

Annual Report
and Sustainability Report

2019

Annual Report

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Management Letter

Dear Shareholders:

2019 was a year of economic slowdown. An agreement with the International Monetary Fund (IMF), reached at the beginning of the year, caused optimism among local and international economic agents, based on the possibility that Ecuador will finally be able to implement a program that corrects the fiscal deficit and improves its competitiveness. Optimism gradually declined given the evidence that the Government does not have sufficient political capital to carry out the necessary actions to achieve the objectives of the agreement. Last October, once President Lenin Moreno announced the elimination of the subsidy for extra gasoline and diesel, among other measures, a part of the population rose in protest, which affected the normal development of several important productive activities for 15 days. This protest turned into a violent movement with various acts of vandalism, apparently promoted by political interests, which generated not only chaos in society, but also a severe economic loss and an unquantifiable damage to the image of the country. In the end, the government reversed the measures, and since then it has barely managed to implement slowly certain less impactful adjustments. Despite what happened, the country maintains the agreement with the IMF, in less demanding conditions.

According to the latest estimates by the Central Bank of Ecuador (ECB), the Ecuadorian economy reduced its growth rate from 1.3% in 2018 to -0.1% in 2019¹. This deceleration was mainly due to lower government spending in its effort to correct the fiscal imbalance. Despite this, the deficit of the non-financial public sector (SPNF) with respect to GDP went from -1.2% in 2018 to a small surplus of 0.2% GDP between January-October 2019. Forecasts of the BCE and IMF are to achieve a modest surplus of 0.7% in 2020. Against this background, the challenge for the Government is now more complex in its genuine attempt to stabilize the Ecuadorian economy and boost development, for which it should even implement the required measures within a very weak political environment.

On the competitive side, a constant appreciation of the dollar and a very limited progress in its labor reforms place Ecuador as an expensive country in the region. The trade balance continues to depend largely on the price of oil, which had an average value lower than in 2018. Inflation close to zero has mitigated, to a certain extent, the appreciation of the dollar in terms of competitiveness. The balance of payments has been financed with greater international debt, both from the Government and the private sector. International reserves, on the other hand, have ranged between \$3,000 and \$5 billion, mainly fueled by the net disbursements of the aforementioned debt.

Low inflation has generated significantly high real interest rates. Competition for deposits in the financial system, which includes private banks and savings and credit cooperatives, has generated a significant increase in passive rates that have risen from 5.43% in December 2018 to 6.17% in December 2019.² Deposits in the banking system grew 7.7% in 2019, mainly due to time deposits, which makes the cost of system funds more expensive. At the same time, growth in credit placement was reduced from 11.1% in 2018 to 9.9% in 2019.

¹ Central Bank of Ecuador forecast for 2019.

Banco Pichincha C. A. maintains its leadership in the Ecuadorian banking system, with 26.7% participation in obligations to the public and 25.8% in the loan portfolio. Net profits in 2019 reached \$130.6 million, which represented an increase of 9.1% compared to 2018 profits, a great result considering the economic circumstances described, and the fact that 2019 was a year of investment for the Bank in the transformation process it is experiencing. Solvency, liquidity, profitability and credit coverage levels remain solid.

The Bank has successfully completed its first year of transformation. With the support of the international consulting firm Mckinsey, it has completed in this period, 239 initiatives that cover all areas of the organization, from business processes, customer service and risk management, to the search for efficiencies in supply and operations. The transformation, oriented towards the vision "Be the largest and the best bank", is leveraged on four strategic pillars defined by the institution: offering the best customer experience, being simpler and more efficient, performing inclusive and sustainable management, and develop the best human team.

Banco Pichincha C. A. has clearly stated its objective of financial inclusion, which is to facilitate access to our products and services to all segments of the Ecuadorian population, with special emphasis on the most vulnerable. With this objective, we seek to improve the quality of life of citizens, their families and their businesses, positively affecting the environment and contributing to the goals proposed by the Sustainable Development Goals (SDGs). Attention to the Microenterprise segment is the best example of our interest in fulfilling the purpose of financial inclusion. Another important element in this context is the alliance with Rabobank³ that will promote the development of value chains associated with the agricultural sector in the country.

The environmental crisis we are going through forces us to promote urgent protection principles and practices. As the largest Bank in the country, we have the responsibility to lead by example and, for this reason, we developed the BIO concept "We are a bank that gives life", which involves three lines of action: BIO products, BIO efficiency and BIO management. Through these axes, we develop initiatives focused on our collaborators, suppliers and clients, which seek to encourage the conscious use of natural resources and sustainable financing with a differentiating value.

Thus, in 2019 we made history by contributing to the development of the country with the first issuance of green bonds in the stock market. This will make it possible to promote biocredits for sustainable construction, energy efficiency or environmental investment projects. We are the first issuer of a green bond in Ecuador, and we have already placed an amount of \$150 million

In 2019, several Ecuadorian and foreign entities recognized the work of Banco Pichincha and its support for Ecuadorian society:

- The Dutch Entrepreneurial Development Bank (FMO) recognized our Bank's support for women-run businesses in Ecuador.

² Corresponds to the reference rate of BCE.

³ European bank, world leader in the agricultural segment.

- The Municipality of the Metropolitan District of Quito recognized our good practices of inclusion and social responsibility.
- The Mexican Center for Philanthropy (Cemefi) presented Banco Pichincha with the distinctive of a company committed to corporate social responsibility in Latin America.
- Women for Women Ecuador, the Chamber of Industry and Production and PricewaterhouseCoopers (PwC) awarded a second place among 61 national and multinational organizations in the third edition of the "Talent has no gender" Award, which recognizes business practices that promote equality gender as well as the empowerment of women.
- The International Finance Corporation (IFC) awarded Banco Pichincha as the best regional bank for the operations granted by the institution to short-term financial institutions abroad with IFC guarantee.

Banco Pichincha C. A. maintains the AAA rating, the highest awarded to entities in the Ecuadorian financial system. This rating recognizes the financial strength of our entity and its outstanding track record of solidity, our excellent reputation in the environment, access to natural money markets, as well as our clear prospects for profitability.

A more successful exercise with satisfaction to the 113 years of the institutional foundation. We extend the reiterated thanks to our protector, the Virgin "Dolorosa del Colegio", to the thousands of clients, shareholders, and employees that make this great organization possible; institution that also finds, in its necessary renovation, the best stimulus to guarantee the best future for Ecuadorian society.

Quito, March 17, 2020

Antonio Acosta Espinosa
Presidente

Santiago Bayas Paredes
Gerente General

Purpose inspire and reward the trust.

Vision

Be the largest
and the best
bank.

Strategic pillars

1

Offering the best
experience to the client.

2

Transforming ourselves to be
simpler and more efficient.

3

Developing the best human
team.

4

Carrying out inclusive and
sustainable management.

Institutional Values

Coherence Be and Seem.

- We act with integrity, honesty and transparency with clients, employees, suppliers, shareholders and the community.
- We foster sustainability relationships with clients in the segments in which we operate, seeking to be decisive, agile and consistent.
- We are reciprocal with our employees based on business results and individual performance.

Responsability Be aware of the importance of what and how.

- We take charge of our actions and inactions, decisions and commitments assumed, being open to accountability.
- We act within our management scope considering the impact we have on our clients, employees and organization.
- We promote a culture of autonomous, committed, diligent and decisive action.

Effort Be better to be better.

- We act with excellence in everything we do, defining clear and challenging objectives that exceed the expectations of our clients, employees and shareholders.
- We promote a high performance culture that differentiates the excellent contribution, generating development and growth of people.
- We constantly challenge ourselves, identifying business opportunities, taking calculated risks to generate sustainable results.

Trascendence Be future.

- We get involved in the community, being responsible with it, promoting inclusion and generating development.
- We accompany our clients throughout their life cycle with financial solutions and long-term vision.
- We act as "business owners" promoting the sustainability of our actions with the aim of building the

Acknowledgements 2019

<p>FMO Acknowledgement</p>	<p>Support for women-run businesses.</p>
<p>Progressive Inclusive Seal</p>	<p>The Municipality of the Metropolitan District of Quito grants entities, establishments and public or private companies' recognition for their good practices of inclusion and social responsibility. Banco Pichincha approved for the 48 agencies located in Quito with a 100% rating.</p>
<p>Centro Mexicano para la Filantropía (Cemefi) BADGE OF A COMPANY COMMITTED TO CORPORATE SOCIAL RESPONSIBILITY IN LATIN AMERICA 2019</p>	<p>Banco Pichincha obtained this recognition for the work done and the commitment we have to sustainable development, focusing our management on the financial growth of our clients, incorporating social and environmental criteria in the design and distribution of products and services that are offered, creating value shared with stakeholders, mainly clients, <i>raison d'être</i> of the institution.</p>
<p>Talent has no gender</p>	<p>In March 2019 we participated with the Gender Intelligence program, in the third edition of the Talent has no gender Award. 61 organizations applied in two categories: National and Multinational. Banco Pichincha came in second place in the National Companies category. This recognition is aimed at companies with practices that promote gender equality; it is aligned with the Principles for the Empowerment of Women (WEP), and is promoted by Women for Women Ecuador, Chamber of Industries and Production, and PricewaterhouseCoopers (PwC).</p>
<p>International Finance Corporation (IFC) BEST REGIONAL CONFIRMING BANK PARTNER</p>	<p>Banco Pichincha was awarded the Best Regional Bank for its participation in credit operations with the Global Trade Finance Program of the International Finance Corporation. This award recognizes the Bank's activity, presence and regional leadership in providing short-term financing to financial institutions abroad with IFC guarantees, having placed \$250 million in the short-term portfolio.</p>
<p>Best Issuing Bank Partner for Women Owned Business in LAC</p>	<p>Banco Pichincha, through its Gender Intelligence strategy, has supported businesses and ventures led by women, with the purpose of generating participation from this customer segment. For this, it designs non-financial products such as training, support talks, recognitions and other actions, reaching more than 257,000 women in the Microfinance and Small Business segments, with a portfolio of \$721 million and liabilities for \$427 million, the private operation being leader in gender strategy in Latin America.</p>

Corporate Governance

Honorary life president

Dr. Fidel Egas Grijalva

President

Mr. Antonio Acosta Espinosa

Alternate director of the president

Dr. Adolfo Callejas Ribadeneira

Senior directors

Dr. Carlos Suárez Bucheli

Mr. Andrés Pérez Espinosa

Dr. Juan Fernando Moscoso Corral

Econ. Marianita de Jesús Torres Gavela

Alternate directors

Dr. Wilson Ayala Gomezjurado

Dr. Fabián Cueva Cueva

Dr. Carlos Muñoz Insúa

Secretary of the board

Lcdo. Simón Acosta Espinosa

Controller of the board

Mr. Rodrigo Sánchez Zambrano

The highest administrative body of Banco Pichincha C. A. is the Board of Directors, which comprises the President, the alternate director of the President, senior directors and alternate directors. The Board of Directors meets monthly in ordinary sessions.

Banco Pichincha maintains committees in which members of the Board of Directors and management executives participate, the purpose of which is to assess compliance with the policies established in the entity and ensure the effectiveness of controls. Among the strategic committees, the Audit Committee, the Ethics Committee, the Remuneration and Corporate Governance Committee, the Comprehensive Risk Management Committee, the Risk Asset Qualification Committee, the Compliance Committee, the Business Continuity Committee and the Security Information Committee.

It is worth to mention that, through the Shareholder Office, Banco Pichincha C. A. constantly interacts with its shareholders, responding promptly to their queries and requests.

Senior Executives
Subsidiaries and
affiliates in the
country and abroad,
strategic alliances
and foundation

Senior Management

Antonio Acosta Espinosa	President
Santiago Bayas Paredes	General Manager
Simón Acosta Espinosa	Vicepresident

Subsidiaries

Subsidiaries in the country

Verónica Gavilanes Vejar	CREDIFE
General Manager	Desarrollo Microempresarial S. A.
Jorge Marchán Riera	Pichincha Sistemas C. A.
General Manager	- PAGUE YA
Gina María Sotelo Puga	Almacenera del Ecuador S. A.
Special Attorney	ALMESA
Ignacio Maldonado Del Real	AMERAFIN S. A.
Executive President	
Oswaldo Domínguez Bucheli	VASERUM S. A.
General Manager	

Subsidiaries and affiliates abroad

José Luis Abelleira Méndez	Banco Pichincha España S. A.
General Manager	
Liliana Marcela De Plaza Buriticá	Banco Pichincha S. A.
President	- Colombia
Evan Acosta	Banco Pichincha C. A.
General Manager	- Miami Agency
Julio Malo Vásconez	Banco Pichincha Perú S. A.
General Manager	

Strategic alliances

José Francisco Paredes	Banco General Rumiñahui S. A.
General Manager	
Leonardo Burneo Muller	Banco de Loja S. A.
General Manager	

Foundation

Paúl Arias Guevara	Fundación CRISFE
General Manager	

Annual report

2019

Financial group companies and institution in the country

CREDI FE Desarrollo Microempresarial S. A.

CREDI FE is the company of the Pichincha Financial Group that provides specialized, comprehensive and quality financial services to the Ecuadorian micro-entrepreneurs segment.

The business model is based on three main factors:

- 1** The relationship and personalized attention to clients by our field sales force, who, through a specialized microcredit methodology, satisfy the integral needs of the client, through a complete offer of products and services suited to the profile.
- 2** A human team highly committed to the purpose and fundamental values of Pichincha Group.
The mystique of service that feeds on the knowledge of the Ecuadorian micro-business sector. Our commercial force maintains a presence and direct attention in urban, urban-marginal and rural areas, allowing us to cover the entire national and island territory.
- 3**

As of December 2019, the commercial microfinance team disbursed \$991 million in 276,156 operations, reaching a historic milestone. The total portfolio balance exceeded \$1,113 million and the liability stock was \$257 million. Of the total number of clients managed by the commercial force, more than 253,000 maintain an active operation with a microcredit destination, with a total balance of specialized portfolio that exceeds \$1,011 million destined to finance trade, production, agriculture and services activities, which complements with a comprehensive offer of financial and non-financial services.

During 2019, the Microfinance operation has taken accurate steps in financial inclusion, focusing its efforts on better serving our clients. The initiatives implemented in the segment during this year have allowed us to establish new historical milestones in the results, as well as important recognitions received nationally and internationally for their contribution to the pillars of sustainability and contribution to the Sustainable Development Goals:

- Recognition by UNHCR and HIAS for the comprehensive work carried out in favor of the refugee population, promoting their labor inclusion, training and the delivery of financial and non-financial products and services.
- Development Bank - for our support of women-run businesses as a way of driving inclusive and sustainable finance.
- Recognition by the FMO - Entrepreneurial Recognition Best Issuing Bank Partner for Women Owned Business in LAC, for the support to businesses and ventures led by women through the design of non-financial products such as training, support talks, recognitions, among others. It reaches more than

257.000 women clients in the Microfinance and Small Business segments, being the leading private operation in the strategy of gender in Latin America.

- Advanced Mobility (SIMA) is implemented with outstanding results, transforming the service model in the field, improving the customer experience with an adequate, timely and sustainable offer, showing that innovation and technology are the basis for financial inclusion.
- As part of the transformation, the Commercial System was implemented. It is a model that contributes to a culture change in the commercial forces, standardizing daily processes and management. It includes creating spaces for communication, constant feedback and commercial training, allowing us to contribute to the development of supervision lines and equipment; all this focused on increasing the productivity and profitability of the organization, taking care of our people and generating positive experiences to our clients.
- The agreement with Wells Fargo and OPIC was an important step for the segment, because it allows us to continue promoting the development and growth of the businesses of microentrepreneurs and small entrepreneurs.
- The strategic Alliance with Rabobank will positively boost our contribution to the agricultural sector through the integration of value chains, thus improving the economic conditions in rural areas.
- Five diamond rating by Mix Market, due to the transparency, quality and reliability of the financial information provided, reaffirming our commitment to our clients and key partners.

In 2020, CREDI FE, as a pillar of the Microfinance segment, will maintain its commitment to service and quality with the Ecuadorian micro-entrepreneur. For this reason, we have set ourselves the challenge of being fundamental actors in the Bank's transformation process; all this framed in the institutional values and in the development and growth of the talent of our teams, always maintaining a cohesive and synergistic work with all the units of the organization.

Pichincha Sistemas C. A. PAGUE YA

En 2019 Pichincha Sistemas C. A. maintained a positive evolution, improving its financial and operating results, reaching an annual result of \$11.08 million, 33.2% higher than the previous year. Revenues increased by 21.3%, with a growth of 6.6% in revenues from collection management carried out to Bank customers and a very significant increase in the recovery of the own portfolio, which went from \$4.3 to \$8.8 million.

Our operating expenses reached a value of \$15.8 million, with a growth of 3%. Thus, Pague Ya achieved an improvement of 7.8 points in the efficiency index, going from 44% in December 2018 to 51% in December 2019.

The objective of Pichincha Sistemas, whose commercial name is PAGUE YA, is to optimize Banco Pichincha's portfolio recovery through excellence in service.

At the operational level, recovery levels were increased with the same resources, both in the management of the call center and in the field force, always maintaining the focus of providing agile and timely solutions to customer delinquency problems. It is a process that was carried out within the framework to Banco Pichincha transformation Project, thus improving the general recovery rate from 68% in December 2018 to 70% in December 2019, an improvement that is evident in all the delinquent ages of the managed portfolio.

Improvements in the efficiency of recovery management were achieved thanks to the implementation of differentiated allocation and marking schemes, considering the situation of risk, default and customer profile, improvements in the measurement processes and feedback to managers focused on achieving daily goals. The set of actions has made it possible to meet Banco Pichincha's budgetary requirements regarding the recovery of past due loans and written-off portfolio.

The challenges of the year 2020 are framed in maintaining the search for efficiency of the operation at the forefront of recovery processes through technological investment, the adaptation of the structure to maintain coverage in accordance with the growth of our main client, and continue with the setting standards of care for our clients.

Almacenera del Ecuador S. A. ALMESA

It is a company with 50 years of experience. It provides deposit services, custody and merchandise handling services, of national or foreign origin. It has proven experience and wide geographic coverage in the Ecuadorian market, operating in the main cities and commercial ports of the country, Guayaquil, Quito and Manta.



In 2019, Almacenera del Ecuador that belongs to the Pichincha Financial Group managed to maintain the incremental trend of its income and improve its profit margins, reflecting a favorable evolution in the last three years, when the achievement of its income goes hand in hand with the optimal management of expenses. It allowed reaching a profit before taxes and participation of \$2 million, which is equivalent to an increase of 43% compared to 2018.

The composition of income from services provided by the company in 2019 were as follows: consolidated enrollment (57%), simple enrollment (17%), certificate of deposit (11%) and other complementary services (15%), serving different economic sectors such as automotive, industrial, commerce and construction.

The company reflects a high level of liquidity and working capital. The level of indebtedness of the company is low and the item corresponding to provisions for operating expenses prevails. In addition, a significant financial muscle can be seen, in which equity finances more than 90% of total assets in recent years.

The BASC recertification is achieved for Manta agency, with

mention of "Best BASC Company 2019", in the Almacenadora / tax warehouse sector. Likewise, action plans are defined to mitigate high, moderate and low risks, such as training and awareness talks with evaluations of personnel, review of policies and procedures of the processes involved.

In 2020, the projects started will continue, optimizing the resources to obtain better results.

ALMESA 2020 GOALS

Our goal is to continue with the improvement process, concluding the changes in technological tools and institutional image that will allow us to optimize our operation, guaranteeing business continuity, prevailing our orientation in the quality of customer service, in accordance with our objectives and goals outlined.

AMERAFIN S. A.

In February 2011, Amerafin S.A. took as its main activity the purchase of portfolio from automotive dealerships that generate sales at 4% compared to 2018.

In September 2017, Amerafin S.A. amended its corporate purpose, to include as one of its automotive portfolio generation services, a service that it currently provides to Banco Pichincha, also assuming the management of such portfolio.

After the automotive industry went through the worst moment of the last 13 years in 2016, in 2017, it had a notable recovery, by expanding in 65%, selling 105,069 units, a situation that continued in 2018, when it sold 137,615 units, equivalent to 31% increase over the previous year. This growth in sales in 2017 and 2018 was mainly due to the elimination of import quotas at the end of 2016 and safeguards in June 2017 that, together with the reduction tariff, consequence of the agreement with the European Union, favored the industry through a greater offer of models and better prices for end clients. However, this trend was affected in 2019 by political and social events that occurred in October, which influenced the normal performance economic activities of the country, opting for a sale of 132,208 units, which represent a fall in 4% compared to 2018.

Amerafin S. A. (BPAC) is an auxiliary services company to the financial system and is part of the group led by Banco Pichincha, the main shareholder of the company.

Despite the favorable conditions for the industry, the restrictions imposed on the financial sector by the Monetary and Financial Policy and Regulation Board, through resolutions 357 and 358 – with which the weighting of technical equity for vehicle loans was doubled and the minimum coverage of the guarantee with respect to the amount of the debt was increased to 150% –, they prevented the sale of vehicles financed on credit from growing in the same proportions as the industry, as clients chose to

acquire other types of financing that did not require comply with the aforementioned conditions, and with those resources they bought their vehicles in cash.

In this scenario, in 2019, BPAC managed to generate 3,641 automotive financing operations for Banco Pichincha, for an amount of \$87.2 million.

Given the expectations of the automotive industry, which plans to sell 125,000 units in 2020, BPAC's strategy will be aimed at strengthening business relationships with allied dealers and facilitating the placement of differentiated products, designed specifically for Banco Pichincha clients. We are sure to continue contributing favorably to Banco Pichincha's growth and efficiency strategy with these commercial actions, added to automation and process improvement initiatives.

VASERUM S. A.

The company, being authorized to provide the specialized service of transportation of monetary species and securities for the national financial system, in 2019 began the search for new clients to optimize the use of its installed capacity.

In the financial aspect, it obtained a profit of \$1.0 million, similar to that generated in 2018, with total income of \$9.5 million, almost equal to that achieved the previous year, despite having made a decrease in the rate from August.

In addition, costs were reviewed, seeking to optimize and reduce them, which will make the operation of the company much more profitable.

In this year, four armored units were completed as part of the renovation of the existing fleet. Additionally, two new points were set up in Ambato and Quevedo, which will contribute to greater logistical and operational efficiency to meet the requirements of our clients in these areas.

In 2019, the operational and safety training programs were maintained, preserving the organization's own standards, as well as those established by regulations.

Compliance with the standard has always been a priority for the company; therefore, all efforts were made to maintain the permits and authorizations required by the control bodies this year, these being the guarantee of the conditions in which it is provided the service.

In 2019, Vaserum S. A. maintained a continuous improvement in its risk control management. During the year, it adjusted its facilities to improve control and security, thus guaranteeing efficiency in processes, such as the entry and permanence of own and external personnel.

VASERUM 2020 GOALS

- Build new companies facilities in Guayaquil.
- Incorporate new light armored units into the fleet, in order to renew the existing ones and improve logitics capacity.
- Incorporate new clients, in order to improve the level of profitability.
- Continuously improve the practices of quality management, safety and health at work.

Financial group companies and institutions abroad

2019 was a year of growth for the different lines of business of the entity in Spain. Banco Pichincha, which has been operating in the Spanish market as a commercial bank since 2010, has developed throughout this year different lines of action, both in their businesses and in the areas that support them, and always in line with the 2018 – 2020 Strategic Plan.



Banco Pichincha S. A. Spain

Strengthening Governance and Internal Control

During 2019, the Bank continued with the process of strengthening governance and internal control, deepening in the creation and implementation of policies and the development of the Risk, Regulatory Compliance and Audit units.

In this sense, our Board of Directors has approved different policies throughout the year that allow us to continue consolidating the entity's governance. Among these are examples such as the Concentration Risk Policy; Debt Recovery, Refinancing and Restructuring Policy; Liquidity Risk Policy; Commercial Communication Policy, Money Laundering, etc. All of them allow continuing operating with greater tranquility in a more orderly regulatory framework, and responding to the needs of the entity, and demands and good practices of the regulatory bodies of the sector.

DEVELOPMENT OF BUSINESS

2019 has been the turning point of the 2018- 2020 strategic plan at Banco Pichincha Spain, being a year of growth for the different businesses and the launch of new products and services in the Spanish market. In this sense, each of the three business lines of the entity has stood out in 2019 for the following milestones:

1. PICHINCHA INDIVIDUALS

Its conviction to strengthen the relationship it maintains with its clients was reflected in the launch of a positioning strategy under the motto "Together, better".

Likewise, the design and launch of Pichincha Shipping was carried out, which has been a turning point within the framework of the strategic objectives of the business. This money transfer service to Banco Pichincha Ecuador strengthens the relationship with the group of Ecuadorians. The platform connects the systems of both entities, without intermediaries, to facilitate the sending of remittances to Ecuador at a highly competitive price, from the branch network or via online (web portal and mobile application). The objective of Pichincha Shipping is to become a benchmark in this sector with high potential for generating business and increasing clients.

The division is also directed towards a model that is based on a multi-channel experience, to the implementation of projects such as Social Customer Engagement, supported by social network platforms that will allow the user to be linked in a collaborative conversation, generating mutual benefit in a transparent and trustworthy environment.

2. CORPORATE BANKING

The most outstanding milestone of 2019 was the creation of the Corporate Banking unit, whose objective is to reinforce Banco Pichincha Spain's commitment to large business groups, especially those internationalized that enhance economic relations between Spain and Latin America.

This unit began its journey with \$210 million and has practically doubled its balance, after less than a year of existence. The Network of Business Centers, aimed at a local type of client, accompanies this unit and which has a presence in the four main financial centers in Spain.

3. PIBANK

The Group's digital bank, launched in Spain in 2018, has had a year 2019 marked by the launch of new products such as the Interest-Bearing Account and the Pibank Deposit, which have allowed it to capture more than \$200 million in liabilities, as well as the Pibank Mortgage with very attractive interests for the client in the Spanish market.

Pibank closed the year 2019 with 71% satisfaction among its clients and a recommendation of 55.8%. Aspects to take into account, since this new line of business is destined to compete in a market as demanding as the Spanish one in a very efficient way, being able to accelerate growth with costs significantly lower than traditional banking models.

All this activity of the Bank has been possible through the development of the Human Capital Plan of the entity in Spain, based on the attraction, training and management of the talent of the people who make up the organization. As of December 31, 2019 Banco Pichincha Spain has a staff of 214 employees: 108 women and 106 men. Regarding its cultural diversity, 66% of the workforce is Spanish and 34% Latin American, with 23% of Ecuadorian origin.

SUMMARY OF THE RESULTS OBTAINED IN 2019

ASSET RESTRUCTURING

Continuing with the evolution of the entity's Strategic Plan in Spain, the Bank has continued with the transformation of the credit and securities portfolios to adapt them to the risk appetite defined by the Board of Directors. In this sense, those businesses with inadequate risk continue to be reduced, replacing them with those with the best- expected return.

In this way, the default has evolved positively, improving 139 basis points in the year to stand at 3.56%. Following the principle of prudence, the coverage of non-performing assets stood at 78.88%, above the average of the Spanish financial system.

GROWTH AND RESULT

During 2019, Banco Pichincha Spain grew with intensity, especially in the second half of the year. The Bank's business volume increased 61% in the year, reaching 2,588 million euros. Customer deposits grew at a rate of 51%, loan investments to 65% and the portfolio to 79%.

In line with the provisions of the Strategic Plan, the accounts for the year 2019 present a negative result of -9.4 million euros, mainly due to the cost of restructuring the fixed income portfolio and the impact of the investments planned in an environment of more demanding interest rates.

The Bank presents a capital ratio at the end of the year of 13.89%, above the regulatory ratio, including the capital buffers required by Spanish and European supervisors. On the other hand, it should be noted that the Bank has made significant progress in the technological field, incorporating new features for Banco Pichincha and Pibank clients, especially in the field of payment methods, with the adoption of Apple Pay and Google Pay. Likewise, the entity adapted to the new European PSD2 regulation, which will provide greater security in payments and in banking transactions to our clients.

Banco Pichincha S. A. Colombia

Among achievements obtained in 2019 is the development of the Information Government, in addition to improvements in the quality of the customer base and internal processes.

The new origination channel of the Bizagi digital business platform also came into operation, which will be massified in a controlled manner in the first half of 2020. Likewise, the Baloto banking correspondent was approved, activating approximately 8,300 points nationwide, bringing thus our clients to the Bank and facilitating their transactionality.

In addition, the Standardization Factory was created to accompany and approach our users with problems in their cash flow, which allowed us to increase the effectiveness of the response and improve the indicators. Regulatory brigades were carried out at the national level, increasing the collection of past due and penalized portfolios, and we began the implementation of a robot with artificial intelligence to manage collection of the payroll product, improving efficiency and effectiveness.

In terms of technology, innovation and digitality, the On-Premise containerization platform was implemented for new microservices and digital innovation projects. The new model of the Bank's Disaster Recovery Plan (DRP) was put into operation with a real test in the banking core, which strengthened the central computing system, perimeter security and telecommunications, guaranteeing business stability and continuity.

ATMs were opened in Ipiales and Pasto for the attention of our Pichincha Group clients on the border, promoting our business relationships. The commercial activation campaigns for the Libranza product were effectively implemented, which helped us to reach outstanding levels compared to the historical market share. An agile scheme for the Vehicle product was implemented, improving the response time to clients and reaching national market standards. The first product with digital origination was also developed for Banco Pichincha's Educational Credit line; this was done through an alliance with Fintech Credyty. We hope in 2020 to massify this new sales channel.

As for security and cybersecurity, the Swift security self-assessment recertification for 2020 was obtained, the Bank's personal data protection program was defined and External Circular 07 –SFC on cyber risk management was implemented. The SIEM-SOC was also put into operation, strengthening monitoring; cyber surveillance exercises were carried out (Internet, deep web, web drap), and participants in events at national and international level, obtaining third place in the Cyber Agents event organized by Asobancaria.

Finally, it is important to mention that the training program "Management of the Board of Directors, Business Model and Government" was launched, with the support of Universidad de los Andes. It is aimed at members of the Board of Directors and employees of High Bank Management, in order to improve their skills, giving them first-rate tools and training.

On the other hand, the Colombian Financial Superintendence (SFC) managed the on-site inspection process carried out by that entity during April and May 2019, with recognition and congratulation.

During 2019, work was carried out on various environmental and social programs to sensitize employees on the care and protection of the environment, the adequate disposal of organic, recyclable and electronic waste, the reduction in the consumption of natural resources (eco-efficiency) and the deployment of management social (volunteering). Different officials participated in them during the second semester of 2019.

The 2019 work was aimed at improving the Bank's main management indicators, and commercial growth, especially in the consumer portfolio and in atomization. The growth of liabilities and the formalization and improvement of threads in all areas of the Bank were also highlighted, along with the documentation and adjustment of credit policies. Likewise, the implementation of risk models that helped to make a better selection of the optimal customer profile and the implementation of digital channels to improve sales and our customer base.



For 33 years, the Miami Agency has been supporting the strategic vision of the Pichinch Group, acting under the supervision of the Atlanta Federal Reserve and the Office of Banking Regulation of the State of Florida (Flofr).



Banco Pichincha C. A. Miami Agency

2019 was a positive year for the Agency, resulting in a 39% increase in operating profit, thanks to the efforts made in the areas of commercial loans, banking correspondent and information technology.

The Agency registered a 4% increase in its financial income, supported by the growth of the loan portfolio and the increase in the volume transacted by correspondent banks during 2019, which has been accompanied by an important control of operating expenses that have resulted in an efficiency level of 48.5% and a return on assets (ROA) of 1.36%.

