

# Second-Party Opinion

## Banco Pichincha Green Bond Framework



### Evaluation Summary

Sustainalytics is of the opinion that the Banco Pichincha Green Bond Framework is credible and impactful and aligns with the four core components of the Green Bond Principles 2018. This assessment is based on the following:



**USE OF PROCEEDS** The eligible categories for the use of proceeds - Renewable Energy and Transmission, Energy Efficiency, Clean and Efficient Production, Sustainable Construction, Sustainable Transport, Waste and Water Management and Recycling, and Sustainable Agriculture and Sustainable Land Use - are aligned with those recognized by the Green Bond Principles 2018. Sustainalytics considers that projects in these eligible categories will lead to positive environmental impacts and advance the UN Sustainable Development Goals, specifically SDGs 6, 7, 9, 11, 12 and 15.



**PROJECT EVALUATION / SELECTION** Banco Pichincha's internal process in evaluating and selecting projects includes identification of potential projects, review by the Sustainable Development team, and approval by the Strategy Committee. Sustainalytics considers the project selection process in line with market practice.



**MANAGEMENT OF PROCEEDS** Banco Pichincha Ecuador's treasury team will manage green bond proceeds and has committed to holding unallocated proceeds in the Bank's account with the Central Bank of Ecuador. Sustainalytics considers this to be in line with market practice.



**REPORTING** Banco Pichincha intends to report allocation of proceeds on its website on an annual basis until full allocation. In addition, Banco Pichincha Ecuador S.A. is committed to reporting on relevant impact metrics. Sustainalytics views Banco Pichincha's allocation and impact reporting as aligned with market practice.

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<b>Evaluation date</b>	May 29, 2020
<b>Issuer Location</b>	Quito, Ecuador

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## Introduction

Banco Pichincha Ecuador S.A. (“Banco Pichincha”, or the “Bank”) is Ecuador’s largest private bank by capitalization and number of depositors, with USD 4 billion in deposits and over 200 branches across the country. Banco Pichincha provides a variety of banking products and financial services to individual and corporate clients.

Banco Pichincha has developed the Banco Pichincha Green Bond Framework (the “Framework”) under which it intends to issue green bonds and use the proceeds to finance and/or refinance, in whole or in part, existing and/or future projects that advance a number of environmental objectives and support Ecuador’s National Development Plan. The Framework defines eligibility criteria in seven areas:

1. Renewable Energy and Transmission
2. Energy Efficiency
3. Clean and Efficient Production
4. Sustainable Construction
5. Sustainable Transport
6. Waste and Water Management and Recycling
7. Sustainable Agriculture and Sustainable Land Use

Banco Pichincha engaged Sustainalytics to review the Banco Pichincha Green Bond Framework, dated May 2020, and provide a second-party opinion on the Framework’s environmental credentials and its alignment with the Green Bond Principles 2018 (GBP).<sup>1</sup> This Framework has been published in a separate document.<sup>2</sup> The Bank first issued a bond under the Framework in December 2019.

### Scope of work and limitations of Sustainalytics Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent<sup>3</sup> opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the ICMA Green Bond Principles 2018
- The credibility and anticipated positive impacts of the use of proceeds
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.3, which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of Banco Pichincha’s management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. Banco Pichincha representatives have confirmed (1) they understand it is the sole responsibility of Banco Pichincha to ensure that the information provided is complete, accurate or up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics’ opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and Banco Pichincha.

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<sup>1</sup> The Green Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>.

<sup>2</sup> The Banco Pichincha Green Bond Framework is available on Banco Pichincha Ecuador S.A.’s website at: <https://www.pichincha.com/portal/Informacion/Transparencia/Bonos-verdes>

<sup>3</sup> When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

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Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner.

In addition, the Second-Party Opinion opines on the intended allocation of proceeds but does not guarantee the realised allocation of the bond proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that Banco Pichincha has made available to Sustainalytics for the purpose of this SPO.

## Sustainalytics' Opinion

### Section 1: Sustainalytics' Opinion on the Banco Pichincha Green Bond Framework

Sustainalytics is of the opinion that the Banco Pichincha Green Bond Framework is credible and impactful, and aligns with the four core components of the GBP. Sustainalytics highlights the following elements of Banco Pichincha's Green Bond Framework:

- Use of Proceeds:
  - The eligible categories –, Renewable Energy and Transmission, Energy Efficiency, Clean and Efficient Production, Sustainable Construction, Sustainable Transport, Waste and Water Management and Recycling, and Sustainable Agriculture and Sustainable Land Use – are aligned with those recognized by the GBP 2018.
  - The Framework's investments in renewable energy and transmission are in line with those of Objective 3, of Pillar 1 of Ecuador's National Development Plan.<sup>4</sup> Sustainalytics views positively the classes of projects which are eligible for financing, considering them to be in line with market practice, and in particular highlighting the following:
    - For geothermal power, the Bank has disclosed its intention to select projects with direct emissions of less than 100gCO<sub>2</sub>/kWh, which is in line with market practice.
    - Biomass feedstocks will be sourced from forestry waste products, and biogas will be landfill gas<sup>5</sup> or produced by anaerobic digestion; Sustainalytics considers these criteria to provide reasonable assurance that the projects are in line with a low-carbon trajectory for the electricity sector.
    - Transmission assets may include those that transmit renewable energy, as well as investments that assist in the monitoring and integration of renewable generation.
  - Banco Pichincha aims to finance a variety of investments that increase energy efficiency, including in industrial processes, buildings, and public lighting. Sustainalytics views positively that the Framework has specified a 20% threshold for improvement programmes, alternatively describing specific technology that is eligible, such as that certified to high levels of Energy Star or LED lighting systems. Sustainalytics further highlights that the Bank excludes financing of fossil fuel-powered technology.
  - Within the area of Clean and Efficient Production, the Bank intends to make investments that provide greenhouse gas emissions or water use reductions. Sustainalytics notes positively that quantitative thresholds have been established.

<sup>4</sup> The National Development Plan of Ecuador for 2017-2021 outlines the country's strategy towards the development of a social, solidarity and ecological economy. Objective 3 describes how the country will advance low-carbon energy sources.

<sup>5</sup> While Sustainalytics views best practice in the green bond market to restrict eligibility to decommissioned landfills, the inclusion of gas sourced from operating landfill facilities is viewed positively in the context of Ecuador's waste management systems as such investments are considered to be a positive step forward to improving the country's overall waste management capability. The Climate Bonds Initiative include this consideration in their standard for waste management, see: <https://www.climatebonds.net/files/files/Waste%20Management%20Background%20Paper%282%29.pdf>

