

Edpyme Acceso Crediticio S.A.

Financial Statements as of December 31, 2019 and 2018 together
with the Independent Auditors' Report

Edpyme Acceso Crediticio S.A.

**Financial Statements as of December 31, 2019 and 2018
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Independent Auditors' Report

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

We have audited the accompanying financial statements of Edpyme Acceso Crédito S.A. (hereinafter "Edpyme"), which comprise the statement of financial position as of December 31, 2019 and 2018, 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.

Independent Auditors' Report (continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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, 2019 and 2018, and its operations 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 31, 2020

Countersigned by:

Víctor Tanaka
Certified Public Accountant Register No. 25613

Statement of Financial Position

As of December 31, 2019 and 2018

	Note	2019 S/ (000)	2018 S/ (000)
Assets			
Cash and due from banks	3	62,583	80,108
Loan portfolio, net	4	881,526	653,009
Accounts receivable, net	5	19,816	11,239
Assets received as payment and seized, net	6	4,710	9,308
Property, furniture and equipment, net	7	12,040	11,311
Deferred income tax, net	8	199	2,730
Other assets	9	49,806	15,522
Total Assets		1,030,680	783,227
Contingent risks and commitments	15	17,345	13,793
Liabilities and Shareholders' Equity			
Other accounts payable	10	28,860	23,974
Debts and financial obligations	11	823,351	574,406
Other liabilities	9	9,650	20,264
Total Liabilities		861,861	618,644
Shareholder's Equity	12		
Capital stock		153,534	147,922
Reserves		5,564	4,345
Retained earnings		9,721	12,316
Total Shareholder's Equity		168,819	164,583
Total Liabilities and Shareholder's Equity		1,030,680	783,227
Contingent risks and commitments	15	17,345	13,793

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

Statement of Comprehensive Income

For the years ended December 31, 2019 and 2018

	Note	2019 S/ (000)	2018 S/ (000)
Interest income	16	123,387	91,225
Interest expenses	16	(58,420)	(44,003)
Gross Financial Margin		64,967	47,222
Loan loss provision, net of recovery	4(h)	(38,116)	(19,469)
Net Profit Margin		26,851	27,753
Financial service income	17	9,955	2,360
Financial service expenses	17	(1,828)	(1,349)
Net Profit Margin and Financial Service Expenses		34,978	28,764
Valuation of investments at fair value through profit or loss		38	87
Financial operating results, net	18	23,216	26,545
Foreign exchange profit, net	22.2(ii)	10,151	6,432
Operating Margin		68,383	61,828
Administrative expenses	19	(48,745)	(43,624)
Depreciation and amortization	7(a) y 9(d)	(1,585)	(1,547)
Net Operating Margin		18,053	16,657
Provision for indirect loans	4(h)	(28)	
Recovery (Provision) for doubtful debts		183	(267)
Recovery (Provisions) for seized assets, net	6(c)	4,220	(5,175)
Recovery of Provision for loan portfolio with repurchase agreement, net	9(f)	762	2,746
Operating Profit		23,190	13,961
Other income (expenses), net	20	(9,044)	3,776
Profit before Income Tax		14,146	17,737
Income tax	8(c)	(4,425)	(5,547)
Net Profit and Comprehensive Income for the Year		9,721	12,190

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

Statement of Changes in Shareholder's Equity

For the years ended December 31, 2019 and 2018

	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, 2018	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 net profit, note 12 (a)	10,866	-	-	(10,866)	-
Subscription of share capital in progress, note 12 (b)	10,000	(10,000)	-	-	-
Dividends, note 12(d)	-	-	-	(5,116)	(5,116)
Transfer to legal reserve, Note 12(c)	-	-	1,137	(1,137)	-
Balances as of December 31, 2018	147,922	-	4,345	12,316	164,583
Net profit and comprehensive income for the year	-	-	-	9,721	9,721
Total comprehensive income	-	-	-	9,721	19,721
Capitalization of profits, note 12 (a)	5,612	-	-	(5,612)	-
Dividends, note 12(d)	-	-	-	(5,485)	(5,485)
Transfer to reserves, Note 12(c)	-	-	1,219	(1,219)	-
Balances as of December 31, 2019	153,534	-	5,564	9,721	168,819

Statement of Cash Flows

For the years ended December 31, 2019 and 2018

	Note	2019	2018
Cash Flows from Operating Activities		9,721	12,190
Net Profit			
Adjustments to reconcile to the year's net profit to net cash used in operating activities			
Depreciation and amortization	7(a) and 9(d)	1,585	1,547
Expenses on property, plant and equipment removal	7(a)	6	-
Loan loss provision, net recoveries	4(h)	38,116	19,469
Provision for indirect credit	4(h)	28	-
Provision (recovery) for doubtful debts		(183)	267
Provision for assets received as payment and seized	6(c)	(4,220)	5,175
Recovery of provision for loan portfolio with repurchase agreement	9(f)	(762)	(2,746)
Deferred income tax	8	2,531	(618)
Net Changes in Assets and Liabilities			
(Net increase) Net decrease in assets			
Restricted funds		11,041	(19,217)
Loan portfolio, net		(266,661)	(225,498)
Accounts receivable, net		(8,394)	(6,840)
Assets received as payment and seized, net		8,818	(4,235)
Other assets		(34,336)	(3,120)
(Net increase) Net decrease in Liabilities			
Other accounts payable		4,886	9,748
Other liabilities		(9,852)	(4,937)
Net Cash Flows from Operating Activities		<u>(247,676)</u>	<u>(218,815))</u>
Cash flows from investment activities			
Redemption of mutual fund shares		-	3,116
Purchase of intangible assets, property, furniture and equipment	7(a) and 9(d)	(2,268)	(1,348)
Net Cash Flows from Investment Activities		<u>(2,268)</u>	<u>1,768</u>
Cash Flows from Financing Activities			
Net increase (net decrease) of debts and financial obligations		248,945	181,402
Dividends paid	12(d)	(5,485)	(5,116)
Net Cash Flows from Financing Activities		<u>243,460</u>	<u>176,286</u>
(Net decrease) net increase in cash and cash equivalents		(6,484)	(40,761)
Cash and cash equivalents at the beginning of the period		53,688	94,449
Cash and cash equivalents at the end of the period	2(p) and 3(a)	<u>47,204</u>	<u>53,688</u>

The accompanying notes are an integral part of this statement.

Notes to the Financial Statements

As of December 31, 2019 and 2018

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, 2019 and 2018), see note 12 (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, 2019 and 2018, the registered office of Edpyme is located at Av. Enrique Canaval y Moreyra No. 452, Piso 11, Urb. Santa Ana, San Isidro, Lima. As of December 31, 2019 and December 31, 2018, Edpyme, for the development of its operations, has one head office, one branch and nine special offices.

(c) Approval of Financial Statements -

The financial statements as of December 31, 2018 and for the year then ended were approved by the Annual General Shareholders' Meeting held on March 29, 2019. The financial statements as of December 31, 2019 and for the year then ended were approved by Management on March 31, 2020, 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.

Notes to the financial statements (continued)

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, 2019 and 2018. 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 –

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles in Peru applicable to financial entities, which substantially include the SBS rules, and in the absence of applicable SBS specific standards with the International Financial Reporting Standards (IFRS) issued by International Accounting Standards Board (IASB), which are officialized in Peru through resolutions issued by the Peruvian Accounting Board (hereinafter “CNC”) in force as of December 31, 2019 and 2018, see paragraph (s,1).

The information contained in these financial statements is the responsibility of Edpyme's Management, which expressly confirms that in its preparation all the principles and criteria have been applied in accordance in Peru to financial entities.

The financial statements are prepared from the accounting records kept by Edpyme in accordance with the historical cost principle. The financial statements are presented in PEN and all values are rounded to thousands of PEN (S / (000)), except when otherwise indicated.

(ii) Changes in Accounting Principles -

No accounting standards, principles or practices have been issued during 2019 that significantly affect the preparation of the reported figures of assets and liabilities, income and expenses and the disclosure of significant events in the notes to the financial statements, except for indicated in paragraph (j).

(b) Significant accounting judgments, estimates and assumptions –

The preparation of the attached financial statements requires Management to make judgments, estimates and assumptions that affect the reported figures of assets and liabilities, income and expenses, and the disclosure of significant events in the notes to the financial statements.

As of December 31, 2019 and 2018, the most significant estimates in relation to the attached financial statements correspond to the provision for doubtful loans, the provision for realizable, recovered, received as payment and seized assets; likewise, other estimates are made such as the provision of accounts receivable, the estimate of the useful life and the recoverable value of the furniture and equipment and intangibles, the assets and liabilities for deferred income tax and provisions, whose accounting criteria are described later in this note.

Notes to the financial statements (continued)

In Management's opinion, these estimates were made based on their best knowledge of the relevant facts and circumstances at the date of preparation of the financial statements; however, the final results may differ from the estimates. Edpyme Management expects that the variations, if any, will not have a significant effect on the financial statements.

(c) 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 adjusted at the exchange rate of the functional currency in force at the date of the statement of financial position, set by the SBS. 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, see note 23.2 (ii).

Non-monetary assets and liabilities acquired in foreign currency are recorded in Soles at the exchange rate on the date of acquisition.

(d) Financial Instruments –

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. Financial instruments are offset when Edpyme has the legal right to offset them and Management intends to cancel them on a net basis or to realize the asset and cancel the liability simultaneously.

The financial assets and liabilities presented in the statement of financial position include cash,, loan portfolio, accounts receivable and liabilities in general, except for taxes payable and provisions for diverse risks (presented as “Other Liabilities”, see note 9(a)). Likewise, 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.

Notes to the financial statements (continued)

(e) 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 earned. 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.

Dividends are recorded as income when declared.

