Edpyme Acceso Crediticio S.A.

Financial Statements as of December 31, 2018 and 2017 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 Crédicio S.A. (hereinafter “Edpyme”), which comprise the statement of financial position as of December 31, 2018 and 2017, 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.

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

Opinion

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of Edpyme Acceso Crediticio S.A. as of December 31, 2018 and 2017, 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, see note 2.

Lima, Peru,
March 15, 2019

Countersigned by:

Víctor Tanaka
Certified Public Accountant Register No. 25613

Edpyme Acceso Crediticio S.A.

Statement of Financial Position

As of December 31, 2018 and 2017

	Note	2018 S/ (000)	2017 S/ (000)
Assets			
Cash and due from banks	3	80,108	101,652
Investments at fair value through profit or loss	4	-	3,116
Loan portfolio, net	5	653,009	446,980
Accounts receivable, net	6	11,239	4,666
Assets received as payment and seized, net	7	9,308	10,248
Property, furniture and equipment, net	8	11,311	11,506
Deferred income tax, net	9	2,730	2,112
Other assets	10	15,522	12,406
Total Assets		783,227	592,686
Contingent risks and commitments	16	13,793	13,292
Liabilities and Shareholders' Equity			
Other accounts payable	11	23,974	14,226
Debts and financial obligations	12	574,406	393,004
Other liabilities	10	20,264	27,947
Total Liabilities		618,644	435,177
Shareholder's Equity	13		
Capital stock		147,922	127,056
Capital in progress			10,000
Reserves		4,345	3,208
Retained earnings		12,316	17,245
Total Shareholder's Equity		164,583	157,509
Total Liabilities and Shareholder's Equity		783,227	592,686
Contingent risks and commitments	16	13,793	13,292

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

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Edpyme Acceso Crediticio S.A.

Statement of Comprehensive Income

For the years ended December 31, 2018 and 2017

	Note	2018 S/ (000)	2017 S/ (000)
Interest income	17	91,225	69,907
Interest expenses	17	(44,003)	(26,413)
Gross Financial Margin		47,222	43,494
Loan loss provision, net of recovery	5(h)	(19,469)	(22,295)
Net Profit Margin		27,753	21,199
Financial service income	18	2,360	687
Financial service expenses	18	(1,349)	(1,276)
Net Profit Margin and Financial Service Expenses		28,764	20,610
Valuation of investments at fair value through profit or loss		87	129
Financial operating results, net	19	26,545	28,057
Foreign exchange profit, net	23.2(ii)	6,432	12,453
Operating Margin		61,828	61,249
Administrative expenses	20	(43,624)	(38,672)
Depreciation and amortization	8(a) y 10(d)	(1,547)	(1,303)
Net Operating Margin		16,657	21,274
Provision for doubtful debts		(267)	81
Provisions for seized assets, net	7(c)	(5,175)	(3,403)
Recovery of Provision for loan portfolio with repurchase agreement, net	10(f)	2,746	2,770
Operating Profit		13,961	20,722
Other income (expenses), net	21	3,776	(4,262)
Profit before Income Tax		17,737	16,460
Income tax	9(c)	(5,547)	(5,093)
Net Profit and Comprehensive Income for the Year		12,190	11,367

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

Edpyme Acceso Crediticio S.A.

Statement of Changes in Shareholder’s Equity

For the years ended December 31, 2018 and 2017

	Capital Stock S/ (000)	**Capital in Progress** S/ (000)	**Reserves** S/ (000)	**Retained Earnings** S/ (000)	**Total Equity** S/ (000)
Balances as of January 1, 2017	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 legal reserve, Note 13(c)	-		639	(639)	-
Balances as of December 31, 2017	127,056	10,000	3,208	17,245	157,509
Net profit and comprehensive income for the year				12,190	12,190
Total comprehensive income				12,190	12,190
Capitalization of profits, note 13 (a)	10,866	-	-	(10,866)	-
Subscription of capital stock in progress, note 13 (b)	10,000	(10,000)		(10,866)	-
Dividends, note 13(d)				(5,116)	(5,116)
Transfer to reserves, Note 13(c)			1,137	(1,137)	-
Balances as of December 31, 2018					164,583
	147,922		4,345	12,316	\ /k9uy32fbnm,./

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, 2018 and 2017

	Note	2018	2017
Cash Flows from Operating Activities		12,190	11,367
Net Profit			
Adjustments to reconcile to the year's net profit to net cash used in operating activities			
Depreciation and amortization	8(a) and 10(d)	1,547	1,303
Loan loss provision, net recoveries	5(h)	19,469	22,295
Recovery of provision for loan portfolio with repurchase agreement	10(f)	(2,746)	(2,770)
Provision (recovery) for doubtful debts		267	(81)
Provision for assets received as payment and seized	7(c)	5,175	3,403
Net Changes in Assets and Liabilities			
Other Assets		(254,994)	(287,944)
Other Liabilities		12,021	7,858
Income for the period after the net change in assets and liabilities and adjustments		(207,071)	(244,569)
Deferred income tax	9(c)	(618)	1,030
Net Cash Flows from Operating Activities		(207,689)	(243,539)
Cash flows from investment activities			
Purchase of intangible assets, property, furniture and equipment	8(a) and 10(d)	(1,347)	(1,811)
Net Cash Flows from Investment Activities		(1,347)	(1,811)
Cash Flows from Financing Activities			
Net increase (net decrease) of debts and financial obligations	23.3	173,391	266,926
Dividends paid	13(d)	(5,116)	-
Capital contributions	13(a) and (b)	-	41,000
Net Cash Flows from Financing Activities		168,275	307,926
(Net decrease) net increase in cash and cash equivalents		(40,761)	62,574
Cash and cash equivalents at the beginning of the period		94,449	31,875
Cash and cash equivalents at the end of the period	3(a) and (d)	53,688	94,449

The accompanying notes are an integral part of this statement.

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, 2018 and 2017), 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 micro, small and medium-sized businesses, as well as vehicles destined for private use (consumer). To this end, it uses its own capital and resources from national and international entities, and individuals through borrowings.

As of December 31, 2018, the registered office of Edpyme is located at Av. Enrique Canaval y Moreyra No. 452, Piso 11, Urb. Santa Ana, San Isidro, Lima (Av. Jesus de Nazareth No. 371 Urb. San Andres, Trujillo, as of December 31, 2017). As of December 31, 2018, Edpyme, for the development of its operations, has one branch, one head office and nine special offices (1 head office, 1 branch and 14 special offices as of December 31, 2017).

(c) Approval of Financial Statements -

The financial statements as of December 31, 2017 and for the year then ended were approved by the Annual General Shareholders' Meeting held on March 28, 2018. The financial statements as of December 31, 2018 and for the year then ended were approved by Management on March 15, 2019, 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. 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

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, 2018 and 2017. The main accounting principles and practices 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, 2018 and 2017, 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, 2018 and 2017, see paragraph (q.i).

These accounting principles are consistent with those used in 2018 and 2017, 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. 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 of Edpyme. As of December 31, 2018 and 2017, the most significant estimates in relation to the accompanying financial statements correspond to loan loss provisions, the determination 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.

(ii) Changes in Accounting Principles -

Applicable from the 2018 fiscal period

On October 1, 2018, the SBS issued SBS Resolution No. 72610-2018, which became effective as of October 1, 2018 and changed the Regulation on classification and valuation of investments approved by SBS Resolution No. 7033-2012 and their respective amendments.

The main amendment contained in said Resolution is the introduction of a standard methodology for identifying the impairment of financial instruments classified as available-for-sale investments and held-to-maturity investments, see note 2 (e).

Considering that Edpyme does not hold available-for-sale or held-to-maturity investments, the application of this methodology has not generated additional accounting records.

(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 –

Assets and liabilities in foreign currency are initially recorded by Edpyme using the exchange rates prevailing at the date of the transactions. Monetary assets and liabilities in foreign currencies are converted to Soles at the end of each month using the exchange rates 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 in Soles at the exchange rate on the date of acquisition.

(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, 2018, and 2017, Edpyme only maintains the following financial instruments:

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

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 maintained in this category the investments recorded under “Investments at Fair Value through Profit or Loss” in the statement of financial position, which are kept 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 -

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, 2018 and 2017, 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.

  As from 2018, Edpyme mainly carries out portfolio sales without a repurchase agreement.

- Repurchase Agreement

  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 (f) 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.

During 2017, Edpyme mainly carried out portfolio sales transactions with a repurchase agreement of less than or equal to 10 percent.

(e) Investments

The investments are valued in accordance with SBS Resolutions No. 10639-2008 and No. 7033-2012, their respective amendments and Resolution No. 2610-2018.

The criteria for the classification and valuation of investments are presented below:

- Classification -

(i) Investments at fair value through profit or loss.

This category has two sub-categories:

- Instruments for trading are acquired for the purpose of selling or repurchasing them in the short term.

- From the beginning, investment instruments at fair value through profit and loss are part of a portfolio of identified financial instruments jointly managed, and for which there is evidence of a recent pattern of short-term profit benefit.

