

REPORT TO THE SHAREHOLDERS

2014 MACROECONOMIC SITUATION

AND 2015 OUTLOOK

1. BRIEF OVERVIEW OF THE GLOBAL AND REGIONAL MACROECONOMIC SITUATION

Ecuador will not grow as much as its neighbors Colombia and Peru

The IMF¹ predicts that the global economy will grow by 3.5% in 2015, compared to the 3.3% reported in 2014. Based on the study, "New factors supporting growth—lower oil prices, but also depreciation of euro and yen—are more than offset by persistent negative forces, including the lingering legacies of the crisis and weak investment as many countries adjust to lower potential growth." The 2015 forecasts are complemented by growth estimated at 2.4% in advanced economies, 4.3% in the economies of emerging markets and developing countries, and 1.3% in Latin America and the Caribbean. It is expected that the real GDP of Ecuador will climb by 4% next year, while for our neighbors Colombia and Peru it will ascend by 4.5% and 5.1%, respectively.

In contrast with IMF estimates, the World Bank's prognosis² is more conservative. In 2015, the economic growth of the world as a whole will be 3% and for developing nations 4.8%. The economy of South America will expand by 1.8%, while the percentages for Ecuador, Colombia, and Peru are 3.8%, 4.4%, and 4.8%, respectively. There is no information about the latest adjustments to these estimates.

According to the ECLAC³, the 2015 development outlook for Latin America is that the GDP will crawl up between 2 and 2.5%. This slowdown represents the "end of a decade with the greatest economic growth in Latin America compared to the average of the Organization for Cooperation and Economic Development (OECD). External factors, such as lower prices of certain raw materials—explained mainly by the economic decline in China—,

¹ IMF Bulletin. *Global Growth Revised Down, Despite Cheaper Oil, Faster U.S. Growth*. January 20, 2015. <http://www.imf.org/external/pubs/ft/survey/so/2015/NEW012015A.htm>

² The World Bank, *Global Economic Prospects*, January 2015 and press release, January 13, 2015.

³ OECD, United Nations, CAF, *Latin American Economic Outlook*, 2015.

more costly external financing, and the expectations of even more capital entry, contribute to the deceleration process."

<i>Global growth is predicted to be 3.5% in 2015.</i>

2. NATIONAL MACROECONOMIC SITUATION

a) Real Sector

• **Evolution of the GDP:** the general downshift in growth in Latin America observed by ECLAC is also seen in the country. According to the Central Bank⁴, the GDP, measured in 2007 dollars, had reached 7.9% in 2011 and then tumbled to 5.2% in 2012, while in 2013 closed at 4.6%, and in 2014 rose by 3.5%. The GDP per capital swelled by almost 19% in the period 2006-2013 and, in the last three years of that same period by 6.6%, reaching \$4,253 in 2013. In summary, the country's growth has been positive but to a lesser extent than in previous years. In any case, the country's growth exceeded that of the region and was second only to Colombia (4.8%).

Based on the latest BCE (Central Bank of Ecuador) publication⁵ about macroeconomic statistics, in the third quarter of 2014 the country's reported GDP escalated by 3.4% mainly because of construction (0.9%), professional activities (0.58%), and oil and mining (0.57%).

• **Oil Production:** the recovery in oil production experienced since 2011 continued up to 2014, the year in which the average level of production in barrels per day reached in 2006 (536 thousand barrels/day) was surpassed because of the 556 thousand achieved thanks to increased production by the state-owned enterprises Petroamazonas and Rio Napo, as shown in the *Domestic Production of Crude Oil and Derivatives* table. The domestic production of crude oil between January and November 2014 was 6% more than in the same period in 2013. These same state-owned enterprises had reported a 9.6% increase in production, while private companies saw production fall by 4.8%.

⁴ Central Bank of Ecuador, *Información Estadística Mensual No. 1954*, December 2014.

⁵ Central Bank of Ecuador, *Estadísticas macroeconómicas. Presentación coyuntural*, January 2015.

Domestic crude oil production rose by 6% between January and November 2014.

The production of petroleum derivatives had shifted upwards in the period 2006-2013, rising from 62.9 to 69.7 million barrels. In 2013, production plus the importation of derivatives, which totaled 48.6 million barrels, placed total supply at 118.3 million barrels. The total supply of derivatives, as well as the importation thereof, was 0.9% more at November 2014. In the same period, the domestic production of derivatives plunged by 29.8% mainly because the Esmeraldas Refinery shut down for repairs. The rising trend in demand is driven by domestic prices and increased consumption. The derivatives most consumed are diesel and gasoline. The domestic demand for derivatives at November 2014 jumped by 10.4% compared to the same month in 2013.

In the petroleum arena, exporting countries have been stuck in an upsetting situation since the last quarter of 2014 due to the circumstances of the international oil market. Supply has escalated because of the inclusion of oil production from nonconventional sources, while demand has shrunk as a result of reduced consumption by the main buyers. The price of Ecuadorian crude oil took a nosedive the last quarter of 2014. Since October, it has plummeted by 46% compared to the prices reported in June.

• **Job Market:** at December 2014, 49.3% of the economically active population (EAP) across the nation had adequate employment. This represents a 1.4% increase compared to 2013. The country's rate of inadequate employment was 46.7%, representing a 1.1% drop, and the domestic unemployment rate was 3.8%, mirroring a 0.4% decrease. Both of these percentages are compared to the same period in 2013. The domestic underemployment rate was 12.9% of the EAP, 26.7% for other inadequate kinds of employment, and 7.1% for uncompensated employment. Compared to December 2013, underemployment rose (by 1.2%), other kinds of inadequate employment decreased (by 2.3%), and uncompensated employment remained at the same level.

• **Inflation:** between 2006 and 2014, inflation maintained a significantly stable trend with peaks in 2008 (8.8%) and in 2011 (5.4%), as shown in the *Annual Inflation at December Each Year* table. The average index, without taking peaks into account, was 3.5%; in 2014, it was 3.7%. The Central Bank report compares the inflation of the country in 2014 with the 7.5 inflation report of a group of 17 countries in the region, demonstrating that Ecuador's was below the average for those countries. Nonetheless, considering the country's dollarization scheme, the 3.7% level seems elevated compared to the rate of the United States (1.3%) or El Salvador (0.5%), although the global inflation rate at November 2014 was 3.6%.

The 3.7% inflation rate of Ecuador was below the average for the region.

b) External Sector

• **Balance of Trade:** the balance of trade was negative for all of the years of the period under analysis, as shown in the *Balance of Trade table*, while the level of Ecuador's foreign trade has slightly improved as of 2010. Elevated oil prices, with an average price of \$98 the barrel between March 2011 and June 2014, together with tariff measures and prior controls in place for more than 500 products, produced the better results achieved in the balance of trade. In 2013, however, the balance of trade had a \$1.0409 billion deficit, which is higher than the \$440.6 million deficit of 2012. Between January and November 2014, recovery was again seen since the deficit in the balance of trade was \$124.3 million compared to the \$1.2914 billion deficit in the same period in 2013.

Within the balance of trade, the petroleum balance of trade was positive, with ascending surpluses because of the prices in the 2010-2013 period; in 2013, however, it dipped by 2%. In contrast, the nonpetroleum balance of trade has experienced continuous and widening deficits in the analyzed period, at an average pace of 6.8% per year, amounting to \$9.2213 billion in 2013. If the Jan.-Nov. periods of the years 2010 to 2014 are compared, we may appreciate that the expanding deficits contracted by 1% a year and closed at \$6.8665 billion in November 2014.

In foreign trade, the main and most concrete action taken by the Government last year for boosting exports was negotiating with the European Union for the signing of a trade agreement and the consequent extension of GSP+tariff preferences that we have with it.

Therefore, this market is relevant because on average it accounted for 12.4% of exports and sold 9.8% of imports in the 2007-2013 period. Apparently, it is necessary to have a trade agreement with our main trade partner, the United States, in the best terms and conditions. Twenty-five percent of all imports came from the United States, and 41.3% of all exports went to the United States in the same period. With these two markets, the balance of trade is positive, while there were deficits with the conglomerates of the Latin American Integration Association and Asia throughout the entire period under analysis.

<i>The balance of trade has permanently produced a deficit.</i>

- **Foreign Direct Investment (FDI):** as of 2010, the trend of FDI has been upward. The \$728.3 million reported in 2013 is \$143.4 million more than the number reported in 2012. In 2013, the bulk of the FDI was allocated to mines and quarries and also to the manufacturing industry.

The importance of the FDI in the economic growth of recipient countries is a subject of wide debate, though it is generally accepted that FDI has had a positive impact in terms of market expansion, the inclusion of technology and innovation, productivity improvements, industrial development, and the creation of jobs. The FDI flow volume in Latin America and the Caribbean is monitored by the ECLAC⁶. The ECLAC informed that the total volume of FDI captured by the region was \$188.101 billion in 2013, out of which 71% went to South America, 20% to Mexico, and 9% to Central America and the Caribbean. In South America, Chile received 10.8% of the total and our neighbors Colombia and Peru, 8.9% and 5.4%, respectively. Ecuador got \$703 million (0.4%) of the total, which compared to the GDP represented a mere 0.8%. For further details, see the *FDI/GDP: International Comparison* table.

c) Monetary Sector and Financial System

- **International Reserves (IR), Money Supply, and Total Liquidity:** the IR level in the period under analysis shows a linear trend moving upward at an average rate of 14.7% per year. The most significant reductions occurred in 2010 and 2012, with recovery

⁶ ECLAC. Foreign Direct Investment in Latin America and the Caribbean, 2013. United Nations, 2014.

achieved in 2013. At December 31, 2014, the IR closed at \$3.9491 billion, representing a \$411.5 million decrease (-9.4%) compared to the number at the close of 2013. This variation is mainly explained by deposit movements in the public sector, according to BCE information as revealed in the *International Reserves* table.

Money supply and total liquidity in the 2009 to November 2014 period have moved upward at an annual average growth of 14.1% and 15.7%, respectively. At November 2014, total liquidity was \$38.3724 billion, with currency accounting for 23% and the money supply amounting to \$17.7471 billion. With regard to 2013, total liquidity at November 2014 climbed by 9.5% and the money supply by 9.1%, while money in circulation reported a 19.5% variation. This evolution may be appreciated in the *Money Supply and Total Liquidity* table.

<i>Ecuador captured 0.4% of the total FDI in the region.</i>
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• **Money Raised by the Financial System, Portfolio, and Credit Volume:** the behavior of deposits by households and companies in the financial system and maturing portfolio is provided to complete the financial panorama of the economy. In the period 2006-2013, these two variables increased. On average, the annual growth for deposits was 19.3% and for maturing portfolio, 17.6%. At November 2014, deposits totaled \$32.3743 billion and the maturing portfolio \$26.2537 billion, equal to 10.2% and 9.1%, respectively. Since the financial system responds to the economic environment, both fund raising and placements have progressed at a slower pace in recent years. This is shown in the *Financial System: Deposits and Maturing Portfolio* table.

This situation is also evident in the volume of credit granted by the private financial system (PFS). Therefore, in the 2010-2014 period (figures at December 31 of each year), growth was sustained at an average rate of 16.0% a year, from \$15.5839 billion in 2010 to \$24.6375 in 2014. The trend, however, shifted downwards as growth contracted from 11.5% in 2013 to 8.2%.

<i>In 2014, loans grew more slowly, at a rate of 8.2%.</i>
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• **Volume of Credit by Segment:** when analyzing the credit segments serviced exclusively by the PFS in 2014, evidently the productive (commercial) segment bears importance. This segment captured 61.8% of the total volume granted and is followed by consumer loans (24.6%), microcredit (11.04%), and home loans (2.6%). When observing the general trend in loans to each segment in the analyzed period, clearly the service to the consumer segment has experienced an average annual growth of 17.7%, production (commercial) segment 14.4%, and microcredit segment 11.1%, while the home loan segment shrunk by 4.4%. The reduced service to the home loan segment by the PFS is due to the transfer of such financing from the private financial sector to the BIESS (Bank of the Ecuadorian Institute of Social Security), as a result of the policies promoted by the Government.

• **Results of Private Banking and the Portfolio's Nonperforming Loan Rate:** at December 2014, private banks' return on equity (ROE) was 11.3%, 1.3 percentage points higher than the return achieved at December 2013. The return on assets (ROA) was 1.1%, which was also better than in 2013 (0.9%). The results of this last year show a slight improvement in the downward trend of banking return indexes, which have been gradually falling since the end of 2011, although are still far from the levels attained in 2006 (the ROE for that year was 24.7%). The *Private Banks: The Financial Indexes* table demonstrates their evolution.

One important topic in 2014 was the issuance of the new Organic Monetary and Financial Code that entered into effect on September 12.

With regard to the portfolio's total nonperforming loan rate and by segments, at December 2014 the rate decreased as a whole and also for the commercial (productive) and microcredit segments. The segments with higher nonperforming loan rates are consumer loans, from 5.1% to 5.5%, and home loans, from 1.8% to 1.9%. The *Nonperforming Loan Rate of the Private Banks' Portfolio by Segment* table better explains this situation.

• **Organic Monetary and Financial Code:** a major financial topic in 2014 was the issuance of the new Organic Monetary and Financial Code that entered into effect on September 12. The new code proposes objectives for better control of the financial system, limits the formation of corporate governance entities, and establishes a Monetary and Financial Policy and Regulation Board with broad powers for controlling excess liquidity, regulating credit and directing it towards productive activities, controlling currency flow and outflow, and managing the new electronic money system. The board's ample powers, plus the generous degree of discretion it enjoys based on the code, raise important questions with regard to the role that the market's regulatory authorities will play in the future, especially in decision-making. Until now, financial entities have been the ones to make decisions within the scope of their responsibilities in order to warrant the custody and integrity of the financial resources that their customers entrust to them and adequately manage the risks inherent to their businesses.

d) Fiscal Sector

As of 2011, the growth of domestic revenue has shifted downwards while public spending has quickly escalated.

• **Revenue:** due to the growth of the Ecuadorian economy in the period 2006-2013 and the positive global atmosphere for countries exporting raw materials and commodities, the Central Government's revenue has increased at an average annual rate of 18.8%. Starting with 2011, the expansion of total revenue has taken steps backwards to below the average: 14.1% in 2011, 13.4% in 2012, and only 4.5% in 2013. This is shown in the *Central Government's Operations: Revenue* table. The result was affected by the drastic reduction in the growth of petroleum revenue which, despite the spectacular escalation of 31.6% in the period, after climbing by 35.4% in 2011, rose by merely 1.9% in 2012 only to fall by 2.4% in 2013. Tax revenue skyrocketed at an average rate of 18.6% a year, but in 2013 was 11.5% due to the general slowing down of the economy. Nonpetroleum revenue stepped up by 17.8% and showed greater sustainability of its growth pace in recent years: 19.7% in 2012 and 17% in 2013.

<i>Tax revenue represented 88.8% of nonpetroleum revenue.</i>

In the period January-September 2014, total revenue amounted to \$15.3796 billion, 19.9% of which corresponds to petroleum revenue and 80.1% to nonpetroleum revenue. With regard to the latter percentage, 88.8% is tax revenue.

The weight of total revenue and its components achieved in the period 2009-2013, compared with key macroeconomic variables, shows that on average total revenue represented 21.2% of the GDP, while petroleum revenue 5.9%, and tax revenue 13.0%. Furthermore, petroleum revenue accounted for 27.6% of total revenue and 22.6% of the value of exportations. Tax revenue's tremendous relevance in the country's economy is confirmed not only by its weight compared to the GDP, but also because it represented 61.5% of total revenue and 50.6% of exports in the period.

- **Expenses and Deficit:** compared to revenue, the Central Government's total expenses in the period 2006-2013 have increased at a faster pace, at an annual average rate of 21.9%. The rate of variation of total expenses that had been reported between 2009 and 2012, and which was on average 14.3%, soared in 2013 when it hit 21.8%, matching the rate of the entire period. With regard to the allocation of expenses, capital expenses rose at an average rate of 37%, while current expenses at 15.6%. With respect only to the last four years of the period, capital expenses climbed at an average rate of 21.8% and current expenses by 12.5%. Within current expenses, the expenses for the procurement of goods and services increased by 24.9%, transfers by 18.8%, salaries by 17.7%, and others by 20.1%. All of the above are detailed in the *Central Government Operations: Expenses and Deficit* table. As of 2009, total expenses have been gradually rising, especially in 2012 and 2013, and have generated increasingly bigger deficits. In fact, the deficit reported in 2013 was the highest: \$5.4613 billion.

<i>Total expenses in the 2006-2013 period expanded at a faster pace than revenue.</i>

In the period January-September 2014, total expenses amounted to \$18.2317 billion and resulted in a \$2.8521 billion deficit. Current expenses totaled \$10.2814 billion and capital expenses \$7.9504 billion.

Furthermore, with regard to significant macroeconomic variables, the total expenses of the period 2009-2013 represented 24.2% of the GDP on average and 94.3% of exports. Fifty-eight point two percent of total expenses were for covering current expenses, which

exceeded tax revenue by 108.6%. The expenses for salaries represented 34.1% of total expenses and capital expenses, 41.8%. In 2013, total expenses accounted for 27.4% of the GDP and exceeded the total value of exports (104.1%); likewise, current expenses surpassed tax revenue by a similar percentage.

58.2% of total expenses were used to cover current expenses.

• **Deficit from Domestic Sales of Derivatives:** for a long time now, the reality of the domestic fuel market is that there is a continued need for resources from the national treasury to cover an elevated subsidized component that has been enrooted in the domestic sale of imported derivatives. The subsidy is also the cause of other consequences. The most simplified vision of the cost of the subsidy is given by an analysis of the difference between revenue and costs for the domestic sale of imported derivatives. In 2013, a -\$3.6664 billion gap had to be covered. At November 2014, the deficit totaled \$3.6559 billion, out of which 86.2% went for covering the difference in the cost of the sale of diesel and gasoline and 13.8% with regard to liquid petroleum gas.

In get a complete picture of the magnitude of this drain of resources for covering the implicit subsidy for maintaining the domestic prices of petroleum derivatives, the amount applied in 2013 for this reason represented 3.9% of the GDP, 14.8% of exports, 31.6% of the Central Government's capital expenses (investments), and 26.8% of tax revenue.

The difference between the prices of derivatives at the domestic market and those of the international market started to stretch every farther apart as of 2009, reaching the greatest differential in 2012, but narrowed in 2013 because of declining oil prices. The drastic fall in oil prices that occurred in the third quarter of 2014 prompted a reduction in the amount of resources allocated for covering the deficit from domestic sales of derivatives. Furthermore, the entry into operation of new hydroelectric power stations in construction, which are expected to start running in 2016, as well as broader coverage of the program for replacing gas-operated stoves with electric induction stoves, is expected to spark a reduction in the subsidy and the need for fiscal resources to cover it.

• **Movement of the Public Debt:** the need to cover the Government's programs for

investment and expenses has demanded the contraction of the public debt at both the domestic and international markets. The IESS (Ecuadorian Social Security Institute) is the main lender from the domestic market and China from the external market. The movement of total public debt as of 2009, the year in which the volume shrunk by around \$3 billion because of the declaration of nonpayment and the repurchase of a portion of Global Bonds, produced accelerated growth in subsequent years at an average annual rate of 15.4%; it went from \$10.2349 billion in that year to \$28.8067 billion in November 2014. The domestic public debt has progressed more aggressively. It grew from 28.4% on average a year in the same period, going from \$2.8422 billion to \$11.8931 billion. The foreign public debt expanded by 10.6% and rose to \$16.9136 billion at November 2014 from the \$7.3927 reported in 2009. The total volume of the public debt in 2009 equaled 16.4% of the GDP. This percentage at November increased to 29.3% of the GDP, as shown in the *Public Debt Compared to the GDP* table.

According to the Government's four-year program for 2014-2017, official forecasts predict that total public debt will be 38.6% of the GDP in 2017, which is close to the legal limit set at 40%. In terms of volume, the increase would equal \$28 billion. Certainly, this figure will be larger since the predictions were made before the steep drop in oil prices.

To wind up this topic about the fiscal sector, the Government's short-term expectations for increased revenue are based on the commencement of oil production in ITT and Pungarayacu (production in the latter has been delayed and might be suspended due to plummeting prices that make extra heavy crude oil production inefficient). Its short-term expectations are also pillared on a reduction in expenses resulting from the gradual decrease of subsidies due to the start of hydroelectric production and the elimination of gas subsidies, both of which are expected to occur in 2016.

<i>The internal public debt progressed more aggressively than the foreign public debt.</i>
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3. GENERAL OUTLOOK FOR 2015

The outlook for 2015 is that the year will experience a downward shift in economic growth

The challenges to be taken on in 2015 by developing economies, as in the case of

this country, are according to the IMF report, "a stronger dollar, increased interest rates around the world, and the volatility of capital flows. Reinforced growth and employment for generating a more inclusive growth must drive structural reforms, investment in infrastructure, and the liberation of trade." According to the World Bank, 2015 is presented as a year that will likely see reduced growth because of the persistent weakness of global trade, the volatility of the financial market due to possible elevations of interest rates in the main economies, the level of tension that plummeting oil prices will ignite, and possibly a prolonged stagnation of the Euro Zone. Lastly, the ECLAC underlines the importance for Latin America to magnify and improve investment in regular and technical education and also in professional education, not only because education drives economic growth, but also because it generates social inclusion and less inequality.