On the deposits side, personal banking managed to increase term deposits by \$30 million, confirming the Agency's commitment to a personalized, efficient and quality service for its clients. In addition, the higher volume in the correspondent office raised the Bank's average deposits to \$57.9 million, 2.5 times the average of the previous year, helping to maintain liquidity levels high, with a ratio of loans to deposits of 41, 6% at the end of the year.

By 2020, the Agency's challenge is to consolidate the commercial and correspondent areas, through alliances and new technological platforms, a task that is not easy in an environment of decreasing interest rates.

FINANCIAL SUMMARY

- Assets increase by \$59.2 million (13.3%), reaching \$502.9 million, driven by a growth of \$37.7 millions (26.1%) in the loan portfolio, without past due loans.
- Deposits increased by \$45.2 million (10.8%), standing at \$465.8 million.
- Correspondent deposits increased in importance, now representing 27% of the Agency's total deposits. The average balances increased from December 2018 to December 2019, going from \$58 million to \$96 million in one year.
- Accumulated profits, as the main item of equity in the Agency, grew \$6.8 million (28%). As a result, the year ended with an efficiency level of 48.5% an ROA of 1.4% and a return on equity (ROE) of 20.5%.
- The next operating margin increased by \$2.070 million (39.5%); this item does not include the extraordinary recovery from last year and before provisions.
- Net income increased \$0.1 million (2%) to close at \$6.8 million.

Banco Pichincha Peru C. A.

Banco Pichincha Perú S.A. is a bank oriented to the business of companies, microfinance and individuals. Our agency network consists of 35 offices in Lima and Callao and 30 offices in the provinces. Through a strategic alliance with the Carsa chain, we have 17 more localized agencies within the chain's main offices nationwide. The Globokas correspondent ATM network complements the service network.



The Association of Good Employers of AmCham Peru granted the ABE Certification to Banco Pichincha Peru for its good labor practices. The issuance of the first Social Bond in Peru for \$13 million was recognized to finance the country's micro-enterprises. The Bank also reaffirms its commitment to the development of young talent in the country by initiating alliances with different large public and private universities in the training of people.

We prioritize investment in optimization and renovation projects of our technology platforms with the aim of achieving greater efficiency, offering our services and strengthening operational continuity. This effort will continue in the following years with the aim of offering our clients a better service.

FINANCIAL SUMMARY

Despite an environment with declining interest rates throughout 2019, Banco Pichincha Peru reached S/1,000 million (soles) of financial income for the first time and a net profit of S/55 million, exceeding the profit achieved at the end of 2018 (S/51 million). This performance was based on an improvement in financial income due to a focus on businesses with a higher margin, greater generation in non-financial income, as well as better control of expenses.

As of December 2019, the Bank's total assets reached S/ 9,673 million, an increase of S/ 272 million (2.9%) compared to the previous year. The Bank focused on strengthening its funding with stable and diversified sources, thus the Bank's total liabilities were S/8,768 million, increasing by S/ 175 million compared to December 2018.

The ratio of past due loans was 4.03%, refinanced loans represented 3.26% of the total, a share of less than 4.26% in 2018 and coverage of 135.4% was achieved.

Another aspect to highlight is the approach to achieve a more efficient operation, focused on productivity and more competitive and operational costs; thus, the efficiency in the year was 54.7% (57.7% in 2018). These efforts have allowed obtaining an annual growth in net profit of 8.4%.

Looking to the future, the Bank will continue to align itself with a strategic plan defined in the execution of initiatives that strengthen its capacity for innovation and improve its technological infrastructure to serve the three major business segments: individuals, microfinance and corporate banking. In addition, priority is given to taking initiatives to strengthen the Bank's portfolio quality and solvency in the long term.

Strategic Aliances

The pillars of institutional management, supported by maintaining high solvency and liquidity standards, as well as continuous improvement in the efficiency and quality of assets, allowed meeting the objective set in 2019 to increase the rating to AAA-, ratifying the solidity shown through the years, without neglecting the offer of new and modern solutions to clients in different segments.



Banco de Loja S. A.

Thus, in the framework of redesign of the demand deposits products that are offered, an interface was implemented with Registro Civil to obtain online the capture of client signatures and basic information for the different assets and liabilities products. In addition, the unified service contract was developed, having a single instrument for account opening and delivery of services tied to this product.

Likewise, the service of opening an online savings account and issuance of fixed-term deposits was made available to the client through electronic banking; the online check deposit service was also implemented through corporate electronic banking.

In order to improve customer proximity, the institutional website was relaunched, updated in accordance with new market trends, seeking to provide a more agile and user-friendly service to users.

To improve service indicators, the entity's call center was outsourced, offering 24/7 services, with greater availability for the development of communication and sales campaigns and to allow better and greater interaction with the client.

In addition, the institutional chatbot was launched, which registered 35,000 interactions in December only, offering the following services: information on products and services, location of service points (agencies and ATMs), inquiry of balances and movements of accounts, credits and fixed-term deposits, issuance of account statements and different certified documents.

In the loan management program, in order to improve the quality of the service, reduce costs, optimize workflows and ensure efficient execution of processes, Business Process Management (BPM) was implemented to grant loans from the individual segment, which is accompanied by a credit score. A new portfolio system, fully developed in-house, was also implemented.

In the service management program, the printing of pointed debit cards started, which allows the immediate delivery of plastics to clients, be it on account opening, renewal or loss. It is worth to mention that the BIMO Mobile Wallet was also launched, developed by the company Banred.

These improvements contributed to the fact that, despite being a year with a drop in the economy, the overall results were satisfactory.

Obligations with the public grew by 9.8%, highlighting the growth of 21.2% in time deposit certificates and a positive evolution of demand deposits, the first that

allows greater slack in terms of liquidity gaps. In turn, credit increased by 12.3%, with significant contributions, especially in the production lines, such as commercial and microcredit, as well as individuals, always trying to promote greater economic activity. This credit growth was accompanied by an increase in the level of provisions, in such a way that the coverage on the total portfolio is over 8% and on the unproductive portfolio over 300%, considering also the significant decrease in the balance of the latter, which determined a total delinquency of 2.56%.

Additionally, in terms of financial solvency, technical equity with respect to risk-weighted assets remains at levels above 17%, reflecting a significant gap in relation to the legal framework and the system average, enabling significant growth for the entity in the next years.

Regarding efficiency, although the levels are among the lowest in the system, permanent efforts to improve them made it possible for the degree of absorption, that is, operating expenses with respect to financial margin, to decrease from 69% to 67.7% in the last year.

In conclusion, in 2019, satisfactory levels of growth were obtained in deposits and in the credit portfolio, with significant coverage of different risks that a financial institution faces. In addition, significant results in the portfolio in arrears and in the institutional efficiency made possible a return of more than 15% and, above all, the increase in the institutional risk rating.

By 2020, within a framework of incremental innovation and better knowledge of the customer experience, the implementation of new processes and technologies that will contribute to increasing value for the user and the entity, will continue.

Banco General Rumiñahui

BGR is consolidated as the ninth largest bank in the country, with a growth in size of 13.5%, well above the system's growth of 8.7%. It reached \$967 million in total assets, with a net profit of \$12.5 million, which represents an ROE of 18%, and a delinquency of 1.8%.

The BGR's priorities in 2019 were developed under four objectives:

- strengthen the military segment,
- develop the civil segment,
- innovate and strengthen the digital approach,
- consolidate sources of financing.

The military segment is the main attention niche of the bank and it is constantly seeking to improve the service portfolio in a personalized way for this segment. In 2019, despite strong

Banco General Rumiñahui ended 2019 with good results, despite the fact that it was a complex year due to the economic and political situation.



competition – especially from cooperatives that present very aggressive offers – BGR maintained broad leadership. More than \$243 million was disbursed in nearly 20,000 consumer and housing operations, representing a growth of 13% compared to 2018.

It is worth highlighting on the liability side the permanent growth by attracting clients through products that seek to encourage savings, such as programmed savings and term deposits, which together represent an amount of \$76 million.

In the civil segment, which in number of clients represents about 50%, it is necessary to offer a better service over credit facilities, since on the liability side this segment represents 45% of the public's obligations compared to just 13% in total portfolio.

Thus, the initial focus in 2019 was on credit cards, where there was growth of 8,972 new clients and \$11.6 million in additional portfolio. By 2020, we will seek to continue improving the product portfolio for this segment, incorporating a consumer credit facility. In this way, this segment will be better served, improving the service to our clients.

In terms of innovation and digital transformation, BGR works to create value for the organization. Among the milestones of the year in this field, there are: the launch of Culture 2.0, aligned with the Group's corporate values; the development of our new, intuitive and modern digital banking, which will be released to the public in the first quarter of 2020; the creation of a tool to request 100% digital services – eliminating the use of paper on the platform; the implementation of the innovation cell, and the start of the Agile Organizational Structure program, among others. With this, BGR seeks to be a much more powerful, agile organization focused on generating value.

During 2019, work was carried out to obtain stable sources of financing so that the Bank continues to grow in its portfolio placements. Along these lines, the organization has grown in time deposits significantly, going from \$330 million to \$404 million, which represents a growth of 22.5%, higher than the 19.1% of the system. Local and international credit lines were also obtained, among which is a total of local credits for \$40 million and international credits for \$15 million. In 2020 the Bank will continue to seek stable funding to continue growing.

Report to shareholders

Macroeconomic situation and perspectives for 2020

1 Brief overview of the global and regional macroeconomic situation

The 2019 global economy was the story of a trade conflict, due to the growing war between The United States and China; US threats against Mexico, Canada, and Europe; the aggression between Japan and Korea, and the realization of a tough Brexit that conspired to drag growth to its lowest level since the great financial crisis.

World growth is getting weaker. Bloomberg Economics' global gross domestic product (GDP) tracker shows that the pace of expansion slowed to 2.2% in the third quarter of 2019, below a reading in China GDP is expanding at the slowest rate since the early 1990s. Finally, Germany narrowly avoided a technical recession.

The global economy began 2019 with the hope of a trade truce, and then witness waves of tariff increases. In 2020, the pattern could repeat itself, but the probability is lower after China and The United States signed a "phase one" trade agreement. If the agreement between the two countries were maintained, it would put monetary policy on hold and one floor below declining global growth. If not, given the gap between both sides and the pressures of the presidential elections in The United States, growth is expected to continue downward and central banks figure out how to add economic stimulus when interest rates are already so low.

The trade war has been the biggest drag on the economy. Radical tariffs from The United States and China have led world trade from growth of 4.1% in the first half of 2018 to a contraction in the third half of 2019. This led manufacturing to a recession, causing a slowdown in investment and hit jobs in factories. Bloomberg Economics projects that, in the worst-case scenario, the price of the trade war could total \$2.7 trillion by the end of 2021.⁵

A few months ago, the first requisite to anchor global growth was for trade tensions to ease. A "phase one" agreement has already been signed between China and The United States. The Asian country has offered to buy basic products in exchange for the suspension of planned tariff increases. This "mini-deal" has given investors a breather, who have increased their positions to risky assets without guarantees that there will be a "phase two" in 2020.

Past negotiations between The United States and China ended with the guarantee that the talks would get under way again, only for a collapse to ensue immediately thereafter. This time, with possible critical points related to Hong Kong, Huawei Technologies and human rights, a resolution of the trade war is increasingly distant. For the phase two of the agreement to be signed and for the certainty that the war ended, there is still a long way to go.

To avoid a deeper global economic slowdown in 2020, certain things have to

The history of the global economy in 2019 has been the history of a trade conflict. A growing trade war between The United States and China; the threats of The United States against Mexico, Canada and Europe; aggression between Japan and Korea, and the risk of a tough Brexit have conspired to drag growth to its lowest level since the great financial crisis.

⁴ Orlik, T., "2020 Vision - Forecasts for the World Economy in the Year Ahead", Bloomberg Economics, 2020.

⁵ Ibidem.

happen. First, trade tensions have to decrease. Second, growth in employment and consumption in The United States must remain solid. Third, the stimulus from central banks in developed economies has to gain at least some traction. It would also help if Hong Kong finds a way to end violent clashes between demonstrators and the Police. The UK, on the other hand, managed to escape its Brexit stagnation and it represents one less concern for 2020.

It is true that some of the latest developments seem positive. The United States and China signed a "phase one" trade agreement, and the chances of a Brexit without an agreement were reduced after Boris Johnson's victory. However, given the experience of the past two years, investors are wary of these signs of hope. As the new managing director of the International Monetary Fund (IMF), Kristalina Georgieva, said, in the midst of a synchronized slowdown in the major economies, the global outlook is "precarious."

What most analysts do confirm is that central banks' ability to act is worrying. Given that we now live in a world with negative rates, the space to combat a slowdown is limited. The European Central Bank (ECB) experiments with deeper negative rates and a new round of asset purchases, but even many within the ECB question the effectiveness of these steps and the possible cost. For the Bank of Japan the options are even more limited. High debt limits China's space for another waste of credit-driven investment.

In The United States, high political uncertainty will limit the effectiveness of Federal Reserve (FED) rate cuts.

Another ingredient necessary for continued global growth is for the American consumer to remain resilient. There are risks: the pace of job creation has slowed and consumer sentiment fell in mid-2019. However, unemployment is at its lowest level in 50 years and wage growth remains stable, above 3%. In a consumer-driven economy, even with stagnant investment and falling exports, that is enough to keep growth not far from potential. A combination of job creation above 100,000 a month and, if necessary, further cuts in the Fed should mean that the world's largest economy is avoiding the recession.

The IMF projected global growth of 2.9% in 2019. For 2020 and 2021, it expects growth of 3.3% and 3.4%, respectively. Compared with the October forecast, the estimate for 2019 and the projection for 2020 represent reductions of 0.1 percentage points for each year, while for 2021 it is 0.2 percentage points lower. A more moderate growth forecast for India explains most of the downward revisions⁶

In Latin America, the IMF forecasts a decrease of 0.9% in 2019, and forecasts for the region, a growth of 1.1% in 2020 and 1.7% in 2021 (0.2 and 0.1 percentage points weaker respectively than in the forecast for October). The revisions are due to a drop in Mexico's growth prospects in 2020- 2021, due to the continued weakness of investment, as well as a considerable reduction in the growth forecast for Chile,

affected by social unrest. These revisions are partially offset by an upward revision of the 2020 forecast for Brazil, due to the performance improvement, after the approval of the pension reform and the disappearance of supply interruptions in the mining sector.

2 National macroeconomic situation REAL SECTOR

GDP EVOLUTION

GDP in 2018 grew 1.3%. The increase in that year is mainly attributable to the growth in domestic demand, which contributed 2.2% to the increase in GDP; specifically, household consumption had the largest contribution to GDP growth (1.3%), followed by government consumption (0.5%) and gross fixed capital formation (FBKF) (0.5%). For its part, external demand (exports) had the smallest contribution to GDP growth (0.3%).

Until the third quarter of 2019, GDP increased 0.6% over the previous year, showing a slowdown compared to growth in 2018. Furthermore, although there are no official figures from the national accounts published for the fourth quarter of 2019, BCE predicted that, until the end of 2019, GDP would rise to 0.2%, but then reduced its forecast to -0.1% decrease.⁷ It forecasts that a contraction of GDP would have occurred in the last quarter of 2019, influenced by the unemployment events and protest of last October. Regarding the sources of GDP growth in 2019, the contribution of internal and external demand, respectively, to GDP growth, had a different evolution than in 2018. Specifically, with data up to the third quarter of 2019, it is known that external demand had the greatest contribution to growth (1.1%), compared to a contribution of 0.1% in the case of internal demand. The low growth in domestic demand is due to a reduction in the FBKF (contribution of -0.7% to GDP growth) and of consumption expenditure by the general government (contribution of -0.1%), while the consumption of households had a positive contribution of 1.1%. The IMF and World Bank (WB) calculations forecast a decrease in GDP in 2019 of -0.5% and -0.3%,⁸ respectively, and those of the Economic Commission for Latin America and the Caribbean (ECLAC) of -0.2%.

The average growth rate of GDP in the last six years –including the 2019 projection– is 1%, a percentage lower than the average population growth of the same period (1.5%)⁹ (Graph 1). Therefore, GDP per capita in constant 2007 dollars has gone from \$4,374.0 in 2014 to \$4,158.8 in 2019, according to projected figures from BCE.¹⁰

⁶ International Monetary Fund, World Economic Outlook, January 2020, <https://www.imf.org/en/Publications/WEO/Issues/2020/01/20/weoup-date-january2020>.

⁷ BCE, "The Ecuadorian economy will recover 0.7% during 2020", 2020, <https://www.bce.fin.ec/index.php/boletines-de-prensa-archivo/item/1348-la-econom%C3%ADa-ecuatoriana-se-recuperar%C3%A1-07-durante-el-2020>.

⁸ Tapia, E., "World Bank calculates that Ecuador's economy decreased 0.3% in 2019", El Comercio Newspaper, 2020.

⁹ INEC, Population projections. 2012, <https://www.ecuadorencifras.gob.ec/proyecciones-poblacionales>.

¹⁰ BCE, Monthly Statistical Information no 2015. IEM 4.4.1. 2020, <https://contenido.bce.fin.ec/home/estadisticas/bolmensual/IEMensual.jsp>.

The greatest relevance of external demand in GDP growth, in relation to domestic demand during 2019, was the natural transition of the Ecuadorian economy to a context of reduced public spending, especially with regard to investment expenses in the public sector (which together with private investment compose the FBKF). Non-financial public sector (NFPS) spending, with data up to October 2019, decreased \$585.9 million compared to 2018. In the case of the General State Budget, in 2019, although current spending increased by \$1,116 million (of which 864 correspond to transfers to Instituto Ecuatoriano de Seguridad Social, IESS, for a 40% state contribution to the fund pension), capital spending decreased by \$1,094 million. Additionally, the greater relative contribution of external demand to GDP growth in 2019 is also explained by the fact that, in that year, the trend of falling oil production in the previous six years was reversed. Indeed, in 2019, such production reached an annual growth of 2.7%, which allowed the oil export volumen to increase by 7.8% (after several years of decline in the volumen of crude oil exported).

The increase in the relative contribution of external demand to GDP growth in 2019 is also a product of the growth in the export volumen of non-oil products,¹¹ it expanded 0.2% in 2019 compared to the previous year; this contrasted with what happened in 2017 and 2018: the exported volume expanded by 4.6% and 5.4% annually, respectively. A non-oil industry that had a high export performance in 2019 was shrimp industry, exports in metric tons increased by 29.1% annually while banana exports in metric tons increased 1.49% annually.

OIL PRODUCTION

In 2019, crude oil production increased by 2.7% compared to 2018. This evolution contrasted with that of the period 2014–2018, in which annual production decreased year by year, with the exception of 2016. Between 2014 and 2018, the average production per day fell from 557 thousand to 517 thousand barrels, both due to a fall in the production of public companies (Petroecuador) and in the production of private companies (Graph 2). This increase in Ecuadorian oil production during 2019 happened despite the fact that an agreement of the member countries of the Organization of Petroleum Exporting Countries (OPEC) governed from December 7, 2018, which established restrictions on crude oil production until June 2019 and that set a suggested quota for Ecuador of 510.9 thousand barrels per day as of January 2019.¹² Ecuador produced above this suggested quota throughout 2019. In July of that year, OPEC and its allies reached a new agreement to restrict the world supply of crude oil in the following nine months. Ecuador announced in October that it would abandon OPEC from January 2020, in order to achieve its fiscal sustainability objectives, so a restriction on the supply of Ecuadorian crude is not expected during 2020. In April 2019, the suggested quota for Ecuador is 510,9 thousand barrels per day, which should be applied from January 2019.

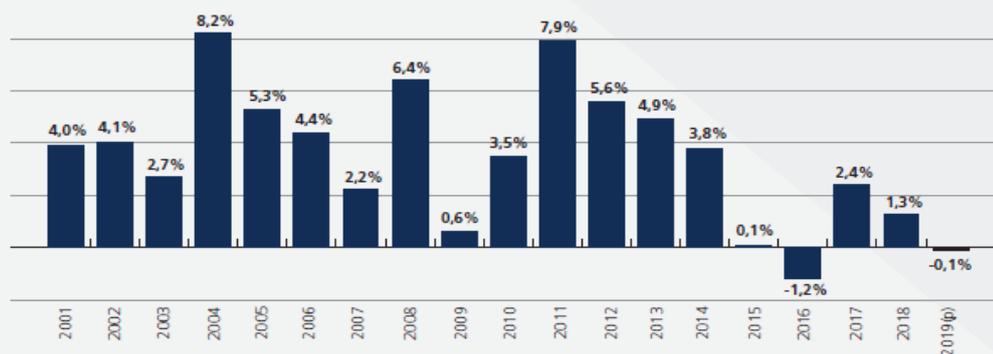
¹¹ BCE, Sistema de Estadísticas de Comercio Exterior, 2020.

¹² Enriquez, C., "OPEC agrees to cut of 2.5%", El Comercio newspaper, 2018, <https://www.elcomercio.com/actualidad/opec-recorte-produccion-crudo-acuerdo.html>.

Evolution of gross domestic product (GDP)

(Rate of change in percentages) Source: BCE.

Graph 1



WORKING MARKET

Since 2016, there has been a deterioration in the quality of employment in Ecuador, measured by the rate of adequate or full employment in the economy. According to official figures presented by Instituto Nacional de Estadística y Censos (INEC),¹³ as of December, 2018, adequate / full national employment was 40.6% of the economically active population (EAP), a percentage lower than the adequate employment rate 2017 (42.3%). As of December 2019, the adequate employment rate fell to 38.8% of EAP. At the same time, the inappropriate employment rate, which includes the rates of underemployment, unpaid employment and other non-full employment, increased from 55.2% in December 2018 to 56.7% in December 2019; and, the unemployment rate grew from 3.7% in December 2018 to 3.8% in December 2019 (Graph 3).

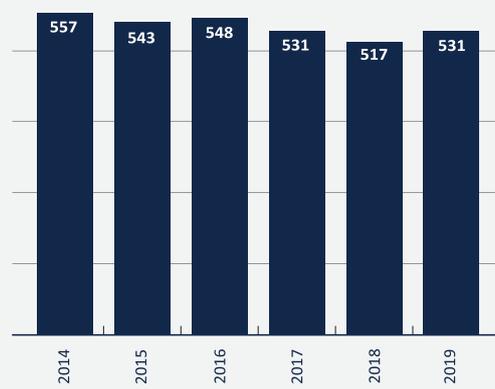
The deterioration in the quality of employment is consistent with the reduction in the rate of economic growth of the country, since the drop in the price of oil in 2015, and the concomitant decrease in public spending since that same year. It is worth to mention that the labor reform that the National Government intended to carry out, with the issuance of the Organic Law for Fiscal Transparency, Optimization of Tax Expenditure, Promotion of Job Creation, Strengthening of the Monetary and Financial Systems and Responsible Management of Public Finance, was not carried out, being rejected by the National Assembly.

National production of crude oil and derivatives

(Thousands of Barrels)

Source: BCE, Monthly Statistical Information No 2015, January 2020.

Graph 2



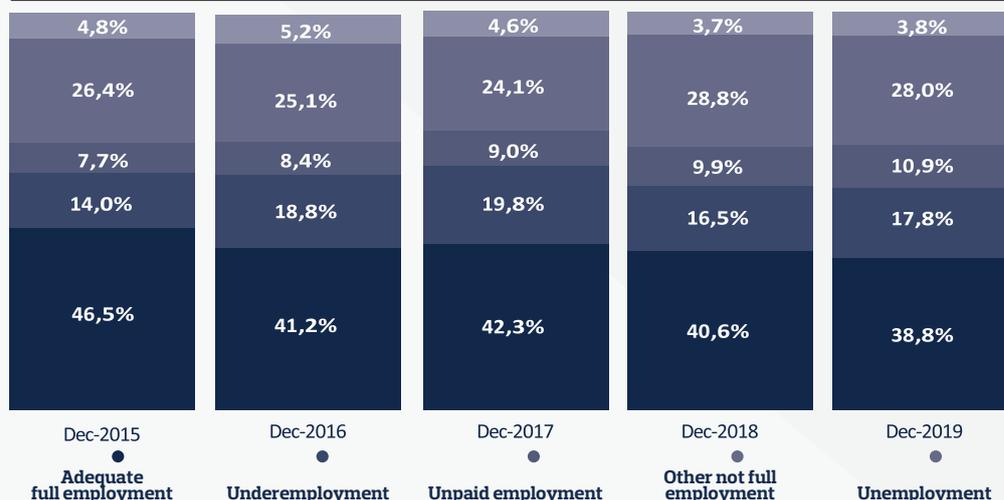
¹³ INEC, Technical Bulletin No 01-2019 Enemdu. National Survey of Employment, Unemployment, and Underemployment, Enemdu, December 2018, working market, 2019. <https://www.ecuadorencifras.gob.ec/documentos/webinec/EMPLEO/2018/Diciembre-2018/Boletin%20tecnico%20de%20empleo%20diciembre%202018.pdf>.

Labor Market Indices

(Percentages)

Source: INEC, National employment survey, labor indicators

Graph 3



This reform was intended to include changes in the labor market, such as the increase in formal employment through the creation of contracts for new labor modalities such as teleworking. Additionally, an effort was made to to modify the figure of employer retirement by a savings fund financed with employer contributions, as well as implement changes in maternity and paternity leave for workers.

In this regard, the business sector has insisting on the need of labor market flexibility by reducing firing costs, which it considers too high, discouraging labour recruitment, and would be pushing the replacement of the labor force with capital assets or machinery.

INFLATION

Annual inflation in Ecuador decreased gradually month by month, from July 2015 to May 2018; since then it has stabilized at levels close to zero. As of December 2018, it registered a level of 0.27% and at the end of 2019; it stood at -0.07% (Graph 4). This evolution may have been influenced by both demand and supply factors for goods and services. On the demand side, the lower growth in prices in recent years is explained by the slowdown in economic growth, which may have led to reductions in companies' marketing margins, as demand for goods and services fell. This partial explanation of the slowdown in price growth would have empirical support. The annual inflation of non- tradable goods (those that are not subject to international trade) has followed a decreasing path since 2015 (Graph 4), as these are the goods whose prices are determined by the supply and demand levels of goods and services at the local or domestic level.

On the supply of goods and services side, since 2017, the low levels of inflation, factors such as greater competition after the European Union takes effect, from January 2017 and the gradual tariff relief that this contemplates for various products and economic sectors, and the gradual elimination of tariff surcharges that took place until June 2017, have had an impact. The data tends to corroborate the factor as one of those that has also contributed to inflation with a tendency downward and even deflation in some periods. Indeed, when analyzing the annual inflation of tradable products (those that are subject to international trade), it is observed that this has also been decreasing from July 2015 to May 2016, and that it became deflation in the period May 2017–December 2018, to then stabilize around 0. Therefore, it is considered that greater competition induced by the elimination of tariff surcharges and after the free trade agreement with the European Union takes effect, could have contributed to the decrease in inflation and even deflation of tradable products in certain periods (Graph 5).

In any case, the low inflation of recent years has contributed to avoiding a further deterioration in the competitiveness of the different productive sectors of the country, by containing a potential appreciation of the real exchange rate of Ecuador against its trading partners (see analysis of real exchange rate in the section related to the external sector of the economy).

EXTERNAL SECTOR

The price of oil in the international market fell in 2019 in relation to 2018. The price of the WTI barrel registered a value of \$57.8 dollars below the average price of 2018 (\$65.1). Due to the differentials in the price of the WTI barrel with the price of crude oil exported by Ecuador, the fall in the price of the national barrel was less. Indeed, the average price of a barrel exported by the country was \$55.6 in 2019, five below the 2018 average price (\$60.8).

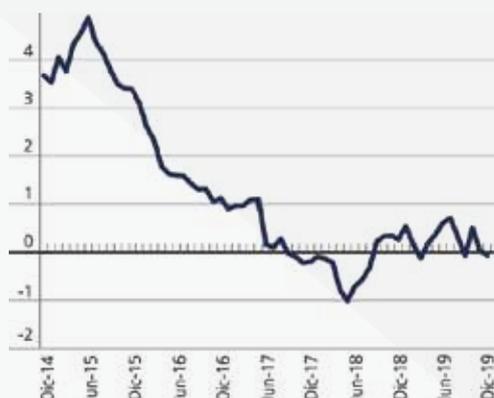
Ecuador's country risk, measured by the Emerging Market Bonds Index (EMBI), in 2019 remained at an average level of approximately 624 basis points until September, and increased in the following months to reach 942.7 average basis points in December. The unemployment and social mobilizations in October, rejecting the elimination of fuel subsidies decreed by the President of the Republic, the subsequent protest against the Productive Development Law presented by the Executive to the National Assembly and the uncertainty generated around whether or not the agreement with the IMF would be maintained, influenced in such increase at the end of the year (Graph 6).

Annual Inflation

(Percentages)

Source: INEC, National employment survey, labour indicators.

Graph 4



Annual Inflation: Tradable and non-tradable

(Percentage)

Source: INEC, National employment survey, labor indicators

Graph 5



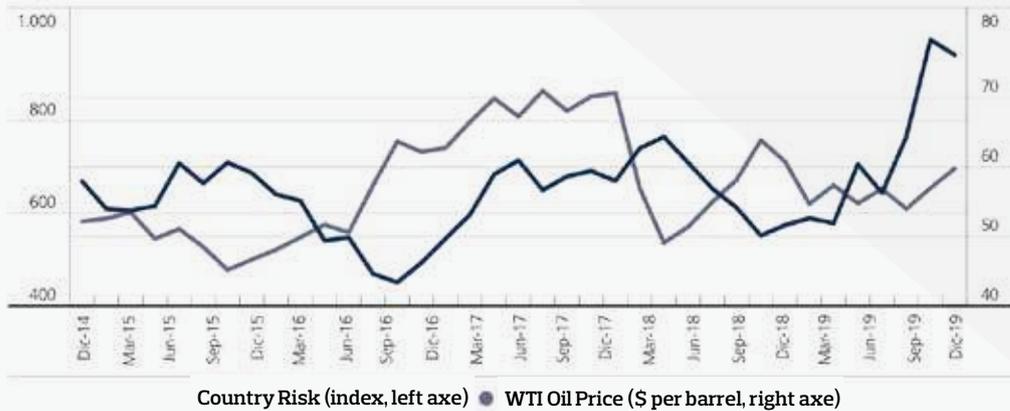
REAL EXCHANGE RATE

The real exchange rate decreased (appreciated) from 2014 to 2016 (Figures 7A and B), indicating lower levels of competitiveness of Ecuador against its main trading partners (particularly in 2015, this was due to the depreciation of the currencies of the Ecuador's main trading partners - apart from The United States - against the dollar) In 2017 and 2018, the real exchange rate depreciated by 3.1% and 2.9%, respectively,

Average WTI oil (SPER BARREL) and country risk (INDEX)

Source: EMBI, jp morgan and BCE, Monthly Statistical Information No 2015, Jan. 2020.

Graph 6



which is consistent with the appreciation of the currencies of the country's main trading partners in relation to the dollar during 2017 and the first quarter of 2018. Inflation close to 0 in Ecuador in 2017 and 2018. It also contributed to depreciating the real exchange rate, which is considered a natural adjustment to lower levels of public spending, public external indebtedness to sustain such spending, and lower demand on goods and services derived from that, putting less pressure on the increase in prices and helping to improve external competitiveness.