(ii) Available-for-sale investment

These are those designated as such because they are held for an indefinite period and can be sold due to liquidity needs or changes in the interest rate, exchange rates or capital price; or they do not qualify to be recorded as at fair value through profit or loss or held to maturity.

As of December 31, 2018 and 2017, Edpyme does not maintain available-for-sale investment.

(iii) Held-to-maturity investments

Financial instruments classified within this category must meet the following requirements:

- They have been acquired or reclassified with the intention of upholding them until their maturity date, except in cases in which the sale, assignment or reclassification are permitted by the SBS.

- They must have risk ratings according to what is required by the SBS.

Similarly, a financial institution may classify investments in this category, only if it has the financial capacity to uphold the investment instrument until its maturity. This capacity must be evaluated at the end of each year.

As of December 31, 2018 and 2017, Edpyme does not maintain held-to-maturity investments.

- Date of registration of transactions -

  Transactions are recorded using the trading date; that is to say, the date on which the reciprocal obligations are assumed, which must be accomplished within the term established by the regulations and uses of the market in which the transaction is made.

- Initial recognition and valuation–

  (i) Investments at fair value through profit or loss - The initial accounting record is made at fair value, recording the related transaction costs as expenses. Its valuation corresponds to the fair value and the profit or loss originated by the variation between the initial accounting record and its fair value is recognized directly in the income statement.

  (ii) Available-for-sale investment – The initial accounting record is made at fair value, including transaction costs directly attributable to its acquisition. Its valuation corresponds to the fair value and the profit or loss originated by the variation between the initial accounting record and its fair value recognized directly in equity, unless there is a permanent impairment in its value. When the instrument is sold or realized, the profit or loss, previously recognized as part of the equity, is transferred to income for the year.

  In the case of debt instruments, prior to the valuation at fair value, the amortized cost is restated using the effective interest rate method, and from the amortized cost obtained, profits or losses are recognized for the variation at fair value.

  (iii) Held-to-maturity investments - The initial accounting record is made at fair value, including transaction costs directly attributable to its acquisition. Its valuation corresponds to amortized cost, using the effective interest rate method.

Interest is recognized using the effective interest rate method, which includes both the interest to be collected and the amortization of the premium or discount that exists in its acquisition.

The difference between the income received from the sale of the investments and their book value is recognized in the income statement.

- Impairment evaluation–

SBS Resolution No. 7033-2012 and its respective amendments, as well as SBS Resolution No. 2610-2018, establish a standard methodology for the identification of the impairment of available-for-sale investments and hold-to-maturity investments. Considering that Edpyme does not maintain available-for-sale investments or held-to-maturity investments, these are not applicable.

(f) 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, 2018 and 2017, the loan loss provision was determined following the criteria of SBS Resolution No. 11356-2008 “Regulations for the Evaluation and Classification of a 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, history of operations, 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 based on 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 provision calculation should be considered the guarantor or endorser’s rating in case of the credits have secondary liability from a financial or insurance company (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 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, 2018 and 2017, 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 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), respectively.

(g) 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.

(h) 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 (k) 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:

	Years
Buildings and facilities	33
Sundry furniture and equipment	10
Computer equipment	4
Vehicles	5
Leasehold improvements (*)	Between 2 and 10

(*) Varies depending on the lease term.

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.

(i) 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 single and identifiable computing software controlled by Edpyme, which will generate future economic benefits higher than their cost, are considered as an intangible asset.

(j) 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.

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.

(k) 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.

(l) Employee Benefits -

Edpyme recognizes a liability and an expense for employees' profit sharing based on 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.

(m) Income Tax -

(m.i) Current 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.

(m.ii) Deferred Income Tax

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.

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 in directly in equity).

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.

The book value of the deferred asset is reviewed on each date of the statement of financial position and is reduced to the extent that it is not probable that there is sufficient taxable profit against which all or part of the deferred asset to be used can be offset. Unrecognized deferred assets are re-evaluated at each date of the statement of financial position and are recognized to the extent that it is probable that future taxable income will allow the deferred asset to be recovered. Deferred assets and liabilities are recognized without taking into account the moment when temporary differences considered are canceled.

Deferred assets and liabilities are measured at the legal rates expected to be applied in the year in which the asset is executed or the liability is settled, based on the rates that have been enacted or substantially endorsed on the date of the statement of financial position, see note 9 (d).

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.

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.

(n) Provisions -

A provision is recognized only when Edpyme has a present obligation (legal or implicit) because 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.

(o) 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.

(p) 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 the cash, fixed fund, deposits with original maturities less than three months from the date of recording, and excluding accrued interest and restricted funds, if applicable.

(q) New Accounting Series Releases

(q.i) IFRS issued and effective in Peru as of December 31, 2018 –

During 2018, the Peruvian Accounting Board (hereinafter "CNC", for its Spanish acronym) issued the following resolutions, through which it made official the following rules:

- Resolution No. 001-2018-EF / 30 issued on April 27, 2018, made official the amendments to IFRS 9 "Financial instruments", IAS 28 "Investments in Associates and Joint Ventures" and the annual improvements to the IFRS standards 2015-2017 cycle.

- Resolution No. 002-2018-EF/30 issued on August 29, 2018, made official the IFRS 2018 version, the amendment to IAS 19 "Employee Benefits" and the Conceptual Framework for the Financial Reporting .

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

In this regard, in 2018, the IFRS 9 "Financial Instruments" came into force, which replaces the IAS 39 "Financial Instruments: Recognition and Measurement", which could have material effects to the financial statements of Edpyme; however, the SBS has not modified or adapted its Accounting Manual for Financial Companies by this standard. In this sense, as of December 31, 2018, Edpyme has not displayed or disclosed any effect if said standard were adopted by the SBS in the future.

(q.ii) IFRS issued internationally but not in force as of December 31, 2018-

- Amendments to the conceptual framework of IFRS, effective for annual periods beginning on January 1, 2020.

- IFRS 15 “Revenue from contracts with customers”, effective for annual periods beginning on or subsequent to January 1, 2019 (pursuant to Resolution No. 005-2017 EF/30 of the CNC). According to the assessment made by Edpyme management, IFRS 15 would not have significant effects on its financial statements.

- IFRS 16 “Leases”, effective for annual periods beginning on or subsequent to January 1, 2019. However, according to the multiple Official Letter No. 467-2019-SBS, it is established that the companies supervised by the SBS do not apply IFRS 16 as long as the corresponding provisions are not established. At the date of preparation of this report, the SBS has not established provisions for the adoption of IFRS 16.

- IFRIC 23 “Uncertainty over income tax treatments”, effective for annual periods beginning on or subsequent to January 1, 2019.

- Amendments to IFRS 10 “Consolidated Financial Statements” and to IAS 28 “Investments in Associates and Joint Ventures”, in relation to the sale or contribution of assets between an investor and its associates and joint ventures, which effective application was postponed indefinitely by the IASB in December 2015.

- Amendments to IFRS 9 “Financial Instruments”, effective for annual periods beginning on or subsequent to January 1, 2019.

- Amendments to IAS 28 “Investment in Associate and Joint Ventures”, effective for annual periods beginning on or subsequent to January 1, 2019.

- Amendments to IFRS 2 “Share-based Payments”, in relation to the classification and measurement of these transactions. These amendments are effective for annual periods, beginning on January 1, 2018.

- Amendments to IAS 40 “Investment Properties”, which clarify the transfer requirements from or to investment properties. These amendments are effective for annual periods beginning on or subsequent to January 1, 2018.

- Improvements (2015 – 2017 cycles) to IFRS 1 “First-time Adoption of International Financial Reporting Standards”, IAS 28 “Investments in Associates and Joint Ventures”, IAS 23 “Borrowing Costs”, IAS 12 “Income Taxes”, IFRS 3 “Business Combinations” and IFRS 11 “Joint Arrangements” effective for annual periods beginning on or subsequent to January 1, 2018.

Given that the above-mentioned standards solely apply in a supplementary manner to those developed by the SBS standards, they will have no effect in the preparation of the accompanying financial statements, unless the SBS adopts them 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's composition is made up as follows:

	2018 S/ (000)	2017 S/ (000)
Cash (b)	637	387
Fixed fund	-	1
Local banks and other financial entities (c)	53,051	94,061
Restricted funds (d)	26,420	7,203
Total	80,108	101,652

(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, 2018 and 2017, 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.

(d) As of December 31, 2018, it includes S/832,000 and US$ 1,013,000, equivalent to S/ 3,418,000, which guaranteed the obligations that Edpyme has with Corporación Financiera de Desarrollo – COFIDE, a security deposit in Banco Interamericano de Finanzas –BanBif for S/ 4,744,000, and a security deposit in Banco de Crédito de Peru – BCP for S/ 17,325,000, and in addition, US$30,000 equivalent to S/ S/101,000, in an escrow for business credit cards.