The economic conjuncture that the country faced at the close of 2014 and beginning of 2015 completes the negative panorama for the country's growth. This scenario stems from reduced revenue from oil exportation and the unavailability of contingency funds for sustaining the level of public spending. In fact, the Government itself declared that 2015 will be a year of adjustment and consequently has taken countercyclical measures, such as an approximately \$1.5 billion reduction in expenses of the budget approved for this year, increased tariffs, and restrictions on the importation of goods, including general safeguards, while procuring foreign loans from China. The country has borrowed \$7 billion with possible disbursements of \$4 billion in 2015.

The reduction of resources restricts the continuation of applying the model for using public spending as the driver of growth, while reducing and making it practically impossible to employ an expansive fiscal policy. In addition, considering that the countercyclical measures are transitory, it is expected that the Government will adopt a policy for including the private sector to support public investment, which includes private enterprise's participation in strategic projects, concession of public works, and the institutionalization of public-private dialogue to get a picture about the future and then together draw up rules for the productive and business sector. Therefore, efficient incentives should be reviewed and applied for promoting long-term foreign investment and creating jobs and production incentives, as well as enhancing the regulatory, legal, and institutional climate for encouraging private investment and diversifying exports.

BANCO PICHINCHA

Banco Pichincha focused on enhancing its channels of products and services. The constant technological improvements in its electronic banking, mobile banking, self-service banking, and Cash Management system, as well as a significant increase in the number of Non-Banking Correspondents (NBCs) ¡Pichincha Mi Vecino! ("*Pichincha, My Neighbor!*"), helped make access by our customers to transactions more dynamic. The total number of transactions in 2014 surpassed 418 million, out of which 155 million (37.2%) were made online, 138 million (32.9%) at ATMs, 96 million (23%) in branches, and the difference, 6.9%, by phone and through NBCs.

ENHANCED CHANNELS AND SERVICES IN 2014			
SOURCE: BALANCE SHEETS OF BANCO PICHINCHA			
Electronic Banking	Mobile Banking	Self-Service Banking	Cash Management
FROM ANYWHERE IN THE WORLD, ANY TIME OF THE DAY	EASY, QUICK, AND SAFE	SAFER TRANSACTIONS FOR OUR CUSTOMERS	SAFE ONLINE PAYMENTS
2014 PORTFOLIO DIVERSIFICATION			
SOURCE: BALANCE SHEETS OF BANCO PICHINCHA			
COMMERCIAL LOANS	CONSUMER LOANS	HOME LOANS	MICROCREDIT
40.4%	37.1%	10.8%	11.7%

Banco Pichincha's assets grew by 9.5% in 2014.

FINANCIAL EVOLUTION

In 2014, the economic panorama was one of decreased growth as a consequence of the reduced rate of public spending and investment, as well as curtailed private consumer spending, especially with respect to imported goods because of the larger number of restrictions in place for improving the balance of trade.

Last year Banco Pichincha looked to bolster its channels of products and services. The constant technological improvements in its electronic banking, mobile banking, self-service banking, and Cash Management system, as well as an important increase in the

number of Non-Banking Correspondents (NBC) ¡Pichincha Mi Vecino!, helped make access by our customers to transactions more dynamic.

With regard to assets, Banco Pichincha achieved a 9.5% growth, from \$9.0236 billion in 2013 to \$9.883 billion in 2014, earning a 29.4% share at the banking system.

In addition, in 2014, liabilities to the public and commercial paper climbed by 9.4%, reaching \$8.2675 billion and a 30% market share. Sight deposits soared by 10.2% for a total of \$6.0793 billion in 2014, while time deposits and commercial paper climbed by 7.6%, thanks to the Bank's deliberate strategy for controlling its fund cost.

The Bank's assets represent a 29.4% share in the banking system.

The nonperforming loan rate reported in 2014 was 3.6%, slightly higher than the 3.5% in 2013. Given the Bank's conservative credit risk policy, the provision coverage index was 10.7% of total portfolio and 295.6% of matured portfolio. Furthermore, the Bank's level of liquidity was 30.1%.

This prudent policy, affording solid protection against credit and liquidity risks, has guaranteed and will continue to guarantee customers' interests in the face of a changing economic scenario that could impair the market's development.

At the close of the year 2014, Banco Pichincha reported \$79.7 million in net profits, with a return on equity (ROE) and on assets (ROA) of 10.1% (7.2% in 2013) and 0.9% (0.6% in 2013), respectively. Despite this improvement, the Bank's indexes are far from those reported up to 2011, due to a set of measures taken by the National Government that included a drastic limitation on the prices of financial services, the restriction of loan interest rates, a substantial swelling of the tax burden, and other measures contributing to escalating operating costs.

At the end of 2014, the technical equity index was 11%, which is higher than the 9% required by banking oversight institutions. In addition, the level of free capital, an indicator determining the percentage of the Bank's own resources for supporting its business, closed at 54.7% in 2014 (56.1% in 2013), which is higher than the 53.4% of the banking system.

Liabilities to the public climbed by 9.4%.

Products and Innovation

New Service Model

- The new service model implemented by the Quito Regional Office as a strategy to have us stand out in customer service reaped its first fruits in 2014. The model spurred important changes in terms of improved customer satisfaction and reduced waiting time. This allowed for a 30% improvement in the public's perception of our customer service.
- The waiting time for being serviced at bank windows was nineteen minutes and is now down to nine.
- The average waiting time at the Business and Service hall is now 22 minutes and used to be 48.

This model, which operates under the premise that the customer should have only one point of contact, will be gradually applied to the rest of the country. Once completely in place, it will back our goal of offering customer service that meets the market's highest quality standards.

Non-Banking Correspondents (NBCs)

Banco Pichincha has achieved its financial inclusion objective of adding to its customer base a greater number of Ecuadorians who did not have access to a bank. The Bank has brought financial services to stores, pharmacies, stationery stores, cyber cafes, supermarkets, and so on. Moreover, it broadened the coverage of ¡Pichincha Mi Vecino! ("*Pichincha, My Neighbor!*"), which in 2014 doubled the number of its points of sale to 14,558.

Offering financial inclusion opportunities is one of the main courses of action of the NBCs. For this reason, 80% of correspondents are located on the outskirts of populated areas. The NBCs work seven days a week in the 24 provinces of Ecuador.

Social Networks

In order to apply new online communication models, accounts were created on Facebook, Twitter, and YouTube in 2013 for connecting customers with our brand, for knowing in real time what they think about our products and services, and for addressing their concerns, understanding their needs, and being part of their history.

TECHNOLOGICAL AND OPERATIONAL REINFORCEMENT

Data Center

The technology used at the new computer center in Quito complies with the highest international standards and was rated Tier III by the Uptime Institute based in New York. The center works in a controlled and safe environment and is not affected by electrical outages, temperature, and the like. This year another alternate computer center in Guayaquil will be set up for covering contingencies at the main center.

Safe Banking

Banco Pichincha, in alliance with Kaspersky Lab, developed a new service called Pichincha Safe Banking, which guarantees extra security for legally and reliably logging online, thus protecting personal data from computer fraud.

<i>80% of correspondents are located on the outskirts of populated areas.</i>

Projects for Modernizing the Technological Platform

The Digital Camera Channel serves as a complete technological solution at bank windows, NBCs, and companies for customers and the Bank to quickly and safely make different kinds of transactions—deposits, withdrawals, cashing checks, and so on. Digital pictures of checks or bank slips (depending on the transaction) can be processed without the need of a physical document.

Electronic Billing

The implementation of electronic billing looks to comply with the rules issued by oversight entities. All documents supporting transactions subject to VAT and other tax collection receipts are electronically generated.

BI (Business Intelligence) Project

This project required the design and application of a new analytical layer for promoting the massive use of analytical data within the organization, based on the needs of the different areas and for the self-management of the community of BI specialists in each one of those areas.

The new analytical layer consists of data marts, cubes, reports, and indicators that permanently assess the performance of the Bank's operations.

Cash Management

The results from updating the database of this product in 2013 were consolidated in 2014. The work done at the technological and architectural level that stabilized access to the platform allows for improvements in operations management and secured information, while facilitating greater access for making transactions. This year the use of alternative channels will be made available to everyone. This service will win customer loyalty and boost business relationships.

OUTLOOK

This will be a difficult year for the Ecuadorian economy. On the external front, the reduction in oil prices appears not to be a conjectural matter, but rather the consequence of an unrelenting change in the production structure. Furthermore, there is no expectation for a major shift in global demand. These two factors combined suggest that the position of the balance of trade of Ecuador will deteriorate, resulting in a situation of distress for a dollarized country. On the domestic front, the unsettling atmosphere of the fiscal sector and the urgency to reduce public spending will substantially affect the perspectives for growth.

Besides the contraction in the volume of the financial sector's operations that will undoubtedly continue in light of the problems mentioned above, in 2015 we will see the effects of diverse measures that have been adopted and that will increase the weight or magnify the tax burden and also the impact of multiple regulatory and oversight measures on operating costs.

Banco Pichincha beefed up its strengths thanks to its prudent policy of creating reserves appropriate for shielding itself from the risks posed by the present circumstances, credit, and liquidity. Its operative business will enhance those strengths and will continue to service the bank's broad customer base, looking to optimize financial resources. At the same time, the Bank will focus on its cautious approach for achieving austerity and improvement in its levels of efficiency and therefore will move forward with several projects underway.

<i>Banco Pichincha has strategies to shield itself from risks posed by the current circumstances.</i>

GRUPO FINANCIERO PICHINCHA

The Monetary and Financial Code, enacted at the end of 2014, defines new rules for the country's financial sector. These rules pose challenges to Banco Pichincha and its local and offshore subsidiaries for conducting their business.

Grupo Financiero Pichincha (GFP) is formed by Banco Pichincha C.A., with its headquarters in Ecuador, five local companies (Almesa, PAGUE YA, BPAC, CREDI FE, and Vaserum), a foreign branch (Miami Branch), and three offshore subsidiaries (Banco Financiero del Peru, Banco Pichincha S.A. Colombia, and Banco Pichincha España).

In 2014, the Group's total assets amounted to \$14.1145 billion, mirroring a 9.4% increase compared to last year (\$12.9015 billion). The most important productive asset is the credit portfolio, which represents 66% of total assets. Compared to 2013, the portfolio in effect jumped by 11.9% (\$954 million). The nonperforming loan rate was 3.7% in 2014, while coverage for the matured portfolio was 227.7%, a very robust situation in terms of risk control and protection.

<i>The Group's total assets amounted to \$14.1145 billion in 2014.</i>
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Placements by subsidiary is a specific business strategy that addresses the characteristics of the market where the subsidiary does business. For this purpose, Banco Pichincha C.A. employs a universal banking business model with a wide operative network, enabling it to service a large number of customers in all of the country's segments, representing 66.1% of the total portfolio of GFP. Banco Financiero del Peru manages mostly a commercial portfolio—18.8%, and Banco Pichincha S.A. in Colombia is directed towards consumer loans, especially through credit cards.

Both the Peruvian and Colombian economies have developed and expanded more than the Ecuadorian economy. Due to their size, Peru and Colombia offer opportunities to the Group's affiliates for growth and diversification.

The total liabilities of GFP have surged by 9.3%, achieving a total of \$13.0937 billion. Liabilities to the public rose by 12.6%, meaning \$1.245 billion more compared to 2013, for a total of \$11.1404 billion.

The funding composition for Banco Pichincha C.A. is mainly formed by sight deposits (73.6%), while time deposits represent 23.1%, mirroring an expanded share of the total. On the other hand, Banco Financiero del Peru and Banco Pichincha Colombia have a share of 65.1% and 70.3% with respect to time deposits and 27.4% and 29.7% regarding sight deposits, respectively.

Grupo Financiero Pichincha held first place in 2014 in terms of share by size, assets, and earnings in Ecuador.

After internalizing the effects of the regulatory changes implemented in GFP's operations in recent years, results have improved. The operative business is locally supported on portfolio volume growth, expense control, improved efficiency, conservative coverage policy resulting in an 8.4% provision of total portfolio, and coverage with respect to exchange rates.

At the international level, Banco Financiero del Peru and Banco Pichincha Colombia considerably grew their productive assets. Banco Pichincha España achieved the break-even point and reported profits, thus contributing to the Group's profit margin. Net profits of the period totaled \$78.9 million, a \$20.3 million increase (34.6%) compared to the 2013 earnings. The return on equity (ROE) was 8.3% in 2014, compared to the 6.7% in 2013.

Lastly, in terms of solvency, GFP's equity amounted to \$1.0207 billion, placing the technical equity index at 10.5%, compared to the 10.4% attained in 2013. That level is adequate and even surpasses the 9% legal minimum.

Bank Watch Ratings had this to say in 2014, "Banco Pichincha del Ecuador (BP) and GFP have the lion's share in terms of volume of assets and profits in Ecuador. That share has been kept close to 30% with regard to asset volume and 23% with respect to profits in recent years." Their strengths are "improvement in financial performance because of greater portfolio placement despite the pressure on the financial margin resulting from the rise in time deposits. Improvement also stems from the diversification of risk in other

nations due to GFP's presence in countries, such as Colombia and Peru, enjoying greater economic dynamism; adequate nonperforming loan rates; and more than double the coverage for the high-risk portfolio."

<i>The solvency index in 2014 was 10.5%.</i>
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GFP has significantly added to its liquid assets. The Bank has its own strengths in terms of liquidity: adequate term-matching between assets and liabilities and funding diversification.

This year GFP Corporate Governance will maintain its proactive approach and remain open to opportunities for growth and fortification, by managing risks and procuring business expansion to the extent permitted by the economic climate and the conditions marked by falling oil prices and the recovery of the dollar. Undoubtedly, we will safeguard the trust deposited by our customers at each one of our subsidiaries.

PRESENTATION OF THE 2014 REPORT

SCOPE AND COVERAGE

G4-18, G4-28

This ninth *Sustainability Report of Banco Pichincha*, which covers the year 2014 (January-December), contains the social, economic, and environmental indicators of the organization's business in Ecuador. It also describes the work done for our Microfinance customers through our CREDI FE affiliate and provides the indicators of social investment programs carried out with the CRISFE Foundation, our ally in social responsibility to the community.

Inasmuch as possible, biennial comparative indicators will be provided so the reader may assess the progress made in our business.

REPORTING AND WORK STANDARD

G4-30, G4-32

We are proud to be one of the first Ecuadorian companies to present its *Sustainability Report* on an annual basis, following the new G4 Guideline of the **Global Reporting Initiative** (GRI), which complies with the essential "in accordance with" option and includes an index of the indicators at the end of this document.

SUSTAINABILITY CHALLENGES

G4-2

This year we took on the challenge of updating the Sustainable Management Model that contains the four priorities on which we focus our efforts with respect to our stakeholder groups in this matter. This new focus concerns the challenges and trends identified in the Dow Jones Sustainability Management Index by which we measure the Bank's business.

In addition, with the support of international consultants, we designed and implemented an Environmental Management System that will allow us to measure, control,

and mitigate our environmental footprint starting next year and thus produce significant savings thanks to the practices that will be promoted internally.

INFORMATION AND COMMENTS

G4-31

For more information about the matters addressed in the *Sustainability Report*, please contact the Sustainable Development area, telephone number (593 2) 298 0980 ext. 594738, desarrollo.sostenible@pichincha.com. For matters concerning the Annual Report, you may contact Maria Isabel Tufiño, Shareholders Office, telephone no. (593 2) 298 0980 ext. 593400, mtufino@pichincha.com.

ACCURACY AND ASSURANCE

G4-33

This Report was verified by the independent firm Deloitte & Touche and its *Review Report*, attached as an annex to this document.

The Global Reporting Initiative (GRI) is an independent institution that created the first global standardized guidelines for drawing up sustainability reports.
www.globalreporting.org

2014 KEY NUMBERS

G4-9

ETHICS AND TRANSPARENCY

- 2,306 shareholders
- 18 committees supporting the work of Corporate Governance
- 100% coverage nationwide
- 108 years in the market

RESPONSIBLE FINANCES

- 31.33% market share in portfolio
- 3,082,665 customers
- 97% of suppliers are national
- 15,929 points of sale
- 790,732 transactions for granting loans
- 36,485 people trained in financial education

HUMAN RIGHTS IN THE VALUE CHAIN

- 6,119 employees: 3.77% increase
- 63.51% are female employees
- 176,602 hours of training: equals 28.86 hours per employee
- 98% of security guards trained in human rights

ENVIRONMENTAL PROTECTION

- 16,642,238 sheets of paper saved
- \$1,713,632 in savings due to reduction in paper consumption
- 554,638 kg of environmentally processed waste
- 839 pieces of new environmental-friendly technological equipment

GRI maintains Global Strategic Alliances with the Organization for Cooperation and Economic Development (OCED), United Nations Environment Programme Financial Initiative (UNEP FI), the United Nations Global Compact, UNGC, and the International Organization for Standardization (ISO).

SUSTAINABLE MANAGEMENT MODEL

In 2014, we updated our Sustainable Management Model (SMM) with the intention of consolidating and informing the priorities we aim to address with respect to our stakeholder groups. The inputs considered for defining the priorities were the outcome of the talks with the stakeholder groups that took place in 2012 and 2014, the principles of the

United Nations Global Compact, the aspects evaluated by the Dow Jones Sustainability Index, the principles of customer protection proposed by *The Smart Campaign* certification, and the Bank’s corporate strategy. This model was internally socialized and will also be revealed to the public.

PHILOSOPHY

CORPORATE SUSTAINABILITY is a business approach that creates value in the long term for the **ORGANIZATION AND SOCIETY**, making use of opportunities and managing risks derived from the economic, social, and environmental evolution.

CRITERIA

Mitigate Risks Bolster Reputation Generate Earnings

PRIORITIES

ETHICS AND
TRANSPARENCY

RESPONSIBLE
FINANCES

HUMAN RIGHTS IN
OUR VALUE CHAIN

ENVIRONMENTAL
PROTECTION

STAKEHOLDER GROUPS

G4-24, G4-25, G4-26, and G4-27

Once again we have identified and prioritized our stakeholder groups by analyzing groups who directly impact the Bank because of the nature of their operations and vice versa. We have included three new social stakeholders:

- 1. **Non-Banking Correspondents:** one of the massive channels of customer service working across the nation through the ¡Pichincha Mi Vecino! network present in corner stores, hardware stores, pharmacies, and so on.
- 2. **Allies:** organizations of international cooperation or entities not for profit that we work with on joint objectives and maintain cooperation agreements to develop topics in common: Ecuadorian Red Cross, UNHCR, and others.

3. **Oversight Entities:** authorities before whom we must be accountable for compliance with all kinds of legal rules and requirements.

The Smart Campaign is a global effort to unite microfinance leaders for a common objective: that customers continue to be the driving force behind the industry.

Smart Certification provides an independent seal guaranteeing that the financial institution protects its customers from damage.
www.smartcampaign.org

MAP OF PRIORITY GROUPS

Allies

Oversight Entities

Community

Shareholders

Internal groups

Suppliers

External Groups

Non-Banking Correspondents

Staff

Customers

STAKEHOLDER GROUPS ENGAGEMENT

We have different communication tools directed at our internal and external stakeholder groups for knowing their opinion and feedback, in order to address their suggestions and claims about the Bank's business. Both the Bank's operations and profits will be explained in this chapter under Claims Management and throughout this entire document.

In 2014, the following dialogue processes took place and were aimed at strengthening the priorities proposed at our SMM:

- Assessment of the job climate among our staff.
- Focus groups on sustainability issues and satisfaction with employees from the Non-Banking Correspondents (NBC) Area.
- Survey on the sustainability and satisfaction with NBCs and their customers.

- Surveys of suppliers, customers, allies, and employees in order to define relevant matters for the Report.
- Shareholder Service Office
- Advisory desks for creating the Code of Ethics with Suppliers.

METHODOLOGY FOR SELECTING THE CONTENTS OF THE REPORT

G4-18

In order to define the relevant matters to be published in this Report, we performed a materiality study that took two criteria into account:

1. Stakeholder groups' criterion
2. Key Bank officers' criterion

The consulted topics were proposed by the GRI G4 guideline and by its Financial Sector Supplement.

The reported topics are relevant for the Bank's stakeholder groups.

The process is outlined in the table below:

Step 1	Step 2	Step 3
Identifying priority stakeholder groups depending on the impact they bear on the Bank's operations and vice versa. The consulted topics are based on the GRI G4 guideline and its Financial Sector Supplement.	<p>Prioritizing issues using a weighted matrix with two sources of information:</p> <ol style="list-style-type: none"> 1. Outcome of surveys and the Bank's other communication tools with its stakeholder groups. Surveys: <ul style="list-style-type: none"> - 95 customers in Quito. - 497 employees in 17 cities. - 39 suppliers in Quito and in Guayaquil - 3 allies 2. Matrix with the following variables assessed by the Bank's officers who decide: <ul style="list-style-type: none"> - Whether the topic is a challenge for the financial sector. - Whether it is related to a certain rule. - Whether it concerns global sustainability initiatives. - Whether it represents a latent risk. - Whether it boosts corporate strategy and values. 	Validating relevant topics obtained in the matrix through talks with the Vice-Presidents of the Corporate Governance Competence, and Sustainability Committee and review of the contents of the Report by the Deputy Chairman's Office.