During 2019, an appreciation of the real exchange rate was registered in relation to the 2018 real exchange rate, which implies that low inflation in Ecuador did not offset the depreciation of the currencies of the country's trading partners in that year. Indeed, as of December 2019, the real effective exchange rate stood at a level of 90.5 (index number with base year 2014), equivalent to an appreciation of 1.2% in relation to the 2018 real effective exchange rate (91.6). This implies that the real exchange rate in 2019 was 9.5% below the 2014 real exchange rate (index number equal to 100 in that year). It indicates that in 2019 there was less relative competitiveness compared to 2014 so that the appreciation of the real exchange rate does not affect the competitiveness of a country, it must be compensated by increases in productivity in the tradable sector (economic sectors subject to foreign trade) of the economy.¹⁴

TRADE BALANCE

During 2019, the country presented a positive balance in its trade balance of \$820.1 million, which contrasts with the deficit in the trade balance of 2018, which in the period January– December was \$477.6 million. The trade balance surplus is a reflection of an export growth of 3.2% in the period January–December 2019 compared to the same period in 2018, while imports contracted by 2.7% during the same period. The contraction of imports in 2019 is consistent with the slowdown in the domestic demand of the economy, registered With data until the third quarter of 2019, even without having data from the National Accounts for the fourth quarter of 2019, a greater slowdown or contraction of domestic demand in such quarter, due to unemployment and social protests that happened in October. While domestic demand in 2018 expanded by 2.2% in 2019, until the third quarter, this expansion had slowed to 0.1% (as a reference data, in 2018, until the third quarter, internal demand had increased 2.4% in annual terms) (Graph 8).

EXPORTS

In 2019 exports in FOB value registered an anual growth of 3,2%, showing a deceleration in its growth rate compared to the same period in 2018, in which exports had an anual growth of 13,3% (Graph 9).

This deceleration in the growth of exports originated in the fall of oil sales in 2019, which in FOB value contracted –1.4% (Graph 10). The fall in the FOB value of oil exports was due to the fall in the export price per barrel exporte d in 2019, which could not be fully offset by the growth in volume exported by 7.8%.

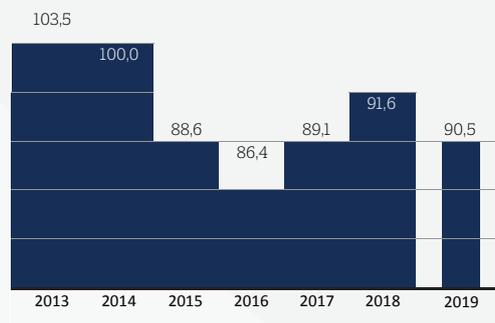
14 With respect to increases in labor productivity in Ecuador, it is pertinent to analyze the evolution of the unit labor cost indicator that measures the remuneration or income per person employed in relation to the product generated per employee (labor productivity). This indicator allows us to analyze whether labor costs are actually increasing or not, by measuring the labor remuneration according to what the employed people generate or produce. According to Banco Pichincha's own calculations, the labor productivity of sectors considered tradable in the economy, between 2007 and 2018, would have increased 27.8%; but the income per employee increased by 91%, with which the unit labor cost (ratio between income per employee and labor productivity) would have increased by 49.5%. This would have happened despite the fact that since 2015 earnings per employee decreased year-on-year, including 2017. The conclusion is that the increase in income per employee (labor cost) is not fully offset by increases in labor productivity in the period analyzed (2007–2018), which would indicate a deterioration in the competitiveness of the tradable sector in such period. Between 2014 and 2018 (period after the fall in the price of oil at the end of 2014), the unit labor cost would have been reduced by 9.3%, due to the fall in the remuneration or income per employee in such period of lower economic growth and crisis of the Ecuadorian economy. Such fall in income per employee would have been accompanied by an increase in labor productivity in those years.

Real effective exchange rate

(Base year 2014=100)

Source: BCE, Monthly Statistical Information No 2015, Jan. 2020.

Graph 7a

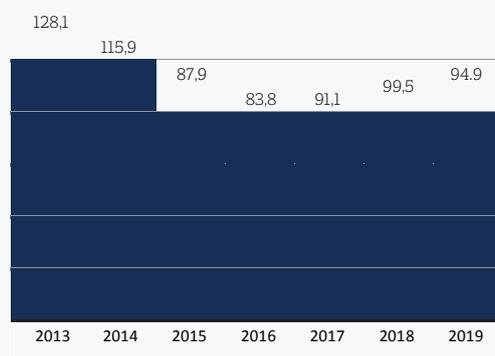


Terms of trade

(Base year 2007=100)

Source: BCE, Monthly Statistical Information N° 2015, Jan. 2020.

Graph 7B

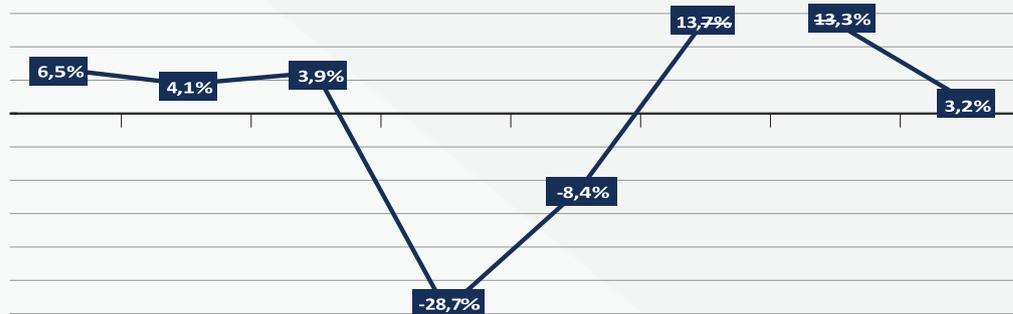


Annual variation rate

(Total export in percentages)

Source: BCE, Monthly Statistical Information No 2015, Jan. 2020. G

Graph 9



In contrast, non-oil exports in FOB value had their third consecutive year of expansion, with an annual variation of 6.4% in 2019 (5.4% in the same period of 2018). The growth in FOB value of non-oil exports in 2019 had a greater contribution by the so-called traditional export products, whose shipments expanded 9.9% in 2019, while non-traditional products grew only 1.4% in 2019 (3.60% and 3.64% in 2017 and 2018, respectively). Therefore, at an aggregate level of the economy, there is not observed export growth in non-traditional sectors that exceeds that of the traditional and consolidated sectors of the Ecuadorian economy. It is also noteworthy that not only the FOB value, but also the export volume of non-oil exports, measured in metric tons, would have expanded at a rate of 0.2% per year in 2019,

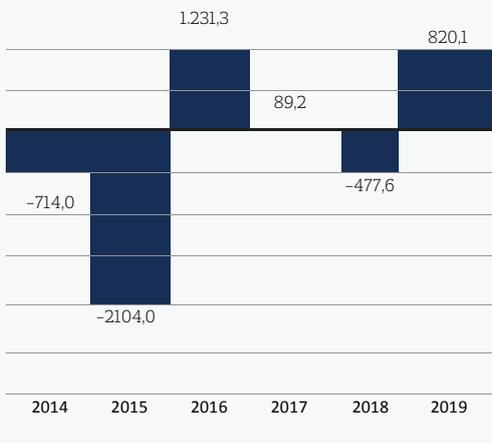
which contrasts with growth positive rates and higher annual rates in the two previous years (4.6% in 2017 and 5.4% in 2018). Outstanding in this performance, due to its high participation in the country's non-oil exports, the growth of the export volume of shrimp (29.1%) and bananas (1.49%). The exported volume of flowers decreased 0.8%

Trade Balance

(Million of \$)

Source: BCE, Monthly Statistical Information No 2015, Jan. 2020.

Graph 8



The expectations for growth of Ecuadorian exports in the following years are based on the new approach to trade openness that the Government has adopted, through the negotiation of free trade agreements. In October 2018, Comex approved the start of negotiations with the Pacific Alliance to achieve the accession of Ecuador as an associated State, without prejudice to the actions that take place until it becomes a full member of the agreement. During 2019, Ecuador continued negotiations to become a full member of the agreement. At the XIV Summit of the Pacific Alliance, held in July 2019 in Lima, the member countries: Chile, Peru, Colombia and Mexico, agreed to streamline the entry of Ecuador, to go from being an observer country to a full member of the bloc. Additionally, in December 2019, Ecuador began the technical negotiations of a free trade agreement with

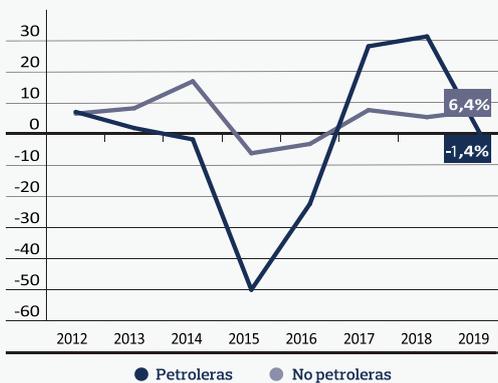
Annual variation rate

Data from January to December

(Oil vs. non-oil exports in percentages)

Source: BCE, Monthly Statistical Information No 2015, Jan. 2020.

Graph 10



Mexico, an essential requirement to be a full member of the Pacific Alliance. The National Government aspires to be admitted as a full member of this agreement in July 2020, the date on which the Presidential Summit of the Pacific Alliance will take place.¹⁵

At the same time, the National Government would have set itself the goal of signing different trade agreements with other countries. Ecuador's trade authorities have completed a feasibility study to start negotiations with India, and would have processes started with Turkey and South Korea. Likewise, they would have completed a joint study with Costa Rica to start a negotiation process; meanwhile, they would be negotiating with Guatemala to improve

preferential access of certain products and in initial talks with the Eurasian Economic Union to make way for trade-type negotiations.¹³

IMPORTS

The FOB value of imports decreased -2.7% in 2019 compared to 2018. The fall in imports is consistent with the slowdown in domestic demand, verified in the National Accounts published with data up to the third quarter of 2019.

The fall in imports occurred in all types of goods classified according to their economic destination, with the exception of capital goods (Graph 11). Imports of consumer goods decreased -2.1% (in contrast to the 13.8% growth in 2018); those of fuels by -4.1% (35.9% expansion in 2018), and those of raw materials contracted by -7.3% (11.6% growth in 2018). On the other hand, imports of capital goods increased by 3%, but slowed their growth rate compared to what happened in 2018 (11.1% growth).

As of December 2019, the IR level reached \$3,397.1 million, 26.9% higher than that registered in December 2018 (Graph 12). This level of IR is lower than that of deposits held by other depository societies (ODS) in BCE at that date (\$3,428.8 million), so the coverage (difference between IR and deposits of ODSs in the BCE) was \$-31.7 million. Despite this deficiency, the figure is lower than that registered in December 2018 when it reached \$-459 million.

The liquidity of the economy, measured by the different monetary aggregates, increased in 2019 in relation to the previous year. The monetary aggregate M2, called

¹⁵ Universidad San Francisco de Quito, "La meta de Ecuador es unirse a la Alianza del Pacífico a mediados de 2020", Portal Primicias, 2020, <https://www.primicias.ec/noticias/economia/la-meta-de-ecuador-es-unirse-a-la-alianza-del-pacifico-a-mediados-de-2020>.

¹³ "Ecuador looks for trade agreements with the Pacific Alliance and 15 other countries", América Economía Magazine, 2019, <https://www.americaeconomia.com/economia-mercados/comercio/ecuador-buscacpacatos-comerciales-con-alianza-del-pacifico-y-otros-15>.

Imports by use or destination

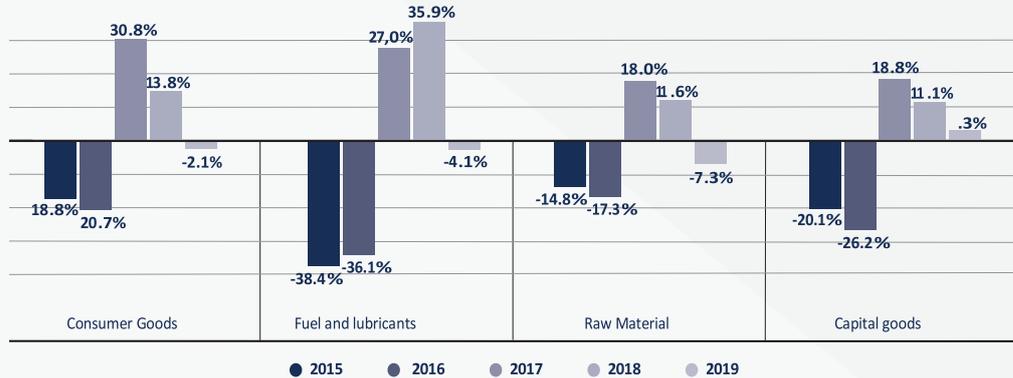
(annual variation rate in percentages)

Source: BCE, Monthly Statistical Information N° 2015, Jan. 2020

Graph 11

MONETARY SECTOR AND FINANCIAL SYSTEM

INTERNATIONAL RESERVES (IR), MONETARY OFFER AND TOTAL LIQUIDITY



total liquidity by the BCE, as of December 2019, grew 8% compared to 2018 and gained dynamism (Graph 13). Likewise, both the M1 monetary aggregate (money supply) and the cash equivalents (components of total liquidity) accelerated their growth in 2019. The money supply increased 3.7% (0.7% higher than 2018) while cash equivalents grew 11.9% (8% in 2018).

It should be noted that, within the money supply, demand deposits decreased by -1.2%, contrasting with a fall of -3.3% in 2018; and that the monetary species in circulation (MEC) had a growth of 6.6% in 2019, slowing down in relation to 2018 when they increased by 7.1%.

DEPOSITS FROM OTHER DEPOSIT AND CREDIT SOCIETIES GRANTED TO THE PRIVATE SECTOR (BUSINESSES AND HOUSEHOLDS) 16

The financial liabilities (deposits) of the ODS17 grew 8.6% annually in 2019, increasing their dynamics compared to 2018, the year in which they increased by 5.1%. On the other hand, the credit granted by the ODS to the private sector (companies and households) increased 11.4% in the same period, lower than the 2018 growth of 15%.

The faster growth of credit granted to the private sector, relative to the growth of deposits during 2019, implied that the ratio of credit granted to the private sector to deposits increased from 1.01 in December 2018 to 1.04 in December 2019. The ODS counted on the increase in other liabilities during 2019 that allowed to finance this growth of credit above that of deposits. When analyzing the sector balance of ODS, it is revealed that the balance of loans granted by these increased by \$4,424.1 million

in 2019, while financial liabilities (deposits) grew by a lesser amount \$3,255.7 million. At the same time, the ODS increased other liabilities in this period that could contribute to financing the granting of credit: "shares and equity" grew by \$741.7 million and "loans" increased by \$837.7 million (Graph 14).

DEPOSITS AND CREDIT GRANTED BY PRIVATE BANKING

Private Banks recorded an annual growth of their obligations to the public of 7.7% in 2019, reflecting greater dynamism than in 2018 when these liabilities increased 1.9% annually. Within the obligations with the public, time deposits showed a most dynamic growth, with an annual variation of 17.9% compared to demand deposits, whose increase reached 1.6% annually. On the other hand, the gross loan portfolio granted by private banks increased 9.9% annually in 2019, lower than the 11.1% in 2018. The ratio of credit to deposits (obligations with the public) of private Banks increased from 0.87 at the end of 2018 to 0.89 at the end of 2019.

By segments of the gross portfolio, the one that presented the most dynamism in 2019 was the Productive, which obtained an annual growth of 27.8%, followed by the Consumption segment, whose annual variation was 17.5%. In this way, the participation of these segments in the total gross portfolio increased: the participation of the consumer portfolio went from 36.5% in December 2018 to 39.1% in December 2019 while the participation of the Productive segment portfolio changed from 8.7% to 10.2% in the same period. For its part, the Microenterprise segment portfolio expanded by 16% annually. Less dynamic segments were Real State and Public interest housing and education, both with growth of 3% in 2019, while the priority and ordinary Commercial segment shrunk -0.7%.

The quality of the portfolio granted by private Banks did not deteriorate in 2019 (Graph 15). The non-performing loan portfolio went from representing 2.6% of the gross loan portfolio at the end of 2018 to a similar rate (2.7%) at the end of 2019. This so-called extended default, analyzed by segments, had its greatest increase in the case of Credit from the Education segment, which went from 0.7% in December 2018 to 1.7% in December 2019, followed by the Real Estate and public interest housing portfolio, whose delinquency increased from 2.8% to 3% in the same period. On the other hand, it should be noted that the extended delinquency of the portfolio of the Microenterprise and Customer segments decreased from 4.9% to 4.7%, in the first case, and from 4.7% to 4.6% in the second case, in the analysis period.

The profitability of Banks did not show major variations in 2019 compared to the

International reserves

(Million of \$)

Source: BCE, Monthly Statistical Information no 2015, Jan. 2020.

Graph 12

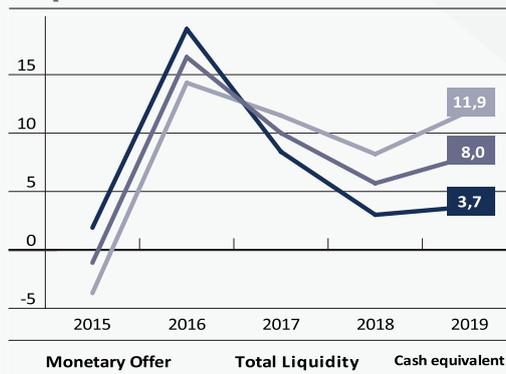


Money supply, total liquidity and cash equivalent

(Rate of change in percentages)

Source: BCE, Monthly Statistical Information No 2015, Jan. 2020.

Graph 13



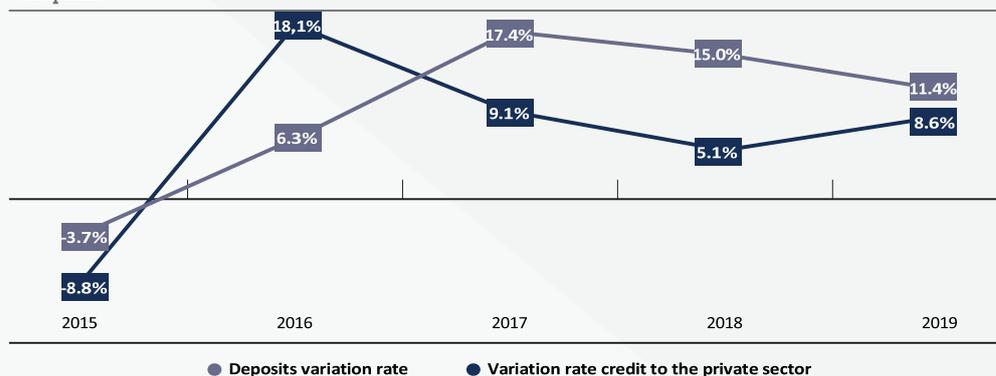
¹⁶ BCE, Weekly Monetary Bulletin, vol. 675, 2020.

¹⁷ OSDs include private banks, financial companies, mutual societies, cooperatives, credit cards, BNF (until May 6, 2016) and BanEcuador (as of May 13, 2016).

ODS: deposits and credit to private sector

(annual variation rate in percentages) Source: BCE, Monthly Statistical Information No. 2015, Jan. 2020.

Graph 11



previous year. As of December 2019, the return on equity (ROE) of private Banks was 13.9%, similar to the ROE at the end of 2018 (13.7%). Likewise, the return on assets (ROA) went from 1.35% in December 2018 to 1.38% in December 2019.

FISCAL SECTOR

In February 2019, the Republic of Ecuador signed a policy agreement, in order for the country to access a \$4.2 million package under the IMF's Extended Fund Facility (EFF) (IMF, Extended Fund Facility). These resources were to be part of a broader package to be provided by the international financial community, which would contribute approximately an additional \$6,000 million. The resources were expected to be disbursed over the next three years: \$4.600 million in 2019, \$3.100 million in 2020 and \$2.500 million in 2021.

The Government of Ecuador presented to the IMF in March 2019 the letter of intent, including a Memorandum of Economic and Financial Policies and a Memorandum of Technical Understanding, which included the country's economic prospects and objectives.

On March 11, 2019, the IMF Board approved the agreement and a first disbursement of \$652 million. Disbursements, in accordance with the EFF, are made in accordance with the quarterly reviews of compliance with goals and policies agreed with the IMF. In June 2019, the first review of the performance of the Ecuadorian economy concluded under the EFF agreement, with which Ecuador received an additional disbursement of \$251 million in July.

On October 1, 2019, the Government issued decree 883 that eliminated the subsidy to certain types of fuel and diesel, and which was intended to reduce public spending by approximately \$1,500 to 2,000 million per year. Due to the social protests derived from that decision, on October 14, President Lenin Moreno repealed such decree. Failing to pass the tax measure to eliminate the fuel subsidy, on November 2019, the Executive presented a law project to the National Assembly, called the Organic Law

¹⁸ Superintendencia de Bancos, Monthly series bulletins. Series Private Banks, 2019, http://estadisticas.superbancos.gob.ec/portal-estadistico/portalestudios/?page_id=415.

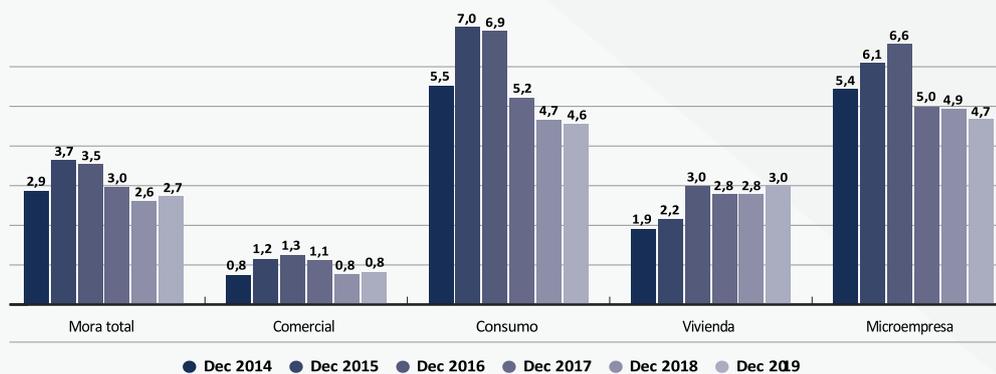
¹⁹ Corresponds to the growth of account 2103 (time deposits) plus account 2105 (restricted deposits) of the balance sheets of private banks.

Private Banks: delinquency of the portfolio by segments

(Percentages)

Source: Superintendencia de Bancos

Graph 15



of Simplicity and Tax Progressivity, which, in terms of additional tax revenue, aims to generate between \$600 and 700 million a year. This law project, with modifications, was approved on December 31, 2019.

Currently, such norm faces two unconstitutional demands related to the collection of taxes on business dividends established by law. The mentioned regulation would eliminate the advance on the income tax (IR) paid by companies in Ecuador, in addition to the value added tax (VAT) and the special consumption tax (SCT) of certain products and services (such as suppliers for people with diabetes or heart disease). On the other hand, it would forgive 100% interest and other charges in the case of obligations for educational credit, and would implement new special taxes on plastic covers in supermarkets, some mobile phone services and certain types of beer. In addition, companies with gross income of more than \$1 million a year must pay a special and temporary contribution for three years, starting in 2020. Another relevant aspect of the law is that it establishes a simplified regime for the payment of taxes to microenterprises, as well as for agricultural and banana activities.

In December 2019, Ecuador presented a letter of intend and the updated Economic and Financial Policy Memorandum to the IMF, requesting the completion of the second and third review of the agreement and the disbursement of an additional \$498 million. Likewise, requesting a waiver for non-compliance with the objectives of the agreement in terms of net IR, given the low macroeconomic impact of this non-compliance and requesting that certain performance criteria of the program be modified, detailing the policy plans for the next two years.

Among the policy updates committed by the Ecuadorian Government are the following:²⁰

- 1 The Government is committed to reducing the non-oil deficit at the primary level (including fuel subsidy) by approximately 3.9% of GDP in the period 2019–

²⁰ Ministerio de Economía y Finanzas, Preliminary Offering Memorandum, 2020.

²¹ OPF, Transparencia Fiscal, vol. 161, 2020.

2021. This is a looser goal than the one committed in the initial letter of intent, which contemplated a reduction of such deficit by approximately 5.3% of GDP during the same period. Until October 2019, the non-oil deficit at the primary level (including fuel subsidy) stood at -1.9% of GDP, according to calculations by Observatorio de la Política Fiscal (OPF), while the maximum deficit to be reached until December 2019, according to what was agreed with the IMF,²¹ is -3.4% of GDP. Depending on what has happened with the SPNF spending during November and December 2019, the described goal of primary non-oil deficit (including fuel subsidy) of -3.4% of GDP in 2019 will or will not met. Given that the primary non-oil deficit (including fuel subsidy) in 2018 would have reached 5.3% of GDP, the reviewed goal implies reducing the deficit by 1.9% of GDP in 2019; and reduce it by two additional percentage points accumulated during 2020 and 2021.

2 Send to the National Assembly until February 2020 a package of reforms to the Planning and Public Finance Code. The purpose of them would be: strengthen the role of the Ministry of Economy and Finance as a supervisory authority at the fiscal level; that annual budgets are prepared based on best practices at the international level; strengthen the fiscal rules scheme including escape clauses, automatic correction mechanisms and intra-fiscal year reports; reduce the Government's discretion to reform approved budgets, monitoring budget execution, among others.

3 Reforms to the Organic Law on the Monetary and Financial Regime to ensure the clear and defined objectives of the BCE, strengthen its autonomy and improve its governance, and strengthen its internal and external audit; in addition, it would include a prohibition on the BCE lending directly or indirectly to the Government of the public sector.

4 A new law for public companies to increase their efficiency, transparency and strengthen their levels of governance. In the framework of the updated letter of intent that the Ecuadorian Government presented to IMF, in December 2019, the IMF disbursed an additional \$498 million. The outlook for 2020 is for the government's fiscal policy to focus on meeting the commitments and modified performance criteria that IMF approved in December 2019, according to the reference's updated letter of intent.

DEFICITS, REVENUES AND EXPENSES OF THE NON-FINANCIAL SECTOR

Public spending at the SPNF level decreased in 2015 and 2016, particularly capital spending. This in response to the fall in the price of oil in late 2014, which made the level of public spending reached in years of the oil boom unsustainable. In any case, in 2015 and 2016, SPNF reached high fiscal deficits equivalent to 6% and 7.3% of GDP, respectively²² 2017, this deficit decreased to 4.5% of GDP, and in 2018, it fell further, to 1.2% of GDP (Graph 16).

The fiscal result for 2019, with data up to October 2019, is more lax than in the same period of 2018: while in January – October 2019, SPNF registered a global surplus of

\$244.9 million, equivalent to 0.2% of GDP, in the same period of 2018, the surplus was \$542.9 million, equivalent to 0.50% of GDP. This lax fiscal result is a product of the fact that, despite the fact that expenses have decreased between January and October 2019 compared to the same period in 2018, revenues decreased in a greater proportion, generating a lower fiscal surplus in 2019, compared to 2018. Indeed, in 2019, expenses decreased by 1% of GDP, while income had a greater reduction equivalent to 1.2% of GDP.

SPNF revenue decrease in 2019 (January – October period), compared to the same period in 2018, by 1.2% of GDP. The most important decrease occurred in non-oil revenues, at –0.6% of GDP; followed by the operating surplus of public non-financial companies, which decreased by –0.4% of GDP; and, finally, oil revenues, with a decrease of –0.2% of GDP. The fall in non-oil income is concentrated in "other2 non-tax income. On the other hand, public spending went from 29.1% of GDP in the period January – October 2018 to 28.1% of GDP in the same period of 2019. This fall in spending by 1% of GDP corresponds to a fall of 0.5% of GDP in current spending, while capital spending decreased by 0.4%. The decrease in current spending with respect to GDP in 2019 happened despite the fact that the interest burden of public debt on the balance sheet of the SPNF increased 7.6% in the period January–October 2018, equivalent to an increase of 0.1% of GDP.

Operations of the non-financial public sector

(Accrued basis as a percentage of piB)

Source: ECB, Monthly Statistical Information No. 2015, Jan. 2020.

Graph 11



At the primary level, consecutive deficits were registered since 2012, which rose to 5.8% of GDP in 2016. The primary deficit fell to 2.3% in 2017, and in 2018, a surplus was achieved for the first time since 2011 primary equivalent to 1.3% of GDP. In 2019, with data up to October, the primary surplus stood at 2.4% of GDP, 0.1 percentage points below the level reached in the same period of 2018 (2.5% 2018 to 26% in January–

²² The SPNF constitutes a broader and more comprehensive measure of the public sector and includes the Central Government, non-financial public companies, IESS and decentralized autonomous governments (GAD).

October 2019, which It made it possible to almost completely offset the fall in tax revenues (1.2% of GDP). Within the SPNF expenditure items, the main decrease occurred within the "purchase of goods and services", which decreased by 0.7% of GDP between the two years (from 4.4% of GDP in the period January–October 2018 to 3.8% of GDP in the period January–October 2019). The second item of expenditure that fell the most was the item of "capital expenditures", with a fall equivalent to 0.4% of GDP; and, finally, "salaries", at 0.2% of GDP.

The National Government decided to reduce and focus its fuel subsidy policy, based on the current Decree 490 since August 27, 2018, in which it raised the price of super fuel by 41.90% determined according to costs, linking it to the international price. Regarding diésel, the Government maintained the subsidy for agricultural, small – industry and artisanal activities, although it reduced the volumen of subsidized diésel by 500 gallons per month. In 2019, Decree 883 of October sought to eliminate the fuel subsidies that were still in forcé and to grant a compensatory mechanism to the poorest families in Ecuador, by expanding both the coverage and the amount of the human development bonus that the Governement delivers. The President repealed such decree in view of the social mobilizations that happened. In this context, the fuel subsidy still maintains an important weight in public spending. An approximation to the cost of the fuel subsidy is the difference between the income and the import cost of fuels, which in 2019 reached \$1,232.7 million (approximately 1% of GDP), lower than the \$1,919.5 million in the same period of 2018. The subsidy, since it is not focused on lower-income people and by promoting the smuggling of subsidized fuels to neighboring countries, representes for the most part an ineffective expense, which does not help to meet social or econoic policy objectives.

MOVEMENT OF PUBLIC DEBT

The public external debt as of December 2019 reached \$41,495.6 million or 38.7% of GDP, which represente dan increase of \$5,765.5 million (equivalent to 5.4 percentage pints of GDP) compared to December 2018. This increase in the balance of external debt is not evident or is not

The increase in the balance of internal public debt between December 2018 and December 2019 would be concentrated in this catebory of compatible with the amount of disbursements, less amortizations of public external debt for the period January – December 2019, which reached \$3,815.5 million in 2019 (\$1,950 million below the increase in the balance of public external debt). Similarly, there is an incompatibility between the initial balance of the public external debt in January 2019 and the final balance of the public external debt in December 2018, which conceptually must be the same. According to BCE, the initial balance of public external debt (\$37,486.1) in January 2019 was \$1,756 million higher than the ending balance of public external debt as of December 2018 (\$35,541.6 million). That i, there is an increase in the balance of public external debt during 2019 for a reason not identified or not explained by the

increase in disbursements of public external debt in that year. This could be due to the fact that, from January 2019, the Ministry of Economy and Finance modified the methodology for calculating the public external debt, according to Resolution No. MEF-2018-0134, and possibly has not carried out the historical debt data reprocesses based on this new methodology.²³

Total domestic public debt of the public sector increased \$2,109.9 million as of December 2019 compared to December 2018, reaching a balance of \$15,843.6 million in 2019. According to the BCE publication, as of January 2019, the unpaid obligations of the Government with BCE, IESS and Banco del Estado are included in the figures of internal public debt.

obligations with BCE, IESS and Banco del Estado, whose balance increased from \$799.1 million in December 2018 to \$2,697.1 million in December 2019.

