

Report to the Shareholders

2018

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IN THE OPINION OF MULTILATERAL ORGANIZATIONS, WORLD GROWTH IN 2018 WAS KEPT AT A STABLE AND SOLID LEVEL, THOUGH WILL TEND TO DECELERATE IN THE NEXT TWO YEARS. FOR THIS REASON, SLIGHTLY LOWER RATES ARE EXPECTED FOR 2019 AND 2020.

2018 Macroeconomic Situation and 2019 Outlook

Brief Overview of the Global and Regional Macroeconomic Situation

In its World Economic Outlook of October 2018, the International Monetary Fund (IMF)¹ points out that, “The steady expansion under way since mid-2016 continues, with global growth for 2018-19 projected to remain at its 2017 level. At the same time, however, the expansion has become less balanced and may have peaked in some major economies. Downside risks to global growth have risen in the past six months and the potential for upside surprises has receded. Global growth is projected at 3.7 percent for 2018 and 3.5% for 19.”

Concerning the expected growth for the region, the report states that advanced economies will expand by 2.3% in 2018 and by 2.0% in 2019, thanks to greater fiscal stimulus in the United States. Nonetheless, the trade measures implemented against China will bring

growth down. Growth forecasts have been marked down for the euro area and the United Kingdom. In emerging markets and developing economies, which grew by 4.6% in 2018 and will increase by 4.5% in 2019, higher oil prices have lifted the prospects for energy exporting countries. Activity slowed more markedly in Argentina, Brazil, Iran, Turkey, and other countries as a result of country-specific factors, tighter financial conditions, geopolitical tensions, and higher oil import bills. The report goes on to say that Latin America improved by 1.1% in 2018 and will grow by 2.0% in 2019. Recovery in Latin America continued, though at a more subdued pace than anticipated as tighter financial conditions and a drought weighed on growth in Argentina and a nationwide truckers' strike disrupted production in Brazil.

According to the IMF report, the risks to global growth skew to the downside of elevated policy uncertainty, as well as to rising trade barriers and a reversal of capital flows directed to emerging market economies. In addition, the report reveals that tighter financial conditions in advanced economies could cause disruptive portfolio adjustments, sharp exchange rate movements, and further reductions in capital inflows to emerging markets, particularly those with greater

¹ IMF, *World Economic Outlook*, October 2018.

vulnerabilities. In 2018, geopolitical tensions and internal political conflicts exacerbated migratory fluxes as a crucial problem that requires global solutions.

Furthermore, in its January 2019 report on projection adjustments, the World Bank² states that global financial conditions have tightened, industrial production has moderated, trade tensions remain elevated, and some large emerging markets and developing economies have experienced significant financial market stress. Downside risks have become more acute and include the possibility of disorderly financial movements and an escalation of trade disputes.

In this difficult environment, it is of paramount importance for emerging markets and developing economies to rebuild policy buffers while laying a stronger foundation for future growth by boosting human capital, promoting trade integration, and addressing the challenges associated with informality. The report projects global growth at 3% for 2018, and 2.9% for 2019. The report goes on to say that advanced economies expanded by 2.2% in 2018, and projects that they will grow by 2% in 2019.

In emerging and developing economies, the softening external demand, tighter external financing conditions, and heightened policy uncertainties have stalled growth at 4.2% last year. This percentage will be kept at the same level in 2019. For the Latin America and Caribbean region, growth is projected at 0.6% and 1.7%, respectively. The report further states that private investment and consumption will be the pillars for growth in Latin America, projecting that Brazil's cyclical recovery will continue. Argentina has faced decelerated

growth due to monetary and fiscal restrictions, plus droughts.

The WB considers the following to be risks for the global economy: a) stalled expansion of commodities producers and downside shift experienced by the importers of those products; b) higher financing costs would reduce capital inflows into emerging markets resulting in a more sluggish growth; c) intensification of trade tensions could mean weaker global growth and interrupt globally interconnected value chains; d) heightened policy uncertainty and geopolitical risks.

The report points out the risks for Latin America and the Caribbean in terms of impaired capital inflows due to more restrictive financing conditions and a shift in investors' perception of developing economies. Furthermore, the risks include the adverse effects from the heightened trade protectionism of the United States and China and the region's vulnerability in the light of extreme weather events. Regional growth will be supported primarily on rising private consumption.

Lastly, the Economic Commission for Latin America (ECLAC)³ kept its projected global economic growth for 2018 at about 3.3%. Given the elevated uncertainty about the dynamics of future growth, ECLAC expects a weaker growth rate for 2019 (3.2%). In a press release⁴, ECLAC reported that the 2018 growth forecast for economic activity in Latin America and the Caribbean would be 1.3%, slightly below the rate projected in August last year (1.5%). A growth rate of 1.8% is predicted for 2019.

South American economies, which specialize in the production of commodities, particularly petroleum, minerals, and foods, grew at a positive rate of 0.7% in

² World Bank, *Global Economic Prospects 2019: Darkening Skies*, Washington, 2019.

³ECLAC, *Economic Survey of Latin America and the Caribbean Evolution of investment in Latin America and the Caribbean: stylized facts, determinants, and policy challenges*, 2018.

⁴ ECLAC, *Growth Projections for 2018 and 2019 (updated)*, October 2018.

2018, slightly below last year's rate. The subregion is expected to perform better in 2019, growing 1.6% on average. ECLAC predicts that Paraguay, Bolivia, Chile, and Peru will be the South American countries achieving the most growth in their GDP—at rates between 3.9% and 4.6%. These countries are expected to perform as well or even better in 2019, the year in which Colombia will join them with the same growth rate as that of Chile, 3.3%.

National Macroeconomic Situation

Real Sector

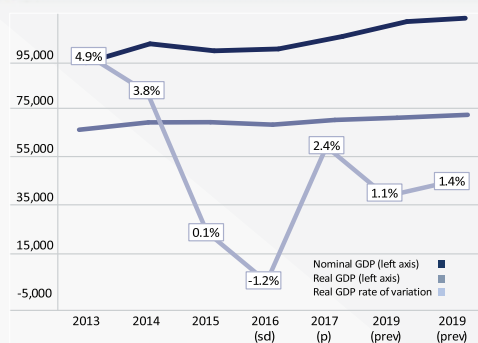
EVOLUTION OF THE GDP. The recovery in economic growth in 2017 (2.4%), overturning the recession experienced in 2016, took a new dive in 2018, when the economy grew by a mere 1.1%, according to Central Bank (BCE) figures⁵. The BCE forecasts for 2019 also call for limited growth, predicting that the GDP will inch up by 1.4%. This percentage would seem optimistic if compared with the IMF and the WB forecasts placing local growth at 0.7% or with respect to ECLAC's prediction of 0.9%.

The GDP's average rate of growth in the last five years—including the forecasts for 2019—is 0.75%, which is below the average growth of the population for the same period (1.5%)⁶ (Chart 1).

Oil prices in 2018 were higher compared to the preceding year, rising from an average of \$50.30 in 2017 to \$65.10 in 2018 per WTI barrel. The continued public debt policy applied in 2018—initiated with the issuance of debt at the international market for \$3 billion in January 2018—achieved a positive GDP growth at the close of the year. The growth in 2018 owes primarily to

heightened domestic demand in comparison with external demand (exportations). Although the level

Evolution of the Gross Domestic Product (GDP)
(IN MILLIONS OF DOLLARS AND IN PERCENTAGES)
Source of all charts, (unless stated otherwise): BCE, MONTHLY STATISTICAL INFORMATION, No. 2002, Dec. 2018.
Chart 1



expected for oil prices in 2019 is uncertain, many forecasts see a drop in prices compared to 2018. Conversely, availability for accessing international financial markets will decline, which could result in a slower growth rate for the GDP.

BCE reports show that the country's GDP for the third quarter of 2018 at constant prices has an interannual variation of 1.4%—compared to the third quarter in 2017—and determine a 0.9% quarterly variation compared to the second quarter of 2018.

OIL PRODUCTION. Domestic oil production in the last five years fell by 7.07%, from the 198.23 million barrels produced in the January-December period in 2014 to 188.79 million barrels in the same period in 2018. In addition, the average daily production contracted from 556,000 to 517,000 barrels. The average rate of crude oil production by state-owned enterprises (Petroecuador) trimmed by 1.86%, while the rate of oil production by private companies inched down by 1.53%.

⁵ BCE, *Economic Information. Real Sector. Macroeconomic Forecasts, 2018-2019, December 2018.*

⁶ INEC, *Populational Forecasts.*

(Chart 2). The agreement of the Organization of Petroleum Exporting Countries (OPEC) and its allies to restrict oil production from early 2017 extended practically until the end of 2018. As of December 7, 2018, a new agreement has been in place with the objective of driving up the crude oil prices that have shifted downwards since October 2018. The production restriction measure will apply until June 2019 and then will be evaluated next April. The suggested quota for Ecuador is 510,900 barrels a day, to apply as of January 2019.

The price of oil at the international market continued its upward trend in 2018 until October when the price of a barrel of WTI was set at \$70.70. In the last two months of 2018, however, the price of crude oil plummeted due to the expectation of a reduction in demand stemming from problems between the United States and China, forcing the OPEC to make the new agreement referred to above.

Country risk, as measured by the Emerging Market Bonds Index (EMBI), averaged at a level of 642 basis points in 2018, which is higher compared to 2017 (626 basis points). This is despite the higher oil price and the positive ratio between the EMBI and such price. An increase in the perception of risk regarding emerging economies in general might have influenced the increase in the level of country risk compared to 2017 (Chart 3).

JOB MARKET. According to the official figures presented by INEC⁷ (National Institute of Statistics and Census), as of December 2018, adequate/full employment at the national level was at 40.6% of the economically active population. This percentage mirrors the reduction of 1.6 percentage points compared to the 42.3% reported in 2017. The 55.2% set as the inadequate employment rate, which encompasses the rates of underemployment (16.5%), uncompensated employment (9.9%), and other non-full employment (28.8%), represents an increase of 4.35% over last year's index. Lastly, the unemployment rate was 3.7%, mirroring the statistically significant drop of 0.9 percentage points compared to the 4.6% reported in December 2017 (Chart 4).

The statistically significant decline in the adequate employment index in 2018 is a reflection of the economy's downward turn. According to the BCE's monthly publication, Business Opinion Survey⁸, 1,000 big companies engaged in four fields of business were surveyed. It can be appreciated that the forecasts for the

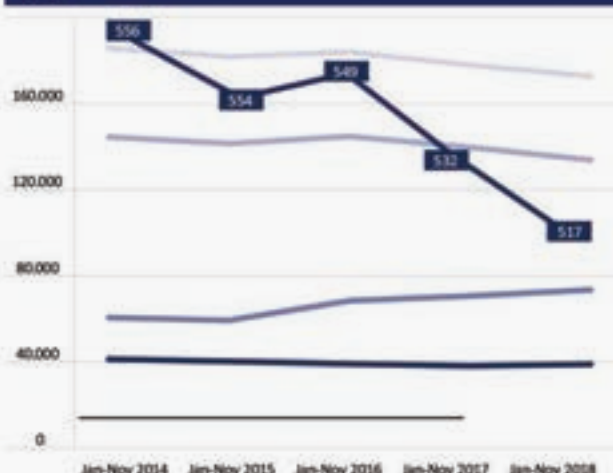
⁷INEC, *Labor Economy Report*, December 2018.

⁸ BCE, *Monthly Survey on Business Opinions*, November 2018.

Production of Crude Oil and Derivatives

(Thousands of barrels)

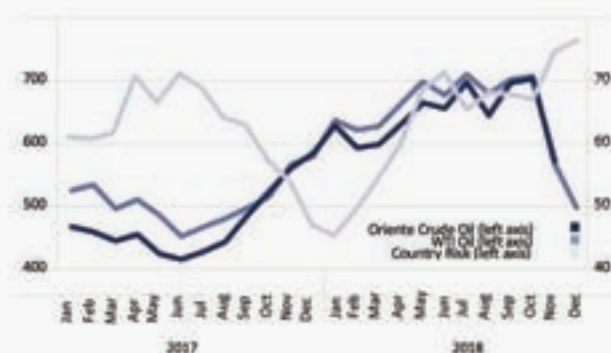
Chart 2



Average Price of Ecuadorian Crude Oil and WTI Oil

(\$ PER BARREL AND COUNTRY RISK INDEX)

Chart 3



variation in personnel employed in the industrial sector as a whole in 2018 was negative: -0.34% on average; in the commercial sector, employed personnel increased in number by 0.03%; while in the construction sector, that number fell by 9.9%, and by 0.54% in the services sector. Employment and wages account for a major part of companies' production cost. The reduction in aggregate demand has left companies with no option but to curb their costs by cutting employment. This explains the drop in adequate/full employment and the rise in inadequate employment.

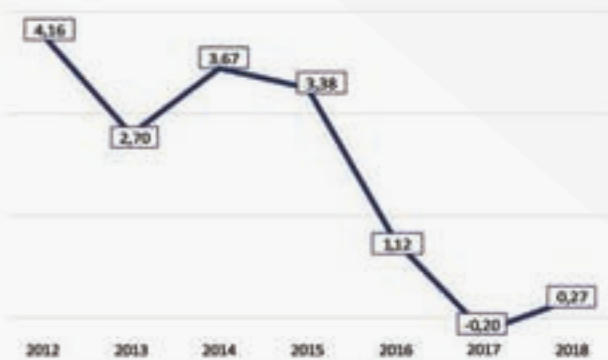
INFLATION. Annual inflation at December 2018 was 0.27%, compared to the -0.20% in the same month of 2017 (Chart 5). The low inflation levels reported in 2017 and 2018 are the result of certain factors, which include healthier competition induced by the trade agreement with the European Union, which entered into force as of January 2017, the steady tariff reduction the agreement establishes for various products and economic sectors, and the gradual elimination of tariff surcharges in place up to June 2017. Another factor that could have prompted a minor increase in prices in recent years is dampened economic growth,

leading to the reduction in companies' marketing margins, as economic growth stalled. Furthermore, price increases have decelerated since 2016, a recession year in which the GDP contracted by 1.2%.

In fact, when analyzing the monthly evolution of annual inflation, one may note that the consumer price index (CPI) for tradable products had reported deflation from May 2017 to December 2018, thus supporting the

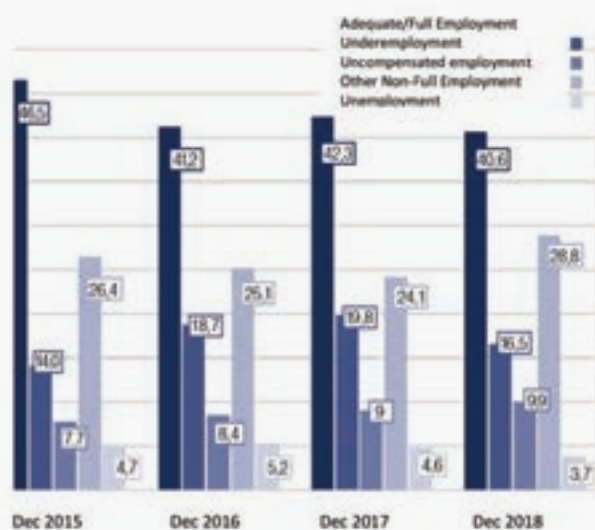
Annual Inflation at December of Each Year

(PERCENTAGES)
Source: INEC, Economic Statistics, Consumer Price Index, Chart 5



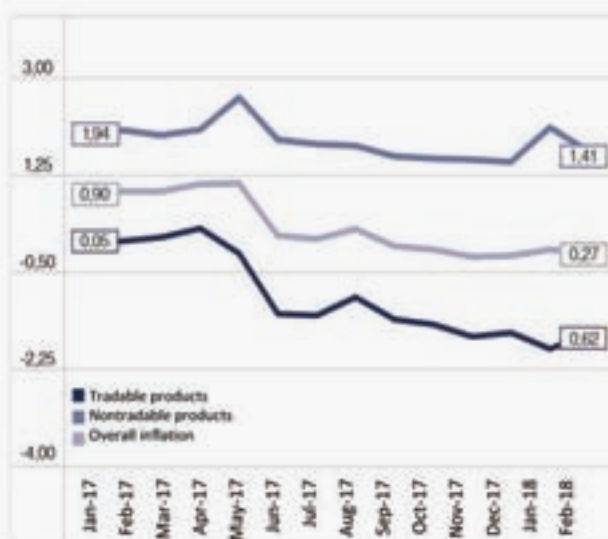
Job Market Index
(PERCENTAGES)

Source: INEC, National Institute of Statistics and Census, National Employment Survey, Employment Indexes, Chart 4



Evolution of Annual Inflation

(PERCENTAGE VARIATION) Source: INEC, Economic Statistics, Consumer Price Index, Chart 6

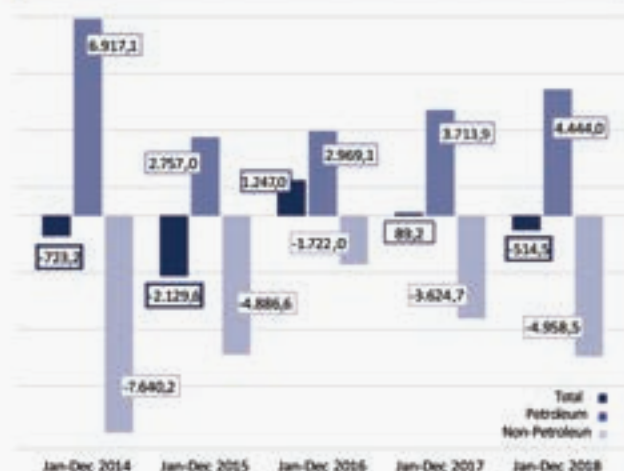


hypothesis that international trade would have ignited greater competition because of the elimination of tariff surcharges and the entry into force of the free trade agreement with the European Union. Also, it would have been a decisive factor for the reduced inflation. Conversely, the CPI for nontradable products reported positive inflation during the period, though at a slower pace: falling from 1.94 in January 2017 to 1.41 in December 2018 (Chart 6).

External Sector

BALANCE OF TRADE. The positive balance in the balance of trade that the country reported in the period January to November in years 2016 and 2017, took a reverse turn in 2018 generating a \$514.5 million deficit. As a reflection of higher crude oil prices, the balance in the petroleum balance of trade was positive, totaling \$4.4439 billion, while the non-petroleum balance of trade reported a deficit (-\$4.9585 billion), equal to the level reported in 2015 (Chart 7). The deficit in the 2018 balance of trade is the consequence of the increase in imports, much more dynamic compared to the hike in exports, as a result of the economy's greater growth,

Balance in the Petroleum and Non-Petroleum Balance of Trade
(MILLIONS OF DOLLARS)
Chart 7



compared to the previous two years. This situation prompted higher revenues in the economy and fostered the spike in imports.

EXPORTS. The FOB value of exports between January and November 2018 was \$21.60613 billion, yielding a 12.99% increase compared to the same period in 2017. The value of petroleum exports jumped by 27.31%, while the value of non-petroleum exports by 4.88% (Chart 8). The surge in petroleum exports triggered greater dynamism with respect to 2017, the year in which this type of export escalated by 26.64%. In contrast, non-petroleum exports declined in 2018, compared to the previous year, expanding by only 7.68%. In addition, exports to the European Union, which under the trade agreement grew by 12.07% in 2017, climbed last year by a mere 2.31%, for a total of \$2.981 billion, accounting for 14% of the total value of the country's exports.

IMPORTS. The FOB value of imports between January and November 2018 amounted to \$22.11888 billion, mirroring a 16.23% surge compared to imports

Exports: Annual Rate of Variation
(PERCENTAGES)
Chart 8



in the same period of 2017. Depending on the economic use or destination of imports, the exports showing the greatest increase were fuels and lubricants (36.41%) and consumer goods (13.76%). Less significant was the increase in capital goods (11.14%) and raw materials (11.59%) (Chart 9). The recovery in GDP growth since 2017 brought about an increase in the importation of consumer and capital goods, which is contrary to the situation experienced in 2015 and 2016.

Expectations for growth in the external sector in 2019 are based on the new approach of openness to trade that the Government and the authorities negotiating free trade agreements have adopted. In October 2018, the Foreign Trade Committee (Comex) approved the commencement of negotiations with the Pacific Alliance to secure Ecuador's accession as an associated State, besides the actions that may be taken to become a full member of the agreement. In addition to tariff benefits in trade matters, full membership entails cooperation in the areas of education, innovation, migratory transit, support mechanisms for SMEs, intellectual property, and investment.

Additionally, Ecuador presently has agreements with the European Union, Chile, Colombia, and Peru. The country also has a partial agreement with Mexico for access to goods. Furthermore, an agreement with the European Free Trade Association (EFTA), made up of Switzerland, Iceland, Liechtenstein, and Norway, was signed last June. This block represents a conglomerate of 14 million inhabitants and is characterized by its elevated purchasing power. Therefore, it is an outstanding market for products, mainly bananas, other fruits and vegetables, cacao, roses, fish oils, shrimp, and tuna. The EFTA market comprising countries that are not part of the European Union, complements the trade agreement with the EU and consolidates exchange opportunities across Europe. Lastly, expectations are higher because of the dynamization seen in trade with the Southern Common Market (Mercosur), as well as the resumption of conversations with the United States after they had been suspended for nine years. The resumption of the Trade and Investment Council (TIC) will intensify the flow of bilateral trade and investment with our main trading partner.

Imports by Use or Destination: Annual Rate of Variation

(PERCENTAGES)

Chart 9



Monetary Sector and Financial System

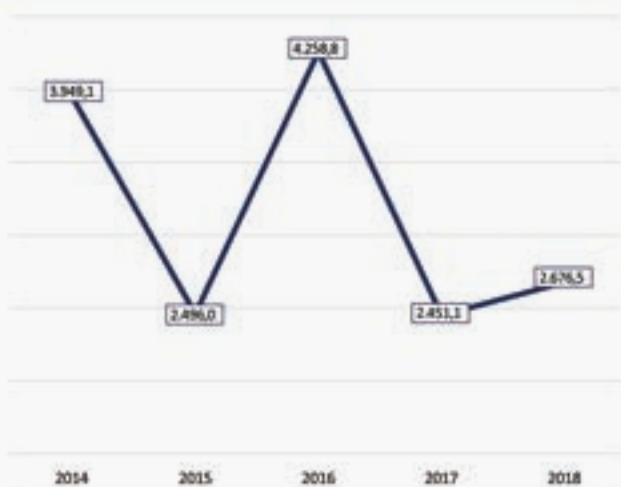
INTERNATIONAL RESERVES (IR), MONEY SUPPLY, AND TOTAL LIQUIDITY. As of December 2018, the IR level reached \$2.6765 billion, which is 9.2% higher than in December 2017 (Chart 10). This level, however, is lower than that of deposits held by other deposit-taking corporations (ODTC) at the BCE at that date (\$3.172 billion). Therefore, the coverage (difference between IR and ODTC deposits at the Central Bank) was -\$495 million. Despite the deficient coverage, this figure is lower than that reported in December 2017, when it totaled -\$1.453 billion.

At December 2018, M2 monetary aggregates, called total liquidity by the BCE, grew 5.6% compared to 2017. Contracted growth of this monetary aggregate is a consequence of the lower level of public spending reported in 2018, in comparison with 2017, as well as the rise in imports. Both the M1 monetary aggregate (money supply) and near money (components of total liquidity) experienced reduced growth in 2018. In fact, money supply increased by 2.9% (though plummeted from the 8.4% in 2017), while near money rose by 8.1% (11.5% in

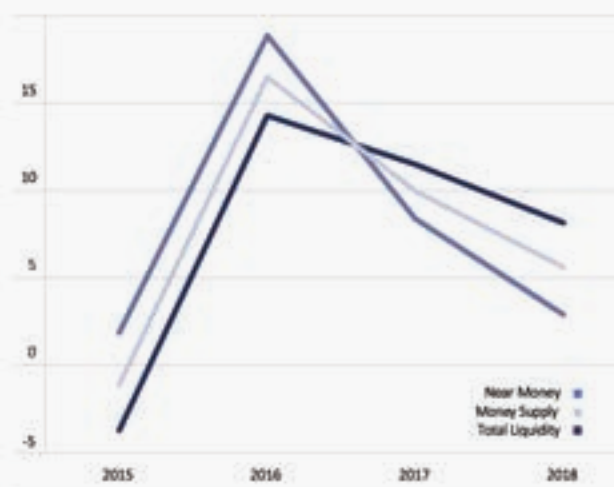
2017). As part of money supply, sight deposits contracted by 3.3%, in contrast with the 3.2% increase in 2017. Currency in circulation (CIC) grew by 7% in 2018, which is less than in the year 2017 when the CIC expanded by 12% (Chart 11).

DEPOSITS FROM OTHER DEPOSIT-TAKING CORPORATIONS (ODTC) AND LOANS GRANTED TO THE PRIVATE SECTOR (COMPANIES AND HOUSEHOLDS). The ODTCs comprise private banks, financial corporations, savings and loans, cooperatives, credit card companies, and Banco Nacional de Fomento ("National Development Bank") (up to May 6, 2016) now called BanEcuador (as of May 13, 2016). According to BCE data, ODTC deposits and ODTC loans to the private sector between 2014 and 2018, started to see an upward trend since 2016, although at a slower pace in the last two years. According to data up to December 2018, deposits rose by 5.08% compared to December 2017 and loans by 15.03%, in contrast with 9.15% and 17.38%, respectively, reported in the year prior. In the last five years, the average increase in deposits was 5.89%, while loans to the private sector grew by 8.76%.

International Reserves
At December of each year
(MILLIONS OF DOLLARS)
Chart 10



Money Supply, Total Liquidity, and Near Money: rate of variation (percentages)
Chart 11



Variation rates reveal that ODTs have not drastically restricted credit availability, despite the downturn in deposit growth. This is confirmed when reviewing the behavior of the loan-to-deposit ratio, which in December 2018 was 101.29%, 8.76 percentage points higher than the ratio reported in December 2017 (Chart 12).

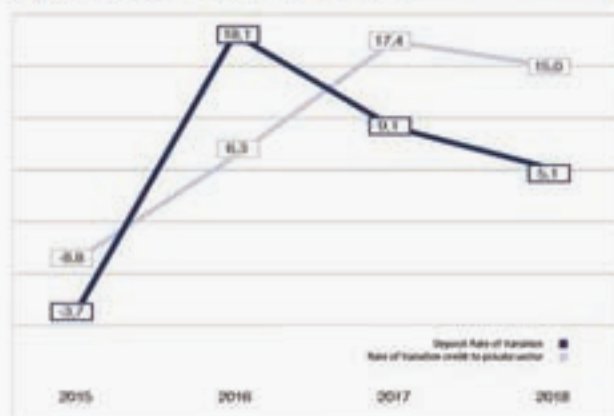
VOLUME OF CREDIT BY SEGMENT. The rate of variation in the amount of lending operations by the portfolio segmentation of private financial entities and the people's and solidarity economy, from January to November 2018, unveils that the segments with the most growth compared to the same period in 2017 were housing (25.7%), consumer goods (21.6%), and microcredit (15.5%) (Chart 13). In terms of volume, the segments with the greatest loan amounts were for commercial with \$14.5369 billion, consumer with \$9.4595 billion, and microcredit with \$4.0718 billion.