This year there will be a new dialogue and consultation process with stakeholder groups for identifying which issues they consider important and which part of the value chain bears significant impacts, in order to mitigate risks and identify opportunities for improvement and new lines of business.

Materiality achieves that organizations provide data on essential topics to accomplish their sustainability objectives and manage their impact on the environment and society.

RELEVANT TOPICS

G4-19, G4-20

In the table entitled *Consulted Topics and Their Priority for Stakeholder Groups and the Bank*, the topics and value given by the stakeholder groups and the Bank are described and classified by the four priorities of our SMM.

CONSULTED TOPICS AND THEIR PRIORITY FOR STAKEHOLDER GROUPS AND THE BANK			
<i>No.</i>	<i>Topic*</i>	<i>Relevance for the Stakeholder Groups</i>	<i>Relevance for the Bank</i>
ETHICS AND TRANSPARENCY			
1	<i>Procurement practices</i>	<i>Low</i>	<i>Low</i>
2	<i>Anticorruption and anti-money laundering</i>	<i>Medium</i>	<i>High</i>
3	<i>Competence</i>	<i>Medium</i>	<i>High</i>
4	<i>Organizational structure</i>	<i>Low</i>	<i>High</i>
5	<i>Marketing communications</i>	<i>Medium</i>	<i>High</i>
6	<i>Customer privacy</i>	<i>Medium</i>	<i>High</i>
7	<i>Regulatory compliance</i>	<i>Medium</i>	<i>High</i>
8	<i>Public policy</i>	<i>Low</i>	<i>Low</i>
9	<i>Organizational culture</i>	<i>Medium</i>	<i>Medium</i>
RESPONSIBLE FINANCES			
10	<i>Market share and economic performance</i>	<i>Medium</i>	<i>High</i>
11	<i>Indirect economic impacts on society</i>	<i>Medium</i>	<i>Low</i>
12	<i>Social investment programs</i>	<i>Medium</i>	<i>Medium</i>
13	<i>Adverse impacts on local communities</i>	<i>Low</i>	<i>Low</i>
14	<i>Social impact claim mechanisms</i>	<i>Low</i>	<i>Low</i>
15	<i>Designed products tailored to customers' needs</i>	<i>N/A</i>	<i>High</i>
16	<i>Environmental risk assessment of our customers</i>	<i>N/A</i>	<i>High</i>
17	<i>Financial inclusion</i>	<i>N/A</i>	<i>High</i>
18	<i>Financial education</i>	<i>N/A</i>	<i>High</i>
19	<i>Customer service</i>	<i>N/A</i>	<i>High</i>

20	<i>Our Bank</i>	<i>N/A</i>	<i>Low</i>
HUMAN RIGHTS IN THE VALUE CHAIN			
21	<i>Our human talent</i>	<i>Medium</i>	<i>High</i>
22	<i>Employee benefits</i>	<i>Medium</i>	<i>Medium</i>
23	<i>Ratio between employees and management</i>	<i>Low</i>	<i>Low</i>
24	<i>Occupational Safety & Health</i>	<i>Medium</i>	<i>High</i>
25	<i>Professional education and development</i>	<i>Medium</i>	<i>High</i>
26	<i>Employee performance evaluation</i>	<i>Medium</i>	<i>High</i>
27	<i>Equal salary for men and women</i>	<i>Low</i>	<i>Low</i>
28	<i>Evaluation of our suppliers' employment practices</i>	<i>Low</i>	<i>Medium</i>
29	<i>Claim mechanisms regarding employment practices</i>	<i>Low</i>	<i>High</i>
30	<i>Human Rights training</i>	<i>Medium</i>	<i>Medium</i>
31	<i>Freedom of association and collective bargaining</i>	<i>Low</i>	<i>Medium</i>
32	<i>Child labor by suppliers</i>	<i>Low</i>	<i>Medium</i>
33	<i>Forced labor</i>	<i>Low</i>	<i>Medium</i>
34	<i>Job climate</i>	<i>Medium</i>	<i>Medium</i>
35	<i>Evaluation of suppliers with respect to Human Rights</i>	<i>Low</i>	<i>Medium</i>
36	<i>Human Rights claim mechanisms</i>	<i>Low</i>	<i>High</i>
37	<i>Evaluation of suppliers with regard to social repercussions</i>	<i>Low</i>	<i>Low</i>
38	<i>Salary and compensation</i>	<i>Medium</i>	<i>High</i>
ENVIRONMENTAL PROTECTION			
39	<i>Paper consumption</i>	<i>Medium</i>	<i>High</i>
40	<i>Energy consumption</i>	<i>Low</i>	<i>Medium</i>
41	<i>Water consumption</i>	<i>Low</i>	<i>Medium</i>
42	<i>Impact on biodiversity</i>	<i>Medium</i>	<i>Low</i>
43	<i>Carbon footprint</i>	<i>Low</i>	<i>Medium</i>
44	<i>Correct waste management</i>	<i>Low</i>	<i>Medium</i>
45	<i>Environmental regulatory compliance</i>	<i>Low</i>	<i>Medium</i>
46	<i>Travel and transportation expenses</i>	<i>Low</i>	<i>Medium</i>
47	<i>Environment-related expenses</i>	<i>Low</i>	<i>Medium</i>
48	<i>Evaluation of suppliers with regard to environmental matters</i>	<i>Low</i>	<i>Medium</i>
49	<i>Claim mechanisms for environmental matters</i>	<i>Low</i>	<i>Medium</i>
50	<i>Environmental management and policy system</i>	<i>N/A</i>	<i>High</i>
<i>*The topics in color are those reported.</i>			

Taking the opinion of our stakeholder groups into account is key for understanding the company's economic, environmental, and social impacts.

In contrast, the *Relevance of Topics by Stakeholders* table shows those topics deemed important by each consulted group of stakeholders.

RELEVANCE OF TOPICS BY STAKEHOLDERS					
<i>Topics</i>	<i>Suppliers</i>	<i>Customers</i>	<i>Employees</i>	<i>Allies</i>	<i>Oversight entities</i>
ETHICS AND TRANSPARENCY					
<i>Anticorruption and anti-money laundering</i>	<i>x</i>	<i>x</i>	<i>x</i>	<i>x</i>	<i>x</i>
<i>Competence</i>					<i>x</i>
<i>Marketing communications</i>	<i>x</i>	<i>x</i>	<i>x</i>	<i>x</i>	
<i>Customer privacy</i>	<i>x</i>	<i>x</i>	<i>x</i>	<i>x</i>	
<i>Regulatory compliance</i>					<i>x</i>
RESPONSIBLE FINANCES					
<i>Market share and economic performance</i>	<i>x</i>	<i>x</i>	<i>x</i>	<i>x</i>	
<i>Indirect economic impacts on society</i>	<i>x</i>	<i>x</i>	<i>x</i>	<i>x</i>	
<i>Social investment programs</i>	<i>x</i>		<i>x</i>	<i>x</i>	
HUMAN RIGHTS IN THE VALUE CHAIN					
<i>Our human talent</i>	<i>x</i>	<i>x</i>	<i>x</i>	<i>x</i>	
<i>Employee benefits</i>	<i>x</i>		<i>x</i>	<i>x</i>	
<i>Occupational Safety & Health</i>	<i>x</i>		<i>x</i>	<i>x</i>	
<i>Professional education and development</i>	<i>x</i>	<i>x</i>	<i>x</i>	<i>x</i>	
<i>Employee performance evaluation</i>	<i>x</i>		<i>x</i>	<i>x</i>	
<i>Human Rights training</i>	<i>x</i>		<i>x</i>	<i>x</i>	
<i>Job climate</i>	<i>x</i>		<i>x</i>	<i>x</i>	
<i>Salary and compensation</i>					<i>x</i>
ENVIRONMENTAL PROTECTION					
<i>Paper consumption</i>	<i>x</i>	<i>x</i>	<i>x</i>		
<i>Energy consumption</i>			<i>x</i>		

29 topics were ascribed priority by the stakeholder groups and the Bank.

With the list of consulted and prioritized topics, the table below shows the importance of a double-entry chart called the *Relevant Topic* table. These topics are in line with the degree of importance they represent for our stakeholder groups and for the organization, and we report topics found in the medium and high relevance portions for both.

There are exceptions, such as the organizational structure of Corporate Governance and certain environmental issues, which although were not considered priority by our stakeholders should be publicly informed by the Bank since they are part of the indicators included in the Environmental Management System and convey the Bank's commitment to measuring and reducing its environmental footprint.

TABLE OF RELEVANT TOPICS
RELEVANCE FOR STAKEHOLDER GROUPS

HIGH

MEDIUM

LOW

RELEVANCE FOR THE ORGANIZATION

LOW

MEDIUM

HIGH

OUR VALUE CHAIN

G4-12

CORPORATE GOVERNANCE

18 committees

Support the management of Good Corporate Governance

SUPPLIERS

97% of suppliers are local

INITIATION

Oversight Entities

Employees 6119

2,306 SHAREHOLDERS

Social investment in the community

FUNDACION CRISFE

43,727 beneficiaries

COMMERCIALIZATION AND CHANNELS

297 physical channels

1074 virtual channels

14,558 ¡Pichincha Mi Vecino!

COMMUNITY

\$98,247.20 TAXES

3,082,665 CUSTOMERS

The numbers correspond to the list in the Consulted Topics and Their Priority for Stakeholder Groups and the Bank table.

The senior decision-making body is the Board of Directors, headed by the Bank's Chairman.

1.

ETHICS AND TRANSPARENCY

Values are the foundation of the Bank's organizational culture. Pillared on these values, and following an ethical and transparent approach, the Bank complies with stringent standards and even goes beyond what the law requires. In 2014, one of its greatest achievements was the creation of the Code of Ethics for Suppliers. This work was done in collaboration with the Bank's staff and the suppliers themselves. In addition, we continue to work permanently on keeping our commitments with the sustainability initiatives to which we adhere by choice. Anticorruption and nondiscrimination in any form within the organization have been the Bank's other pillars this past year.

CHALLENGES FOR 2014

To create a Code of Ethics for Suppliers.

2014 ACCOMPLISHMENTS

The Code written up together with the Bank's suppliers and staff.

CHALLENGES FOR 2015

To socialize the Code to 100% of suppliers and staff.

To direct internal control using methodologies that allow for defining standardized activities, with periodic tests on the effectiveness of their design and operation.

To design an ethical line for employees to report labor malpractices and the violation of human rights.

18 COMMITTEES AND 5 CODES support Corporate Governance work.

FOCUS ON ETHICS AND TRANSPARENCY

G4-56

We want ethics and transparency to be the key characteristics mentioned by stakeholder groups to describe our Bank and for these traits to be conveyed through policies, processes, and a value-based culture. For this reason, we have a robust Corporate Governance for support as follows:

- a. **18 committees** in which senior management participates.
- b. **Codes of Conduct:** these include the Code of Ethics, Internal Regulation, and Health & Safety Regulation. This year we added the Code of Ethics for Suppliers and the Corporate Governance Code. They have been released to the entire staff and are published on the Intranet.

SUSTAINABILITY PRINCIPLES AND INITIATIVES

G4-15, G4-16

In 2014, we ratified our voluntary adherence to the following:

- *United Nations Global Compact:* promotes work in ten universally accepted principles in four areas: human rights, labor standards, environment, and anticorruption.

«DUE TO THE NUMBER OF ITS PARTICIPANTS—12,000 IN OVER 145 COUNTRIES—, THE GLOBAL COMPACT IS THE WORLD’S LARGEST CORPORATE CITIZENS’ INITIATIVE. THE COMPACT IS A FRAME OF ACTION AIMED AT THE CONSTRUCTION OF THE SOCIAL LEGITIMACY OF CORPORATIONS AND MARKETS. »

- *United Nations Environment Programme Financial Initiative (UNEP FI):* works on the understanding of the relationships between the environment, society, and the economic performance of the private financial sector.
- *Global Banking Alliance for Women:* crafts innovative gender programs.
- *Ecuadorian Consortium for Social Responsibility (CERES):* encourages and disseminates the best practices in Corporate Social Responsibility.
- *Association of Private Banks of Ecuador (ABPE):* promotes development and the proper operation of the banking system and domestic economy.

- *Ecuadorian-American Chamber of Commerce*: propitiates sustainable economic progress of the country through a commercial exchange and investment with the United States and other countries.

Sustainability Standards: we implemented corrective measures after assessing the Bank's business against the Dow Jones Sustainability Index in order to close the gap between the best international sustainability practices and our own. In addition, we examined the Pichincha Microfinance segment with respect to the seven principles of customer protection based on *The Smart Campaign*⁷ standards and a work plan for improvements will be executed starting in 2015.

Informational Reports: reports were drawn up with information about social, economic, and environmental performance through this Report to render it accessible, accurate, and reliable.

Of the ten principles of the UN COMPACT, three are about environment, two about human rights, four about labor rules, and one about anticorruption.

⁷More information about *The Smart Campaign* may be found in the *Responsible Finances* chapter.

ORGANIZATIONAL STRUCTURE

G4-34

Board of Directors and General Meeting of the Shareholders

The Bank's senior decision-making and administrative organ is the Board of Directors, headed by the Chairman. It is formed by members elected by the General Meeting of the Shareholders and qualified by the Superintendency of Banks. The Board of Directors holds general meetings once a month and special meetings at the request of the Chairman, General Manager, or more than three directors. The notice of meeting is made in writing. We have 2,306 shareholders for the Annual Shareholders Meeting. Seventy-four shareholders attended the 2014 Meeting, representing 87.48% of subscribed and paid-in capital.

Bank Committees and Senior Management

We have 18 committees supporting Good Corporate Governance, with specific missions and objectives to ensure the Bank's sustainable operations.

The Board of Directors, Executive Committee, Managerial Committee, and Corporate Governance, Competence, and Sustainability Committee are in charge of making decisions about economic, environmental, and social matters.

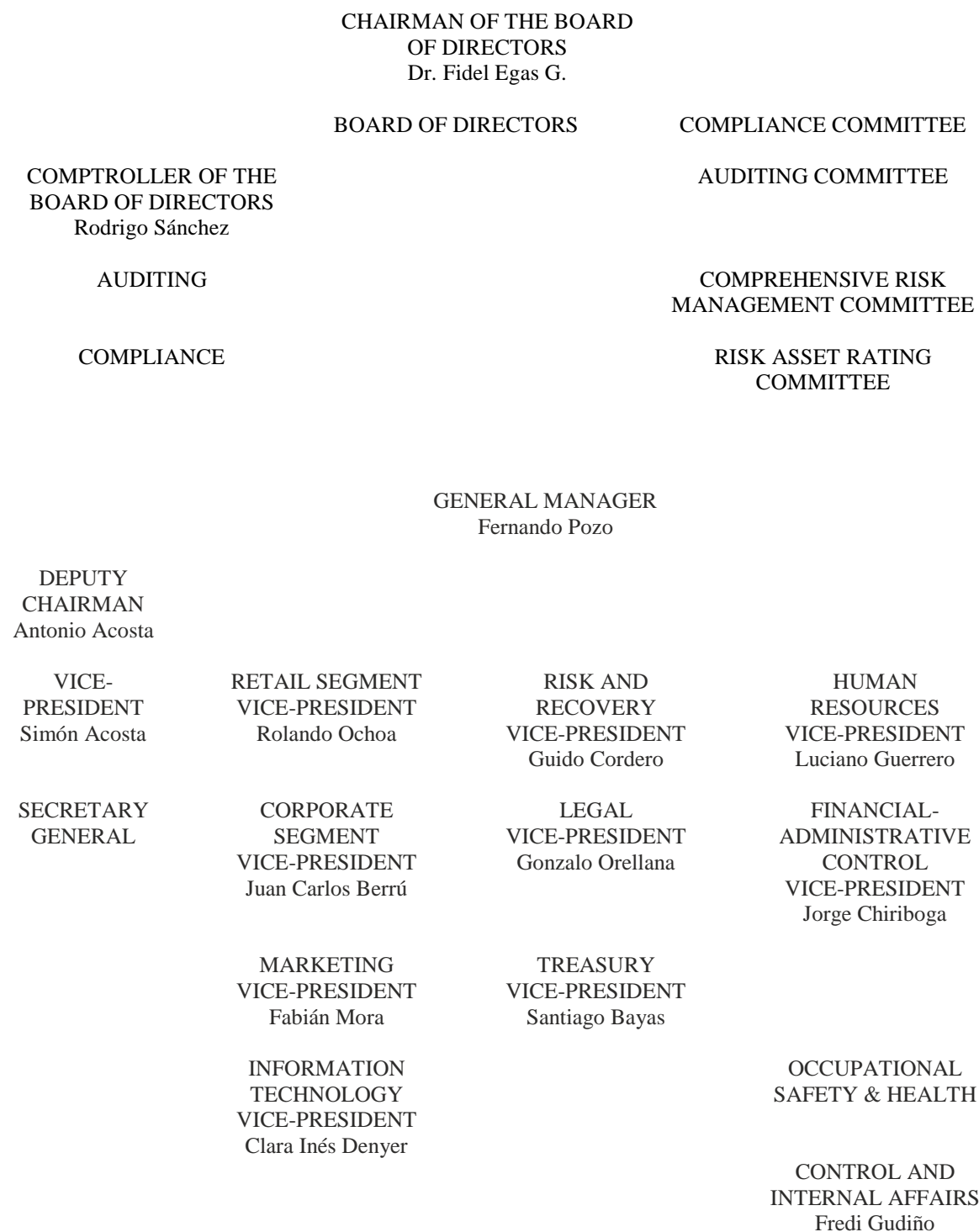
<i>The Bank has 2,306 shareholders who hold a meeting once a year.</i>
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GOOD CORPORATE GOVERNANCE
<i>We receive support from the work by the 18 committees in charge of making decisions about economic, environmental, and social matters.</i>
1. Executive Committee
Formed by the Chairman of the Bank, the Deputy Chairman, General Manager, and up to three members of the Board of Directors. Its mission is to present the annual budget, approve general instructions, appoint managers, and exercise the powers that the Board of Directors delegates to it.
2. Management Committee
Oversees the completion of tasks and fulfillment of responsibilities in coordination with the vice-presidencies. Makes coordinated decisions.
3. Comprehensive Risk Management Committee
Guarantees the Bank's soundness and solvency in the short, medium, and long terms.
4. Operating Risk Subcommittee
Ensures the adequate control and management of operating risks and establishes coverage measures.
5. Auditing Committee

Ensures the optimum operation of the Bank's internal control systems.
6. Portfolio Rating Committee
Reviews the quarterly reports by the Risk Asset Rating Committee and levels of provisions for asset protection. Each quarter reviews the evolution and quality of the Bank's risk assets.
7. Risk Asset Rating Committee
Reviews and rates the Bank's risk assets and defines levels of provision required for protecting such assets.
8. Occupational Health and Safety Committee
Keeps the Bank healthy, safe, environmentally respectful, socially responsible, and with top quality service standards.
9. Procurement Committee
Approves projects, remodeling, construction, and the procurement of goods and services.
10. Physical Space Committee
At the national and international levels, recommends options for purchasing goods and proposes real estate solutions for infrastructure to foster an optimum and friendly environment.
11. Compliance Committee
Ensures the application of Anti-Money Laundering Policies.
12. Operating Coordination Committee
Mission: Determines responsibility of operating losses.
13. Projects Technical Committee
Monitors the execution of projects in their different stages to address needs and development.
14. Technology and Projects Committee
Approves the technology plan. Ensures completion of projects and approves investments in technology.
15. Corporate Governance, Competence, and Sustainability Committee
Analyzes, investigates, and makes recommendations to the Bank's Administration in order to comply with good corporate governance standards, Market Power Control rules, and the sustainable management model.
16. Legal Committee
Ensures correct legal advice and application of the legal framework through timely and precautionary analyses.
17. Ethics Committee
Defines the contents of the code of ethics as well as punishments.
18. Remuneration Committee
Proposes to the General Meeting the policy for creating a salary and bonus scale and oversees compliance therewith.

The right economic, environmental, and social decisions make operations sustainable.

SENIOR MANAGEMENT ORGANIZATIONAL CHART



Sustainable Development Structure

It was determined that a Corporate Governance, Competence, and Sustainability Committee with Senior Management members had to be formalized for steering economic, social, and environmental matters. A Sustainability Subcommittee was created with a representative of the Bank's diverse divisions with the mission to "encourage compliance with the Sustainable Management Model, generating added value to commercial strategies, preventing and mitigating reputational risks with respect to our stakeholder groups, and positioning the Bank as the leader in sustainable development." A Sustainability Team was formed with delegates from the areas in charge of executing the organization's transversal projects: the Environmental Management System, the Plan for Improvement with respect to the Dow Jones Index, the *Sustainability Report*, and so on.

Lastly, the Corporate Social Responsibility Area changed its name to Sustainable Development and its team grew by incorporating personnel specializing in environmental matters.

*Corporate Governance, Competence, and Sustainability
Committee*



Sustainability Subcommittee



ORGANIZATIONAL CULTURE



Sustainability Team

Human Resources Division



Sustainable Development Area

ORGANIZATIONAL CULTURE

G4-56, G4-HR3

We ensure an organizational culture that respects the fundamental rights of people and the environment with equity, gender equality, and the rejection of any kind of forced labor, compulsory labor, and child labor (the Bank employs only individuals over 18).

