

INDEPENDENT AUDITOR'S REPORT

To the Members of the Board of Directors of
Instituto de Investigaciones Socio Económicas y Tecnológicas - INSOTEC:

Opinion

We have audited the accompanying financial statements of Instituto de Investigaciones Socio Económicas y Tecnológicas - INSOTEC, which comprise the balance sheet as at December 31, 2018, and the related statements of profit and loss, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Instituto de Investigaciones Socio Económicas y Tecnológicas - INSOTEC at December 31, 2018, and of its financial performance and its cash flows for the year then ended in accordance with accounting standards and practices established by the Superintendencia of the Popular and Community-Based Economy and, in those matters not regulated by the Superintendencia, with standards and practices established by the Ecuadorian Superintendencia of Banks and the Monetary and Financial Regulation and Policy Board.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of INSOTEC in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* and the independence provisions of the Superintendencia of the Popular and Community-Based Economy and the Ecuadorian Superintendencia of Banks, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter - Basis for Accounting

Without qualifying our opinion, we draw attention to the following matters:

- As explained in Note 2, the financial statements referred to in the first paragraph have been prepared in accordance with accounting standards and practices established by the

Superintendence of the Popular and Community-Based Economy and, in those matters not regulated by the Superintendence, with standards and practices established by the Ecuadorian Superintendence of Banks and the Monetary and Financial Regulation and Policy Board, that differ from International Financial Reporting Standards - IFRS. This preparation basis was adopted to comply with regulations issued by the Superintendence of the Popular and Community-Based Economy. Therefore, the accompanying financial statements may not be suitable for other purposes.

- As explained in further detail in Note 1 to the financial statements, on June 12, 2014, through official communication No. SEPS-INFPS-DNRFPS-2014-10865, the Superintendence of the Popular and Community-Based Economy informed INSOTEC that the Institution is an entity subject to the control and oversight of this Superintendence of the Popular and Community-Based Economy with respect to its financial activities. Nevertheless, INSOTEC is not included in the list of entities controlled by the Superintendence of the Popular and Community-Based Economy. Consequently, INSOTEC has been unable to provide the information requested by the referred regulatory entity. Management of INSOTEC has sought clarification from the respective authorities with respect to the scope of this regulation. However, as of the issue date of the financial statements, no formal response has been received.

Information Other than the Financial Statements

Management is responsible for the other information. The other information comprises the Board of Directors' Report and the Annual Report, but does not include the complete financial statements and our auditor's report thereon. We expect this information to be made available after the date of this report.

Our opinion on INSOTEC's financial statements does not cover the other information and we do not express any form of assurance or conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, after reading the Board of Directors' Report and the Annual Report, we conclude that there is a material misstatement of this other information, we are required to report that fact to the Board of Directors and Management of INSOTEC.

Responsibilities of Management of the Institution for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting standards and practices established by the Superintendence of the Popular and Community-Based Economy and, in those matters not regulated by the Superintendence, with standards and practices established by the Ecuadorian Superintendence of Banks and the Monetary and Financial Regulation and Policy Board, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing INSOTEC's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Institution or to cease operations, or has no realistic alternative but to do so.

Management and the Board of Directors are responsible for overseeing INSOTEC's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Institution to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with Management of the Institution regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Translation of the financial statements into English has been made solely for the convenience of international readers

Deloitte & Touche
Quito, April 30, 2019