RESULTS OF PRIVATE BANKING AND THE PORTFOLIO NONPERFORMING LOAN RATE: Based on the December 2018 report by the Superintendency of Banks, the return on equity (ROE) of private banks was

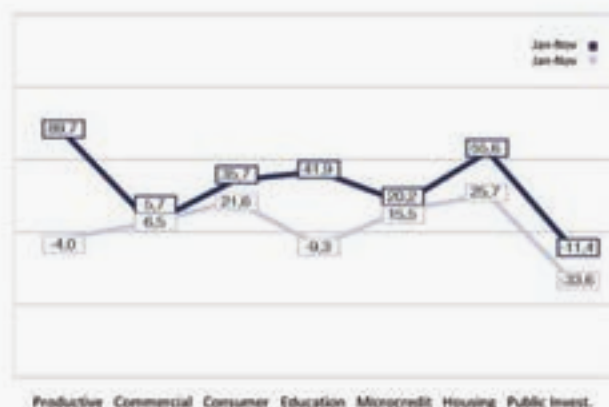
13.70%, mirroring a 3.34% increase compared to the same month's performance in 2017. Furthermore, the return on assets (ROA) rose to 1.4%, which is 0.38 percentage points over that reported in 2017. Another index that experienced improvement was the total default rate, which shifted downwards to 2.62%, in comparison with the 2.96% of the previous year, representing fewer than 0.34 percentage points. (Chart 14).

Like the behavior of the total default rate, private banks' nonperforming portfolio by segment fell in practically every segment in 2018. The greatest reduction can be seen in the consumer portfolio, equivalent to 4.67% of non-performing loans, compared to the 5.21% reported in 2017, and the commercial portfolio at 0.76%, a 0.36 percentage point reduction compared to 2017. The default rate of the microenterprise portfolio (4.93%) dropped slightly by 0.06 percentage points and the home loan portfolio reported the same level of default as in 2017 (2.78%) (Chart 15).

Other Deposit-Taking Corporations (ODTCs): deposits by and loans to the private sector
(ANNUAL RATE OF VARIATION IN PERCENTAGES) Chart 12



Lending Operations by Segment: Annual Rate of Variation
(PERCENTAGES) Chart 13



Fiscal Sector

Specifically in 2018, the Government embarked on a process for curtailing public spending, namely capital expenditures, in order to make public finances sustainable and to curb high fiscal deficits that had been reported, particularly up to 2016, when the deficit of the non-financial public sector (NFPS) accounted for about 7.3% of the GDP. In 2017, the deficit dropped to 4.6% of the GDP. In the January-November 2018 period, the NFPS reported an overall surplus of \$982.7 million, which contrasts with the \$2.4613 billion deficit in the same period in 2017. This reduction in the fiscal deficit sparked an increase in petroleum revenue as well as the operating surplus of state-owned enterprises in about \$3.1 billion, plus prompted a \$1.86 billion decrease in capital expenditures.

Next under analysis is the central government's revenue and expenditures, followed by the fiscal results of the NFPS, representing a broader and more complete measure by the public sector. Not only does the report cover the central government, but also non-financial state-owned enterprises, the Ecuadorian Social Security Institute (IESS), and the decentralized autonomous governments (GADs).

Central Government

REVENUE OF THE CENTRAL GOVERNMENT. The central government's revenue between January and

Private Banks: profitability and default indexes (percentages)

Source: Superintendency of Banks

Chart 14

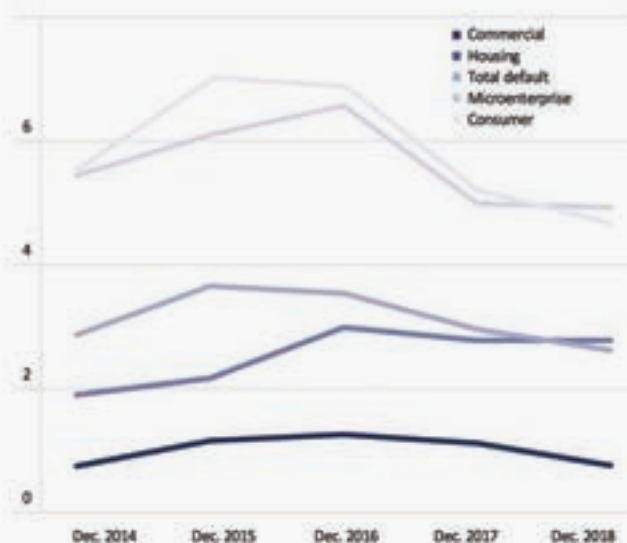


November 2018 was \$17.9231 billion, 7.54% higher than that for the same period in 2017. Thanks to higher oil prices at the international market, oil revenue soared by 32.22%, for a total of \$1.9872 billion. Nonpetroleum revenue expanded by 5.1%, totaling \$15.9358 billion. In this category, 84.6% came from tax revenue: \$13.4822 billion, which is 3.97% higher than the amount collected the previous year (Chart 16).

Central government expenditures between January and November 2018 totaled \$20.3701 billion, which is 0.08% less than that reported in the same period in 2017. Current expenses climbed by 11.88%. Out of expenses, the one with the most growth was interest, by 27.41%, an increase of \$572.8 million. Capital expenditures declined by 23.9%. The analysis of central government expenditures during the period unveils the government-imposed change in economic policy, diminishing the State's leading role in the economy to let the market be its guide. It also reveals the effectiveness of the fiscal oversight policy for tightening the budget deficit. Nonetheless, business owners found the adjustment to be limited and its gradual application very slow (Chart 17).

Private Banks: Nonperforming loan ratio by segments (percentages)

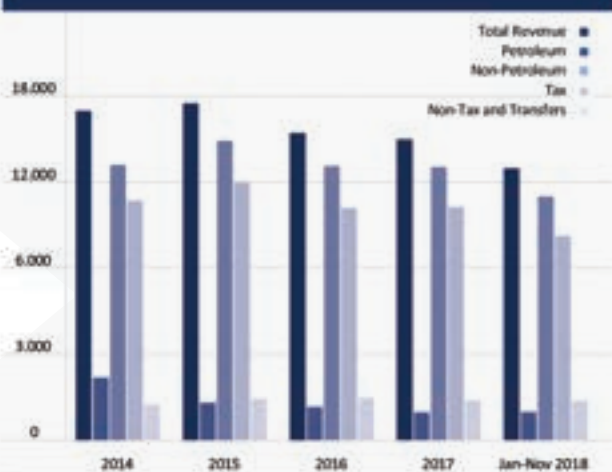
Chart 15



A \$2.447 billion deficit was reported for the central government's operations, showing a 34.22% reduction with respect to the previous year's deficit, which topped \$3.72 billion.

DEFICIT FROM THE DOMESTIC SALES OF PETROLEUM DERIVATIVES. The deficit stemming from applying the subsidy policy to the domestic fuel price, between January and December 2018, which was

Central Government Operations: Revenue
(MILLIONS OF DOLLARS)
Chart 16

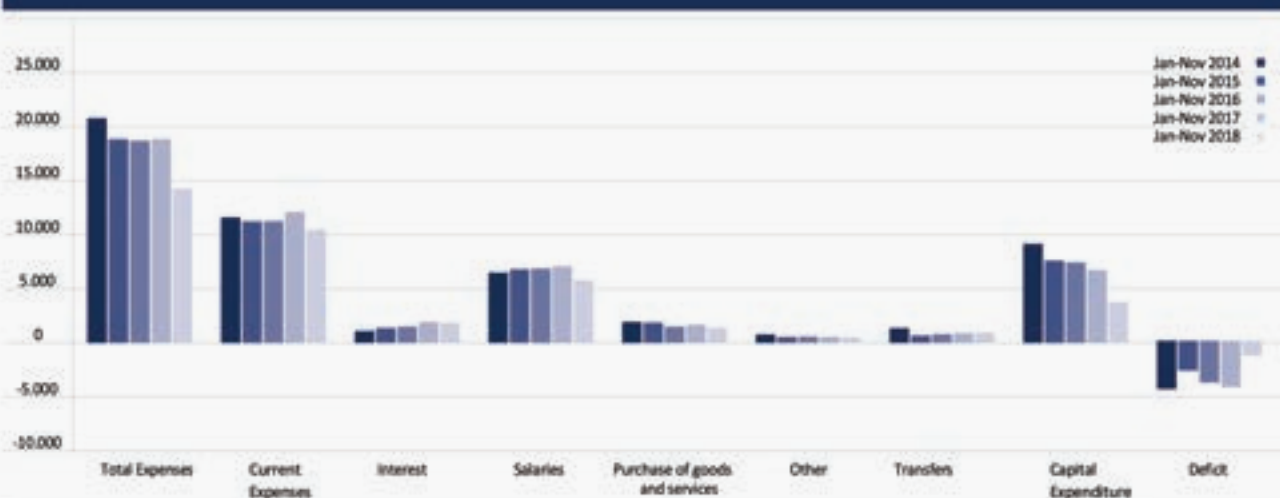


\$1.9195 billion, represents a 71% increase compared to the previous year's deficit. The deficit swelled for all fuels, compared to 2017. Additionally, diesel captured the largest volume of public resources to cover its marketing spread: \$916.5 million, doubling from 2017 (Chart 18).

The national government decided to reduce its subsidy policy by focusing it on fuel. It passed Decree 490, in force since August 27, 2018, ordering a 41.9% increase in the price of "super" gasoline. Then, Decree 619 entered into force on December 26, establishing a 28.21% hike in the price of the gasolines called "extra" and "ecopais." Furthermore, it provides for a subsidized quota of these fuels for public and commercial transport vehicles (taxicabs and pick-up trucks).

In addition, this decree sets forth that the price of "super" gasoline for the automotive sector "is to be set by Petroecuador on a monthly basis, based on the weighted average cost, plus the costs of transportation, storage, and marketing, as well as a margin that said state-owned enterprise may define, and applicable taxes." Therefore, the subsidy is practically eliminated since it is linked to international gasoline prices. As for

Central Government Operations: expenses and deficit
(MILLIONS OF DOLLARS)
Chart 17



diesel, the government kept the subsidy for agricultural, small industry, and artisan businesses, although reducing the subsidized volume to 500 gallons a month. For the shrimp and fisheries sectors, the subsidy was set at 70 cents with respect to the terminal price defined by Petroecuador. Presently, the terminal price also depends on the international market price and will apply to medium and large operators.

Non-Financial Public Sector

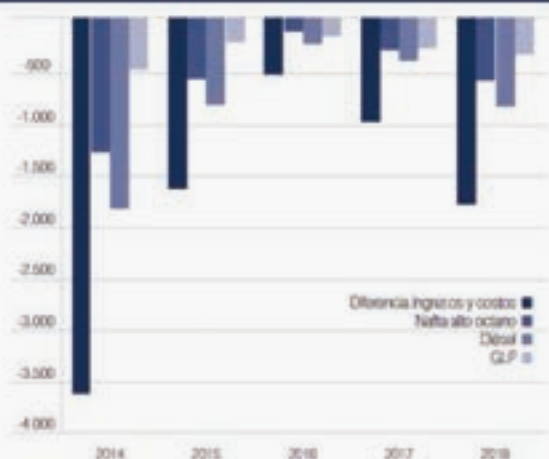
In 2018, the results of the non-financial public sector (NFPS)—which includes the results of non-financial state-owned enterprises, the IESS (Ecuadorian Social Security Institute), and GADs (Decentralized Autonomous Governments)—reveal that the \$2.4613 billion overall deficit reported in 2017 improved by reaping a \$984.6 million surplus reaped in 2018 (figures as of last November). Likewise, the primary deficit improved by over \$3.9 billion, from the \$643.1 million deficit in 2017 to a surplus of \$3.3541 billion in 2018.

The improvement in the 2018 fiscal balance sheet is a consequence of the 16% hike in non-financial public

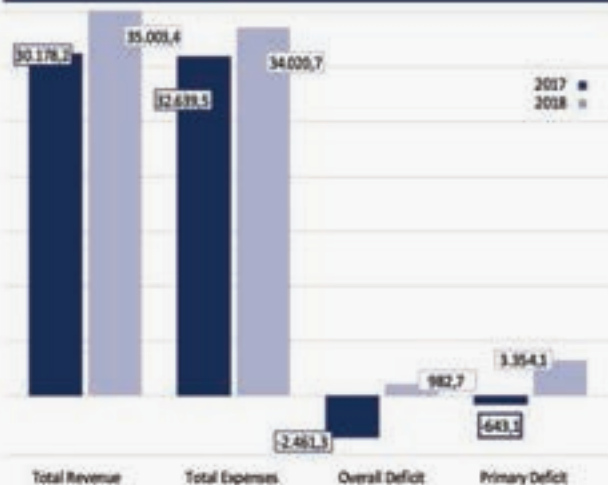
sector revenues, compared to the year 2017. The rise is mainly due to petroleum items, which ascended by almost \$2.5 billion, and by the increase in the operating surplus of state-owned enterprises, jumping by more than \$1.1 billion compared to 2017. In contrast, non-financial public sector expenditures inched up 4.23% in 2018. The increase in public spending owes to the 14.53% surge in current expenses, including interest on the public debt. Public debt swelled by 30.42% as public indebtedness has evolved in recent years to cover recurrent fiscal deficits of previous years. In contrast with current expenses, capital expenditures plummeted by 28.71% (Chart 19).

MOVEMENT OF THE PUBLIC DEBT. The country's total aggregate public debt at December 2018 was \$49,4292 billion. This level is 6.2% higher than in December 2017, mirroring the slower-paced indebtedness in recent years, especially in 2017 when it climbed by 22% compared to 2016. In addition, it reflects the change in economic policy, as mentioned above, and the problems for accessing the international financial market.

Deficit from the Domestic Sales of Imported Derivatives
(MILLIONS OF DOLLARS)
Chart 18



Operations by the Non-Financial Public Sector
(MILLIONS OF DOLLARS)
Chart 19



The external public debt at December 2018 amounted to \$35.6955 billion—representing 72.2% of the total public debt—, a 12.4% increase compared to the level of December 2017. The domestic public debt, on the other hand, totaled \$13.7337 billion at December 2018, revealing a 7.1% reduction with respect to the amount reported in December 2017. The average rate of growth of the total public debt in the five years under analysis was 13.3%, with the external debt rising (19.5%) more aggressively than that of the internal debt (2.7%) (Chart 20).

In 2018, the government had not yet faced a major restriction on external debt disbursements. According to the figures of the Fiscal Policy Observatory (FPO), and based on data up to December 2018, the General State Budget received \$6.562 billion in external disbursements in 2018, approximately \$900 million less than that received in 2017. In contrast, the same source reveals that internal debt disbursements plummeted one period to the next, from \$6.945 billion in 2017 to \$718 million in 2018. The external disbursements accessible by the government last year included the issuance of \$3 billion in sovereign bonds in January 2018, plus loans granted by the Chinese government at the end of the year.

According to information by the press⁹, Ecuador owes China \$6.4687 billion, representing 18.4% of the country's entire external public debt: \$35.1927 billion as of October 2018. Another source of financing for the government is the anticipated sale of petroleum and derivatives, as well as the variation in floating debt and government account balances.

⁹ *El Telégrafo*, December 2018.

General Outlook for 2019

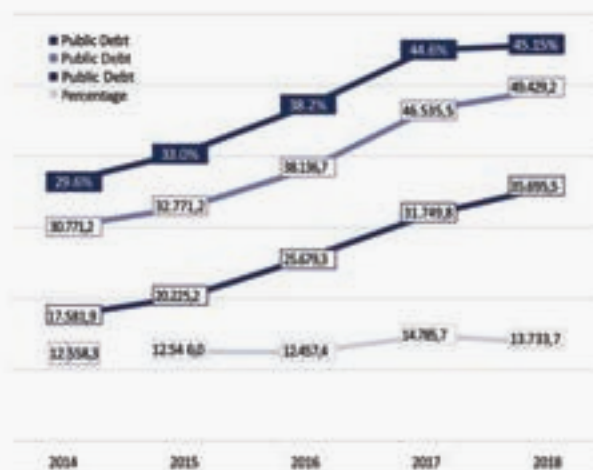
Taking as a frame of reference the analyses by multilateral organizations on the outlook and risks faced by economic growth at the beginning of this new year, their main recommendations are noted, as well as how suggested measures could apply to the country's current situation.

The IMF recommends that it is crucial to avoid protectionist reactions to structural change in order to maintain and even boost global expansion. Furthermore, it recommends searching for concerted solutions that promote the uninterrupted growth of international trade of goods and services as well as implementing reforms that will enhance revenue in the medium term.

Public Debt

(MILLIONS OF DOLLARS AND PERCENTAGES)

Source: Financing Ministry, Public Debt Bulletin, December 31, 2018.
Chart 20



Forecasts on deteriorating financial conditions would force many countries to put fiscal buffers back in place to fortify flexibility in response to such risk. To overcome growth challenges, the IMF proposes: a) to promote global trade integration to reduce trade costs further and resolve disagreements for completing the financial regulatory reform agenda, strengthening international taxation, enhancing cybersecurity, tackling corruption, and mitigating and coping with climate change; b) that fiscal policy aim to rebuild buffers for the next downturn, and that the composition of public spending and revenues should be designed to bolster potential output and inclusiveness; c) to adopt structural reforms and policies that raise productivity and ensure broad-based gains; d) to create margins or protection, curtail rising leverage, limit excessive risk taking, and contain financial stability risks (including threats to cybersecurity), by applying macro- and micro-prudential and efficient supervision policies; e) to promote economic security and improve the living standards of low-income developing countries.

Furthermore, the World Bank recommends that countries be prepared for possible episodes of volatility at financial markets as the normalization of monetary policies in advanced economies intensifies. The increase in debt levels makes countries more vulnerable to raising interest rates and places greater importance on going back to establishing buffer mechanisms to face financial crises—which are very difficult to implement in the country given its liquidity shortage situation. In addition, the WB encourages the implementation of reforms for improving long-term growth prospects by boosting productivity and participation in the workforce in supporting skill building as well as enhancing competitiveness and trade openness. In conclusion, the report indicates that strengthening contingency planning, facilitating trade, and improving access to

financing will be crucial for overcoming current uncertainties and for invigorating growth.

The World Bank has provided an updated study for authorities and the public in general, stating that “During the last fifteen years, Ecuador’s economic growth translated into impressive social gains. Yet, structural vulnerabilities emerged ... macroeconomic imbalances, inefficiencies of the public sector, weak competitiveness, and underinvested private sector. Going forward, these are priority challenges to be addressed for continuing reducing poverty and boosting shared prosperity in a sustainable manner.”¹⁰

The study points to four pillars as the main opportunities for facing structural challenges: a) addressing fiscal imbalances; b) lifting barriers to private sector development; c) building human capital and expanding economic opportunities; d) improving the use of physical and natural capital. It defines efficiency gains, attention to the poor and the vulnerable, and the setting of short-, medium-, and long-term goals as the prioritization criteria for macroeconomic sustainability.

In August 2018, the National Assembly approved the Law for Promoting Production to encourage investment, defining three main pillars: legal stability, incentives for priority sectors, and tax amnesty. Incentives include exemption from income tax for periods of eight to twenty years, depending on the sector and geographical location in which the investment is made, and exemption from the capital outflow tax (ISD) for new investment contracts. These contracts must be for importing capital goods and raw materials, investing in productive assets, or distributing dividends to companies or individuals domiciled in or out of the country. Agriculture and tourism were included as priority sectors with additional incentives granted to them. One positive aspect of this law is that it grants incentives to

¹⁰ World Bank, *Ecuador, Systematic Country Diagnostic*, June 2018.

companies regardless of their size; otherwise, the incentive would cease to exist if the size or installed capacity of companies were factors for accessing the benefits of the law. With respect to tax matters, for 90 days after the law entered into force, tax amnesty was established for interest, fines, and surcharges with the goal of collecting \$774 million. The established incentives to be applied to new and existing industries, along with the Government's policy to expand export markets by signing trade agreements, are expected to reap the desired effects of investment and to generate currency and employment in the medium term.

The attraction of national and foreign investments for generating currency through exports should be a priority of both this and future governments for overcoming the obstacle posed by small domestic markets. In addition, investment would generate liquidity for economic growth and the creation of jobs, as well as for constricting the dependence on oil exports and external indebtedness.

On the fiscal front, the medium- and long-term horizon for 2019 is that the Government will likely continue the process for reducing and optimizing public spending based on the new fiscal austerity measures. These measures were announced by the Ecuadorian President and the Economic Front on August 21, 2018 and are focused on current expenses. They are also based on the Law for Promoting Production, Attracting Investments, Creating Jobs, and Achieving Fiscal Equilibrium, approved on August 7, 2018. The law stipulates that the balance of the public debt cannot be greater than 40% of GDP. Furthermore, it states that although this ceiling will not apply from 2018 to 2021, the primary deficit must be reduced to 0 in that period.

In addition, the law sets forth that future budgets with a primary deficit cannot be approved. Also, the overall result must be in line with structural rules; i.e., the budget cannot be increased at a rate

that is higher than the rate of growth of the economy. From 2022 onwards, four-year plans will be implemented to reduce the debt-to-GDP ratio to 40%, which is the defined limit. Furthermore, a fund is created to guarantee fiscal sustainability with non-renewable resources exceeding the budget.

Public spending is highly inflexible in terms of current expenses for covering salaries, interest on public debt already in place, and fuel subsidies. Since fuel subsidies do not focus on the most vulnerable sectors, they continue to be a high opportunity cost for the Ecuadorian society.

The effects of the Law for Promoting Production will just start to materialize in 2019, since the regulation for applying the law was issued just recently, on December 18, 2018, through Executive Decree 617. The regulation outlines the procedures to make the application of new investment tax benefits operative and simplified, while including the procedures to be followed for monitoring compliance with tax rules.

According to the national government, the regulation safeguards the inclusive spirit of the Law for Promoting Production for any investor, whether micro, small, medium or large, to benefit from the income tax exemption in their new ventures. It further states that the guidelines aim at doing away with discretionary scope and margins of interpretation so as to foster an atmosphere of tranquility and certainty for entrepreneurs and investors alike.

According to projections by multilateral organizations and the BCE, the 2019 outlook for growth of the Ecuadorian economy is positive, though growth will be minimum (not as fast as the pace of populational growth). Generally speaking, these forecasts are consistent with the fact that uncertainty runs high for future oil prices in the year. Furthermore, non-petroleum exports have not experienced an elevated level of dynamism in recent years, with low growth in terms of volume in 2018.



The Ecuadorian economy has to be dynamized by attracting new investment for exportations to produce liquidity. This requires not only fiscal incentives, but also integration and coherence among fiscal, trade, and production development policies.

The objective would be for the country to spark competitiveness based on high production levels while adding value to its production, thus requiring sustained actions and policies in medium- and long-term processes. In this context, banks and the financial system in general could see reduced growth in deposits in 2019 since liquidity sources are not expected to expand significantly. In a dollarized economy, like that of Ecuador, such sources are made up of exports and foreign investment. The consequence could be minor dynamism in loans as a reflection of the situation at the macroeconomic level.

Pichincha Financial Group

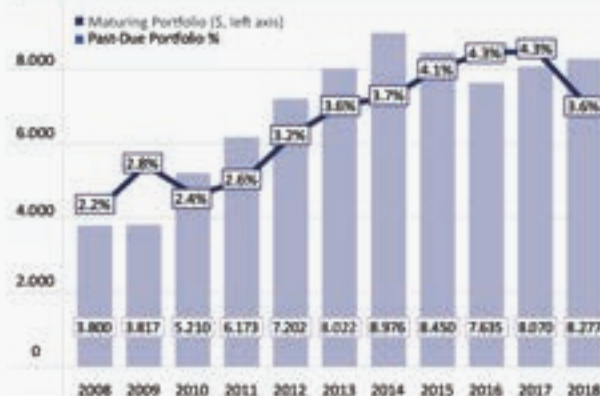
During 2018, Grupo Financiero Pichincha enjoyed continued growth compared to previous years. The group's assets rose 1.3% with respect to 2017. The maturing portfolio spiked by 2.6% and the overdue ratio closed at 3.6%, a 0.7 point improvement compared to the 4.3% reported at the end of the previous year.

Coverage has been kept at conservative levels

Portfolio Pichincha Group Coverage

Source: Grupo Pichincha Financial Statements

Chart 1



with regard to the previous year. At December 2018, the provision for nonperforming portfolio provisions was 279.4%, while the provision for the entire portfolio was 10.09%.

Grupo Financiero Pichincha has international subsidiaries, such as Banco Pichincha España and Banco Pichincha Colombia, and has a branch in Miami in the United States. At the local level, the group is formed by Banco Pichincha C. A., Almesa, Pague-Ya, Vaserum, CREDIFE, and Amerafin (BPAC).

With respect to portfolio placement, Banco Pichincha C. A. holds 83.32% of the total for Grupo Pichincha, followed by Banco Pichincha Colombia with 8.25%. Banco Pichincha España and the Miami Branch have smaller shares, 6.73% and 1.7%, respectively. Each one of these subsidiaries adapts and responds to the reality of each market and puts its business strategies to work to reap better results.

On the other hand, the level of liabilities grew by 0.6%, for a total of \$11.437 billion compared to the \$11.371 billion reported in 2017. This increase is found mainly in immediate liabilities and financial obligations.

Concerning the funding structure of Banco Pichincha C. A., 83.25% is supported by Banco Pichincha C.A.; the Colombian and Spanish subsidiaries contribute with 4.78% and 7.87%, respectively, while the Miami Branch with 4.09%,

Coverage (Percentages)
Chart 2



with respect to liabilities to the public.

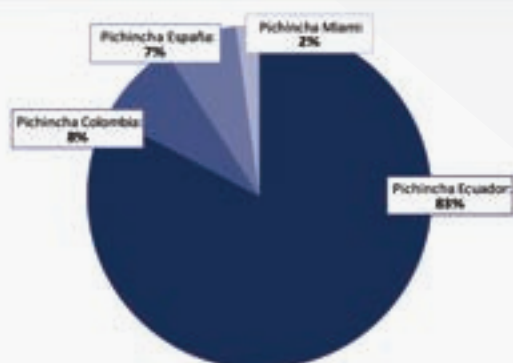
Profits rose thanks to the business structure designed for producing revenue and to the efforts for reducing costs, translating to a significant improvement in the efficiency index.

The Group's profits amounted to \$112.6 million, representing a \$30.4 million or a 37% increase. The return on equity was 9.9%, which is 2.1 percentage points more than that reported in 2017; the return on assets was 0.9%, while in 2017 it was 0.68%.