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

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

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

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

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

- No repurchase Agreement

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

- Repurchase Agreement

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.

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

(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.

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.

The loan loss provision was determined following the criteria established by the SBS in force at the date of each statement of financial position and includes, in general terms, three components that are: (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.

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.

Notes to the financial statements (continued)

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 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 retail debtors, the classification is mainly made based on the delay in payments.

As of December 31, 2019, and 2018, the provision percentage for indirect credits, which can be 0, 20, 50 and 100 percent, depending on the type of credit, is determined based on the credit conversion factor.

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, transferable securities belonging to the Selective Index of the Lima Stock Exchange, 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.). The guarantees received are 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.

As of December 31, 2019, and 2018, this provision considers the types of loans and provision rates for each risk category presented in note 4 (e). Likewise, as of December 31, 2019 and 2018, the calculation of 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 December 31, 2014, the procyclical component of the provision is deactivated; which was used to constitute specific mandatory provisions.

Notes to the financial statements (continued)

The risk management due to over-indebtedness of retail portfolio 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, indirect credits are presented in liabilities, 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.

Notes to the financial statements (continued)

(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 included in the "Other assets" caption of the statement of financial position, they are recorded at acquisition cost, less accumulated amortization and accumulated amount of impairment losses on the asset, if applicable, see paragraph (k) following.

The amortization of Edpyme's limited life intangibles is calculated following the straight-line method based on its maximum useful life of five years, in accordance with SBS Resolution No. 1967-2010, see note 9 (d).

As of December 31, 2019 and 2018, Edpyme does not maintain intangibles with unlimited useful lives.

Notes to the financial statements (continued)

(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.

The Edpyme adopted the concept of "Net value of the good" defined in Memorandum No. 08-2019-VI / EAC-SBS from September 1, 2019, for the application of the Accounting Manual in relation to the profit generated by the difference between the placement and the net value of the asset, which is recognized as a deferred income in the subaccount 2901.08 "Income from placement of recovered and seizure assets".

(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 property, furniture and equipment and intangibles 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 income statement for the items of property, furniture and equipment and intangibles. 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.

In Management's opinion, there is no evidence of impairment in the value of such assets as of December 31, 2019 and 2018.

Notes to the financial statements (continued)

(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 -

The current income tax asset or liability is measured as the expected amount that is recovered from or paid to the tax authority; therefore, it is calculated based on the taxable income determined for tax purposes.

(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.

Notes to the financial statements (continued)

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.

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

(q) Dividend distribution -

The distribution of cash dividends is recognized as a liability in the financial statements in the year in which the dividends are approved by Edpyme's shareholders.

Notes to the financial statements (continued)

(r) Subsequent events -

Post-year-end events that provide additional information about Edpyme's financial situation as of the reporting date are included in the financial statements. Subsequent significant events that are not adjustment events are disclosed in notes to the financial statements.

(s) New Accounting Series Releases

(s.i) IFRS issued and effective in Peru as of December 31, 2019 -

During 2019, the Peruvian Accounting Board (hereinafter "CNC", for its Spanish acronym) issued the following resolutions, through which it made official the following rules:

- Resolution No. 001-2019-EF / 30 issued on January 11, 2019, made official the amendments to the References to the Conceptual Framework in IFRS official; amendments to IFRS 3 "Business Combinations", IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, changes in accounting estimates and errors".
- Resolution No. 002-2019-EF / 30 issued on May 24, 2019, which approved the General Business Accounting Plan, the use of which is mandatory for public and private sector entities, as appropriate, and is effective as of 1 January 2020; however, this Plan is not applicable to financial entities. The SBS establishes specific rules and procedures for the accounting record of its supervised entities.
- Resolution No. 003-2019-EF / 30 issued on September 19, 2019, which made the complete set of International Financial Reporting Standards version 2019 (IAS, IFRS, IFRIC and SIC) official, as well as the Conceptual Framework for Information Financial. The application of the versions is according to the entry into force stipulated in each specific standard.

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 2019 IFRS 16 "Leases" came into force, which replaces the following accounting standards and interpretations: IAS 17 "Leases", IFRIC 4 "Determination of whether an agreement contains a lease", SIC-15 "Operating Leases-Incentives" and SIC-27 "Evaluation of the Essence of Transactions that Adopt the Legal Form of a Lease", which has important effects on the recognition of operating leases where Edpyme is a lessee; Likewise, the SBS issued multiple letter No. 467-2019 -SBS on January 7, 2019, where it indicates the non-application of IFRS 16 for entities that are under its supervision. In this sense, as of December 31, 2019, Edpyme has not incorporated the effects of this standard or revealed any effect if said standard were adopted by SBS in the future.

Notes to the financial statements (continued)

Likewise, during 2018, IFRS 9 "Financial Instruments" came into force, replacing IAS 39 "Financial Instruments: Recognition and Measurement", which has material effects on Edpyme's financial statements; however, the SBS has not modified or adapted its Accounting Manual for Financial System Companies by this standard. In this sense, as of December 31, 2019 and 2018, the Edpyme has not reflected or disclosed any effect if these standards were adopted by the SBS in the future.

(s.ii) IFRS issued but not in force as of December 31, 2019-

- Amendments to the Conceptual Framework for Financial Information, effective for annual periods beginning on or after January 1, 2020.
- IFRS 17 - Insurance contracts, effective for periods beginning on or after January 1, 2022, requiring comparative figures to be included. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on the date it first applies IFRS 17.
- Amendments to IFRS 3 "Business Combination", in relation to the definition of business to help companies determine whether an acquired set of activities and assets in a business or not.
- Amendments to IAS 1 "Presentation of financial statements" and IAS 8 "Accounting policies, changes in accounting estimates and errors": Definition of material The new definition establishes that: The information is material if omitting, distorting or hiding it, it could be expected that influence the decisions that the main users make about the financial statements.

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 in the future through the modification of the Accounting Manual for Financial Entities or the issuance of specific standards thereon. Edpyme has not estimated the impact upon its financial statements if the standards were adopted by the SBS.

Notes to the financial statements (continued)

3. Cash and Due from Banks

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

	2019 S/ (000)	2018 S/ (000)
Cash (b)	1,275	637
Local banks and other financial entities (c)	45,929	53,051
Restricted funds (d)	15,379	26,420
Total	62,583	80,108

(b) It corresponds to the cash held by the special offices , located in Lima and provinces, for the use of their own operations.

(c) As of December 31, 2018 and 2017, Edpyme maintains its current accounts in soles 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, 2019 and 2018, mainly includes guarantee deposits for loans obtained, which are presented below:

	2019 S/ (000)	2018 S/ (000)
Guarantee for loans obtained, note 11 (b) -		
Banco Interamericano de Finanzas – BanBif	9,213	4,744
Corporación Financiera de Desarrollo – COFIDE	6,067	4,250
Banco de Crédito de Perú	-	17,325
	15,280	26,319
Others -		
Scotiabank Perú S.A.A. (e)	99	101
Total	15,379	26,420

(e) As of December 31, 2019 and 2018, it corresponds to a guarantee deposit certificate for business credit cards.

Notes to the financial statements (continued)

4. Loan Portfolio, net

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

	2019 S/ (000)	2018 S/ (000)
Direct loans		
Current loans	842,112	647,850
Refinanced loans	46,110	6,035
Past due loans	49,016	30,248
	<hr/>	<hr/>
	937,238	684,133
Plus (less)		
Accrued interest on current loans	11,614	7,412
Loan loss provision (h)	(67,326)	(38,536)
	<hr/>	<hr/>
Total	881,526	653,009
	<hr/>	<hr/>
Indirect loans, note 15 (a)	1,303	1,191
	<hr/>	<hr/>

(b) As of December 31, 2019 and 2018, 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, private use, heavy vehicle, commercial vehicles, cash loan, and conversion to NGV. 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, 2019 and 2018, the average effective annual rates for the main types of loans are as follows:

	2019 %	2018 %
Medium business	15.28	15.15
Small business	24.01	21.10
Micro business	24.91	18.60
Non-revolving consumer loan	25.69	24.50

Notes to the financial statements (continued)

- (d) As of December 31, 2019, and 2018, the direct loan portfolio under the segmentation set forth in SBS Resolution No. 11356-2008, note 2 (f) was as follows:

	2019 S/ (000)	2018 S/ (000)
Non-retail loans		
Medium business	296,593	323,698
Retail loans		
Small business	338,644	188,866
Micro business	93,896	44,817
Non-revolving consumer	208,105	126,752
Total	<u>937,238</u>	<u>684,133</u>

As of December 31, 2019, and 2018, 51 percent of the total portfolio balance consists of 3,121 clients and 268 clients, respectively.

- (e) In accordance with SBS regulations, the direct loan portfolio of Edpyme as of December 31, 2019 and 2018 was classified per risk as follows:

	2019		2018	
	<u>S/ (000)</u>	<u>%</u>	<u>S/ (000)</u>	<u>%</u>
Normal	717,518	76.6	599,309	87.6
Potential problems	117,784	12.6	32,890	4.8
Substandard	29,979	3.2	9,542	1.4
Doubtful	33,578	3.6	20,943	3.1
Loss	38,379	4.0	21,449	3.1
Total	<u>937,238</u>	<u>100.00</u>	<u>684,133</u>	<u>100.00</u>

Notes to the financial statements (continued)

- (f) As of December 31, 2019 and 2018, the Peruvian financial entities must record a loan loss provision based on the risk classification indicated in paragraph (e) above, and using the percentages specified in SBS Resolution No. 11356-2008, as detailed below:

- (i) For loans classified as “Normal”:

Types of Loans	Mandatory Rate	Generic	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.