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- The Bank's Sustainable Construction investments will be focused on buildings with recognized certifications. Sustainalytics views LEED, BREEAM, and EDGE certification as credible and the selected minimum levels of LEED Gold and EDGE Certified to be aligned with market practice.<sup>6</sup> Refer to Appendix 1 for Sustainalytics' overview of reference green building schemes.
- The Framework defines as eligible a spectrum of transport sector investments, including public and private vehicle fleets, infrastructure, and supporting expenditures. Sustainalytics highlights the Bank's intent to focus on the transition zero-emissions transportation systems.
  - The Framework includes as an eligible project acquisition of vehicles and infrastructure investments for zero-emissions public transit, which is aligned with market practice.
  - Sustainalytics notes that, in addition to zero-direct emissions vehicles, the Framework allows for the financing of hybrid vehicles, and that the inclusion of these assets without further qualification is not considered to be fully aligned with market practice.<sup>7</sup> Sustainalytics has reviewed the models of vehicles which have, to date, been financed, and notes that while they have emissions profiles in excess of the 75 gCO<sub>2</sub>/p-km threshold, that the majority of these vehicles do not diverge drastically from this level,<sup>8</sup> and as such this is not considered to be a significant limitation to the Framework.
- As it relates to waste management projects, including solid waste, liquid waste, and recyclables, the Framework defines a process by which projects are reviewed on an individual basis to ensure substantive positive environmental impacts. This category will include projects that advance nature-based solutions for stormwater management and that provide wastewater treatment, as well as recycling and composting projects.
- Within the area of agriculture and land use, the Bank may finance efficient irrigation projects (which lead to at least 15% water savings), certified agriculture programmes, and sustainable forest management and reforestation projects. Refer to Appendices 2 & 3 for Sustainalytics' overview of reference Agricultural and Forestry certification schemes.
  - Sustainalytics notes that, for agriculture, organic production as well as that certified by RSB and Bonsucro are eligible, and views positively these credentials. The Framework also allows for projects participating in the Global GAP scheme; Sustainalytics recognizes the positive intent of this certification, while noting that it does not necessarily provide guaranteed minimum levels of impact and therefore considers its use to be a minor limitation to the Framework.
  - Sustainalytics notes that it is accepted practice within the green bond market to rely upon certification, such as FSC and PEFC, for sustainable forestry projects, and considers the lack of requirement in this area to be a limitation to the Framework.
- Sustainalytics views positively that the Bank has implemented exclusionary criteria, which provides further reassurance that selected projects will deliver net-positive impacts.
- Project Evaluation and Selection:
  - The Framework defines an approach from project identification and approval based on a series of sequential steps, beginning at the relevant Business Unit, with subsequent review and approval by the Bank's Sustainable Development team, with consideration of the Use of Proceeds, exclusionary criteria, and social and environmental risks. The Bank's Strategy Committee, which includes representatives from the Sustainable Development, Credit, Risk, Finance, and Treasury teams, is ultimately responsible for the approval of projects,
  - Based on the formalized process established, including signoff by a cross-departmental committee, Sustainalytics considers this process to be in line with market practice.
- Management of Proceeds:
  - The Bank's Treasury will manage the proceeds of its green bonds. Pending allocation to eligible projects, the proceeds will be held in the Bank's account with the Central Bank of Ecuador; Banco Pichincha commits to ensuring that the funds in this account exceed at all times the balance of unallocated proceeds.

<sup>6</sup> Sustainalytics recognizes that BREEAM Very Good is considered to be in line with market practice in some contexts, while in others BREEAM Excellent is preferred. In any case, Sustainalytics encourages the selection of BREEAM buildings that perform well within the Energy category

<sup>7</sup> Taking guidance from the Climate Bonds Initiative and the EU Technical Expert Group, Sustainalytics considers an emissions threshold of approximately 50-75 gCO<sub>2</sub> per passenger kilometre to be aligned with a credible decarbonization trajectory.

<sup>8</sup> The most common models represented in the lending portfolio have emissions which Sustainalytics calculate to be approximately 90 gCO<sub>2</sub> per passenger kilometre.

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- Banco Pichincha has disclosed that it intends to fully allocate its bonds within one year of issuance.
- Based on the defined management approach and the disclosures around allocation timeframes, Sustainalytics considers this process to be in line with market practice.
- Reporting:
  - The Bank will produce annual allocation and impact reporting, within its Sustainability Report.
    - Allocation reporting will include the total amount disbursed, the number of loans granted, and the amount allocated to each category.
    - Impact reporting will include relevant quantitative metrics, aggregated to the category level. Sustainalytics highlights that the Framework discloses impact and outcome metrics across all the eligibility categories.
  - Based on the commitment to allocation and impact reporting, Sustainalytics considers this process to be in line with market practice.

### Alignment with Green Bond Principles 2018

Sustainalytics has determined that the Banco Pichincha Green Bond Framework aligns to the four core components of the GBP. For detailed information please refer to Appendix 4: Green Bond/Green Bond Programme External Review Form.

## Section 2: Sustainability Strategy of Banco Pichincha

### Contribution of framework to Banco Pichincha Ecuador S.A.'s sustainability strategy

Sustainalytics is of the opinion that Banco Pichincha demonstrates a strong commitment to sustainability through its stated commitment to the "BIO" concept, described by the phrase "a bank that gives life". This approach is focused on providing environmentally impactful financing across three pillars: (i) BIO efficiency in the consumption of natural resources, and culture of environmental care and control, (ii) BIO management based on environmental and social protection for the organization, clients and suppliers, (iii) BIO products - credits and services for clients with a sustainable lifestyle and business.<sup>9</sup>

In line with its sustainability strategy, Banco Pichincha's BIO credits are available for commercial, corporate, business, SME, microfinance and individuals segments, destined for projects covering energy efficiency, sustainable construction, sustainable agriculture or sustainable transport.<sup>9</sup> Additionally, the Bank offers non-financial BIO products that provide training, environmental technical assistance and financial support for sustainable certifications to clients.<sup>9</sup> In 2019, the Bank allocated 1% of its portfolio to BIO credits totalling USD 94.97 mn.<sup>9</sup> Sustainable agriculture represented 81.38% of BIO credits, followed by sustainable construction 16.52%, sustainable transport 1.91%, and energy efficiency 0.18%.

Sustainalytics is of the opinion that the Banco Pichincha Green Bond Framework is aligned with the company's overall sustainability strategy, and that the allocation of proceeds raised by green bonds will further the Company's action on its key environmental priorities. While noting positively that the Bank reports on the share of its financing directed to BIO areas, Sustainalytics encourages the establishment of quantitative, time-bound targets for sustainable financing.

### Well positioned to address common environmental and social risks associated with the projects

The eligible projects defined by the Framework are anticipated to have overall positive environmental and social impact. However, Sustainalytics is aware that as with any undertaking, such eligible projects could lead to negative environmental and social outcomes if risks are not well-managed. Some key environmental and social risks could include biodiversity loss, worker health and safety, and pollution issues associated with agriculture, natural resource management, and infrastructure. Sustainalytics considers that the following policies and procedures which Banco Pichincha has put in place will help mitigate these risks:

- Banco Pichincha's Responsible Finance strategy states that the bank intends to further the: (i) implementation of initiatives to offer services and products with environmental criteria, (ii) evaluation, management and minimization of clients' socio-environmental risks, and (iii) environmental awareness among stakeholders, including customers and credit holders, so that they can carry out their economic activities in a sustainable manner.<sup>2</sup>
- Since 2015, the Bank has implemented an Environmental and Social Risk Management System (ESRMS) to assess the associated risks of clients in the credit process.<sup>9</sup> The ESRMS evaluates

<sup>9</sup> Banco Pichincha, "Annual Report and Sustainability Report 2019", (2020), at: [https://www.pichincha.com/portal/Portals/0/Transparencia/Memorias\\_ingles\\_2019\\_BP.pdf](https://www.pichincha.com/portal/Portals/0/Transparencia/Memorias_ingles_2019_BP.pdf)

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compliance with environmental legislation, appropriate licenses, and implementation of good environmental practices.