Total Portfolio by Subsidiary

(PERCENTAGES)

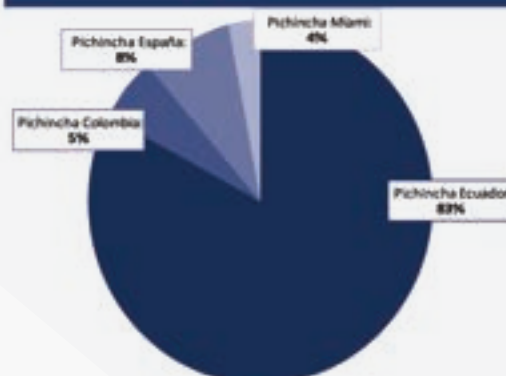
Chart 3



Deposits by Subsidiary

(PERCENTAGES)

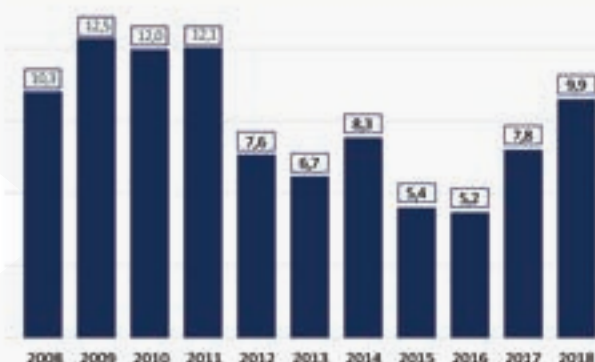
Chart 4



Return on Equity Grupo Pichincha

(PERCENTAGES)

Chart 5



Technical Equity Grupo Pichincha

(PERCENTAGES) Chart 6



In terms of solvency, the Group's equity was kept at the legally required levels, totaling 12.02% at the close of 2018, which is 0.59% more than in 2017.

The achievements in 2018 reflect the strength of the negotiation model and the commitment of our staff. We have reinforced the ties between our primary markets, and the cooperation between countries is already producing tangible benefits for our customers and shareholders.

Our professionals' talent, commitment, and motivation lay the groundwork for our success. Keeping a solid culture across the Group continues to be one of the senior team's priorities.

Every decision we make to contribute to inclusive and sustainable growth strongly resonates in improving the lives of millions of people.

We have many opportunities to grow profitably in countries and sectors where we do business, within a context that we expect will continue to be volatile though better overall compared to 2018.

The key to our success in future years will be a solid culture of cooperation within the Group and our mission of contributing to the progress of our customers in the different segments in which we do business.

BANCO PICHINCHA

Financial Evolution

Ecuador experienced dampened economic dynamism in 2018, despite banks having performed well in the period. The financial system's assets expanded by 5.15% from 2017 to 2018, while liabilities to the public by 1.85%. The total loan portfolio jumped by 11.08% in the year.

Banco Pichincha's soundness has kept it in the market for 112 years as it works diligently to provide excellent, efficient, and effective services to its customers. The focus of the Bank's efforts has reaped fruit, since the results achieved are evidence of the organization's commitment and stability.

As of December 2018, Banco Pichincha had a total of \$10.664 billion in assets, securing a 26.02%

market share and positioning itself as the leader of the financial system. We are a multi-segment bank and our loan portfolio is diversified as follows: 41% of the commercial segment, 33% of the consumer loan segment, 13% of the home loan segment, and 13% of the micro-credit segment (Chart 1).

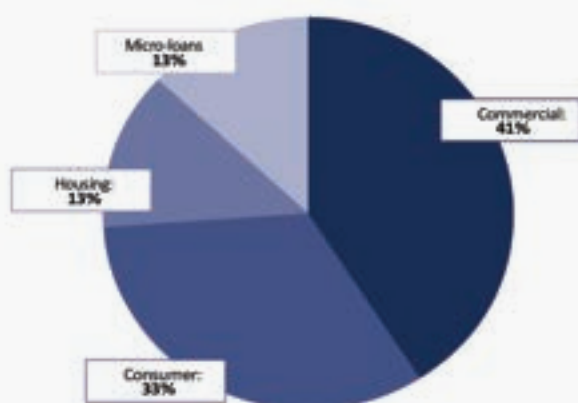
The management of the business is reflected in the quality of the Bank's assets, reaping moderate ratios. At December 2018, the total gross default rate was 3.24%, the provision over total portfolio at 11%, and nonperforming portfolio coverage at 339.1%.

Liabilities to the public inched down by 1.6% with respect to the previous year, for a total of \$8.565 billion at the end of 2018. One of Banco Pichincha's strengths is its conservative liquidity management, with its cash and savings deposits representing 31.98% and 38.23%, respectively, while 23.37% of liabilities are concentrated in term deposits and 6.43% in other deposits. (Chart 2).

Banco Pichincha has set the goal not only to become the country's leading bank, but also the most efficient bank in Ecuador. The strategies being put into place to meet this goal are echoed in the indicators. The year closed with an efficiency index of 64.6%, five percentage points lower than the previous year, when the efficiency ratio was 69.9%.

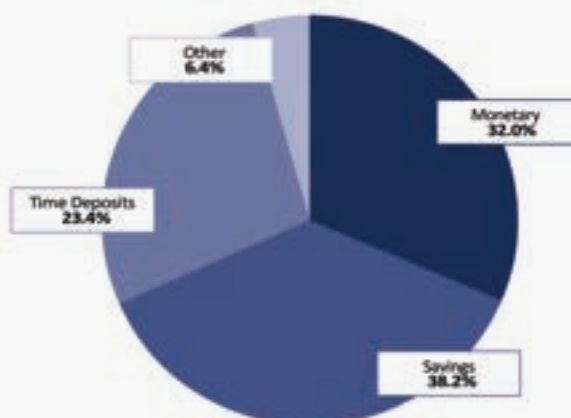
Portfolio by Destination

Source: Banco Pichincha
Chart 1



Deposits by Type

Source: Banco Pichincha
Chart 2



Service

In 2018, our service strategy followed five courses of action for dynamizing the Bank's services, thus further enhancing our customers' experience.

Digital Channels

With the implementation of the multibrowser and multidevice functions in our cash management platform, more than 52,000 companies that have subscribed to our payment and collection services have benefited.

For the services we offer to our Retail Banking segment, we implemented face and PIN recognition in 2018. These measures facilitated interaction with our Mobile Banking.

The application of our new Digital Banking promotes the migration of transactions to alternative channels, enabling us to achieve over 13 million transactions per month processed through our digital platforms, in an amount exceeding \$1 billion.

Our self-service network now has 82 new machines for cash deposits and withdrawals. Furthermore, we secured the EMV certification for our Pulse network, which updates the security protocols for credit and debit card transactions within the Bank's self-service network.

After-Sales Channel

New Transactions and Billing Model - contact center inbound

Aligned with the strategic driver for enhancing operational efficiency, this year we implemented the new contact center operation and billing model. We achieved a 31% optimization in the unit cost per call, representing a 16% decrease in the annual expenses of this telephone channel.

Planning and Quality of Channels and Services

Implementation of a Service Culture

In 2018, the customer satisfaction index (CSI) and the net recommendation index (NRI) of external customers were measured for branches, Individual and Group Microfinance, field sales force, self-service, Mobile Banking, Electronic Banking, Cash Management, Non-Banking Correspondents, call center, delivery, and claims. In addition, a qualitative study was conducted for Business Banking and Pague Ya. For internal clients, our focus this year was on satisfaction with the service provided by the Bank's support and control areas, which include Services, Finance, Risks, and Human Resources, as well as our strategic ally TCS.

Branch Network Channel

In 2018, Banco Pichincha took a transcendental and disruptive step at the Ecuadorian market by eliminating the use of deposit and withdrawal slips for customers' window transactions, streamlining processes and incorporating the use of POS, the Expert Card, and a self-service password for definitively doing away with deposit/withdrawal slips.

In addition to improving customer service, the initiative contributed to a reduction in paper consumption at bank windows, thereby leveraging the environmental responsibility objectives that Banco Pichincha shoots for as well as achieving a 39% decrease in the use of deposit/withdrawal slips.

A mechanism was implemented to validate customers' identification cards with the Vital Records Office, thus ascribing greater security in bank window transactions. This process has allowed us to bolster customer confidence in Banco Pichincha.

As part of our commitment to innovation and service enhancement, self-service machines were set up at different branches nationwide for receiving, counting, classifying, and validating counterfeit money. This helped customers in self-management, while improving bank window service and service time.

We processed 75.04 million transactions at branches, thus keeping the availability index at 98.17%, which allowed us to comply with the bank's goal of providing quick services to our customers.

Non-Banking Correspondents Channel

In 2018, we reinforced our strategic alliance with large business chains, thus expanding our national coverage for timely and efficiently providing our services. As a result, the number of transactions through this type of correspondent surpassed 600,000 per month.

In addition, we made domestic transfers available to our customers and users so they can send money to and from anywhere in the country.

This year we achieved over 73 million transactions through our network of 8,862 correspondents, thus fostering the financial inclusion of our customers and users across the nation.

Products and Innovation

The WEB Connection

Banco Pichincha is aware that new ways of working, undertaking, making friends, studying, doing business, and so on appear every day. For this reason, it is paramount to make things simple, fast, and intelligent. Everyone values their comfort and wants to keep connected without interrupting their activities because of long processes. We understand these dynamics and, consequently, have made it

possible for our customers in the Retail Banking segment to now open online accounts by logging on: www.pichincha.com/solicitudcreditoenlinea/cuenta

FEATURES AND BENEFITS

- 24/7 Service
- Account opened in seven to ten minutes.
- Debit card scheduled for delivery.
- For customers 18 and over.

Comprehensive Branch Connection

Considering the time that our customers invest when visiting our branches and in order to offer a quicker and more efficient service, we optimized the processes for opening accounts. This is done while maintaining the standards of information and security, by keeping connected with the Vital Records Office, reviewing the list of suspicious actions, keeping signatures on file, and cross-selling.

FEATURES AND BENEFITS

- Accounts opened in ten minutes (previously 30 to 40 min.).
- Digital contract sent to customer's email.
- Delivery of debit cards at branches.
- Activation of enabling documents at branches.
- Connection to electronic channels at branches.

Bio-Credit

As a market leader, Banco Pichincha has great responsibility in the country's economic development. For this reason, the Bank has focused its management on growing the business in a sustainable manner, incorporating social and environmental criteria for designing and distributing the products and services it offers.

We are a Bank that breathes life into new sustainable ideas, ecological ventures, responsible transportation, and sustainable housing. By 2019, bio-credits for the commercial, automotive, construction, housing, and micro-credit sectors will become a reality.

Digital Credit

In 2018, our digital credit soared compared to 2017, the launch year, with an average of 2,100 transactions per month, and an average loan amount of \$3,500, for a total of \$49 million placed.

Small Business Enrollment Portal (Cash Lite)

Customers in the Small Business segment can self-enroll in Corporate Electronic Banking. There, they can create, manage, and eliminate online users, plus have access to a basic package of services, such as inquiring about their balance, paying services and taxes, making payroll payments, and paying third parties.

FEATURES AND BENEFITS

- 24/7 Service, accessible through www.pichincha.com
- Digital access using a token for cell phones.
- There is no cost for using the token the first time or for renewing it.
- For six months, transactions under each service is free of charge.

Micro Collections

A collection system for distributors, in which anchor companies sell mass consumption products and issue an invoice receivable. The anchor company sends its collection agents to visit different stores in

the neighborhood. There, the company's system connects to the Banco Pichincha system for collecting on invoices through the following means of payment: cash, check, account debit, and card (debit or credit). Sums collected in cash or by check are deposited at any of the country's branches. When this happens, the system automatically consolidates all deposits and invoices, so that the company can reconcile its accounts.

FEATURES AND BENEFITS

- Automatic Reconciliation
- Reduced collection costs, cash handling.
- Integration with Electronic Banking services.

Technology and Impact Projects

IN 2018, BANCO PICHINCHA COMPLETED A PORTFOLIO OF 124 INNOVATION AND EVOLUTIONARY MAINTENANCE PROJECTS, EXECUTING A BUDGET AT AROUND \$22 MILLION, IN SEVEN RELEVANT PROJECTS.

Virtual Branch

This is a new business model through the Preferred Virtual Office, enabling Banco Pichincha to set the trend in, and spearhead, the digital markets of Ecuador's banking sector to become the pioneers in the human touch concept. The concept centers on turning the traditional bank branch into a digital relationship model, with a preferred customer segment. The user can interact by chat, email, online, video, or social networks through a business advisor

during extended hours. The results are an enhanced experience in this segment, simplified costs, and the inclusion of improvements that set us apart in service and support.

Customer Relationship Management (CRM)

In order to transform the commercial management of Banco Pichincha, we have added a tool to let us optimize and build up the relationship with our customers, offering tailored solutions to meet each customer's needs based on their preferences and business behavior.

Digital Banking

The Omnichannel platform reinforces the Bank's digital strategy. For the future, this project will be a quick, low-cost enabler and accelerator of products and services through digital channels.

Cardless Withdrawals

We offer a new type of transaction that allows us to strengthen our Bank's organizational customer-centered strategy with the Bank's ATM network, quickly dispensing money without the need of a debit card. This translates to fewer transactions at branches for withdrawing money.

Security Network Program

Moving forward with the optimization of quality and security standards, and focused on minimizing the exposure to risks to which every financial institution faces, Banco Pichincha implemented the Red Segura ("Security Network") program for maximizing the network's architecture in terms of security devices at the main computer center. The program offers better validations about

unusual traffic. In addition, it improves the monitoring of and control over the standards implemented in the devices of the branch network, facilitating the application of the preventive-proactive threat and attack management scheme, while reinforcing protection against advanced threats.

All these measures aim at reducing the downtime of transactions because of refusal of service prompted by malicious software, curbing fraud due to unauthorized access, and reducing the consequent legal risk caused by possible fines.

IVR Platform Change

The new software and hardware infrastructure allows to make improvements in all call center services, reducing time in telephone agent services. Thanks to the updated platform, the relational navigation tree can be restructured, allowing for the integration of new transactions based on automatic questions. The platform further provides self-management options, optimizes customer participation in satisfaction surveys, reduces channel uptime and costs, enhances the customer service experience through interaction in the telephone channel, and automatically provides customized information to customers.

Corporate Communication Network

Our corporate social network facilitates the immediacy, segmentation, interaction, and portability of information, as well as the diversification of official communication sources. This also allows the Bank to optimize the functioning of internal tools for fostering the permanent and efficient use of channels and targets, while ensuring co-participation by the Internal Communication area

and guaranteeing timely knowledge of the Bank's transversal issues.



Banco Pichincha initiated a transformation process for adopting new ways of working so that our Bank can adapt to market changes. The process involves innovative offerings and much quicker responses to customers, by crafting initiatives to bolster our performance to keep us in the lead and improve our services day after day.

We need to undergo transformation to adequately meet the demands of the market and our ever-growing customer base. Customers seek new ways to interact with the Bank and we must have the ability to compete not only with local stakeholders, but also with world-class international banks and new forms such as fintech and digital banks. For this reason, we are working with a team of consultants with a proven track record in business transformation. They help us address the prospects across our business, from initiatives for optimizing business opportunities

to other endeavors focused on curtailing expenses. This transformation places special emphasis on changing the way we work and for both the Bank and its staff to master new skills.

The new image of Banco Pichincha C.A. mirrors our desire to become an international banking group in the countries where we do business: Ecuador, Colombia, Peru, Spain, and the United States.

The new logo—a yellow geometric figure with a blue arrow pointing upwards—represents the Bank's commitment to customer protection and to guiding customers towards a future of growth. The letters forming the words "Banco Pichincha" are in contemporary style and symbolize a new stage in the Bank's long history.

After 112 years of service in Ecuador, Banco Pichincha C. A. takes on the challenge of consolidating a business model with international vision.

Banco Pichincha is always open to the changes demanded by a modern and ever-more competing globalized world by generating value for its different target groups. This change reaffirms our commitment to be at the service of present and future generations, while remaining focused on promoting the region's development.

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Our Report

GRI 102-50 / GRI 102-51 / GRI 102-52 / GRI 102-53 / GRI 102-54 / GRI 102-56

ON THE BASIS OF AN ANNUAL REPORTING CYCLE, AND FOR THE THIRTEENTH CONSECUTIVE YEAR, BANCO PICHINCHA C. A. PRESENTS THIS REPORT TO ITS PRIMARY STAKEHOLDERS TO PROVIDE RELEVANT INFORMATION ABOUT ITS SUSTAINABLE DEVELOPMENT PERFORMANCE. THE BANK'S OBJECTIVE IS TO FURNISH COMPLETE INFORMATION ON ITS MANAGEMENT, COMMITMENTS, AND PROGRESS WITH RESPECT TO THE SUSTAINABILITY OF ITS ACTIVITIES.

Report Profile

Scope and Coverage

Covering the period January 1 to December 31, 2018, this report has been prepared in accordance with the essential option of the Global Reporting Initiative (GRI) standards. Furthermore, this report is aligned with the industry guidelines of the G4 version of the GRI Financial Services Sector Disclosures.

The reported financial information is based on current regulations approved by the Superintendency of Banks and complies with the International Financial Reporting Standards (IFRS) authorized by the Ecuadorian oversight entity. The source of the information contained herein is the Bank's financial statements, which have been audited by an independent, external firm. The supplied non-financial information meets the guidelines of The Institute for Social and Ethical Accountability set forth in the latest version of the AA1000 standard. Therefore, the report follows the principles of inclusivity, materiality, and responsiveness of the AA1000 2008 APS (Accountability Principles Standard).

Contents

In order to determine the contents of this report, the GRI's four principles for defining the contents of a sustainability report have been applied: stakeholder inclusiveness, sustainability context, materiality, and completeness, as well as the relevant recommendations on the steps to be followed for establishing material topics. Both the developed process and the reported GRI standards are discussed below.

Report and Assurance

The Finance and Risk Executive Vice Presidency and the Human Resources Vice Presidency undertake the Bank's task of preparing the furnished information and making sure it is complete. The contents and performance parameters reported were defined following a rigorous internal information management process, warranting the correct application of the six principles outlined in the GRI to define the quality of a sustainability report: accuracy, balance, clarity, comparability, reliability, and timeliness.

In addition, this document has been verified by an independent third party, the PricewaterhouseCoopers auditing firm of Ecuador, with respect to the application of GRI standards. Furthermore, a large number of indicators has been independently verified following other internal and external management procedures.

Questions and Additional Information

For questions or requests regarding information, please contact us at:

- Sustainable Development Office of Banco Pichincha, Av. Amazonas 45-60 y Pereira. Telephone No.: (593 2) 298 0980, ext. 594750, or by email: desarrollo.sostenible@pichincha.com
- The information furnished herein is supplemented by the contents available at the following website: www.pichincha.com/portal/Informacion/Desarrollo-sostenible

Stages defined for the review process.

Chart 1



Material Topics 2018

GRI 102-46 / GRI 102-48 / GRI 102-49

To prepare this Sustainability Report, Banco Pichincha subjected the material topics, on which its sustainability management is based, to a review process. The purpose was to update the impact assessment concerning its activities and verify its responsiveness to the expectations of its stakeholders. The review process was conducted through the stages clearly presented in Chart 1.

The review of material topics during 2018 implied a certain level of structure modification, as well as a change in report content compared to the reports of previous years.

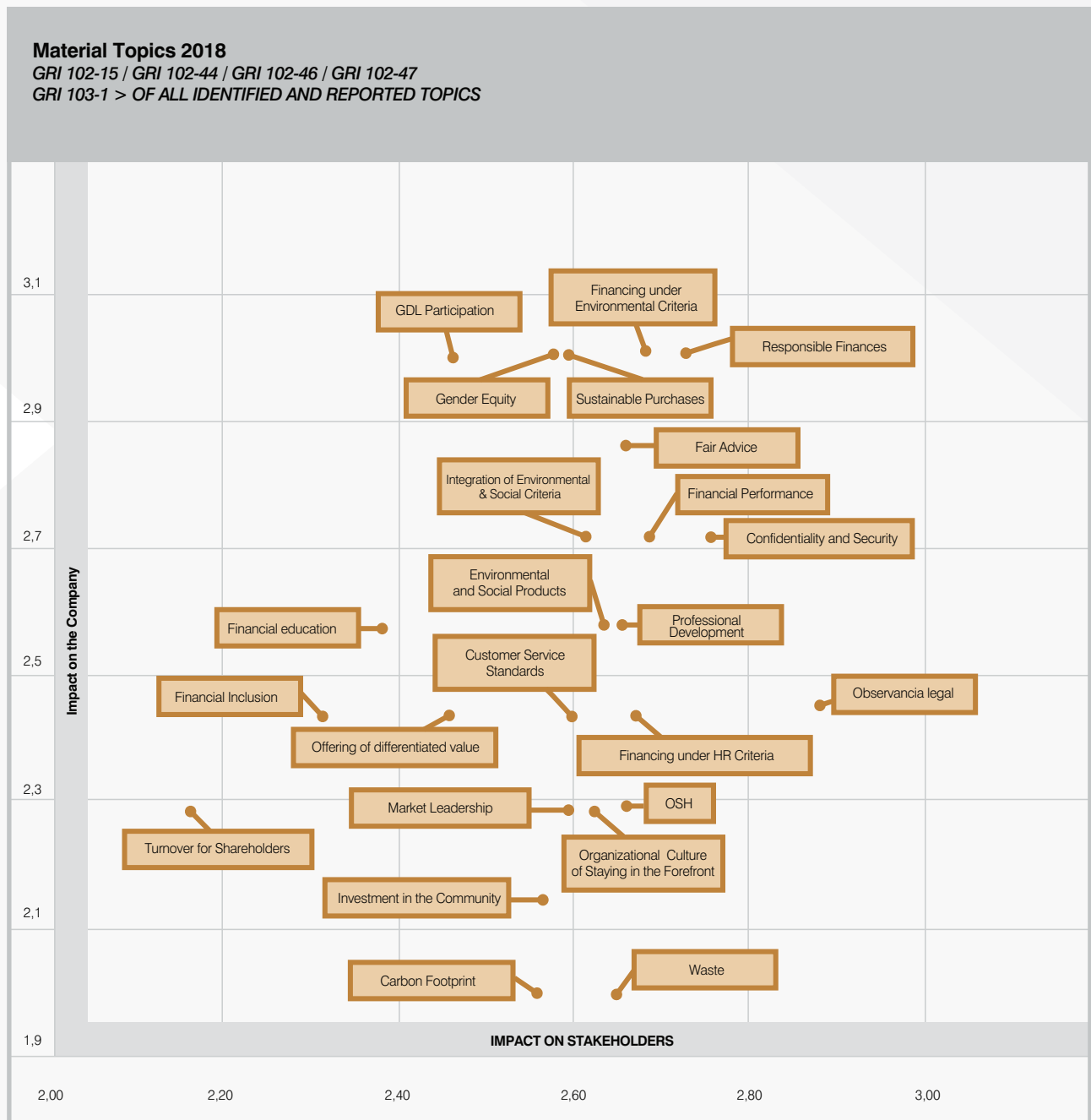
These changes have been undertaken without systemically and profoundly altering the reporting process.

GRI 102-15 / GRI 102-44 / GRI 102-46 / GRI 102-47
GRI 103-1 -> ALL IDENTIFIED AND REPORTED MATERIAL TOPICS
Table 1

Scope	Material Topic	Coverage	Impact's Importance to the Company	Topic's influence in the GRI
STRATEGY	Inclusion of environmental and social criteria in strategy, operationality, and related procedures.	Internal	2 .71	2 .62
	Leadership in the market in terms of image, market share, products, and quality services.	Internal	2 .29	2 .60
	Responsible finances and prevention of over-debt: operational sustainability, plus portfolio and systemic risk management.	Internal	3 .00	2 .72
	Participation of stakeholder groups and measuring their level of satisfaction.	Internal	3 .00	2 .46
FINANCIAL PERFORMANCE	Optimization of financial performance in terms of profitability, liquidity, and solvency.	Internal	2 .71	2 .69
	Ascribing sustainable profitability to shareholders.	Internal	2 .29	2 .16
	Generated direct economic value: investment in the community and financial support for social causes and social responsibility programs.	Internal	2 .14	2 .57
PROCUREMENT PRACTICES	Sustainable purchase practices.	Internal	3 .00	2 .59
EMISSIONS	Reduction of the carbon footprint (direct and indirect measurement of GHG).	Internal	2 .00	2 .56
WASTES	Reduction of specific wastes: paper and waste from technological products.	Internal	2 .00	2 .65
PRODUCTS	Integration of environmental criteria in investment/financing decisions.	Internal	3 .00	2 .68
OCCUPATIONAL HEALTH & SAFETY (OHS)	SHE policies and practices regarding threats and violence at the workplace.	Internal	2 .29	2 .66
LEARNING AND TEACHING	Organizational culture management through state-of-the-art practices for contributing to efficiency, high performance, and sustainability.	Internal	2 .29	2 .62
	Professional development for personnel.	Internal	2 .57	2 .65
EQUAL OPPORTUNITY	Promotion of gender equality among staff.	Internal	3 .00	2 .58
HUMAN RIGHTS EVALUATION	Integration of human rights in investment/financing decisions.	Internal	2 .43	2 .67
LOCAL COMMUNITIES	Financial education/learning to read and write.	Internal	2 .57	2 .38
	Inclusion/financial access for disadvantaged communities.	Internal	2 .43	2 .31
PRODUCT LABELING	Transparent information and fair advice for the customer.	Internal	2 .86	2 .66
CUSTOMER PRIVACY	Customers' and partners' information kept confidential and secure.	Internal	2 .71	2 .76
	Offering of differentiated value, guaranteeing level of service.	Internal	2 .43	2 .46
	Scope of international standards on customer service efficiency.	Internal	2 .43	2 .60
PRODUCT PORTFOLIO	Fortification of products with specific social and environmental objectives; i.e., school loans, green products, etc.	Internal	2 .57	2 .63
SOCIOECONOMIC COMPLIANCE	Observance of the legal and regulatory framework.	Internal	2 .43	2 .88

The topics identified as the outcome of this process are shown below. For each one of them, coverage and the level of priority were rated based on an ascending scale from 0 to 3, with 0 equal to nil in level of importance and 3 high in importance (see Table 1).

Based on the GRI standards, a priority matrix on the identified material topics is presented below (Chart 2).



Our Bank

GRI 102-2 / GRI 102-4 / GRI 102-6 / GRI 102-7 / GRI 102-10

BEING A UNIVERSAL BANK, WE HAVE BEEN ABLE TO INTERACT IN DIVERSE SECTORS OF THE ECUADORIAN ECONOMY.

WE PARTICIPATE WITHIN SEVERAL SPHERES AND OUR INITIATIVES HAVE EARNED US INTERNATIONAL RECOGNITION.

IN 2018, WE MAINTAINED OUR MARKET LEADERSHIP IN FINANCIAL SERVICES, THANKS TO THE CONFIDENCE OUR CUSTOMERS HAVE IN US, AS WELL AS OUR COMMITMENT TO GENERATE GREATER EFFICIENCY IN OUR FINANCIAL INTERMEDIATION WORK.

Our Coverage

In 2018, Banco Pichincha worked across the 24 provinces of Ecuador, offering services to customers and non-customers at our 10,265 service points consisting of branches, automatic teller machines, and the Mi Vecino ("My Neighbor") Non-Banking Correspondents (NBC) (Table 1).

Summary of Service Points

Three new branches were opened and one closed in 2018. Additionally, 85 automatic teller machines were installed, expanding our network to 1,181 ATMs.

Although the number of NBCs was reduced by 244, the 24 provinces are covered with a network of 8,815 Mi Vecino ("My Neighbor") Non-Banking Correspondents.

Coverage

Number of service points

Table 1

Branches	269
ATMs	1,181
Mi Vecino Non-Banking Correspondents	8,815

Our Creation of Value

GRI 201 (103-2, 103-3)

Our financial performance during 2018 was aligned with the strategy of effectively and efficiently achieving customer satisfaction. Pillared on ambitious goals, our financial management has kept in line with the current regulatory framework and maintains adequate risk management.