As of December 31, 2017, it includes S/ 1,528,000 and US$ 519,000, equivalent to S/ 1,684,000, which guaranteed the obligations help by Edpyme with COFIDE and a security deposit in Banco Interamericano de Finanzas –BanBif for S/ 3,894,000; and in addition, US$ 30,000 equivalent to S/ 97,000 in an escrow for business credit cards.

4. Investments at Fair Value through Profit or Loss

Entity	Number of Shares	Share Value (expressed in soles)	2018 S/ (000)	2017 S/ (000)
Funds managed by Scotia Fondos SAF S.A.				
IF libre disponibilidad FMIV	12,368.16	123.67		1,530
Funds managed by Diviso Fondos S.A. SAF				
Diviso Extra Conservador Soles FMIV	127,886.22	12.37		1,586
				3,116-

5. Loan Portfolio, net

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

	2018 S/ (000)	2017 S/ (000)
Direct loans		
Current loans	647,850	436,957
Refinanced loans	6,035	4,650
Past due loans	30,248	21,787
	684,133	463,394
Plus (less)		
Accrued interest on current loans	7,412	6,967
Loan loss provision (h)	(38,536)	(23,381)
Total	653,009	446,980
Indirect loans, note 16 (a)	1,191	1,165

(b) As of December 31, 2018 and 2017, 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, heavy and commercial vehicles. Additionally, they grant leasing and factoring product to their clients.

(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, 2018 and 2017, the average effective annual rates for the main types of loans are as follows:

	2018 %	2017 %
Medium business	16.40	17.26
Small business	20.88	18.26
Micro business	17.95	32.74
Non-revolving consumer loan	35.00	38.40

(d) As of December 31, 2018 and 2017, the direct loan portfolio under the segmentation set forth in SBS Resolution No. 11356-2008, note 2 (e) was as follows:

	2018 S/ (000)	2017 S/ (000)
Non-retail loans		
Medium business	323,698	159,203
Retail loans		
Small business	188,866	242,890
Micro business	44,817	22,725
Non-revolving consumer	126,752	38,576
Total	684,133	463,394

As of December 31, 2018 and 2017, 51 percent of the total portfolio balance consists of 159 clients and 765 clients, respectively.

(e) In accordance with SBS regulations, the direct loan portfolio of Edpyme as of December 31, 2018 and 2017 was classified per risk as follows:

	2018		2017	
	S/ (000)	%	S/ (000)	%
Normal	599,309	87.6	395,144	85.3
Potential problems	32,890	4.8	28,170	6.1
Substandard	9,542	1.4	20,179	4.4
Doubtful	20,943	3.1	12,711	2.7
Loss	21,449	3.1	7,190	1.6
Total	684,133	100.00	463,394	100.0

(f) As of December 31, 2018 and 2017, the Peruvian financial entities must record a loan loss provision based on the risk classification indicated in paragraph (f) above, and using the percentages specified in SBS Resolution No. 11356-2008, as detailed below:

(i) For loans classified as “Normal”:

Types of Loans	**Mandatory Generic Rate** %	**Pro-cyclical Rate (*)** %
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, depending on the type of loan. As stated in note 2 (f), during 2014, the pro-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:

Risk Category	**CSG** %	**CGP** %	**CGPMR R** %	**CGPA** %
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, 2018 and 2017, 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) Until December 31, 2017, Edpyme was authorized to enter into purchase - sale agreements of loan portfolio with repurchase agreements with local credit unions and Municipal Savings Banks through SBS Resolution No. 442-2014 issued by the SBS. In this regard, during 2018 period it made transfers of portfolio without repurchase agreement for principal amounting to S/ 153,619,000, and during 2017 it made transfers of portfolio with repurchase agreements less than or equal to 10 percent for principal amounting to S/ 146,379,000; these 2018 and 2017 transactions generated net income of S/ 54,445,000 and S/ 48,345,000, respectively; which were recorded under "Financial Operating Result, net" note 19, in the statement of comprehensive income.

As of December 31, 2018 and 2017, the balance of portfolio capital transferred with a repurchase agreement of less than or equal to 10 percent amounts to S/ 163,703,000 and S/ 216,034,000, respectively.

As of December 31, 2018 and 2017, for the portfolio transfer agreements with repurchase agreements less than or equal to 10 percent in force, Edpyme maintains a provision for this item equivalent to S/ 2,422,000 and S/ 5,168,000 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, 2018 and 2017, Edpyme has recorded revenues for this item amounting to S/ 8,740,000 and S/ 12,715,000, 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:

	2018 S/ (000)	**2017** S/ (000)
Balance as of January 1	23,393	14,443
Provision, net recoveries	19,469	22,295
Recovery of write-offs	31	75
Sale of portfolio	(4,345)	(13,037)
Write-offs		(383)
Balance as of December 31 (*)	38,548	23,393

(*) The loan loss provision balance includes provision for indirect loans for approximately S/ 12,000, as of December 31, 2018 and 2017, 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, 2018 and 2017, is in accordance with SBS regulation in force then, note 2 (f).

The loan portfolio as of December 31, 2018 and 2017 was graded by maturity as follows:

	2018 S/ (000)	2017 S/ (000)
Up to 3 months	8,276	1,962
From 3 to 6 months	5,471	5,062
From 6 months to 1 year	18,749	15,563
From 1 to 2 years	67,066	51,806
From 2 to 5 years	387,621	270,140
More than 5 years	166,702	97,074
Past due loans	30,248	21,787
	684,133	463,394

6. Accounts Receivable, net

(a) As of December 31, 2018 and 2017, this group was as follows:

	2018 S/ (000)	2017 S/ (000)
Value added tax credit	7,645	148
Sundry accounts receivable (b)	3,489	3,887
Claims to third parties	315	148
Rent security deposits	134	224
Advance to personnel	25	7
Income tax credit, net	-	354
	11,608	4,768
Provision for sundry accounts receivable (c)	(232)	(41)
Provision for claims to third parties (c)	(137)	(61)
	11,239	4,666

(b) It mainly corresponds to the collection and recovery management service fee of installments collected from the clients with regard to portfolio transfer, see note 5 (g), which applies to the installments paid by the transferred clients. As of December 31, 2018 and 2017, the balances receivable for this item corresponds to the Credit Unions and Municipal Savings Banks for approximately S/ 591,000 and S/ 815,000, respectively.

Additionally, as of December 31, 2018, it includes receivables from Rímac Seguros y Reaseguros for approximately S/ 623,000 due to involvement of Edpyme in the Prompt Payer Program (PPP), S/ 282,000 for reimbursement of vehicle repair expenses, S/ 236,000 for client referral commission, S/ 230,000 for receivables from a third because the partnership contract with that entity and S/ 166,000 for the loan placement commission per conversion.

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.

(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, 2018 and 2017, this group's balances include as follows:

	2018 S/ (000)	**2017** S/ (000)
Assets received as payment and seized(b)	20,206	15,971
(-) Provisions (c)	(10,898)	(5,723)
Total	9,308	10,248

(b) The assets received as payment and seized correspond, mainly, to the vehicles recovered from loans for taxi, motorcycles and heavy 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 (j) was as follows:

	2018 S/ (000)	**2017** S/ (000)
Balance as of January 1	(5,723)	(2,320)
Provision recognized as an expense for the year	(15,293)	(12,473)
Reversal of provision for sale of seized assets (d)	10,118	9,070
Balance as of December 31	(10,898)	(5,723)

(d) It corresponds to the reversal of provision for seized assets sold during the 2018 and 2017 fiscal periods for a sale value of S/ 18,397,000 and S/ 18,783,000, respectively. These transactions generated losses with respect to the gross value of the seized assets by S/ 3,035,000 and S/

4,332,000, respectively; which were recorded under “Other Income, net”, note 21, in the statement of comprehensive income.

8. Property, Furniture and Equipment, net

(a) This group's movement for the 2018 and 2017 fiscal periods was as follows:

	Land S/ (000)	Buildings, Facilities and Leasehold Improvements (d) S/ (000)	Furniture S/ (000)	Computer equipment S/ (000)	Transport Vehicles S/ (000)	Sundry Equipment S/ (000)	Total S/ (000)
Cost -							
Balance as of January 1 2017	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)
Balance as of December 31, 2017	5,582	4,918	1,158	1,763	-	1,433	14,854
Additions (c)		633	45	535	-	41	1,255
Disposal		(488)	(5)	(414)		(5)	(828)
Balance as of December 31, 2018	5,582	5,063	1,198	1,884	-	1,469	15,281
Accumulated Depreciation -							
Balance as of January 1 2017	-	1,091	357	660	119	359	2,586
Depreciation for the year	-	526	109	426	17	135	1,213
Disposal	-	(73)	-	(242)	(136)	-	(451)
Balance as of December 31, 2017	-	1,544	466	844	-	494	3,348
Depreciation for the year		732	119	453	-	146	1,450
Disposal		(488)	(5)	(414)	-	(6)	(913)
Balance as of December 31, 2018		1,788	580	883	-	634	3,885
Net book value as of December 31, 2018	5,582	3,275	618	1,001	-	835	11,311
Net book value as of December 31, 2017	5,582	3,374	692	919	-	939	11,506

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

(c) As of December 31, 2018, Edpyme made investments mainly in furniture (armchairs, chairs and desk) for S/ 45,000, computer equipment (servers, computers and memory) for S/ 535,000, various equipment (security cameras, air conditioning equipment and fingerprint readers) for S/ 42,000; and assembly and installation of electrical systems and air conditioning at the San Isidro head office for S/ 616,000. As of December 31, 2017, Edpyme made investments in furniture (armchairs, boards and desks) for S/ 122,000, computer equipment (servers, laptops and hard disk) for S/ 503,000, and various equipment (shelf, security cameras, banknote sorter and air conditioning equipment) for S/ 156,000, and assembly and installation of electrical systems and wiring at the San Juan de Lurigancho office for S/ 494,000, and S/ 312,000 for the expansion and renovation works at the San Isidro head office.