- (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 %	CGPMRR %	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, 2019 and 2018, 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) During 2019 and 2018, Edpyme made transfers of portfolio without repurchase agreement for principal amounting to S/ 180,525,000 and S/153,619,000, respectively; these transactions of the year 2019 and 2018 generated net income of S/ 34,577,000 and S/ 54,445,000, respectively; which were recorded under “Financial Operating Result, net” note 18, in the statement of comprehensive income.

Notes to the financial statements (continued)

As of December 31, 2019 and 2018, the balance of portfolio capital transferred with a repurchase agreement of less than or equal to 10 percent amounts to S / 109,821,000 and S / 163,703,000, respectively.

As of December 31, 2019 and 2018, 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/ 1,660,000 and S/ 2,422,000 respectively, note 9 (a), according to the percentage of repurchase established in the individual contracts of 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, 2019 and 2018, Edpyme has recorded revenues for this item amounting to S/ 7,324,000 and S/ 8,740,000, respectively, under “Financial Operating Result, net” note 18, 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:

	2019 S/ (000)	2018 S/ (000)
Balance as of January 1	38,548	23,393
Provision, net recoveries	38,144	19,469
Recovery of write-offs	62	31
Sale of portfolio	(9,388)	(4,345)
Balance as of December 31 (*)	<u>67,366</u>	<u>38,548</u>

- (*) The loan loss provision balance includes provision for indirect loans for approximately S/ 40,000 and S/ 12,000 as of December 31, 2019 and 2018, which are recorded under “Other Liabilities” in the statement of financial position, note 9 (a).

In Edpyme Management’s opinion, the loan loss provision recorded as of December 31, 2019 and 2018, is in accordance with SBS regulation in force then, note 2 (f).

Notes to the financial statements (continued)

The loan portfolio as of December 31, 2019 and 2018 was graded by maturity as follows:

	2019 S/ (000)	2018 S/ (000)
Up to 3 months	478	8,276
From 3 to 6 months	4,833	5,471
From 6 months to 1 year	29,276	18,749
From 1 to 2 years	122,653	67,066
From 2 to 5 years	453,664	387,621
More than 5 years	277,318	166,702
Past due loans	49,016	30,248
	<u>937,238</u>	<u>684,133</u>

6. Accounts Receivable, net

(a) As of December 31, 2019 and 2018, this group was as follows:

	2019 S/ (000)	2018 S/ (000)
Sundry accounts receivable (b)	14,517	3,887
Income tax credit, net (j)	3,571	
Value added tax credit	1,702	7,645
Claims to third parties	140	315
Rent security deposits	54	134
Advance to personnel	18	25
	<u>20,002</u>	<u>11,608</u>
Provision for sundry accounts receivable (k)	(80)	(232)
Provision for claims to third parties (k)	(106)	(137)
	<u>19,816</u>	<u>11,239</u>

Notes to the financial statements (continued)

- (b) As of December 31, 2019 and 2018, the sundry accounts receivable was as follows:

	2019 S/ (000)	2018 S/ (000)
Exclusivity right (c)	6,688	-
Insurance commerce commission (d)	3,075	-
Credit life insurance	1,017	80
collection and collection management service, see note 4	739	591
(g)		
Result of the Punctual Payer Program (PPP) (e)	383	623
Penalty for delay in delivery of vehicles (f)	299	79
Association in participation (g)	247	230
Commission for referral of clients (h)	260	236
Vehicle repair	-	282
Placement commission for conversion credits	-	166
Others (i)	1,809	1,202
	<u>14,517</u>	<u>3,489</u>

- (c) On November 14, 2019, the contract was signed with MOK Peru S.A.C., corresponding to the medical protection service provided in the product called "Total Protection Assistance", for active clients of cash loans product provided by Edpyme; in said contract it was established that MOK Perú S.A.C. will pay an entry fee of S / 2,360,000 to Edpyme. Likewise, on December 30, 2019, the contract was signed with Crecer Seguros SA, whose objective is that Edpyme promote and offer the product called "Credit Life Insurance" to its clients and third parties, provide administrative support in the commercialization of products and premium collection service, among others; In said contract it was established that Crecer Seguros S.A. will pay an entry fee of S / 4,328,000 to Edpyme.
- (d) On September 29, 2019, the contract was signed with Quálitas Compañías de Seguros S.A., whose purpose is for Edpyme to promote, offer and market the products of Quálitas Compañías de Seguros S.A. to your customers and third parties. As of December 31, 2019, Edpyme made the purchase of policies from Quálitas Compañías de Seguros S.A for its clients who did not have a valid car insure, theses car insure were valid for 1 to 5 years. For the aforementioned, Edpyme will collect a commission for each insured client, taking into account the validity of each car insures. As of December 31, 2019, the commission was approximately S / 3,075,000, see note 9 (c).

Notes to the financial statements (continued)

- (e) As of December 31, 2019 and 2018, corresponds to the collection of results of the Punctual Payer Program (PPP), which consists of providing different benefits (loan campaigns, acquisition of a second pre-owned vehicle, policies in case of loss partial, partial theft or total theft) to customers who are affiliated to said program and are up to date in the payment of their fees. Edpyme makes a monthly payment of S / 590,000 to insurance companies to cover their clients' policies in the event of loss, partial theft or total theft, obtaining a benefit receivable corresponding to a percentage of the amount that was not used by the insurance companies to cover such claims. As described above, as of December 31, 2019 and 2018, the amount receivable from Quálitas Compañías de Seguros S.A. and Rímac Seguros y Reaseguros amounts to approximately S / 383,000 and S / 623,000, respectively, which corresponds to insurance not used by the Punctual Payer Program (PPP).
- (f) As of December 31, 2019 and 2018, Edpyme collects a penalty from dealers for the delay in delivering vehicles to its customers, since such delay may generate a default or delinquency corresponding to the payment of credit installments. granted by Edpyme to its clients.
- (g) As of December 31, 2019 and 2018, Edpyme has an association in participation agreement with Tájimo Perú SAC, in which Edpyme delivers vehicles that are to be rented or sold at the end of the rental by Tájimo Perú SAC, to At the end of the period, the distribution of the profits generated by the association in participation agreement is made. As of December 31, 2019 and 2018, the profit receivable from Tájimo Perú S.A.C. it amounts to approximately S / 247,000 and S / 230,000, respectively.
- (h) As of December 31, 2019, corresponds to the collection of commissions for client referrals to the concessionaires GM Financial del Perú S.A.C., IBR Perú S.A. and Pide Un Deseo S.A.C, for an amount of approximately S / 204,000, S / 46,000 and S / 10,000, respectively. As of December 31, 2018, it corresponded to the collection of commissions for client referrals to the concessionaire IBR Perú S.A. for an amount of approximately S / 236,000.
- (i) As of December 31, 2019, corresponds to the collection of duplicate payments to the concessionaires, notary fees, commission for issuance of a guarantee letter, early cancellation, among others. As of December 31, 2018, it corresponded to credit returns, notary expenses, commission for issuance of bond, early cancellation, among others.

Notes to the financial statements (continued)

- (j) The composition of the balance in favor of income tax is presented below:

	2019 S/ (000)	2018 S/ (000)
Income tax provision, note 8 (c)	1,894	6,165
Payments on account of income tax	(2,378)	(946)
Temporary Tax on Net Assets (ITAN)	(3,223)	(2,729)
Adjustment	136	(75)
Balance in favor determined in the Annual Affidavit of the previous year, net of returns		(1,050)
	<hr/>	<hr/>
(Balance in favor) / payable	(3,571)	1,365

6. Assets Received as Payment and Seized, net

- (a) As of December 31, 2019 and 2018, this group's balances include as follows:

	2019 S/ (000)	2018 S/ (000)
Assets received as payment and seized(b)	11,295	20,206
(-) Provisions (c)	(6,585)	(10,898)
	<hr/>	<hr/>
Total	4,710	9,308

- (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:

	2019 S/ (000)	2018 S/ (000)
Balance as of January 1	(10,898)	(5,723)
Provision recognized as an expense for the year	(10,533)	(15,293)
Reversal of provision for sale of seized assets (d)	14,753	10,118
Transfer to fixed assets	93	
	<hr/>	<hr/>
Balance as of December 31	(6,585)	(10,898)

- (d) It corresponds to the reversal of provision for seized assets sold during the 2019 and 2018 fiscal periods for a sale value of S/ /19,701,000 and S/ 18,397,000, respectively, whose costs amounted to S / 26,846,000 and S / 21,432,000, respectively; generating a net loss from the sale of foreclosed assets of approximately S / 7,145,000 and S / 3,035,000, respectively; which were recorded in the caption "Other income, net", note 20 (a), of the statement of comprehensive income.