- For 2020, the Bank has set an action plan to integrate the IFC Performance Standards with the existing ESRMS to improve diagnosis of governance, process, efficiency and monitoring.<sup>9</sup>
- Banco Pichincha is a signatory of: (i) the UN Global Compact and is committed to incorporating principles to ensure environmental and labour standards,<sup>10</sup> (ii) United Nations Environment Program Finance initiative (UNEP FI), (iii) Ecuadorian Consortium for Social Responsibility, and (iv) Principles of Responsible Banking.<sup>9</sup>
- In 2019, the Bank signed a commitment letter with the objective of joining the Core Team of the Carbon Financial Accounting Platform (PCAF), and to develop a global carbon accounting standard for finance.<sup>9</sup>
- Banco Pichincha's Integrated Management System for Safety, Health and Environment (SHE) is aligned and complies with ISO 14001 and ISO 45001 standards.

Based on these policies, standards and assessments, Sustainalytics is of the opinion that Banco Pichincha has implemented sufficient measures and is well positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories.

### Section 3: Impact of Use of Proceeds

All seven use of proceeds categories are aligned with those recognized by the GBP. Sustainalytics has focused below on how the impact is specifically relevant in the local context.

#### Renewable Energy and Transmission in Ecuador

Renewable energy accounts for 78.48% of the total electricity generation of Ecuador in 2020,<sup>11</sup> up from 57.05% in 2008.<sup>12</sup> This increase resulted in a 42.11% reduction in CO<sub>2</sub> emissions from electricity generation between 2011 and 2018.<sup>13</sup> The main renewable energy source is hydropower, which accounts for 76.68% of the electricity mix, followed by biomass (1.30%), wind (0.26%), biogas (0.13%) and solar (0.11%).<sup>11</sup> Ecuador's annual consumption of electricity has grown at an average annual rate of 5.72% over the 10-year period preceding 2018.<sup>14</sup> During this same period, the rate of access to electricity grew from 93.80% to 97.33%,<sup>15</sup> mainly by focusing on electrification of rural and marginal urban areas.<sup>16</sup> Energy loss on transmission and distribution lines also decreased to 11.40%,<sup>12</sup> approaching the global average of 8.25%.<sup>17</sup>

Geography, infrastructure, and a reliance on hydropower make Ecuador's electricity-generation mix particularly vulnerable to the impacts of climate change. Extreme events and weather variability could lead to a 27% reduction in electricity output from the largest hydropower plants in Ecuador.<sup>18</sup> This highlights the importance of financing non-conventional renewable energy sources<sup>19</sup> for electricity generation in order to both continue to progress towards decarbonization, as well as to increase resiliency. The Bank's focus on supporting non-conventional energy projects and the expansion of the electricity grid is aligned with Ecuador's aim to achieve 88% of its electricity supply generation from clean and renewable sources by 2027.<sup>12</sup> The increase of electrification and share of renewable energy sources are framed within the National Electricity Master Plan,<sup>12</sup> National Development Plan (NDP),<sup>20</sup> and Ecuador's commitment to reduce greenhouse gas (GHG) emissions made through the nationally determined contribution (NDC) submitted to the UNFCCC.<sup>21</sup>

<sup>10</sup> Banco Pichincha, "Derechos humanos", at: <https://www.pichincha.com/portal/Informacion/Desarrollo-sostenible/Derechos-humanos>

<sup>11</sup> ARCONEL, "Balance Nacional de Energía Eléctrica", at: <https://www.regulacionelectrica.gob.ec/balance-nacional/>

<sup>12</sup> MERNNR, "Plan Maestro de Electricidad", (2020), at: <https://www.recursosyenergia.gob.ec/plan-maestro-de-electricidad/>

<sup>13</sup> ARCONEL, "Estadística Anual y Multianual del Sector Eléctrico Ecuatoriano 2018", (2019), at: <https://www.regulacionelectrica.gob.ec/wp-content/uploads/downloads/2019/08/Estad%C3%ADsticaAnualMultianual2018.pdf>

<sup>14</sup> CEPAL, "Estadísticas e Indicadores Ambientales. Producción y consumo de energía de recursos renovables y no renovables. Consumo de energía eléctrica", at: [https://estadisticas.cepal.org/cepalstat/tabulador/ConsultaIntegradaProc\\_HTML.asp](https://estadisticas.cepal.org/cepalstat/tabulador/ConsultaIntegradaProc_HTML.asp)

<sup>15</sup> ARCONEL, "Cobertura Anual del Servicio", at: <https://www.regulacionelectrica.gob.ec/produccion-anual-2/>

<sup>16</sup> IDB, "Ecuador y el impacto en el aumento de su cobertura eléctrica", (2020), at: <https://blogs.iadb.org/energia/es/ecuador-y-el-impacto-en-el-aumento-de-su-cobertura-electrica/>

<sup>17</sup> WBG, "Electric power transmission and distribution losses (% of output)", at: <https://data.worldbank.org/indicator/EG.ELC.LOSS.ZS>

<sup>18</sup> MAE, "MAE contribuye al cambio de matriz energética con proyecto 'Análisis de la vulnerabilidad de centrales hidroeléctricas emblemáticas ante los efectos del cambio climático'", at: <https://www.ambiente.gob.ec/mae-contribuye-al-cambio-de-matriz-energetica-con-proyecto-analisis-de-la-vulnerabilidad-de-centrales-hidroelectricas-emblematicas-ante-los-efectos-del-cambio-climatico/>

<sup>19</sup> In Banco Pichincha's Framework 'non-conventional renewable energy sources' refer only to solar, wind, geothermal, biomass, biogas and exclude hydropower.

<sup>20</sup> SENPLADES, "Plan Nacional de Desarrollo 2017-2021-Toda una Vida", (2017), at: [https://www.planificacion.gob.ec/wp-content/uploads/downloads/2017/10/PNBV-26-OCT-FINAL\\_0K.compressed1.pdf](https://www.planificacion.gob.ec/wp-content/uploads/downloads/2017/10/PNBV-26-OCT-FINAL_0K.compressed1.pdf)

<sup>21</sup> UNDP-NDC SP, "Ecuador", at: <https://www.ndcs.undp.org/content/ndc-support-programme/en/home/our-work/geographic/latin-america-and-caribbean/ecuador.html>

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Sustainalytics is of the opinion that Banco Pichincha's financing of renewable energy projects and transmission lines through the Framework can assist Ecuador in achieving GHG targets of the Paris commitments, expansion of electrical supply, improving resiliency and reliability of the electricity generation and distribution infrastructure.

### The Role of the Green Bond on Ecuador's National Development Plan

The National Development Plan of Ecuador for 2017-2021 outlines the country's strategy towards the development of a social, solidarity and ecological economy, based on 3 pillars: (i) rights for everyone for life, (ii) economy at the service of society, and (iii) more society, better State.