Organizational Strategic Panel

Our strategic statement is supported on the following drivers:

FINANCIAL SUSTAINABILITY

OPERATIONS AND PROCESSES

THE CUSTOMER

HUMAN RESOURCES

We measure our work using the Balanced Score Card. This world-class methodology helps to comprehensively balance the current state of objectives by using key indicators grouped into four different perspectives for viewing the business as a whole. Furthermore, this method provides future direction for the Bank.

- **FINANCIAL SUSTAINABILITY:** measures financial performance in terms of efficiency, profitability, liquidity, and solvency, while ensuring the Bank's operational sustainability.
- **OPERATIONS AND PROCESSES:** evaluates the project portfolio, performance of the critical processes of each executive vice-presidency, and the availability of channels.
- **THE CUSTOMER:** gauges the level of service and satisfaction of internal and external customers and their channels, the penetration of digital channels, transactional composition, and cross-selling index.
- **HUMAN RESOURCES:** assesses human resource management by using indicators such as for undesired turnover, pay equity, and work climate.

Economic Value Created

GRI 102-7, GRI 201-1

(Table 2)

The revenue generated by Banco Pichincha in 2018 grew by 8.34%, representing a \$95.8 million increase with respect to the previous year. Of that revenue, 74.5% stems from income generated by financial intermediation (interest, commission earned, and financial profits).

In 2018, the implementation of our strategy included starting a business transformation plan as well as the Bank's operation through multiple value creation initiatives. The highlights follow:

- ***Delving further into the business and achieving growth in new segments.***
- ***Attaining excellence in the operating model by accomplishing process efficiencies, cost reduction, and modernized operations.***
- ***Designing a digital strategy.***

Total assets amounted to \$10.664 billion, while net revenue totaled \$934 million.

Distributed Economic Value

GRI 201-1

(Table 2)

We play an important role in the country's economic activities. By paying salaries, purchasing goods and services, and making investments, our Bank produces positive economic effects throughout its entire value chain.

Banco Pichincha increased its level of expenses by 4.4%, compared to 2017. The Bank's cost-optimization strategies enabled it to achieve an efficiency ratio of 64.6%, which is 5.3 percentage points lower than in the previous year.

Economic Value Generated, Distributed, and Retained
Table 2

	2018 (thousands of \$)	Share (%)	2017 (thousands of \$)	Share (%)	Annual Var. (\$)	Annual Var. (%)
Economic Value Created						
Financial Revenue	927,399	74.5%	872,356	75.9%	55,043	6.31%
Income from Services	153,950	12.4%	139,508	12.1%	14,442	10.35%
Other Operational Revenue	100,616	8.1%	67,958	5.9%	32,658	48.06%
Non-Operational Revenue	62,854	5.0%	69,135	6.0%	-6,280	-9.08%
Total	1,244,819	100%	1,148,957	100%	95,862	8.34%
Economic Value Distributed						
Payment to savings and investment accountholders	171,348	15.2%	164,311	15.2%	7,037	4.3%
Payment to employees	175,432	15.6%	182,526	16.9%	-7,094	-3.9%
Salary	107,997		112,437		-4,440	-3.9%
Mandatory employment payments	56,015		58,886		-2,871	-4.9%
Investment in meals and health	7,775		7,701		74	1.0%
Other staff benefits	2,905		2,797		108	3.9%
Investment in training	741		706		35	4.9%
Goods and services suppliers	332,163	29.5%	306,904	28.5%	25,259	8.2%
Social investment in the community	2,921	0.3%	3,200	0.3%	-279	-8.7%
Public administration (taxes and contributions)	139,912	12.4%	102,329	9.5%	37,582	36.7%
Operating expenses	273,382	24.3%	309,166	28.7%	-35,784	-11.6%
Non-operating expenses	29,912	2.7%	9,313	0.9%	20,599	221.2%
Total	1,125,069	100%	1,077,749	100%	47,320	4.4%

Notes to table: **Payments to savings and investment accountholders:** interest that our customers earn from deposits and investments, interest paid to financial institutions, and convertible bonds. **Payments to employees:** includes payments made to all our internal employees. **Goods and services suppliers:** costs and expenses related to fees, technological innovation, security, advertisement services, and insurance. **Social investment in the community:** donations to the CRISFE Foundation. **Operating expenses:** mainly include: a) risk asset provisions required by the Superintendency of Banks; b) financial losses and other operating expenses; and, c) depreciation and amortization.

Retained Economic Value	2018 (thousands of \$)	2017 (thousands of \$)	Annual Variation (\$)	Annual Variation (%)
Net profits	119,750	71,207	48,542	68.17%
Legal reserve	11,975	7,121	4,854	68.17%
Earnings available for shareholders	107,775	64,087	43,688	68.17%

Creation of Responsible Value

GRI 102-16 (103-2, 103-3, 419-1)

Optimizing our financial performance is one of our strategic priorities and we aim to achieve this objective by ensuring the Bank's operational sustainability, sound management of the risks we manage, and adherence to comprehensive performance standards.

Year after year, our institutional responsibility of complying with our legal obligations is demonstrated. Within

the financial sphere, we strictly comply with the regulations issued by the Superintendency of Banks and the Banking Board, as well as with the labor, tax, environmental, and company regulations in place, whether applicable locally or generally.

To this end, we strive to craft and apply appropriate internal processes, manuals, instructions, and policies in general. These tools always come with the relevant legal validation in regards to their content and structure.

Sustainable Management Model Chart 1

Three fundamental pillars:
 1 **Diverse and fair labor practices**
 2 **Responsible Finances**
 3 **Safety, Health & Environment**



The Sustainable Management Model and its three courses of action enable us to manage the economic, social, and environmental risks and opportunities derived from the operations of Banco Pichincha. The model and actions reinforce our corporate reputation and financial responsibility.

INSTITUTIONAL VALUES

Integrity
Responsibility
Service
Productivity and Innovation

In this context, we rigorously comply with all current labor rules, thus allowing us, for example, to meet the labor inclusion percentages concerning disabled people—presently, 4% of our payroll represents individuals with a disability. We also comply with the required percentages regarding the hiring of interns and young adults. Similarly, for observing sector or municipal regulations, we have accommodated our facilities for providing proper access to individuals with disabilities and have drawn up an adequate plan for solid and hazardous waste management and disposal.

Likewise, for observing financial rules, the products and services we offer our customers meet the highest standards and therefore all legal feasibility requirements.

For these reasons, no significant fines or non-monetary sanctions for non-compliance was placed on Banco Pichincha in 2018.

Our Sustainable Management Model

GRI 102-15

To manage the economic, social, and environmental risks and opportunities arising from its operations, Banco Pichincha deploys a Sustainable Management Model enabling it to boost its corporate reputation and financial responsibility. This model is based on three fundamental pillars, each of which is the main subject in a following chapter (Chart 1).

Our Sustainability Commitments

GRI 102-12 / GRI 102-13

To bolster our commitment to sustainability, we follow a number of global initiatives to which we have adhered by choice. For the year 2018, we highlight the following:

UNITED NATIONS GLOBAL COMPACT

UNITED NATIONS ENVIRONMENT PROGRAMME FINANCIAL INITIATIVE (UNEP FI)

GLOBAL BANKING ALLIANCE FOR WOMEN

U.N. WOMEN'S EMPOWERMENT PRINCIPLES

Furthermore, we strive to obtain different certifications and to align our Bank with various principles, such as:

DOW JONES SUSTAINABILITY MANAGEMENT INDEX

CUSTOMER PROTECTION PRINCIPLES - THE SMART CAMPAIGN

Motivated for having cultivated a proactive relationship with sustainability and business stakeholders, we have forged multiple strategic alliances over time. In 2018, our main alliances were with:

CERES
ECUADORIAN CONSORTIUM FOR SOCIAL RESPONSIBILITY

ASOBANCA
ASSOCIATION OF PRIVATE BANKS OF ECUADOR -
SUSTAINABLE FINANCES COMMITTEE

ECUADORIAN-AMERICAN CHAMBER OF COMMERCE,
CORPORATE RESPONSIBILITY COMMITTEE

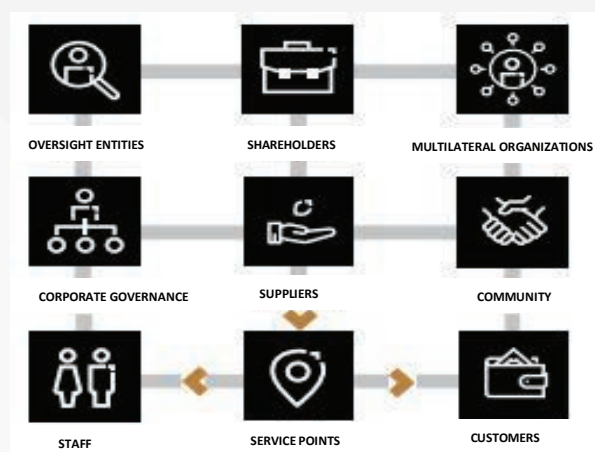
Our Stakeholder Groups

GRI 102-40 / GRI 102-42 / GRI 102-43

Based on transparency, communication, and dialogue, we have built a constructive relationship with our stakeholders. The type of relationship we have with our different stakeholder groups depends on the influence that the group exerts over our organization, as well as the impacts that our business bears on the group's living conditions. Within this framework, differentiated mechanisms are used to reach out to the

stakeholder group in question and are adjusted to that group's expectations (Table 3).

BANCO PICHINCHA



Stakeholder groups and key tools for dialogue and inputs for materiality.

Table 3

CORPORATE GOVERNANCE

Committees and subcommittees, intranet, Bank magazine, *Impacto al día* digital newsletter.

STAFF

Intranet, Bank magazine, *Impacto al día* digital newsletter, surveys, joint committees.

SUPPLIERS

Internet, e-mail, independent certification company SGS – certification.

CUSTOMERS

Internet, satisfaction surveys send via Customer tool, e-mail.

COMMUNITY

CRISFE Foundation

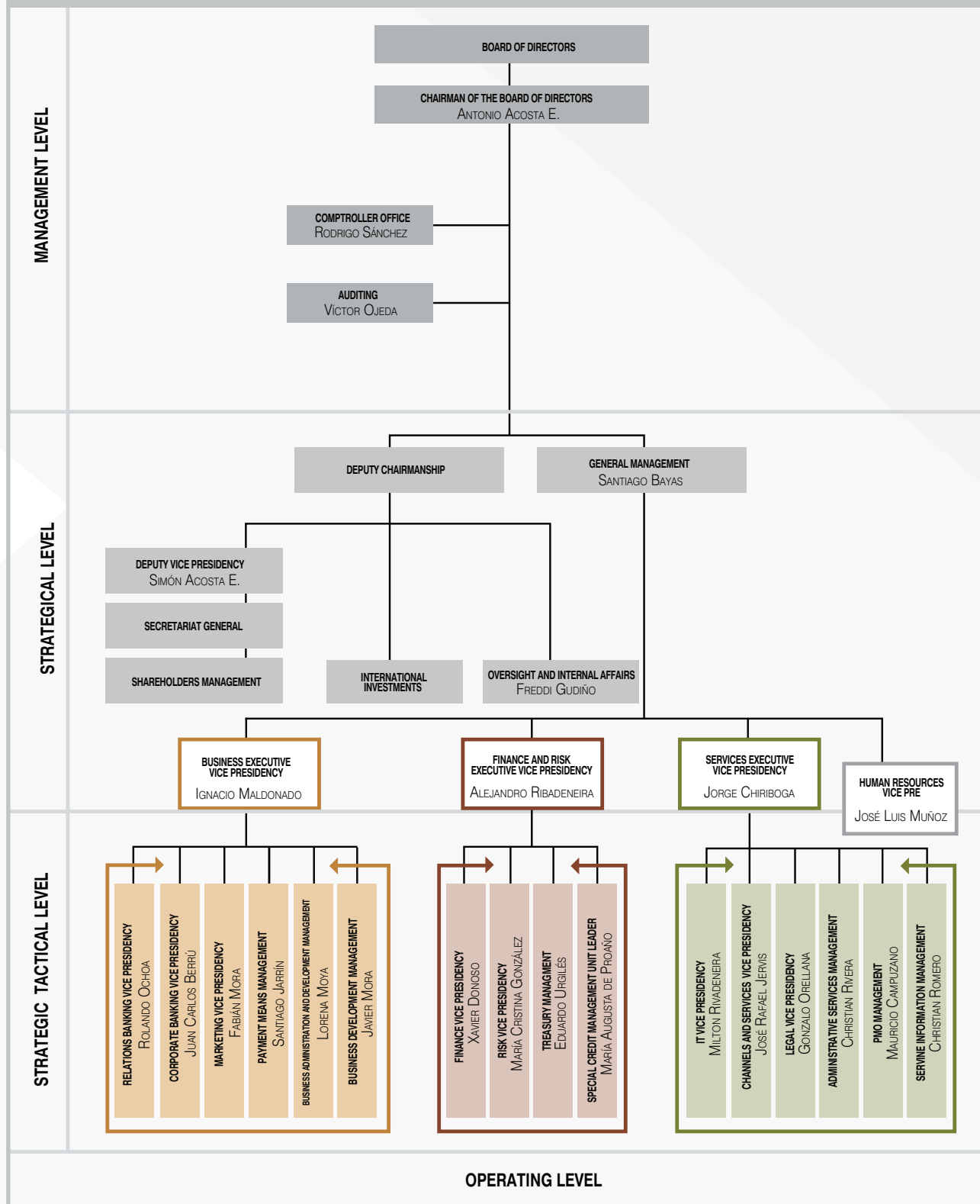
Our Sustainability Governance

GRI 102-18

The General Meeting of the Shareholders is the executive body of Banco Pichincha, it represents all the Bank's shareholders and is responsible for issuing the Bank's business guidelines and general policies. The General Meeting of the Shareholders holds one annual meeting and a special meeting when called in accordance with the law or the bylaws.

Organization Chart of the Bank

CHART 2



The Bank's top management body is its Board of Directors, which defines the Bank's general operative policies under which the other administrators carry on. The Board of Directors is formed by the Chairman, an alternate director for the Chairman, and four or six principal directors, with the same number of alternate directors qualified by the Superintendency of Banks. The members on the Board of Directors are elected by the General Meeting of the Shareholders for a one-year term, in accordance with Article 28 of the Bank's bylaws, and may be reelected. One hundred percent of the directors are independent and do not hold executive positions.

The President is the highest officer of the Bank, as are the General Meeting of the Shareholders and the Board of Directors, without exercising the Bank's legal representation. The Bank's functional structure consists of three organizational levels: management, strategical, and tactical (Chart 2).

GRI 102-18

To achieve greater engagement in management and an efficient distribution of tasks, in 2018 the Bank relied on 14 committees supporting the functions of Senior Management. These committees are involved in different areas of sustainable development, ensuring that the highest standards are applied accordingly (Table 4).

**Banco Pichincha Committees
Table 4**

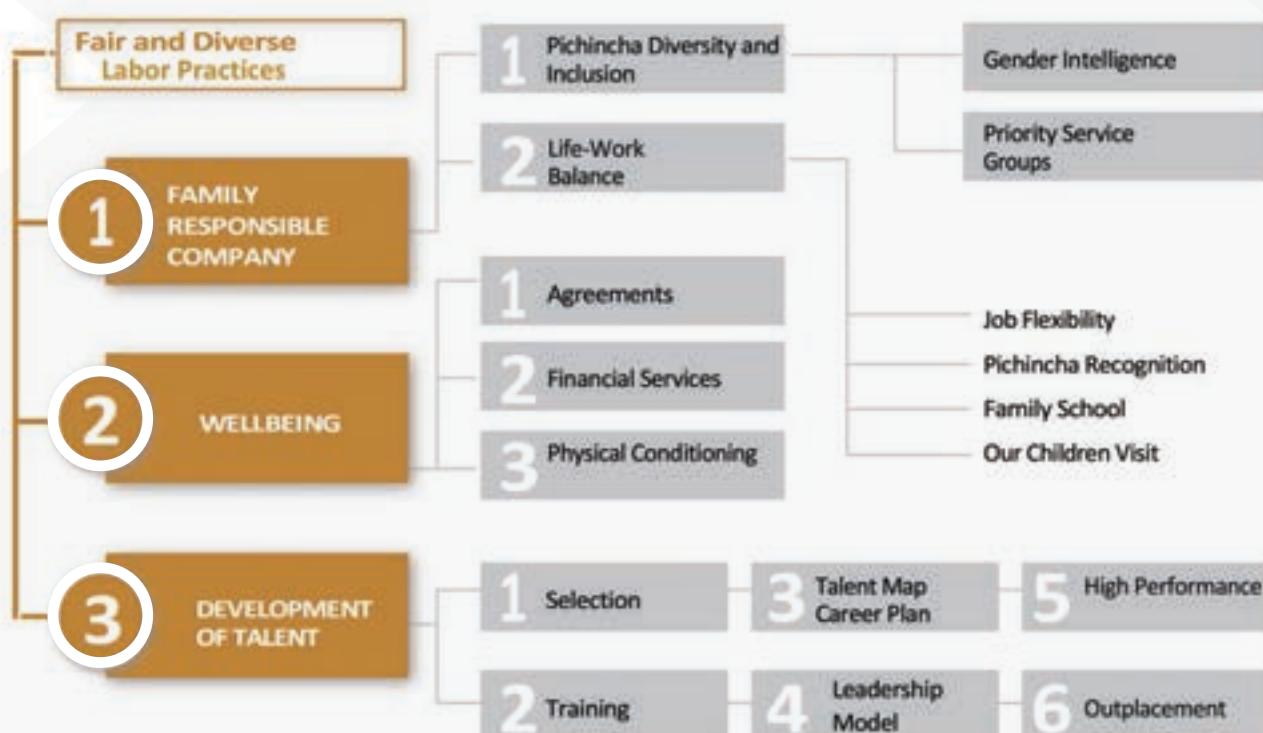
Name of Committee	Objective
ALCO COMMITTEE	Focuses on commercial businesses aligned with risk tolerance.
COMPREHENSIVE RISK MANAGEMENT COMMITTEE	Ensures the Bank's soundness and solvency with the Board of Directors' approval.
RISK ASSET RATING COMMITTEE	Determines the Bank's risk assets and defines levels of provision required for protecting such assets.
COMPLIANCE COMMITTEE	Monitors compliance with the rules and policies for deterring money laundering, the financing of terrorism, and other crimes.
AUDITING COMMITTEE	Monitors the optimal operation of internal control systems, institutional objectives and goals, and better financial results.
EXECUTIVE COMMITTEE	Ensures adequate operations, as well as administration and operations management, at the Bank's Board of Directors level.
STRATEGY COMMITTEE	Plots institutional strategies for fulfilling the budgetary strategic plan.
ETHICS COMMITTEE	Monitors compliance with institutional principles and values, as well as with the guidelines of the Code of Ethics.
RETRIBUTION AND GOOD GOVERNANCE COMMITTEE	Observes relationships among the shareholders, the Board of Directors, and the Bank's management.
TECHNOLOGY COMMITTEE	Maximizes the return on technological investment, aligned with services strategy and corporate guidelines.
STRATEGIC OVERSIGHT COMMITTEE	Ensures strategies are followed, contributing to the accomplishment of strategic planning goals.
LEGAL COMMITTEE	Oversees and monitors the Bank's legal stability and adopted resolutions.
DATA SECURITY COMMITTEE	Manages the Data Security Management System by complying with the Bank's strategic objectives.
BUSINESS CONTINUITY COMMITTEE	Minimizes the economic and operative impacts in the event of crises by reinforcing the Business Committee Plan.

Fair and Diverse Labor Practices

1

BP6

ONE OF THE THREE PILLARS ON WHICH THE BANCO PICHINCHA SUSTAINABLE MANAGEMENT MODEL IS BASED IS TO ASSERTIVELY LOOK FOR ANSWERS TO SOCIAL CHALLENGES POSED BY ITS OPERATIONS. TO RESPOND TO RISKS AND OPPORTUNITIES, THE BANK HAS DEFINED THREE STRATEGIC CORRIDORS, WITH THEIR RESPECTIVE ELEMENTS, FOR ENSURING FAIR AND DIVERSE LABOR PRACTICES.



Throughout 2018, we have centered our efforts on aligning ourselves with the Family Responsible Company certification. Our work is supported on five axes.

Family Responsible Company



QUALITY EMPLOYMENT

97%

of personnel under fixed employment agreements



TEMPORAL AND SPATIAL FLEXIBILITY

80

Workers in Quito, Guayaquil, and Cuenca

TELEWORK

60

Employees

PARTIAL WORK



FAMILY SUPPORT

Our Children Visit Us

4

CITIES

6

EVENTS

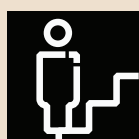
220

CHILDREN

Family School

6

CITIES



PERSONAL AND PROFESSIONAL DEVELOPMENT

765

promotions in 2018



EQUAL OPPORTUNITY

Gender Intelligence

5 PHASES

- Diagnosis
- Internal alignment
- Internal strategy
- External dissemination
- Recognition/reputation

Diagnosis of Micro Discrimination

Quality Employment

GRI 102-8

Banco Pichincha has 5,153 employees. In each region of Ecuador, our Bank hires locally and more than 97% of employees are under long-term, indefinite contracts.

In recent years, Banco Pichincha has promoted good gender intelligence practices. Presently, more than 65% of our employees are women. We look to place women in significant positions across the organization. We have also implemented pilot projects for job flexibility, with a temporal and spatial approach.

Type of contract by gender
Table 1

	Women	Men
Employees under Fixed-Indefinite Contracts	3,347	1,763
Employees under Occasional Contracts	32	11

Type of contract by region
Table 2

	Highlands and Amazons	Coast and Galapagos
Employees under Fixed-Indefinite Contracts	3,133	1,977
Employees under Occasional Contracts	33	10

Full- or part-time employment by gender
Table 3

	Women	Men
Full-time employees	3,337	1,756
Part-time	42	18

Personal and Professional Development

GRI 404 (103-2, 103-3)

Training and Education

Banco Pichincha has an area specialized in managing and administering education, training, keeping up with technology, and personal development of its employees. This

management follows the Return on Investment or ROI of training, and the ADDIE¹ scheme for constructing training models for onsite, distance, and blended programs. The purpose is to rely on a highly competitive staff, giving them full knowledge to enable them to develop their work and face environmental changes for achieving the Bank's objectives.

Training Products Portfolio

GRI 404 (103-2, 103-3, 404-2) / GRI FSSD G4 DMA
PRODUCT PORTFOLIO 3

The training management model is based on a policy as well as a general procedure defining the unit's actions and the responsibility of each staff member in the training processes. The area's commitment is centered on providing the training, education, and updating that the organization requires. It is the choice of employees to use that knowledge and transfer it to their daily work in the Bank's benefit.

To meet these objectives, the Training area is given an annual budget and, for accountability reasons, budget execution is reported to each division. If the training processes or their distribution and attention fail to meet the needs of the different stakeholders, follow-up meetings are held and corrective actions taken. For aligning the educational processes focused on the Bank's

¹ ADDIE: acronym for the five phases of the Analysis - Design - Development - Implementation and Evaluation model, understood as a systematic method for creating learning experiences to develop skills and knowledge.

strategy and for democratizing access thereto, we currently have transversal programs, such as the following:

- **PICHINCHA TE EDUCA ("PICHINCHA TEACHES YOU"):** offers access to 70 courses on different topics, as well as to master lectures and webinars; agreements with educational institutions. This transversal program for self-development is aimed at democratizing training as well as achieving that all Bank employees keep up with technology tools.
- **PICHINCHA LIDER ("PICHINCHA LEADER"):** managerial development transversal program fostering the organizational culture by building up managerial skills and capacities for lines of supervision. The objective is to promote efficient management of work areas and teams by developing competencies and aligning

activities with institutional values. The program is designed on the basis of the blended learning method, allowing for the transfer of knowledge through the use of multimedia tools offered in e-learning. Furthermore, the program is crafted for cultivating skills and implementing an onsite workshop.

- **JOB CERTIFICATIONS:** for developing the professional career of employees.
- **AGREEMENTS:** we have signed 20 agreements with higher education institutions to facilitate access to quality education at discount prices, lectures, and internships for the development of our employees.

Within this framework, the Bank provides its employees with multiple channels for raising questions, concerns, and suggestions:

- Direct phone line HUMAN RESOURCES INFO.
- INFO CAPACITACIÓN ("TRAINING INFO") e-mail.
- Generic mail to resolve program concerns regarding the Pichincha Leader program.

Transition assistance program

GRI 404-2

At Banco Pichincha, the Mi Futuro ("My Future") volunteer program targets employees with 10 or more years of seniority. The goal is to provide tools to individuals for support in making their future plans, as well as setting personal life goals and objectives. For outplacements not associated with

offer an outplacement program to our employees, which was drawn up by a specialized expert and financed entirely by the Bank. The program includes support in coping with feelings and handling change, as well as provides tools for entrepreneurship and labor reinsertion.

* Parallel to the outplacement program, and as required, the Bank makes the payments stipulated in the Labor Code, as well as pays for certain benefits, such as health insurance for a specific time after outplacement.

- Reaction surveys on online training courses and on inhouse onsite programs (depending on the level of training evaluation).

As part of the dynamics for ongoing improvement, each year the Training area provides the results of its work. Internally, the progress and indicators of the objectives and projects developed during the period are submitted to Sustainable Development management. This means that they are docu-

mented for their presentation to the different divisions and regulatory bodies (Auditing, Good Corporate Governance, Compliance Committee, oversight bodies). At the external level, information is prepared each year for submission to independent auditing processes, either for regulatory compliance issues or at the organization's own initiative.

GRI 404-1

Table 4 shows the number of hours of training given during the year for promoting knowledge acquisition within our organization.

Hours of training and education

Table 4

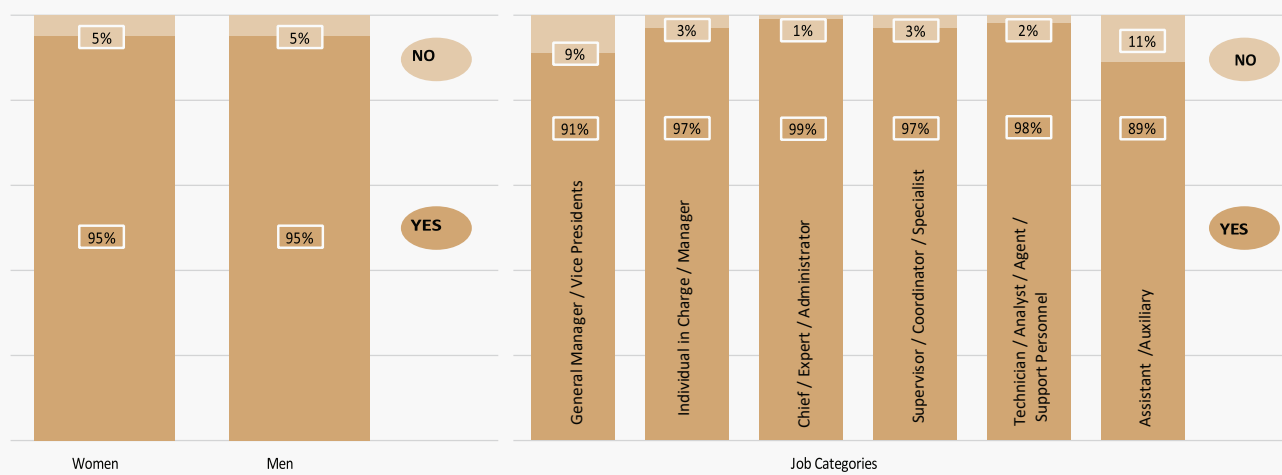
Job Category	Average number of hours Female Personnel	Average number of hours Male Personnel	Total of Average Number of Hours
Assistant / Auxiliary	53.59	51.19	52.81
Manager / Vice President	36.00	22.20	22.97
Chief / Expert / Administrator	110.11	108.18	109.38
Individual in Charge / Manager	196.32	198.90	197.68
Supervisor / Coordinator / Specialist	37.45	48.73	41.28
Technician / Analyst / Agent / Support Personnel	21.53	22.80	21.94
General Total	54.37	61.36	56.77

Performance evaluation

Chart 1

Performance Evaluation by Job Category

Chart 2



Evaluation and Follow-Up

GRI 404-3

Job performance was evaluated for 94.84% of Banco Pichincha's employees in 2018. The remaining 5.16% did not undergo an evaluation because they are new employees with a very short time of service with the Bank, or due to special cases, such as sick leave and so on.