The organization procures objectivity in Human Resources processes, such as internal and external selection, promotions and changes, and benefits. Therefore, we strictly assess hard skills, competencies, and abilities as opposed to ideal skills required for positions.

Like last year, in 2014 there were no reports or grievances by employees regarding discrimination because of race, gender, religion, opinion, origin, social status, or other forms of exclusion. Furthermore, there were no reported complaints by customers through our Claims and Requirements tool.

Nonetheless, in response to a letter received through the Ombudsman's Office of the province of Esmeraldas from a refugee unable to open a bank account, we crafted a product to satisfy this need. The project materialized with the launch of the Xperta Account for refugees, in coordination with the UN Refugee Agency (UNHCR).

The Bank encourages an organizational culture that respects the fundamental rights of people and the environment.

Code of Ethics for Suppliers

Over 30 suppliers had a hand in writing up the Code

We drew up a Code of Ethics for Suppliers in order for them and our staff to rely on guidelines for conduct in their business relationships. The document is a guide on how to act following our principles and internal policies, local legislation, and international standards.

In order to make our process transparent and to do so in harmony with the parties involved, the personnel from diverse areas and over 30 priority suppliers of different sizes and businesses participated in drafting the document.

For 2015, the challenge is to socialize the Code to ensure compliance therewith and also the execution of a development plan for suppliers that will guarantee the business relationship through time, quality of products and services offered to us, mitigation of risks, and two-way transparency. This initiative enables us to align ourselves with the world's best sustainability practices in the supply chain.

ANTICORRUPTION AND ANTI-MONEY LAUNDERING

G4-S03, G4-S04, G4-S05

Continued zero tolerance for corruption

In order to further encourage our staff to act ethically, we have various channels for making reports, such as a phone line, e-mail, and technological tool for anonymously

reporting unusual behavior. The percentage of efficiency of responding through these channels was 100%.

The Control and Internal Affairs Area includes control practices with a preventive and proactive approach for boosting the Bank's capacity to safeguard its assets. The philosophy of zero tolerance for corruption will become even firmer by applying administrative and legal measures in proven cases.

ANTICORRUPTION AND ANTI-MONEY LAUNDERING
<i>The Control and Internal Affairs Area engages in control practices with a preventive and proactive approach for boosting the Bank's capacity to safeguard its assets. It is supported by the following units:</i>
1. Institutional Internal Control
Monitors the Bank's sensitive accounts on its balance sheet and proposes improvements to manuals for internal processes.
2. Internal Control for Branches
Monitors activities, oversees compliance with policies and procedures, prevents internal fraud events, and performs ongoing follow up together with the management areas in charge.
3. Internal Control for Group Microfinance
Performs onsite control of operational processes for portfolio placement and recovery, as well as administrative and commercial management activities.
4. Regional Internal Control
Validates compliance with business policies and procedures for Corporate Banking and Retail Banking in the coastal region.
5. Banking Policy Support
Manages risks of incidents and identifies improvements in processes in order to mitigate the recurrence of similar events and financial losses.
6. Internal Affairs
In charge of building up ethical behavior, managing channels for reporting, and performing evaluations, investigations, and analyses of cases. Defines mechanisms for deterring internal fraud and has put the organizational culture of <i>Juntos hacemos lo correcto</i> ("Together we do what is right") into practice.

4,517 staff members trained in the Fraud Deterrence course for reinforcing the organizational culture of Juntos hacemos lo correcto ("Together we do what is right").

Anti-Money Laundering Training

5,518 staff members trained in anti-money laundering

In compliance with the rules in force and internal policies on the Deterrence of Laundering, the Financing of Terrorism, and other crimes, each year we train the entire staff, including members on the Board of Directors, Senior Management, and third parties related to the business, such as Tata Consultancy Service, to learn more about this topic and minimize the risk of the Bank being used for the commission of money laundering crimes. By the end of the year, 90.18% of personnel had completed the course, and the rest will be trained in January 2015.

COMPETITION

G4-SO7

The Bank has not reported antitrust practices

In order to comply with the Organic Law for Regulation and Control of Market Power, we created a Corporate Governance, Competition, and Sustainability Committee formed by vice-presidents and individuals in charge. The purpose of the Committee is to ensure that antitrust rules are observed within the Bank and to advise management on the appropriate decisions for the correct enforcement of those rules. For this reason, the committee formed a Competition Subcommittee as the Bank's internal advisor on competition matters. Antitrust work is done following competition guidelines and in strict compliance with the market power control law.

The Market Power Regulation and Control Superintendency (SCPM) has not charged the Bank with antitrust conduct or practices.

REGULATORY COMPLIANCE

G4-PR9

This indicator reports the monetary value of significant fines for failure to comply with the rules on the supply and use of products and services

This year we have not posted any significant fines (over \$50,000) in our accounts for noncompliance with the rules concerning the supply and use of products and services.

MARKETING COMMUNICATIONS

Marketing Communications are used to report on whether the organization sells products banned in certain markets

G4-PR6, G4-PR7

In the year 2014, no products were the subject of litigation and we have not had incidents or fines for noncompliance with rules on marketing communications and advertising.

CUSTOMER PRIVACY

This shows the number of customer privacy claims

G4-PR8

In accordance with the rules of the Organic Monetary and Financial Code, we demand that our officers and staff comply with bank secrecy rules. For this reason, no breaches of customer privacy or losses of customer data were identified in 2014.

<p><i>Some of the training is shared with third parties related to the Bank. This minimizes risks and improves service.</i></p>

2.

RESPONSIBLE FINANCES

Responsible finances are a priority in our Sustainable Development model, which fosters the development of lasting, prosperous businesses that contribute to a better quality of life for our customers and their families and also to the country's communal banking development. This is achieved by integrating social and environmental criteria into the design and distribution of products and services, with financial inclusion of vulnerable groups, application of customer protection principles, and financial education for both customers and non-customers.

CHALLENGES FOR 2014

To create a system that evaluates social and environmental risks for our customers.

To design products that respond to the needs of society's vulnerable sectors.

To develop a model that measures the impact of climate change on the economic activities financed by Banco Pichincha in order to be able to mitigate risks.

To implement a Financial Education Program in Banking, in coordination with our strategic ally, CRISFE Foundation.

2014 ACCOMPLISHMENTS

We created a technological tool to analyze the social and environmental risk of our customers' productive activities.

We adapted a special Xperta account for the refugee population in the country and signed a cooperation agreement with the UN Agency for Refugees.

We developed a statistical-econometric model of the impact of climate change trends, using precipitation and temperature variables with respect to regional productive activities.

36,485 people benefitted from different methodologies specifically designed to best serve the profile of each group.

CHALLENGES FOR 2015

To prepare a pilot program with customers identified as having high environmental and social risks in their productive activities.

To strengthen the financial insertion of this segment of the population.

To expand the statistical-econometric model at the provincial level and for the main economic activities in the country.

To have specialized methods to provide financial education to each of the Bank's target audiences (employees, customers, and non-customers), while maintaining the strategic alliance we have with the CRISFE Foundation.

78.8% of financial revenue comes from banking operations.

In order to achieve this priority during the year, we continue to develop key projects:

- A new service model.
- New products and channels to create leverage for financial inclusion of vulnerable groups, such as the Xperta account for refugees.
- Assessment of the Microfinance segment with respect to the customer protection principles proposed by the Smart Campaign and design of a work plan.
- Financial education for customers and non-customers.

2.1. MARKET SHARE AND ECONOMIC PERFORMANCE

G4-8, G4-EC1, G4-EC9

As the leading Ecuadorian private banking institution, we play a fundamental role in the country's economic development. For this reason, we work hard to manage the sustainable growth of our business, creating shared value with our stakeholder groups, mainly our customers, who are the reason behind our business.

ECONOMIC VALUE CREATED

<i>Financial revenue</i>	78.8%
<i>Services revenue</i>	10.2%
<i>Other operational revenue</i>	6.7%
<i>Non-operational revenue</i>	4.4%

We distributed more than \$1 billion among our stakeholder groups.

<i>ECONOMIC VALUE CREATED</i>				
	<i>2014 (in thousands of \$)</i>	<i>% share</i>	<i>2013 (in thousands of \$)</i>	<i>% share</i>
<i>Financial Revenue</i>	852,701.8	78.8%	773,485.2	76.9%
<i>Services Revenue</i>	110,154.7	10.2%	101,783.9	10.1%
<i>Other operational revenue</i>	72,013.9	6.7%	75,495.9	7.5%
<i>Non-operational revenue</i>	47,145.7	4.4%	55,664.2	5.5%
<i>Total</i>	1,082,016.1	100%	1,006,429.1	100%

DISTRIBUTED ECONOMIC VALUE

<i>Suppliers of goods and services:</i>	30.0%
<i>Operational expenses:</i>	23.6%
<i>Payment to savings accountholders and investors:</i>	17.8%
<i>Payment to employees:</i>	15.5%
<i>Public administration (Taxes):</i>	10.5%
<i>Other non-operational expenses:</i>	2.1%
<i>Social investment in the community:</i>	0.5%

Economic Value Generated

The bank's revenue grew by 7.5%, representing \$75.6 million more compared to the previous year; 78.8% corresponds to financial revenue generated through banking operations (interest, commissions, and financial earnings).

Distributed Economic Value

After assimilating the effects of the revenue-impacting regulatory changes of the past few years, in 2014 we prioritized projects and worked to improve efficiency in our operations. Expenses climbed by 5.2% (\$27.7 million), which meant an improvement in operational expenses measured over operational expenses ratio, closing out the year at 74.4%, compared to 75.6% in 2013.

- *Payments made to savings accountholders and investors*

Includes the interest earned by our customers on deposits and investments, interest paid to financial institutions, and debenture stocks. The year 2014 saw a 16.8% increase, equal to \$25.6 million, compared to previous years.

- *Payments to Employees*

This encompasses payments made to all of our staff. The year 2014 experienced an 8.9% increase, equal to \$12.6 million.

- *Goods and services suppliers*

This includes costs and expenses related to fees, innovation, technology, security, advertising services, and insurance. A 5.85% increase was registered, equaling \$17 million. Just like last year, 96.58% of our suppliers and contractors are local, allowing us to contribute to the growth of indirect jobs.

- *Social investment in the community*

Conscious of our responsibility with the community, we increased this amount by 6.9%, which is the equivalent of \$293 thousand, in our contribution to the CRISFE Foundation. Between sponsorships and donations, support to CRISFE came out to a total of \$3.7 million, and the balance of social investment capital was distributed to smaller benefactors.

- *Taxes*

Total taxes increased by 5.4%, the equivalent of \$5.4 million with regard to the previous year, and represent 10.5% of the total economic value distributed in 2014.

- *Operational expenses*

This amount mainly includes: **a)** risk asset provisions required by the Superintendency of Banks; **b)** financial losses and other operational expenses; and, **c)** depreciation and amortization. Operational expenses represent 25.3% of the total distributed economic value.

DISTRIBUTED ECONOMIC VALUE				
	2014 (in thousands of \$)	% share	2013 (in thousands of \$)	% share
Payments to savings accountholders and investors	178,793.5	17.8%	153,137.9	16.1%
Payments to employees	155,601.7	15.5%	142,956.2	15%
Salaries	112,093.7		100,392.1	
Mandatory employment benefits	29,204.8		29,501.0	
Investment in health and food	8,170.3		7,359.3	
Other employment benefits	4,302.6		4,802.7	
Investment in training	1,830.4		901.0	
Suppliers of goods and services	300,368.4	30.0%	290,457.7	30.5%
Social Investment in the Community	4,545.5	0.5%	4,252.4	0.4%
Public Administration: Taxes	105,338.9	10.5%	99,924.2	10.5%
Operational Expenses	236,991.2	23.6%	241,155.2	25.3%
Other Non-Operational Expenses	20,645.6	2.1%	21,004.1	2.2%
Total	1,002,284.8	100%	952,887.6	100%

WE CONTRIBUTE TO LOCAL DEVELOPMENT

Domestic suppliers: \$358,196,223.27 = 96.58%

International suppliers: \$12,686,161.32 = 3.42%

TAXES		
<i>Item</i>	<i>2014 (in thousands of \$)</i>	<i>% share</i>
<i>Cosade (formerly AGD (Deposit Insurance Agency))</i>	42,894.7	40.72%
<i>Income tax (IRS)</i>	18,897.9	17.94%
<i>VAT on purchases</i>	18,429.5	17.50%
<i>Superintendency of Banks</i>	10,208.9	9.69%
<i>Taxes on foreign assets</i>	8,148.7	7.74%
<i>0.15% tax (municipal)</i>	1,990.5	1.89%
<i>Money Outflow Tax</i>	2,494.9	2.37%
<i>Other institutions</i>	216.8	0.21%
<i>Municipal patents</i>	1,248.4	1.19%
<i>Property taxes</i>	404.4	0.38%
<i>Others</i>	159.7	0.15%
<i>0.2%, University hospital</i>	218.4	0.21%
<i>Superintendency of Companies</i>	26.1	0.02%
<i>Total</i>	105,338.9	100.00%

RETAINED ECONOMIC VALUE (PROFITS)			
	<i>2014 (in thousands of \$)</i>	<i>2013 (in thousands of \$)</i>	<i>Variation</i>
<i>Net Profits</i>	79,731.32	53,541.45	26,189.87
<i>Legal Reserve</i>	7,973.13	5,354.15	2,618.99
<i>Available for shareholders</i>	71,758.19	48,187.31	23,570.88

WE SERVE ALL BANKING SEGMENTS							
BANKING	SEGMENT	Total Portfolio in \$		Number of Transactions		Number of Customers	
		2014	2013	2014	2013	2014	2013
Corporate	Large Companies	1,812,844,985	1,653,668,370	7,162	6,407	2,550	2,686
	Legal Persons	3,447,047	3,010,116	372	404	338	379
	Micro-businesses	942,842,138	850,186,772	433,139	384,351	316,838	302,866
	Small Businesses	1,383,441,175	1,254,550,125	95,355	97,144	55,871	56,451
Retail	Natural Persons	2,016,202,586	1,618,817,696	921,798	696,171	743,268	582,438
Total General		6,158,777,931	5,380,233,079	1,457,826	1,184,477	1,118,865	944,820

CUSTOMER DISTRIBUTION BY REGION AND CITY						
	Retail		Corporate*		Total	
Regions and Cities	2014	2013	2014	2013	2014	2013
Quito	840,147	746,315	173,977	199,471	1,014,124	945,786
Guayaquil	493,527	419,805	139,567	131,579	633,094	551,384
Northern Coast	277,288	231,778	145,066	133,482	422,354	365,260
Central Sierra	146,874	125,895	79,597	78,509	226,471	204,404
Northern Sierra	124,458	111,159	52,595	51,510	177,053	162,669
Central Coast	133,977	112,993	63,356	56,795	197,333	169,788
Cuenca	125,147	107,554	43,686	41,936	168,833	149,490
Machala	85,965	71,084	36,702	34,472	122,667	105,556
Eastern Zone	69,198	55,836	29,131	26,408	98,329	82,244
Spain	22,368	24,194	39	187	22,407	24,381
Total	2,318,949	2,006,613	763,716	754,349	3,082,665	2,760,962
*Includes large companies, small and medium companies (SME), and legal persons.						

Retained Financial Earnings

The year 2014 was a positive year in which, despite the complicated political environment, Banco Pichincha was able to prove its efficiency and improve its earnings by 48.92%; this increase represents \$23.6 million.

2.2 OUR BANK

G4-8, G4-FS6

Banco Pichincha has branches in all of the country's 24 provinces

- *Bank Segments*

In the country's 24 provinces, we serve more than 3 million customers in all banking segments: Retail, Microfinance, and Corporate.

NETWORK OF PHYSICAL BRANCHES 2014 2013

- *Service Branches*

More than 15,000 service branches, between physical and electronic sites.

- *Physical sites*

We increased the number of service branches by 43.98%.

- *Electronic Point of Sales*

During 2014, we installed 98 new teller machines in the country. Additionally, the self-service network, made up of automatic teller machines, kiosks, and depositories, have

undergone an important transformation: we completed updating the entire network to comply with the EMV standard, managing cards with chips. To do this, we had to replace 177 more teller machines during this year and program the kiosks and depositories to bring them in line with global standards and the requirements of oversight agencies. We achieved a reduction in claims by 75.45%⁸ for fraud from card cloning, comparing the last quarter of 2013 with that of 2014. Additionally, we are venturing into the concept of managing cash and check deposits using a digital camera process.

<i>PHYSICAL BRANCHES</i>		
	<i>2014</i>	<i>2013</i>
<i>Branches</i>	<i>236</i>	<i>237</i>
<i>Special Offices</i>	<i>13</i>	<i>13</i>
<i>Service Windows and TRX Points</i>	<i>39</i>	<i>44</i>
<i>Transactional Branches</i>	<i>9</i>	<i>9</i>
<i>Non-Banking Correspondents</i>	<i>14,558</i>	<i>8,056</i>
<i>Total</i>	<i>14,855</i>	<i>8,359</i>

<i>ELECTRONIC POINTS OF SALE</i>		
	<i>2014</i>	<i>2013</i>
<i>Self-Service Network</i>		
<i>Automatic Teller Machines</i>	<i>916</i>	<i>829</i>
<i>Depositories</i>	<i>77</i>	<i>66</i>
<i>Kiosks</i>	<i>81</i>	<i>80</i>
<i>Total</i>	<i>1,074</i>	<i>975</i>

PRODUCTION OF THE ATM NETWORK (DATA IN MILLIONS OF TRANSACTIONS AND \$, RESPECTIVELY)				
Network Production	Average transactions per month (in millions)		Total annual (in millions of \$)	
	2014	2013	2014	2013
Successful Transactions *	8.55	8.11	102.55	97.35
Satisfactory Transactions**	7.06	6.61	84.73	79.32
Amount Paid	619.29	557.18	7,431.49	6,686.18
*Total transactions requested through the channel				
**Transactions in which the customer correctly used the self-service.				

NUMBER OF CUSTOMERS INCREASED IN EACH SEGMENT:

⁸ It is not possible to compare this data annually, since only in 2014 was the transition completed for this process at electronic points of sale. Just in the last quarter did we obtain real data about the project's impact.

2014: 2,318,949	2013: 2,006,613	(Retail)
2014: 763,716	2013: 754,349	(Corporate)
2014: 3,082,665	2013: 2,760,962	(Total)

2.3 PRODUCTS DESIGNED SPECIFICALLY FOR OUR CUSTOMERS

G4-4, G4-FS7, G4-FS15

We seek to satisfy the needs of each type of segment with a wide range of innovative products and services. To design and create new products, we have applied a series of internal policies: loans for different segments of the Bank, knowing the customer, prevention, and anti-money laundering, in addition to the laws, policies, and resolutions issued by the various oversight agencies regulating us.

We use the Project Management Office methodology, based on a process that guarantees a comprehensive vision of product creation, technological impact, profitability, and the project's life cycle.

Project preparation process:

Survey of needs and impacts on project development.

Analysis of profitability, risks, mitigation, and objective of the project.

Cost estimation modeling system, effort, and compliance dates.

To guarantee correct operations, the Products Area provides follow-up and support in each stage involved in creating the product or service.

The Xperta account for refugees was one of the most striking products of 2014.

We work in cooperation with UNHCR to serve the refugee population.

Portfolio of Products and Services

Retail	Microfinance	Corporate	Other Services
<ul style="list-style-type: none"> • Personal checking account • Savings account • Future Savings Plans • Investments • Savings account and investments in Euros • Precise credit, line of credit, Crediback • Loans for pursuing masters' degrees • Car loans • Home loans: finishing, remodeling and additions, construction, multi-mortgage and land purchase • Home loans for immigrants • Overdrafts, automatic payment system 	<ul style="list-style-type: none"> • Savings account (electronic, Xperta, Xperta for refugees) • Future Savings Account "Creceer" • Personal checking account • Fixed-term investments in dollars "Arma Dólar" • Loans for personal expenses, working capital, fixed assets, agriculture, ecology • Group Loans 	<ul style="list-style-type: none"> • Savings Account • Capital integration account • Checking account • Euro account in Miami • Investments • Productive loans, crediback, real estate, supplier-distributor. • Discount value documents and leasing • Car loans • Foreign Trade, Cash • Management / electronic banking, bank guarantees • Overdrafts, collection, payments, suppliers, payroll, third parties. 	<ul style="list-style-type: none"> • Cashier's checks, certifications for use abroad • Collection and purchase of foreign checks • Domestic transfers, inter-bank, and between accounts in the same bank • International wire payments • Currency exchange • Delivery • Online bank statements • Bank certificates • Payment of taxes and transfers online, direct payments • Receipt of remittances • Debit cards

Key Products of the Year

During 2014, we designed new products to respond to the needs of vulnerable sectors of the population; these products are highlighted below:

XPERTA ACCOUNT FOR REFUGEES

13 Bank branches serve the needs of refugees living in the country

This product contributes to the Superintendency of Banks' requirement that every financial system institution create access to all types of financial services for individuals that the Ministry of Foreign Affairs, Commerce, and Integration considers to be refugees or persons with asylum. Additionally, we signed a Cooperation Agreement with the Office of

the United Nations High Commissioner for Refugees (UNHCR) in order to extend financial services to the refugee population.