With this figures of external and internal public debt, the final balance of the total public debt as of December 2019 would have been \$57,339.6 million, equivalent to 53.5% of GDP.

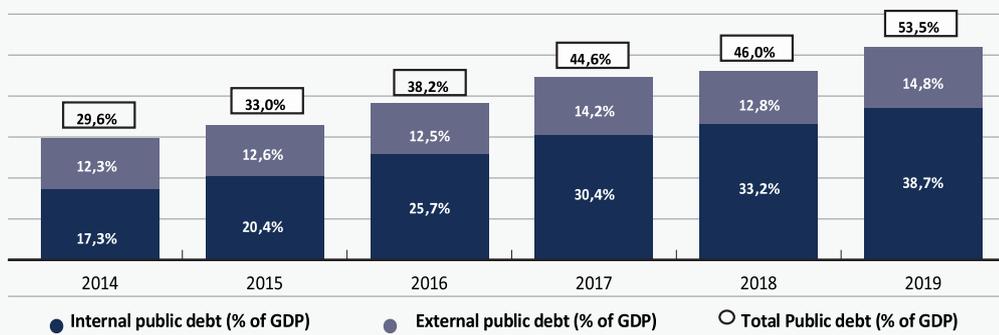
3 General Perspectives For 2020

For 2020, the US Energy Information Administration (EIA) forecasts a WTI oil Price of \$55.71 per barrel, 22 approximately two dollars above the price observed during 2019.

Total public debt as a percentage of GDP

(Million of S)
Source: BCE, Monthly Statistical Information No. 2015, Jan. 2020.

Graph 17



Depending on the discount applied by the market for oil sold by the country, which was used for the General State Budget 2020 (\$51.30). In this days and weeks leading up to this publication, the uncertain effects of the Coronavirus on the Chinese and world economy have caused falls in the prices of shares of airlines, tourism – related industries, and falls in the price of oil (the WTI barrel was quoted at \$53.09 on January

²² US EIA, Short-term energy Outlook, 2020, <https://www.eia.gov/outlooks/steo>.

27, 2020). So the forecasts for the price of oil for 2020 are surrounded by uncertainty. In any case, the oil price remains close to what the National Government budgeted for 2020; it would be expected to maintain a level of spending close to what was budgeted.

World economic growth in 2020 is forecast at 3.3% by the IMF, above growth in 2019 (2.9%)²³; and, likewise, the World Bank foresees higher growth in 2020 (2.5%) in relation to what happened in 2019 (2.4%)²⁴. These projections assume that the effects of the most lax monetary policy throughout the developed world that was implemented in 2019 will continue to produce positive effects on economic growth in 2020, and that the trade dispute between the United States and China will not intensify. This higher growth worldwide would create a favorable environment for the growth of Ecuadorian exports, although it should be noted that the negative effects of the coronavirus on the economic growth of China and the world are not taken into account in these forecasts by multilateral organizations published in January 2020.

In this international context, the need for Ecuador to increase and diversify its exports from 2020 onwards cannot be underestimated. Ecuador is a dollarized country that can only generate foreign Exchange in a sustainable way via exports and direct foreign investment, and is characterized by having a small internal market, dependence on foreign Exchange earnings as a result of the export of primary goods, and which additionally has high unemployment and underemployment rates. For this reason, the policies for the development of the productive sector and exports in particular should be a priority for the current sector as well as for future governments. The entry into force of the Free Trade Agreement (FTA) with the European Union in 2017 has shown that, although it is important to open markets for export, and although there was an initial dynamism of non-oil exports to that market, it has not maintained a relevant export dynamism, particularly in non-traditional non-oil exports. In other words, the opening of new markets must be complemented by policies to increase and diversify exports, so that foreign exchange is generated, along with greater employment and economic growth from private sector investments. In this context, it should be noted that nine business unions in the country sent a letter to the Vice President of the Republic in January 2020, requesting his leadership in the elaboration of a national agreement focused on transversal policies for the productive sector and the elaboration of plans for raising the competitiveness of sensitive sectors. This was to better face the challenges of free trade based on the trade agreements that the country has signed and would sign in the following months and years. His proposals include eliminating the currency exit tax (ISD); eliminate tariffs on raw materials, supplies and capital goods; reduce electricity costs; reduce the interest rate on loans; reform the customs regime, and a labor reform.

In the fiscal area for 2020 and 2021, the expectation is that the Government will continue making the necessary adjustments to comply with its fiscal sustainability goals in the framework of the modified letter of intent that it presented to the IMF in December 2019. Moreover, in the framework of what the Law of Productive Promotion, Investment Attraction, Employment Generation and Fiscal Stability and Balance establishes, approved in August 2018. Regarding the performance criteria of the letter of intent, the Government's commitment is positive to continue with the policy of reducing the primary non-oil deficit (including fuel subsidy) at the SPNF level (although the goal is now laxer than the one set out in the original letter

²³ International Monetary Fund, World Economic Outlook, January 2020, <https://www.imf.org/en/Publications/WEO/Issues/2020/01/20/weo-update-january2020>.

²⁴ BM, Global Economic Prospects January 2020, <https://www.worldbank.org/en/publication/global-economic-prospects>.

of intent). This performance criterion forces the fiscal authority not to depend on oil revenues that, by their nature, are non-permanent and volatile, to finance their expenses. Additionally, that the goal is to reduce the deficit at the primary level is positive insofar as it would increase the sustainability of public finances, because it implies the reduction of expenses prior to the payment of interest on the public debt, reducing the pressure to increase the public debt in an unsustainable way. If the letter of intent goal is met, Ecuador would reach a primary non-oil deficit of 1.4% of GDP until 2021, which would represent a fiscal adjustment of 3.9% of GDP in relation to the 2018 primary non-oil deficit (5.3% of GDP).

Complementarily, until February 2020, the National Government has committed to deliver a package of reforms to the Planning and Public Finance Code focused on implementing best practices at the international level in the preparation of annual budgets, strengthening the fiscal rules scheme, reducing the Government discretion to reform approved budgets, and increase monitoring of budget execution. Also positive is the Government's commitment to present, until April 2020, to the National Assembly a package of reforms to the Organic Law on the Monetary and Financial Regime to strengthen the autonomy of BCE, improve its governance, and strengthen its internal and external audit. Very importantly, this package of reforms would include a prohibition on the BCE lending directly or indirectly to the Government or the public sector, (this particular reform was part of the Economic Development Law proposal presented by the Executive to the National Assembly on 18 October 2019 and the Assembly itself rejected that). These reforms are expected to increase certainty and strengthen institutionality in terms of protecting the dollarization system.

The medium and long-term fiscal horizon is that fiscal sustainability will continue to strengthen as the fiscal rules approved in 2018 begin to operate within the Law of Productive Promotion, Investment Attraction, Employment Generation and Fiscal Stability and Balance. This law establishes that, although the ceiling of the public debt balance of 40% of GDP did not apply in the period 2018- 2021, four-year plans would apply from 2022, so that the debt / GDP ratio decreases until it reaches the limit established 40%. This law also made it mandatory to create a fiscal stabilization fund focused on sustainability and protecting health and education expenses, a fund that would be created with income from the exploitation of non-renewable resources that exceed what was budgeted. The aforementioned law does not oblige the creation of this fund until 2021.

The challenge of public finances will continue in the coming years. How to maintain these fiscal rules and performance criteria within the framework of the letter of intent, when there is no consensus in society regarding what expenses will be reduced or eliminated, or what income will be increased in order to reduce fiscal deficits and ensure the sustainability of public finances. Specifically, current expenditures – such as salaries and fuel subsidies – are highly inflexible on the downside. And in the specific case of fuel subsidies, since they are not focused on the most vulnerable sectors, regardless of the impact in terms of the fiscal deficit, they continue to present a high opportunity cost for Ecuadorian society, in terms of using short resources in the most effective and efficient way possible. In the case of tax revenues, the recently approved Organic Law on Tax Simplicity and Progressivity grants additional revenue to the treasury and facilitates compliance with fiscal performance criteria by helping to reduce the fiscal deficit. However, not all the income provided for in such

law is sustainable; for example, part of these corresponds to a special contribution for three years by companies with a certain minimum level of income; on the other hand, the incomes that would come from establishing a tax on dividends distributed by companies are being demanded by unconstitutional.

The 2020 growth prospects for the Ecuadorian economy, according to the BCE's projections, are low growth (0.7%), similar to those forecast by multilateral organizations (0.5% in the case of the IMF, 0, 2% BM and 0.1% Cepal).²⁵ Banco Pichincha's own forecasts are similar to the above projections. The economic growth of 2020 and the coming years will depend on the level of investment and exports that the private sector achieves. The new fiscal reality of Ecuador, which has gone from being a country whose growth, depended mainly on consumption and investment spending by the public sector, to a country that is gradually trying to make its public finances sustainable has to be taken into consideration. With the FBKF data from the national accounts, published until the third quarter of 2019, and the information on public investment spending until December 2019, it is estimated that private investment decreased in the first three quarters of 2019 compared to the same period in 2018. This trend would have to be reversed in 2020, for private investment to contribute to GDP and employment growth, in the context of the reduction of public investment spending expected for 2020. The Law of Productive Promotion, Investment Attraction, Generation of Employment, Stability, and Fiscal Balance, approved in 2018, and its respective regulations, established a series of tax benefits for new investments, for the benefit of any investor regardless of size. Although there was no growth in private investment in 2019, despite the existence of new incentives, it is expected that the National Government and the private sector collaboratively solve the obstacles that would be preventing the attraction of national and foreign investment. It must be taken into consideration that now there is a framework of greater fiscal certainty given by the program agreed by the National Government with IMF in 2019, and which at the same time they have made progress in terms of negotiations and trade agreements, and that the advance to the IR reduced liquidity to companies has been eliminated.

On the export side, these expanded in volume in 2019, both in the oil and non-oil sectors, mainly from traditional exports. In the context of positive global economic growth expected for 2020, the growth of the export volume of this type of products would be expected to continue during the year, contributing to economic growth. However, achieving greater export diversification and further growth in exports of non-traditional export products will require additional efforts and cooperation between the National Government, local governments and the private sector, in order to eliminate obstacles or disincentives to investment and export. The objective should be for the country to generate competitiveness based on high levels of productivity and generation of value added in its production, which implies the need for sustained actions and policies in a medium and long-term process.

In 2020, banks and the financial system in general can continue to leverage the growth of the economy, through the provision of credit, within the framework of the expected increase in exports and household consumption, and the potential recovery of private investment.

As of December 2019, the assets of Pichincha Financial Group (PFG) grew 9.7%

over the previous year. The annual increase in the oan portfolio was 11.0% and the nonperforming loan ratio was 3.5%.

Maintaining the conservative provisions policy, PFG achieved 264.8% coverage on the non-performing portfolio and 9.24% on the total loan portfolio.

PFG's local subsidiaries are Almesa, Pague Ya, Vaserum, CREDIFE y Amerafin (BPAC). Internationally, it has a banking presence in Spain, Colombia and The United States, with the Miami Agency.

²⁵ [International Monetary Fund, IMF DataMapper, Real GDP Growth, 2020](https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/ECU?year=2020), https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/ECU?year=2020; BM, [Global Economic Prospectus January 2020](https://www.worldbank.org/en/publication/global-economic-prospects), <https://www.worldbank.org/en/publication/global-economic-prospects>; Cepal, [Balance preliminar de las economías de América Latina y el Caribe 2019, Ecuador, 2019](http://repositorio.cepal.org/bitstream/handle/11362/45000/75/BPE2019_Ecuador_es.pdf), http://repositorio.cepal.org/bitstream/handle/11362/45000/75/BPE2019_Ecuador_es.pdf.

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Banco Pichincha represents 79.9% of the PFG's total loan portfolio, Banco Pichincha Colombia 7.4%, followed by Banco Pichincha Spain and Miami Agency, with a participation of 10.6% and 2.1%, respectively. All the group's subsidiaries manage their strategy adapting to the competitiveness and complexity of their markets, tiwth a focus on quality and customer service.

The obligations with the public grew by 8.3% compared to the previous year, reaching an amount of \$11,086 million. This structure is 80.7% leveraged by Banco Pichincha; Colombia and Spain contribute with 4.4% and 10.7%, respectively, and Miami Agency represents 4.2% of the PFG funding.

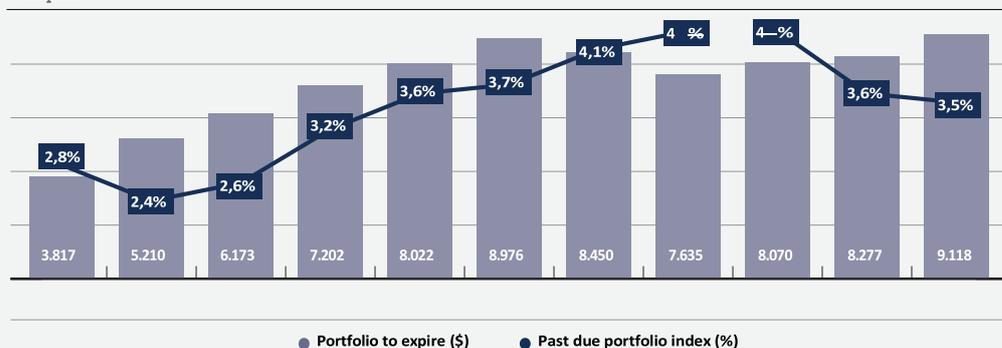
The profit of the PFG at the end of 2019 was \$133.7 million, which represents an annual increase of 18.6%. The return on equity was 9.8% and the return on assets reached 1%.

The results reflect the good management of the workers and managers of each of the organizations that make up PFG, reflecting their tangible and continuous commitment to the community and its shareholders. The results reflect the good management of the workers and managers of each of the organizations that make up PFG, reflecting their tangible and continuous commitment to the community and its shareholders.

Pichincha Group Portfolio

Source: Pichincha Group Balances.

Graph 1



Pichincha Group Portfolio

Source: Pichincha Group Balances, Graph 1

Coverage

Percentages

Graph 2



Loan portfolio by subsidiary

Percentages

Graph 3



Obligations to the public by subsidiary

Percentages

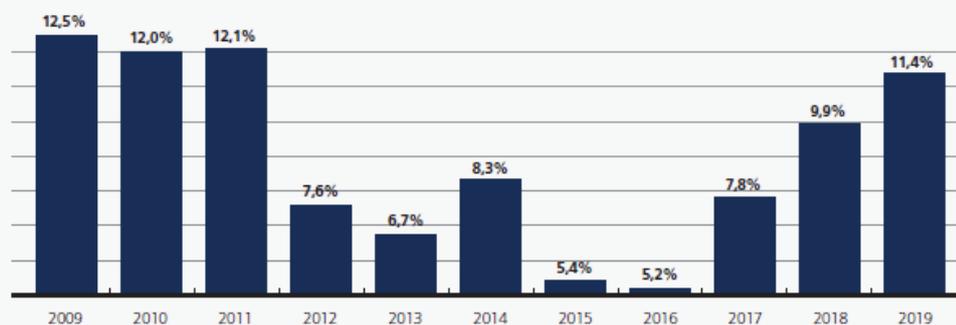
Graph 4



Return on equity of the Pichincha Group

Percentages

Graph 5



Financial evolution

In the middle of the complex dynamism of the Ecuadorian Economy in 2019, the result of Banco Pichincha and banking in general were positive. The assets of the banking system, without Banco Pichincha, grew by 0.3% from 2018 to 2019; the total loan portfolio had an annual growth of 10.7% and the net profit presented a variation of 11.0% with respect to the previous year.

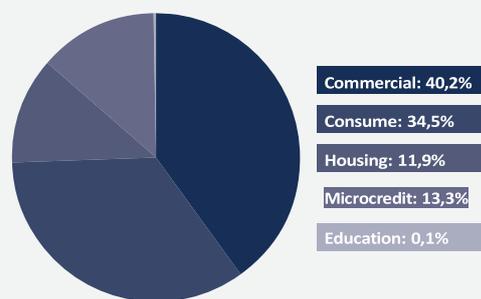
As of December 2019 Banco Pichincha has \$11.4 billion of assets, reaching a market share of 25.7% and, despite representing -0.37% less than the previous year, it continues to position itself as a leader in the system banking. Banco Pichincha's portfolio is diversified in all market segments, serving all sectors of the Ecuadorian economy; the percentage distribution of the portfolio is as follows: Commercial 40.2%, Consumer 34.5%, Housing 11.9%, Microcredit 13.3% and Educational 0.1%.

A characteristic of Banco Pichincha is to maintain conservative levels of coverage and liquidity, so that as of December 2019 there was a total gross delinquency of 3.2%, a provision on total portfolio of 10.3% and an unproductive portfolio coverage of 317.3%. The obligations with the public increased by 5.0% compared to the previous year; the highest concentration of these obligations is in savings deposits with 36.6%; monetary deposits represent 28.9%, time deposit 28.3%, and other deposits 6.2%.

Portfolio by destination

Percentages

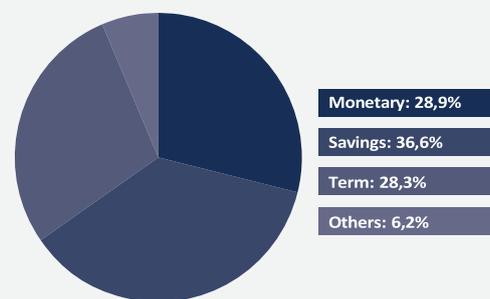
Graph 1



Deposits by type

Percentages

Graph 2



The transformation process that Banco Pichincha has decided to undertake has required several changes at a strategic and structural level that will allow us to provide a better customer experience with more efficient technological resources. In this sense, the institution has made several investments to achieve this important milestone, so that as of December 2019, efficiency reached 67.8%.

Service

The Bank's service strategy revolves around our six lines of action, which have made our service offer even more dynamic, which will improve the experience for our clients.

Our lines of action are as follows:

APP CHANNEL

In 2019, there was a growth of 50% in digital adoption and a transactional growth of 72% compared to 2018. Work was carried out on the development of a new mobile application in the digital center, without dependence on an external provider, which generates a greater agility and response reaction against the development of new functionalities.

In 2020, a disruptive app will be available, based on improving the experience of our clients, which will have cutting-edge securities that eliminate friction with the client, in order to expand this type of transactionality and leverage our strategy.

The new mobile application will allow you to share the transfer receipt and the account number; it will have a functionality that will allow the customer to accumulate points to encourage their use. Clients will rate their experience and give their comments.

WEB CHANNEL

In 2019, transactional growth was 36% compared to 2018, leveraged in the launch of the new web banking that would become a commercial channel for online product sales.

Regarding innovations, it will have a commercial alert system that will allow us to generate value offer. An expense control system will be implemented so that the client can better manage their finances and will evolve into a website that will allow the largest number of service transactions to be made so that the client does not have to go to the offices.

NON-BANK CORRESPONDENT CHANNEL (NBC)

In 2019, the CNB channel renewed its technology, changing its old POS for avant-garde equipment with 3G technology, a touch screen, front and rear camera, contactless reader, Wi-Fi, among other features.

In this year, the productivity of CNBs increased, applying various loyalty and migration strategies; there was also an increase in new and larger places so that they can attend to more transactions. CNBs became the support of the Bank's transactional migration strategy.

AGENCIES CHANNEL

Customer service models have been structured by agency type, in order to guarantee the customer experience: traditional agencies, transactional agencies, business centers, commercial support agencies, virtual office, private / plus banking.

In December 2019, the first pilot agency was opened in Quito, located at CCI Shopping Mall, showing the market a modern bank with a digital approach, but still being close to the client. By 2020, the opening of another agency is expected in Guayaquil, and the reconfiguration of the network of agencies, self-services and NBC based on advanced analytical models.

SELF-SERVICE CHANNEL

In 2020 the self-service park will grow by 333 state-of-the-art equipment, with the aim of maintaining presence and coverage nationwide, new self-service halls will also be installed and developed, as well as self-managed smart agencies.

The innovation in this channel involves the acquisition of high-tech equipment to make cash and check deposits, turn in coins and withdrawals, and the new image for a self-service hall, based on our new CCI pilot agency.

CALL CENTER CHANNEL

This year the IVR (interactive voice response) of the call center was changed, improving customer navigability. Client identification was optimized to strengthen a greater use of it. In addition, the 80-20 processes were reviewed, which implies that at least 80% of clients are served before they reach a 20-second wait, and improvements have been proposed. The sales project in the call center was also implemented. An important milestone is that artificial intelligence was included in automated responses to clients. By 2020, it is estimated to include in the call center services the claims and requirements that are currently handled by the agency.

Products and innovation

Banco Pichincha has successfully completed the first year of the transformation phase. Until the end of 2019, 239 initiatives were completed, complying with the plan established at the beginning of the year.

The initiatives implemented cover a wide spectrum in all areas of the organization, from business processes, client service and risk management to the search for efficiency in supply and operations. All this to meet the objectives of promoting the current business model and laying the foundations for a digital transformation.

In the commercial sphere, the main achievements include the implementation of the commercial system in all segments and in each agency in the country. Productivity increases are between 15% and 30%, and promote proactive team management, ensuring that there is greater closeness with clients and that the offers are suit their needs. As a complement to the commercial system, the agency network has been the scene of the implementation of the customer relationship management (CRM) tool, and of operational improvements and personnel management in windows that allow better service times and adjust the installed capacity of according to the clients' frequency.

Regarding new tools and products, the launch of the new business credit card, the business prepaid card and the micro-collection solution to digitize the collection processes of distribution networks are included.

On the risk front, work has been done to evolve the credit approval principles, with new credit scoring and income inferring models, which allow for a deeper understanding of clients, and broaden the base of potential profiles. All this framed in the Bank's policies and risk appetite.

In operations, we have worked on a deep redesign of the processes related to customer service, especially the credit approval processes and attention to claims and requirements. To date, the processes of six credit products have been redesigned with improvements in times, ranging from 40% to 80% depending on the product. This has also allowed for substantial optimization of equipment productivity and has greatly reduced the number of reprocesses.

With the implementation of LEAN in claims and requirements, 65% of cases are now resolved in the first contact with the client. Until the end of the year, 70% of the types of claims have been migrated to the LEAN scheme, and the rest will be redesigned and migrated during the first quarter of 2020.

As part of the transformation, a strategic supply scheme was implemented that considerably expands the scope of the purchasing unit, working much closer to the user areas to identify savings opportunities that not only focus on negotiating prices with suppliers, but seeking multiple strategies to optimize spending. During 2019, more than 80 savings initiatives were implemented, with an impact of \$28 million annually.

In the field of digital transformation, the Bank started operations in its digital center in February with the first three cells, working with agile methodologies, and closed the year with nine cells focused on different topics that include mobile applications, analytical and risk models, and digital journeys for account opening and other products. The main results of the innovations generated by the digital center include the opening of 56,000 digital accounts and the placement of 10,000 digital credits.

Technology and impact projects

INFRASTRUCTURE

Considering the optimization for infrastructure management, the concept of hyperconvergence in productive environments was incorporated, which allows the combination of virtual and physical components of an infrastructure, such as servers, networks and storage hardware, under a single software-based control point.

With this concept already incorporated in all its environments, the ecosystem is prepared to incorporate self-provisioning portals, which allow optimizing in time and cost the requirements of infrastructure individually or of complete ecosystems that cover a business service.

STORAGE

Focused on modernizing the traditional use of storage, a software-defined storage solution was implemented, whose focus allows software to provision and manage storage, regardless of the underlying hardware, with the following benefits:

- Storage systems with an agnostic concept to the platform.
- Progressive elimination of tape-based backup solutions.
- Improved performance of resident applications by intelligently optimized disk access control.
- General rules for storage management.

COMMUNICATION & NETWORKING / DATA CENTERS

During the year 2019, some implementations were made from the point of view of connectivity. They are summarized below:

- **PHASE I SDWAN PROGRAM:** allows optimized connection schemes on a centralized communication architecture to improve the connectivity scheme and migrate to communication protocols that support applications and integrations for the next three years.
- **TELECOMMUNICATION SERVICES RENEWALS OF CONTRACT:** the renewal of the TEUNO framework contract for the telecommunications operation was carried out incorporating cost improvements. Likewise, exercises were carried out with data link suppliers to improve costs.
- **WIFI IN TRANSACTIONAL AGENCIES:** A wireless network was implemented in a group of 106 agencies chosen by the business, which will be used to provide services to agency clients. This activation will take place in 2020 in accordance with the deployment of the SDWAN phase II program.
- **IMPROVEMENT IN THE CONVERGENCE OF THE PERIMETER EQUIPMENT:** Equipment was incorporated to improve the response time in the perimeter security elements (IPS, SSL BOXES). This is applied to the backbone network in the Quito datacenter.
- **SMARTNETS AND EQUIPMENT FOR CONTINUITY:** implementation and replacement was carried out, focused on a strategy to renew the manufacturer's support contracts.
- **VLAN EXTENSION BETWEEN DATACENTER:** A change was made in the connectivity for the data centers that allows improving the replicability, as well as incorporating schemes that optimize technological implementations. Additionally, the bandwidth between data centers was increased 10 times.

Security

CYBERARK PRIVILEGED USERS

Considering improving access control for privileged accounts to the servers, components and applications of the Bank's infrastructure, a centralized management method was established, implementing the Cyberark solution for privileged users, which allows:

- **Secure access**
- **Dynamic keys**
- **Monitoring and control**
- **Centralization, retention, deterrence**
- **More forensic analysis and auditing capabilities**

Additionally, this solution:

- **Increase the level of security in the Bank.**
- **Centralizes the management of users with privileged accounts in the systems.**
- **Improves visibility and control of security incidents.**
- **Increase the capabilities of auditing and forensic analysis.**
- **Allows for good regulatory and regulatory compliance.**

Perspectives

Banco Pichincha, after 113 years of service to the Ecuadorian community and now serving international banking with its subsidiaries, maintains the firm intention of continuing to work to provide better experiences to its clients, inspiring and rewarding the trust they have placed in our institution for so many years.

The first year of the transformation phase has been successfully completed, reviewing various areas of the organization, from business processes, customer service and risk management, to the search for efficiency in supply and operations. All this to meet the objectives of promoting the current business model and laying the foundations for a digital transformation. Through this transformation we want to be not only the largest Bank, but also the most efficient.

The Bank's growth and sustainability prospects are intended to be covered through migration to digital channels, providing a more satisfactory experience for the client, meeting their expectations for quality and service. This, consequently, will allow us to gain market share in the financial system, maintaining our leadership.

These and other changes reaffirm our commitment to serve current and future generations. Our experience is now also aimed at promoting the development of the region.

Sustainability Report

2019

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

For the fourteenth consecutive year, we make our financial management transparent and the way in which we assume our commitment to responsible banking, more committed to society and financial inclusion.

Memory Profile

Scope and coverage

This annual sustainability report is the result of the management carried out by Banco Pichincha from January 1 to December 31, 2019. This report has been prepared in accordance with the GRI standards: essential option and the sectoral guidelines of the G4 version of the GRI Financial Services Disclosures. Financial information is presented in accordance with current regulations, authorized by Superintendencia de Bancos and International Financial Reporting Standards (IFRS); an independent external firm has also audited them.

Non-financial information follows the guidelines of the Institute for Social and Ethical Accountability, set out in the latest version of the AA1000 standard; therefore, it complies with the principles of inclusivity, materiality and responsiveness of the AA1000 2008 APS (Accountability Principles Standard).

This document reports social, economic and environmental indicators, which, if applicable, are compared with the indicators reported in the 2018 Sustainability Report.

Content and verification

This document took into account the recommendations and principles established by the GRI to determine the content of the Sustainability Report: inclusion of stakeholders, context of sustainability, materiality and completeness.

The integrity and rigor of the information presented in this Sustainability Report is guaranteed by the Executive Vice Presidency for Finance and Risks and by the Vice Presidency for Human Resources, through a process of internal information management that ensures the application of the principles of quality established by the GRI: precision, balance, clarity, comparability, reliability and punctuality.

The firm PriceWaterhouseCoopers of Ecuador has been in charge of verifying the correct application of the contents of the GRI standards. The indicators have been independently verified through other internal and external management procedures.

In case of queries or requests for information, contact:

Oficina de Desarrollo Sostenible de Banco Pichincha, Av. Amazonas 45-45 y Pereira, phone number (593 2) 298 0980, ext. 594750, or to the e-mail: desarrollo.sostenible@pichincha.com.

In the website:

www.pichincha.com/portal/Informacion/Desarrollo-Sostenible
more complementary information regarding the sustainability management of Banco Pichincha can be consulted.

Relevant issues

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

In 2019 we updated our Materiality Study, with the aim of knowing first-hand the expectations that our stakeholders have, evaluating the impact of our management and responding to their needs according to the stages detailed in Table 1.

The topics identified because of this process are indicated below. Internal stakeholders (collaborators) and external (suppliers and clients) analyzed each of these. They were asked what issues they considered priorities to be communicated through this Sustainability Report. In this way, a percentage assessment was obtained according to the number of people indicated by each topic (Table 2 and Graph 1).

GRI 102-15 / GRI 102-44 / GRI 102-46 / GRI 102-47 / GRI 103-1

-> De todos los temas materiales identificados y reportados

Table 1

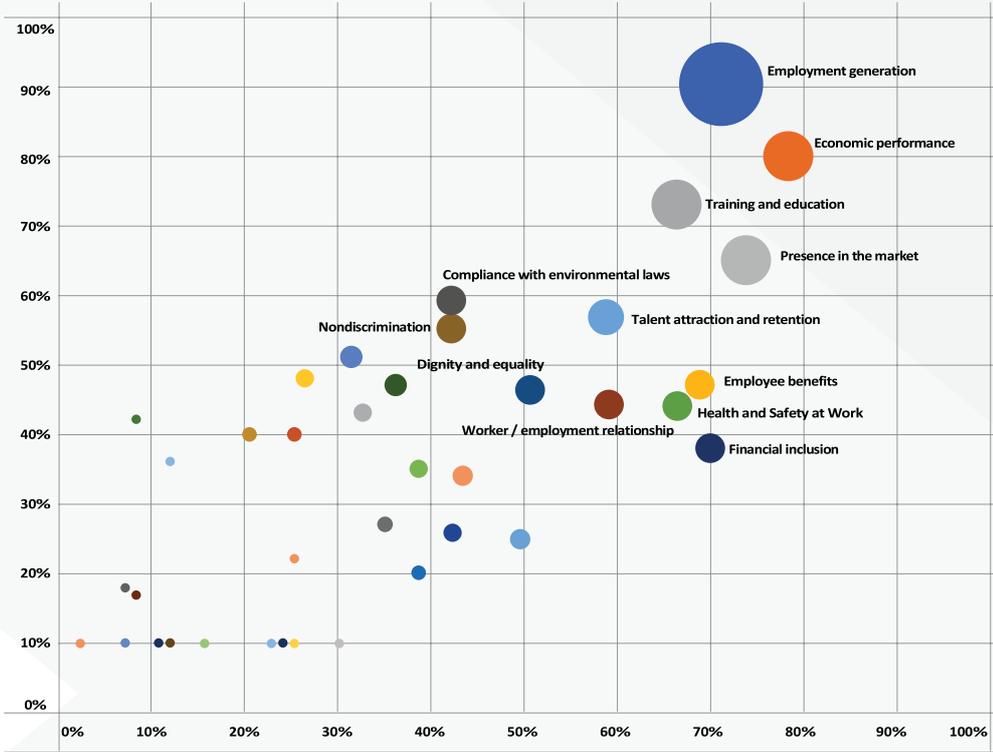
Stages of materiality study

Analysis and evaluation of impacts	Validation and internal prioritization	Identification of stakeholder expectations	Systematization of material issues
· Analysis of materiality studies of companies in the sector.	· Work session with the Sustainable Development area.	· Online surveys with 83 collaborators.	· Processing of the set of information collected.
· Review of Banco Pichincha's strategic objectives related to sustainable development.		· Focus group with four suppliers.	· Definition of memory contents.
· Evaluation of the impacts related to sustainable development.		· Focus group with three entrepreneurs (SME clients).	
		· Focus group with six business owners (micro clients)	
		· Telephone calls to five microentrepreneurs.	
		· Focus group with eight personal clients.	