Sustainalytics has summarized below how Banco Pichincha's Framework is aligned with the NDP, in particular with Objective 3: Guarantee the rights of nature for current and future generations, Objective 5: Boost productivity and competitiveness for sustainable economic growth in a redistributive and supportive way, and Objective 6: Develop productive and environmental capacities to achieve food sovereignty and rural Good Living.<sup>20</sup>

#### *Energy Efficiency*

The National Plan for Energy Efficiency (NPEE) is the sectoral instrument which details the pathway to achieve the mandate of the NDP with regards to energy efficiency. The industrial sector consumes 18% of the Country's energy production; the implementation of the NPEE will save 29.9 mBOP<sup>22</sup> by 2035.<sup>23</sup> Residential and commercial buildings as well as street lighting account for 18% of energy consumption; the NPEE aims to save 88.8 mBOP by 2035 by increasing efficiency in these sectors.<sup>23</sup> The Organic Law for Energy Efficiency was promulgated to enforce the targets set by the NDP and NPEE. The objective of the law is to promote the efficient, rational, and sustainable use of energy to build a culture of environmental sustainability and energy efficiency.<sup>24</sup> In particular, the law calls on the different sectors of the economy to implement energy efficiency actions through the acquisition of new technologies, optimization and rationalization of energy use, and it established incentive mechanisms like preferential financing conditions for energy efficiency projects.<sup>24</sup>

#### *Clean and Efficient Production*

An evaluation by the Ecuadorian Centre for Resource Efficiency (ECRE) defined efficiency improvement targets for 2 priority industries. This study projected that the textile industry can reduce water consumption by 20% and chemical inputs by 15% by implementing better processes and reutilization. Furthermore, companies in the leather manufacturing industry can achieve 38% and 30% improvements on these same indicators by improving processes and investment in more efficient machinery and equipment.<sup>25</sup> Finally, as part of the First Agreement for Cleaner Production, a partnership between the food industry and the ECRE, achieved 31.9% water consumption reduction and 4,933.97 tonnes CO<sub>2</sub>e emissions avoided in the first year, with 11 participating companies.<sup>26</sup>

#### *Sustainable Construction*

Infrastructure and commercial and residential buildings represent 8.1% of CO<sub>2</sub>e emissions in Ecuador.<sup>27</sup> The NDP set the goal to provide housing for everyone by 2021 and transition to sustainable, resilient construction.<sup>20</sup> Investments in sustainable construction, and specifically the financing of energy-efficient buildings, have the potential to advance these objectives.

#### *Sustainable Transport*

The transport sector is responsible for 41.67% of national CO<sub>2</sub> emissions.<sup>28</sup> For the last six decades, Ecuador has maintained a blanket fuel subsidy system, which served to encourage the use of fossil fuels in private vehicles; the government began liberalizing this market in 2019. In terms of transport mode share, public transport serves 82% of the population, followed by 11% who uses private vehicles, and 3% who travel primarily by taxi.<sup>29</sup> It is in this context that Ecuador is preparing its National Low Carbon Urban Mobility Plan, which will define the pathway to low carbon mobility in urban areas, with the goal of achieving considerable reduction of

<sup>22</sup> Million barrel of oil equivalent

<sup>23</sup> MEER, "Plan Nacional de Eficiencia Energética 2016-2035", (2017), at: <https://www.cnelep.gob.ec/plan-nacional-eficiencia-energetica/>

<sup>24</sup> Republic of Ecuador, "Organic Law for Energy Efficiency", (2019), at: <https://www.rekursosyenergia.gob.ec/wp-content/uploads/downloads/2019/03/Ley-Eficiencia-Energe%CC%81tica.pdf>

<sup>25</sup> CEER, "Evaluaciones de Eficiencia de Recursos y Producción más Limpia en 24 Empresas a Nivel Nacional", at: <http://ceer.ec/index.php/2016/08/22/evaluaciones-de-eficiencia-de-recursos-y-produccion-mas-limpia-en-24-empresas-a-nivel-nacional/>

<sup>26</sup> MIPRO, "Primer Acuerdo de Producción más Limpia de Ecuador - Sector Alimentos", (2018), at: <http://ceer.ec/wp-content/uploads/2019/06/Resultados-del-Primer-Acuerdo-de-Producci%C3%B3n-m%C3%A1s-Limpia-de-Ecuador.pdf>

<sup>27</sup> Worldometer, "Ecuador CO2 Emissions", at: <https://www.worldometers.info/co2-emissions/ecuador-co2-emissions/>

<sup>28</sup> WBG, "CO2 emissions from transport (% of total fuel combustion) - Ecuador", at: <https://data.worldbank.org/indicator/EN.CO2.TRAN.ZS?locations=EC>

<sup>29</sup> MTOP, "Política Nacional de Movilidad Urbana Sostenible", at: <https://www.obraspublicas.gob.ec/politica-nacional-de-movilidad-urbana-sostenible-2/>

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greenhouse gases emissions, while maintaining levels of equity and accessibility.<sup>30</sup> Considering these objectives, as well as the overall high level of transit use, investments in mass transit vehicles and infrastructure have the potential to be highly impactful with the Ecuadorian context.

### *Waste and Water Management and Recycling*

Waste represents 5.61% of Ecuador's national GHG emissions.<sup>31</sup> The NDP sets 3 targets with respect to waste and water management and recycling by 2021: (i) increase proper disposal of non-hazardous solid waste from 70.3% to 80%, (ii) increase from 17% to 35% recycled solid waste in relation to total solid waste generated, and (iii) increase the percentage of waste water with proper treatment. The investment areas of Banco Pichincha's Framework have the potential to support both these specific goals, as well as the mitigation of greenhouse gases from this sector.

### *Sustainable Agriculture and Sustainable Land Use*

Agriculture and land use, land-use change, and forestry (LULUCF) represent 43.52% of Ecuador's GHG emissions.<sup>32</sup> The Country's NDC sets action guidelines to reduce GHG emissions from the agriculture and LULUCF sectors to achieve commitments to limit global warming to 1.5° C compared to pre-industrial levels.<sup>32</sup> The NDC is aligned with the goals and initiatives set by the NDP for 2021 with respect to agriculture and land management: (i) reduce the expansion of the urban and agricultural frontier, (ii) increase the national agricultural productivity index from 98.9 to 112, and (iii) increase access to irrigation by 760,473 ha. to 826 695 ha.

Ecuador has launched three national programs to promote sustainable agriculture and land use: (i) Great National Agricultural *Minga*<sup>33</sup> which is an agricultural modernization strategy that aims to improve employment, inclusion and innovation, productive diversification and productivity enhancement in the rural areas, (ii) Regreening the Country to reverse forest cover loss and forest degradation, strengthen sustainable development, conservation, bioeconomy and reforestation, and (iii) Forest-Partner and Mangrove-Partner for forests and mangrove ecosystems conservation through direct economic incentives to indigenous and local communities.<sup>34</sup> In partnership with the UNDP, Ecuador has carried out the project PROAmazonia which aims to reduce 15 tonnes of CO<sub>2</sub>e emissions between 2016 and 2025 through conservation, sustainable forest management and crop optimization to reduce pressure on Amazonian forest.<sup>35</sup> Ecuador also has worked toward sustainable palm oil production with the implementation of the Inter-institutional Committee for the Monitoring of Sustainable Palm, which supports small producers from the Amazon region with a focus on environmental, social and economic sustainability.<sup>35</sup>

Overall, Sustainalytics is of the opinion that Banco Pichincha's framework can enhance Ecuador's private and public institutions' ability to implement national sustainability strategies, achieve goals, and support the social and economic development of the country in accordance with the NDP.