This population is served at 13 Bank branches that have been authorized to open this type of account. The branches are located in the 10 cities with the highest concentration of refugees, according to a study by the Ministry of Foreign Affairs.

The requirements to open an account are easy to meet. The cost is only \$5, which is debited from the first deposit into the account. The purpose is to promote financial inclusion for this vulnerable sector of the population.

Since the product launch in April, 450 refugee Xperta accounts have been opened.

BANKING FOR WOMEN

The loans from Banking for Women include payment protection

This segment of Pichincha Microfinance serves women entrepreneurs that are heads of their households in the low and medium-low socioeconomic strata. During 2014, we conducted a study on the needs of our customers, which was entitled *Customer Experience*, in which we identified the following priorities: access to immediate loans, nearby and personal service, ease for making transactions through savings accounts, health and disease prevention insurance (such as cancer), as well as economic support for families through life insurance and payment protection.

Taking these findings into account, we crafted a package that includes the following:

- Loans for working capital with payment protection.
- Oncological insurance for breast, uterine, and ovarian cancer for women between 18 and 65 years of age.
- Life insurance.
- Electronic savings account and “Creceer” programmed savings account.

All of this is supported by a financial education program.

In November 2014, two pre-launch events were held in Santo Domingo and Ambato, giving commercial support for the package. These events included motivational talks on the prevention of breast, uterine, and ovarian cancer.

The products included in Banking for Women are available nationwide and may be requested by customers by speaking with the Microfinance executives.

The Banking for Women products include cancer insurance available to micro-business owners.

2.4 FINANCIAL INCLUSION

G4-FS7, G4-FS13, G4-FS16

True financial inclusion is achieved when the products and services offered respond to the financial and nonfinancial needs of vulnerable and traditionally excluded sectors, when opportunities and possibilities to access services are provided to this segment, and when customers are empowered in the healthy and correct management of their personal finances and those of their businesses.

Pichincha Microfinance

We serve 1,404,011 customers in this segment, which represents 18.46% of our total portfolio. This segment has three commercial supports: Communal Banking, *Dependientes en Crecimiento* (“Growing Dependents” – DEC) and Microred (*Micro-Network*), and CREDI FE, which is a subsidiary of the Bank. Each of these has a specific method and target audience in order to reach micro-business owners the most effective way possible.

- *Communal Banking*

This support unit uses the group credit method to form communal banks, organizing people from the same sector that know each other, have a productive activity, and guarantee each other. The product is focused on low-income individuals below the poverty line, who live on less than \$2 per day and are mainly women (62.87% of our portfolio). In this population group, women assume the role of head of the household and are concerned with improving the living conditions of their families (46.09% have between 1 and 4 household members). Most of these customers (57.08%) are between the ages of 26 and 47.

Since the end of 2014, we have been serving refugees, providing them with loans under this method. The first group of 10 people was formed.

- *Dependientes en Crecimiento* (“Growing Dependents”) and *Microred* (“Micro-Network”)

We serve customers who earn a salary of up to \$350 per month, using the following contact methods: by sending an SMS, telephone commercial campaigns to confirm

the customer's location, and then follow up with a visit by sales agents or at the Bank branches.

- **CREDI FE**

This support unit provides comprehensive financial services to micro-business owners with a technical and commercial specialization called *individual micro-credit*.

This business support is present in urban, marginal-urban, and rural areas, which allows us to cover the entire continental and insular territory of Ecuador. In 2014, CREDI FE opened three new branches in Paseo Shopping Daule, Forín, and Baba.

Through these commercial operations, we serve the entire country, including areas where other banks are not present but whose population needs to cover its financial needs.

45.54% of customers are part of the Pichincha Microfinance segment that is made up of three commercial supports.

PICHINCHA MICROFINANCE COVERAGE BY TERRITORIAL DIVISION							
<i>Commercial Support</i>	<i>Provinces</i>		<i>Parish Districts (1,228)</i>		<i>Cantons (221)</i>		<i>Number of Offices</i>
	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>	<i>No.</i>
<i>CREDI FE</i>	24	100.00%	443	36.07%	131	59.31%	131
<i>Communal Banking</i>	22	91.67%	626	50.98%	167	75.56%	14
<i>DEC and Microred</i>	24	100.00%	180	14.08%	109	49.32%	292

2.4.1. Products for Micro-Business Owners

We seek to enrich the value offers of our portfolio, and we have a wide range of products to provide communal banking benefits to the smallest of our customers, as highlighted in the following:

INDIVIDUAL MICRO-LOANS	
Product Description	<i>Financial method for granting individual loans between \$300 and \$20,000 to individuals and micro-business owners.</i>
Target Audience	<i>Owners of highly informal sole proprietorships or family micro-businesses located in urban, marginal-urban, or rural areas, engaged in productive activities, commerce, services, combined, and agricultural activities, and that have been in business for a minimum of one year.</i>
Product Objective	<i>To grant loans to micro-business owners who have traditionally</i>

	<i>been excluded from financial banking systems.</i>
Number of Customers	153,244
Portfolio Balance	605,063 (thousands of \$)
% women customers	45.37%
% rural customers	48.99%
Annual Sales	147,213 (loans granted)
Total % of the Pichincha Microfinance Portfolio	50.32%
% product growth as compared to 2013	14.26% (portfolio balance)
Coverage	National

GROUP MICRO-LOANS	
Product Description	<i>Loans between \$50 and \$3,000 granted under a group method to finance working capital for any productive activity. Average term: 6 months.</i>
Target Audience	<i>People who live below the poverty line or are at the base of the pyramid (subsistence). Especially women.</i>
Product Objective	<i>Mainly supports women in rural areas who are the most vulnerable population group. In general, they are heads of households and are concerned about improving the family's living conditions.</i>
Number of Customers	80,739 customers in 8,188 communal groups
Portfolio Balance	67,898 (thousands of \$)
% women customers	62.87%
% rural customers	66.06%
Annual Sales	163,061 (loans made)
Total % of the Pichincha Microfinance Portfolio	5.65%
% product growth as compared with 2013	32.56% (portfolio balance)
Coverage	<i>All provinces except for Galapagos and Orellana.</i>

62.87% of group micro-loans are granted to women.

MICRORED LOANS	
Product Description	<i>Micro-loans at the rate applicable to this type of operation.</i>
Target Audience	<i>Micro-business owners who have their own formal business, as verified through declarations and RUC/Rise ("TIN/Ecuadorian Simplified Tax Regime"), with sales below \$100,000.</i>
Product Objective	<i>To support customer's needs for normal business activities.</i>
Number of Customers	4,552
Portfolio Balance	11,220 (thousands of \$)
% women customers	41.87%
Annual Sales	4,712 (loans made)
Total % of the Pichincha	0.90%

Microfinance Portfolio	
% product growth as compared with 2013	Unavailable since this is a new product.
Coverage	National

“CRECER” FUTURE SAVINGS	
Product Description	<i>This account was created exclusively for sight savings accounts. The customer commits to making monthly deposits for a certain amount and for a term agreed upon with the Bank, in order to achieve a specific objective. It is flexible, easy to use, and can be adapted to each customer's savings capacity.</i>
Target Audience	<i>Individuals, both Ecuadorians and foreign residents, who have the legal capacity to contract financial services, and duly represented minors, all of whom have the need to save and the ability to do so and require their accounts to be immediately available.</i>
Product Objective	<i>To promote saving and financial goals of customers.</i>
Number of Customers	102,593 active customers
Portfolio Balance	6,479 (thousands of \$)
Annual Sales	61,327 (accounts opened)
Total % of the Pichincha Microfinance Portfolio	1.24%
% product growth as compared with 2013	32.8% (accounts opened)
Coverage	National

“Creceer” Future Savings expanded by 32.8% in 2014.

XPERTA ACCOUNT (OPENED WITH POS)	
Product Description	<i>Customers may open an account without an initial balance. The cost of the complete kit for opening the account is \$5, which is debited from the customer's first deposit.</i>
Target Audience	<i>Anyone over 18.</i>
Product Objective	<i>That customers be able to carry out their banking activities at the closest ¡Pichincha Mi Vecino!, that they be encouraged to save, and that they be assured banking stability. With the Xperta account, they can repay their loans to the Bank and, in the future, may directly be given credit.</i>
Number of Customers	26,097
Portfolio Balance	758 (thousands of \$)
Annual Sales	32,742 (accounts opened)
Product growth as compared with 2013	30,910 new accounts*
Coverage	National
*At the close of 2014, we had a total of 32,747 accounts opened; 1,837 were opened in 2013. The increase stems from commercial staff having a point of sale (POS) starting in 2014, through which accounts are opened at the field.	

INDIVIDUAL AND GROUP HEALTH INSURANCE (CREDI FE AND COMMUNAL BANKING)	
Product Description	<i>Hospitalization insurance for customers under the individual</i>

	<i>health insurance methods (with hospitalization, outpatient, and maternity) for customers under the group method.</i>
Target Audience	<i>Micro-businesses from the segment and their families.</i>
Product Objective	<i>To protect the health and wellbeing of customers and their families through these benefits; to provide access to a network of clinics nationwide, healthcare in the case of illness, surgeries programmed or otherwise performed because of accidents, maternity insurance and subsidy for newborns, free medicine, lab discounts, basic dental care, gynecological exams, and well-child check-ups.</i>
Annual Sales	<i>168,851 (new insurance policies)</i>
Percent of product growth as compared with 2013	<i>7.9% (insurance policies made*)</i>
Number of Cases Serviced	<i>9,617 cases serviced</i>
Claim Settlement Amount	<i>\$1,254,370.26</i>
Coverage	<i>National</i>
<i>*This data is the result of the 22.3% increase in insurance for customers under the individual method; in contrast, as of March 2014, another insurance company was used for customers under the group method as a benefit for customers and the result was a 14.4% decrease.</i>	

This year 30,910 Xperta accounts were opened in the field.

LIFE INSURANCE (CREDI FE AND COMMUNAL BANKING)	
Product Description	<i>This life insurance adequately covers the amount owed in the event that the loan titleholder or his or her spouse dies, and includes a stipend for funeral expenses.</i>
Target Audience	<i>Micro-Business owners.</i>
Product Objective	<i>To provide security to our customers and guarantee the financial stability of their loved ones.</i>
Annual Sales	<i>222,799 (insurance policies made)</i>
% product growth as compared with 2013	<i>29.1% (insurance policies made by CREDI FE) 8.41% (insurance policies made by Communal Banking)</i>
Coverage	<i>National</i>

MULTI-RISK INSURANCE	
Product Description	<i>Covers the loan installments owed by the customer and working capital in the event of a fire, earthquake, volcanic eruption, damage from water, rain, or fire; extended coverage for vandalism, collapse, or explosion of the business premises.</i>
Target Audience	<i>Micro-business owners with an annual family income of \$100,000.</i>
Product Objective	<i>To protect our customers' businesses, as well as their contents, in an event covered by the insurance policy.</i>
Annual Sales	<i>16,816 (insurance policies sold)</i>
% product growth as compared with 2013	<i>Unavailable since this is a new product.</i>
Coverage	<i>National</i>

AGRICULTURAL INSURANCE	
Product Description	<i>Protects crop investments (direct costs) from climate and</i>

	<i>biological risks. Allows for capital reinvestment in the farm and provides easy access to loans.</i>
Target Audience	<i>Farmers with rice, bean, soft and hard maize, potato, soy, wheat, banana, sugar cane, and tree tomato crops.</i>
Product Objective	<i>To protect crop investments (direct costs) from climate and biological risks.</i>
Number of customers	<i>814</i>
Annual Sales	<i>853 policies</i>
% product growth as compared with 2013	<i>164%*</i>
Coverage	<i>National</i>
<i>*The large growth in 2014 is the result of the insurance created in June of 2013.</i>	

Rice, bean, maize, potato, soy, wheat, banana and other crops may benefit from agricultural insurance.

AGRICULTURAL LOANS	
Description	<i>This is a group loan, which requires greater analysis due to the risk involved in these kinds of productive activities. The term of the loans depends on the productive cycle, and the amount may be up to \$3,000. It includes agricultural insurance that covers crop investment.</i>
Target Audience	<i>Current and potential customers engaged in agricultural activities and who want to form associations using the group method, providing an opportunity to small farmers that have crops on plots of up to 500m2.</i>
Product Objective	<i>To provide financing of initiatives for people who work in agricultural activities.</i>
Annual Sales	<i>856 operations</i>
Portfolio Balance	<i>\$1,851,476 (amount of disbursed loans)</i>

STUDENT LOANS	
Description	<i>Loans granted at the beginning of the school year for amounts between \$50 and \$400 for a maximum term of 4 months.</i>
Product Objective	<i>To support our customers in covering educational expenses at the beginning of the school year in order to decrease school dropout rates due to a lack of money, and to cover expenses such as uniforms and school supplies.</i>
Target Audience	<i>Micro-business owners over 18 years of age who have an excellent repayment track record.</i>
Portfolio Balance	<i>\$297,758.80 (total loans disbursed)</i>

VALUE CHAIN	
Description	<i>Offers our corporate and business customers (anchor businesses) the opportunity for their distributors and suppliers to have access to business alternatives through the Bank. This way, these companies need not concern themselves with</i>

	<i>financing their value chain with their own cash flow and may focus only on their own business concerns.</i>
Target Audience	<i>Micro-business and small business customers that are part of the Value Chain of the Bank's corporate and business customers.</i>
Product Objective	<i>To foster the development of small businesses by providing access to formal financial services and liquidity, with affordable financial costs for improving the quality of life for them and their families. To provide corporations and businesses greater flexibility in managing their cash flow and better administrative/financial costs, and to ensure the loyalty of their distributors and suppliers.</i>
Number of Customers	<i>There were 51 anchor businesses in 2014, through which we were able to reach out to 566 micro-business and SME customers.</i>
Portfolio Balance	<i>\$112.6 million</i>
% total of the portfolio	<i>69.79% (total of the portfolio disbursed)</i>
% growth in the product in comparison with 2013	<i>56.86% increase in disbursements; 29 new anchor businesses were included in 2014.</i>
Coverage	<i>National</i>

Student loans are for use at the beginning of the school year and may be up to \$400.

100% of provinces
73.28% of parish districts
98.64% of cantons

Customer Protection Principles

1. *Appropriate design and distribution of products.*
2. *Protection against over-indebtedness*
3. *Transparency*
4. *Reasonable prices*
5. *Fair and respectful treatment to customers*
6. *Privacy of customer information*
7. *Mechanisms to resolve complaints*

• **¡Pichincha Mi Vecino! Coverage**

Another factor that promotes financial inclusion of the economy's least favored segments is the largest network of Non-Banking Correspondents (NBCs) in the country: ¡Pichincha Mi Vecino!. Currently, there are 14,558 transactional NBCs, strategically located in all Ecuadorian provinces. The NBC are individuals or legal persons that provide transactional and commercial services on behalf of Banco Pichincha: corner stores, pharmacies, hardware stores, and so on.

During 2014, we began a consultation project with the NBC stakeholder groups. In this process, workshops were held with more than 200 employees in the segment, and surveys were administered to 3,150 NBCs and to 100 customers who use the NBC service. We evidenced the existence of staff with a high leadership potential and dedication to service, in addition to finding that NBCs build on the trust that users have in Banco Pichincha as the leading bank in the market. We also found that customers are happy to have the benefits of an NBC at their disposal. The challenge for 2015 is to start a plan to narrow the gaps that were identified, including sustainable growth in the number of NBCs and development of value chain processes in our service.

2.4.2. Customer Protection Principles

During this year, we measured the achievements of Pichincha Microfinance following the seven principles of customer protection established in The Smart Campaign. The process consisted of responding to a self-evaluation with 95 indicators included in the certification, with the help of different areas involved in the segment. Based on the results, an action plan was drawn up for 2015-2016, with opportunities for growth to close the identified gaps.

We work to ensure compliance with The Smart Campaign in order to constantly build up our services, increase customer satisfaction, and provide services that they know, understand, and that suit their needs.

2.5 EVALUATION OF CUSTOMERS' ENVIRONMENTAL AND SOCIAL RISKS

G4-FS1, G4- FS2, G4-FS3, G4-FS4

For the fourth year in a row, we have applied our Environmental Loan Policy nationwide, which establishes a prior requirement for our business, corporate, and small business customers applying for loans of up to \$200,000 and who are categorized as having a high environmental risk. This prior requirement is to submit to the Bank their Environmental License and Environmental Audit in order to receive approval of their loans.

<p><i>During this year, we increased the number of new ¡Pichincha Mi Vecino! correspondents to 6,502.</i></p>

With this measure, we make our customers aware of the adverse consequences of their impacts and the need to prevent and mitigate impacts until they turn into business opportunities. Additionally, we encourage their compliance with environmental laws.

We keep a record of exceptions for customers without an environmental license. In these cases, we grant a term of 270 days for them to legalize their situation and receive credit approval. In some cases, the term is extended when the customer is able to demonstrate that the oversight agency failed to meet the time limits established for the process or the customer implemented new measures (change in structure, equipment, and so forth). Additionally, we have two administration and control indexes: Environmental Credit Risk and Environmental Exceptions.

During 2014, we created and systematized the tool with an environmental questionnaire for customers, which will be implemented in 2015 to let us make the process more efficient, apply better control, achieve management indicators more easily, increase the scope of the policy, and implement the System of Administrative, Environmental, and Social Risks (Saras). We hire environmental experts to support compliance with the Saras and to apply the following flowchart beginning in 2015.

Process that will be applied for the System of Administrative, Environmental and Social Risks (Saras)

LOAN APPLICATION

FILTERS:

1. *Environmental questionnaire (Bank webpage)*
2. *List of exclusion (special authorized persons)*
3. *Amount (loan + consolidated commercial risk)*

CATEGORIZATION OF ENVIRONMENTAL RISK

Minimum, low, medium, and high

MINIMUM AND LOW RISK – OFFICIAL RISK:

Review of the environmental questionnaire

MEDIUM RISK – SOCIO-ENVIRONMENTAL SPECIALIST

Analysis of the environmental and social situation of the customer's business to be financed, verification of environmental permits and visits (if required).

HIGH SOCIO-ENVIRONMENTAL RISK SPECIALIST

Analysis of the environmental and social situation of the customer's business to be financed, verification of environmental permits and visits (if required).

RISK ANALYSIS REPORT

Action plans, environmental clauses and extensions

CREDIT COMMITTEE

Analyzes and approves loan.

DISBURSEMENT

Environmental Exception record

The Environmental Loan Policy is part of the training provided to staff involved in loan processes. Additionally, through the IDB-LAPE program, we trained 572 business executives in sustainability issues.

In 2015, in order to keep our agents up-to-date, we will hold a virtual training session regarding the application of environmental policies, as well as the environmental and social risk system, which includes changes made to the law.

572 business executives were trained in sustainability issues.

- ***Climate Change Management***

We have developed a statistical model of the impact that productive activities have on climate change. This model measures the behavior of precipitation and temperature variables. The objective is to analyze the impact that climate change will have on our credit portfolio, especially in segments such as agriculture and production, so that we can prevent risks. The indicators we have obtained will raise flags when qualifying the economic activities that we finance.

The first results of the analysis applied in the Coastal region show that both increases and decreases in temperature or precipitation may be either beneficial or detrimental to activities, depending on their characteristics.

We defined the following scenarios:

<i>CLIMATE CHANGE FACTORS</i>		
	<i>Possible Benefits</i>	<i>Possible Negative Effects</i>
<i>Increase in Temperature</i>	• <i>Longer growing seasons.</i>	• <i>Higher temperature stress due to environmental temperatures, plagues, or diseases.</i>
	• <i>Faster growing seasons.</i>	
<i>Increase in Precipitation</i>	• <i>Enhanced crop productivity.</i>	• <i>Increase in flooding and salination.</i>
	• <i>Reduced water demand.</i>	• <i>Greater frequency of droughts.</i>
	• <i>Water supply guaranteed.</i>	• <i>More plagues and diseases.</i>
		• <i>Increased erosion.</i>

In 2015, we will extend this model to the entire country to learn about the impact climate change will have on the provinces of Ecuador, as well as on the main economic activities financed by Banco Pichincha.

2.6 FINANCIAL EDUCATION

G4-FS16

In 2014 we continued the Financial Education Program, which is geared to both customers and non-customers, in compliance with the Superintendency of Bank law. Through this program, we seek to accomplish the following objectives:

- To foster development of our users' capacity to make duly informed decisions.
- To improve access to financial services for different population groups.
- To ensure customers are provided with transparent, clear, and complete information about the commitments they will make with the Bank.
- To cultivate a financial culture in the country.

The CRISFE Foundation is our strategic ally in carrying out this program. It provides adequate and opportune information to our target audience through training processes, advice, and communication, in order to build up abilities in managing personal finances and achieve healthy financial management.

CRISFE has crafted diversified methods and specialized tools that allow for better interaction with groups targeted for training: children, women, adolescents, youth, disabled persons, and so on.

The Virtual Financial Education training module was completed by 4,500 staff members.