Table 2**Material Issue**

Material Issue	Internal Stakeholders	External Stakeholders
Employment generation	71%	90%
Economic performance	78%	80%
Training and education	66%	73%
Presence in the market	73%	65%
Employee welfare / benefits	69%	47%
Attraction and retention of human talent	59%	56%
Health and Safety at Work	66%	44%
Financial inclusion	70%	38%
Worker / company relationship	59%	44%
Labor flexibility	49%	53%
Compliance with environmental laws	42%	59%
Nondiscrimination	42%	55%
Diversity and equal opportunities	51%	46%
Material consumption	36%	47%
Customer privacy	31%	51%
Energy consumption	43%	34%
Support to local communities	33%	43%
Fight against corruption	27%	48%
Organic products offer	49%	25%
Water consumption	39%	35%
Biodiversity	42%	26%
Health and safety of users	25%	40%
Mobility / sustainability	35%	27%
Environmental assessment of suppliers	20%	40%
Ethical communication	39%	20%
Management with suppliers	8%	42%
Solid waste	12%	36%
Indirect economic impacts	25%	22%
Human rights assessment	30%	10%
Socioeconomic compliance	25%	10%
Environmental assessment of clients	24%	10%
Physical security practices	23%	10%
Freedom of association and collective bargaining	16%	10%
Liquid waste	8%	17%
Emissions to air	7%	18%
Child labor	12%	10%
Forced or compulsory labor	11%	10%
Supplier social assessment	7%	10%
Public Policy	7%	10%
Human rights of indigenous peoples	2%	10%

Graph 1
Material Issues



Our stakeholders
GRI 102-40 / GRI 102-42 / GRI 102-43

To determine the content of the report, we identify our main stakeholders, considering their relationship of dependency and influence with the organization and vice versa, according to our value chain shown in Table 3.

We maintain a permanent and constructive dialogue with our interest groups. In Table 4 (next page), we can see that this interaction exercise allows us to develop strategies to strengthen the relationship and maintain the company- employee dependency relationship in the long term, thus thinking of meeting the expectations of these groups.

Table 3
Value chain



Table 4
List of interest groups

Interest Groups	Dialogue mechanisms	Relevant Topics 2019
Corporate governance	Committees and subcommittees Intranet WorkPlace	Dow Jones Sustainability Index Awards and certifications Reputation Normative compliance Organizational performance
Employees	Intranet Digital newsletter Poll Joint committees WorkPlace	Employment generation Economic performance Presence in the market Financial inclusion Employee welfare / benefits Training and education Health and Safety at Work Attraction and retention of human talent Worker / company relationship Diversity and equal opportunities Labor flexibility Organic products offer Energy consumption Compliance with environmental laws Nondiscrimination Biodiversity Water consumption Ethical communication
Suppliers	Internet, Email External certifying qualification SGS	Employment generation Economic performance Training and education Presence in the market Compliance with environmental laws Attraction and retention of human talent Nondiscrimination Labor flexibility Customer privacy Fight against corruption Employee welfare / benefits Material consumption Diversity and equal opportunities Health and Safety at Work Worker / company relationship Support to local communities Management with suppliers Health and safety of users Environmental assessment of suppliers Financial inclusion
Community	Fundación Crisfe	Financial inclusion Volunteering Financial education Relationship with the community Scholarships and education

A universal bank

Thanks to the trust of our clients, we establish ourselves as leaders in the banking services market. We interact with various sectors of the Ecuadorian economy and orient our management towards people, providing products appropriate to each segment, under a set of values contained in integrity, responsibility, service, productivity, innovation and solidarity.

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

We are present in 24 provinces of the country, providing banking services to clients and non-clients through 9,136 points strategically deployed among agencies, ATMs and Non-Banking Correspondents (NBC) Mi Vecino.

**In 2019
We installed 237
ATMs and kiosks.**

In 2019, we installed 141 ATMs and 96 kiosks; at the end of 2019, we reached a network of 1,207 points and we have 250 agencies distributed nationwide. Additionally, there are the NBC Mi Vecino, with nationwide coverage of 7,679

Graph 2

Attention Points



Our value strategy

GRI 201 (103-2, 103-3)

Our approach is aligned with creating long-term value for the organization and the society we serve. We stayed in line with the current regulatory framework and managed the risks derived from the economic, social and environmental evolution in which our operation takes place.

We measure our management using the Balanced Scorecard, a methodology that allows us to balance the state of our objectives by means of indicators established in accordance with our business perspective. This tool also allows us to review the status of our medium and long-term goals. Our strategic organizational panel is leveraged on four drivers, which are detailed in Graph 3.

Graph 3

Strategic Drivers



Coherence

Responsibility

Effort

Trascendence

Economic value generated

GRI 102-7, GRI 201-1, GRI 419-1 (103-2, 103-3)

As of December 2019, Banco Pichincha's revenues grew 8.39% over the previous year, increasing \$104.4 million. 75.8% of the income is generated by financial intermediation (among which are: interest, earned commissions and financial profits) (Table 5).

Economic value distributed

G4-ECl

Banco Pichincha presents an annual increase in spending of 8.3%, due to all the investments it made, as a result of the transformation it is undergoing. The efficiency index at the end of 2019 was 67.8% (Table 6).

Table 5

Economic value generated

	2019 (\$ thousand)	Participation (%)	2018 (\$ thousand)	Participation (%)	Annual var. (\$)	Annual var. (%)
Financial Income	1'023.054	75,8%	927.399	74,5%	95.655	10,31%
Service revenues	163.773	12,1%	153.950	12,4%	9.823	6,38%
Other operating income	90.086	6,7%	100.616	8,1%	(10.529)	-10,47%
Non-operating income	72.354	5,4%	62.854	5,0%	9.499	15,11%
Total	1'349.267	100%	1'244.819	100%	104.448	8,39%

Table 6

Economic value distributed

	2019 (\$ thousand)	Participation (%)	2018 (\$ thousand)	Participation (%)	Annual var. (\$)	Annual var. (%)
Payment to account holders and investors	213.362	17,5%	171.348	15,2%	42.014	24,5%
Payment to employees	178.525	14,6%	175.432	15,6%	3.093	1,8%
Salaries	116.210		107.997		8.213	7,6%
Mandatory social charges	50.720		56.015		(5.295)	-9,5%
Investment in food and health	6.864		7.775		(911)	-11,7%
Other staff benefits	3.579		2.905		674	23,2%
Training investment	1.152		741		411	55,5%
Goods and service suppliers	396.437	32,5%	332.163	29,5%	64.274	19,4%
Social investment in the community	2.927	0,2%	2.921	0,3%	6	0,2%
Public management (taxes and contributions)	126.053	10,3%	139.912	12,4%	(13.859)	-9,9%
Operating expenses	292.730	24,0%	273.382	24,3%	19.347	7,1%
Other non-operating expenses	8.620	0,7%	29.912	2,7%	(21.292)	-71,2%
Total	1'218.654	100,0%	1'125.070	100,0%	93.584	8,3%

Payment to account holders and investors

This item includes interests earned by clientes on deposits and investments, interest paid to financial institutions and obligations convertible into shares. As of December 2019, anual growth was 24.5%, mainly due to the increase in the volumen of time deposits.

Payments to employees

They include the payments made to all internal collaborators, whose amount presented an increase of 1.8%.

Goods and service suppliers

This category corresponds mainly to costs and expenses related to fees, technological innovation, security, advertising services and insurance.

For 2019, it also includes the investments made through the transformation process, for which there is a growth of 19.4% equivalent to \$64.3 million.

Social investment in the community

Banco Pichincha, committed to the community, sponsored donations to the CRISFE Foundation for \$2.5 million.

Taxes and contributions

Total taxes and contributions in 2019 was \$126 million, representing 10.3% of the economic value distributed (Table 7).

Operating costs

Operating expenses mainly include: a) the required risk asset provisions by Superintendencia de Bancos; b) financial losses and other operating expenses; and, c) depreciations and amortizations. Operating expenses represent 24% of the total economic value distributed.

Table 7

Taxes and Contributions

Concept	(\$ thousand)	Participation (%)
Cosede (ex AGD)	50.509,5	40,07%
Income tax (SRI)	37.574,9	29,81%
Superintendencia de Bancos	12.647,4	10,03%
Tax on assets abroad	1.101,3	0,87%
VAT on purchases (charged to expense)	15.520,9	12,31%
Foreign exchange outflow	2.314,5	1,84%
Other taxes	639,7	0,51%
Other Institutions	261,3	0,21%
Tax 1.5 per thousand (municipal)	2.978,7	2,36%
Tax 2 per thousand university hospital	206,4	0,16%
Municipal patents	1.506,7	1,20%
Property taxes	791,7	0,63%
Superintendencia de Compañías	-	-
Total	126.053,0	100,00%

Retained economic value: profits

Banco Pichincha's net profit increased by 9.07% over the previous year, thus maintaining its commitment and solidity in the market (Table 8).

Responsible value creation

GRI102-16 (103-2, 103-3, 419-1)

We are a responsible institution, we fulfill our obligations vis-à-vis the control entities, such as Superintendencia de Bancos and the Banking Board, as well as against any current regulations of a local nature or of general application, of a labor, tax, environmental or corporate nature. To comply with all our internal processes, policies and instructions, they have the respective legal validation of content and structure.

We are aware of the importance of rigorously complying with national regulations, in order to promote the development of the country; so we meet the percentage of people with disabilities - to date we have 4% of our payroll in this status - as well as the percentages of hiring interns and youth.

Faced with sectional and municipal regulatory compliance, we guarantee that all our agencies promote access to people with disabilities; On the other hand, we have an adequate plan for the management and disposal of solid and hazardous waste.

Finally, being a service company, we guarantee the development of adequate products and services focused on the needs of our clients, guaranteeing the highest standards and complying with all legal requirements.

We are an institution responsible that complies national regulations.

As a result, in 2019 Banco Pichincha was not subject to any significant fine or non-monetary sanction for non-compliance in social or economic matters.

Table 8
Retained economic value

Concept	(\$ thousand)	(\$ thousand)	Variation (\$)	Variation (%)
Net Profit	130.613	119.750	10.863	9,07%
Legal Reserve	13.061	11.975	1.086	9,07%
Available shareholders	117.552	107.775	9.777	9,07%

Our sustainable management model

GRI102-15

As an institution, we are aware of the risks that can be generated from our operations; for this reason, we created a Sustainable Management Model, focused on three pillars:

- Fair and diverse labor practices;
- Responsible finance;
- Safety, health and environment.



To each of which a chapter will be dedicated later.

Our commitment to sustainability

GRI102-12 / GRI102-13

In order to strengthen our commitment to sustainability, we maintain diverse adherence to global and local initiatives.

During the year 2019, we can highlight the following:

- United Nations Global Compact;
- United Nations Environment Program Finance initiative (UNEP FI);
- Global Alliance of Banks for Women;
- UN Women's Principles of Empowerment of Women;
- Consorcio Ecuatoriano para la Responsabilidad Social (Ceres);
- Asociación de Bancos Privados del Ecuador, Comité de Finanzas Sostenibles (Asobanca);
- Ecuadorian-American Chamber of Commerce, Corporate Responsibility Committee;
- Metropolitan Council of Social Responsibility, Representative of the Commercial Sector.

In addition, we work hard to achieve the highest international standards, so we measure ourselves voluntarily under the following items:

- The famous certification in Client Protection Principles The Smart Campaign;
- Qualification in Social Performance Management;
- Dow Jones Sustainability Index.

Our governance for sustainability

GRI102-18

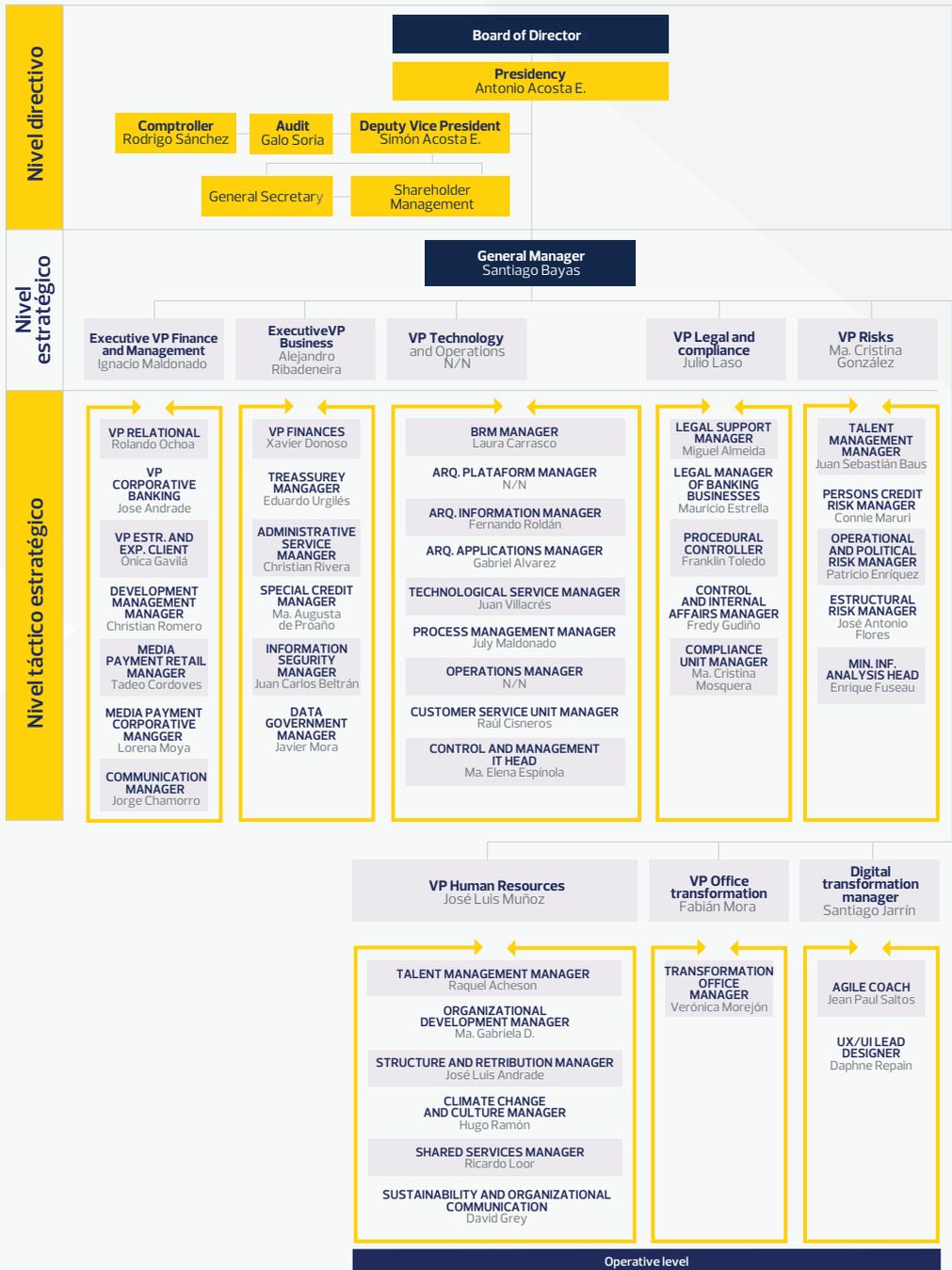
The supreme body in charge of dictating the business guidelines and general policies of Banco Pichincha is the General Meeting of Shareholders, who meet ordinarily once a year and extraordinarily when called in accordance with the law or the statute.

The Bank's highest administrative body is the Board of Directors, which establishes the general operating policies, under which the other managers carry out their actions. The President, the Alternate Director of the President and four or six principal directors and the same number of alternate directors, composes the Board of Directors. Qualified by Superintendencia de Bancos, the members of the Board of Directors are elected by the General Meeting of Shareholders, in accordance with art. 28 of the Bank's statute, for a period of one year and may be re-elected. 100% of the directors are independent and do not hold executive positions.

The President is the main authority of the Bank and of the General Meeting and the Board of Directors, without exercising the legal representation. The Bank's functional organic structure includes three organizational levels: managerial, strategic and tactical.

Graph 4

General organization chart



As of 2019, we have 13 active committees that support the management of Senior Management.

It is important to highlight that sustainability issues are carried out from the Sustainable Development and Communication area, which reports to the Vice Presidency for Human Resources.

Table 9
Senior management committees

ALCO committee	Focuses on commercial business in line with risk tolerance.
Business Continuity Committee	Minimizes the economic and operational impact in the face of crisis events by strengthening the Business Continuity Plan.
Information Security Committee	Manages the Information Security Management System by complying with the institutional strategic objectives.
Comprehensive Risk Management Committee	Supports the solidity and solvency in the institution with the approval of the Board of Directors.
Asset Rating Committee	Determines risk assets and the provision levels required for their protection.
Compliance Committee	Monitors compliance with regulations and policies to prevent money laundering, terrorist financing and other crimes.
Audit Committee	Supervises the optimal functioning of internal control systems, objectives, institutional goals and superior financial results.
Executive committee	Observes the proper functioning and management and operations management of the Bank's management level.
Strategy Committee	Develops institutional strategies for compliance with the strategic budget plan.
Ethics Committee	Monitors compliance with institutional principles and values and guidelines of the Code of Ethics.
Legal Committee	Watches over and controls the legal security of the organization and the resolutions adopted.
Compensation and Corporate Governance Committee	Observes the relationships between shareholders, the Shareholders' Meeting, the Board of Directors and the Bank's management
Computer Technology Committee	Maximizes the return on technology investment aligned with the service strategy and corporate guidelines.

Fair and diverse labor practices

1

Fair and diverse labor practices

Bp6

We are committed to the application of work practices that contribute to the proper balance between the personal, family and professional life of our collaborators, contributing to their well-being and professional balance.

We want to lead an organizational change through a culture that allows an effective harmony between the personal, family and work sphere of our collaborators. We seek to be promoters of good work practices, respect for the reconciliation of family and work life, and support for equal opportunities at work.

In 2019, we began the design and implementation of the Family Responsible Company (FRC) management model, granted by Fundación Más Familia, with the aim of achieving certification in the course of 2020. This model has five dimensions that encompass a set of operations that make it easier for us to provide support and protection to our employees and their families.

In this period, the only prescribing company approved in Ecuador for certification, in order to obtain findings and points for improvement got us to an internal audit.

This process was based on the qualitative requirements indicated in the EFR 1000-1 standard, as well as the minimum compliance with the application of the scoring system indicated in the FRC 1000-3 standard. It lasted 16 hours, representing a third of the external audit. The main results observed in the internal audit are shown in Table 1.

**In 2019
we reached the
certification as a
Family Responsible
Company (FRC)**

Family responsible company

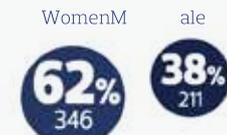
Certificates in 2019 more than 60 measures in progress

Temporal and spatial flexibility

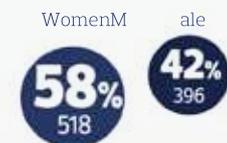


Equal opportunities

Internal promotion



Number of hires



Job quality



Personal and professional development



Family support

Love to God
Development of the work for employees their families



Personal and family development

Digital tablets



Our children visit us

Events for the children of the employees

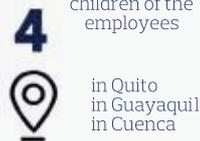


Table 1

Main Results

Focus	Finding	Nonconformity
Definition and strategic orientation	Define and communicate the concept of conciliation and why its management process is carried out.	Higher
Organizational / supports	Have qualification supports with respect to annex 1000-13 and designation of the person in charge FRC, FRC director and communicate it to the Bank's employees.	Higher
Internal communication	<p>Create and communicate the existence of a specific internal communication channel for FRC and a confidential one with Más Familia.</p> <p>Communicate existing measures, including them as part of the FRC model.</p>	Higher Less

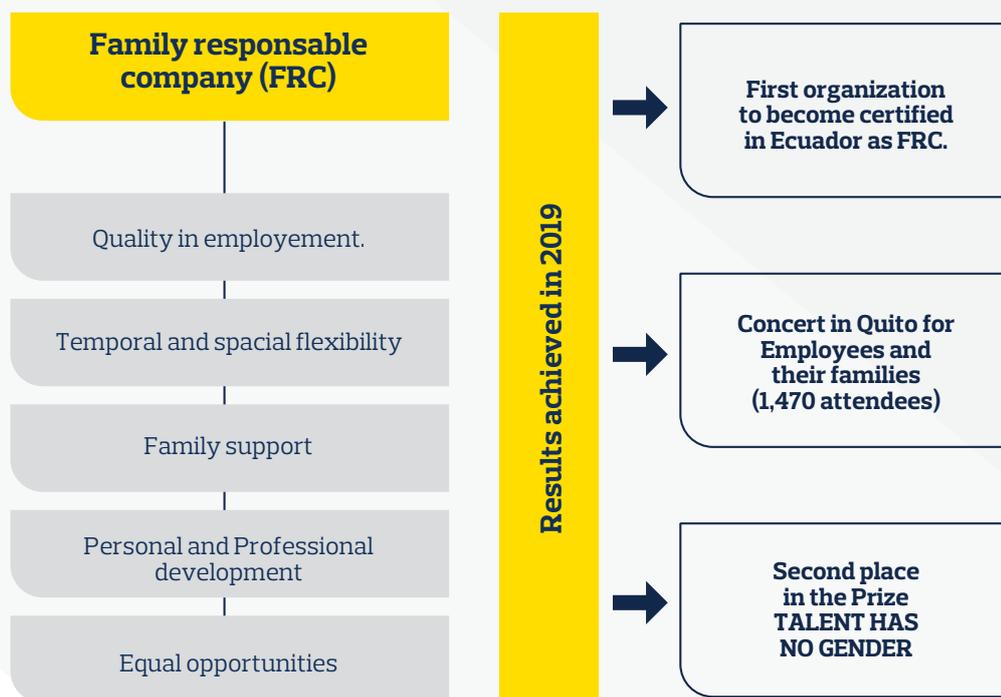
Continuing with this process, we took all the necessary steps to obtain the certification, which included another audit by an international company designated by the Spanish "Más Familia". For this evaluation, interviews were carried out, as well as the review of the respective documentation; focus groups and other activities that made it possible to ensure that our organization complies with the legal standards regarding the reconciliation of family and work life, standards and requirements to determine the effective establishment and implementation of the management model. Also the identification of opportunities for improvement in the area of reconciling family and work life.

In the last quarter of 2019, we achieved certification in category C, with a work plan that will start in 2020 and includes the following points:

- Expand labor and spatial flexibility (telework).
- Strengthen the culture of diversity and inclusion.
- Carry out an FRC communication campaign.
- Train internal auditors for certification.
- Execute family programs (In Family, Our children visit us, Parenting).
- Form support groups for families.
- Implement the Corporate Volunteer program.

With this, Banco Pichincha is committed to having a business model that provides facilities for the reconciliation of work and family of its employees. Throughout this chapter, we will detail our management based on the FRC dimensions that we have identified as a priority management issue (Graph 1).

Graph 1



Quality in employment

GRI102-7,102-8,405-1,405-2

During 2019, we registered 5,170 employees in the four regions of the country. 97% of them have a fixed contract, that is, 5,027 employees, and 143 professionals were hired on a temporary basis during 2019 (Tables 2, 3 and 4).

During 2019, 914 new people were hired and the effective turnover rate was 13.42% (Table 5).

Table 2

Employees by job category

Category	2018	2019
Assistant / Secretary / operator	1.754	1.608
Head / expert / administrator	895	1.023
Supervisor / coordinator / specialist	1.227	1.250
Technician / analyst / executive / manager	1.126	1.115
Manager / Vice President	151	174
Total	5.153	5.170

Table 3

Type of the contract by gender

	2018				2019			
	F	M	Sierra y Amazonia	Costa and Galápagos	F	M	Sierra y Amazonia	Costa and Galápagos
Permanent-indefinite employee	3.347	1.763	3.133	1.977	3.230	1.797	3.172	1.855
Temporary employee	32	11	33	10	85	58	63	80
Total	3.379	1.774	3.166	1.987	3.315	1.855	3.235	1.935
Total general	5.153				5.170			

Table 4

Type of working day by gender

Category	F	M
Full day	3.294	1.846
Part-time	22	8

COSTA AND GALÁPAGOS 296 new hires
SIERRA 601 new hires

Table 5

Hiring and rotation

NUMBER AND RATE OF NEW CONTRACTS	
914	17,68%
518 women	396 men
30 años:	652
Between 30 and 50 años:	262
More than 50 años:	0
NUMBER AND EFFECTIVE ROTATION RATE *	
860	16,63%
559 women	301 men
Between 30 and 50 años:	352

From 18 to

From 18 to 30 años: 462

ORIENTE
17 new hires.



* Overall global turnover rate: 17.16%.

Outplacement program

404-2

Banco Pichincha offers its former employees, whose dismissals are not due to poor performance or breaches of codes, policies and/or procedures, an outplacement program. In this process, the former employees are accompanied during the transition period, both emotionally and in career planning, in the consolidation of self-knowledge of their competences, and are provided with information and tools to undertake and/or respond to demands of the current professional market.

This program is fully financed by the Bank, for which we hire specialized experts with well-known backgrounds. In 2019 we had 66 participants nationwide and with a 93% level of satisfaction.

Temporal and spatial flexibility

401-2 (103-2,103-3)

We look to promote work practices that are in line with global trends and the technological and computer tools that we currently have and that give us the possibility of applying work flexibility scenarios, for which we have developed programs to promote the well-being of employees and their families with the purpose of promoting:

- Retention of talent.
- Emotional salary.
- Interest of the new generations. Value proposition to the employee.
- Reintegration of mothers.

WE HAVE TWO APPROACHES

Homeoffice

Work from home one day a week for support areas.

Part-time

Part-time job for cashiers who help at peak hours in agencies, in addition to absent replacements. Through these initiatives, by 2019 we have achieved the following results:

- 125 employees in Quito working part time.
- 61.5% increase in productivity.
- 81% increase in commitment to the Bank.
- 95% higher personal / work life balance.
- 79% development of professional skills.
- 64 employees in agencies, administrative and support areas.

In 2020 it will be promoted:

- Build a case of the telework business to be an institutional scheme.
- Increase the number of home office workers.
- Increase the number of part-time collaborators.
- Promote the shared day modality.

Family support

401-2

With the aim of protecting and promoting family care in our organization, we try to promote social change and cultural transformation, in search of family / work life balance. For this, in 2019, we certified as FRC, being the first company to achieve this distinction in Ecuador.

The benefits conferred, as homeoffice and part-time, increased productivity in 61.5%.

We want to be recognized as an organization that promotes social change and cultural transformation.

Thus, we have some programs to support the family:

Family Program

The objective of the program is to have a space to share and learn with talks, videos and educational and motivational activities, and thus achieve a better balance of life. In 2019, topics were discussed according to the main interests of the employees, transmitting tools that help them perform assertively in a healthy and prosperous environment. During the year, the program was held in Cuenca, Quito, Manta, Loja and Guayaquil.

The main milestones of 2019 were as follows:

- Build a case of the telework business to be an institutional scheme.
- Development of the work Amor de dos, in the city of Quito for employees and their families: 1,470 attendees.
- 11 digital tablets focused on personal and family development.
- 7 national talks focused on family and their care.

Program Our children visit us

This activity aims to promote the commitment of employees with the institution, by encouraging their children to get to know the Bank. Four events were held in 2019: two in Quito, one in Cuenca and one in Guayaquil.

Parenting Program

This program aims to support parents of the institution during the period of pregnancy, lactation, motherhood and fatherhood. In 2019, the following activities were carried out:

- Talks on humanized labor and breastfeeding in Cuenca, Guayaquil and Quito.
- Implementation of four lactating companies in Cuenca, Quito, Guayaquil and Santo Domingo de los Tsáchilas.

In 2020, it will be developed:

- Implementation of milk- feeders at the national level.
- Congratulations video and wellness tips for new mothers.
- Video of welcome to mothers after the maternity period.
- Humanized labor and breastfeeding talks.
- Application of labor flexibility measure, shared day.

Personal and professional development

GRI 404-1, 404-2 (103-1, 103-2, 103-3)

The development and training of our employees are priority dimensions within anco Pichincha's Human Talent Management area. We have a specialized area in the management and administration of the capabilities of our personnel, and at the same

time, we use tools and processes that aim to enhance their skills and accompany them in their personal and professional growth.

We use the evaluation methodology given by Kirkpatrick (return on investment or training ROI), which aims to measure the impact on traditional training programs. His method has four levels: response, learning, performance and results. Each of the levels is equally important, since one cannot exist without the other.

We also use the analysis - design - development - implementation and evaluation (ADDIE) scheme, understood as a systematic method for creating learning experiences for the development of skills and knowledge. Additionally, we use the constructivist learning method 70-20-10, which indicates that the learning of a professional consists of 70% of what will be achieved through practice or experience, 20% through feedback and only 10% through fully structured courses or programs. All this allows us to properly manage and administer the education, training, technical updating and personal development of our employees.

By 2020, by analyzing the needs of the company, we will launch the job certification program aimed at relational banking and MyPyme.

For the training programs, we have an on- site, virtual offer and blended programs, which allow us to maintain a highly competitive staff, with the necessary skills to face institutional challenges. In 2019, we had an average of 51.84 hours of training delivered (Table 6).

Each collaborator has at his disposal a diverse range of training processes, set out in a transversal manner, as well as specifically, for each field of action within the organization. These are designed based on the policies and procedures of the area.

In 2019 we had an average of 51.84 hours of training provided to our employees.

Table 6

Training given to employees by job category

Job Category	Training given to employees by job category	Average hours male staff	Total average hours
Manager / Vice President	36,50	23,79	24,63
Assistant / Secretary	26,73	34,96	29,44
Supervisor / coordinator / specialist	45,83	41,62	44,23
Head / expert / administrator	58,54	55,72	57,42
Responsible / manager	73,00	56,90	63,68
Technician / analyst / executive / support	63,95	88,59	73,52
Total	48,17	7,88	51,84



Pichincha educates you

- Education program that aims to democratize training.
- Free access to 70 online courses validated by the Universidad Internacional del Ecuador (UIDE).
- Keynote talks on various topics that are transmitted via Workplace.
- Agreements with the main higher education institutions.



Leadership school

- We developed our Leader Pro model, which serves to lay the foundations for behavior at the different levels of leadership contribution within the organization.
- Líder Pro has modules built in blended learning mode, under the 70-20-10 learning methodology.



Certifications to jobs

- The Training Unit, as the base of the Corporate University called Academia Pichincha, began its phase of construction of certifications for the job that will be carried out in blended learning mode, with the endorsement of Universidad Javeriana de Cali.
- The certifications will be executed in the first quarter of 2020, ensuring that knowledge is aligned with those who hold positions in the agency network and with the development of a training scheme for each employee.