Notes to the financial statements (continued)

7. Property, Furniture and Equipment, net

(a) This group's movement for the 2019 and 2018 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 2018	5,582	4,918	1,158	1,763	-	1,433	14,854
Additions (c)	-	633	45	535	-	42	1,255
Disposal	-	(488)	(5)	(414)	-	(6)	(913)
Balance as of December 31, 2018	<u>5,582</u>	<u>5,063</u>	<u>1,198</u>	<u>1,884</u>	<u>-</u>	<u>1,469</u>	<u>15,196</u>
Additions (c)		1,142	67	849	-	146	2,204
Disposal		(753)	(79)	(409)		(15)	(1,256)
Balance as of December 31, 2019	<u>5,582</u>	<u>5,452</u>	<u>1,186</u>	<u>2,324</u>	<u>-</u>	<u>1,600</u>	<u>16,144</u>
Accumulated Depreciation -							
Balance as of January 1 2018	-	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	<u>-</u>	<u>1,788</u>	<u>580</u>	<u>883</u>	<u>-</u>	<u>634</u>	<u>3,885</u>
Depreciation for the year		652	121	543	-	153	1,469
Disposal		(753)	(79)	(404)	-	(14)	(1,250)
Balance as of December 31, 2019	<u>-</u>	<u>1,687</u>	<u>622</u>	<u>1,022</u>	<u>-</u>	<u>773</u>	<u>4,104</u>
Net book value as of December 31, 2019	<u>5,582</u>	<u>3,765</u>	<u>564</u>	<u>1,302</u>	<u>-</u>	<u>827</u>	<u>12,040</u>
Net book value as of December 31, 2018	<u>5,582</u>	<u>3,275</u>	<u>618</u>	<u>1,001</u>	<u>-</u>	<u>835</u>	<u>11,311</u>

Notes to the financial statements (continued)

- (b) The financial entities incorporated in Peru are prohibited from giving as collateral the assets of their fixed assets.
- (c) As of December 31, 2019, Edpyme made investments mainly in rented properties (air conditioning equipment, implementation of offices, electrical services, laminates and installation for video conferencing) for S/ 1,094,000, and facilities (partitions, cameras, desks, air conditioning equipment, barbed fence) for S/ 48,000, computer equipment (servers, laptops and hard disk) for S/ 849,000, various equipment (security cameras, air conditioning equipment and water dispensers) for S/ 146,000; and furniture (chairs, furniture and shelves) for S/ 67,000. As of December 31, 2018, Edpyme made investments in installation of electrical systems and air conditioning equipment at the San Isidro head office for S/ 616,000, computer equipment (servers, computers and hard disk) for S/ 535,000, and various equipment (security cameras, banknote sorter and air conditioning equipment) for S/ 42,000.
- (d) As of December 31, 2019 and 2018, the cost for leasehold improvements amounts to S/ 2,694,000 and S/ 2,352,000, respectively, and have an accumulated depreciation of S/ 1,244,000 and S/ 1,427,000, respectively; calculated based on the relevant lease term.
- (e) As of December 31, 2019 and 2018, Edpyme maintains fully depreciated fixed assets, which are still in use for approximately S/ 650,000 and S/ 427,000 respectively.
- (f) In accordance with the policies established by Management, as of December 31, 2019 and 2018, 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, 2019 and 2018.

Deferred Income Tax, net

(a) As of December 31, 2019 and 2018, this group was as follows:

	Balances as of January 1, 2018 S/ (000)	(Debit) Credit to Income S/ (000)	Balances as of December 31, 2018 S/ (000)	(Debit) Credit to Income S/ (000)	Balances as of December 31, 2019 S/ (000)
Deferred Assets -					
Loan loss provision	2,980	(119)	2,861	1,009	3,870
Provision for seized assets	1,688	1,527	3,215	(1,276)	1,939
Provision for outstanding vacations pay	286	146	432	159	591
Leasehold improvements	319	(4)	315	(57)	258
Provision for unpaid interest	79	(20)	59	(32)	27
Other	113	25	138	315	453
Total Deferred Asset	5,465	1,555	7,020	118	7,138
Deferred Liabilities -					
Deferred charge of debts	(1,015)	(237)	(1,252)	(794)	(2,046)
Deferred charge for loan intermediation	(2,231)	(686)	(2,917)	(1,798)	(4,715)
Amortization of intangible assets	(41)	1	(40)	12	(28)
Buildings depreciation	(66)	(15)	(81)	(16)	(97)
Other				(53)	(53)
Total Deferred Liabilities	(3,353)	(937)	(4,290)	(2,649)	(6,939)
Total Deferred Assets, net	2,112	618	2,730	(2,531)	199

(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:

	2019 S/ (000)	2018 S/ (000)
Current, note 5(j)	1,894	6,165
Deferred	2,531	(618)
Total	4,425	5,547

- (d) The following is the reconciliation of the income tax rate with the effective rate of Edpyme, for the 2019 and 2018 periods:

	2019		2018	
	<u>S/ (000)</u>	<u>%</u>	<u>S/ (000)</u>	<u>%</u>
Profit before income tax	14,146	100.00	17,737	100.00
Theoretical expense	<u>(4,173)</u>	<u>(29.50)</u>	<u>(5,232)</u>	<u>(29.50)</u>
Non-deductible expenses	<u>(252)</u>	<u>(1.78)</u>	<u>(315)</u>	<u>(1.78)</u>
Income tax expense as per effective rate	<u>(4,425)</u>	<u>(31.28)</u>	<u>(5,547)</u>	<u>(31.28)</u>

9. Other Assets and Other Liabilities

- (a) As of December 31, 2019 and 2018, this group includes as follows:

	2019 S/ (000)	2018 S/ (000)
Other Assets-		
Non-Financial Instruments -		
Deferred Charges paid to dealers (b)	15,980	9,865
Prepaid Insurance (c)	29,822	3,760
Premium for purchase of portfolio	2,891	1,107
Intangible assets, net (d)	84	136
Deliveries to be paid	382	3
Other prepaid expenses	647	651
	<u>49,806</u>	<u>15,522</u>
Other Liabilities		
Financial Instruments -		
Operations in progress (e)	5,026	15,268
	<u>5,026</u>	<u>15,268</u>
Non-Financial Instruments -		
Provision for loan portfolio with repurchase agreement (f), note 4(g)	1,660	2,422
Deferred income	1,293	1,041
Provisions for indirect loans, note 4(h)	40	12
Other liabilities	1,631	1,522
	<u>4,624</u>	<u>4,996</u>
Total	<u>9,650</u>	<u>20,264</u>

Notes to the financial statements (continued)

- (b) As of December 31, 2019, 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, Consumer products, free availability and Conversions for approximately S/ 4,504,000, S/ 81,000, S/ 7,274,000, S/ 3,778,000, S/ 275,000 and S/ 68,000 respectively (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 approximately S/1,195,000 S/173,000 S/6,233,000 and S/2,264,000, respectively, as of December 31, 2018). 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, 2019 and 2018, the amount accrued from these fees amounted to S/ 12,677,000 and S/ 8,512,000 respectively, see note 18 (a).
- (c) As of December 31, 2019, corresponds to vehicle insurance contracts signed with the Insurance companies Quálitas Compañía de Seguros S.A. for S / 27,338,000, Pacifico Compañía de Seguros y Reaseguros for S / 1,548,000 and Rímac Seguros y Reaseguros for S / 936,000. As of December 31, 2018, it corresponded to vehicle insurance contracts signed with the insurance companies Pacifico Compañía de Seguros y Reaseguros for S / 1,271,000 and Rímac Seguros y Reaseguros for S / 2,489,000.
- (d) The "Intangible Assets, net" account consists of software and licenses for the use of computer, which total cost, as of December 31, 2019, amounts to approximately S/ 314,000 and its accumulated amortization amounts to approximately S/ 233,000 (totaling approximately S/ 250,000 and accumulated amortization amounting approximately to S/ 144,000 as of December 31, 2018). The amortization for the 2019 period amounts to S/ 116,000 (S/ 97,000 for 2018).
- 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.

Notes to the financial statements (continued)

As of December 31, 2019, borrowing operations in progress correspond primarily to outstanding payments to LPG gasoline suppliers for approximately S/ 1,797,000, for the GPS installation service for approximately S / 1,216,000, to Infogas dealers for approximately S / 837,000, for the driver certification service for approximately S / 353,000, for the property guarantees for approximately S / 214,000, for the compulsory insurance for traffic accidents "SOAT" for approximately S/ 202,000, among others (as of December 31, 2018, borrowing operations in progress correspond primarily to the pending disbursements of working capital loans for approximately S / 8,405,000, for collection of payments from loan portfolios sold for approximately S / 3,322,000, to Infogas dealers for approximately S / 1,325,000, LPG gasoline suppliers for approximately S / 1,164,000, for spare parts and engines for approximately S / 616,000, by the driver certification service for approximately (S / 195,000, among others).

- (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, 2019, Edpyme keeps this provision recorded for repurchase agreement with Cooperativa Pacifico, Cooperativa Abaco and Caja Municipal de Ahorro y Crédito Trujillo by S/ 241,000, S/ 1,341,000 and S/ 78,000, respectively (S/ 393,000, S/ 1,774,000, S/ 249,000 and S/ 600,000 respectively, as of December 31, 2018).

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

	2019 S/ (000)	2018 S/ (000)
Balance as of January 1	2,422	5,168
Provision for loan portfolio with repurchase agreement, net	(762)	(2,746)
Balance as of December 31	<u>1,660</u>	<u>2,422</u>

Notes to the financial statements (continued)

10. Other Accounts Payable

(a) As of December 31, 2019 and 2018, this group was as follows:

	2019 S/ (000)	2018 S/ (000)
Suppliers (c)	10,375	11,128
Other accounts payable (d)	14,227	7,890
Unpaid vacations and profit sharing	2,481	2,667
Taxes payable (e)	1,359	1,871
Special bonuses	418	418
	<u>28,860</u>	<u>23,974</u>

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

(c) As of December 31, 2019 and 2018, it corresponds largely to account payable to :

	2019 S/ (000)	2018 S/ (000)
Qualitas Compañía de Seguros S.A. (*)	3,247	-
Autoclass S.A.C. (*) y (**)	1,306	2,534
GM Financial del Perú S.A.C. (*)	834	-
Rímac Seguros y Reaseguros S.A. (**)	520	1,020
Cooperativa de Ahorro y Crédito Pacífico S.A.	319	63
Sociedad de Créditos Automotrices Perú S.A.C. (*)	238	188
GM Conversiones S.A.C	188	-
América Móvil Perú S.A.C	186	195
Almacenera el Pacífico S.A.C.	182	263
Plus Neo Motors S.A.C.	171	24
Diveimport S.A. (**)	2	1,931
Menores a S/150,000	3,182	4,910
Total	<u>10,375</u>	<u>11,128</u>

(*) As of December 31, 2019, corresponds mainly to accounts payable to Qualitas Compañía de Seguros S.A. for S / 3,247,000 corresponding to insurance premium, to Autoclass S.A.C. by S / 1,306,000 corresponding to vehicle repair and maintenance, to GM Financial del Perú S.A.C. and Sociedad de Créditos Automotrices Perú S.A.C. for S / 834,000 and S / 238,000, respectively, corresponding to brokerage commissions, among others.