CRISFE Courses of Action in Financial Education:

TRAINING

INFORMATION

ADVISING

TO TRAIN in personal and family finances through onsite virtual training.

TO INFORM about personal and family finances, through different channels: mass communications, physical, and virtual.

TO ADVISE on carrying out and implementing financial education programs for different target audiences.

FINANCIAL EDUCATION PROGRAM BENEFICIARIES		
Beneficiaries	Description	No. of Participants
Banco Pichincha	Staff	4,500

	<i>Corporate customers and their value chain</i>	807
	<i>Communal banking customers</i>	28,398
<i>Affiliates</i>	<i>Staff of Pichincha Microfinance CREDIFE</i>	360
	<i>PAGUE YA staff</i>	450
<i>Community</i>	<i>Educational Institutions</i>	1,926
	<i>Refugee Population</i>	54
<i>Total</i>		36,485

- ***Banco Pichincha***

- *Staff*: the Financial Education virtual training module was completed by 4,500 staff members. This program offers concepts and tools for incorporating actions and practices into daily life, including:

- Preparing a family budget.
- Identifying and proposing financial goals.
- Correctly managing personal and family finances.
- Creating a savings plan for accomplishing financial goals.

The second e-learning module will be developed in 2015, and the topics will be Investment and Insurance, Financial System, and Customer Protection. Additionally, an onsite workshop was held to raise awareness, and 402 Communal Banking agents attended. The methodology transfer workshop was held to develop the competency of microfinance credit advisors, who will then transfer this knowledge to their customers.

Through internal communication media, financial education tips are sent year round to all staff.

We provide financial education to our corporate customers and their value chains.

- *Corporate customers and their value chain*: we have designed a model that multiplies knowledge through our corporate customers, who are, in turn, the “anchor businesses” of small suppliers: farmers, livestock ranchers, laborers, and artisans with low income and minimum knowledge regarding family finances, savings, and the financial system. In the first stage, in alliance with four corporate customers (Pronaca, Dupocsa, La Sexta, and Transmar), we trained 807 farmers from the urban and rural areas of Duran, La Sexta, Balzar, El Empalme, Ventanas, Quito, and Guayaquil. In 2015, our goal is to

reach 1,000 more people through five companies. This process creates the following positive impacts for our customers:

- Provides free education for their value chain, which for them represents an added value that improves their relationship and reputation with their suppliers and transfers good practices of corporate responsibility.
 - Strengthens the Bank's relationship with corporate customers.
 - Mitigates direct and indirect risks, since the suppliers learn that through economic development, they can maintain and increase their production, which thereby ensures the continuity and growth of their businesses and their business relationship with the anchor business.
 - Enables suppliers to better understand how products and the financial system operate.
- *Communal Banking Customers:* Communal banking executives trained 28,398 micro-business owners in the Savings and Healthy Debt module, which was given through mini-talks in each group visit.
- **Affiliates**
During 2014, 800 staff members from CREDI FE and PAGUE YA affiliates were trained.
 - **Community**
 - *Educational Institutions:* financial education has been provided to 1,926 students from the country's different educational institutions.
 - *Refugees:* Through an agreement signed with the UNHCR, a pilot group of 54 people was trained in line with their knowledge, time availability, and reality. During 2015, we hope to train 1,082 customers and non-customers across the nation.

2.7. SOCIAL INVESTMENT PROGRAMS

Entrepreneurship

G4-SO1

Through CRISFE, we sponsor the “Emprendefe” and Young Entrepreneurs, which is a program that consists of strengthening and developing initiatives through the selection and formation of entrepreneurs who receive training, financial support, and assistance to get their projects off the ground.

Entrepreneurship, education, and volunteering are the main social investment programs.

- **“Emprendefe”**

Submissions are requested to identify potential entrepreneurs who have a prototype of their product or service, using two systems:

- *Individual “Emprendefe”*: an open invitation to make submissions throughout the year on the website: www.emprendefe.org, where entrepreneurs who lead a project are evaluated throughout all of the stages of “Emprendefe.” Anyone achieving the minimum score for both themselves as entrepreneurs and for their projects will receive the benefits from training, financing, and assistance. In 2013, the system was launched through three invitations for submissions. In total, 683 candidates applied and 31 received support.

After validating the system, in 2014 ten invitations were made for submissions under strict entry parameters in order to specialize in a specific phase of entrepreneur processes, starting with the prototype stage up to business start-up. Projects that do not fit within these phases are directed to specialized ally institutions.

In 2014, 630 candidates applied, out of which 218 received advice and training and 26 economic support and assistance, along with 18 entrepreneurs from 2013 that have continued in the process.

Process	
Registration	• Registration on the www.emprendefe.org website.
Commitment	• Explanatory workshop, acceptance of conditions, and evaluation of the entrepreneur profile.
Facilitation	• Training workshop for submitting business models.
Business Model	• Presentation of the business model on the platform.
Evaluation	• Defense, validation of the entrepreneur project, and scoring.
Assistance	• Financing and advice to develop the entrepreneurial project in up to 24 months.

- *Associative “Emprendefe”*: a closed invitation for submissions carried out under an alliance between CRISFE and institutions fostering entrepreneurships, which were formally employed through any system. Beneficiaries receive training in entrepreneurship topics and financial education, financing—if applicable—, and assistance in technical and administrative areas to build up their profile. In 2014, the first pilot program for entrepreneur workshops was held with 66 members from four communities in the coastal area between Santa Elena and Manabí.

Process	
Diagnosis	<ul style="list-style-type: none"> • Analysis, acceptance of conditions, and alliance with the association’s promotional organization.
Information	<ul style="list-style-type: none"> • Alignment with the program and explanation of the program provided to all parties involved.
Facilitation	<ul style="list-style-type: none"> • Training workshop to develop a business model and validate the status of the entrepreneur project.
Business model	<ul style="list-style-type: none"> • Presentation of the business model.
Evaluation	<ul style="list-style-type: none"> • Defense and scoring of the business model.
Joint assistance	<ul style="list-style-type: none"> • Financing, assistance, and joint training with the sponsoring ally for developing the association and its business model.

<p><i>Using the Emprendefe website, entrepreneurs have all year to submit their projects for qualification.</i></p>

- **Young Entrepreneurs**

This is a CRISFE program that covers entrepreneurship from a comprehensive educational perspective, defining it as a life attitude. It is administered through a fun method connected to the school curriculum in the subject of Entrepreneurship and Administration. The course is broken down into 20 sessions that allow the teacher to cultivate students’ soft skills and abilities.

The program includes practice sessions where the students develop a project to create a product or service. They experience the life cycle of a business, from beginning to end.

This year CRISFE designed and implemented this method for 1,200 twelfth-graders from 12 schools across the country. Additionally, a fair was held for closing the program and the best entrepreneurial endeavors were awarded.

- **Formal Education**

The Formal Education Program was started by CRISFE in 2006, and its objective is to promote education for low-income people, providing scholarships for them to finish high school and college. During this year, 1,966 high school and 235 university scholarships were awarded.

A network of academic services was created by professional skill, focused on the beneficiaries of the high school programs and the programs carried out by CRISFE (financial education, entrepreneurship, disability project), through strategic alliances with three universities: Técnica Particular de Loja, Politécnica Salesiana, and the Pontificia Universidad Católica del Ecuador. This program diversified the offer of educational services by including college scholarships and educational projects for specific audiences.

In 2015, we hope to create academic scholarships to enable people to develop job skills to facilitate their insertion in the job market.

<i>ACADEMIC SCHOLARSHIPS</i>		
<i>Number of high school scholarships</i>	<i>No. of dropouts</i>	<i>% of dropouts</i>
<i>1,966</i>	<i>251</i>	<i>12.76%</i>
<i>Number of college scholarships</i>		
<i>235</i>	<i>83</i>	<i>35.31%</i>

- **Corporate Volunteers**

The objective of the Corporate Volunteer Program is to encourage a culture of participation in solidarity projects and initiatives promoted by the CRISFE Foundation in order to cultivate the professional and personal development of both beneficiaries and volunteers. In 2014, 455 Bank volunteers invested 2,276 hours of participation in different initiatives nationwide, getting involved with 37 organizations that benefitted 3,557 people.

The areas of influence of the programs were Manabí, Guayas, Pichincha, and Los Rios.

<i>We increased the number of volunteers by 73% in comparison with 2013.</i>
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- **Initiatives**

- *Educational Volunteers:* With their knowledge, volunteers bolster the comprehensive development of students and parents, giving workshops using easy-to-understand, innovative methods on entrepreneurship topics and financial education.
- *Technical Advice:* volunteers help to improve the performance of organizations and micro-businesses by sharing their knowledge and professional experience.
- *Remodeling and Adaptation Efforts:* Alongside the community, volunteers remodel and adapt the areas where the beneficiaries work, study, or live.
- *Humanitarian Development:* volunteers donate their time and resources, providing food or clothing for people in situations of extreme vulnerability.

2.8. CUSTOMER SERVICE

G4-14

Customer Service

In 2013, we started developing a new customer service model at our Regional Quito branches, prioritizing customer needs based on the following key objectives: enhanced customer satisfaction, maximum results, and guaranteed business continuity.

The main change consisted of restructuring the branch's administrative management. A hostess position was created for hostesses to greet customers and direct them to a single agent, who can work out all of their needs, thus optimizing their time spent at the branch. To do this, we unified the customer service duties (account executives and customer services). We also began using take-a-number dispensers so that customers are serviced on a first-come, first-served basis. We modified our physical infrastructure to include more comfortable waiting areas.

The new customer service model was implemented at the end of 2013 in four branches in Quito, and was completed in 100% of all branches in the city in 2014.

A preliminary internal study of the project showed that the customers wanted to reduce their waiting time at branches, so the project focused on the following aspects:

2013

- *Measuring the time for waiting for an available teller, service balcony, and agents.*
- *Determining the capacity of offices.*
- *Improving problem resolution with the first call center contact.*

2014

- *Implementation phase of the Service Assurance Area, which accompanies the branches to ensure that they meet the appropriate service quality standards.*
- *Improvement of commercial processes.*

2015

- *Contracting of an external consultant to evaluate the achievements of previous years and assess the results.*

We implemented a new Customer Service Model at 100% of the branches in Quito to improve customer satisfaction.

Service to Disabled Customers**G4-FS14**

In accordance with the Disabilities Act, we continue to develop a customer service model that promotes the inclusion of our disabled customers; to do this, accommodations to our branches are ongoing. During the year, we built ramps in four branches and placed signage at special teller⁹ windows at 136 branches. At 100% of the branches, windows and Payment Points nationwide have signage and counters placed at a different height, providing greater access as required by disabled persons. Since 2010, modifications that include ramps have been made at 169 branches, representing 55.96% of the total.

Business Continuity

Since 2011, we have been working on creating a Business Continuity Administration (BCA) model, based on international standards such as ISO 22301 and DRII, to ensure that the institution has the capacity to timely respond in the case of unexpected events, whether technological, social, or environmental. The object is to minimize losses and inconveniences for the Bank and its customers. With this model, we guarantee our customers continuity in the use of our products, services, and service channels on a normal basis.

The most important strategies in the project are the following:

⁹ A special teller window is designed to serve pregnant women or mothers with infants, senior citizens, and disabled individuals.

- *Stand In:* highly available service that allows both POS and ATMs to authorize payments and withdrawals in the event the transactional system becomes unavailable. This service has allowed us to pay more than 3,570 POS transactions and over 257,834 ATM transactions.
- *Alternate Call Center:* this call center is located in Guayaquil, and along with the main Quito call center, simultaneously takes calls from the area regarding banking emergencies and credit cards. It receives more than 26,000 calls a month.
- *Alternate Special Operations Center:* this center works along with the Quito Operations Center, addressing critical processes such as Comex, Cash Management, and Treasury, so that in the event one of the centers becomes unavailable, the other center can handle operations.

In 2015, we will implement the first business continuity administration tool on the web, allowing the owners of critical processes to have vital records for recovery available from any remote location.

Claims Management

We focus our efforts on quickly and efficiently addressing claims, identifying their causes, and implementing corrective measures that allow us to improve our commercial and service processes.

In accordance with the laws in force, we respond to claims within the time periods established by the regulatory agency, granting all support necessary to the Customer Defense Office so that it may intervene in the complaint process, when necessary.

For receiving complaints, we have various options available to the public, including:

- 297 point of sales and branches nationwide
- Electronic banking at www.pichincha.com
- Call Center: 24 hours a day, 7 days a week.
- Interaction on social networks: Facebook and Twitter.
- For smartphones, we have a new option for filling out a form for submitting questions and making suggestions.

100% of branches, windows, and Payment Points nationwide have special signs and information boards for disabled customers.

TYPE AND NUMBER OF BASIC TRANSACTIONS					
Channel	Type of Transaction	2014	2013	Variation (%) 2014-2013	
Internet Banking	Payments	3,363,559	3,008,383	▲	11.81%
	Transfers	10,074,509	7,762,073	▲	29.79%
Teller Windows	Deposits	49,263,279	48,868,568	▲	0.81%
	Payment of Checks	12,514,815	12,752,222	▼	-1.86%
	Withdrawals	16,476,266	16,326,800	▲	0.92%
Automatic Teller Machines	Deposits	319,074	521,853	▼	-38.86%
	Payments	13,206	22,282	▼	-40.73%
	Withdrawals	111,409,475	110,830,048	▲	0.52%
NBC Transactions		21,507,582	7,901,504	▲	172.20%
Mobile Banking		18,665,075	488,736	▲	3,719.05%
Total Transactions		243,606,840	208,482,469	▲	16.85%
Total Claims		115,626	110,696	▲	4.45%

ACCEPTED CLAIMS				
Type of Claim	No. of claims received 2014	No. of claims received 2013	Variation (%) 2014-2013	
Withdrawals at ATMs	31,429	38,799	▼	-19.00%
Claims for credit cards	36,896	25,888	▲	42.52%
Use of Xperta cards	9,817	14,787	▼	-33.61%
Undelivered Account Statements	1,966	12,009	▼	-83.63%
Fraud, scams, and losses	5,980	4,864	▲	22.94%
Internet transactions	2,593	3,461	▼	-25.08%
Inconsistencies in transactions	6,291	2,841	▲	121.44%
Returned checks not received	1,066	1,758	▼	-39.36%
Collection claims	723	1,435	▼	-49.62%
Others	1,768	1,388		27.38%
Special Cases (UAC)	518	1,090	▼	-52.48%
Claims through oversight agencies	1,348	983	▲	37.13%
Debit cards not delivered	14,450	783	▲	1745.47%
Complaints	781	610	▲	28.03%
Total	115,626	110,696	▲	4.45%
Transactions	243,606,840.00	208,482,469.00	▼	16.85%
Ratio between claims/transactions	0.047%	0.053%		- 10.61%

During 2014, over 243 million basic transactions were made. Compared with 2013, there were 16.85% more transactions. The use of our Internet Banking, NBCs, and

especially Mobile Banking greatly expanded, thus reinforcing our strategy to foster the use of our services and decentralize branch use.

By analyzing the increase in the number of transactions versus the number of claims, we may appreciate the downward shift in this ratio, evidencing our commitment to provide consistent, quality service to our customers.

In 2014, we received and processed 115,626 claims, which represent 0.047% of the total transactions made in the year. Through December 31, 98.07% of these claims, meaning 113,440, were resolved; the remaining 1.93% are claims still being analyzed.

100% of the claims received are handled within the statutory time period.

NUMBER OF CLAIMS AND AMOUNTS								
Type	Number of Claims				Claim Amount (\$)			
	Denied	Approved	Partial	Total	Denied	Approved	Partial	Total
Frauds in ATM Transactions	1,640	2,671	21	4,332	570,087.51	1,053,684.80	22,995.15	1,646,767.46
Frauds in POS Purchases	250	202	6	458	88,594.21	101,618.51	9,128.44	199,341.16
Cases under investigation	308	322	437	1,067	1,546,129.07	991,444.01	1,808,749.88	4,346,322.96
Total	2,198	3,195	464	5,857	2,204,810.79	2,146,747.32	1,840,873.47	6,192,431.58
	37.53%	54.55%	7.92%	100.00%	35.60%	34.67%	29.73%	100.00%

FRAUD AND SCAM CLAIMS RESOLVED			
Type of fraud	2014	2013	Variation 2014-2013 (%)
Fraud in ATM transactions	4,332	4,344	-0.28%
POS purchase frauds	458	252	81.75%
Cases under investigation: payment of checks and withdrawals with inconsistent signatures, etc.	1,067	554	92.60%
Total	5,857	5,150	13.73%
*Point of sale (purchases at stores)			

WE LOWERED THE RATIO BETWEEN THE NUMBER OF CLAIMS RECEIVED AND THE NUMBER OF TRANSACTIONS

2013: 0.053%

2014: 0.047%

With a universe of 1,629,866 debit cards, as of the end of the year we have migrated 92.8% of the cards to include chip technology in order to boost their level of security. However, there was an important increase in the number of claims concerning this

process. When analyzing the increase in claims because of undelivered debit cards, we were able to determine that the problem was due to logistics in mass distribution and delivery, which considers the coordination of dates, places, and times for delivering new technology cards.

Money-Related Claims: frauds and scams

In order to prevent that our customers become affected by cybercrime and the numerous ways that it operates over the internet, we began applying a new antivirus system through a prestigious international company. We also made a massive change in credit and debit cards to use chip technology, therefore complying with the parameters defined by the oversight agency and safeguarding security that meets international standards.

To complement the normal monitoring of transactions made through automatic teller machines and electronic banking, we implemented the monitoring of transactions made at NBCs.

During this year, we saw a 13.73% increase in fraud and scam claim resolution; cases under investigation were the ones with highest recurrence.

Of the total number of fraud and scam claims resolved, 54.55% were approved, 37.53% denied, and 7.92% partially resolved in favor of the customer.

3.

HUMAN RIGHTS IN THE VALUE CHAIN

For the fourth consecutive year, we have followed the principles of the United Nations Global Compact, which promotes human rights principles. The Bank works to reinforce and communicate this commitment to our stakeholder groups in each link in the value chain. This issue was evaluated based on the Dow Jones Sustainability Index and also in terms of the self-diagnostic done with regard to the principles of customer protection for The Smart Campaign certification. Through these analyses, we identified opportunities for improvement that will be done in 2015.

CHALLENGES FOR 2014	2014 ACCOMPLISHMENTS	CHALLENGES FOR 2015
<ul style="list-style-type: none">• To bolster the Responsible Administration Plan with Suppliers through a new round of audits for critical suppliers, to verify whether they have made the suggested improvements.• To diagnose the Bank's work environment.	<ul style="list-style-type: none">• Project center with critical suppliers for creating the Code of Ethics for Suppliers. The audits will not begin until the Code is approved.• Work environment quality was measured, identifying areas for improvement. Short-, medium-, and long-term action plans were defined.	<ul style="list-style-type: none">• To evaluate critical suppliers based on the Code of Ethic for Suppliers.• To strengthen organizational culture, focusing on supervisory abilities through training, which will have a positive impact on the work environment and the accomplishment of organizational results.

The first principle states that “businesses should support and respect the protection of internationally recognized fundamental human rights within their area of influence.”

3.1. HUMAN TALENT

G4-10, G4-LA1, G4-LA12, G4-EC6

We Promote the Hiring of Women

Our team grew by 3.77% in comparison with the previous year, which means that we created 231 new positions. At the end of the year, we had a total of 6,119 employees.

We have maintained our commitment to hiring from within vulnerable segments of society, which includes women and young people. Our staff is 63.51% female.

Youth Are Our Priority

Sixty-five point seventy-eight percent of the Bank's staff is between 18 and 33 years of age, and in some cases, the Bank provides people's first job. The institution bets on young talent, and offers them the possibility of developing a career with opportunities to grow, career plans, and prioritization of in-house human talent when new positions open up.

Employee Diversity

More disabled individuals were hired from 2013 to 2014. In following with legal requirements, we have hired disabled staff in all areas. There are a total of three disabled people in management positions.

Hires of disabled employees grew by 11 in comparison with 2013.

65.78% of our staff is young.

EMPLOYEES BY GENDER

WOMEN: 2014 = 63.51%, 2013 = 63.69%

MEN: 2014 = 36.49%, 2013 = 36.31%

CORPORATE COMPOSITION BY GENDER					
Professional category	Women	%	Men	%	Total
Assistant/Auxiliary	1,297	21.20	741	12.11	2,038
Technical Analyst / Executive / Support	1,143	18.68	552	9.02	1,695
Supervisor / Coordinator/ Specialist	1,012	16.54	564	9.22	1,577
Chief / Expert / Administrator	386	6.31	285	4.66	671
Manager	47	0.77	77	1.26	124
General Manager / Vice-Presidents	1	0.02	13	0.21	14
Total	3,886		2,232		6,119
92.86% of the General Manager / Vice-President group (Senior Management) is Ecuadorian.					