### **Alignment with/contribution to SDGs**

The Sustainable Development Goals (SDGs) were set in September 2015 and form an agenda for achieving sustainable development by the year 2030. This green bond advances the following SDG goals and targets:

<b>Use of Proceeds Category</b>	<b>SDG</b>	<b>SDG target</b>
Renewable Energy and Transmission	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
Energy Efficiency	7. Affordable and Clean Energy	7.3 By 2030, double the global rate of improvement in energy efficiency
Clean and Efficient Production	9. Industry, Innovation and Infrastructure	9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all

<sup>30</sup> Euroclima+, "Ecuador: movilidad baja en carbón", at: <http://euroclimaplus.org/movilidadurbana/item/212-nump-ecuador>

<sup>31</sup> UNFCCC, "Emissions Summary for Ecuador", at: [https://di.unfccc.int/ghg\\_profiles/nonAnnexOne/ECU/ECU\\_ghg\\_profile.pdf](https://di.unfccc.int/ghg_profiles/nonAnnexOne/ECU/ECU_ghg_profile.pdf)

<sup>32</sup> Republic of Ecuador, "Primera Contribución Determinada a Nivel Nacional para el Acuerdo de París bajo la Convención Marco de Naciones Unidas sobre Cambio Climático", (2019), at:

<https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Ecuador%20First/Primera%20NDC%20Ecuador.pdf>

<sup>33</sup> A concept of community work/voluntary collective labor for purposes of social utility and community infrastructure projects on Andean cultures

<sup>34</sup> INABIO, "7: Agricultura sostenible", (2019) at: <http://inabio.biodiversidad.gob.ec/2019/01/30/7-agricultura-sostenible/>

<sup>35</sup> UNDP, "Ecuador avanza en la conservación y la producción sostenible, libre de deforestación", (2019) at:

## Banco Pichincha Green Bond Framework

		countries taking action in accordance with their respective capabilities
Sustainable Construction	11. Sustainable Cities and Communities	11.6 By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management
Sustainable Transport	11. Sustainable Cities and Communities	11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons
Waste and Water Management and Recycling	6. Clean Water and Sanitation 12. Responsible Consumption and Production	6.3 By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally  12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse
Sustainable Agriculture and Sustainable Land Use	15. Life on Land	15.1 By 2020, ensure the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems and their services, in particular forests, wetlands, mountains and drylands, in line with obligations under international agreements

## Conclusion

Banco Pichincha has developed the Banco Pichincha Green Bond Framework under which it will issue green bonds and the use of proceeds to finance projects in the areas of Renewable Energy and Transmission, Energy Efficiency, Clean and Efficient Production, Sustainable Construction, Sustainable Transport, Waste and Water Management and Recycling, and Sustainable Agriculture and Sustainable Land Use. Sustainalytics considers that the projects funded by the green bond proceeds will provide positive environmental impact and advance the National Development Plan of Ecuador.

The Banco Pichincha Green Bond Framework outlines a process by which proceeds will be tracked, allocated, and managed, and commitments have been made for reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that the Banco Pichincha Green Bond Framework is aligned with the overall sustainability strategy of the company and that the green use of proceeds categories will contribute to the advancement of the UN Sustainable Development Goals, in particular Goals 6, 7, 9, 11, 12 and 15. Additionally, Sustainalytics is of the opinion that Banco Pichincha has sufficient measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects funded by the use of proceeds.

Based on the above, Sustainalytics is confident that Banco Pichincha Ecuador S.A. is well-positioned to issue green bonds and that the Banco Pichincha Green Bond Framework is robust, transparent, and in alignment with the four core components of the Green Bond Principles 2018.

## Appendices

### Appendix 1: Overview of Referenced Green Building Certifications

	LEED <sup>36</sup>	BREEAM <sup>37</sup>	EDGE <sup>38</sup>
Background	Leadership in Energy and Environmental Design (LEED) is a US Certification System for residential and commercial buildings used worldwide. LEED was developed by non-profit U.S. Green Building Council (USGBC) and covers the design, construction, maintenance and operation of buildings.	BREEAM (Building Research Establishment Environmental Assessment Method) was first published by the Building Research Establishment (BRE) in 1990.  Based in the UK, BREEAM can be used for new, refurbished and extension of existing buildings.	EDGE (or “Excellence in Design for Greater Efficiencies”) is a green building standard and certification system developed by the International Finance Corporation and applicable in 140 countries.
Certification levels	<ul style="list-style-type: none"> <li>• Certified</li> <li>• Silver</li> <li>• Gold</li> <li>• Platinum</li> </ul>	<ul style="list-style-type: none"> <li>• Pass</li> <li>• Good</li> <li>• Very Good</li> <li>• Excellent</li> <li>• Outstanding</li> </ul>	<ul style="list-style-type: none"> <li>• EDGE Certified</li> <li>• EDGE Advanced</li> <li>• EDGE Zero Carbon</li> </ul>
Areas of assessment	<ul style="list-style-type: none"> <li>• Energy and atmosphere</li> <li>• Sustainable Sites</li> <li>• Location and Transportation</li> <li>• Materials and resources</li> <li>• Water efficiency</li> <li>• Indoor environmental quality</li> <li>• Innovation Design</li> <li>• Regional Priority</li> </ul>	<ul style="list-style-type: none"> <li>• Energy</li> <li>• Land Use and Ecology</li> <li>• Pollution</li> <li>• Transport</li> <li>• Materials</li> <li>• Water</li> <li>• Waste</li> <li>• Health and Wellbeing</li> <li>• Innovation</li> </ul>	<p>1. Climatic Conditions of the Location Monthly average wet and dry bulb temperature; Monthly average outdoor wind velocity; Monthly average outdoor humidity, Solar radiation intensity; Annual average rainfall; Carbon dioxide intensity of the electricity grid; Average cost of energy (by fuel type) and water.</p> <p>2. Building Type and Occupant Use Homes: for both apartments and houses (assumptions for area and occupancy are based on income categories); Hotels: for both hotels and resorts (assumptions for area, occupancy and the type of support services are based on the star rating of the property); Offices: assumptions are based on occupancy density and hours of use; Hospitals: assumptions are based on the type of hospital (e.g., nursing home, private or public hospital, clinic or diagnostic center); Retail: assumptions are based on the type of retail building (e.g., department store, mall, supermarket, light industry or warehouse); Education: assumptions are based on the type of educational facility (e.g., pre-school, university or sports facility), as well as occupancy density and hours of use.</p> <p>3. Design and Specifications Thermal properties of the building envelope; Window to Wall Ratio; Building Orientation</p>

<sup>36</sup> USGBC, “LEED rating system”, at: [www.usgbc.org/LEED](http://www.usgbc.org/LEED).

<sup>37</sup> BREEAM, “Rating Benchmark”, at: [https://www.breeam.com/BREEAMIntNDR2016SchemeDocument/content/03\\_scoringrating\\_all/rat\\_benmks\\_all.htm](https://www.breeam.com/BREEAMIntNDR2016SchemeDocument/content/03_scoringrating_all/rat_benmks_all.htm).

<sup>38</sup> EDGE, “Certify”, at: <https://www.edgebuildings.com/certify/>.