(**) As of December 31, 2018, it corresponded mainly to accounts payable to Autoclass S.A.C. for S / 2,534,000 corresponding to vehicle repair and maintenance, to Diveimport S.A. by S / 1,931,000 corresponding to factoring operations, to Rímac Seguros y Reaseguros S.A. for S / 1,020,000 corresponding to punctual pay program insurance, among other.

Notes to the financial statements (continued)

(d) As of December 31, 2019 and 2018, the other accounts payable includes the following:

	2019 S/ (000)	2018 S/ (000)
Credits for disbursing to customers (*) y (**)	7,988	801
Pide1Taxi S.A.C. (*) y (**)	1,349	692
IBR Perú S.A. (*) y (**)	1,383	1,309
Originarsa Perú S.A.C. (*) y (**)	1,295	1,112
Cooperativa de Ahorro y Crédito Abaco S.A. (*) y (**)	587	533
Mapfre Perú Compañía de Seguros y Reaseguros S.A. (*) y (**)	218	740
GM Taxi S.A.C. (*)	195	-
Cooperativa de Ahorro y Crédito Pacífico S.A. (*) y (**)	40	294
Caja Municipal de Ahorro y Crédito de Trujillo S.A. (*) y (**)	27	67
Caja Rural de Ahorro y Crédito Chavín S.A.A. (**)	-	9
Caja Municipal de Ahorro y Crédito De Maynas S.A. (**)	-	1
Empresa de Transportes y Servicios Virgen de la Puerta S.A.	-	433
Empresa de Transporte y Servicios Múltiples JJ e Hijos S.A.C.	-	245
Other	1,145	1,654
Total	14,227	7,890

(*) As of December 31, 2019, corresponds mainly to credits for disbursing Edpyme clients for approximately S / 7,988,000, to Pide1Taxi S.A.C. for approximately S / 1,349,000 corresponding to reimbursements for payments to SETACA (Callao Taxi Service) and SETAME (Metropolitan Taxi Service), to IBR Peru S.A. for approximately S / 1,383,000 corresponding to the registration service of movable guarantees, to Originarsa Perú S.A. for approximately S / 1,295,000 corresponding to the collection of the last days of the month of the portfolio sold, to various entities and Credit Unions for approximately S / 849,000 corresponding to the money collected from the fees paid by the clients who are part of the portfolio sold, which are pending transfer, to Mapfre Perú Compañía de Seguros y Reaseguros SA for approximately S / 218,000 corresponding to credit life insurance, among others.

(**) As of December 31, 2018, it corresponded mainly to IBR Perú S.A. for approximately S / 1,309,000 corresponding to the registration service of movable guarantees, to Originarsa Perú S.A. for approximately S / 1,112,000 corresponding to the collection of the last days of the month of the portfolio sold, to the credits to be disbursed to Edpyme's clients for approximately S / 801,000, to Mapfre Perú Compañía de Seguros y Reaseguros S.A. for approximately S / 740,000 corresponding to credit insurance, to Pide1Taxi S.A.C. for approximately S / 692,000 corresponding to reimbursements for payments to SETACA (Callao Taxi Service) and SETAME (Metropolitan Taxi Service), to various entities and Savings and Credit Cooperatives for approximately S / 904,000 corresponding to the money collected from fees paid by customers that are part of the portfolio sold, which are pending transfer, among other.

Notes to the financial statements (continued)

(e) As of December 31, 2019 and 2018, income taxes payable include:

	2019 S/ (000)	2018 S/ (000)
Withholding of general sales tax	748	2
Pension Fund Administrators (AFP)	185	185
Fifth category income tax	176	136
Social Health Insurance (ESSALUD)	141	131
Non-domiciled income tax	74	7
Office of Pension Standardization (ONP)	24	19
Income tax payable, note 5 (j)	-	1,365
Other	11	26
Total	1,359	1,871

11. Debts and Financial Obligations

(a) As of December 31, 2019 and 2018, this group was as follows:

	2019 S/ (000)	2018 S/ (000)
By Type -		
Obligations with domestic financial entities (b)	157,616	150,122
Obligations with foreign financial entities (c)	263,283	72,783
Other debts (d)	396,168	347,605
	<u>817,067</u>	<u>570,510</u>
Interest payable	13,220	8,141
Unearned fees	(6,936)	(4,245)
Total	823,351	574,406

Notes to the financial statements (continued)

(b) As of December 31, 2019 and 2018, this group's composition was as follows:

Entity	Currency of Origin	Maturity	2019 S/(000)	2018 S/(000)
Corporación Financiera de Desarrollo - COFIDE (*) y (**)	S/	12/2023	57,091	39,897
Caja Huancayo S.A. (*)	S/	11/2021	28,992	48,374
Banco Interamericano de Finanzas - BanBif (**)	S/ and US\$	01/2021	19,370	8,657
Caja Trujillo S.A. (*)	S/	10/2021	17,335	20,038
BBVA Continental S.A	S/	01/2020	15,000	-
Fondo de Inclusión Social Energético - FISE	S/	12/2020	12,015	168
Caja Maynas S.A. (*)	S/	12/2021	7,326	7,182
FONDEMI (*)	S/	03/2020	487	3,025
Banco de Crédito del Perú (**)	\$	01/2019	-	16,865
Banco GNB	S/	02/2019	-	4,097
Banco de la Nación (*) (***)	S/	01/2020	-	1,819
Total			157,616	150,122

(*) As of December 31, 2019 and 2018, these correspond to loans with local financial institutions guaranteed with credit portfolio of Edpyme, see point (g).

(**) As of December 31, 2019 and 2018, these correspond to loans guaranteed with security deposits for approximately S/ 15,280,000 (S/ 26,319,000 as of December 31, 2018), see note 3 (d).

(***) Loan pre-canceled in May 2019

As of December 31, 2019, local financial institutions earn interest at effective annual rates ranging between 3.00 and 10.50 percent (interest at effective annual rates ranging between 4.00 and 11.95 percent, as of December 31, 2018).

(c) As of December 31, 2019 and 2018, this group's composition was as follows:

Entity	Currency of origin	Maturity	2019 S/(000)	2018 S/(000)
Nederlandse Financierings - Maatschappij Voor Ontwikkelingslanden N.V. (*)	S/	11/2024	147,845	15,442
Deg - Deutsche Investitions	US\$	09/2025	59,652	-
Proparco	US\$	03/2022	27,617	33,730
Bank IM Bistum Esseng - BIB	US\$	06/2022	19,884	23,611
Banco Occidente	US\$	09/2020	8,285	-
Total			263,283	72,783

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

Notes to the financial statements (continued)

As of December 31, 2019, they accrue interest at effective annual rates between 6.55 and 10.50 percent, (Interest at effective annual rate of 7.23 and 11.90 percent, as of December 31, 2018).

(d) As of December 31, 2019 and 2018, the "Other Debts" composition was as follows:

Other Debts / Individuals	Currency of Origin	Maturity	2019 S/(000)	2018 S/(000)
Global Climate Fund	S/	06/2023	66,441	26,854
Triodos Invesment	S/	03/2021	46,568	22,883
Micro Small and Medium	S/ and US\$	01/2022	42,810	-
SIFEM AG Acting	\$	12/2023	33,140	33,730
International Financial Corporation (**)	S/	12/2022	24,544	32,725
Bio Invesment (**)	US\$	03/2023	19,886	25,296
SEB Microfinance Fund III	S/ and US\$	05/2020	19,718	19,925
Microvest Short Duration	US\$	06/2021	18,076	30,664
Instituto de Crédito ICO	\$	10/2026	16,570	6,746
PG Impact Investments AG	US\$	06/2024	16,570	-
Responsability Financial	S/	08/2022	16,429	-
BlueOrchard	S/	03/2020	14,376	34,469
Blueorchard Microfinance	S/	03/2021	12,948	19,423
Oikocredit	S/	08/2021	10,000	15,000
SEB Microfinance Fund IV	S/	05/2021	8,379	18,248
Magallanes	S/	01/2022	7,500	-
Seb Life	\$	09/2020	6,778	6,746
SEB Microfinance Fund V	US\$	10/2020	5,083	11,806
Finethic S.A.C	S/ and US\$	10/2020	3,228	8,287
Global Microfnance Fund	S/	10/2020	3,228	4,873
SME Finance Loans	\$	05/2020	1,657	1,687
Global Financial Gawa	S/	06/2019	-	8,000
Essential Capital	US\$	07/2019	-	6,746
Global Finance Inclusion Fund	S/	05/2019	-	4,920
SEB Microfinance Fund II	S/	04/2019	-	3,289
LOC FUND II L.P (**)	S/	01/2022	-	670
			393,929	342,987
Individuals				
Sundry (*)	S/		2,239	4,618
			396,168	347,605

(*) As of December 31, 2019 and 2018, Edpyme maintains debts with individuals and directors in domestic currency, which accrues interest at effective rates ranging between 4.50 and 10.75 percent, with maturities between March 2020 and June 2024 (effective annual rates ranging between 9.00 and 12.72 percent, with maturities between January 2019 and June 2020, as of December 31, 2018).

(**) As of December 31, 2019 and 2018, they correspond to loans secured by loan portfolio of Edpyme, see paragraph (g).