(d) As of December 31, 2018 and 2017, the cost for leasehold improvements amounts to S/ 2,352,000 and S/ 2,224,000, respectively, and have an accumulated depreciation of S/ 1,427,000 and S/ 1,265,000, respectively; calculated based on the relevant lease term.

(e) As of December 31, 2018 and 2017, Edpyme maintains fully depreciated fixed assets, which are still in use for approximately S/ 427,000 and S/ 372,000 respectively.

(f) In accordance with the policies established by Management, as of December 31, 2018 and 2017, 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, 2018 and 2017.

9. Deferred Income Tax, net

(a) As of December 31, 2018 and 2017, this group was as follows:

	Balances as of January 1, 2017 S/ (000)	**(Debit) Credit to Income** S/ (000)	**Balances as of December 31, 2017** S/ (000)	**(Debit) Credit to Income** S/ (000)	**Balances as of December 31, 2018** S/ (000)
Deferred Assets -					
Loan loss provision	3,816	(836)	2,980	(119)	2,861
Provision for seized assets	684	1,004	1,688	1,527	3,215
Provision for outstanding vacations pay	223	63	286	146	432
Leasehold improvements	241	78	319	(4)	315
Provision for unpaid interest	105	(26)	79	(20)	59
Other	93	20	113	25	138
Total Deferred Asset	5,162	303	5,465	1,555	7,020
Deferred Liabilities -					
Deferred charge of debts	(298)	(717)	(1,015)	(237)	(1,252)
Deferred charge for loan intermediation	(1,650)	(581)	(2,231)	(686)	(2,917)
Amortization of intangible assets	(22)	(19)	(41)	1	(40)
Buildings depreciation	(51)	(15)	(66)	(15)	(81)
Total Deferred Liabilities	(2,021)	(1,332)	(3,353)	(937)	(4,290)
Total Deferred Assets, net	3,141	(1,029)	2,112	618	2,730

(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:

	2018 S/ (000)	**2017** S/ (000)
Current	6,165	4,063
Deferred	(618)	1,030
Total	5,547	5,093

(d) The following is the reconciliation of the income tax rate with the effective rate of Edpyme, for the 2018 and 2017 periods:

	2018		**2017**	
	S/ (000)	**%**	S/ (000)	**%**
Profit before income tax	17,737	100.00	16,460	100.00
Theoretical expense	5,232	29.5	4,856	29.5
Non-deductible expenses	315	1.78	237	1.44
Income tax expense as per effective rate	5,547	31.28	5,093	30.94

10. Other Assets and Other Liabilities

(a) As of December 31, 2018 and 2017, this group includes as follows:

	2018 S/ (000)	2017 S/ (000)
Other Assets-		
Non-Financial Instruments -		
Deferred Charges paid to dealers (b)	9,865	7,560
Prepaid Insurance	3,760	3,112
Premium for purchase of portfolio	1,107	-
Vehicle assistance services (c)	-	438
Intangible assets, net (d)	136	140
Prepaid insurance	36	192
Deliveries to be paid	3	298
Other prepaid expenses	615	666
	15,522	12,406
Other Liabilities		
Financial Instruments -		
Operations in progress (e)	15,268	20,269
	15,268	20,269
Non-Financial Instruments -		
Provision for loan portfolio with repurchase agreement (f), note 5(g)	2,422	5,168
Deferred income	1,040	2,041
Provisions for indirect loans, note 5(h)	12	12
Other liabilities	1,522	457
	4,996	7,678
Total	20,264	27,947

(c) As of December 31, 2018, it corresponds mainly to the finder's fees for loans placement in the market, paid to the dealers for Taxi, Heavy and Commercial Vehicles, Recovered Vehicles and Consumer products for approximately S/ 1,195,000, S/ 173,000, S/ 6,233,000 and S/ 2,264,000, respectively (approximately S/1,396,000 S/204,000 S/4,767,000 and S/1,193,000, respectively, as of December 31, 2017). 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, 2018 and 2017, the amount accrued from these fees amounted to S/ 8,512,000 and S/ 6,919,000 respectively, see note 19 (a).

(c) As of December 31, 2017, it corresponded 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 438,000.

(d) The “Intangible Assets, net” account consists of software and licenses for the use of computer, which total cost, as of December 31, 2018, amounts to approximately S/ 250,000 and its accumulated amortization amounts to approximately S/ 144,000 (totaling approximately S/ 588,000 and accumulated amortization amounting approximately to S/ 448,000 as of December 31, 2017). The amortization for the 2018 period amounts to S/ 97,000 (S/ 90,000 for 2017).

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.

(e) 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 “Empresa de Transportes Once de Noviembre S.A.” for S/ 4,216,000, “Empresa de Transportes y Servicios el Rápido S.A.” for S/4,189,000, and to vehicle dealers for the gas conversion, SOAT, LPG and transfers for an approximate total amount of S/ 2,825,000 (as of December 31, 2017, borrowing operations in progress mainly correspond to Diveimport S.A. for an amount of S/ 9,316,000, Global Bus E.I.R.L. for S/ 4,988,000 and Sinomak S.A. for S/ 2,356,000 and to vehicle dealers for gas installation services, SOAT, GPS, for an approximate total amount of S/ 1,762,000).

(f) As a result of the sales of portfolio with repurchase agreement made following February 2017, 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, 2018 and 2017, 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/ 393,000, S/ 1,774,000 S/ 249,000 and S/ 6,000, respectively (S/ 1,601,000, S/ 3,186,000, S/ 362,000 and S/ 19,000 respectively, as of December 31, 2017).

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

	2018 S/ (000)	2017 S/ (000)
Balance as of January 1	5,168	7,938
Provision for loan portfolio with repurchase agreement, net	(2,746)	(2,770)
Balance as of December 31	2,422	5,168

11. Other Accounts Payable

(a) As of December 31, 2018 and 2017, this group was as follows:

	2018 S/ (000)	2017 S/ (000)
Suppliers (c)	11,128	11,085
Other accounts payable (d)	7,890	568
Unpaid vacations and profit sharing	2,667	1,793
Taxes payable (e)	1,871	470
Special bonuses	418	310
	23,974	14,226

(b) These liabilities do not accrue interest; they have current maturity and do not have specific guarantees.

(c) As of December 31, 2018 and 2017, it corresponds largely to account payable to Diveimport S.A. for factoring, to Autoclass S.A.C. for vehicle repair and maintenance, to Rímac Seguros y Reaseguros for insurance of Prompt Payer Program, Autofondo S.A.C. and Sociedad de Créditos Automotrices del Peru S.A.C for finder's fees and among others.

(d) As of December 31, 2018 and 2017, 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. Additionally, as of December 31, 2018, it includes accounts payable to Originarsa Perú S.A. for collection of the last days of the month of the portfolio sold by S/ 1,112,000, to IBR Perú S.A. for registration service of security interests by S/ 1,309,000, to Mapfre Seguros for payment protection insurance by S/ 993,000, for payment reimbursement to SETACA (Taxi Service of Callao) and SETAME (Metropolitan Taxi Service) by S/ 692,000, which will be outsourced with Pide un Taxi S.AC., and credits for disbursement of the last day of the year, by S/ 801,000.

(e) As of December 31, 2018, it includes income tax payable for S/ 1,365,000, which is comprised of the current income tax by S/ 6,165,000 net of the payments made during the year up to S/ 4,800,000. As of December 31, 2017, the provision for income tax for S/ 4,063,000 is presented net of the payments on account by S/ 4,417,000, see note 6 (a).