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			<p>4. Calculation of the End Use Demand Overall energy demand in buildings; heating ventilation and air conditioning demand; virtual energy for comfort, energy demand for hot water requirements; lighting energy demand; water demand in buildings; estimations on rainwater harvesting or recycled water onsite; embodied energy in building materials.</p>
Requirements	<p>Prerequisites (independent of level of certification) + Credits with associated points.</p> <p>These points are then added together to obtain the LEED level of certification.</p> <p>There are several different rating systems within LEED. Each rating system is designed to apply to a specific sector (e.g. New Construction, Major Renovation, Core and Shell Development, Schools-/Retail-/Healthcare New Construction and Major Renovations, Existing Buildings: Operations and Maintenance).</p>	<p>Prerequisites depending on the levels of certification, and credits with associated points.</p> <p>This number of points is then weighted by item and gives a BREEAM level of certification, which is based on the overall score obtained (expressed as a percentage). Majority of BREEAM issues are flexible, meaning that the client can choose which to comply with to build their BREEAM performance score.</p>	<p>Prerequisites depending on the level of certification.</p> <p>To achieve the minimum level, EDGE Certified, a building must demonstrate a minimum 20% reduction in operational energy consumption, water use and embodied energy in materials as compared to typical local practices.</p>
Qualitative Considerations	<p>Widely recognized internationally, and strong assurance of overall quality.</p>	<p>Widely accepted within the industry. Sustainalytics considers BREEAM Very Good (provided a minimum score of 70% is achieved in the energy category), Excellent and Outstanding to be representative of best practice.</p>	<p>Strong assurance of overall quality due to the EDGE's development under the IFC umbrella.</p>
Performance display			

## Appendix 2: Overview of Referenced Forestry Certifications

	FSC <sup>39</sup>	PEFC <sup>40,41</sup>
<b>Background</b>	Founded in 1993 after the 1992 Earth Summit in Rio failed to produce any international agreements to fight against deforestation, FSC aims to promote sustainable forest management practice.	PEFC was founded in 1999 in response to the specific requirements of small- and family forest owners as an international umbrella organization providing independent assessment, endorsement and recognition of national forest certification systems.
<b>Basic Principles</b>	<ul style="list-style-type: none"> <li>• Compliance with laws and FSC principles</li> <li>• Tenure and use rights and responsibilities</li> <li>• Indigenous peoples' rights</li> <li>• Community relations and workers' rights</li> <li>• Benefits from the forests</li> <li>• Environmental impact</li> <li>• Management plans</li> <li>• Monitoring and assessment</li> <li>• Special sites – high conservation value forests (HCVF)</li> <li>• Plantations</li> </ul>	<ul style="list-style-type: none"> <li>• Maintenance and appropriate enhancement of forest resources and their contribution to the global carbon cycle</li> <li>• Maintenance and enhancement of forest ecosystem health and vitality</li> <li>• Maintenance and encouragement of productive functions of forests (wood and no-wood)</li> <li>• Maintenance, conservation and appropriate enhancement of biological diversity in forest ecosystems</li> <li>• Maintenance and appropriate enhancement of protective functions in forest management (notably soil and water)</li> <li>• Maintenance of socioeconomic functions and conditions</li> <li>• Compliance with legal requirements</li> </ul>
<b>Governance</b>	<p>The General Assembly, consisting of all FSC members, constitutes the highest decision-making body.</p> <p>At the General Assembly, motions are proposed by one member, seconded by two more, and deliberated and voted on by all members. Members are entitled to vote to amend the bylaws, initiate new policies, and clarify, amend or overturn a policy decision by the board.</p> <p>Members apply to join one of three chambers – environmental, social, or economic – that are further divided into northern and southern sub-chambers.</p> <p>Each chamber holds 33.3% of the weight in votes, and within each chamber the votes are weighted so that the North and South hold an equal portion of authority, to ensure influence is shared equitably between interest groups and countries with different levels of economic development.</p> <p>The votes of all individual members in each sub-chamber represent 10% of the total vote of the sub-chamber, while the votes of organizational members make up the other 90%.</p> <p>The members vote for the board of directors, which is accountable to the members. There is an international board elected by all members and a US board, elected by the US-based members.</p>	<p>PEFC's governance structure is formed by the General Assembly (GA) which is the highest authority and decision-making body. It is made up of all PEFC members, including national and international stakeholders.</p> <p>Members vote on key decisions including endorsements, international standards, new members, statutes and budgets. All national members have between one and seven votes, depending on membership fees, while international stakeholder members have one vote each.</p> <p>The Board of Directors supports the work of the GA and together the GA and the Board make the formal approval of final draft standards. Standards are developed by working groups.</p> <p>In general, PEFC's governance structure is more representative of industry and government stakeholders than of social or environmental groups, which gives industry and governments more influence in the decision-making process. However, the organization does include stakeholders from all sectors.</p>
<b>Scope</b>	FSC is a global, multi-stakeholder owned system. All FSC standards and policies are set by a consultative process. There is an FSC Global standard and for certain countries FSC National standards. Economic, social, and environmental interests have equal weight in the standard setting process. FSC follows the ISEAL Code of	Multi-stakeholder participation is required in the governance of national schemes as well as in the standard-setting process. Standards and normative documents are reviewed periodically at intervals that do not exceed five years. The PEFC Standard Setting standard is based on ISO/IEC Code for good practice for

<sup>39</sup> Forest Stewardship Council, FSC: <https://ca.fsc.org/en-ca>

<sup>40</sup> The Brazilian Forest Certification Program (CERFLOR) was formally endorsed by PEFC in 2005 and has since formed alignment. As such, Sustainalytics' analysis of PEFC's framework, guidelines and credibility can be applied to CERFLOR. See more, at: <https://www.pefc.org/discover-pefc/our-pefc-members/national-members/brazilian-forest-certification-programme-cerflor>

<sup>41</sup> Programme for the Endorsement of Forest Certification, PEFC: <https://www.pefc.org/>