Notes to the financial statements (continued)

As of December 31, 2019, foreign financial institutions accrue interest at effective annual rates ranging between 5.00 and 8.96 percent (Interest at effective annual rates between 9.00 and 13.0 percent, as of December 31, 2018).

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, 2019 and 2018, 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, 2019 and 2018, 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, 2019 and 2018, classified by maturity:

	2019 S/ (000)	2018 S/ (000)
Up to 1 months	28,061	24,586
From 1 to 3 months	24,852	25,117
From 3 months to 1 years	167,737	150,426
From 1 to 5 years	576,202	365,320
More than 5 years	20,215	5,061
	<u>817,067</u>	<u>570,510</u>

(f) During 2019, Edpyme has acquired and paid financial obligations, which have generated an interest expense of approximately S/55,934,000 (S/ 42,453,000 as of December 31, 2018) recorded under "Interest expenses" in the income statement, note 16.

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

Financing Counterparty	Item	Agreement Term	2019		2018	
			Asset Amount S/	Secured Debt S/	Asset Amount S/	Secured Debt S/
Corporación Financiera de Desarrollo -COFIDE	Agreement	6 years	57,805	57,091	60,773	39,897
Caja Huancayo S.A.	Agreement	5 years	29,611	28,992	49,714	48,374
International Financial Corporation	Agreement	5 years	25,809	24,544	34,601	32,725
Bio Invesment	Agreement	6 years	19,984	19,886	25,310	25,296
Caja Trujillo S.A.	Agreement	3 years	12,135	17,335	13,017	20,038
Caja Maynas S.A.	Agreement	5 years	5,849	7,326	6,704	7,182
FONDEMI	Agreement	Indefinite	551	487	3,810	3,025
Nederlandse Financierings - Maatschappij Voor Ontwikkelingslanden N.V.	Agreement	4 years and 6 months	-	-	19,645	15,442
Banco de la Nación	Agreement	5 years	-	-	1,956	1,819
LOCFUND II L.P.	Agreement	5 years	-	-	1,162	670
			151,744	155,661	216,692	194,468

Notes to the financial statements (continued)

12. Shareholder's Equity

(a) Capital Stock -

As of December 31, 2019 and 2018, the capital stock is represented by 15,353,410 and 14,792,174 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	
	2019	2018
Acceso Corp S.A.	99.99	99.99
Sergio Valencoso Burillo	0.01	0.01
	<u>100.00</u>	<u>100.00</u>

At the General Shareholders' Meeting held on May 29, 2019, the capitalization of freely available profits was agreed for approximately S / 5,612,000.

The General Shareholders' Meeting held on May 3, 2018, agreed to capitalization of the available profits for approximately S / 10,866,000

(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 29, 2019 and 2018, approved the legal reserve constitution for the equivalent of 10 percent of the 2018 and 2017 fiscal periods' profits, for approximately S/1,219,000 and S/ 1,137,000 respectively.

(d) Dividends -

The General Shareholders' Meeting held on March 29, 2019, agreed to distribute dividends for approximately S/ 5,485,000.

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

(e) Regulatory Net Worth -

As of December 31, 2019 and 2018, the regulatory net worth of Edpyme was determined as follows:

Notes to the financial statements (continued)

	2019 S/ (000)	2018 S/ (000)
Regulatory Net Worth - Tier 1		
Paid-in capital	153,534	147,922
Legal reserve	5,564	4,345
Net income 2019	8,700	-
Other (*)	(15,568)	(12,502)
	<hr/> 152,230	<hr/> 139,765
Regulatory Net Worth – Tier 2		
Generic provisions for loans (mandatory)	13,026	9,694
	<hr/> 13,026	<hr/> 9,694
Total Regulatory Net Worth	<hr/> 165,256	<hr/> 149,459

* As of December 31, 2019 and 2018, an amount of approximately S/ 15,567,612 and 12,502,000, respectively, was deducted from the regulatory net worth as requested by the SBS.

As of December 31, 2019, the regulatory net worth requirement for credit risk determined by Edpyme, pursuant to the legislation applicable to financial institutions, amounts to S/ 104,197,671 (S/ 82,438,171, as of December 31, 2018), while the regulatory net worth requirements for market and operational risk amount to S/ 158,956 and S/ 13,681,905 respectively (S/ 251,202 and S/ 11,422,510, respectively, as of December 31, 2018).

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, 2019 and 2018, the regulatory net worth of Edpyme represents 14.00 percent of the minimum capital requirements for the market, operational and credit risk (15.88 percent, as of December 31, 2018).

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, 2019 and 2018, Edpyme has been complying with the requirements of said resolutions.

Notes to the financial statements (continued)

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, 2019 and 2018, the adequacy percentage established by the SBS is 100 percent, thus the additional regulatory net worth requirement amounts to S/ 20,667,499 (S/ 16,420,333 as of December 31, 2018). In Management's opinion, Edpyme complies with the requirements established in the aforementioned resolutions.

As of December 31, 2019 and 2018, Edpyme maintains the following amounts in relation to risk-weighted assets and contingent loans and regulatory net worth:

	2019 S/ (000)	2018 S/ (000)
Total risk- weighted assets and loans	1,180,386	941,119
Regulatory net worth	165,256	149,459
Basic regulatory net worth	152,230	139,765
Supplementary regulatory net worth	13,026	9,694
Global regulatory capital ratio (in percentage)	14.00	15.88

13. Tax Situation

- (a) The Company is subject to the Peruvian tax regime. The income tax rate as of December 31, 2019 and 2018 was 29.5 percent on taxable income

Likewise, through the same Legislative Decree No. 1261 established the 5 percent rate for dividends and any other form of distribution of profits from a Peruvian source, which is applicable from January 1, 2017. To the accumulated results or other concepts capable of generating taxable dividends referred to in Article 24-A of the Single Ordered Text (hereinafter TUO) of the Income Tax Law, obtained between January 1, 2015 and December 31, 2016, that are part of the distribution of dividends or any other form of distribution of profits, the rate of 6.8 percent will be applied to them, except for the assumption established in subsection g) of article 24 -A of the TUO; to which the 4.1 percent rate will be applied.

Finally, according to the Ninth Final Complementary Provision of Law No. 30296, to the accumulated results or other concepts capable of generating taxable dividends, referred to in Article 24-A of the Income Tax Law, obtained until 31 December 2014 that are part of the distribution of dividends or any other form of distribution of profits will apply the rate of 4.1 percent.

- (b) Beginning in 2011, with the amendment introduced by Law No. 29645 to the Income Tax Law, it is also included as one of the cases exempt from Income Tax on interest and other gains from external credits granted to the National Public Sector.

Likewise, income from Peruvian sources is considered to be that obtained from the indirect sale of shares or participations representative of the capital of legal entities domiciled in the country. For such purposes, it must be considered that an indirect sale occurs when shares or participations representing the capital of a legal person not domiciled in the country are sold, which, in turn, is the owner - directly or through another or Legal entities - of shares or participations representing the capital of one or more legal entities domiciled in the country, provided that certain conditions established by law occur. It also defines the assumptions in which the issuer is jointly and severally liable.

Currently, the Income Tax Law establishes that an assumption of indirect transfer of shares is configured, when in any of the 12 months prior to the sale, the market value of the shares or participations of the domiciled legal person is equal to 50 per one hundred or more of the market value of the shares or participations of the non-domiciled legal person. Additionally, as a concurrent condition, it is established that in any 12-month period, shares or participations representing 10 percent or more of the capital of a non-domiciled legal person are sold.

- (c) Regarding the General Sales Tax, the interests generated by transferable securities issued through public or private offer by legal entities constituted or established in the country are not taxed; as well as the interest generated by the securities not placed by public offering, when they have been acquired through some centralized trading mechanism referred to in the Securities Market Law.
- (d) For the purpose of determining Income Tax, the transfer prices of transactions with related companies and with companies residing in non-cooperative countries or territories with low or no taxation, or with permanent subjects or establishments whose income, income or profits from said contracts are subject to a preferential tax regime, must be supported with documentation and information on the valuation methods used and the criteria considered for their determination. Based on the analysis of Edpyme's operations, Management and its internal legal advisers believe that, as a consequence of the application of these regulations, no significant contingencies will arise for Edpyme as of December 31, 2019 and 2018.

The Legislative Decree No. 1312 published on December 31, 2016, the formal obligations for entities within the scope of Transfer Pricing are modified, incorporating three new informative sworn statements; the first for a local report, the second for a master report and the third for a country report. The first term is from 2017 for operations that occurred during 2016 and the last two from 2018 for operations that occurred from 2017.

Notes to the financial statements (continued)

Through Legislative Decree No. 1381 published on August 24, 2018, the concept of “non-cooperating” countries or territories and preferential tax regimes with respect to which existing defensive measures are imposed, are incorporated into the Income Tax Law for countries and territories with low or no taxation.

- (e) 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

Notes to the financial statements (continued)

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.

It should be noted that, through Supreme Decree No. 145-2019-EF, the substantive parameters and form for the application of the general anti-avoidance rule contained in Rule XV of the Preliminary Title of the Tax Code were approved, which allowed the Full validity and application of Regulation XVI from the day after its publication (May 06, 2019).

Likewise, it specifies that the intent, gross negligence and abuse of powers referred to in the third paragraph of Article 16 of the Tax Code are not criminal in nature.

(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.
- The deduction of interest expenses for the determination of the Corporate Income Tax. In the years 2019 and 2020, the debt limit, fixed up to three times the net worth at December 31 of the previous year, will be applicable, both to loans with related parties, and to loans with third parties contracted as of September 14, 2018. As of 2021, the limit for the deduction of financial expenses will be equivalent to 30 percent of the entity's EBITDA.