12. Debts and Financial Obligations

(a) As of December 31, 2018 and 2017, this group was as follows:

	2018 S/ (000)	2017 S/ (000)
By Type -		
Obligations with domestic financial entities (b)	150,122	104,143
Obligations with foreign financial entities (c)	72,783	25,736
Other debts (d)	347,605	259,736
	570,510	389,615
Interest payable	8,141	6,833
Unearned fees	(4,245)	(3,444)
Total	574,406	393,004
By Term -		
Short-term	204,025	108,637
Long-term	370,381	284,367
Total	574,406	393,004

(b) As of December 31, 2018 and 2017, this group's composition was as follows:

Entity	Currency of Origin	Maturity	2018 S/(000)	2017 S/(000)
Caja Huancayo S.A. (*)	S/	11/2021	48,374	31,229
Corporación Financiera de Desarrollo - COFIDE (*) y (**)	S/	12/2023	39,897	26,237
Caja Trujillo S.A. (*)	S/	10/2021	20,038	19,175
Banco de Crédito del Perú (**)	$	01/2019	16,865	-
Banco Interamericano de Finanzas (**)	S/ and US$	01/2021	8,657	6,731
Caja Maynas S.A. (*)	S/ and US$	12/2021	7,182	6,805
Banco GNB	S/	02/2019	4,097	-
FONDEMI (*)	S/	03/2020	3,025	6,415
Banco de la Nación (*)	S/	01/2020	1,819	3,105
Fondo de inclusión Social Energético	S/	12/2020	168	-
Caja Ica S.A. (*)	S/	12/2018	-	2,588
Cooperativa de Ahorro y Crédito Abaco (*)	S/	03/2019	-	1,858
Total			150,122	104,143

(*) As of December 31, 2018 and 2017, these correspond to loans with local financial institutions guaranteed with credit portfolio of Edpyme, see point (g).

(**) As of December 31, 2018 and 2017, these correspond to loans guaranteed with security deposits for approximately S/ 26,319,000 (S/ 7,106,000 as of December 31, 2017), see note 3 (d).

As of December 31, 2018, local financial institutions earn interest at effective annual rates ranging between 4.00 and 11.95 percent with maturity between January 2019 and December 2026 (interest at effective annual rates ranging between 6.70 and 13.70 percent, with maturity between January 2019 and December 2021, as of December 31, 2017).

(c) As of December 31, 2018 and 2017, this group's composition was as follows:

Entity	Currency of origin	Maturity	2018 S/(000)	2017 S/(000)
Proparco	US$	03/2022	33,730	-
Bank IM Bistum Esseng – BIB	US$	06/2022	23,611	-
Nederlandse Financierings - Maatschappij Voor Ontwikkelingslanden N.V. (*)	S/	06/2020	15,442	25,736
Total			72,783	25,736

(*) As of December 31, 2018 and 2017, it corresponds to loans guaranteed with loan portfolio of Edpyme, see paragraph (g).

As of December 31, 2018, they accrue interest at effective annual rates between 7.23 and 11.90 percent, (Interest at effective annual rate of 11.68 percent, as of December 31, 2017).

(d) As of December 31, 2018 and 2017, the "Other Debts" composition was as follows:

Other Debts / Individuals	Currency of Origin	Maturity	2018 S/(000)	2017 S/(000)
Blue Orchard	S/	03/2020	34,469	48,846
SIFEM AG Acting	US$	12/2023	33,730	-
International Financial Corporation (**)	S/	12/2022	32,725	-
Microvest Short Duration	US$	06/2021	30,664	32,410
Global Climate Fund	S/	06/2023	26,854	-
Bio Investment (**)	US$	03/2023	25,296	29,709
Triodos Invesment	S/	03/2021	22,883	22,883
SEB Microfinance Fund III	S/ and US$	05/2020	19,925	16,222
Blueorchard Microfinance	S/	03/2021	19,423	25,896

SEB Microfinance Fund IV	S/ and US$	12/2019	18,248	18,014
Oikocredit	S/	08/2021	15,000	-
SEB Microfinance Fund V	US$	10/2020	11,806	6,482
FINETHIC S.A.C	S/ and US$	10/2020	8,287	9,969
Global Financial Gawa	S/	06/2019	8,000	16,000
Essential Capital	US$	12/2019	6,746	6,482
Seb Life	$	09/2020	6,746	-
Instituto de Crédito ICO	$	10/2026	6,746	-
Global Finance Inclusion Fund	S/	07/2019	4,920	4,920
Global Microfnance Fund	S/	10/2020	4,873	1,646
SEB Microfinance Fund II	S/	05/2019	3,289	3,289
SME Finance Loans	$	05/2020	1,687	-
LOC FUND II L.P (**)	S/	04/2019	670	2,581
EMF Microfinance Fund	S/	03/2018	-	1,709
Prospero Microfinanzas	S/	12/2018	-	5,718
			342,987	252,776
Individuals				
Sundry (*)	S/		4,618	6,960
			347,605	259,736

(*) As of December 31, 2018 and 2017, Edpyme maintains debts with individuals and directors in domestic currency, which accrues interest at effective rates ranging between 9.0 and 12.72 percent, with maturities between January 2019 and June 2020 (effective annual rates ranging between 6.40 and 13.00 percent, with maturities between January 2018 and June 2020, as of December 31, 2017).

(**) As of December 31, 2018 and 2017, they correspond to loans secured by loan portfolio of Edpyme, see paragraph (g).

As of December 31, 2018, foreign financial institutions accrue interest at effective annual rates ranging between 9.00 and 13.0 percent (Interest at effective annual rates between 8.13 and 13.0 percent, as of December 31, 2017).

Some debts and financial obligations 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, 2018 and 2017, Edpyme Management considers that the conditions established for these transactions 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 fulfilled.

As of December 31, 2018 and 2017, the agreements for said indebtedness mainly refer 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

(e) The following is the group's balance as of December 31, 2018 and 2017, classified by maturity:

	2018 S/ (000)	2017 S/ (000)
Up to 3 months	49,702	22,620
From 3 months to 1 year	150,461	82,629
From 1 to 3 years	241,308	187,083
From 3 to 5 years	123,978	94,582
More than 5 years	5,0601	2,701
	570,510	389,615

(f) During 2018, Edpyme has acquired and paid financial obligations, which have generated an interest expense of approximately S/42,453,000 (S/ 25,429,000 as of December 31, 2017) recorded under "Interest expenses" in the income statement, note 17.

(g) The loans granted as collateral for financing received are detailed in the following table:

			2018		2017	
Financing Counterparty	Item	Agreement Term	Asset Amount S/	**Secured Debt** S/	Asset Amount S/	**Secured Debt** S/
Corporación Financiera de Desarrollo –COFIDE	Agreement	6 years	60,773	39,897	32,836	26,237
Caja Huancayo S.A.	Agreement	5 years	49,714	48,374	31,236	31,229
International Financial Corporation	Agreement	5 years	34,601	32,725	-	-
Bio Invesment	Agreement	6 years	25,310	25,296	29,715	29,709
Nederlandse Financierings - Maatschappij Voor Ontwikkelingslanden N.V.	Agreement	4 years and 6 months	19,645	15,442	25,752	25,736
Caja Trujillo S.A.	Agreement	3 years	13,017	20,038	14,783	19,175

Caja Maynas S.A.	Agreement	5 years	6,704	7,182	6,812	6,805
FONDEMI	Agreement	Indefinite	3,810	3,025	6,442	6,415
Banco de la Nación	Agreement	5 years	1,956	1,819	3,110	3,105
LOCFUND II L.P.	Agreement	4 years	1,162	670	2,586	2,581
Caja Ica S.A.	Agreement		-	-	2,592	2,588
Cooperativa de Ahorro y Crédito Abaco	Agreement		-	-	2,380	1,858
			216,692	194,468	158,244	155,438

13. Shareholder's Equity

(a) Capital Stock -

As of December 31, 2018 and 2017, the capital stock is represented by 14,792,174 and 12,705,632 common shares with a face value of S/ 10.00 per share, respectively. These shares are fully subscribed, paid-in and registered before public registers. At such dates, the shareholding of the capital stock of Edpyme was as follows:

	Total Percentage of Share	
	2018	2017
Acceso Corp S.A.	99.99	99.99
Sergio Valencoso Burillo	0.01	0.01
	100.00	100.00

At the General Shareholders' Meeting held on May 3, 2018, the capitalization of freely available profits was agreed for approximately S / 10,866,000.

The General Shareholders' Meeting held on March 30, 2017, agreed to increase the capital stock of Edpyme by S/ 25,000,000, through contributions from Acceso Corp. This increase was made through the issuance of 2,500,000 new shares with a face value of S/ 10 each. Likewise, the General Shareholders' Meeting held on June 28, 2017, agreed to increase the Capital Stock of Edpyme by S/ 6,000,000, through contributions from Acceso Corp. This increase was made through the issuance of 600,000 new shares with a face value of S/ 10 each.

(b) Capital Stock in Progress -

As of December 31, 2017, the capital stock in progress amounted to S/ 10,000,000 and corresponded to the contribution received from Acceso Corp. pending subscription made via resolution of the General Shareholders' Meeting held on December 21, 2017. During 2018, said contributions were subscribed.

(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.

The Annual Shareholders' Meeting held on March 28, 2018 and 2017, approved the legal reserve constitution for the equivalent of 10 percent of the 2017 and 2016 fiscal periods’ profits, for approximately S/1,137,000 and S/ 639,000 respectively.