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	Good Practice for Setting Social and Environmental Standards.	standardization (Guide 59) <sup>42</sup> and the ISEAL Code of Good Practice for Setting Social and Environmental Standards.
<b>Chain-of-Custody</b>	<ul style="list-style-type: none"> <li>The Chain-of-Custody (CoC) standard is evaluated by a third-party body that is accredited by FSC and compliant with international standards.</li> <li>CoC standard includes procedures for tracking wood origin.</li> <li>CoC standard includes specifications for the physical separation of certified and non-certified wood, and for the percentage of mixed content (certified and non-certified) of products.</li> <li>CoC certificates state the geographical location of the producer and the standards against which the process was evaluated. Certificates also state the starting and finishing point of the CoC.</li> </ul>	<ul style="list-style-type: none"> <li>Quality or environmental management systems (ISO 9001:2008 or ISO 14001:2004 respectively) may be used to implement the minimum requirements for chain-of-custody management systems required by PEFC.</li> <li>Only accredited certification bodies can undertake certification.</li> <li>CoC requirements include specifications for physical separation of wood and percentage-based methods for products with mixed content.</li> <li>The CoC standard includes specifications for tracking and collecting and maintaining documentation about the origin of the materials.</li> <li>The CoC standard includes specifications for the physical separation of certified and non-certified wood.</li> <li>The CoC standard includes specifications about procedures for dealing with complains related to participant's chain of custody.</li> </ul>
<b>Non-certified wood sources</b>	<p>FSC's Controlled Wood Standard establishes requirements to participants to establish supply-chain control systems, and documentation to avoid sourcing materials from controversial sources, including:</p> <ol style="list-style-type: none"> <li>Illegally harvested wood, including wood that is harvested without legal authorization, from protected areas, without payment of appropriate taxes and fees, using fraudulent papers and mechanisms, in violation of CITES requirements, and others,</li> <li>Wood harvested in violation of traditional and civil rights,</li> <li>Wood harvested in forests where high conservation values are threatened by management activities,</li> <li>Wood harvested in forests being converted from forests and other wooded ecosystems to plantations or non-forest uses,</li> <li>Wood from management units in which genetically modified trees are planted.</li> </ol>	<p>The PEFC's Due Diligence System requires participants to establish systems to minimize the risk of sourcing raw materials from:</p> <ol style="list-style-type: none"> <li>forest management activities that do not comply with local, national or international laws related to: <ul style="list-style-type: none"> <li>operations and harvesting, including land use conversion,</li> <li>management of areas with designated high environmental and cultural values,</li> <li>protected and endangered species, including CITES species,</li> <li>health and labor issues,</li> <li>indigenous peoples' property, tenure and use rights,</li> <li>payment of royalties and taxes.</li> </ul> </li> <li>genetically modified organisms,</li> <li>forest conversion, including conversion of primary forests to forest plantations.</li> </ol>
<b>Accreditation/verification</b>	<p>FSC-accredited Certification Bodies (CB) conduct an initial assessment, upon successful completion companies are granted a 5-year certificate. Companies must undergo an annual audit every year and a reassessment audit every 5 years. Certification Bodies undergo annual audits from Accreditation Services International (ASI) to ensure conformance with ISO standard requirements.</p>	<p>Accreditation is carried out by an accreditation body (AB). Like a certification body checks a company meets the PEFC standard, the accreditation body checks that a certification body meets specific PEFC and ISO requirements. Through the accreditation process PEFC has assurance that certification bodies are independent and impartial, that they follow PEFC certification procedures.</p> <p>PEFC does not have their own accreditation body. Like with the majority of ISO based certifications, PEFC relies on national ABs under the umbrella of the International Accreditation Forum (IAF). National ABs need to be a member of the IAF, which means they must follow IAF's rules and regulations.</p>

<sup>42</sup> ISO, ISO/IEC Guide 59:2019: <https://www.iso.org/standard/23390.html>

<p><b>Conclusion</b></p>	<p>Sustainalytics views both FSC and PEFC as being robust, credible standards that are based on comprehensive principles and criteria that are aligned with ISO. Both schemes have received praise for their contribution to sustainable forest management practices<sup>43</sup> and both have also faced criticism from civil society actors.<sup>44,45</sup> In certain instances, these standards go above and beyond national regulation and are capable of providing a high level of assurance that sustainable forest management practices are in place. However, in other cases, the standards are similar or equal to national legislation and provide little additional assurance. Ultimately, the level of assurance that can be provided by either scheme is contingent upon several factors including the certification bodies conducting audits, national regulations and local context.</p>
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<sup>43</sup> FESPA, FSC, PEFC and ISO 38200: <https://www.fespa.com/en/news-media/blog/fsc-pefc-and-iso-38200>

<sup>44</sup> Yale Environment 360, Greenwashed Timber: How Sustainable Forest Certification Has Failed: <https://e360.yale.edu/features/greenwashed-timber-how-sustainable-forest-certification-has-failed>

<sup>45</sup> EIA, PEFC: A Fig Leaf for Stolen Timber: <https://eia-global.org/blog-posts/PEFC-fig-leaf-for-stolen-timber>

### Appendix 3: Overview of Referenced Agriculture Certifications

	<b>GLOBAL G.A.P.</b> <sup>46</sup>	<b>Bonsucro</b> <sup>47</sup>	<b>Roundtable on Sustainable Biomaterials (RSB)</b> <sup>48</sup>
<b>Background</b>	The GLOBALG.A.P. (Global Good Agricultural Practice) is a global organization that promotes safe, sustainable agriculture worldwide.	Bonsucro was developed out of the Better Sugarcane Initiative, an international multi-stakeholder NGO whose purpose is to lower the environmental and social impacts of sugarcane production. The Bonsucro Production Standard aims to ensure that the sugarcane production and sugarcane derived products are sustainably produced.	The Roundtable on Sustainable Biomaterials (RSB) is an international initiative that promotes and supports the sustainability of biomaterials production and processing, bringing together companies, farmers, NGOs, and inter-governmental agencies. RSB was set up in 2007 to ensure the sustainability of liquid biofuels for transport and in 2013 expanded its scope to include biomaterials.
<b>Clear positive impact</b>	Promoting sustainable agriculture practices, including for crops, livestock, and aquaculture.	Promoting sustainable sugarcane production.	Promoting sustainable biomaterials.
<b>Minimum standards</b>	The GLOBALG.A.P. standard places a high degree of emphasis on the implementation of management plans and procedures, with a correspondingly lower focus on quantitative targets.  Assessment criteria are classified as "major must", "minor must", or "recommendation", indicating the priority placed on highly important components of the standard. All major musts need to be met to receive certification.	The Bonsucro Production Standard sets minimum requirements in the areas of legal compliance, biodiversity and ecosystem impacts, human rights, production and processing and continuous improvement.	The RSB sets minimum requirements in the areas of legality, planning, monitoring and continuous improvement, GHG emissions, human and labour rights, rural and social development, local food security, conservation, soil, water and air management, use of technology, inputs and management of waste, land rights and chain of custody. The RSB standard requires that biofuels achieve 50% lower lifecycle GHG emissions compared with a fossil fuel baseline. Each Principle also includes type of feedstock as a specific indicator of compliance.
<b>Scope of certification or programme</b>	The integrated standard requires assessment of waste & pollution management, environmental impact, water use, site productivity, and energy efficiency. The aquaculture and livestock standards additionally cover four pillars laid out by the FAO (aquaculture: food safety, environment, workers, animal welfare; livestock: resource use efficiency, conservation, rural livelihoods, community and ecosystem resilience, and responsible management).	Bonsucro addresses key risks such as human and labour rights, ecosystem management, biodiversity and land use through its criteria.	The RSB certification addresses key risks such as human and labour rights, supply chain, resource management, and land and biodiversity use through its criteria.
<b>Verification of standards and risk mitigation</b>	GlobalGAP approves certification bodies, which can then in turn carry out audits and verification.  Certification is valid for one year.	Certified entities undergo third-party audits to ensure compliance with criteria.	Certified entities undergo a self-assessment process and, afterward, receives a visit from a third-party auditor. Annual audits will also take place after the validation.
<b>Third party expertise and multi-stakeholder process</b>	Developed based on guidelines published by the UN FAO, GlobalGAP is administered by an independent not-for-profit agency.	Bonsucro is a full member of the ISEAL Alliance and respects the ISEAL Code of Good Practice for Setting Social and Environmental Standards and the Impacts Code.	RSB is a full member of the ISEAL Alliance and respects its Codes of Good Practice for multi-stakeholder sustainability standards. RSB's benchmarks are available with Rainforest Alliance, the Sustainable Agriculture Network, the Forest Stewardship Council, Bonsucro and the IFC Performance standards.