Notes to the financial statements (continued)

- (v) 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 concept; reason why in many cases the accounting standards were used for their interpretation. In general terms, with the new criteria, for the purposes of determining Income Tax, it will now matter if the substantial facts have occurred for the generation of the income or expense agreed by the parties, which are not subject to a suspensive condition, in in which case the recognition will be given when it is fulfilled and the established collection or payment opportunity 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.
- (f) The Tax Authority has the power to review and, if applicable, correct the income tax calculated by Edpyme in the four years following the year of filing of the respective tax return, provided that this period has not been suspended or interrupted . The sworn declarations of income tax and general sales tax from 2015 to 2019 are subject to inspection by the Tax Authority.

Due to the possible interpretations that the Tax Authority may give to the current legal regulations, it is not possible to determine to date whether or not the revisions that are carried out will be passive for Edpyme, so any higher tax or surcharge that may result Any eventual tax reviews would be applied to the results of the year in which it is determined.

In the opinion of Management and its advisers, any eventual additional tax settlement would not be significant for Edpyme's financial statements as of December 31, 2019 and 2018.

Notes to the financial statements (continued)

14. Transactions with Related Parties

- (b) 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, 2019 and 2018, 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)
2019				
Assets				
Other assets, net (b)	-	-	7,972	-
Liabilities				
Other liabilities	-	-	1,297	-
Results				
Revenue from portfolio sale	95	-	-	-
Revenue from various services	6	146	67	6
Vehicle repair and maintenance expenses	-	4,165	-	-
Expenses for services received (b)	-	-	2,789	-
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

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

Notes to the financial statements (continued)

- (d) Certain 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, 2019, loans and other credits granted to Edpyme employees amount to S/ 532,606 (S/ 317,814 as of December 31, 2018).
- (e) The compensation of the Edpyme's key employees as of December 31, 2019 and 2018, considering all the payments received are as follows:

	2019 S/ (000)	2018 S/ (000)
Salaries	4,312	3,575
Per diem	615	383
	<u>4,927</u>	<u>3,958</u>

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

- (f) As of December 31, 2019 and 2018, there are debts and financial obligations maintained with a director for an amount of S/ 315,000 and S/ 666,000, respectively.

15. Contingent Risks and Commitments

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

	2019 S/ (000)	2018 S/ (000)
Debit Contingents		
Letter of Guarantee (b), Note 4 (a)	1,303	1,191
Liability for unused credit lines and undisbursed loans	13,507	9,652
Liability for repurchase agreement (c)	<u>2,535</u>	<u>2,950</u>
	<u>17,345</u>	<u>13,793</u>

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

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

Notes to the financial statements (continued)

As of December 31, 2019, it includes the letter of guarantee granted at the request of Autoclass S.A.C., Buena Estrella S.A.C. and Certicom, for S/ 500,000, S/ 679,000 and S/ 124,000 respectively (Autoclass S.A.C., and Buena Estrella S.A.C for S/ 500,000 and S/ 691,000, respectively, as of December 31, 2018).

- (c) It corresponds to the committed amount of the portfolio sold with repurchase agreement managed by Edpyme as of December 31, 2019 and 2018.

16. Interest Income and Expenses

This group's composition is made up as follows:

	2019 S/ (000)	2018 S/ (000)
Interest Income		
Interest and commissions on loan portfolio	122,891	90,179
Interest on funds available	496	1,046
	<hr/>	<hr/>
Total Interest Income	123,387	91,225
	<hr/>	<hr/>
Interest expenses		
Interest on Debts and Obligations with local financial entities, Note 11 (f)	(9,685)	(9,506)
Interest on Debts and Obligations with Foreign Institutions, Note 11 (f)	(11,257)	(3,907)
Interest on other debts, Note 11 (f)	(34,992)	(29,040)
Commissions and other debit charges	(2,486)	(1,550)
	<hr/>	<hr/>
Total Interest Expenses	(58,420)	(44,003)
	<hr/>	<hr/>
Gross Financial Margin	64,967	47,222
	<hr/>	<hr/>

17. Income and expenses for financial services

- (a) As of December 31, 2019 and 2018, this group's balance includes as follows:

	2019 S/ (000)	2018 S/ (000)
Financial income		
Income from indirect loans	16	14
Miscellaneous income (b)	9,939	2,572
Total	9,955	2,586
	<hr/>	<hr/>
Financial expenses		
Infogas collection fee (c)	(800)	(570)
Collection fee (d)	(534)	(528)
Demand deposit fee	(45)	(53)
Other financial services	(449)	(198)
	<hr/>	<hr/>
Total	(1,828)	(1,349)
	<hr/>	<hr/>

Notes to the financial statements (continued)

- (b) As of December 31, 2019, corresponds to the commission that the Energy Social Inclusion Fund - FISE pays Edpyme for the activation of clients to convert their vehicles to gas, for approximately S / 5,132,000, interest collection delays to clients for approximately S / 4,650,000 and collection of technical studies carried out on transportation routes for S / 157,000. As of December 31, 2018, it corresponded to the collection of default interest to clients of approximately S / 2,346,000 and to the commission that the Energy Social Inclusion Fund - FISE pays Edpyme for the activation of clients to carry out the gas conversion of their vehicles, for approximately S / 226,000.
- (c) It corresponds to the fee paid to Infogás for the collection of loan installments through payments made by taxi drivers at the time of fuel consumption.
- (d) 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.

18. Financial Operating Results, net

- (a) As of December 31, 2019 and 2018, this group's balance includes as follows:

	2019 S / (000)	2018 S / (000)
Revenue from portfolio sales, net, note 4(g)	34,577	54,445
Fee for commercialization (b)	13,460	-
Revenue from collection and recovery management of portfolio sold, note 4(g)	7,324	8,740
Right of Exclusivity (c)	5,685	-
Dealer intermediation service, Note 9(b)	(12,677)	(8,512)
Seguro (d)	(6,193)	(6,560)
Early repayment by repurchase agreement (e)	(6,150)	(8,166)
Vehicle repair and maintenance expenses	(5,484)	(9,328)
Other financial expenses, net (f)	(7,326)	(4,300)
Total	23,216	26,319

- (b) It Corresponds to the fee commercialization with Qualitas Insurance.
- (c) It corresponds to the exclusive right with Crecer Seguros and MOK, for the sale of its services to customers who have vehicles with credits provided by Edpyme.
- (d) It corresponds to the insurance of "Prompt Payer Policy" contracted with Rímac Seguros y Reaseguros with Qualitas, to cover the incidents that may occur with the vehicles subject to the loans provided by Edpyme.
- (e) 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.
- (f) It corresponds mainly to expenses of payment protection insurance, write-off expenses, vehicle recovery commission, towing expenses for vehicle seizures, among others.

Notes to the financial statements (continued)

19. Administrative Expenses:

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

	2019 S/ (000)	2018 S/ (000)
Personnel and directors expenses (b)	33,998	29,228
Services provided by third parties (c)	14,051	13,960
Taxes and contributions	696	436
Total	48,745	43,624

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

	2019 S/ (000)	2018 S/ (000)
Salaries	22,555	18,845
Bonuses, compensations and insurance	8,454	7,095
Employees' profit sharing	290	1,119
Transportation expenses	1,018	967
Directors expenses	615	383
Other personnel expenses	1,066	819
Total	33,998	29,228
Average number of employees	473	464

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

	2019 S/ (000)	2018 S/ (000)
Leasing	4,269	3,599
Notary, registry and judicial expenses	1,494	1,563
Surveillance and protection	1,067	1,383
Repair and Maintenance	1,238	1,280
Consulting	1,007	1,254
Communications	908	1,066
Advertising	1,174	830
Sundry supplies	421	450
Utilities	433	405
Professional fees	-	342
Insurance expenses	299	153
Travel expenses	177	139
Customer service	158	103
Transportation	76	71
Parking service	-	68
Other services	1,330	1,254
Total	14,051	13,960

Notes to the financial statements (continued)

20. Other Income (Expenses), net

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

	2019 S/ (000)	2018 S/ (000)
Net loss on sale of assets received as payment and seized, note 6(d)	(7,145)	(3,035)
Profit from the sale of assets held for sale (b)	28	7,330
Loss on property, plant and equipment removal	-	-
Other, net	(1,927)	(519)
Total	(9,044)	3,776

(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.

21. Financial Instrument Classification

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

Assets	2019 Financial Assets		2018 Financial Assets	
	Loans and Accounts Receivable S/ (000)	Total S/ (000)	Loans and Accounts Receivable S/ (000)	Total S/ (000)
Cash and due from banks	62,583	62,583	80,108	80,108
Investments at fair value through profit and loss				
Loan portfolio, net	881,526	881,526	653,009	653,009
Accounts receivable, net	19,816	19,816	11,239	11,239
Total	963,925	963,925	744,356	744,356

Notes to the financial statements (continued)

Liabilities	2018		2017	
	Financial Liabilities		Financial Liabilities	
	At Amortized Cost S/ (000)	Total S/ (000)	At Amortized Cost S/ (000)	Total S/ (000)
Debts and financial obligations	823,351	823,351	574,406	574,406
Other accounts payable	28,860	28,860	23,974	23,974
Other liabilities	5,026	5,026	15,268	15,268
Total	857,237	857,237	613,648	613,648

22. 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.

- 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.

(c) 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.

22.1 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, 2019 and 2018, 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 21. 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, 2019 and 2018:

- 89.12 percent and 92.41 percent, respectively, of the loan portfolio is classified in two higher levels defined by the SBS.
- 97.96 percent and 99.20 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, 2019 and 2018, the amount of guarantees related to direct loans granted by Edpyme amounts to S/ 595,745,000 and S/ 267,003,000, 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.