EMPLOYEES BY AGE:

22.67% - 23.98% (18-25 years)

43.11% - 43.10% (26-33 years)

20.91% - 20.52% (34-41 years)

9.58% - 8.83% (42-49 years)

9.73% - 3.57% (Over 50 years)

<i>CORPORATE COMPOSITION BY AGE GROUP</i>						
<i>Professional category</i>	<i>18-25</i>	<i>26-33</i>	<i>34-41</i>	<i>42-49</i>	<i>Over 50</i>	<i>General Total</i>
<i>Assistant/Auxiliary</i>	951	793	155	84	55	2,038
<i>Technical Analyst/ Executive / Support</i>	321	878	362	99	35	1,695
<i>Supervisor/ Coordinator/ Specialist</i>	111	822	442	163	39	1,577
<i>Chief / Expert / Administrator</i>	4	142	279	190	56	671
<i>Manager</i>		142	41	47	33	124
<i>General Manager / Vice-Presidents</i>			1	3	10	14
<i>Total</i>	1,387	2,638	1,280	586	228	6,119

Employees by Region

We have branches in the entire country; however, the highest concentration continues to be in the Sierra, where the company's headquarters are located.

Job Security

An insignia of the Bank is its staff's job security, through fixed-term contracts that become indefinite after the first year of employment, in accordance with the law. This contributes to maintaining an important job security environment and fosters the socioeconomic development of our staff and their families.

New Hires

In 2014, we hired 1,568 new employees; 393 employees left the organization. This represents a 25.06% turnover rate.

Turnover

If we only count turnover resulting from resignation by staff with fixed-term contracts, the turnover rate was 11.85%, which is 1.4 percentage points lower than the previous year.

Internally, we understand that there is such a thing as a healthy turnover, which is especially focused on positions with large numbers,¹⁰ such as the teller area. We generally

¹⁰ Positions with large numbers are those that perform significant operations for the Bank.

hire young people who see the institution as an opportunity to be trained and a bridge to new opportunities, both inside and outside of the institution.

DISABLED STAFF

2014-2013

Women: 97 – 96

Men 145 – 135

Total 242 – 231

<i>CORPORATE COMPOSITION OF DISABLED STAFF</i>			
<i>Professional category</i>	<i>Women</i>	<i>Men</i>	<i>Total</i>
<i>Assistant/Auxiliary</i>	61	109	170
<i>Technical Analyst/ Executive / Support</i>	26	25	51
<i>Supervisor/ Coordinator/ Specialist</i>	6	7	13
<i>Chief / Expert / Administrator</i>	2	3	5
<i>Manager</i>	2	1	3
<i>General Manager / Vice-Presidents</i>			
<i>Total</i>	97	145	242

EMPLOYEES BY REGION AND GENDER

Women – Men

2,261 – 1,375 (Sierra Region)

1,526 – 839 (Coast and Insular Region)

99 – 19 (Eastern Region)

<i>NEW HIRES</i>		
<i>Gender</i>	<i>2014</i>	<i>2013</i>
<i>Women</i>	982	982
<i>Men</i>	586	478
<i>Total</i>	1,568	1,460

<i>NEW HIRES BY REGION</i>		
<i>Region</i>	<i>2014</i>	<i>2013</i>
<i>Sierra</i>	927	816
<i>Coast and Insular Region</i>	575	576
<i>Eastern</i>	66	68
<i>Total</i>	1,568	1,460

<i>NEW HIRES BY AGE</i>		
<i>Age</i>	<i>2014</i>	<i>2013</i>
<i>18-25</i>	934	907
<i>26-33</i>	491	470
<i>34-41</i>	116	64
<i>42-49</i>	20	14
<i>Over 50</i>	7	5
<i>Total</i>	1,568	1,460

TYPES OF CONTRACTS:

98.63% Fixed-term Contract

1.37% Other

3.2. TRAINING AND PROFESSIONAL DEVELOPMENT

G4-LA9

176,602 Training Hours Provided

On average, each employee received 28.86 hours of training during the year. A total of 176,602 hours of training were provided, both virtually and onsite, representing 3,521 hours more than in 2013. On the one hand, the 2.03% increase was due to a larger number of employees and, on the other hand, to the importance that we place on training and development processes, which we see as being key elements for organizational progress.

Female staff received 60.6% of training hours and the male staff 39.4%.

<i>Our employees received 3,521 more hours of training</i>
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Professional Development Programs

G4-LA10

We would like to highlight the following professional development programs:

- **Technical Degrees**

This program is divided into two stages: pre-university and specialization, which are organized into semesters with specific coursework in order to provide a systematic offer of free, continuous corporate education for our staff.

In 2014, 202 employees from across the country benefitted from this project in the areas of Business, Services, and Microfinance. In 2015, they will finish the pre-university stage of the degree programs they enrolled in. Upon finishing the program, the students will receive a higher education certificate in Business and Services, certified by Universidad Técnica Particular de Loja.

- **Development of Supervisor Abilities**

This program looks to ensure that supervisors are clear on their duties and that they have the knowledge, tools, and abilities necessary to provide the adequate administration of their department's human talent. In 2014, 359 supervisors, representing 63.0% of the total, participated.

HOURS OF ONSITE TRAINING				
Professional category	Hours of training	Number of employees	Average number of hours	
			2014	2013
Assistant/Auxiliary	3,364	2,038	1.65	5.46
Technical Analyst/ Executive / Support	75,086	1,695	44.30	23.80
Supervisor/ Coordinator/ Specialist	12,784	1,577	8.11	26.19
Chief / Expert / Administrator	39,362	671	58.66	65.57
Manager	13,961	124	112.58	157.76
General Manager / Vice-Presidents	834	14	59.57	44.80
Total	145,390	6,119	23.76	24.27

HOURS OF VIRTUAL TRAINING				
Professional category	Hours of training	Number of employees	Average number of hours	
			2014	2013
Assistant/Auxiliary	7,365	2,038	3.61	2.83
Technical Analyst/ Executive / Support	10,626	1,695	6.27	4.51
Supervisor/ Coordinator/ Specialist	8,350	1,577	5.29	6.76
Chief / Expert / Administrator	4,556	671	6.79	11.44
Manager	311	124	2.51	4.39
General Manager / Vice-Presidents	4	14	0.29	0.80
Total	31,212	6,119	5.10	5.12

SATISFACTION OF TOPICS TAUGHT IN THE SUPERVISORY SKILLS PROGRAM:

Conflict Management
 Change Management
 Focus on Results
 Integrity
 Time Management
 Leadership
 Communication

3.3. TRAINING IN HUMAN RIGHTS

G4-HR2, G4-HR7

We can highlight the following courses that were given, which are in response to the United Nations Global Compact and that promote human rights.

TRAINING IN GLOBAL COMPACT PRINCIPLES		
Topic	Number of participants	Number of hours per course
Corporate Governance	60	243
Human Rights	160	885
Anticorruption	845	2,535

Additionally, we trained 98% of the security guards from the four supplier companies in the following topics: progressive use of force, ethical conduct, human rights, criminal profiles, and identification of suspicious persons, Law of Private Security, and the new Comprehensive Criminal Code, with an average of 13.54 hours of training for each guard.

HUMAN RIGHTS TRAINING FOR SECURITY GUARDS			
Security Company	Number of employees	Training Hours	Average number of hours
Sepriban	75	103	1.37
Seminter	334	509	1.52
Laersec	243	399	1.64
Invin	70	630	9.00
Total	722	1,641	13.54

3.4. EVALUATION OF EMPLOYEES' PERFORMANCE

G4-LA11

100% of Staff Evaluated

Once again, we measured the performance of all of our company's staff working at least six months and under a fixed-term contract. This was done in addition to a feedback process and formal performance review. The evaluation covers four components:

Institutional objectives
Budgetary compliance index
Performance by objective
Evaluation of team

The Evaluation of Team variable was modified; in addition to rating the supervisor, this year we included an evaluation of the team with which each employee interacts, using the 360 degree method. The result of this evaluation provides the input for training plans, identification of backups, promotions, successions, bonuses, and salary reviews.

<p><i>98% of security guards were trained in human rights.</i></p>
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3.5. EMPLOYEE SALARIES AND COMPENSATION

G4-EC5

Equal Remuneration for Women and Men

Our salary system for employees is regulated by the *Salary Management Manual*, which defines policies and procedures for proper management in accordance with market trends, internal equality, and observance of the labor laws.

We are competitive in the market. Each year we perform a salary review of all staff based on their performance evaluation. Then we analyze internal equity and competitiveness with respect to the market, based on a salary survey conducted by Andean Consultores Estratégicos. There is no difference in salary because of gender.

Employees in positions performing significant operations for the Bank receive salaries that are 53.47% (female staff) and 53.72% (male staff) higher than the minimum salary established as per industry tables. Additionally, all employees receive Christmas bonuses.

3.6. STAFF BENEFITS

G4-LA2, G4-LA3

ACTÚA (“ACT”) for Your Wellbeing

ACTÚA for your wellbeing program: Personal Image, Education, Physical Condition, Nutrition, Family Wellbeing, and Health

ACTÚA PROGRAM FOR YOUR WELLBEING

*Personal Image
Education
Physical Shape
Nutrition
Family Wellbeing
Health*

<i>The health and wellbeing of our staff and their families are priorities for the Bank.</i>
--

We began this program to promote an alternative for the comprehensive development and wellbeing of our employees and their families. It is a six-sided program: health, personal image, education, physical shape, nutrition, and family wellbeing. We foster good habits in our staff through special discounts in sporting institutions, universities, etc. The ACTÚA for Your Wellbeing program was launched in Quito, Guayaquil, and Cuenca. In 2015, this program will progressively extend nationwide.

For 2015, we have plans to work on a program called ACTÚA for your organization, aimed at identifying areas in which each employee promotes the company's development and the accomplishment of planned goals.

- **Maternity and Paternity**

100% of parents returned to work after maternity and paternity leave

In order to motivate the prevalence and average length of exclusive breastfeeding, we promote educational programs in strategic alliance with UNICEF, which were provided to 411 employees in Quito, Guayaquil, and Cuenca.

The issue gained national notoriety from a photo contest for raising awareness among our employees about the importance of breastfeeding. Fifty people participated in the contest.

In 2014, a total of 540 employees became mothers, and 51 employees became fathers. All of them came back to work at the Bank after their parental leave was over. Months after their leave, 96.29% of women and 96.07% of men continue to work in the organization.

Additionally, Banco Pichincha pays a stipend for childcare for employees with children of up to four years of age, in accordance with the institution's internal policies.

«UNICEF INFORMS COMPANIES: ACCORDING TO UNICEF, PROMOTING BREASTFEEDING CREATES BENEFITS FOR COMPANIES: SAVINGS IN NEW STAFF RECRUITMENT EFFORTS, REDUCTION IN ABSENCE FROM WORK (SINCE BREASTFED BABIES GET SICK LESS OFTEN AND THEIR MOTHERS DO NOT HAVE TO MISS WORK), INCREASED JOB SATISFACTION, AND A BETTER CORPORATE IMAGE.»

- **Our Children Visit**

Employees' children can value their parents' work

With the goal of contributing to the work-family balance of our employees, we invite their children to spend a day of their vacation at our offices. In 2014, 69 boys and girls visited the Bank. This was an opportunity for them to value their parents' work, meet their co-workers, and find out about their parents' work environment.

«GENERAL BENEFITS: WE CONTINUE PROVIDING THE FOLLOWING BENEFITS TO STAFF: LOANS WITH PREFERENTIAL CONDITIONS, FUTURE SAVINGS PLAN (GEARED TOWARD STAFF RETIREMENT), UNIFORMS, FOOD, LIFE AND ACCIDENT INSURANCE (COVERED BY THE COMPANY IN ITS ENTIRETY), AND MEDICAL ASSISTANCE PLAN (COVERED 70% BY THE BANK).»

540 employees became mothers, and 51 became fathers in 2014.

The organization encourages exclusive breastfeeding for the recommended average duration.

www.unicef.org

www.who.int

3.7. WORK ENVIRONMENT

4,000 employees participated in the work environment study

During 2014, we measured the work environment, where the satisfaction perception reached 80.33%. In the study 4,000 employees participated, representing 65.37% of our staff.

Based on the results, in 2015 we will carry out projects to allow us to improve the following priorities:

Human Development

- Greater involvement of bosses in their team's development

Leadership

- Fostering the recognition, feedback, participation, and listening skills of supervisors.

Communication and Teamwork

- Greater use of formal channels.
- More appreciation of team achievements over individual achievements.

3.8. OCCUPATIONAL HEALTH AND SAFETY

G4-LA6, G4-LA7

6,000 employees received the Internal Workplace Policy on Occupational Health and Safety

We promote an environment based on the health and safety of our employees, minimizing occupational hazards and promoting a culture of prevention.

In compliance with the laws on the System for Managing the Prevention of Occupational Hazards that is promoted by the IESS and Ministry of Labor, we crafted an occupational health program to create a safe work environment.

The most important actions this year are detailed in the *Actions Taken in 2014 in Occupational Health and Safety* table.

Training, emergency prevention, and the implementation of emergency plans and drills were the most important actions. One of the actions with the greatest reach, as detailed in the table, is the Internal Workplace Policy on Occupational Health and Safety. This policy allows employees to have direct knowledge of the law and policy and makes it possible for them to apply it when necessary.

Likewise, the Bank's care in branch inspections demonstrates its intention to avoid occupational diseases and accidents on the jobs that may be detected in time, thereby creating medium- and long-term benefits for employees and the organization as a whole.

One of the strategies has been to conduct prevention and vaccine campaigns, which are mainly for raising awareness about diseases prevailing in Ecuadorian society.

<i>The level of satisfaction with the work environment is 80.33%.</i>

ACTIONS TAKEN IN 2014 REGARDING OCCUPATIONAL HEALTH AND SAFETY

Formal delivery of the Internal Workplace Policy on Occupational Health and Safety to approximately 6,000 employees.

Occupational health and safety inspections at 260 branches nationwide to prevent accidents on the job and occupational diseases.

Two virtual training modules for 6,000 employees to promote a culture of health and safety at work.

Prevention and vaccine campaigns in the main cities:

1. Fatty liver prevention campaign
1,956 participants in Quito, Guayaquil, Quevedo, and Santa Elena.
2. Parasite prevention campaign
626 participants in Quito, Guayaquil, and Empalme
3. High blood pressure prevention campaign
36 participants in Guayaquil
4. Prostate cancer prevention campaign
63 participants in Quito and Guayaquil
5. Cervical uterine cancer prevention campaign
76 participants in Quito
6. Flu shot campaign
905 participants in Quito, Guayaquil, Libertad, and Portoviejo
7. Diphtheria and tetanus vaccine campaign for vulnerable groups
70 participants
8. Yellow Fever vaccination campaign
90 participants in the Eastern Region.

3,822 people participated in the prevention and vaccine campaigns in numerous cities.

<i>OCCUPATIONAL HEALTH AND SAFETY INDICATORS</i>			
<i>Indicator</i>	<i>2014 Numbers</i>	<i>2013 Numbers</i>	<i>Description of the indicator</i>
<i>Frequency rate*</i>	<i>3.73</i>	<i>1.97</i>	<i>Number of injuries over man-hours worked, multiplied by 200,000.</i>
<i>Index of seriousness</i>	<i>26.13</i>	<i>33.50</i>	<i>Number of days lost over man-hours worked, multiplied by 200,000.</i>
<i>Risk rate*</i>	<i>18.15</i>	<i>17</i>	<i>Index of seriousness over the frequency rate.</i>
<i>Number of employees with occupational diseases</i>	<i>3</i>	<i>0</i>	<i>Total number of occupational disease cases</i>
<i>Absentee rate</i>	<i>0.62</i>	<i>0.68</i>	<i>=(Number of lost days/Number of man-hours) x 100</i>
<i>Death toll</i>	<i>0</i>	<i>0</i>	<i>Total number of deaths.</i>
<i>*The increase in the frequency and rate of risks is due to the fact that more employees now report occupational injuries thanks to the campaigns and training courses promoting the OHS culture.</i>			

<i>BRANCH CATEGORIES ACCORDING TO OHS CONDITIONS</i>	
<i>Branch Category</i>	<i>Percentage</i>
<i>Adequate ✓✓✓✓</i>	<i>3%</i>
<i>Acceptable ✓✓✓</i>	<i>36%</i>
<i>Regular ✓✓</i>	<i>53%</i>
<i>Inadequate ✓</i>	<i>8%</i>

The Occupational Health and Safety (OHS) Committee, made up of Senior Management, has the mission of establishing a comprehensive environmental, health and safety system for better working conditions for all employees. This committee analyzes all OHS needs and actions to promote continuous improvement.

We improved the reporting and performance of OHS indicators, as shown in the indicator table.

An inspection program regarding occupational health and safety standards at branches was implemented at the national level. The purpose was to obtain an updated picture of the conditions in order to implement, develop, and maintain adequate safety conditions and establish corrective actions.

Additionally, we work to extend this OHS culture to our suppliers through contract clauses that ensure compliance with Ecuadorian Law.

As a result of the evaluations on work areas, we estimate that there is a “moderate” risk in psycho-social and ergonomic factors. In order to mitigate them, we have drafted a communication plan for preventative actions to be taken at the workplace.

<i>260 branches nationwide were inspected on occupational health and safety.</i>
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4.

ENVIRONMENTAL PROTECTION

We are committed to environmental protection through our Environmental Management System and policy, which influence all of the Bank's operations and its value chain. We promote a culture of respect, protection, and efficiency in the use of natural resources to reduce our organization's impact on climate change.

CHALLENGES FOR 2014	2014 ACCOMPLISHMENTS	CHALLENGES FOR 2015
<i>To design a policy and an Environmental Management System for the entire organization.</i>	<i>We worked on designing an Environmental Management System and policy that suit the nature of Bank and are based on national and international standards, such as ISO 14001.</i>	<i>To provide information and to implement the environmental policy with respect to 100% of employees.</i>
<i>To improve the quality and coverage of environmental indicators through information collection tools.</i>	<i>We developed a model and tool to collect environmental information, which will have national coverage to establish the Bank's environmental footprint.</i>	<i>To implement the tool to report four environmental indicators nationwide.</i>
<i>To continue with the "Actúa" Environmental Awareness Program, with the participation of employees in five cities across the country.</i>	<i>15 awareness videos in which employees from six cities acted.</i>	<i>To strengthen the "Actúa" Environmental Awareness Program through innovative activities and communications, with the participation of employees in seven cities across the country.</i>

<p><i>The Environmental Management System is based on the country's legislation and on International Standards such as ISO 14001.</i></p>

4.1. ENVIRONMENTAL MANAGEMENT SYSTEM AND POLICY

In 2015, we will implement the Environmental Management System

To achieve this goal, we used an Environmental Management System (EMS) and policy for preventing risks, improving efficiency in the use of resources, reducing the organization's environmental impact on climate change and enhancing its reputation.

During 2014, we worked on designing the Environmental Management System and policy, as well as a tool to capture and consolidate information. In 2015, we will work on implementing it, which will allow us to propose goals for reduction and continuous improvement.

Environmental Policy
Establishes the Bank's environmental commitments, which constitute the basis for defining environmental objectives.

Management System
Management elements designed and inter-related to ensure compliance with the Bank's Environmental Policies.

Vision
Courses of action based on directing the fulfillment of the vision established in the Environmental Policy.

- *Implementation of efficiency measures in the use of resources and energy.*
- *Integration of environmental variables in developing financial products and services.*
- *Environmental criteria in selecting suppliers and evaluating customer risks.*
- *Other commitments such as prevention, continuous improvement, legal compliance, awareness, and so on.*

Operative elements that establish a cycle of continuous improvement of the Bank's environmental results.

Support elements that provide corporate coherency in implementing the system.

Review elements to make strategic decisions.

International standards (ISO 14001)

CONTINUOUS IMPROVEMENT IN THE BANK'S ENVIRONMENTAL BEHAVIOR.

EXTENSION OF THE ENVIRONMENTAL CULTURE TO OUR CUSTOMERS AND SUPPLIERS.

Due to the nature of our business, we measure and manage the direct impacts by the use of resources, waste generation, and emission of contaminating gasses, in order to reduce our environmental footprint.

The environmental footprint is a parameter that allows us to measure humans' impact on the planet.

Environmental Culture

This year we have built on the “Actúa” Environmental Awareness Program for our employees, using videos as an innovative communication tool. This gives us different ways to reach out with an educational message that is didactic, fun, easy to understand, and that promotes active participation. We invited work teams, supervisors, and senior management to voluntarily participate in the filming.

The objective was for employees to become aware of the environmental problem affecting the world, to learn about adverse environmental impacts, and determine which ones are created by each one of us as workers in a financial institution.

15 videos filmed

6,119 employees trained.

87 employees and 15 teams, with supervisors and senior management, participated in the filming.

Topics: saving electricity, paper, and water, and waste management.

A conference entitled *I Am Part of Changing the Environmental Culture* was given to 67 employees from companies that provide cleaning, catering, landscaping, and management services in order to raise awareness on the efficient use and care of water and electricity at the workplace and at home.

4.2. PAPER CONSUMPTION

G4-EN1, G4-EN27

We reduced paper consumption by 2.41% per employee

Despite the fact that overall paper consumption has increased with the Bank’s growth, we have achieved a reduction in paper consumption per employee. On average, each employee used 192 fewer sheets of paper than the previous year, which comes out to a reduction of 16 sheets per month.

Paper is one of the main materials used; therefore, in order to contribute to the environment, we will continue using paper made from sugarcane bagasse and ECF¹¹ whitened pulp.

¹¹Stands for Elemental Chlorine Free, which is paper that does not use bleach, therefore preventing the formation of dioxins.

