Management and its legal advisors will not accrue on additional liabilities, that is to say, they are not considered as feasible.

**26. Subsequent Events**

We are not aware of any subsequent events, having occurred from the financial statements closing date to date of this report, which could significantly affect the financial statements.