The distribution of this performance evaluation process by gender and job category is shown in Charts 1 and 2 on the previous page.

Diversity Practices

GRI 405 (103-2, 103-3)

With the implementation of our Pichincha Diverse and Inclusion program, we look to create an organizational culture that values and integrates all kinds of differences. We use initiatives promoting the welfare of employees, creating a work environment of respect, tolerance, and inclusion under a framework of policies fostering meritocracy and opportunities for all. The following activities are highlighted for 2018:

- Focus groups with staff to identify perceptions concerning "living in the minority."
- Mapping of demographic variables.
- Diversity and inclusion kick-off with expert Alden Abacon.
- Design of an awareness-raising campaign for Banco Pichincha.

The primary challenges for 2019 are to raise awareness within the organization nationwide about the diagnosis and to develop group dynamics to boost the sense of inclusion in, and belonging to, the organization.

GENDER INTELLIGENCE

With the signing of the UN Women's Empowerment Principles and within the framework of Pichincha Diversity and Inclusion, since 2015 we have promoted the Gender Intelligence program to achieve an effective integration of mixed work teams, as well as to encourage the placement of a greater number of women in managerial and executive positions. The number of employees promoted within the Bank was 615, out of whom 414 were women and 201 men.

Gender Intelligence Program
Chart 3



To strengthen our organizational synergy and stimulate behaviors for warranting our institution's sustainability, the program is deployed in five stages as shown in Chart 3 on the previous page.

In 2018, experts from the International Finance Corporation (IFC) accompanied us in this process. The project included the commitment by Senior Management, as well as a Gender Intelligence Commission with different sponsors distributed throughout the organization, plus an operational team.

The main actions are described below:

- Internal awareness-raising and training.
- Talks, workshops, and expositions for employees, as well as mentoring, workshops, and training for Senior Management, lines of supervision, and instructors, reaching out to about 500 individuals.
- E-learning for employees.
- Dissemination and promotion.
- Internal communication – staff communication campaigns.
- External communication – organizers, and presence in ten forums nationwide.
- Employee wellbeing programs.
- Parent support programs.

In 2019, we will continue to intensify our actions.

Family Responsible Company

GRI 405 (103-2, 103-3)

We have initiated the process for securing certification as a Family Responsible Company (FRC), with the objective of protecting and promoting family care in our organization. We strive to foster social change and cultural transformation, in pursuit of a balance between work and family life.

In this context, the following measures were taken in the year 2018:

- Socialization of the certification for the lines of supervision.
- Legal and tax diagnosis.
- Market analyses on measures for reconciling work and the family.
- Diagnosis of 586 employees, using surveys and seven focus groups.

The following programs are channeled based on this certification:

Telework

2018 Key Milestones

- Significant recognition by the Ministry of Labor.
- Sensibilization within lines of supervision.
- Program expanded to the cities of Guayaquil and Cuenca.
- 80 teleworkers.
- Event with General Management and the Labor Minister on good practices and the State's vision.

Key Objectives for 2019

- Evaluation of impact on productivity and satisfaction.
- Access to platforms for working remotely from homes.
- 50% increase in the number of teleworkers.

In 2018, we
had 80
teleworkers.

Our Children Visit Us

This activity aims to foster employees' commitment to the Bank by encouraging their children to learn about their parents' workplace. In 2018, six events were held in four cities (Quito, Quevedo, Ambato, and Manta) with the participation of 220 children having participated. For 2019, it is expected that the program will also cover teenagers, as well as the coastal region.

220 children got to visit the Bank.

Family School

The goal of this program is to provide an opportunity for sharing and learning through educational and motivational talks for achieving a better balance of life. In 2018, the topics covered

concerned the main interests of employees, providing tools to let them assertively do their jobs in a healthy and prosperous environment. During the year, the program took place in Lago Agrio (Nueva Loja), Latacunga, Riobamba, Ambato, Quito, and Loja. In 2019, we will strive to reach more provinces in the country.

The issues with the greatest impact concern teenagers and the appropriate use of social networks.

Inclusion



GRI 405-1

The clear definition of long-term goals and systematic program execution have enabled Banco Pichincha to advance in the promotion of diversity within the organization. Tables 5, 6, and 7 provide a description of certain organizational diversity variables.

Job Category by Age
Table 5

	Under 30		Between 30 and 50		Over 50	
Assistant / Auxiliary	1,324	60.54%	383	13.98%	47	20.71%
Supervisor / Coordinator / Specialist	353	16.14%	835	30.49%	39	17.19%
Technician / Analyst / Agent / Support Personnel	434	19.84%	665	24.28%	27	11.89%
Chief / Expert / Administrator	76	3.48%	756	27.60%	63	27.75%
Individual in Charge / Manager			93	3.39%	40	17.62%
Manager / Vice President			7	0.26%	11	4.84%
Total	2,187	100%	2,738	100%	227	100%

Job Category by Gender
Table 6

		Female Employees			Male Employees	
Assistant / Auxiliary		1,181	34.95%		573	12.30%
Supervisor / Coordinator / Specialist		811	24.00%		416	23.45%
Technician / Analyst / Agent / Support Personnel		768	22.73%		358	20.18%
Chief / Expert / Administrator		555	16.43%		340	19.17%
Individual in Charge / Manager		63	1.86%		70	3.94%
Manager / Vice President		1	0.03%		17	0.99%
Total	65%	3,379	100%	35%	1,774	100%

Equal Pay

GRI 405-2

In our constant quest to promote non-discrimination, we promote the principle of equal pay for equal work. For this reason, we have a salary structure that has been defined by taking the pay trend at the job market and internal equity as a reference. In this context, salaries are paid based on positions and not on people, thus ensuring there is no gender discrimination² (Table 8 and Chart 3).

² The sources of information for determining this point include our salary scales, employment records, and payment records saved on our Bank's human resources system, as well as our Structure and Compensation Policy.

Job Category by Disability

Table 7

	# of employees
Assistant / Auxiliary	120
Supervisor / Coordinator / Specialist	32
Technician / Analyst / Agent / Support Personnel	14
Chief / Expert / Administrator	13
Individual in Charge / Manager	7
Manager / Vice President	-

Salary by gender for transactional service agents

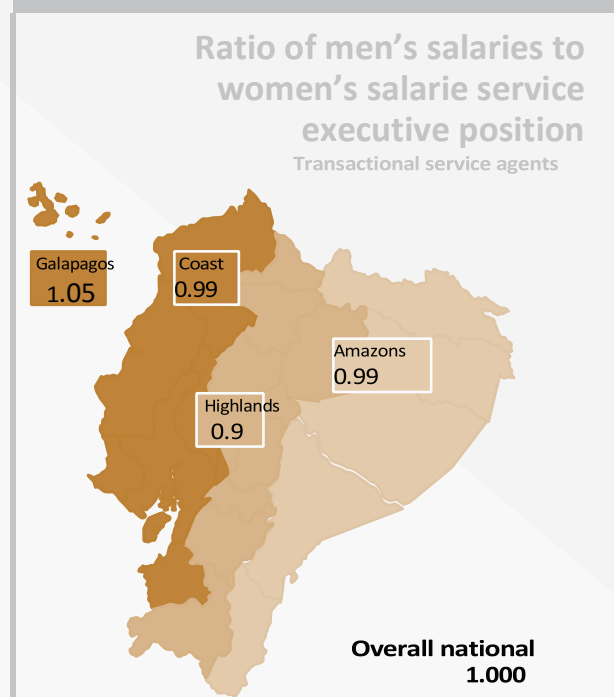
Table 8

Region	Men	%	Women	%	Total
Highlands	208	54.88%	511	55.01%	719
Coastal region	158	41.69%	380	40.90%	538
Amazon	12	3.17%	35	3.77%	47
Galapagos Islands	1	0.26%	3	0.32%	4
Total	379	100%	929	100%	1.308

Table note: For this analysis the position of transactional services agent has been considered, with 1,308 employees nationwide, representing 24.67% of the Bank's staff and segmented according to the four regions of Ecuadorian territory.

The average pay ratio of gross income comparing men's salaries to women's salaries shows that there are no gender pay gaps.

Chart 3



Human Rights Evaluation

GRI 102-16 / GRI 412 (103-2, 103-3)

Committed to responsible management, Banco Pichincha has identified mechanisms to promote human rights in its operations as well as in its value chain. Our Bank adheres to the Principles of the Global Compact and the Principles of the Global Compact and the U.N.

Women's Empowerment Principles. Furthermore, it has initiated the process to become aligned with ISO 20400 on sustainable procurement, which addresses the human rights dimension of the supply chain.

We make sure that our Code of Ethics and internal policies include clauses for respecting people's rights, as well as human resources process manuals covering clauses on non-discrimination and no child labor.

We have internal channels for filing complaints and have developed a supplier qualification process that includes issues concerning this matter. The target for 2019 is to get the new Code of Ethics and Conduct approved and socialized nationwide. With this new document, we will reach more stakeholder groups and further embody human rights at our organization.

Each year, we review the social indicators defined by the Social Work area and the various dual-track channels available to us, procuring to focus on preventive and mitigation actions. In 2018, we ensured the continuity and reinforcement of the Parent Support, Gender Intelligence, and Diverse and Inclusive Pichincha programs. Our work plan will be guided by a nationwide diagnosis of these programs.

Pichincha Recognition

BP6

In 2018, the fourth edition of the Pichincha Recognition program was launched. This program focuses on motivating employees to achieve excellence and aims to reinforce positive conducts and behaviors for boosting employee productivity while promoting their participation, with more projects from different areas of the Bank.

Pichincha Recognition rewards the efforts and dedication of people in the development of our organization. There are five

award categories which, in turn, are aligned with our institutional objectives:

1. Customer Focus
2. Organizational Wellbeing Focus
3. Efficiency Focus
4. Financial Focus
5. Branches

In this edition, 65 projects participated with employees' participation skyrocketing 100% with respect to the previous year.

Responsible Finances 2

GRI FSSD G4 FS6

THE CUSTOMER IS AT THE CENTER OF THE BANCO PICHINCHA BUSINESS MODEL. LISTENING TO THE CUSTOMER, UNDERSTANDING THE CUSTOMER'S NEEDS, GIVING INNOVATIVE SOLUTIONS, AND BUILDING LONG-TERM RELATIONSHIPS OF TRUST LAY THE FOUNDATION FOR SUPPORTING OUR COMMITMENT. THE BANK'S NATIONWIDE CUSTOMER BASE CONSISTS OF A TOTAL OF 3,323,494 CUSTOMERS, AND THE BANK IS THE LARGEST FINANCIAL INSTITUTION IN ECUADOR (Tables 1 and 2).

Customers by Region Table 1				
Region	Companies	Individuals	Micro-Business Owners	Overall Total
Coastal Region	40 ,600	969 ,440	163 ,522	1,173,562
Headquarters	3 ,593	23 ,693	130	27,416
Central Region	16 ,312	488 ,373	133 ,586	638,271
Northern Region	33 ,703	1,151,389	117 ,959	303,051
Southern Region	6 ,876	153 ,200	21 ,118	181,194
Overall Total	101 ,084	2,786,095	436 ,315	3,323,494

Customers with Active Loan Operations by Business Table 2				
Segment	Subsegment	Customers	Operations	Total Portfolio (thousands of \$)
Companies	Large Enterprises	2,311	9,844	\$2,250,095
	Small Enterprises	40,872	65,535	\$1,287,167
	Legal Persons	302	325	\$4,505
Micro-business owners	Micro-business owners	228,116	316,438	\$976,444
Individuals	Individuals	846,350	1,076,442	\$2,691,177
Overall Total		1,117,951	1,468,584	\$7,209,388

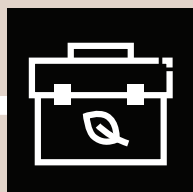
With Bio-Credit and Green Bond issues, the Bank aims to drive the country's economy towards cleaner growth, contributing with constructive initiatives bearing a huge positive impact on the environment.

Responsible Finances

Bio-Credit

150-200
millions
of bonds

**WE ARE THE FIRST
GREEN BOND ISSU-
ING BANK IN ECUA-
DOR AND ONE OF
THE LARGEST IN
LATIN AMERICA.**



Placement of the green
portfolio in 2018:

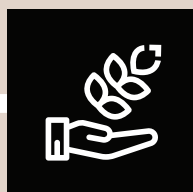
**\$78
MILLION**



**5-YEAR FUNDING TO
INVESTORS AND
TECHNICAL ASSIS-
TANCE FROM MULTI-
LATERALS.**



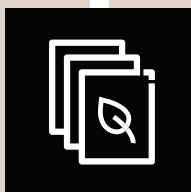
- **Energy Efficiency**
- **Sustainable Construction**
- **Environmental Investments**



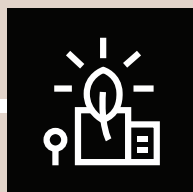
Broader
**OFFERING OF
GREEN CREDIT**
in the Ecuadorian
Market.



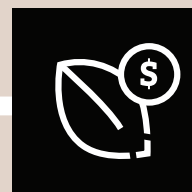
Improved credit assessment on
ENVIRONMENTAL RISKS
based on international
standards.



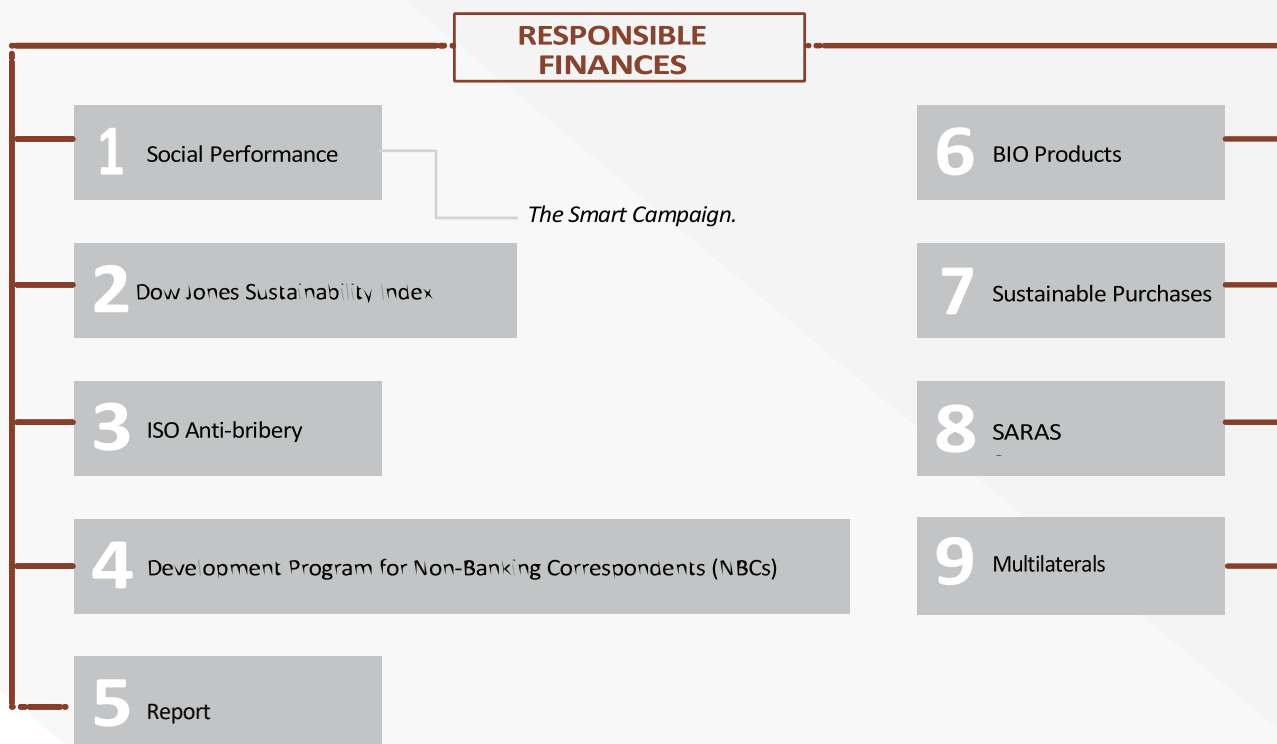
**CUSTOMER FOCUS
ACROSS ALL SEG-
MENTS.**



- 1** Contribution to our customers' development and efficiency.
- 2** Environmental protection.



- 1** Generation of new green business opportunities.
- 2** We are the leaders in green financing.



We Offer Responsible Value

GRI FSSD G4 FS6

The value we offer responds to the demands of customers' different profiles. Day after day, we want our customers to become more connected, to use the different channels that we make available, and to be more satisfied with the service we provide.

Responsible finances is a priority in our Sustainable Management Model for driving the development of sustainable and prosperous businesses in society's benefit.

We have integrated social and environmental criteria into the design and distribution of our products and services. We promote the financial inclusion of vulnerable groups and the application of customer protection principles, as well as financial education for customers and non-customers.

Certification in Customer Protection Principles - The Smart Campaign

BP1 / BP2 / BP8

Our Microfinance segment is evaluated in terms of compliance with key international standards, such as the "Customer Protection Principles," an international campaign promoting transparent and respectful financial products for customers, while establishing minimum standards that customers expect when entering into a business relationship. In this way, we are able to cultivate solid, lasting, and trustworthy relationships, as well as minimize financial risks.

Customer Protection Principles

1. Appropriate Product Design and Delivery
2. Prevention of Over-Indebtedness
3. Transparency

4. Responsible Pricing
5. Fair and Respectful Treatment of Clients
6. Privacy of Client Data
7. Mechanisms for Complaint Resolution

In 2016, we became the first Ecuadorian bank to secure certification in the Customer Protection Principles of The Smart Campaign for our Pichincha Microfinance segment.

Committed to customer development and guided by a strong social conviction, in 2018 our certification was ratified and aligned with version 2.0 of these principles. In this new process, all service providers and areas of the Bank that work with Pichincha Microfinances were involved: Pague Ya, Pichincha Mi Vecino Non-Banking Correspondents, NOVA Ecuador, network of branches and channels, and the Customer Service Unit.

To continue working in line with the best practices, for 2019 we propose the following work plan:

- Monitoring of actions implemented in 2018;
- Communication campaigns; and,
- Training personnel on customer protection principles.

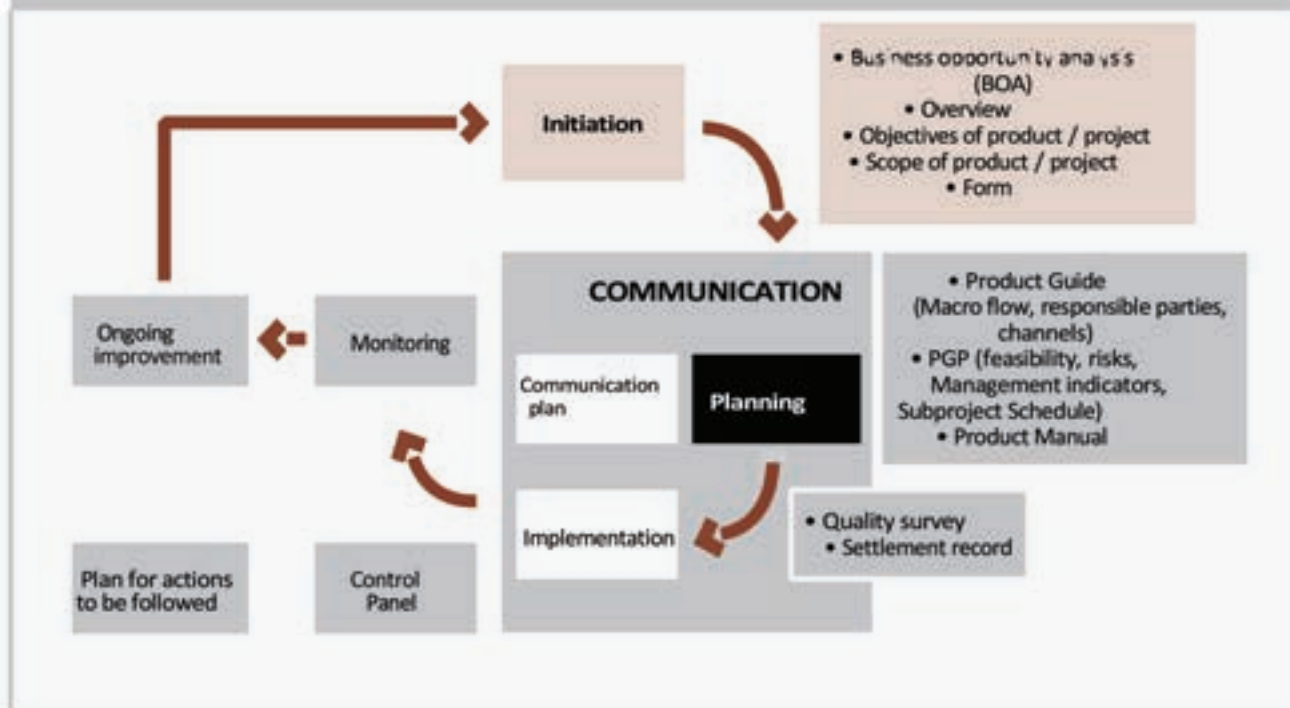
Fair Customer Advice

GRI FSSD G4 DMA MARKETING AND LABELING

We provide an ample portfolio of savings and credit financial products for ensuring that our offering is responsible, and our product design is correct. We rely on specific policies and processes for creating products and services.

Our products and services are created following a methodology (Chart 1), putting the customer's needs first. When creating products and services, we take into account the credit policies of the Bank's different segments, knowing your customer policies, anti-money laundering policies and, where appropriate, the legal regulations of the different oversight entities. We follow the Project Management

Methodology for the responsible creation of products and services
Chart 1



Office (PMO) methodology, under a comprehensive vision of product creation, technological impact, profitability, and life cycle.

Our offering of products is featured in a clear and transparent communication making it easy for the customer to make an informed decision, while boosting

the customer's confidence in the Bank, safeguarding the customer's interests, and setting us aside as a financial entity focused on the customer's needs. Table 3 shows the main products and services offered in 2018.

Main products and services in 2018

GRI 102-2 / BP7

Table 3

	Loans	Accounts and Investments	Foreign Trade	Services
RETAIL	<p>CONSUMER</p> <ul style="list-style-type: none"> •Precise •Precise Mortgage •Open Line •Crediback <p>MORTGAGE</p> <ul style="list-style-type: none"> •New or used homes, social housing; home construction, remodeling, enlargement. •Multimortgage •Land •Migrant Housing <p>SCHOOL</p> <ul style="list-style-type: none"> •Postgraduate Studies •Undergraduate Studies 	<ul style="list-style-type: none"> •Traditional Savings •Electronic Savings •Xperta Account •Compatriot Savings •Savings in Euros •Confianza electronic account •E-Teens electronic account •Investment Account •Euros Investment Account •Personal Checking Account •Future Savings Plan •Reserve Future Savings Plan •Teens Future Savings Plan •Bonus Salary - Future Savings Plan •Armador •Plazodolar •Certificate of Deposit, with interest paid in advance •Europlazo 		<ul style="list-style-type: none"> •Local Banker's Checks •Foreign Certified Checks •Domestic, Local, or Interbank Transfers •Offshore Transfers •Negotiating Currencies •Home Delivery of Effects •Online Bank Statements •Bank Certificates •Online Bank Certificates •Receipt of Remittances •Overdraft, Automatic Payment System •Collections •Opening of Digital Account •Digital Credit
CORPORATE	<ul style="list-style-type: none"> •Productive Loans •Supplier-Distributor Credit •Crediback •Discounts on Negotiable Instruments •Real Estate 	<ul style="list-style-type: none"> •Savings Accounts for NBCs with legal personhood •Trading House Account •Corporate Checking Account •Production Goods Savings Plan •Euros Certificates of Deposit •Armador •Plazodolar •Certificate of Deposit, with interest paid in advance •Europlazo 	<ul style="list-style-type: none"> •Aval •Letters of Credit •Bank Guaranties •Customs Guaranties •Import/Export Collection Service 	<ul style="list-style-type: none"> •Cash Management Services (collections and payments) •Public Institution Collections •Overdraft, Payment System •Local Banker's Check •Foreign Certified Checks •Domestic, Local, or Interbank Transfers •Offshore Transfers •Negotiating Currencies •Home Delivery of Effects •Online Bank Statements •Bank Certificates
MICROFINANCES	<p>GROUP MICROCREDIT</p> <p>MICRO-CREDIT FOR INDIVIDUALS</p> <ul style="list-style-type: none"> •For Customer's Business •Consumer Loans •Home Loans •Farming Loans •Ecological Loans 	<ul style="list-style-type: none"> •Micro-Credit Savings •Traditional Savings •Electronic Savings •Xperta Account •Refugee Xperta Accounts •Personal Checking Account •Armador •Plazodolar Dollar Time Deposit •Micro-Credit Time Deposit •Future Growth Savings Plan 		<ul style="list-style-type: none"> •Local Banker's Check •Foreign Certified Checks •Domestic, Local, or Interbank Transfers •Offshore Transfers •Negotiating Currencies •Home Delivery of Effects •Online Bank Statements •Bank Certificates •Receipt of Remittances •Overdraft, Payment System •Collections
OTHER	<ul style="list-style-type: none"> •Purchased Portfolio 			

Customer Protection and Privacy

GRI 418 (103-2, 103-3)

We are committed to providing excellent services to our customers, ascribing priority to managing their security in our different channels, products and services. We pay special attention to the confidentiality and protection of customer information, as required by law for bank secrecy purposes.

In order to fully cover this aspect, Banco Pichincha has a General Data Security Policy defining the minimum mandatory requirements for data protection, as well as data use by its employees or related third parties within all the Bank's processes and activities. Relevant risks are assessed and monitored by the Bank's Data Security Committee, which in turn is responsible for making the decisions on related issues. This committee and the Comprehensive Risk Management Committee share the responsibility of checking data security processes, procedures, and methodologies.