Performance evaluation

GRI 404-3 (103-2, 103-3)

Tables 7 and 8 show the percentage of employees who have received performance evaluation in 2019 by gender and by group of job category.

Table 7

Performance evaluation by gender

Gender	Exception	Evaluated	Without GPE*	Total
Female	0,02%	58,15%	6,90%	65,07%
Male	0,19%	30,65%	4,05%	34,93%
Total	0,21%	88,80%	10,96%	100%

Table 8

Performance evaluation by job category

Category	Exception	Evaluated	without GPE *	Total
Assistant / Assistant	0,06%	26,98%	7,42%	34,46%
General Manager / Vice President	0,06%	0,23%	0,02%	0,34%
Head / expert / administrator	0,02%	16,77%	0,90%	17,69%
Responsible / manager	0,02%	2,50%	0,23%	2,75%
Supervisor / coordinator / specialist	0,04%	21,87%	1,40%	23,31%
Technician / analyst / executives / support	0,02%	20,44%	0,99%	21,45%
Total	0,21%	88,80%	10,96%	100%

* Global performance evaluation (GPE).

Code of ethics and conduct

102-16

By acting in accordance with this statement, we will ensure sustainable growth and maintain our strong reputation built on trust.

In 2019, we modified our Code of Ethics, through which the ethical and behavioral values and principles that our organization collects. As head of the Pichincha Financial Group, the Bank considers that they must be observed both in the institution itself and in the companies of the Group, so each of them must adopt them as their own in their relationships with their shareholders, clients, employees, product or service suppliers, other institutions of the financial system and society in general.

The change started from a consultative process that had the participation and leadership of the Sustainability, Human Resources and Legal areas. Topics such as the following are covered in our code:

1 Relation with employees

We look to promote a healthy and productive work environment that channels the potential and innovation in each of the employees, promoting cooperation and teamwork, as well as equal opportunities without any type of discrimination, eradicating harassment and promoting the balance of family and work life.

2 Relationship with clients

In accordance with the best international practices for protection of clients, the Bank takes care of the following factors: design of products and services to meet the needs of clients, to be distributed through appropriate channels that promote banking and financial inclusion; provide advice and prevent on overindebtedness; be transparent in business relationships, with responsible prices, in accordance with national regulations and affordable for clients, giving fair and respectful treatment in each interaction to the client, taking care of the privacy of their data, carefully following the rules of bank secrecy, and making available channels and mechanisms for complaints and requirements.

3 Relationship with suppliers

Suppliers are strategic allies with whom we grow together, and who allow us to channel the best products and services, of the best quality and in the most ethical way, in favor of their clients. For this, responsible purchasing practices are applied that look to make the environmental, social and economic impacts as positive as possible throughout the life cycle.

At Banco Pichincha we believe that the basis of efficient and successful management is ethics, integrity and transparency.

Our behavior against competition, corruption, bribery and money laundering issues, among other practices that can weaken our image, is public and can be found at the following link:



64% of our staff are women, so we will continue to strengthen our intelligence model on Gender.

Equal opportunities

GRI 404-3 (103-1, 103-2, 103-3)

Banco Pichincha looks to create an organizational culture that values and integrates differences of any kind, through initiatives that promote the well-being of employees, generate a work environment of respect, tolerance and inclusion, under the framework of policies that take into account meritocracy and opportunities for everyone.

Since 2015, with the subscription of the UN Women's Empowerment Principles, within the framework of Pichincha Diverso y Inclusivo, we have promoted the Gender Intelligence program to achieve an effective integration of mixed work teams, and promote a greater number of women for managerial and executive positions.

To strengthen our organizational synergy and stimulate behaviors that ensure the sustainability of our institution, the program unfolds in five stages:



In 2019, we have the accompaniment of experts from the International Finance Corporation (IFC). The project has the commitment of the Senior Management, with the Gender Intelligence Commission, with different sponsors distributed throughout the organization and with an operational team.

Main actions in 2019

- Internal awareness and training: the entire sales force was trained at a national level.
- Dissemination and promotion: internal communication, communication campaigns for employees, "I am Pichincha" campaign, campaign against gender violence.
- External communication: organization and presence in different forums.
- Recognitions and reputation: second place in "El talento no tiene género" prize, recognitions from international companies, participation in SDG 5.

Table 9

Participation by gender in each job category

Job category	2018				2019			
	F		M		I		M	
Assistant / Secretary / Operator	1.181	35%	573	32%	1.081	33%	527	28%
Head / expert / administrator	555	16%	340	19%	602	18%	421	23%
Supervisor / coordinator / specialist	811	24%	416	24%	811	24%	439	24%
Technician / analyst / executive / manager	768	23%	358	29%	751	23%	364	20%
Managers / Vice Presidents	64	2%	87	5%	70	2%	104	6%
Total	3.379	100%	1.774	100%	3.315	100%	1.855	100%

Table 10

Participation by age in each job category

Job category	Less than 30 years		Between 30 and 50 años		More than 50 years	
Assistant / Secretary / Operator	1.169	58%	401	14%	38	21%
Head / expert / administrator	104	5%	862	29%	57	31%
Supervisor / coordinator / specialist	311	15%	911	31%	28	15%
Technician / analyst / executive / manager	443	22%	649	22%	23	12%
Managers / Vice Presidents	2	0%	133	4%	39	21%
Total	2.029	100%	2.956	100%	185	100%

Equal remuneration between men and women

405-2 (103-2, 103-3)

In our constant search to promote non-discrimination, we promote the principle of equal remuneration against the same job; for this reason, we have a defined salary structure, taking as reference the payment trend in the Ecuadorian labor market and internal equity. In this sense, the allocation of wages is based on positions and not on people, which guarantees that there is no gender distinction (Tables 9 and 10).

We have taken the position of Transactional Services Officer as a reference to reflect that there is no salary gap for men and women (Tables 11 and 12).

The Bank promotes the principle of equal remuneration for work of equal value. The assignment of Wages is base don positions and not on people.

Table 11

Allocation of salary by gender

Reference for the demo:
Transactional Services Officer

Region	Fixed salary ratio men vs. womenddc
Costa and Galápagos	0,98
Sierra and Amazonía	0,99

Table 12

Salary relationship between men and women

Reference for the demo:
Transactional Services Officer

Region	Men	%	Women	%	Total
Sierra	168	48,00%	404	48,62%	572
Costa	174	49,71%	392	47,17%	566
Amazonía	7	2,00%	32	3,85%	39
Galápagos	1	0,29%	3	0,36%	4
Total	350	100%	831	100%	1.181

Responsible finance

Responsible finance

GRI FSSD G4 FS6

We reaffirm our commitment to promote finances in a responsible and sustainable way, counting on a bank that prioritizes investments in the green economy, supports financial inclusion and promotes biocredit.

We make available to our clients different service channels in order to provide facilities to carry out their transactions. The client is the center of our business model; therefore, building strong and responsible relationships with them is important to us. As of December 2019 we have a base of 3,555,082 clients throughout the country, which consolidate us as the largest financial.

Institution in Ecuador In our sustainable management model we integrate social and environmental criteria into the design and distribution of our products and services. We promote the financial inclusion of vulnerable groups in our society and the application of principles of client protection and financial education for all our stakeholders.

The results achieved in 2019



Finances with a social and environmental approach

Green Offer

\$95 million

Bio credit
That represents
1% of total Portfolio

\$150 million

First emission of green bonds in the total portfolio of Ecuador



Green Bond pre-issue impacts

\$15 million

Bio credit builder

9 beneficiaries

50 beneficiaries and

\$18 million

Green bond pre-issue

\$1,7 million

Bio productive credit in sustainable agriculture

\$170,000

Productive bio credit in energetic energy

1 beneficiary

1.5 million of kWh
Energy reduction

1.9 Energy saving

million of kWh

Buildings with sustainable construction certificationEDGE

8 clients

Beneficiaries with certified production

Global Gap

Social indicators in our value chain

7769 Non-banking correspondents at a national level

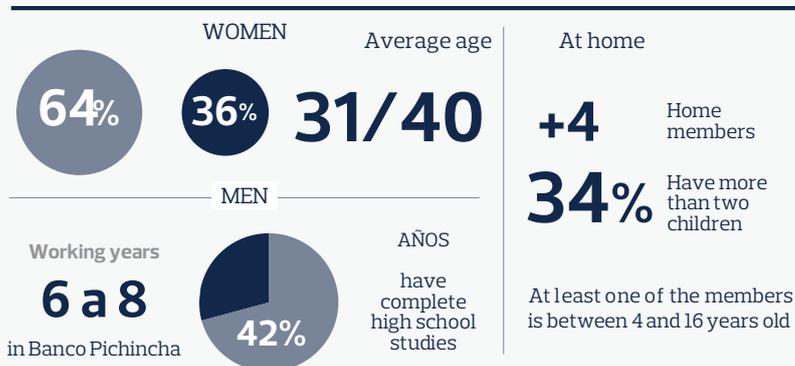


Table 1
Clients by region

Region	Companies	Legal Persons	Microfinances	Total
Costa	40.326	1'047.806	176.921	1'265.053
Headquarters	3.204	22.316	89	25.609
Center Region	15.863	531.682	140.872	688.417
North Region	32.927	1'215.420	126.405	1'374.752
South Region	6.722	162.798	22.681	192.201
Virtual	6	9.038	6	9.050
Total	99.048	2'989.060	466.974	3'555.082

Table 1
Clients with active credit operations by business

Bank	Subsegment	# of clients	# of operations	Total portfolio (\$ thousand)
Company	Big companies	2.633	11.166	2'353.622
	Small Companies	41.277	67.111	1'434.260
	Legal entities	749	903	8.300
Microfinances	Microenterprises	240.431	357.232	1'149.172
Persons	Legal Persons	986.651	1'219.584	3'211.644
Total		1'271.741	1'655.996	8'156.999

Social performance

GRI FSSD G4 FS6 BP1 / BP8 GRI FSSD G4 DMA CARTERA DE PRODUCTS 5, 6

We are a company with a customer-focused orientation. We have products designed to help improve the quality of life through responsible, transparent and safe services.

For this reason, we promote Social Performance Management (SPM), which is a set of guidelines designed by the Social Performance Working Group (SPWG), which are microfinance actors that develop, disseminate and promote standards and good practices for social performance management. Thanks to this, we can materialize our mission of "Serving the low-income population and micro-entrepreneurs, with adequate financial products and services, in a timely and sustainable manner".

This rating is composed of 6 dimensions, 19 standards and about 350 indicators. We measure its application with the SPI4 tool, which is an audit instrument, through which we incorporate into our analysis social indicators related to the living condition of Banco Pichincha clients, in order to measure the the impact of our products and services on their day by day, generating value in each operation (Graph 1).

Define and monitor social objectives.

**Ensure the commitment of the Board of Directors,
Management and employees
with social objectives.**

**Design products, services, models and distribution
channels that Respond to the needs and
preferences of clients.**

Treat clients responsibly.

Treat employees responsibly.

Balance financial and social performace.

In 2018, we made our first measurement and obtained a rating of four out of five stars; on that basis, in 2019, we worked on improvement opportunities that included the following:

- Auto diagnosis.
- Construction of a work plan and schedule focused on closing gaps.
- Prioritization of actions based on their short and long-term duration.
- Measurement of social indicators for the Microfinance segment.

For this last point, the indicators were defined as keys, which are shown in Graph 2 on the next page.

The social indicators of the Microfinance segment

Graph 2

Increase heritage, sales, assets, liabilities, housing	Improve savings	Improve the schooling of the family	Improve the formation of clients and employees
Sales increase	Average savings per customer per year	No. of school-age children studying	No. of clients receiving some type of training
Equity increase	New clients who purchase the savings product		No. of employees who received financial education
Clients with their own home	No. of clients who increase their savings		No. of clients who received financial education

Feasible → Useful → Usable → Reliable			
Generat employment	Mitigate personal and business risks of the clients	Improve the family financial situation	Gender
Increase of employees in business	% of clients with insurance (health, life and business) No. of clients with insurance vs. annual usage	Poverty index PPI.	% of new borrowers (includes graduation) Variation in the composition by gender

In 2020, the Microfinance segment will perform its second measurement against this important rating.

Client protection

GRI 418 (103-2, 103-3) BP1/BP2/BP3 GRI FSSD G4 DMA PRODUCT PORTFOLIO 5, 6

Since 2014, we have promoted the implementation of international practices focused on our clients. In 2016, we achieved The Smart Campaign certification, making us the first financial institution in Ecuador to obtain it and to have financial services that guarantee transparent and complete information to clients that allows them to make sound decisions.

The seven principles of The Smart Campaign

Graph 3

1	Proper design and distribution of products.
2	Prevention of over-indebtedness.
3	Transparency.
4	Responsible prices.
5	Fair and respectful treatment with the client.
6	Privacy of client data.
7	Complaint resolution mechanisms.

We have The Smart Campaign certification, which consists of seven principles that promote a supply of transparent and respectful financial products towards clients. With this, we promote the application of minimum standards that they must receive when starting a business relationship with us, with the aim of developing solid, lasting and trustworthy relationships, as well as minimizing financial risks (Graph 3).

As of 2018, we recertify ourselves on these principles and have a strong commitment to maintaining certification in the long term.

During 2019, our efforts focused on maintaining certification through comprehensive work with the different areas and subsidiaries that leverage obtaining this important recognition (Graph 4).

In addition, different activities were carried out:

- Monitoring of the implemented actions, in order to guarantee their continuity.
- Considering that, the certification granted by The Smart Campaign has a duration of four years; by 2020, we will carry out the audit process again in order to maintain the certification.

Areas that support certification of The Smart Campaign

Graph 4



Dow Jones Sustainability Index

BP1/BP8

Banco Pichincha accepted the challenge to measure itself voluntarily under the criteria of the Dow Jones Sustainability Index, which is a variant for companies that meet requirements related to the sustainability of their business. A global index that assesses good practices of companies under social and environmental criteria. This methodology allows the organization to be at the forefront of sustainability practices, and to establish continuous improvement actions to generate profitability and transparency.

In 2013, we carried out our first measurement, and from there we have done it every three years consecutively, establishing actions that allow us to improve and implement best practices. We made our most recent measurement in 2019, when we obtained a rating of 49 points (Graph 5).

Banco Pichincha is a benchmark in sustainability at the national level; as part of our actions, we have included this index in the Human Resources Balance Score Card as a key indicator. From 2020, we will carry out our measurement on an annual basis.

Activities carried out Dow Jones Sustainability Index

Graph 5

2013	2016	2019
Code of ethics	Anti-crime measures and policies	Implementation of diversity practices
Creation of the competition and sustainability	Financial stability and systemic risk	Good Corporate Governance indicators available on the web
Client Protection certification the Smart Campaign	Information security and cybersecurity	Employes development programs
Signing of the UN Women empowerment principles agreement	Risk and crisis management	Quantitative and qualitative evaluation system
Environmental and social risk Management System	Climate change strategy	Definition of social indicators
Account statements details, electronic invoicing and digital sales support	Environmental report	Biocredit depvelopment for consumer and corporate banking
	Philantropy	Reputational risk measurement
	Financial inclusion	
	Social and environmental risk Management System	

Products, services and channels

GRI FSSD G4 FS7

We have clearly defined our objective of financial inclusion, which is to facilitate access to our products and services to all segments of the Ecuadorian population, with special emphasis on those who are most vulnerable.

With this objective, we look to improve the quality of life of our clients, their families and their businesses, positively affecting the environment and contributing to the goals proposed by the Sustainable Development Goals (SDGs).

Our approach look to offer relevant services and create positive changes for clients; the main door to comply with this statement is the Microfinance segment, through which we serve the micro-entrepreneur population under two methodologies:

INDIVIDUAL METHODOLOGY

We look to maintain closeness with our clients through the commercial management of our business executives with personalized visits. We work on the development of products that meet their needs, obtaining with them results and social commitments (Table 3).

Table 3

Operations and products Individual microfinance

	2018	2019
WORKING CAPITAL: credit to finance working capital needs.	126,861	170,466
FIXED ASSETS: credit to finance investment needs in fixed assets.	9,612	19,074
CONSUMPTION: credit to finance consumption needs.	9,226	33,091
HOUSING IMPROVEMENT: credit to finance needs for improvement of your own home or that of a first-degree relative of the debtor or co-debtor.	694	2,619
RESTRUCTURATIONS: normalization.	1,975	4,601
REFINANCING normalization.	2,571	7,071

GROUP METHODOLOGY

We look to provide facilities to the most vulnerable clients through this modality that allows them to form groups to be able to access credits (Table 4). Within this methodology, we work with two clients profiles:

1 Group Fund: they are highly vulnerable people who, for the most part, are located in rural areas and are united by a principle of neighborhood based on residence or economic activity. They are characterized by their vocation to support each other in solidarity, as well as to acquire financial products and services under adequate conditions.

2 Development Group: it is a group of people whose members have made a slight or moderate foray into the financial system, being in the process of development, both in their businesses and in their living conditions. Given that these clients have had a growth in assets, family or business, they have higher credit requirements than those of the Group Fund.

NBC Comprehensive Development Program, "Mi Círculo de Confianza"

GRI FSSD G4 FS13

Another key actor within our value chain is Mi Vecino Non-Banking Correspondents, through which Banco Pichincha offers products and services. The presence of this highly competitive network in the Ecuadorian market is mainly aimed at promoting banking access and the performance of financial and non-financial transactions. In this modality, there are 7,769 Mi Vecino agents or service points, with a presence at the national level and in all the cantons of the country.

Non-Bank Correspondents (NBC) have become relevant partners of our institution, which is why we have proposed a financial and non-financial offer that contributes to the development of their skills and knowledge and, on the other hand, fosters the growth of their businesses.

Table 4

Operations and products Group microfinance

(OPERACIONES 2018)
GRI FSSD G4 FS7

	2018	2019
GROUP FUND CREDIT: product intended to cover investment needs for working capital and / or fixed assets for clients that are part of the Group Fund group profile.	65,576	100,376
DEVELOPING GROUP CREDIT: product destined to cover investment needs of working capital and / or fixed assets to clients that are part of the Group in Development profile.	7,237	12,472
AGRICULTURAL CREDIT: product destined to cover investment needs in short cycle agricultural activities.	14	263
LIVESTOCK CREDIT: product intended to cover investment needs in livestock activities.	52	70
SEASON CREDIT: multipurpose product, designed to cover the different needs that may be presented to clients.	8,560	9,768
INDIVIDUAL CREDIT: product intended to cover the need for investment of working capital or fixed assets in a particular way.	111	21
GROUP MICROCREDIT SAVINGS ACCOUNT: savings product aimed at groups, whose objective is to satisfy savings needs and payment of group fees.	7,494 accounts	7,277
INVESTMENT CERTIFICATE: investment product aimed at clients who are members of groups.	10,292 certificates	19,053 certificates
ELECTRONIC SAVINGS ACCOUNT: product to cover savings needs and payment of installments in a personal way.	6,913 account openings	26,553 account openings

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

As of 2019 and as part of the stated purpose, we developed the NBC Comprehensive Development Program "My circle of trust", which constitutes an initiative to add value and retain our NBCs.

Our objective is to offer you a comprehensive offer that includes financial and non-financial services, and the strengthening of your business; In short, we want them to be agents of change within their communities.

We started with them a face-to-face training scheme in four modules, through which we trained the entire NBC nationwide free of charge through 100% of channel executives, who fulfilled the role of trainers:

- Appreciation of the trade.
- Leadership and empowerment.
- Sustainable businesses.
- Marketing and sales.

This training sought to strengthen the capabilities of our correspondents, with the aim of making their businesses grow sustainably to improve the quality of life for their families and strengthen leadership in their communities. For 2020, we are scheduled to continue measuring the impact of this project, as well as its social indicators.

Social intervention and financial education

GRIFSSD G4 DMA ECONOMIC PERFORMANCE

Fundación CRISFE has the strategic objective of educating the Ecuadorian population at different stages of their lives, through the implementation of financial education programs. Such programs are structured and continuous processes that allow beneficiaries to improve the administration of their resources, access to financial products according to their needs and make sound financial decisions, according to their life cycle.

Financial Education Program FEP

FEP Mission

The PEF strengthens the skills and competences of Ecuadorians in the management and care of money, in order to make use of financial products and services adapted to their reality throughout their life cycle.

FEP Vision

To be the benchmark for financial education at the national level, based on the work articulated with strategic alliances that allow the implementation and / or transfer of methodologies adapted to each target audience, in order to serve a greater number of citizens.

General Objective

Develop and build a structured and continuous financial education system that allows beneficiaries to improve the management of their resources, access healthy financial products, and make sound financial decisions throughout their life cycle (Tables 5A and 5B).

As part of its commitment, during 2019, Fundación CRISFE received recognition from HIAS Ecuador by its remarkable work in favor of the financial inclusion priority attention groups.

Table 5A

Financial education program

TRAINING					
Initiative	Initiative	Objective	Activities related	Group of beneficiaries for whom it is intended	# beneficiaries
Deployment of the Family Financial Education Program	Provide knowledge and good financial practices to users of the national financial system and the general public to promote family well-being and improve their living conditions.	<ul style="list-style-type: none"> · Budget. · Savings and financial goals. · Responsible indebtedness. · Investments and insurance. · National financial system and customer protection. 	<ul style="list-style-type: none"> · Training workshops at a national level. 	Clients of the general public financial system.	18,407
Deployment of the Program Family Financial Education "I still enjoy after 65".	Strengthen financial knowledge and good practices to people between 65 and 75 years of age to promote their well-being.	<ul style="list-style-type: none"> · Resource management. · Management of assets. · Benefits management. 	<ul style="list-style-type: none"> · Training workshops in Sierra Centro. 	Elderly people	329
Educational program Financial "Guide to grow my business".	Motivate NBCs to implement best financial practices in their businesses.	<ul style="list-style-type: none"> · Skills of successful business owner. · Our business grows and it is sustainable. · Is another economy possible? 	<ul style="list-style-type: none"> · Convention with NBC benchmarks of Banco Pichincha. 	NBC.	1,116
BP Financial Education Mandatory Course. Financial education series with a four-season deployment.	Motivate Banco Pichincha employees to develop money care habits and of all the resources at your fingertips.	<ul style="list-style-type: none"> · Financial goals. · Responsible indebtedness. 	<ul style="list-style-type: none"> · Deploying the course through BP. 	Employees of BP and subsidiaries.	5,596
Financial education for children and adolescents within formal education.	Provide tools that help participants develop skills of life, strengthen their knowledge and stimulate their empowerment as agents of change.	<ul style="list-style-type: none"> · Understanding and Personal Exploration. · Rights and Responsibilities. · Savings and Spending. · Planning and Budget. · Social and Financial Entrepreneurship 	<ul style="list-style-type: none"> · Facilitation to teachers of Schools. · Development of Financial Theaters. · Deployment of the program by teachers to students of initial education to third year of high school. 	Niños, niñas y adolescentes de centros educativos.	1,025
TOTAL BENEFICIARIOS					26.473

Table 5B

Financial education program

SENSITIZATION					
Iniciative	Objetivo	Thematic areas	Activities related	Group of beneficiaries for whom it is intended	# beneficiaries
Sensitization	Raise awareness of the importance of implementing good financial education practices throughout the life cycle.	<ul style="list-style-type: none"> · Financial health. · Financial planning. · Savings. · Responsible consumption 	<ul style="list-style-type: none"> · Messages on physical statements and digital of BP clients. · Radio programs. · Financial advice in written media. · Key messages to clients of individual, group and NBC Microfinance in the visits of its officer. · Page visits with financial advice with partner institutions, GMW, Aflatoun. 	Clientes BP y público en general.	777,115
TOTAL BENEFICIARIOS					777,115

Corporate Volunteering

Banco Pichincha promotes the Corporate Volunteer program with the support of Fundación CRISFE, through a model of sponsorship to communities and organizations, conceived as a form of two-way collaboration: through the bond that sponsors (volunteers) build with their sponsored (communities and organizations), share their realities, become aware and work in a participatory and joint way to solve needs.

The volunteer program at Fundación CRISFE is part of processes that promote and strengthen the culture of volunteering at the corporate and community level, fostering training, technical assistance and integration spaces, in which both volunteers and beneficiaries are sensitized, share, and improve their conditions of life and enhance their collaborative work capabilities (Graph 6).

For the execution of the mentioned axes, Fundación CRISFE generates alliances with local institutions, some that offer training and volunteers, others that require support in processes to design, implement and sustain their volunteer models, and others that require the sponsorship of volunteers to accompany them to meet their needs in matters of space adaptation, technical assistance, humanitarian and educational development.

In the line of Corporate Volunteering, design and implementation processes of volunteer programs are carried out in other companies, guided by the CRISFE Volunteer management model. This contemplates three stages: the first involves the participatory design and construction of the model: image, name, lines of action, places of intervention, care groups, as well as forms of recognition, budget and spaces that the institution offers to employees to exercise voluntary action.

The processes for the volunteer program at Fundación CRISFE are developed through four axes of work :

Graph 6



During 2019, volunteering was carried out in three non-financial companies of the Pichincha Group:

Construecuador

The Construecuador Volunteers program is developed, whose model is called "Building, hands that support change", which focuses on two lines of action: 1. adaptation of spaces: improving physical spaces and facilities for community use; 2. humanitarian development: accompany groups in situations of extreme vulnerability to improve their living conditions. They are located in the execution stage of the action plan that includes the

Autodelta

Progress of the first stage is recorded and a report has been obtained regarding the interests and motivations, as well as a record of the behaviors of Autodelta employees regarding volunteering. The design committee was developed and as a next step we will have two workshops that will allow us to deliver the keys for the voluntary actions and prepare the group to start the second stage.

Confiamed

Fundación CRISFE assists not only in the design of new volunteer programs and models, but also ensures the permanence of previously designed models. The insurance company Confiamed developed its model in 2018, guided by the CRISFE Foundation and during 2019; it carried out its actions independently, with the support of the foundation. In 2019 we had 87 corporate volunteer activities (Table 6).

Education program Educational scholarships

In its educational axis, for several years, Fundación CRISFE has led an educational scholarship program aimed at students of General Basic Education (GBE), General Unified Baccalaureate (GUB), occupational training, technical / technological higher education and university education. This program is aimed at priority attention groups interested in accessing the middle and higher education system and, subsequently, joining the labor market in different areas, through the respective mechanisms of inclusion and social equity.

Table 6
Corporate Volunteering Activities

Variables	Unit	2019	2018	2017	2016
Coordinated activities	N.º	88	80	70	147
Volunteer hours Banco Pichincha and subsidiaries	Horas	1,508	1,332	1,063	2,689
Registered volunteers of Banco Pichincha and subsidiaries	N.º	377	398	291	551
Beneficiary communities / organizations	N.º	22	33	25	25
Total beneficiaries	N.º	4,528	4,103	5,247	3,806

The scholarship program consists of non-reimbursable financial support to the student in an educational institution or partner organization, so that they can carry out their academic or professional studies, as long as they meet the requirements established in the program's policy. The scholarship contemplates the total or partial financing of the items of tuition and tuition according to the case. Both for studies of GBE, GUB or for technical-technological and university studies, two types of scholarship assignments are considered:

1 Scholarships to access: financial support directed to people from priority attention groups who go to GBE and GUB educational institutions, or for the first time in the first semester of a technical / technological or university degree, with an academic performance of 8/10 and belonging to quintile 1 and 2, determined by Fundación CRISFE through the application of a socioeconomic record.

2 Scholarships to stay: financial support for people from priority attention groups who are already studying GBE or GUB in an educational institution allied to the foundation, or a technical / technological or university degree, and they meet the requirements determined by the scholarship program as academic performance of 8/10 and quintile 1 and 2, determined by the CRISFE Foundation through the application of a socioeconomic record. Table 7 shows our work for education.

Table 7
Scholarships awarded

	Scholarships assigned	Approved	Dropouts and failed	Graduated	% dropout (2018-2019)	% dropout (2018-2019)
HIGH SCHOOL SCHOLARSHIPS						
EINA	20	20	0	0	0,0%	0,0%
Funder	143	113	30	37	20.9%	49.2%
Fuvia Costa	19	15	4	6	21.1%	27.7%
Fuvia Sierra	6	3	3	0	50.0%	33.3%
Irfeyal Costa	470	460	10	171	2.1%	3.2%
Irfeyal Sierra	528	503	25	156	4.7%	15.2%
Fe y Alegría Costa	201	197	4	47	2.0%	0.0%
Fe y Alegría Sierra	280	262	18	49	6.4%	2.6%
Total	1.667	1.573	94	466	13.0%	16.0%
UNIVERSITY SCHOLARSHIPS						
UTPL Scholarships (18-19)	11	9	2	1	18.2%	11.1%
UTPL Scholarships (19-19)	9	9	0	0	0.0%	43.8%
UPS Scholarships (18-19)	69	69	0	0	0.0%	2.0%
UPS Scholarships (19-19)	79	79	0	11	0.0%	0.0%
PUCE Scholarships (18-19)	1	1	0	0	0.0%	0.0%
PUCE Scholarships (19-19)	1	1	0	0	0.0%	0.0%
Total	170	168	2	12	3.0%	18.0%
HIGHER EDUCATION SCHOLARSHIPS: TECHNICAL / TECHNOLOGICAL						
Itsco Scholarships (18-19)	92	92	0	46	0.0%	1.2%
Itsco Scholarships (19-19)	40	37	3	21	8.0%	3.6%
Vida Nueva Scholarships (18-19)	84	82	2	10	2.0%	0.0%
Vida Nueva Scholarships (19-19)	106	105	1	98	1.0%	1.0%
Bolivariano Scholarships (18-19)	30	28	3	22	10.0%	0.0%
Bolivariano Scholarships (19-19)	20	19	1	8	5.0%	0.0%
Total	372	363	10	205	3.0%	1.2%

Dropout rate reduction

(school leavers)

The inclusion of new processes and the commitment to follow-up by the strategic allies of the scholarship program have significantly reduced the dropout rate. The 2017–2018 school year closed in high school scholarships with an average dropout rate of 16%, while for the 2018–2019 school year, the reduction reaches 13%. This indicator is repeated in higher education scholarships in which we went from 18% to 3%.

Sustainable shopping

GRI FSSD G4 FS7

We promote the implementation of environmental and social practices throughout our value chain, based on ISO 20,400, which is a standard on sustainable purchasing that seeks to have the most positive impacts throughout the product life cycle.

During 2019, we worked on the design of the Sustainable Procurement Policy and the Sourcing Strategy, which establish specific guidelines to control, manage and follow up on the risks that may arise in the purchasing process. This is leveraged in evaluating the socio–environmental risks of our suppliers.

160 suppliers evaluated in SSA

GRI 204-1, GRI 414-1 (103-2, 103-3), GRI 414-2, 412-3 (103-2, 103-3)

We encourage our suppliers of products and services to work under the same line, through which we encourage them to accept and learn about the Code of Ethics, which clarifies that Banco Pichincha defends life, rejects all types of physical or verbal violence and motivates its suppliers to avoid actions that violate human rights.

Harassment, physical, sexual, psychological and / or verbal abuse will not be allowed to its own employees, Banco Pichincha employees and others involved in the relationship with the supplier. Furthermore, we do not establish commercial relationships with suppliers that promote child labor.

- During 2019, of the 856 qualified suppliers, 100% know and accept the Supplier Code of Ethics.
- We have 160 qualified suppliers with safety, health and environmental requirements.
- 81% are national suppliers.

With the current supplier rating system, we did not identify negative social impacts on the supply chain in 2019.