Notes to the financial statements (continued)

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, 2019						
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	124,074	304,734	140,135	568,943	65 %	
Potential problems	38,055	10,158	4,100	52,313	6 %	
	162,129	314,892	144,235	621,256	71 %	
Past due but not impaired loans						
Normal	85,660	49,624	13,291	148,575	17%	
Potential problems	35,246	23,235	6,990	65,471	8%	
	120,906	72,859	20,281	214,046	25%	
Impaired loans						
Substandard	8,142	11,872	9,965	29,979	3%	
Doubtful	3,602	13,860	16,116	33,578	4%	
Loss	1,814	19,057	17,508	38,379	5%	
	13,558	44,789	43,589	101,936	12%	
Gross portfolio	296,593	432,540	208,105	937,238	108%	
Less: Loan loss provision (*)	11,864	23,024	32,438	67,326	8%	
Total, net	284,729	409,516	175,667	869,912	100%	

(*)As of December 31, 2019, Edpyme maintains a balance of voluntary provisions for microenterprise loans for an amount of S/ 4,229,520.

Notes to the financial statements (continued)

Loan Portfolio Classification	As of December 31, 2018			Total S/(000)	%
	Non-Retail Loans S/(000)	Small and Micro Business Loans S/(000)	Consumer Loans S/(000)		
Neither past due nor impaired loans					
Normal	300,466	154,018	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	32,209	6,279	51,377	8%
Potential problems	4,809	21,532	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	2%
Doubtful	2,698	11,484	6,761	20,943	3%
Loss	427	8,285	12,737	21,449	3%
	4,306	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%
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.

Notes to the financial statements (continued)

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

	As of December 31, 2019				As of December 31, 2018			
	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	13,558	44,789	43,589	101,936	4,306	24,834	22,794	51,934
Preferred guarantee	15,040	53,777	-	68,817	3,817	47,525	-	51,342
Loan loss provision	1,221	11,986	18,035	31,242	390	6,002	12,976	19,368

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

	As of December 31, 2019			
	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	120,906	72,859	20,281	214,046
Total	120,906	72,859	20,281	214,046

	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

Notes to the financial statements (continued)

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

As of December 31, 2019 and 2018, 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	775,509	616,364
Arequipa	73,156	22,326
Cusco	20,488	10,725
Lambayeque	17,683	5,370
La Libertad	16,665	7,697
Piura	14,403	7,835
Ica	8,325	2,457
San Martín	2,565	1,079
Huánuco	2,394	1,046
Junín	1,940	1,163
Other	4,110	8,071
Total	937,238	684,133

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

(h) As of December 31, 2019 and 2018, the main financial instruments with credit risk exposure were distributed according to the following economic sectors:

	Loan Portfolio (*)	
	2019 S/ (000)	2018 S/ (000)
Transportation, Storage and Communications	710,971	519,487
Other non-retailers	18,162	37,894
Total exposures in economic sectors	729,133	557,381
Consumer loan exposures	208,105	126,752
Total Gross Loan Portfolio	937,238	684,133

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

22.2 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.

Notes to the financial statements (continued)

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

	2019					Non-Interest Bearing	Total
	Up to 1 month	From 1 to 3 months	From 3 to 1 year	From 1 to 5 years	More than 5 years	S/(000)	S/(000)
	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)		
Assets							
Cash and due from banks	61,308	-	-	-	-	1,275	62,583
Loan portfolio, net	3,443	6,887	41,586	563,382	266,228	-	881,526
Accounts receivable	-	-	-	-	-	19,816	19,816
Other assets	-	-	-	-	-	66,755	66,755
Total Assets	64,751	6,887	41,586	563,382	266,228	87,846	1,030,680
Liabilities							
Debts and financial obligations	41,084	24,462	166,112	571,478	20,215	-	823,351
Other accounts payable	-	-	-	-	-	28,860	28,860
Other liabilities	-	-	-	-	-	9,650	9,650
Shareholders' equity	-	-	-	-	-	168,819	168,819
Total Liabilities and Shareholder's Equity	41,084	24,462	166,112	571,478	20,215	207,329	1,030,680
Marginal gap	23,667	(17,575)	(124,526)	(8,096)	246,013	(119,483)	-
Accumulated gap	23,667	6,092	(118,434)	(126,530)	119,483	-	-

Notes to the financial statements (continued)

	2018					Non-Interest Bearing	Total
	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)	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	32,567	24,798	149,101	362,879	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	32,567	24,798	149,101	362,879	5,061	208,821	783,227
Marginal gap	35,108	(18,139)	(124,881)	91,808	161,641	(145,537)	-
Accumulated gap	35,108	16,969	(107,912)	(16,104)	145,537	-	-

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, 2019 and 2018 were as follows:

Currency	2019	
	Changes in basic points	Sensitivity to net earnings S/
Soles	+/- 50	125,208
Soles	+/- 75	187,813
Soles	+/- 100	250,417
Soles	+/- 150	375,625
US Dollars	+/- 50	4,752
US Dollars	+/- 75	7,128
US Dollars	+/- 100	9,504
US Dollars	+/- 150	14,256

Currency	2018	
	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

(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, 2019 and 2018, represents 0.97 and 0.72 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, 2019, the free market's weighted average exchange rate published by the SBS for transactions in US Dollars was S/ 3.311 per US\$ 1 for the purchase and S/ 3.317 per US\$ 1 for the sale (S/ 3.3369 and S/3.379 as of December 31, 2018, respectively). As of December 31, 2019, the exchange rate for the accounting of assets and liabilities in foreign currency set by the SBS was S/ 3.3140 per US\$ 1 (S/ 3.373 as of December 31, 2018).

Notes to the financial statements (continued)

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	4,586	5,652
Loan portfolio	66,812	81,169
Other assets	377	290
Total	71,775	87,111
Liabilities		
Debts and financial obligations	70,593	83,348
Other liabilities	703	4,508
Total Liabilities	71,296	87,856
Net position in foreign currency	479	(745)

During 2019, Edpyme has recorded a net profit of approximately S/ 10,151,000 (S/ 6,432,000 in 2018) 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 %	2019 S/ (000)	2018 S/ (000)
Devaluation -			
US Dollar	5	(79)	126
US Dollar	10	(159)	251
Revaluation -			
US Dollar	5	79	(126)
US Dollar	10	159	(251)

22.3 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, 2019 and 2018 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.

2019						
Exposure to Liquidity Risk	Up to 1 month S/(000)	More than 1 month up to 3 months S/(000)	More than 3 up to 1 year S/(000)	Over 1 year S/(000)	Non-Interest Bearing S/(000)	Total S/(000)
Liabilities						
Debts and financial obligations	41,281	24,852	167,737	596,417	-	830,287
Other accounts payable	-	-	-	-	28,860	28,860
Other liabilities	-	-	-	-	5,026	5,026
Total	41,281	24,852	167,737	596,417	33,886	864,173
2018						
Exposure to Liquidity Risk	Up to 1 month S/(000)	More than 1 month up to 3 months S/(000)	More than 3 up to 1 year S/(000)	Over 1 year S/(000)	Non-Interest Bearing S/(000)	Total S/(000)
Liabilities						
Debts and financial obligations	32,726	25,117	150,427	370,381	-	578,651
Other accounts payable	-	-	-	-	23,974	23,974
Other liabilities	-	-	-	-	15,268	15,268
Total	32,726	25,117	150,427	370,381	39,242	617,893

Below are the changes in liabilities from financing activities as of December 31, 2019 and 2018:

2019						
	Cash Flow					Balance as of December 31 S/(000)
	Balance as of January 1, 2019 S/(000)	Cash Outflows S/(000)	Cash Inflows S/(000)	Movement of Foreign Currency S/(000)	Movement of interests and commissions S/(000)	
Debts and financial obligations	574,406	(411,153)	661,759	(4,049)	2,388	823,351
Capital stock	-	(5,485)	-	-	-	5,485
Total	574,406	(416,638)	661,759	(4,049)	2,388	823,351
2018						
	Cash Flow					Balance as of December 31 S/(000)
	Balance as of January 1, 2019 S/(000)	Cash Outflows S/(000)	Cash Inflows S/(000)	Movement of Foreign Currency S/(000)	Movement of interests and commissions S/(000)	
Debts and financial obligations	393,004	(166,556)	339,947	7,504	507	574,406
Capital stock	-	(5,116)	-	-	-	5,116
Total	393,004	(171,672)	339,947	7,504	507	574,406

23. 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, 2019 and 2018.

24. 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.

25. Subsequent Events

On March 15, 2020 and March 27, 2020, Supreme Decrees No. 044-2020-PCM and No. 051-2020 PCM, respectively declared the State of National Emergency until April 12, 2020 as a result of the outbreak of COVID-19, which has been classified as a pandemic by the World Health Organization as it has expanded in more than one hundred countries of the world simultaneously.

The Peruvian Government, the Central Reserve Bank of Peru (BCRP) and the SBS are evaluating and using tools to mitigate the negative effects of this pandemic on the Peruvian economy.

As of the date of this report, Edpyme, in compliance with the Supreme Decrees indicated above, has taken the necessary measures to safeguard the health of its workers and secure its critical operational processes; in addition, Management is evaluating the impact of the measures taken by the Peruvian Government, the BCRP and the SBS on its operations and financial situation. However, given the uncertainty and the fast evolution of the circumstances explained above, including the potential actions that could be taken to contain it; It is not possible to predict the extent to which Edpyme's operations and financial results will be affected in the future, especially if this situation continues over time.

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

PAREDES, BURGA & ASOCIADOS SOC. CIVIL RESPONSABILIDAD LIMITADA

REGISTRATION: S0761

REGISTRATION DATE: 05/11/2002

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

31/03/2020

Lima, April 12, 2019

Dean

Director Secretary

Check its validity at www.ccpl.org.pe

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