The provisions that the Bank enforces to ensure data confidentiality, completeness, availability, authenticity, and traceability are set out below:

- Separation of roles and responsibilities to minimize abuse of privilege.
- Methodical and ongoing analysis of associated risks.
- Data security classification.
- Access control.
- Restrictions on the use of information technology resources.
- Physical security of data.
- Malware protection.
- Handling and safety of means of communication.
- Exchanging data.
- Operations are separated from the production environment to ensure a correct conflict of interests.
- Adequate conditions for developing software.
- Restrictions on network connectivity and connection.
- Response to incidents.
- Penalties.

The Internal Audit Area continuously evaluates the controls implemented to ensure customer data security. When detected that there is a lack of controls or weak controls putting confidentiality at risk, the Bank's management is informed accordingly through audit reports for the proper controls to be implemented or reinforced.

Claims Management

GRI418-1

We ensure that our customers' concerns and complaints are addressed, and we also quickly and efficiently clear up any doubts they may have. We remain on track with our culture of ongoing improvement by measuring response times, the availability of self-services, and claim reduction. We uncover the root of the problem in order to enhance business processes and service, while supporting our team for applying corrective measures.

One customer service principle is to have control and management of critical processes, complying with current rules in terms of the response times set by the regulatory entity and always observing bank secrecy.

In 2018, Banco Pichincha's transformation process began. The project is focused on providing greater ease and quicker services to our customers for carrying out their transactions through the different channels. The purpose is to encourage the use of new digital tools. This has ignited an increase in debit card transactions at virtual stores and purchases at different points of sale (POS).

Basic transactions jumped by 31.6% (or more than 100,000 transactions). The decrease in transactions at teller windows owes to the Bank's strategy for migrating transactions to alternative channels, especially Mobile Banking, NBCs, and Xperta debit card transactions (Chart 2).

At the close of 2018, 95.1% of cases were resolved, the equivalent of 113,886 settled claims. The remaining 4.9% were in the analysis stage but were resolved the first days of 2019.

The number of claims between 2017 and 2018 inched up from 0.022% to 0.028%, a direct consequence of the 31.6% increase in the number of transactions through the different channels.

During 2018, 54 cases were opened regarding unusual consultation requirements involving the alleged breach of a customer's privacy. Customers requested validation on whether a bank agent had logged onto their accounts in order to disclose information to third parties.

Customer Satisfaction

GRI 102-43 / GRI 102-44 / BP3

The process of leveraging our customer service culture, which was initiated in 2016, reaped high customer satisfaction results in 2018.

The main tool consists of measuring customer satisfaction each month by using surveys of different customers: the customers of branches, Microfinances, and other channels (Chart 3, next page).

Socioenvironmental Work in Our Business

GRI FSSD G4 DMA PRODUCT PORTFOLIO 1, 2, 4

In order to attain an adequate balance between the running of our business and its sustainability, we have multiple mechanisms enabling us to integrate environmental and social criteria into our work.

System of Administrative, Environmental, and Social Risks (Saras)

To leverage compliance with our Environmental Credit Policy and current environmental regulations, in 2015 we implemented the System of Administrative, Environmental, and Social Risks (Saras) to assess the environmental and social risks of our customers' businesses. In 2018, our work reaped the performance factors shown in Chart 4 on the next page.

Transactions and Claims

Chart 2



420,720,843 transactions completed.



119,754 claims accepted for processing.



0.028% was the ratio of claims to transactions.



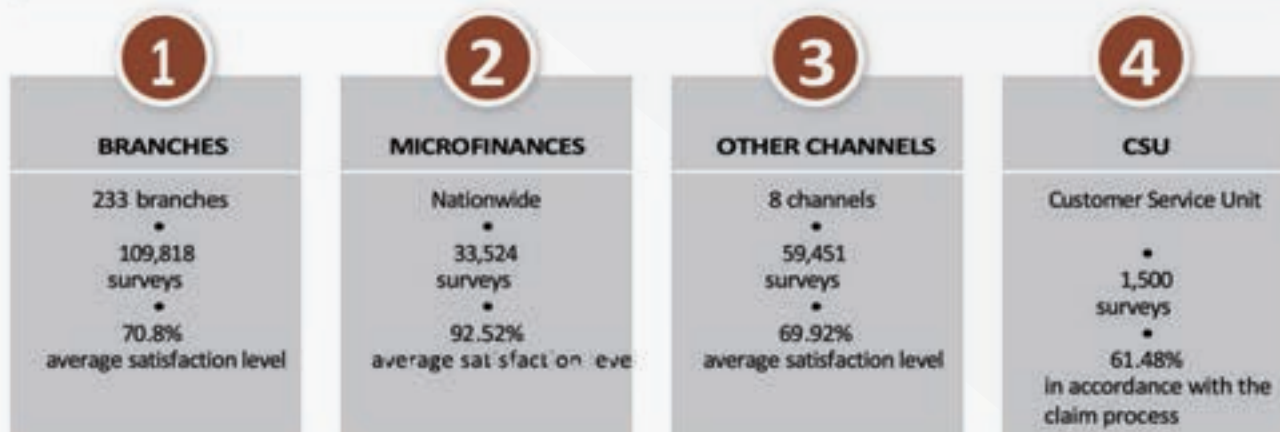
31% increase in the number of claims, compared to 2017.



31.6% hike in the number of transactions, in comparison with 2017.

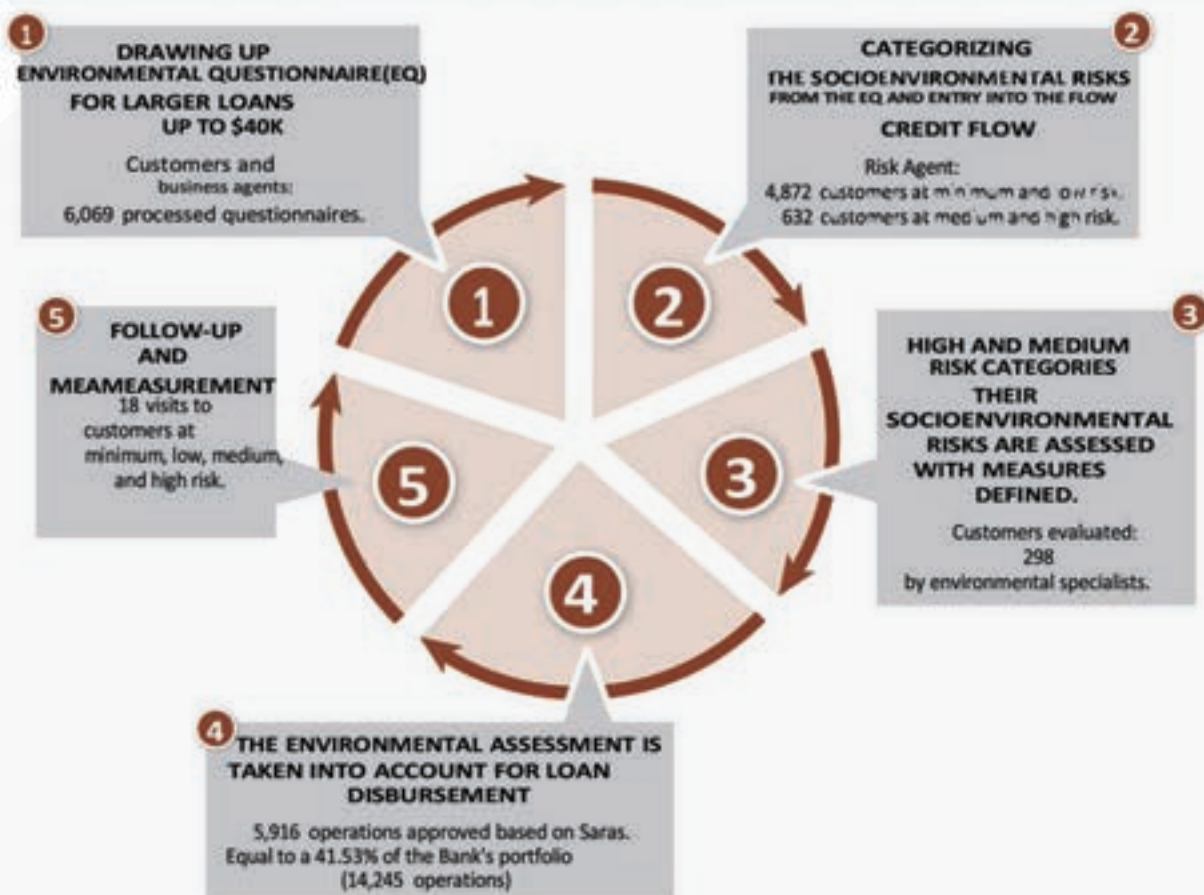
Customer Satisfaction

Chart 3



Customer Satisfaction

Chart 4



The System of Administrative, Environmental, and Social Risks (SARAS) is reviewed continuously by the External Assurance Area. The goal is to verify that the system is operative and that the Credit Environmental Policy is followed.

Product Portfolio

GRI FSSD G4 DMA PRODUCT PORTFOLIO 5, 6

This system applies to \$40,000+ production loans and currently fulfills Ecuadorian legal requirements. The system has a software tool for control and follow-up. Although socioenvironmental conditions are not stipulated in loan agreements, the Bank presently conducts a customer follow-up process. As part of the follow-up, the environmental regularization process takes more time than that set in the law. In 2019, we will update Saras by including socioenvironmental performance clauses in customer contracts. These requirements are analyzed taking customer risk, productive sector, and loan amount into account.

We actively interact with multilateral organizations demanding the fulfillment of requirements, such as having a socioenvironmental risk management system. The socioenvironmental risks are defined in the contracts we sign, and we submit system performance reports on a yearly basis. A relationship is forged with the Bank's Treasury Department, which administers the contracts, as well as with the Sustainability Department, which is in charge of implementing the requirements. Key agencies include the Inter-American Development Bank (IDB), the private sector institution of the IDB Group (IDB Invest), the Netherlands Development Finance Company (FMO), the Inter-American Investment Corporation (IIC), the International Finance Corporation (IFC), and Responsibility and Finance In Motion.

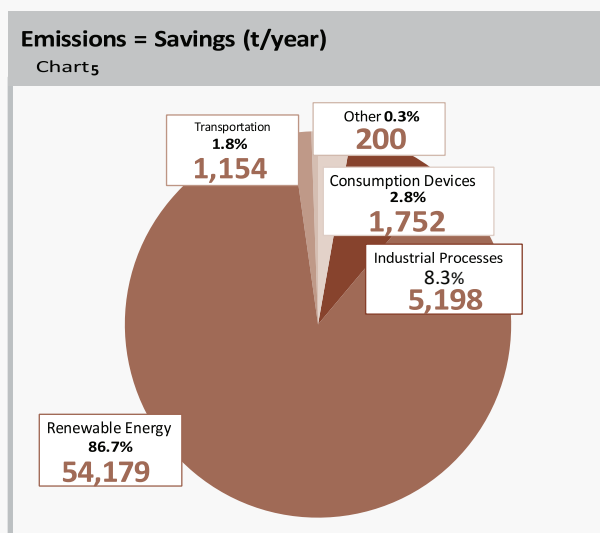
The Bank is also a member of, and chairs, the Sustainable Finance Committee of Ecuador. This is the operational body of the Sustainable Finance Protocol for encouraging initiatives in this area and sharing the best practices among signatory entities. One of the strategies the committee works on is to ensure that its members rely on a socioenvironmental risk assessment system.

Bio-Credit

GRI FSSD G4 FS8

The Bank promotes a green line with a multilateral organization for measuring the positive impact of granted loans, in terms of CO₂ emissions. These includes loans for purchasing more efficient appliances, renewable energy projects, or new low-emission vehicles.

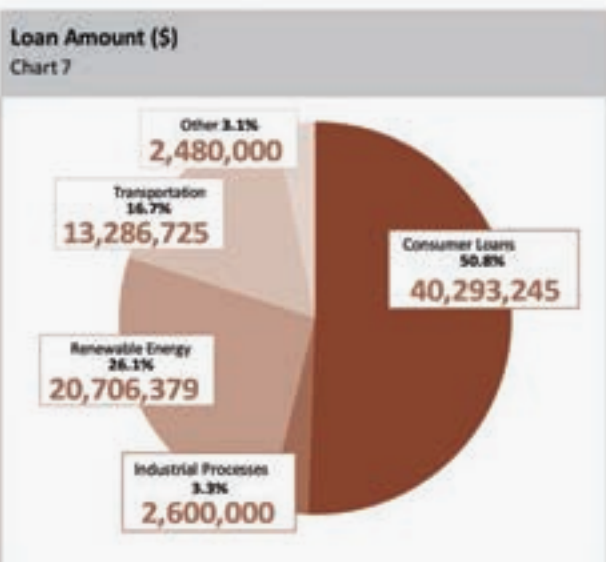
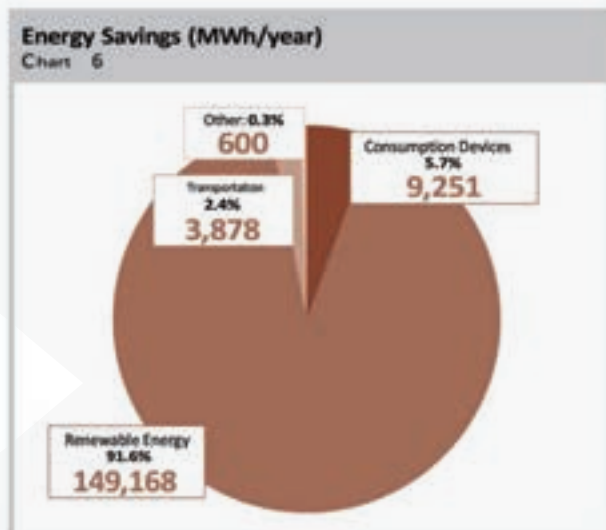
Charts 5, 6, and 7 show how these indicators are managed. They were calculated using the CO2RA software tool by which an online web application that stores and processes data from our energy and carbon conservation projects is employed.



Product Portfolio

GRI FSSD G4 DMA

In 2018, more than 150 employees from the Commercial Area of the corporate, business, and SME segments, as well as from the Risk Area, were trained in bio-credit. The training included a process for raising awareness on environmental protection, showing how bio-credits are used, and providing examples of projects to be financed. All regions received training: Central, Coastal, North, and South regions.



Social Performance Management

BP1 / BP8

Since 2016, and as part of international best practices, Pichincha Microfinance showed interest in achieving a social rating aligned with the Universal Standards for Social Performance Management promoted by the Social Performance Task Force (SPTF). Their mission is focused on "timely and sustainably serving the low-income population and micro-business owners with adequate financial services and products, enabling them to improve their living conditions." In 2017, the SPTF drew up its theory of change through which actions, indicators, and goals were defined to identify the level of contribution of its actions in the lives of its customers.

Through this social rating process, we aim to identify the actual impact of our business on the lives of customers and to achieve a balance between our performance and their personal development. To this end, we promote products encouraging customers to save, contributing to the educational development of customers' families and stimulating the growth of their businesses, transforming customers into creators of jobs. In this same context, we strive to ensure that insurance is delivered, as well as that customers' equity grows and their financial education is reinforced so that they can tackle the risks and problems arising in their productive activities. This standard is formed by the following dimensions:

1. Define and monitor social goals.
2. Ensure commitment on the part of the Board of Directors, Management, and employees to social goals.
3. Design products, services, models, and distribution channels that meet customers' needs and preferences.
4. Treat customers responsibly.
5. Treat employees responsibly.
6. Balance social and financial performance.

In 2018, the Pichincha Microfinance segment earned four stars out of five as its social rating. The key results include:

Social Results

- **Medium depth of outreach, with positive structuring of its offering.**
- **Positive financial-social balance.**
- **Outstanding responsibility to employees and customers.**
- **Praiseworthy actions favoring the environment.**

Social Commitment

- **Solid social orientation.**
- **Good progress in formalizing social performance management.**
- **Constantly reinforced social processes.**

To build up our social performance, in 2019 we will work on four fundamental axes:

MONITOR THE ACTIONS TAKEN IN 2018.

IDENTIFY IMPROVEMENTS.

CONDUCT COMMUNICATION CAMPAIGNS.

IMPROVE ACTION PLAN.

DOW JONES SUSTAINABILITY MANAGEMENT INDEX

BP 1 / BP8

This measurement puts us at the forefront of sustainability practices, comparing our Bank with the best banks in the world, thus generating a greater

return, achieving better market positioning, and managing risks. In 2016, by choice Banco Pichincha measured itself for the second time, attaining a 16-point improvement in its score compared to the outcome of its first measurement.

In 2018, we mainly worked on an exhaustive process to close gaps by executing a detailed action plan, with the goal of undergoing the rating process for a third time, in 2019.

Financial Inclusion and Accessibility

G4 DMA LOCAL COMMUNITY

Through its Microfinance segment, Banco Pichincha has clearly set a financial inclusion objective, consisting of promoting access to its products and services to the set of segments that make up the Ecuadorian population. The Bank also looks to improve the quality of life of its customers, their families, and their businesses, thus bearing a positive impact on the environment and contributing to the accomplishment of the Sustainable Development Objectives (SDOs).

Products, Services, and Channels with Specific Social Objectives.

GRI FSSD G4 FS7

The goal is based on a comprehensive offering of financial and non-financial products and services that include bolstering financial education through bank agents who have a personal relationship with customers, consequently bringing the Bank closer to the community. To this end, we follow two specific methodologies: one for individuals and the other for groups.

- **METHODOLOGY FOR INDIVIDUALS** (Table 4): we strive to keep a close relationship with our customers through business management, which calls for the Bank's business agents to make visits in person. We work on developing products that cover customers' comprehensive requirements and the needs of their businesses, according to the category of their profiles.

We accompany our customers during their life cycles, offering them differentiated credit policies.

We have developed a line of revolving credit for short-cycle businesses, namely agricultural, which require more than one loan in the year for working capital.

The Customer Protection Principles of The Smart Campaign are the DNA of our methodology and serve as the guide in our commercial management process, which pursues to always maintain longstand-

ing business and respectful relationships.

• METHODOLOGY FOR GROUPS (Table 5):

we provide access to banking services to the most vulnerable customers at the base of the pyramid of our country's economy. Because of their poverty conditions, individually they cannot meet the requirements of the traditional financial system. For this reason, they join together to form groups to get financing.

Microfinance Products for Individuals
(OPERATIONS 2018)
Table 4

WORKING CAPITAL: loans for financing the needs of working capital.	126,861 operations
FIXED ASSETS: loans for financing the needs for investing in fixed assets.	9,612 operations
CONSUMER LOANS: loans for financing purchasing needs.	9,226 operations
HOME IMPROVEMENT: loans for financing home improvement needs of the debtor or co-debtor or relatives within the first degree of blood relation.	694 operations
RESTRUCTURING: normalization.	1,975 operations
REFINANCING: normalization.	2,571 operations

Microfinance Products for Groups
(OPERATIONS 2018)
GRI FSSD G4 FS7
Table 5

GROUP-BASED CREDIT: this product is designed for covering working capital and/or fixed asset investment needs of customers who fit under the Group-Based profile.	65,576 operations
LOANS FOR DEVELOPING GROUPS: this product is designed for meeting the working capital and/or fixed asset investment needs of customers who fit under the Developing Group profile.	7,237 operations
FARM LOANS: this product is for covering the investment needs in short-cycle agricultural activities.	14 operations
LIVESTOCK LOANS: this product is for meeting the investment needs in livestock activities.	52 operations
SEASONAL LOANS: a multipurpose product, designed to satisfy customers' different needs that arise.	8,560 operations
PERSONAL LOANS: a product for covering investment needs specifically concerning a person's working capital or fixed assets.	111 operations
SAVINGS ACCOUNT - GROUP MICROCREDIT: a savings product aimed at groups for satisfying the savings and installment payment needs of the groups.	7,494 group accounts
CERTIFICATE OF INVESTMENT: an investment product targeting customers who are members of groups.	10,292 certificates
ELECTRONIC SAVINGS ACCOUNT: a product for covering an individual's needs for savings or paying installments.	6,913 accounts opened

Note: portfolio and customer information is found in Table 1, GRI FSSD G4 FS6 indicator.

We work with two customer profiles under this methodology:

- a) **GROUP-BASED:** This is the consolidation of highly vulnerable people to whom the Bank offers financial inclusion. The majority of these people live in rural areas but are joined by the neighbor principle because of their domicile or business. In addition, they are united because of their keenness to support one another in solidarity, as well as for purchasing financial products and services under the right conditions.
- b) **DEVELOPING GROUP:** a group of people with a higher profile than those falling Group-Based, because they have achieved a minor or moderate entry into the financial system and are in the process of developing both their businesses and their living conditions. Given that these customers have experienced growth in terms of their equity, family, or business, they have higher credit needs than those falling under Group-Based.

Pichincha Mi Vecino Non-Banking Correspondents (NBCs)

GRI FSSD G4 FS13

For addressing financial inclusion, we have a channel specifically designed for this purpose: our network of Pichincha Mi Vecino Non-Banking Correspondents (NBCs). Based on a cooperative service model for supporting the development of non-banking agents, the NBC service points offer a comprehensive solution to financial inclusion by ensuring that a traditionally neglected population gets access to formal financial services. We have included the concept of mobility through the devices used in this channel, based on wide-range cellular connection. Better and efficient coverage nationwide was achieved, while creating more opportunities for sales traffic and growth for these agents as well as fostering the development of non-traditional segments.

This highly competitive network in the Ecuadorian market is targeted at promoting banking service access and carrying out financial and non-financial transactions. We have 8,815 Pichincha Mi Vecino Correspondents across the nation, in all the country's cantons.

Addressing Special Needs

GRI FSSD G4 FS14

The Bank's efforts for encouraging financial inclusion in the country are also reflected in our capacity to service disabled individuals, offering them a safe environment that is appropriate for their needs. This year we reinforced the initiatives implemented in previous years. The highlights are described below:

- El Condado Branch: installation of a platform to ensure easy and safe access.
- Chone Branch: the main staircase was redesigned to comply with current regulations and improve accessibility.
- Orellana Branch: the branch's access ramp was enlarged to enhance accessibility.
- Northern Branch: a request was made for building a ramp to have access to City Hall, but was not accepted.

Social Intervention and Financial Education

GRI FSSD G4 DMA ECONOMIC PERFORMANCE

To give depth to our commitment, Banco Pichincha readily opted to promote the creation of a non-profit organization to channel its social intervention actions in the community. Throughout its 20 years of experience, the CRISFE Foundation has implemented various social intervention programs to better the living conditions of Ecuadorians in vulnerable situations.

The intervention mechanisms of the CRISFE Foundation are many and have different levels of interaction between them. In some cases, these mechanisms directly address individuals, while in others work is done at the community level.

Nonetheless, all interventions aim to build up capacities and develop competencies, either at the individual or community level, so that participants can responsibly and sustainably improve the quality of their lives. The programs and projects are framed within three main courses of action: education, entrepreneurship, and community development.

1. **EDUCATION:** The CRISFE Foundation focuses on education as the best strategy to empower beneficiaries in their personal development and in the improvement of the quality of their lives.
2. **ENTREPRENEURSHIP:** this course of action looks to ensure that beneficiaries cultivate their entrepreneurial skills and capacities for their personal growth as well as to contribute to the generation of wealth in the country.
3. **COMMUNITY DEVELOPMENT:** the focus is placed on the most vulnerable groups and the population in the lowest income quintiles who cannot meet their basic needs due to their poverty status.

Educational Program and Academic Scholarships **GRI FSSD G4 DMA ECONOMIC PERFORMANCE**

As part of its educational focus, for many years the CRISFE Foundation has spearheaded the academic scholarship program for Basic General Education (BGE), Unified General Baccalaureate (UGB), job training, technical/technological higher education, and college education. This program targets priority groups interested in gaining access to the intermediate and higher education systems to later enter the different areas of the job market using the social inclusion and equity mechanisms.

The program consists of granting non-refundable financial aid to students at educational institutions or partner organizations, to enable them to complete their academic or professional studies, as long as the requirements defined in the program policy are met. The scholarship covers the full or partial financing of the registration fee and tuition, depending on the case. Two types of scholarship are granted for BGE, UGB, technical-technological education, and college education:

- **ACCESS SCHOLARSHIPS:** economic support for individuals from priority service groups enrolling for the first time in BGE and UGB educational institutions or who are enrolled in the first semester of their technical-technological or college careers. The minimum grade point average is 8/10, falling under quintile 1 or 2, as determined by the CRISFE Foundation using the socioeconomic card.
- **PERMANENT SCHOLARSHIPS:** financial support for individuals from priority service groups already enrolled in BGE or UGB at an educational institution partnering with the foundation, or for a technical-technological or college career. The students must fulfill the requirements defined by the scholarship program, which is a minimum grade point average of 8/10 and must fall under quintile 1 or 2, as determined by the CRISFE Foundation by using the socioeconomic record.

Table 6 on the next page shows in detail our work in favor of education.

Scholarships Granted

(2017-2018 SCHOOL YEAR)

Table 6

	Scholarships Granted	Passed	Dropouts and Students who Did Not Pass	Graduates	Dropout Rate
HIGH SCHOOL SCHOLARSHIPS					
Eina	20	20	0	1	0.00%
Funder	260	101	128	31	49.23%
Fuvia Coastal Region	47	19	13	15	27.66%
Fuvia Highlands	15	6	5	4	33.33%
Irfeyal Coastal Region	589	365	19	205	3.23%
Irfeyal Highlands	270	128	41	101	15.19%
Fe y Alegría Coastal Region	217	195	0	22	0.00%
Fe y Alegría Highlands	235	209	6	20	2.55%
Total	1,653	1,043	212	399	16.00%
COLLEGE SCHOLARSHIPS					
UTPL Scholarships (Sep 2017 - Feb 2018)	9	9	1	0	11.11%
UTPL Scholarships (Apr 2018 - Sep 2018)	16	9	7	0	43.75%
UPS Scholarships (Sep 2017 - Feb 2018)	50	49	1	0	2.00%
UPS Scholarships (Apr 2018 - Sep 2018)	48	44		4	0.00%
PUCE Scholarships (Apr 2018 - Sep 2018)	1	1			0.00%
Total	124	112	9	4	18.00%
VOCATIONAL SCHOLARSHIPS					
Cecim (Sep 2017 - Jan 2018)	107	96	11	96	10.28%
Cecim (Feb 2018 - Jun 2018)	52	47	5	47	9.62%
Motorbike mechanics course - Sucumbíos	23	23	0	0	0.00%
Gastronomy Course - San Jacinto/Bladi	21	21	0	0	0.00%
Clothes Making Course - Machalilla	30	30	0	0	0.00%
Sports Clothes Cutting and Sewing Course - Guaranda	28	28	0	0	0.00%
Bakery and Pastry Course - Cotopaxi	36	36	0	0	0.00%
Bakery and Pastry Course - Río Negro	35	35	0	0	0.00%
Sports Clothes Course - Jama	24	0	0	0	0.00%
Bakery and Pastry Course - Guaranda	34	34	0	0	0.00%
Motorbike Mechanics and Maintenance Course - Sucumbíos	31	31	0	0	0.00%
Beauty Training Course - Machala	35	35	0	0	0.00%
Cell Phone Repair Course - Quito	26	26	0	0	0.00%
Screen Printing Course - Machalilla	30	0	0	0	0.00%
Total	512	442	16	143	3.12%
HIGHER EDUCATION SCHOLARSHIPS					
Itsco Scholarships (Sep 2017 - Feb 2018)	85	36	1	48	1.18%
Itsco Scholarships (Apr 2018 - Sep 2018)	55	24	2	29	3.64%
Vida Nueva Scholarships (Sep 2017 - Feb 2018)	101	82	0	19	0.00%
Vida Nueva Scholarships (Apr 2018 - Sep 2018)	102	27	1	74	0.98%
Total	343	169	4	170	1.16%

Corporate Volunteers

Hand in hand with the CRISFE Foundation, Banco Pichincha promotes the Corporate Volunteer Program, the purpose of which is to reinforce processes in communities and organizations defined as priority, creating opportunities for integration in order to raise awareness in both volunteers and beneficiaries as they share experiences and improve their living conditions, while building up the capacities of collaborative work.