We know that a relevant factor to boost the economy is to support national businesses; aware of this, during 2019, we prioritized purchases from local suppliers, as shown in Table 8.

Socio-environmental management

GRI FSSD G4 FS7, FS8 DMA

We are aware of the environmental impact that the financing of our operations can generate. As the largest Bank in the country, we have the responsibility to lead by example and, therefore, we have developed various mechanisms to integrate social and environmental criteria in our management.

Socio-environmental management

GRI FSSD G4 FS7, FS8 DMA

We have maintained since 2015 the SaraS that assesses the social and environmental risks of clients in the credit process.

In 2019, we conducted a diagnosis of the SERMS with an international consultant, against the performance standards of the International Finance Corporation (IFC) 1 and international best practices. In 2020 we will work on an Action Plan to integrate the IFC NDs in the Serms, 1 as well as improvements in the results of the diagnosis in governance, process, efficiency, and monitoring (Table 8 and Graph 7).

We maintain the presidency of the Sustainable Finance Committee of Asociación de Bancos Privados del Ecuador (Asobanca).

¹ The IFC Performance Standards (ND IFC) are eight standards on social and environmental sustainability, are intended for clients, and offer guidance to identify risks and impacts in order to help prevent, mitigate and manage risks as a way of doing doing business in a sustainable way, including the client's obligation to include stakeholders and disclose project activities.

Table 7

Number of suppliers, purchase of goods and contracting of services

Payments	Amount 2018	% 2018	Amount 2019	% 2019
Locals	338,118,467.0	92.4%	343,733,930.8	86.6%
Internationals	27,663,449.2	7.6%	53,354,632.3	13.4%
Total payments	365,781,916.2	100.0%	397,088,563.0	100,0%

Graph 7

SERMs main indicators

Main indicators of SERMS ¹ of environmental questionnaires entered for credits greater than or equal to \$40 million	No. of credit operations with social and environmental risk that enter the SERMS flow	No. of operations evaluated with medium and high social and environmental risk	% of the Bank's portfolio evaluated through SERMS
6,062 questionnaires.	Minimum and low: 4,600 operations. Medium and high: 633 operations.	239 operations.	5,854 clients with operations approved with SERMS, equivalent to 29.7% of the Bank's portfolio (19,705 clients with operations). Note: The 19,705 clients with operations are equivalent to credit operations granted from \$20 million.

Products and services offer

GRI FSSD G4 DMA PRODUCT PORTFOLIO 1, 2, 4, 5, 6

The loyalty and experience of clients within our organization is one of Banco Pichincha's strategic objectives, which is why we develop products and services that represent simple, personalized and innovative solutions for our clients, increasing their trust by delivering a quality and personalized attention service through our network of service channels distributed at a national level.

Customer loyalty and experience within our financial products and services are aimed at guaranteeing complete client satisfaction, through a responsible offer that has the capacity to solve their needs. The results achieved are measured using the recommendation index (Graph 8).

Product Creation Methodology

Graph 8



In the creation of the products, several areas of our organization come together, always considering the internal and external policies and the legal regulations corresponding to our line of business. We work with the Agile methodology, designed to respond to change, produce and deliver value offers for the client in an agile way, but always having the integral vision in relation to the creation of the product, as well as its technological impact, profitability and its cycle of life (Graph 9)

Agile Methodology

Graph 9



We look to provide clients with informed decision-making and promote their trust in our institution, so our offer will always be accompanied by clear and transparent communication (Table 9).

Table 9

Products and services offer (2019)

BP7

	Credits	Accounts and investments	Foreign trade	Services
Individuals	<p>CONSUMPTION</p> <ul style="list-style-type: none"> · Accurate · Accurate mortgage · Open line · Crediback <p>MORTGAGE</p> <ul style="list-style-type: none"> · New or used housing, of public interest for construction, remodeling, expansion · Multi-mortgage · Land · Migrant housing <p>STUDENT</p> <ul style="list-style-type: none"> · Postgraduate educational · Educational undergraduate 	<p>SAVINGS ACCOUNT</p> <ul style="list-style-type: none"> · Traditional savings · Electronic savings · Xperta account · Compatriot savings · Euro savings · Electronic account Trust · Electronic account e-teens · Investment account · Investment account euros <p>SCHEDULED SAVINGS ACCOUNT</p> <ul style="list-style-type: none"> · Future savings plan · Future reserve savings plan · Young future savings plan · Tenth future savings plan <p>CURRENT ACCOUNT</p> <ul style="list-style-type: none"> · Personal checking account <p>INVESTMENT</p> <ul style="list-style-type: none"> · Armadólar · Term dollar · Certificates of deposit with advance interest payment · Europlazo 		<ul style="list-style-type: none"> · Certified checks · Certified checks from abroad · National local or interbank transfers · Money orders from abroad · Currency trading · Effects at home · Online account statements · Bank certificates · Online bank certificates · Receipt of remittances · Overdraft, automatic payment system · Collections and recoveries · Digital account opening · Digital credits · Self-affiliation to CNR · Wedding Plan
Companies	<p>PRODUCTIVE</p> <ul style="list-style-type: none"> · Productive credit · Supplier-distributor credit · Crediback · Document discounts valued <p>MORTGAGE</p> <ul style="list-style-type: none"> · Real estate 	<p>SAVINGS ACCOUNTS</p> <ul style="list-style-type: none"> · NBC legal entity savings account · Account commercial houses <p>CURRENT ACCOUNT</p> <ul style="list-style-type: none"> · Business checking account <p>SCHEDULED SAVINGS ACCOUNT</p> <ul style="list-style-type: none"> · Asset savings plan productive · Certificate of deposit euros · Armadólar · Term dollar · Certificates of deposit with advance interest payment · Euroterm 	<ul style="list-style-type: none"> · Guarantee · Credit letters · Bank guarantees · Customs guarantees · Import / export collection service 	<ul style="list-style-type: none"> · Cash management collection and payment services · Collections from public institutions · Overdraft, payment system · Certified checks · Certified checks from abroad · National, local or interbank transfers · Money orders abroad · Currency trading · Effects at home · Online account statements · Bank certificates · Xpress Check · Micro collections · Company bank references

	Credits	Accounts and investments	Foreign trade	Services
Microfinances	MICROFINANCE INDIVIDUAL · Consumer credit for microentrepreneurs · Fixed asset credit · Working capital credit · Biocredit · Living place · Flexible credit · Women's credit · Microcredit chains of value	SAVINGS ACCOUNT · Microcredit savings · Traditional savings · Electronic savings · Xperta account · Xperta account refugees SCHEDULED SAVINGS ACCOUNT · Future savings plan to grow CURRENT ACCOUNT · Personal checking account		· Cartera comprada · Servicio de pagos programados (luz, agua, teléfono) Certified checks · Certified checks from abroad · National, local or interbank transfers · Money orders abroad · Currency trading · Effects at home · Online account statements · Bank certificates · Receipt of remittances · Overdraft, payment system · Collections and recoveries
	MICROFINANCE GROUP · Group box · Individual credit · Agricultural credit · Special season credit · Consumer credit · Emerging credit	INVESTMENT · Armadólar · Term dollar · Microcredit term		
Others	· Cartera comprada · Servicio de pagos programados (luz, agua, teléfono)			

Products with an environmental focus

The environmental crisis we are going through, forces all of us to apply urgent protection principles and practices, against which we have developed the concept "Bio: we are a bank that gives life", within which are the following:

BIO Products

GRIFSSD G4 FS8

We maintain the offer of Biocredits for all segments and types of clients, with the aim of satisfying the needs of clients, allowing their progress and contributing to protecting the planet and reducing the impact of climate change. A differentiating and innovative value was realized in the market by offering training, environmental technical assistance and payment of sustainable certifications to clients.

Biocredit products aimed at the commercial, corporate, business, SME, Microfinance and individuals segments are these:

- Productive and microcredit.
- Vehicular.
- Builder.
- Housing.

The determined green destinations are:

- **Sustainable construction:** constructions with EDGE, LEED or Breeam certification.

- **Energy efficiency:** includes equipment with efficiency certifications, energy saving systems, renewable energy such as solar, wind, hydroelectric and biomass. In addition, it includes hybrid, electric and less polluting vehicles.
- **Environmental investments:** clients with sustainable certifications such as Global Gap, Bonsucro and best environmental practices in the agricultural sector. Additionally, it includes water and emission saving systems, non-hazardous waste management and recycling.

The main economic and environmental indicators of Biocredits to 2019 are presented in Table 10.

Non-financial offer Biocredit

To introduce the ecological product, motivate, promote and promote an environmental culture in clients, the non-financial offer was launched in 2019, which is based on green eligibility standards and the reality of the country's environmental market.,

- **Training:** encourage clients to implement efficient practices in the use of natural resources in their businesses in four main topics: energy efficiency, cleaner production, sustainable construction and good practices in agriculture.
- **Training:** in 2019, nine trainings were carried out for approximately 100 clients in three cities in the country in the corporate, business and SME segments.
- **Environmental technical assistance and audits:** support clients to identify opportunities to implement environmental practices or technologies in their businesses. Assists include energy efficiency and ISO 50001, cleaner production, sustainable construction and EDGE certification, and Bonsucro and Global Gap certifications.

Table 10
Main economic and environmental indicators of Biocredits (2019)

Segment type	# clients	Biocredit Amount (\$)
Corporate	9	\$ 61,076,211.5
Business	16	\$ 26,166,470.7
SMEs	11	\$ 5,919,000.0
Individual	112	\$ 1,812,124.1
Total	148	\$ 94,973,806.3
Biocredit Destination	N.º clients	Biocredit Amount (\$)
Sustainable agriculture	26	\$ 77,297,682.2
Sustainable transport	112	\$ 1,812,124.1
Sustainable construction	9	\$ 15,694,000.0
Energy efficiency	1	\$ 170,000.0
Total	148	\$ 94,973,806.3

- **Consulting:** during 2019, 12 construction projects were advised to obtain the EDGE sustainable construction certification.
- **Payment of sustainable certifications:** after the results of environmental technical assistance or having the interest of clients in obtaining sustainable certifications, and according to an internal analysis of the Bank, the institution assumes 100% of the payment to obtain a certification. Include sustainable construction EDGE, Bonsucro, Global Gap and ISO 50001.
- **Certification:** the EDGE sustainable construction certification was obtained during 2019 for six construction projects.
- **Economic bonus:** for buyers of sustainable housing certified with EDGE, Breeam, LEED, as an incentive for having purchased this type of home.

By 2020, we will strengthen the placement of Biocredit in the commercial force, accompanied by the non-financial offer, with the goal of reaching \$150 million in Green Bond by November 2020.

Management with multilateral and international accessions

G4 FS10/ G4 FS11

Implementing responsible finance programs allows us to maintain and access new lines of credit with multilateral organizations. During 2019, we have accessed new alliances and credits.

- 1 Agreement with OPIC and Banco Wells Fargo for \$108.5 million for loans to women's micro, small and medium-sized enterprises (MSMEs).
- 2 Agreement with Rabobank to develop inclusive financial systems in the rural economy and promote the transfer of knowledge in agricultural banking.
- 3 The following lines of credit with a sustainability focus remain active:

A) RESPONSABILITY - GCPF This line was renewed at the end of December 2018, for \$ 15 million to finance energy efficiency and renewable energy.

B) FINANCE IN MOTION - ECOBUSINESS FUND This line was renewed in March 2019, for \$20 million for financing in sustainable agriculture.

C) FMO

This line was renewed at the end of December 2018, for \$70 million to finance women owners of small and medium-sized businesses.

Adhesion with the PCAF initiative²⁵

In August 2019, we signed the commitment letter with the objective of joining the Core Team of the Carbon Financial Accounting Platform (PCAF), to develop a global carbon accounting standard for finance in mid-2020 and update this standard in 2021. This membership involves participation for three years.

One of the commitments to work is to evaluate and disclose the GHG emissions associated with our portfolio of loans and investments.

This initiative will allow us to align our portfolio with the Paris Climate Agreement and the Sustainable Development Goals in the future.

Responsible Banking Principles

Banco Pichincha was the only Ecuadorian financial institution, and one of the three in Latin America, which participated, in November 2018, in the creation of the Principles of Responsible Banking. In total, 30 banks from all over the world participated, and in December 2019, we signed the agreement. To advance in the fulfillment of these principles during 2020, we have proposed to work in different activities:

- 1** Carry out an analysis of positive and negative impacts on society, environment and economy of the Bank's portfolio.
- 2** Internally communicate the Principles of Responsible Banking.
- 3** Promote and strengthen the supply of social and environmental products.

The principles are an initiative of the United Nations Environment Program, UNEP-FI, which responds to the sustainability challenges facing the financial sector globally. They aim to transform the financial industry to be a motor in achieving a sustainable future, which contributes to sustainable and equitable economic and social development, protecting our natural environment.

Issuance of the first Green Bond of Ecuador

On December 20, 2019, we were the first financial institution to issue a Green Bond in the country, for an initial amount of \$150 million, pushing the national economy towards cleaner growth, contributing with positive initiatives of great environmental impact, promoting our clients to develop their green businesses, and creating a guarantee for future generations. IFC (from the World Bank), IDB Invest (from the Inter-American Development Bank) and Proparco (from the French Development Agency) are the investors in this first purchase of bonds.

We have aligned the issue to the Green Bond Principles (GBP 2018) of the International Capital Market Association (ICMA), which has been externally verified by Deloitte Ecuador, confirming the consistency of Banco Pichincha's Green Bond with the four components GBP basics: use of funds, project evaluation and selection process, fund management and reporting.

Satisfaction of our clients

GRI FSSD G4 DMA PRODUCT PORTFOLIO 5,6 / GRI 102-43, GRI 102-44 / BP3

During 2018, we carried out surveys to measure the satisfaction of our transactional services in all customer service agencies and those serving the individual and group

²⁵ PCAF is a global association of financial institutions working together to develop and implement a harmonized approach to assess and disclose the greenhouse gas (GHG) emissions associated with your loans and investments (<https://carbonaccountingfinancials.com/about#our-mission>).

²⁶ Green Bonds are any type of bond in which the funds will be applied exclusively to finance or refinance, in whole or in part, eligible green projects, whether new and / or existing and that are aligned with the four main components of the Guide to the Voluntary Procedure for the 2018 Green Bond Issue.

Microfinance segment, as well as the earth sales force. In this measurement, we include self-services, electronic, mobile banking, cashmanagement, CNB Clients, CNB shopkeepers, call center and delivery.

During that year, we also conducted relational surveys to obtain information on the Net Promoter Score indicator or Net Recommendation Index (NPS), in order to measure the loyalty of our clients, based on their recommendations and thus determine those who promote our brand and other attitudes towards it, qualifying them as promoters, liabilities or detractors.

In 2018, we carried out 4,616 surveys and obtained 60.1% as a result in the first quarter and 60.8% in the second quarter, with 4,155 queries.

In 2019, we repeated this exercise by conducting 4,278 satisfaction surveys in the first quarter; there we obtained an NPS of 62.3%. In May we decided that this will be the only institutional measurement indicator, so we stopped making transactional measurements and implemented the NPS methodology that not only collects the information, but also classifies it and identifies the recurrence of attributes and availability of the information. Additionally, generates actions by closing the cycle at three levels and makes the promotion indicator an institutional priority.

The results obtained during the 2019 period are detailed in Table 11.

Claims management

GRI 418-1 (103-2, 103-3)

The Client Service Unit is committed to the transformation process of Banco Pichincha, in which we seek to adopt better work methods, with innovative proposals that help us to generate more agile response times for the attention of the claims and requirements presented by our clients.

Table 11

Results Net Recommendation Index (2019)

	Jan-Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dic
General	62.3%	N/A	57.6%	57.7%	60.7%	52.7%	53.0%	57.0%	54.3%	57.5%
Polls	4,278	N/A	5,183	10,000	11,500	10,500	10,500	10,727	9,504	8,925

Table 12

Comparative by type and number of basic transactions

Channel	Transaction type	Number of transactions		Annual variation
		Year 2018	Year 2019	
Web banking	Payments	4,273,801	15,209,817	255.9%
	Transferences	21,498,200	26,448,776	23.0%
Cajas	Deposit	38,195,428	37,059,135	-3.0%
	Payments	10,418,864	11,034,339	5.9%
	Retiro	21,270,682	20,992,624	-1.3%

Channel	Transaction type	Number of transactions		Annual variation
		Year 2018	Year 2019	
Cajero automático autoservicios	Depósito	4,598,852	7,110,642	54.6%
	Pagos	619,600	844,160	36.2%
	Withdrawal	94,606,269	96,256,234	1.7%
Transactions at NBC, non-bank correspondents		73,694,292	83,707,697	13.6%
Mobile banking		148,969,851	249,406,851	67.4%
Debit card debit transactions		2,575,004	7,811,471	203.4%
Total transactions		420,720,843	555,881,746	32.1%
Total claims		119,754	146,665	22.5%
Claims / transactions relationship		0.028%	0.026%	-7.3%

We maintain our culture of continuous improvement, focused on the generation of initiatives, more efficient processes, daily monitoring of management indicators, availability of channels and analysis of the cause that generates claims and complaints from our clients. We have the aim of reducing their number, thus improving the service, experience and business relationship with those who have trusted Banco Pichincha through the years.

Having control and management of critical processes is one of the primary principles of customer service, complying with current regulations, in response times established by the regulatory body and respecting bank secrecy in all cases.

Channels for receiving complaints

In 2019, progress was made in the transformation process of Banco Pichincha, which is focused on providing our clients with greater ease and agility to carry out their transactions in different channels, with the aim of promoting the new realities of the digital age. Thus, the number of transactions in electronic and alternative channels has increased.

Table 12 shows the annual comparative evolution of the transactional level; it is observed that basic transactions increased by 32.1%, whose growth, in addition, derives from the institutional strategy of transactional migration towards alternative channels, resulting in the increase mainly in transactions in Web, mobile, CNB and transactions with Xperta debit card (Table 13).

Banco Pichincha has arranged different service channels to receive claims:

- 250 agencies at a national level.
- Electronic banking www.pichincha.com.
- Call center: 24 hours a day, 7 days a week.
- Interaction on social networks like Facebook and Twitter.

In 2019, 146,665 claims were processed, which, compared to the previous year, represents an increase of 22% of cases. This is mainly due to the transactional increase mentioned above and to specific falls in the system, being important to indicate that all cases were attended.

Table 13

Evolution of entered claims

Claims entered	# claims received 2018	Composition 2018	# claims received 2019	Composition 2019	Annual variation
Self-service withdrawals - ATM	32,213	26.9%	20,110	13.7%	-37.6%
Self-service deposits - ATM	25,093	21.0%	29,574	20.1%	17.9%
Xperta card consumption	17,887	14.9%	32,349	22.1%	80.9%
Transactions via Internet	9,691	8.1%	11,097	7.6%	14.5%
Claims, NBC inconsistencies	8,109	6.8%	12,804	8.7%	57.9%
Frauds, scams and losses	6,386	5.3%	12,409	8.5%	94.3%
Service complaints	5,483	4.6%	7,658	5.2%	39.7%
Special cases Customer service	4,419	3.7%	9,222	6.3%	108.7%
Inconsistencies in transactions	3,900	3.3%	4,483	3.1%	14.9%
Returned checks not received	2,902	2.4%	2,687	1.8%	-7.4%
Customer complaints through control entities	1,242	1.0%	1,705	1.2%	37.3%
Claims for portfolio	1,205	1.0%	1,236	0.8%	2.6%
Claims for collections	827	0.7%	950	0.7%	14.9%
Claims by credit card	397	0.3%	381	0.3%	-4.0%
Total claims entered	119,754	100.0%	146,665	100.0%	22.5%
Total transactions	420,720,843		555,881,746		32.1%
Claims / transactions relationship	0.028%		0.026%		-5.8%

Within the Bank's transformation processes, the claims and requirements attention process was implemented based on the Lean Cells methodology, with satisfactory results in the management of the migrated subtypes, obtaining reduction in response times according to the following detail:

- Express cell: from 9 to 1 day.
- Average cell: 7 to 3 days.
- High cell: from 12 to 5 days.

Until December 31, 2019, 96.7% of the total complaints filed up to that date were resolved, taking into account that the remaining 3.3% was in the analysis stage and was resolved in the first days of January 2020.

In Graph 10 it can be seen that between 2018 and 2019 there is a decrease in the claims rate of 0.02%, according to the number of transactions generated in the different channels, which increased by 32.1%.

Banco Pichincha is committed to managing, controlling and reducing claims that come from possible errors in the operation of the channels, for which we remain in constant monitoring of the main claims generators, in order to attack the root and manage with the areas involved to establish action plans that reduce the generation of complaints.

Claims of an economic nature, fraud and scams

Claims for fraud and scams in 2019 increased by 46.0% compared to the previous year, with the most recurring frauds in POS purchases and virtual stores, with an increase of 62.0%, which is directly related to the increase in this type of transaction. Self-service transaction fraud increased by 12.0% and in research cases with 20.0% (Table 14).

Evolución transaccional e índice de reclamos

Table 13

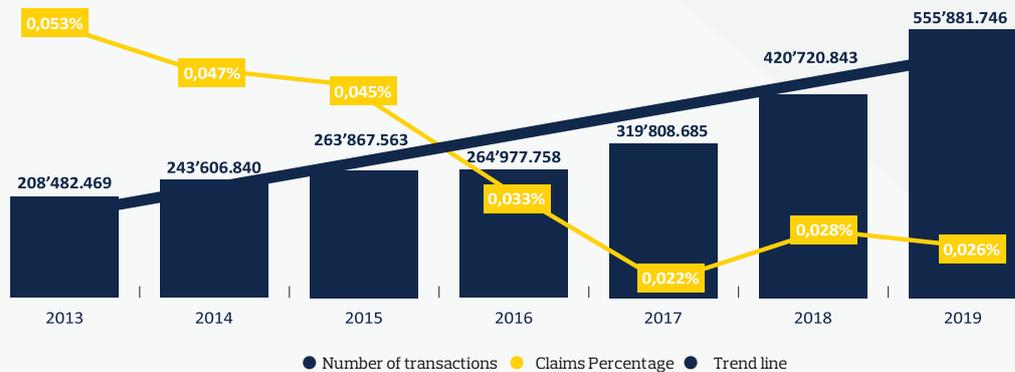


Table 15 shows that 11,749 claims were presented for the analysis, totaling \$ 6,360,942.91, of which 67.0% was approved in total, and the amount partially approved. 3.0%. After the analysis process carried out for this type of claims, 30.0% was denied. In a complementary way, in 2019 improvements and initiatives were implemented with the purpose of improving the process of attention to claims and requirements that are detailed below.

- Implementation of claims management using the Lean Cells methodology, with which it was possible to improve the case analysis processes and reduce service times.
- Generation of the review process for unsuccessful consumption transactions with Xperta Card, in order to resolve or reverse said transaction, anticipating the client's claim.
- Migration of the attention of claims and requirements to the Lean Cells methodology, which allows daily monitoring of the case resolution process and control of attention times.

- Generation of direct access to information or self-managed for claims analysts, which reduces the time in obtaining data for analysis.
- Creation of a multidisciplinary and focused team to analyze the root cause of complaints.

Risk culture

GRI102-15

Banco Pichincha, in compliance with national regulations, manages different types of risk: credit, market, liquidity, operating. Even though national regulations are governed by the principles of Basel I, Banco Pichincha, applying the best international practices, has made progress in several processes that, in addition, adhere to Basel II and Basel III. An example of this is the calculation of expected loss in the different types of risk; in liquidity, the incorporation of LCR, NSFR and in the measurement and management of reputational risk.

Table 14

Claims entered for fraud and scams

Fraud type	2018	2019	Annual variation
ATM transaction fraud	1,495	1,692	13.2%
POS purchase fraud *	2,824	7,474	164.7%
Research cases:	2,067	2,5830	25.0%
payment of checks and withdrawals with non-conforming signature, etc.	6,386	11,749	84.0%
Total	8,109	6.8%	12,804

* Point of Sale.

Table 15

Number of claims resolved and amounts

Type of claim	Approved	Denied	Partial	Total	Approved	Denied	Partial	Total
ATM debit card held by the customer	46.0	583.0	4.0	633.0	\$16,469.95	\$161,172.70	\$4,951.05	\$182,593.70
ATM client cases do not present debit card	18.0	917.0	124.0	1,059.0	\$11,368.46	\$505,053.65	\$131,258.95	\$647,681.06
Investigation cases	870.0	1,202.0	212.0	2,284.0	\$907,883.74	\$2,646,870.72	\$254,161.50	\$3,808,915.96
Investigation cases - appeal	65.0	173.0	22.0	260.0	\$475,837.80	\$320,542.29	\$60,639.62	\$857,019.71
Consumption POS client does not present debit card	321.0	307.0	2.0	630.0	\$33,719.48	\$98,136.68	\$871.65	\$132,727.81
POS consumption debit card held by the client	6,496.0	331.0	17.0	6,844.0	\$618,647.26	\$72,698.94	\$7,344.82	\$698,691.02
Digital channel fraud	10.0	27.0	2.0	39.0	\$3,375.81	\$27,712.84	\$2,225.00	\$33,313.65
Total	7,826.0	3,540.0	383.0	11,749.0	\$2,067,302.50	\$3,832,187.82	\$461,452.59	\$6,360,942.91
% of attention	67%	30%	3%	100%	32%	60%	7%	100%

Banco Pichincha manages different types of risk: credit, market, liquidity, operating.

Reputational risk

It is important to divide the concepts of image and corporate reputation, so, based on a publication by the Merco Company, the main differences are detailed:

- 1** Reputation is the business reality originating from its consolidated and proven history, while the corporate image is sustained in the communication policy of a certain present project.
- 2** Reputation tends to stability, it is structural and permanent, while the corporate image has a more conjunctural character, it is more fickle.
- 3** Reputation is measurable and empirically verifiable, while corporate image is hard to objectify.
- 4** Reputation impacts the income statement and balance sheet, being able to measure in both cases how much it impacts, while the corporate image lives up to the expectations it generates.
- 5** Reputation lies in the mindset of stakeholders, the image is what a company expresses to the market.

For this reason, the definition of the Corporate Reputation Forum is included:

“Corporate reputation is the set of perceptions that the various interest groups with which it relates (stakeholders), both internal and external, have about the company. It is the result of the behavior developed by the company over time and describes its ability to distribute value to the aforementioned groups”.

Measurement methodology

There are several measurement methodologies worldwide, without one standardized by Basel or other organizations, for which Banco Pichincha monitors both reality and the perception of stakeholders in seven dimensions:

- 1 Offer:** it includes the provision of products and services to the market, the guarantee it provides on them and the price-quality ratio.
- 2 Leadership:** measures the leadership of the Bank and main authorities, contrasting them with competitors in other segments.
- 3 Finance:** shows the Bank's financial performance and its comparison against the market.
- 4 Innovation:** indicates the opportunities that the Bank provides to its employees to create new things, the release of new products and to be pioneers in the market.

5 Work: under the measurement of work environment and management indicators, it indicates the importance of workers in terms of the Bank's reputation.

6 Sustainability: includes the Bank's work in caring for relations with the environment, social and economic responsibility, support for segments of the base of the economic pyramid and the public's perception.

7 Government: shows the relationship that the Bank has with the market and its competitors, regulatory entities and compliance with audits, avoiding abuse of power in the market.

This measurement is fed by external studies of corporate reputation, news from the Bank or the competition, specialized magazines, internal work environment, reports from social networks, management indicators, etc.

Each of these is made up of indicators and contributes with a different weight to the measurement of reputational risk, depending on the reality of the industry or company. At Banco Pichincha, the banking measurement model used by the Reputation Institute has been taken; the methodology weights are detailed in Table 16 and Graph 11.

Table 16

Weights of the methodology

Dimension	Weight
Offer	17%
Leadership	15%
Sustainability	15%
Work	15%
Innovation	13%
Finance	13%
Government	13%

Table 17

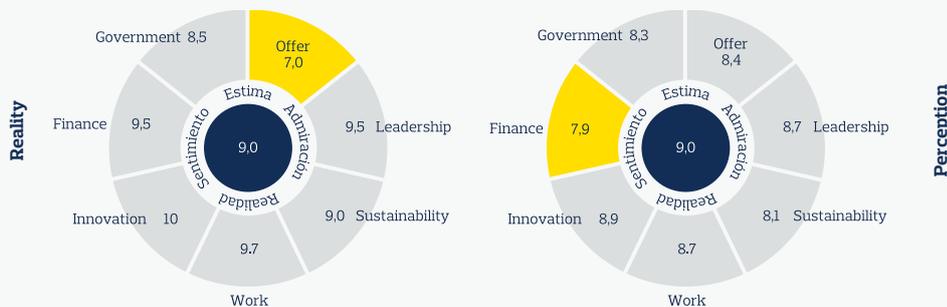
Risk measurement results reputational

Reputational risk	9.0	8.5
Dimension	Reality	Perception
Offer	7.0	8.4
Leadership	9.5	8.7
Sustainability	9.0	8.1
Work	9.7	8.7
Innovation	10.0	8.9
Finance	9.5	7.9
Government	8.5	8.3

Reputational risk measurement is fed by external studies.

Graph 11

Results



Being a bank, the weight of the offer dimension is the most important part of the measurement, followed by leadership, sustainability and work. The results for the third quarter of 2019 present Table 17, where 10 is the highest level.

This measurement is quarterly in nature and is presented to the Comprehensive Risk Management Committee (CAIR), the Bank's highest risk body, where delegated directors participate. In addition, CAIR presents plans developed quarterly.

Eventually, when the Bank faces a reputational problem, a special case study is carried out, in which we collect the impact both on customer perception and on the economic issue; This allows information on losses of this type of risk to be collected in order to economically assess Banco Pichincha's reputational risk.

If the Bank faces a reputational problem, a special case study is done to mitigate future economic risks.

Activities 2019

Reputational risk

Throughout 2019, various activities were carried out to ensure that both Bank staff and market companies understand the importance of reputational risk management.

- **Reputational risk**

In August 2019, at the Hilton Colón hotel, Banco Pichincha organized a reputational risk talk with the presence of 25 invited companies. The speaker was Gabriel Cecchini, international consultant, who has a lot of knowledge of reputational risk management; He is the founder of a consulting firm in this regard. This event had the support of Consorcio Ecuatoriano para la Responsabilidad Social (Ceres), the Ecuadorian American Chamber of Commerce (Amcham) and Asobanca.

This talk was repeated with the presence of more than 120 Banco Pichincha employees, who were able to share with the consultant more closely the actions and plans that must be carried out to manage reputation.

- **Reputational risk campaign**

In November 2019, the "Together we build reputation" campaign was launched with an invitation from the Bank's president, Antonio Acosta, through the internal communication platform Workplace. The campaign consisted of four videos and five posts that showed different ways in which employees contribute to reputation, also providing advice that can lead to successful negotiations, using the Bank's good name and leadership. The campaign had a participation of 2,800 employees, and an active participation of approximately 1,000 persons who commented, gave suggestions, answered trivia and expressed interest in caring for Banco Pichincha's reputation. Of all these staff, the majority came from agencies, who were the main focus for being the visible face of the Bank.

Safety, health and environment

GRI 102-11

It is Banco Pichincha policy to maintain a healthy, safe, environmentally respectful, socially responsible organization with high standards of quality and efficiency in service. This approach implies correct management of occupational risks and environmental impacts, compliance with legal requirements, and the promotion of better performance and continuous improvement.