(d) Dividends -

The General Shareholders' Meeting held on March 28, 2018, agreed to distribute dividends for approximately S/ 5,116,000.

(e) Regulatory Net Worth -

As of December 31, 2018 and 2017, the regulatory net worth of Edpyme was determined as follows:

	2018 S/ (000)	**2017** S/ (000)
Regulatory Net Worth - Tier 1		
Regulatory Net Worth - Tier 1	147,922	127,056
Paid-in capital		
Capital stock in progress		10,000
Legal reserve	4,345	3,208
Other (*)	(12,502)	(9)
		-
	139,765	140,255
Regulatory Net Worth – Tier 2		
Generic provisions for loans (mandatory)	9,694	7,306
	9,694	7,306
Total Regulatory Net Worth	149,459	147,561

* As of December 31, 2018 and 2017, an amount of approximately S/ 12,502,000 and 9,000, respectively, was deducted from the regulatory net worth as requested by the SBS.

As of December 31, 2018, the regulatory net worth requirement for credit risk determined by Edpyme, pursuant to the legislation applicable to financial institutions, amounts to S/ 82,438,171 (S/ 58,170,000, as of December 31, 2017), while the regulatory net worth requirements for market and operational risk amount to S/ 251,202 and S/ 11,422,510 respectively (S/ 1,926,000 and S/ 9,812,000, respectively, as of December 31, 2017).

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, 2018 and 2017, the regulatory net worth of Edpyme represents 15.88 percent of the minimum capital requirements for the market, operational and credit risk (21.11 percent, as of December 31, 2017).

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, 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, 2018 and 2017, 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, 2018 and 2017, the adequacy percentage established by the SBS is 100 percent, thus the additional regulatory net worth requirement amounts to S/ 16,420,333 (S/ 12,498,000 as of December 31, 2017). In Management’s opinion, Edpyme complies with the requirements established in the aforementioned resolutions.

As of December 31, 2018 and 2017, Edpyme maintains the following amounts in relation to risk-weighted assets and contingent loans and regulatory net worth:

	2018 S/ (000)	**2017** S/ (000)
Total risk- weighted assets and loans	941,119	699,081
Regulatory net worth	149,459	147,561
Basic regulatory net worth	139,765	140,255
Supplementary regulatory net worth	9,694	7,306
Global regulatory capital radio (in percentage)	15.88	21.11

14. Tax Situation

(a) The Company is subject to the Peruvian tax regime. The income tax rate as of December 31, 2018 and 2017 was 29.5 percent, 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.

Legal entities and individuals not domiciled in Peru are subject to the withholding of an additional tax on the dividends received. In this regard, in response to Legislative Decree No. 1261, the additional tax on dividends for the profits generated is 5 percent.

(b) For the purpose of determining Income Tax, the transfer prices of transactions with related companies and with companies residing in non-cooperating or with low or no taxation countries or territories, or with individuals or permanent establishments whose income, profits or earnings from such contracts are subject to a preferential tax regime, must be supported by documentation and information on the valuation methods used and the criteria considered for their determination. Based on the analysis of the Edpyme operations, the Management and its internal legal advisors consider that as a consequence of the application of these rules, no significant contingencies will result for Edpyme as of December 31, 2018 and 2017.

Through 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.

(c) The tax authority has the power to review and, if applicable, correct the income tax calculated by Edpyme within the four years following the year of filing the respective tax return, provided that this term has not been suspended or interrupted. The income tax and value added tax returns for the years 2014 to 2018 are subject to review by the tax authority.

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, 2018 and 2017.

(d) In July 2018, Law No. 30823 was published in which Congress delegated to the Executive Branch the power to legislate on various issues, including tax and financial matters. In this sense, the main tax regulations issued were the following:

(i) As of January 1, 2019, the treatment applicable to royalties and remuneration for services rendered by non-domiciled individuals was amended, eliminating the obligation to pay the amount equivalent to the withholding due to the accounting record of the cost or expense. The income tax must now be withheld due to the payment or accreditation of the remuneration. In order for said cost or expense to be deductible for the local company, the remuneration must have been paid or credited up to the filing date of the annual tax return for the income tax (Legislative Decree No. 1369).

(ii) The rules that regulate the obligation of individuals and/or legal entities to inform the identification of their final beneficiaries (Legislative Decree No. 1372) were established. These rules are applicable to legal entities domiciled in the country, in accordance with the provisions of Article 7 of the Income Tax Act, and to legal entities established in the country. The obligation covers non-domiciled individuals and legal entities established abroad, as long as: a) they have a branch, agency or other permanent establishment in the country; b) the individual or legal entity that manages the autonomous assets or the investment funds from abroad, or individual or legal entity that has the status of protector or administrator, is domiciled in the country and c) any of the parties of a consortium is domiciled in the country. This obligation shall be fulfilled through the presentation to the Tax Authority of an Informative Tax Return, which must contain the information of the final beneficiary and be presented, in accordance with the regulations and within the deadlines established by SUNAT Resolution.

(iii) The Tax Code was amended in order to provide greater guarantees to taxpayers in the application of the general anti-avoidance rule (Rule XVI of the Preliminary Title of the Tax Code); as well as to provide the Tax Administration with tools for its effective implementation (Legislative Decree No. 1422).

As part of this amendment, a new assumption of joint and several liability is envisaged, when the tax debtor is subject to the application of the measures provided by Rule XVI in the event that tax evasion cases are detected; in such case, the joint and several liability shall be attributed to the legal representatives provided that they have collaborated with the design or approval or execution of acts or situations or economic relations foreseen as elusive in Rule XVI. In the case of companies that have a Board of Directors, it is up to this corporate body to define the tax strategy of the entity, deciding on the approval or not of acts, situations or economic relations to be carried out within the framework of tax planning, this power being non-delegable. The acts, situations and economic relations carried out within the framework of tax planning and implemented on the date of entry into force of Legislative Decree No. 1422 (September 14, 2018) and which continue to have effects, must be evaluated by the Board of Directors of the legal entity for the purpose of ratification or modification until March 29, 2019, notwithstanding the fact that the management or other administrators of the company had approved the aforementioned acts, situations and economic relations

It has also been established that the application of Rule XVI, as regards the re-characterization of tax evasion cases, will take place in the final inspection procedures in which acts, facts or situations produced since July 19, 2012 are reviewed.

(iv) Amendments to the Income Tax Act were included, effective as of January 1, 2019, to improve the tax treatment applicable to (Legislative Decree No. 1424):

- The income obtained from the indirect transfer of shares or interests representing the capital stock of legal entities domiciled in the country. Among the most relevant changes, is the inclusion of a new indirect transfer assumption, which is established when the total amount of the shares of the domiciled legal entity whose indirect transfer made is equal to or greater than 40,000 Tax Units (UIT), see the previous paragraph.

- The permanent establishments of sole proprietorships, companies and entities of any nature incorporated abroad; including new assumptions of permanent establishment, among them, when the rendering of services in the country takes place, with respect to the same project, service or for a related one, for a period that in total exceeds 183 calendar days within any period of twelve months.

- The credit scheme against Income Tax for taxes paid abroad, including indirect credit (corporate tax paid by foreign subsidiaries) as a credit applicable to the Income Tax of domiciled legal entities, in order to avoid double economic imposition.

- Rules have been established for the accrual of income and expenses for tax purposes as of January 1, 2019 (Legislative Decree No. 1425). Until 2018 there was no normative definition of this item, thus in many cases accounting rules were used for its interpretation. In general terms, with the new criteria, for purposes of the determination of Income Tax, it will now be considered if the substantial facts for the generation of income or expense agreed by the parties have occurred, which are not subject to a condition precedent, in which case the recognition will be given when it is fulfilled; the opportunity for collection or payment established will not be taken into account; and, if the determination of the consideration depends on a future fact or event, the total or part of the corresponding income or expense will be deferred until that fact or event occurs.

15. Transactions with Related Parties

(a) Edpyme carries out transactions with related companies in the normal operations of their business. As a result of these transactions, the balances of the statement of financial position as of December 31, 2018 and 2017, and the statement of comprehensive income for the years then ended include assets, liabilities, revenues and expenses, as detailed below:

	Tkobro S.A.C S/(000)	Autoclass Retail S.A.C S/(000)	Autoclass S.A.C S/(000)	Pide1taxi S.A.C. S/(000)

2018				
Assets				
Other assets, net (b)	296	-	3,830	-
Liabilities				
Other liabilities	-	-	2,538	-
Results				
Revenue from portfolio sale	38	-	-	-
Revenue from various services	11	-	158	-
Vehicle repair and maintenance expenses	-	-	6,682	-
Expenses for services received (b)	-	122	1,761	67
2017				
Assets				
Other assets, net (b)	628	48	5,462	-
Liabilities				
Other liabilities	96	(12)	1,035	25
Results				
Revenue from portfolio sale	567	-	-	-
Revenue from various services	-	-	13	-
Vehicle repair and maintenance expenses	-	-	5,100	-
Expenses for services received (b)	-	147	5,421	144

(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.