<sup>46</sup> [https://www.globalgap.org/uk\\_en/](https://www.globalgap.org/uk_en/)

<sup>47</sup> Bonsucro: <https://www.bonsucro.com/>

<sup>48</sup> RSB: <https://rsb.org/>

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<p><b>Performance Display</b></p>			
<p><b>Qualitative considerations</b></p>	<p>Widely recognized internationally, and strong assurance of overall quality.</p> <p>However, the core standard does not impose stringent worker welfare standards, with particular concerns noted in the areas of health &amp; safety and fair remuneration &amp; bargaining rights. The optional GRASP assessment covers social impacts in more depth but is not required for certification. Furthermore, on the environmental dimension, G.A.P. does not prohibit the use of pesticides beyond those permitted by national regulations.</p>	<p>Bonsucro has certified around 3.37% of global sugarcane production and covers 3.70% of global area of sugarcane, having 207 member organizations in over 20 countries.</p>	<p>The RSB certification is considered strong by organizations such as WWF, IUCN and NRDC. In 2017, RSB certified 50 industrial facilities and 56 784 hectares of farmland.</p>

## Appendix 4: Green Bond / Green Bond Programme - External Review Form

### Section 1. Basic Information

<b>Issuer name:</b>	Banco Pichincha Ecuador S.A.
<b>Green Bond ISIN or Issuer Green Bond Framework Name, if applicable: <i>[specify as appropriate]</i></b>	Banco Pichincha Green Bond Framework
<b>Review provider's name:</b>	Sustainalytics
<b>Completion date of this form:</b>	May 29, 2020
<b>Publication date of review publication:</b>	

### Section 2. Review overview

#### SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBPs:

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds        | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting                                    |

#### ROLE(S) OF REVIEW PROVIDER

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 <sup>nd</sup> opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification   | <input type="checkbox"/> Rating        |
| <input type="checkbox"/> Other ( <i>please specify</i> ):                       |  |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

#### EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (*if applicable*)

Please refer to Evaluation Summary above.

### Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

#### 1. USE OF PROCEEDS

Overall comment on section (*if applicable*):

## Banco Pichincha Green Bond Framework

The eligible categories for the use of proceeds Renewable Energy and Transmission, Energy Efficiency, Clean and Efficient Production, Sustainable Construction, Sustainable Transport, Waste and Water Management and Recycling, and Sustainable Agriculture and Sustainable Land Use are aligned with those recognized by the Green Bond Principles 2018. Sustainalytics considers that projects in these eligible categories will lead to positive environmental impacts and advance the UN Sustainable Development Goals, specifically SDGs 6, 7, 9, 11, 12 and 15.

### Use of proceeds categories as per GBP:

- |  |   |
|--|---|
| <input checked="" type="checkbox"/> Renewable energy   | <input checked="" type="checkbox"/> Energy efficiency   |
| <input type="checkbox"/> Pollution prevention and control  | <input checked="" type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation   | <input checked="" type="checkbox"/> Clean transportation  |
| <input checked="" type="checkbox"/> Sustainable water and wastewater management  | <input type="checkbox"/> Climate change adaptation  |
| <input checked="" type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes                  | <input checked="" type="checkbox"/> Green buildings   |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | <input type="checkbox"/> Other ( <i>please specify</i> ):   |

If applicable please specify the environmental taxonomy, if other than GBPs:

## 2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

Banco Pichincha's internal process in evaluating and selecting projects includes identification of potential projects, review by the Sustainable Development team, and approval by the Strategy Committee. Sustainalytics considers the project selection process in line with market practice.

### Evaluation and selection

- |  |   |
|--|---|
| <input checked="" type="checkbox"/> Credentials on the issuer's environmental sustainability objectives            | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories               |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Green Bond proceeds | <input checked="" type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input checked="" type="checkbox"/> Summary criteria for project evaluation and selection publicly available       | <input type="checkbox"/> Other ( <i>please specify</i> ):   |

**Information on Responsibilities and Accountability**

- Evaluation / Selection criteria subject to external advice or verification     In-house assessment
- Other (please specify):

**3. MANAGEMENT OF PROCEEDS**

Overall comment on section (if applicable):

Banco Pichincha Ecuador's treasury team will manage green bond proceeds and has committed to holding unallocated proceeds in the Bank's account with the Central Bank of Ecuador. Sustainalytics considers this to be in line with market practice.

**Tracking of proceeds:**

- Green Bond proceeds segregated or tracked by the issuer in an appropriate manner
- Disclosure of intended types of temporary investment instruments for unallocated proceeds
- Other (please specify):

**Additional disclosure:**

- Allocations to future investments only     Allocations to both existing and future investments
- Allocation to individual disbursements     Allocation to a portfolio of disbursements
- Disclosure of portfolio balance of unallocated proceeds     Other (please specify):

**4. REPORTING**

Overall comment on section (if applicable):

Banco Pichincha Ecuador S.A. intends to report allocation proceeds on its website on an annual basis until full allocation. In addition, Banco Pichincha Ecuador S.A. is committed to reporting on relevant impact metrics. Sustainalytics views Banco Pichincha Ecuador S.A.'s allocation and impact reporting as aligned with market practice.

**Use of proceeds reporting:**

- Project-by-project     On a project portfolio basis
- Linkage to individual bond(s)     Other (please specify):

## Banco Pichincha Green Bond Framework

### Information reported:

- Allocated amounts
  Green Bond financed share of total investment
- Other (please specify):

### Frequency:

- Annual
  Semi-annual
- Other (please specify): quarterly

### Impact reporting:

- Project-by-project
  On a project portfolio basis
- Linkage to individual bond(s)
  Other (please specify):

### Frequency:

- Annual
  Semi-annual
- Other (please specify):

### Information reported (expected or ex-post):

- GHG Emissions / Savings
  Energy Savings
- Decrease in water use
  Other ESG indicators (please specify): See section 4 of Framework

### Means of Disclosure

- Information published in financial report
  Information published in sustainability report
- Information published in ad hoc documents
  Other (please specify): Website
- Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review): Sustainalytics to provide review

Where appropriate, please specify name and date of publication in the useful links section.

**USEFUL LINKS** (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

### SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

#### Type(s) of Review provided:

- Consultancy (incl. 2<sup>nd</sup> opinion)
  Certification
- Verification / Audit
  Rating
- Other (please specify):

**Review provider(s):****Date of publication:****ABOUT ROLE(S) OF INDEPENDENT REVIEW PROVIDERS AS DEFINED BY THE GBP**

- i. **Second Party Opinion:** An institution with environmental expertise, that is independent from the issuer may issue a Second Party Opinion. The institution should be independent from the issuer's adviser for its Green Bond framework, or appropriate procedures, such as information barriers, will have been implemented within the institution to ensure the independence of the Second Party Opinion. It normally entails an assessment of the alignment with the Green Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to environmental sustainability, and an evaluation of the environmental features of the type of projects intended for the Use of Proceeds.
- ii. **Verification:** An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or environmental criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Green Bond proceeds, statement of environmental impact or alignment of reporting with the GBP, may also be termed verification.
- iii. **Certification:** An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against a recognised external green standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. **Green Bond Scoring/Rating:** An issuer can have its Green Bond, associated Green Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental performance data, the process relative to the GBP, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material environmental risks.

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