The CRISFE Foundation implements Banco Pichincha's volunteer program based on a sponsorship model conceived as a two-way street of collaboration: a link between sponsors (volunteers) and their sponsored communities and organizations is created. They exchange information about their situation, become aware of each other's situation, and meet needs.

KEYS TO SUCCESS

BANCO PICHINCHA'S STRATEGIC COMMUNITY AXES.

COMBINATION OF SOCIAL ACTION FACTORS WITH HUMAN RESOURCES MANAGEMENT AND SUSTAINABLE DEVELOPMENT.

INCLUSION OF THIS ACTION IN THE STRATEGIC PLANNING OF BANCO PICHINCHA CRYSTALLIZES THE SUPPORT GIVEN TO MANAGEMENT.

THESE ACTIONS ARE FRAMED WITHIN THE ORGANIZATION'S VALUES AND PHILOSOPHY.

In 2018, a total of 80 corporate volunteer activities were carried out, as shown in Table 7.

Marketing and Labeling

GRI FSSD G4 DMA

FINANCIAL EDUCATION

Aligned with the provisions of the Superintendency of Banks and based on our conviction that financial education contributes to achieving a better future for the community, Banco Pichincha offers different programs through two complementary channels:

1. FINANCIAL EDUCATION PROGRAM OF THE CRISFE FOUNDATION. Financial education is Banco Pichincha's response to the right that individuals have to gain knowledge and information about the products and services offered by the financial system.

Financial education bears a positive impact on the quality of life of people, cultivating their capacity to make better financial decisions (savings, investment, expenses, and so on).

We want to develop and build a structured and ongoing financial education system allowing beneficiaries to improve the management of their resources, have access to healthy financial products, and make sound financial decisions during their life cycle.

Variables

Table 7

	Unit	2018	2017	2016
Coordinated Activities	No.	80	70	147
Number of hours of volunteer work - Banco Pichincha and affiliates	Hours	1,332	1,0625	2,689
Enrolled volunteers from Banco Pichincha and affiliates	No.	398	291	551
Beneficiary communities/organizations	No.	33	25	25
Total Number of Beneficiaries	No.	4,103	5,247	3,806

Training Table 8

Initiative	Objective	Topics	Activities	Beneficiaries	No. of Beneficiaries
Deployment of the Education Program Family Finances	Impart knowledge and good financial practices to users of the national financial system and the public in general, in order to promote family wellbeing and improve their living conditions.	<ul style="list-style-type: none"> Budget Savings and Financial Goals Responsible Borrowing <ul style="list-style-type: none"> Investment and Insurance Domestic Financial System and Customer Protection 	• Educational Workshops Nationwide	Financial System Customers, Public in General	13,437
Deployment of the Education Program Family Finances “Still enjoying life after 65”	Reinforce the knowledge and good financial practices of people 65 to 75 years old to promote their wellbeing.	<ul style="list-style-type: none"> Resource Management Goods Management Benefits Management 	• Educational Workshops in the Central Highlands	Senior Citizens	200
Training for forming facilitators, given to Group Microfinance agents	Learn more about good financial practices that positively impact the lives of our customers, by building up their skills and competencies using sustainable models, with emphasis on education, entrepreneurship, and community development.	<ul style="list-style-type: none"> Budget Savings and Financial Goals Responsible Borrowing <ul style="list-style-type: none"> Investment and Insurance Domestic Financial System and Customer Protection 	• Workshops for forming facilitators, given to agents of the Group-Based Microfinance	Employees: agents of the Group-Based Microfinance	268
Forming facilitators out of agents of the non-banking correspondents channel Pichincha Mi Vecino (Pichincha, My Neighbor)	Assertively advise agents working with non-bank correspondents (NBCs) to give them financial educational tools to support NBCs in the sustainability of their businesses.	<ul style="list-style-type: none"> Skills of successful business owners Our business grows and is sustainable Is another economy possible? 	• Workshops for forming facilitators, given to agents of the Group-Based Microfinance	Employees: agents of the non-banking correspondents channel	138
Mandatory Financial Education Course	Prioritize the contents of the deployment of the mandatory financial education course addressing Bank employees.	<ul style="list-style-type: none"> Savings Budget Personal/Family Financial Statements Borrowing Management Management of Credit and Credit Cards 	• Course Implementation	Employees of the Bank and Affiliates	5,060
Online Course on Financial Culture	Give participants the opportunity to learn the basics about financial education and teach them the importance of making well-informed decisions.	<ul style="list-style-type: none"> Family Budget Financial and Savings Goals Responsible Borrowing <ul style="list-style-type: none"> Investment and Insurance Financial System and Customer Protection Banking Security 	• Companies receiving the Bank's payroll service, facilitators of financial education and the public in general.	Bank's Customers and Non-Customers	675
Financial education for girls and boys who are part of the formal education system	Supply the tools that help participants develop life skills, build up their knowledge, and stimulate their empowerment as agents of change.	<ul style="list-style-type: none"> Understanding and exploring <ul style="list-style-type: none"> Rights and Responsibilities Savings and Expenses Planning and Budget Social and Financial Undertaking 	<ul style="list-style-type: none"> Facilitation for Teachers at Educational Centers Financial Theaters Program by teachers for students from the first to sixth grade of GBE 	Boys and Girls from Educational Centers	2,351
Financial education for girls and boys who receive informal education	Building life skills. reinforcing knowledge about resource management and promoting the empowerment of children and teens as agents of change within their surroundings.	<ul style="list-style-type: none"> Who am I? My Family, My Friends My own beauty, my community, my goals, my dreams, my career Knowing my rights, genders, and social roles, sexuality, and defense of my rights Money and Wellbeing 	• Agreement with Children International	Vulnerable boys and girls from Quito and Guayaquil	2,263
Total Number of Beneficiaries					24,392

Raising Awareness

Table 9

Initiative	Objective	Topic Areas	Related Activities	Group of Beneficiaries	No. of Beneficiaries
Raising Awareness	Raising awareness on the importance of putting good financial education practices into place during the entire life cycle.	<ul style="list-style-type: none"> Budget Savings and Financial Goals Responsible Borrowing Investment and Insurance Domestic Financial System and Customer Protection 	<ul style="list-style-type: none"> Messages in the Bank's account statements for customers Radio Programs Financial Tips provided on Written Means Key Messages to Customers of Microfinance and NBCs. 	Customers and the General Public	447,147
Total Number of Beneficiaries					447,147

During the year 2018, because of this program we were able to launch several initiatives that are outlined in tables 8 and 9.

2. PROGRAM FOR RAISING AWARENESS ABOUT FINANCES, THROUGH THE MICROFINANCE SEGMENT. In order to contribute to the financial education of Group Microfinance customers and their families, we promoted the following activities:

- Training for commercial and operational personnel of the Family Financial Education Program segment, given to more than 300 employees in different cities across the country.
- The Microfinance area provided the space for customer meetings every 14 or 28 days to train them on topics, such as: *I organize my family budget, Our family saves, Credit, a tool for life, Taking care of family wealth, and I learned to take care of my financial wellbeing.* In addition, practical, illustrative, and easy-to-use materials were supplied.
- At the end of each unit, customers were assigned the task of transmitting this knowledge within their family environment and, prior to starting a new module, they shared their experiences with their families.

Customers to whom this program is addressed are at the bottom of the social pyramid. They engage in a productive activity or are business owners, regardless if they have or do not have access to traditional banking, and may owe money to loan sharks.

Sustainable Purchases

GRI 102-9, GRI 102-10 / GRI 204 (103-2, 103-3)

Banco Pichincha has business relationships with a base of more than 7,843 suppliers. Relationships are pillars on ethics, transparency, and mutual respect, so as to guarantee the quality and availability of products and services.¹

Priority Given to Local Purchases

GRI 204-1

We put our best efforts forward to encourage the purchase of Ecuadorian goods and services, as well as to support national and local suppliers and contractors to comply with the minimum standards required by our rules. These practices make it possible to distribute, nationally and locally, part of the wealth we generate through the income and sources of employment created in other direct and indirect economic activities (Table 10).

¹GRI 102-10: no major changes in the Bank's supply chain in 2018.

Purchase Model

We focus on warranting that the negotiation processes within our supply chain are fair, competitive, and transparent.

We have a model and a supplier management policy that define the methodology in the processes for purchase requisitions, bidding, negotiation, and selection of suppliers (Chart 8).

Product Portfolio

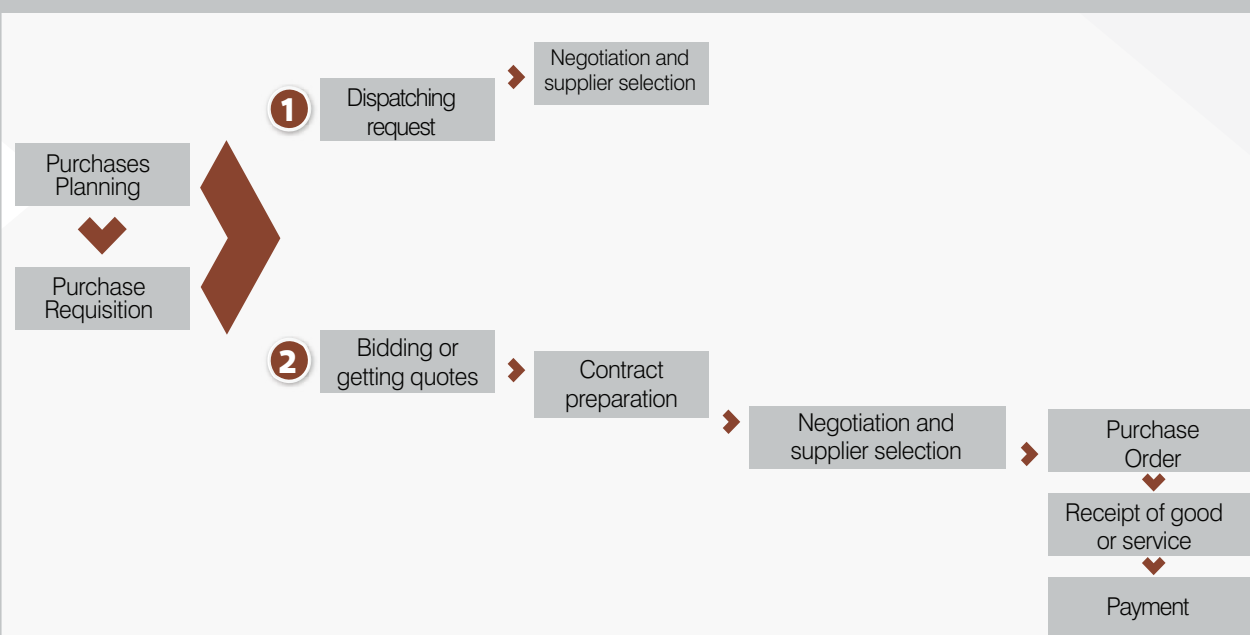
GRI 414 (103-2, 103-3) / GRI FSSD G4 DMA 4 / GRI 412-3

Supplier Socioenvironmental Assessment

We conduct a diagnosis of our purchasing process as the beginning of the implementation of the Sustainable Purchasing Program. based on the ISO 20.400

Our supply chain: fair, competitive, and transparent

CHART 8



Purchase of goods and hiring of services in 2018

TAB LE 10

	Amount in \$	% of amount
Local Suppliers	338'118.466,95	92,44
Foreign Suppliers	27'663.449,22	7,56
Total	365'781.916,17	100

standard. This analysis showed compliance with 84.3% of the standard's requirements, demonstrating the maturity of our process, as well as having informed in advance certain sustainability requirements in the work with our suppliers.

A Sustainable Purchasing Policy and a work plan have been constructed to implement the program, which will come into effect in 2019. This system will allow Banco Pichincha to consolidate its current model for assessing environmental, social, safety, and occupational health risks of suppliers, strengthening their focus on sustainable businesses by purchasing quality products bearing low socioenvironmental impacts.

We strive to ensure that our suppliers and contractors behave in line with our organizational values with regard to conduct and sustainability issues. We promote a supplier qualification process that encourages responsible business practices. The process was implemented in 2015 and is developed by an independent auditing firm.

The following are among the environmental and social criteria evaluated for qualifying suppliers and that form part of the contracts we enter into with them:

- Applied good environmental practices.
- Waste management.
- Knowledge of the Code of Ethics, which encompasses practices for respecting human rights, ethics, and other matters to be observed by suppliers, plus the Bank's Environmental Policy.
- Environmental permit, depending on the category assigned by the Ministry of the Environment.

With the implementation of the Comprehensive Safety, Health & Environment Management System, the following requirements, among others, were included in the supplier qualification process:

- Minimum occupational safety & health plan or regulation, approved by the Labor Ministry.
- Labor risk matrix, based on the activities carried out by the supplier.
- Emergency plans and/or instructions covering actions prior to, during, and after an emergency.
- Photocopy of the environmental license: environmental certificate, environmental registration, and environmental license.
- Photocopy of the approval of the environmental audit, in the case the supplier has an environmental license.
- License to perform civil construction and electrical work.

GRI 414-1 / GRI 414-2

This year, 446 suppliers committed themselves to the Bank's Code of Ethics and to complying with the country's labor laws.

We have 134 suppliers who have qualified in terms of safety, health & environment requirements.

Based on the current supplier qualification system, we have not detected adverse social impacts on the supply chain in 2018.

Safety, Health & Environment

3

GRI 102-11

WE ARE STEADFAST IN OUR FIRM COMMITMENT TO SAFETY, HEALTH & ENVIRONMENT: OUR PURPOSE AND SAFETY, HEALTH & ENVIRONMENT PRINCIPLES ARE INCLUDED IN THE SHE POLICY APPROVED BY THE BANK'S SENIOR MANAGEMENT. OUR WORK ON THIS SUBJECT TAKES A COMPREHENSIVE APPROACH, PURSUING THE MAIN OBJECTIVES OF REDUCING THE ENVIRONMENTAL IMPACT OF OUR OPERATIONS NATIONWIDE, PREVENTING LABOR RISKS, AND AVOIDING A DETERIORATION IN HEALTH, ASSOCIATED WITH OUR BUSINESS.



Our Comprehensive Management System

The inclusion of environmental criteria, in addition to health and safety criteria in our entire business cycle, is based on the gradual implementation of our Comprehensive Safety, Health & Environment Management System (SHE). Aligned with the ISO 14.001 and ISO 45.001 standards and based on the country's legal requirements, the system is constantly adapted and updated, following the ongoing improvement principle.

Moving Forward with a Culture of Prevention

During 2018, we continued to work on fostering a culture of prevention and maintaining a healthy, safe, environmentally respectful, and socially responsible organization that meets high quality and efficiency standards with regard to employees, the environment, and society.

The main accomplishments are highlighted below:

- We delved further into our culture of emergency with onsite safety drills conducted by the personnel of each office and establishment.
- We designed and disseminated the BIO concept as an umbrella for our environmental management line.
- We performed a diagnosis on stress and psychosocial risks to draft a work plan for minimizing and tackling them.
- We continue to work in benefit of our staff through joint committees and subcommittees.

Our Occupational Risk Management

GRI 403 (103-2, 103-3)

With regard to the health and safety of our employees, we focus our efforts on complying with international standard ISO 45.001, as well as with the country's regulatory requirements. We aim to prevent and minimize job-related accidents and occupational illnesses derived from the Bank's operations.

The main activities that the Bank carried out in occupational safety and health are:

100 NEW EMERGENCY PLANS DRAWN UP NATIONWIDE, COVERING BUILDINGS, BRANCHES, COLLECTION CENTERS, AND WAREHOUSES.

EVACUATION DRILLS AT 234 BRANCHES AND FIVE MAIN BUILDINGS (QUITO, GUAYAQUIL, AND CUENCA).

58 SUPPLIERS FROM THE CITIES OF QUITO, CUENCA, AND AMBATO TRAINED IN SAFETY, HEALTH & ENVIRONMENT GUIDELINES.

IMPLEMENTATION OF SHE CLAUSES IN CONTRACTS WITH SUPPLIERS.

Health & Safety Joint Committees

GRI 403-1

We have 14 SHE joint committees¹ divided into a Central Committee in Quito and 13 subcommittees in Quito, Ambato, Ibarra, Nueva Loja, Cuenca, Guayaquil, Machala, Los Ríos, Santo Domingo de los Tsáchilas, Manabí, and Esmeraldas.

In 2018, these committees promoted various initiatives, such as cleaning up the shores of beaches in Manta and Esmeraldas; cleaning the shores of a lagoon in Ibarra; community bike riding in Cuenca, Nueva Loja, Shushufindi, Machala, and Quito; as well as sports days in Ambato and Latacunga and reforestation actions in Nueva Loja and Quito. Thanks to these initiatives, 1,370 employees and their families from different parts of the country contributed to environmental care, health, and drug use prevention.

¹ These joint committees are formed by three representatives of workers and three representatives of the employer. They appoint a chairperson and secretary from among their members for a one-year term who may be reelected indefinitely. The law states that workers' delegates represent 100% of the company's workforce (taken from the Regulations on Safety and Health of Workers and Improvement of the Working Environment, Art. 141).

Attention to Workers at a Greater Occupational Risk

GRI 403-3

Considering the SHE management system, Banco Pichincha drew up a labor risk matrix, using the GTC-45 methodology². On that basis, after having taken a process approach to analyze the occupational risks of work stations, the stations are evaluated to determine prevention or control measures.

Based on the matrix, the following courses of action have been defined:

ACTÍVATE ("GET ACTIVE") PROGRAM CREATED TO REDUCE OR MINIMIZE THE RATE OF OCCUPATIONAL ILLNESSES OF WINDOW TELLERS.

SHE GUIDE: SETS THE MAIN GUIDELINES, REGULATIONS, AND STANDARDS FOR MAINTENANCE, INFRASTRUCTURE, AND OTHER ACTIVITIES.

Our Employees' Security

GRI FSSD G4 DMA

Banco Pichincha has all policies and instructions for surpassing Ecuadorian mandatory banking security regulations³. Each year, an audit is conducted by delegates from the Ministry of the Interior. Based on the outcome, the Bank receives a security certificate for each one of its offices, subsidiaries, branches, and ATMs, thus protecting its employees and customers. In particular, the Bank's manuals contain specific procedures to be applied by all branch employees in terms of how they should act in the event of an assault and/or emergency.

²The Colombian Technical Guide GTC-45 is a methodology that was drawn up in 1997 and has been successively updated to identify hazards and assess occupational safety and health risks.

³Based on Resolution SB-2016-940 of the Superintendency of Banks of Ecuador, which stipulates that minimum banking security measures must be filled.

With these axes of intervention, the Bank fully guarantees a safe and healthy environment.

- **EMERGENCY MANAGEMENT:** in the Business Continuity Management Protocol, the actions to be taken before, during, and after an emergency event are defined. Post-event actions are coordinated within this framework, depending on the analysis and magnitude of the event. These actions may be in the form of social aid or crisis intervention and are a way to contribute to the balance and resilience of employees.

A crisis intervention begins with an evaluation of the affected employee's emotional state and the impact of the event. According to the evaluation, psychological first aid actions, workshops, and activities are planned to ensure that people return to their normal state of mind or, otherwise, critical cases are identified. Comprehensive care is provided, even after the emergency. The organization has a team of internal facilitators trained in crisis intervention.

- **MANAGEMENT OF THREATS AND VIOLENCE AT THE WORKPLACE:** financial institutions (because of the course of their business per se) may be subject to a series of specific risks, including robberies and assaults at their facilities or attacks and aggressions (verbal or physical) by customers or other individuals. In this context, the Bank has a Security area basically for shielding people (employees and customers) and, on a supplemental basis, protecting property and image.

In order to ensure the protection of its facilities and the people at those places, the Bank has designed complex shelter schemes. The following are the highlights:

- Personnel specialized in different prevention and safety disciplines;
- Policies, rules, and procedures;
- Training and information for personnel in general;
- Electronic monitoring and alarm systems;

- Bank's own alarm centers, vaults and, miscellaneous items;
- Access control, shielding, and protection mechanisms for cash and valuables;
- Closed circuit television or CCTV and transportation of securities;
- Security processes hardware and software;
- Internal surveillance personnel and police patrol;
- Internal/external investigation of unlawful acts;
- Bank's own architectural designs, and so on.

Our Occupational Safety & Health Indicators GRI 403-2

In compliance with legal rules, we keep statistical records of accidents on the job, alleged occupational diseases, risk rate, and so on. No fatalities were recorded in 2018. Table 1 presents the significant indicators of our management.

Our Commitment with Eco-Efficient Practices

In 2018, we launched the BIO concept to affirm our commitment to environmental care and the generation of sustainable businesses.

Occupational Safety & Health Indicators
Table 1

Indicator	Value	Value	Description of Indicator
	2018	2017	
Frequency Index	0.39	0.09	Number of injuries in terms of man hours worked, multiplied by 200,000.
Numbers of accidents on the job entailing sick leave.	22	5	Numbers of accidents on the job entailing sick leave. These indexes do not take into account accidents occurring while going to and returning from work. ¹
- Men	36%	60%	
- Women	64%	40%	
Accidents by region			% of the number of accidents by region.
- Coastal Region	36%	80%	
- By region, rest of the country	36%	0%	
- Quito Region	27%	20%	
Severity index	6.37	4.03	Number of lost days in terms of man hours worked, multiplied by 200,000.
Risk rate	16.23	46	Severity index over frequency index and number of accidents.
Illness rate	0	0	Number of occupational illnesses.
Absenteeism rate ⁺	2.21	0.6	Total number of lost days because of illness during the period, divided by the total number of days worked by all employees in the same period, multiplied by 200,000.

*CD 513, Art. 57.

¹Accidents in itinere: means accidents that a worker endures while going from home to the workplace or vice versa. Exceptions include cases in which the worker diverted from or changed his or her normal route.

BIO:

“We are a Bank that gives life.”

Our commitment is to reduce our ecological footprint by following eco-efficiency practices and battling the impact of climate change on both our operations and on the activities of our customers and suppliers. This concept has three corridors:

- **BIO MANAGEMENT:** frames all environmental management processes under the System of Administrative, Environmental, and Social Risks (Saras).
- **BIO-CREDIT:** encompasses green-featured credit products designed for customers.
- **BIO EFFICIENCY:** includes all environmental practices disseminated within the organization to reduce the consumption of resources.

Our Materials Management

GRI 301 (103-2, 103-3)

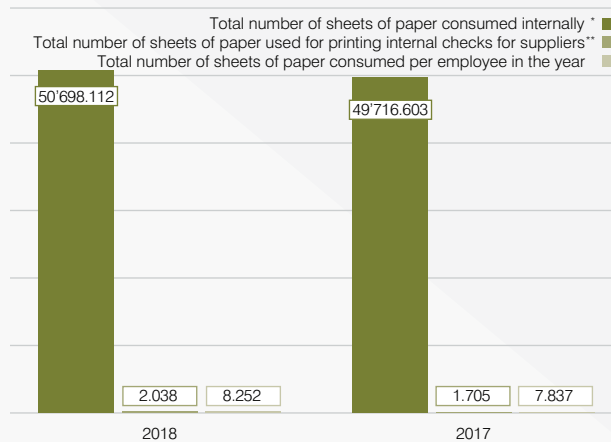
Our materials management is geared towards the rational and efficient use of materials, following an approach pervaded across our entire value chain. Because of our line of business, stationery and packaging materials, especially paper, are the most relevant and critical for conducting our activities. Also noteworthy is the use of computer equipment and printer toners, which are a must for the administrative work supporting operations.

GRI 301-1

The paper used in our organization comes from a renewable source, because it is made from sugar cane bagasse. The quantity of this resource used is reported in Charts 1 and 2.

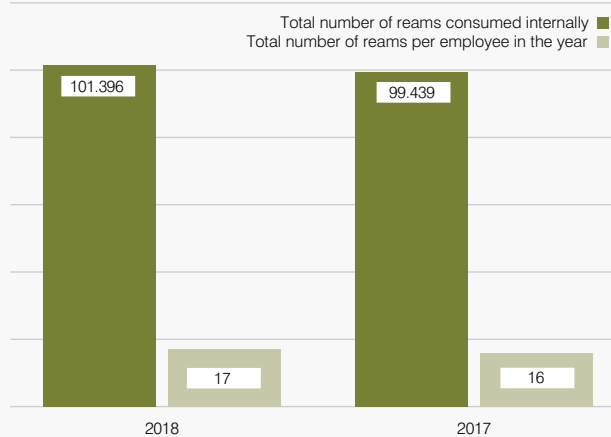
Nationwide paper consumption in number of sheets of paper

CHART 1



Domestic Paper Consumption in Number of Reams

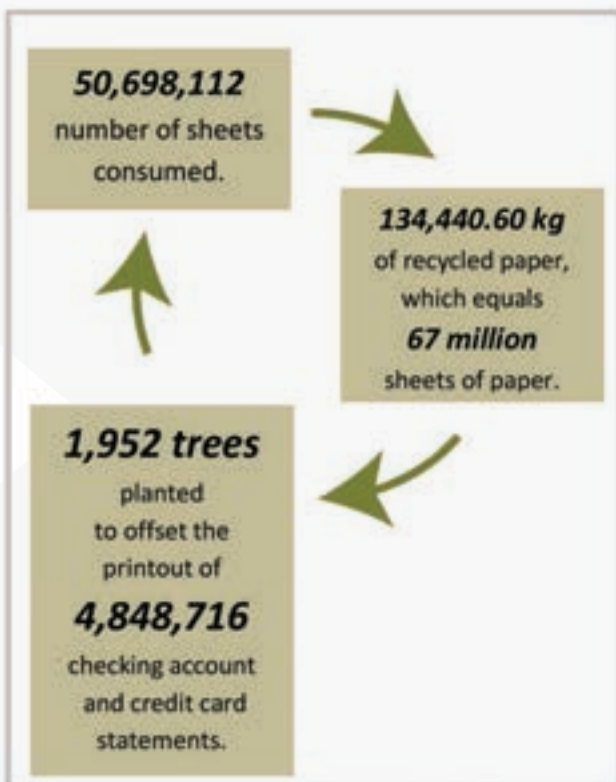
CHART 2



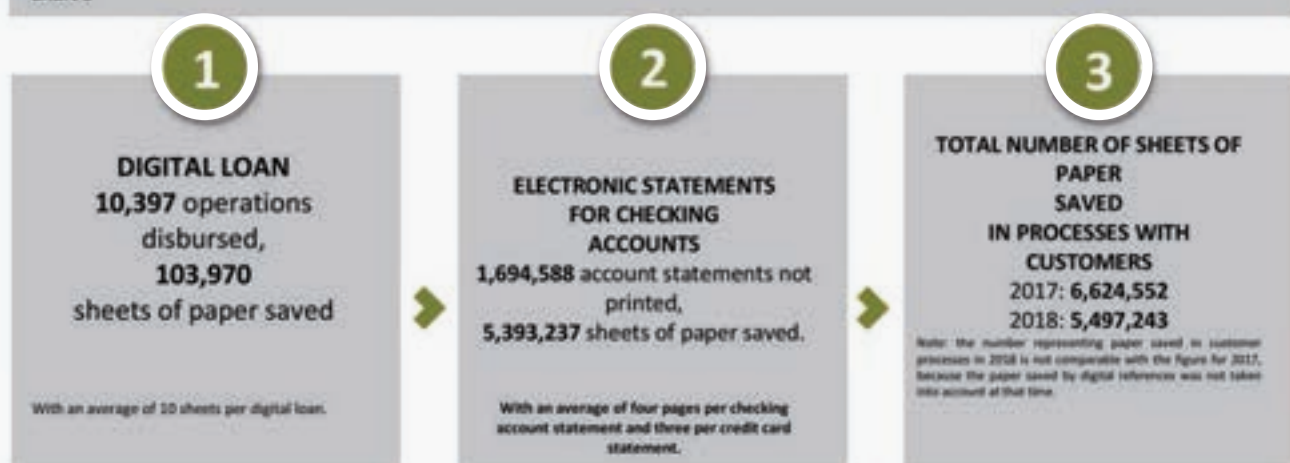
Good Practices in Our Operation

GRI 301-1

In 2018, we experienced an increase of 418 sheets or about one ream in the consumption of paper per employee. For 2019, we will take into account actions for reducing paper consumption. In order to offset the use of paper in our operations, we have moved forward with our recycling and tree planting practices.