<i>DOMESTIC PAPER CONSUMPTION*</i>		
	<i>2014</i>	<i>2013</i>
<i>Total sheets of paper for internal use</i>	<i>57,987,447</i>	<i>57,106,445</i>
<i>Total sheets of paper for use by customers and suppliers**</i>	<i>89,069</i>	<i>104,066</i>
<i>* Number of printouts by Grupo Pichincha operations, including affiliates (BPAC, CREDI FE, CRISFE, PAGUE YA). This excludes printouts by TCS, which manages technological management.</i> <i>** Paper is used for printing checks for customers and suppliers from the internal payment area.</i>		

EACH EMPLOYEE USED 192 FEWER SHEETS OF PAPER

2014 = 7,757

2013 = 7,949

Note: The 2014 calculations were made by dividing the total number of sheets of paper for internal consumption (57,987,447) by the average number of Pichincha Group employees (7,475).

97% of employees are of the opinion that the environmental video initiatives created a positive impact.

88% of employees believe that the “Actúa” Program is easy to understand, useful, and educational.

Reduction of Paper Consumption

1,271,140 account statements not printed

We implemented initiatives to make paper use more efficient and thus generate savings, as shown below:

a. **Electronic Bank Statements:** we renovated the Electronic Pichincha website and Electronic Banking (Internexo), through which our customers (individuals and companies) may safely access their information. The main benefits of this initiative are safer and more efficient automation and control mechanisms, improved customer service, reduction in the use and waste of physical space required for saving documents, and lower environmental impact by not printing and transporting papers. This results in automatic savings in the first two segments.

- *Savings and checking accounts:* total savings of 13,749,630 sheets of paper from June through December for not printing 1,271,140 bank statements. Approximately 23% of bank statements continue to be printed in order to comply with the Superintendency of Banks’ regulations.

- **Credit cards:** Starting in October, this segment began delivering electronic receipts and 33.87% of receipts are no longer printed. This represents an average savings of 304,696 sheets of paper per month.

b. **Electronic sales help website:** generates savings of approximately 60,500 sheets of paper per year. Before, commercial agents used catalogs in physical folders to offer products and services. In order to eliminate the use of paper, the “Sales Help” digital application was implemented for electronically accessing all of the updated information about products and services, business tips, campaigns, channels, and issues related to sales management.

c. **Credit documents:** we stopped printing 388,452 sheets of paper per year by reducing credit documents.

d. **Contracts for opening accounts, savings plans, and checking accounts:** thanks to the reduction in contract documents for opening accounts, savings plans, and checking accounts, 1,529,568 sheets of paper were saved.

<i>\$1,713,632 saved; this means that 1,664 trees were also saved.</i>
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INCREASE IN THE NUMBER OF ELECTRONIC ACCOUNT STATEMENTS NUMBER OF SAVINGS AND CHECKING ACCOUNT STATEMENTS (IN THOUSANDS)						
ELECTRONIC						
1,250	1,196	1,273	1,253	1,280	1,326	1,320
PRINTED						
288	292	289	289	292	289	289
Jun	Jul	Aug	Sept	Oct	Nov	Dec

INCORPORATION OF ELECTRONIC ACCOUNT STATEMENTS NUMBER OF ACCOUNT STATEMENTS FOR CREDIT CARDS (IN THOUSANDS)		
PRINTED		
440.25	430.20	478.84
ELECTRONIC		
67.30	216.82	172.93
October	November	December

4.3. ENERGY CONSUMPTION

G4-EN3

Direct Energy Consumption Reduced by 3%

Nationally, the Bank has maintained its direct and indirect energy consumption; however, the main energy consumed is electricity¹² from sources outside of the organization. Each employee consumes 3,754.66 kW/h per year of electricity.

Reduction in Energy Consumption

G4-EN6

We have reduced direct energy use by 3%, which equal a reduction of 110.01 gigajoules compared to last year. This demonstrates better efficiency in the use of resources because the “Actúa” Program and situations beyond the Bank’s control. The *We Reduce Direct Energy Consumption* table shows the levels of electricity consumed and the transportation fleet. Likewise, 839¹³ computers were purchased with Energy Star and Epeat Gold certifications, guaranteeing that devices have high performance and low-energy consumption.

4.4. WATER CONSUMPTION

G4-EN8

We broadened the scope of our water consumption indicator by including five new establishments. This year, we will continue to enhance our report. The *Water Consumption* table shows the levels of water consumption by our institution, although this data cannot be compared to 2013 due to differences in the calculation method.

4.5. CORRECT WASTE MANAGEMENT

G4-EN23

3,337 Toners Recycled

We are working to improve waste management at the national level, promoting reduction, reuse, recycling, and correct final disposal. For this year, we are reporting on

¹² The establishments included in the measure of electricity are branches, self-service points, payment points, bank windows, and administrative offices; excludes automatic teller machines.

¹³ This equipment is used by our employees at BP, CREDI FE, and TCS, the technology supplier.

new waste, which corresponds to paper and cardboard waste generated through mass commercial processes: World Cup Stars and Everybody Is A Winner.

We carried out an ongoing campaign for collecting toners used in our establishments through our printing services supplier, and we have a recycling program. This way, we guarantee the correct final disposal of waste and also environmental protection. The weight of recycled toners in 2014 was 4,247.09 kg, and in 2013 it was 2,426.25 kg. As shown in the *More Recycled Toners in 2014* table, more toners were collected than in 2013.

<i>Direct energy consumption was reduced by 3%.</i>

WE REDUCE DIRECT ENERGY CONSUMPTION
IN GIGAJOULES, UNIT OF MEASURE FOR ENERGY
THIS CALCULATION USED GRI CONVERSION PROTOCOL FACTORS

Electrical generators

Owned transportation fleet

Total energy

1,842.79 – 1,431.89 – 3,274.68 (2014)

1,956.88 – 1,427.81 – 3,384.69 (2013)

INDIRECT ENERGY CONSUMPTION (GJ)*		
	2014	2013
Electricity	82,926.54**	95,105.99
Electricity per employee	13.55	16.15
*The 2014 data is not comparable with 2013 data due to differences in the calculation method.		
**Approximately 90.51% of national coverage, representing 286 establishments where 90.15% of our employees work.		

WATER CONSUMPTION (M ³)*		
	2014	2013
Water Consumption	136,090**	162,531
Water Use per Employee	22.24	27.60
*The 2014 data is not comparable with 2013 data due to differences in the calculation method.		
**Includes approximately 52.53% of national coverage, representing 166 establishments where 56.74% of our employees work.		

CORRECT WASTE MANAGEMENT AT THE NATIONAL LEVEL			
Type of waste	Unit kg	2014	2013
Hospital waste*		56.2	31
Passive file waste		31,830	111,420**
Paper and cardboard		20,609.34	NA
*Waste generation in the two medical centers located in Quito and Guayaquil.			
**Includes information accumulated over six years; therefore, it is not comparable with 2014.			
NA: Information not available.			

There was a considerable increase in the volume of discarded assets, as shown in the *We Increase the Percentage of Assets with Correct Environmental Management* table. Such assets include automatic teller machines and electronic, metallic, and wood waste donated to qualified environmental management companies.

Waste management for paper, cardboard, plastic, and fluorescent waste is done at the Quito main office. In 2014, the amount of waste was reduced, which made us more committed to promoting good recycling practices, as reflected in the *Correct Waste Management in the Headquarters Building* table.

4.6. CARBON FOOTPRINT

G4-EN15, G4-EN16

9.72 fewer tons of CO₂e

The Bank measured the direct impact (see *We Reduce our Direct Carbon Footprint* table) and indirect impact (see the *Indirect Greenhouse Gas Emissions* table) by greenhouse gas (GHG) emissions mainly caused by the consumption of resources.

554.638 kg of waste subjected to correct environmental management.

Reduction of Greenhouse Gas (GHG)

G4-EN19

We have reduced direct emissions by 9.72 tons of CO₂e, which represents a savings of 3.92% in comparison with last year, as shown in the *We Reduce our Direct Carbon Footprint* table. This demonstrates better efficiency in the use of resources and a reduced impact by situations beyond the organization's control.

MORE TONERS RECYCLED IN 2014

2014 = 3,337

2013 = 1,946

WE INCREASED THE PERCENTAGE OF ASSETS WITH CORRECT ENVIRONMENTAL MANAGEMENT

2014 = 497,895.50 kg

2013 = 138,534.20 kg

WE REDUCED OUR DIRECT CARBON FOOTPRINT

IN TONS OF CO₂E. THE UNIT OF MEASURE FOR CARBON FOOTPRINTS

FOR DIRECT GHG EMISSION CALCULATIONS, WE USED THE GHG PROTOCOL METHOD (2007).

Electrical generators

Owned transportation fleet
Total direct emissions
130.39 – 107.42 – 237.81 (2014)
138.44 – 109.09 – 247.53 (2013)

CORRECT WASTE MANAGEMENT IN THE HEADQUARTERS BUILDING			
Type of Waste	Unit	2014	2013
Non-Hazardous			
Paper, cardboard, and plastics*	Kg	2,313	3,233
Hazardous			
Fluorescent lighting and energy-saving bulbs	Units	1,951	2,328
* The amount reported is from estimated data based on the calculation of the ratio of the number of employees in the Quito Headquarters building to the amount of generated waste in kilograms. This is an estimate since the Bank shares its facilities with another company.			

INDIRECT GREENHOUSE GAS EMISSIONS			
	Unit	2014	2013
Emissions generated by electricity consumption	Tons of CO ₂ e	8,062.59*	9,246.42
*Approximate consumption of electricity of 90.51% coverage nationwide, representing 286 establishments where 90.15% of our employees work. For the calculation, we multiplied electricity consumption by the factor for electrical emissions for Ecuador, which is data from the International Energy Agency (350 tons of CO ₂ /GWH) in its CO ₂ emissions report for 2013. This data is not comparable with 2013 due to changes in the calculation method.			

CONTENT INDEX – GRI G2 “IN ACCORDANCE WITH” OPTION: ESSENTIAL				
Basic general content	Description	Section / Response	Page	External verification
STRATEGY AND ANALYSIS				
G4-1	Statement from the most senior decision-maker of the organization about the relevance of sustainability to the organization.	Manager’s Letter	7	
G4-2	Description of the key impacts, risks, and opportunities.	Sustainability challenges	53	✓
		Report to the Shareholders	28	
ORGANIZATIONAL PROFILE				
G4-3	Name of the Organization	Banco Pichincha C.A.		✓
G4-4	Primary brands, products, and services.	Products designed specifically for our customers	76, 77	✓
		Key products of the year	79	✓
		Products for micro-businesses	81	✓
G4-5	Location of the organization’s headquarters.	Av. Amazonas 45-60 and Pereira, Quito, Ecuador		✓
G4-6	Number of countries where the company operates and the names of countries where either the company has significant operations or that are specifically relevant to the sustainability topics covered in the report.	Companies and institutions of Grupo Financiero in the country	18	
		Companies and institutions of Grupo Financiero abroad.	22	
G4-7	Nature of ownership and legal form.	Stock Company (C.A.)		✓
G4-8	Markets served (including geographical breakdown, sectors served, and types of customers)	Our Bank	77	✓
G4-9	Report the scale of the organization, including <ul style="list-style-type: none">- Number of employees- Total number of operations- Net sales or r net revenue	Key Numbers	54	✓
G4-10	Report on the following employment information: -Report on the total number of employees by employment contract and gender. -Report on the total workforce per region and gender.	Human Talent	100	✓
G4-11	Percentage of employees covered by collective bargaining agreements.	There are no collective bargaining agreements in Banco Pichincha.		
G4-12	Organization’s supply chain	Our value chain	60	✓
G4-13	Significant changes during the reporting period regarding the organization’s size, structure, ownership, or its supply chain.	There have been no significant changes with regard to the 2013 report.		✓

		Customer Service	93	✓
G4-15	Social, environmental, and economic principles or programs that have been performed externally, as well as any other initiative that the organization contracts or supports.	Sustainability principles and initiatives	64	✓
G4-16	Key associations that it belongs to (such as industry-specific associations), and/or national or international organizations that it supports	Sustainability principles and initiatives	64	✓
IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES				
G4-17	List the entities included in the consolidated financial statements and report whether any entity is not covered by the sustainability report.	Report to Shareholders	28	
		Presentation of the 2014 Report	53	✓
G4-18	Process for defining the report content and aspect boundaries.	Scope and coverage	53	✓
		Methodology for selecting the contents of the report	56	✓
G4-19	List all material aspects identified in the process for defining report content.	Relevant Topics	58	✓
G4-20	For each material aspect, report whether it is for the entire organization. Otherwise, indicate which aspect is not material for any one of the entities that make up the organization.	Relevant Topics	58	✓
G4-21	For each material issue, report the aspect boundary outside the organization.	N/A		✓
G4-22	Report the effect of any restatements of information provided in previous reports, and the reasons for such restatements.	No significant restatement of information provided previous reports. When restatement affects inter-annual comparability of the tables provided, the restatement is described in a note at the bottom of the page or table.		
G4-23	Significant changes from previous reporting periods in the scope, coverage, or valuation methods applied to the report.	The significant change was the adoption of the GRI-G4 meth, and this year we have only reported the issues that are priority for our stakeholder groups and for the organization.		
STAKEHOLDER GROUPS				
G4-24	List of stakeholder groups engaged by the organization.	Stakeholder groups	55	✓
G4-25	Report the basis for identification and selection of stakeholder groups with whom the Bank	Stakeholder groups	55	✓

	engages.			
G4-26	Organization’s approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group, and an indication of whether any of the engagement was undertaken specifically as part of the report preparation process.	Stakeholder groups	55	✓
G4-27	Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting. Report the stakeholder groups that raised each of the key topics and concerns.	Stakeholder groups	55	✓
REPORT PROFILE				
G4-28	Reporting period for information provided	Scope and coverage	53	✓
G4-29	Date of most recent previous report.	2013		
G4-30	Reporting Cycle (Annual – Biennial)	Reporting and work standard	53	✓
G4-31	Contact point for questions regarding the report or its contents.	Information and Comments	53	✓
G4-32	Report “the in accordance” with the GRI method the organization has chosen (Core-comprehensive). Report GRI Content Index.	Reporting and work standard	53	✓
G4-33	Report the organization’s policy and current practice with regard to seeking external assurance for the report.	Accuracy and Assurance	53	✓
GOVERNANCE				
G4-34	Governance structure of the organization, including committees of the highest governance body. Identify any committees responsible for decision-making on economic, environmental, and social impacts.	Organizational Structure	65	✓
		Sustainable development structure	68	✓
ETHICS AND INTEGRITY				
G4-56	Describe the organization’s values, principles, standards and norms of behavior, such as codes of conduct and codes of ethics.	Banco Pichincha C.A. Principles	11	
		Focus on Ethics and Transparency	64	✓
		Organizational Culture	68	✓
PERFORMANCE INDICATORS				
Basic specific content	Description	Section/Response	Page	External Assurance
ECONOMIC				
	Management Focus	Responsible Finances	73	✓

		Human Rights in the Value Chain	99	✓
ECONOMIC PERFORMANCE				
G4-EC1	Direct economic value generated and distributed	Market share and economic performance.	74	✓
G4-EC4	Significant financial assistance received from governments,	No significant assistance received from governments registered in our accounts.		✓
MARKET PRESENCE				
G4-EC5	Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation	Salaries and Compensation	104	✓
G4-EC6	Proportion of senior management hired from the local community at significant locations of operations.	Human Talent	100	✓
PROCUREMENT PRACTICES				
G4-EC9	Proportion of spending on local suppliers at significant locations of operation.	Market Share and Economic Performance	74	✓
ENVIRONMENTAL				
	Focus on management	Environmental protection	111	✓
		Environmental Management System and Policy	112	✓
MATERIALS				
G4-EN1	Materials by weight or volume	Paper consumption	113	✓
ENERGY				
G4-EN3	Energy consumption within the organization	Energy Consumption	114	✓
G4-EN6	Reduction of energy consumption	Reduction of Energy consumption	115	✓
WATER				
G4-EN8	Total water withdrawal by source	Water Consumption	115	✓
EMISSIONS				
G4-EN15	Direct greenhouse gas (GHG) emissions (Scope 1)	Carbon Footprint	116	✓
G4-EN16	Indirect greenhouse gas emissions (Scope 2)	Carbon Footprint	116	✓
G4-EN19	Reduction of greenhouse gas emissions	Reduction of Greenhouse Gas Emissions	116	x
EFFLUENTS AND WASTE				
G4-EN23	Total weight of waste by type and disposal methods	Correct waste management	115	✓
PRODUCTS AND SERVICES				
G4-EN27	Impact mitigation of environmental impacts of products and services	Paper Consumption	113	✓
SOCIAL: LABOR PRACTICES AND DECENT WORK				
	Focus on Management	Human Rights in the Value Chain	99	✓
EMPLOYMENT				
G4-LA1	Total number of hires and median turnover of employees, detailed by ethnic group, gender, and region.	Human Talent	100	✓

G4-LA2	Employment benefits for full-time employees that are not provided to temporary or part-time employees, by significant locations of operation.	Staff Benefits	104	✓
G4-LA3	Return to work and retention rates after parental leave, by gender	Staff Benefits	104	✓
OCCUPATIONAL HEALTH AND SAFETY				
G4-LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender	Occupational Health and Safety	106	✓
G4-LA7	Workers with high incidence or high risk of diseases related to their occupation,	Occupational Health and Safety	106	✓
G4-LA8	Health and safety topics covered in formal agreements with trade unions.	Does not apply since the organization has no unions.		✓
TRAINING AND EDUCATION				
G4-LA9	Average hours of training per year per employee by gender, and by employee category	Professional Education and Development	102	✓
G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and employees category.	Employee Performance Evaluation	103	✓
DIVERSITY AND EQUAL OPPORTUNITY				
G4-LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity.	Human Talent	100	✓
SOCIAL: HUMAN RIGHTS				
	Focus on management	Human rights and the value chain	99	✓
INVESTMENT				
G4-HR2	Total hours of employee training on human rights policies or procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained,	Training in Human Rights	102	✓
NON-DISCRIMINATION				
G4-HR3	Number of incidents of discrimination and corrective measures taken.	Organizational Culture	68	✓
SECURITY PRACTICES				
G4-HR7	Percentage of security personnel trained in the organization's human rights, policies, or procedures that are relevant to operations.	Training in human rights	102	✓
SOCIAL: SOCIETY				

	Focus on management	Ethics and transparency	63	✓
		Responsible Finances	73	✓
LOCAL COMMUNITIES				
G4-SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programs.	Entrepreneurship	90	✓
ANTICORRUPTION				
G4-SO3	Number and percentage of operations assessed for risks related to corruption and the significant risks identified.	Anticorruption and anti-money laundering	69	✓
G4-SO4	Communication and training on anticorruption policies and procedures	Anticorruption and anti-money laundering	69	✓
G4-SO5	Confirmed incidents of corruption and actions taken.	Anticorruption and anti-money laundering	69	✓
ANTI-COMPETITIVE BEHAVIOR				
G4-SO7	Number of legal actions for anti-competitive behavior, antitrust, and monopoly practices and their outcomes.	Competition	70	✓
MARKETING COMMUNICATIONS				
G4-PR6	Sale of banned or disputed products	Marketing communications	70	✓
G4-PR7	Number of incidents of noncompliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of outcomes.	Marketing communications	70	✓
CUSTOMER PRIVACY				
G4-PR8	Number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	Customer Privacy	70	✓
LEGAL COMPLIANCE				
G4-PR9	Monetary value of significant fines for noncompliance with laws and regulations concerning the provision and use of products and services.	Regulatory compliance	70	✓
FINANCIAL SUPPLEMENT INDICATORS				
	Focus on management	Responsible Finances	73	✓
PRODUCT PORTFOLIO				
G4-FS1	Policies with specific environmental and social components applied to business lines.	Evaluation of Customers' Social and Environmental Risks	86	✓
G4-FS2	Procedures for assessing and screening environmental and social risks in business lines.	Evaluation of Customers' Social and Environmental Risks	86	✓
G4-FS3	Processes for monitoring customers' implementation of and	Evaluation of Customers' Social and Environmental	86	✓

	compliance with environmental and social requirements included in agreements or transactions.	Risks		
G4-FS4	Process(es) for improving staff competency to implement the environmental and social policies and procedures as applied to business lines.	Evaluation of Customers' Social and Environmental Risks	86	✓
PRODUCT PORTFOLIO				
G4-FS6	Percentage of portfolio for business lines by specific region, size (e.g., Micro/SME/Large) and be sector.	Our Bank	77	✓
G4-FS7	Monetary value of products and services designed to deliver a specific social benefit for each business line, broken down by purpose	Products Specifically Designed for our Customers	77	✓
		Financial Inclusion	80	✓
COMMUNITY				
G4-FS13	Access points in low-populated or economically disadvantaged areas by type.	Financial Inclusion	80	✓
G4-FS14	Initiatives to improve access to financial services for disadvantaged people.	Service to Disabled Customers	93	✓
PRODUCT AND SERVICE LABELING				
G4-FS15	Policies for the fair design and sale of financial products and services	Products Specifically Designed for our Customers	77	✓
G4-FS16	Initiatives to enhance financial literacy by type of beneficiary.	Financial Education	88	✓