(d) Certain employees 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, 2018, loans and other credits granted to Edpyme employees amount to S/ 317,814 (S/ 112,000 as of December 31, 2017).

(e) The compensation of the Edpyme's key employees as of December 31, 2018 and 2017, considering all the payments received are as follows:

	2018	**2017**

	S/ (000)	S/ (000)
Salaries	3,575	3,172
Per diem	383	105
	3,958	3,277

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

(f) As of December 31, 2018 and 2017, there are debts and financial obligations maintained with a director for an amount of S/ 666,000 and S/ 1,228,000, respectively.

16. Contingent Risks and Commitments

(a) This group's composition is made up as follows:

	2018 S/ (000)	2017 S/ (000)
Debit Contingents		
Letter of Guarantee (b), Note 5 (a)	1,191	1,165
Liability for unused credit lines and undisbursed loans	9,652	4,923
Liability for repurchase agreement (c)	2,950	7,204
	13,793	13,292

(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, 2018, it includes the letter of guarantee granted at the request of Autoclass S.A.C., and Buena Estrella S.A.C., for S/ 500,000 and S/ 691,000, respectively (for S/ 500,000 and S/ 665,000, respectively, as of December 31, 2017).

(c) It corresponds to the committed amount of the portfolio sold with repurchase agreement managed by Edpyme as of December 31, 2018 and 2017.

17. Interest Income and Expenses

This group's composition is made up as follows:

	2018	2017

	S/ (000)	S/ (000)
Interest Income		
Interest and commissions on loan portfolio	90,179	69,280
Interest on funds available	1,046	627
Total Interest Income	91,225	69,907
Interest expenses		
Interest on Debts and Obligations with local financial entities, Note 12 (f)	9,506	7,952
Interest on Debts and Obligations with Foreign Institutions, Note 12 (f)	3,907	3,218
Interest on other debts, Note 12 (f)	29,040	14,259
Commissions and other debit charges	1,550	984
Total Interest Expenses	44,003	26,413
Gross Financial Margin	47,222	43,494

18. Income and expenses for financial services

(a) As of December 31, 2018 and 2017, this group's balance includes as follows:

	2018 S/(000)	2017 S/(000)
Financial income		
Income from indirect loans	14	15
Miscellaneous income	2,346	672
Total	2,360	687
Financial expenses		
Collection fee (b)	570	592
Infogas collection fee (c)	528	512
Demand deposit fee	53	74
Other financial services	198	98
Total	1,349	1,276

(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, 2018 and 2017, this group's balance includes as follows:

	2018 S/(000)	2017 S/(000)
Revenue from portfolio sales, net, note 5(g)	54,445	48,345
Revenue from collection and recovery management of portfolio sold, note 5(g)	8,740	12,715
Vehicle repair and maintenance expenses	(9,328)	(7,091)
Dealer intermediation service, note 10(b)	(8,512)	(6,919)
Early repayment by repurchase agreement (b)	(8,166)	(8,975)
Seguro Rímac PPP (c)	(6,560)	(7,477)
Vehicle assistance expenses	-	(96)
Other financial expenses, net (d)	(4,074)	(2,445)
Total	26,545	28,057

(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.

(d) It corresponds mainly to expenses of payment protection insurance, write-off expenses, vehicle recovery commission, towing expenses for vehicle seizures, among others.

20. Administrative Expenses

(a) This group's composition is made up as follows:

	2018 S/ (000)	2017 S/ (000)
Personnel and directors expenses (b)	29,228	25,828
Services provided by third parties (c)	13,960	12,568
Taxes and contributions	436	276
Total	43,624	38,672

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

	2018 S/ (000)	2017 S/ (000)
Salaries	18,845	16,658
Bonuses, compensations and insurance	7,095	6,722
Employees' profit sharing	1,119	731
Transportation expenses	967	931
Directors expenses	383	105
Other personnel expenses	819	681
Total	29,228	25,828
Average number of employees	464	484

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

	2018 S/ (000)	2017 S/ (000)
Leasing	3,599	2,368
Notary, registry and judicial expenses	1,563	1,617
Surveillance and protection	1,383	1,109
Repair and Maintenance	1,280	1,081
Consulting	1,354	1,157
Communications	1,066	1,237
Advertising	830	710
Sundry supplies	450	669
Utilities	405	344
Professional fees	342	662
Insurance expenses	153	468
Travel expenses	139	130
Customer service	103	71
Transportation	71	65
Parking service	68	30
Other services	1,154	850
Total	13,960	12,568

21. Other Income (Expenses), net

(a) This group's composition is made up as follows:

	2018 S/ (000)	2017 S/ (000)
Net loss on sale of assets received as payment and seized, note 7(d)	(3,035)	(4,332)
Profit from the sale of assets held for sale (b)	7,330	-
Loss on property, plant and equipment removal	-	(1)
Other, net	(519)	71
Total	3,776	(4,262)

(b) On August 15, 2018, Edpyme acquired the 10th, 11th, and 12th, floors of a property located in San Isidro, for a value of US$ 2,000,000 equivalent to S/ 7,003,000. This property was sold to a third party on October 31, 2018, for an amount of US$ 4,305,000 equivalent to S/ 14,334,000, generating a profit of S/ 7,330,000.

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:

	2018 Financial Assets		2017 Financial Assets		
Assets	**Loans and Accounts Receivable** S/ (000)	**Total** S/ (000)	At Fair Value through Profit or Loss S/ (000)	**Loans and Accounts Receivable** S/ (000)	**Total** S/ (000)
Cash and due from banks	80,108	80,108	-	101,652	101,652
Investments at fair value through profit and loss			3,116	-	3,116
Loan portfolio, net	653,009	653,009	-	446,980	446,980
Accounts receivable, net	11,239	11,239	-	4,666	4,666
Other assets			-	-	-
Total	744,356	744,356	3,116	553,298	556,414

	2018 Financial Liabilities		2017 Financial Liabilities	
Liabilities	**At Amortized Cost** S/ (000)	**Total** S/ (000)	**At Amortized Cost** S/ (000)	**Total** S/ (000)
Debts and financial obligations	574,405	574,406	393,004	393,004
Other accounts payable	23,974	23,974	14,226	14,226
Other liabilities	15,268	15,268	20,269	20,269
Total	613,648	613,648	427,499	427,499

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.

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 communication channel 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
  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, Taxi Remisse, Relocated and Consumer 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.

- 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.

- 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 Edpyme 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–

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 the 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.

(b) Maximum Credit Risk Exposure -

As of December 31, 2018 and 2017, 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 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, 2018 and 2017:

- 92.41 percent and 91.35 percent, respectively, of the loan portfolio is classified in two higher levels defined by the SBS.
- 99.20 percent and 99.62 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, 2018 and 2017, the amount of guarantees related to direct loans granted by Edpyme amounts to S/ 267,003,000 and S/171,506,000, respectively, as shown below:

(d) Credit Risk Management for Placements -

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 allows 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 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 (f).

It should be noted that the risk rating of non-retail loans also considers the qualitative factors derived from their financial information, in accordance with the internal regulations of Edpyme and SBS Resolution No. 11356-2008 regarding the credit rating of the debtor.

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

	As of December 31, 2018				
Loan Portfolio Classification	Non-Retail Loans S/ (000)	Small and Micro Business Loans S/ (000)	Consumer Loans S/ (000)	Total S/ (000)	%
Neither past due nor impaired loans					
Normal	300,466	155,018	93,448	547,932	84 %
Potential problems	1,228	1,090	862	3,180	1 %
	301,694	155,108	94,310	551,112	85 %
Past due but not impaired loans					
Normal	12,889	32,208	6,279	51,377	8%
Potential problems	4,809	21,533	3,369	29,710	5%
	17,698	53,741	9,648	81,087	13%
Impaired loans					
Substandard	1,181	5,065	3,296	9,542	
Doubtful	2,698	11,484	6,761	20,943	
Loss	427	8,285	12,737	21,449	
	4,316	24,834	22,794	51,934	8%
Gross portfolio	323,698	233,683	126,752	684,133	105%
Less: Loan loss provision (*)	4,885	14,542	19,109	38,536	6%

Loan Portfolio Classification	As of December 31, 2018 Non-Retail Loans S/ (000)	Small and Micro Business Loans S/ (000)	Consumer Loans S/ (000)	Total S/ (000)	%
Total, net	318,813	219,141	107,643	645,597	100%

(*) As of December 31, 2018, Edpyme maintains a balance of voluntary provisions for microenterprise loans for an amount of S/1,240,000.