Results of Good Practices During 2018
Chart 3



Good Practices Passed onto Our Customers⁴

GRI 301-1

Since 2016, we have been promoting an innovative way of offering banking products and services to our customers. We actively encourage customers to use electronic channels as a way to gradually reduce printouts.

The results achieved during 2018 are shown in Chart 3.

Our Waste Management

GRI 306 (103-2, 103-3)

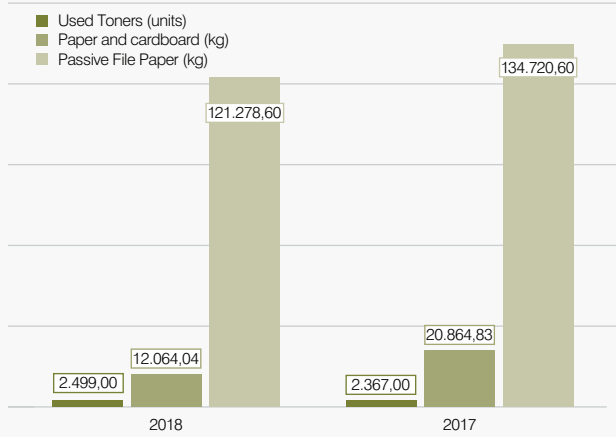
We strive to minimize waste generation and to manage waste properly throughout our value chain. For this reason, we have kept up our programs for reducing, reusing, and recycling waste. Our waste is delivered to companies holding environmental certification.

During 2018, we implemented a differentiated recycling project at our Headquarters Building, Torres Pichincha, and Cuenca Branch, placing Bio stations on each floor for recycling plastic, paper, and common waste. We also continued our paper recycling campaigns and actions at branches and buildings.

⁴GRI 301-3: Due to its line of business, Banco Pichincha does not have initiatives focused on the recovery or reuse of products or packaging materials.

The key figures representing non-hazardous and hazardous wastes processed during the year are found in Chart 4.

Non-Hazardous Waste GRI 306-2 / GRI FSSD G4-EN23 CHART 4



NOTE: the number of recycled toners in 2017 was amended, since the certificate of final disposal was delivered in February 2018. The waste from toners, paper, cardboard, and passive file paper were recycled by qualified environmental management companies.

Thanks to the **“Clean your office and recycle your paper”** program and the initiative for recycling paper from passive files of the Document Management area, **10,855** sheets of paper per employee were recycled, for a total of **66,671,342.67** recycled sheets of paper.



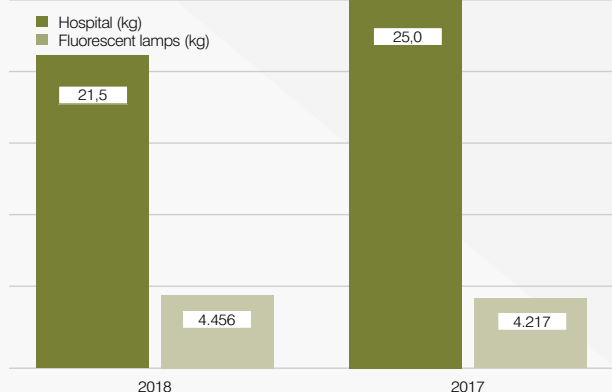
**Recycled paper
sales totaled
\$17,680.18.**

GRI 306-2

The quantities of hazardous and special waste generated and managed by the Bank in 2018 are shown in Chart 5.

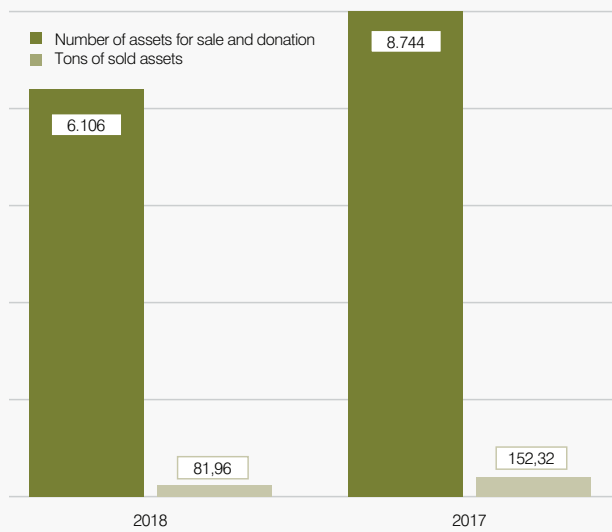
Furthermore, we continue to promote the sale and donation of certain assets to environmental managers and foundations, as shown in the Chart 6.

Hazardous and Special Waste CHART 5



NOTE: waste from fluorescent lamps and hospital waste were managed through qualified environmental management companies. Hospital waste was incinerated and fluorescent lights were treated for recovering mercury and lamp parts.

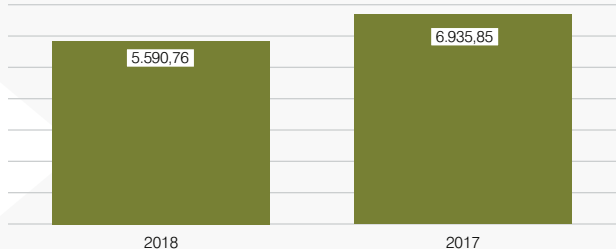
Sale and donation of assets CHART 6



Our Positive Contribution to Climate Change GRI 305 (103-2, 103-3)

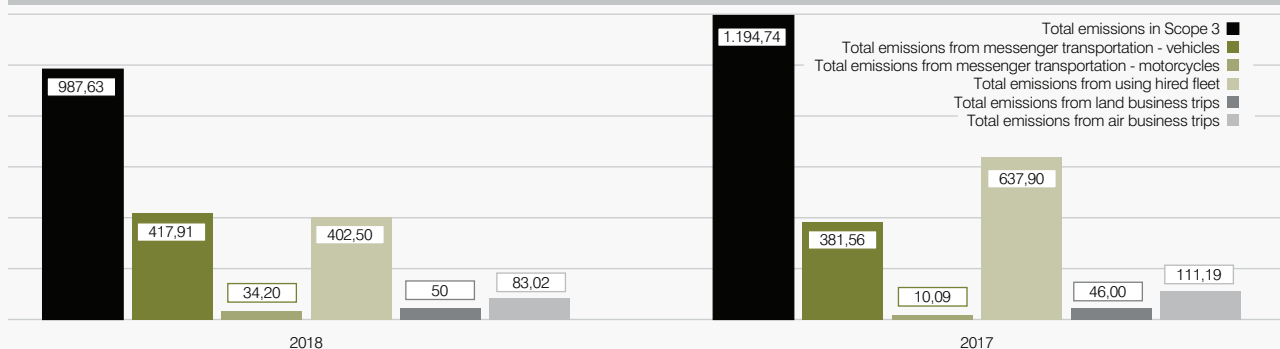
Our Safety, Health & Environment System provides a measurement for greenhouse gas (GHG) emissions, which includes quantifying the emissions generated and encouraging a reduction in emissions. This management translates to a year-to-year reduction in the Bank's carbon footprint, demonstrating its commitment. We continue to measure the carbon footprint of the organization's direct impact as Scope 1 and indirect impact as Scope 2 or Scope 3 (Charts 7, 8, and 9).

Total direct emissions (Scope 2) Tons CO₂e GRI 305-2 CHART 8



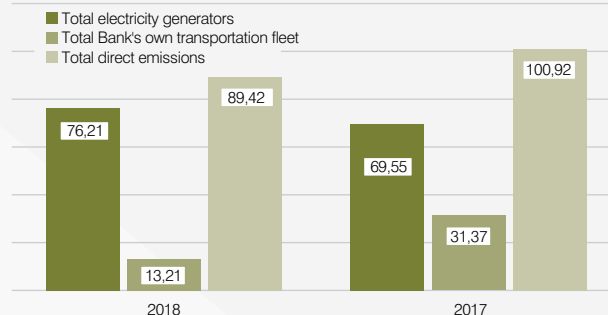
Note: the reported data are estimates and concern electricity consumed by the Bank's internal operations, affiliates, and establishments without operations. Total emissions were calculated based on an emission factor (353 g CO₂/kWh) taken from the International Energy Agency 2016.

Total indirect emissions (Scope 3) Tons CO₂e GRI 305-3 CHART 9



note: for calculating total emissions from land and air business trips, as well as from the hired fleet, and emissions from messenger transportation, the Banco Pichincha EMS environmental indicator reporting tool was used. This tool takes data from the Intergovernmental Panel on Climate Change and from the International Energy Agency. For air transportation, the factor for emissions without radioactive force was selected. For calculating messenger transportation emissions, the FE conversion factor (DEFRA 2016) was used. 2017 data were modified in terms of the calculation method to make them comparable to 2018 numbers. The data were modified because the number of vehicles fell from 47 to 41.

Total greenhouse gas emissions Total direct emissions (Scope 1) Tons CO₂e GRI 305-1 / GRI FSSD G4-EN15 CHART 7



Note: the FE (Defra 2016) conversion factor was used to calculate the total emissions of electric generators. The figure for 2018 increased compared to 2017, because the data reported corresponded to the fuel accumulated in the 123 emergency generators, while those reported in 2017 were averaged and correspond to total equipment. For calculating the total emissions from our own transportation fleet, we used the Banco Pichincha EMS environmental indicator reporting tool, which takes the data from the Intergovernmental Panel on Climate Change and the International Energy Agency.

Scope 1: greenhouse gas emission sources owned or controlled by the Bank. We take our own fleets and electric generators into account.
Scope 2: emissions derived from the use of electricity acquired and consumed by the Bank for lighting, use of electrical appliances, and so on.
Scope 3: emissions derived from the Bank's activities using the sources the Bank does not own or control, such as the use of rented vehicle fleets, emissions from land and air business trips, and emissions from messenger transportation.

Most of our carbon emissions are derived from our electricity consumption, i.e. indirect emissions of CO₂, equivalent to Scope 2. For this reason, we are putting forth great efforts to reduce our electricity consumption and improve electricity efficiency.

- Implementation of LED lighting and air conditioning systems that are efficient and use ecological gases.

132 AIR CONDITIONING UNITS INSTALLED WITH R22 GAS AND INVERTER TECHNOLOGY

100% LED LIGHTING IN THE HEADQUARTERS BUILDING.

- Energy Star and Epeat certified computer equipment achieving up to 60% in energy savings.

688 COMPUTER UNITS WITH CERTIFICATION, INSTALLED IN 2018.

Presently, Banco Pichincha has
5,708
computers
with a high level of energy efficiency.

The analysis of the measurement of our carbon footprint defines the following:



For 2019, we will set new goals for reducing our carbon emissions.

GRI 102-55 Content Index

GRI Standard	Content	# Page	Omissions	Assurance
GRI 101: FOUNDATION 2016				
	102-1 Name of the organization	12		✓
	102-2 Activities, brands, products, and services	59-80		✓
	102-3 Location of headquarters: Av. Amazonas y Pereira			✓
	102-4 Location of operations	59		✓
	102-5 Ownership and legal form	63		✓
	102-6 Markets served	59		✓
	102-7 Scale of the organization	59-60		✓
	102-8 Information on employees and other workers	68		✓
	102-9 Supply chain	93	Partial omission	✓
	102-10 Significant changes to the organization and its supply chain	59-93		✓
	102-11 Precautionary principle or approach	96		✓
	102-12 External initiatives	62		✓
	102-13 Membership of associations	62		✓
	102-14 Statement from senior decision-maker	5		✓
	102-15 Key impacts, risks, and opportunities	57-58-62		✓
	102-16 Values, principles, standards, and norms of behavior	9-61-74		✓
GRI 102 General Content 2016	102-18 Governance structure	63-65		
	102-40 List of stakeholder groups	63		✓
	102-41 Collective bargaining agreements		Banco Pichincha does not have collective bargaining agreements	✓
	102-42 Identifying and selecting stakeholders	63	Partial omission	✓
	102-43 Approach to stakeholder engagement	63-82		✓
	102-44 Key topics and concerns raised	57-58-82	Partial omission	✓
	102-45 Entities included in the consolidated financial statements	44		✓
	102-46 Defining report content and topic boundaries	56-57-58		✓
	102-47 List of material topics	57-58		✓
	102-48 Restatements of information	56		✓
	102-49 Changes in reporting	56		✓
	102-50 Reporting period	55		✓
	102-51 Date of most recent report	55		✓
	102-52 Reporting cycle	55		✓
	102-53 Contact point for questions regarding the report	55		✓
	102-54 Claims of reporting in accordance with the GRI Standards	55		✓

102-55 GRI content index	105		✓
102-56 External assurance	55		✓

MATERIAL TOPICS

GRI 200: ECONOMIC TOPIC STANDARDS

GRI 201: Economic Performance 2016

GRI 103: Management Focus 2016	103-1 Explanation of the material topic and its boundary	57-58		✓
	103-2 The management approach and its components	59		✓
	103-3 Evaluation of the management approach	59		✓
GRI 201: Economic Performance 2016	201-1 Direct economic value generated and distributed	60		✓

GRI 204: Procurement Practices 2016

GRI 103: Management Focus 2016	103-1 Explanation of the material topic and its boundary	57-58		✓
	103-2 The management approach and its components	93		✓
	103-3 Evaluation of the management approach	93		✓
GRI 204: Procurement Practices 2016	204-1 Proportion of spending on local supplier	93		✓

GRI Content Index

GRI STANDARD	Content	# Page	Omission	Assurance
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GRI 300: ENVIRONMENTAL STANDARDS

GRI 301: Materials 2016				
GRI 103: Management Focus 2016	103-1 Explanation of the material topic and its boundary	57-58		✓
	103-2 The management approach and its components	100		✓
	103-3 Evaluation of the management approach	100		✓
GRI 301: Materials 2016	301-1 Materials used by weight or volume	100-101		✓
	301-2 Recycled input materials used		Full omission (Bank does not use recycled materials)	
	301-3 Reclaimed products and their packaging materials	101		✓

GRI 305: Emissions 2016

GRI 103: Management Focus 2016	103-1 Explanation of the material topic and its boundary	57-58		✓
	103-2 The management approach and its components	103		✓
	103-3 Evaluation of the management approach	103		✓
GRI 305: Emissions 2016	305-1 Direct (Scope 1) GHG emissions	103		✓
	305-2 Energy indirect (Scope 2) GHG emissions	103		✓
	305-3 Other indirect (Scope 3) GHG emissions	103		✓

GRI 306: Effluents and Waste 2016

GRI 103: Management Focus 2016	103-1 Explanation of the material topic and its boundary	57-58		✓
	103-2 The management approach and its components	101		✓
	103-3 Evaluation of the management approach	101		✓
GRI 306: Effluents and Waste 2016	306-2 Waste by type and disposal method	102		✓

GRI 400: ESTÁNDARES TEMÁTICOS SOCIALES

GRI 403: Occupational Health and Safety 2016

	103-1 Explanation of the material topic and its boundary	57-58		✓
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GRI 103: Management Focus 2016	103-2 The management approach and its components	97		✓
	103-3 Evaluation of the management approach	97		✓
GRI 403: Occupational Health and Safety 2016	403-1 Workers representation in formal joint management-work health and safety committees	97		✓
	403-2 Occupational safety and health indicators	99		✓
	403-3 Workers with high incidence or high risk of diseases related to their occupation	98		✓
GRI 404: Training and Education 2016				
GRI 103: Management Focus 2016	103-1 Explanation of the material topic and its boundary	57-58		✓
	103-2 The management approach and its components	68		✓
	103-3 Evaluation of the management approach	68		✓
GRI 404: Training and Education 2016	404-1 Average hours of training per employee	70		✓
	404-2 Programs for upgrading employee skills and transition assistance programs	68-69		✓
	404-3 Percentage of employees receiving regular performance and career development reviews	71		✓
GRI 405: Diversity and Equal Opportunity 2016				
GRI 103: Management Focus 2016	103-1 Explanation of the material topic and its boundary	57-58		✓
	103-2 The management approach and its components	71-72		✓
	103-3 Evaluation of the management approach	71-72		✓
GRI 405: Diversity and Equal Opportunity 2016	405-1 Diversity of governance bodies and employees	12-73	Partial omission regarding diversity of governance bodies (confidentiality problems)	✓
	405-2 Ratio of basic salary and remuneration of women to men	74		✓
GRI 412: Human Rights Assessment 2016				
GRI 103: Management Focus 2016	103-1 Explanation of the material topic and its boundary	57-58		✓
	103-2 The management approach and its components	74		✓
	103-3 Evaluation of the management approach	74		✓
GRI 412: Human Rights Assessment 2016	412-3 Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	94	Partial omission: only information reported regarding supply agreements (unavailable information)	✓
GRI Content Index				
GRI Standard	Content	# Page	Omission	Assurance
GRI 414: Supplier Social Assessment 2016				
GRI 103: Management Focus 2016	103-1 Explanation of the material topic and its boundary	57-58		✓
	103-2 The management approach and its components	94		✓
	103-3 Evaluation of the management approach	94		✓
GRI 414: Supplier Social Assessment 2016	414-1 New suppliers that were screened using social criteria	95		✓
	414-2 Negative social impacts in the supply chain and actions taken	95		✓

GRI 418: Customer Privacy 2016				
GRI 103: Management Focus 2016	103-1 Explanation of the material topic and its boundary	57-58		✓
	103-2 The management approach and its components	81		✓
	103-3 Evaluation of the management approach	81		✓
GRI 418: Customer Privacy 2016	418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data	81		✓
GRI 419: Socioeconomic Compliance 2016				
GRI 103: Management Focus 2016	103-1 Explanation of the material topic and its boundary	57-58		✓
	103-2 The management approach and its components	61		✓
	103-3 Evaluation of the management approach	61		✓
GRI 419: Socioeconomic Compliance 2016	419-1 Non-compliance with laws and regulations in the social and economic area	61		✓

GRI Content Index G4 Financial Services Sector Disclosures (2013)

Management Focus and Indicators		# Page	Omission	Assurance
SPECIFIC BASIC CONTENT				
GRI FSSD G4 DMA Economic Performance	Additional comment on strategy for investment in the community or social action	88-89		✓
MATERIAL ASPECT: EMISIONES				
GRI FSSD G4-EN15	Additional and separate report on greenhouse gas emissions from the organization's business trips	103		✓
MATERIAL ASPECT: EFFLUENTS AND WASTE				
GRI FSSD G4-EN23	Separate report on specific paper and computer product wastes	102		✓
MATERIAL ASPECT: OCCUPATIONAL HEALTH AND SAFETY				

GRI Content Index G4 Financial Services Sector Disclosures (2013)

Management Focus and Indicators		# Page	Omission	Assurance
G4-DMA Occupational Health and Safety	Additional comments on labor Management Focus for supporting employees with regard to threats and violence in the workplace	98		✓
MATERIAL ASPECT: LOCAL COMMUNITIES				
GRI FSSD G4 FS13	Access points in low-populated or economically disadvantaged areas by type	88		
MATERIAL ASPECT: PRODUCT AND SERVICE LABELING				
G4 DMA Marketing and Labeling 1	Initiatives for learning to read and write, as well as financial education, depending on the type of beneficiary	79		✓
G4 DMA Marketing and Labeling 2	Description of policies for the correct design and offering of financial services and products	79		✓
MATERIAL ASPECT: PRODUCT PORTFOLIO				
G4 DMA Product Portfolio 1	1) Policies with specific environmental and social components applied to business lines	82		✓
G4 DMA Product Portfolio 2	2) Procedures for assessing and screening environmental and social risks business lines	82		✓
G4 DMA Product Portfolio 3	3) Process(es) for improving staff competency to implement the environmental and social policies and procedures as applied to business lines	68		✓
G4 DMA Product Portfolio 4	4) Interactions with clients/investees/business partners regarding environmental and social risks and opportunities	82		✓
G4 DMA Product Portfolio 5	5) Implementation of environmental requirements and regarding human rights in agreements/products/(lending) transactions	84		✓
G4 DMA Product Portfolio 6	6) Processes for monitoring the clients' implementation of and compliance with environmental and social requirements included in agreements/products/(lending) transactions	84		✓
GRI FSSD G4 FS6	Percentage of the portfolio for business lines by specific region, size (e.g.: micro/sme/large) and by sector	76-78	Partial omission, classification not considered (unavailable information)	✓
GRI FSSD G4 FS8	Monetary value of products and services designed to deliver a specific environmental benefit for each business line broken down by purpose	86-87		✓
GRI FSSD G4 FS8	Monetary value of products and services designed to deliver a specific environmental benefit for each business line broken down by purpose	84		✓
MATERIAL ASPECT: ACTIVE OWNERSHIP				

G4-DMA Active Ownership	Voting policy(ies) applied to environmental or social issues for shares over which the reporting organization holds the right to vote shares or advises on voting		Full omission (unavailable information)	✓
G4 FS10	Percentage and number of companies held in the institution's portfolio with which the reporting organization has interacted on environmental or social issues		Full omission (unavailable information)	✓
G4 FS11	Percentage of assets subject to positive and negative environmental or social screening		Full omission (unavailable information)	✓
BANCO PICHINCHA'S OWN CONTENT				
Indicators	Description	# Page	Omission	Assurance
BP1	Leadership in image, market share, products, and service quality	78-85		
BP2	Operational sustainability and prudent management of portfolio risks and systems focused on responsible financing and the prevention of overborrowing.	78		
BP3	Promoting the participation of stakeholders and measuring stakeholders' satisfaction.	82		
BP4	Optimization of the Bank's financial performance in terms of profitability, liquidity, and solvency.	43		
BP5	Allotment of sustainable profitability to shareholders.		Full omission (unavailable information)	
BP6	Organizational culture management through state-of-the-art practices for contributing to the Bank's efficiency, high performance, and sustainability.	66-75		
BP7	Differentiated offering of value with guaranteed service.	80		
BP8	Compliance with international standards on customer service efficiency.	78-85-86		



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INDEPENDENT REPORT ON LIMITED ASSURANCE REGARDING THE 2018 SUSTAINABILITY REPORT

To the Members of the Board of Directors and Shareholders

Banco Pichincha C.A.
Quito, March 1, 2019

We have been engaged to conduct a limited assurance report on the contents of information and indicators, identified with a checkmark “☑”, presented in the 2018 Sustainability Report (hereinafter, “the Report”) for the year ended December 31, 2018 of Banco Pichincha C.A. (hereinafter, the “Bank”).

Management’s Responsibility for the 2018 Sustainability Report

The Management of Banco Pichincha C.A. is responsible for the preparation of the Report for the year ended December 31, 2018, in accordance with the guidelines of the contents and indicators of the Global Reporting Initiative GRI, the essential conformity option. This responsibility includes: the design, implementation, and maintenance of relevant internal controls needed for preparing and presenting said Report, clear of significant distortions due to fraud or error.

Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants, issued by the International Ethics Standards Board for Accountants, based on the fundamental principles of integrity, objectivity, professional competency, and due care, confidentiality, and professional behavior.

Our firm applies the International Standard on Quality Control 1 and, therefore, maintains a comprehensive quality control system that includes documented policies and procedures with regard to the compliance of ethical requirements, professional standards, and applicable legal and regulatory requirements.

Auditor’s Responsibility

Our responsibility is to provide a conclusion on whether the information contained in the Sustainability Report for the year ended December 31, 2018 has been prepared in accordance with the content and indicator guidelines of the Global Reporting Initiative GRI Standards, in its essential conformity option, based on our work and the scope described in the following paragraphs.

It should be noted that this assurance report is not intended to evaluate, nor does it evaluate, the performance of Banco Pichincha C.A. with regard to sustainable development.

Our work was conducted pursuant to International Standard on Assurance Engagements ISAE 300, issued by the International Federation of Accountants (IFAC). This standard requires that we comply with ethical requirements, including the independence requirement, and that we plan and perform our assurance work to achieve limited assurance that no matters have arisen leading us to believe that the information submitted in the Sustainability Report, taken as a whole, is not free of relevant distortions.

In limited review work, the evidence obtained from the completed procedures is more limited than reasonable verification work. Therefore, less assurance is achieved in this work than in assurance work to achieve reasonable certainty. Had we performed a reasonable review for issuing an opinion, we could have identified other matters or potential distortions that could affect the Sustainability Report. Consequently, we do not express our opinion about said information.

The assurance procedures selected depend on the auditor's discretion, including the assessment of the risk of material noncompliance with criteria for preparing the Report. Within the scope of our work, we have completed the following procedures, among others: i) interviews with the personnel of Banco Pichincha C.A.; ii) procedures and evidence based on samples from the sources for obtaining data and indicators; and, iii) reading and observing processes and procedures followed for compiling information.

Under this framework, our verification at the main offices of Banco Pichincha C.A. was conducted through the following activities:

- Interviews with the personnel of Banco Pichincha C.A. in charge of generating and compiling the information and indicators that are the subject of our review;
- Review of the procedures and key documentation used to compile and consolidate information;
- Review of the consistency of the information presented in the Sustainability Report;
- Review of formulas, arithmetic accuracy, and graphical representation of information;
- Ensure that the financial information included in the Sustainability Report is consistent with the financial statements audited at December 31, 2018;
- Review of the presence or absence in the Sustainability Report of the information and indicators, in accordance with the criteria defined in the Global Reporting Initiative GRI Standards in the essential conformity option, selected as the most relevant (material) presented in the Report.

Conclusion

Based on the results of the application of the limited assurance procedures described above, nothing has caught our attention that would lead us to believe that the Sustainability Report for the year ended December 31, 2018 has not been prepared pursuant to the guidelines of the contents and indicators of the Global Reporting Initiative GRI Standards in its essential conformity option.

PricewaterhouseCoopers del Ecuador Cia. Ltda.
(signature)

Juan Carlos Sáenz
Partner