Integrated Safety, Health and Environment Management System (SHE)

GRI 103-2

We focus on creating long-term value for the organization and for society. We take advantage of the opportunities offered by the environment and manage the risks derived from economic, social and environmental evolution. For this, our operation is based on the progressive implementation of our Integrated Management System for Safety, Health and Environment (SHE); we are aligned with ISO 14001 and ISO 45001 standards, and we comply with related regulations.

Banco Pichincha defines the scope of its SHE for all its previously determined employees and stakeholders, as well as for all facilities, activities, products and services at the Ecuador level. The islands of ATMs, ATMs are excepted from this scope.

Culture of Prevention

GRI 403-1

We work to implement a culture of prevention in safety and health in our organization, through actions that mitigate occupational risks, providing optimal working conditions to our employees.

During 2019, we developed different activities in the field of prevention, among which we highlight the following:

- 1. Socialization of the Hygiene and Health Regulations among the 5,000 employees.**
- 2. Training for emergency brigades, 181 participants.**
- 3. Training for social work and human resources staff on how to deal with issues of psychosocial risks.**

Seguridad y salud ocupacional

GRI 403-2 (103-1, 103-2, 103-3)

Our organization is aware of the importance of working in the implementation of a culture of safety prevention and we leverage the ISO 45001 standard, which provides guidelines to ensure health and safety at work, and in the creation of a SHE.

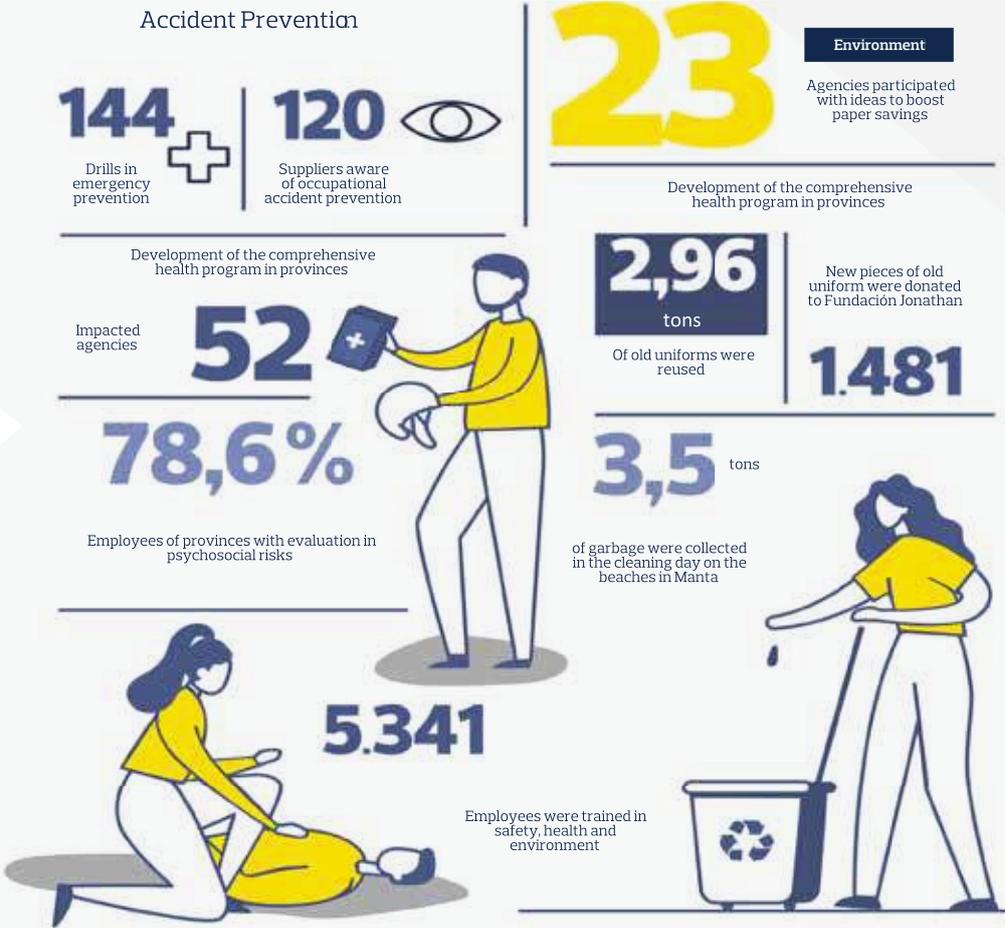
During 2019, we developed different activities that allowed us to strengthen our prevention approach, which led us to improve our indicators. It should be noted that during this reporting period no fatality was recorded.

- Training of the 168 members of joint organizations in the prevention of occupational accidents and diseases.

We work in a culture of security prevention.

Occupational and environmental safety

Occupational diseases in our value chain, in 2019 we achieve the following results:



- For the second consecutive year, the Sustainability Week was held, in which activities related to emergency prevention with the use of virtual reality, physiotherapy for occupational ailments and active breaks were carried out in Guayaquil.
- Renewal of the Internal Regulations for Industrial Health and Safety.
- CCI pilot agency, "Lean Cajas" model.
- Survey of ergonomic project phase I.
- Pilot lift tables for collection centers.
- Provision of ergonomic chairs to 100% of employees in the monitoring center.
- Implementation of sound reducers in digital center to mitigate the risk of acoustic nonconformities.
- Improvement of lighting design in the Corporate Cell, in a culture of change and optimization of 100% in lighting.
- Placement of curtains in 31 agencies, to reduce heat and excessive entry of natural light.

Table 1
Occupational health and safety indicators

Indicator	Value	Value	Indicator Description
Frequency index	0.23	0.39	Number of injuries over man-hours worked multiplied by 200,000.
# work accident with sick leave	13	22	Número de accidentes de trabajo con baja. En estos índices no se consideran los accidentes in itinere.
Men	31%	36%	
Women	69%	64%	
ACCIDENTS BY REGION			
Littoral region	23%	36%	% of the number of accidents occurred by region.
Country region	8%	36%	
Quito Region	69%	27%	
Severity index	1.33	4.03	Number of days lost in man hours worked multiplied by 200,000.
Risk rate	5.69	46	Severity index over the frequency index, number of accidents.
Disease rate	0	0	Number of occupational diseases.
Absenteeism rate	2.02	0.86	Total number of days lost due to illness during the period over the total number of days worked by the group in the same period multiplied by 200,000.

GRI 403-1 (103-1, 103-2, 103-3)

We have a Central Parity Committee in Quito and 13 SHE parity subcommittees that are distributed nationwide:

- | | | |
|---------------------------|------------------|--------------|
| 1. Quito Sur | 6. Austro | 11. El Oro |
| 2. Quito Norte | 7. Amazonía | 12. Los Ríos |
| 3. Quito Centro Histórico | 8. Santo Domingo | 13. Manabí |
| 4. Sierra Centro | 9. Esmeraldas | |
| 5. Sierra Norte | 10. Guayas | |

These committees are integrated on a parity basis with three representatives of the employees and three representatives of the employer, with their respective alternates, who designate a president and a secretary among their members, who are in office for one year, and may be re-elected indefinitely.

The delegates of the employees represent by law 100% of the company's workforce (taken from the Regulation of Safety and Health of the Employees and Improvement of the Work Environment, art. 141).

- During 2019, these committees led activities such as the following:
- Cleaning of beaches in the city of Manta;
- Review of feeding problems in agencies.

Safety of our employees

GRIFSSD G4 DMA

Every year an audit is carried out led by delegates from the Ministry of the Interior, in order to achieve the security certificate for each of our offices, branches, agencies and ATMs, thus protecting employees and clients.

In particular, the Bank's manuals contemplate the specific procedures applicable by all agency dependents on the behavior to follow in the event of assaults and / or emergencies. With these axes of intervention, we guarantee a safe and healthy environment.

Attention to employees with higher occupational risk

GRI 403-3

Considering the SHE management system, Banco Pichincha has drawn up a matrix of labor risks, using the GTC-45.2 methodology. On this basis, after analyzing the labor risks of the jobs with a process approach, these are evaluated to determine actions of prevention or control. From this matrix, the following lines of work have been established:

- Considering the system of periodic occupational examinations for staff working in the provinces, except Pichincha, Guayas and Santa Elena.

- Gathering of the psychosocial study for staff working in the provinces.
- Ergonomic project Phase 1: information gathering.
- SHE Guide: main guidelines, regulations and standards for maintenance, infrastructure and other activities.

Emergency management

In the Business Continuity Management Protocol, actions are defined for before, during and after an emergency event. In this framework, according to the analysis and magnitude of the event, post-sale actions are coordinated, which can be of social aid or crisis intervention to contribute to the balance and resilience of the collaborators.

A crisis intervention begins with the emotional evaluation of the violated staff and the impact of the event. According to this evaluation, psychological first aid actions, workshops and activities are planned to ensure that people return to their normal state or, failing that, identify critical cases. Comprehensive care is provided, including after the emergency. For this, the organization has a team of internal facilitators, trained in crisis intervention.

Physical risk management and administration

Financial entities (due to their own line of business) may be subject to a series of specific risks, including theft and assaults on their facilities or attacks and attacks (verbal or physical) by clients or others. In this context, the Bank has a Physical Security area focused primarily on protecting people (employees and clients) and, in addition, to assets and image.

To ensure the protection of its facilities and the people who occupy them, the Bank has developed complex protection schemes, among which the following stand out:

- Staff specialized in various disciplines of prevention and security;
- Policies, standards and procedures;
- Training and information for staff in general;

Protection of facilities and of people has complex protection schemes.

- Electronic monitoring and alarm systems;
- Own alarm centers, vaults and miscellaneous elements;
- Access control, shields and protection mechanisms for cash and securities;
- Closed circuits of television or CCTV and transportation of securities;
- Hardware and software for security processes;
- Internal surveillance and police patrol personnel;
- Internal / external investigation of crimes;
- Own architectural designs;
- Modernization of our monitoring centers in Quito and Guayaquil;
- Change of operator profiles.

During 2020, we will continue with the development of the action plan:

- Transmission of security systems through its own network;
- Installation of IP locks for monitoring vaults;
- Security studies and audits;
- Periodic risk assessment to agencies and ATMs;
- Corporate monitoring of the security system;
- Strategic alliances with the public force and institutions.

Environmental commitment

We are committed to optimizing processes, through practices that look to reduce our ecological footprint throughout our value chain. We look to create products and services that promote the rational and efficient use of all the resources provided by the environment. We maintain the environmental concept "We are a bank that gives life" with its three fundamental pillars:

WE ARE A BANK THAT GIVES LIFE	→ 	BIO EFFICIENCY Culture of environmental care and control, efficiency in the consumption of natural resources.
	→ 	BIO MANAGEMENT Management models based on environmental and social protection for the organization, clients and suppliers.
	→ 	BIO PRODUCTS Credits and services for clients with a sustainable lifestyle and business

Table 2

Paper consumption at a national level

2018

Sheets of paper for internal consumption	50'698,112
Sheets of paper for printing internal checks for suppliers	2,038
Sheets of paper for printing internal checks for suppliers	8,252

2019

Sheets of paper for internal consumption *	47'055,641
Sheets of paper for printing internal checks for suppliers **	1,021
Sheets of paper consumed by employees ***	7,601

* Number of impressions made by Banco Pichincha and CREDI FE operations. Equivalent to 56'077,210.00 kg of paper.

** Printed checks for suppliers from Quito from the internal payment area.

*** Calculation obtained from the division of total paper for internal consumption (47'055.641) for the average number of employees in 2019 for Banco Pichincha and CREDI FE (6,191).

Table 3

Paper consumption in reams at a national level

2018	
Total reams for internal consumption	101,396
Total reams consumed per employee per year	17
2019	
Total reams for internal consumption	94,111
Total reams consumed per employee per year	15

The initiatives and indicators of the Bio Efficiency corridor

Good practices in our operations

GRI 301-1 (103-1,103-2,103-3)

In accordance with our line of business, we look to reduce our ecological footprint, managing the efficient and rational use of resources, optimizing to the maximum the consumption of stationery and packaging materials, as well as the use of computer equipment such as computers and printing resources.

The paper used in our organization comes from a renewable source; it is made from sugarcane bagasse.

GRI 301-1

This year we have reduced the total paper consumption by 7% compared to the previous year, which is equivalent to 3,652,472 sheets; each collaborator stopped printing 654 sheets, because we have implemented the following initiatives in the agency network:

- 1 Comprehensive change in the account visa process**
 The printing of the account visa checklist made by the executive back in each visa account was eliminated. In total, there were 1,000 printed sheets per day for each account, reducing to a current print of 206 sheets, since it was optimized in a single report and the individual print of the checklist was eliminated.
- 2 Elimination of cash receipts cajas**
 The supplier was asked to remove the art from the cash vouchers, which had an annual cost of \$ 13,874. Newspaper notebooks are now delivered without any art.
- 3 Estandarization of the check issuance process for judicial foreclosure**
 The use of manual kardex (bond sheet printing) has been eliminated. In addition, before - as part of the backing of the check issuance - the copy of the check issued was requested, a requirement that was eliminated.

Generation of forms

The generation of the form of justification of reverse in windows was automated, which allows minimizing errors by filling it manually and reducing the number of impressions.

As part of the Bio Efficiency campaign, we launched a contest through the Workplace platform that aimed to obtain new ideas from employees to reduce paper consumption and thus implement it in 2020, receiving 38 ideas from different agencies from the country.

By 2020, we will consider actions to continue reducing paper consumption in our operations and to offset its use with tree planting.

Energy and water consumption

GRI302-1 (103-1, 103.2, 103-3)

Our commitment is to reduce the ecological footprint through eco-efficiency practices and minimization of the impact of climate change, both in our operations and in the activities of our clients and suppliers.

Table 4

Energy and water consumption

	Total consumption	Consumption per employee
Indirect energy (GJ or * gigajoules)	82,052.30	13.25
Water m3	104,905.45	16.94

Note: These data are not comparable with 2018, because the information was not reported. Since 2019, we have taken up the metrics related to these topics. The data correspond to approximate values.
* Gigajoule - A unit of energy measurement that represents the consumption of gallons of fuel.
The conversion factor, of 1 kWh = 0.0036 GJ / ton, was used to calculate the energy consumption in GJ.

100% LED lighting was implemented in Torres Pichincha buildings and in the Cuenca Branch. We have also continued with campaigns to reduce electricity consumption in agencies and buildings.

Hazardous and non-hazardous waste

GRI306-2 (103-1, 103.2, 103-3)

We strive to minimize waste generation and manage it correctly throughout our value chain. To do this, we maintain waste reduction, reuse and recycling programs, delivering them to environmentally qualified companies. We maintain the differentiated collection of waste paper, plastic and common garbage in the Headquarters, Torres Pichincha and Cuenca Branch buildings, providing Bio Stations. Similarly, we continue with our campaigns and actions for the recycling of paper in agencies and buildings.

During 2019, we recycled 9,649.94 kg of paper, which is equivalent to 4'824,970 sheets. The detail of the main figures of the non-hazardous and hazardous waste used during 2019 is presented in Tables 5 and 6.

Table 5**Non-hazardous waste****2018**

Used toners (units)	2,499
Paper and cardboard (kg)	12,064.04

2019

Used toners (units)	2,764
Paper and cardboard (kg)	9,649.94

Note: Qualified environmental managers recycle Waste toner, paper and cardboard.
This year the destruction of documentation in the general archive was not carried out, which is why the amount of recycling of passive archive paper is not reported.

Table 6**Hazardous waste****2018**

Hospital waste	21.5 kg
Fluorescent waste	4,456 units

2019

Hospital waste	24.6 kg
Fluorescent waste	4,254 units

Note: Fluorescent and hospital waste is delivered to qualified environmental managers. Hospital waste is incinerated and fluorescent lights are managed for the recovery of mercury and its parts.

Sale and donation of assets

Throughout the year, we continue to manage our assets; we follow the established processes, we deliver to different institutions, foundations and environmental managers 3,028 items, either in the process of donation or in the process of sale.

Table 7**Sale and donation of assets****2018**

Number of assets for sale and donation	6,106
Tons of assets sold	81.96

2019

Number of assets for sale and donation	3,028
Tons of assets sold *	18,453

* For donation processes, weights are not collected.

Emission reduction

GRI 305-1, GRI 305-2, GRI 305-3 (103-1, 103-2, 103-3)

Table 8

Total direct emissions (Scope 1)

Tons of CO₂e

2018	
Total electric generators	76,21
Total own transport fleet	13,21
Total direct emissions	89,42
2019	
Total electric generators	39,57
Total own transport fleet	25,33
Total direct emissions	64,89

* For donation processes, weights are not collected.

We are aware of our responsibility to care for the environment and the steps we can take to reduce our impact. For this reason, we periodically measure the level of greenhouse gas (GHG) emissions. Every year we measure the carbon footprint of the Scope 1 direct impact organization and Scope 2 and Scope 3 indirect impact.

Table 9

Total indirect emissions (Scope 2)

Tons of CO₂e

2018	2019
5,590.76	8,045.68

Note: The total emissions have been calculated based on the emission factor (353g CO₂ / kWh) of the International Energy Agency 2016.

Table 10

Total indirect emissions (Scope 3)

Tons of CO₂e

	2018	2019
Total Scope 3 emissions	987.63	987.63
Total emissions from courier transport - motorcycles	34.20	34.20
Total emissions from courier transport - vehicles	417.91	417.91
Total emissions from the use of the contracted fleet	402.50	402.50
Total emissions from land business trips	50.00	50.00
Total emissions from air business travel	83.02	83.02

Note: For the total calculation of emissions from business trips by land, air and contracted fleet, the reporting tool for environmental indicators of the Banco Pichincha SHE was used, which uses data from the Intergovernmental Panel on Climate Change and the International Agency for Energy. For air travel, the emission factor without radioactive force has been selected. For the total calculation of emissions by courier transport, the FE conversion factor was used (Defra 2016).

In 2020, we set new goals, with the aim of reducing carbon emissions.

The total Scope 3 emissions increased due to the Bank being in the NET project, so employees from different cities had to constantly travel to the Parent Company to cover the transformation fronts of NET.

GRI content index

GRI102-55

GRI Standard	Content	# Page	Omission	Verification
GRI 101: BASES 2016				
	102-1 Organization name's	10		
	102-2 Activities, brands, products and services	68-111		✓
	102-3 Location of the headquarters, Av. Amazonas and Pereira			✓
	102-4 Location of operations	20-25		✓
	102-5 Ownership and legal form	10-11		✓
	102-6 Markets served	68		✓
	102-7 Organization size	68-80		✓
	102-8 Information about employees and other workers	80		✓
	102-9 Supply chain	106		✓
	102-10 Significant changes in the organization and its supply chain	106		✓
	102-11 Precautionary principle or approach	124		✓
	102-12 External initiatives	73		✓
	102-13 Membership of associations	73		✓
	102-14 Statement from senior executives responsible for decision-making	3		✓
	102-15 Main impacts, risks and opportunities	63-73-118	Partial omission as it is considered confidential and strategic information for the company.	✓
	102-16 Values, principles, standards and norms of conduct	72-86		✓
	102-18 Governance structure	74-75		
	102-40 List of interest groups	65		✓
	102-41 Collective bargaining agreements		Banco Pichincha does not have collective bargaining agreements.	✓
	102-42 Identification and selection of interest groups	65		✓
	102-43 Approach to stakeholder engagement	65-114		✓
	102-44 Key issues and concerns mentioned	63-114		✓
	102-45 Entities included in the consolidated financial statements	52		
	102-46 Definition of the contents of the report and coverage of the topic	63		✓
	102-47 List of material topics	63		✓
	102-48 Re-expression of information	63	There is no restatement of the information.	✓
	102-49 Changes in reporting	63		✓
	102-50 Reporting period	62		✓
	102-51 Last report date	62		✓
	102-52 Reporting cycle	62		✓
	102-53 Contact point for questions about the report	62		✓
	102-54 Declaration of preparation of the report in accordance with GRI standards	62		✓
	102-55 GRI content index	136-140		
	102-56 External verification	141-142		✓
MATERIAL TOPICS				
GRI 200: ECONOMIC THEMATIC STANDARDS				
GRI 201: ECONOMIC PERFORMANCE 2016				
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its coverage	63		✓
	103-2 The management approach and its components	69		✓
	103-3 Evaluation of the management approach	69		✓

GRI Standard	Content	# Page	Omission	Verification
GRI 201: ECONOMIC PERFORMANCE 2016				
GRI 201: Economic performance 2016	201-1 Direct economic value generated and distributed	69		✓
GRI 204: ACQUISITION PRACTICES 2016				
GGRI 103: Management approach 2016	103-1 Explanation of the material topic and its coverage	63		✓
	103-2 The management approach and its components	106		✓
	103-3 The management approach and its components	106		✓
GRI 204: Acquisition practices 2016	204-1 Proportion of spending on local suppliers	106		✓
GRI 300: ENVIRONMENTAL THEMATIC STANDARDS				
GRI 301: MATERIALS 2016				
GRI 301: Management approach 2016	103-1 Explanation of the material topic and its coverage	131		✓
	103-2 The management approach and its components	131		✓
	103-3 Evaluation of the management approach	131		✓
GRI 301: Materials 2016	301-3 Reused products and packaging materials	131-132	Total omission (Bank does not use recycled materials).	✓
GRI 302: ENERGÍA 2016				
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its coverage	132		✓
	103-2 The management approach and its components	132		✓
	103-3 Evaluation of the management approach	132		✓
GRI 301: Energy 2016	302-1 Energy consumption within the organization	132		✓
GRI 305: EMISIONES 2016				
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its coverage	134		✓
	103-2 The management approach and its components	134		✓
	103-3 Evaluation of the management approach	134		✓
GRI 305: Emissions 2016	305-1 Direct GHG emissions (Scope 1)	134		✓
	305-2 Indirect GHG emissions when generating energy (Scope 2)	134		✓
	305-3 Other indirect GHG emissions (Scope 3)	134		✓
GRI 306: EFLUENTES Y RESIDUOS 2016				
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its coverage	133		✓
	103-2 The management approach and its components	133		✓
	103-3 Evaluation of the management approach	133		✓
GRI 306: Effluents and waste 2016	306-2 Waste by type and disposal method	133		✓
GRI 400: ESTÁNDARES TEMÁTICOS SOCIALES				
GRI 401: EMPLEO				
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its coverage	63		✓
	103-2 The management approach and its components	81		✓
	103-3 Evaluation of the management approach	81		✓
GRI 401: Employment	401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	81-82		✓
GRI 403: SALUD Y SEGURIDAD EN EL TRABAJO 2016				
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its coverage	126		✓
	103-2 The management approach and its components	126		✓
	103-3 Evaluation of the management approach	126		✓
GRI 403: Health and Safety at Work 2016	403-1 Representation of employees in formal employee committees - health and safety company	124		✓
	403-2 Occupational safety and health indicators	126		✓
	403-3 Employees with high incidence or high risk of diseases related to their activity	128		✓

GRI Standard	Content	# Page	Omission	Verification
GRI 404: FORMACIÓN Y ENSEÑANZA 2016				
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its coverage	83		✓
	103-2 The management approach and its components	83		✓
	103-3 Evaluation of the management approach	83		✓
GRI 404: Training and teaching 2016	404-1 Average hours of training per year per employee	83		✓
	404-2 Programs to improve employee skills and transition assistance programs	83		✓
	404-3 Percentage of employees who receive periodic evaluations	85-87		✓
GRI 405: DIVERSITY AND EQUAL OPPORTUNITIES 2016				
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its Coverage	63		✓
	103-2 The management approach and its components	79		✓
	103-3 Evaluation of the management approach	79		✓
GRI 405: Diversity and Equal Opportunities 2016	405-1 Diversity in governing bodies and employees	79	Partial omission on diversity in governing bodies for confidentiality.	✓
	405-2 Ratio of base salary and remuneration of women to men	79-89	Partial omission on ratio at the level of other ranges.	✓
GRI 412: EVALUATION OF HUMAN RIGHTS				
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its Coverage	63		✓
	103-2 The management approach and its components	106		✓
	103-3 Evaluation of the management approach	106		✓
GRI 412: Human rights assessment	412-3 Significant investment agreements and contracts with human rights clauses or subject to human rights assessment	106	100% of investment agreements and contracts include evaluation of respect for human rights.	✓
GRI 414: SUPPLIER SOCIAL EVALUATION				
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its Coverage	63		✓
	103-2 The management approach and its components	106		✓
	103-3 Evaluation of the management approach	106		✓
GRI 414: Supplier social assessment	414-1 New suppliers that have passed selection filters according to social criteria	106		✓
	414-2 Negative social impacts on the supply chain and actions taken	106		✓
GRI 418: CLIENT PRIVACY 2016				
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its Coverage	63		✓
	103-2 The management approach and its components	114		✓
	103-3 Evaluation of the management approach	144		✓
GRI 418: Customer privacy 2016	418-1 Substantiated claims regarding breaches of client privacy and loss of client data	114		✓
GRI 419: SOCIOECONOMIC COMPLIANCE 2016				
GRI 103: Management approach 2016	103-1 Explanation of the material topic and its Coverage	63		✓
	103-2 The management approach and its components	79		✓
	103-3 Evaluation of the management approach	79		✓
GRI 419: Socioeconomic compliance 2016	419-1 Breach of laws and regulations in the social and economic fields	79		✓

GRI G4 Financial Services Sector Disclosures content index (2013)

SPECIFIC BASIC CONTENTS

Management approach and indicators	Description	# Page	Omission	Verification
MATERIAL ASPECT: ECONOMIC PERFORMANCE				
G4 DMA Economic performance	Additional comment on the investment strategy in the community or social action.	100		✓
G4-EC1	Quantitative data investment in the community or social action.	69		✓
MATERIAL ASPECT: LOCAL COMMUNITIES				
G4 FS1398	Access points by type in economically disadvantaged areas of low Population density.	98		✓
MATERIAL ASPECT: PRODUCT PORTFOLIO				
G4 DMA Product portfolio 1	1) Policies with specific environmental and social aspects applied to the business lines.	108		✓
G4 DMA Product portfolio 2	2) Procedures for the evaluation and control of social and environmental risks in the business lines.	108		✓
G4 DMA Product portfolio 3	3) Process (es) to improve the competence of employees to implement environmental and social policies and procedures applied to business lines.	108		✓
G4 DMA Product portfolio 4	4) Interactions with clients / investees / business partners in relation to environmental and social risks and opportunities.	108		✓
G4 DMA Product portfolio 5	5) Implementation of environmental and human rights requirements in contracts / products / transactions (active).	92-108-114		✓
G4 DMA Product portfolio 6	6) Processes to monitor the implementation by clients of the environmental and human rights requirements included in contracts / products / transactions (asset).	92-108-114		✓
G4 FS6	Percentage of the portfolio for the business lines according to the region, the size (ex: micro / SMEs / large) and the activity sector.	90-92-99		✓
G4 FS7	Monetary value of products and services designed to provide a specific social benefit for each line of business disaggregated by purpose.	97-99-107		✓
G4 FS8	Monetary value of products and services designed to provide a specific environmental benefit for each business line disaggregated according to its purpose.	107-110		✓
MATERIAL ASPECT: SHAREHOLDING ACTIVISM				
G4 FS10	Percentage and number of companies within the entity's portfolio with which the reporting organization has interacted on environmental and social issues.	112		✓
G4 FS11	Percentage of assets subject to both positive and negative environmental or social controls.	112		✓
BANCO PICHINCHA'S OWN CONTENTS				
Indicators	Description	# Page	Omission	Verification
BP1	Leadership in image, participation, products and quality of services.	92-95-96		✓
BP2	Operational sustainability and prudent portfolio and systemic risk management focused on responsible financing and the prevention of overindebtedness.	95		✓
BP3	Promotion of stakeholder participation and measurement of their satisfaction.	95-114		✓
BP4	Optimization of the Bank's financial performance in terms of profitability, liquidity and solvency.	54		✓
BP5	Allocation of sustainable profitability to shareholders.	Total omission (information not available).		✓
BP6	Organizational culture management through cutting-edge practices to contribute to the Bank's efficiency, high performance and sustainability.	76		✓
BP7	Differentiated value offer with service guarantee.	109		✓
BP8	Obtaining international efficiency standards serving clients.	92-96		✓

GRI 102-56



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INDEPENDENT REPORT ON LIMITED VERIFICATION OF THE 2019 SUSTAINABILITY REPORT

To the members of the Board of Directors and Shareholders

Banco Pichincha C.A.

Quito, March 5, 2020

We have been hired to carry out limited verification work on the content of information and indicators, identified with the symbol " ", presented in the Sustainability Report 2019 (hereinafter "the Report") per year to end on December 31, 2019 of Banco Pichincha CA (Hereinafter "the Bank").

Management's Responsibility for the 2019 Sustainability Report

The Management of Banco Pichincha C.A. is responsible for the preparation of the Report for the year to end on December 31, 2019 in accordance with the content guidelines and indicators of the Global Reporting Initiative GRI Standards in its essential compliance option. This responsibility includes the design, implementation and maintenance of relevant internal controls necessary to allow the preparation and presentation of the indicated report that is free from 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 Board of Ethics Standards for Accountants, which is based on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

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

Auditor's responsibility

Our responsibility is to express a conclusion on whether the information included in the Sustainability Report for the year ending December 31, 2019 has been prepared in accordance with the content and indicator guidelines of the Global Reporting Initiative GRI Standards in your option to essential compliance, based on our work and the scope we describe in the following paragraphs.

It should be noted that this verification report is not intended to assess, nor does it assess, the unemployment of Banco Pichinch C.A. in relation to sustainable development.

Our work was carried out in accordance with the International Standard on Assurance Engagements ISAE 3000, issued by the International Federation of Accountants (IFAC). This standard requires that we comply with ethical requirements, including independence requirements, and that we plan and carry out our verification work to obtain limited assurance that no issues have arisen that suggest that the information presented in the Sustainability Report, taken as a whole, it is not free of relevant distortions.

In their limited review work, the evidence obtained from the procedures performed is more limited than in a reasonable verification work, therefore, less security is obtained in these works than in those of verification to obtain reasonable certainty. If we had carried out a reasonable review work, which is intended to issue an opinion, we could have identified other issues or possible distortions that could affect the Sustainability Report; therefore, we do not express an opinion on the aforementioned information.

The selected verification procedures depend on the auditor's judgment including the assessment of the risk of material non-compliance with the report preparation criteria. Within the scope of our work, we have carried out, among others, the following procedures: i) interviews with Banco Pichincha C.A.; ii) procedures and tests based on samples of data collection sources and indicators; and iii) reading and observing the processes and procedures used to compile the information.

Within this framework, we carry out our verification at the main offices of Banco Pichincha C.A. through the following activities:

- Interviews with Banco Pichincha C.A. staff who was responsible for the generation and compilation of the information and indicators subject to our review;
- Review of the relevant procedures and documentation used to collect and consolidate the information;
- Review of the consistency of the information presented in the Sustainability Report;
- Review that the financial information included in the Sustainability report is consistent with the audited financial statements as of December 31, 2019.
- Review of the presence or absence in the Information Sustainability Report and indicators according to the criteria defined in the Global Reporting Initiative GRI Standards in their essential conformity option, selected as the most relevant (material), presented in the Report.

Conclusion

Based on the results of the application of the limited verification procedures described above, nothing has caught our attention that makes us think that the Sustainability Report for the year ending December 31, 2019, has not been prepared in accordance with the content guidelines and indicators of the Global Reporting Initiative GRI Standards in your essential compliance option.

PricewaterhouseCoopers del Ecuador Cía. Ltda.
(Illegible written signature)
Juan Carlos Sáenz
Partner

¿Cómo te podemos ayudar?

PBX: (02) 2999 999

www.pichincha.com