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)	%
Neither past due nor impaired loans					
Normal	150,457	207,283	34,301	392,041	99
Potential problems	2,355	888	42	3,285	1%
	152,812	208,171	34,343	395,326	80 %
Past due but not impaired loans					
Normal	3,103	-	-	3,103	10 %
Potential problems	1,452	22,081	1,352	24,885	6%
	4,555	22,081	1,352	27,988	16 %
Impaired loans					
Substandard	1,836	17,199	1,144	20,179	3%
Doubtful	-	11,469	1,242	12,711	1%
Loss	-	6,695	495	7,190	1%
	1,836	35,363	2,881	40,080	5%
Gross portfolio	159,203	265,615	38,576	463,394	105%
Less: Loan loss provision (*)	2,122	19,319	1,940	23,381	5%
Total, net	157,081	246,296	36,636	440,013	100%

(*) As of December 31, 2017, Edpyme maintains a balance of voluntary provisions for microenterprise loans for an amount of S/960,000.

(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, 2018				As of December 31, 2017			
	Non-Retail Loans S/ (000)	Small and Micro Business Loans S/ (000)	Consumer Loans S/ (000)	Total S/ (000)	Non-Retail Loans S/ (000)	Small and Micro Business Loans S/ (000)	Consumer Loans S/ (000)	Total S/ (000)
Impaired loans	4,306	24,834	22,794	51,934	1,836	35,363	2,881	40,080
Preferred guarantee	3,817	47,525	-	51,342	567	18,352	48	18,967
Loan loss provision	390	6,002	12,976	19,368	396	15,458	1,527	17,381

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

	As of December 31, 2018			
	Non-Retail Loans S/ (000)	Small and Micro Business Loans S/ (000)	Non-Revolving Consumer Loans S/ (000)	Total S/ (000)
Past due up to 30 days	17,698	53,741	9,648	81,087
Total	17,698	53,741	9,648	81,087

	As of December 31, 2017			
	Non-Retail Loans S/ (000)	Small and Micro Business Loans S/ (000)	Non-Revolving Consumer Loans S/ (000)	Total S/ (000)
Past due up to 30 days	4,555	22,081	1,352	27,988
Total	4,555	22,081	1,352	27,988

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

As of December 31, 2018 and 2017, the main financial instruments with credit risk exposure were distributed according to the following geographical areas:

	Loan Portfolio (*)	
	2018 S/(000)	**2017** S/(000)
Lima	616,364	423,065
Arequipa	22,326	11,549
Cusco	10,725	6,505
Lambayeque	5,370	3,908
La Libertad	7,697	4,931
Piura	7,835	2,896
Ica	2,457	3,011
San Martín	1,079	2,280
Huánuco	1,046	156
Junín	1,163	162
Other	8,071	4,931
Total	684,133	463,394

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

(h) As of December 31, 2018 and 2017, the main financial instruments with credit risk exposure were distributed according to the following economic sectors:

	Loan Portfolio (*)	
	2018 S/ (000)	**2017** S/ (000)
Transportation, Storage and Communications	519,487	299,318
Other non-retailers	37,894	125,500
Total exposures in economic sectors	557,381	424,818
Consumer loan exposures	126,752	38,576
Total Gross Loan Portfolio	684,133	463,394

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

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 re-priced. 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.

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:

	2018						
	Up to 1 month	From 1 to 3 months	From 3 to 1 year	From 1 to 5 years	More than 5 years	Non-Interest Bearing	Total
	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
Assets							
Cash and due from banks	66,058	-	-	-	-	14,050	80,108
Loan portfolio, net	1,617	6,659	24,220	454,687	166,702	(876)	653,009
Accounts receivable	-	-	-	-	-	11,239	11,239
Other assets	-	-	-	-	-	38,871	38,871
Total Assets	67,675	6,659	24,220	454,687	166,702	63,284	783,227
Liabilities							
Debts and financial obligations	28,482	25,116	150,461	365,286	5,061	-	574,406
Other accounts payable	-	-	-	-	-	23,974	23,974
Other liabilities	-	-	-	-	-	20,264	20,264
Shareholders' equity	-	-	-	-	-	164,583	164,583
Total Liabilities and Shareholder's Equity	28,482	25,116	150,461	365,286	5,061	208,821	783,227
Marginal gap	39,193	(18,457)	(126,241)	89,401	161,641	(145,537)	-
Accumulated gap	39,193	20,736	(105,505)	(16,104)	145,537	-	-

	2017						
	Up to 1 month S/(000)	From 1 to 3 months S/(000)	From 3 to 1 year S/(000)	From 1 to 5 years S/(000)	More than 5 years S/(000)	Non-Interest Bearing S/(000)	Total S/(000)
Assets							
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	703	1,259	20,625	321,946	97,074	5,373	446,980
Accounts receivable, net	-	-	-	-	-	4,666	4,666
Other assets, net	-	-	-	-	-	36,272	36,272
Total Assets	97,880	1,259	20,625	321,946	97,074	53,902	592,686
Liabilities							
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
Total Liabilities and Shareholder's Equity	10,906	18,546	81,306	279,626	2,620	199,682	592,686
Marginal gap	86,974	(17,287)	(60,681)	42,320	94,454	(145,780)	-
Accumulated gap	86,974	69,687	9,006	51,326	145,780	-	-

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, 2018 and 2017 were as follows:

	2018	
Currency	**Changes in basic points**	**Sensitivity to net earnings** S/
Soles	+/- 50	160,820
Soles	+/- 75	241,230
Soles	+/- 100	321,640
Soles	+/- 150	482,460
US Dollars	+/- 50	73,310
US Dollars	+/- 75	109,965
US Dollars	+/- 100	146,620
US Dollars	+/- 150	219,929

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

(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, 2018 and 2017, represents 0.72 and 1.82 percent 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, 2018, the free market's weighted average exchange rate published by the SBS for transactions in US Dollars was S/ 3.269 per US$ 1 for the purchase and S/ 3.379 per US$ 1 for the sale (S/ 3.238 and S/3.245 as of December 31, 2017, respectively). As of December 31, 2018, the exchange rate for the accounting of assets and liabilities in foreign currency set by the SBS was S/ 3.373 per US$ 1 (S/ 3.241 as of December 31, 2017).

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

	2018 US$(000)	2017 US$(000)
Assets		
Cash and due to banks	5,652	1,196
Loan portfolio	81,169	44,000
Other assets	290	378
Total	87,111	45,574
Liabilities		
Debts and financial obligations	83,348	36,092
Other liabilities	4,508	1,690
Total Liabilities	87,856	37,782
Net position in foreign currency	(745)	7,792

During 2018, Edpyme has recorded a net profit of approximately S/ 6,432,000 (S/ 12,453,000 in 2017) as "Gain 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.

Sensitivity Analysis	**Change in Exchange Rates** %	**2018** S/ (000)	**2017** S/ (000)
Devaluation -			
US Dollar	5	424	(1,263)
US Dollar	10	847	(2,526)
Revaluation -			
US Dollar	5	(424)	1,263
US Dollar	10	(847)	2,526

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

The cash flows payable by Edpyme as of December 31, 2018 and 2017 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.

	2018					
Exposure to Liquidity Risk	**Up to 1 month**	**More than 1 month up to 3 months**	**More than 3 up to 1 year**	**Over 1 year**	**Non-Interest Bearing**	**Total**
	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
Liabilities						
Debts and financial obligations	32,726	25,116	150,462	370,346	-	578,650
Other accounts payable	-	-	-	-	23,974	23,974
Other liabilities	-	-	-	-	15,268	15,268
Total	32,726	25,116	150,462	370,346	39,242	617,892

	2017					
Exposure to Liquidity Risk	**Up to 1 month**	**More than 1 month up to 3 months**	**More than 3 up to 1 year**	**Over 1 year**	**Non-Interest Bearing**	**Total**
	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
Liabilities						
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
Total	10,906	18,546	82,629	284,367	34,495	430,943

2018

	Balance as of January 1, 2018 S/(000)	Cash Outflows S/(000)	Cash Inflows S/(000)	Movement of Foreign Currency S/(000)	Other S/(000)	Balance as of December 31 S/(000)
Debts and financial obligations	396,448	(166,556)	339,947	7,503	1,309	578,651
Capital stock	127,056	-	-	-	20,866	147,922
Total	523,504	(166,556)	339,947	7,503	22,175	726,573

	2017					
	Balance as of January 1, 2017 S/(000)	Cash Outflows S/(000)	Cash Inflows S/(000)	Movement of Foreign Currency S/(000)	Other S/(000)	Balance as of December 31 S/(000)
Debts and financial obligations	127,092	(63,104)	330,030	279	2,151	396,448
Capital stock	96,056	-	41,000	-	-	137,056
Total	223,148	(63,104)	371,030	279	2,151	533,504

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, pursuant 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, 2018 and 2017.

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.

Certificate of Authorization

The undersigned, Dean and Director Secretary of the Public Accountants Association of Lima hereby declare that based on the records of the institution, it has been verified that

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REGISTRATION: S0761

is authorized to date to exercise the professional functions pursuant to Law No. 13253 and its amending Law No. 28951 and in accordance with the Bylaws and Internal Regulations of this Association; in witness whereof and at the request of the interested party, this certificate is issued for the purposes and uses it deems appropriate. This certificate is valid until

31/03/2019

Lima, January 19, 2018

Dean

Director Secretary

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